Annual Report 2015

Bank of Åland Plc

ÅLANDSBANKEN

Going our own way

Contents

Financial calendar

The Bank of Åland will publish the following Interim Reports during the 2016 financial year:

• January–March Interim Report	April 26, 2016
• January–June Interim Report	July 26, 2016
• January–September Interim Report	October 25, 2016

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 2015, the middle rate for EUR 1 was USD 1.1095 and SEK 9.3535.

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

Translation: Victor Kayfetz, SCAN EDIT, Oakland, CA
Cover photo: Staffan Sundström

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 five offices in the Åland Islands and five offices on the Finnish mainland: in Helsinki, Tampere, Vaasa, Turku and Parainen. In Sweden, the Bank of Åland has three offices: Stockholm, Gothenburg and Malmö.
- The Bank of Åland Group has a total of three subsidiaries whose operations are connected in various ways with banking. They are Ålandsbanken Fondbolag Ab, Ab Compass Card Oy Ltd and Crosskey Banking Solutions Ab Ltd, the latter with its own subsidiary S-Crosskey Ab.
- In the Åland Islands, the Bank of Åland is a bank for all residents, both in a position and with a desire to help develop the Åland of the future.
- On the Finnish mainland and in Sweden, the Bank of Åland has a niche strategy targeted to entrepreneurs, wealthy families and individual customers with sound finances. We offer two concepts: Private Banking and Premium Banking®. We also offer asset management services for institutional investors.
- Over the years, the Bank of Åland has been an innovative pioneer in the financial services industry. The Bank of Åland's Premium Banking®, launched in 2004, has served as a model for competitors in the Nordic countries.
- The Bank of Åland has proactively chosen to offer products that benefit the customer at various levels: first and foremost financially, but also by contributing to sustainable development. Including the 2015 amount, over the years the Bank's Environmental Account has contributed more than EUR 1,3 M to projects that improve and protect the environment.

Bank of Åland Group	2015	2014	2013	2012	2011
EUR M					
Income					
Net operating profit	30.3	22.4	10.4	9.9	−5.7
Profit for the year attributable to shareholders	24.3	16.1	6.7	11.3	−6.5
Volume					
Investment volume	7,076	6,312	5,784	5,227	4,798
Lending to the public	3,617	3,343	3,104	2,905	2,737
Deposits from the public	2,675	2,391	2,460	2,442	2,544
Risk exposure amount	1,581	1,554	1,475	1,401	1,729
Equity capital	213	196	184	179	181
Financial ratios					
Return on equity after taxes (ROE), %	12.0	8.7	3.8	6.6	−3.9
Expense/income ratio	0.73	0.80	0.86	0.85	1.04
Loan loss level, %	0.09	0.06	0.14	0.23	0.07
Core funding ratio, %	100	105	103	104	108
Equity/assets ratio, %	4.6	4.6	4.7	4.9	5.3
Core Tier 1 capital ratio, %	11.9	10.9	10.8	10.9	8.4
Working hours re-calculated to full-time equivalent positions	663	644	617	640	690

The year 2015 in brief

Financial summary of 2015

- Profit for the year attributable to shareholders increased by 51 per cent to EUR 24.3 M (16,1).
- Earnings per share increased by 43 per cent to EUR 1.60 (1.12).
- Return on equity after taxes (ROE) increased to 12.0 (8.7) per cent.
- Net interest income increased by 9 per cent to EUR 54.0 M (49.3).
- Net commission income increased by 1 per cent to EUR 46.5 M (46.2).
- Total expenses decreased by 5 per cent to EUR 91.6 M (96.4).
- Net impairment losses on loans (including recoveries) increased by 73 per cent to EUR 3.0 M (1.8), equivalent to a loan loss level of 0.09 (0.06) per cent.
- Actively managed assets increased by 14 per cent to EUR 3,958 M (3,485).
- Lending increased by 8 per cent to EUR 3,617 M (3,343).
- Deposits increased by 12 per cent to EUR 2,675 M (2,391).
- The core Tier 1 capital ratio increased to 11.9 (10.9) per cent.
- The Board of Directors proposes a 50 per cent increase in the dividend to EUR 0.60 (0.40) per share.

Important events in 2015

FIRST QUARTER

- The Bank of Åland and its subsidiary Ålandsbanken Asset Management agreed to merge.
- Net operating profit of EUR 9.4 M in the first quarter was the best ever for a single quarter in the Bank of Åland's history, excluding nonrecurring items.

SECOND QUARTER

- The Annual General Meeting elected Göran Persson and Ulrika Valassi as new members of the Board of Directors. Board members Nils Lampi, Christoffer Taxell, Agneta Karlsson, Anders Å Karlsson, Anders Wiklöf and Dan-Erik Woivalin were re-elected. The Meeting also approved amending the Articles of Association in such a way as to remove the theoretical preference element in Series B shares.
- The Standard & Poor's rating agency raised its credit rating on covered bonds issued by the Bank of Åland to AAA with a stable outlook.
- Ålandsbanken Asset Management merged with the Bank of Åland. As consideration for the merger, the minority shareholders of Ålandsbanken Asset Management received 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.
- A new Group-wide Asset Management organisation was established, with employees both in Finland and Sweden. Asset Management is responsible for management and sales support of the Bank of Åland's own mutual funds, discretionary asset management mandates and advisory asset management mandates. Asset Management is a support organisation for Private Banking and Premium Banking, which have direct customer responsibility. Asset Management itself has customer responsibility for certain large institutional customers, mutual fund platforms and insurance agents.
- In light of changes in the organisation, starting with the second quarter of 2015 the Bank of Åland changed its reporting of operating segments. The new segments being reported are Private Banking, Premium Banking, Asset Management, IT and Corporate and Other.
- The Bank of Åland issued a positive profit warning before its first half accounts were published, revised its earnings forecast upward to say that the Bank "expects its net operating profit in 2015 to be substantially better than in 2014."

THIRD QUARTER

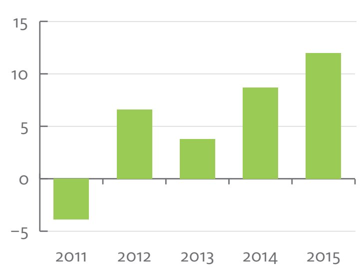
- For the second consecutive year, the Bank of Åland (Ålandsbanken) Euro Bond Fund was named the best Nordic fund in its category and received the prestigious Lipper Fund Award Nordic. The Fund won the award for all management periods that were analysed: 3, 5 and 10 years.

FOURTH QUARTER

- In the strategic advisory firm TNS Sifo Prospera's survey of Private Banking market participants in Finland, the Bank of Åland received the highest score among all participants from the customers who were interviewed. The Bank's integrity, service-mindedness and personal advisors attracted particular mention.
- The Bank of Åland's Board of Directors launched a new share savings programme for all Group employees. Sixty per cent of employees signed up 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.

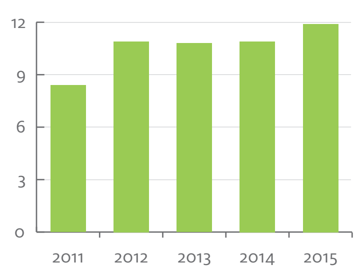
Return on equity after taxes (ROE)

Per cent

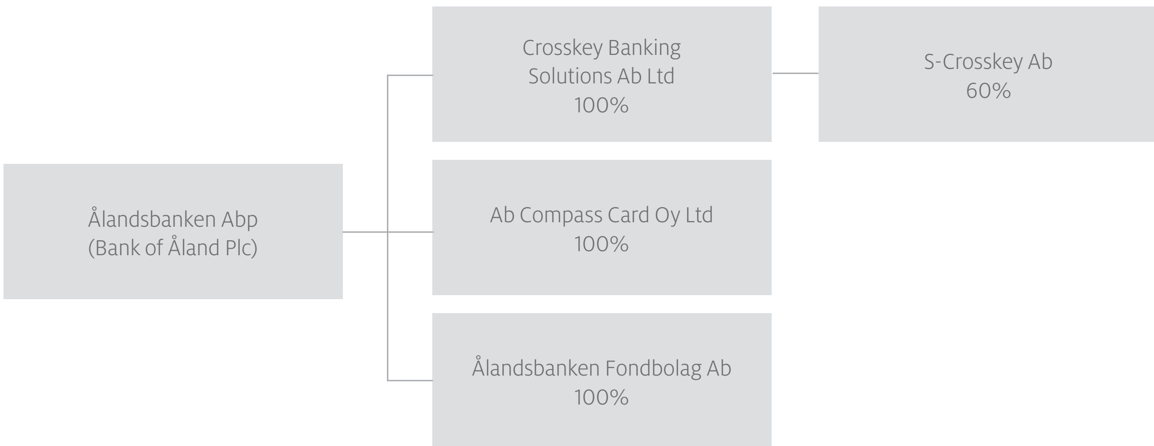


Core Tier 1 capital ratio

Per cent



Legal structure of the Group



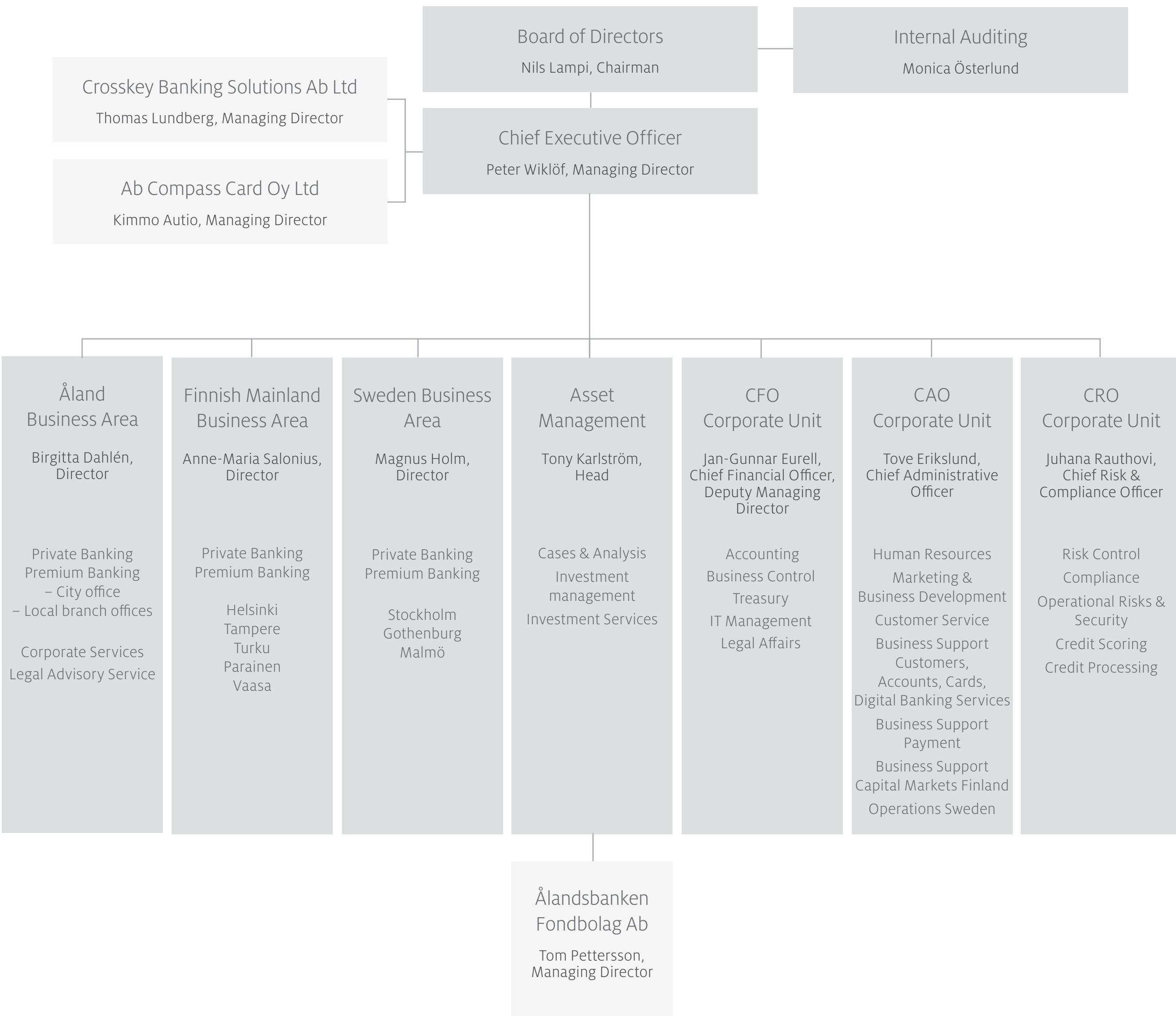
Associated companies consolidated in the Group:

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.

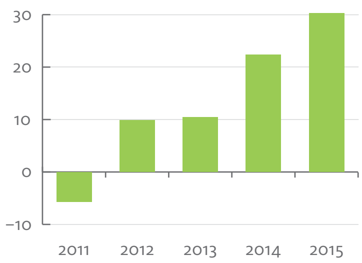
Organisational chart



We should be proud, but not satisfied

The Bank of Åland had a successful year in 2015. Thanks to our customers, we came to an important realisation: it is perfectly possible to remain firmly principled, based on core values, and still operate a bank successfully. This is because we are reporting some of the Bank's best earnings ever. So we have every reason to be proud, without also becoming self-satisfied.

Net operating profit
EUR M



As we move into 2016 the risks of serious economic disruptions in the world economy are once again high. Clear warning signals are the growing geopolitical turmoil in the Middle East, the wave of refugees entering Europe, an escalating number of terrorist acts, falling oil prices, decelerating economic growth in China, weak balance sheets at many European banks and high asset prices after monetary policy experiments with zero interest rates and large quantities of newly printed money (quantitative easing).

OUR DEDICATION IS YIELDING RESULTS

The Bank of Åland delivered its best net operating profit ever, with the exception of 2009, when we received a nonrecurring income item of EUR 23 million upon purchasing Kaupthing Bank in Sweden. During 2015 we improved the Bank's net operating profit by 35 per cent (EUR 7.9 M) to EUR 30.3 M.

These earnings represented a 12.0 per cent return on equity after taxes, which exceeded our long-term target. Our strong operating profit also strengthen the Bank's capital base, and equity capital rose from EUR 194 M to EUR 213 M. Total income rose by EUR 4.3 M to EUR 124.9 M. Net interest income in particular showed a clear improvement despite a continued decline in market interest rates.

Three factors counteracted falling market rates: larger volume, improved margins and declining costs of funding thanks to our successful issuance of covered bonds.

The Bank's lending rose by 8 per cent to EUR 3,617 M, while actively managed assets rose by 14 per cent to EUR 3,958 M, which was reflected in higher net commission income. Net commission income attributable to financial investment operations on behalf of our customers rose by 10 per cent. In recent years, few Nordic banks have been able to show such high growth figures for business volume.

During 2015, total expenses fell 5 per cent to EUR 91.6 M, helped by such factors as the elimination of banking tax and deposit guarantee expenses.

Loan losses rose somewhat from very low levels in 2014 and ended up at EUR 3.0 M, equivalent to a loan loss level of 0.09 per cent of loans outstanding.

Overall, I can state that these results are a direct consequence of our long-term, dedicated work. Everyone here at the Bank has made a contribution that not even unfavourable external factors have been able to sabotage.

WE HAVE EMBARKED ON THE RIGHT PATH

I mentioned at the beginning that our core values provide us with a stable foundation. Maintaining values in an organisation is tricky, to say the least. In bad times it is easy to bend one's values a bit, and in the rush of good times sometimes values are indeed forgotten.

Allow me to argue that we at the Bank of Åland have managed to stick to our values during years of both headwinds and tailwinds.

Last autumn we received the results of a customer survey that the strategic advisory firm TNS Sifo Prospera had conducted among Private Banking customers in Finland. We were the bank with the highest overall score in Private Banking. As part of this, one score was especially encouraging: we are considered the best in the category *Integrity and ethics*. Meanwhile this is the area that respondents consider the most important for their bank.

Integrity and ethics is a complex category, but my interpretation of its significance is crystal-clear. We are appreciated because we stick to our values and always have the customer's best interests in mind, without pursuing the interests of anyone else. We go our own way, offering each customer a large bank's range of services with a small bank's thoughtfulness and good sense.

I also regard our score as an acknowledgement of the Bank of Åland's sustainability work and long-standing commitment to the environment. One of the-most important innovations during 2015 was our ambitious Baltic Sea Project, in which we are helping work towards a healthier Baltic Sea.

It is clear that our know-how and genuine dedication are resonating with more and more people in Finland and Sweden. We have earned a position of trust that we do not take lightly.

Peter Wiklöf, Managing Director

Daring to go our own way

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

OUR VISION

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

OUR POSITION

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

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

A BANK FOR INVESTORS, WITH FINANCING KNOW-HOW

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

OUR THREE MARKETS

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

GOING OUR OWN WAY IS EMBEDDED IN OUR GENES

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

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

Photographer: Staffan Sundström

Sustainability work at the Bank of Åland during 2015

Backed by a long-term sustainability strategy, we have worked systematically with four priority areas: responsible investments, responsible lending, social responsibility and environmental responsibility.

RESPONSIBLE INVESTMENTS

During 2015 the Bank's Asset Management segment analysed the question of corporate environmental, social and governance responsibility, or "ESG factors".

Together with our business partners, we rank the foremost companies in relevant economic sectors in terms of ESG factors. This ranking provides us with important information about which companies take responsibility for sustainable development and can thus be given increased weight in the Bank of Åland's investment portfolios.

We endeavour to target the Bank's investments to those companies in each sector that have the highest sustainability scores.

RESPONSIBLE LENDING

In our lending policy document, we have clarified what responsible lending means at the Bank of Åland. This enables our financing advisors to take into account and make decisions on sustainability when preparing certain loans. By means of clearer processes, systems development and expanded resources, today we can perform a more in-depth analysis of loan matters. As for our involvement in customers' future repayment capacity, we put a lot of effort into future-oriented analysis. We want to have a clear picture of how Finland's deteriorating finances and a possible weakening of Sweden's economic boom might affect customers' repayment capacity.

OUR SOCIAL RESPONSIBILITY

The Bank's ambition to be a secure long-term employer is enjoying a tailwind, since we are seeing an increase in staffing in all three geographic markets. Our yearly employee survey also shows a commitment index of 4.2 on a scale of 5.

In order to ensure good leadership, the Bank of Åland's leadership programme was expanded to cover all managers in the organisation.

During 2015 our social commitment was marked by sports and cultural sponsorships, reflecting our desire to contribute to meaningful leisure activities for children and youth. The Bank has also provided support to young people through the Young Entrepreneurship and Business Lab Åland projects, which are aimed at college and university students.

OUR ENVIRONMENTAL RESPONSIBILITY

During the year, the Bank distributed EUR 113,000 to various environmental projects via our Environmental Account bonus. We also developed and implemented a new concept for the bank's Environmental Account bonus through the new Baltic Sea Project.

THE BALTIC SEA PROJECT

In addition to its yearly involvement in the international Stockholm Water Prize, during 2015 the Bank of Åland decided to make an ambitious commitment to improving the vulnerable marine environment of the Baltic Sea.

Through the Baltic Sea Project, the Bank of Åland and the other project participants support smart projects to promote a healthier Baltic Sea. The vision is to help small environmental projects take off and ensure that their member organisations can work mutually and energetically to protect the Baltic Sea.

The Baltic Sea Project is also aimed at heightening public awareness of how vulnerable the Baltic Sea is and, through that realisation, persuade them to act responsibly. During 2015 it turned out that there is great interest in the project, both among the Bank's employees and the general public.

Nearly 100 project ideas were presented in four categories, and nine projects were nominated. The Baltic Sea Project was highly successful in persuading people to vote for the nominated projects. This level of involvement is an important signal to all projects that their contributions are of great importance.

Photographer: Staffan Sundström

Growth with top-quality asset management

The Bank of Åland is a significant market player in Private Banking, with more than 100 people directly active in this business segment in the Åland Islands, on the Finnish mainland and in Sweden. Private Banking is the largest business area in the Bank of Åland's operations, which is especially evident on the Finnish mainland and in Sweden.

At the end of 2015, Private Banking customers accounted for 74 per cent of all financial investment volume, 55 per cent of the overall volume of deposits and 45 per cent of all borrowing volume at the Bank of Åland. Net operating profit from Private Banking in 2015 amounted to EUR 20.7 M, which was equivalent to 68 per cent of the Bank's total net operating profit. Return on allocated equity was 24 per cent.

The Bank of Åland's Private Banking operations are continuing to grow on the Finnish mainland, in Sweden and in Åland. The growth rate is highest in Sweden, where the fastest-growing customer category consists of entrepreneurs who need advanced advisory services.

During 2015 the Bank of Åland's Private Banking strategy took an important step forward when the subsidiary Ålandsbanken Asset Management merged with the Bank of Åland. The result was an even stronger Private Banking unit in Finland. Meanwhile the Bank substantially strengthened its financial investment offering when its asset management expertise in Finland and Sweden was coordinated in a common asset management organisation. The organisation also broadened its expertise during 2015, among other things by recruiting new staff in Finland and Sweden.

Bank of Åland Private Banking offers comprehensive solutions, which we see that our customers appreciate. The core consists of first-class asset management solutions, which are supported by everything from day-to-day banking services to financing services, legal advice, personalised service and lifestyle services.

The needs of our customers naturally vary a bit between markets. In Sweden, we note that aside from asset management, customers especially appreciate our know-how related to corporate structures, moving abroad and repatriation, voluntary disclosure for tax returns, tax advice and legal help. On the Finnish mainland, the Private Banking team focused during 2015 on comprehensive solutions for nuclear and extended families. Our long experience of such solutions makes us a natural partner in ensuring that the needs of different generations will be met. For example, to make changes of generation easier, we started a "banking school" for 16–25-year-olds: a lecture series that gives them an insight into financial issues and provides tips on sensible long-term management of property.

Happily, there is also a rising interest in our Private Banking offering in our home market, the Åland Islands. We are being contacted by both new and returning customers. We regard this trend both as an acknowledgement of our efficient equity management and as a result of the Private Banking team's active customer marketing.

The Bank of Åland's Private Banking team receives top rankings on the Finnish mainland, in Sweden and in Åland. A TNS Sifo Prospera survey that was published in December shows that according to customers of both our bank and other banks, we are in first place among Private Banking market players in Finland. We also conducted customer surveys in Sweden, and the results show that the Bank of Åland has very satisfied customers there. Among other things, they appreciate our top-quality service, good availability and high integrity.

We regard the large inflows of new customers and good results in customer surveys during the past few years as further confirmation that we are on the right path.

Birigitta Dahlén (top), Director of the Åland Business Area; Magnus Holm, Director of the Sweden Business Area; and Anne-Maria Salonius, Director of the Finnish Mainland Business Area.

Photographer: Daniel Eriksson

A strong offering attracts new Premium customers

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

The core business consists of the more than 13,000 customers who have chosen to join the Bank of Åland's Premium Banking concept. In addition to a personal advisor as well as financial and legal advisory services, this also includes tailored financial services, security services and lifestyle services.

The number of private customers who have joined the Bank of Åland's Premium Banking concept increased by 10 per cent during 2015. The largest number of Premium Banking customers is found on the Finnish mainland, but the growth rate is fastest in Sweden. Premium Banking customers typically have sound finances and value their contact with a personal adviser.

As for the increased interest in our Premium Banking offering, we are pleased that our customers tell their friends about us. In other words, we are growing mainly because of personal recommendations.

When it comes to our customers' approach to their finances, we are seeing an ever-stronger interest in long-term planning. Generally speaking, the attitude of our customers is one of deliberate caution.

We have consequently seen a rising interest in regular savings, and in many cases the Bank of Åland's own asset management funds have been a highly valued solution. In Åland and on the Finnish mainland, the number of customers who save regularly in mutual funds increased by 14 per cent compared to the previous year. Due to the market situation and turmoil in the economy, the demand for home mortgage loans is also characterised by healthy caution. Yet our deposits and lending increased in all three of our markets compared to 2014.

In our home market of Åland, we are pleased that Premium Banking is continuing to attract an interest among local residents. For example, our lending increased by 8 per cent compared to 2014. Among the services that Åland residents appreciate are the Sweden Package and the smooth overall coverage that our collaboration with the mutual insurance company Ålands Ömsesidiga gives the Bank's mortgage loan customers. But during 2015 as in recent years, the Bank had the privilege of welcoming both new and returning customers. Thus a more general explanation of Bank of Åland's success is probably that we are regarded as a local, innovative and dedicated market player with a long-term perspective.

In Finland we broadened this customer segment during 2015 when we began offering a Custom Premium package to customers aged 18–29. In addition to daily banking services, it includes insurance and advisory services.

The housing mutual fund Ålandsbanken Bostadsfond is continuing its successful expansion in Finland and is a sought-after investment alternative among Premium customers.

In Sweden, Premium Banking has enjoyed good growth, evenly allocated among all of our three offices. To meet customer needs, several new advisors and service advisors were recruited to the Stockholm, Gothenburg and Malmö offices.

In insurance, the Bank's offering in Sweden was supplemented with a pension and insurance analysis that the customer goes through with an insurance advisor. The analysis shows what the customer will receive upon retirement and in case of illness, unemployment and death.

THE ÅLAND CORPORATE SERVICES UNIT

The Bank of Åland's Corporate Services unit is the market leader in Åland and offers a wide range of services and products adapted for Åland-based companies. The target group is broad and includes small and medium-sized businesses as well as large corporations with international operations.

The number of corporate customers continued to increase and the level of customer activity was high during the year. We also received a large number of inquiries from the corporate customers of other banks. Loans outstanding totalled EUR 344 million at year-end.

Lending to maritime shipping companies continued to decline during 2015, and at year-end it accounted for only 1.7 per cent of total Group lending. Our customers in the maritime shipping sector have their vessels chartered out and are servicing their borrowing obligations as planned. Uncertainty about both revenue levels and the second-hand values of our customers' vessels decreased during the year.

During 2015 the Bank of Åland's Corporate Services unit continued its involvement in Business Lab Åland, Young Entrepreneurship and the RoslandsMinglet networking project, among other initiatives. The Bank is thus contributing to a positive view of entrepreneurship and the potential for young entrepreneurs to get started in business more easily by using effective tools.

Photographer: Staffan Sundström

Focus and uniformity allow efficient asset management

Photographer: Daniel Eriksson

Tony Karlström is in charge of the Investment Management and Investment Services departments as well as the asset management subsidiary Ålandsbanken Fondbolag Ab. The Asset Management staff consists of 31 people in Mariehamn, Helsinki and Stockholm.

Asset Management supplies the Bank's Private Banking and Premium Banking segments with asset management services. It is also responsible for the Bank's asset management offering to institutional customers.

At Asset Management, during 2015 we continued working with the major reorganisation that began in the autumn of 2014. Our objective has been to create a single asset management unit for the entire Bank, adapting both our investment philosophy and our product offering in order to create better potential to generate added value for our customers. The project was completed on June 30, and since then Asset Management has been a separate business area.

Our task is twofold: We supply the Bank's Private Banking and Premium Banking segments with asset management services and we are responsible for the Bank's asset management offering to institutional customers.

During the year, we also created a new long-term sales strategy. Sales will occur via two channels: to the Bank's customers and to external parties such as various platforms, agents and institutions. We are intensifying our efforts in the latter channel during 2016.

The Bank of Åland's financial investment philosophy of generating value during upturns and preserving capital during downturns is reflected especially in the Bank's allocation funds and discretionary mandates, but should also be visible in its management of equity and fixed income mutual funds. This means that when markets are dominated by euphoria, we are a bit cautious and lower our risk level. When volatility prevails in markets, we dare to go against the flow and raise our risk. In other words, our work is governed by a large dose of common sense.

One key element of our customers' portfolios is of course their actual allocation, that is, the choice between different assets. During 2015 the Bank of Åland's Premium Funds were restructured and now invest only in mutual funds instead of directly in securities. With the support of our investment philosophy, during 2015 the Premium Funds achieved better returns than their respective benchmark indices.

Management of the Bank's own fixed income funds continued in the same successful way as previously. One acknowledgement is that for the second consecutive year, the Ålandsbanken (Bank of Åland) Euro Bond Fund was named the best Nordic fund in its category and received the Lipper Fund Award Nordic. During 2015, the Ålandsbanken Euro High Yield Fund achieved a good return and was among the foremost high yield funds offered in Finland. Ålandsbanken Cash Manager was named as one of the best Continental European money market/short-term bond funds in the Investment Europe Fund Manager of the Year ranking.

The success of the Ålandsbanken Bostadfond, a housing mutual fund, continued during the year and we brought in another EUR 12 M in fresh capital. In addition, the fund's stable return during the year amounted to 8.9 per cent for Series A units. The Bank was also the first mutual fund company in Finland to launch a new special mutual fund, Ålandsbanken Tomtfond, that will invest in properties rented by limited liability housing companies.

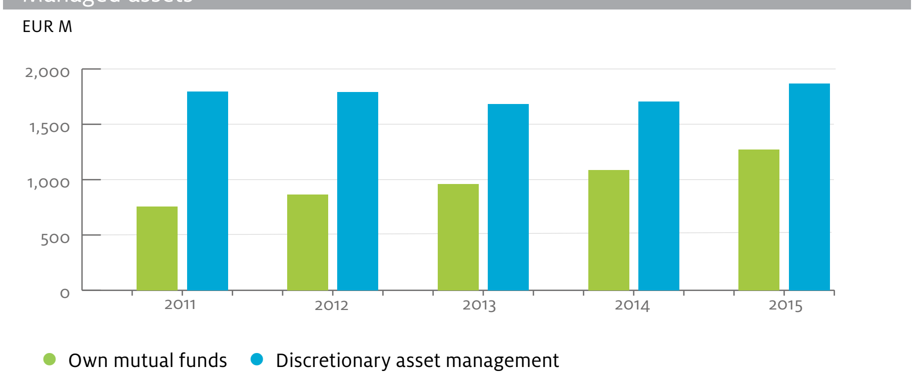
During 2015 our stock portfolio management was adapted to the new asset management philosophy. There was heavy interest, and fresh capital poured into Sverigefonden – the Bank's Swedish equity fund – via external sales channels. During 2016 we will broaden our range of equity funds even further.

The task of creating a uniform asset management organisation in the Bank took up much of the year. We focused on building up a stable, scalable infrastructure that supports the asset management process. We also put a great deal of effort into developing uniform sales material that supports the Bank's advisors in their meetings with customers.

In order to simplify and streamline the asset management structure, Ålandsbanken Asset Management Ab merged with the parent Bank. The mutual funds that were previously administered in Luxembourg were also merged with existing or newly started funds handled by our fund management company in Finland. Today all of the Bank of Åland's own mutual funds are managed by this company, Ålandsbanken Fondbolag Ab, and all asset management staff members are employed by the Bank or the fund management company.

The new asset management organisation is now largely in place, and we can focus on generating good risk-adjusted returns for the Bank's customers and other mutual fund unit owners. During 2015 actively managed assets, defined as assets under discretionary and advisory management as well as in mutual funds, increased by 14 per cent and amounted to EUR 3,958 M at year-end. Total assets in the Finnish fund management company's mutual funds amounted to EUR 1,272 M on December 31. This was an increase of 60 per cent compared to one year earlier. This sharp increase was due to the above-mentioned fund mergers, good new sales and favourable growth in values.

Managed assets



Smooth collaboration has paved the way to success

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 Accounting, Business Control, Treasury, IT Management and Legal Affairs departments. The CFO Corporate Unit has more than 40 employees in Mariehamn, Helsinki and Stockholm.

During 2015 Treasury issued AAA-rated covered bonds for the first time. At the same time, it raised the issue amount to EUR 250 M. In 2015 Treasury also helped the Bank of Åland become the first Finnish bank to issue subordinated debentures (supplementary capital) with a write-down clause. The department continued to streamline middle office processes, among other things with faster and more automated valuations, appraisals and reporting.

Business Control continued the task of refining its internal management model and the control process, as well as internal reporting support for business control.

Accounting continued its effort to shorten and automate the process of compiling financial statements. During the year, accounting work for the Swedish branch was centralised at the Head Office in Mariehamn.

IT Management had an important role during 2015 in working with the IT 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 task of creating a Group-wide data warehouse started. 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 2015.

During 2016 we will continue our efforts to streamline and raise the quality of the CFO Corporate Unit's work processes.

