Annual Report 2014

Bank of Åland Plc

ÅLANDSBANKEN

Going our own way

Financial calendar

The Bank of Åland will publish the following Interim Reports during the 2015 financial year:

• January–March Interim Report	April 28, 2015
• January–June Interim Report	July 24, 2015
• January–September Interim Report	October 27, 2015

The Annual Report and all Interim Reports will be published on the Internet: 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 6,400-island Åland archipelago has more than 28,000 inhabitants. Its official language is Swedish.

This translation of the Swedish-language Annual Report uses the international currency codes for the European Central Bank euro (EUR) and the Swedish krona (SEK). At year-end 2014, the middle rate for EUR 1 was USD 1.2110 and SEK 9.4518.

"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).

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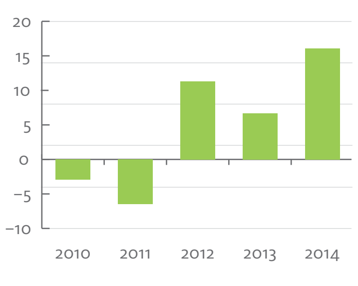
About the Bank of Åland

- The Bank of Åland (Ålandsbanken) was founded in 1919 as Ålands Aktiebank and has been listed on the Helsinki Stock Exchange (now the Nasdaq OMX Helsinki Oy) since 1942.
- The Head Office is located in Mariehamn, Åland. The Bank of Åland has a total of six offices in the Åland Islands and five offices on the Finnish mainland: in Helsinki, Tampere, Vaasa, Turku and Parainen. In Sweden, the Bank of Åland has three offices: Stockholm, Gothenburg and Malmö.
- The Bank of Åland Group has a total of five subsidiaries whose operations are connected in various ways with banking. They are Ålandsbanken Asset Management Ab, Ålandsbanken Fondbolag Ab, Ab Compass Card Oy Ltd and Crosskey Banking Solutions Ab Ltd, the latter with its own subsidiary S-Crosskey Ab.
- In the Åland Islands, the Bank of Åland is a bank for all residents, both in a position and with a desire to help develop the Åland of the future.
- On the Finnish mainland and in Sweden, the Bank of Åland has a niche strategy targeted to entrepreneurs, wealthy families and individual customers with sound finances. We offer two concepts: Private Banking and Premium Banking®. We also offer asset management services for institutional investors.
- Over the years, the Bank of Åland has been an innovative pioneer in the financial services industry. The Bank of Åland's Premium Banking®, launched in 2004, has served as a model for competitors in the Nordic countries.
- The Bank of Åland has proactively chosen to offer products that benefit the customer at various levels: first and foremost financially, but also by contributing to sustainable development. Including the 2014 amount, over the years the Bank's Environmental Account has contributed more than EUR 1 M to projects that improve and protect the environment.

Bank of Åland Group	2014	2013	2012	2011	2010
EUR M					
Income					
Net operating profit	22.4	10.4	9.9	−5.7	1.0
Profit for the year attributable to shareholders	16.1	6.7	11.3	−6.5	−2.9
Volume					
Managed assets	5,042	4,407	4,252	3,814	4,347
Lending to the public	3,343	3,104	2,905	2,737	2,573
Deposits from the public	2,391	2,460	2,452	2,544	2,600
Risk exposure amount	1,554	1,475	1,401	1,729	1,664
Equity capital	196	184	179	181	154
Financial ratios					
Return on equity after taxes, % (ROE)	8.7	3.8	6.6	−3.9	−1.8
Expense/income ratio, %	0.80	0.86	0.85	1.04	0.93
Loan loss level, %	0.06	0.14	0.22	0.07	0.23
Core funding ratio, %	105	103	103	108	99
Equity/assets ratio, %	4.6	4.7	4.9	5.3	4.4
Core Tier 1 capital ratio, %	10.9	10.8	10.9	8.4	7.3
Working hours re-calculated to full-time equivalent positions	644	617	640	690	679

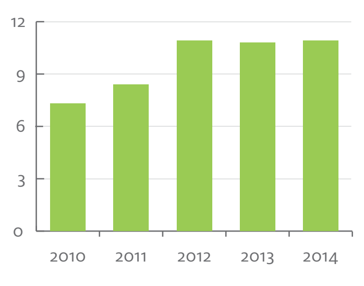
Profit for the year attributable to shareholders

EUR M



Core Tier 1 capital ratio

Per cent



The year 2014 in brief

Financial summary of 2014

- Profit for the year attributable to shareholders amounted to EUR 16.1 M (6.7).
- Earnings per share totalled EUR 1.12 (0.46).
- Return on equity after taxes (ROE) was 8.7 (3.8) per cent.
- Net interest income increased by 16 per cent to EUR 49.3 M (42.4).
- Net commission income increased by 9 per cent to EUR 46.2 M (42.4).
- Total expenses increased by 3 per cent to EUR 96.4 M (93.5).
- Net impairment losses on loans (including recoveries) decreased by 57 per cent to EUR 1.8 M (4.1), equivalent to a loan loss level of 0.06 (0.14) per cent.
- Managed assets increased by 14 per cent to EUR 5,042 M (4,407).
- Lending increased by 8 per cent to EUR 3,343 M (3,104).
- Deposits decreased by 3 per cent to EUR 2,391 M (2,460).
- The core Tier 1 capital ratio increased 10.9 (10.8).
- The Board of Directors proposes a higher dividend of EUR 0.40 (0.15) per share.

Important events in 2014

FIRST QUARTER

- The Bank of Åland restructured and streamlined its operations in the Helsinki region. This included closing the office in the suburb of Tapiola, Espoo. These measures lowered costs by about EUR 0.5 M on an annual basis.
- The Bank of Åland decided to improve the efficiency of its IT support and back office processes for asset management and securities processing. The Bank of Åland chose Crosskey Banking Solution Ab Oy's new capital market concept, "Capital Markets from the Tap", after evaluating several alternative IT suppliers. This change effort is expected to take about three years.
- The Bank of Åland communicated new long-term financial targets.

SECOND QUARTER

- The Annual General Meeting re-elected the Board of Directors consisting of Nils Lampi, Christoffer Taxell, Agneta Karlsson, Anders Å Karlsson, Annika Wijkström, Anders Wiklöf and Dan-Erik Woivalin. The Annual General Meeting also approved the removal of the stipulation in the Bank's Articles of Association that a person who has reached the age of 67 is not eligible for election to the Board.
- Managed assets in the Bank of Åland's own mutual funds surpassed EUR 1,000 M.
- The Bank of Åland (Ålandsbanken) Euro Bond Fund was named the best Nordic fund in its category for management periods of 3.5 and 10 years and received the prestigious Lipper Fund Award Nordic for 2014.
- For the first time, the Bank of Åland issued covered bonds with Swedish mortgage loans as collateral.
- The Bank of Åland and the mutual insurance company Ålands Ömsesidiga Försäkringsbolag (Ömsen) intensified their partnership in Åland related to insurance and financing solutions, aimed at raising the level of service and financial security when buying a home. Together with Ömsen, the Bank of Åland also became a part-owner of the newly established Mäklarhuset Åland Ab estate agency.
- Marginalen Bank's new Internet banking service, developed by Crosskey, was launched in the Swedish market.

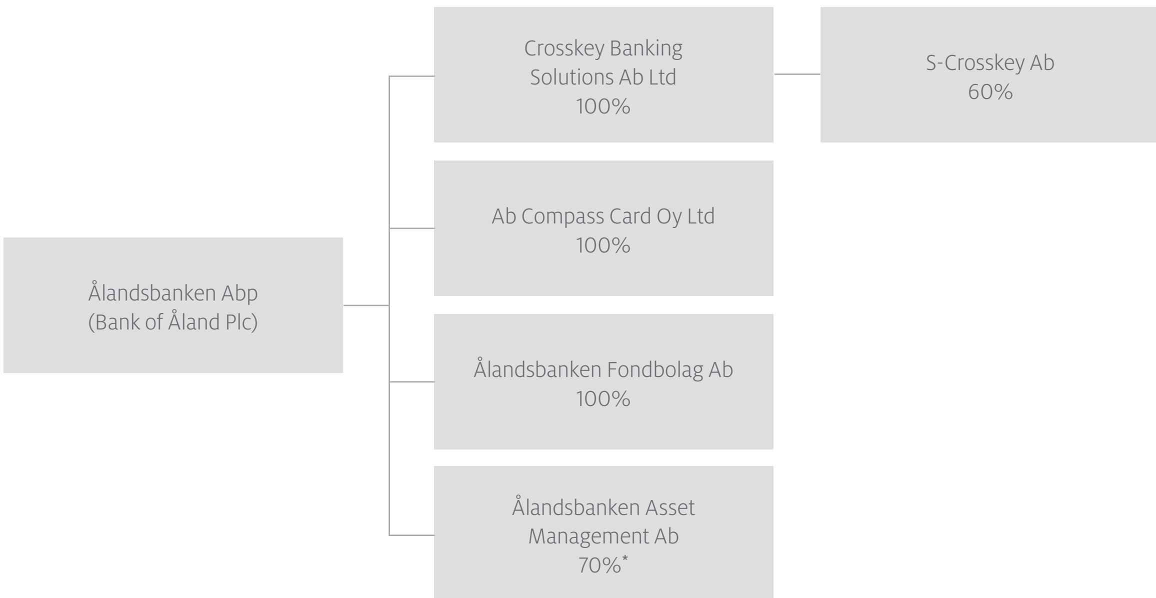
THIRD QUARTER

- As part of its efforts to further strengthen its asset management offering, the Bank of Åland hired an experienced four-person management team.
- For the first time, the Bank of Åland issued certificates of deposit in the Swedish market.
- The Bank of Åland's Board of Directors decided to launch a share savings programme for all Group employees. This programme enables employees to save a portion of their monthly salary to invest in the Bank of Åland's Series B shares. Participation in the programme is voluntary.
- The Bank of Åland's Board of Directors decided to carry out a targeted issue of 100,000 option rights to key individuals as one step in fulfilling the Bank's incentive programme.
- Net operating profit for the third quarter was the best for a single quarter since 2007, excluding nonrecurring items. Return on equity after taxes for the quarter surpassed the Bank's long-term financial target.

FOURTH QUARTER

- The Standard & Poor's rating agency downgraded the sovereign credit rating for Finland from AAA to AA+ but confirmed that the Bank of Åland's credit rating for long- and short-term borrowing is not affected by this and is unchanged at BBB/A-3 with a negative outlook.
- The Bank of Åland signed an agreement with S-Bank (S-Pankki) to acquire its 34 per cent holding in Ab Compass Card Oy Ltd. After the acquisition, Compass Card is a wholly owned subsidiary of the Bank of Åland.
- The Bank of Åland's subsidiary Crosskey and S-Bank renewed their cooperation by means of an agreement that extends until the end of 2020 and that includes Crosskey's core bank and Internet bank systems. In connection with the extension of the existing cooperation agreement, S-Bank and Crosskey also entered into a completely new cooperation agreement which includes Crosskey's card issuing platform.
- The Bank of Åland began a restructuring of the Group's asset management operations aimed at creating a Group-wide organisation. As part of this process, it agreed to acquire the shares of the minority owners in its subsidiary Ålandsbanken Asset Management via an exchange of shares, with payment occurring in the form of 762,912 newly issued Series B shares in the Bank of Åland. During 2015, Ålandsbanken Asset Management will merge with the Bank of Åland.
- Managed assets surpassed EUR 5,000 M.
- Net operating profit for the fourth quarter was the best for a single quarter since 2007, excluding nonrecurring items. Return on equity after taxes for the quarter surpassed the Bank's long-term financial target for the second consecutive quarter.

Legal structure of the Group



*Merging with the Bank of Åland during 2015

Associated companies consolidated in the Group:
Ålands Investerings Ab, 36%
Mäklarhuset Åland Ab, 25%
There is also one small real estate company, in which the Bank of Åland has more than 50% ownership.

Organisational chart

Crosskey Banking Solutions Ab Ltd
Thomas Lundberg, Managing Director

Ab Compass Card Oy Ltd
Kimmo Autio, Managing Director

Ålandsbanken Fondbolag Ab
Tom Pettersson, Managing Director

Board of Directors
Nils Lampi, Chairman

Internal Auditing
Monica Österlund

Chief Executive Officer
Peter Wiklöf, Managing Director

Finnish Mainland Business Area
Anne-Maria Salonius, Director
Premium Banking
Private Banking
Helsinki
Espoo
Tampere
Turku
Parainen
Vaasa

Åland Business Area
Birgitta Dahlén, Director
Premium Banking
• Customer Advisory Services
• City office
• Local branch offices
Private Banking
Corporate Services
Legal Advisory Service

Sweden Business Area
Magnus Holm, Director
Premium Banking
Private Banking
Asset Management
Stockholm
Gothenburg
Malmö

Corporate Unit
Jan-Gunnar Eurell, Chief Financial Officer, Deputy Managing Director
Accounting
Business Control
Treasury
IT Management
Legal Affairs

Corporate Unit
Tove Erikslund, Chief Administrative Officer
Human Resources
Marketing & Business Development
Contact Center
Business Support – Customers, Accounts, Cards, Digital Banking Services, KAPMA Finland
Operations Sweden

Corporate Unit
Juhana Rauthovi, Chief Risk & Compliance Officer
Risk Control
Compliance & Operational Risks
Credit Department

Ålandsbanken Asset Management Ab
Christian Wetterstrand, Managing Director

A long-term approach wins in a troubled world

Photographer: Daniel Eriksson

Peter Wiklöf, Managing Director

During 2014 the global economic recovery was slow in materialising. The only exception was the United States, where we saw a clear upswing. For the fourth consecutive year the Finnish economy struggled, with rising unemployment and declining activity. Sweden was able to show some growth, and its business community was more optimistic.

The lack of clear economic growth, and especially the absence of inflation, prompted the European Central Bank (ECB) and Sweden's Riksbank to cut their key interest rates to historically low levels. The ECB went so far as to introduce a negative interest rate on the funds that euro zone banks deposit with the central bank.

Overall, this has led to extremely low market interest rates. In December the 3-month Euribor benchmark rate stood at 0.08 per cent, while the 3-month Stibor was at 0.26 per cent.

Under such circumstances, it is gratifying to be able to report good earnings. Let me state immediately that I view our performance as a direct result of two factors: the encouraging confidence that our customers have shown us and the great dedication demonstrated by the Bank's employees. Together we have carried out a long-term and persistent effort that even low market interest rates could not derail.

CLEAR UPSWING LATE IN THE YEAR

The Bank of Åland is reporting earnings that grew stronger during each quarter. In 2013, we improved our net operating profit by more than EUR 15 M, nonrecurring items excluded. In 2014 this trend continued, and net operating profit rose by EUR 12 M to EUR 22.4 M.

It was especially satisfying to see the earnings improvements on the Finnish mainland and in Sweden, with Sweden now having clearly begun to contribute positive earnings.

During the year our capital base nearly reached the strength that we have set as a long-term target. The same applies to our earnings, which during the two final quarters of 2014 generated a return on equity after taxes (ROE) that surpassed 10 percent. On a full-year basis, ROE was 8.7 per cent.

The Bank's net interest income improved by a full 16 per cent. Three factors more than offset the effect of falling market interest rates: larger volume, improved margins and declining funding costs thanks to our successful issuance of covered bonds. Total lending rose during the year by 8 per cent to EUR 3,343 M.

Net commission income also rose, mainly due to higher mutual fund and lending commissions. Managed assets rose during the year by 14 per cent to a new record level of EUR 5,042 M. Adjusted for currency rate effects, growth was even stronger at 18 per cent.

We also saw other revenue increase, largely thanks to Crosskey's successful sales of information technology (IT) systems.

Despite the low economic activity in Finland, loan losses at the Bank of Åland fell by more than half from over EUR 4 M to EUR 1.8 M. Total expenses went as planned, increasing by 3 percent. We will continue to invest in our knowledgeable employees and in our IT systems to further improve our product range and raise the level of service to our customers.

EVENTS DURING THE YEAR

Financial investment operations are, of course, a cornerstone of the Bank of Åland's business. To further enhance our range of services, we started a project to coordinate our asset management resources in Finland and Sweden. As part of this effort, an agreement was signed right at the beginning of 2015 to merge the subsidiary Ålandsbanken Asset Management with the Bank of Åland during the first half of the year.

We also started a project to modernise and harmonise our capital market systems. This is a large-scale project which will be launched during 2015 and 2016.

In Sweden, we have continued to develop our operations into a full-service bank in line with our offering in Åland and on the Finnish mainland.

In Åland we have improved the insurance offering to our mortgage loan customers through a partnership with the mutual insurance company Ålands Ömsesidiga Försäkringsbolag. On the mainland, we have concluded an agreement with the Folksam insurance company to provide a similar offering.

Crosskey made its first delivery of an IT solution to an external Swedish customer when it delivered an Internet banking solution to Marginalen Bank. During the year, Crosskey signed a multi-year extension agreement concerning the delivery of existing IT solutions to S-Bank (S-Pankki). In connection with this, S-Bank chose to expand cooperation by purchasing Crosskey's card issuing system. Since S-Bank is one of Finland's largest card issuers, this is a real feather in our cap.

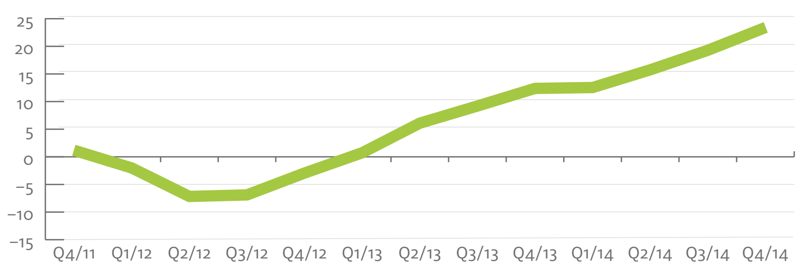
The Bank of Åland decided to start a share savings programme for its employees. A large proportion of employees – a full 69 per cent – chose to join. I see this as further proof of my colleagues' confidence in the Bank's strategy and our future ability to grow. In addition to great staff dedication, the share savings program also means that the Bank will have an unusually high proportion of its employees as direct owners, which I view as very positive.

Every employee at the Bank has reason to be proud of what we have accomplished during 2014. We should regard our earnings as a reminder that more and more customers appreciate a bank that generates value by delivering a large bank's range of services, along with a small bank's thoughtfulness and good sense.

During 2015, let us continue along this path – our own path.

Consolidated operating profit excluding nonrecurring items

EUR M



Moving 12-month figures by quarter

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 the right target groups, putting special emphasis on financial investment operations at the same time as we deliver financing solutions and outstanding service in other banking services.

A BANK FOR INVESTORS, WITH FINANCING KNOW-HOW

The Bank of Åland's proficiency as a bank for investors has been confirmed in all its markets over the past few years. This is demonstrated by its increasing number of customers and the growth in its managed capital, 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 mobile devices – enables customers to gain a clear overview and seamlessly manage their everyday finances.

OUR THREE MARKETS

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

GOING OUR OWN WAY IS EMBEDDED IN OUR GENES

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

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


Photo: Shutterstock

A year of common sense and increased awareness

Last year was marked by both constructive discussion about what sustainability means and how all of us at the Bank of Åland can contribute. Discussions have taken place at all levels and in all departments. Based on the objectives of our sustainability strategy, our ambition during 2014 was to gain a deeper understanding of how it affects our daily work.

Sustainability work is largely about self-evident and everyday matters. To simplify a bit, during the working day we want to act in the same way as we do at home. In other words, take responsibility for:

- what we consume
- how we sort waste
- how we use electricity
- how much paper we use for print-outs
- what matters when we make decisions
- other people
- how our own behaviour affects others.

It has been all about practical matters that only require a little reflection and common sense. Happily, our discussions have also led to tips and ideas from Bank employees.

Follow-up of what we accomplished during 2014 in prioritised areas

RESPONSIBLE INVESTMENTS

- Our *Transparency Report 2013* was published on the website of the UN Principles for Responsible Investment (PRI), www.unpri.org.
- A new policy for corporate governance in the Bank's mutual fund management company was developed, including principles for responsible investments.
- From the beginning of 2015, the reports of all of the Bank's Finnish mutual funds will include a sustainability analysis.

RESPONSIBLE LENDING

- We clarified the definitions of what "responsible lending" means at the Bank.
- The importance of responsible lending was incorporated into our lending policy document. Internal employee training focused on the implications of sustainable lending.
- We devote particular energy to estimating how Finland's worsening economic situation will affect our customers' repayment ability.
- In Sweden, we placed internal ratings based (IRB) credit classification in service. We are developing a new tool for granting loans that will provide a clearer overall picture of the customer and streamline the credit process.
- We can now show that sound risk management principles and monitoring during 2014 led to improved credit quality in our entire loan portfolio.

SOCIAL RESPONSIBILITY

- We have contributed to society by offering a wide range of services that create meaningful employment.
- The Bank should be a vital element of our community. For example, we want to help ensure that children and youth enjoy meaningful free-time activities. By sponsoring sports and cultural programmes, the Bank assists about 1,500 children and young people in Åland.
- We also want upper secondary students to dare believe in themselves, and obtain insights into starting a business and building networks. This is why the Bank supports the Young Entrepreneurs project. We are also partners in Business Lab Åland, an incubator created to encourage students at the Åland University of Applied Sciences and other aspiring entrepreneurs to start businesses.
- We have conducted our annual employee survey and performance review dialogues to identify needs and work to create better conditions, enabling all employees to regard the Bank as a long-term, secure employer.
- Internally, we have focused on creating clarity, a sense of participation, motivation and pride, in order to build a workplace with sustainable conditions for each employee. For example, we have:
    1. Carried out an internal leadership programme to ensure good leadership based on the Bank's expectations.
    2. Planned an employee empowerment programme for 2015 to identify and clarify the expectations of Bank of Åland employees.
    3. Initiated a 1-year share savings programme for all employees starting January 1, 2015. Its objective is to further enhance our employees' motivation, sense of participation and long-term connection to the Group.
    4. Implemented a clear internal communication strategy in order to improve efficiency and create a sense of participation, motivation and pride.

ENVIRONMENTAL RESPONSIBILITY

During the year we worked to increase awareness in the Group and strengthen everyone's participation in the Bank's environmental efforts. Together we will succeed in our ambition to reduce carbon dioxide emissions and produce less waste.

- The number of trips rose in 2014, mainly due to a large-scale Group project, but the proportion of travel by sea increased. This means that employees are choosing to travel in a more environmentally conscious way.
- The use of videoconferencing and digital meetings rose, thanks to expanded systems as well as greater awareness of the potential for real-time meetings via employees' computers.
- Our electricity consumption in Åland fell by 18 per cent, and wind power is being used at the Bank's Head Office.
- The use of e-invoices for payments is continuously increasing. The number rose by about 15 per cent.
- Paper consumption fell 20 per cent due to more efficient printer use.
- There was greater awareness and a strong desire to use less paper and sort waste responsibly. Each unit studied the Bank's environmental plan and drew up its own targets. Employees contributed tips to the environmental committee and several proposals were implemented in daily operations.
- Together with our customers we distributed EUR 103,433 in bonus funds from our Environmental Accounts to eight different environmental projects.

Photo: Johnér bildbyrå

A year of high business activity and good growth

Photographer: Daniel Eriksson

Birgitta Dahlén, Director, Åland Business Area

The year exceeded expectations and growth increased. Both customers' rising interest in financial investments and their need for loans contributed to the upturn. Encouragingly, we have also seen more and more customers returning to the Bank of Åland.

PREMIUM BANKING

In addition to a sharp increase in lending during the year, a growing number of Bank customers are choosing to save monthly in mutual funds. Nearly every customer who takes out a mortgage or consumer loan also chooses to save monthly. Our general recommendation is a slower rate of loan repayment combined with monthly saving.

In Åland we are still the only bank with a broad office network, even though the office in Lemland closed during the year. We now have six offices of our own, and in some archipelago municipalities we cooperate with Åland Post to ensure service for our customers.

PRIVATE BANKING

Last year ended with intense business activity and a strong inflow of new asset management mandates. The number of customers increased by 27 per cent and assets under management rose by 30 percent, a consequence of both new customers and a strong increase in our management mandates.

Wealth management combined with investment insurance has been well received, thanks to its tax efficiency. Today it represents more than half of the total volume under management.

The most common Åland portfolio is a Nordic equity mandate with emphasis on Finland and Sweden. Return on the average portfolio increased by 15 per cent in 2014, while the benchmark index (VINX Bench Cap/80) rose by 8 per cent.

INNOVATIONS GAINING GROUND

The Bank of Åland's partnership with the mutual insurance company Ålands Ömsesidiga Försäkringsbolag has proven successful. Customers appreciate the opportunity to easily arrange home insurance at the same time as they take out home mortgage loans.

The new Legal Advisory Services department began operations on September 1. Bank of Åland's strong expertise in family law is now being expanded to include tax and company law. This means that we can offer both our corporate and investment customers a wider range of legal services.

The Sweden package was launched in 2013. Our customers can easily open a Swedish bank account featuring a debit card and Internet Office service by visiting their bank office in Åland. Initially, we expected the target group to be private individuals receiving a salary or pension in Sweden, along with students. But during 2014 it turned out that more and more Åland-based companies with operations in Sweden chose this service.

KNOWLEDGE VITAL TO STRONG RELATIONSHIPS

We want to provide our customers with useful knowledge so that they can make better decisions. During 2014, the Bank's customer seminars proved more popular than ever. Our customers know that participating in them is time well invested.

The most important seminars in 2014 were:

- Home Buyer School: All about buying and building houses
- Entrepreneur's Day: Focusing on Business Net and Business Banking services
- Investment Day: The Ukraine crisis – threat or opportunity?

Our senior trips also remain highly popular. During the year, 150 customers travelled with us to Croatia and Riga.

During 2015, we will continue on the same path. By further adjusting our internal processes and our working methods, we will become even faster at providing feedback to our customers and answering their questions.

THE CORPORATE SERVICES UNIT

The Bank of Åland's Corporate Services Unit is a market leader in Åland and offers a wide range of services and products tailored for Åland-based companies. The target group is broad, ranging from small and medium-sized businesses to large corporations with international operations.

The number of corporate customers increased during the year. Their activity level was low early in the year but gradually increased. New and renegotiated financing commitments thus rose by 37 percent, from EUR 91 M to EUR 125 M. We also received numerous inquiries from other banks' corporate customers.

During the year, all customers with the Business Line payment solution moved to our new web-based Business Net payment solution. We also launched the Business Banking service concept, a comprehensive product and service package for corporate customers.

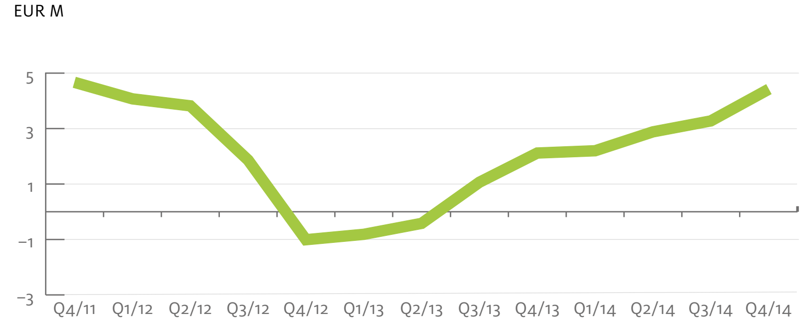
Lending to maritime shipping operations continued to decline in 2014. At year-end, it accounted for only X percent of the Group's total lending. Our shipping customers have their vessels employed on contract and are servicing their borrowing obligations as planned. For this reason, we have been able to reverse some of the loan loss provisions to customers in this industry.

The maritime shipping industry faces continued uncertainty about both net revenue levels and the secondary market value of vessels, which requires that we carefully monitor developments and work closely with our customers.

In other sectors, our credit quality has been good.

During 2014 the Bank of Åland's Corporate Service Unit became a partner in the Business Lab Åland project, which was initiated by the Åland University of Applied Sciences. The aim of the project is to use a new method to promote start-ups in Åland and speed up the process of moving from idea to commercialisation. By participating in the project, the Bank is both contributing to a positive view of entrepreneurship and helping young entrepreneurs get started in business more easily by using effective tools.

Net operating profit excluding nonrecurring items, Åland Business Area



Moving 12-month figures by quarter

Our financial investment expertise is a trump card in uncertain times

Photographer: Daniel Eriksson

Anne-Maria Salonius, Director, Finnish Mainland Business Area

On the Finnish mainland, the Bank of Åland reported a good trend of earnings. In terms of lending, we grew more than the market average. Meanwhile the demand for deposit accounts was modest, given the prevailing low interest rates. Yet we are seeing great interest in the Bank of Åland's financial investment know-how, and during 2014 we welcomed more new customers than the year before.

In Helsinki, we brought together our employees at the Bulevardi office. This change is both appreciated by customers and consistent with the ambition to raise our profile as a bank for investors.

During 2014 we worked to raise our credit quality. This effort yielded results, and in addition we saw increases in both lending volume and net interest income. Loans granted rose by 25 per cent, but due to the high amortisation rate of our customers, the increase in loan portfolio volume was only 5 per cent.

The volume of managed assets rose by 9 per cent, including investments by both new and existing customers. Due to low interest rates, demand for deposit accounts was limited and volume decreased by 1 per cent.

In 2014, we welcomed over 40 per cent more new customers than in 2013. Meanwhile we were able to increase sales to our existing customers. One success factor is that we have introduced a more efficient working method that has given customers more attention, which in turn has led to both greater customer satisfaction and higher profitability.

MAKING EVERYDAY LIFE A BIT EASIER

Our message in the Finnish mainland market is getting a response. We urge the Bank of Åland's target group to demand more from their bank and we emphasise that banking services should make everyday life easier, so that people can focus on what is important to them. We are responding to this advice ourselves by coordinating our resources and initiating strategic partnerships.

- During 2014, we initiated a partnership with the Folksam insurance company. We now offer our customers a comprehensive solution for home mortgage financing and home insurance.
- We strengthened our Private Banking concept by increasing our expertise in corporate solutions and services to business owners.

Many of the Finnish mainland residents who choose the Bank of Åland expect not only high quality in the services we offer, but also flexibility, personalised solutions and good service. We will therefore continue to invest in becoming even better at customer service. For example, we want to make it even easier for our customers to initiate a dialogue with us, and every customer should be able to expect even faster feedback than before.

We have the capacity to welcome new customers and we believe that our growth potential is good. Here it is worth mentioning that the Bank of Åland's Bostadsfond, a mutual fund specialising in residential properties, continued to show very good earnings in 2014 and has also attracted new investment customers to the Bank.

CHALLENGES AHEAD

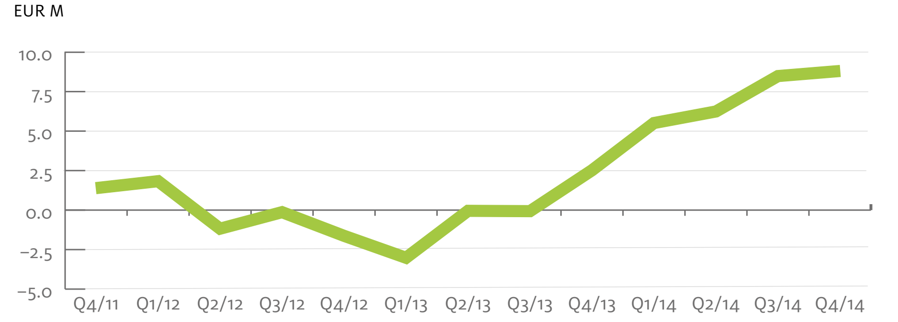
Financing is an important part of our operations. The economic situation is slowing activity in the housing market and is leading to keen competition for the few home buyers.

Aside from economic conditions in Finland, the political situation in our surroundings is also contributing to increased uncertainty.

Yet our success during 2014 is an important reminder that the Bank of Åland's customer offering is strong – even when the market is unpredictable and the international situation is directly threatening. There are many indications that during 2015, we will see results from our persistent efforts.

By merging the Bank with its subsidiary Ålandsbanken Asset Management Ab, we are bringing together two strong Private Banking teams that will work under the same leadership in the future. During 2014, the earlier integration of our investment and financing teams in the Private Banking unit proved successful. Bringing together expertise in different areas provides many positive synergies and will hopefully have a favourable effect on earnings. By pooling our resources, we are now creating an even stronger team, which has very good potential to lift the Bank of Åland's Private Banking offering on the Finnish mainland to the next level.

Net operating profit excluding nonrecurring items, Finnish Mainland Business Area



Moving 12-month figures by quarter

Our Private Banking package is attracting customers all over Sweden

Photographer: Daniel Eriksson

Magnus Holm, Director, Sweden Business Area

The Bank of Åland's operations in Sweden continue to develop favourably. The influx of new customers and new business volume demonstrate an increased interest in the Bank's services and products.

Our brand is becoming more familiar, but at the same time we still need to make an effort over the next few years to make more people in Sweden aware that the Bank of Åland is now an alternative worth reckoning with, in addition to the established major banks. We are also trying to plan our offices to make it easy for customers to find us, and we are designing our premises in ways that will contribute to a good customer experience. In Stockholm we are now in newly renovated premises at Stureplan. In Gothenburg we are centrally located in a historical building at Kungsportsavenyn 1. In Malmö we will be moving into the city's new landmark building, nicknamed the Glass Vase (Glasvasen), late in 2015.

THE PREMIUM BANKING CONCEPT IS WORKING

During 2014 we launched a number of new services and products in Sweden, for example e-invoicing, the mobile bank ID, credit cards, mortgage loan protection insurance, loss-of-income insurance and new asset management funds from our Finnish mutual fund offering.

This enables us to provide our customers with a broad range of services. Consequently more and more people are choosing to move their banking business to the Bank of Åland.

But it is especially encouraging that customers particularly appreciate the service and dedication they receive from our advisors. A customer survey conducted in the autumn of 2014 showed that they award us high marks. Asked how satisfied they are with their advisor, customers gave an average score of 9.05 on a 10-point scale.

We are naturally very proud and pleased about this. This result is clear proof that many banking customers today particularly appreciate personal service, advanced expertise and easy access to their advisors. Many people who become customers at our Bank single this out as the main reason they have chosen to switch to us. As a result of this, nearly 40 per cent of our new customers have been referred to us by satisfied existing customers.

During 2014 we increased our total business volume by 47 per cent and our income by 43 per cent within Premium Banking.

PRIVATE BANKING CONTINUES TO ATTRACT NEW CUSTOMERS

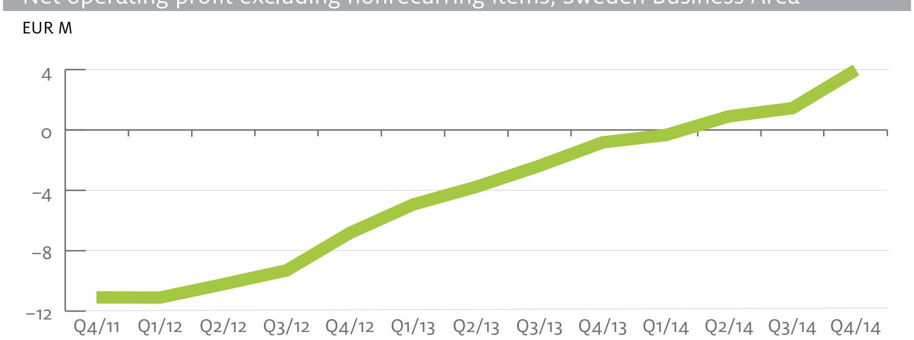
In Private Banking, we are continuing to awaken interest among new customers all over Sweden. A significant proportion of our new customers come to us on the basis of a recommendation from business partners of various kinds. We have an extensive network of accountants, lawyers, tax consultants and so on, who provide us with a steady influx of customers who need the type of expertise we offer. We are convinced that customers want the security of being able to get help with all aspects of their business in one place. This is why we have chosen to recruit people with special skills in various fields to our Private Banking operations. Our team includes people with such backgrounds as authorised public accountant, corporate legal counsel, family law specialist, insurance advisor, tax specialist with work experience from the Swedish Tax Agency, wealth manager and so on.

When we meet our customers, we can help them with many different issues, such as:

- Starting limited liability companies and helping to set up corporate structures
- Buying and selling limited liability companies
- Change-of-generation planning
- Pre-nuptial agreements, cohabitation agreements, wills, partition of joint property, estate inventory
- Wealth management
- Equity advisory services
- Pension and insurance review
- Advisory service for individuals soon moving abroad
- Voluntary disclosure for tax returns
- Income tax returns

During 2014 we increased our total business volume by 33 per cent and our income by 15 per cent within Private Banking.

Net operating profit excluding nonrecurring items, Sweden Business Area



Moving 12-month figures by quarter

Corporate units stand for clarity and efficiency

Photographer: Daniel Eriksson

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

CFO Corporate Unit

Chief Financial Officer Jan-Gunnar Eurell is in charge of the Treasury, Business Control, Accounting, IT Management, Legal Affairs and Purchasing & Internal Services departments. The CFO Corporate Unit has more than 40 employees and, like the other corporate units, has staff members in Mariehamn, Helsinki and Stockholm.

Treasury launched two new funding instruments during 2014 aimed at cost-effectively funding the growing Swedish loan portfolio. For the first time, it issued covered bonds with Swedish mortgage loans as collateral and issued certificates of deposit in Swedish kronor. The Bank of Åland's own risk premium has gradually decreased in recent years, helping lower the costs of its growing capital market funding. At year-end, the Bank's funding from credit institutions and issuance of debt instruments totalled EUR 1,734 M, including EUR 795 M in covered bonds.

Business Control continued to refine its internal management model and the control process as well as internal reporting support for business control. As part of the task of establishing a new Group-wide asset management organisation, the focus has been on harmonised internal settlement principles and profitability calculations for various asset management products.

Accounting continued its effort to shorten and automate the process of compiling financial statements. It passed an important milestone late in 2014 when the Swedish branch switched to using the same general ledger system as the rest of the Group.

IT Management had an important role during 2014 in the architecture, collection procedures and testing procedures for a large-scale project aimed at implementing a new Group-wide IT solution for the Bank's securities business. The Group's IT strategy was revised during the year. Efforts to ensure efficient ordering procedures and a steady reduction in operational and administrative expenses in the IT field were successful.

Legal Affairs participated in the creation of a large number of new business agreements and updates of customer agreements based on new legislation. Change efforts in the asset management field and new IT support in the Group's securities business were high-priority activities in 2014.

Purchasing & Internal Services participated in such tasks as procuring and implementing new, more efficient printer solutions for the Group. The task of planning a large-scale addition to the Head Office in Mariehamn made progress.

CAO Corporate Unit

Chief Administrative Officer (CAO) Tove Erikslund is in charge of the corporate unit that consists of Business Support, Business Support Payments, Capital Market, Operations, Contact Center, Marketing and Business Development and Human Resources Åland/Finnish Mainland/Sweden. The CAO Corporate Unit is the largest corporate unit and consists of seven departments with about 100 employees.

CURRENT SITUATION AND 2014 FINANCIAL YEAR

During 2014 the corporate unit focused on internally delivering customer-oriented solutions and processes to the Group's three business areas.

The financial year was characterised by intense activity related to routine work and administration as well as development efforts in project form. Many projects are responses to regulatory or other requirements and are continuing during 2015.

The single largest project for the unit is a new capital market system for the Group. The goal is to create central processes to the greatest possible extent to achieve more efficient administration at lower cost. The new system will go into service during 2015 and 2016.

In the capital market field, new portfolio systems also went into service in Finland and Sweden.

For years, the Bank of Åland's Internet Office has been appreciated for its customer friendliness. During 2015 we are taking the next step, launching the first version of the Internet Office's mobile application in Sweden and Finland.

The corporate unit also worked to strengthen the Bank of Åland brand internally and externally. Internally, we worked to reinforce employees' sense of participation and motivation. Projects included establishing an internal communications structure: a framework for the Bank's digital strategy, sustainability work and succession planning. During 2014 the corporate unit expanded the ongoing leadership programme, which includes all of the Bank's department heads and supervisors, totalling 62 people. The cornerstones of the programme are group training courses, individual programmes and network building. The goal is to strengthen and clarify the basis for shared leadership at the Bank of Åland. During 2014 a total of 15 different events plus a leadership forum were organised. This work is continuing during 2015.

Our internal customer satisfaction surveys during 2014 gave employees higher marks than in previous years. But our unit needs to continue working actively throughout the organisation to clarify roles, responsibilities, processes and contact persons.

Employee satisfaction at the corporate unit increased compared to 2013. Unit employees are comfortable and motivated by their work and have confidence in their managers.

PRIORITIES IN 2015

The aim of the CAO Corporate Unit is to be able to manage higher business volume without increasing costs. To succeed, we must continue streamlining, prioritising and finding synergies. This also requires having a clear Group perspective in order to successfully pursue routine work and handle administration and development efforts in keeping with the established strategies.