CAO Corporate Unit

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

The CAO Corporate Unit is responsible for back office and systems support for securities administration, deposits, payment intermediation, digital channels and customer administration. The unit includes project management resources, the Group-wide marketing department, the human resources department as well as customer services by telephone and the Internet Office.

During 2015 the corporate unit was engaged in one of the Bank of Åland's largest-ever IT projects: the Group's new capital market system. The new system will gives customers a more modern environment with better digital interfaces and will meanwhile enable cost-cutting by merging several IT platforms and centralising processes and administration.

Improving the Bank of Åland's digital channels also continued to enjoy priority. In Sweden and Finland, the Bank launched an initial version of its mobile application for smartphones. The service was well-received, and development work is continuing during 2016. The Bank's website also underwent a major change, with a new graphic design language and new functionality.

Three other large technology projects were under way during 2015. The securities safekeeping and settlement company Euroclear is placing a new money market system in service during 2016, and the Bank of Åland thus began the task of adapting its capital market system. The Bank also began the development of systems support for its Swedish payment service. It changed market data supplier, and this change will improve processes and lower the Group's expenses.

The volume of cases handled by Customer Service, which customers contact via telephone and the Internet, rose during 2015. The goal was to handle a larger share of customer cases quickly and professionally in order to provide even better service to customers. Meanwhile this gives the Bank's customer advisors additional time to provide more advanced advisory services.

During 2015 all Group employees were invited to participate in a share savings programme that enables them to buy shares in the Bank on favourable terms. The programme was well received and 69 per cent of employees chose to participate. The programme will continue in 2016.

The CAO Corporate Unit also developed a common proficiency platform for the Bank's internal training courses. The training programme was broadened to include an employee empowerment programme, an expanded introductory training course and advanced training courses. The leadership programme organised about 15 training events. Premium and Private Banking academies were implemented in all geographic business areas to further strengthen our service delivery and enhance the customer experience.

CRO Corporate Unit

Chief Risk & Compliance Officer (CRO) Juhana Rauthovi is in charge of the Risk Control, Credit Processes, Credit Scoring,Compliance and Operational Risks & Security departments. The corporate unit consists of 35 people in Mariehamn, Helsinki and Stockholm.

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

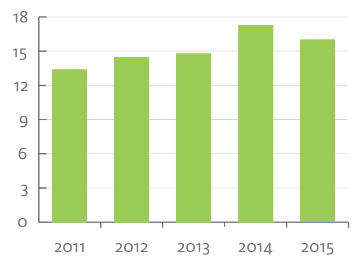
As part of our continuous improvement efforts, traditional credit risk models were also updated during the year, especially for the Åland and Finnish mainland corporate portfolio. With regard to this portfolio, the Bank of Åland is waiting for the Financial Supervisory Authority to approve its internal ratings based (IRB) approach. A positive response will mean that the Bank can rely on its own risk classification to calculate capital requirements. Encouragingly, loan loss levels in Swedish operations have remained non-existent. But the consequence is that it will be problematic to rely on statistical models.

The Compliance Department's ongoing tasks include customer protection, monitoring market behaviour, counteracting money laundering and the financing of terrorism as well as permit and supervisory matters. Compliance has also been active in several projects, including the US Foreign Account Tax Compliance Act (FATCA) project, the Group's new capital market system, as well as real-time screening to counter money laundering and the financing of terrorism. The department has also conducted various studies of planned operations and of new external requirements, for example the sanctions list of the US Office of Foreign Assets Control (OFAC).

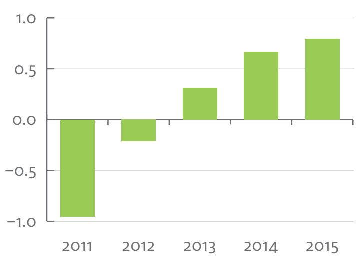
The Operational Risk & Security Department has further developed its continuity planning, expanded its risk-mapping work, arranged security reviews, been responsible for projects related to e-training tools, created models for and implemented a pilot project for updating the Bank's authorisation structure and upgraded the alarm and access control systems in Sweden and the Group's camera surveillance systems.

Crosskey and Compass Card

Non-Group IT income, Crosskey
EUR M



Net operating profit, Compass Card
EUR M



Crosskey Banking Solutions Ab Ltd

Early in 2015, Crosskey's first mobile banking application was unveiled when the Bank of Åland in Sweden launched its mobile banking service. Later in the year, the Bank of Åland in Finland also began using a version of the same service.

Crosskey's success in mobile technology means that the company is now one of the few Nordic suppliers that can provide banks both in Finland and Sweden with complete mobile banking solutions.

Marginalen Bank and Crosskey continued their smooth collaboration. Marginalen Bank's corporate customers began using the new corporate internet bank that was developed by Crosskey. This launch was followed by Crosskey's mobile banking solution, which Marginalen Bank introduced to its customers late in the year.

The merger of LocalTapiola (LähiTapiola) Bank and S-Bank (S-Pankki) is a major project that has been under way for nearly two years. As a consequence of the merger, late in October one of the largest banking migrations ever in Finland was implemented: Crosskey merged the banking systems of both banks into a uniform banking system for the new S-Bank. Despite its scale and high risk level, the project was successful. It proved possible to follow an ambitious schedule, and the task was completed without any unplanned or unexpected interruptions for customers.

S-Bank, which is one of Finland's largest card issuers, will begin using Crosskey's card system during the first half of 2016. The large-scale implementation project and preparations for conversion to the new card system were underway throughout 2015.

As a result of collaboration between the Bank of Åland in Sweden and the totally digital Dreams financial service, during 2015 Crosskey developed a basic banking system for the Bank of Åland and integrated the Dreams saving application. The app is being launched during the first quarter of 2016. The goal of this collaboration with Dreams is to encourage a comparatively young target group to save in a more systematic and enjoyable way.

During the year, Crosskey also developed its new capital market offering in collaboration with the software company Model IT. The new system will go into service at the Bank of Åland in Sweden during 2016 and later in Finland.

Net operating profit during the year amounted to EUR 2.1 M. This is a decrease compared to 2014, when the corresponding figure was EUR 2.7 M. The main reason for the change is that during 2015 Crosskey was involved in several large fixed-price projects. Some of these projects required a larger amount of work than it had been possible to estimate, which represented increased expenses.

Crosskey maintained its high level of quality during 2015. After the year's audits, the company was re-certified according to both the ISO and PCI DSS standards.

Encouragingly, Crosskey's annual employee satisfaction survey showed greatly improved employee satisfaction. For the second consecutive year, we also saw a major upswing in customer satisfaction. Nearly half of the Crosskey customers who were surveyed recommended the company as a supplier of banking systems during 2015. More than 70 per cent of those surveyed stated that Crosskey is their most valuable business partner.

Ab Compass Card Oy Ltd

During 2015 the number of customers and their card use decreased as an entirely expected consequence of the merger between S-Bank and LocalTapiola Bank.

Even though card use decreased in 2015, the loan portfolio continued to grow. Income and variable costs rose during the period, while fixed costs fell.

During the year, new EU directives concerning card payment processing fees went into effect, which lowered income from card payment processing.

Earnings were better than in 2014, even though loan losses increased, due to the growth of the loan portfolio.

During 2015 Compass Card entered into a new cooperation agreement on co-branding of debit cards. It also expanded its co-branding collaboration with one of the company's existing business partners.

Report of the Directors

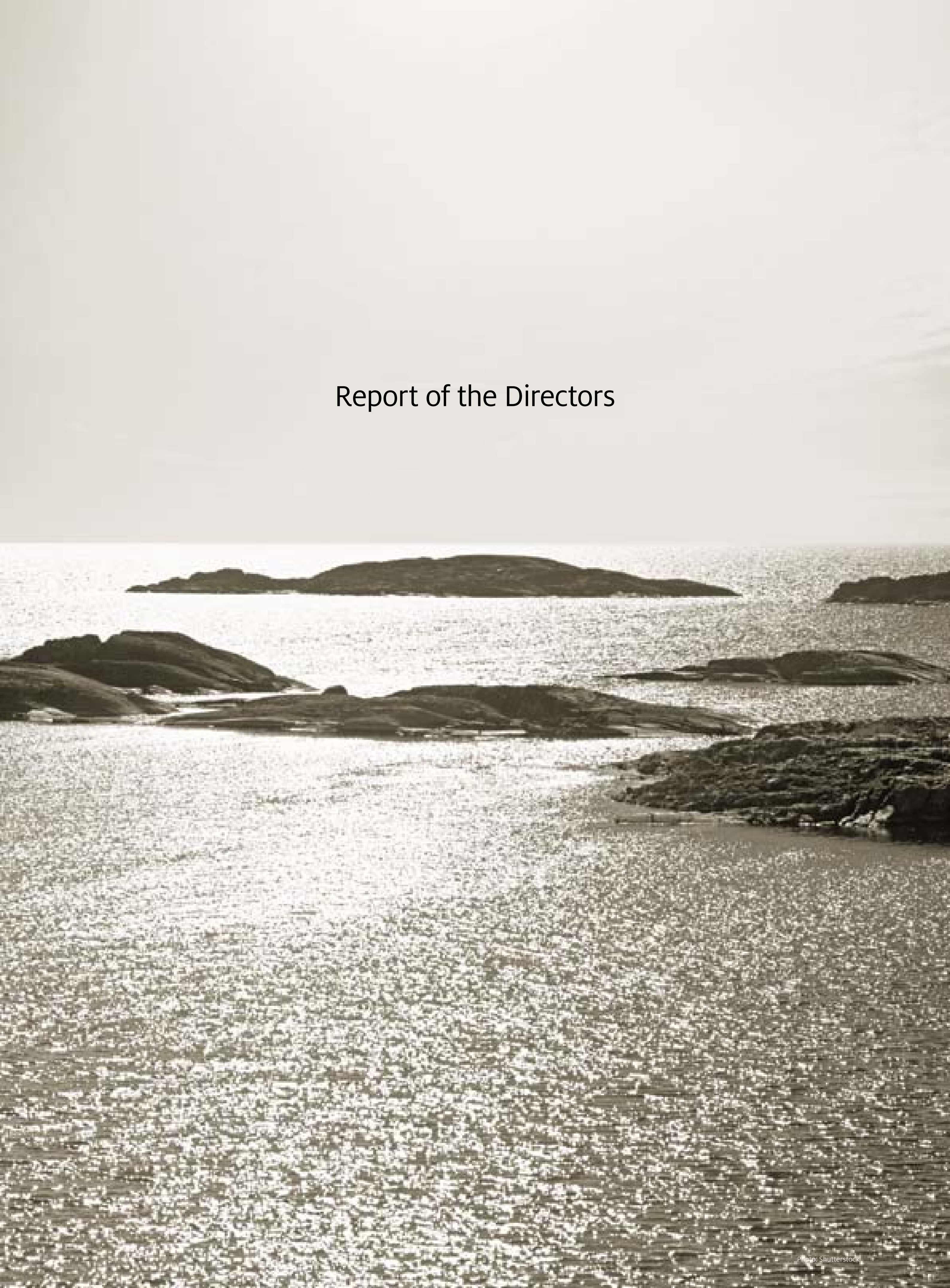


Photo: Shutterstock

Report of the Directors

Macro situation and regulatory requirements

During 2015 the central banks in Europe continued their expansionary monetary policies in the form of asset purchases and low key interest rates. In a number of countries, negative interest rates became a reality. Sweden's Riksbank lowered its key rate three times during 2015 to −0.35 per cent, while the European Central Bank (ECB) kept its key rate unchanged at 0.05 per cent. Low interest rates squeeze the net interest income of banks and increase the risks of asset bubbles in national economies.

BENCHMARK INTEREST RATES, AVERAGES, PER CENT

	2015	2014
Euribor 3 mo	−0.02	0.21
Euribor 12 mo	0.17	0.48
Stibor 3 mo	−0.19	0.66

During 2015 share prices rose by about 11 per cent on the Nasdaq OMX Helsinki (OMXHPI) and by about 7 per cent on the Nasdaq OMX Stockholm (OMXSPI).

The average value of the Swedish krona in relation to the euro was 3 per cent lower during 2015 than in 2014. On December 31, 2015, the krona was worth 2 per cent more than one year earlier. When translating the income statement of the Bank of Åland's Swedish operations into euros, the average exchange rate for the period has been used, while the balance sheet has been translated at the exchange rate prevailing on the closing day.

Important events

In the strategic advisory firm TNS Sifo Prospera's latest survey of Private Banking market participants in Finland, the Bank of Åland received the highest score among all participants from the customers who were interviewed. The Bank's integrity, service-mindedness and personal advisors attracted particular mention.

During the fourth quarter of 2015, the Bank of Åland's Board of Directors launched a new share savings programme for all Group employees. Sixty per cent of employees signed up 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, 2016 and the first share issue is planned in August 2016. 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 the Group employees who have signed up for the programme is about EUR 0.8 million, which would be equivalent to about 60,000 Series B shares, based on the average price in January 2016 and including a 10 per cent discount. The maximum number of matching shares to be distributed is thus 60,000. The maximum number of shares that employees may receive as part of the share savings programme is 120,000. Based on the above-mentioned conditions, shares issued as part of the 2016 share savings programme can result in an ownership stake of 0.8 per cent and a voting power of 0.1 per cent.

In August, the Bank issued 30,174 Series B shares for the fulfilment of the Bank's commitments as part of the Bank of Åland's 2015 share savings programme for employees.

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

Ålandsbanken Asset Management merged with the Bank of Åland on June 1, 2015. As consideration for the merger, the minority shareholders of Ålandsbanken Asset Management received 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.

A new Group-wide Asset Management organisation has been established with employees both in Finland and Sweden. Asset Management is responsible for management and sales support of the Bank of Åland's own mutual funds, discretionary asset management mandates and advisory asset management mandates. Asset Management is a support organisation for Private Banking and Premium Banking, which have direct customer responsibility. Asset Management itself has customer responsibility for certain large institutional customers, mutual fund platforms and insurance agents.

In light of changes in the organisation, starting with the second quarter of 2015 the Bank of Åland changed its reporting of operating segments.

The new segments being reported are Private Banking, Premium Banking, Asset Management, IT and Corporate and Other.

The Standard & Poor's rating agency raised its credit rating on covered bonds issued by the Bank of Åland to AAA with a stable outlook.

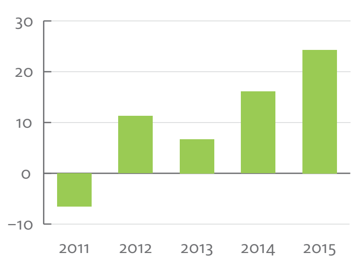
The Annual General Meeting on April 16, 2015 elected Göran Persson and Ulrika Valassi as new members of the Board of Directors. Board members Nils Lampi, Christoffer Taxell, Agneta Karlsson, Anders Å Karlsson, Anders Wiklöf and Dan-Erik Woivalin were re-elected. The Meeting also approved amending the Articles of Association in such a way as to remove the theoretical preference element in Series B shares.

Earnings

Profit for the period attributable to shareholders amounted to EUR 24.3 M (16.1). This was an improvement of EUR 8.2 M or 51 per cent. Net operating profit improved by EUR 7.9 M or 35 per cent to EUR 30.3 M (22.4). This was the highest net operating profit in the Bank of Åland's history aside from 2009, when net operating profit of EUR 30.5 M nevertheless included negative goodwill of EUR 23.1 M.

Profit attributable to shareholders

EUR M



Return on equity after taxes increased to 12.0 (8.7) per cent.

Total income increased by EUR 4.3 M or 4 per cent to EUR 124.9 M (120.6), mainly due to higher net interest income.

Due to re-pricing in the loan portfolio, lower funding costs and volume growth, net interest income increased by EUR 4.7 M or 9 per cent to EUR 54.0 M (49.3) despite the negative effect of lower market interest rates.

Net commission income rose by EUR 0.3 M or 1 per cent to EUR 46.5 M (46.2), mainly due to higher income from financial investment operations. Lending commissions decreased by EUR 3.0 M, of which EUR 2.8 M originated from a single transaction.

Net income on financial items at fair value rose by EUR 1.2 M or 19 per cent to EUR 8.0 M (6.8).

Information technology (IT) income decreased by EUR 1.3 M or 8 per cent to EUR 16.0 M (17.3), mainly due to lower project income.

Total expenses decreased by EUR 4.8 M or 5 per cent to EUR 91.6 M, among other things because of lower deposit guarantee and banking tax expenses totalling EUR 2.7 M as well as higher production for own use amounting to EUR 2.6 M. Production for own use refers largely to capitalised development expenses for the Bank's new securities platform, which is being developed by its IT subsidiary Crosskey. Last year this item also included restructuring expenses of EUR 1.0 M and corporate strategic expenses of EUR 1.0 M. Staff costs excluding restructuring expenses increased by EUR 3.5 M, among other things due to an increased number of employees and salary increases.

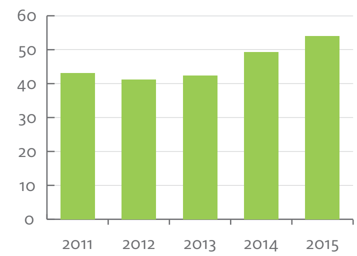
Impairment losses on loans amounted to EUR 3.0 M, equivalent to a loan loss level of 0.09 per cent, compared to EUR 1.8 M and 0.06 per cent in the year-earlier period.

Tax expense amounted to EUR 6.0 M (4.8), equivalent to an effective tax rate of 19.7 (21.3) per cent.

Profit attributable to non-controlling interests amounted to EUR 0.0 M (1.5), since Compass Card is now a wholly owned subsidiary and Ålandsbanken Asset Management has merged with the parent Bank.

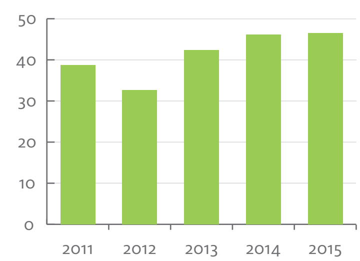
Net interest income

EUR M



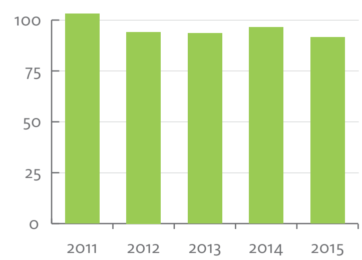
Net commission income

EUR M

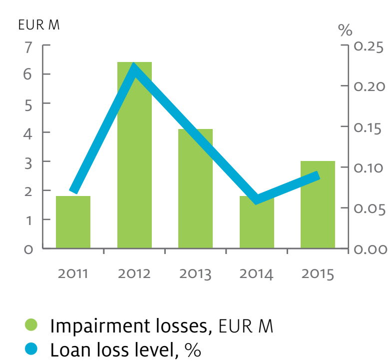


Total expenses

EUR M

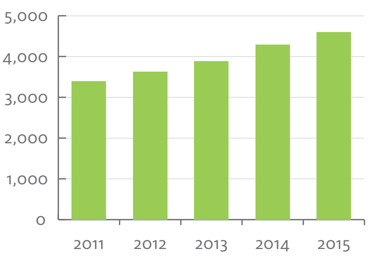


Impairment losses and loan loss level



Balance sheet total

EUR M



Strategic business areas

The Group's net operating income improved by EUR 7.9 M to EUR 30.3 M during 2015, allocated as follows:

- Private Banking +6.6
(higher income)
- Premium Banking +3.4
(higher commission income, lower expenses, higher loan losses)
- Asset Management –2.0
(lower income)
- IT –0.6
(higher expenses)
- Corporate units incl. eliminations +0.5
(higher Treasury income, lower strategic expenses and negative elimination effect of major IT projects)

The positive trend continued in all our geographic home markets: the Åland Islands, the Finnish mainland and Sweden.

Business volume

Financial investment volume increased by EUR 764 M or 12 per cent during 2015 and amounted to EUR 7,076 M (6,312). Actively managed assets increased by EUR 473 M or 14 per cent and amounted to EUR 3,958 M (3,485). Assets under discretionary management rose by EUR 163 M or 10 per cent to EUR 1,870 M (1,707). Managed assets in the Bank of Åland Group's own mutual funds rose by EUR 184 M or 17 per cent to EUR 1,272 M (1,088). There was continued heavy interest in Bostadsfonden, a housing mutual fund. Net inflow into Bostadsfonden was EUR 128 M. The net assets of Bostadsfonden amounted to EUR 317 M on December 31.

Deposits from the public – including certificates of deposit, index bonds and subordinated debentures issued to the public – increased by EUR 284 M or 12 per cent during 2015 and amounted to EUR 2,675 M (2,391).

Lending to the public totalled EUR 3,617 M (3,343). This represented an increase of EUR 274 M or 8 per cent during 2015. The increase in lending was primarily related to loans secured by residential properties in the Swedish market.

Balance sheet total and off-balance sheet obligations

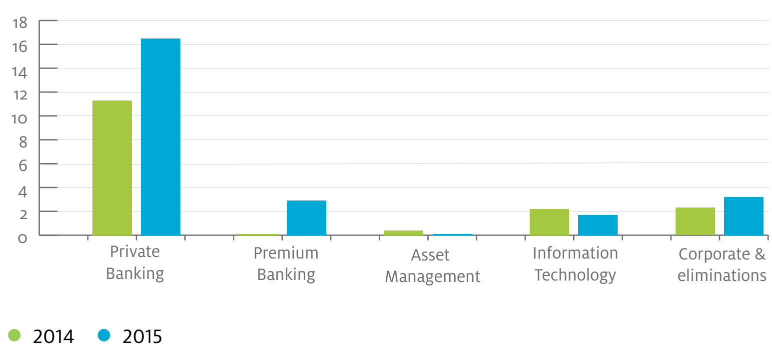
During 2015, the Group's balance sheet increased by EUR 310 M or 2 per cent to EUR 4,602 M. The increase was primarily related to lending to the public. The increase in lending was funded through increased deposit accounts and the issuance of covered bonds. Off-balance sheet obligations rose by EUR 29 M or 7 per cent to EUR 439 M. The increased was related to lines of credit.

Credit quality

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

Profit attributable to shareholders, by segment

EUR M



by customers who, as individuals, are also Private Banking customers.

Gross doubtful receivables increased by EUR 9.7 M to EUR 31.4 M (21.7) during 2015. As a share of lending to the public, doubtful receivables increased to 0.87 per cent (0.65). The level of provisions for doubtful receivables, i.e. individual impairment losses as a proportion of all doubtful receivables, was 34 per cent compared to 66 per cent at year-end 2014.

The Bank of Åland Group had EUR 11.8 M (15.8) in impairment loss provisions, of which individual impairments totalled EUR 10.6 M (14.3) and group impairments EUR 1.2 M (1.5).

Liquidity and borrowing

During the third quarter, about EUR 180 M in long-term Bank of Åland borrowing fell due for repayment. These maturities had already been funded during the second quarter, when the Bank issued EUR 250 M in covered bonds with a 5-year maturity. During the fourth quarter, the Bank of Åland issued EUR 850 M in senior unsecured bonds with a 2-year maturity.

During 2016, there will be only one maturity of an external long-term debt totalling about EUR 80 M in the first quarter.

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 805 M on December 31, 2015 (646). This was equivalent to 18 (15) per cent of total assets and 22 (19) per cent of lending to the public. Given the Bank's ability to issue further covered bonds, there is an additional unutilised liquidity reserve.

The average remaining maturity on outstanding bonds was about 3.3 years (3.3) at the end of 2015. 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 100 (105) per cent at the end of the year.

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

Rating

The Bank of Åland has a credit rating from the Standard & Poor's rating agency of BBB/A-3 with a negative outlook for its long- and short-term borrowing. Covered bonds issued by the Bank of Åland have a credit rating of AAA with a stable outlook.

Equity and capital adequacy

Equity capital including non-controlling interests changed in the amount of total comprehensive income for the period, EUR 24.5 M; the net effect of the acquisition of minority holdings in Ålandsbanken Asset Management including payment with newly issued shares and the merger of the company with the Bank of Åland Plc, EUR –1.3 M; a transfer of the Bank's own shares, EUR 0.2 M; the share savings programme, EUR 0.7 M; dividend payments, EUR 5.8 M; and the dividends paid to non-controlling interests in subsidiaries, EUR 1.3 M. On December 31, 2015, equity capital totalled EUR 212.9 M (195.9).

Other comprehensive income included re-measurements of defined-benefit pension plans by EUR 1.3 M after taxes, in compliance with IAS 19.

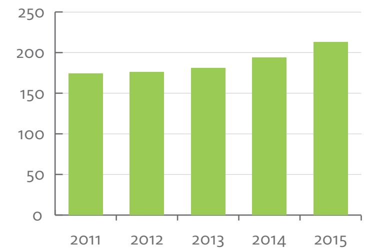
Core Tier 1 capital increased by EUR 17.6 M or 10 per cent during 2015 to EUR 187.6 M (170.0).

The risk exposure amount increased by EUR 28 M or 2 per cent during 2015 to EUR 1,582 M (1,554), mainly due to increased lending. The operational risk exposure amount, calculated using a three-year rolling average of the Group's income, increased by EUR 11 M.

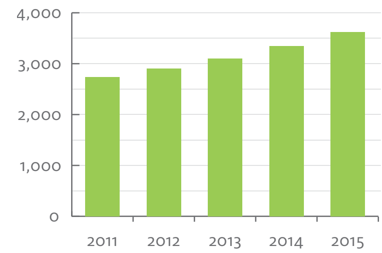
The core Tier 1 capital ratio increased to 11.9 per cent (10.9). Since the Bank of Åland has no hybrid capital, its core Tier 1 capital ratio is the same as its Tier 1 capital ratio.

In addition to the basic capital requirement, various buffer requirements are being introduced, mainly imposed by national regulatory authorities. The capital conservation buffer requirement, 2.5 per cent of core Tier 1 capital, applies in all European Union countries starting in 2015. The countercyclical capital buffer requirement may vary between 0–2.5 per cent. The decision concerning the size of a countercyclical capital buffer in Finland is made quarterly by the Board of the Financial Supervisory Authority (FSA) on the basis of a macroeconomic stability analysis. So far, the FSA has not imposed any countercyclical buffer requirement related to Finnish exposures. As for Sweden, the Swedish FSA imposed a requirement of 1 per cent of Swedish exposures starting in September 2015 and 1.5 per cent

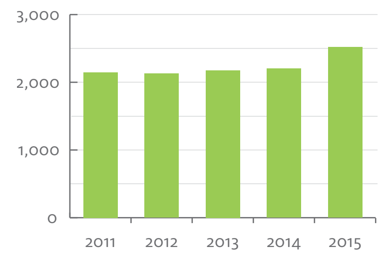
Equity capital attributable to shareholders
EUR M



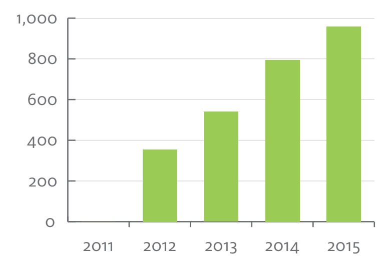
Lending
EUR M



Deposit accounts
EUR M



Covered bonds
EUR M



starting in June 2016. The Finnish FSA has identified systemically important institutions in Finland and has imposed individual buffer requirements for them. These requirements will go into effect at the beginning of 2016. The Bank of Åland is not included in the buffer requirements for systemically important institutions.

During June, the Bank of Åland became the first bank in Finland to issue subordinated debentures (supplementary capital) with a write-down clause. The subordinated debentures, which were issued with 3.75 per cent fixed interest, have a maturity of 20 years with a possible early redemption after five years. In the event that the Bank of Åland's core Tier 1 capital ratio falls below 7 per cent, the principal is written down by 25 per cent. The issue volume was EUR 8.6 M.

The total capital ratio amounted to 12.9 (12.1) per cent.

Dividend

The Board of Directors proposes that the Annual General Meeting approve the payment of a dividend of EUR 0.60 per share (0.40), equivalent to a total amount of EUR 9.1 M (5.8). The proposed dividend is equivalent to a 38 (36) per cent payout ratio.

Important events after close of report period

In February 2016, the Bank of Åland issued 33,582 Series B shares for the fulfilment of the Bank's commitments as part of the Bank of Åland's share savings programme for employees.

Risks and uncertainties

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

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

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

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

Future outlook

The Bank of Åland expects its net operating profit in 2016 to be about the same as in 2015.

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 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 per cent.*
- *The Bank's capital adequacy, primarily defined as the core Tier 1capital 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 the 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.
- *The payout ratio shall eventually amount to 50 per cent.*
  This payout ratio target is subject to the condition that the capital adequacy target continues to be achieved. At present, the Bank of Åland is prioritising balanced growth.

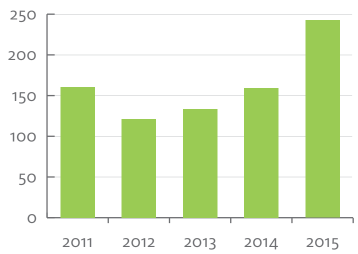
FIVE-YEAR GROUP SUMMARY

Bank of Åland Group	2015	2014	2013	2012	2011
EUR M					
Net interest income	54.0	49.3	42.4	41.2	43.1
Net commission income	46.5	46.2	42.4	32.7	38.7
Net income from financial items carried at fair value	8.0	6.8	7.4	6.9	1.2
IT income	16.0	17.3	14.8	14.5	13.4
Other income	0.4	1.0	1.0	1.2	3.8
Nonrecurring items	0.0	0.0	0.0	13.9	–1.1
Total income	**124.9**	**120.6**	**108.0**	**110.4**	**99.2**
Staff costs	–56.0	–52.5	–51.1	–51.2	–54.5
Derpreciation/amortisation and impairment losses on tangible and intangible assets	–6.9	–8.2	–8.0	–8.1	–6.7
Other expenses	–28.7	–34.7	–32.4	–33.6	–36.1
Nonrecurring items	0.0	–1.0	–2.0	–1.1	–5.7
Total expenses	**–91.6**	**–96.4**	**–93.5**	**–94.1**	**–103.1**
Profit before loan losses etc.	**33.3**	**24.2**	**14.5**	**16.3**	**–3.9**
Impairment losses on loans and other commitments	–3.0	–1.8	–4.1	–6.4	–1.8
Net operating profit	**30.3**	**22.4**	**10.4**	**9.9**	**–5.7**
Income taxes	–6.0	–4.8	–2.7	2.0	0.4
Profit for the report period	**24.3**	**17.6**	**7.7**	**11.9**	**–5.3**
Attributable to:					
Non-controlling interests	0.0	1.5	–1.0	–0.6	–1.2
Shareholders in Bank of Åland Plc	**24.3**	**16.1**	**6.7**	**11.3**	**–6.5**
Volume					
Lending to the public	3,617	3,343	3,104	2,905	2,737
Deposits from the public [1]	2,675	2,391	2,460	2,442	2,544
Investment volume	7,076	6,312	5,784	5,227	4,798
Equity capital	213	196	184	179	181
Balance sheet total	4,602	4,292	3,887	3,633	3,400
Risk exposure amount	1,581	1,554	1,475	1,401	1,729
Financial ratios					
Return on equity after taxes (ROE), % [2]	12.0	8.7	3.8	6.6	–3.9
Expense/income ratio, % [3]	0.73	0.80	0.86	0.85	1.04
Loan loss level, % [4]	0.09	0.06	0.14	0.23	0.07
Core funding ratio, % [5]	100	105	103	104	108
Equity/assets ratio, % [6]	4.6	4.6	4.7	4.9	5.3
Core Tier 1 capital ratio, % [7]	11.9	10.9	10.8	10.9	8.4
Working hours re-calculated to full-time equivalent positions	663	644	617	640	690

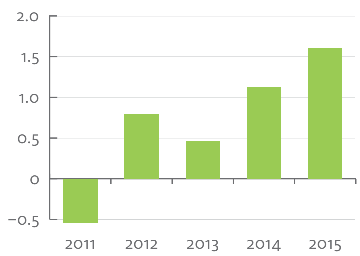
[1] Deposits from the public and public sector entities, including certificates of deposit, index bonds and debentures issued to the public
[2] Profit for the report period attributable to shareholders/Average shareholders' portion of equity capital
[3] Expenses/Income
[4] Impairment losses on loans 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

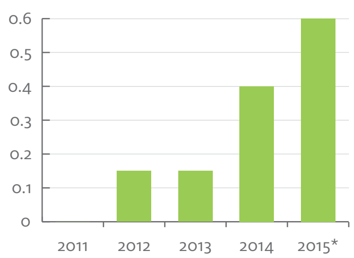
Market capitalisation
EUR M



Earnings per share
euros



Dividend per share
euros



* Proposed by the Board of Directors for approval by the 2016 Annual General Meeting.

Share capital

The share capital of the Bank of Åland is EUR 41,500,786.10. The shares are divided into 6,476,138 Series A and 8,737,101 Series B shares. Each Series A share represents twenty (20) votes at shareholders' meetings and each Series B share one (1) vote. The Articles of Association stipulate that no representative at a General Meeting may vote for more than one fortieth of the number of shares represented at the Meeting.

In 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, 2015, its holding amounted to 5,394 shares. The purchase price for these was EUR 56,985.59.

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

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 and Ålandsbanken Asset Management merged during the first half of 2015. As consideration for the merger, the minority shareholders of Ålandsbanken Asset Management received 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 occurred on the basis of the authorisation provided by the Annual General Meeting in April 2014.

Share savings programme

The Bank of Åland's Board of Directors have approved two share savings programmes for all Group employees: the 2015 share savings programme and the 2016 share savings programme. Sixty-nine per cent of employees participated in the 2015 programme and 60 per cent have signed up for the 2016 programme. The share savings programmes enable 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. 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 programmes run for one year. Three years after each respective share issue, the Bank of Åland will distribute one free matching share for each share that has been acquired in the targeted share issues to those who have participated in the share issues and who are still employed by the Group and own the shares that were issued. Employees are offered the opportunity to subscribe for Series B shares at a price that is 10 per cent below the average price during the calendar month before each respective share issue. The savings amount in the 2015 share savings programme totalled about EUR 0.9 M. In the first share issue in August 2015, 30,174 Series B shares were issued. In the second issue in February 2016, 33,582 Series B shares were issued. The savings amount in the 2016 share savings programme totals about EUR 0.8 M, equivalent to about 60,000 Series B shares based on the average price in January 2016 including a 10 per cent discount. The maximum number of matching shares to be distributed in the two share savings programmes is about 124,000. Given these projected assumptions, the maximum number of shares that employees may receive as part of the two share savings programmes will be about 247,500.

Shares as part of variable compensation programmes

Newly issued or purchased Series B shares in the Bank are paid as part of the Bank of Åland's incentive programmes. In March 2016, 5,394 Series B shares in the Bank that were purchased and 20,291 newly issued Series B shares will be disbursed. An additional 55,345 Series B shares will be distributed as a delayed portion of incentive programmes and may be issued and disbursed during the years 2017–2019, provided that the recipient remains an employee.

Changes in share capital

Year	Share capital, EUR	Series A shares	Series B shares
2015	41,500,786.10	6,476,138	8,737,101
2014	29,103,547.58	6,476,138	7,944,015
2013	29,103,547.58	6,476,138	7,944,015
2012	29,103,547.58	6,476,138	7,944,015
2011	29,103,547.58	6,476,138	7,944,015

Trading in the Bank's shares

During 2015, the volume of trading in the Bank's Series A shares on the Nasdaq OMX Helsinki (Helsinki Stock Exchange) was EUR 11.8 M. Their average price was EUR 16.28. The highest quotation per share was EUR 19.50, the lowest EUR 11.00. Trading in Series B shares totalled EUR 15.0 M at an average price of EUR 15.33. The highest quotation was EUR 17.58, the lowest EUR 10.76.

On December 31, 2015, the number of registered shareholders was 9,659 and they owned 13,945,686 shares. There were also a total of 1,267,553 shares registered in the names of nominees.

The ten largest shareholders, December 31, 2015

	Shareholder	Series A shares	Series B shares	Total	% of shares	% of votes
1	Anders Wiklöf and companies	1,597,396	1,326,549	2,923,945	19.22	24.07
2	Alandia Insurance	917,358	406,432	1,323,790	8.70	13.56
3	Ålands Ömsesidiga Försäkringsbolag (mutual insurance company)	794,566	111,201	905,767	5.95	11.57
4	Pohjola Bank OYJ (nominee registered shares)	171	813,965	814,136	5.35	0.59
5	Fennogens Investments S.A.	515,699	0	515,699	3.39	7.46
6	OMXBS/Skandinaviska Enskilda Banken (nominee registered shares)	98,127	249,687	347,814	2.29	1.60
7	Pensionsförsäkringsaktiebolaget Veritas (pension insurance company)	123,668	165,954	289,622	1.90	1.91
8	Palcmills Oy (financial service company)	97,000	150,000	247,000	1.62	1.51
9	Svenska Litteratursällskapet i Finland (literary society)	208,750	0	208,750	1.37	3.02
10	Oy Etra Invest Ab (investment company)	0	200,000	200,000	1.31	0.14

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

Shareholders by size of holding

Number of shares	Number of shareholders	Total number of shares held,	Average holding	Voting power, %
1–100	4,135	183,698	44	1.1
101–1,000	4,261	1,489,930	350	7.2
1,001–10,000	1,154	2,968,988	2,573	12.7
10,001–	109	10,570,623	96,978	78.9
Of which, nominee registered shares		1,267,553		2.6

Shareholders by category

Category	Number of shares	% of shares
Private individuals	5,050,841	33.2
Companies	5,896,966	38.8
Financial institutions and insurance companies	1,531,008	10.1
Non-profit organisations	607,672	4.0
Government organisations	591,316	3.9
Foreign investors	267,883	1.8
Nominee registered shares	1,267,553	8.3
	15,213,239	**100.0**

Bank of Åland share data

Bank of Åland share data	2015	2014	2013	2012	2011
Number of shares, thousands [1]	15,208	14,398	14,395	14,395	14,414
Number of shares after dilution, thousands	15,411	14,498	14,395	14,395	14,414
Average number of shares, thousands	15,188	14,398	14,395	14,396	12,097
Earnings per share, EUR [2]	1.60	1.12	0.46	0.79	−0.54
Earnings per share after dilution, EUR	1.59	1.12	0.46	0.79	−0.54
Dividend per share, EUR [3]	0.60	0.40	0.15	0.15	0.00
Dividend payout ratio [4]	37.5	35.7	32.3	19.1	0.0
Equity capital per share, EUR [5]	14.00	13.49	12.54	12.21	14.49
Equity capital per share after dilution, EUR	13.94	13.46	12.54	12.21	14.49
Market price per share, closing day, EUR					
Series A	16.40	11.27	10.88	10.04	14.15
Series B	15.60	10.87	7.94	7.10	8.68
Price/earnings ratio [6]					
Series A	10.2	10.1	23.4	12.8	neg
Series B	9.7	9.7	17.1	9.0	neg
Effective dividend yield, % [7]					
Series A	3.7	3.5	1.4	1.5	0.0
Series B	3.8	3.7	1.9	2.1	0.0
Market capitalisation, EUR M	242.4	159.1	133.3	121.2	160.6

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

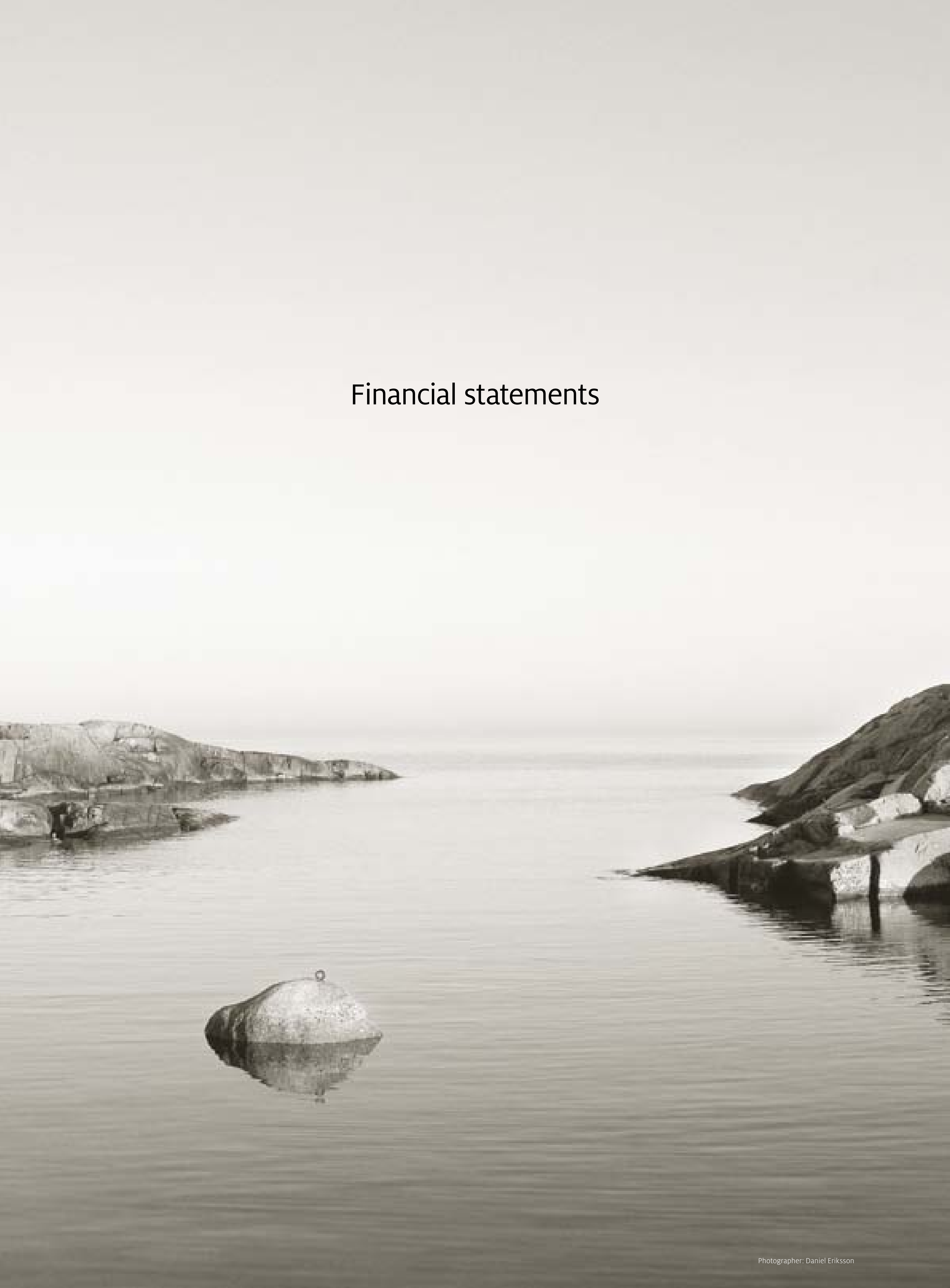
6 $$\frac{\text{Share price on closing day}}{\text{Earnings per share}}$$

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
2015	A	772	11.9	19.50–11.00	16.28
2015	B	972	11.1	17.58–10.76	15.33
2014	A	194	3.0	12.24–10.00	11.09
2014	B	1,129	14.2	11.30–7.86	9.03
2013	A	83	1.3	13.67–10.02	11.60
2013	B	605	7.6	9.00–7.01	8.11
2012	A	177	2.7	15.22–9.34	13.45
2012	B	430	5.4	11.19–6.95	8.39
2011	A	825	15.2	31.00–13.00	23.29
2011	B	1,663	24.9	19.90–8.29	14.08

Financial statements



Photographer: Daniel Eriksson

Consolidated income statement

(EUR K)

Bank of Åland Group	Note	Jan 1–Dec 31, 2015	Jan 1–Dec 31, 2014
Interest income		73,984	78,459
Interest expenses		–20,010	–29,166
Net interest income	G6	**53,974**	**49,293**
Commission income		57,964	54,317
Commission expenses		–11,501	–8,121
Net commission income	G7	**46,463**	**46,196**
Net income from financial items carried at fair value	G8	8,035	6,767
IT income		16,003	17,326
Share of income in associated companies		–34	–61
Other operating income	G9	426	1,050
Total income		**124,868**	**120,571**
Staff costs	G10	–56,024	–53,077
Other costs	G11	–28,653	–34,944
Depreciation/amortisation and impairment losses on tangible and intangible assets	G24, G25	–6,882	–8,392
Total expenses		**–91,559**	**–96,413**
Profit before impairment losses		**33,308**	**24,158**
Impairment losses on loans and other commitments	G12	–3,049	–1,765
Net operating profit		**30,259**	**22,393**
Income taxes	G13	–5,955	–4,766
Net profit for the period		**24,304**	**17,626**
Attributable to:			
Non-controlling interests		1	1,480
Shareholders in Bank of Åland Plc		**24,303**	**16,146**
Earnings per share, EUR	G14	1.60	1.12

Consolidated statement of comprehensive income

(EUR K)

Bank of Åland Group	Note	Jan 1–Dec 31, 2015	Jan 1–Dec 31, 2014
Profit for the accounting period		**24,304**	**17,626**
Cash flow hedge		130	–92
Assets available for sale		–2,017	2,002
Translation differences		47	74
of which hedging of net investment in foreign operations	G13	–901	1,465
Taxes on items that have been or may be reclassified to the income statement		702	–909
of which cash flow hedges		–26	18
of which assets available for sale		403	–400
of which hedging of net investment in foreign operations		324	–527
Items that have been or may be reclassified to the income statement		**–1,139**	**1,075**
Re-measurements of defined benefit pension plans	G41	1,665	–2,129
Taxes on items that may not be reclassified to the income statement	G13	–333	426
Items that have been or may be reclassified to the income statement		**1,332**	**–1,703**
Other comprehensive income	G36	**193**	**–628**
Total comprehensive income for the period		**24,497**	**16,998**
Attributable to:			
Non-controlling interests		1	1,480
Shareholders in Bank of Åland Plc		**24,497**	**15,518**

Consolidated balance sheet

(EUR K)

Bank of Åland Group	Note	Dec 31, 2015	Dec 31, 2014
Assets			
Cash and balances with central banks		199,461	86,434
Debt securities eligible for refinancing with central banks	G18	632,675	624,570
Lending to credit institutions	G19	44,972	129,234
Lending to the public and public sector entities	G20	3,616,981	3,342,872
Shares and participations	G21	957	2,669
Holdings recognised according to the equity method	G22	634	664
Derivative instruments	G23	19,362	24,243
Intangible assets	G24	9,576	7,667
Tangible assets	G25	24,020	26,830
Investment properties	G25	351	436
Current tax assets		613	125
Deferred tax assets	G28	4,361	4,863
Other assets	G26	23,795	16,283
Accrued income and prepayments	G27	24,447	25,484
Total assets		**4,602,204**	**4,292,372**
Liabilities			
Liabilities to credit institutions	G29	321,604	421,924
Liabilities to the public	G30	2,516,635	2,200,547
Debt securities issued	G31	1,411,966	1,311,799
Derivative instruments	G23	18,952	33,652
Current tax liabilities		1,249	539
Deferred tax liabilities	G28	17,155	13,674
Other liabilities	G32	33,180	34,800
Provisions	G33	202	755
Accrued expenses and prepaid income	G34	25,699	29,018
Subordinated liabilities	G35	42,679	49,790
Total liabilities		**4,389,322**	**4,096,495**
Equity capital and non-controlling interests			
Share capital		41,501	29,104
Share premium account		32,736	32,736
Reserve fund		25,129	25,129
Hedging reserve	G36	–357	–461
Fair value reserve	G36	1,105	2,719
Translation differences	G36	417	46
Own shares		–57	–215
Unrestricted equity capital fund		24,992	24,601
Retained earnings	G36	87,405	80,559
Shareholders' portion of equity capita		**212,871**	**194,217**
Non-controlling interests' portion of equity capital		11	1,660
Total equity capital		**212,882**	**195,877**
Total liabilities and equity capital		**4,602,204**	**4,292,372**

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, 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**
Profit for the period									24,303	24,303	−1	24,303
Other comprehensive income				104	−1,614	371			1,332	193	0	193
Transfer of own shares							158			158		158
Dividend paid									−5,766	−5,766	−1,297	−7,063
Share savings programme	61							391	213	665		665
Acquisitions from non-controlling interests[1]	12,336								−13,236	−900	−353	−1,253
Equity capital, Dec 31, 2015	**41,501**	**32,736**	**25,129**	**−357**	**1,105**	**417**	**−57**	**24,992**	**87,405**	**212,871**	**11**	**212,882**

[1] Refers to the merger between the Bank of Åland Plc and Ålandsbanken Asset Management Ab.

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

Consolidated cash flow statement

(EUR K)

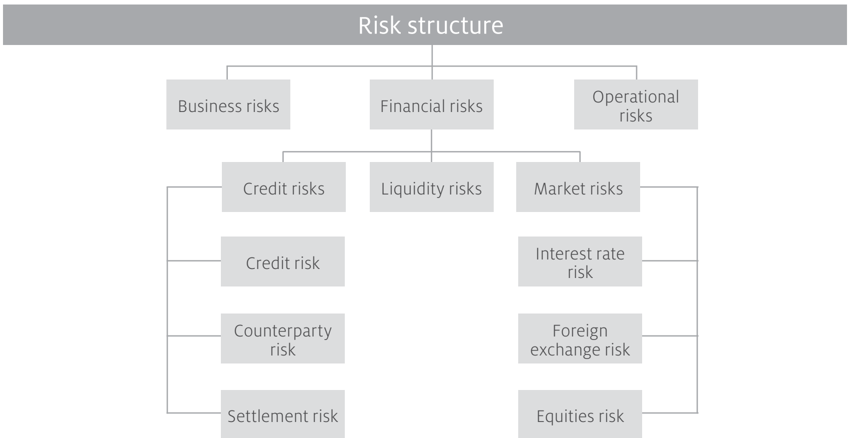
Bank of Åland Group	Jan 1–Dec 31, 2015	Jan 1–Dec 31, 2014
Cash flow from operating activities		
Net operating profit	30,259	22,393
Adjustment for net operating profit items not affecting cash flow		
Depreciation/amortisation and impairment losses on intangible and tangible assets	6,882	8,392
Impairment losses on loans and other commitments	2,887	1,706
Unrealised changes in value	–78	–1,137
Accrued surpluses/deficits on debt securities and bonds issued	7,733	5,071
Defined benefit pension plan	221	–254
Gains/losses from investment activity	–54	–187
Income taxes paid	–1,498	–1,562
Increase (–) or decrease (+) in receivables from operating activities		
Debt securities eligible for refinancing with central banks	–16,671	–214,586
Lending to credit institutions	–7,291	2,615
Lending to the public	–256,434	–287,232
Other assets	2,398	60,536
Increase (–) or decrease (+) in liabilities from operating activities		
Liabilities to credit institutions	–90,781	96,980
Liabilities to the public	304,126	54,637
Debt securities issued	–78,890	125,688
Other liabilities	–19,754	11,840
Cash flow from operating activities	**–116,945**	**–115,099**
Cash flow from investing activities		
Investment in shares and participations	–4	–1,617
Divestment of shares and participations	1,651	1,192
Investment in shares in associated companies and subsidiaries	0	–36
Divestment of shares in associated companies and subsidiaries	0	75
Investment in tangible assets	–934	–1,076
Divestment of tangible assets	123	327
Investment in intangible assets	–5,048	–2,551
Cash flow from investing activities	**–4,212**	**–3,686**
Cash flow from financing activities		
Share issues, share savings programme/option rights	452	116
Finance leases	–948	–1,410
Increase in long-term borrowings from banks	94,173	77,229
Decrease in long-term borrowings from banks	–97,847	–164,647
Increase in covered bonds issued	252,371	335,476
Decrease in covered bonds issued	–91,500	–87,800
Increase in subordinated debentures	8,543	18,581
Decrease in subordinated debentures	–15,585	–32,959
Dividend paid	–5,766	–2,160
Dividend paid to minority	–1,297	–967
Acquisitions of non-controlling interests	–1,297	–2,177
Cash flow from financing activities	**141,459**	**139,282**
Exchange rate differences in cash and cash equivalents	877	–2,345
Change in cash and cash equivalents	**21,179**	**18,152**
Cash and cash equivalents at beginning of year	211,767	193,615
Cash flow from operating activities	–116,945	–115,099
Cash flow from investing activities	–4,212	–3,686
Cash flow from financing activities	141,459	139,282
Exchange rate differences in cash and cash equivalents	877	–2,345
Cash and cash equivalents at end of year	**232,945**	**211,767**
Cash and cash equivalents consisted of the following items:		
Cash	6,195	5,623
Cheque account with Bank of Finland	193,265	80,811
Claims repayable on demand from credit institutions	33,485	125,333
Total cash and cash equivalents [1]	**232,945**	**211,767**

[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 76,188 K (77,778), interest paid of EUR 22,562 K (30,965) and dividend income received of EUR 7 K (376).

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:

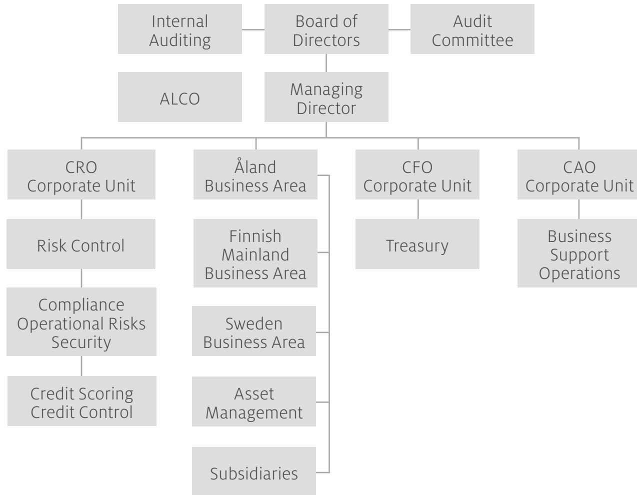
- First line of defence – Risk-takers
- Second line of defence – Risk monitoring and regulatory compliance
- Third line of defence – Independent auditing

"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 decision making body reporting to the Managing Director that deals with issues concerning capitalisation, liquidity, funding and financial risks.

Risk management model

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

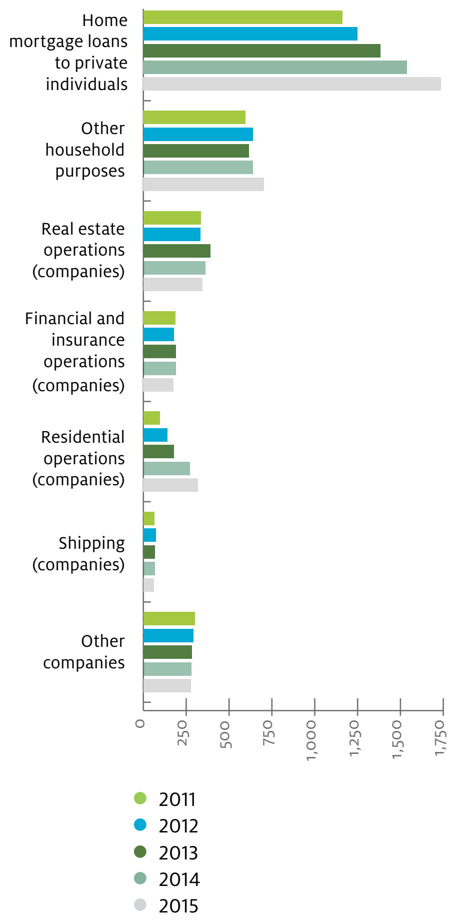
At the Bank of Åland, credit risk largely consists of receivables from private individuals and non-financial companies. These receivables consist mainly of loans, overdraft facilities and guarantees that have been granted. Within the framework of normal banking operations and risk management, credit 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	2015	2014
EUR M		
Lending to the public	3,617	3,343
Lending to credit institutions	45	129
Debt securities eligible for refinancing with central banks	633	625
Derivative instruments	19	24
Guarantees	20	22
Unutilised overdraft limits	76	82
Unutilised credit card limits	120	120
Lines of credit	223	186
Total	**4,754**	**4,531**

Lending by economic sector

EUR M



During 2015, 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 holdings of bonds mainly issued by sovereigns and financial institutions eligible for refinancing with central banks. A substantial share of bond holdings issued by financial institutions consisted of Nordic covered bonds with very good credit quality.

Overall credit strategy is regulated in the Group's credit policy document. The level of acceptable risk is established in the 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 credit committees by the responsible contact person at the Bank before a loan is granted. This presentation is valid for a maximum of one year before being updated.

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

Credit risks are 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. The risk report is submitted to the Financial Supervisory Authority (FSA).

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. All exposures in the Bank's lending operations are followed up according to the same methods, even though IRB permission has not yet been formally granted for some portfolios.

LENDING TO THE PUBLIC

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

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

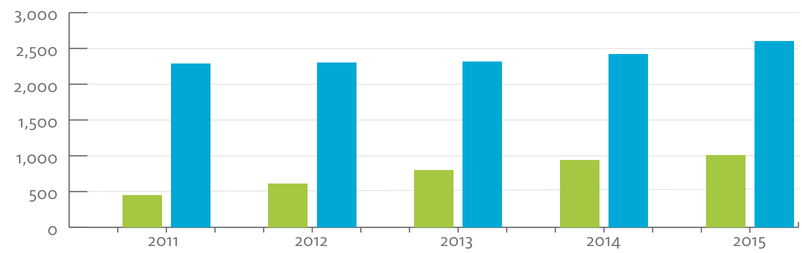
Lending to the public by business segment	2015			
EUR M	Private Banking	Premium Banking	Compass Card	Total
Home mortgage loans	478	1,258		1,736
Securities and other investments	242	130		372
Business operations	40	94		134
Other household purposes	64	90	45	199
Total private individuals	**824**	**1,572**	**45**	**2,441**
Shipping		61		61
Wholesale and retail trade	14	27		41
Housing operations	281	37		318
Other real estate operations	266	78		344
Financial and insurance operations	140	36		176
Hotel and restaurant operations	1	22		23
Other service operations	61	43		104
Agriculture. forestry and fishing	2	17		19
Construction	17	15		32
Other industry and crafts	5	31		36
Total companies	**787**	**367**	**0**	**1,154**
Public sector and non-profit organisations	**6**	**16**	**0**	**22**
Total lending	**1,617**	**1,955**	**45**	**3,617**

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

Lending to the public	2015			2014		
EUR M	Finland	Sweden	Total	Finland	Sweden	Total
Home mortgage loans	1,287	449	1,736	1,235	304	1,539
Securities and other investments	335	37	372	283	37	320
Business operations	129	5	134	121	4	125
Other household purposes	150	49	199	142	52	194
Total private individuals	**1,901**	**540**	**2,441**	**1,781**	**397**	**2,178**
Shipping	61	0	61	65	0	66
Wholesale and retail trade	38	3	41	46	2	48
Housing operations	56	262	318	60	211	271
Other real estate operations	125	219	344	116	245	360
Financial and insurance operations	137	39	176	132	59	191
Hotel and restaurant operations	23	0	23	23	1	24
Other service operations	82	22	104	86	19	105
Agriculture. forestry and fishing	19	0	19	13	0	13
Construction	28	4	32	28	5	33
Other industry and crafts	36	0	36	38	0	38
Total companies	**606**	**548**	**1,154**	**607**	**541**	**1,149**
Public sector and non-profit organisations	**22**	**0**	**22**	**17**	**0**	**17**
Total lending	**2,529**	**1,088**	**3,617**	**2,405**	**938**	**3,343**

Lending by country

EUR M



● Sweden ● Finland

During 2015, lending increased the most in Sweden. This went mostly to the home mortgage loan segment and to tenant-owned cooperative housing associations, which comprise the Bank's specially selected growth area for lending in Sweden. During the year, the Bank meanwhile decreased its lending to financial and insurance operations, shipping and wholesale and retail trade. Lending to private individuals comprises about 67 per cent of the Group's lending to the public. The remaining portion, aside from corporate lending, consists of lending to public sector entities.

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

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	Overnight	Cheque account	Derivatives*	Total
AAA\Aaa	89.5	296.0	0.0	34.5	158.8	0.0	578.7
AA+\Aa1	0.0	33.0	0.0	0.0	0.0	0.0	33.0
AA\Aa2	39.5	0.0	0.0	0.0	0.0	0.0	39.5
AA–\Aa3	16.8	5.4	66.8	0.0	5.9	14.6	109.5
A+\A1	0.0	0.0	16.7	0.0	56.4	0.7	73.7
A\A2	0.0	0.0	10.0	0.0	0.1	6.3	16.4
A–\A3	0.0	0.0	50.7	0.0	0.3	0.0	51.0
BBB+\Baa1	0.0	0.0	3.0	0.0	0.0	0.0	3.0
BBB\Baa2	0.0	0.0	9.9	0.0	0.0	0.0	9.9
Total	**145.8**	**334.4**	**157.2**	**34.5**	**221.4**	**21.6**	**914.9**

*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.

Counterparty risk exposure by region		
EUR M	Counterparty risk exposure	%
Nordic countries	707.4	77
Other European countries	170.4	19
North America	37.0	4
Total	**914.9**	

The above table shows how overall counterparty risk is allocated by region.

The table below shows a breakdown of the Bank's total derivatives exposures according to main categories of underlying risk type and how collateral is used in order to reduce the amount of exposure. "Positive gross value" refers to the sum of the contracts that have a positive market value from the Bank's standpoint. The exposure amount has been calculated according to the mark-to-market method in the Capital Requirements Regulation, Article 274.

Derivates exposures							
EUR M	Nominal amount	Positive gross amount	Exposure amount (gross)	Collateral received*	Exposure amount (net)	Risk exposure amount	Capital requirement
Fixed income	899.8	20.6	26.0	5.8	20.1	9.7	0.8
Currency	210.9	0.8	3.0	0.7	2.3	1.0	0.1
Equity	35.0	1.8	4.1	1.2	2.9	1.0	0.1
Credit	11.1	0.6	0.6	0.3	0.3	0.1	0.0
Total	**1,156.7**	**23.8**	**33.7**	**8.0**	**25.6**	**11.8**	**0.9**

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

Starting on January 1, 2017, the Bank will begin applying the new standardised approach for measurement of counterparty credit risk (SA-CCR) to calculate the value of exposures to derivatives. Within the near future, the Bank will also transfer most of its derivatives-related credit risk exposure to central clearing through qualified central counterparties.

In addition to the above capital requirement, there is also a capital requirement for credit value adjustment (CVA) risk related to non-standardised derivative contracts that are not cleared through a central counterparty. At year-end 2015, this capital requirement amounted to EUR 1.3 M. Since the Bank will be transferring its exposures to a central counterparty, this capital requirement will decrease.

CONCENTRATION RISK

Risk concentrations in lending arise, for example, when the loan portfolio includes concentrations of lending to certain individual customers or customer entities, economic sectors, regions or countries. The Bank manages concentration risk in its loan portfolio by setting limits on individual customers, economic sectors and loan 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 qualified covered bonds, of which 90 per cent of the amount may be subtracted.

In small institutions, however, a predetermined and higher limit than 25 per cent for institutional exposures may be approved by the Board of Directors. At the end of 2015, the Group had 20 (22) exposures that reached the reporting threshold of 10 per cent of its capital base. Of these, institutions accounted for 9 (10) and exposures to sovereigns or similar counterparties totalled 4 (5).

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. As one step in risk management, the customer advisor elucidates any connections between a corporate customer to other companies and private individuals.

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

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. For the corporate portfolio, the Bank uses the foundation LGD method, in which the loss percentage is established by regulators. 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. The difference between the estimated expected loss amount for the IRB-approved portfolio and the individual impairment losses it includes is reported as a deduction from core Tier 1 capital on a separate line in the capital base (Expected losses according to IRB approach beyond recognised losses).

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

The Risk Office unit carries out a large-scale annual evaluation of the system, and the findings of this evaluation are reported to the Board of Directors. This oversight includes a yearly validation and calibration of the risk measurements and models that are applied in risk classification. There is also regular monitoring to ensure that risk is being measured in a reliable, consistent way. The rating is dynamic; in other words, it is re-assessed if there are signs that the counterparty's repayment ability has changed. The Internal Auditing Department performs independent monitoring of the risk classification system and its use in operations. The Bank may not make changes in its internal models that have a significant impact on the capital requirement without FSA approval.