The most important projects for the CAO Corporate Unit during 2015:

1. The Group-wide capital market system
2. Development of our digital channels

Employee empowerment will be a high-priority area, with expectations to be developed and implemented during 2015. The leadership programme will continue, but on a more limited scale than in 2014.

CRO Corporate Unit

Chief Risk & Compliance Officer (CRO) Juhana Rauthovi is in charge of the corporate unit that consists of the Risk Control, Compliance, Operational Risks & Security and Credit departments. The unit consists of 32 people in Mariehamn, Helsinki and Stockholm.

The Credit Department has pursued two large projects for a long time: the internal ratings based (IRB) and covered bond projects. Both were completed in 2014 and have been handed over for administration. The Bank is waiting for the Financial Supervisory Authorities in Finland and Sweden to expand its IRB permits to also cover the corporate portfolio and the Sweden business area starting in the spring of 2015. IRB models substantially improve the reporting and analysis of the loan portfolio. They allow a more proactive approach by the Bank, since they enable customer advisors to better monitor their customers.

Risk Control has improved its risk reporting, in order to deliver a clearer overall picture of all Group risks. Another completed project, conducted together with the Bank's Treasury Department, was to implement a Group-wide balance and risk management system.

Compliance and Operational Risks & Security were partly reorganised. Areas of responsibility were clarified, based on expertise. In 2014 a new information security unit was established.

PRIORITIES IN 2015

Risk Control

- Implementation of the scenario simulation model.
- Development of analytical tools for concentration risks.

Credit Department

- Development of the Group's security system.
- Implementation of the new Credit Application Tool (CAT).

Compliance

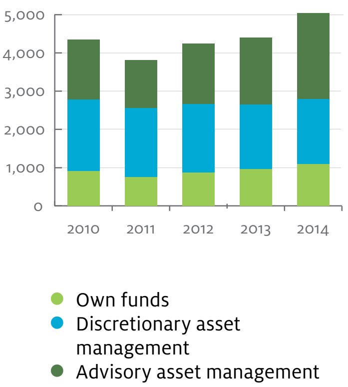
- The Foreign Account Tax Compliance Act (FATCA) project will continue over the next few years, since regulations to prevent US tax evasion are going into effect in stages during 2014–2017.
- Participation in the MiFID project to strengthen protection for investors.
- Monitoring of external regulations that are deemed relevant to the Group's operations as well as disseminating information and training about them.

Operational risks

- Testing of continuity plans. Their purpose is to minimise the impact of operational disruptions.
- Updating of emergency and communications plans. Emergency planning prepares the Bank for serious crisis situations. The plan will be updated in response to current risks and potential threats. In connection with this, the Bank's communications plan will also be updated.

Coordinated asset management will strength our offering

Managed assets
EUR M



During the autumn of 2014, the Bank of Åland initiated a major asset management project. Its purpose is to improve and expand the asset management operations of the Group.

For historical reasons, there have been several asset management units in the Bank, and the range of services and products in Åland, the Finnish mainland and Sweden has differed. When the project is completed, the Bank will have a unified asset management organisation, a common service and product range and a uniform investment process. We also foresee more efficient administration, which will help achieve substantial cost savings.

The new asset management organisation will be a separate profit centre and will assist all business areas. It will also work with the Bank of Åland's institutional clients and handle all asset management funds in the Finnish mutual fund company. This means that the mutual fund administration that was previously handled in Luxembourg will be phased out. Here, too, we foresee significant cost savings over the next few years.

One important milestone in the project is the merger between the Bank of Åland and its subsidiary Ålandsbanken Asset Management. The merger will occur during the first half of 2015. One result is that the customers of Ålandsbanken Asset Management will be coordinated with the Private Banking unit in Helsinki.

During the autumn, we recruited a new Chief Investment Officer and a new Head of Equities, among others. Since then, the asset management organisation has been further strengthened with special expertise that we regard as valuable in asset management.

The task of improving the product range has already begun. During 2015 a number of new mutual funds will be launched, while certain existing funds will be phased out or merged. We will focus especially on improving the Bank of Åland's range of equity funds.

In Sweden, so-called "top list management", has yielded very good earnings for a number of years. These portfolios have more concentrated holdings than traditional equity funds and diverge more from indices. During 2014 it was decided that this form of asset management will also be offered to customers in Åland. The launch was successful, with good performance compared to the relevant benchmark indices.

VOLUME TREND IN ASSET MANAGEMENT, 2014

The Bank of Åland's total managed assets rose by 14 per cent. In the mutual fund area, there was a particular large increase in the assets of the Bank's residential property fund (Bostadsfonden), with net deposits totalling EUR 73 M. The Euro Bond Fund, which was named the best fund in its category in the 2014 Lipper Fund Awards Nordic, showed a positive influx. We continued to have a good increase in the number of discretionary portfolios, but a large mandate in Sweden ended, causing volume to shrink. The underlying growth in the number of new customer agreements nevertheless bodes well for the future. Advisory portfolios increased strongly, by 27 per cent. Otherwise it is worth mentioning that in Sweden, the Bank of Åland is working together with the fund research company Indecap to deliver a liquidity fund developed especially for the country's independent savings banks. In Finland, there is a similar partnership with the cooperative POP banks. Both partnerships are based on the banks' need to manage their liquidity in compliance with the new international liquidity coverage ratio (LCR) rules. Our assessment is that liquidity funds for this purpose will increase.

Crosskey and Compass Card

Crosskey Banking Solutions Ab Ltd

We can proudly and happily say that our work at Crosskey paid off nicely during 2014. The significantly higher marks we received in the year's employee and customer surveys are an encouraging signal that we are working more closely than ever as a team. This was also essential during a year dominated by challenging deliveries and tight timetables.

MILESTONES DURING 2014:

- Crosskey's customer Marginalen Bank launched its new Internet Bank, developed by Crosskey. Meanwhile the development of Marginalen's mobile banking solution, which Crosskey will deliver in 2015, continued.
- S-bank (S-Pankki) and Crosskey extended their cooperation agreement to the end of 2020. Crosskey's customer LocalTapiola (LähiTapiola) Bank merged with S-Bank during the spring of 2014, and the renewed cooperation agreement applies to the newly merged bank S-Bank. At the same time, S-Bank and Crosskey signed an agreement on delivery of our card system. S-Bank is one of Finland's largest card issuers, and we are thus proud that amid keen competition, S-Bank chose Crosskey's card system.
- The credit and finance company Folkia launched its card products in Finland and Estonia using Crosskey's card system. With this launch, Crosskey now has a card system that supports both Visa- and MasterCard-affiliated customers, which is a solution that few market participants can offer.
- The Bank of Åland chose Crosskey's new capital market system. This decision was made because of the consolidation of the Bank's two capital market systems in Finland and Sweden. The project will continue until 2016. Crosskey's new capital market system was developed in close collaboration with the Finnish software company Model IT, with which Crosskey signed a partnership agreement late in 2013.
- Crosskey was re-evaluated as part of the company's PCI DSS certification process, and this certificate was renewed. Crosskey thus remains one of the few Nordic banking and finance service providers that are PCI DSS certified.

We are continuing to modularise and modernise Crosskey's product and service portfolio. This enables us to offer our customers more flexibility and lower costs, since they can choose the particular system components that they need. We are also continuously unveiling new services outside of our IT systems and IT services. For example, during 2014 a number of Crosskey's customers began using our Fraud Monitoring service.

Crosskey operates in a highly competitive market, with both local and international competitors. During 2014, competition increased further in the Nordic market. Our greatest challenges are thus to continue winning over new customers and to retain our existing customers. Yet the trend is clear: more and more potential customers want to initiate a dialogue with us. We view this trend as a consequence of increased awareness about Crosskey. We believe that Crosskey's offering is strong and that we have achieved a position where the company is a formidable market player.

Ab Compass Card Oy Ltd

During 2014 the number of customers, card use and the loan portfolio continued to increase, although at a slower growth rate. Overall income grew, and the increase in fixed costs remained moderate. Lending losses also fell, and earnings showed a clear improvement. Lower funding costs contributed to good earnings.

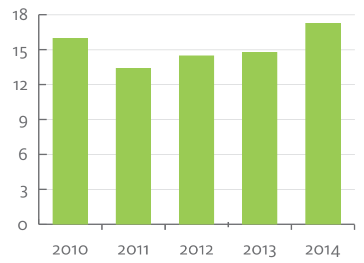
Two new co-branded card programmes were started, and contactless cards were launched. Concurrently with these projects, the company also began its Payment Card Industry (PCI) Data Security Standard certification project.

At the end of 2014, the Bank of Åland acquired S-Bank's 34 per cent stake in Compass Card. The two banks will continue their card collaboration at least until the end of 2015.

At year-end, Compass Card had 163,000 debit cards in circulation.

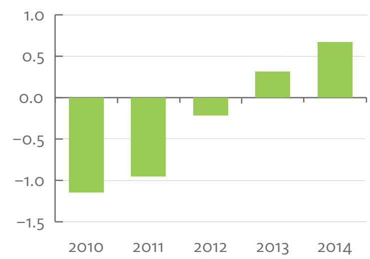
Non-Group IT income, Crosskey

EUR M



Net operating profit, Compass Card

EUR M



Report of the Directors

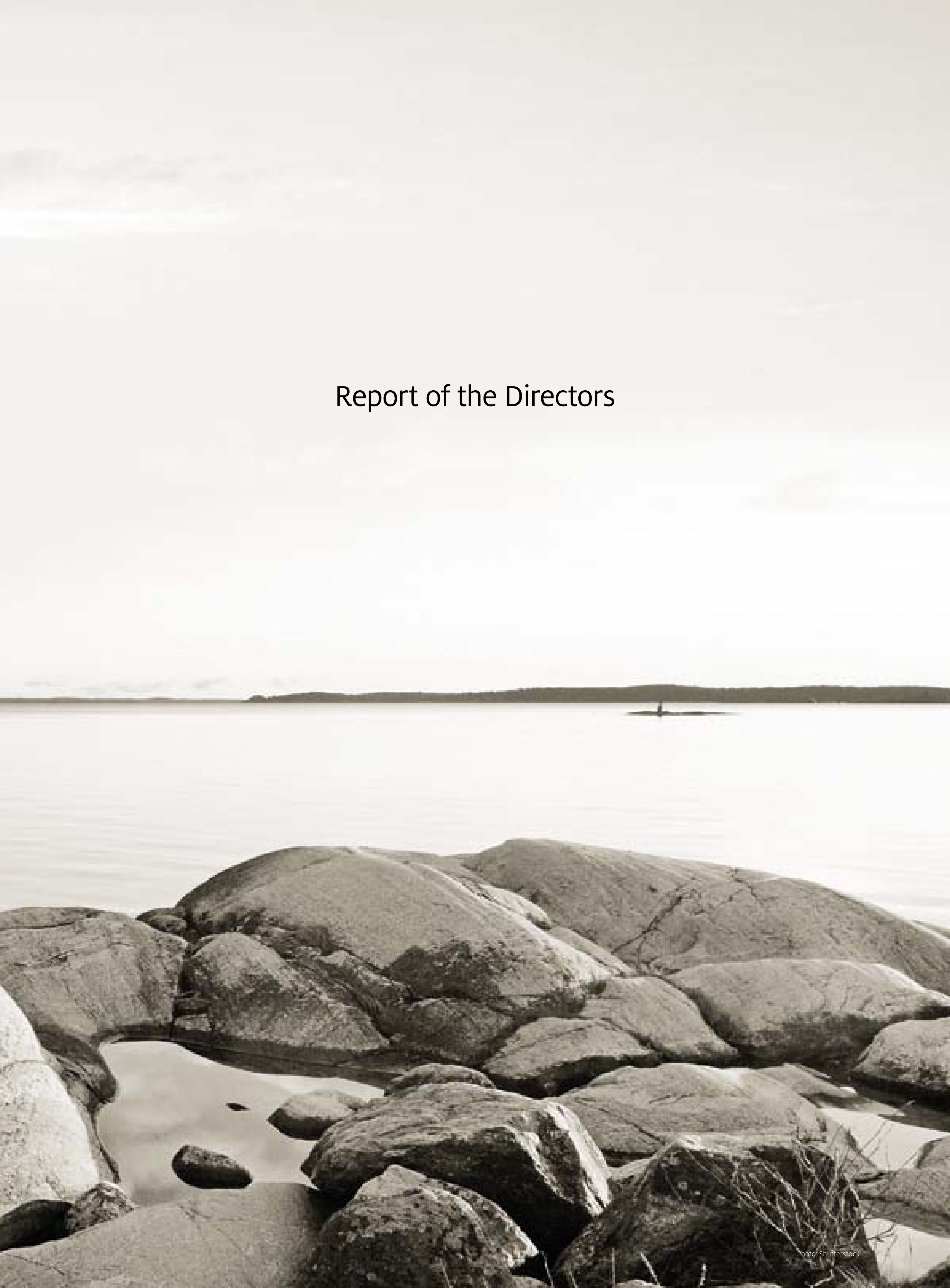


Photo: Shutterstock

Report of the Directors

Macro situation and regulatory requirements

Low interest rates are expected to remain in place for an extended period in Europe. This will continue to squeeze the net interest income of banks and increase the risks of macroeconomic asset bubbles. In September, the European Central Bank (ECB) lowered its already record-low key interest rate to 0.05 per cent. In October, Sweden's Riksbank lowered its key to 0.00 per cent. Long-term market yields also fell sharply during the year.

BENCHMARK INTEREST RATES, AVERAGES, PER CENT

	2014	2013
Euribor 3 mo	0.21	0.22
Euribor 12 mo	0.48	0.54
Stibor 3 mo	0.66	1.19

During 2014 share prices on the Nasdaq OMX Helsinki (OMXHPI) rose by about 6 per cent and prices on the Nasdaq OMX Stockholm (OMX-SPI) by about 12 per cent.

The average value of the Swedish krona in relation to the euro was 5 per cent lower during 2014 than in the previous year. On December 31, 2014, the krona was 6 per cent weaker than at the end of 2013. When translating the income statement of the Bank of Åland's Swedish operations into euros, the average exchange rate for the period has been used, while the balance sheet has been translated at the exchange rate prevailing on the closing day.

New calculation methods and disclosure requirements for capital adequacy went into effect on January 1, 2014 in compliance with the European Union's Capital Requirements Regulation (CRR).

Important events

On December 18, 2014, the Bank of Åland signed an agreement with S-Bank (S-Pankki) to acquire its 34 per cent holding in Ab Compass Card Oy Ltd. After the acquisition, Compass Card is a wholly owned subsidiary of the Bank of Åland. The Bank of Åland (66 per cent) and Tapiola Bank (34 per cent) founded Compass Card in 2006 for the issuance of credit and debit cards in the Finnish market. Compass Card offers tailor-made card solutions and today has about 160,000 debit cards and 55,000 credit cards in circulation. Compass Card will continue to offer S-Bank's existing card customers their current service at least during 2015. The acquisition is not expected to have any substantial impact on the earnings or equity capital of the Bank of Åland Group.

S-Bank and Crosskey Banking Solutions Ab Ltd have renewed their cooperation by means of an agreement that extends until the end of 2020. This cooperation agreement is a continuation of the existing agreement that was signed in 2005 and that includes Crosskey's core bank and internet bank systems. In connection with the extension of the existing cooperation agreement, S-Bank and Crosskey also entered into a completely new cooperation agreement which includes Crosskey's card issuing platform. Today S-Bank is one of Finland's largest banks, with more than 2.7 million customers, and is also one of Finland's largest card issuers.

Managed assets in the Bank of Åland have surpassed EUR 5,000 and amounted to a new record level of EUR 5,042 M at year-end. Managed assets in the Bank of Åland's own mutual funds have surpassed EUR 1,000 M, totalling EUR 1,048 M on December 31.

In 2014 about EUR 105,000 from the Bank of Åland's Environmental Account was distributed to selected environmental projects.

The Bank of Åland's Board of Directors decided to launch a share savings programme for all Group employees. This programme enables employees to save a portion of their monthly salary to invest in the Bank of Åland's Series B shares. Participation in the programme is voluntary. A full 69 per cent of employees have decided to participate in the programme.

Employees can save a maximum of five per cent of their monthly salary in order to subscribe for twice-yearly targeted issues of Series B shares. The savings period began on January 1, 2015 and the first share issue is planned for August 2015. The programme runs for one year. Three years after each respective share issue, the Bank of Åland will distribute one free matching share for each share that has been acquired in the targeted share issues to those who have participated in the share issues and who are still employed by the Group and own the shares that were issued.

Employees will be offered the opportunity to subscribe for Series B shares at a price that is

10 per cent below the average price during the calendar month before each respective share issue. The maximum savings amount for Group employees who have signed up for the programme is about EUR 0.9 million, which would be equivalent to about 88,000 Series B shares based on the average price in January 2015, including a 10 per cent discount. The maximum number of matching shares to be distributed will thus be 88,000. The maximum number of shares that employees may receive as part of the share savings programme will be 176,000.

Based on the above-mentioned conditions, shares acquired as part of the share savings programme may give rise to a maximum ownership stake of 1.1 per cent and 0.1 per cent of voting power.

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

As part of efforts to further strengthen its asset management offering, the Bank of Åland hired an experienced four-person management team. These individuals began their employment in mid-September.

In June, the Bank of Åland issued covered bonds with Swedish mortgage loans as collateral for the first time. The issue amount was SEK 1,000 million. The issue was oversubscribed.

The Bank of Åland (Ålandsbanken) Euro Bond Fund was named the best Nordic fund in its category for management periods of 3.5 and 10 years and received the prestigious Lipper Fund Award Nordic for 2014.

The Bank of Åland decided to improve the efficiency of its IT support and back office processes for asset management and securities processing. This change effort is expected to take about three years. The Bank of Åland chose Crosskey Banking Solution Ab Oy's new capital market concept, "Capital Markets from the Tap", after evaluating several alternative IT suppliers. The new Capital Markets system is a holistic solution that integrates several existing systems into a single platform.

The Bank of Åland and the mutual insurance company Ålands Ömsesidiga Försäkringsbolag (Ömsen) intensified their partnership in Åland related to insurance and financing solutions, aimed at raising the level of service and financial security when buying a home. This collaboration is based on offering a financial security package for customers taking out home mortgage loans. The offer includes Ömsen's insurance protection and damage prevention programme and products as well as a range of services from the Bank of Åland, among them legal advisory services, construction advisory services, financing and the Åland Premium Banking service. Together with Ömsen, the Bank of Åland has become a part-owner of the newly established Mäklarhuset Åland Ab estate agency.

The Bank of Åland restructured and streamlined its operations in the Helsinki region. This included closing the office in the suburb of Tapiola, Espoo. These measures will lower costs by about EUR 0.5 M on an annual basis. Restructuring expenses totalled about EUR 0.4 M and were charged to first quarter earnings.

The Bank of Åland is continuing to augment its product range in the Swedish market in such a way that customers in Sweden will not need any other bank. E-invoicing, Bank ID, credit cards and mortgage loan protection have been launched.

Crosskey developed Marginalen Bank's new Internet banking service, which has been launched in the Swedish market.

The Annual General Meeting on April 10, 2014 re-elected the Board of Directors consisting of Nils Lampi, Christoffer Taxell, Agneta Karlsson, Anders Å Karlsson, Annika Wijkström, Anders Wiklöf and Dan-Erik Woivalin. The Annual General Meeting also approved the removal of the stipulation in the Bank's Articles of Association that a person who has reached the age of 67 is not eligible for election to the Board.

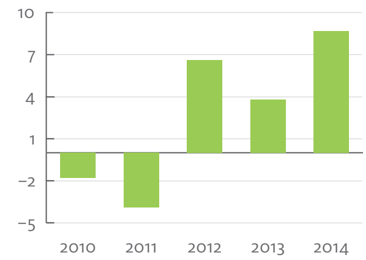
Earnings

Profit for the period attributable to shareholders amounted to EUR 16.1 M (6.7). This was an improvement of EUR 9.4 M compared to 2013. Net operating profit improved by EUR 12.0 M to EUR 22.4 M (10.4).

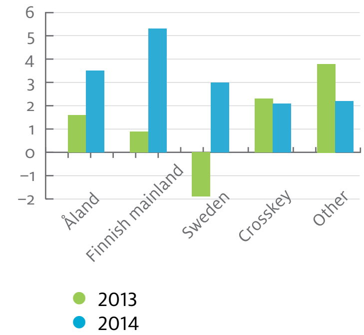
Return on equity after taxes improved to 8.7 (3.8) per cent.

Total income increased by EUR 12.6 M or 12 per cent to EUR 120.6 M.

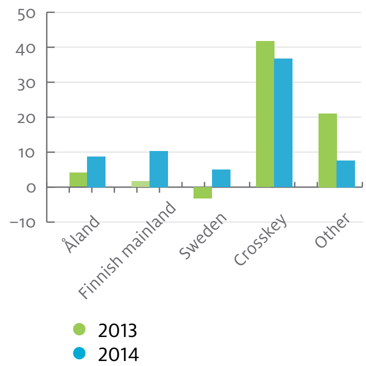
Return on equity after taxes (ROE)
per cent



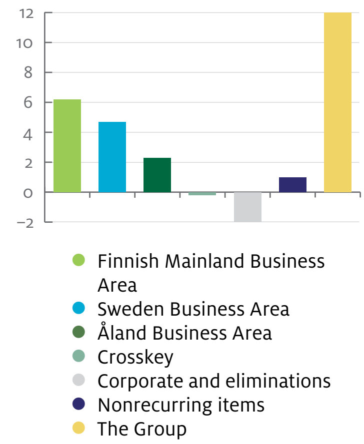
Profit attributable to shareholders
EUR M



Return on equity after taxes (ROE)
per cent

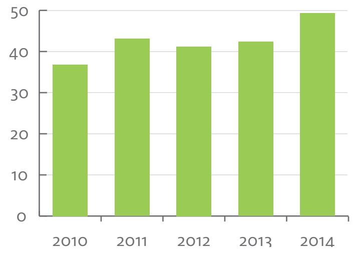


Change in operating income
EUR M



Net interest income

EUR M



Net interest income rose by EUR 6.9 M or 16 per cent to EUR 49.3 M. The Finnish Mainland business area accounted for EUR 3.7 M of the improvement, the Sweden business area for EUR 3.3 M, the Åland business area for EUR 0.7 M and other segments for EUR −0.8 M. Improved net interest income was due to higher lending volume as well as wider interest margins in the loan portfolio and lower funding costs.

Net commission income rose by EUR 3.8 M or 9 per cent to EUR 46.2 M, mainly due to commission income of EUR 2.8 M from a lending transaction in the Sweden business area and higher mutual fund commissions. The Finnish Mainland business area accounted for EUR 2.2 M of this improvement, the Åland business area for EUR 0.5 M, the Sweden business area for EUR 0.3 M and other segments for EUR 0.8 M.

Net income on financial items at fair value fell by EUR 0.6 M or 8 per cent to EUR 6.8 M, mainly due to lower net income from foreign exchange dealing.

IT income increased by EUR 2.6 M or 17 per cent to EUR 17.3 M, among other things due to income from new Crosskey customers.

Total expenses increased by EUR 2.9 M or 3 per cent to EUR 96.4 M, mainly due to an increase of EUR 2.7 M of expenses at Crosskey, corporate strategic expenses of about EUR 1.0 M and increases expenses for restructuring of operations, mainly in the asset management area, totalling about EUR 0.5 M. In 2013, however, total expenses also included nonrecurring expenses of EUR 1.5 M related to a possible reduction in purchase price due to a re-examination by the Swedish tax authority of older tax returns for the Swedish subsidiary that was sold in October 2012.

Impairment losses on loans amounted to EUR 1.8 M, equivalent to a loan loss level of 0.06 per cent. This was substantially lower than the previous year, when impairment losses on loans totalled EUR 4.1 M, equivalent to a loan loss level of 0.14 per cent.

Tax expense amounted to EUR 4.8 M, equivalent to an effective tax rate of 21.3 (25.8) per cent. The high effective tax rate in 2013 is explained primarily by the reduction in purchase price, which was not tax-deductible.

Business areas

The Group's net operating profit improved by EUR 12.0 M to EUR 22.4 M, allocated as follows:

- Finnish Mainland +6.2 (higher income, both net interest and net commission income)
- Sweden +4.7 (business volume growth and higher income, especially net interest income)
- Åland +2.3 (higher income and lower loan losses)
- Crosskey −0.2 (higher expenses)
- Corporate units incl. eliminations −2.0 (lower Treasury income and higher strategic expenses)
- Nonrecurring items +1.0 (restructuring expenses, reduction in purchase price)

Business volume

Managed assets increased by EUR 635 M or 14 per cent during the year and amounted to EUR 5,042 M (4,407). Excluding the exchange rate effect when translating managed assets in Sweden, the increase was 18 per cent. Managed assets in the Bank of Åland Group's own mutual funds rose by EUR 128 M or 13 per cent to EUR 1,088 M (960). There was continued heavy interest in Bostadsfonden, a housing mutual fund. Net inflow into Bostadsfonden was EUR 73 M during the year, of which EUR 30 M during the fourth quarter. The net assets of Bostadsfonden amounted to EUR 174 M at year-end. The new LCR Income Fund received EUR 41 M during its first year. Assets under discretionary management rose by EUR 22 M to EUR 1,707 M (1,685), in spite of a decrease of about EUR 140 M in a large institutional mandate in Sweden during the third quarter. Assets under advisory management rose by EUR 485 M or 28 per cent to EUR 2,247 M (1,762). Of total managed assets, the Sweden business area accounted for EUR 2,891 M or 57 (54) per cent.

Deposits from the public – including certificates of deposit, index bonds and debentures issued to the public – decreased by EUR 69 M or 3 per cent during the year and amounted to EUR 2,391 M (2,460), but deposit accounts increased by EUR 24 M or 1 per cent to EUR 2,201 M (2,177). Excluding the exchange rate effect when translating deposits in Sweden, the decrease was 2 per cent. The decrease was primarily related to the Finnish Mainland business area.

Lending to the public totalled EUR 3,343 M (3,104). This represented an increase of EUR 239 M or 8 per cent during the year. Excluding the exchange rate effect when translating lending in Sweden, the increase was 10 per cent.

Balance sheet total and off-balance sheet obligations

During 2014, the Group's balance sheet increased by EUR 405 M or 10 per cent to EUR 4,292 M. The increase was primarily related to lending to the public. The increase in lending was mainly funded through the issuance of covered bonds. Off-balance sheet obligations rose by EUR 29 M or 8 per cent to EUR 410 M. The increase was related to unutilised overdraft limited and lines of credit.

Credit quality

Lending to private individuals comprises nearly two thirds of the loan portfolio. Home mortgage loans account for about 70 per cent of lending to private individuals. Loans for the purchase of securities, with market-listed securities as collateral, comprise the second-largest type of lending to private individuals. Loan-to-value ratios are conservative. Historically, the Bank of Åland has never had any substantial loan losses on this type of lending. The corporate portfolio has a close affinity with the household portfolio, since many of the companies are owned by customers who, as individuals, are also Private Banking customers.

Gross doubtful receivables decreased by EUR 10.0 M to EUR 21.7 M (31.7). As a share of lending to the public, doubtful receivables fell from 1.02 per cent to 0.65 per cent. The level of provisions for doubtful receivables, i.e. individual impairment losses as a proportion of all doubtful receivables, was 66 per cent compared to 48 per cent at year-end 2013.

The Bank of Åland Group had EUR 15.8 M (16.4) in impairment loss provisions, comprising individual impairments of EUR 14.3 M (15.2) and group impairments of EUR 1.5 M (1.2).

Liquidity and borrowing

The Bank of Åland's liquidity reserve in the form of cash, account balances and investments with other banks, liquid interest-bearing securities plus holdings of unencumbered covered bonds issued by the Bank amounted to EUR 646 M on December 31, 2014 (December 31, 2013: 569). This was equivalent to 15 (15) per cent of total assets and 19 (18) per cent of lending to the public. Given the Bank's ability to issue further covered bonds, there is an additional unutilised liquidity reserve.

During the first quarter, the Bank of Åland issued SEK 750 M in non-covered bonds with a 2-year maturity. During the second quarter, the Bank issued SEK 1,000 M in covered bonds with a 5-year maturity. During the third quarter, the Bank issued EUR 150 M in covered bonds with a 4-year maturity. During the fourth quarter, the Bank issued SEK 750 M in covered bonds with a 5-year maturity. About EUR 180 M in long-term funding will mature during the second half of 2015.

The average remaining maturity on outstanding bonds was about 3.3 (3.1) years at the end of the year.

During the third quarter, the Bank of Åland issued certificates of deposit in Swedish kronor for the first time. A total of EUR 208 M in Swedish certificates of deposit was outstanding at year-end.

The Bank of Åland's core funding ratio, defined as lending to the public divided by deposits from the public including certificates of deposit, index bonds and subordinated debentures issued to the public, plus covered bonds issued, amounted to 105 per cent at the end of the period (December 31, 2013: 103).

The liquidity coverage ratio (LCR) amounted to 97 per cent (December 31, 2013: 61).

Rating

The Standard & Poor's rating agency downgraded the sovereign credit rating for Finland from AAA to AA+ in October, but has confirmed that the Bank of Åland's credit rating for long- and short-term borrowing is not affected by this and is unchanged at BBB/A-3 with a negative outlook. The Bank's covered bonds received a Standard & Poor's credit rating of AA.

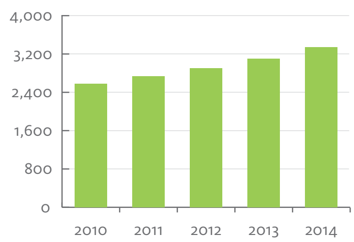
Equity and capital adequacy

Equity capital including non-controlling interests changed in the amount of total income for the year, EUR 17.0 M; option premiums of EUR 0.1 M for newly issued subscription options; and the dividends paid to shareholders in the Bank of Åland, EUR 2.2 M and to non-controlling interests in subsidiaries, EUR 1.0 M. On December 31, 2014, equity capital totalled EUR 194.2 M (December 31, 2013: 184.1). Other comprehensive income included re-measurements of defined-benefit pension plans by EUR −1.7 M after taxes, in compliance with IAS 19.

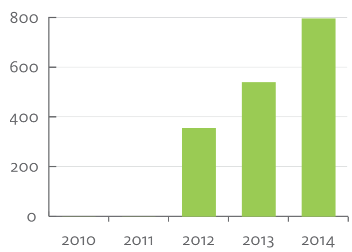
Because the European Union's Capital Requirements Regulation (EU 575/2013, CRR)

Deposits
EUR M

Lending
EUR M



Covered bonds
EUR M



has gone into effect and has begun to be applied, for the sake of comparability the figures as at December 31, 2013 have been restated and presented both in compliance with the regulations that applied on December 31, 2013 and in compliance with the EU's Capital Requirements Regulation, which began to be applied on January 1, 2014 (see Note 22). The most significant changes for the Bank of Åland regarding the capital base are that 100 per cent instead of 50 per cent of expected losses according to the internal ratings based (IRB) approach in excess of recognised losses are subtracted directly from core Tier 1 capital and that the portion of excess capital that belongs to non-controlling interests in subsidiaries may not be counted as part of core Tier 1 capital, with a gradual phase-out over the next few years.

According to the Finnish Financial Supervisory Authority's interpretation, subordinated debentures that are repaid before the end of the first five years of their maturity as provided by Article 63 of the EU's Capital Requirements Regulation (EU 575/2013) are not included in the capital base to the extent that the institution has not had permanent access to this capital during the first five years. This interpretation significantly reduces the Bank of Åland's supplementary capital, since earlier Finnish practice has interpreted the Act on Credit Institutions in such a way that subordinated debentures with a maturity of five years that are counted as supplementary capital may include a repayment plan. The interpretation does not apply to subordinated debentures issued on December 31, 2011 or earlier, according to the transitional rules in Article 484 of the Capital Requirements Regulation.

The calculation of the capital requirement is affected, above all, by the reduction in the capital requirement for the small and medium-sized enterprise (SME) supporting factor (December 31, 2014: EUR –3.3 M), higher capital requirements due to the transition to external credit rating for institutions (EUR +3.0 M) and the capital requirement for credit and debit valuation (CVA/DVA) adjustment risk in OTC contracts (EUR +1.3 M).

Core Tier 1 capital according to the definition in the new capital adequacy regulations increased by EUR 10.1 M during 2014 to EUR 170.1 M (159.9).

The risk exposure amount increased by EUR 79 M or 5 per cent to EUR 1,554 M (December 31, 2013: 1,475 using a comparable definition). Of this, the operational risk exposure amount, calculated using a three-year rolling average of the Group's income, increased by EUR 4 M. The credit risk exposure amount rose by EUR 82 M, of which EUR 16 M consisted of a credit-worthiness adjustment for counterparty risk in derivative instruments. The risk profile in both the internal ratings based (IRB) Finnish household portfolio and in the loan portfolio for which the capital requirement is still based on the standardised approach has improved. Meanwhile the exchange rate effect reduced the risk exposure amount in the Swedish loan portfolio.

The core Tier 1 capital ratio increased to 10.9 per cent (December 31, 2013: 10.8 using a comparable definition), excluding the Basel 1 floor effect. Since the Bank of Åland has no hybrid capital, its core Tier 1 capital ratio is the same as its Tier 1 capital ratio.

The total capital ratio decreased to 12.1 (13.5) per cent.

Dividend

The Board of Directors proposes that the Annual General Meeting approve the payment of a dividend of EUR 0.40 per share (0.15), equivalent to a total amount of EUR 5.7 M (2.2). The proposed dividend is equivalent to a 36 (32) per cent payout ratio.

Important events after close of report period

The Bank of Åland and Ålandsbanken Asset Management have reached an agreement to merge during the first half of 2015. The boards of both companies approved the merger plan on January 7, 2015.

Ålandsbanken Asset Management, with operations in Finland, is a subsidiary of the Bank of Åland in which 30 per cent of ownership is held by employees of the company. Ålandsbanken Asset Management was founded in 2000 and reported a net operating profit of EUR 5.4 M in 2014. The company has 28 employees and manages about EUR 1.6 billion of the Group's total managed assets of approximately EUR 5.0 billion.

Last autumn, the Bank of Åland started a project aimed at coordinating the Bank's asset management units in Finland and Sweden. A well-implemented coordination will unify and strengthen the Bank's range of services in all business areas. Certain overlapping units can also be phased out. Stefan Gothenby has been appointed Chief Investment Officer (CIO) of the Bank of Åland. Jonny Sundström, Ålandsbanken Asset Management's current CIO and Head of Fixed Income, has been appointed as Head of

Fixed Income at the Bank. Albert Haeggström has been appointed as the Bank's Head of Equities.

In the Finnish Mainland business area, the customer side of Ålandsbanken Asset Management is being coordinated with Private Banking in Helsinki. Christian Wetterstrand, currently Managing Director of Ålandsbanken Asset Management, is being appointed as Head of the newly coordinated Private Banking unit. Maria Bernas-Hilli, General Manager, is being appointed as Assistant Head of the unit.

As consideration for the merger, the minority shareholders of Ålandsbanken Asset Management will receive 762,912 newly issued Series B shares in the Bank of Åland plus a cash portion equivalent to 10 per cent of the value of the newly issued shares. These shares will entitle their holders to 5 per cent ownership in the Bank of Åland and 0.55 per cent of voting power. The new share issue will occur on the basis of the authorisation provided by the Annual General Meeting in April 2014.

If the merger had been implemented during 2014 the Group's pro forma earnings – calculated on the basis of 2014 earnings and the Group's financial position on December 31, 2014 and without taking into account any synergies – would have climbed from EUR 1.12 to EUR 1.15 per share despite dilution, and return on equity after taxes (ROE) would have improved by about 0.7 percentage points from 8.7 to 9.4 per cent. Equity capital per share would have decreased from EUR 13.49 to EUR 12.77. The core Tier 1 capital ratio would have been adversely affected only marginally, remaining at an unchanged 10.9 per cent.

Risks and uncertainties

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

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

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

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

Future outlook

The Bank of Åland expects its net operating profit in 2015 to be better than in 2014.

The Bank of Åland is especially dependent on the performance of the fixed income and stock markets. There are clear concerns regarding economic performance in several important markets as well as geopolitical worries, especially due to developments in Ukraine and the Middle East. For this reason, there is significant uncertainty in the current forecast for the future.

Long-term financial targets

- *Return on equity after taxes (ROE) shall exceed 10 percent.*
  As a bank for investors, with financing knowhow, the Bank of Åland has a business model that shall generate most earnings from operations with limited capital requirements. The Bank of Åland's earnings will benefit from higher interest rates. After establishing a presence in the Swedish market and implementing several years of restructuring in the Group, we are now seeing a positive trend of earnings. The profitability target shall be achieved by 2016.
- *The Bank's capital adequacy, primarily defined as the core Tier 1 capital ratio under the Basel regulations, shall clearly exceed all regulatory requirements.*
  There is still uncertainty about how the Bank of Åland's core Tier 1 capital ratio will be affected by the transition from the standardised approach to the IRB approach for corporate portfolio in Finland and the entire lending portfolio in Sweden as well as by the final shape of Basel 3. At present, the Executive Team interprets the ambition to clearly exceed regulatory requirements as meaning that the core Tier 1 capital ratio, not taking into account transitional rules, should exceed 11 per cent.
- *Looking ahead, the payout ratio shall be at the same level as the Nordic banking industry standard.*
  The goal of the payout ratio is conditional on achieving the capital adequacy target. Over the next few years, the Bank of Åland will prioritise growth, among other things through increased lending.

Bank of Åland Group	2014	2013	2012	2011	2010
EUR M					
Net interest income	49.3	42.4	41.2	43.1	36.8
Net commission income	46.2	42.4	32.7	38.7	36.8
Net income from financial items carried at fair value	6.8	7.4	6.9	1.2	6.2
IT income	17.3	14.8	14.5	13.4	16.0
Other income	1.0	1.0	1.2	3.8	3.3
Nonrecurring items	0.0	0.0	13.9	−1.1	0.0
Total income	**120.6**	**108.0**	**110.4**	**99.2**	**99.1**
Staff costs	−52.5	−51.1	−51.2	−54.5	−53.7
Derpreciation/amortisation and impairment losses on tangible and intangible assets	−8.2	−8.0	−8.1	−6.7	−8.3
Other expenses	−34.7	−32.3	−33.6	−36.1	−30.2
Nonrecurring items	−1.0	−2.0	−1.1	−5.7	0.0
Total expenses	**−96.4**	**−93.5**	**−94.1**	**−103.1**	**−92.2**
Profit before loan losses etc.	**24.2**	**14.5**	**16.3**	**−3.9**	**6.9**
Impairment losses on loans and other commitments	−1.8	−4.1	−6.4	−1.8	−5.9
Net operating profit	**22,4**	**10.4**	**9.9**	**−5.7**	**1.0**
Income taxes	−4.8	−2.7	2.0	0.4	−3.2
Profit for the report period	**17.6**	**7.7**	**11.9**	**−5.3**	**−2.2,**
Attributable to:					
Non-controlling interests	1,5	1.0	0.6	1.2	0.6
Shareholders in Bank of Åland Plc	**16.1**	**6.7**	**11.3**	**−6.5**	**−2.8**
Volume					
Lending to the public	3,343	3,104	2,905	2,737	2,573
Deposits from the public [1]	2,391	2,460	2,452	2,544	2,600
Managed assets	5,042	4,407	4,252	3,814	4,347
Equity capital	196	184	179	181	154
Balance sheet total	4,292	3,887	3,633	3,400	3,475
Risk exposure amount	1,554	1,475	1,401	1,729	1,664
Financial ratios					
Return on equity after taxes, % (ROE) [2]	8.7	3.8	6.6	−3.9	−1.8
Expense/income ratio, % [3]	0.80	0.86	0.85	1.04	0.93
Loan loss level, % [4]	0.06	0.14	0.22	0.07	0.23
Core funding ratio, % [5]	105	103	103	108	99
Equity/assets ratio, % [6]	4.6	4.7	4.9	5.3	4.4
Core Tier 1 capital ratio, % [7]	10.9	10.8	10.9	8.4	7.3
Working hours re-calculated to full-time equivalent positions	644	617	640	690	679

[1] Deposits from the public and public sector entities, including certificates of deposit, index bonds and debentures issued to the public

[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] (Core Tier 1 capital/Capital requirement)×8%

Facts on Bank of Åland shares

Share capital

The share capital of the Bank of Åland is EUR 29,103,547.58. The carrying amount equivalent of a share is EUR 2.02.

The shares are divided into 6,476,138 Series A and 7,944,015 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 the Annual General Meeting may vote for more than one fortieth of the number of votes represented at the Meeting. Series B shares enjoy priority over Series A shares for dividends of up to six (6) per cent of their previous nominal value.

In accordance with a decision by the 2011 Annual General Meeting on purchases of the Bank's own shares for the purpose of implementing a share-based compensation programme for senior executives, the Bank has purchased its own shares. On December 31, 2014, its holding amounted to 21,725 Series B shares. The purchase price for these was EUR 215,357.62.

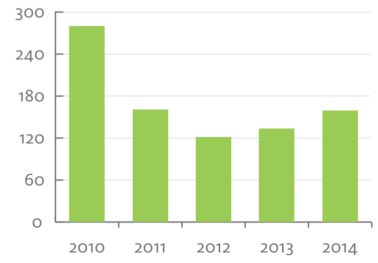
On April 2014, the Annual General Meeting voted to authorise the Board to decide on the issuance of shares, option rights and other special rights entitling their holders to shares, as provided by the Finnish Companies Act, Chapter 10, Section 1. The authorisation concerns Series B shares. The total number of shares that may be issued with the support of the authorisation (including shares issued on the basis of special rights) 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.

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

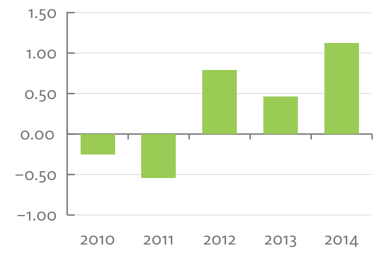
The Bank of Åland's Board of Directors has decided to launch a share savings programme for all Group employees. The share savings programme enables employees to save a portion of their monthly salary to invest in the Bank of Åland's Series B shares. Participation in the share savings programme is voluntary. A full 69 per cent of employees have decided to participate in the programme. Employees can save a maximum of five per cent of their monthly salary in order to subscribe for twice-yearly targeted issues of Series B shares. The savings period began on January 1, 2015 and the first share issue is planned for August 2015. The programme runs for one year. Three years after each respective share issue, the Bank of Åland will distribute one free matching share for each share that has been acquired in the targeted share issues to those who have participated in the share issues and who are still employed by the Group and own the shares that were issued. Employees will be offered the opportunity to subscribe for Series B shares at a price that is 10 per cent below the average price during the calendar month before each respective share issue. The savings amount for Group employees who have signed up for the programme is about EUR 0.9 million, which would be equivalent to about 88,000 Series B shares based on the average price in January 2015, including a 10 per cent discount. The maximum number of matching shares to be distributed will thus be 88,000. Given these projected assumptions, the maximum number of shares that employees may receive as part of the share savings programme will be 176,000.

The Bank of Åland and Ålandsbanken Asset Management have reached an agreement to merge during the first half of 2015. As consideration for the merger, the minority shareholders of Ålandsbanken Asset Management will receive 762,912 newly issued Series B shares in the Bank of Åland plus a cash portion equivalent to 10 per cent of the value of the newly issued shares. The new share issue will occur on the basis of the authorisation provided by the Annual General Meeting in April 2014.

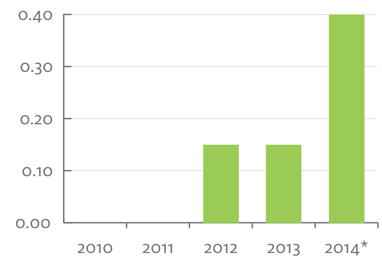
Market capitalisation
EUR M



Earnings per share
euros



Dividend per share
euros



* Proposed by the Board of Directors for approval by the 2015 Annual General Meeting.

Changes in share capital			
	Share capital, EUR	Series A shares	Series B shares
2014	29,103,547.58	6,476,138	7,944,015
2013	29,103,547.58	6,476,138	7,944,015
2012	29,103,547.58	6,476,138	7,944,015
2011	29,103,547.58	6,476,138	7,944,015
2010	23,282,837.26	5,180,910	6,355,212

Trading in the Bank's shares

During 2014, the volume of trading in the Bank's Series A shares on the Nasdaq OMX Helsinki (Helsinki Stock Exchange) was EUR 2.1 M. Their average price was EUR 11.09. The highest quotation per share was EUR 12.24, the lowest EUR 10.00. Trading in Series B shares totalled EUR 10.2 M at an average price of EUR 9.03. The highest quotation was EUR 11.30, the lowest EUR 7.86.

On December 31, 2014, the number of registered shareholders was 9,406 and they owned 13,345,009 shares. There were also a total of 1,075,144 shares registered in the names of nominees.

The ten largest shareholders, December 31, 2014						
	Shareholder	Series A shares	Series B shares	Total	% of shares	% of votes
1	Anders Wiklöf and companies	1,589,396	1,296,549	2,885,945	20.01	24.07
2	Alandia Insurance	917,358	406,432	1,323,790	9.18	13.64
3	Ålands Ömsesidiga Försäkringsbolag (mutual insurance company)	794,566	262,901	1,057,467	7.33	11.75
4	Pohjola Bank OYJ (nominee registered shares)	405	814,590	814,995	5.65	0.60
5	Pensionsförsäkringsaktiebolaget Veritas (pension insurance company)	123,668	165,954	289,622	2.01	1.92
6	Palcmills Oy (financial service company)	90,000	150,000	240,000	1.66	1.42
7	Ab Rafael (construction service company)	227,640	678	228,318	1.58	3.31
8	Svenska Litteratursällskapet i Finland (literary society)	208,750	0	208,750	1.45	3.04
9	Oy Etra Invest Ab (investment company)	0	200,000	200,000	1.39	0.15
10	Nordea Henkivakuutus Suomi Oy (life insurance company)	0	155,000	155,000	1.07	0.11

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

Shareholders by size of holding				
Number of shares	Number of shareholders	Total number of shares held,	Average holding	Voting power, %
1–100	3,842	169,500	44	1.1
101–1,000	4,289	1,494,257	348	7.4
1,001–10,000	1,164	3,002,377	2,579	13.1
10,001–	111	9,754,019	87,874	78.4
Of which, nominee registered shares		1,075,144		1.4

Shareholders by category		
Category	Number of shares	% of shares
Private individuals	5,314,867	36.9
Companies	4,739,702	32.9
Financial institutions and insurance companies	1,696,149	11.8
Non-profit organisations	717,256	5.0
Government organisations	591,326	4.1
Foreign investors	285,709	2.0
Nominee registered shares	1,075,144	7.5
	14,420,153	**100.0**

Bank of Åland share data	2014	2013	2012	2011	2010
Number of shares, thousands [1]	14,398	14,395	14,395	14,414	11,536
Number of shares after dilution, thousands	14,498	14,395	14,395	14,414	11,536
Average number of shares, thousands	14,398	14,395	14,396	12,097	11,536
Earnings per share, EUR [2]	1.12	0.46	0.79	-0.54	-0.25
Earnings per share after dilution, EUR	1.12	0.46	0.79	-0.54	-0.25
Dividend per share, EUR [3]	0.40	0.15	0.15	0.00	0.00
Dividend payout ratio [4]	35.7	32.3	19.1	0.0	0.0
Equity capital per share before dilution, EUR [5]	13.49	12.54	12.21	14.49	13.39
Equity capital per share after dilution, EUR	13.46	12.54	12.21	14.49	13.39
Market price per share, balance sheet date, EUR					
Series A	11.27	10.88	10.04	14.15	29.50
Series B	10.87	7.94	7.10	8.68	19.93
Price/earnings ratio [6]					
Series A	10.1	23.4	12.8	neg	neg
Series B	9.7	17.1	9.0	neg	neg
Effective dividend yield, % [7]					
Series A	3.5	1.4	1.5	0.0	0.0
Series B	3.7	1.9	2.1	0.0	0.0
Market capitalisation, EUR M	159.1	133.3	121.2	160.6	279.5

1 Number of registered share minus own shares on closing day

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

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

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

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

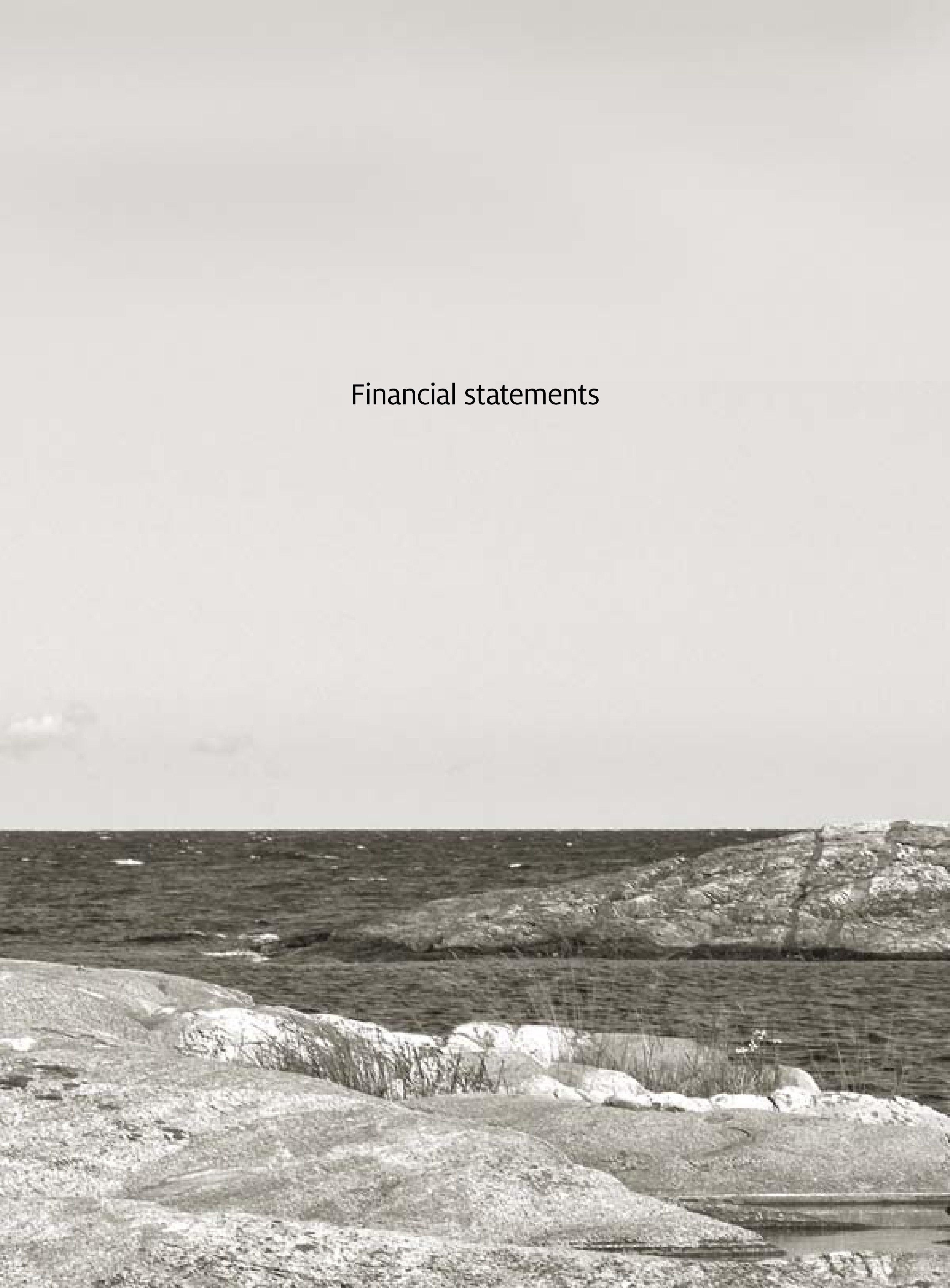
6 $\frac{\text{Share price on closing day}}{\text{Earnings per share}}$

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

Bank of Åland shares traded, Helsinki Stock Exchange					
Year		Thousands of shares	Volume as % of shares	Price paid, EUR: Highest/Lowest	Average price, EUR
2014	A	194	3.0	12.24–10.00	11.09
2014	B	1,129	14.2	11.30–7.86	9.03
2013	A	83	1.3	13.67–10.02	11.60
2013	B	605	7.6	9.00–7.01	8.11
2012	A	177	2.7	15.22–9.34	13.45
2012	B	430	5.4	11.19–6.95	8.39
2011	A	825	15.2	31.00–13.00	23.29
2011	B	1,663	24.9	19.90–8.29	14.08
2010	A	77	1.5	34.90–25.50	29.28
2010	B	282	4.4	25.60–17.72	22.05


Photo: Shutterstock

Financial statements



Consolidated income statement

(EUR K)

Bank of Åland Group	Note	Jan 1–Dec 31, 2014	Jan 1–Dec 31, 2013
Interest income		78,459	75,320
Interest expenses		−29,166	−32,950
Net interest income	G5	**49,293**	**42,371**
Commission income		54,317	50,270
Commission expenses		−8,121	−7,830
Net commission income	G6	**46,196**	**42,440**
Net income from financial items carried at fair value	G7	6,767	7,393
IT income		17,326	14,759
Share of income in associated companies		−61	51
Other operating income	G8	1,050	984
Total income		**120,571**	**107,998**
Staff costs	G9	−53,077	−51,497
Other costs	G10	−34,944	−34,022
Depreciation/amortisation and impairment losses on tangible and intangible assets	G23, G24	−8,392	−8,021
Total expenses		**−96,413**	**−93,539**
Profit before impairment losses		**24,158**	**14,459**
Impairment losses on loans and other commitments	G11	−1,765	−4,080
Net operating profit		**22,393**	**10,379**
Income taxes	G12	−4,766	−2,678
Net profit for the period		**17,626**	**7,701**
Attributable to:			
Non-controlling interests		1,480	1,009
Shareholders in Bank of Åland Plc		**16,146**	**6,692**
Earnings per share, EUR	G13	1.12	0.46

Consolidated statement of comprehensive income

(EUR K)

Bank of Åland Group	Note	Jan 1–Dec 31, 2014	Jan 1–Dec 31, 2013
Profit for the accounting period		**17,626**	**7,701**
Cash flow hedge		–92	1,067
Assets available for sale		2,002	–4,608
Translation differences		74	874
of which hedging of net investment in foreign operations	G12	1,465	2,060
Taxes on items that have been or may be reclassified to the income statement		–909	723
of which cash flow hedges		18	-213
of which assets available for sale		–400	922
of which hedging of net investment in foreign operations		–527	-412
Items that have been or may be reclassified to the income statement		**1,075**	**–1,945**
Re-measurements of defined benefit pension plans	G40	–2,129	2,677
Taxes on items that may not be reclassified to the income statement	G12	426	–535
Items that have been or may be reclassified to the income statement		**–1,703**	**2,141**
Other comprehensive income	G35	**–628**	**197**
Total comprehensive income for the period		**16,998**	**7,898**
Attributable to:			
Non-controlling interests		1,480	1,009
Shareholders in Bank of Åland Plc		**15,518**	**6,889**

Consolidated balance sheet

(EUR K)

Bank of Åland Group	Note	Dec 31, 2014	Dec 31, 2013
Assets			
Cash and balances with central banks		86,434	50,161
Debt securities eligible for refinancing with central banks	G17	624,570	427,970
Lending to credit institutions	G18	129,234	130,575
Lending to the public and public sector entities	G19	3,342,872	3,104,086
Debt securities	G17	0	63,595
Shares and participations	G20	2,669	2,226
Holdings recognised according to the equity method	G21	664	798
Derivative instruments	G22	24,243	14,994
Intangible assets	G23	7,667	9,066
Tangible assets	G24	26,830	29,981
Investment properties	G24	436	693
Current tax assets		125	79
Deferred tax assets	G27	4,863	5,857
Other assets	G25	16,283	19,011
Accrued income and prepayments	G26	25,484	27,562
Total assets		**4,292,372**	**3,886,655**
Liabilities			
Liabilities to credit institutions	G28	421,924	346,517
Liabilities to the public	G29	2,200,547	2,177,171
Debt securities issued	G30	1,311,799	1,012,159
Derivative instruments	G22	33,652	26,588
Current tax liabilities		539	245
Deferred tax liabilities	G27	13,674	11,312
Other liabilities	G31	34,800	35,436
Provisions	G32	755	680
Accrued expenses and prepaid income	G33	29,018	28,634
Subordinated liabilities	G34	49,790	63,830
Total liabilities		**4,096,495**	**3,702,573**
Equity capital and non-controlling interests			
Share capital		29,104	29,104
Share premium account		32,736	32,736
Reserve fund		25,129	25,129
Hedging reserve	G35	−461	−387
Fair value reserve	G35	2,719	1,117
Translation differences	G35	46	499
Own shares		−215	−244
Unrestricted equity capital fund		24,601	24,485
Retained earnings	G35	80,559	68,102
Shareholders' portion of equity capita		**194,217**	**180,541**
Non-controlling interests' portion of equity capital		1,660	3,541
Total equity capital		**195,877**	**184,082**
Total liabilities and equity capital		**4,292,372**	**3,886,655**

Statement of changes in equity capital

(EUR K)

Bank of Åland Group	Share capital	Share premium account	Reserve fund	Hedging reserve	Fair value reserve	Translation difference	Own shares	Unrestricted equity capital fund	Retained earnings	Shareholders' portion of equity capital	Non-controlling interests' portion of equity capital	Total
Equity capital, Dec 31, 2012	**29,104**	**32,736**	**25,129**	**−1,171**	**4,533**	**−189**	**−244**	**24,485**	**61,428**	**175,811**	**3,236**	**179,048**
Profit for the period									6,692	6,692	1,009	7,701
Other comprehensive income				784	−3,416	688			2,141	197	0	197
Purchases of own shares							0			0		0
Transactions with Group shareholders												
Dividend paid									−2,159	−2,159	−704	−2,863
Equity capital, Dec 31, 2013	**29,104**	**32,736**	**25,129**	**−387**	**1,117**	**499**	**−244**	**24,485**	**68,102**	**180,541**	**3,541**	**184,082**
Profit for the period									16,146	16,146	1,480	17,626
Other comprehensive income				−73	1,601	−453			−1,703	−628	0	−628
Transfer of own shares							28			28		28
Subscription options								116		116		116
Transactions with Group shareholders												
Dividend paid									−2,160	−2,160	−967	−3,126
Acquisitions from non-controlling interests									173	173	−2,394	−2,221
Equity capital, Dec 31, 2014	**29,104**	**32,736**	**25,129**	**−461**	**2,719**	**46**	**−215**	**24,601**	**80,559**	**194,217**	**1,660**	**195,877**

For further disclosures about change in equity capital, see Note G35.

Consolidated cash flow statement

(EUR K)

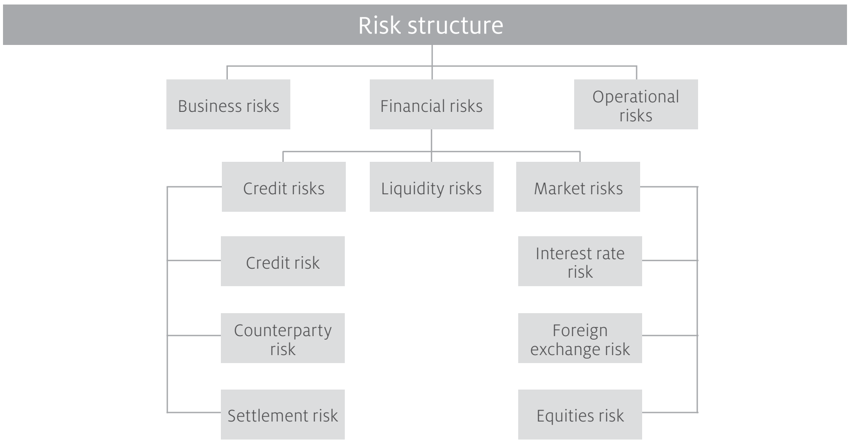
Bank of Åland Group	Jan 1–Dec 31, 2014	Jan 1–Dec 31, 2013
Cash flow from operating activities		
Net operating profit	22,393	10,379
Adjustment for net operating profit items not affecting cash flow		
Depreciation/amortisation and impairment losses on intangible and tangible assets	8,392	8,021
Impairment losses on loans and other commitments	1,706	4,034
Unrealised changes in value	–1,137	2,072
Accrued surpluses/deficits on debt securities and bonds issued	5,071	2,361
Defined benefit pension plan	–254	35
Gains/losses from investment activity	–187	821
Income taxes paid	–1,562	–857
Increase (–) or decrease (+) in receivables from operating activities		
Debt securities eligible for refinancing with central banks	–214,586	–107,529
Lending to credit institutions	2,615	–5,191
Lending to the public	–287,232	–226,480
Other assets	60,536	–3,655
Increase (–) or decrease (+) in liabilities from operating activities		
Liabilities to credit institutions	96,980	–28,021
Liabilities to the public	54,637	64,992
Debt securities issued	125,688	–74,877
Other liabilities	11,840	–26,644
Cash flow from operating activities	**–115,099**	**–380,540**
Cash flow from investing activities		
Investment in shares and participations	–1,617	–144
Divestment of shares and participations	1,192	22
Investment in shares in associated companies and subsidiaries	–36	0
Divestment of shares in associated companies and subsidiaries	75	376
Investment in tangible assets	–1,076	–1,859
Divestment of tangible assets	327	32
Investment in intangible assets	–2,551	–3,662
Cash flow from investing activities	**–3,686**	**–5,234**
Cash flow from financing activities		
New option rights issue	116	0
Finance leases	–1,410	–1,490
Increase in long-term borrowings from banks	77,229	156,560
Decrease in long-term borrowings from banks	–164,647	-6,100
Increase in covered bonds issued	335,476	194,086
Decrease in covered bonds issued	–87,800	–4,900
Increase in subordinated debentures	18,581	17,008
Decrease in subordinated debentures	–32,959	–17,300
Dividend paid	–2,160	–2,159
Dividend paid to minority	–967	–704
Acquisitions of non-controlling interests	–2,177	0
Cash flow from financing activities	**139,282**	**335,001**
Exchange rate differences in cash and cash equivalents	–2,345	–1,260
Change in cash and cash equivalents	**18,152**	**–52,033**
Cash and cash equivalents at beginning of year	193,615	245,648
Cash flow from operating activities	–115,099	–380,540
Cash flow from investing activities	–3,686	–5,234
Cash flow from financing activities	139,282	335,001
Exchange rate differences in cash and cash equivalents	–2,345	–1,260
Cash and cash equivalents at end of year	**211,767**	**193,615**
Cash and cash equivalents consisted of the following items:		
Cash	5,623	6,003
Cheque account with Bank of Finland	80,811	44,158
Claims repayable on demand from credit institutions	125,333	121,369
Debt securities	0	22,085
Total cash and cash equivalents [1]	**211,767**	**193,615**

[1] "Cash and cash equivalents" refers to cash, cheque account with the Bank of Finland, claims repayable on demand from credit institutions as well as other claims on credit institutions and debt securities with an original remaining maturity of less than three months as well as claims on public sector entities that are not lending. "Investing activities" refers to payments related to tangible and intangible assets as well as holdings of shares and participations aside from shares intended for trading. "Financing activities" refers to items among equity capital and liabilities that fund operating activities. The analysis was prepared according to the indirect method. "Operating activities" included interest received of EUR 71,871 K (2012: 87,522), interest paid of EUR 30,867 K (40,044) and dividend income received of EUR 445 K (330).

Risks and risk management

General

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



Risk organisation

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

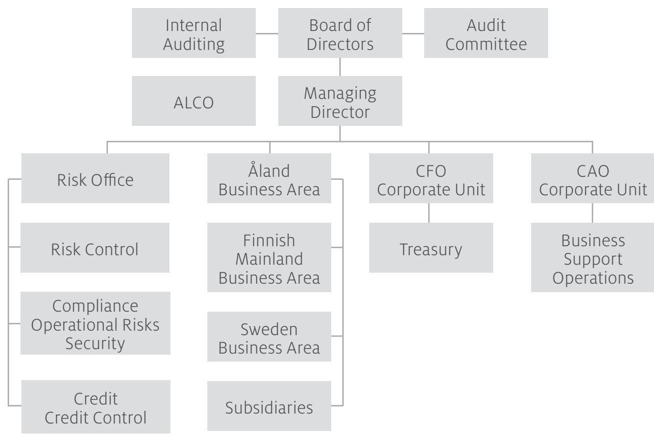
- First line of defence – Risk-takers
- Second line of defence – Risk monitoring and regulatory compliance
- Third line of defence – Independent auditing

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

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

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

Risk organisation



BOARD OF DIRECTORS

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

AUDIT COMMITTEE

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

MANAGING DIRECTOR

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

RISK CONTROL

Risk Control, an independent department within the Bank, is responsible for continuously identifying, measuring, analysing, overseeing and reporting the Bank's financial risks. This includes regular oversight to ensure that the Bank's operations remain within the established risk tolerances and regularly reporting the Bank's financial and operational risks to the Executive Team and the Board. The Credit Risk Modelling team is responsible for the Bank's internal credit classification system. The Credit Risk Modelling team is responsible for the Bank's internal credit classification system.

OPERATIONAL RISKS

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

CREDIT CONTROL

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

BUSINESS AREAS, SUBSIDIARIES AND TREASURY

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

BUSINESS SUPPORT AND OPERATIONS

Business Support and Operations are the Bank's back office units and are responsible for the technical execution of business transactions.

ALCO – THE ASSET AND LIABILITY COMMITTEE

ALCO – the Asset and Liability Committee – is a forum within the Bank that deals with issues concerning capitalisation, liquidity, funding and financial risks.

Risk management model

The purpose of the Bank's risk management model is to identify, measure, control and report risks in the Bank of Åland Group. The model is designed to meet external regulatory requirements as well as internal requirements and needs, while living up to good 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 working descriptions of processes
- Systems for measuring, monitoring and controlling risks, adapted to the complexity and scale of operations
- Regular reporting to the Board and the Executive Team
- Resources and expertise adapted to operations
- Incident reporting

ASSET AND LIABILITY MANAGEMENT

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

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

Business risk

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

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

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

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

Credit risk

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

At the Bank of Åland, credit risk largely consists of receivables from private individuals and non-financial companies. These receivables consist mainly of loans, overdraft facilities and guarantees that have been granted. Within the framework of normal banking operations and risk management, credit risk also arises as a result of trading in financial instruments, so-called counterparty risk. Counterparty risk mainly consists of exposures to sovereigns (national governments) and financial institutions. Credit risk also exists outside the Bank's balance sheet in the form of still unutilised loan commitments.

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

Credit risk exposure	2014	2013
EUR M		
Lending to the public	3,343	3,104
Lending to credit institutions	129	131
Debt securities eligible for refinancing with central banks	625	428
Other debt securities	0	64
Derivative instruments	24	15
Guarantees	22	24
Unutilised overdraft limits	82	76
Unutilised credit card limits	120	105
Lines of credit	186	176
Total	**4,531**	**4,122**

During 2014, the overall credit risk exposure of the Group rose at the same pace as the increase in its lending to the public. Lending mainly increased in the Swedish home mortgage loan segment. Meanwhile there were also increases in exposures attributable to the Bank's liquidity and portfolio management, in the form of interbank deposit accounts and holdings of bonds mainly issued by sovereigns and financial institutions. A substantial proportion of holdings of bonds issued by financial institutions consists of Nordic covered bonds with very good credit quality.

Overall credit strategy is regulated in the Group's credit policy document. The level of acceptable risk is established in the Group's risk policy and credit risk policy documents and in the individual business strategies of Group companies. Credit risk management is mainly based on formal credit or limit decisions. For counterparty risk, specific counterparty limits are established.

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

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

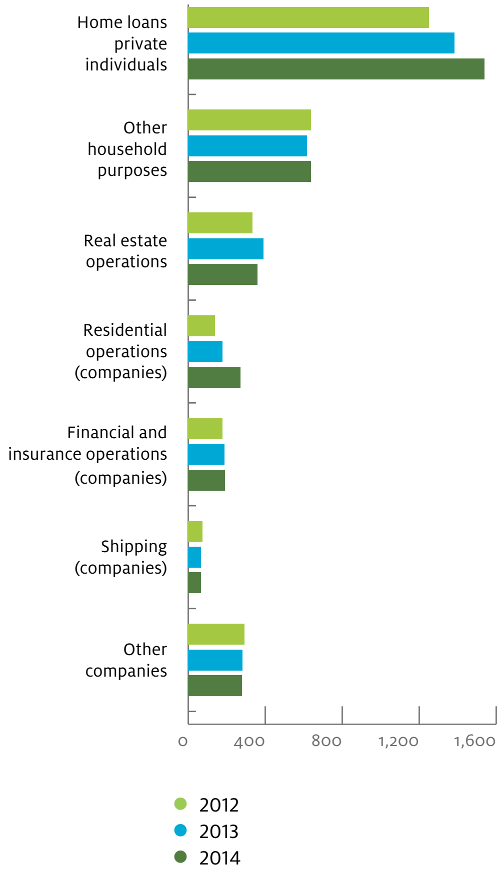
Every decision maker on credit matters at the Bank has an established individual limit, and within this framework the decision maker is entitled to manage credit risks. Decisions are documented by the authorised decision maker. Credit committees make decisions on credit matters that fall outside the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

Credit risks are followed up and analysed by the Group's Risk Control Department, which reports directly to the Managing Director on a monthly basis and to the Board of Directors on a quarterly basis in conjunction with the Group's risk report. During 2014 the Bank also developed system support in all business areas, improving their ability to track credit risk developments in the underlying units and loan portfolios.

In the Bank of Åland, credit risk follow-up and analysis of exposures to private individuals and businesses are based mainly on internal statistical methods, developed in compliance with the capital adequacy rules for internal ratings based (IRB) credit risk classification. During 2014, exposures in the Bank's Swedish operations began to be monitored according to the same methods as in the other business areas. The Bank thus has a transparent and comprehensive platform for credit risk.

Lending by economic sector

EUR M



LENDING TO THE PUBLIC

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

The table below shows a breakdown of the Bank's lending to the public by purposes, economic sectors and business areas.

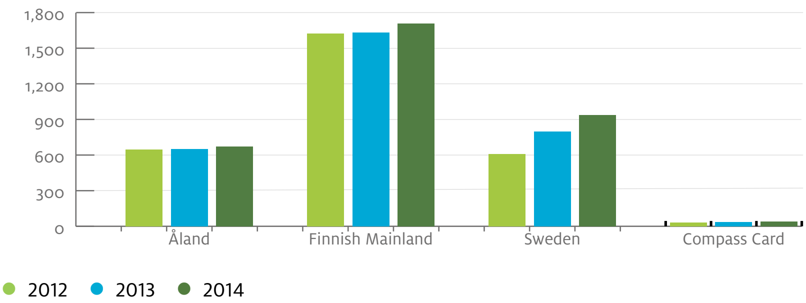
Lending to the public	2014					
EUR M	Åland Business Area	Finnish Mainland Business Area	Sweden Business Area	Compass Card	Other	Total
Home loans	276	955	304	0	4	1,539
Securities and other investments	26	257	37	0	0	320
Business operations	44	78	4	0	0	125
Other household purposes	30	71	52	40	0	194
Total private individuals	**376**	**1,361**	**397**	**40**	**4**	**2,178**
Shipping	64	2	0	0	0	66
Wholesale and retail trade	20	26	2	0	0	48
Housing operations	14	46	211	0	0	271
Other real estate operations	46	69	245	0	0	360
Financial and insurance operations	39	110	59	0	–16	191
Hotel and restaurant operations	21	3	1	0	0	24
Other service operations	28	58	19	0	0	105
Agriculture, forestry and fishing	11	2	0	0	0	13
Construction	13	15	5	0	0	33
Other industry and crafts	31	7	0	0	0	38
Total companies	**287**	**336**	**541**	**0**	**–16**	**1,149**
Public sector and non-profit organisations	**9**	**8**	**0**	**0**	**0**	**17**
Total lending	**672**	**1,706**	**938**	**40**	**–12**	**3,343**

	2013					
EUR M	Åland Business Area	Finnish Mainland Business Area	Sweden Business Area	Compass Card	Other	Total
Home loans	262	914	201	0	5	1,383
Securities and other investments	25	234	46	0	0	305
Business operations	42	72	12	0	0	126
Other household purposes	27	68	53	36	0	185
Total private individuals	**357**	**1,288**	**312**	**36**	**5**	**1,999**
Shipping	64	2	0	0	0	66
Wholesale and retail trade	22	24	4	0	0	50
Housing operations	17	33	128	0	0	178
Other real estate operations	36	73	281	0	0	390
Financial and insurance operations	46	113	45	0	–15	189
Hotel and restaurant operations	19	3	2	0	0	24
Other service operations	28	62	23	0	0	113
Agriculture, forestry and fishing	14	1	0	0	0	14
Construction	14	11	1	0	0	25
Other industry and crafts	28	7	0	0	0	35
Total companies	**287**	**328**	**484**	**0**	**–15**	**1,084**
Public sector and non-profit organisations	**8**	**13**	**0**	**0**	**0**	**21**
Total lending	**651**	**1,630**	**797**	**36**	**–10**	**3,104**

During 2014, lending increased the most in Swedish operations. This mainly went to the home mortgage loan segment and to residential real estate companies and tenant-owned cooperative housing associations, which comprise the Bank's specially selected growth area for lending. During the year, the Bank meanwhile decreased its lending for other real estate operations and for wholesale and retail trade. Lending to private individuals accounts for some 65 per cent of the Group's lending to the public. The remaining portion, aside from corporate lending, consists of lending to public sector entities.

Lending by business area

EUR M



COUNTERPARTY RISKS

Counterparty risk refers to the risk that the counterparty in a financial transaction cannot fulfil its obligation in the transaction. Counterparty risk arises in the Bank's Treasury operations in trading with financial instruments and in derivatives transactions. The Bank applies a broad definition of counterparty risk and refers to all exposures to financial counterparties and sovereigns as counterparty risks, regardless of what contracts the Bank has entered into with the counterparty.

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

The table below presents the Group's exposures allocated according to the credit ratings maintained by the external rating agencies Moody's and Standard & Poor's plus the type of exposure. This compilation only takes into account those counterparties for which overall exposure exceeds EUR 1 M.

Counterpart risk exposures

EUR M

Rating (S&P/Moody´s)	Government bonds	Covered bonds	Other bonds	Interbank	Overnight	Cheque account	Derivatives*	Total
AAA\Aaa	109.4	170.4	27.5		26.3	86.6		420.2
AA+\Aa1		24.1						24.1
AA\Aa2	76.0	11.2	27.1					114.3
AA–\Aa3			30.6			4.6	4.8	39.9
A+\A1			36.4		41.7	36.7	12.2	126.9
A\A2			38.6		17.3	5.2	7.5	68.6
A–\A3			51.0					51.0
BBB+\Baa1								0.0
BBB\Baa2			8.3					8.3
BBB–\Baa3								0.0
No rating		9.1						9.1
Total	**185.4**	**214.8**	**219.4**	**0.0**	**85.3**	**133.1**	**24.5**	**862.4**

*According to market values that are positive for the Bank.

The above table shows that most of the Bank's counterparty exposures are attributable to holdings of government bonds and covered bonds in the highest rating category. Bond holdings are unsecured, and the Bank has no subordinated securities or any form of hybrid loans in its portfolio. None of the Bank's bond holdings consists of securitised structures. Derivative exposures to other financial institutions occur exclusively within the framework of the Bank's risk management and portfolio management and through issuance of its own structured products. In its derivatives trading, the Bank also takes into account collateral provided by the counterparty in the form of funds deposited in the Bank.

CONCENTRATION RISK

Risk concentrations in lending arise, for example, when the loan portfolio includes concentrations of lending to certain individual customers/customer entities, economic sectors, regions or countries. The Bank manages concentration risk in its loan portfolio by setting limits on individual customers, economic sectors and loan purposes. During 2014, the Bank began using business area-specific limits for various economic sectors and borrowing purposes.

Banks are subject to legal limits on concentrations in relation to individual customers or customer entities. Large exposures are defined in capital adequacy regulations as customers and customer entities whose total exposure is 10 per cent or more of the Bank's capital base. The Group's large exposures are reported quarterly to the Financial Supervisory Authority as part of common reporting (COREP). According to capital adequacy regulations, exposure to a single customer or customer entity may not exceed 25 per cent of the Bank's capital base. In this calculation, exceptions are allowed for amounts consisting of exposures to sovereigns, multilateral development banks and similar counterparties. The Act on Credit Institutions also prescribes a special exception for holdings of covered bonds.

In small institutions, however, a predetermined and higher limit for institutional exposures may be approved by the Board of Directors. At the end of 2014, the Group had 22 (17) exposures that reached the reporting threshold of 10 per cent of its capital base. Of these, institutions accounted for 10 (6) and exposures to sovereigns or similar counterparties totalled 5 (4). Since 2013, the Bank's available capital decreased as a consequence of the Financial Supervisory Authority's decision to no longer approve subordinated debenture loans issued after January 1, 2012 that are amortised up to 5 years. As a result, the Bank now has a lower reporting threshold amount for large exposures than in 2013.

A customer entity refers to customers (physical persons or legal entities) that form a corporate group or otherwise share substantial economic interests with each other. Substantial economic interests occur when economic difficulties for one customer in the customer entity lead to the likelihood that other or all customers belonging to the customer entity will probably also encounter payment difficulties. An excessive concentration of exposures to one single customer or group of customers with mutual ties may lead to a high loan loss risk.

The Risk Control Department follows up the concentration risk in lending and reports regularly on this to the Executive Team and the Board of Directors. If limits are exceeded, this must be reported immediately to the Financial Supervisory Authority. Every year, the Bank examines the need for extra capital for concentration risk in its internal capital evaluation.

DESCRIPTION OF THE RISK CLASSIFICATION SYSTEM FOR LENDING TO THE PUBLIC

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

Since March 31, 2012, the Bank has used its IRB approach for external reporting of the capital requirement for credit risk in the mainland Finnish and Åland household portfolio. For other loan portfolios, it is using the standardised approach for the time being. The Bank will gradually shift these portfolios into the IRB approach following approval by the Financial Supervisory Authority. In conjunction with its permit to use the IRB approach for the Finnish household portfolio, the Bank was granted permission to exempt sovereign, institutional and equities exposures from calculation according to the IRB approach on a permanent basis, since these exposure categories both historically and currently consist of a small number of counterparties. Subsidiaries in the Bank of Åland Group are also exempted from the IRB approach, according to the permit.

In the IRB approach, the Bank's own statistical calculations are based on internal data for estimating the probability of default (PD) and loss given default (LGD) for the Bank's loan customers. The internal risk classification system is the most important cornerstone of the credit approval process and for pricing credit risks when granting new loans. The Bank also relies on the internal system for risk follow-up, internal capital management and reporting of credit risk.

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

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

Loss given default (LGD) – the percentage of total exposure that the Bank expects to lose if a counterparty goes into default. LGD thus describes the safety situation of the commitment that the Bank has entered into with the customer. The Bank uses the advanced LGD approach in the household portfolio. This means that the Bank estimates LGD using its own internal data, which are based on historical recoveries from sale of collateral that has been taken over. Estimated LGD value is also adjusted for economic cycles in order to represent a loss recovery situation during an economic downturn.

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

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

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

The CRO Corporate Unit carries out a large-scale annual evaluation of the system, and the findings of this evaluation are reported to the Board of Directors. This oversight includes a yearly validation and calibration of the risk measurements and models that are applied in risk classification. There is also regular monitoring to ensure that risk is being measured in a reliable, consistent way. The rating is dynamic; in other words, it is re-assessed if there are signs that the counterparty's repayment ability has changed. The Internal Auditing Department performs independent monitoring of the risk classification system and its use in operations.

As mentioned above, the financial position and credit risk of corporate customers are also followed up with the help of external risk classification, in Finland by the credit rating company Suomen Asiakastieto Oy in Finland and in Sweden by Upplysningscentralen AB (UC). For large corporate customers, the Bank must also perform a qualitative assessment of the customer, to be reported yearly and be presented to the Bank's Credit Committee. This qualitative assessment is an important complement to statistical scoring of a corporate customer.