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

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

The table below shows the Bank's exposures in the IRB-approved 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

	2015					2014				
Risk category	PD by category value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	PD by category value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD
1	0.04	1	74.9	4.5	4.5	0.04	1	71.5	4.5	4.5
2	0.11	2	186.8	11.2	15.6	0.11	2	184.3	11.7	16.2
3	0.14	3	295.5	17.7	33.3	0.14	3	290.2	18.4	34.6
4	0.21	5	550.0	32.9	66.2	0.21	5	503.7	31.9	66.6
5	0.75	14	424.6	25.4	91.6	0.75	14	388.5	24.6	91.2
6	7.31	65	108.0	6.5	98.0	7.31	65	110.9	7.0	98.2
7	28.75	110	17.2	1.0	99.0	28.75	104	18.3	1.2	99.4
Defaulted	100	297	16.0	1.0	100.0	100.00	272	9.8	0.6	100.0
Total			**1,673.0**	**100.0**				**1,577.1**	**100.0**	
Risk category 1–5			**1,531.8**					**1,438.2**		
Risk category 1–5			**91.6%**					**91.2%**		

IRB-approved household exposures, small and medium-sized companies

	2015					2014				
Risk category	PD by category value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	PD by category value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD
1	0.15	5	3.8	2.4	2.4	0.15	6	4.1	2.6	2.6
2	0.22	6	14.7	9.2	11.6	0.22	6	11.6	7.4	10.1
3	0.79	13	24.9	15.6	27.2	0.79	13	22.9	14.7	24.7
4	2.61	27	64.8	40.7	67.9	2.61	26	51.7	33.2	57.9
5	7.80	48	29.3	18.4	86.3	7.8	50	39.6	25.4	83.3
6	13.31	65	13.2	8.3	94.5	13.07	51	15.2	9.7	93.1
7	53.00	71	4.9	3.1	97.6	53.0	76	9.3	6.0	99.0
Defaulted	100.00	123	3.8	2.4	100.0	100.00	243	1.5	1.0	100.0
Total			**159.3**	**100.0**				**155.9**	**100.0**	
Risk category 1–5			**137.4**					**129.9**		
Risk category 1–5			**86.3%**					**83.3%**		

IRB-approved household exposures, other household exposures

	2015					2014				
Risk category	PD by category value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	PD by category value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD
1	0.04	2	4.1	1.8	1.8	0.04	2	4.3	2.1	2.1
2	0.11	4	22.2	10.0	11.9	0.11	4	21.8	10.5	12.6
3	0.14	6	23.6	10.7	22.5	0.14	5	32.8	15.9	28.5
4	0.21	8	70.4	31.8	54.3	0.21	9	57.2	27.7	56.1
5	0.75	20	67.3	30.4	84.7	0.75	20	63.3	30.6	86.7
6	7.31	46	22.5	10.2	94.8	7.31	44	19.2	9.3	96.0
7	28.75	75	7.5	3.4	98.2	28.75	84	3.6	1.8	97.8
Defaulted	100.00	87	3.9	1.8	100.0	100.00	109	4.6	2.2	100.0
Total			**221.5**	**100.0**				**206.9**	**100.0**	
Risk category 1–5			**187.6**					**179.5**		
Risk category 1–5			**84.7%**					**86.8%**		

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, 2015, was 1.52 per cent. For household exposures with real estate as collateral, the weighted PD value amounted to 1.07 per cent, for small and medium-sized companies 5.52 per cent and other household exposures 2.07 per cent.

At the end of 2014, exposure-weighted PD according to category value – including adjustment for economic cycles and safety margins – for all non-defaulting household exposures 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 for other household exposures 1.54 per cent.

The table below shows actual default outcomes during 2015. 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	0.49	0.94
Small and medium-sized companies classified as household exposures	1.18	5.56
Other household exposures	1.25	2.30
Total household exposures	0.73	1.59

*Arithmetic median values

**Estimated on December 31, 2014. Includes cyclical adjustment and safety margins.

The table below shows EAD-weighted average LGD levels on December 31, 2015 in per cent for the respective exposure category where the IRB approach was applied. Estimated levels include safety margins plus a cyclical adjustment of LGD to a recession situation.

Estimated LGD levels (on December 31, 2015)

Exposure category	Non-defaulting, %	Defaulted, %	Total, %
Household exposures with real estate as collateral*	11.3	29.5	11.5
Small and medium-sized companies classified as household exposures	17.5	32.6	17.8
Other household exposures	20.0	46.9	20.5
Total household exposures	12.7	32.8	12.9

*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-defaulting household exposures on December 31, 2014 was 12.6 per cent. For non-defaulting household exposures with residential property as collateral, LGD totalled 11.2 per cent, for non-defaulting small and medium-sized companies 17.4 per cent and for other non-defaulting household exposures 19.9 per cent. The estimated levels were virtually unchanged for each exposure category between December 31, 2014 and December 31, 2015.

The estimated and observed LGD values of the exposures that defaulted during 2014 is presented in the table below. When calculating observed LGD, only recoveries from residential property and financial collateral until December 31, 2015 have been taken into account. This means that the observed LGD level will fall further, since on December 31, 2015 there was remaining unsold collateral for defaults in 2014.

LGD levels for 2014 defaults

Exposure category	Estimated LGD, %	Observed LGD , %
Household exposures with real estate as collateral	10.4	6.2
Small and medium-sized companies classified as household exposures	14.3	26.1
Other household exposures	39.5	20.0
Total household exposures	21.1	14.6

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, 2015 amounted to EUR 5.7 M. The expected loss at year-end comprised 0.54 per cent of the IRB-approved exposure amount, compared to 0.55 per cent one year earlier.

Recognised impairment losses and expected losses	2015			2014		
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	−1.4	4.1	2.7	−1.1	3.8	2.7
Small and medium-sized companies classified as household exposures	−1.1	2.8	1.7	−0.5	2.7	2.2
Other household exposures	−2.8	4.1	1.3	−3.2	4.1	0.8
Total household exposures	**−5.3**	**11.0**	**5.7**	**−4.8**	**10.6**	**5.8**
Share of IRB-approved exposures, %	**0.26**	**0.54**		**0.25**	**0.55**	

STANDARDISED APPROACH FOR CALCULATION OF CAPITAL REQUIREMENT

In the standardised approach, exposures are divided into various exposure categories depending on the counterparty, collateral or receivable. The exposure figures taken into account in the capital requirement calculation are then multiplied by the risk weight established by the authorities for the respective exposure category or type. Exposures to sovereigns (national governments) in the European Economic Area (EEA) and their respective central banks shall always be assigned a risk weight of 0 per cent and exposures fully or partially covered by collateral in residential property shall be assigned a risk weight of 35 per cent. As a consequence of new capital adequacy regulations, the Bank bases its risk weight for institutions and covered bonds on external 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 are mapped into a risk weight according to the regulations. For those exposures that have no external rating, the risk weight is based on the rating of the national government (sovereign method). The table below shows how exposure values after credit risk mitigation 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−	56.3	334.4
2	A+ to A−	63.9	
3	BBB+ to BBB−	27.0	
4	BB+ to BB−		
5	B+ to B−		
6	CCC and lower		
Sovereign method			
Total		**147.2**	**334.4**

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 mark-to-market valuation method to calculate the exposure value that provides the basis for credit risk calculation, which then occurs according to the standardised approach. In order to also calculate capital 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 Helsinki and Stockholm 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 or 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	Dec 31, 2015	Dec 31, 2014
EUR M		
Government guarantee	35.4	26.2
Provincial or municipal guarantee	23.1	21.3
Bank guarantee	0.2	0.3
Deposit accounts	21.1	18.2
Financial collateral	228.0	191.7
Residential property	2,408.5	2,145.6
Other, unacceptable collateral	900.7	939.7
Total loan portfolio	**3,617.0**	**3,343.0**
Share with acceptable form of collateral, %	**75**	**72**

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	2015					
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	1,680.5	−9.7	0.0	1,670.8	74.9	3,218.7
Small and medium-sized companies classified as household exposures	161.1	−2.1	0.0	159.0	31.9	238.9
Other household exposures	243.6	−22.8	0.0	220.8	257.5	24.6
Total portfolios using the IRB approach	**2,085.2**	**−34.6**	**0.0**	**2,050.6**	**364.2**	**3,482.2**

	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**

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

Credit risk according to the standardised approach	2015					
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	364.3	63.9			428.2	0.0
Institutional exposures	209.4	0.0	−8.0		201.4	0.0
Company exposures	801.0	−27.1	−146.1		627.8	0.0
Exposures with real estate as collateral	810.4				810.4	810.4
Household exposures	381.6	−2.2	−25.5		353.9	0.0
Total portfolios using the standardised approach	**2,566.7**	**34.6**	**−179.6**	**0.0**	**2,421.7**	**810.4**

	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**

During 2015, 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 was about EUR 160 M higher than at the end of 2014. According to the above table, the indicative average loan-to-value ratio for residential property collateral in the IRB-approved portfolio was 59 per cent, compared to 58 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			2015		
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)	126.1	125.1	33	41.8	3.3
Households with property as collateral (private individuals)	1,680.5	1,673.0	14	236.7	18.9
Households, other (small and medium-sized companies)	35.0	34.2	32	11.0	0.9
Households, other (private individuals)	243.6	221.5	18	40.7	3.3
Total exposures according to the IRB approach	**2,085.2**	**2,053.8**	**16**	**330.1**	**26.4**
Credit risk according to the standardised approach					
Exposure to sovereigns, central banks and local authorities	364.3	416.8	0	0.0	0.0
Exposures to institutions	209.4	201.4	36	72.3	5.8
Exposures to covered bonds	334.4	334.4	10	33.4	2.7
Corporate exposures	801.0	561.5	96	540.8	43.3
Household exposures	381.6	115.5	70	80.5	6.4
Exposures with real property mortgages as collateral	810.4	801.4	34	270.1	21.6
Past due exposures	22.6	15.0	126	18.9	1.5
Items associated with especially high risk	1.8	1.8	156	2.8	0.2
Equity exposures	1.6	1.6	113	1.8	0.1
Collective investment companies (funds)	0.0	0.0	0	0.0	0.0
Other items	49.7	49.7	82	40.9	3.3
Total exposures according to the standardised approach	**2,976.9**	**2,499.2**	**42**	**1,061.7**	**84.9**
Total risk exposure amount risk	**5,062.1**	**4,553.0**	**31**	**1,391.8**	**111.3**

			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	**4,611.7**	**4,261.9**	**32**	**1,374.5**	**110.0**

Special IRB-related disclosures	2015	2014
EUR M		
Individual impairment losses attributable to IRB-approved portfolios	5.8	5.6
Estimated expected loss amount according to IRB models	–11.0	–10.6
Deficit subtracted from the capital base in the capital adequacy analysis (net EL)	–5.2	–4.9
Limit according to transitional rule (minimum 80% of capital requirement according to standardised approach) *	117.8	57.7
Capital requirement with reference to IRB	117.0	46.2
Additional capital requirement including net effect for deficit subtracted from the capital base	0.8	17.0

* During 2015, the Bank was granted permission to use the transitional rule for estimating the entire capital requirement instead of only estimating the IRB-approved portfolios.

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

Breakdown by region: EAD and risk exposure amounts for credit risk exposures 2015	Finland		Sweden		Other	
EUR M	EAD	Risk-exposure amounts	EAD	Risk-exposure amounts	EAD	Risk-exposure amounts
Credit risk according to the IRB approach						
Households with property as collateral (small and medium-sized companies)	125.1	41.8			0.0	0.0
Households with property as collateral (private individuals)	1,673.0	236.7			0.0	0.0
Households, other (small and medium-sized companies)	34.2	11.0			0.0	0.0
Households, other (private individuals)	221.5	40.7			0.0	0.0
Total exposures according to the IRB approach	**2,053.8**	**330.1**	**0.0**	**0.0**	**0.0**	**0.0**
Credit risk according to the standardised approach						
Exposure to sovereigns, central banks and local authorities	217.8	0.0	69.8	0.0	129.1	0.0
Exposures to institutions	30.3	8.4	73.3	26.4	97.8	37.6
Exposures to covered bonds	15.2	1.5	199.9	20.0	119.3	11.9
Corporate exposures	292.8	278.6	269.1	262.2	0.0	0.0
Household exposures	77.8	53.2	37.7	27.2	0.0	0.0
Exposures with real property mortgages as collateral	52.2	17.1	749.3	253.0	0.0	0.0
Past due exposures	14.7	18.5	0.3	0.4	0.0	0.0
Items associated with especially high risk	1.8	2.8	0.0	0.0	0.0	0.0
Equity exposures	1.6	1.8	0.0	0.0	0.0	0.0
Collective investment companies (funds)	0.0	0.0	0.0	0.0	0.0	0.0
Other items	46.9	38.2	2.8	2.8	0.0	0.0
Total exposures according to the standardised approach	**751.2**	**420.1**	**1,402.1**	**592.0**	**345.9**	**49.5**
Total risk exposure amount	**2,805.0**	**750.3**	**1,402.1**	**592.0**	**345.9**	**49.5**

DOUBTFUL AND NON-PERFORMING RECEIVABLES

A receivable is defined as doubtful when it is probable that contractual payments will not be fulfilled and when, because of this, one or more loans within a customer entity have given rise to an individual provision. Doubtful receivables are recognised on a gross basis, without taking into account individual provisions and without regard to collateral that has been received to secure the receivable. Non-performing receivables arise when a borrower has diverged from contractual payment of interest or loan principal. At the end of 2015, receivables with amounts overdue for more than 90 days were at a higher level than a year earlier. Their recognised value before taking into account individual provisions amounted to EUR 41.1 M (29.4).

A provision for an expected loss is made if there is objective evidence indicating that full repayment of a receivable is no longer probable. The size of the provision is equivalent to the difference between the carrying amount of the outstanding exposure and the discounted value of expected future cash flows attributable to the receivable and any collateral or guarantees received. If there is no evidence for an individual provision on a receivable, regardless of whether the receivable is of significant size or not, it is included in a group of financial assets with similar credit risk characteristics, which undergo collective impairment testing. All of the group impairment losses reported below are in the category of group provisions that are collectively recognised according to IFRS rules. They are treated in the capital adequacy analysis as specific credit risk adjustments. Impairment testing takes place quarterly. At the end of 2015, individual provisions amounted to EUR 10.6 M (14.3). The level of provisions for doubtful receivables, calculated as individual provisions due to doubtful receivables, amounted to 34 (66) per cent.

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

					2014				
EUR M	Doubtful, gross	Doubtful receivables, %	Individual impairment provisions	Group impairment provisions	Level of provisions, %	Non-performing >90 days	Non-performing 60–90 days	Non-performing 30–59 days	Non-performing 5–29 days
Home loans	5.1	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**

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.

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 2015

EUR M	Repayable on demand	< 1 mo	1–3 mo	3–6 mo	6–9 mo	9–12 mo	1–2 yrs	2–5 yrs	> 5 yrs	Total cash flow	Carrying amount
Financial assets:											
Cash	199									199	199
Debt securities eligible for refinancing with central banks		6	25	37	50	22	121	284	99	643	633
Lending to credit institutions	45									45	45
Lending to the public	216	48	162	146	206	169	468	1,071	1,912	4,397	3,617
Total	**460**	**55**	**187**	**182**	**256**	**190**	**589**	**1,354**	**2,010**	**5,284**	**4,494**
Financial liabilities											
Liabilities to credit institutions	77	78	20	9	15			131		330	322
Liabilities to the public	2,331	35	40	39	25	39	4	4	1	2,518	2,517
Debt securities issued		38	177	111	14	24	220	774	105	1,462	1,412
Subordinated liabilities			2	4	4		9	18	13	51	43
Total	**2,408**	**151**	**239**	**164**	**58**	**63**	**233**	**926**	**119**	**4,361**	**4,281**
Derivative contracts in balance sheet management											
Cash inflow		0	3	3	0	0	6	7	7	48	
Cash outflow		0	–1	–1	–1	–2	–4	–4	–4	–36	
Total		**0**	**2**	**2**	**–1**	**–1**	**3**	**4**	**3**	**12**	
GAP		**–96**	**–49**	**21**	**197**	**126**	**359**	**431**	**1,894**	**936**	

					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 balance sheet 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**	

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, 2015, the Bank's survival horizon amounted to more than two years.

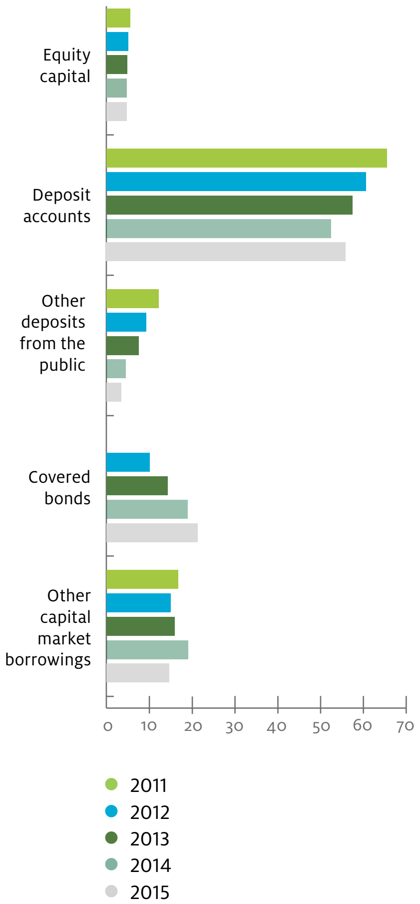
As a supplement to the analysis of future cash flows, the Bank uses a number of financial ratios such as the liquidity coverage ratio (LCR), the net stable funding ratio (NSFR) and the core funding ratio, a measure of what percentage of lending to the public is funded by customer deposits and covered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

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

Financial ratios, liquidity risk	2015	2014
per cent		
LCR	91	97
NSFR	108	106
Core funding ratio	100	105

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

Funding sources
per cent



Liquidity coverage ratio (LCR)	2015	2014
EUR M		
Liquid assets, (cash and cash equivalents), level 1	604	383
Liquid assets, level 2	0	37
Total liquid assets	**604**	**420**
Customer deposits	668	489
Market borrowing	35	44
Other cash outflows	7	55
Total cash outflows	**710**	**588**
Inflows from lending to non-financial customers falling due for payment	20	29
Other cash inflows	24	126
Total cash inflows	**44**	**156**
Net cash outflows	**666**	**432**
Liquidity coverage ratio (LCR), %	**91**	**97**

FUNDING

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

The Bank of Åland's aim is a funding structure in which the Bank's customers – through deposit accounts (sight deposits and time deposits) account for more than 50 per cent of total funding. Deposits from the public, as a proportion of total funding, increased from 53 per cent at the end of 2014 to 56 per cent at the end of 2015. Meanwhile, covered bonds have become an important additional source of funding, with relatively low interest costs and long contractual maturities. In the space of just over three years, covered bonds grew from 0 per cent to 21 per cent of total funding.

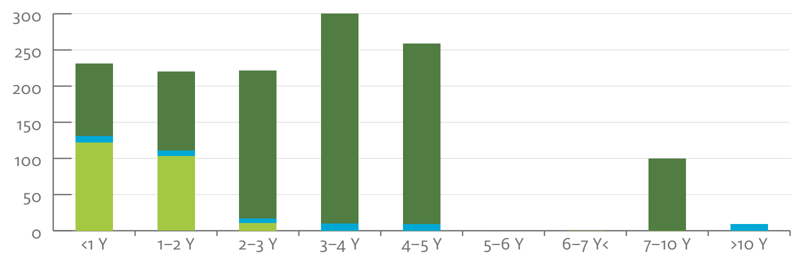
The Bank of Åland has a long-term target of ensuring that the core funding ratio shall not exceed 100 percent. The Bank's lending shall thus not depend on unsecured capital market borrowing for its funding. The Bank of Åland's core funding ratio, defined as lending to the public as a percentage of deposits from the public including certificates of deposit, index bonds and subordinated debentures issued to the public, plus covered bonds issued, amounted to 100 per cent at the end of 2015 (105).

FUNDING SOURCES

During 2012 the Bank of Åland issued its first covered bonds. At year-end 2015, the nominal amount of covered bonds outstanding was EUR 959 M, of which EUR 250 M was issued during 2015. During 2015 the Bank issued SEK 850 M worth of senior unsecured bonds, and the nominal amount outstanding totalled EUR 156 M at the end of 2015. Liabilities outstanding on December 31 can be seen in the table below. The Bank of Åland itself purchased EUR 104 M of covered bonds outstanding, which largely constitute collateral for long-term borrowing from credit institutions.

Borrowings outstanding	2015	2014
EUR M		
Covered bonds	959	795
Senior unsecured bonds	156	160
Equity index bonds	47	65
Total	**1,162**	**1,020**
Average maturity in years	3.33	3.32
Certificates of deposit, EUR	71	85
Certificates of deposit, SEK	179	207
Total	**250**	**292**
Average maturity in years	0.34	0.44

Maturity structure, debt instruments issued



At present, the Bank has a well-diversified maturity structure. Over the past four years, the average maturity of the Bank's external debt increased from 0.6 years to more than 3.3 years. Since the difference between the Bank's credit rating (BBB) and the collateral pool's rating (AAA) from Standard & Poor's is large, the difference in funding cost for covered and unsecured funding is significant, especially for longer maturities. As a result, the Bank has chosen to issue covered bonds rather than unsecured bonds.

INVESTOR BASE

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

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

MORTGAGE BANKING OPERATIONS

Due to business growth during 2015, the Bank increased its total available collateral in both Finland and Sweden. The Bank of Åland has two separate collateral pools, Cover Pool FIN and Cover Pool SWE. The Finnish cover pool included a total of EUR 1,201 M in collateral at the end of 2015. Backed by collateral registered in Cover Pool FIN, the Bank issued a total of EUR 863 M in covered bonds. The Finnish collateral pool included over-collaterisation of 39.1 per cent on December 31, 2015. The Swedish collateral pool included collateral totalling SEK 3,007 M. Backed by collateral registered in Cover Pool SWE, the Bank had issued a total of SEK 1,750 M in covered bonds by December 31, 2015. The Swedish collateral pool included over-collaterisation of 71.8 per cent at the end of 2015.

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

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

Collateral Pool Finland – Cover Pool FIN

Assets included

EUR M	
Loans	1,201
Substitute collateral	0
Other	0
Total	**1,201**

Type of collateral

EUR M	Loan volume	Loan volume, %
Single-family homes and flats	1,199	99.8
Multi-family homes	2	0.2
Commercial properties		0.0
Agriculture and forestry		0.0
Public sector		0.0
Total	**1,201**	**100.0**

Key figures

Number of loans	15,731
Number of borrowers	13,104
Average loan volume, EUR K	76
Over-collateralisation, nominal, %	39.1
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	41	81	128	187	226	523	0	1,201
Loan volume, %	1	3	7	11	16	19	44	0	100

Seasoning

EUR M	0–12 M	12–24 M	24–36 M	36–60 M	60 M–	Total
Loan volume	188	195	163	239	415	1,201
Loan volume, %	16	16	14	20	35	100

Issues outstanding, EUR

EUR M	Total	Issue date (d/m/y)	Maturity date (d/m/y)	Coupon	Fixed/ floating
ISIN					
XS0828359116	100	14.9.2012	14.9.2016	0.688	Rörlig
XS1117564572	150	8.10.2014	8.10.2018	0.500	Fast
XS0999478372	100	3.12.2013	3.6.2019	1.550	Fast
XS1238023813	250	26.5.2015	26.5.2020	0.375	Fast
XS0876678391	100	30.1.2013	30.1.2023	2.750	Fast

Issues outstanding, SEK

SEK M	Total	Issue date (d/m/y)	Maturity date (d/m/y)	Coupon	Fixed /floating
ISIN					
XS0862156089	1 000	12.12.2012	12.6.2017	1.275	Rörlig
XS0862155941	500	12.12.2012	12.6.2018	1.375	Rörlig

Maturity

EUR M	2016	2017	2018	2019	2020	2021–2025	2026–2030	2031–	Total
Total	100	109	204	100	250	100	0	0	863
Total, %	12	13	24	12	29	12	0	0	100

Collateral Pool Sweden – Cover Pool SWE

Assets included

SEK M	
Loans	3,007
Substitute collateral	
Other	
Total	**3,007**

Type of collateral

SEK M	Loan volume	Loan volume, %
Single-family homes and tenant-owned cooperative flats	1,926	64.0
Multi-family homes and cooperative housing associations	1,081	36.0
Agriculture and forestry	0	0.0
Public sector	0	0.0
Commercial properties	0	0.0
Total	**3,007**	**100.0**

Key figures

Number of loans	959
Number of borrowers	950
Average loan volume, SEK K	3,136
Over-collateralisation, nominal, %	71.8
Weighted loan-to-value ratio, %	60
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	64	126	190	320	440	1,860	0	0	3,007
Loan volume, %	0	2	4	6	11	15	62	0	0	100

Seasoning

SEK M	0–12 M	12–24 M	24–36 M	36–60 M	60 M–	Total
Loan volume	782	911	709	604	0	3,007
Loan volume, %	26	30	24	20	0	100

Issues outstanding, SEK

SEK M	Total	Issue date (d/m/y)	Maturity date (d/m/y)	Coupon	Fixed/ floating
ISIN					
XS1077864905	1 000	23.6.2014	25.3.2019	0.134	Rörlig
XS1155041004	750	16.12.2014	16.12.2019	0.116	Rörlig

Maturity

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

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	2015	2014
EUR M		
Cash and investments with central banks	199	86
Debt securities issued by sovereigns and public authorities	131	169
Covered bonds (ratings of AA– or higher)	318	178
Holdings of own covered bonds	40	10
Holdings of own unsecured bonds	18	0
Accounts with other banks	33	57
Lending to credit institutions <3 days	0	59
Debt securities issued by financial companies	65	82
Debt securities issued by non-financial companies	0	6
Total	**805**	**646**
Of which LCR-qualified	604	420

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 or 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.
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.

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

LIQUIDITY RISK REGULATIONS

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

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

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

The LCR metric is being introduced gradually during 2015–2019, 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.

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.

In the low interest rate environment that has become a reality since the financial crisis began in 2008, and which included negative interest rates in 2015, the Bank of Åland's net interest income has been adversely affected. 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 5 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, which has adversely affected the Bank of Åland's net interest income. Given negative market interest rates, today the Bank of Åland has no actual negative net interest income risk. Net interest income risk, which is limited by the Board of Directors, is measured as the effect on net interest income of a parallel shift in the yield curve by –50 basis points.

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

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

The Bank of Åland has a limited portfolio classified as "held for trading" that must be carried at market value in the income statement. The Treasury Department's bond portfolio is primarily classified as available for sale, which means that only realised changes in value are reported in the income statement, while unrealised changes in value are reported in other comprehensive income.

All derivatives are recognised at market value. 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.

The Bank of Åland's goal is to avoid volatility in the income statement due to changes in market interest rates. This occurs by means of various risk mitigation measures, for example the use of interest rate swaps and interest rate futures. Based on the strategy the Bank has chosen, the valuation gain or loss attributable to interest rate movements should be close to zero in the income statement, except for capital gains or losses from the liquidity portfolio. Unrealised changes in value in the liquidity portfolio are visible in "Other comprehensive income".

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

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

			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
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**	

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

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

Parallel shift in the yield curve	2015		2014	
EUR M	Basis points		Basis points	
	+100	–100	+100	–100
Net interest income risk	9.6	1.0	7.6	–0.8
EUR	6.4	0.7		
SEK	3.6	0.1		
Value change risk	4.2	–1.3	0.1	
EUR	2.8	–1.8		
SEK	1.6	0.3		

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, continuity and emergency planning as well as continuity exercises. Crosskey Banking Solutions reports to the Bank about all incidents that have occurred and on the findings of its risk-mapping analyses.

Operational risks in the 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, 2015, EUR M
Corporate financing	18	
Trading and financial management	18	
Brokerage operations, individual customers	12	
Banking, large customers	15	1.2
Banking, households	12	8.1
Payment and phase-out	18	3.4
Administrative assignments	15	
Asset management	12	1.2
Total capital requirement, operational risk		**13.9**

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

During 2015, the new capital buffers went into effect. One capital buffer that affects the Bank is the 2.5 per cent capital conservation buffer, which is to be covered by core Tier 1 capital. 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 Financial Supervisory Authority in Finland has not made a decision to put the countercyclical capital buffer into effect. 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. In June 2016, the Swedish countercyclical buffer level will rise to 1.5 per cent. This means that lending in Sweden will require more capital. The sum of the two above-mentioned buffers comprises the Bank's combined buffer requirement.

The table below presents the buffer requirements in per cent and as required core Tier 1 capital in euros. This combined buffer requirement is in addition to Pillar 1 and Pillar 2 capital requirements.

Reporting of combined buffer requirements	Capital requirement for relevant credit risk exposures	National buffer requirement, %
Countercyclical capital buffer		
Finland	59.4	0.0
Sweden	45.3	1.0
Germany	0.1	0.0
Norway	0.8	1.0
Denmark	0.0	0.0
Overall countercyclical buffer requirement, %		0.4
Overall countercyclical buffer requirement, EUR M		6.8
Capital conservation buffer, %		2.5
Capital conservation buffer, EUR M		39.5
Combined buffer requirement, %		2.9
Combined buffer requirement, EUR M		46.3

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 in the form of capital instruments as well as related premium reserves that meet the conditions in Articles 28 and 29 of the Capital Requirement Regulation (CRR), retained earnings, other accumulated comprehensive income, other reserves and provisions for general banking risks. Retained earnings include the portion of the year's profit that is not planned as a dividend, with the approval of the Financial Supervisory Authority after independent verification by an auditor. The instruments that are included in the Bank's Tier 1 capital are perpetual and consist mainly of equity capital according to accounting rules. The new capital conservation buffer that went into effect in 2015 means, in practice, that 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, defined-benefit pension assets, deferred tax assets dependent on future profitability and deficits in the form of expected losses exceeding recognised impairment losses in the IRB-approved portfolio. The Bank's own holdings in core Tier 1 capital instruments in units in the financial sector are also subtracted. Unlike Tier 1 capital, supplementary capital is not as available for covering losses as Tier 1 capital according to the regulations. The Group's supplementary capital consists of subordinated debentures issued to the public, which are specified in an appendix to this risk management section. Aside from capital instruments and subordinated debentures plus related premium reserves that meet the requirements of Article 63 of the CCR, supplementary capital includes general credit risk adjustments and estimated gross tax effects up to 1.25 per cent of the risk exposure amount calculated according to the standardised approach. Supplementary capital may also include the expected losses that exceed recognised impairment losses for the IRB-approved portfolio up to 0.6 per cent of the risk exposure amount calculated according to the IRB approach. As with Tier 1 capital, the Bank's own holdings of capital instruments in units in the financial sector are subtracted from supplementary capital. According to a decision by the Financial Supervisory Authority, subordinated debentures issued after January 1, 2012 that are amortised for up to 5 years may no longer be included in supplementary capital. The Bank is thus forced to subtract these instruments from its capital base. The Appendix to this section on risks provides a detailed presentation of the items in the Bank's capital base as well as the instruments that comprise the capital base and their most important characteristics. The Appendix begins with a reconciliation between the capital base and the balance sheet.

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 2015, 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 according to Article 94 of the CCR and thus estimates no capital requirement according to the market risk regulations. Instead it applies the credit risk rules to these items to the extent they arise. In the Bank's assessment, all balance sheet items are currently classified as belonging to financing operations in the context of capital adequacy.

LONG-TERM CAPITAL ADEQUACY TARGETS

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

The Group's long-term financial targets are as follows: 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.