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

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

IRB-approved household exposures with property as collateral, private individuals										
	2014					2013				
Risk category	PD by category value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	PD by category value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total
1	0.04	1	71.5	4.5	4.5	0.04	1	75.0	5.0	5.0
2	0.11	2	184.3	11.7	16.2	0.11	2	182.3	12.2	17.3
3	0.14	3	290.2	18.4	34.6	0.14	3	263.1	17.7	34.9
4	0.21	5	503.7	31.9	66.6	0.21	5	468.2	31.4	66.3
5	0.75	14	388.5	24.6	91.2	0.75	14	360.5	24.2	90.5
6	7.31	65	110.9	7.0	98.2	7.31	69	118.8	8.0	98.5
7	28.75	104	18.3	1.2	99.4	**28.75**	**123**	14.4	1.0	99.5
Defaulted	100.00	272	9.8	0.6	100.0	100.00	264	8.0	0.5	100.0
Total			**1,577.1**	**100.0**				**1,490.3**	**100.0**	
Risk category 1–5			**1,438.2**					**1 349.1**		
Risk category 1–5			**91.2%**					**90.5%**		

IRB-approved household exposures, small and medium-sized companies										
	2014					2013				
Risk category	PD by category value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	PD by category value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total
1	0.15	6	4.1	2.6	2.6	0.15	7	3.9	2.6	2.6
2	0.22	6	11.6	7.4	10.1	0.22	9	10.0	6.6	9.2
3	0.79	13	22.9	14.7	24.7	0.79	19	30.0	19.8	28.9
4	2.61	26	51.7	33.2	57.9	2.61	36	41.5	27.4	56.3
5	7.8	50	39.6	25.4	83.3	7.80	69	37.4	24.7	80.9
6	13.07	51	15.2	9.7	93.1	13.07	96	18.1	11.9	92.9
7	53.0	76	9.3	6.0	99.0	53.00	101	8.9	5.9	98.7
Defaulted	100.00	243	1.5	1.0	100.0	100.00	296	1.9	1.3	100.0
Total			**155.9**	**100.0**				**151.7**	**100.0**	
Risk category 1–5			**129.9**					**122.8**		
Risk category 1–5			**83.3%**					**80.9%**		

IRB-approved household exposures, other household exposures										
	2014					2013				
Risk category	PD by category value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	PD by category value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total
1	0.04	2	4.3	2.1	2.1	0.04	2	4.0	1.9	1.9
2	0.11	4	21.8	10.5	12.6	0.11	4	27.4	13.3	15.3
3	0.14	5	32.8	15.9	28.5	0.14	5	36.5	17.8	33.1
4	0.21	9	57.2	27.7	56.1	0.21	8	54.9	26.7	59.8
5	0.75	20	63.3	30.6	86.7	0.75	20	54.1	26.4	86.2
6	7.31	44	19.2	9.3	96.0	7.31	48	21.0	10.2	96.4
7	28.75	84	3.6	1.8	97.8	28.75	82	4.6	2.2	98.7
Defaulted	100.00	109	4.6	2.2	100.0	100.00	123	2.8	1.4	100.0
Total			**206.9**	**100.0**				**205.3**	**100.0**	
Risk category 1–5			**179.5**					**176.9**		
Risk category 1–5			**86.8%**					**86.2%**		

Exposure-weighted PD according to category value – including adjustment for economic cycles and safety margins – for all non-defaulted household exposures that were used in the calculation of capital requirements on December 31, 2014, was 1.70 per cent. For household exposures with real estate as collateral, the weighted PD value amounted to 1.14 per cent, for small and medium-sized companies 7.52 per cent and other household exposures 1.54 per cent.

At the end of 2013, exposure-weighted PD according to category value – including adjustment for economic cycles and safety margins – for all non-defaulting household exposures was 1.74 per cent. For household exposures with real estate as collateral, the weighted PD value amounted to 1.15 per cent, for small and medium-sized companies 7.61 per cent and for other household exposures 1.71 per cent.

The table below shows actual default outcomes during 2014. Please note that these actual outcomes were observed during a period when the macroeconomic situation was better than the average to which the cyclical adjustment is made.

Default frequency*

Exposure category	Actual outcome, %	Estimated value**
Household exposures with real estate as collateral	0.55	0.97
Small and medium-sized companies classified as household exposures	2.14	5.91
Other household exposures	1.37	2.39
Total household exposures	0.85	1.65

*Arithmetic median values

**Estimated on December 31, 2013. Includes cyclical adjustment and safety margins.

The table below shows EAD-weighted average LGD levels on December 31, 2014 in per cent for the respective exposure class where the IRB approach was applied. Estimated levels include safety margins plus a cyclical adjustment of LGD to a recession situation.

Estimated LGD levels (on December 31, 2014

Exposure category	Non-defaulted, %	Defaulted, %	Total, %
Household exposures with real estate as collateral*	11.2	29.2	11.3
Small and medium-sized companies classified as household exposures	17.4	37.8	17.6
Other household exposures	19.9	43.8	20.5
Total household exposures	12.6	34.2	12.8

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

The exposure-weighted LGD value for all non-defaulted household exposures on December 31, 2012 was 13.3 per cent. For household exposures with residential property as collateral, LGD totalled 11.7 per cent, for small and medium-sized companies 18.7 per cent and for other household exposures 20.3 per cent. The estimated and observed LGD values of the exposures that defaulted during 2013 is presented in the table below. When calculating observed LGD, only recoveries from residential property and financial collateral until December 31, 2014 have been taken into account. This means that the observed LGD level will fall further, since on December 31, 2014 there was remaining unsold collateral for defaults in 2013. It should also be noted that estimates of LGD on December 31, 2012 and December 31, 2014 are not directly comparable, since some minor adjustments in the model were made during the intervening period.

LGD levels for 2013 defaults

Exposure category	Estimated LGD, %	Observed LGD , %
Household exposures with real estate as collateral	17.9	14.0
Small and medium-sized companies classified as household exposures	22.5	25.3
Other household exposures	31.2	19.3
Total household exposures	21.1	18.0

The table below shows the Bank's estimated expected loss expressed in EUR M (PD x LGD x EAD) for the household portfolio. The expected amount is compared to the provision for individual impairment losses in the IRB-approved portfolio. The table shows that the amount of the deficit compared to recognised impairment losses on December 31, 2014 amounted to EUR 5.8 M.

Recognised impairment losses and expected losses	2014			2013		
EUR M						
Exposure category	Individual impairment losses	Estimated expected loss	Net	Individual impairment losses	Estimated expected loss	Net
Household exposures with real estate as collateral, private individuals	−1.1	3.8	2.7	−1.6	4.4	2.8
Small and medium-sized companies classified	−0.5	2.7	2.2	−0.8	3.2	2.4
Other household exposures	−3.2	4.1	0.8	−1.7	2.8	1.1
Total household exposures	**−4.8**	**10.6**	**5.8**	**−4.1**	**10.4**	**6.3**

STANDARDISED APPROACH FOR CALCULATION OF CAPITAL REQUIREMENT

In the standardised approach, exposures are divided into various exposure categories depending on the counterparty, collateral or receivable. The exposure figures taken into account in the capital requirement calculation are then multiplied by the risk weight established by the authorities for the respective exposure category. Exposures to sovereigns (national governments) and their respective central banks in the European Economic Area (EEA) shall always be assigned a risk weight of 0 per cent and exposures fully covered by collateral in residential property shall be assigned a risk weight of 35 per cent. Starting on January 1, 2014, however, as a consequence of new capital adequacy regulations, the Bank has begun to base its risk weight for institutions and covered bonds on external ratings from the selected credit rating institutions Moody's, Standard & Poor's and Fitch. Their various ratings are translated according to predetermined principles to credit quality steps, which in turn represent a certain risk weight. For those exposures that have no external rating, the risk weight is based on the rating of the national government (sovereign method). The table below shows how exposure values after credit risk mitigation measures are allocated among credit quality steps in the exposure categories where external ratings are used to calculate risk exposure amounts.

Exposure values that have been risk-weighted on the basis of an external credit rating			
EUR M			
Credit quality steps	Rating S&P	Institutional exposures	Covered bonds
1	AAA to AA−	157.0	205.7
2	A+ to A−	117.7	0.
3	BBB+ to BBB−	8.3	
4	BB+ to BB−		
5	B+ to B−		
6	CCC and lower		
Sovereign method		53.1	9.1
Total		**336.1**	**214.8**

To calculate risk exposure amounts for the exposures that are referred to as counterparty risk exposures or transactions with long phase-out cycles in the capital adequacy regulations, the Bank uses the market valuation method to calculate the exposure value that provides the basis for credit risk calculation, which then occurs according to the standardised approach. In order to also calculate capital base requirements for credit-worthiness adjustment risk for those derivative exposures that are not cleared through a qualified central counterparty, the Bank uses the standardised approach that is prescribed in the capital adequacy regulations.

COLLATERAL MANAGEMENT AND CREDIT RISK MITIGATION

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

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

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

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

CREDIT RISK MITIGATION IN ANALYSING CAPITAL REQUIREMENTS

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

The residential real estate used as collateral in credit risk mitigation must meet special requirements set by capital adequacy regulations to be approved; this includes requiring regular independent appraisals and requiring that the collateral must exceed the receivables by a substantial amount (loan-to-value (LTV) ratio. The Bank orders a quarterly index adjustment of the residential real estate collateral portfolio in order to keep up with price developments in the housing market. In the Bank's IRB models, the market value of residential real estate collateral affects the LGD parameter, while the standardised approach uses a risk weight set by the authorities of 35 per cent on loans that amount to 70 per cent of the market value of residential real estate collateral. In these calculations, commercial real estate is not accepted as credit risk mitigating collateral.

By using guarantees issued by governments (or similar entities) and others, by means of so-called unfunded credit protection the Bank may substitute, that is, move all or part of an exposure to a counterparty with better credit quality when calculating capital requirements for credit risk. The foremost providers of unfunded credit protection are the Finnish government and the Åland provincial government.

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

Form of credit risk mitigation

EUR M	Exposure covered by collateral
Government guarantee	26.2
Provincial or municipal guarantee	21.3
Bank guarantee	0.3
Deposit accounts	18.2
Financial collateral	191.7
Residential property	2,145.6
Other, unacceptable collateral	939.7
Total loan portfolio	**3,343.0**

The table below shows the amounts by which the Bank reduces its credit risk by means of guarantees, financial collateral and residential real estate collateral. The "Other collateral" category includes pledged deposit accounts that reduce the exposure in its entirety. Positive values in the guarantee column for the "Sovereigns" and "Institutions" exposure categories in the table indicate an inflow to these exposure categories by means of "substitution" of credit risk..

Credit risk according to the IRB approach	2014					
EUR M	Exposure before credit risk protection	Guarantees	Other collateral	Exposure after CRM	Market value of financial collateral*	Market value of residential collateral*
Household exposures with real estate as collateral, private individuals	1,583.4	–8.3	–0.1	1,575.1	74.8	3,065.9
Small and medium-sized companies classified as household exposures	157.8	–2.2	0.0	155.6	23.8	228.1
Other household exposures	225.8	–19.5	–0.1	206.2	227.0	28.5
Total portfolios using the IRB approach	**1,966.9**	**–30.0**	**–0.2**	**1,936.8**	**325.7**	**3,322.4**

	2013					
EUR M	Exposure before credit risk protection	Guarantees	Other collateral	Exposure after CRM	Market value of financial collateral*	Market value of residential collateral*
Household exposures with real estate as collateral, private individuals	1,495.3	–6.7	–0.1	1488.5	77.5	2,961.6
Small and medium-sized companies classified as household exposures	153.1	–1.6	0	151.5	22.4	219.3
Other household exposures	221.5	–16.5	–0.1	204.9	224.9	28.9
Total portfolios using the IRB approach	**1,869.9**	**–24.8**	**–0.2**	**1,844.9**	**324.8**	**3,209.8**

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

Credit risk according to the standardised approach	2014					
EUR M	Exposure before credit risk protection	Guarantees	Financial collateral	Other collateral	Net exposure before CF	Residential loan-to-value
Exposures to sovereigns, central banks and local authorities	319.8	50.4			370.2	0.0
Institutional exposures	341.8	0.2	–6.0		336.0	0.0
Company exposures	935.4	–20.4	–134.4		780.6	0.0
Exposures with real estate as collateral	620.8				620.8	620.8
Household exposures	137.4		–12.0		125.4	0.0
Total portfolios using the standardised approach	**2,355.2**	**30.2**	**–152.4**	**0.0**	**2,233.0**	**620.8**

	2013					
EUR M	Exposure before credit risk protection	Guarantees	Financial collateral	Other collateral	Net exposure before CF	Residential loan-to-value
Exposures to sovereigns, central banks and local authorities	150.4	36.4			186.8	0.0
Institutional exposures	508.6	0.2	–6.0		502.8	0.0
Company exposures	841.6	–11.6	–135.1		694.9	0.0
Exposures with real estate as collateral	459.8				459.8	459.8
Household exposures	243.0	0.0	–23.5	0.0	219.4	0.0
Total portfolios using the standardised approach	**2,203.4**	**25.0**	**–164.6**	**0.0**	**2,063.7**	**459.8**

During 2014, amounts of collateral in the form of financial collateral and guarantees issued by sovereigns and institutions increased significantly, due to the favourable trend in financial markets. Market value in the form of residential property collateral used in the LGD parameter in the Bank's IRB-approved portfolio remained at the same level as in 2013. According to the above table, the indicative average loan-to-value ratio for residential property collateral in the IRB-approved portfolio was 58 per cent, compared to 57 per cent a year earlier.

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

Total EAD and average risk weight for credit risk exposures			2014		
EUR M	Gross exposure	EAD	Risk weight, %	Risk exposure amount	Capital requirement
Credit risk according to the IRB approach					
Households with property as collateral (small and medium-sized companies)	122.2	121.1	36	43.4	3.5
Households with property as collateral (private individuals)	1,583.4	1,577.1	13	210.0	16.8
Households, other (small and medium-sized companies)	35.6	34.8	35	12.3	1.0
Households, other (private individuals)	225.8	206.9	18	36.9	3.0
Total exposures according to the IRB approach	**1,966.9**	**1,939.9**	**16**	**302.6**	**24.2**
Credit risk according to the standardised approach					
Exposure to sovereigns, central banks and local authorities	319.8	359.8	0	0.0	0.0
Exposures to institutions	341.8	336.1	31	105.1	8.4
Exposures to covered bonds	214.8	214.8	10	22.4	1.8
Corporate exposures	935.4	662.1	94	621.8	49.7
Household exposures	137.3	66.5	74	49.0	3.9
Exposures with real property mortgages as collateral	620.8	617.7	35	213.3	17.1
Past due exposures	18.3	8.7	134	11.7	0.9
Items associated with especially high risk	0.3	0.3	150	0.4	0.0
Equity exposures	1.2	1.2	102	1.2	0.1
Collective investment companies (funds)	2.1	2.1	100	2.1	0.2
Other items	52.8	52.8	85	44.7	3.6
Total exposures according to the standardised approach	**2,644.7**	**2,322.1**	**46**	**1,071.8**	**85.7**
Total risk exposure amount risk	**4,611.7**	**4,261.9**	**32**	**1,374.5**	**110.0**

			2013		
EUR M	Gross exposure	EAD	Risk weight, %	Risk exposure amount	Capital requirement
Credit risk according to the IRB approach					
Households with property as collateral (small and medium-sized companies)	115.8	115.2	43	50.0	4.0
Households with property as collateral (private individuals)	1,495.3	1,490.5	14	209.8	16.8
Households, other (small and medium-sized companies)	37.3	36.7	45	16.5	1.3
Households, other (private individuals)	221.5	205.4	17	35.7	2.9
Total exposures according to the IRB approach	**1,869.9**	**1,847.8**	**17**	**312.0**	**25.0**
Credit risk according to the standardised approach					
Exposure to sovereigns, central banks and local authorities	150.4	186.8	0	0.0	0.0
Exposures to institutions	377.5	377.5	29	109.4	8.8
Exposures to covered bonds	131.1	131.1	10	13.1	1.0
Corporate exposures	744.3	715.7	80	576.0	46.1
Household exposures	306.5	121.2	64	77.6	6.1
Exposures with real property mortgages as collateral	459.8	458.4	35	160.4	12.9
Past due exposures	33.1	21.3	145	31.0	2.5
Items associated with especially high risk	0.7	0.7	150	1.1	0.1
Equity exposures	0	0	0	0.0	0.0
Collective investment companies (funds)	3.1	3.1	100	3.1	0.2
Other items	68.0	68.0	49	33.4	2.7
Total exposures according to the standardised approach	**2,274.5**	**2,083.8**	**48**	**1,005.0**	**80.4**
Total risk exposure amount	**4,144.4**	**3,931.6**	**17.5**	**1,317.0**	**105.4**

Special IRB-related disclosures	2014	2013
EUR M		
Individual impairment losses attributable to IRB-approved portfolios	5.6	4.4
Estimated expected loss amount according to IRB models	–10.6	–10.4
Deficit subtracted from the capital base in the capital adequacy analysis (net EL)	–4.9	–6.0
Capital requirement according to the standardised approach for IRB-approved portfolios	57.7	56.0
Limit according to transitional rule (minimum 80% of above)	46.2	44.8
Additional capital requirement including net effect for deficit subtracted from the capital base	17.0	14.0

DOUBTFUL AND NON-PERFORMING RECEIVABLES

A receivable is defined as doubtful when it is probable that contractual payments will not be fulfilled and when, because of this, one or more loans within a customer entity have given rise to an individual provision. Doubtful receivables are recognised on a gross basis, without taking into account individual provisions and without regard to collateral that has been received to secure the receivable. During 2014, the level of doubtful receivables decreased by 37 per cent. This decrease was mainly attributable to the corporate portfolio.

Non-performing receivables arise when a borrower has diverged from contractual payment of interest or loan principal. At the end of 2014, receivables with amounts overdue for more than 90 days were somewhat higher than a year earlier. Their recognised value before taking into account individual provisions amounted to EUR 29.4 M (25.7).

A provision for an expected loss is made if there is objective evidence indicating that full repayment of a receivable is no longer probable. The size of the provision is equivalent to the difference between the carrying amount of the outstanding exposure and the discounted value of expected future cash flows attributable to the receivable and any collateral or guarantees received. If there is no evidence for an individual provision on a receivable, regardless of whether the receivable is of significant size or not, it is included in a group of financial assets with similar credit risk characteristics, which undergo collective impairment testing. Impairment testing takes place quarterly. At the end of 2014, individual provisions were somewhat lower than a year earlier. The level of provisions for doubtful receivables, calculated as individual provisions due to doubtful receivables, amounted to 66 (48) per cent.

Doubtful and non-performing receivables				2014					
EUR M	Doubtful, gross	Doubtful receivables, %	Individual impairment provisions	Group impairment provisions	Level of provisions, %	Non-performing > 90 days	NP 60–90 days	NP 30–59 days	NP 5–29 days
Home loans	5.1	0.3	2.8	0.0	55	7.8	2.5	5.4	13.0
Securities and other investments	1.2	0.4	0.0	0.0	2	0.8	0.4	1.5	2.5
Business operations	1.3	1.0	0.7	0.3	53	2.5	0.1	0.6	1.1
Other household purposes	0.6	0.3	0.7	0.8	128	2.9	0.2	1.0	2.0
Total private individuals	**8.2**	**0.4**	**4.2**	**1.1**	**52**	**14.0**	**3.2**	**8.5**	**18.6**
Shipping	5.7	8.7	4.4	0.0	77	0.8	1.4	0.2	0.0
Wholesale and retail trade	1.9	4.1	1.3	0.1	66	3.2	0.0	8.2	0.2
Housing operations	0.7	0.3	0.5	0.0	74	0.7	0.0	0.1	0.7
Other real estate operations	2.8	0.8	1.9	0.0	69	3.6	0.0	0.2	1.1
Financial and insurance operations	0.2	0.1	0.2	0.1	99	0.5	1.1	0.0	0.0
Hotel and restaurant operations	0.4	1.7	0.1	0.1	0	0.5	0.0	0.0	0.0
Other service operations	1.7	1.6	1.6	0.1	94	3.5	1.2	0.5	0.7
Agriculture, forestry and fishing	0.0	0.0	0.0	0.0	0	0.0	0.0	0.0	0.1
Construction	0.1	0.2	0.1	0.0	100	2.5	0.0	0.0	1.4
Other industry and crafts	0.0	0.0	0.0	0.0	0	0.2	0.0	0.0	0.0
Total companies	**13.5**	**1.2**	**10.1**	**0.4**	**74**	**15.5**	**3.7**	**9.2**	**4.2**
Public sector and non-profit organisations	0	0.0	0	0.0	0	0	0	0	0
Total lending	**21.7**	**0.6**	**14.3**	**1.5**	**66**	**29.4**	**6.9**	**17.7**	**22.8**

				2013					
EUR M	Doubtful, gross	Doubtful receivables, %	Individual impairment provisions	Group impairment provisions	Level of provisions, %	Non-performing > 90 days	NP 60–90 days	NP 30–59 days	NP 5–29 days
Home loans	3.8	0.3	2.3	0.0	60	8.2	1.4	3.7	14.4
Securities and other investments	0.5	0.2	0.0	0.0	1	0.4	0.6	0.2	1.8
Business operations	0.6	0.5	0.5	0.0	74	1.7	0.3	2.0	1.7
Other household purposes	0.7	0.4	0.7	0.9	170	2.0	1.5	0.7	2.9
Total private individuals	**5.7**	**0.3**	**3.4**	**0.9**	**69**	**12.8**	**3.8**	**6.6**	**20.8**
Shipping	16.0	24.2	5.5	0.1	35	2.1	0.0	0.0	0.0
Wholesale and retail trade	2.6	5.2	0.8	0.0	30	1.7	0.1	0.4	0.7
Housing operations	2.8	1.6	2.0	0.0	73	2.9	0.0	0.1	1.3
Other real estate operations	0.8	0.2	0.3	0.0	42	0.8	0.0	0.0	2.3
Financial and insurance operations	0.1	0.0	0.1	0.1	93	0.4	0.0	0.0	0.1
Hotel and restaurant operations	0.0	0.0	0.0	0.0	0	0.0	0.2	0.3	1.2
Other service operations	1.4	1.3	1.2	0.1	88	2.5	0.0	0.2	1.4
Agriculture, forestry and fishing	0.0	0.0	0.0	0.0	0	0.0	0.0	0.0	0.7
Construction	2.3	9.3	2.0	0.0	84	2.3	0.0	0.2	1.9
Other industry and crafts	0.0	0.0	0.0	0.0	100	0.2	0.0	0.0	0.0
Total companies	**26.0**	**2.4**	**11.9**	**0.3**	**46**	**12.9**	**0.3**	**1.2**	**9.6**
Public sector and non-profit organisations	0.0	0.0	0	0	0	0	0	0	0
Total lending	**31.7**	**1.0**	**15.2**	**1.2**	**48**	**25.7**	**4.1**	**7.8**	**30.4**

Liquidity risk

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

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

LIQUIDITY RISK LIMITS

Based on the Bank's risk tolerance, the Board of Directors has established limits for the Bank's liquidity coverage ratio (LCR) as well as how large the percentage of covered bonds issued may be in relation to the available collateral.

- The Bank's LCR shall amount to at least the statutory minimum requirement.
- Covered bonds issued may not exceed 85 per cent of the available collateral. This 85 per cent also includes required excess collateral.

CONTROL AND ANALYSIS

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

Financial assets and liabilities – maturity overview

2014 EUR M	Repayable on demand	< 1 mo	1–3 mo	3–6 mo	6–9 mo	9–12 mo	1–2 yrs	2–5 yrs	> 5 yrs	Total cash flow	Carrying amount
Financial assets:											
Cash	86									86	86
Debt securities eligible for refinancing with central banks		1	2	8	11	17	155	325	113	633	625
Lending to credit institutions	70	60	0							130	129
Lending to the public	172	62	115	191	206	203	487	985	1,451	3,873	3,343
Total	**329**	**123**	**117**	**199**	**218**	**219**	**643**	**1,311**	**1,564**	**4,723**	**4,183**
Financial liabilities											
Liabilities to credit institutions	88	126	108	10	10	4	6	73		425	422
Liabilities to the public	1,817	50	155	80	48	50	2	1	1	2,204	2,201
Debt securities issued		47	108	97	226	12	129	640	108	1,367	1,312
Subordinated liabilities		2	2	8	4		10	26		53	50
Total	**1,905**	**225**	**374**	**195**	**287**	**66**	**148**	**741**	**109**	**4,049**	**3,984**
Derivative contracts in liquidity management											
Cash inflow		3	2	4	2	1	8	16	12	48	
Cash outflow		–1	–2	–2	–3	–2	–5	–11	–9	–36	
Total		**2**	**0**	**1**	**–1**	**–1**	**3**	**5**	**3**	**12**	
GAP		**–100**	**–256**	**5**	**–71**	**152**	**498**	**575**	**1,458**	**686**	

2013 EUR M	Repayable on demand	< 1 mo	1–3 mo	3–6 mo	6–9 mo	9–12 mo	1–2 yrs	2–5 yrs	> 5 yrs	Total cash flow	Carrying amount
Financial assets:											
Cash	50									50	50
Debt securities eligible for refinancing with central banks		1	10	18	5	22	48	279	48	431	428
Lending to credit institutions	51	8	4			0				63	131
Lending to the public	205	3	118	126	139	176	533	975	1,317	3,592	3,104
Debt securities eligible for refinancing with central banks			18	0	15	0	0	10		44	64
Total	**306**	**1,1**	**150**	**143**	**159**	**199**	**581**	**1,265**	**1,365**	**4,180**	**3,776**
Financial liabilities											
Liabilities to credit institutions	74	41	47	26	3	8	137	12		349	347
Liabilities to the public	1,764	129	103	93	48	43	2	1		2,181	2,177
Debt securities issued		67	120	59	126	73	226	459	215	1,346	1,012
Subordinated liabilities		20		12	4		14	17		68	64
Total	**1,838**	**257**	**270**	**189**	**182**	**124**	**379**	**489**	**215**	**3,944**	**3,600**
Derivative contracts in liquidity management											
Cash inflow		4	2	5	2	3	15	29	20	80	
Cash outflow		–1	–2	–3	–4	–3	–12	–28	–23	–77	
Total		**3**	**0**	**2**	**–1**	**–1**	**3**	**1**	**–4**	**3**	
GAP		**–253**	**–121**	**–44**	**–25**	**73**	**205**	**777**	**1,147**	**239**	

One of the Bank of Åland’s internal metrics for liquidity is the “survival horizon”, defined as the period of positive accumulated cash flows. The survival horizon shows how long the Bank will remain viable during long periods of stress in capital markets, when access to new funding from ordinarily available funding sources would be limited or completely closed. In this calculation, sight deposits are assumed to be a substantially stable source of funding. On December 31, 2014, the Bank’s survival horizon amounted to more than two years.

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

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

Financial ratios, liquidity risk	2014	2013
per cent		
LCR	97	61
NSFR	106	98
Core funding ratio	105	103

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

Liquidity coverage ratio (LCR)	2014	2013
EUR M		
Liquid assets, level 1	383	165
Liquid assets, level 2	37	106
Total liquid assets	**420**	**271**
Customer deposits	489	426
Market borrowing	44	11
Other cash outflows	55	131
Total cash outflows	**588**	**567**
Inflows from lending to non-financial customers falling due for payment	29	41
Other cash inflows	126	80
Total cash inflows	**156**	**121**
Net cash outflows	**432**	**446**
Liquidity coverage ratio (LCR), %	**97**	**61**

FUNDING

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

The Bank of Åland's aim is a funding structure in which the Bank's customers – through deposit accounts (sight deposits and time deposits) account for more than 50 per cent of total funding. Because of rapid growth in recent years, especially in the Swedish market, deposits as a proportion of total funding decreased from 56 per cent at the end of 2013 to 53 per cent by the end of 2014. Meanwhile, covered bonds have become an important additional source of funding, with relatively low interest costs and long contractual maturities. In the space of two years, covered bonds grew from 0 per cent to 19 percent of total funding.

The Bank of Åland has a long-term target of ensuring that the core funding ratio shall amount to a maximum of 100 percent. The Bank's lending shall thus not depend on unsecured capital market borrowing for its funding.

Funding sources
per cent

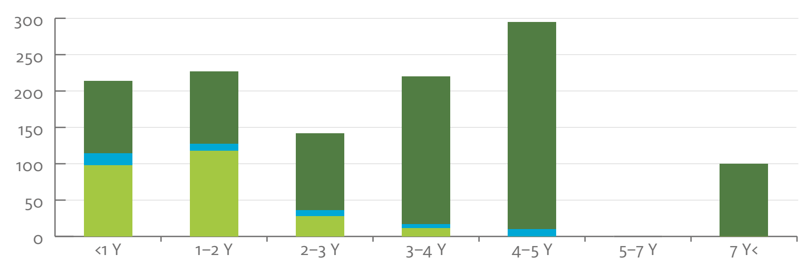
- Deposit accounts from the public 53%
- Covered bonds 19%
- Non-covered bonds 4%
- Equity index bonds 2%
- Long-term borrowing from financial institutions 2%
- Short-term borrowing from financial institutions 8%
- Certificates of deposit to the public 7%
- Subordinated liabilities 1%
- Equity capital 5%

FUNDING SOURCES

During 2012 the Bank of Åland issued its first covered bonds. At year-end 2014, the nominal amount of covered bonds outstanding was EUR 795 M, of which EUR 335 M was issued during 2014. During 2014 the Bank issued SEK 750 M worth of non-covered bonds, and the nominal amount outstanding totalled EUR 160 M at the end of 2014. Liabilities outstanding on December 31 can be seen in the table below. The Bank of Åland itself purchased EUR 109 M of covered bonds outstanding, which largely constitute collateral for long-term borrowing from financial institutions.

Bond issues outstanding	2014	2013
EUR M		
Covered bonds	904	669
Senior non-covered bonds	160	241
Equity index bonds	69	97
Total	**1,129**	**1,007**
Average maturity in years	3.32	3.08
Certificates of deposit, EUR	84	134
Certificates of deposit, SEK	208	0
Total	**292**	**134**
Average maturity in years	0.44	0.21

Maturity structure, debt instruments issued



At present, the Bank has a well-diversified maturity structure. Over the past three years, the average maturity of the Bank's external debt increased from 0.6 years to more than 3.5 years. Since the difference between the Bank's credit rating (BBB) and the collateral pool's rating (AA) from Standard & Poor's is the maximum six steps, the difference in funding cost for covered and non-covered funding is significant, especially for longer maturities. As a result, the Bank has chosen to issue covered bonds rather than non-covered bonds. During 2014 the Bank made only one issue of SEK 750 M in non-covered bonds under the EMTN programme.

INVESTOR BASE

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

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

MORTGAGE BANKING OPERATIONS

During 2014, the Bank added Swedish home mortgage loans to its total available collateral. For this purpose, it created a new collateral pool consisting of Swedish home mortgage loans in the Sweden business area. The first issue of covered bonds based on this Swedish collateral pool was made in June 2014, and by the end of 2014 a total of SEK 1,750 M in such bonds had been issued. The Finnish collateral pool consists of home mortgage loans in the Åland and Finnish

Mainland business areas. During 2014, the total available collateral in the Finnish collateral pool was expanded by about EUR 200 M due to a change in the appraisal method for all collateral to current market appraisal. The utilised assets in the Finnish collateral pool included over-collateralisation of 33 per cent for EUR 459 M of the covered bonds and 21 per cent over-collateralisation for EUR 250 M of the bonds. The utilised assets in the Swedish collateral pool included over-collateralisation of 29 per cent for the bonds that were issued.

Collateral pool, Finland

EUR M	
Loans	993
Substitute collateral	0
Other	0
Total	**993**

Type of collateral

EUR M	Loan volume	Loan volume, %
Single-family homes and flats	990	99.8
Multi-family homes	2	0.2
Commercial		0.0
Agriculture and forestry		0.0
Public sector		0.0
Total	**993**	**100.0**

Key figures

Number of loans	13,634
Number of borrowers	13,102
Average loan volume, EUR K	73
Over-collateralisation, nominal, %	39.9
Weighted loan-to-value ratio, %	55
Foreign exchange risk	0

Loan-to-value ratio

EUR M	–10%	10–20%	20–30%	30–40%	40–50%	50–60%	60–70%	70%–	Total
Loan volume	15	40	63	106	166	203	399	0	993
Loan volume, %	2	4	6	11	17	20	40	0	100

Seasoning

EUR M	0–12 M	12–24 M	24–36 M	36–60 M	60 M–	Total
Loan volume	102	148	169	176	398	993
Loan volume, %	10	15	17	18	40	100

Issues outstanding, EUR

EUR M	Total	Issue date	Maturity date	Coupon	Fixed /floating
ISIN					
XS0828356013	100	14.9.2012	14.9.2015	1.125	Fixed
XS0828359116	100	14.9.2012	14.9.2016	0.838	Floating
XS1117564572	150	8.10.2014	8.10.2018	0.500	Fixed
XS0999478372	100	3.12.2013	3.6.2019	1.550	Fixed
XS0876678391	100	30.1.2013	30.1.2023	2.750	Fixed

Issues outstanding, SEK

SEK M	Total	Issue date	Maturity date	Coupon	Fixed /floating
ISIN					
XS0862156089	1,000	12.12.2012	12.6.2017	1.275	Floating
XS0862155941	500	12.12.2012	12.6.2018	1.375	Floating

Maturity structure of issues outstanding

EUR M	2015	2016	2017	2018	2019	2020–2024	2025–2029	2030–	Total
Total	100	100	106	203	100	100	0	0	710
Total, %	14	14	15	29	14	14	0	0	100

Collateral pool, Sweden

SEK M	
Loans	3 000
Substitute collateral	0
Other	0
Total	**3 000**

Type of collateral

SEK M	Loan volume	Loan volume, %
Single-family homes and tenant-owned cooperative flats	1,698	56.6
Multi-family homes and cooperative housing associations	1,302	43.4
Agriculture and forestry	0	0.0
Public sector	0	0.0
Commercial	0	0.0
Total	**3,000**	**100.0**

Key figures

Number of loans	849
Number of borrowers	804
Average loan volume, SEK K	3,534
Over-collateralisation, nominal, %	71.5
Weighted loan-to-value ratio, %	59
Foreign exchange risk	0

Loan-to-value ratio

SEK M	–10%	10–20%	20–30%	30–40%	40–50%	50–60%	60–70%	70–75%	75%–	Total
Loan volume	6	30	177	280	454	327	957	472	299	3,000
Loan volume, %	0	1	6	9	15	11	32	16	10	100

Seasoning

SEK M	0–12 M	12–24 M	24–36 M	36–60 M	60 M–	Total
Loan volume	728	1,275	573	424	0	3,000
Loan volume, %	24	42	19	14	0	100

Issues outstanding, SEK

SEK M	Total	Issue date	Maturity date	Coupon	Fixed/floating
ISIN					
XS1077864905	1,000	23.6.2014	25.3.2019	0.812	Floating
XS1155041004	750	16.12.2014	16.12.2019	0.768	Floating

Maturity structure of issues outstanding

SEK M	2014	2015	2016	2017	2018	2019–2023	2024–2028	2029–	Total
Total	0	0	0	0	0	1,750	0	0	1,750
Total, %	0	0	0	0	0	100	0	0	100

LIQUIDITY RESERVE

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

Liquidity reserve	2014	2013
EUR M		
Cash and investments with central banks	86	80
Debt securities issued by sovereigns and public authorities	169	85
Covered bonds (ratings of AA– or higher)	178	125
Own covered bonds	10	10
Accounts with other banks	57	10
Lending to credit institutions < 3 days	59	64
Debt securities issued by financial companies	82	182
Debt securities issued by non-financial companies	6	15
Total	**646**	**569**
Of which LCR-qualified	420	273

PREPAREDNESS PLAN FOR LIQUIDITY RISK

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

CREDIT RATING

The credit rating agency Standard & Poor's has assigned a credit rating of BBB with a negative outlook for the Bank of Åland's senior borrowing. The negative future outlook is attributable to Standard & Poor's assessment of Finland's economic prospects.

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

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

The Bank of Åland's credit rating for covered bonds may be no more than six steps higher than the Bank's own rating for senior unsecured borrowing. This makes AA the highest possible rating. Standard & Poor's has assigned the Bank of Åland's covered bonds the highest possible rating.

LIQUIDITY RISK REGULATIONS

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

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

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

According to current plans, the LCR metric will be introduced gradually during 2015–2019, while the NSFR metric will be introduced in 2018.

Market risks

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

INTEREST RATE RISK

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

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

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

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

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

The Bank of Åland has traditionally reduced net interest income risk by swapping all fixed interest lending for variable interest and swapping all fixed interest liabilities for variable interest. When market interest rates have changed, interest on assets and liabilities has largely moved at the same pace, with the delays that exist when different benchmark interest rates for lending and deposits are not entirely matched. Equity capital, which has been classified as a long-term fixed-interest liability, has been invested in long-term bonds with fixed interest rates.

As long as Euribor/Stibor interest rates were at 3-4 per cent or higher, this strategy worked well. In the low interest rate environment that has become a reality since the financial crisis began in 2008, however, the Bank of Åland's traditional interest rate risk management no longer provides protection against net interest rate risk. Deposits connected to so-called transaction accounts are already priced at low levels even in a normal interest rate situation. When market interest rates have fallen by 4 percentage points, variable interest rates on the asset side have followed suit, while deposits that already had low interest rates have not been lowered to a corresponding extent. In practice, in a low interest rate situation the Bank of Åland thus has a sizeable volume of deposits that have fixed interest rates. This has adversely affected the Bank of Åland's net interest income during the past five years. Since the end of 2011, new fixed interest rate loans have no longer been swapped for variable interest rates in order to reduce net interest rate risk. Market interest rates are currently so low, especially in euros, that today the Bank of Åland's assessment is that today it has no actual negative net interest income risk. Net interest income risk is measured as the effect on net interest income of a parallel shift in the yield curve by +100 basis points.

Value change risk shows the effect of interest rate changes on the value of assets and liabilities (including off-balance sheet items). Value change risk should be regarded as a measure of the Bank's interest rate risk exposure. Value change risk is not based on the accounting principles in the consolidated financial statements according to IFRSs, but instead assumes that all assets and liabilities have a market value, at which they can be sold.

The Bank of Åland has no portfolio classified as "held for trading" that must be carried at market value in the income statement. The Treasury Department's bond portfolio is classified as available for sale, which means that only realised changes in value are reported in the income statement, while unrealised changes in value are reported in other comprehensive income.

All derivatives are recognised at market value in compliance with IFRSs. To avoid valuation problems in the income statement, those assets (fixed interest loans) and those liabilities (zero coupon bonds as part of equity index bonds and covered bonds with fixed interest rates) which have swaps that protect against net interest income risk have been classified in such a way that they are recognised at market value according to the fair value option in the case of loans and using hedge accounting with fair value hedging for the liabilities. By using fair value hedging of the interest rate risk in bonds that have been issued, only the interest rate component and not the Bank's own credit risk need be recognised at market value, which is consistent with the purpose of risk management, and unnecessary volatility in the income statement due to changes in credit risk on the Bank's own liabilities is avoided.

Customers' derivative transactions shall always be carried out back-to-back so that no open interest rate positions recognised at market value will arise.

The Bank of Åland's goal is to avoid volatility in the income statement due to changes in market interest rates. This occurs by means of various risk mitigation measures, for example the use of interest rate swaps and interest rate futures. For quantification and limitation of value change risk, however, the Bank uses the theoretical change in all interest-bearing items.

Based on the strategy the Bank has chosen, the valuation gain or loss attributable to interest rate movements should be close to zero in the income statement, except for capital gains or losses from the liquidity portfolio. Unrealised changes in value in the liquidity portfolio are visible in "Other comprehensive income".

Value change risk is measured as the effect on the value of assets and liabilities of a parallel shift in the yield curve by +100 basis points.

Interest rate refixing periods for assets and liabilities

2014						
EUR M	Up to 3 mo	3–6 mo	6–12 mo	1–5 yrs	Over 5 yrs	Total
Assets						
Lending to credit institutions and central banks	210					210
Debt securities eligible for refinancing with central banks	330	3	9	218	66	625
Lending to the public	2,261	288	599	164	31	3,343
Debt securities						
Total interest-bearing assets	**2,800**	**291**	**607**	**383**	**97**	**4,178**
Liabilities						
Liabilities to credit institutions	319	25	11	67		422
Liabilities from the public and public sector entities	2,023	80	97	1		2,201
Debt securities	661	94	160	300	97	1,312
Subordinated liabilities	4	9	3	33		50
Total interest-bearing liabilities	**3,008**	**208**	**272**	**401**	**97**	**3,984**
Off-balance sheet items	**−81**	**−116**	**−29**	**114**	**92**	
Difference between assets and liabilities	**−288**	**−33**	**306**	**96**	**92**	

2013						
EUR M	Up to 3 mo	3–6 mo	6–12 mo	1–5 yrs	Over 5 yrs	Total
Assets						
Lending to credit institutions and central banks	175					175
Debt securities eligible for refinancing with central banks	194	20	16	163	36	428
Lending to the public	2,169	213	434	266	22	3,104
Debt securities	39		15	10		64
Total interest-bearing assets	**2,576**	**233**	**464**	**440**	**58**	**3,771**
Liabilities						
Liabilities to credit institutions	158	46	13	130		347
Liabilities from the public and public sector entities	1,993	92	91	1		2,177
Debt securities	584	55	24	149	200	1,012
Subordinated liabilities		19	29	16		64
Total interest-bearing liabilities	**2,734**	**213**	**157**	**295**	**200**	**3,600**
Off-balance sheet items	**−43**	**−28**	**−7**	**−4**	**76**	
Difference between assets and liabilities	**−201**	**−8**	**301**	**141**	**−66**	

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

In the table, the interest rate refixing period for lending and sight deposits with the ÅAB Prime or ÅAB O/N benchmark interest rate, or with no benchmark interest rate, has been stated in the "Up to 3 months" time interval. The volume of deposits with such interest rate terms is sizeable. In the current low interest rate environment, the interest rate refixing period for these accounts is significantly longer in practice than the contractual period. When calculating net interest income risk and value change risk, the Bank of Åland model classifies this lending and these deposits as having a significantly longer interest rate refixing period than indicated in the table.