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

Capital adequacy	2015	2014
EUR M		
Equity capital according to balance sheet	212.9	195.9
Foreseeable dividend	−9.1	−5.8
Core Tier 1 capital before deductions	**203.8**	**190.1**
Intangible assets	−8.8	−7.2
Property revaluation	−1.9	−2.1
Tax liabilities due to future profitability offset against tax liabilities	−0.1	−0.5
Surplus value in pension assets	−0.5	0.0
Non-controlling interests	0.0	−1.3
Unrealised accumulated positive change in value	0.0	−4.5
Cash flow hedge	0.4	0.5
Expected losses according to IRB approach beyond recognised losses	−5.2	−4.9
Core Tier 1 capital	**187.6**	**170.0**
Additional Tier 1 capital	**0.0**	**0.0**
Tier 1 capital	**187.6**	**170.0**
Supplementary capital instruments	15.1	11.0
Unrealised accumulated positive change in value	0.0	4.5
Property revaluation	1.9	2.1
Supplementary capital before deductions	**17.0**	**17.7**
Supplementary capital	**17.0**	**17.7**
Total capital base	**204.6**	**187.6**
Capital requirement for credit risk according to the IRB approach	26.4	24.2
Capital requirement for credit risk according to standardised approach	84.9	85.7
Capital requirement for credit-worthiness adjustment	1.3	1.3
Capital requirement for operational risk	13.9	13.0
Capital requirement	**126.5**	**124.3**
Addition according to transitional rules for IRB approach	0.8	17.0
Capital requirement including transitional rule for IRB approach	**127.3**	**141.3**
Risk exposure amount (including Basel I floor effect)	1,591.3	1,766.3
of which % comprising credit risk	88	88
of which % comprising credit-worthiness adjustment risk	1	1
of which % comprising operational risk	11	11
Capital ratios (excluding Basel I floor effect)		
Core Tier 1 capital ratio, %	11.9	10.9
Tier 1 capital ratio, %	11.9	10.9
Total capital ratio, %	12.9	12.1
Capital ratios (including Basel I floor effect)		
Core Tier 1 capital ratio, %	11.8	9.6
Tier 1 capital ratio, %	11.8	9.6
Total capital ratio, %	12.9	10.6
Capital requirement according to Basel I floor transitional rule*		
Capital requirement adjusted for Basel I floor rule	127.3	141.3
Capital base according to Basel I	209.8	192.6
Capital surplus according to Basel I floor transitional rules	82.5	51.3
Capital base as % of Basel I floor capital requirement	164.8	136.3

* During 2015, the Bank was granted permission by the Financial Supervisory Authority to use a new method for calculating the transitional rule.

Leverage ratio	2015	2014
EUR M		
Tier 1 capital defined according to transitional rules	187.1	172.0
Total exposure metric	4,778.2	4,517.0
of which balance sheet items	4,518.7	4,270.0
of which off-balance sheet items	259.5	247.0
Leverage ratio, %	3.9	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 2014 ICAAP evaluated a negative scenario of a lengthy economic downturn that adversely affects the Finnish and Swedish export industry and leads to higher unemployment, sharply declining real estate prices and share prices and continued extremely low market interest rates. Identified capital needs according to Pillar 2 amounted to EUR 17.9 M, of which the largest items were business risk at EUR 8.8 M (estimated phase-out costs for Swedish operations), concentration risks in the loan portfolio at EUR 4.3 M and interest rate risk in banking operations at EUR 2.1 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 126.7 M on December 31, 2014. Based on risk-weighted assets, this requirement was equivalent to a minimum core Tier 1 capital ratio of 8.2 per cent.

Capital planning for an economic downturn showed a capital need of EUR 33.9 M to cover the operating losses that would occur. This accumulated operating loss is equivalent to a capital conservation buffer of 2.2 per cent. The stress test generates accumulated loan losses of EUR 80.4 M during 2015–2018. Of the accumulated loan losses, EUR 50.5 M is related to corporate exposures in the corporate portfolio.

The core Tier 1 capital need of EUR 126.7 M should be compared to the reported core Tier 1 capital of EUR 170.0 M on December 31, 2014. The Bank of Åland thus had a core Tier 1 capital buffer equivalent to EUR 43.3 M.

If we look at the total capital requirement, according to Pillar 1 it was EUR 124.2 M. Including EUR 5.0 M in additional capital according to the transitional rule for IRB, the capital requirement amounted to EUR 129.2 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 141.7 M. Since the total capital base including supplementary capital amounted to EUR 187.6 M, the capital buffer at year-end was EUR 45.9 M.

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	2014	2013	Change
EUR M			
Pillar 1–capital requirement			
Credit risk, IRB	24.2	25.0	–0.8
Credit risk, standardised approach	85.7	80.4	5.3
Credit valuation adjustment risk	1.3		1.3
Operational risks	13.0	12.6	0.4
Total capital requirement in Pillar 1	**124.2**	**118.0**	**6.2**
Addition according to transitional rules for IRB approach	**5.0**	**14.0**	**–9.0**
Credit risk, IRB instead of standardised approach	–5.4	–5.4	0.0
Pillar 2–capital requirement			
Credit risk in addition to Pillar 1	1.1	0.6	0.5
Credit concentration risk	4.3	4.8	–0.5
Counterparty risk	0.4	1.5	–1.1
Interest rate risk in banking operations	2.1	2.4	–0.3
Exchange rate risk	0.3	0.3	0.0
Equity risk	0.9	1.0	–0.1
Property risk	0.0	0.0	0.0
Operational risks in addition to Pillar 1	0.0	0.0	0.0
Pension liability risk	0.0	0.0	0.0
Business risk	8.8	13.2	–4.4
Liquidity risk	0.0	0.0	0.0
Total capital need in Pillar 2	**17.9**	**23.8**	**–5.9**
Total capital requirement and capital need	**141.7**	**150.4**	**–8.7**
Available capital	**187.6**	**200.1**	**–12.5**
of which core Tier 1 capital	170.0	159.9	10.1
of which supplementary capital	17.6	40.2	–22.6
Capital buffer	**45.9**	**49.7**	**–3.8**
Risk exposure amount (Pillar 1)	**1 554**	**1 475**	**79**
Estimated need for core Tier 1 capital			
Minimum 7% core Tier 1 capital according to Pillar 1	108.8	103.3	5.5
Capital need according to Pillar 2	17.9	23.8	–5.9
Total core Tier 1 capital need	**126.7**	**127.1**	**–0.4**
Minimum level core Tier 1 capital ratio, %	**8.2**	**8.6**	**–0.5**
Core Tier 1 capital buffer	**43.3**	**32.9**	**10.5**

Reconciliation between balance sheet and capital base	2015	2014	
EUR M			Line reference in capital base
Assets			
Intangible assets	9.6	7.7	
of which: Goodwill and other intangible assets (net of related tax liabilities)	−8.8	−7.2	8
Deferred tax assets	4.4	4.9	
of which: reliant on future profitability except those that arise due to temporary differences	−0.1	−0.6	10
Defined benefit pension assets	1.4	0.4	
of which: defined benefit pension assets (in addition to related obligations, net of related tax liabilities)	−0.5	0.0	15
Liabilities			
Deferred tax liabilities	17.2	13.7	
of which: reliant on future profitability except those that arise due to temporary differences			10
Defined benefit pension obligations	0.8	1.3	
of which: defined benefit pension assets (net of related tax liabilities)			15
Subordinated liabilities	42.7	49.8	
of which: Additional Tier 1 capital instruments and related share premium accounts			30
of which: Qualifying items referred to in Article 484 (4)			33 and 47
of which: Direct and indirect own holdings in the Bank's additional Tier 1 capital instruments			37
of which: Supplementary capital instruments and related share premium accounts	15.1	11.0	46
of which: Qualifying items referred to in Article 484 (5)			47
of which: Direct and indirect own holdings in the Bank's supplementary capital instruments	0.0	0.0	52
Equity capital			
Share capital	41.5	29.1	1
of which: Share capital (net of direct and indirect holdings of own shares)	41.4	28.9	1 and 16
Share premium account	32.7	32.7	
of which: Equity instruments and related share premium accounts	32.7	32.7	1
Other reserves	50.1	49.7	
of which: Statutory reserve	25.1	25.1	1
of which: Unrestricted equity reserve	25.0	24.6	1
Other reserves	1.2	2.3	
of which: Other comprehensive income	1.2	2.3	3
of which: Fair value reserves related to gains or losses on cash flow hedges	0.4	0.5	11
Retained earnings	87.4	80.6	
of which: Profit for the period	24.3	16.1	5a
of which: Retained earnings	61.0	62.0	

	Disclosures about capital base	2015	2014	
	EUR M			Regulation (EU) No 575/2013 Article reference
	Core Tier 1 capital: Instruments and reserves			
1	Capital instruments and related share premium accounts	124.4	111.6	26.1, 27,28,29
	of which: share capital	41.5	29.1	EBA list 26.3
	of which: share premium account	32.7	32.7	EBA list 26.3
	of which: other funds	50.1	49.7	EBA list 26.3
2	Retained earnings	61.0	62.0	26.1 C
3	Accumulated other comprehensive income (and other reserves)	1.2	2.3	26.1
3a	Provisions for general risks in banking operations			26.1 f
4	Amount of qualifying items referred to in Article 484.3 and related share premium accounts subject to phase-out from core Tier 1 capital			486.2
5	Minority interests (amount allowed in consolidated core Tier 1 capital)	0.0	0.3	84
5a	Interim profit, net of foreseeable expenses and dividends that have been verified by persons who have an independent position	15.4	10.7	26,2
6	**Core Tier 1 capital before regulatory adjustments**	**201.9**	**187.0**	**Total of lines 1–5a**

		2015	2014	
	Core Tier 1 capital: regulatory adjustments			
7	Additional value adjustments (negative amount)		−4.5	24, 105
8	Intangible assets (net of related tax liabilities) (negative amount)	−8.8	−7.2	36.1 b, 37
9	Empty set in the EU			
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38.3 are met) (negative amount)	−0.1	−0.6	36.1 c, 38
11	Fair value reserves related to gains or losses on cash flow hedges	0.4	0.5	33.1 a
12	Negative amounts resulting from calculation of expected loss amounts	−5.2	−4.9	36.1 d, 40, 159
13	Any increase in equity capital that result from securitised assets (negative amount)			32,1
14	Gains or losses on liabilities measured at fair value resulting from changes in the institution's own credit risk			33.1 b
15	Defined benefit pension fund assets	−0.5	0.0	36.1 e, 41
16	An institution's direct and indirect holdings of own core Tier 1 capital instruments	−0.1	−0.2	36.1 f, 42
17	Direct, indirect and synthetic holdings of core Tier 1 capital instruments of financial sector entities with which the institution has cross-ownership designed to artificially inflate the institution's capital base (negative amount)			36.1 g, 44
18	The institution's direct, indirect and synthetic holdings of core Tier 1 capital instruments of financial sector entities in which the institution does not have significant investment (amounts above the 10% threshold, net of eligible short positions) (negative amount)			36.1 h, 43, 45, 46, 49.2, 49.3, 79
19	The institution's direct, indirect and synthetic holdings of core Tier I capital instruments in financial sector entities where the institution has a significant investment (amounts above the 10% threshold, net of eligible short positions) (negative amount)			36.1 I, 43, 45, 47,48.1 b, 49.1-49.3, 79
20	Empty set in the EU			
20a	Exposure amount of the following items which qualify for a risk weight of 1,250% when the institutions opts for the deduction alternative			36.1 k
20b	*of which: qualifying holdings outside the financial sector (negative amount)*			36.1 k ii, 243.1b, 244.1 b, 258
20c	*of which: securitisation positions (negative amount)*			36.1 k ii, 243.1 b, 244.1 b, 258
20d	*of which: qualifying holdings outside the financial sector (negative amount)*			36.1 k iii, 379.3
21	Deferred tax assets arising from temporary differences (amounts above the 10% threshold, net of related tax liability when the conditions in Article 38.3 are met) (negative amount)			36.1 c, 38
22	Amount exceeding the 15% threshold) (negative amounts)			48.1
23	*of which: the institution's direct and indirect holdings in core Tier I capital instruments of financial sector entities where the institution has a significant investment in these entities*			36.1 i, 48.1 b
24	Empty set in the EU			
25	*of which: deferred tax assets arising from temporary differences*			36.1 c, 38, 48.1 a
25a	Losses for the current financial year (negative amount)			36.1 a
25b	Foreseeable taxes related to core Tier 1 items (negative amount)			36.1 l
27	Qualifying additional Tier 1 capital deductions that exceed the institution's additional Tier 1 capital (negative amount)			36.1 j
28	**Total regulatory adjustments in core Tier 1 capital**	**−14.3**	**−17.0**	**Total of lines 7–20a, 21, 22 and 25a–27**
29	**Core Tier I capital**	**187.6**	**170.0**	**Line 6 minus line 28**

		2015	2014	
	Additional Tier 1 capital: instruments			
30	Capital instruments and related share premium accounts			51, 52
31	*of which: classified as equity capital under applicable accounting standards*			
32	*of which: classified as liabilities under applicable accounting standards*			
33	Amount of qualifying items referred to in Article 484.4 and related share premium accounts subject to phase-out of additional Tier I capital			486.3
34	Qualifying Tier I capital included in consolidated additional core capital (including minority interests not included in line 5) issued by subsidiaries and held by third parties			85, 86
35	*of which: instruments issued by subsidiaries and subject to phase-out*			486.3
36	**Additional Tier I capital before regulatory adjustments**	**0.0**	**0.0**	**Total of lines 30, 33 och 34**
	Additional Tier I capital: regulatory adjustments			
37	An institution's direct and indirect holdings of own additional Tier 1 capital instruments (negative amount)			52.1 b, 56 a, 57
38	Direct, indirect and synthetic holdings of additional Tier I capital instruments of financial sector entities with which the institution has cross-ownership designed to artificially inflate the institution's capital base (negative amount)			56 b, 58
39	Direct, indirect and synthetic holdings of additional Tier I capital instruments of financial sector entities where the institution has no significant investment (amounts above 10% threshold net of eligible short positions) (negative amount)			56 c, 59, 60, 79
40	Direct, indirect and synthetic holdings of additional Tier I capital instruments in entities in the financial sector where the institution has a significant investment (amounts above 10% threshold net of eligible short positions) (negative amount)			56 d, 59, 79
41	Empty set in the EU			
42	Deductions from qualified supplementary capital that exceeds the institution's supplementary capital (negative amount)			56 e
43	**Total regulatory adjustments to additional Tier 1 capital**	**0.0**	**0.0**	**Total of lines 37–42**
44	**Additional Tier 1 capital before regulatory adjustments**	**0.0**	**0.0**	**Line 36 minus line 43**
45	**Tier 1 capital (Tier I capital = core Tier 1 capital + additional Tier I capital)**	**187.6**	**170.0**	**Total of lines 29 och 44**
	Supplementary capital: Instruments and provisions			
46	Capital instruments and related share premium accounts	17.0	17.7	62, 63
47	Amount of qualifying items referred to in Article 484.5 and related share premium accounts subject to phase-out from supplementary capital			486.4
48	Qualifying Tier 1 capital included in consolidated supplementary capital (including minority interests and additional Tier I capital instruments not part of line 5 or 34) issued by subsidiaries and held by third parties			87, 88
49	*of which: instruments issued by subsidiaries subject to phase-out*			486.4
50	Credit risk adjustments			62 c and d
51	**Supplementary capital before regulatory adjustments**	**17.0**	**17.7**	
	Supplementary capital: regulatory adjustments			
52	An institution's direct and indirect holdings of own supplementary capital instruments and subordinated loans (negative amount)	0.0	0.0	63 b i, 66 a, 67
53	Holdings of supplementary capital instruments and subordinated loans of financial sector entities where the institution has no significant investment (amounts above 10% threshold, net of eligible short positions) (negative amount)			66 b, 68
54	Direct and indirect holdings of supplementary capital instruments and subordinated loans of financial sector entities where the institution has no significant investment (amounts above 10% threshold, net of eligible short positions (negative amount)			66 c, 69, 70, 79
55	An institution's direct and indirect holdings of supplementary capital instruments			66 d, 69, 79
56	Empty set in the EU			
57	**Total regulatory adjustments of supplementary capital**	**0.0**	**0.0**	**Total of lines 52–56**
58	**Supplementary capital**	**17.0**	**17.7**	**Line 51 minus line57**
59	**Total capital (Tier 1 capital + supplementary capital)**	**204.6**	**187.7**	**Total of lines 45 och 58**
60	**Total risk-weighted assets**	**1,591.3**	**1,766.3**	

		2015	2014	
	Capital ratios and buffers			
61	Core Tier I capital (as a percentage of total risk-weighted exposure amount), %	11.8	9.6	92.2 a
62	Tier I capital (as a percentage of total risk-weighted exposure amount), %	11.8	9.6	92.2 b
63	Total capital (as a percentage of total risk-weighted exposure amount), %	12.9	10.6	92.2 c
64	Institution-specific buffer requirements (requirements for Tier I capital according to Article 92.1 a) plus capital conservation buffer, countercyclical buffer and systemic risk buffer requirements, plus systemically important institution buffer, expressed as a percentage of the total risk-weighted exposure amount), %	2.9	2.5	Capital Requirement Regulations 128, 129, 130, 131, 133
65	*of which: capital conservation buffer requirement, %*	2.5	2.5	
66	*of which: countercyclical buffer requirement, %*	0.4		
67a	*of which: global systemically important institution or other systemically important institution buffer, %*			
68	Core Tier I capital available to meet buffers (as percentage of risk-weighted exposure amount), %	7.4	6.4	Capital Requirement Regulations 128
	Amounts below thresholds for deduction (before risk weighing)			
72	Direct and indirect holdings of financial sector entities in which the institution has no significant investment (amounts below 10% threshold net of eligible short positions)			36.1 h, 46, 45, 56 c, 59, 60, 66 c, 69, 70
73	The institution's direct and indirect holdings of financial sector entities in which the institution has a significant investment (amounts below 10% threshold net of eligible short positions)			36.1 i, 45, 48
74	Empty set in the EU			
75	Deferred tax assets arising from temporary differences (amounts below 10% threshold, net of related tax liability where the conditions in Article 38.3 are met)			36.1 c, 38, 48
	Applicable caps on inclusion of provisions in supplementary capital			
76	Credit risk adjustments included in supplementary capital in respect of exposures covered by the standardised approach (before application of the cap)			62
77	Cap on inclusion of credit risk adjustments in supplementary capital under the standardised approach	13.3	13.4	62
78	Credit risk adjustments included in supplementary capital in respect of exposures covered by the IRB approach (before application of the cap)	0.0	0.0	62
79	Cap for inclusion of credit risk adjustments in supplementary capital according to the IRB approach	2.0	1.8	62
	Capital instruments subject to phase-out arrangements (only applicable between January 1, 2014 and January 1, 2022)			
80	Current cap on Tier I capital instruments subject to phase-out arrangements			484.3, 486.2 and 486.5
81	Amount excluded from core Tier I capital due to cap (excess over cap after redemptions and maturities)			484.3, 486.2 and 486.5
82	Current cap on additional core Tier I capital instruments subject to phase-out arrangements			484.4, 486.3 and 486.5
83	Amount excluded from additional Tier I capital due to cap (excess over cap after redemptions and maturities)			484.4, 486.3 and 486.5
84	Current cap on supplementary capital market instruments subject to phase-out arrangements			484.5, 486.4 and 486.5
85	Amount excluded from supplementary capital due to cap (excess over cap after redemptions and maturities)			484.5, 486.4 and 486.5

Main features of capital instruments – Core Tier I capital instruments			
1	Issuer	Bank of Åland Plc	Bank of Åland Plc
2	Unique identifier code	FI0009001127	FI0009000103
3	Governing laws of the instrument	Finnish	Finnish
	Regulatory treatment		
4	Transitional rules according to Capital Requirement Regulation (CRR)	Core Tier 1 capital	Core Tier 1 capital
5	Post-transitional CRR rules	Core Tier 1 capital	Core Tier 1 capital
6	Eligible at solo/(sub-)consolidated)/solo and (sub-)consolidated level	Solo and consolidated	Solo and consolidated
7	Type of instrument	Share capital according to CRR 575/2013 Art. 28	Share capital according to CRR 575/2013 Art. 28
8	Amount recognised in regulatory capital	EUR 28.4 M	EUR 13.1 M
9	Nominal amount of instrument	EUR 28.4 M	EUR 13.1 M
9a	Issue price	N/A	N/A
9b	Redemption price	N/A	N/A
10	Accounting classification	Equity capital	Equity capital
11	Original issuance date	N/A	N/A
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No maturity date	No maturity date
14	Issuer call subject to prior supervisory approval	No	No
15	Optional call date, conditional call dates and redemption amount	N/A	N/A
16	Subsequent call date, if applicable	N/A	N/A
	Coupons/dividends		
17	Fixed or floating dividend/coupon	N/A	N/A
18	Coupon rate and any related index	N/A	N/A
19	Existence of a dividend stopper	N/A	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of date)	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or obligatory (in terms of amount)	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A	N/A
22	Non-cumulative or cumulative	N/A	N/A
23	Convertible or non-convertible	N/A	N/A
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, type of instrument to which conversion is made	N/A	N/A
29	If convertible, issuer of the instrument to which conversion is made	N/A	N/A
30	Write-down features	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If write-down is temporary, write-up mechanism	N/A	N/A
35	Position in prioritisation hierarchy for liquidation, instrument next in line	Supplementary capital instruments	Supplementary capital instruments
36	Non-compliant transition features	No	No
37	If Yes, specify non-compliant features	N/A	N/A

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

Main features of capital instruments – Supplementary capital instruments				
1	Issuer	Bank of Åland Plc.	Bank of Åland Plc	Bank of Åland Plc
2	Unique identifier code	FI4000025051	FI4000097068	FI4000153747
3	Governing laws of the instrument	Finnish	Finnish	Finnish
	Regulatory treatment			
4	Transitional rules according to Capital Requirement Regulation (CRR)	Supplementary capital instruments	Supplementary capital instruments	Supplementary capital instruments
5	Post-transitional CRR rules	Supplementary capital instruments	Supplementary capital instruments	Supplementary capital instruments
6	Eligible at solo/(sub-)consolidated)/solo and (sub-)consolidated level	Solo and consolidated	Solo and consolidated	Solo and consolidated
7	Type of instrument	Supplementary capital instruments according to CRR 575/2013 Art. 63	Supplementary capital instruments according to CRR 575/2013 Art. 63	Supplementary capital instruments according to CRR 575/2013 Art. 63
8	Amount recognised in regulatory capital	0.4	6.0	8.6
9	Nominal amount of instrument	1.0	8.3	8.6
9a	Issue price			
9b	Redemption price			
10	Accounting classification	Debt – amortised cost	Debt – amortised cost	Debt – amortised cost
11	Original issuance date	June 6, 2011	June 6, 2014	May 25, 2015
12	Perpetual or dated			
13	Original maturity date	June 6, 2016	Aug 9, 2019	May 25, 2035
14	Issuer call subject to prior supervisory approval	yes	yes	
15	Optional call date, conditional call dates and redemption amount			
16	Subsequent call date, if applicable			
	Coupons/dividends			
17	Fixed or floating dividend/coupon	Floating	Fixed	Fixed
18	Coupon rate and any related index	Euribor 12 mo + 0.60%	3.00%	3.75%
19	Existence of a dividend stopper			
20a	Fully discretionary, partially discretionary or mandatory (in terms of date)			
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)			
21	Existence of step- up or other incentive to redeem			
22	Non-cumulative or cumulative			
23	Convertible or non-convertible			
24	If convertible, conversion trigger(s)			
25	If convertible, fully or partially			
26	If convertible, conversion rate			
27	If convertible, mandatory or optional conversion			
28	If convertible, type of instrument to which conversion is made			
29	If convertible, issuer of the instrument to which conversion is made			
30	Write-down features			
31	If write-down, write-down trigger(s)			
32	If write-down, full or partial			
33	If write-down, permanent or temporary			
34	If write-down is temporary, write-up mechanism			
35	Position in prioritisation hierarchy for liquidation, instrument next in line	Senior debts	Senior debts	Senior debts
36	Non-compliant transition features			
37	If Yes, specify non-compliant features			

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

Photographer: Staffan Sundström

Table of contents, notes to the consolidated financial statements

Notes to the consolidated financial statements

(EUR K)

G1. Corporate information

The Bank of Åland Plc (Ålandsbanken Abp) is a Finnish public company, organised in compliance with Finnish legislation and with its Head Office in Mariehamn. The Bank of Åland Plc is a commercial bank with a total of 13 offices. Through its subsidiary Crosskey Banking Solutions Ab Ltd, the Bank of Åland Group is also a supplier of modern banking computer systems for small and medium-sized banks.

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

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

A copy of the consolidated financial statements can be obtained from the Head Office or from the 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, 2015 were approved by the Board of Directors on March 16, 2016 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

The essential accounting principles used in preparing the Interim Report are the same as those used in preparing the financial statements for the year ending December 31, 2014.

COMING CHANGES IN REGULATIONS

There are two new IFRSs that are expected to have an effect on the financial reports of the Bank of Åland. They are IFRS 9, ”Financial instruments”, and IFRS 15, ”Revenue from contracts with customers”.

On July 24, 2014, the International Accounting Standards Board (IASB) published the standard IFRS 9, “Financial instruments”, which will replace IAS 39, “Financial instruments: Recognition and Measurement”. IFRS 9, “Financial instruments” includes a new model for classification and measurement of financial instruments, a forward-looking “expected loss” impairment model and simplified conditions for hedge accounting. The categories for financial assets contained in IAS 39 are being replaced by three categories, with measurement taking place either at amortised cost, fair value reported under “Other comprehensive income” or fair value reported via the income statement (“profit and loss”). The classification into these three categories is based on a company’s business model for the various holdings and the characteristics of the cash flows that result from the assets.

The new impairment loss model will require recognition of a year’s expected loss from the initial recognition of an asset, and in case of a significant increase in credit risk the impairment loss amount must correspond to the credit losses that are expected to occur during the remaining life of the asset. It will still be possible to apply the “fair value option” described in IAS 39 for debt instruments in cases where this eliminates or significantly reduces an accounting mismatch. For equity instruments, measurement shall normally occur at fair value via the income statement, with an initial choice to instead recognise changes in the value of equity instruments not held for trading under “Other comprehensive income”. Most of the portions of IFRS 9 concerning financial liabilities coincide with the earlier rules in IAS 39. Among other things, the new hedge accounting rules simplify effectiveness testing and expand the scope of eligible hedging instruments and hedged items. The standard will go into effect on January 1, 2018, 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 reporting.

IFRS 15, *“Revenue from contracts with customers”*. The purpose of a new revenue standard is to have a single principle-based standard for all industries, which can replace existing standards and statements on revenue. The revenue standard also includes expanded disclosure requirements. IFRS 15 will go into effect on January 1, 2018, 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:

- Amended IAS 1, “Presentation of financial statements: Disclosure initiative”. The amendment contains a clarification that the materiality of disclosures shall be the primary consideration in presenting financial statements.
- Amended IFRS 10 and IAS 28, “Sale or contribution of assets between an investor and its associate or joint venture”
- Amended IFRS 11, “Joint arrangements: Accounting for acquisitions of interests in joint operations”

- IFRS 14, “Regulatory deferral accounts” *
- Amended IAS 16 and IAS 38, “Clarification of acceptable methods of depreciation and amortisation”
- Amended IAS 19, “Employee benefits: Defined benefit plans – Employee contributions”
- Annual improvements to IFRSs (2012-2014)

* *Has not yet been approved by the EU*

3. Presentation of financial reports

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

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

4. Principles of consolidation

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

In elimination, the acquisition method of accounting has been used. The acquisition method means that the payment which is transferred, the identifiable assets of the acquired company and liabilities assumed plus any non-controlling interests are carried at fair value on the acquisition date. Intangible assets that are not found in the balance sheet of the acquired company, for example patents, brand names or customer relationships, are identified and measured at the time of the acquisition. In case of an acquisition where the payment which is transferred, any non-controlling interests and the fair value of any previously owned portion exceeds the fair value of the acquired assets and the liabilities assumed, the difference is recognised either as goodwill or negative goodwill. If goodwill arises, it is tested at least in conjunction with the annual financial statements. If negative goodwill arises, it is recognised as income in its entirety at the time of the acquisition. In the consolidated financial statements at the end of 2014 or 2015, there was no goodwill in companies where the Group was deemed to have a controlling influence, or in subsidiaries where it has significant holdings with decision-making rights.

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

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

The consolidated financial statements include those associated companies in which the Bank of Åland Group owns 20–50 per cent of the voting power or otherwise has significant influence. When consolidating associated companies, the equity method of accounting has been used. The equity method means that the carrying amount of the shares in the consolidated financial statements is equivalent to the Group’s proportion of the associated company’s equity capital and Group goodwill and any other remaining consolidated surplus and deficit values, adjusted for any impairment losses. The Group’s proportion of the income in associated companies and any proportion of other comprehensive income are recognised on separate lines in the consolidated income statement and the consolidated statement of other comprehensive income, respectively.

When the Group’s proportion of an associated company’s losses equals or exceeds its holding in the associated company, including any receivables without collateral, the Group recognises no further losses, unless the Group has assumed legal or informal obligations or made payments on behalf of the associated company.

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

5. Items in foreign currencies

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

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

6. Recognition of assets and liabilities in the balance sheet

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

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

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

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

7. Classification of financial assets and liabilities

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

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

Financial liabilities are divided into the following valuation categories:

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

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

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

LOANS AND OTHER RECEIVABLES

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

ASSETS HELD TO MATURITY

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

ASSETS AND LIABILITIES HELD FOR TRADING

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

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

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

FINANCIAL ASSETS AVAILABLE FOR SALE

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

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

OTHER FINANCIAL LIABILITIES

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

RECLASSIFICATION OF FINANCIAL INSTRUMENTS

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

REPURCHASE TRANSACTIONS

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

SECURITIES LOANS

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

EMBEDDED DERIVATIVES

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

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

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

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

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

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

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

DEBT SECURITIES

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

SHARES AND PARTICIPATIONS

Shares listed in an active market are valued at market price. When measuring unlisted shares and participation, the choice of valuation model is determined by what is deemed suitable for that particular instrument. Holdings in unlisted shares mainly consist of various types of jointly owned operations with a connection to the Bank's business and holdings in Åland companies within the framework of Ålands Investerings Ab. As a rule, such holdings are valued at the Bank's proportion of net asset value in the company.

DERIVATIVES

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

LENDING CLASSIFIED AS CARRIED AT FAIR VALUE

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

9. Impairment losses on loans and accounts receivable

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

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

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

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

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

10. Hedge accounting

HEDGE ACCOUNTING AT FAIR VALUE

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

CASH FLOW HEDGING

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

HEDGING OF NET INVESTMENTS IN FOREIGN OPERATIONS

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

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

11. Intangible assets

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

CAPITALISATION OF PRODUCTION FOR OWN USE

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

EXTERNALLY PROCURED IT SYSTEMS

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

IMPAIRMENT LOSS

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

GOODWILL

Goodwill corresponds to the share of cost that exceeds the fair value of assets purchased and liabilities taken over. Goodwill is not amortised but is tested yearly, or more often if a need exists, for impairment by discounting expected future cash flows in cash-generating units. Impairment losses are recognised directly as expenses in the income statement. There was no goodwill in the consolidated financial statements at the end of 2014 or 2015.

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 accumulated depreciation and impairment losses. Any divestment gains/losses and disposals are recognised in income/expenses.

DEPRECIATION/AMORTISATION

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

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

Land is not depreciated.

IMPAIRMENT LOSSES

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

13. Provisions

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

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

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

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

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

14. Leases

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

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

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

Most of the Group’s leases are operating leases.

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

15. Revenue

NET INTEREST INCOME

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

NET COMMISSION INCOME

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

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

NET INCOME FROM FINANCIAL ITEMS CARRIED AT FAIR VALUE

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

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

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

IT INCOME

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

OTHER INCOME

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

16. Employee benefits

PENSION LIABILITIES

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

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

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

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

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

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

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

17. Share-based payment

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

18. Income tax

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

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

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

Non-current assets or disposal groups held for sale are presented on a separate line in the balance sheet and are measured at the lower of carrying amount and fair value less expected costs to sell. Liabilities that are related to these non-current assets are also presented on a separate line in the balance sheet. There were no non-current assets held for sale at the end of 2014 or 2015.

20. Operating segments

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

21. Cash and cash equivalents

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

22. Significant judgements and estimation uncertainty

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

MEASUREMENT OF LOANS AND ACCOUNTS RECEIVABLE

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

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

ACTUARIAL CALCULATIONS OF PENSION OBLIGATIONS

Future pension liability is calculated using actuarial models. As a basis for the calculation, there are estimates of the discount rate (swap rate with maturity equivalent to the expected life of the pension liability), pay increase (expected future increase for pensions), inflation, employee turnover and expected return on assets. For further information, see Note G16.

FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

To determine the fair value of financial instruments, judgements are made that may have a significant impact on the recognised amounts. The judgements referred to include the choice of measurement techniques, judgements on whether markets are active and on what market parameters can be observed. When employing measurement techniques, market quotations are used to the greatest possible extent, but in case this is not possible the Executive Team is required to make estimates in order to determine fair value. For further information, see Note G25.

APPRAISAL OF INVESTMENT PROPERTIES AND PROPERTIES FOR OWN USE

The Executive Team carries out a yearly review of the values of investment properties and properties for the Group's own use to determine whether there is any indication of impairment. If such an indication occurs, the recoverable amount is determined as the higher of the sales price and the value in use of the asset. An impairment loss is then recognised in the income statement if the carrying amount exceeds the recoverable amount. Estimates of the values of the assets are made by independent outside appraisers. For further information, see Note G28.

MEASUREMENT OF DEFERRED TAX

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

SHARE-BASED PAYMENT

When calculating the recognised expense of share-based payment in accordance with the Group's compensation policy, the Executive Team estimates how many shares will be allocated to employees. The expense is based on the fair value of the shares at the moment they are distributed. For further information, see Note G9.

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	2015						
	Private Banking	Premium Banking	Asset Management	IT	Corporate and other	Eliminations	Total
Net interest income	26,888	23,560	66	−87	3,368	179	53,974
Net commission income	25,360	11,158	8,603	−51	1,395	−2	46,463
Net income from financial items carried at fair value	520	672	77	−36	6,795	7	8,035
IT income				30,781		−14,778	16,003
Other income	10	89	125	51	1,881	−1,764	393
Total income	**52,778**	**35,479**	**8,872**	**30,658**	**13,439**	**−16,358**	**124,868**
Staff costs	−10,357	−6,946	−5,176	−15,328	−18,217		−56,024
Other expenses	−4,386	−4,420	−2,476	−9,826	−20,655	13,110	−28,653
Depreciation/amortisation and impairment losses on intangible and tangible assets	−165	−684	−17	−3,383	−4,103	1,469	−6,882
Internal allocation of expenses	−17,436	−16,985	−1,110		35,531		0
Total expenses	**−32,344**	**−29,035**	**−8,779**	**−28,537**	**−7,444**	**14,579**	**−91,559**
Profit before impairment losses	**20,434**	**6,444**	**93**	**2,121**	**5,995**	**−1,778**	**33,308**
Impairment losses on loans and other commitments	270	−2,867			−452		−3,049
Net operating profit	**20,704**	**3,577**	**93**	**2,121**	**5,543**	**−1,778**	**30,259**
Income taxes	−4,200	−717	−37	−435	−566		−5,955
Non-controlling interests				−1			−1
Profit for the period attributable to shareholders in Bank of Åland Plc	**16,504**	**2,860**	**56**	**1,686**	**4,976**	**−1,778**	**24,303**
Business volume							
Lending to the public	1,616,465	1,972,733	2		48,843	−21,063	3,616,981
Deposits from the public	1,459,179	1,183,198	3,097		34,941	−5,174	2,675,241
Investment volume	5,206,129	783,619	3,957,780		6,567	−2,877,660	7,076,435
Risk exposure amount	676,271	620,251	11,552	40,532	232,583		1,581,190
Allocated equity capital	65,654	83,262	1,599	9,321	53,036		212,871
Financial ratios etc.							
Return on equity after taxes (ROE), %	23.9	3.5		18.1	12.2		12.0
Expense/income ratio	0.61	0.82	0.99	0.93	0.55		0.73
Non-performing receivables > 90 days, %	0.06	1.96			2.77		1.13
Loan loss level, %	−0.02	0.16			1.04		0.09

2014							
	Private Banking	Premium Banking	Asset Management	IT	Corporate and other	Eliminations	Total
Net interest income	23,507	23,630	120	–128	1,908	255	49,293
Net commission income	23,849	9,896	10,790	–65	1,682	44	46,196
Net income from financial items carried at fair value	354	729	92	–23	5,687	–71	6,767
IT income				30,663		–13,337	17,326
Other income	232	116	97	80	1,021	–557	989
Total income	**47,943**	**34,372**	**11,099**	**30,526**	**10,297**	**–13,665**	**120,571**
Staff costs	–10,304	–6,955	–5,322	–13,976	–15,929		–52,486
Other expenses	–5,998	–6,174	–2,577	–10,060	–22,686	12,825	–34,671
Depreciation/amortisation and impairment losses on intangible and tangible assets	–180	–813	–45	–3,759	–5,571	2,126	–8,242
Internal allocation of expenses	–16,945	–18,675	–877		36,497	0	0
Nonrecurring items		–457	–201		–231	–124	–1,014
Total expenses	**–33,427**	**–33,074**	**–9,022**	**–27,796**	**–7,921**	**14,826**	**–96,413**
Profit before impairment losses	**14,516**	**1,297**	**2,077**	**2,730**	**2,376**	**1,161**	**24,158**
Impairment losses on loans and other commitments	–365	–1,150			–250		–1,765
Net operating profit	**14,150**	**147**	**2,077**	**2,730**	**2,126**	**1,161**	**22,393**
Income taxes	–2,886	–30	–425	–541	–883		–4,766
Non-controlling interests			–1,297	–2	–182		–1,480
Profit for the period attributable to shareholders in Bank of Åland Plc	**11,264**	**117**	**356**	**2,187**	**1,061**	**1,161**	**16,146**
Business volume							
Lending to the public	1,474,778	1,840,347			43,509	–15,762	3,342,872
Deposits from the public	1,219,914	1,081,345	7,163		88,604	–6,021	2,391,006
Investment volume	4,563,593	737,520	3,419,609		6,433	–2,415,080	6,312,075
Risk exposure amount	660,601	602,433	11,841	35,711	242,974		1,553,560
Allocated equity capital	81,752	82,851	1,403	9,345	18,867		194,217
Financial ratios etc.							
Return on equity after taxes (ROE), %	15.1	0.1		23.8			8.7
Expense/income ratio	0.70	0.96	0.81	0.91	0.77		0.80
Non-performing receivables > 90 days, %	0.12	1.45			2.28		0.88
Loan loss level, %	0.03	0.06			0.52		0.06

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

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

During the autumn of 2015, an organisational unit for analysis and management was moved from Private Banking to Asset Management. Full-year comparative figures for 2015 and 2014 have been re-stated accordingly.

G4. Product areas

	2015					
	Daily banking services incl. Deposits	Financing services	Investment services	IT services	Other	Total
Net interest income	13,037	39,455	88	−87	1,481	53,974
Net commission income	6,498	4,298	36,226	−51	−509	46,463
Net income from financial items carried at fair value	1,204		5	−36	6,862	8,035
IT income				16,003		16,003
Other income				51	342	393
Total income	**20,740**	**43,752**	**36,319**	**15,879**	**8,177**	**124,868**

	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		24	−23	5,276	6,767
IT income				17,326		17,326
Other income				80	909	989
Total income	**24,359**	**40,468**	**32,601**	**17,190**	**5,954**	**120,571**

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

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

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

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

G5. Geographic distribution

	2015			2014		
	Finland	Sweden	Total	Finland	Sweden	Total
Net interest income	31,887	22,086	53,974	32,252	17,041	49,293
Net commission income	34,411	12,052	46,463	30,921	15,275	46,196
Net income from financial items carried at fair value	7,873	162	8,035	5,750	1,017	6,767
IT income	15,267	736	16,003	16,612	714	17,326
Other income	159	233	393	629	360	989
Total income	**89,598**	**35,270**	**124,868**	**86,165**	**34,406**	**120,571**
Staff costs	−41,798	−14,227	−56,024	−38,176	−14,309	−52,486
Other expenses	−16,364	−12,289	−28,653	−20,357	−14,315	−34,671
Depreciation/amortisation	−6,449	−433	−6,882	−7,653	−589	−8,242
Internal allocation of expenses	2,345	−2,345	0	1,640	−1,640	0
Nonrecurring items	0	0	0	−813	−201	−1,014
Total expenses	**−62,266**	**−29,293**	**−91,559**	**−65,359**	**−31,054**	**−96,413**
Profit before impairment losses	**27,332**	**5,976**	**33,308**	**20,806**	**3,352**	**24,158**
Impairment losses on loans and other commitments	−3,103	53	−3,049	−1,775	10	−1,765
Net operating profit	**24,229**	**6,030**	**30,259**	**19,030**	**3,362**	**22,393**
Income taxes	−4,768	−1,187	−5,955	−4,050	−716	−4,766
Non-controlling interests	−1	0	−1	−1,480	0	−1,480
Profit for the period attributable to shareholders in Bank of Åland Plc	**19,461**	**4,843**	**24,303**	**13,499**	**2,647**	**16,146**
Business volume						
Lending to the public	2,529,364	1,087,617	3,616,981	2,404,971	937,901	3,342,872
Deposits from the public	2,007,914	667,327	2,675,241	1,850,878	540,128	2,391,006
Investment volume	2,781,209	4,295,226	7,076,435	2,761,557	3,550,518	6,312,075
Risk exposure amount	1,001,957	579,233	1,581,190	991,332	562,228	1,553,560
Allocated equity capital	167,341	45,530	212,871	131,400	62,817	194,217

	2015			2014		
	Finland	Sweden	Total	Finland	Sweden	Total
Financial ratios etc.						
Return on equity after taxes (ROE), %	12.6	10.0	12.0	11.2	5.2	8.7
Expense/income ratio	0.69	0.83	0.73	0.76	0.90	0.80
Non-performing receivables > 90 days, %	1.61	0.02	1.13	1.22	0.00	0.88
Loan loss level, %	0.13	−0.01	0.09	0.08	0.00	0.06

Notes to the consolidated income statement

G6. Net interest income	2015			2014		
	Average balance	Interest	Average interest rate, %	Average balance	Interest	Average interest rate, %
Lending to credit institutions	118,421	99	0,08	193,977	730	0.38
Lending to the public	3,475,489	70,624	2,03	3,200,594	73,155	2.29
Debt securities	674,148	2,875	0,43	463,919	3,614	0.78
Interest-bearing assets	**4,268,058**	**73,598**	**1,72**	**3,858,490**	**77,498**	**2.01**
Derivative instruments	22,178	370		19,770	954	
Other assets	274,318	16		183,746	7	
Total assets	**4,564,555**	**73,984**		**4,062,006**	**78,459**	
Liabilities to credit institutions	360,487	1,239	0,34	386,317	3,167	0.82
of which negative interest income [1]		301			47	
Liabilities to the public	2,421,221	7,826	0,32	2,230,596	11,871	0.53
of which negative interest income [1]		19				
Debt securities issued	1,405,014	9,207	0,66	1,077,881	12,254	1.14
Subordinated liabilities	44,694	1,004	2,25	52,193	1,068	2.05
Interest-bearing liabilities	**4,231,416**	**19,276**	**0,46**	**3,746,987**	**28,360**	**0.76**
Derivative instruments	29,300	643		27,796	662	
Other liabilities	100,004	91		98,533	145	
Total liabilities	**4,360,719**	**20,010**		**3,873,315**	**29,166**	
Total equity capital	203,835			188,691		
Total liabilities and equity capital	**4,564,555**			**4,062,006**		
Net interest income		**53,974**			**49,293**	
Interest margin			1.27			1.25
Investment margin			1.18			1.20

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.

[1] Negative interest income from financial investments is recognised as interest expenses.

G7. Net commission income	2015	2014
Deposits	810	837
Lending	3,981	6,980
Payment intermediation	8,823	8,707
Mutual fund commissions	19,568	15,256
Asset management commissions	10,088	9,261
Securities brokerage	11,757	10,572
Insurance commissions	175	71
Legal services	751	704
Guarantee commissions	270	297
Other commissions	1,741	1,633
Total commission income	**57,964**	**54,317**
Payment commission expenses	–4,780	4,089
Mutual fund commission expenses	–2,224	763
Asset management commission expenses	–1,332	791
Securities brokerage commission expenses	–2,105	1,132
Other commission expenses	–1,059	1,347
Total commission expenses	**–11,501**	**8,121**
Net commission income	**46,463**	**46,196**

G8. Net income from financial items carried at fair value	2015			2014		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Valuation category fair value via the income statement ("profit and loss")						
Debt securities	0	–123	–123	0	530	530
Shares and participations	163	3	166	94	17	111
Derivative instruments	137	718	855	–1,424	1,934	509
Loan receivables	0	–208	–208	0	–1,455	–1,455
Valuation category fair value via the income statement ("profit and loss")	**300**	**390**	**690**	**–1,330**	**1,026**	**–304**
Hedge accounting						
of which hedging instruments	286	–1,631	–1,344	221	14,345	14,567
of which hedged item	0	1,515	1,515	–300	–14,421	–14,721
Hedge accounting	**286**	**–116**	**170**	**–79**	**–76**	**–154**
Net income from foreign exchange dealing	**3,783**	**–116**	**3,667**	**2,802**	**207**	**3,009**
Net income from financial assets available for sale	**3,588**	**–80**	**3,508**	**4,237**	**–20**	**4,216**
Total	**7,957**	**78**	**8,035**	**5,631**	**1,137**	**6,767**

G9. Other income	2015	2014
Income from equity capital investments	7	376
Net income from investment properties	–81	–230
Rental income on properties	104	162
Miscellaneous income	396	742
Total	**426**	**1,050**
Specification of net income from investment properties		
Rental income	11	33
Capital gains	7	0
Capital losses	–8	0
Impairment losses	–65	–235
Other expenses	–27	–28
Total	**–81**	**–230**

G10. Staff costs	2015	2014
Salaries and fees	42,016	40,212
Compensation in the form of shares in Bank of Åland Plc	789	406
Pension expenses	7,711	7,009
Other social security expenses	5,508	5,450
Total	**56,024**	**53,077**
of which variable staff costs	3,219	1,865
of which staff outplacement expenses	0	648

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

Salaries and fees		
Boards of Directors	285	259
Senior executives	3,309	2,516
Others	39,211	37,844
Total	**42,805**	**40,618**

"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.

	2015	2014
Salaries and fees to senior executives		
Short-term compensation	2,800	2,294
Share-based payment	509	222
Total	**3,309**	**2,516**
Pension expenses		
Managing Director	55	48
Other senior executives	502	489
Others	7,154	6,472
Total	**7,711**	**7,009**

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	512	865
Defined contribution plan	7,200	6,144
Total	**7,711**	**7,009**

	Men	Women	Total	Men	Women	Total
Number of employees						
Åland	200	195	395	188	198	386
Finnish Mainland	80	109	189	78	102	180
Sweden	99	61	160	98	53	150
Sweden	**379**	**365**	**744**	**364**	**353**	**716**

Hours worked, recalculated to full-time equivalent positions		
Bank of Åland Plc	420	404
Crosskey Banking Solutions Ab Ltd	209	196
Ålandsbanken Asset Management Ab	14	28
Ab Compass Card Oy Ltd	10	10
Ålandsbanken Fondbolag Ab	10	6
Total number of positions, recalculated from hours worked	**663**	**644**

	Men	Women	Men	Women
Gender breakdown, per cent				
Board of Directors	75	25	71	29
Senior executives	77	23	79	21

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

	2015				2014			
	Managing Director	Senior executives	Risk-takers	Others	Managing Director	Senior executives	Risk-takers	Others
Total compensation								
Fixed compensation earned	394	2,064	11,049	26,724	292	1,877	7,189	29,539
Provisions for pensions	55	505	1,995	5,157	48	489	1,765	4,707
Variable compensation earned	196	851	1,325	202	91	347	754	529
Total	**644**	**3,420**	**14,370**	**32,083**	**431**	**2,712**	**9,708**	**34,776**
of which postponed variable compensation	117	493	336	0	37	131	204	0
of which variable compensation paid	78	358	989	202	55	216	550	529
Number of persons who received only fixed compensation	0	0	78	645	0	5	59	521
Number of persons who received both fixed and variable compensation	1	7	68	58	1	7	40	83
Total	**1**	**7**	**146**	**703**	**1**	**12**	**99**	**604**
Postponed variable compensation, January 1	37	157	623	86	0	56	834	158
Variable compensation postponed during the year	117	493	336	0	37	131	204	0
Disbursed during the year	0	–27	–276	–87	0	–31	–424	–74
Adjusted during the year	0	1	11	1	0	1	9	1
Postponed variable compensation, December 31	**154**	**625**	**693**	**0**	**37**	**157**	**623**	**86**

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 2014 and 2015 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 2015 Annual General Meeting to the end of the 2016 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. In addition, Board members are paid a meeting fee for each Board meeting they attend. The meeting fee amounts to EUR 1,000 for the Chairman and EUR 750 for other members. Each member of a Board committee is paid EUR 750 per committee meeting attended. The chairman of each respective committee receives a meeting fee of EUR 1,000 per committee meeting attended.

The members of the Bank's Board of Directors are not included in share-based compensation systems.

Managing Director

The Managing Director receives a monthly salary of EUR 24,000. He also receives free automobile benefits and is entitled to the employee benefits that are generally applicable at the Bank. During 2015, the Managing Director was paid compensation totalling EUR 448,297 (335,958) including fringe benefits and variable compensation. Of the variable compensation paid in 2015, EUR 27,930 was paid in cash and EUR 27,930 in Bank shares, in compliance with external regulations.

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.

G11. Other expenses	2015	2014
IT expenses (excluding information services)	10,106	9,510
Premises and property expenses	5,257	5,479
Marketing expenses	2,602	2,316
Information services	2,286	2,159
Staff-related expenses	2,370	2,245
Travel expenses	1,331	1,378
Purchased services	2,370	4,088
Deposit guarantee	12	1,037
Banking tax	0	1,724
Other expenses	6,452	6,490
Production for own use	−4,132	−1,482
Total	**28,653**	**34,944**
Fees to the Financial Stability Authority		
Deposit guarantee fee	1,081	
Paid by old deposit guarantee fund	−1,081	
Stability fee	580	
Refund of banking taxes paid in prior years	−580	
Administration fee	22	
Total	**22**	

Based on the 2015 fee level, the Bank has prepaid deposit guarantee fees for about 12 years and stability fees for about 5 years.

	2015 Auditors elected by General Meeting	2015 Others	2014 Auditors elected by General Meeting	2014 Others
Fees paid to auditors				
Auditing fees paid	302	0	304	0
Consulting fees paid				
In compliance with Finnish Auditing Act, Ch. 1, Sec. 1, Par. 2	57	0	33	5
Tax matters	76	0	223	3
Other	132	0	66	0
Total	**567**	**0**	**626**	**8**

These amounts include value-added tax (VAT).

G12. Impairment losses on loans and other commitments

	2015	2014
Individual impairment losses		
New and increased impairment losses	3,706	4,356
Reversals of impairment losses	−803	−3,177
Withdrawn for actual losses	−6,578	−2,135
Actual losses	7,160	2,460
Recoveries of actual losses	−162	−60
Total individual impairment losses	**3,323**	**1,444**
Group impairment losses		
Net provisions for the period, receivables measured by group	−274	322
Total group impairment losses	**−274**	**322**
Total	**3,049**	**1,765**
Doubtful receivables		
Gross doubtful receivables	31,394	21,675
Individual impairment losses	10,610	14,285
Net doubtful receivables	20,783	7,391
Gross doubtful receivables as % of total	0.87	0.65
Level of individual provisions for doubtful receivables, %	34	66

	2015			2014		
	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	14,285	1,519	15,804	15,243	1,197	16,441
Provisions for the year	3,706	−274	3,432	4,356	322	4,677
Recovered from earlier provisions	−803		−803	−3,177		−3,177
Withdrawn for actual losses	−6,578		−6,578	−2,135		−2,135
Exchange rate effect	0		0	−2		−2
Reserve on December 31	**10,610**	**1,246**	**11,856**	**14,285**	**1,519**	**15,804**

	2015		2014	
	Loan receivables with changed conditions	Refinancing	Loan receivables with changed conditions	Refinancing
Restructured loan receivables				
Healthy and receivables with overdue amounts < 90 days				
Companies	9,537	1,093	27,762	976
Households	4,075	1,190	3,428	413
Unimpaired receivables with overdue amounts > 90 days				
Companies	4,864		830	
Households	1,084		81	
Impaired receivables				
Companies	4,688		4,358	
Households	1,426		333	
Total	**25,674**	**2,283**	**36,790**	**1,389**

"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. The carrying amount refers to gross exposures and includes not only restructured loans but also other loans in a customer entity.

G13. Income taxes	2015	2014
Income statement		
Taxes related to prior years	4	–4
Current taxes	1,860	1,578
Change in deferred taxes	4,090	3,192
Total	**5,955**	**4,766**
Nominal tax rate in Finland, %	20.0	20.0
Non-taxable income/deductible expenses, %	0.2	2.1
Taxes on realised translation differences, %	0.0	–1.0
Taxes related to prior years, %	–0.7	0.0
Other, %	0.2	0.3
Effective tax rate, %	19.7	21.3
Other comprehensive income		
Current taxes	–298	509
Change in deferred taxes	–71	–25
Total	**–369**	**484**

G14. Earnings per share	2015	2014
Profit for the period attributable to shareholders	**24,303**	**16,146**
Average number of shares outstanding before adjustments for repurchases, dilution etc.	15,193,564	14,420,153
Average holding of own shares	–5,394	–21,725
Average number of shares before dilution	15,188,170	14,398,428
Average dilution effect	89,017	3,525
Average number of shares after dilution	15,277,187	14,401,953
Earnings per share, EUR	**1.60**	**1.12**
Earnings per share after dilution, EUR	**1.59**	**1.12**

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

Notes to the consolidated balance sheet

G15. Classification of financial assets and liabilities 2015	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						199,461		199,461	199,461
Debt certificates eligible for refinancing with central banks		15,512	29,091	547,665	40,407			632,675	632,788
Lending to credit institutions						44,972		44,972	44,972
Lending to the public		42,743				3,574,237		3,616,981	3,645,674
Shares and participations				957				957	957
Shares and participations in associated companies							634	634	634
Derivative instruments	4,940	143	14,279					19,362	19,362
Accrued interest income							13,707	13,707	13,707
Receivables on mutual fund settlement proceeds							15,163	15,163	15,163
Total financial assets	**4,940**	**58,399**	**43,370**	**548,622**	**40,407**	**3,818,670**	**29,505**	**4,543,913**	**4,572,719**
Non-financial assets								58,292	
Total assets								**4,602,204**	

2015	Carried at fair value in income statement, divided into								
	Held for trading	Other	Hedge accounting	Financial assets available for sale	Investments held to maturity	Loans and other receivables	Other financial assets/ liabilities	Total carrying amount	Fair value
Liabilities to credit institutions							321,604	321,604	321,724
Liabilities to the public		87					2,516,548	2,516,635	2,517,102
Debt securities issued			744,532				667,435	1,411,966	1,422,559
Derivative instruments	4,643	2,574	11,735					18,952	18,952
Subordinated liabilities			19,124				23,555	42,679	46,137
Accrued interest expenses							8,418	8,418	8,418
Liabilities on mutual fund settlement proceeds							9,036	9,036	9,036
Total financial liabilities	**4,643**	**2,661**	**775,390**	**0**	**0**	**0**	**3,546,596**	**4,329,291**	**4,343,928**
Non-financial liabilities								60,031	
Total liabilities								**4,389,322**	

2014	Carried at fair value in income statement, divided into								
	Held for trading	Other	Hedge accounting	Financial assets available for sale	Investments 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**		**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**				**3,480,586**	**4,034,326**	**4,049,624**
Non-financial liabilities								62,169	
Total liabilities								**4,096,495**	

G16. Measurement of financial assets and liabilities carried at fair value	2015			
	Level 1	Level 2	Level 3	Total
Debt securities eligible for refinancing with central banks	592,268			592,268
Lending to the public		42,743		42,743
Shares and participations	11	4	942	957
Derivative instruments		19,362		19,362
Total financial liabilities carried at fair value	**592,279**	**62,109**	**942**	**655,330**
Liabilities to the public		87		87
Debt securities issued		489,145		489,145
Derivative instruments	6	18,946		18,952
Subordinated liabilities		19,124		19,124
Total financial liabilities carried at fair value	**6**	**527,302**	**0**	**527,308**

	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets and liabilities recognised at amortised cost					
Assets					
Cash and balances with central banks	199,461		199,461		199,461
Debt securities eligible for refinancing with central banks	40,407		40,520		40,520
Lending to credit institutions	44,972		44,972		44,972
Shares in associated companies	634			634	634
Lending to the public	3,574,237		3,602,931		3,602,931
Total	**3,859,712**	**0**	**3,887,883**	**634**	**3,888,518**
Liabilities					
Liabilities to credit institutions	321,604		321,724		321,724
Liabilities to the public	2,516,548		2,517,015		2,517,015
Debt securities issued	922,821		933,414		933,414
Subordinated liabilities	23,555		27,013		27,013
Total	**3,784,528**	**0**	**3,799,166**	**0**	**3,799,166**

	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		258,833		258,833
Derivative instruments	55	33,598		33,652
Subordinated liabilities		24,755		24,755
Total financial liabilities carried at fair value	**55**	**317,272**	**0**	**317,326**

	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**

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.

	2015	2014
	Shares and participations	Shares and participations
Change in Level 3 holdings		
Carrying amount on January 1	534	890
New purchases	0	0
Divested/reached maturity during the year	0	–11
Realised change in value in the income statement	0	–5
Unrealised change in value in the income statement	–80	–13
Change in value recognised in other comprehensive income	488	–326
Carrying amount on December 31	**942**	**534**

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 2015, no instruments were moved between Levels 1 and 2. Changes in Level 3 are presented in a separate table.

G17. Assets and liabilities by currency			2015		
	EUR	SEK	USD	Others	Total
Cash	162,674	36,343	91	352	199,461
Debt securities eligible for refinancing with central banks	494,194	138,481	0	0	632,675
Lending to credit institutions	16,701	8,260	11,499	8,512	44,972
Lending to the public	2,496,235	1,090,084	30,661	0	3,616,981
Derivative instruments	17,482	1,776	68	35	19,362
Other items not allocated by currency	88,755				88,755
Total assets	**3,276,041**	**1,274,945**	**42,319**	**8,900**	**4,602,204**
Liabilities to credit institutions	195,002	126,536	61	6	321,604
Liabilities to the public	1,718,488	695,720	88,633	13,795	2,516,635
Debt securities issued	721,706	690,260	0	0	1,411,966
Derivative instruments	7,117	11,826	0	9	18,952
Subordinated liabilities	42,679	0	0	0	42,679
Other items not allocated by currency, including equity capital	290,368				290,368
Total liabilities and equity capital	**2,975,359**	**1,524,342**	**88,693**	**13,810**	**4,602,204**
Other assets and liabilities allocated by currency as well as off-balance sheet items		−249,393	−46,377	−4,690	
Net position in currencies (EUR)		−4	2	−220	−222

			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)		21	−6	1,212	1,227

G18. Holdings of debt securities	2015		2014	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Debt securities eligible for refinancing with central banks				
Assets held for trading				
Debt securities issued by credit institutions	42,900	44,603	42,900	45,370
Holdings available for sale				
Government bonds	60,964	66,427	109,931	123,999
Covered mortgage bonds	285,100	291,688	205,633	213,057
Debt securities issued by credit institutions	154,793	156,081	188,780	190,914
Other debt securities	32,800	33,468	49,500	51,229
Assets held until maturity				
Covered bonds	38,935	40,407		
Total	**615,492**	**632,675**	**596,744**	**624,570**

G19. Lending to credit institutions	2015			2014		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Finnish credit institutions	10,588	0	10,588	1,989	1	1,990
Foreign banks and credit institutions	34,346	37	34,384	68,292	58,952	127,244
Total	**44,935**	**37**	**44,972**	**70,282**	**58,952**	**129,234**

G20. Lending to the public	2015			2014		
	Amortised cost	Carried at fair value	Total	Amortised cost	Carried at fair value	Total
Companies	552,848		552,848	550,939		550,939
Public sector entities	2,839		2,839	3,701		3,701
Households	1,790,827	42,743	1,833,570	1,632,715	93,302	1,726,018
Household interest organisations	12,074		12,074	11,792		11,792
Outside Finland	1,215,650		1,215,650	1,050,422		1,050,422
Total	**3,574,237**	**42,743**	**3,616,981**	**3,249,569**	**93,302**	**3,342,872**
of which subordinated receivables			2,367			2,303

G21. Shares and participations	2015	2014
Holdings carried at fair value via the income statement		
Listed	0	531
Unlisted	0	0
Total	**0**	**531**
Holdings classified as available for sale		
Listed	11	1,604
Unlisted	946	534
Total	**957**	**2,138**
Total shares and participations	**957**	**2,669**

G22. Shares in associated companies	2015	2014
Carrying amount on January 1	664	798
Share of profit for the year	–30	–61
Acquisitions	0	36
Divestments	0	–77
Impairments	0	–30
Carrying amount on December 31	**634**	**664**

The following associated companies were consolidated according to the equity method of accounting on December 31, 2015:

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

Combined financial information about these associated companies:

	2015	2014
Assets	4,496	3,454
Liabilities	2,714	1,607
Sales	1,015	631
Profit for the year	9	–170

G23. Derivative instruments and hedge accounting

	Nominal amount/maturity			2015			2014		
	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	42,119	63,787	23,687	129,592	2,382	4,358	246,625	4,259	6,216
Interest rate and currency swaps	0	0	0	0	0	0	31,866	161	18,609
Interest rate futures	10,100	0	0	10,100	0	6	10,100	0	55
Interest rate options – purchased	9,176	1,436	0	10,612	0	0	11,937	0	0
Interest rate options – sold	7,928	0	0	7,928	0	0	11,769	0	0
Currency-related contracts									
Currency forward contracts	180,889	3,526	0	184,414	640	570	89,024	927	940
Equity-related contracts									
Equity options – purchased	28,272	6,682	0	34,954	1,826	0	52,068	4,298	0
Equity options – written	16,223	6,545	0	22,768	0	1,724	43,458	0	3,956
Equity forward contracts	0	0	0	0	0	0	532	2	0
Other derivative contracts	0	21,342	0	21,342	606	559	21,697	966	914
Total	**294,706**	**103,317**	**23,687**	**421,710**	**5,454**	**7,217**	**519,076**	**10,613**	**30,690**
Derivatives for fair value hedge									
Interest-related contracts									
Interest rate swaps	0	396,772	97,000	493,772	12,860	661	252,309	13,612	779
Total	**0**	**396,772**	**97,000**	**493,772**	**12,860**	**661**	**252,309**	**13,612**	**779**

	Nominal amount/maturity			2015			2014		
	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	0	255,727	0	255,727	899	11,074	212,925	18	2,068
Total	**0**	**255,727**	**0**	**255,727**	**899**	**11,074**	**212,925**	**18**	**2,068**
Derivatives for hedging of net investment in foreign operations									
Currency-related contracts									
Currency swaps	26,443	0	0	26,443	148	0	13,840	0	116
Total	**26,443**	**0**	**0**	**26,443**	**148**	**0**	**13,840**	**0**	**116**
Total derivative instruments	**321,149**	**755,816**	**120,687**	**1,197,652**	**19,362**	**18,952**	**998,150**	**24,243**	**33,652**
of which cleared	10,100			10,100		6	10,100		55

G24. Intangible assets

2015	Internally developed software	Other software	Goodwill	Other intangible assets	Total
Cost on January 1	8,857	18,504	30	11	27,403
Cost of intangible assets added	2,328	2,444	0	0	4,772
Divestments and disposals	0	69	0	0	69
Transfers between items	0	0	0	0	0
Exchange rate effect	0	46	0	0	46
Cost on December 31	**11,185**	**21,063**	**30**	**11**	**32,290**
Accumulated amortisation and impairment losses on January 1	–6,606	–13,091	–30	–8	–19,736
Divestments and disposals	0	223	0	0	223
Amortisation for the year	–867	–2,295	0	–3	–3,165
Impairment losses for the year	0	0	0	0	0
Exchange rate effect	0	–35	0	0	–35
Accumulated amortisation and impairment losses on December 31	**–7,473**	**–15,199**	**–30**	**–11**	**–22,714**
Residual value on December 31	**3,712**	**5,865**	**0**	**0**	**9,576**

	2014				
	Internally developed software	Other software	Goodwill	Other intangible assets	Total
Cost on January 1	8,023	16,999	0	11	25,033
Cost of intangible assets added	1,038	1,685	30	0	2,754
Divestments and disposals	–204	–93	0	0	–297
Transfers between items	0	1	0	0	1
Exchange rate effect	0	–88	0	0	–88
Cost on December 31	**8,857**	**18,504**	**30**	**11**	**27,403**
Accumulated amortisation and impairment losses on January 1	–5,142	–10,819	0	–6	–15,967
Divestments and disposals	0	33	0	0	33
Amortisation for the year	–1,464	–2,376	0	–3	–3,843
Impairment losses for the year	0	–7	–30	0	–38
Exchange rate effect	0	78	0	0	78
Accumulated amortisation and impairment losses on December 31	**–6,606**	**–13,091**	**–30**	**–8**	**–19,736**
Residual value on December 31	**2,251**	**5,414**	**0**	**3**	**7,667**

G25. Tangible assets

	2015	2014
Investment properties	351	436
Properties for own use	19,703	21,259
Other tangible assets	4,317	5,571
Total	**24,371**	**27,266**

	2015			2014		
	Investment properties	Properties for own use	Other tangible assets	Investment properties	Properties for own use	Other tangible assets
Cost on January 1	1,049	35,397	31,336	1,072	35,673	31,578
New acquisitions	0	99	1,000	50	160	1,453
Divestments and disposals	–20	–59	–365	–73	–436	–1,081
Exchange rate effect	0	0	229	0	0	–614
Cost on December 31	**1,029**	**35,437**	**32,199**	**1,049**	**35,397**	**31,336**
Accumulated depreciation on January 1	–613	–14,138	–25,765	–378	–12,750	–24,520
Depreciation for the year	0	–1,605	–2,197	0	–1,643	–2,715
Impairment losses for the year	–70	0	0	–235	–150	0
Divestments and disposals	5	13	304	0	400	866
Exchange rate effects	0	–4	–224	0	5	603
Accumulated depreciation on December 31	**–678**	**–15,734**	**–27,882**	**–613**	**–14,138**	**–25,765**
Carrying amount	**351**	**19,703**	**4,317**	**436**	**21,259**	**5,571**
of which buildings	0	17,712		0	19,264	
of which land and water	0	1,825		3	1,825	
of which shares in real estate companies	351	166		434	170	

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

G26. Other assets

	2015	2014
Receivables on mutual fund settlement proceeds	15,163	7,847
Other	8,632	8,436
Total	**23,795**	**16,283**

G27. Accrued income and prepayments	2015	2014
Accrued interest income	13,707	15,912
Other accrued income	5,219	5,052
Pension assets	1,367	434
Other prepaid expenses	4,154	4,086
Total	**24,447**	**25,484**

G28. Deferred tax assets and liabilities	2015	2014
Deferred tax assets		
Taxable losses	51	615
Provisions	0	68
Cash flow hedge	89	115
Intangible assets	3,914	3,650
Debt securities issued	33	70
Pension liabilities	160	258
Other	114	87
Total	**4,361**	**4,863**
Deferred tax liabilities		
Taxable temporary differences		
Untaxed reserves	13,538	9,969
Fair value option and hedging	444	554
Intangible assets	742	450
Tangible assets	1,878	1,934
Pension assets	273	87
Other	3	0
Financial assets available for sale		
Debt securities available for sale	205	707
Shares and participations available for sale	71	–27
Total	**17,155**	**13,674**
Net deferred taxes	**–12,794**	**8,811**

	2015				
	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Exchange rate effects	Closing balance
Changes in deferred taxes					
Taxable losses	615	–564			51
Provisions	68	–68			0
Cash flow hedge	115	0	–26		89
Intangible assets	3,200	–86		58	3,172
Debt securities issued	70	–37			33
Pension liabilities	258	12	–114	5	160
Untaxed reserves	–9,969	–3,569			–13,538
Market value hedge	–554	109			–444
Tangible assets	–1,934	56			–1,878
Pension assets	–87	33	–219		–273
Debt securities available for sale	–707	0	502		–205
Shares and participations available for sale	27	0	–98		–71
Other	87	24			111
Total	**–8,811**	**–4,090**	**44**	**63**	**–12,794**

	2014				
	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Exchange rate effects	Closing balance
Changes in deferred taxes					
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**	**–8,811**

	2015	2014
Actual tax loss carry-forwards and their expiration year		
2018	0	278
2019	0	482
2020	0	1,144
2021	0	857
2022	255	309
2023	0	6
Total	**255**	**3,076**

Actual tax loss carry-forwards were equivalent to a deferred tax asset of EUR 51 K (615), 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.