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

Parallel shift in the yield curve	2014		2013	
EUR M	Basis points		Basis points	
	+100	–100	+100	–100
Net interest income risk	7.6	–0.8	6.2	–3.5
Value change risk	0.1		–7.0	

Net interest income risk is calculated in the Bank's ALM system with a shift of ±100 basis points. Value change risk is calculated in the Bank's own model with a shift of –100 basis points.

Net interest income risk was relatively unchanged from 2013, but theoretical value change risk increased by EUR 3 M because the Bank's increased liquidity reserve was invested in bonds.

FACTORS THAT DRIVE INTEREST RATE RISK

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

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

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

FOREIGN EXCHANGE RATE RISK

Foreign exchange risk refers to the risk of unfavourable results due to changes in the exchange rates of currencies that the Bank is exposed to.

The Group's operations occur mainly in its two base currencies, euros and Swedish kronor, but a limited proportion of its lending and deposits occurs in other currencies, creating a certain foreign exchange risk. This risk is restricted by limits established by the Board of Directors and is managed using currency swaps and currency forward contracts.

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

EQUITIES RISK

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

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

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

Operational risk

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

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

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

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

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

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

The Group has introduced a standardised risk identification process for new products and services. The Group has emergency plans for exceptional conditions as well as continuity plans for all business units in order to maintain operations and limit losses in the event of various kinds of disruptions in operations.

At the Group level, insurance policies have been obtained to cover directors and officers, professional liability and crime. In addition to these insurance policies, Group companies have obtained company-specific insurance coverage. The CFO Corporate Unit administers insurance protection and assists management on insurance issues.

The Bank uses the standardised approach for calculating the capital requirement for operational risk. According to the standardised approach, the capital requirement for operational risk is calculated on the basis of disclosures in the financial statements adapted for the latest three financial years. The income indicator is estimated for the following eight business areas:

Capital requirements for operational risk

	Percentage (beta factor)	Capital requirement, 2014, EUR M
Corporate financing	18	
Trading and financial management	18	
Brokerage operations, individual customers	12	
Banking, large customers	15	1.0
Banking, households	12	7.9
Payment and phase-out	18	3.0
Administrative assignments	15	
Asset management	12	1.1
Total capital requirement, operational risk		**13.0**

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

Stress tests

As a supplement to the existing risk metrics, the Bank carries out various stress tests to identify the effects of exceptional, but plausible, changes in variables that are relevant to the Bank, such as interest rates, exchange rates or other external factors.

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

Capital management and capital adequacy

THE CRD IV PACKAGE

In response to the financial crisis that began in 2007, the European Commission unveiled a proposal during the summer of 2011 for a new set of capital adequacy regulations in the form of a Capital Requirements Directive (CRD IV) and a new Capital Requirements Regulation (CRR), which were adopted by the European Parliament and the European Council on July 26, 2013 and will apply from January 1, 2014. The new rules (also known as Basel 3) require institutions in the European Union to have more capital of better quality and to maintain various capital buffers. The regulations allow capital base instruments that no longer meet the new requirements to be gradually phased out of the capital bases of banks. Aside from newly specified requirements for the instruments in banks' capital bases, the new rules include higher capital requirements for over-the-counter derivatives and positions in trading inventories. The new rules also include stricter requirements for institutions' reporting to regulatory authorities.

Since the capital requirements for risks, for example related to lending, are increasing and must now increasingly be covered by capital that has higher return requirements, this in itself affects pricing by banks. Higher capital ratios and the introduction of capital buffers will be phased in gradually until 2019. The total capital requirement remains 8 per cent of risk-weighted assets, but this capital must meet stricter quality requirements than under the Basel 2 regulations. Under the new Act on Credit Institutions that has gone into effect in Finland, a capital conservation buffer requirement and regulations concerning the countercyclical capital buffer – diverging from the Directive's regulation on a gradual transition period – will go into effect in its entirety at the beginning of 2015. The 2.5 per cent capital conservation buffer will be covered by core Tier 1 capital. The Financial Supervisory Authority in Finland has not made a decision to put the countercyclical capital buffer into effect. The maximum level of the countercyclical capital buffer will be 2.5 per cent and it will begin to apply 12 months after the Financial Supervisory Authority has made its decision. The countercyclical capital buffer will also be covered by core Tier 1 capital. The Swedish Financial Supervisory Authority previously decided on a level of 1 per cent, which will be applied to the portion of the Bank's relevant credit risk exposures attributable to Sweden.

THE CAPITAL BASE

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

The most important characteristic of Tier 1 capital is that it is freely and immediately available for covering unforeseen losses. Tier 1 capital consists of share capital, reserve fund, share premium reserve, retained earnings and the portion of the year's profit that is not planned as a dividend. The instruments that are included in the Bank's Tier 1 capital are perpetual and thus consist of equity capital according to accounting rules. The entire Tier 1 capital of the Group is of the unlimited Tier 1 capital type. In other words, the Group has complete decision-making rights on the use of these funds. The new capital conservation buffer that will go into effect starting in 2015 will mean that, in practice, banks must have another 2.5 per cent of core Tier 1 capital. If the buffer requirement is not met, a number of restrictions are imposed. For example, the ability of a bank to pay dividends to its shareholders from earnings will be restricted.

However, certain downward adjustments in Tier 1 capital are made for items that have poorer capacity to absorb losses. Examples of such deductions are the unamortised cost of intangible assets, revaluations of properties and surplus value in the Bank's pension assets and half of the deficit in the form of expected losses exceeding recognised impairment losses in the IRB-approved portfolio. The new capital adequacy rules stipulate that the entire deficit must be subtracted from Tier 1 capital. Unlike Tier 1 capital, supplementary capital is not as available for covering losses as Tier 1 capital and may thus not amount to more than total Tier 1 capital. Supplementary capital can further be divided into upper and lower supplementary capital. Upper supplementary capital is, by its nature, long-term and may thus be included in its entirety. Upper supplementary capital consists mainly of a reappraisal of real property in conjunction with the transition to International Financial Reporting Standards (IFRSs). Lower supplementary capital, which includes fixed-term and short-term items, may total no more than half of Tier 1 capital. The Group's lower supplementary capital consists of subordinated debentures issued to the public. These are specified in the notes to the financial statements. According to a decision by the Financial Supervisory Authority, subordinated debentures issued after January 1, 2012 that are amortised for up to 5 years may no longer be included in supplementary capital. The Bank is thus forced to subtract these instruments from its capital base.

CAPITAL REQUIREMENT

The capital requirement for credit risks is calculated according to the advanced IRB approach in the mainland Finnish and Åland household portfolios and using the standardised approach in the remaining portfolios. During 2014, the Bank completed its IRB application regarding the corporate portfolio in the entire Bank and the Swedish household portfolio, and is now awaiting permission from the Financial Supervisory Authority to begin applying the IRB approach for calculating the Pillar 1 capital requirement for these portions of its lending.

On June 30, 2013, the Bank switched from the basic indicator approach to the standardised approach in calculating the capital requirement for operational risks. The Bank applies the exemption for small trading inventories and thus estimates no capital requirement according to the market risk regulations. Instead it applies the credit risk rules to these items.

Aside from increased capital requirements for counterparty risk, the Bank is affected by the elimination of the sovereign method and the transition to risk-weighting on the basis of external credit evaluations. The new regulations also include relief for small and medium-sized companies in the form of reduced capital requirements for these exposures, but the Bank's assessment is that this relief does not affect its own capital requirements to any great extent since the Financial Supervisory Authority has meanwhile chosen to continue applying the transitional rule between Basel 1 and Basel 2 even after the introduction of Basel 3. Today the Bank already meets the future requirement upon full implementation of Basel 3 of at least 7 per cent Tier 1 capital including a capital conservation buffer of 2.5 per cent. Even if Finland applies a maximum countercyclical capital buffer of 2.5 per cent, the Bank will fulfil the minimum requirements according to capital adequacy regulations.

LONG-TERM CAPITAL ADEQUACY TARGETS

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

Since the beginning of the financial crisis, the Bank of Åland has not had any officially communicated long-term financial targets, with reference to the extensive changes under way in the regulations affecting the Bank. The Board of Directors has approved the following new long-term financial targets.

- The Bank's capital adequacy, primarily defined as the core Tier 1 capital ratio under the Basel regulations, shall exceed all regulatory requirements by a wide margin.

There is still uncertainty about how the Bank of Åland's core Tier 1 capital ratio will be affected by the transition from the standardised approach to the IRB approach for the corporate portfolio in Finland and for the entire lending portfolio in Sweden as well as by the final effect of Basel 3 including buffer requirements. At present, the Executive Team interprets the ambition to exceed regulatory requirements by a wide margin as meaning that the core Tier 1 capital ratio, not taking into account transitional rules, should exceed 11 per cent.

Capital adequacy	2014	2013	2013
EUR M		New rules	Reported
Equity capital according to balance sheet	195.9	184.1	184.1
Anticipated/proposed dividend including minority shareholders in subsidiaries	−5.8	−2.2	−3.1
Core Tier 1 capital before deductions	**190.1**	**181.9**	**181.0**
Intangible assets	−7.2	−9.1	−9.1
Property revaluation	−2.1	−2.4	−2.4
Tax assets due to future profitability offset against tax liabilities within same tax category	−0.5	−0.5	−4.1
Surplus value in pension assets	0.0	−0.8	−0.8
Non-controlling interests	−1.3	−1.7	
Unrealised accumulated positive change in value	−4.5	−2.1	
Fair value reserve			−1.1
Translation difference			−0.9
Cash flow hedge	0.5	0.4	0.4
Expected losses according to IRB approach beyond recognised losses	−4.9	−6.0	−3.1
Core Tier 1 capital	**170.0**	**159.9**	**160.0**
Additional Tier 1 capital	**0.0**	**0.0**	**0.0**
Tier 1 capital	**170.0**	**159.9**	**160.0**
Supplementary capital instruments	11.0	35.7	63.8
Unrealised accumulated positive change in value	4.5	2.1	
Fair value reserve			1.1
Translation difference			0.9
Property revaluation	2.1	2.4	2.4
Supplementary capital before deductions	**17.7**	**40.2**	**68.2**
Expected losses according to IRB approach in addition to recognised losses			**−3.1**
Supplementary capital	**17.7**	**40.2**	**65.1**
Total capital base	**187.6**	**200.1**	**225.1**
Capital requirement for credit risk according to the IRB approach	24.2	25.0	26.0
Capital requirement for credit risk according to standardised approach	85.7	80.4	79.9
Capital requirement for credit-worthiness adjustment	1.3		
Capital requirement for operational risk	13.0	12.6	12.6
Capital requirement	**124.3**	**118.0**	**118.5**
Addition according to transitional rules for IRB approach	17.0	14.0	12.7
Capital requirement including transitional rule for IRB approach	**141.3**	**132.0**	**131.2**
Capital ratios excluding Basel I floor effect			
Core Tier 1 capital ratio, %	10.9	10.8	10.8
Tier 1 capital ratio, %	10.9	10.8	10.8
Total capital ratio, %	12.1	13.5	15.2
Capital ratios including Basel I floor effect			
Core Tier 1 capital ratio, %	9.6	9.7	9.8
Tier 1 capital ratio, %	9.6	9.7	9.8
Total capital ratio, %	10.6	12.1	13.7
Risk exposure amount	1.553.6	1.475.1	1.481.5
of which % comprising credit risk	89	89	89
of which % comprising credit-worthiness adjustment risk	1		
of which % comprising operational risk	11	11	11

Leverage ratio	2014
EUR M	
Tier 1 capital defined according to transitional rules	172
Total exposure metric	4,517
of which balance sheet items	4,270
of which off-balance sheet items	247
Leverage ratio, %	3.8

Leverage ratio is calculated as the arithmetic mean value of the monthly leverage ratios during a quarter. Tier 1 capital includes profit for the period.

INTERNAL CAPITAL ADEQUACY ASSESSMENT

The purpose of the internal capital adequacy assessment procedure (ICAAP) is to ensure that the Group is sufficiently capitalised to cover its risks as well as conduct and develop its operations.

The Bank of Åland prepares and documents its own methods and processes to evaluate its capital requirement. Within the framework of its internal capital evaluation, it thus takes into account all relevant risks that arise in the Group. The internal capital evaluation also takes into account risks for which no capital is allocated according to Pillar 1.

The 2013 ICAAP evaluated a negative scenario of a lengthy economic downturn that adversely affects Finnish and Swedish export industry and leads to higher unemployment, sharply declining real estate and share prices and continued extremely low market interest rates. The significant risks and capital requirement that have been identified in the Group according to Pillar 2 are shown in the table below.

Internal capital adequacy assessment	2013		2012	
EUR M	With new rules	Recognised	Recognised	Change
Pillar 1–capital requirement				
Credit risk, IRB	25.0	26.0	26.6	–1.6
Credit risk, standardised approach	80.4	79.9	71.3	9.1
Operational risks	12.6	12.6	14.1	–1.5
Total capital requirement in Pillar 1	**118.0**	**118.5**	**112.0**	**6.0**
Addition according to transitional rules for IRB approach	**14.0**	**12.7**	**11.7**	**2.3**
Credit risk, IRB instead of standardised approach	–5.4	–5.4		–5.4
Pillar 2–capital requirement				
Credit risk in addition to Pillar 1	0.6	0.6	0.0	0.6
Credit concentration risk	4.8	4.8	7.6	–2.8
Counterparty risk	1.5	1.5		1.5
Interest rate risk in banking operations	2.4	2.4	4.6	–2.2
Exchange rate risk	0.3	0.3	0.2	0.1
Equity risk	0.9	0.9	0.7	0.2
Credit default swaps i handelslager	0.1	0.1		0.1
Property risk	0.0	0.0	0.0	0.0
Operational risks in addition to Pillar 1	0.0	0.0	2.8	–2.8
Pension liability risk	0.0	0.0	0.0	0.0
Business risk	13.2	13.2	17.6	–4.4
Liquidity risk	0.0	0.0	0.0	0.0
Total capital need in Pillar 2	**23.8**	**23.8**	**33.5**	**–9.7**
Total capital requirement and capital need	**150.4**	**149.6**	**157.2**	**–6.8**
Available capital	**200.1**	**225.1**	**220.2**	**–20.1**
of which core Tier 1 capital	159.9	160.0	152.4	7.5
of which supplementary capital	40.2	65.1	67.8	–27.6
Capital buffer	**49.7**	**75.5**	**63.0**	**–13.3**
Risk exposure amount (Pillar 1)	**1 475**	**1 482**	**1 401**	**75**
Estimated need for core Tier 1 capital				
Minimum 7% core Tier 1 capital according to Pillar 1	103.3	103.7	98.0	5.2
Capital need according to Pillar 2	23.8	23.8	33.5	–9.7
Total core Tier 1 capital need	**127.1**	**127.5**	**131.6**	**-4.5**
Minimum level core Tier 1 capital ratio	**8.6**	**8.6**	**9.4**	**–0.8**
Core Tier 1 capital buffer	**32.8**	**32.5**	**20.8**	**12.0**
Estimated need for core Tier 1 capital alt. 2				
Minimum 7% core Tier 1 capital according to Pillar 1	103.3	103.7	98.0	5.2
Accumulated negative earnings in stress scenario	47.3	47.3	30.3	17.0
Total core Tier 1 capital need	**150.6**	**151.0**	**128.3**	**22.2**
Minimum level core Tier 1 capital ratio	**10.2**	**10.2**	**9.2**	**1.0**
Core Tier 1 capital buffer	**9.3**	**9.0**	**24.1**	**–14.7**

Identified capital needs according to Pillar 2 amounted to EUR 23.8.5 M, of which the largest items were business risk at EUR 13.2 M (estimated phase-out costs for Swedish operations), concentration risks in the loan portfolio at EUR 4.8 M and interest rate risk in banking operations at EUR 2.4 M. Since all these identified capital needs are covered by core Tier 1 capital, the Bank of Åland's overall capital needs related to core Tier 1 capital were EUR 127.1 M on December 31, 2013. Based on risk-weighted assets, this requirement was equivalent to a minimum core Tier 1 capital ratio of 8.6 per cent.

Capital planning for an economic downturn showed a capital need of EUR 47.3 M to cover the operating losses that would occur. This accumulated operating loss exceeds the identified capital need according to Pillar 2 and requires a minimum core Tier 1 capital ratio of 10.2 per cent. The stress test generates accumulated loan losses of EUR 65.4 M during 2014-2017, of which EUR 26.7 M is related to the Åland business area, EUR 26.9 M is related to the Finnish Mainland business area, EUR 9.3 M is related to Sweden and EUR 2.6 M to Compass Card. Of the accumulated loan losses, EUR 47.9 M is related to corporate exposures in the corporate portfolio.

The core Tier 1 capital need of EUR 127.1 M should be compared to the reporting core Tier 1 capital of EUR 159.9 M on December 31, 2013, according to the new definitions that apply starting in 2014. The Bank of Åland thus had a core Tier 1 capital buffer equivalent to EUR 32.8 M.

If we look at the total capital requirement, according to Pillar 1 it was EUR 118.0 M. Including EUR 14.0 M in additional capital according to the transitional rule for IRB, the capital requirement amounted to EUR 132.0 M. Adjusting the Pillar 2 requirement because the capital requirement for credit risk is measured using the IRB approach, the overall capital requirement was EUR 150.7 M. Since the total capital base including supplementary capital amounted to EUR 200.1 M, the capital buffer at year-end was EUR 49.7 M.

Photographer: Daniel Eriksson

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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 14 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 website www.alandsbanken.fi.

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

The consolidated financial statements for the financial year ending on December 31, 2014 were approved by the Board of Directors on March 16, 2015 and will be submitted to the Annual General Meeting for adoption. The Annual General Meeting has the opportunity to adopt or abstain from adopting the financial statements.

G2. Accounting principles

1. Basis for the report

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

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

2. Changes in accounting principles

Starting with the 2014 financial year, IFRS 10, “Consolidated financial statement”; IFRS 11, “Joint arrangements”; and IFRS 12, “Disclosure of interests in other entities” went into effect for application in the European Union. The new rules replace earlier regulations in IAS 27 and SIC 12 on when a company must be consolidated in the Group’s accounts with a number of criteria for assessing when a controlling interest in another company exists. The application of the new rules has not significantly affected the balance sheet, income statement or capital adequacy for the Group.

IFRS 10, “Consolidated financial statement” and amendments that have been made to it include a model to be used in assessing whether or not a controlling interest exists for all investments that a company has, including what were previously called special-purpose entities (SPEs) and are regulated in SIC- 12. The standard has not affected the Group significantly.

IFRS 11, “Joint arrangements” and amendments to it mainly result in two changes compared to IAS 31, “Interests in joint ventures”. An investment is deemed to be a joint operation or a joint venture depending on what type of investment it is, and there are different reporting rules for these. A joint venture must be reported according to the equity method, and the proportional consolidation method will not be allowed. The standard has not affected the Group significantly.

IFRS 12, “Disclosure of interests in other entities” covers disclosures on investments in subsidiaries, joint arrangements, associated companies and unconsolidated structured entities. The standard results in new disclosures on the Group’s holdings in other companies or investments.

Amended IAS 28, “Investments in associates and joint ventures”. The amendment deals with what reporting method to use when holdings change and significant influence or joint control ceases or not. The amendment does not affect the Group significantly.

IFRIC 21, “Levies” (to be applied from 2014). The interpretation includes rules about various forms of levies that public authorities impose on companies and on what date an obligating event occurs that leads to the recognition of a liability. The interpretation has not affected the Group significantly.

Clarifications in IAS 32, “Financial instruments: Presentation” also apply starting with the 2014 financial year. They concern when offsetting of financial assets and liabilities is allowed. An amendment to IAS 39, “Financial instruments: Recognition and measurement” means that under certain circumstances, companies are allowed to continue applying hedge accounting when the counterparty in a derivatives contract has changed due to legislation. The disclosure requirements in IAS 36, “Impairment of assets” related to the recoverable amounts for impaired non-financial assets have been amended. The application of these amendments has not significantly affected the Group’s balance sheet, income statement or capital adequacy.

COMING CHANGES IN REGULATIONS

On July 24, 2014, the International Accounting Standards Board (IASB) published the final standard IFRS 9, “Financial instruments”, which will replace IAS 39, “Financial instruments: Recognition and measurement”. IFRS 9, “Financial instruments” includes a model for classification and measurement of financial instruments, a forward-looking “expected loss” impairment model and a substantially reformed approach to hedge accounting. The classifications of financial assets contained in IAS 39 are being replaced by two classifications, with measurement taking place at fair value or amortised cost. It will still be possible to apply the fair value option specified in IAS 39. Changes in fair value must be recognised in the income statement ("through profit and loss"), except for changes in value of equity instruments not held for trading and for which an initial choice is made to recognise changes in value under "Other comprehensive income". Most of the portions of IFRS 9 concerning financial liabilities coincide with the earlier rules in IAS 39. The new impairment model will require more timely accounting for expected credit losses, from the date when the asset is first recognised. Among other things, the new hedge accounting rules simplify effectiveness testing and expand the scope of eligible hedging instruments and hedged items. According to the IASB, the standard will become compulsory starting on January 1, 2018, but it has not yet been adopted by the EU. Earlier application is allowed. The Bank of Åland is evaluating its impact on financial reporting, the consolidated balance sheet, the income statement and capital adequacy.

IFRS 15, "Revenue from contracts with customers" has not yet been approved by the EU. The purpose of a new revenue standard is to have a single principle-based standard for all industries, which will replace existing standards and statements on revenue. The revenue standard also includes expanded disclosure requirements. IFRS 15 will go into effect in 2017, and earlier application is allowed, provided that the EU has adopted the standard. The Bank of Åland is still evaluating its impact on the Group's financial reports.

Other new and amended IRFSs are not expected to have any significant effect on the Bank of Åland's financial reports.

3. Presentation of financial reports

Financial statements are a structured representation of the financial position and financial performance of a company. Their objective is to provide information about the position, financial performance and cash flows of a company that is useful in making economic decisions. Financial statements also present the results of the management team's administration of the resources entrusted to them. Complete financial reports consist of a balance sheet, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and notes. The Bank of Åland presents its statement of comprehensive income in the form of two statements. The Bank presents a separate income statement that includes all income and expense items in its earnings, unless a particular IFRS requires or permits another method. Other income and expense items are reported in "Other comprehensive income". The statement of comprehensive income includes earnings reported in the income statement and the components that make up other comprehensive income.

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

4. Principles of consolidation

The consolidated financial statements include the Parent Company, the Bank of Åland Plc – including its Swedish branch, Ålandsbanken Abp (Finland), svensk filial – and all subsidiaries over which the Parent Company has direct or indirect control. 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 power over 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 acquisition date to the divestment date. Subsidiaries acquired before January 1, 2004 are recognised according to the consolidation and accounting principles originally applied, in keeping with the exemption in IFRS 1. Subsidiaries acquired after January 1, 2004 are consolidated in compliance with IFRS 3, "Business Combinations".

The consolidated financial statements include those subsidiaries in which the Group directly or indirectly owns 50 per cent of the voting power, or which it otherwise controls. In elimination, the acquisition method of accounting has been used. The acquisition method means that the payment transferred, the identifiable assets of the 74 Bank of Åland Plc 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 payment 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. There was no goodwill in companies where the Group would have a controlling influence in the consolidated financial statements at the end of 2013 or 2014.

Cost includes expenses attributable to acquisition, such as expenses for the use of experts before January 1, 2010. Starting on January 1, 2010, these expenses – except for transaction fees attributable to the issuance of equity instruments or debt instruments – are recognised in the income statement. Non-controlling interests are recognised on the basis of their proportional share of net assets.

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". In case of changes where a controlling influence ceases, gains or losses as well as items in other comprehensive income 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.

Mutual real estate and housing companies have been classified as joint operations when its shares give the Group a direct right to assets and liability commitments in joint arrangements. The Group recognises asstes, liabilities, income and expenses based on its proportion of these. All intra-Group receivables, liabilities, income and expenses 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. Transactions in foreign currencies are translated to the functional currency of Group companies and branches on the transaction date. Monetary assets and liabilities in foreign currencies are translated at the exchange rate prevailing on the closing day. Translation differences from non-monetary items classified as financial assets available for sale and non-current assets 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. Otherwise 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 as well as money and capital market instruments in the spot market are recognised on the transaction date. The same applies to derivatives. 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 dare 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 in the balance sheet if the Bank has a contractual right and intention to settle the items with a net amount. Further disclosures about offsetting of financial assets and liabilities are provided in Note G43.

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

7. Classification of financial assets and liabilities

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

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

Financial liabilities are divided into the following valuation categories:

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

2. Other financial liabilities

The classification in the balance sheet is independent of valuation category. Different valuation principles may thus be applied to assets and liabilities that are recognised on the same line in the balance sheet. An allocation of the categories of financial assets and liabilities recognised in the balance sheet in terms of valuation category is provided in Note G14.

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

LOANS AND OTHER RECEIVABLES

Loans and receivables are recognised at amortised cost, which means the discounted present value of all future payments attributable to the instrument, where the discount rate consists of the effective interest rate of the asset on the acquisition date. Loans and receivables are tested for impairment losses when there is an indication of impairment. Impairment losses are recognised in the income statement. Loans and receivables are thus recognised at their net amounts, after subtracting probable and actual loan losses.

ASSETS HELD TO MATURITY

Recognised in the category "assets held to maturity" are interest-bearing assets that the Group intends and is able to hold until maturity. Such assets are recognised at accrued cost. They are tested for impairment losses when there is an indication of impairment. The Bank of Åland phased out its portfolio of assets held to maturity during the fourth quarter of 2012. A new portfolio of assets in this valuation category could not be created until the fourth quarter of 2014 at the earliest.

ASSETS AND LIABILITIES HELD FOR TRADING

Assets and liabilities held for trading consist of listed financial instruments and derivatives. Financial instruments held for trading are recognised at fair value in the balance sheet. The Bank of Åland carries out no trading operations for its own account and thus has very limited assets and liabilities held for trading. The Bank's existing holdings in this valuation category mainly consist of derivative instruments attributable to index bonds issued by the Bank. For derivatives and any debt securities, interest attributable to this valuation category is recognised in "Net interest income". Changes in market value are recognised in the item "Net income from financial items carried at fair value".

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

The option included in IAS 39 to categorise financial instruments as recognised at fair value via the income statement has been applied to financial assets and liabilities not categorised as assets available for sale, in order to avoid inconsistencies in the valuation of assets and liabilities that comprise counter-positions to each other and are managed on a portfolio basis. The Bank of Åland measures the value of certain groups of derivative instruments and items protected by derivative instruments according to the fair value option. Such groups mainly include fixed-interest loans and debt securities as well as interest rate swaps matched to them. This procedure effectively reduces the volatility of income without applying hedge accounting, since the fluctuation in the value of derivative instruments is largely offset by the corresponding fluctuation in the value of the other components in the same group. Changes in the fair value of financial instruments carried at fair value are recognised in the income statement, under the item "Net income from financial items carried at fair value". Interest attributable to lending and debt securities is recognised in "Net interest income".

FINANCIAL ASSETS AVAILABLE FOR SALE

Debt securities as well as shares and participations that are neither held for active trading nor held to maturity are recognised in this valuation category. The assets in this group are initially recognised in the balance sheet at cost and subsequently carried at fair value. The change in value is recognised in "Other comprehensive income", less deferred tax. In case of divestment, sale or impairment loss, the change in value is derecognised from the fair value reserve to the income statement in a separate item, "Net income from financial assets available for sale", which is part of "Net income from financial items carried at fair value". Interest attributable to this category of assets is recognised directly in "Net interest income" in the income statement. Dividends on shares categorised as available for sale are recognised continuously in the income statement as "Other income". Impairment testing of financial assets available for sale occurs when there is an indication of impairment.

OTHER FINANCIAL LIABILITIES

Upon commencement of the contract, other financial liabilities are recognised in the balance sheet at cost and subsequently at amortised cost.

RECLASSIFICATION OF FINANCIAL INSTRUMENTS

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

REPURCHASE TRANSACTIONS

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

SECURITIES LOANS

Securities that have been lent out remain in the balance sheet, since the Group remains exposed to the risk that they will fluctuate in value. Securities that have been lent out are recognised on the transaction date as assets pledged, while borrowed securities are carried in the same way as other securities holdings of the same type. In cases where the borrowed securities are sold, so-called short selling, an amount corresponding to the fair value of the securities is recognised among "Other liabilities" in the balance sheet.

EMBEDDED DERIVATIVES

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

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

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

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

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

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

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

DEBT SECURITIES

Debt securities issued by sovereigns and covered bonds are valued with the help of current market prices. Corporate bonds are measured using valuation techniques based on market yields for equivalent maturities, adjusting for credit and liquidity risk.

SHARES AND PARTICIPATIONS

Shares listed in an active market are valued at market price. When measuring unlisted shares and participation, the choice of valuation model is determined by what is deemed suitable for that particular instrument.

Holdings in unlisted shares mainly consist of various types of jointly owned operations with a connection to the Bank's business and holdings in Åland companies within the framework of Ålands Investerings Ab. As a rule, such holdings are valued at the Bank's proportion of net asset value in the company. Unlisted shares are essentially classified as available for sale. Changes in the value of these holdings are thus recognised in "Other comprehensive income".

DERIVATIVES

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

LENDING CLASSIFIED AS CARRIED AT FAIR VALUE

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

9. Impairment losses on loans

All loans and customer receivables are tested for impairment losses. On every closing day, the Bank assesses whether there is objective evidence for impairment losses on individual or group of loans and customer receivables has an impairment loss. Loans and customer receivables have an impairment loss if one or more events have occurred, after the loan or customer receivable is recognised the first time, that have an adverse impact on future estimated cash flows, if these can be reliably estimated. The impairment loss is calculated as the difference between the carrying amount of the loan or customer receivables and the present value of expected future cash flows, discounted by the original effective interest rate of the receivable. An assessment by the Executive Team is required, especially in order to estimate amounts and timing of expected future cash flows that determine impairment loss amounts. The estimate is based on measurement of numerous factors, and the actual outcome may diverge from the estimated impairment loss that is recognised. Concerning group impairment loss for those concentrations that do not have impairment losses according to individual assessment, estimates and judgements are made on the basis of the Bank's internal risk classification system.

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

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

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

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

10. Hedge accounting

HEDGE ACCOUNTING AT FAIR VALUE

Hedge accounting at fair value can be applied in certain cases when the interest rate exposure in a recognised financial asset or financial liability has been hedged with derivatives. With hedge accounting, the hedged risk in the hedged instrument is also re-measured at fair value. Both the change in the value of the hedging instrument, the derivative, and the change in the value of the hedged risk 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

Derivative contracts can be entered into for the purpose of hedging the exposure to variations in future cash flows due to changes in interest and exchange rates. These hedges can be recognised as cash flow hedges, meaning that the effective portion of the change in the value of the derivative, the hedging instrument, is 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". The amount recognised in "Other comprehensive income" is restored to the income statement in periods when the hedged item affects income. 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. Hedges of net investments in foreign operations are recognised in a way similar to cash flow hedging. The portion of the exchange rate gain or loss from hedging instruments that is effective is 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". When a foreign operation is divested, the gain or loss that arises on the hedging instrument is reclassified from "Other comprehensive income" and recognised in the income statement. One prerequisite for applying hedge accounting is that the hedge is formally identified and documented. Its effectiveness must be measurable in a reliable way and is expected to remain and prove to have been very effective in offsetting changes in value during the reported periods.

11. Intangible assets

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

CAPITALISATION OF PRODUCTION FOR OWN USE

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

EXTERNALLY PROCURED IT SYSTEMS

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

IMPAIRMENT LOSS

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

GOODWILL

Goodwill corresponds to the share of cost that exceeds the net asset value of a company that is purchased. Goodwill is not amortised but is tested yearly, or more often if a need exists, for impairment by discounting expected future cash flows in cash-generating units. Impairment losses are recognised directly as expenses in the income statement. There was no goodwill in the consolidated financial statements at the end of 2012 and 2013.

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 real estate 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 real estate and housing companies. Properties for the Group's own use are recognised in the balance sheet at cost less accumulated depreciation and impairment losses. For its Head Office property, the Bank of Åland Group has chosen to apply the exemption in IFRS 1, by using deemed cost instead of original cost of tangible assets in the transition to IFRSs..

OTHER TANGIBLE ASSETS

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

DEPRECIATION/AMORTISATION

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

Buildings	40 years
Technical equipment in buildings	12 years
Renovation in rented premises	4–10 years
Machinery and equipment	3–10 years
Computer systems developed in-house	3–5 years
External computer systems	3–5 years
Other intangible and tangible assets	3–5 years

Land is not depreciated.

IMPAIRMENT LOSSES

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

13. Provisions

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

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

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

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

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

14. Leases

In compliance with IAS 17, leases are classified as finance leases and operating leases. A finance lease transfers from the lessor to the lessee substantially all the economic risks and rewards incidental to ownership of an asset.

Assets leased from other parties under finance leases are recognised at commencement of the lease as "Tangible assets" and the corresponding financial lease liability among "Other liabilities". Assets are recognised at the commencement of the lease at an amount equal to the fair value of the leased asset or a lower present value of minimum lease payments. Depreciation is calculated based on useful economic life or a shorter lease period. Interest on a lease liability is recognised under "Interest expenses" according to the effective interest method.

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

Most of the Group's leases are operating leases.

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

15. Revenue

NET INTEREST INCOME

Interest income and expenses on financial instruments are calculated according to the effective interest method. This method recognises the income and expenses of the instruments evenly in relation to amounts outstanding during the period until the maturity date. Interest income and expenses on financial instruments recognised at fair value are also reported here, including derivatives.

NET COMMISSION INCOME

Income and expenses for various types of services are recognised in the income statement as "Commission income" and "Commission expenses", respectively. For example, this means that brokerage commissions and various forms of asset management fees are reported as commissions. Other types of income that are reported as commissions are payment intermediation commissions and debit card fees. Loan origination fees and commitment fees are accrued over the life of these loans and are included in "Net interest income", in those cases where they are not regarded as constituting cost coverage.

Commission 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. Commission expenses are transaction-dependent and are directly related to commission income.

NET INCOME FROM FINANCIAL ITEMS CARRIED AT FAIR VALUE

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

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

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

IT INCOME

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

OTHER INCOME

Dividends on shares and participations are among the items recognised as "Other operating income" Dividends on assets measured at fair value via the income statement are also recognised here.

16. Employee benefits

PENSION LIABILITIES

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

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

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

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

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

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

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

17. Share-based payment

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

18. Income tax

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

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

A non-current asset or a disposal group is classified as held for sale if its carrying amount will be largely recovered through a sale and not through use. The asset or disposal group must be available for immediate sale in its present condition and based on normal conditions. It must be highly probable that the sale will occur. A completed sale is expected to be recognised within one year. Subsidiaries 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 2013 or 2014.

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 and current events and measures at the time of the judgement, the actual outcome may diverge from these judgements and estimates. Judgements made by the Executive Team when applying IFRSs which have a significant impact on the financial reports and estimates that were made which may lead to substantial adjustments in the following year's financial reports are described below.

MEASUREMENT OF LOAN AND CUSTOMER RECEIVABLES

The value of the Group's receivables is impairment tested regularly and individually for each receivable. As needed, an impairment loss is recognised for a receivable, bringing its value down to its estimated recoverable amount. The estimated recoverable amount is based on an assessment of the counterparty's financial repayment ability and assumptions about the sales value of any collateral. The final outcome may diverge from original impairment losses.

Regarding group impairment losses for concentrations that have no impairment according to individual assessments, judgements and estimates are also made. For further information, see Note G11.

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 (euro 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.

FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

When financial instruments are carried at fair value according to measurement techniques, a judgement is made as to what market data shall be used in the model. 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.

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 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.

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.

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.

23. Nonrecurring items

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

G3. Segment report — 2014

	Åland	Finnish Mainland	Sweden	Crosskey	Corporate and other segments	Eliminations	Total
Net interest income	11,874	19,223	16,659	−128	1,410	255	49,293
Net commission income	8,256	19,044	15,986	−65	2,905	70	46,196
Net income from financial items carried at fair value	787	122	762	−23	5,191	−71	6,767
Other income	−127	143	231	30,742	1,346	−14,020	18,315
Total income	**20,790**	**38,532**	**33,638**	**30,526**	**10,852**	**−13,766**	**120,571**
Staff costs	−4,143	−9,464	−10,939	−13,976	−13,941	−23	−52,486
Other expenses	−3,726	−6,456	−6,388	−10,060	−21,736	13,695	−34,671
Depreciation/amortisation and impairment losses on intangible and tangible assets	−275	−794	−2	−3,759	−3,870	458	−8,242
Internal allocation of expenses	−7,943	−11,774	−12,355	0	32,073	0	0
Nonrecurring items	−71	−589	−201	0	−28	−124	−1,014
Total expenses	**−16,157**	**−29,077**	**−29,885**	**−27,796**	**−7,503**	**14,005**	**−96,413**
Profit before impairment losses	**4,633**	**9,455**	**3,752**	**2,730**	**3,349**	**239**	**24,158**
Impairment losses on loans and other commitments	−286	−1,239	10	0	−250	0	−1,765
Net operating profit	**4,346**	**8,216**	**3,762**	**2,730**	**3,099**	**239**	**22,393**
Income taxes	−869	−1,647	−749	−541	−960	0	−4,766
Non-controlling interests	0	−1,297	0	−2	−182	0	−1,480
Profit for the period attributable to shareholders	**3,477**	**5,272**	**3,013**	**2,187**	**1,957**	**239**	**16,146**
Business volume							
Lending	671,673	1,706,144	937,898	0	42,918	−15,762	3,342,872
Deposits	802,125	965,286	540,128	0	87,814	−4,348	2,391,006
Managed assets	348,953	1,838,551	2,891,009	0	797,164	−833,844	5,041,833
Risk-weighted assets	330,214	381,983	562,045	35,711	243,607		1,553,560
Allocated equity capital	40,337	52,583	65,415	6,116	29,766		194,217
Financial ratios etc.							
Return on equity after taxes, % (ROE)	8.8	10.3	5.0	36.7	0.0		8.7
Expense/income ratio	0.78	0.75	0.89	0.91	0.69		0.80
Gross non-performing loans, %	1.19	1.19	0.00		2.31		0.88
Loan loss level, %	0.04	0.07	0.00		0.60		0.06
Lending/deposits, %	84	177	174		49		140
Full-time equivalent positions [1]	65	112	74	197	192		639

[1] Number of full-time-equivalent positions, defined as employment level excluding employees on parental and long-term sick leave.

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.

The "Åland" business area includes office operations in Åland. "Finnish Mainland" includes office operations on the Finnish mainland and Ålandsbanken Asset Management Ab. The "Sweden" business area includes the operating units Ålandsbanken Abp (Finland) svensk filial (the Swedish branch of the Bank of Åland Plc) plus Ålandsbanken Fonder AB (until its liquidation in May 2014) and Alpha Management Company S.A. (until its liquidation in November 2013). The "Crosskey" business area includes Crosskey Banking Solutions Ab Ltd and S-Crosskey Ab. "Corporate" includes all central corporate units in the Group, encompassing Treasury and the subsidiaries Ålandsbanken Fondbolag Ab and Ab Compass Card Oy Ltd.

The Group's segments, which follow its operational structure, also essentially correspond to the geographic distribution of the Group's activities.

	2013						
	Åland	Finnish Mainland	Sweden	Crosskey	Corporate and other segments	Eliminations	Total
Net interest income	11,187	15,527	13,354	−166	2,074	394	42,371
Net commission income	7,768	16,836	15,714	−71	2,171	23	42,440
Net income from financial items carried at fair value	723	109	166	0	6,720	−326	7,393
Other income	43	235	−16	28,300	1,536	−14,305	15,794
Total income	**19,722**	**32,707**	**29,219**	**28,062**	**12,501**	**−14,213**	**107,998**
Staff costs	−3,996	−9,252	−11,219	−13,443	−13,115	−98	−51,122
Other expenses	−3,768	−7,521	−6,615	−8,161	−20,045	13,719	−32,391
Depreciation/amortisation and impairment losses on intangible and tangible assets	−272	−926	−7	−3,497	−3,909	590	−8,021
Internal allocation of expenses	−6,756	−11,572	−12,071	0	30,462	−63	0
Nonrecurring items	0	0	−2,005	0	0	0	−2,005
Total expenses	**−14,792**	**−29,271**	**−31,917**	**−25,101**	**−6,606**	**14,149**	**−93,539**
Profit before impairment losses	**4,930**	**3,436**	**−2,698**	**2,961**	**5,895**	**−65**	**14,459**
Impairment losses on loans and other commitments	−2,812	−915	3	0	−355	0	−4,080
Net operating profit	**2,118**	**2,521**	**−2,695**	**2,961**	**5,540**	**−65**	**10,379**
Income taxes	−519	−622	790	−697	−1,631	0	−2,678
Non-controlling interests	0	−967	0	−1	−41	0	−1,009
Profit for the period attributable to shareholders	**1,599**	**933**	**−1,906**	**2,263**	**3,868**	**−65**	**6,692**
Business volume							
Lending	651,177	1,630,306	796,775	0	40,784	−14,957	3,104,086
Deposits	744,978	1,009,313	550,074	0	156,116	−660	2,459,820
Managed assets	271,151	1,688,396	2,489,329	0	658,070	−699,994	4,406,953
Risk-weighted assets	342,115	426,351	510,958	41,484	154,155	0	1,475,063
Allocated equity capital	41,054	53,927	61,315	6,126	18,119	0	180,541
Financial ratios etc.							
Return on equity after taxes, % (ROE)	4.0	1.7	−3.2	41.7	0.0		3.8
Expense/income ratio	0.75	0.89	1.09	0.89	0.53		0.87
Gross non-performing loans, %	0.78	1.12	0.15		2.31		0.82
Loan loss level, %	0.43	0.06	0.00		0.88		0.14
Lending/deposits, %	87	162	145		26		126
Full-time equivalent positions [1]	66	114	74	191	178		622

G4. Product areas	2014					
	Daily banking services incl. Deposits	Financing services	Investment services	IT services	Other	Total
Net interest income	15,996	33,116	70	−128	238	49,293
Net commission income	6,872	7,351	32,507	−65	−470	46,196
Net income from financial items carried at fair value	1,491	0	24	−23	5,276	6,767
IT income	0	0	0	17,326	0	17,326
Other income	0	0	0	80	909	989
Total income	**24,359**	**40,468**	**32,601**	**17,190**	**5,954**	**120,571**

	2013					
	Daily banking services incl. Deposits	Financing services	Investment services	IT services	Other	Total
Net interest income	15,117	26,371	85	−166	964	42,371
Net commission income	6,691	3,928	32,605	−71	−713	42,440
Net income from financial items carried at fair value	1,237	0	107	0	6,049	7,393
IT income	0	0	0	14,759	0	14,759
Other income	0	0	0	104	931	1,035
Total income	**23,045**	**30,299**	**32,797**	**14,625**	**7,231**	**107,998**

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

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

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

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

Notes to the consolidated income statement

G5. Net interest income	2014			2013		
	Average balance	Interest	Average interest rate, %	Average balance	Interest	Average interest rate, %
Lending to credit institutions	193,977	730	0.38	131,560	986	0.75
Lending to the public	3,200,594	73,155	2.29	3,013,182	70,018	2.32
Debt securities	463,919	3,614	0.78	415,259	3,732	0.90
Interest-bearing assets	**3,858,490**	**77,498**	**2.01**	**3,560,001**	**74,736**	**2.10**
Derivative instruments	19,770	923		19,233	563	
Other assets	183,746	38		227,121	21	
Total assets	**4,062,006**	**78,459**		**3,806,355**	**75,320**	
Liabilities to credit institutions	386,317	3,167	0.82	365,784	4,495	1.23
Liabilities to the public	2,230,596	11,871	0.53	2,154,694	15,202	0.71
Debt securities issued	1,077,881	12,254	1.14	918,606	10,993	1.20
Subordinated liabilities	52,193	1,068	2.05	60,204	1,257	2.09
Interest-bearing liabilities	**3,746,987**	**28,360**	**0.76**	**3,499,288**	**31,947**	**0.91**
Derivative instruments	27,796	643		14,718	813	
Other liabilities	98,533	164		113,628	190	
Total liabilities	**3,873,315**	**29,166**		**3,627,634**	**32,950**	
Total equity capital	188,691			178,721		
Total liabilities and equity capital	**4,062,006**			**3,806,355**		
Net interest income		**49,293**			**42,371**	
Interest margin			1.25			1.19
Investment margin			1.20			1.12

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

The interest margin is net interest income divided by interest-bearing assets. The investment margin is net interest income divided by the balance sheet total.

G6. Net commission income	2014	2013
Deposits	997	977
Lending	6,980	3,542
Payment intermediation	8,547	8,053
Mutual fund commissions	15,256	13,574
Asset management commissions	9,261	10,103
Securities brokerage	10,590	11,566
Insurance commissions	71	76
Legal services	704	593
Guarantee commissions	297	312
Other commissions	1,615	1,474
Total commission income	**54,317**	**50,270**
Commission income	4,089	3,733
Mutual fund commission expenses	763	1,282
Asset management commission expenses	791	629
Securities brokerage commission expenses	1,132	1,029
Other commission expenses	1,347	1,157
Total commission expenses	**8,121**	**7,830**
Net commission income	**46,196**	**42,440**

G7. Net income from financial items carried at fair value						
	2014			2013		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Valuation category fair value via the income statement ("profit and loss")						
Debt securities	0	530	530	0	−47	−47
Shares and participations	94	17	111	866	80	946
Derivative instruments	−1,424	1,934	509	−731	3,487	2,756
Loan receivables	0	−1,455	−1,455		−3,832	−3,832
Valuation category fair value via the income statement ("profit and loss")	**−1,330**	**1,026**	**−304**	**135**	**−312**	**−177**
Hedge accounting						
of which hedging instruments	221	14,345	14,567		−5,780	−5,780
of which hedged item	−300	−14,421	−14,721		5,922	5,922
Hedge accounting	**−79**	**−76**	**−154**		**142**	**142**
Net income from foreign exchange dealing	**2,802**	**207**	**3,009**	**4,205**	**−323**	**3,882**
Net income from financial assets available for sale	**4,237**	**−20**	**4,216**	**3,563**	**−17**	**3,547**
Total	**5,631**	**1,137**	**6,767**	**7,903**	**−510**	**7,393**

G8. Other income	2014	2013
Income from equity capital investments	376	445
Net income from investment properties	−230	−62
Rental income on properties	162	188
Capital gains on properties	0	0
Miscellaneous income	742	414
Total	**1,050**	**984**
Specification of net income from investment properties		
Rental income	33	26
Rental expenses	0	−19
Impairment losses	−235	−61
Other expenses	−28	−8
Total	**−230**	**−62**

G9. Staff costs	2014	2013
Salaries and fees	40,212	39,088
Compensation in the form of shares in Bank of Åland Plc	406	35
Pension expenses	7,009	6,808
Other social security expenses	5,450	5,566
Total	**53,077**	**51,497**
of which variable staff costs	1,865	1,610
of which staff outplacement expenses	648	412

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

Salaries and fees		
Boards of Directors	259	310
Senior executives	2,516	2,523
Others	37,844	36,290
Total	**40,618**	**39,123**

"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		
Short-term compensation	2,294	2,487
Share-based payment	222	35
Total	**2,516**	**2,523**
Pension expenses		
Pension expenses	48	48
Other senior executives	489	515
Others	6,472	6,245
Total	**7,009**	**6,808**

The Managing Director's retirement age is at least 63 and at most 68. He will receive a pension in accordance with the Finnish national pension system. Other senior executives in Finland will receive a pension in accordance with the Finnish national pension system. For senior executives in Sweden, a salary-based pension premium of 35 per cent is paid. The premium is paid monthly as long as employment continues, but no longer than to age 65.

Pension expenses		
Defined benefit plan	865	2,426
Defined contribution plan	6,144	4,382
Total	**7,009**	**6,808**

During 2014, 55 individuals in Sweden changed from the BTP2 defined benefit plan to the BTP1 defined contribution plan.

	Men	Women	Total	Men	Women	Total
Number of employees						
Åland	188	198	386	104	254	358
Finnish Mainland	78	102	180	43	106	150
Sweden	98	53	150	100	54	153
Sweden	**364**	**353**	**716**	**247**	**414**	**661**

Hours worked, recalculated to full-time equivalent positions		
Bank of Åland Plc	404	385
Crosskey Banking Solutions Ab Ltd	196	186
Ålandsbanken Asset Management Ab	28	27
Ab Compass Card Oy Ltd	10	12
Ålandsbanken Fondbolag Ab	6	5
Ålandsbanken Fonder AB	0	2
Total number of positions, recalculated from hours worked	**644**	**617**

	Men	Women	Men	Women
Gender breakdown, per cent				
Board of Directors	71	29	71	29
Senior executives	79	21	81	19

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

	2014				2013			
	Managing Director	Senior executives	Risk-takers	Others	Managing Director	Senior executives	Risk-takers	Others
Total compensation								
Fixed compensation earned	292	1,877	7,189	29,539	289	2,105	5,873	29,617
Provisions for pensions	48	489	1,765	4,707	48	515	1,122	5,123
Variable compensation earned	91	347	750	532	22	129	488	600
Total	**431**	**2,712**	**9,704**	**34,779**	**359**	**2,749**	**7,483**	**35,340**
of which postponed variable compensation	37	139	184	0	0	0	56	21
of which variable compensation paid	55	208	566	532	22	151	432	579
Number of persons who received only fixed compensation	0	5	59	521	0	9	94	572
Number of persons who received both fixed and variable compensation	1	7	40	83	1	6	32	49
Total	**1**	**12**	**99**	**604**	**1**	**15**	**126**	**621**
Postponed variable compensation, January 1	0	0	213	119	0	0	204	202
Variable compensation postponed during the year	37	139	184	0	0	0	56	21
Disbursed during the year	0	0	129	4	0	0	−40	−100
Adjusted during the year	0	0	0	0	0	0	−7	−4
Postponed variable compensation, December 31	**37**	**139**	**527**	**123**	**0**	**0**	**213**	**119**

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's Board of Directors has established an earnings-based compensation system for the 2013 and 2014 financial years, including the Managing Director and the rest of the Executive Team. The Board has also established 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 2014 Annual General Meeting to the end of the 2015 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 15,000.

Other Board members each receive an annual fee of EUR 12,000, but Board members residing outside Åland are paid twice this annual fee. The meeting fee amounts to EUR 1,000 for the Chairman and EUR 750 for other members. Each member of a Board committee is paid EUR 750 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 22,000. He also receives free automobile benefits and is entitled to the employee benefits that are generally applicable at the Bank. During 2014, the Managing Director was paid compensation totalling EUR 335,958 (310,700) including fringe benefits and variable compensation.

The Managing Director's retirement age is at least 63 and at most 68. He will receive a pension in accordance with the Finnish national pension system. He is not entitled to a supplementary pension in addition to the statutory public pension.

The notice period in case of resignation initiated by the Managing Director is nine (9) months. During this notice period, he will receive a regular monthly salary. According to his employment contract, the Managing Director is entitled to severance pay totalling nine (9) months' salary in case of dismissal by the Bank. Upon resignation, the Managing Director is not entitled to any other compensation.

Senior executives

Compensation to other members of the Executive Team is paid as a fixed individual monthly salary plus generally applicable employment benefits at the Bank.

The other members of the Executive Team are not covered by any supplementary pension arrangement.

Due to a divergent pension system in Sweden, the Bank has obtained defined contribution-based supplementary pension insurance for members of the Executive Team residing in Sweden, with a retirement age of 65.

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

Earnings-based compensation for risk-takers[1] is paid in its entirety when the compensation is set, if the actual compensation sum for a single individual amounts to a maximum of EUR 50,000. If the compensation exceeds EUR 50,000, disbursal of at least 40 per cent of earnings-based compensation shall be postponed by at least three years (vesting period). If the earnings-based compensation for an individual amounts to an especially large percentage of total fixed and earnings-based compensation, the disbursal of at least 60 per cent of the earnings-based compensation is postponed in a similar way. Since the Bank of Åland Plc is a listed company, at least 50 per cent of the earnings-based compensation is paid in the Bank's shares. The allocated shares must be held for at least 3 months (deferral period) before the recipient of the compensation may have access to them.

The disbursement may be further postponed in light of a comprehensive assessment based on the Group's economic cycle, the nature of its business operations and risks and the job duties and responsibilities of the individual.

The Bank is entitled to abstain from disbursing postponed earning-based compensation if the Group's financial position has substantially deteriorated.

[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.

G10. Other expenses	2014	2013
IT expenses (excluding information services)	9,510	8,392
Premises and property expenses	5,479	6,160
Marketing expenses	2,316	2,533
Information services	2,159	2,161
Staff-related expenses	2,245	1,966
Travel expenses	1,378	1,174
Purchased services	4,088	2,970
Deposit guarantee	1,037	1,286
Banking tax	1,724	1,658
Other expenses	6,490	7,887
Production for own use	−1,482	−2,167
Total	**34,944**	**34,022**

	2014 Auditors elected by General Meeting	2014 Others	2013 Auditors elected by General Meeting	2013 Others
Fees paid to auditors				
Auditing fees paid	304	0	174	231
Consulting fees paid				
In compliance with Finnish Auditing Act, Ch. 1, Sec. 1, Par. 2	33	5	22	7
Tax matters	223	3	48	26
Other	66	0	106	120
Total	**626**	**8**	**350**	**384**

These amounts include value-added tax (VAT). The 2013 Annual General Meeting elected new auditors.

G11. Impairment losses on loans and other commitments

	2014	2013
Individual impairment losses		
New and increased impairment losses	4,356	8,846
Reversals of impairment losses	−3,177	−635
Withdrawn for actual losses	−2,135	−3,328
Actual losses	2,460	3,856
Recoveries of actual losses	−60	−2,246
Total individual impairment losses	**1,444**	**6,492**
Group impairment losses		
Net provisions for the period, receivables measured by group	322	−2,413
Total Group impairment losses	**322**	**−2,413**
Total	**1,765**	**4,080**
Doubtful receivables		
Gross doubtful receivables	21,675	31,696
Individual impairment losses	14,285	15,243
Net doubtful receivables	7,391	16,453
Gross doubtful receivables as % of total	0,65	1.02
Level of individual provisions for doubtful receivables, %	66	48

	2014			2013		
	Reserve for individually assessed receivables	Reserve for receivables assessed by group	Total	Reserve for individually assessed receivables	Reserve for receivables assessed by group	Total
Change in impairment loss reserve						
Reserve on January 1	15,243	1,197	16,441	10,613	3,100	13,713
Provisions for the year	4,356	322	4,677	8,846	1,937	10,783
Reclassifications			0	−250	510	260
Recovered from earlier provisions	−3,177		−3,177	−635	−4,350	−4,985
Withdrawn for actual losses	−2,135		−2,135	−3,328		−3,328
Exchange rate effect	−2		−2	−3		−3
Reserve on December 31	**14,285**	**1,519**	**15,804**	**15,243**	**1,197**	**16,441**

During 2014, provisions for individually assessed receivables were reclassified to group provisions. Comparative figures for 2013 have been adjusted.

	Loan receivables with changed conditions	Refinancing	Loan receivables with changed conditions	Refinancing
Restructured loan receivables				
Healthy and receivables with overdue amounts < 90 days				
Companies	27,762	976	25,691	50
Households	3,428	413	4,920	0
Unimpaired receivables with overdue amounts > 90 days				
Companies	830	0	1,887	0
Households	81	0	413	0
Impaired receivables				
Companies	4,358	0	9,592	0
Households	333	0		
Total	**36,790**	**1,389**	**42,502**	**50**

"Restructured loans" refers to loan receivables for which the Bank has granted the borrower concessions because of his/her obviously worsened financial situation, in order to avoid problems with the borrower's repayment ability and thereby maximise the repayment of the outstanding receivable. Concessions may include adjusted loan conditions, such as postponed principal repayments, a reduced interest margin and an extended repayment period, or refinancing, which may mean that a loan has been fully repaid close to its original due date and in connection with this has been replaced with a new loan. Restructured receivables may be overdue or healthy.

At the end of 2014 the balance sheet included loan receivables with a carrying amount of EUR 38.1 M (42.6) that had been subject to restructuring. Carrying amount refers to gross exposure and includes not only restructured loans but also other loans in a customer entity.

G12. Income taxes	2014	2013
Income statement		
Taxes related to prior years	–4	–1
Current taxes	1,578	1,489
Change in deferred taxes	3,192	1,190
Total	**4,766**	**2,678**
Nominal tax rate in Finland, %	20.0	24.5
Non-taxable income/deductible expenses, %	2.1	11.7
Taxes on realised translation differences, %	–1.0	3.9
Taxes related to losses in prior years, %	0.0	0.0
Change in tax rate, %	0.0	–15.0
Other, %	0.3	0.7
Effective tax rate, %	21.3	25.8
Other comprehensive income		
Current taxes	509	469
Change in deferred taxes	–25	–682
Total	**484**	**–213**

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 effect of the change in tax rate was equivalent to EUR 1,553 K in 2013.

G13. Earnings per share	2014	2013
Profit for the period attributable to shareholders	**16,146**	**6,692**
Average number of shares outstanding before adjustments for repurchases, dilution etc.	14,420,153	14,420,153
Average holding of own shares	–21,725	–25,000
Average number of shares before dilution	14,398,428	14,395,153
Average dilution effect	3,525	0
Average number of shares after dilution	14,401,953	14,395,153
Earnings per share, EUR	**1.12**	**0.46**
Earnings per share after dilution, EUR	**1.12**	**0.46**

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

G14. Classification of financial assets and liabilities 2014

	Carried at fair value in income statement, divided into								
	Held for trading	Other	Hedge accounting	Financial assets available for sale	Invest-ments held to maturity	Loans and other receivables	Other financial assets/ liabilities	Total carrying amount	Fair value
Cash						86,434		86,434	86,434
Debt certificates eligible for refinancing with central banks		15,780	29,589	579,200				624,570	624,570
Lending to credit institutions						129,234		129,234	129,233
Lending to the public		93,302				3,249,569		3,342,872	3,370,753
Shares and participations	531			2,138				2,669	2,669
Shares and participations in associated companies							664	664	664
Derivative instruments	8,761	500	14,981					24,243	24,243
Accrued interest income							15,912	15,912	15,912
Receivables on mutual fund settlement proceeds							7,847	7,847	7,847
Total financial assets	**9,292**	**109,583**	**44,570**	**581,339**	**0**	**3,465,237**	**24,423**	**4,234,444**	**4,262,325**
Non-financial assets								57,928	
Total assets								**4,292,372**	
Liabilities to credit institutions							421,924	421,924	421,885
Liabilities to the public		86					2,200,460	2,200,547	2,201,540
Debt securities issued			495,252				816,547	1,311,799	1,324,684
Derivative instruments	8,219	3,976	21,457					33,652	33,652
Subordinated liabilities			24,750				25,040	49,790	51,247
Accrued interest expenses							10,970	10,970	10,970
Liabilities on mutual fund settlement proceeds							5,645	5,645	5,645
Total financial liabilities	**8,219**	**4,062**	**541,459**	**0**	**0**	**0**	**3,480,586**	**4,034,326**	**4,049,624**
Non-financial liabilities								62,169	
Total liabilities								**4,096,495**	

2013									
	Carried at fair value in income statement, divided into								
	Held for trading	Other	Hedge accounting	Financial assets available for sale	Invest-ments held to maturity	Loans and other receivables	Other financial assets/ liabilities	Total carrying amount	Fair value
Cash						50,161		50,161	50,161
Debt certificates eligible for refinancing with central banks		15,394	28,900	383,676				427,970	427,970
Lending to credit institutions						130,575		130,575	130,575
Lending to the public		127,090				2,976,996		3,104,086	3,137,642
Debt securities	3			63,592				63,595	63,595
Shares and participations	158			2,069				2,226	2,226
Shares and participations in associated companies							798	798	798
Derivative instruments	12,294	634	2,066					14,994	14,994
Accrued interest income							15,231	15,231	15,231
Receivables on mutual fund settlement proceeds							8,367	8,367	8,367
Total financial assets	**12,456**	**143,118**	**30,966**	**449,337**	**0**	**3,157,731**	**24,396**	**3,818,003**	**3,851,560**
Non-financial assets								68,652	
Total assets								**3,886,655**	
Liabilities to credit institutions							346,517	346,517	349,153
Liabilities to the public		86					2,177,086	2,177,171	2,180,162
Debt securities issued			528,988				483,172	1,012,159	1,018,533
Derivative instruments	11,945	5,674	8,969					26,588	26,588
Subordinated liabilities			16,869				46,961	63,830	64,271
Accrued interest expenses							12,768	12,768	12,768
Liabilities on mutual fund settlement proceeds							8,462	8,462	8,462
Total financial liabilities	**11,945**	**5,760**	**554,826**	**0**	**0**	**0**	**3,074,965**	**3,647,497**	**3,659,938**
Non-financial liabilities								55,076	
Total liabilities								**3,702,573**	

G15. Measurement of financial assets and liabilities carried at fair value	2014			
	Level 1	Level 2	Level 3	Total
Debt securities eligible for refinancing with central banks	624,570			624,570
Lending to the public		93,302		93,302
Shares and participations	2,131	4	534	2,669
Derivative instruments	2	24,241		24,243
Total financial liabilities carried at fair value	**626,702**	**117,547**	**534**	**744,784**
Liabilities to the public		86		86
Debt securities issued		266,343		266,343
Derivative instruments	55	33,598		33,652
Subordinated liabilities		24,750		24,750
Total financial liabilities carried at fair value		**324,777**		**324,832**

	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets and liabilities recognised at amortised cost					
Assets					
Cash and balances with central banks	86,434		86,434		86,434
Lending to credit institutions	129,234		129,233		129,233
Shares in associated companies	664			664	664
Lending to the public	3,249,569		3,277,450		3,277,450
Total	**3,465,901**	**0**	**3,493,117**	**664**	**3,493,782**
Liabilities					
Liabilities to credit institutions	421,924		421,885		421,885
Liabilities to the public	2,200,460		2,201,454		2,201,454
Debt securities issued	1,045,455		1,058,341		1,058,341
Subordinated liabilities	25,035		26,493		26,493
Total	**3,692,874**	**0**	**3,708,172**	**0**	**3,708,172**

	2013			
	Level 1	Level 2	Level 3	Total
Debt securities eligible for refinancing with central banks	427,970			427,970
Lending to the public		127,090		127,090
Debt securities	12,648	50,947		63,595
Shares and participations	1,332	4	890	2,226
Derivative instruments	101	14,893		14,994
Total financial liabilities carried at fair value	**442,052**	**192,934**	**890**	**635,876**
Liabilities to the public		82		82
Debt securities issued		272,324		272,324
Derivative instruments		26,588		26,588
Subordinated liabilities		16,869		16,869
Total financial liabilities carried at fair value		**315,864**		**315,864**

	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets and liabilities recognised at amortised cost					
Assets					
Cash and deposits with central banks	50,161		50,161		50,161
Lending to credit institutions	130,575		130,575		130,575
Shares in associated companies	798			798	798
Lending to the public	2,976,996		3,010,552		3,010,552
Total	**3,158,529**		**3,191,288**	**798**	**3,192,085**
Liabilities					
Liabilities to credit institutions	346,517		349,153		349,153
Liabilities to the public	2,177,084		2,180,076		2,180,076
Debt securities issued	736,848		743,242		743,242
Subordinated liabilities	46,961		47,402		47,402
Total	**3,307,410**		**3,319,873**		**3,319,873**

Level 1	Measured according to quoted prices in an active market for identical assets/liabilities.
Level 2	Measured on the basis of indirect or direct prices not included in Level 1.
Level 3	Measured without observable data.

	2014	2013
	Shares and participations	Shares and participations
Change in Level 3 holdings		
Carrying amount on January 1	890	1 300
New purchases	0	30
Divested/reached maturity during the year	–11	0
Realised change in value in the income statement	–5	0
Unrealised change in value in the income statement	–13	–17
Change in value recognised in other comprehensive income	–326	–423
Carrying amount on December 31	**534**	**890**

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

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

THE MEASUREMENT HIERARCHY

Financial instruments that are measured according to quoted prices in an active market for identical assets/liabilities are categorised as Level 1. Financial instruments that are measured using measurement models that are, in all essential respects, based on market data are categorised as Level 2. Financial instruments that are measured with the help of models based on incoming data that cannot be verified with external market information are categorised in Level 3. These assets essentially consist of unlisted shares. Such holdings are generally measured as the Bank's portion of the net asset value of the company. Unlisted shares are essentially classified as available for sale. The changes in the value of these holdings are reported in "Other comprehensive income".

In the above tables, financial instruments measured at fair value have been classified with regard to how they have been measured and the degree of market data used in this measurement on closing day. If the classification on closing day has changed, compared to the classification at the end of the previous year, the instrument has been moved between the levels in the table. During the period January–December 2014, no instruments were moved between Levels 1 and 2. Changes in Level 3 are presented in a separate table.

G16. Assets and liabilities by currency	2014				
	EUR	SEK	USD	Others	Total
Cash	58,267	27,813	84	269	86,434
Debt securities eligible for refinancing with central banks	456,924	167,646	0	0	624,570
Lending to credit institutions	10,616	77,443	25,084	16,091	129,234
Lending to the public	2,374,212	940,338	28,321	0	3,342,872
Debt securities	0	0	0	0	0
Derivative instruments	22,847	1,371	24	0	24,243
Other items not allocated by currency	85,020				85,020
Total assets	**3,007,887**	**1,214,612**	**53,514**	**16,360**	**4,292,372**
Liabilities to credit institutions	271,826	147,886	1,022	1,189	421,924
Liabilities to the public	1,572,879	558,511	54,109	15,047	2,200,547
Debt securities issued	597,016	714,782	0	0	1,311,799
Derivative instruments	11,637	21,934	80	0	33,652
Subordinated liabilities	49,790	0	0	0	49,790
Other items not allocated by currency, including equity capital	274,662				274,662
Total liabilities and equity capital	**2,777,811**	**1,443,114**	**55,212**	**16,236**	**4,292,372**
Other assets and liabilities allocated by currency as well as off-balance sheet items		–228,524	–1,692	–1,087	
Net position in currencies (EUR)	0	21	–6	1,212	1,227

	2013				
	EUR	SEK	USD	Others	Total
Cash	47,977	1,918	37	229	50,161
Debt securities eligible for refinancing with central banks	418,372	9,598	0	0	427,970
Lending to credit institutions	10,387	76,265	32,192	11,730	130,575
Lending to the public	2,278,439	799,249	26,397	0	3,104,086
Debt securities	53,944	9,650	0	0	63,595
Derivative instruments	12,222	2,772	0	0	14,994
Other items not allocated by currency	95,275	0	0	0	95,275
Total assets	**2,916,616**	**899,453**	**58,626**	**11,959**	**3,886,655**
Liabilities to credit institutions	183,041	163,476	0	0	346,517
Liabilities to the public	1,531,293	569,827	57,798	18,254	2,177,171
Debt securities issued	694,107	318,052	0	0	1,012,159
Derivative instruments	19,746	6,843	0	0	26,588
Subordinated liabilities	63,830	0	0	0	63,830
Other items not allocated by currency, including equity capital	260,389	0	0	0	260,389
Total liabilities and equity capital	**2,752,407**	**1,058,197**	**57,798**	**18,254**	**3,886,655**
Other assets and liabilities allocated by currency as well as off-balance sheet items		–158,954	811	–8,364	
Net position in currencies (EUR)		210	18	2,069	2,297

G17. Holdings of debt securities	2014		2013	
	Nominal value	Carrying amount	Nominal value	Carrying amount
Debt securities eligible for refinancing with central banks				
Fair value via the income statement				
Government bonds				
Covered bonds				
Other debt securities	42,900	45,370	42,900	44,416
Holdings available for sale				
Government bonds	109,931	123,999	71,000	75,834
Covered bonds	205,633	213,057	117,680	120,639
Debt securities issued by credit institutions	188,780	190,914	140,100	140,398
Other debt securities	49,500	51,229	44,700	46,683
Total	**596,744**	**624,570**	**416,380**	**427,970**
of which unlisted	0	0	0	0
Other debt securities				
Fair value via the income statement				
Government bonds				
Covered bonds				
Certificates of deposit				
Other debt securities			3	3
Holdings available for sale				
Government bonds			2,000	2,000
Covered bonds			9,595	9,647
Certificates of deposit			51,000	50,944
Debt securities issued by credit institutions				
Other debt securities			1,000	1,000
Total	**0**	**0**	**63,598**	**63,595**
of which unlisted	0	0	51,000	50,944
Total debt securities	**596,744**	**624,570**	**479,978**	**491,565**
of which unlisted	0	0	51,000	50,944

G18. Lending to credit institutions	2014			2013		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Finnish credit institutions	1,989	1	1,990	196	28,886	29,082
Foreign banks and credit institutions	68,292	58,952	127,244	51,650	49,843	101,493
Total	**70,282**	**58,952**	**129,234**	**51,846**	**78,729**	**130,575**

G19. Lending to the public	2014			2013		
	Amortised cost	Carried at fair value	Total	Amortised cost	Carried at fair value	Total
Companies	550,939		550,939	540,998		540,998
Public sector entities	3,701		3,701	5,008		5,008
Households	1,632,715	93,302	1,726,018	1,510,468	127,090	1,637,558
Household interest organisations	11,792		11,792	16,376		16,376
Outside Finland	1,050,422		1,050,422	904,145		904,145
Total	**3,249,569**	**93,302**	**3,342,872**	**2,976,995**	**127,090**	**3,104,086**
of which subordinated receivables			2,303			209

G20. Shares and participations

G20. Shares and participations	2014	2013
Holdings carried at fair value via the income statement		
Listed	531	158
Unlisted	0	0
Total	**531**	**158**
Holdings classified as available for sale		
Listed	1,604	1,179
Unlisted	534	890
Total	**2,138**	**2,069**
Total shares and participations	**2,669**	**2,226**

G21. Shares in associated companies

G21. Shares in associated companies	2014	2013
Carrying amount on January 1	798	763
Share of profit for the year	−61	51
Dividends	0	0
Acquisitions	36	0
Divestments	−77	
Impairments	−30	
Carrying amount on December 31	**664**	**798**

The following associated companies were consolidated according to the equity method of accounting on December 31, 2014:

	Registered office	Ownership, %
Mäklarhuset Åland Ab	Mariehamn	25
Ålands Investerings Ab	Mariehamn	36

During 2014, the associated company Ålands Fastighetskonsult Ab was sold. The company is included in the item "Share of profit in associated companies" until the date of sale.

Combined financial information about these associated companies

	2014	2013
Assets	3,454	3,329
Liabilities	1,607	977
Sales	631	857
Profit for the year	−170	166

G22. Derivative instruments and hedge accounting

G22. Derivative instruments and hedge accounting	Nominal amount/maturity			2014			2013		
	Under 1 yr	1–5 yrs	over 5 yrs	Nominal amount	Positive market values	Negative market values	Nominal amount	Positive market values	Negative market values
Derivatives for trading									
Interest-related contracts									
Interest rate swaps	115,605	116,967	14,053	246,625	4,259	6,216	261,717	1,945	6,873
Interest rate and currency swaps	5,250	26,616	0	31,866	161	18,609	11,078	138	111
Interest rate futures	10,100	0	0	10,100	0	55	10,200	101	0
Interest rate options – purchased	2,459	9,478	0	11,937	0	0	14,815	1	0
Interest rate options – sold	2,459	14,921	1,832	19,212	0	0	19,202	0	1
Currency-related contracts									
Currency forward contracts	82,370	6,654	0	89,024	927	940	97,718	873	1,215
Equity-related contracts									
Equity options – purchased	17,161	34,907	0	52,068	4,298	0	96,461	8,527	0
Equity options – written	14,328	29,130	0	43,458	0	3,956	93,893	0	8,077
Equity forward contracts	532	0	0	532	2	0	0	0	0
Other derivative contracts	0	21,697	0	21,697	966	914	25,022	1,343	1,343
Total	**250,265**	**260,369**	**15,885**	**526,519**	**10,613**	**30,690**	**630,105**	**12,929**	**17,619**
Derivatives for fair value hedge									
Interest-related contracts									
Interest rate swaps	0	152,309	100,000	252,309	13,612	779	321,788	2,066	2,212
Total	**0**	**152,309**	**100,000**	**252,309**	**13,612**	**779**	**321,788**	**2,066**	**2,212**

	Nominal amount/maturity			2014			2013		
	Under 1 yr	1–5 yrs	over 5 yrs	Nominal amount	Positive market values	Negative market values	Nominal amount	Positive market values	Negative market values
Derivatives for cash flow hedge									
Currency-related contracts									
Interest rate and currency swaps	79,847	133,078	0	212,925	18	2,068	253,976	0	6,033
Total	**79,847**	**133,078**	**0**	**212,925**	**18**	**2,068**	**253,976**	**0**	**6,033**
Derivatives for hedging of net investment in foreign operations									
Currency-related contracts									
Currency swaps	13,840	0	0	13,840	0	116	33,412	0	723
Total	**13,840**	**0**	**0**	**13,840**	**0**	**116**	**33,412**	**0**	**723**
Total derivative instruments	**343,952**	**545,755**	**115,885**	**1,005,593**	**24,243**	**33,652**	**1,239,281**	**14,994**	**26,588**
of which cleared	10,100			10,100		55	10,200	101	

G23. Intangible assets

2014	Internally developed software	Other software	Other intangible assets	Total
Cost on January 1	8,023	16,999	11	25,033
Cost of intangible assets added	1,038	1,685	30	2,754
Divestments and disposals	−204	−93	0	−297
Transfers between items	0	1	0	1
Exchange rate effect	0	−88	0	−88
Cost on December 31	**8,857**	**18,505**	**41**	**27,403**
Accumulated amortisation and impairment losses on January 1	−5,142	−10,819	−6	−15,967
Divestments and disposals	0	33	0	33
Amortisation for the year	−1,464	−2,376	−3	−3,843
Impairment losses for the year	0	−7	−30	−38
Exchange rate effect	0	78	0	78
Accumulated amortisation and impairment losses on December 31	**−6,606**	**−13,091**	**−38**	**−19,736**
Residual value on December 31	**2,251**	**5,414**	**3**	**7,667**

2013	Internally developed software	Other software	Other intangible assets	Total
Cost on January 1	7,307	14,827	11	22,145
Cost of intangible assets added	844	2,571	0	3,478
Divestments and disposals	−128	−352	0	−481
Transfers between items	0	0	0	−63
Exchange rate effect	0	−47	0	−47
Cost on December 31	**8,023**	**16,999**	**11**	**25,033**
Accumulated amortisation and impairment losses on January 1	−3,618	−8,972	−3	−12,592
Divestments and disposals	0	107	0	12
Amortisation for the year	−1,525	−1,993	−3	−3,521
Impairment losses for the year	0	0	0	95
Exchange rate effect	0	39	0	39
Accumulated amortisation and impairment losses on December 31	**−5,142**	**−10,819**	**−6**	**−15,967**
Residual value on December 31	**2,880**	**6,180**	**6**	**9,066**

G24. Tangible assets

G24. Tangible assets	2014	2013
Investment properties	436	693
Properties for own use	21,259	22,923
Other tangible assets	5,571	7,059
Total	**27,266**	**30,675**

	2014 Investment properties	2014 Properties for own use	2014 Other tangible assets	2013 Investment properties	2013 Properties for own use	2013 Other tangible assets
Cost on January 1	1,072	35,673	31,578	750	32,335	31,398
New acquisitions	50	160	1,458	0	1,349	1,405
New construction and renovations	0	0		0	0	0
Divestments and disposals	–73	–436	–1,081	0	–1,164	–913
Transfers between items	0	0	0	322	–322	0
Corrections					3,475	
Exchange rate effect	0	0	–614	0	0	–311
Cost on December 31	**1,049**	**35,397**	**31,341**	**1,072**	**35,673**	**31,578**
Accumulated depreciation on January 1	–378	–12,750	–24,520	–308	–8,987	–22,447
Depreciation for the year	0	–1,643	–2,715	0	–1,281	–2,987
Impairment losses for the year	–235	–150	0	–61	–164	–7
Divestments and disposals	0	400	866	0	1,249	586
Transfers between items	0			–9	0	0
Corrections					–3,566	
Exchange rate effects	0	5	603	0	0	335
Accumulated depreciation on December 31	**–613**	**–14,138**	**–25,770**	**–378**	**–12,750**	**–24,520**
Carrying amount	**436**	**21,259**	**5,571**	**693**	**22,923**	**7,059**
of which buildings	0	19,264		0	20,938	
of which land and water	3	1,825		3	1,825	
of which shares in real estate companies	434	170		691	160	

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

G25. Other assets

G25. Other assets	2014	2013
Receivables on mutual fund settlement proceeds	7,847	8,367
Other	8,436	10,644
Total	**16,283**	**19,011**

G26. Accrued income and prepayments

G26. Accrued income and prepayments	2014	2013
Accrued interest income	15,912	15,231
Other accrued income	5,486	7,657
Other prepaid expenses	4,086	4,674
Total	**25,484**	**27,562**

G27. Deferred tax assets and liabilities	2014	2013
Deferred tax assets		
Taxable losses	615	791
Provisions	68	58
Cash flow hedge	115	97
Intangible assets	3,650	4,458
Debt securities issued	70	125
Pension liabilities	258	283
Other	87	45
Total	**4,863**	**5,857**
Deferred tax liabilities		
Taxable temporary differences		
Untaxed reserves	9,969	7,341
Fair value option and hedging	554	657
Intangible assets	450	576
Tangible assets	1,934	1,990
Pension assets	87	468
Financial assets available for sale		
Debt securities available for sale	707	204
Shares and participations available for sale	–27	75
Total	**13,674**	**11,312**
Net deferred tax liabilities	**8,811**	**5,454**

2014	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Exchange rate effects	Effect of changed tax rate	Closing balance
Changes in deferred taxes, 2014						
Taxable losses	791	–175				615
Provisions	58	10				68
Cash flow hedge	97	0	18			115
Intangible assets	3,882	–492		–190		3,200
Debt securities issued	125	–56				70
Pension liabilities	283	–63	53	–15		258
Untaxed reserves	–7,341	–2,628				–9,969
Market value hedge	–657	104				–554
Tangible assets	–1,990	56				–1,934
Pension assets	–468	12	369			–87
Debt securities available for sale	–204	0	–503			–707
Shares and participations available for sale	–75	0	103			27
Other	45	42				87
Total	**–5,454**	**–3,192**	**40**	**–204**	**0**	**–8,811**

2013	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Exchange rate effects	Effect of changed tax rate	Closing balance
Changes in deferred taxes, 2013						
Taxable losses	975	–7			–178	791
Provisions	178	–107			–13	58
Cash flow hedge	0	0	119		–22	97
Intangible assets	5,010	–532		–123	–472	3,882
Debt securities issued	241	–87			–28	125
Pension liabilities	580	–56		–177	–64	283
Untaxed reserves	–6,457	–2,525			1,640	–7,341
Market value hedge	–1,333	528			148	–657
Tangible assets	–2,506	68			448	–1,990
Pension assets	–142	–56	–376		106	–468
Debt securities available for sale	–1,322	0	1,072		46	–204
Shares and participations available for sale	–149	0	57		17	–75
Other	49	6			–10	45
Total	**–4,877**	**–2,766**	**871**	**–300**	**1,617**	**–5,454**

	2014	2013
Actual tax loss carry-forwards and their expiration year		
2017	0	368
2018	278	578
2019	482	482
2020	1,144	1,160
2021	857	881
2022	309	370
2023	6	120
Total	**3,076**	**3,958**

Actual tax loss carry-forwards were equivalent to a deferred tax asset of EUR 615 K (791), which was reported in the consolidated balance sheet. The reporting of deferred tax was due to positive expected earnings, which indicate that the deferred tax can be utilised.

G28. Liabilities to credit institutions	2014			2013		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Central banks		197,000	197,000		130,000	130,000
Finnish credit institutions	8,134	63,299	71,434	17,091	37,555	54,646
Foreign banks and credit institutions	64,557	88,933	153,490	56,711	105,160	161,871
Total	**72,691**	**349,232**	**421,924**	**73,802**	**272,715**	**346,517**

G29. Liabilities to the public	2014			2013		
	Amortised cost	Carried at fair value	Total	Amortised cost	Carried at fair value	Total
Companies	519,566		519,566	492,569		492,569
Public sector entities	49,674		49,674	32,387		32,387
Households	903,829	86	903,915	912,990	86	913,076
Household interest organisations	43,449		43,449	41,415		41,415
Outside Finland	683,943		683,943	697,724		697,724
Total	**2,200,460**	**86**	**2,200,547**	**2,177,086**	**86**	**2,177,171**

G30. Debt securities issued	2014		2013	
	Nominal value	Carrying amount	Nominal value	Carrying amount
Certificates of deposit	293,202	292,289	133,901	133,787
of which at amortised cost	293,202	292,289	133,901	133,787
Covered bonds	783,502	794,719	544,618	540,439
of which at amortised cost	426,809	425,712	175,300	174,922
of which for fair value hedge	197,000	209,653	200,000	196,680
of which for cash flow hedge	159,693	159,355	169,318	168,836
Non-covered bonds	159,693	159,575	240,998	240,812
of which at amortised cost	79,847	79,770	156,339	156,258
of which for cash flow hedge	79,847	79,806	84,659	84,554
Index bonds (structured products)	65,488	65,215	98,284	97,122
of which at amortised cost	17,539	17,400	25,077	24,599
of which for fair value hedge	47,949	47,815	73,208	72,523
Total	**1,301,886**	**1,311,799**	**1,017,802**	**1,012,159**

G31. Other liabilities	2014	2013
Payment transfer liabilities	18,280	13,429
Liabilities on mutual fund settlement proceeds	5,645	8,462
Other	10,875	13,545
Total	**34,800**	**35,436**

G32. Provisions

	2014			2013		
	Provisions for restructuring reserves	Other provisions	Total	Provisions for restructuring reserves	Other provisions	Total
Provisions on January 1	389	291	680	1,085	9	1,094
Provisions made during the year	847	94	941	405	283	689
Amounts utilised	–526	–318	–844	–1,046	–2	–1,048
Unutilised amounts recovered	0		0	–39		–39
Exchange rate changes	–22		–22	–16		–16
Provisions on December 31	**688**	**67**	**755**	**389**	**291**	**680**

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.