G29. Liabilities to credit institutions	2015			2014		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Central banks		130,340	130,340		197,000	197,000
Finnish credit institutions	20,215	39,205	59,421	8,134	63,299	71,434
Foreign banks and credit institutions	74,162	57,681	131,843	64,557	88,933	153,490
Total	**94,377**	**227,227**	**321,604**	**72,691**	**349,232**	**421,924**

G30. Liabilities to the public	2015			2014		
	Amortised cost	Carried at fair value	Total	Amortised cost	Carried at fair value	Total
Companies	618,040		618,040	519,566		519,566
Public sector entities	46,166		46,166	49,674		49,674
Households	987,267	87	987,354	903,829	86	903,915
Household interest organisations	46,524		46,524	43,449		43,449
Outside Finland	818,550		818,550	683,943		683,943
Total	**2,516,548**	**87**	**2,516,635**	**2,200,460**	**86**	**2,200,547**

G31. Debt securities issued	2015		2014	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Certificates of deposit	250,126	250,011	293,202	292,289
of which at amortised cost	250,126	250,011	293,202	292,289
Covered bonds	949,665	959,012	783,502	794,719
of which at amortised cost	339,435	338,572	426,809	425,712
of which for fair value hedge	447,000	457,438	197,000	209,653
of which for cash flow hedge	163,230	163,003	159,693	159,355
Non-covered bonds	155,939	155,836	159,693	159,575
of which at amortised cost	63,442	63,427	79,847	79,770
of which for cash flow hedge	92,497	92,409	79,847	79,806
Index bonds (structured products)	47,233	47,107	65,488	65,215
of which at amortised cost	15,509	15,403	17,539	17,400
of which for fair value hedge	31,724	31,704	47,949	47,815
Total	**1,402,963**	**1,411,966**	**1,301,886**	**1,311,799**

G32. Other liabilities	2015	2014
Payment transfer liabilities	14,974	18,280
Liabilities on mutual fund settlement proceeds	9,036	5,645
Other	9,171	10,875
Total	**33,180**	**34,800**

G33. Provisions	2015			2014		
	Provisions for restructuring reserves	Other provisions	Total	Provisions for restructuring reserves	Other provisions	Total
Provisions on January 1	688	67	755	389	291	680
Provisions made during the year	130	147	276	847	94	941
Amounts utilised	−761	−12	−773	−526	−318	−844
Unutilised amounts recovered	−68		−68	0		0
Exchange rate changes	11		11	−22		−22
Provisions on December 31	**0**	**202**	**202**	**688**	**67**	**755**

The provisions for restructuring reserves were related to both Finland and Sweden. These provisions included both staff costs and other expenses, but primarily consisted of staff costs. ”Other provisions” consist mainly of loss provisions for IT projects at Crosskey Banking Solutions Ab Ltd.

G34. Accrued expenses and prepaid income	2015	2014
Accrued interest expenses	8,418	10,970
Other accrued expenses	14,231	14,284
Pension liabilities	800	1,290
Prepaid income	2,249	2,473
Total	**25,699**	**29,018**

G35. Subordinated liabilities	2015			2014		
	Nominal amount	Carrying amount	Amount in capital base	Nominal amount	Carrying amount	Amount in capital base
Debenture loan 1/2010	0	0	0	2,190	2,190	156
Debenture loan 2/2010	0	0	0	3,996	3,996	1,663
Debenture loan 1/2011	1,012	1,012	442	2,044	2,044	1,464
Debenture loan 1/2012	5,610	5,610	0	8,414	8,414	0
Debenture loan 1/2013	10,132	10,282	0	13,504	13,708	0
Debenture loan 1/2014	8,736	8,838	0	10,925	11,042	0
Debenture loan 2/2014	8,275	8,275	5,968	8,275	8,275	7,622
Debenture loan 1/2015	8,603	8,603	8,603			
Capital loan	60	60	60	120	120	120
Total	**42,427**	**42,679**	**15,073**	**49,469**	**49,790**	**11,025**
of which for fair value hedge	18,868	19,120	0	24,429	24,750	0

	Interest rate:	Repayment:
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
Debenture loan 1/2015	3.75% fixed interest	May 25, 2035
Capital loan	5.00% fixed interest	March 31, 2022

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

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

Debenture loan 2015/1 has a write-down clause. In the event that the Bank of Åland's or the Group's core Tier 1 capital ratio falls below 7 per cent, the principal is written down by 25 per cent.

G36. Specification of changes in equity capital	2015	2014
Change in equity capital		
Equity capital on January 1	29,104	29,104
Share-based payment, share savings programme	61	0
Purchases from non-controlling interests[1]	12,336	0
Equity capital on December 31	**41,501**	**29,104**
Change in hedge reserve		
Hedge reserve on January 1	–461	–387
Unrealised changes in value during the year	104	–73
Hedge reserve on December 31	**–357**	**–461**
Change in fair value reserve		
Fair value reserve on January 1	2,719	1,117
Divested or reached maturity during the year	–1,575	–1,053
Impairment loss in the income statement	64	16
Unrealised change in market value for remaining and new holdings	–102	2,638
Fair value reserve on December 31	**1,105**	**2,719**
Change in translation differences		
Translation differences on January 1	46	499
Change in translation differences attributable to branches	–356	1,276
Change in translation differences due to subsidiaries	–205	53
Change in translation differences related to hedging of net investment in foreign operations	949	–1,804
Other changes	–17	22
Translation differences on December 31	**417**	**46**
Change in own shares		
Own shares on January 1	–215	–244
Transfer	158	28
Own shares on December 31	**–57**	**–215**
Change in paid-up unrestricted equity capital fund		
Paid-up unrestricted equity capital fund on January 1	24,601	24,485
Share-based payment, share savings programme	391	0
Equity option subscriptions	0	116
Paid-up unrestricted equity fund on December 31	**24,992**	**24,601**
Retained earnings		
Retained earnings on January 1	80,559	68,102
Shareholders' portion of comprehensive income for the accounting period	24,303	16,146
Dividend paid	–5,766	–2,160
Re-measurement of defined benefit pension plans	1,332	–1,703
Share savings programmes	213	0
Purchases from non-controlling interests[1]	–13,236	173
Retained earnings on December 31	**87,405**	**80,559**

[1] Refers to the merger with Ålandsbanken Asset Management Ab

Items under "Equity capital"

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

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

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

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

On December 31, "Own shares" amounted to 5,394 Series B shares. During the year, 16,331 Series B shares were transferred to key individuals to fulfil the Bank's obligations as part of its incentive programme. On December 31, 2014, holdings of own shares amounted to 21,725 Series B shares.

"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.

	2015	2014
Specification of retained earnings		
Share of accumulated appropriations	54,151	39,877
Difference between fair value of pension assets and pension liabilities in defined benefit plans	1,332	−1,703
Total non-distributable retained earnings	**55,483**	**38,174**
Distributable	31,922	42,385
Total retained earnings	**87,405**	**80,559**

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.

G37. Group structure

The Bank of Åland Plc has four subsidiaries that were essential to the Group in 2015 and 2014. 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 P41. Non-controlling interests have sizeable material holdings in one of the subsidiaries, as described more specifically below.

			Ownership, %	
	Registered office	Field of operations	2015	2014
Subsidiary				
Ålandsbanken Asset Management Ab	Finland/Helsinki	Asset management		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	100

Changes in Group structure
During 2015, the Bank of Åland Plc purchased the employees' holding in Ålandsbanken Asset Management Ab. This ownership holding amounted to 30 per cent. The company merged with the Bank of Åland Plc on June 1, 2015. As consideration for the merger, the Bank issued 762,912 Series B shares. In addition, it disbursed more than EUR 1.2 M in cash payment.

The Bank of Åland has no holdings of structured entities.

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	2015	2014
Ålandsbanken Asset Management Ab		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.

	2015	2014
Ålandsbanken Asset Management Ab		
Net interest income		14
Not commission income		10,397
Net income from financial assets available for sale		23
Other income		32
Profit for the period		**4,323**
Profit for the period attributable to non-controlling interests		1,297
Other comprehensive income		0
Comprehensive income		**1,297**
Portion of comprehensive income attributable to non-controlling interests		389
Current assets		7,855
Non-current assets		64
Current liabilities		–2,017
Non-current liabilities		–400
Net assets		**5,501**
Portion of net assets attributable to non-controlling interests		1,650

	2015	2014
Cash flow from operating activities		4,619
Cash flow from investing activities		–1,281
Cash flow from financing activities		–3,223
Change in cash and cash equivalents		**115**
Dividends paid during the year to non-controlling interests (included in "Cash flow from financing activities")		967

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 22.

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.

			Ownership, %	
	Business identity code	Consolidation	2015	2014
Properties for own use				
Fastighets Ab Godbycenter	0200423-2	Joint operation	10.55	10.55
Investment properties				
Fastighets Ab Nymars	0427316-1	Joint operation	30.03	30.03
Fastighets Ab Västernäs City	0524820-8	Joint operation	50.00	50.00
Fastighets Ab Sittkoffska Gården	0145137-2	Equity method	38.93	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".

G38. Investment volume	2015	2014
Mutual fund management	1,271,610	1,087,938
Discretionary asset management	1,870,099	1,707,122
Advisory asset management	762,086	622,689
Other asset management	53,985	67,180
Volume of other securities in securities accounts	3,118,655	2,827,145
Total	**7,076,435**	**6,312,075**
Of which own funds in discretionary and advisory asset management	373,393	378,313

G39. Assets pledged	2015	2014
Collateral pledged for own liabilities		
Lending to credit institutions	11,440	3,900
Government securities and bonds	96,909	162,586
Lending to the public	1,528,279	1,312,078
Other	1,935	2,162
Total assets pledged for own liabilities	**1,638,563**	**1,480,727**

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	26,307	32,886
Other	975	517
Total other assets pledged	**27,282**	**33,404**

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

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

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

G40. Contingent liabilities and commitments	2015	2014
Guarantees	20,393	21,525
Unutilised overdraft limits	76,362	81,803
Unutilised credit card limits	119,768	120,411
Unutilised credit facilities	222,790	186,463
Total	**439,312**	**410,202**

G41. Pension liabilities

Pension coverage for employees in Finland has been arranged partly through the Finnish national pension system (a defined contribution plan) and partly via the pension fund known as Ålandsbanken Abps Pensionsstiftelse (a defined benefit plan). Ålandsbanken Abps Pensionsstiftelse has been closed to new participants since June 30, 1991. Persons covered by this fund are entitled to retire at age 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. The BTP plan is secured through the insurance company SPP. In Sweden, the retirement pension is payable from age 65 and the guaranteed amount consists of 10 per cent of pensionable salary below 7.5 annually indexed "income base amounts" and 65 per cent of the portion of salary between 20 and 30 income base amounts. The guaranteed amount of a family pension is 32.5 per cent of the portion of salary between 7.5 and 20 income base amounts and 16.25 per cent of the portion of salary between 20 and 30 income base amounts.

The duration of defined benefit plans in Finland is 16 years and in Sweden 27 years.

	2015	2014
Carrying amount in the income statement		
Current service costs	185	277
Effects of curtailments and settlements	0	–382
Interest expenses	34	–20
Administrative expenses	82	60
Expenses (–)/revenue (+) recognised in the income statement	**301**	**–66**
Restatement of defined benefit pension plans in "Other comprehensive income"		
Actuarial gain (+)/loss (-), demographic assumptions	250	
Actuarial gain (+)/loss (–), financial assumptions	1,374	–4,101
Actuarial gain (+)/loss (–), experience-based	–1,192	805
Actuarial gain (+)/loss (–) on plan assets	1,234	1,181
Other comprehensive income	**1,665**	**–2,115**
Total	**1,364**	**–2,049**
Carrying amount in the balance sheet		
Pension obligations	22,859	23,348
Fair value of plan assets	23,426	22,492
Net pension assets (+)/pension liabilities (–)	**567**	**–856**
Pension assets in Finland	1,367	434
Pension liabilities in Sweden	800	1,290
	567	–856
Net change in pension assets		
January 1	–856	926
Income	–301	66
Other comprehensive income	1,665	–2,115
Premium payments	80	188
Exchange rate effects	–21	79
On December 31	**567**	**–856**

	2015	2014
Pension obligations		
January 1	23,348	20,612
Current service costs	185	−106
Interest expenses	490	677
Benefits paid	−812	−904
Exchange rate effect	79	−228
Actuarial gains (–)/losses (+)	−430	3,296
Pension obligations on December 31	**22,859**	**23,348**
Plan assets		
January 1	22,492	21,538
Interest income	456	697
Premium payments	80	188
Benefits paid	−812	−904
Actuarial gains (–)/losses (+)	1,234	1,181
Exchange rate effects	59	−149
Contributions	−82	−60
Plan assets on December 31	**23,426**	**22,492**
Breakdown of plan assets		
Listed shares and participations	7,798	7,233
Listed mutual fund units	2,632	2,475
Listed interest-bearing securities	8,788	7,799
Properties	2,293	2,594
Other plan assets	1,916	2,391
Total plan assets	**23,426**	**22,492**

Plan assets included shares in the Bank of Åland Plc with a market value of EUR 20 K (14), bonds worth EUR 546 K (395) and bank accounts worth EUR 1,407 K (1,779).

	Outcome, 2015	Forecast, 2016
Future cash flows		
Benefits paid	80	76

	2015		2014	
	Finland, %	Sweden, %	Finland, %	Sweden, %
Assumptions				
Discount rate	2.0	3.9	1.9	3.3
Increase in salary expenses	1.7	3.0	1.9	3.0
Pension index increase	1.9	2.0	2.1	3.0

Sweden: Sweden's latest life expectancy table from 2015, which is an update of the previously used DUS06, has been used as the Bank's actuarial assumption for 2015. A pension is assumed to rise at the rate of the index increase, which is based on the Bank's inflation assumption.

Finland: Estimated life expectancy will be changed as of December 31, 2016. Since the change is known, it has already been used in the Bank's calculations for 2015. Inflation during 2015 has been market-adjusted.

Sensitivity of defined benefit obligations to changes in significant assumptions

	Change in assumptions, %	Increase in assumption	Decrease in assumption
Sensitivity analysis, net present value of pension obligation: increase (+)/decrease (–)			
Discount rate	0.5	−1,849	2,103
Expected increase in salaries	0.5	88	−82
Expected increase in pensions	0.5	1,939	−1,728

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

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

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

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

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

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

G42. Lease liabilities and rental obligations	2015	2014
Lease payments due		
under 1 year	4,859	4,742
1–5 years	8,694	6,449
over 5 years	603	1,059
Total	**14,156**	**12,250**
Finance leases, present value		
under 1 year	790	860
1–5 years	368	1,158
over 5 years	0	0
Total	**1,158**	**2,018**
Finance leases, minimum rents		
under 1 year	833	948
1–5 years	375	1,208
over 5 years	0	0
Total	**1,208**	**2,156**
Interest expenses	50	138
Machinery and equipment, recognised value	1,033	1,870

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

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

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

G43. Disclosures about related parties	2015			2014		
	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	2,832	7,084	3,566	2,769	7,142	2,513
Other assets		0			6	
Accrued income and prepayments		77			41	
Total	**2,832**	**7,161**	**3,566**	**2,769**	**7,190**	**2,513**
Liabilities						
Liabilities to credit institutions						
Liabilities to the public	1,192	2,902	74	729	3,013	158
Debt securities issued						
Subordinated liabilities		540			390	
Accrued expenses and prepaid income						
Total	**1,192**	**3,442**	**74**	**729**	**3,403**	**158**
Income and expenses						
Interest income	35	160	102	37	173	54
Interest expenses	–1	–14		–2	-14	
Commission income	0	80	6	0	45	6
Commission expenses						
Other income		0			13	
Other expenses						
Total	**34**	**227**	**109**	**36**	**217**	**60**

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

Loans to employees are granted in exchange for approved collateral. The employee interest rate is set by the Executive Team and amounted to 0.750 (0.832) per cent on December 31, 2015.

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

For disclosures on salaries and fees paid to the Board of Directors and the Executive Team, see Note P36.

G44. Offsetting of financial assets and liabilities	2015		2014	
	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	19,362		24,243	
Gross amount of financial liabilities offset in the balance sheet				
Net amount of financial assets recognised in the balance sheet	**19,362**	**0**	**24,243**	**0**
Related amounts not offset in the balance sheet				
Financial instruments that do not meet offsetting criteria	–10,207		–19,323	
Financial collateral received	–8,015		–4,919	
Net amount	**1,139**	**0**	**0**	**0**
Financial liabilities that are offset or covered by offsetting agreements				
Gross amount of financial liabilities	18,952	888	33,652	687
Gross amount of financial assets offset in the balance sheet				
Net amount of financial liabilities recognised in the balance sheet	**18,952**	**888**	**33,652**	**687**
Related amounts not offset in the balance sheet				
Financial instruments that do not meet offsetting criteria	–14,843		–19,349	
Financial collateral pledged	–1,085	–888	–2,400	–687
Net amount	**3,024**	**0**	**11,903**	**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.

G45.Important events after the close of the accounting period

In February 2016, the Bank of Åland issued 33,582 Series B shares for the fulfilment of the Bank’s commitments as part of the Bank of Åland share savings programme for employees.

Parent Company income statement

(EUR K)

Parent Company	Note	Jan 1–Dec 31, 2015	Jan 1–Dec 31, 2014
Interest income		71,861	76,849
Interest expenses		–19,900	–29,067
Net interest income	P2	**51,961**	**47,783**
Commission income		42,463	36,435
Commission expenses		–6,225	–4,685
Net commission income	P3	**36,238**	**31,750**
Net income from financial items carried at fair value	P5	8,539	6,801
Income from equity capital investments	P4	5,784	4,932
Other income	P6	2,165	2,298
Total income		**104,687**	**93,563**
Staff costs	P7	–36,930	–35,091
Other expenses	P8	–30,396	–35,705
Depreciation/amortisation and impairment losses on tangible and intangible assets	P19, P20	–6,941	–6,395
Impairment losses on other financial assets	P9	0	–366
Total expenses		**–74,268**	**–77,557**
Profit before impairment losses		**30,419**	**16,006**
Impairment losses on loans and other commitments	P10	–2,551	–1,515
Net operating profit		**27,868**	**14,491**
Appropriations		–17,800	–13,000
Income taxes	P11	–1,187	245
Net profit for the accounting period		**8,881**	**1,736**

Parent Company balance sheet

(EUR K)

Parent Company	Note	Dec 31, 2015	Dec 31, 2014
Assets			
Cash and deposits with central banks		199,461	86,434
Debt securities eligible for refinancing with central banks	P14	632,675	620,256
Lending to credit institutions	P15	44,754	129,046
Lending to the public	P16	3,590,177	3,314,617
Shares and participations	P17	957	2,669
Shares and participations in associated companies	P17	665	665
Shares and participations in Group companies	P17	11,837	12,731
Derivative instruments	P18	19,362	24,243
Intangible assets	P19	32,360	20,949
Tangible assets	P20	15,409	16,405
Other assets	P21	21,479	14,444
Accrued income and prepayments	P22	21,389	22,006
Deferred tax assets	P23	164	227
Total assets		**4,590,688**	**4,264,690**
Liabilities			
Liabilities to credit institutions	P24	304,341	403,032
Liabilities to the public	P25	2,521,981	2,206,140
Debt securities issued	P26	1,411,417	1,310,720
Derivative instruments	P18	18,952	33,652
Other liabilities	P27	30,520	31,782
Provisions	P28	0	700
Accrued expenses and prepaid income	P29	21,877	22,613
Subordinated liabilities	P30	42,679	49,670
Deferred tax liabilities	P23	276	680
Total liabilities		**4,352,044**	**4,058,988**
Appropriations			
General loan loss reserve[1]		67,254	49,454
Total appropriations		**67,254**	**49,454**
Equity capital			
Share capital		41,501	29,104
Share premium account		32,736	32,736
Reserve fund		25,129	25,129
Hedging reserve		–357	–461
Fair value reserve		1,105	2,718
Translation differences		22	–568
Unrestricted equity capital fund		25,188	24,797
Own shares		–57	–215
Retained earnings		46,123	43,008
Total equity capital		**171,391**	**156,248**
Total liabilities and equity capital		**4,590,688**	**4,264,690**
Off-balance sheet obligations	P38		
Obligations to a third party on behalf of customers			
Guarantees		23,025	24,385
Irrevocable commitments given on behalf of customers		312,729	273,479

[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, 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**
Change in fair value				104	−1,614					−1,510
Translation differences						590				590
Transfer of own shares								159		159
Dividend paid									−5,766	−5,766
Purchases from non-controlling interests [1]	12,336									12,336
Share savings programmes	61						391			452
Profit for the year									8,881	8,881
Dec 31, 2015	**41,501**	**32,736**	**25,129**	**−357**	**1,105**	**22**	**25,188**	**−57**	**46,123**	**171,391**

[1] Refers to the merger between the Bank of Åland Plc and Ålandsbanken Asset Management Ab.
See also the section entitled "Facts on Bank of Åland shares".

Parent Company cash flow statement

(EUR K)

Parent Company	Jan 1–Dec 31, 2015	Jan 1–Dec 31, 2014
Cash flow from operating activities		
Net operating profit	27,868	14,491
Adjustment for net operating profit items not affecting cash flow		
Depreciation/amortisation and impairment losses on intangible and tangible assets	6,941	6,395
Impairment losses on loans and other commitments	2,482	1,508
Unrealised changes in value	–662	–1,289
Accrued surpluses/deficits on debt securities and bonds issued	7,509	5,251
Income from investing activities	–37	–257
Dividends from associated companies and subsidiaries	–5,776	–4,556
Income taxes paid	–4	4
Increase (–) or decrease (+) in receivables from operating activities		
Debt securities eligible for refinancing with central banks	–20,671	–210,270
Lending to credit institutions	–7,292	2,615
Lending to the public and public sector entities	–255,810	–283,919
Other assets	3,202	58,302
Increase (–) or decrease (+) in liabilities from operating activities		
Liabilities to credit institutions	–89,151	95,041
Liabilities to the public and public sector entities	306,699	56,749
Debt securities issued	–79,294	125,785
Other liabilities	–21,680	14,010
Total cash flow from operating activities	**–125,676**	**–120,140**
Cash flow from investing activities		
Investment in shares and participations	4	–1,619
Divestment of shares and participations	1,627	1,193
Investment in shares in associated companies and subsidiaries	–1,297	–2,213
Divestment of shares in associated companies and subsidiaries	0	75
Dividends received from associated companies and subsidiaries	5,776	4,556
Investment in tangible assets	–289	–819
Divestment of tangible assets	106	327
Investment in intangible assets	–4,821	–1,515
Total cash flow from investing activities	**1,106**	**–14**
Cash flow from financing activities		
Issue, share savings programme/option rights	452	116
Increase in long-term borrowings from banks	94,173	77,342
Decrease in long-term borrowings from banks	–97,847	–164,647
Increase in covered bonds issued	252,371	335,476
Decrease in covered bonds issued	–91,500	–87,800
Increase in subordinated debentures	8,543	18,581
Decrease in subordinated debentures	–15,585	–32,959
Dividend paid	–5,766	–2,160
Total cash flow from financial activities	**144,841**	**143,949**
Cash and cash equivalents at beginning of year	211,579	190,129
Cash flow from operating activities	–125,676	–120,140
Cash flow from investing activities	1,106	–14
Cash flow from financing activities	144,841	143,949
Exchange rate differences in cash and cash equivalents	877	–2,345
Cash and cash equivalents at end of year	**232,728**	**211,579**
Cash and cash equivalents consisted of the following items:		
Cash	6,195	5,623
Cheque account with Bank of Finland	193,265	80,811
Claims repayable on demand from credit institutions	33,267	125,145
Debt securities	0	0
Total	**232,728**	**211,579**

"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 74,032 K (2014: 77,538), interest paid of EUR 22,447 K (30,871) and dividend income received of EUR 7 K (376).

Photographer: Staffan Sundström

Table of contents, notes to the Parent Company financial statements

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	2015	2014
Lending to credit institutions	99	728
Lending to the public	68,519	71,579
Debt securities	2,859	3,600
Derivative instruments	369	935
Other interest income	16	7
Total interest income	**71,861**	**76,849**
Liabilities to credit institutions	1,035	2,941
Of which negative interest income[1]	301	47
Liabilities to the public	7,826	11,871
Of which negative interest income[1]	19	0
Debt securities issued	9,357	12,542
Subordinated liabilities	1,002	1,062
Derivative instruments	677	643
Other interest expenses	3	8
Total interest expenses	**19,900**	**29,067**
Net interest income	**51,961**	**47,783**

Interest income received from Group companies was EUR 269 K (2014: 262).

Interest expenses paid to Group companies was EUR 0 K (9).

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

[1] Negative interest income from financial investments is recognised as interest expenses.

P3. Net commission income	2015	2014
Deposits	812	839
Lending	3,982	6,987
Payment intermediation	3,930	3,995
Mutual fund commissions	11,066	7,276
Asset management commissions	8,962	6,739
Securities brokerage	10,782	7,934
Insurance commissions	175	71
Legal services	751	704
Guarantee commissions	319	359
Other commissions	1,685	1,533
Total commission income	**42,463**	**36,435**
Payment intermediation commission expenses	1,934	1,667
Mutual fund commission expenses	82	327
Asset management commission expenses	1,043	212
Securities brokerage commission expenses	2,107	1,133
Other commission expenses	1,058	1,346
Total commission expenses	**6,225**	**4,685**
Net commission income	**36,238**	**31,750**

P4. Income from equity capital instruments	2015	2014
Financial assets available for sale	7	376
Group companies	5,776	4,556
Total	**5,784**	**4,932**

P5. Net income from financial items carried at fair value

	2015			2014		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Valuation category fair value via the income statement ("profit and loss")						
Debt securities	0	−123	−123	0	530	530
Shares and participations	163	3	166	52	17	69
Derivative instruments	454	−251	203	−1,407	1,303	−105
Loan receivables	0	1,182	1,182			
Valuation category fair value via the income statement ("profit and loss")	**617**	**811**	**1,428**	**−1,355**	**1,849**	**494**
Hedge accounting						
of which hedging instruments	0	−633	−633	204	14,976	15,181
of which hedged item	0	671	671	−300	−15,358	−15,658
Hedge accounting	**0**	**38**	**38**	**−96**	**−381**	**−477**
Net income from foreign exchange dealing	**3,721**	**−107**	**3,615**	**2,309**	**207**	**2,516**
Net income from financial assets available for sale	**3,538**	**−80**	**3,458**	**4,288**	**−20**	**4,267**
Total	**7,876**	**662**	**8,539**	**5,146**	**1,654**	**6,801**

P6. Other income

	2015	2014
Rental income on properties	115	195
Miscellaneous income	2,051	2,103
Total	**2,165**	**2,298**
Net income from investment properties		
Rental income	11	33
Capital gains	7	0
Capital losses	−8	0
Impairment losses	−65	−235
Other expenses	−27	−28
Total	**−81**	**−230**

P7. Staff costs

	2015	2014
Salaries and fees	27,147	25,744
Compensation in the form of shares in Bank of Åland Plc	574	268
Pension expenses	4,915	4,737
Other social security expenses	4,294	4,342
Total	**36,930**	**35,091**
Number of employees		
Permanent full-time employees	410	370
Permanent part-time employees	85	80
Total	**495**	**450**

P8. Other expenses	2015	2014
IT expenses (excluding information services)	13,176	14,323
Premises and property expenses	3,878	4,343
Marketing expenses	2,751	2,462
Informational services	2,201	1,985
Staff-related expenses	1,499	1,187
Travel expenses	775	767
Purchased services	2,015	3,817
Deposit guarantee fees	12	1,036
Banking tax	0	1,724
Other expenses	4,355	4,141
Production for own use	–265	–80
Total	**30,396**	**35,705**

	2015
Fees to the Financial Stability Authority	
Deposit guarantee fee	1,081
Paid by old deposit guarantee fund	–1,081
Stability fee	580
Refund of banking taxes paid in prior years	–580
Administration fee	22
Total	**22**

Based on the 2015 fee level, the Bank has prepaid deposit guarantee fees for about 12 years and stability fees for about 5 years.

	Auditors elected by General Meeting	Others	Auditors elected by General Meeting	Others
Fees paid to auditors				
Auditing fees paid	200	0	218	0
Consulting fees paid				
In compliance with Finnish Auditing Act, Ch. 1, Sec. 1, Par. 2	41	0	33	5
Tax matters	43	0	134	3
Other	117	0	61	0
Total	**401**	**0**	**446**	**8**

These amounts include value-added tax (VAT).