G33. Accrued expenses and prepaid income

	2014	2013
Accrued interest expenses	10,970	12,768
Other accrued expenses	15,574	13,795
Prepaid income	2,473	2,071
Total	**29,018**	**28,634**

G34. Subordinated liabilities

	2014			2013		
	Nominal amount	Carrying amount	Amount in capital base	Nominal amount	Carrying amount	Amount in capital base
Debenture loan 1/2009	0	0	0	16,835	16,835	16,835
Debenture loan 2/2009	0	0	0	3,410	3,410	3,410
Debenture loan 1/2010	2,190	2,190	156	4,381	4,381	4,381
Debenture loan 2/2010	3,996	3,996	1,663	7,992	7,992	7,992
Debenture loan 1/2011	2,044	2,044	1,464	3,004	3,004	3,004
Debenture loan 1/2012	8,414	8,414	0	11,219	11,219	11,219
Debenture loan 1/2013	13,504	13,708	0	16,886	16,869	16,869
Debenture loan 1/2014	10,925	11,042	0			
Debenture loan 2/2014	8,275	8,275	7,622			
Capital loan, Ålandsbanken Asset Management Ab	120	120	120	120	120	120
Total	**49,469**	**49,790**	**11,025**	**63,847**	**63,830**	**63,830**
of which for fair value hedge	24,429	24,750	0	16,886	16,869	16,869

	Interest rate:	Repayment:
Debenture loan 1/2009	4.00% fixed interest, starting January 16, 2014 12-month Euribor +2.00%	January 15, 2019
Debenture loan 2/2009	3.15% fixed interest	June 3, 2014
Debenture loan 1/2010	3.30% fixed interest	January 26, 2015
Debenture loan 2/2010	3.25% fixed interest	June 1, 2015
Debenture loan 1/2011	12-month Euribor +0.60%	June 6, 2016
Debenture loan 1/2012	3.00% fixed interest	June 12, 2017
Debenture loan 1/2013	2.30% fixed interest	July 3, 2018
Debenture loan 1/2014	2.30% fixed interest	February 3, 2019
Debenture loan 2/2014	3.00% fixed interest	August 9, 2019
Capital loan, Ålandsbanken Asset Management Ab	5.00% fixed interest	December 31, 2019

In 2013, all subordinated liabilities were included in lower supplementary capital. Since the Basel 3 regulations went into effect on January 1, 2014, subordinated debentures issued after January 1, 2012 and running with repayments of up to five years are no longer included in supplementary capital. During the final five years of their contractual life, subordinated debentures are included as supplementary capital items in relation to the remaining calendar days in the final five-year period.

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

G35. Specification of changes in equity capital	2014	2013
Change in hedge reserve		
Hedge reserve on January 1	–387	–1,171
Unrealised changes in value during the year	–73	806
Recognised in the income statement due to ineffectiveness	0	0
Effect of change in tax rate	0	–22
Hedge reserve on December 31	**–461**	**–387**
Change in fair value reserve		
Fair value reserve on January 1	1,117	4,533
Divested or reached maturity during the year	–1,053	–2,836
Impairment loss in the income statement	16	17
Unrealised change in market value for remaining and new holdings	2,638	–660
Effect of change in tax rate	0	63
Fair value reserve on December 31	**2,719**	**1,117**
Change in translation differences		
Translation differences on January 1	499	–189
Change in translation differences attributable to branches	1,276	678
Change in translation differences due to subsidiaries	53	979
Change in translation differences related to hedging of net investment in foreign operations	–1,804	–901
Other changes	22	–79
Effect of change in tax rate	0	10
Translation differences on December 31	**46**	**499**
Change in own shares		
Own shares on January 1	244	244
Transfer	–28	0
Own shares on December 31	**215**	**244**
Change in unrestricted equity capital fund		
Unrestricted equity capital fund, January 1	24,485	24,485
Equity option subscriptions	116	0
Unrestricted equity capital fund, December 31	**24,601**	**24,485**

Items under "Equity capital"

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

"Reserve fund" includes components transferred from equity capital in compliance with the Articles of Association or a decision of a General Meeting.

"Hedging reserve" comprises the effective portion of the accumulated net change in fair value of a cash flow hedging instrument attributable to hedging transactions that have not yet occurred.

"Fair value reserve" includes the accumulated net change in the fair value of financial assets available for sale until the asset is de-recognised from the statement of financial position.

"Own shares" consisted of 21,725 Series B shares at year-end 2014. During the year, 3,725 Series B shares were transferred to key individuals to fulfil the Bank's obligations within the framework of its incentive programme. Holdings amounted to 25,000 Series B shares on December 31, 2013.

"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.

	2014	2013
Specification of retained earnings		
Share of accumulated appropriations	39,877	29,364
Difference between fair value of pension assets and pension liabilities in defined benefit plans	−1,637	2,207
Total non-distributable retained earnings	**38,240**	**31,571**
Distributable	42,319	36,531
Total retained earnings	**80,559**	**68,102**

Equity options outstanding

On September 30, 2014, the Bank of Åland's Board of Directors decided – on the basis of the authorisation by the Annual General Meeting on April 10, 2014 – to carry out a targeted issue of 100,000 option rights to key individuals as one step in fulfilling the Bank's incentive programme. The subscription price for the options was EUR 1.16 per option. Each option right entitles the holder to subscribe for one Series B share at a subscription price of EUR 8.80. The subscription price will be lowered by the total sum of dividends paid during the period October 1, 2014 to December 29, 2017. The redemption date for the option rights is December 29, 2017. On December 31, 2013, there were no equity options outstanding.

Other notes

G36. Group structure

The Bank of Åland Plc has four subsidiaries that were essential to the Group in 2014 and 2013. The Bank of Åland Plc holds a majority of the voting power in all subsidiaries. A list of all Group companies is presented in Note P42. Non-controlling interests have sizeable material holdings in one of the subsidiaries, as described more specifically below.

			Ownership, %	
	Registered office	Field of operations	2014	2013
Subsidiary				
Ålandsbanken Asset Management Ab	Finland/Helsinki	Asset management	70	70
Ålandsbanken Fondbolag Ab	Finland/Mariehamn	Mutual fund management	100	100
Crosskey Banking Solutions Ab Ltd	Finland/Mariehamn	Information technology	100	100
S-Crosskey Ab	Finland/Mariehamn	Information technology	60	60
Ab Compass Card Oy Ltd	Finland/Helsinki	Issuance of credit and debit cards	100	66

Changes in Group structure

The Bank of Åland Plc acquired the remaining 34 per cent of Ab Compass Card Oy Ltd on December 31, 2014. The acquisition was reported as an equity capital transaction. On the acquisition date, the carrying amount of holdings by non-controlling interests amounted to EUR 2,395 K. The net effect on equity capital amounted to EUR 174 K.

During 2014, the Bank of Åland Plc acquired 25 per cent of the shares in Mäklarhuset Ab, an estate agency. The total investment was about EUR 0.1 M.

During 2014, the Bank of Åland Plc sold its holding in the associated company Ålands Fastighetskonsult Ab, an estate agency.

On May 19, 2014 the liquidation of the Swedish-based mutual fund company Ålandsbanken Fonder AB was completed and final distribution of assets and liabilities occurred.

During 2013 the liquidation of the subsidiary Alpha Management Company S.A. (Luxembourg) was completed.

The Bank of Åland has no holdings of structured entities.

Percentage of non-controlling interests

The table below summarises information related to the Group's subsidiaries that have substantial holdings by non-controlling interests.

	Percentage of non-controlling interests	
Subsidiaries	2014	2013
Ålandsbanken Asset Management Ab	30	30

The information below is presented before intra-Group elimination with other Group companies and after adjustment to fair value as well as to the Group's accounting principles.

	2014	2013
Ålandsbanken Asset Management Ab		
Net interest income	14	32
Not commission income	10,397	8,935
Net income from financial assets available for sale	23	75
Other income	32	79
Profit for the period	**4,323**	**3,223**
Profit for the period attributable to non-controlling interests	1,297	967
Other comprehensive income	0	0
Comprehensive income	**1,297**	**967**
Portion of comprehensive income attributable to non-controlling interests	389	290
Current assets	7,855	6,323
Non-current assets	64	71
Current liabilities	–2,017	–1,594
Non-current liabilities	–400	–400
Net assets	**5,501**	**4,400**
Portion of net assets attributable to non-controlling interests	1,650	1,320
Cash flow from operating activities	4,619	3,331
Cash flow from investing activities	–1,281	–2,947
Cash flow from financing activities	–3,223	–2,346
Change in cash and cash equivalents	**115**	**–1,962**
Dividends paid during the year to non-controlling interests (included in "Cash flow from financing activities")	967	704

Shares in associated companies

The Group has two associated companies that are essential to the Group, which have both been consolidated according to the equity method of accounting. For further information on shares in associated companies, see Note G 21.

Holdings in real estate companies

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

	Business identity code	Consolidation	Ownership, % 2014	Ownership, % 2013
Properties for own use				
Fastighets Ab Godbycenter	0200423-2	Joint operation	10.55	10.55
Investment properties				
Fastighets Ab Nymars	0427316-1	Joint operation	30.03	30.03
Fastighets Ab Västernäs City	0524820-8	Joint operation	50.00	50.00
Fastighets Ab Sittkoffska Gården	0145137-2	Equity method	22.21	22.21
Fastighets Ab Horsklint	0771072-6	Equity method	20.06	20.06

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

G37. Managed assets	2014	2013
Mutual fund management	1,087,938	959,855
Discretionary asset management	1,707,122	1,685,471
Other asset management	2,246,773	1,761,627
Total managed assets	**5,041,833**	**4,406,953**
Of which own funds in discretionary and other asset management	510,785	455,646

G38. Assets pledged	2014	2013
Lending to credit institutions	3,900	8,167
Government securities and bonds	162,586	188,650
Lending to the public	1,312,078	892,569
Other	2,162	2,066
Total assets pledged for own liabilities	**1,480,727**	**1,091,452**

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	32,886	23,021
Other	517	18,816
Total other assets pledged	**33,404**	**41,837**

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.

G39. Contingent liabilities and commitments	2014	2013
Guarantees	21,525	23,646
Unutilised overdraft limits	81,803	75,859
Unutilised credit card limits	120,411	105,250
Lines of credit	186,463	176,384
Total	**410,202**	**381,139**

G40. 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 60–65 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.

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. During 2014, 55 individuals switched from the BTP2 defined benefit plan to the BTP1 defined contribution plan. 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” (SEK 426,750 in 2013) and 65 per cent of the portion of salary between 20 and 30 income base amounts. The guaranteed amount of a family pension is 32.5 per cent of the portion of salary between 7.5 and 20 income base amounts and 16.25 per cent of the portion of salary between 20 and 30 income base amounts.

The duration of defined benefit plans in Finland is 16 years and in Sweden 28 years.

	2014	2013
Carrying amount in the balance sheet		
Pension obligations	23,348	20,612
Fair value of plan assets	22,492	21,538
Net pension assets (+)/pension liabilities (–)	**–856**	**926**
Pension assets in Finland	434	2,340
Pension liabilities in Sweden	1,290	1,414
	–856	**926**
Carrying amount in the income statement		
Current service costs	277	412
Effects of curtailments and settlements	–382	0
Interest expenses	–20	62
Administrative expenses	60	48
Expenses (–)/revenue (+) recognised in the income statement	**–66**	**523**
Restatement of defined benefit pension plans in "Other comprehensive income"		
Actuarial gain (+)/loss (–), financial assumptions	–4,101	1,041
Actuarial gain (+)/loss (–), experience-based	805	1,001
Actuarial gain (+)/loss (–) on plan assets	1,181	635
	–2,115	**2,677**
Total	**–2,049**	**2,154**
Change in pension obligations		
January 1	–926	0
Income	–66	1,788
Other comprehensive income	2,115	–2,677
Premium payments	–188	–477
Exchange rate effects	–79	–83
On December 31	**856**	**–926**
Pension obligations		
January 1	20,612	22,452
Current service costs	–106	404
Interest expenses	677	684
Benefits paid	–904	–748
Exchange rate effect	–228	–134
Actuarial gains (–)/losses (+)	3,296	–2,046
Pension obligations on December 31	**23,348**	**20,612**
Plan assets		
January 1	21,538	20,664
Interest income	697	623
Premium payments	188	477
Benefits paid	–904	–748
Actuarial gains (–)/losses (+)	1,181	630
Exchange rate effects	–149	–60
Contributions	–60	–48
Plan assets on December 31	**22,492**	**21,538**
Breakdown of plan assets		
Listed shares and participations	7,233	6,893
Listed mutual fund units	2,475	2,149
Listed interest-bearing securities	7,799	7,572
Properties	2,594	3,139
Other plan assets	2,391	1,785
Total plan assets	**22,492**	**21,538**

Plan assets included shares in the Bank of Åland Plc with a market value of EUR 14 K (13), bonds worth EUR 395 K (568) and bank accounts worth EUR 1,779 K (1,205).

	Outcome, 2014	Forecast, 2015
Future cash flows		
Benefits paid	188	90

	2014		2013	
	Finland, %	Sweden, %	Finland, %	Sweden, %
Assumptions				
Discount rate	1.9	3.3	3.2	4.0
Increase in salary expenses	1.9	3.0	1.9	3.0
Pension index increase	2.1	3.0	2.1	3.0
Inflation	2.0	2.0	2.0	2.0
Staff turnover	0.0	4.0	0.0	4.0

	Change in assumptions,%	Increase in assumption	Decrease in assumption
Sensitivity analysis			
Discount rate	0.5	–1,939	2,217
Expected increase in salaries	0.5	126	–112
Expected increase in pensions	0.5	2,024	–1,794

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 only for the discount rate.

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.

G41. Lease liabilities and rental obligations

	2014	2013
Lease payments due		
under 1 year	4,742	4,853
1–5 years	6,449	6,638
over 5 years	1,059	1,618
Total	**12,250**	**13,109**
Finance leases, present value		
under 1 year	860	1,192
1–5 years	1,158	1,688
over 5 years	0	0
Total	**2,018**	**2,880**
Finance leases, minimum rents		
under 1 year	948	1,324
1–5 years	1,208	1,811
over 5 years	0	0
Total	**2,156**	**3,135**
Interest expenses	138	255
Machinery and equipment, recognised value	1,870	2,868

Operating leases consist of rental obligations. Rental obligations mainly include business premises with fixed-period agreements of up to ten years.

The rent level is generally tied to an index and is adjusted as specified in the lease.

The Group has finance leases on cars, computers and IT equipment. Certain leases include an option to buy the asset. When leases are renewed, new negotiations take place. The most essential leases are related to computers. There are no variable fees or index clauses for these agreements. The agreements imply that the Group may redeem the machinery or continue to rent the machinery at a predetermined price when the actual rental period expires. The agreement also entitles the lessee to return the machinery. The financed amount of the largest agreement amounted to EUR 1,328 K excluding value-added tax.

G42. Disclosures about related parties

	2014			2013		
	Board and Executive Team	Related companies	Associated companies	Board and Executive Team	Related companies	Associated companies
Assets						
Lending to credit institutions						
Lending to the public	2,769	7,142	801	2,531	7,277	500
Other assets			6			0
Accrued income and prepayments			41			79
Total	**2,769**	**7,142**	**848**	**2,531**	**7,277**	**579**
Liabilities						
Liabilities to credit institutions						
Liabilities to the public	729	1,234	1,793	834	681	1,940
Debt securities issued			0			200
Subordinated liabilities			390			360
Accrued expenses and prepaid income			0			1
Total	**729**	**1,234**	**2,183**	**834**	**681**	**2,501**
Income and expenses						
Interest income	37	173	14	49	169	23
Interest expenses	–2	0	–14	–6	0	–22
Commission income	0	3	41	0	1	79
Commission expenses						
Other income			13			7
Other expenses						
Total	**36**	**177**	**54**	**43**	**170**	**87**

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. "Associated companies" includes Ålandsbanken Abp:s Pensionsstiftelse r.s. as well.

Employee loans may be granted in a maximum amount of EUR 250,000 (250,000) with approved collateral. The employee interest rate is set by the Executive Team and amounted to 0.832 per cent (0.971) on December 31, 2014.

All transactions with related parties have occurred on commercial terms.

For disclosures on salaries and fees paid to the Board of Directors and the Executive Team, see Note P35.

G43. Offsetting of financial assets and liabilities

	2014		2013	
	Derivatives	Repurchasing agreements plus lending and borrowing of securities	Derivatives	Repurchasing agreements plus lending and borrowing of securities
Financial assets that are offset or covered by offsetting agreements				
Gross amount of financial assets	24,243		14,994	
Gross amount of financial liabilities offset in the balance sheet				
Net amount of financial assets recognised in the balance sheet	**24,243**		**14,994**	
Related amounts not offset in the balance sheet				
Financial instruments that do not meet offsetting criteria	−19,323		−5,087	
Financial collateral received	−4,919			
Net amount	**0**		**9,907**	
Financial liabilities that are offset or covered by offsetting agreements				
Gross amount of financial liabilities	33,652	687	20,195	12,874
Gross amount of financial assets offset in the balance sheet				
Net amount of financial liabilities recognised in the balance sheet	**33,652**	**687**	**20,195**	**12,874**
Related amounts not offset in the balance sheet				
Financial instruments that do not meet offsetting criteria	−19,349		−7,912,	
Financial collateral pledged	−2,400	−687	−2,350	−12,874
Net amount	**11,903**	**0**	**9,933**	**0**

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

G44.Important events after the close of the accounting period

The Bank of Åland Plc and Ålandsbanken Asset Management have signed an agreement to merge during the first half of 2015. For further information, see the Report of the Directors.

Parent Company income statement

(EUR K)

Parent Company	Note	Jan 1–Dec 31, 2014	Jan 1–Dec 31, 2013
Interest income		76,849	73,897
Net lease income	P3	0	3
Interest expenses		−29,067	−33,003
Net interest income	P2	**47,783**	**40,896**
Commission income		36,435	34,153
Commission expenses		−4,685	−4,625
Net commission income	P4	**31,750**	**29,527**
Net income from financial items carried at fair value	P6	6,801	9,836
Income from equity capital investments	P5	4,932	3,783
Other income	P7	2,298	1,986
Total income		**93,563**	**86,028**
Staff costs	P8	−35,091	−33,832
Other expenses	P9	−35,705	−34,416
Depreciation/amortisation and impairment losses on tangible and intangible assets	P20, P21	−6,395	−6,153
Impairment losses on other financial assets	P10	−366	−134
Total expenses		**−77,557**	**−74,533**
Profit before impairment losses		**16,006**	**11,494**
Impairment losses on loans and other commitments	P11	−1,515	−3,725
Net operating profit		**14,491**	**7,770**
Appropriations		−13,000	−10,100
Income taxes	P12	245	−111
Net profit for the accounting period		**1,736**	**−2,441**

Parent Company balance sheet

(EUR K)

Parent Company	Note	Dec 31, 2014	Dec 31, 2013
Assets			
Cash and deposits with central banks		86,434	50,161
Debt securities eligible for refinancing with central banks	P15	620,256	427,970
Lending to credit institutions	P16	129,046	130,090
Lending to the public	P17	3,314,617	3,077,495
Debt securities	P15	0	60,594
Shares and participations	P18	2,669	2,226
Shares and participations in associated companies	P18	665	1,001
Shares and participations in Group companies	P18	12,731	11,441
Derivative instruments	P19	24,243	14,994
Intangible assets	P20	20,949	25,122
Tangible assets	P21	16,405	17,631
Other assets	P22	14,444	17,263
Accrued income and prepayments	P23	22,006	22,063
Deferred tax assets	P24	227	198
Total assets		**4,264,690**	**3,858,249**
Liabilities			
Liabilities to credit institutions	P25	403,032	329,451
Liabilities to the public	P26	2,206,140	2,180,714
Debt securities issued	P27	1,310,720	1,009,865
Derivative instruments	P19	33,652	26,588
Other liabilities	P28	31,782	31,391
Provisions	P29	700	649
Accrued expenses and prepaid income	P30	22,613	23,627
Subordinated liabilities	P31	49,670	63,710
Deferred tax liabilities	P24	680	279
Total liabilities		**4,058,988**	**3,666,275**
Appropriations			
General loan loss reserve[1]		49,454	36,454
Total appropriations		**49,454**	**36,454**
Equity capital			
Share capital		29,104	29,104
Share premium account		32,736	32,736
Reserve fund		25,129	25,129
Hedging reserve		–461	–387
Fair value reserve		2,718	1,118
Translation differences		–568	–48
Unrestricted equity capital fund		24,797	24,681
Own shares		–215	–244
Retained earnings		43,008	43,432
Total equity capital		**156,248**	**155,520**
Total liabilities and equity capital		**4,264,690**	**3,858,249**
Off-balance sheet obligations	P39		
Obligations to a third party on behalf of customers			
Guarantees		24,385	27,310
Irrevocable commitments given on behalf of customers		273,479	255,366

[1] Loan loss provision in compliance with the Finnish Business Income Tax Act, Section 46.

Parent Company statement of changes in equity capital

(EUR K)

Parent Company	Share capital	Share premium account	Reserve fund	Hedging reserve	Fair value reserve	Translation difference	Unrestricted equity capital fund	Own shares	Retained earnings	Total
Dec 31, 2012	**29,104**	**32,736**	**25,129**	**0**	**4,533**	**128**	**24,681**	**−244**	**48,033**	**164,100**
Change in fair value				−387	−3,416					−3,803
Translation differences						−168				−168
Dividend paid									−2,159	−2,159
Profit for the year									−2,441	−2,441
Dec 31, 2013	**29,104**	**32,736**	**25,129**	**−387**	**1,118**	**−48**	**24,681**	**−244**	**43,432**	**155,520**
Change in fair value				−73	1,601					1,528
Translation differences						−520				−520
Subscription options							116			116
Transfer of own shares								28		28
Dividend paid									−2,160	−2,160
Profit for the year									1,736	1,736
Dec 31, 2014	**29,104**	**32,736**	**25,129**	**−461**	**2,718**	**−568**	**24,797**	**−215**	**43,008**	**156,248**

See also the section entitled “Facts on Bank of Åland shares”.

Parent Company cash flow statement

(EUR K)

Parent Company	2014	2013
Cash flow from operating activities		
Net operating profit	14,491	7,770
Adjustment for net operating profit items not affecting cash flow		
Depreciation/amortisation and impairment losses on intangible and tangible assets	6,395	6,153
Impairment losses on loans and other commitments	1,508	3,705
Unrealised changes in value	–1,289	–872
Accrued surpluses/deficits on debt securities and bonds issued	5,251	2,581
Income from investing activities	–257	–197
Dividends from associated companies and subsidiaries	–4,556	–3,338
Income taxes paid	4	–4
Increase (–) or decrease (+) in receivables from operating activities		
Debt securities eligible for refinancing with central banks	–210,270	–107,528
Lending to credit institutions	2,615	–5,191
Lending to the public and public sector entities	–283,919	–223,943
Other assets	58,302	389
Increase (–) or decrease (+) in liabilities from operating activities		
Liabilities to credit institutions	95,041	–18,146
Liabilities to the public and public sector entities	56,749	56,904
Debt securities issued	125,785	–74,642
Other liabilities	14,010	–22,521
Total cash flow from operating activities	**–120,140**	**–378,883**
Cash flow from investing activities		
Investment in shares and participations	–1,619	–144
Divestment of shares and participations	1,193	1
Investment in shares in associated companies and subsidiaries	–2,213	0
Divestment of shares in associated companies and subsidiaries	75	376
Dividends received from associated companies and subsidiaries	4,556	3,338
Investment in tangible assets	–819	–430
Divestment of tangible assets	327	32
Investment in intangible assets	–1,515	–2,767
Total cash flow from investing activities	**–14**	**407**
Cash flow from financing activities		
Option rights issue	116	0
Increase in long-term borrowings from banks	77,342	145,560
Decrease in long-term borrowings from banks	–164,647	–6,100
Increase in covered bonds issued	335,476	194,086
Decrease in covered bonds issued	–87,800	–4,900
Increase in subordinated debentures	18,581	17,008
Decrease in subordinated debentures	–32,959	–17,300
Dividend paid	–2,160	–2,159
Total cash flow from financial activities	**143,949**	**326,195**
Cash and cash equivalents at beginning of year	190,129	243,671
Cash flow from operating activities	–120,140	–378,883
Cash flow from investing activities	–14	407
Cash flow from financing activities	143,949	326,195
Exchange rate differences in cash and cash equivalents	–2,345	–1,260
Cash and cash equivalents at end of year	**211,579**	**190,129**
Cash and cash equivalents consisted of the following items:		
Cash	5,623	6,003
Cheque account with Bank of Finland	80,811	44,157
Claims repayable on demand from credit institutions	125,145	120,884
Debt securities	0	19,084
Total	**211,579**	**190,129**

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

"Operating activities" included interest received of EUR 77,538 K (2013: 70,614), interest paid of EUR 30,871 K (31,046) and dividend income received of EUR 376 K (445).


Photo: Shutterstock

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Notes to the Parent Company financial statements

(EUR K)

P1. Parent Company accounting principles

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

Goodwill

Goodwill is amortised over 10 years.

Otherwise, please see the consolidated accounting principles.

Notes to the income statement

P2. Net interest income	2014	2013
Lending to credit institutions	728	986
Lending to the public	71,579	68,636
Debt securities	3,600	3,701
Derivative instruments	935	563
Other interest income	7	13
Total interest income	**76,849**	**73,899**
Liabilities to credit institutions	2,941	4,286
Liabilities to the public	11,871	15,211
Debt securities issued	12,542	11,425
Subordinated liabilities	1,062	1,251
Derivative instruments	643	813
Other interest expenses	8	17
Total interest expenses	**29,067**	**33,003**
Net interest income	**47,783**	**40,896**

Interest income received from Group companies was EUR 262 K (2013: 220).

Interest expenses paid to Group companies was EUR 9 K (17).

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.

Net impairment losses on interest for impaired receivables in 2013 amounted to EUR 1 K (–52).

P3. Net lease income	2014	2013
Rental income	0	3
Total	**0**	**3**

According to a decision of the Executive Team, no new leases will be signed.

P4. Net commission income	2014	2013
Deposits	1,000	979
Lending	6,987	3,544
Payment intermediation	3,834	3,611
Mutual fund commissions	7,087	7,019
Asset management commissions	6,981	7,937
Securities brokerage	7,952	8,663
Insurance commissions	71	76
Legal services	704	593
Guarantee commissions	359	381
Other commissions	1,461	1,351
Total commission income	**36,435**	**34,153**
Payment intermediation commission expenses	1,667	1,578
Mutual fund commission expenses	327	552
Asset management commission expenses	212	220
Securities brokerage commission expenses	1,133	1,029
Other commission expenses	1,346	1,247
Total commission expenses	**4,685**	**4,625**
Net commission income	**31,750**	**29,527**

P5. Income from equity capital instruments	2014	2013
Financial assets available for sale	376	445
Group companies, dividend paid	4,556	3,322
Associated companies	0	16
Total	**4,932**	**3,783**

P6. Net income from financial items carried at fair value

	2014			2013		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Valuation category fair value via the income statement (“profit and loss”)						
Debt securities	0	530	530	0	−47	−47
Shares and participations	52	17	69	866	80	946
Derivative instruments	−1,407	1,303	−105	−732	3,266	2,535
Loan receivables						
Valuation category fair value via the income statement (“profit and loss”)	**−1,355**	**1,849**	**494**	**135**	**3,300**	**3,434**
Hedge accounting						
of which hedging instruments	204	14,976	15,181		−4,008	−4,008
of which hedged item	−300	−15,358	−15,658		4,243	4,243
Hedge accounting	**−96**	**−381**	**−477**		**235**	**235**
Net income from foreign exchange dealing	**2,309**	**207**	**2,516**	**4,990**	**−1,084**	**3,906**
Net income from financial assets available for sale	**4,288**	**−20**	**4,267**	**3,839**	**−1,579**	**2,261**
Total	**5,146**	**1,654**	**6,801**	**8,963**	**872**	**9,836**

P7. Other income

	2014	2013
Rental income on properties	195	214
Capital gains on properties	0	0
Miscellaneous income	2,103	1,772
Total	**2,298**	**1,986**
Net income from investment properties		
Rental income	33	26
Rental expenses	0	−19
Impairment losses	−235	−61
Other expenses	−28	−8
Total	**−230**	**−62**

P8. Staff costs

	2014	2013
Salaries and fees	25,744	24,967
Compensation in the form of shares in Bank of Åland Plc	268	35
Pension expenses	4,737	4,398
Other social security expenses	4,342	4,432
Total	**35,091**	**33,832**
	Average number of employees	Average number of employees
Number of employees		
Permanent full-time employees	370	380
Permanent part-time employees	80	66
Total	**450**	**446**

P9. Other expenses

	2014	2013
IT expenses (excluding information services)	16,308	15,670
Premises and property expenses	4,343	4,734
Marketing expenses	2,462	2,715
Informational services	1,985	1,929
Staff-related expenses	1,187	1,146
Travel expenses	767	644
Purchased services	4,984	3,902
Deposit guarantee fees	1,036	1,286
Banking tax	1,724	1,658
Other expenses	989	732
Production for own use	−80	0
Total	**35,705**	**34,416**

	2014		2013	
	Auditors elected by General Meeting	Others	Auditors elected by General Meeting	Others
Fees paid to auditors				
Auditing fees paid	218	0	161	161
Consulting fees paid				
In compliance with Finnish Auditing Act, Ch. 1, Sec. 1, Par. 2	33	5	0	5
Tax matters	134	3	40	13
Other	61	0	106	99
Total	**446**	**8**	**307**	**278**

These amounts include value-added tax (VAT).

P10. Impairment losses on other financial assets	2014	2013
Impairment losses on shares and participations in associated companies and subsidiaries	366	134
Total	**366**	**134**

P11. Impairment losses on loans and other commitments

	2014	2013
Individual impairment losses		
New and increased impairment losses	4,356	8,673
Reversals of impairment losses	–3,177	–635
Withdrawn for actual losses	–2,135	–3,328
Actual losses	2,207	3,648
Recoveries of actual losses	–7	–2,220
Total	**1,243**	**6,137**
Group impairment losses		
Net provisions for the period, receivables measured by group	272	–2,413
Total	**272**	**–2,413**
Total	**1,515**	**3,725**
Doubtful receivables		
Gross doubtful receivables	21,675	31,696
Individual impairment losses	14,285	15,243
Net doubtful receivables	7,391	16,453
Gross doubtful receivables as % of total	0,65	1,02
Level of individual provisions for doubtful receivables, %	66	48

	2014			2013		
	Reserve for individually assessed receivables	Reserve for receivables assessed by group	Total	Reserve for individually assessed receivables	Reserve for receivables assessed by group	Total
Change in reserve for probable loan losses						
Reserve on January 1	15,243	687	15,930	10,276	3,100	13,376
Provisions for the year	4,356	272	4,628	8,673	1,937	10,610
Reclassifications			0	260		260
Recovered from earlier provisions	–3,177		–3,177	–635	–4,350	–4,985
Withdrawn for actual losses	–2,135		–2,135	–3,328		–3,328
Exchange rate effect	–2		–2	–3		–3
Reserve on December 31	**14,285**	**959**	**15,244**	**15,243**	**687**	**15,930**

Net interest provisions for impaired receivables amounted to EUR 1 K (–52) during 2014.
Interest received for impaired receivables amounted to EUR 375 K during 2014.

P12. Income taxes	2014	2013
Income statement		
Taxes related to prior years	0	–1
Current taxes	–234	0
Change in deferred taxes	–11	111
Total	**–245**	**111**
Nominal tax rate in Finland, %	20.0	24.5
Non-taxable income/deductible expenses, %	–29.7	–10.5
Taxes on realised translation differences, %	–15.7	–17.3
Taxes related to prior years, %	0.0	0.0
Change in tax rate, %	0.0	–1.0
Other, %	9.0	–0.5
Effective tax rate, %	–16.4	–4.8
Other comprehensive income		
Current taxes	–18	–97
Change in deferred taxes	400	–1,192
Total	**382**	**–1,288**

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 effect of the change in tax rate was equivalent to EUR 23 K in 2013.

Notes to the balance sheet

P13. Fair values and carrying amounts of financial assets and liabilities and fair value levels	2014		2013	
	Total carrying amount	Fair value	Total carrying amount	Fair value
Cash	86,434	86,434	50,161	50,161
Debt securities eligible for refinancing with central banks	620,256	620,256	427,970	427,970
Lending to credit institutions	129,046	129,045	130,090	130,090
Lending to the public	3,314,617	3,346,500	3,077,495	3,111,210
Debt securities	0	0	60,594	60,594
Shares and participations	2,669	2,669	2,226	2,226
Shares and participations in associated companies	665	665	1,001	1,001
Shares in subsidiaries	12,731	12,731	11,441	11,441
Derivative instruments	24,243	24,243	14,994	14,994
Total financial assets	**4,190,660**	**4,222,542**	**3,775,973**	**3,809,688**
Liabilities to credit institutions	403,032	402,985	329,451	332,064
Liabilities to the public	2,206,140	2,207,136	2,180,714	2,183,795
Debt securities issued	1,310,720	1,325,184	1,009,865	1,017,906
Derivative instruments	33,652	33,652	26,588	26,588
Subordinated liabilities	49,670	51,094	63,710	64,271
Total financial liabilities	**4,003,214**	**4,020,052**	**3,610,328**	**3,624,624**

	2014			
	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	620,256			620,256
Debt securities	0	0	0	0
Shares and participations	2,131	4	534	2,669
Derivative instruments	2	24,241		24,243
Total	**622,308**	**24,245**	**534**	**647,167**
Liabilities				
Debt securities issued		209,653		209,653
Derivative instruments	55	33,598		33,652
Subordinated liabilities		24,755		24,755
Total	55	**268,006**	**0**	**268,060**

	2013			
	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	427,970			427,970
Debt securities	9,647	50,947		60,594
Shares and participations	1,332	4	890	2,226
Derivative instruments	101	14,893		14,994
Total	**439,051**	**65,844**	**890**	**505,785**
Liabilities				
Debt securities issued		196,680		196,680
Derivative instruments		26,588		26,588
Subordinated liabilities		16,869		16,869
Total	**0**	**240,138**	**0**	**240,138**

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.

	2014	2013
	Shares and participations	Shares and participations
Change in Level 3 holdings		
Carrying amount on January 1	890	1,300
New purchases	0	30
Divested/reached maturity during the year	–11	0
Realised change in value in the income statement	–5	0
Unrealised change in value in the income statement	–13	–17
Change in value recognised in other comprehensive income	–326	–423
Carrying amount on December 31	**534**	**890**

No transfer occurred between Level 1 and Level 2.

P14. Assets and liabilities by currency	2014				
	EUR	SEK	USD	Others	Total
Cash and deposits with central banks	58,267	27,813	84	269	86,434
Debt securities eligible for refinancing with central banks	452,610	167,646	0	0	620,256
Lending to credit institutions	10,491	77,380	25,084	16,091	129,046
Lending to the public	2,345,958	940,338	28,321	0	3,314,617
Debt securities	0	0	0	0	0
Derivative instruments	22,847	1,371	24	0	24,243
Other items not allocated by currency	90,094	0	0	0	90,094
Total assets	**2,980,268**	**1,214,548**	**53,514**	**16,360**	**4,264,690**
Liabilities to credit institutions	252,935	147,886	1,022	1,189	403,032
Liabilities to the public	1,578,472	558,511	54,109	15,047	2,206,140
Debt securities issued	595,950	714,770	0	0	1,310,720
Derivative instruments	11,637	21,934	80	0	33,652
Subordinated liabilities	49,670	0	0	0	49,670
Other items not allocated by currency, including equity capital	261,477				261,477
Total liabilities and equity capital	**2,750,141**	**1,443,101**	**55,212**	**16,236**	**4,264,690**
Other assets and liabilities allocated by currency as well as off-balance sheet items		–228,575	–1,692	–1,087	
Net position in currencies (EUR)		21	–6	1,212	1,227

	2013				
	EUR	SEK	USD	Others	Total
Cash and deposits with central banks	47,977	1,918	37	229	50,161
Debt securities eligible for refinancing with central banks	418,372	9,598	0	0	427,970
Lending to credit institutions	9,903	76,265	32,192	11,730	130,090
Lending to the public	2,251,849	799,249	26,397	0	3,077,495
Debt securities	50,944	9,650	0	0	60,594
Derivative instruments	12,222	2,772	0	0	14,994
Other items not allocated by currency	96,944	0	0	0	96,944
Total assets	**2,888,211**	**899,453**	**58,626**	**11,959**	**3,858,249**
Liabilities to credit institutions	165,975	163,476	0	0	329,451
Liabilities to the public	1,534,836	569,827	57,798	18,254	2,180,714
Debt securities issued	691,813	318,052	0	0	1,009,865
Derivative instruments	19,746	6,843	0	0	26,588
Subordinated liabilities	63,710	0	0	0	63,710
Other items not allocated by currency, including equity capital	247,921	0	0	0	247,921
Total liabilities and equity capital	**2,724,001**	**1,058,197**	**57,798**	**18,254**	**3,858,249**
Other assets and liabilities allocated by currency as well as off-balance sheet items		–158,954	811	–8,364	
Net position in currencies (EUR)		210	18	2,069	2,297

P15. Holdings of debt securities

	2014		2013	
	Nominal value	Carrying amount	Nominal value	Carrying amount
Debt securities eligible for refinancing with central banks				
Fair value via the income statement				
Government bonds				
Covered bonds				
Other debt securities	42,900	45,370	42,900	44,416
Holdings available for sale				
Government bonds	105,931	119,685	71,000	75,834
Covered bonds	205,633	213,057	117,680	120,639
Debt securities issued by credit institutions	188,780	190,914	140,100	140,398
Other debt securities	49,500	51,229	44,700	46,683
Total	**592,744**	**620,256**	**416,380**	**427,970**
of which unlisted	0	0	0	0
Other debt securities				
Fair value via the income statement				
Government bonds				
Covered bonds				
Certificates of deposit				
Other debt securities			3	3
Holdings available for sale				
Government bonds				
Covered bonds			9,595	9,647
Certificates of deposit			51,000	50,944
Other debt securities				
Total	**0**	**0**	**60,598**	**60,594**
of which unlisted			51,000	50,944
Total debt securities	**592,744**	**620,256**	**476,978**	**488,564**
of which unlisted	0	0	51,000	50,944

P16. Lending to credit institutions

	2014			2013		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Finnish credit institutions	1,865	1	1,865	31	28,886	28,917
Foreign banks and credit institutions	68,229	58,952	127,181	51,330	49,843	101,173
Total	**70,094**	**58,952**	**129,046**	**51,361**	**78,729**	**130,090**

P17. Lending to the public

	2014			2013		
	Amortised cost	Carried at fair value	Total	Amortised cost	Carried at fair value	Total
Companies	566,700		566,700	555,956		555,956
Public sector entities	3,701		3,701	5,008		5,008
Households	1,682,001		1,682,001	1,596,011		1,596,011
Household interest organisations	11,792		11,792	16,376		16,376
Outside Finland	1,050,422		1,050,422	904,145		904,145
Total	**3,314,617**	**0**	**3,314,617**	**3,077,495**	**0**	**3,077,495**
of which subordinated receivables			2,583			489

P18. Shares and participations

	2014	2013
Holdings carried at fair value via the income statement		
Listed	531	158
Unlisted	0	0
Total	**531**	**158**
Holdings classified as available for sale		
Listed	1,604	1,179
Unlisted	534	890
Total	**2,138**	**2,068**
Shares and participations in associated companies	665	1,001
Shares and participations in Group companies	12,731	11,441
Total shares and participations	**16,064**	**14,668**

P19. Derivative instruments				2014			2013		
	Nominal amount/maturity								
	Under 1 yr	1–5 yrs	over 5 yrs	Nominal amount	Positive market values	Negative market values	Nominal amount	Positive market values	Negative market values
Derivatives for trading									
Interest-related contracts									
Interest rate swaps	115,605	116,967	14,053	246,625	4,259	6,216	338,618	3,967	6,898
Interest rate and currency swaps	5,250	26,616	0	31,866	161	18,609	11,078	138	111
Interest rate futures	10,100	0	0	10,100	0	55	10,200	101	0
Interest rate options – purchased	2,459	9,478	0	11,937	0	0	14,815	1	0
Interest rate options – sold	2,459	14,921	1,832	19,212	0	0	19,202	0	1
Currency-related contracts									
Currency forward contracts	82,370	6,654	0	89,024	927	940	97,718	873	1,215
Equity-related contracts									
Equity options – purchased	17,161	34,907	0	52,068	4,298	0	96,461	8,527	0
Equity options – written	14,328	29,130	0	43,458	0	3,956	93,893	0	8,077
Equity forward contracts	532	0	0	532	2	0	0	0	0
Other derivative contracts	0	21,697	0	21,697	966	914	25,022	1,343	1,343
Total	**250,265**	**260,369**	**15,885**	**526,519**	**10,613**	**30,690**	**707,007**	**14,950**	**17,644**
Derivatives for market value hedge									
Interest-related contracts									
Interest rate swaps	0	152,309	100,000	252,309	13,612	779	244,886	44	2,188
Total	**0**	**152,309**	**100,000**	**252,309**	**13,612**	**779**	**244,886**	**44**	**2,188**
Derivatives for cash flow hedge									
Currency-related contracts									
Interest rate and currency swaps	79,847	133,078	0	212,925	18	2,068	253,976	0	6,033
Total	**79,847**	**133,078**	**0**	**212,925**	**18**	**2,068**	**253,976**	**0**	**6,033**
Derivatives for hedging of net investment in foreign operations									
Currency-related contracts									
Currency forward contracts	13,840	0	0	13,840	0	116	33,412	0	723
Total	**13,840**	**0**	**0**	**13,840**	**0**	**116**	**33,412**	**0**	**723**
Total derivative instruments	**343,952**	**545,755**	**115,885**	**1,005,593**	**24,243**	**33,652**	**1,239,281**	**14,994**	**26,588**
of which cleared OTC									
of which cleared by other means	10,100			10,100		55	10,200		101

P20. Intangible assets	2014			
	Other software	Goodwill	Other non-current expenditures	Total
Cost on January 1	15,558	21,657	5,835	43,051
Cost of intangible assets added	1,600	0	63	1,664
Divestments and disposals	–150	0	–386	–536
Transfers between items	4	0	0	4
Exchange rate effects	–170	–1,164	0	–1,334
Cost on December 31	**16,842**	**20,493**	**5,512**	**42,848**
Accumulated amortisation and impairment losses on January 1	–10,015	–5,385	–2,529	–17,929
Divestments and disposals	89	0	386	475
Amortisation for the year	–2,132	–1,994	–547	–4,673
Impairment losses for the year	–21	0	–150	–171
Exchange rate effects	97	301	0	398
Accumulated amortisation and impairment losses on December 31	**–11,982**	**–7,077**	**–2,840**	**–21,899**
Residual value on December 31	**4,860**	**13,416**	**2,672**	**20,949**

	2013			
	Other software	Goodwill	Other non-current expenditures	Total
Cost on January 1	14,046	22,318	5,773	42,137
Cost of intangible assets added	2,480	0	1,181	3,661
Divestments and disposals	–896	0	–1,118	–2,014
Transfers between items	0	0	0	0
Exchange rate effects	–72	–661	0	–733
Cost on December 31	**15,558**	**21,657**	**5,835**	**43,051**
Accumulated amortisation and impairment losses on January 1	–8,002	–3,407	–2,977	–14,386
Divestments and disposals	107	0	1,118	1,225
Amortisation for the year	–2,166	–2,097	–505	–4,768
Impairment losses for the year	0	0	–164	–164
Exchange rate effects	46	119	0	165
Accumulated amortisation and impairment losses on December 31	**–10,015**	**–5,385**	**–2,529**	**–17,929**
Residual value on December 31	**5,543**	**16,272**	**3,307**	**25,122**

P21. Tangible assets	2014	2013
Investment properties	505	690
Properties for own use	13,217	13,805
Other tangible assets	2,682	3,136
Total	**16,405**	**17,631**

	2014			2013		
	Investment properties	Properties for own use	Other tangible assets	Investment properties	Properties for own use	Other tangible assets
Cost on January 1	1,068	14,521	19,434	746	14,880	20,064
New acquisitions	50	3	540	0	0	267
New construction and renovations	0	0	0	0	0	0
Divestments and disposals	0	–49	–1,081	0	–38	–586
Transfers between items	0	0	0	322	–322	0
Exchange rate effects	0	0	–548	0	0	–311
Cost on December 31	**1,118**	**14,475**	**18,346**	**1,068**	**14,521**	**19,434**
Accumulated depreciation on January 1	–378	–6,006	–16,298	–308	–5,781	–16,266
Depreciation for the year	0	–541	–771	0	–272	–881
Impairment losses for the year	–235	0	0	–61	0	–7
Divestments and disposals	0	0	866	0	46	551
Transfers between items				–9	0	0
Exchange rate effects	0	0	539	0	0	306
Accumulated depreciation on December 31	**–613**	**–6,547**	**–15,663**	**–378**	**–6,006**	**–16,298**
Revaluations on January 1		5,289			5,289	
Revaluations for the year		0			0	
Decreases during the year		0			0	
Accumulated revaluations on December 31		**5,289**			**5,289**	
Carrying amount	**505**	**13,217**	**2,682**	**690**	**13,805**	**3,136**
of which buildings	0	12,978		0	13,516	
of which land and water	3	139		3	139	
of which shares in real estate companies	503	100		687	149	

The carrying amount of investment properties was the same as their market value in 2014.

P22. Other assets	2014	2013
Receivables on mutual fund settlement proceeds	7,847	8,367
Other	6,597	8,895
Total	**14,444**	**17,263**

P23. Accrued income and prepayments	2014	2013
Accrued interest income	15,888	15,199
Other accrued income	4,203	3,833
Prepaid taxes	0	4
Other prepaid expenses	1,915	3,023
Total	**22,006**	**22,063**

P24. Deferred tax assets and liabilities	2014	2013
Deferred tax assets		
Taxable losses	1	43
Provisions	68	58
Cash flow hedge	115	97
Unused tax depreciation	34	0
Other	9	0
Total	**227**	**198**
Deferred tax liabilities		
Financial assets available for sale		
Debt securities available for sale	707	204
Shares and participations available for sale	–27	75
Total	**680**	**279**
Net deferred tax liabilities	**–453**	**–82**

Accumulated appropriations included a deferred tax liability of EUR 7,291 K (6,457).

	2014				
	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Exchange rate effects	Closing balance
Changes in deferred taxes					
Taxable losses	43	–42			1
Provisions	58	10			68
Unused tax depreciation	0	34			34
Other	0	9			9
Cash flow hedge	97		18		115
Debt securities available for sale	–204		–503		–707
Shares and participations available for sale	–75		103		27
Total	**–82**	**11**	**–382**	**0**	**–453**

	2013				
	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Exchange rate effects	Closing balance
Changes in deferred taxes					
Taxable losses	35	8			43
Provisions	178	–120			58
Cash flow hedge	0		97		97
Debt securities available for sale	–1,322		1,118		–204
Shares and participations available for sale	–149		74		–75
Total	**–1,259**	**–111**	**1,288**	**0**	**–82**

P25. Liabilities to credit institutions	2014			2013		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Central banks		197,000	197,000		130,000	130,000
Finnish credit institutions	4,243	48,299	52,542	138	37,441	37,580
Foreign banks and credit institutions	64,557	88,933	153,490	56,711	105,160	161,871
Total	**68,800**	**334,232**	**403,032**	**56,849**	**272,601**	**329,451**

P26. Liabilities to the public	2014			2013		
	Amortised cost	Carried at fair value	Total	Amortised cost	Carried at fair value	Total
Companies	525,163		525,163	495,098		495,098
Public sector entities	49,671		49,671	32,387		32,387
Households	903,915		903,915	913,090		913,090
Household interest organisations	43,449		43,449	41,415		41,415
Outside Finland	683,943		683,943	698,724		698,724
Total	**2,206,140**	**0**	**2,206,140**	**2,180,714**	**0**	**2,180,714**

P27. Debt securities issued	2014		2013	
	Nominal value	Carrying amount	Nominal value	Carrying amount
Certificates of deposit	293,702	292,789	134,401	134,287
of which at amortised cost	293,702	292,789	134,401	134,287
Covered bonds	783,502	794,719	544,618	540,439
of which at amortised cost	426,809	425,712	175,300	174,922
of which for fair value hedge	197,000	209,653	200,000	196,680
of which for cash flow hedge	159,693	159,355	169,318	168,836
Unsecured bonds	159,693	159,575	240,998	240,812
of which at amortised cost	79,847	79,770	156,339	156,258
of which for cash flow hedge	79,847	79,806	84,659	84,554
Index bonds (structured products)	65,488	63,636	98,284	94,328
of which at amortised cost	65,488	63,636	98,284	94,328
Total	**1,302,386**	**1,310,720**	**1,018,302**	**1,009,865**

P28. Other liabilities	2014	2013
Payment transfer liabilities	18,280	13,429
Liabilities on mutual fund settlement proceeds	5,645	8,462
Other	7,857	9,501
Total	**31,782**	**31,391**

P29. Provisions	2014			2013		
	Provisions for restructuring reserves	Other provisions	Total	Provisions for restructuring reserves	Other provisions	Total
Provisions on January 1	389	260	649	1,085	0	1,085
Provisions made during the year	847		847	405	262	667
Amounts utilised	–526	–248	–775	–1,046	–2	–1,048
Unutilised amounts recovered			0	–39		–39
Exchange rate changes	–22		–22	–16		–16
Provisions on December 31	**688**	**12**	**700**	**389**	**260**	**649**

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.

P30. Accrued expenses and prepaid income	2014	2013
Accrued interest expenses	10,964	12,769
Other accrued expenses	9,238	8,646
Prepaid income	2,411	2,212
Total	**22,613**	**23,627**

P31. Subordinated liabilities	2014			2013		
	Carrying amount	Nominal amount	Amount in capital base	Carrying amount	Nominal amount	Amount in capital base
Debenture loan 1/2009	0	0	0	16,835	16,835	16,835
Debenture loan 2/2009	0	0	0	3,410	3,410	3,410
Debenture loan 1/2010	2,190	2,190	156	4,381	4,381	4,381
Debenture loan 2/2010	3,996	3,996	1,663	7,992	7,992	7,992
Debenture loan 1/2011	2,044	2,044	1,464	3,004	3,004	3,004
Debenture loan 1/2012	8,414	8,414	0	11,219	11,219	11,219
Debenture loan 1/2013	13,504	13,708	0	16,886	16,869	16,869
Debenture loan 1/2014	10,925	11,042	0			
Debenture loan 2/2014	8,275	8,275	7,622			
Total	**49,349**	**49,670**	**10,905**	**63,727**	**63,710**	**63,710**
Of which market value hedge	24,429	24,750	0	16,886	16,869	16,869

	Interest rate:	Repayment:
Debenture loan 1/2009	4.00% fixed interest, starting January 16, 2014 12-month Euribor +2.00%	January 15, 2019
Debenture loan 2/2009	3.15% fixed interest	June 3, 2014
Debenture loan 1/2010	3.30% fixed interest	January 26, 2015
Debenture loan 2/2010	3.25% fixed interest	June 1, 2015
Debenture loan 1/2011	3.00% fixed interest	June 12, 2017
Debenture loan 1/2012	3.00% fixed interest	June 12, 2017
Debenture loan 1/2013	2.30% fixed interest	July 3, 2018
Debenture loan 1/2014	2.30% fixed interest	February 3, 2019
Debenture loan 2/2014	3.00% fixed interest	August 9, 2019

In 2013, all subordinated liabilities were included in lower supplementary capital. Since the Basel 3 regulations went into effect on January 1, 2014, subordinated debentures issued after January 1, 2012 and running with repayments of up to five years are no longer included in supplementary capital. During the final five years of their contractual life, subordinated debentures are included as supplementary capital items in relation to the remaining calendar days in the final five-year period.

The loans may be repurchased in advance, but this is possible only with the permission of the Finnish Financial Supervisory Authority.

In case the Bank is dissolved, the loans are subordinate to the Bank's other obligations.

P32. Maturity breakdown of financial assets and liabilities

2014	Repayable on demand	< 1 mo	1–3 mo	3–6 mo	6–9 mo	9–12 mo	1–2 yrs	2–5 yrs	> 5 yrs	Total cash flow	Carrying amount
Financial assets											
Cash and deposits with central banks	86,434									86,434	86,434
Debt securities eligible for refinancing with central banks		1,114	2,316	7,893	11,289	16,700	150,480	325,464	112,910	628,166	620,256
Lending to credit institutions	70,281	59,952	54							130,287	129,046
Lending to the public	144,108	62,415	114,941	190,996	206,275	202,541	487,366	985,337	1,450,973	3,844,952	3,314,617
Debt securities											
Total financial assets	**300,823**	**123,481**	**117,312**	**198,889**	**217,564**	**219,241**	**637,845**	**1,310,801**	**1,563,883**	**4,689,839**	**4,150,353**
Financial liabilities											
Liabilities to credit institutions	68,780	126,159	108,383	9,984	10,040	3,570	6,058	73,438		406,411	403,032
Liabilities to the public	1,811,969	50,039	154,505	79,931	47,507	50,376	2,110	1,194	1,002	2,198,633	2,206,140
Debt securities issued		46,952	108,291	96,966	225,736	12,159	129,433	640,153	107,670	1,367,361	1,310,720
Subordinated liabilities		2,264	2,436	8,229	3,935		10,251	25,753		52,868	49,670
Total financial liabilities	**1,880,749**	**225,414**	**373,615**	**195,110**	**287,218**	**66,105**	**147,852**	**740,538**	**108,672**	**4,025,273**	**3,969,561**
Derivative contracts											
Cash inflow		3,041	1,881	3,713	1,507	1,041	8,338	16,452	12,386	48,359	
Cash outflow		–953	–1,948	–2,263	–2,681	–2,198	–5,390	–11,363	–9,182	–35,979	
		2,088	**–68**	**1,450**	**–1,173**	**–1,157**	**2,948**	**5,089**	**3,203**	**12,380**	
GAP	**–1,579,926**	**–99,845**	**–256,371**	**5,228**	**–70,827**	**151,979**	**492,942**	**575,352**	**1,458,414**	**676,946**	

	2013										
	Repayable on demand	< 1 mo	1–3 mo	3–6 mo	6–9 mo	9–12 mo	1–2 yrs	2–5 yrs	> 5 yrs	Total cash flow	Carrying amount
Financial assets											
Cash and deposits with central banks	50,161									50,161	50,161
Debt securities eligible for refinancing with central banks		15,997	10,493	17,762	4,677	22,205	47,805	279,118	48,049	446,105	427,970
Lending to credit institutions	51,361	74,381	3,773			0				129,514	130,090
Lending to the public	178,146	97,196	117,516	125,519	138,877	176,321	533,200	975,464	1,317,354	3,659,593	3,077,495
Debt securities		21,041	15,000	37	15,040	40	178	10,331		61,668	60,594
Total financial assets	**279,668**	**208,615**	**146,781**	**143,318**	**158,594**	**198,566**	**581,183**	**1,264,913**	**1,365,403**	**4,347,041**	**3,746,310**
Financial liabilities											
Liabilities to credit institutions	56,849	41,433	47,219	25,648	3,444	8,155	137,159	12,264		332,171	329,451
Liabilities to the public	1,767,263	128,728	102,645	92,688	48,250	42,908	1,514	555		2,184,551	2,180,714
Debt securities issued		66,811	120,482	50,110	126,449	73,382	225,905	459,048	215,296	1,337,482	1,009,865
Subordinated liabilities		20,360		11,970	3,766		14,182	17,498		67,775	63,710
Total financial liabilities	**1,824,112**	**257,332**	**270,346**	**180,416**	**181,908**	**124,445**	**378,760**	**489,365**	**215,296**	**3,921,979**	**3,583,740**
Derivative contracts											
Cash inflow		3,861	2,405	4,602	2,424	2,776	14,903	29,354	19,878	80,202	
Cash outflow		−1,128	−2,368	−2,956	−3,691	−3,441	−12,028	−28,230	−23,387	−77,229	
		2,733	**36**	**1,646**	**−1,267**	**−664**	**2,875**	**1,123**	**−3,509**	**2,973**	
GAP		**−45,983**	**−123,528**	**−35,453**	**−24,581**	**73,457**	**205,298**	**776,671**	**1,146,598**	**428,035**	

Sight deposits from the public, which are a significant source of funding, are contractually repayable on demand and are thus reported as having a maturity of <3 months. In practice they are a source of financing that, based on historical behaviour, has largely proved to have a long maturity.

P33. Claims on Group companies	2014	2013
Lending to the public	15,762	14,957
Other assets	116	219
Accrued income and prepayments	1,008	599
Closing balance	**16,885**	**15,776**

P34. Liabilities to Group companies	2014	2013
Liabilities to the public	5,576	3,529
Debt securities issued	500	500
Other liabilities	556	680
Accrued expenses and prepaid income	540	298
Closing balance	**7,172**	**5,007**

Notes concerning staff, Board of Directors and Executive Team

P35. Salaries/fees paid to the Board of Directors and Executive Team	2014	2013
Bergh, Kaj-Gustaf	0	20
Husell, Folke	0	35
Karlsson, Agneta	34	41
Karlsson, Anders Å	31	38
Lampi, Nils	44	32
Taxell, Christoffer	36	27
Wijkström, Annika	38	43
Wiklöf, Anders	22	29
Woivalin, Dan-Erik	24	18
Total, Board of Directors	**228**	**281**
Managing Director	336	311
Other members of the Executive Team	1,344	1,331
Total	**1,908**	**1,922**

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.

P36. Private shareholdings of the Board of Directors and the Executive Team in Bank of Åland Plc

See the section on the Board of Directors and the Executive Team.

P37. Financial transactions with related parties

See Note G42 in the notes to the consolidated financial statements.

Notes concerning assets pledged and contingent liabilities

P38. Assets pledged	2014	2013
Assets pledged for own liabilities		
Lending to credit institutions	3,900	8,167
Government securities and bonds	162,586	188,650
Lending to the public	1,312,078	892,569
Other	2,162	2,066
Total assets pledged for own liabilities	**1,480,727**	**1,091,452**

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	32,886	23,021
Other	517	18,816
Total other assets pledged	**33,404**	**41,837**

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.

P39. Off-balance sheet commitments	2014	2013
Guarantees	24,385	27,310
Unutilised overdraft limits	86,122	78,982
Unutilised credit card limits	893	0
Lines of credit	186,463	176,384
Total	**297,863**	**282,676**
Guarantees for subsidiaries	3,229	3,664
Unutilised overdraft limits for subsidiaries	4,419	3,123
Credit lines to subsidiaries	0	0

P40. Rental obligations	2014	2013
Rental payments due		
Under 1 year	2,783	3,061
More than 1 and less than 5 years	2,299	3,307
Total	**5,082**	**6,368**

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

Other notes

P41. Managed assets	2014	2013
Mutual fund unit management	291,304	301,785
Discretionary asset management	918,308	928,938
Other asset management	2,204,643	1,727,980
Total	**3,414,255**	**2,958,703**
Of which in own funds	342,443	284,341

P42. Subsidiaries and associated companies		2014	
	Registered office	Ownership, %	Carrying amount
Subsidiaries			
Ab Compass Card Oy Ltd	Mariehamn	100	8,491
Crosskey Banking Solutions Ab Ltd	Mariehamn	100	2,505
S-Crosskey Ab	Mariehamn	60	
Ålandsbanken Asset Management Ab	Helsinki	70	895
Ålandsbanken Fondbolag Ab	Mariehamn	100	841
Total			**12,731**
Associated companies			
Mäklarhuset Åland Ab	Mariehamn	25	0
Ålands Investerings Ab	Mariehamn	36	665
Total			**665**
Housing and real estate companies	Registered office	Ownership, %	Carrying amount
Properties for the Group's own use			
FAB Nymars	Sottunga	30	49
FAB Godby Center	Finström	11	100
Total			**149**
Investment properties			
FAB Västernäs City	Mariehamn	50	300
FAB Sittkoffska gården	Mariehamn	22	65
FAB Horsklint	Kökar	20	12
Other			128
Total			**505**

Proposed allocation of profit

According to the financial statements, distributable profit of the Bank of Åland Plc is EUR 67,805,037.15, of which the profit for the financial year is EUR 1,735,784.39. According to the consolidated financial statements, distributable profit of the Bank of Åland Group is EUR 66,919,925.67. No significant changes in the financial position of the Company have occurred since the end of the financial year.

The Board of Directors proposes to the Annual General Meeting that the distributable profit of the Bank of Åland Plc, EUR 67,805,037.15, be allocated as follows:

For Series A and Series B shares outstanding as of December 31, 2014, a dividend of EUR 0.40 per share, totalling	5,759,371.20
To be carried forward as retained earnings	62,045,665.95
	67,805,037.15

Mariehamn, March 16, 2015

Nils Lampi

Christoffer Taxell

Agneta Karlsson

Anders Å Karlsson

Annika Wijkström

Anders Wiklöf

Dan-Erik Woivalin

Peter Wiklöf,
Managing Director

To the Annual General Meeting of Ålandsbanken Abp

Auditors' Report

This document is an English translation of the Swedish auditor's report. Only the Swedish version of the report is legally binding.

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Ålandsbanken Abp for the year ended December 31, 2014. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

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, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act, Act on Credit Institutions or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, March 16, 2015

Pauli Salminen Authorised Public Accountant	Birgitta Immerthal Authorised Public Accountant	Mari Suomela Authorised Public Accountant
KPMG Oy Ab Töölönlahdenkatu 3 A 00100 Helsinki	KPMG Oy Ab Töölönlahdenkatu 3 A 00100 Helsinki	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 2014.

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 that are listed on the Nasdaq OMX Helsinki ("Helsinki Stock Exchange"). The Code went into effect on October 1, 2010 and 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. In complying with the Code, the Bank departs from Recommendation 22, "Appointment of members to the committees", since the Nomination Committee may includes members who are not members of the Bank of Åland Plc's Board of Directors. The Bank's Audit Committee includes one co-opted member who is not a member of the Bank's Board of Directors.

The Corporate Governance Statement has been prepared in compliance with Recommendation 54 of the Code and according to the Securities Market Act, Chapter 7, Section 7.

The General Meeting

The influence of the shareholders in the Bank is exercised via the General Meeting, which is the Bank's highest decision-making body. The Annual General Meeting shall be held annually no later than in June. In addition to the Annual General Meeting, an Extraordinary General Meeting may be convened to deal with a specified item of business. The Bank's shares consist of two series: Series A shares, which carry 20 votes per share, and Series B shares, which carry one vote per share. The Bank's Articles of Association state that no shareholder may vote at a General Meeting for more than one fortieth of the number of votes represented at the Meeting.

The Annual General Meeting elects the members of the Board of Directors and the auditors and, among other things, approves their fees, adopts the income statement and balance sheet and votes on the issue of discharging the Board and the Managing Director from liability for the financial year in question. Shareholders who wish to have a relevant item of business dealt with at the Annual General Meeting must submit a written request to the Board by the date specified on the Bank's website.

Information about and minutes from the Bank's General Meetings are available in Swedish and Finnish on the Bank's website, *www.alandsbanken.fi*. Notice of the Meeting and material about items of business to be dealt with at the Meeting are available on the website.

Board of Directors

The members of the Board of Directors are elected by the shareholders at the Annual General Meeting. The Board's term of office ends at the closing of the next Annual General Meeting after the election. The Board shall consist of at least five and at most seven members and at most two deputy members. Since the 2014 Annual General Meeting, the Board has consisted of seven members. The Managing Director may not be a member of the Board. The 2014 Annual General Meeting voted to change the Articles of Association in such a way as to remove the previous rule stating that a person who has attained the age of 67 years is not eligible to be elected a Board member.

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

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

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

Composition of the Board, 2014 (unchanged from 2013)	
Nils Lampi, Chairman Bachelor of Economic Sciences	Born 1948 Member since 2013 Mariehamn, Åland
Christoffer Taxell, Deputy Chairman Master of Laws	Born 1948 Member since 2013 Turku, Finland
Agneta Karlsson Doctor of Economics, Associate Professor	Born 1954 Member since 2003 Sund, Åland
Anders Å Karlsson Bachelor of Commerce	Born 1959 Member since 2012 Lemland, Åland
Annika Wijkström Master of Arts	Born 1951 Member since 2012 Stockholm, Sweden
Anders Wiklöf, Commercial Counsellor Business owner	Born 1946 Member since 2006 Mariehamn, Åland
Dan-Erik Woivalin Master of Laws	Born 1959 Member since 2013 Mariehamn, Åland

During 2014, the Board held 18 (21) meetings. The Board members' average attendance was 92.19 per cent.

INDEPENDENCE OF THE BOARD MEMBERS

In the assessment of the Board of Directors, Nils Lampi, Chairman of the Board; Christoffer Taxell, Deputy Chairman of the Board; and Board members Agneta Karlsson, Anders Å Karlsson, Annika Wijkström and Anders Wiklöf are independent in relation to the Bank. Board member Dan-Erik Woivalin is deemed to be dependent on the Bank, since he was an employee of the Bank until January 2013.

Christoffer Taxell, Agneta Karlsson and Annika Wijkström are also independent in relation to major shareholders. Nils Lampi 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 Å Karlsson is deemed to be dependent in relation to a major shareholder in the Bank due to his position as a Board member of the mutual insurance company Ålands Ömsesidiga Försäkringsbolag. Anders Wiklöf is regarded as dependent in relation to a major shareholder due to his direct and indirect shareholding in the Bank. Dan-Erik Woivalin is deemed to be dependent on a major shareholder, since he is an employee of Ålands Ömsesidiga Försäkringsbolag.

EVALUATION OF THE WORK OF THE BOARD

The Board of Directors conducts a yearly 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.

Disclosures about board members and their shareholdings in the Bank

More detailed information about the Board members and their shareholdings in the Bank can be found in the Board of Directors and Executive Team sections of the Annual Report.

The committees of the Board

Nomination Committee

The main duty of the Nomination Committee is to prepare proposals before the Annual General Meeting 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 are established by the Board. The Board has established the Committee's Rules of Procedure.

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 respective 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.

Since December 2014, the Nomination Committee has consisted of Nils Lampi, Chairman of the Board; Board member Anders Wiklöf; Jan Hanses, representing the insurance company Alandia Försäkring; and Göran Lindholm, representing Ålands Ömsesidiga Försäkringsbolag. Anders Wiklöf is Chairman of the Nomination Committee.

Until the Annual General Meeting in April 2014, the Nomination Committee consisted of Nils Lampi, Chairman of the Board; Board member Anders Wiklöf; Leif Nordlund, representing Alandia Försäkring; and Göran Lindholm, representing Ålands Ömsesidiga Försäkringsbolag.

During 2014 the Nomination Committee met three (two) times. The average attendance of Committee members was 100 (75) per cent.

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 Annual General Meeting the Audit Committee prepares proposals for the election of auditors and their fees.

Since the 2014 Annual General Meeting, the Audit Committee has consisted of Nils Lampi, Chairman of the Board; and Board members Agneta Karlsson and Anders Å Karlsson. The Audit Committee also includes Folke Husell as a co-opted member and Chairman of the Committee.

The composition of the Committee was unchanged from 2013.

During 2014 the Audit Committee met nine (12) times. The average attendance of Committee members was 97.22 (97.67) per cent.

Compensation Committee

The duties of the Compensation Committee are to prepare key compensation-related decisions and evaluate the Bank's compensation policy and the principles for variable compensation. The Compensation Committee decides on measures for monitoring the application of the principles for the compensation system and assesses its suitability and effect on the Group's risks and risk management.

Since the 2014 Annual General Meeting, the Compensation Committee has consisted of Board member Annika Wijkström, Chairman; Nils Lampi, Chairman of the Board; and Board member Agneta Karlsson.

The composition of the Committee was unchanged from 2013.

During 2014 the Compensation Committee met five (four) times. The average attendance of Committee members was 93.33 (100) per cent.

Managing Director

Since 2008 the Managing Director of the Bank has been Peter Wiklöf, Master of Laws (born 1966).

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.

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.

DISCLOSURES ABOUT THE MANAGING DIRECTOR AND HIS SHAREHOLDING IN THE BANK

More detailed disclosures about the Managing Director and his shareholding in the Bank can be found in the Board of Directors and Executive Team sections of the Annual Report.

The Group's Executive Team – other members

The Board appoints the members of the Group-wide Executive Team.

The Executive Team is an advisor to the Managing Director and deals with all major Bank-wide issues.

The Executive Team consists of the heads of the Bank's business areas and corporate units.

During 2014 the Executive Team met on 11 (10) occasions.

DISCLOSURES ABOUT THE MEMBERS OF THE EXECUTIVE TEAM AND THEIR SHAREHOLDINGS IN THE BANK

More detailed disclosures about the members of the Executive Team and their shareholdings in the Bank can be found in the Board of Directors and Executive Team sections of the Annual Report.

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.

Compensation to the Board, the Managing Director and other members of the Executive Team

PRINCIPLES FOR COMPENSATION

The members of the Board are not included in any incentive system, in addition to the established fees.

BOARD OF DIRECTORS

The fees of the Board members are established by the General Meeting. During the period from the 2014 Annual General Meeting and the end of the 2015 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 15,000.

Other Board members each receive an annual fee of EUR 12,000, but Board members residing outside Åland are paid twice this annual fee. A meeting fee is also payable for each Board meeting attended. The meeting fee amounts to EUR 1,000 for the Chairman and EUR 750 for other members per meeting attended.

A member of a Board committee is paid EUR 750 per meeting attended.

During 2014, the members of the Board received fees totalling EUR 228,250 (280,750).

Otherwise the members of the Board enjoy generally applied Bank employee benefits to a limited extent.

MANAGING DIRECTOR

The Board of Directors establishes the salary benefits and other employment conditions of the Managing Director. During 2014 the Managing Director received a salary of EUR 335,958 (310,700) including fringe benefits. The Managing Director's retirement age is at least 63 and at most 68. The Managing Director will receive a pension in accordance with the Finnish national pension system. The Managing Director receives free automobile benefits and the Bank's generally applicable employee benefits. The notice period in case of resignation initiated by the Managing Director is nine (9) months. 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 entitled to no other compensation than the above-mentioned severance pay.

The Managing Director participates in an earnings-based compensation system, which is described in detail in the Bank's Compensation Declaration on its website *www.alandsbanken.fi* (in Swedish).

The Managing Director is included in the share savings programme.

OTHER MEMBERS OF THE EXECUTIVE TEAM

The Board of Directors establishes the salary benefits and other employment conditions of the Executive Team. The members of the Executive Team (excluding the Managing Director) were paid compensation totalling EUR 1,343,964 during 2014. Otherwise the members of the Executive Team receive the

Bank's generally applicable employee benefits. Due to a diverging pension system in Sweden, the Bank has established premium-based supplementary pension insurance plans for members of the management team domiciled in Sweden, with a retirement age of 65.

The Executive Team participates in an earnings-based compensation system, which is described in detail in the Bank's Compensation Declaration on its website *www.alandsbanken.fi* (in Swedish).

The Executive Team is included in the share savings programme.

Lending structure

At the Bank, the office responsible for a customer is responsible for that customer's loans. Customer and loan responsibility rests with the head of the office and his/her fellow employees at the office. Those employees who work with lending have personal decision-making limits for those customers that they are responsible for. If larger loans are needed, there is a Credit Committee for operations in Finland and one for operations in Sweden. In addition, there is a Credit Committee of the Executive Team for credit matters that cannot be decided by the country-specific units. The largest matters are decided by the Bank's Board of Directors.

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 the Accounting Department together with the Business Control Department at Group level. These departments are responsible for the consolidated accounts and the consolidated financial statements, financial control systems and internal auditing, tax analysis, accounting principles and instructions, the Group's reporting to regulatory authorities and publication of the Group's financial information. Accounting managers at 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 the Group's Accounting Department.

The Internal Auditing Department assists the external auditors with the examination of financial information in accordance with an audit plan drawn up in advance. Internal Auditing is an independent unit and works on behalf of the Board of Directors.

External auditors examine the Group's interim reports, Annual Report and Corporate Governance Statement and submit an auditors' report to the Group's Board of Directors.

The Group's Executive Team deals with the Group's internal financial reporting every month and with the external interim reports or the Annual Report every quarter.

The Audit Committee assists the Board in its continuous monitoring work by examining the quarterly financial reports and the annual financial statements, as well as dealing with the observations of the external and internal auditors.

The Board of Directors deals with interim reports or the Annual Report every quarter and receives the Group's internal financial reporting every month. The Board also examines the auditors' reports, audit plans and conclusions of the external auditors concerning interim reports and the Annual Report. The Board meets with the external auditors at least once a year.

Internal Auditing

The Internal Auditing Department consists of three positions and reports directly to the Board of Directors. The purpose of internal auditing work is to objectively provide the Board and the Executive Team with independent assessments of 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.

Risk management

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

The Group is exposed to credit risk, counterparty risk, market risk, liquidity risk, operational risk and business risk. The latter is a consequence of the Group's strategy, competitiveness, ability to adapt to customer expectations, unfavourable business decisions and the environment and market the Group works in. Business risk is managed in conjunction with strategic planning. Credit risk, which is the Group's most significant risk, encompasses claims on private individuals, companies, institutions and the public sector. These claims mainly consist of loans, overdraft facilities and guarantees issued by the Bank.

The Board of Directors has overall responsibility for ensuring that risk management is sufficient and for establishing systems and regulations for monitoring and limiting the Bank's risk exposure. The Audit Committee assists the Board in handling these oversight tasks in internal control systems, risk management and reporting. The Managing Director oversees and supervises business operations in accordance with the Board's instructions, is responsible for day-to-day administration and for ensuring that the members of the Board receive sufficient information regularly about the Group's risk positions and the regulations that affect its operations.

The Bank works according to an allocation of responsibility in which each part of its business operations bears responsibility for its business and for managing its risks. The Risk Office Corporate Unit is responsible for independent risk monitoring, compliance with regulations, portfolio analysis and the loan granting process. This includes identifying, measuring, analysing and reporting all of the Group's significant risks as well as examining the loan matters presented to the Credit Committee of the Executive Management. The Risk Office is also responsible for informational and corporate security in the Group.

The corporate unit also ensure that risks and risk management live up to the Bank's risk tolerance and that the management of the Bank regularly receives reports and analyses on the current situation. The Risk Office is audited by the Internal Auditing Department, which evaluates risk management both in terms of sufficiency and compliance.

In addition to the standards of the Finnish Financial Supervisory Authority and legislation, the main foundations of the Group's risk management are the European Union's capital adequacy directive and regulation, which are based on the regulations of the Basel Committee. For more detailed information on the Group's risk management, capital management, evaluation of capital requirements and capital adequacy information, see the "Risk management" section in the Group's financial statements.

Compliance

Monitoring and assessment of the Bank's compliance with regulations is managed by the Group's Compliance Department, which regularly reports its observations to the Audit Committee.

Insider administration

The Bank maintains insider registers both in its capacity as a securities issuer and broker. Those individuals at the Bank who are insiders are subject to the Finnish Financial Supervisory Authority's standards on insider reporting and registers, the insider trading guidelines of the Federation of Finnish Financial Services and the Bank's internal rules. The Bank has also adopted the insider regulations of the Helsinki Stock Exchange and has introduced a trading restriction, under which insiders at the Bank are not entitled to trade in the Bank's securities during a 14-day period before the publication of the Bank's annual financial statements or interim reports. The trading restriction also includes minors for whom Bank insiders are guardians and organisations and foundations in which Bank insiders have a controlling influence.

The Bank is also affiliated with the SIRE system, which means that insiders' trading in listed securities is automatically updated in the Bank's insider register. An insider's securities holdings are public. The Bank's register manager and its internal auditors regularly monitor the disclosures that insiders have made to the Bank's insider register.

Auditors

According to its Articles of Association, the Bank shall have at least three auditors and a requisite number of deputies for them. An auditor is appointed yearly at the Annual General Meeting for the period up to the end of the next Annual General Meeting.

The latest Annual General Meeting in 2014 appointed Pauli Salminen, Birgitta Immerthal and Mari Suomela, Authorised Public Accountants (CGR). The CGR-affiliated firm of KPMG Oy Ab, with Kim Järvi, Authorised Public Accountant (CGR) in charge, was elected as the new deputy auditor.

During 2014, Group companies paid a total of EUR 304,306 (404,417) including value-added tax for auditing fees. In addition, they paid EUR 330,287 (328,902) including VAT to auditors for consulting assignments.

Board of Directors

Nils Lampi

CHAIRMAN

Chief Executive Officer, Wiklöf Holding Ab.
Bachelor of Economic Sciences. Born 1948
Chairman of the Board since April 18, 2013. Board member since April 18, 2013

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: None Series B shares: 700

Christoffer Taxell

VICE CHAIRMAN

Master of Laws. Born 1948
Vice Chairman of the Board since April 18, 2013. Board member since April 18, 2013

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: None Series B shares: 1,000

Agneta Karlsson

Doctor of Economics. Associate Professor. Born 1954
Board member since 2003

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: 40 Series B shares: 28

Anders Å Karlsson

Bachelor of Commerce. Born 1959
Board member since April 19, 2012

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: 2,960 Series B shares: 1,500

Annika Wijkström

Master of Arts. Born 1951
Board member since April 19, 2012

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: None Series B shares: None

Anders Wiklöf

Business owner
Commercial Counsellor. Born 1946
Board member since 2006

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: 1,589,396 Series B shares: 1,296,549

Dan-Erik Woivalin

Master of Laws. Attorney at Law. Born 1959
Board member since April 18, 2013

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: None Series B shares: None

Further information in Swedish and Finnish about the members of the Board can be found on the Bank's website www.alandsbanken.fi

Executive Team

Peter Wiklöf

Managing Director. Chief Executive
Master of Laws. Born 1966
Chairman and member of the Executive Team since 2008

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: None Series B shares: 7,547

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

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: None Series B shares: 8,200

Birgitta Dahlén

Director, Åland Business Area
Bank officer training. Born 1954
Member of the Executive Team since 2010

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: 450 Series B shares: 1,338

Tove Erikslund

Chief Administrative Officer
Master of Business Administration. Born 1967
Member of the Executive Team since 2006

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: None Series B shares: None

Magnus Holm

Director, Sweden Business Area
Economic studies. Born 1962
Member of the Executive Team since 2011

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: None Series B shares: None

Juhana Rauthovi

Chief Risk Officer
Licentiate in Laws. MSc (Econ), MSc (Tech).
Master in International Management. Born 1975
Member of the Executive Team since 2012

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: None Series B shares: 4,700

Anne-Maria Salonius

Director, Finnish Mainland Business Area
Attorney at Law, Master of Laws. Born 1964
Member of the Executive Team since 2010

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: None Series B shares: None

Further information in Swedish and Finnish about the members of the Executive Team can be found on the Bank's website www.alandsbanken.fi

The Bank of Åland Plc's list of stock exchange releases in 2014
(published in Finnish and Swedish only, except that the releases marked * are also available in English)

Stock exchange releases, 2014

January

January 15, 2014	The Bank of Åland convenes co-determination negotiations

February

February 14, 2014	Year-end Report for the period January–December 2013*

March

March 14, 2014	Co-determination negotiations completed at Bank of Åland Plc*
March 14, 2014	The 2013 Annual Report of the Bank of Åland Plc, with the future outlook for 2014 and new long-term financial targets, has been published*
March 17, 2014	Notice to convene Annual General Meeting*
March 26, 2014	Transfer of own shares

April

April 18, 2014	Release on items of business dealt with at the Annual General Meeting of the Bank of Åland Plc on April 10, 2014
April 29, 2014	Interim Report for the period January–March 2014*

June

June 19, 2014	The Bank of Åland Plc lowers its prime rate

July

July 10, 2014	Bank of Åland's earnings substantially better than last year*
July 25, 2014	Interim Report for the period January–June 2014*

September

September 3, 2014	The Ålandsbanken Abp launches a share savings programme for employees

October

October 1, 2014	The Bank of Åland issues option rights to key individuals
October 23, 2014	Standard & Poor's confirms Bank of Åland's credit rating*
October 28, 2014	The January–September 2014 interim report
October 31, 2014	Annual General Meeting and financial information in 2015

December

December 19, 2014	The Bank of Åland Abp acquires the minority holding in Ab Compass Card Oy Ltd
December 19, 2014	The Bank of Åland Plc's subsidiary Crosskey Banking Solutions Ab Ltd extends and expands its partnership with S-Bank

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