P9. Impairment losses on other financial assets	2015	2014
Impairment losses on shares and participations in associated companies and subsidiaries	0	366
Total	**0**	**366**

P10. Impairment losses on loans and other commitments

	2015	2014
Individual impairment losses		
New and increased impairment losses	3,706	4,356
Reversals of provisions made earlier	−803	−3,177
Withdrawn for actual losses	−6,578	−2,135
Actual losses	6,803	2,207
Recoveries of actual losses	−69	−7
Total	**3,059**	**1,243**
Group impairment losses		
Net provisions for the period, receivables measured by group	−508	272
Total	**−508**	**272**
Total	**2,551**	**1,515**
Doubtful receivables		
Gross doubtful receivables	31,394	21,675
Individual impairment losses	10,610	14,285
Net doubtful receivables	20,783	7,391
Gross doubtful receivables as % of total	0.87	0.65
Level of individual provisions for doubtful receivables, %	34	66

	2015 Reserve for individually assessed receivables	2015 Reserve for receivables assessed by group	2015 Total	2014 Reserve for individually assessed receivables	2014 Reserve for receivables assessed by group	2014 Total
Change in reserve for probable loan losses						
Reserve on January 1	14,285	959	15,244	15,243	687	15,930
Provisions for the year	3,706		3,706	4,356	272	4,628
Recovered from earlier provisions	−803	−508	−1,311	−3,177		−3,177
Withdrawn for actual losses	−6,578		−6,578	−2,135		−2,135
Exchange rate effect	0		0	−2		−2
Reserve on December 31	**10,610**	**451**	**11,061**	**14,285**	**959**	**15,244**

Net interest provisions for impaired receivables amounted to EUR 82 K (−1) during 2015.
Interest received for impaired receivables amounted to EUR 203 K (375) during 2015.

P11. Income taxes

	2015	2014
Income statement		
Taxes related to prior years	4	0
Current taxes	1,146	−234
Change in deferred taxes	37	−11
Total	**1,187**	**−245**
Nominal tax rate in Finland, %	20.0	20.0
Non-taxable income/deductible expenses, %	−8.2	−29.7
Taxes on realised translation differences, %	0.0	−15.7
Taxes related to prior years, %	0.0	0.0
Other, %	0.0	9.0
Effective tax rate, %	11.8	−16.4
Other comprehensive income		
Current taxes	26	−18
Change in deferred taxes	−403	400
Total	**−377**	**382**

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

P12. Fair values and carrying amounts of financial assets and liabilities and fair value levels

	2015		2014	
	Total carrying amount	Fair value	Total carrying amount	Fair value
Cash	199,461	199,461	86,434	86,434
Debt securities eligible for refinancing with central banks	632,675	632,788	620,256	620,256
Lending to credit institutions	44,754	44,754	129,046	129,045
Lending to the public	3,590,177	3,622,668	3,314,617	3,346,500
Shares and participations	957	957	2,669	2,669
Shares and participations in associated companies	665	665	665	665
Shares in subsidiaries	11,837	11,837	12,731	12,731
Derivative instruments	19,362	19,362	24,243	24,243
Total financial assets	**4,499,887**	**4,532,490**	**4,190,660**	**4,222,542**
Liabilities to credit institutions	304,341	304,452	403,032	402,985
Liabilities to the public	2,521,981	2,522,451	2,206,140	2,207,136
Debt securities issued	1,411,417	1,422,559	1,310,720	1,325,184
Derivative instruments	18,952	18,952	33,652	33,652
Subordinated liabilities	42,679	46,137	49,670	51,094
Total financial liabilities	**4,299,370**	**4,314,551**	**4,003,214**	**4,020,052**

	2015			
	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	592,268			592,268
Lending to the public		12,271		12,271
Shares and participations	11	4	942	957
Derivative instruments		19,362		19,362
Total	**592,279**	**31,636**	**942**	**624,857**
Liabilities				
Debt securities issued		457,520		457,520
Derivative instruments	6	18,946		18,952
Subordinated liabilities		19,124		19,124
Total	6	**495,590**	**0**	**495,596**

	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
Shares and participations	2,131	4	534	2,669
Derivative instruments	2	24,241		24,243
Total	**622,388**	**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**

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.

	2015	2014
	Shares and participations	Shares and participations
Change in Level 3 holdings		
Carrying amount on January 1	534	890
New purchases	0	0
Divested/reached maturity during the year	0	–11
Realised change in value in the income statement	0	–5
Unrealised change in value in the income statement	–80	–13
Change in value recognised in other comprehensive income	488	–326
Carrying amount on December 31	**942**	**534**

No transfer occurred between Level 1 and Level 2.

P13. Assets and liabilities by currency

2015	EUR	SEK	USD	Others	Total
Cash and deposits with central banks	162,674	36,343	91	352	199,461
Debt securities eligible for refinancing with central banks	494,194	138,481	0	0	632,675
Lending to credit institutions	16,483	8,260	11,499	8,512	44,754
Lending to the public	2,469,431	1,090,084	30,661	0	3,590,177
Derivative instruments	17,482	1,776	68	35	19,362
Other items not allocated by currency	104,261				104,261
Total assets	**3,264,525**	**1,274,945**	**42,319**	**8,900**	**4,590,688**
Liabilities to credit institutions	177,739	126,536	61	6	304,341
Liabilities to the public	1,723,834	695,720	88,633	13,795	2,521,981
Debt securities issued	721,156	690,260	0	0	1,411,417
Derivative instruments	7,117	11,826	0	9	18,952
Subordinated liabilities	42,679	0	0	0	42,679
Other items not allocated by currency, including equity capital	291,319				291,319
Total liabilities and equity capital	**2,963,843**	**1,524,342**	**88,693**	**13,810**	**4,590,688**
Other assets and liabilities allocated by currency as well as off-balance sheet items		–249,393	–46,377	–4,690	
Net position in currencies (EUR)		–4	2	–220	–222

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
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

P14. Holdings of debt securities	2015		2014	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Debt securities eligible for refinancing with central banks				
Assets held for trading				
Debt securities issued by credit institutions	42,900	44,603	42,900	45,370
Holdings available for sale				
Government bonds	60,964	66,427	105,931	119,685
Covered mortgage bonds	285,100	291,688	205,633	213,057
Debt securities issued by credit institutions	154,793	156,081	188,780	190,914
Other debt securities	32,800	33,468	49,500	51,229
Assets held until maturity				
Covered mortgage bonds	38,935	40,407		
Other debt securities	**615,492**	**632,675**	**592,744**	**620,256**

P15. Lending to credit institutions	2015			2014		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Finnish credit institutions	10,469	0	10,469	1,865	1	1,865
Foreign banks and credit institutions	34,248	37	34,285	68,229	58,952	127,181
Total	**44,717**	**37**	**44,754**	**70,094**	**58,952**	**129,046**

P16. Lending to the public	2015			2014		
	Amortised cost	Carried at fair value	Total	Amortised cost	Carried at fair value	Total
Companies	573,910		573,910	566,700		566,700
Public sector entities	2,839		2,839	3,701		3,701
Households	1,773,433	12,271	1,785,703	1,682,001		1,682,001
Household interest organisations	12,074		12,074	11,792		11,792
Outside Finland	1,215,650		1,215,650	1,050,422		1,050,422
Total	**3,577,906**	**12,271**	**3,590,177**	**3,314,617**	**0**	**3,314,617**
of which subordinated receivables			2,367			2,583

P17. Shares and participations	2015	2014
Holdings carried at fair value via the income statement		
Listed	0	531
Unlisted	0	0
Total	**0**	**531**
Holdings classified as available for sale		
Listed	15	1,604
Unlisted	942	534
Total	**957**	**2,138**
Shares and participations in associated companies	665	665
Shares and participations in Group companies	11,837	12,731
Total shares and participations	**13,458**	**16,064**

P18. Derivative instruments

	Nominal amount/maturity			2015			2014		
	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	42,119	63,787	23,687	129,592	2,382	4,358	246,625	4,259	6,216
Interest rate and currency swaps	0	0	0	0	0	0	31,866	161	18,609
Interest rate futures	10,100	0	0	10,100	0	6	10,100	0	55
Interest rate options – purchased	9,176	1,436	0	10,612	0	0	11,937	0	0
Interest rate options – sold	7,928	0	0	7,928	0	0	11,769	0	0
Currency-related contracts									
Currency forward contracts	180,889	3,526	0	184,414	640	570	89,024	927	940
Equity-related contracts									
Equity options – purchased	28,272	6,682	0	34,954	1,826	0	52,068	4,298	0
Equity options – written	16,223	6,545	0	22,768	0	1,724	43,458	0	3,956
Equity forward contracts	0	0	0	0	0	0	532	2	0
Other derivative contracts	0	21,342	0	21,342	606	559	21,697	966	914
Total	**294,706**	**103,317**	**23,687**	**421,710**	**5,454**	**7,217**	**519,076**	**10,613**	**30,690**
Derivatives for market value hedge									
Interest-related contracts									
Interest rate swaps	0	396,772	97,000	493,772	12,860	661	252,309	13,612	779
Total	**0**	**396,772**	**97,000**	**493,772**	**12,860**	**661**	**252,309**	**13,612**	**779**
Derivatives for cash flow hedge									
Currency-related contracts									
Interest rate and currency swaps	0	255,727	0	255,727	899	11,074	212,925	18	2,068
Total	**0**	**255,727**	**0**	**255,727**	**899**	**11,074**	**212,925**	**18**	**2,068**
Derivatives for hedging of net investment in foreign operations									
Currency-related contracts									
Currency forward contracts	26,443	0	0	26,443	148	0	13,840	0	116
Total	**26,443**	**0**	**0**	**26,443**	**148**	**0**	**13,840**	**0**	**116**
Total derivative instruments	**321,149**	**755,816**	**120,687**	**1,197,652**	**19,362**	**18,952**	**998,150**	**24,243**	**33,652**
of which cleared OTC									
of which cleared by other means	10,100	0	0	10,100	0	6	10,100		55

P19. Intangible assets

2015	Other software	Goodwill	Other non-current expenditures	Total
Cost on January 1	16,883	20,493	5,471	42,848
Cost of intangible assets added	4,510	12,325	4	16,838
Divestments and disposals	–223	0	0	–223
Transfers between items	0	0	494	494
Exchange rate effects	66	428	0	494
Cost on December 31	**21,237**	**33,246**	**5,968**	**60,451**
Accumulated amortisation and impairment losses on January 1	–11,982	–7,077	–2,840	–21,899
Divestments and disposals	223	0	0	223
Transfers between items			–484	–484
Amortisation for the year	–1,818	–3,377	–522	–5,717
Impairment losses for the year	0	0	0	0
Exchange rate effects	–48	–165	0	–213
Accumulated amortisation and impairment losses on December 31	**–13,625**	**–10,620**	**–3,846**	**–28,091**
Residual value on December 31	**7,612**	**22,626**	**2,122**	**32,360**

	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	1,641	0	22	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	**16,883**	**20,493**	**5,471**	**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**

P20. Tangible assets	2015	2014
Investment properties	431	505
Properties for own use	12,680	13,217
Other tangible assets	2,299	2,682
Total	**15,409**	**16,405**

	2015			2014		
	Investment properties	Properties for own use	Other tangible assets	Investment properties	Properties for own use	Other tangible assets
Cost on January 1	1,118	14,475	18,346	1,068	14,521	19,434
New acquisitions	0	5	293	50	3	540
Divestments and disposals	–10	0	–292	0	–49	–1,081
Transfers between items	0	0	131	0	0	0
Exchange rate effects	0	0	202	0	0	–548
Cost on December 31	**1,109**	**14,480**	**18,679**	**1,118**	**14,475**	**18,346**
Accumulated depreciation on January 1	–613	–6,547	–15,663	–378	–6,006	–16,298
Depreciation for the year	0	–542	–688	0	–541	–771
Impairment losses for the year	–70	0	0	–235	0	0
Divestments and disposals	5	0	169	0	0	866
Transfers between items						
Exchange rate effects	0	0	–198	0	0	539
Accumulated depreciation on December 31	**–678**	**–7,089**	**–16,381**	**–613**	**–6,547**	**–15,663**
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	**431**	**12,680**	**2,299**	**505**	**13,217**	**2,682**
of which buildings	0	12,441		0	12,978	
of which land and water	0	139		3	139	
of which shares in real estate companies	431	100		503	100	

The carrying amount of investment properties was the same as their market value in 2015.

P21. Other assets	2015	2014
Receivables on mutual fund settlement proceeds	15,163	7,847
Other	6,316	6,597
Total	**21,479**	**14,444**

P22. Accrued income and prepayments	2015	2014
Accrued interest income	13,717	15,888
Other accrued income	6,059	4,203
Prepaid taxes	113	0
Other prepaid expenses	1,501	1,915
Total	**21,389**	**22,006**

P23. Deferred tax assets and liabilities	2015	2014
Deferred tax assets		
Taxable losses	0	1
Provisions	0	68
Cash flow hedge	89	115
Unused tax depreciation	67	34
Other	7	9
Total	**164**	**227**
Deferred tax liabilities		
Financial assets available for sale		
Debt securities available for sale	205	707
Shares and participations available for sale	71	–27
Total	**276**	**680**
Net deferred taxes	**–113**	**–453**

Accumulated appropriations included a deferred tax liability of EUR 13,451 K (9,891).

2015	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Exchange rate effects	Closing balance
Changes in deferred taxes					
Taxable losses	1	–1			0
Provisions	68	–68			0
Unused tax depreciation	34	33			67
Other	9	–1			7
Cash flow hedge	115		–26		89
Debt securities available for sale	–707		502		–205
Shares and participations available for sale	27		–98		–71
Total	**–453**	**–37**	**377**	**0**	**–113**

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**

P24. Liabilities to credit institutions	2015			2014		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Central banks		130,340	130,340		197,000	197,000
Finnish credit institutions	2,953	39,205	42,158	4,243	48,299	52,542
Foreign banks and credit institutions	74,162	57,681	131,843	64,557	88,933	153,490
Total	**77,115**	**227,227**	**304,341**	**68,800**	**334,232**	**403,032**

P25. Liabilities to the public	2015			2014		
	Amortised cost	Carried at fair value	Total	Amortised cost	Carried at fair value	Total
Companies	623,400		623,400	525,163		525,163
Public sector entities	46,155		46,155	49,671		49,671
Households	987,351		987,351	903,915		903,915
Household interest organisations	46,524		46,524	43,449		43,449
Outside Finland	818,550		818,550	683,943		683,943
Total	**2,521,981**	**0**	**2,521,981**	**2,206,140**	**0**	**2,206,140**

P26. Debt securities issued	2015		2014	
	Nominal value	Carrying amount	Nominal value	Carrying amount
Certificates of deposit	250,126	250,011	293,702	292,789
of which at amortised cost	250,126	250,011	293,702	292,789
Covered bonds	949,665	959,012	783,502	794,719
of which at amortised cost	339,435	338,572	426,809	425,712
of which for fair value hedge	447,000	457,438	197,000	209,653
of which for cash flow hedge	163,230	163,003	159,693	159,355
Unsecured bonds	155,939	155,836	159,693	159,575
of which at amortised cost	63,442	63,427	79,847	79,770
of which for cash flow hedge	92,497	92,409	79,847	79,806
Index bonds (structured products)	47,233	46,557	65,488	63,636
of which at amortised cost	47,233	46,557	65,488	63,636
Total	**1,402,963**	**1,411,417**	**1,302,386**	**1,310,720**

P27. Other liabilities	2015	2014
Payment transfer liabilities	14,974	18,280
Claims on securities settlement proceeds	9,036	5,645
Other	6,510	7,857
Total	**30,520**	**31,782**

P28. Provisions	2015			2014		
	Provisions for restructuring reserves	Other provisions	Total	Provisions for restructuring reserves	Other provisions	Total
Provisions on January 1	688	12	700	389	260	649
Provisions made during the year	130		130	847		847
Amounts utilised	–761	–12	–773	–526	–248	–775
Unutilised amounts recovered	–68		–68			0
Exchange rate changes	11		11	–22		–22
Provisions on December 31	0	0	0	**688**	**12**	**700**

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.

P29. Accrued expenses and prepaid income	2015	2014
Accrued interest expenses	8,418	10,964
Other accrued expenses	10,228	9,238
Accrued taxes	1,002	0
Prepaid income	2,230	2,411
Total	**21,877**	**22,613**

P30. Subordinated liabilities	2015			2014		
	Nominal amount	Carrying amount	Amount in capital base	Nominal amount	Carrying amount	Amount in capital base
Debenture loan 1/2010	0	0	0	2,190	2,190	156
Debenture loan 2/2010	0	0	0	3,996	3,996	1,663
Debenture loan 1/2011	1,012	1,012	442	2,044	2,044	1,464
Debenture loan 1/2012	5,610	5,610	0	8,414	8,414	0
Debenture loan 1/2013	10,132	10,282	0	13,504	13,708	0
Debenture loan 1/2014	8,736	8,838	0	10,925	11,042	0
Debenture loan 2/2014	8,275	8,275	5,968	8,275	8,275	7,622
Debenture loan 1/2015	8,603	8,603	8,603			
Capital loan	60	60	60			
Total	**42,427**	**42,679**	**15,073**	**49,349**	**49,670**	**10,905**
Of which market value hedge	18,868	19,120	0	24,429	24,750	0

	Interest rate:	Repayment:
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
Debenture loan 1/2015	3.75% fixed interest	May 25, 2035
Capital loan	5.00% fixed interest	March 31, 2022

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

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

Debenture loan 2015/1 has a write-down clause. In the event that the Bank of Åland's or the Group's core Tier 1 capital ratio falls below 7 per cent, the principal is written down by 25 per cent.

P31. Maturity breakdown of financial assets and liabilities	2015										
	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	199,461									199,461	199,461
Debt securities eligible for refinancing with central banks		6,326	25,105	36,601	49,922	21,743	120,859	283,610	98,728	642,894	632,675
Lending to credit institutions	44,754									44,754	44,754
Lending to the public	188,923	48,481	161,721	145,875	205,833	168,550	468,158	1,070,749	1,911,537	4,369,829	3,590,177
Total financial assets	**433,138**	**54,808**	**186,826**	**182,476**	**255,756**	**190,293**	**589,016**	**1,354,359**	**2,010,266**	**5,256,937**	**4,467,067**
Financial liabilities											
Liabilities to credit institutions	77,133	77,910	19,534	9,120	15,334			130,584		329,615	304,341
Liabilities to the public	2,335,857	35,355	39,613	39,259	24,877	39,367	3,808	3,830	1,002	2,522,967	2,521,981
Debt securities issued		37,563	177,144	110,866	13,906	23,703	219,789	774,296	105,003	1,462,270	1,411,417
Subordinated liabilities			2,386	4,327	3,860		9,328	17,716	13,445	51,062	42,679
Total financial liabilities	**2,412,990**	**150,828**	**238,677**	**163,572**	**57,976**	**63,070**	**232,926**	**926,426**	**119,450**	**4,365,915**	**4,280,418**
Derivative contracts											
Cash inflow		89	3,257	3,160	424	343	6,486	7,310	6,856	27,925	
Cash outflow		–424	–799	–1,105	–1,036	–1,678	–3,648	–3,758	–3,726	–16,176	
		–335	**2,458**	**2,055**	**–612**	**–1,336**	**2,838**	**3,552**	**3,130**	**11,749**	
GAP	**–1,979,852**	**–96,355**	**–49,393**	**20,958**	**197,168**	**125,888**	**358,929**	**431,485**	**1,893,945**	**902,772**	

	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	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
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**	

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

P32. Claims on Group companies	2015	2014
Lending to the public	21,063	15,762
Other assets	65	116
Accrued income and prepayments	1,917	1,008
Total	**23,045**	**16,885**

P33. Liabilities to Group companies	2015	2014
Liabilities to the public	5,331	5,576
Debt securities issued	0	500
Other liabilities	251	556
Accrued expenses and prepaid income	1,073	540
Total	**6,655**	**7,172**

Notes concerning staff, Board of Directors and Executive Team

P34. Salaries/fees paid to the Board of Directors and Executive Team	2015	2014
Lampi, Nils	43	44
Taxell, Christoffer	40	36
Karlsson, Agneta	35	34
Karlsson, Anders Å	32	31
Persson Göran [1]	24	0
Valassi Ulrika [2]	30	0
Wiklöf Anders	22	22
Wijkström Annika [3]	12	38
Woivalin Dan-Erik	23	24
Board members	260	228
Managing Director	448	336
Other members of the Executive Team	1,488	1,344

The amount includes the value of fringe benefits. There are no pension obligations to the members of the Board of Directors. The pension benefits of the Managing Director are based on customary terms of employment.

[1] New Board member since the 2015 Annual General Meeting.

[2] New Board member since May 5, 2015.

[3] Resigned as Board member at the 2015 Annual General Meeting.

P35. Private shareholdings of the Board of Directors and the Executive Team in Bank of Åland Plc

See the Board of Directors and Executive Team sections.

P36. Financial transactions with related parties

See Note G43 in the notes to the consolidated financial statements.

Notes concerning assets pledged and contingent liabilities

P37. Assets pledged	2015	2014
Assets pledged for own liabilities		
Lending to credit institutions	11,440	3,900
Government securities and bonds	96,909	162,586
Lending to the public	1,528,279	1,312,078
Other	1,935	2,162
Total assets pledged for own liabilities	**1,638,563**	**1,480,727**

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	26,307	32,886
Other	975	517
Total other assets pledged	**27,282**	**33,404**

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.

P38. Off-balance sheet commitments	2015	2014
Guarantees	23,025	24,385
Unutilised overdraft limits	84,100	86,122
Unutilised credit card limits	1,840	893
Unutilised loan facilities	226,789	186,463
Total	**335,754**	**297,863**
Guarantees for subsidiaries	2,633	2,859
Unutilised overdraft limits for subsidiaries	7,738	4,319
Unutilised loan facilities for subsidiaries	4,000	0

P39. Rental obligations	2015	2014
Rental payments due		
Under 1 year	2,949	2,783
More than 1 and less than 5 years	5,704	2,299
More than 5 years	103	0
Total	**8,756**	**5,082**

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

Other notes

P40. Investment volume	2015	2014
Mutual fund unit management	0	291,304
Discretionary asset management	1,870,099	918,308
Advisory asset management	762,086	583,879
Other asset management	53,985	67,180
Volume of other securities in securities accounts	3,118,655	2,827,145
Total	**5,804,825**	**4,687,816**
Of which own funds in discretionary and advisory asset management	0	64,638

P41. Subsidiaries and associated companies	2015		
	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 Fondbolag Ab	Mariehamn	100	841
Total			**11,837**
Associated companies			
Mäklarhuset Åland Ab	Mariehamn	25	0
Ålands Investerings Ab	Mariehamn	36	665
Total			**665**
Housing and real estate companies			
Properties for the Group's own use			
FAB Godby Center	Finström	11	100
Total			**100**
Investment properties			
FAB Horsklint	Kökar	20	12
FAB Nymars	Sottunga	30	49
FAB Sittkoffska gården	Mariehamn	39	0
FAB Västernäs City	Mariehamn	50	300
Övriga			70
Total			**431**

Proposed allocation of profit

According to the financial statements, distributable profit of the Bank of Åland Plc is EUR 62,397,185.59, of which the profit for the financial year is EUR 8,880,656.26. According to the consolidated financial statements, distributable profit of the Bank of Åland Group is EUR 56,913,498.62. No significant changes in the financial position of the Company have occurred since the end of the financial year.

The Board of Directors proposes to the Annual General Meeting that the distributable profit of the Bank of Åland Plc, EUR 62,397,185.59, be allocated as follows:

For Series A and Series B shares outstanding as of December 31, 2015, a dividend of EUR 0.60 per share,

totalling	9,160,267.20
To be carried forward as retained earnings	53,236,918.39

Mariehamn, March 16, 2016

Nils Lampi, Chairman	Christoffer Taxell, Deputy Chairman	Agneta Karlsson
Anders Å Karlsson	Göran Persson	Ulrika Valassi
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, 2015. 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 (IFRSs) 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 (IFRS) 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, 2016

Pauli Salminen Authorised Public Accountant	Mari Suomela Authorised Public Accountant	Oskar Orrström 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

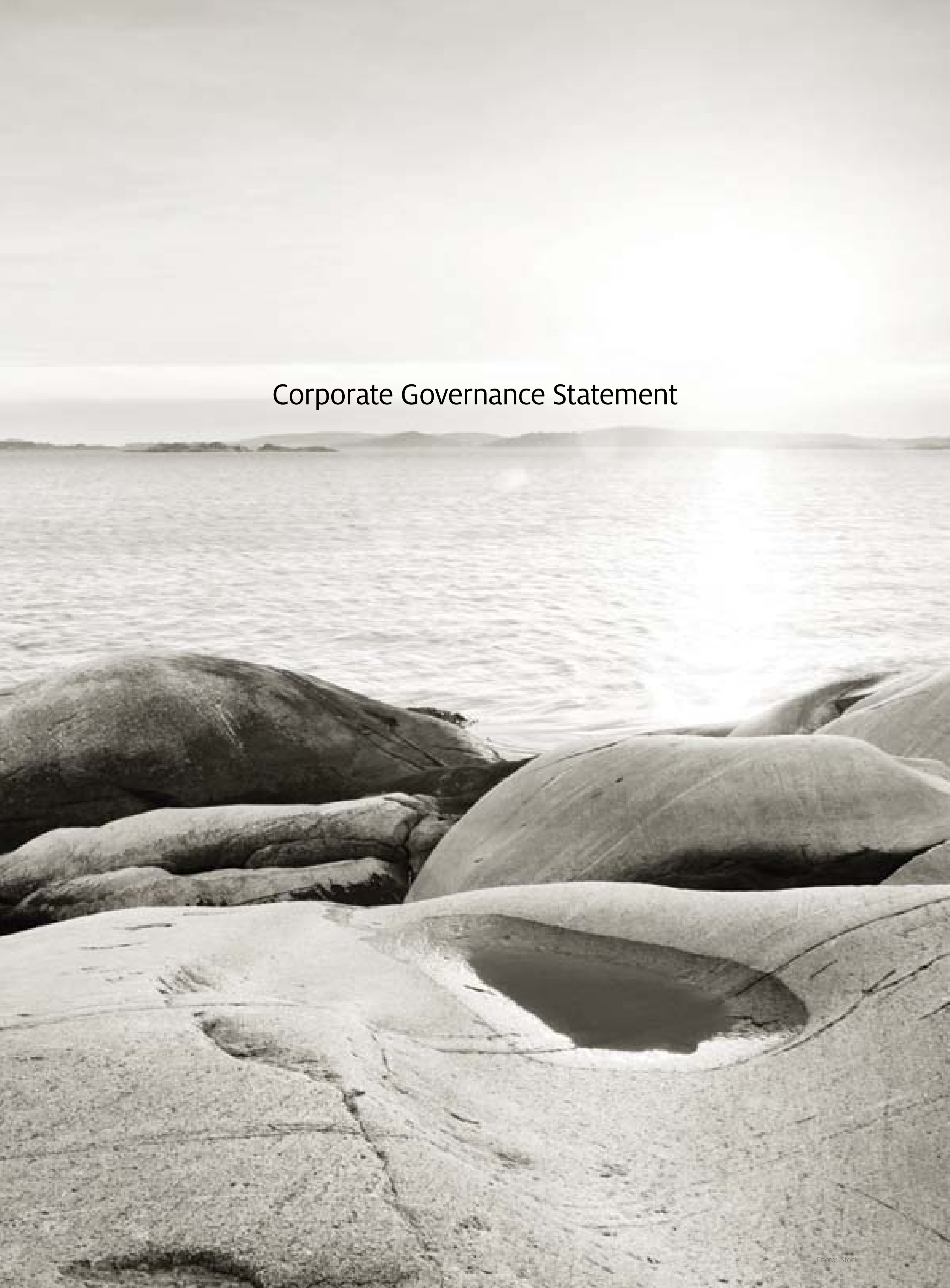


Photo: iStock

Corporate Governance Statement

The Corporate Governance Statement is being issued in conjunction with the Report of the Directors for 2015.

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 current Code went into effect on January 1, 2016 and replaced the previous Finnish Corporate Governance Code from 2010. The Code is applied according to the "comply or explain" principle, which means that departures from its recommendations must be disclosed and explained. A company is regarded as complying with the Code even if it departs from an individual recommendation, provided that it discloses and explains the departure.

The Bank of Åland Plc ("the Bank"), which is listed on the Helsinki Stock Exchange, is a public company domiciled in Mariehamn, Finland. The Bank is subject to the Finnish Companies Act and the Bank's Articles of Association as well as applying the Code. The Corporate Governance Statement has been prepared in compliance with the Code's reporting instructions and according to the Finnish Securities Market Act, Chapter 7, Section 7.

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 (AGM) 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 AGM 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 AGM 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

GENERAL

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 AGM after the election. The Board shall consist of at least five and at most eight members. Since the 2015 AGM, the Board has consisted of eight members, of whom one member took office on May 5, 2015 when the amendment to the Articles of Association concerning the number of Board members was registered[1]. The Managing Director may not be a member of the Board.

The Board of Directors oversees the administration of the Bank's affairs and is responsible for ensuring that its operations are appropriately organised. The Board is also responsible for overall policy and strategy issues and for ensuring that risk oversight is sufficient and that the management system is working. The duties of the Board also include appointing and, if necessary, dismissing the Managing Director, his deputy and other members of the Executive Team, as well as deciding their salary benefits and other employment conditions. The Board shall constitute a quorum when more than half its members are present.

The Board has established Group-wide internal Rules of Procedure for its work. These Rules of Procedure, which are evaluated annually and revised as needed, mainly regulate the division of labour between the Board, the Managing Director and other members of the Executive Team.

[1] Ulrika Valassi has been a member of the Board and the Audit Committee since May 5, 2015, when the amendment to the Articles of Association concerning the number of Board members was registered with the National Board of Patents and Registration in Finland.

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.

DIVERSITY PRINCIPLES

The Bank seeks a good balance in the allocation of Board members, with each gender having at least 35 per cent representation on the Board. Both genders shall thus be represented in the proposal that is presented on the occasion of each nomination as a new Board member.

PRESENTATION OF BOARD MEMBERS AND THEIR SHAREHOLDINGS IN THE BANK

Composition of the Board, 2015

Name, main occupation and education	Year of birth Board member since what year Place of residence	Board members' shareholdings in the Bank on December 31, 2015 (direct ownership or via companies which the Board member controls). There are no shareholdings in other Bank of Åland Group companies.
Nils Lampi, Chairman CEO, Wiklöf Holding Ab Bachelor of Economic Sciences	Born 1948 Member since 2013 Mariehamn, Åland	Series A shares: 300 Series B shares: 700
Christoffer Taxell, Deputy Chairman Master of Laws	Born 1948 Member since 2013 Turku, Finland	Series A shares: 0 Series B shares: 1,000
Agneta Karlsson Advisor/Consultant Doctor of Economics Associate Professor	Born 1954 Member since 2003 Sund, Åland	Series A shares: 40 Series B shares: 28
Anders Å Karlsson Business owner Bachelor of Commerce	Born 1959 Member since 2012 Lemland, Åland	Series A shares: 3,000 Series B shares: 1,500
Göran Persson Studies at Örebro University	Born 1949 Member since 2015 Flen, Sweden	Series A shares: 0 Series B shares: 0
Ulrika Valassi CEO, Au Management AB Master of Business Administration	Born 1967 Member since May 5, 2015 Stockholm, Sweden	Series A shares: 0 Series B shares: 0
Annika Wijkström Master of Arts	Born 1951 Member from 2012 until April 16, 2015 Stockholm, Sweden	Series A shares: 0 Series B shares: 0
Anders Wiklöf Business owner Doctor of Economics (honorary) Commercial Counsellor	Born 1946 Member since 2006 Mariehamn, Åland	Series A shares: 1,597,396 Series B shares: 1,326,549
Dan-Erik Woivalin CEO, Ålands Ömsesidiga Försäkringsbolag Master of Laws Attorney at Law	Born 1959 Member since 2013 Mariehamn, Åland	Series A shares: 0 Series B shares: 0

During 2015, the Board held 17 (18) meetings. The Board members' average attendance was 91.54 (92.19) per cent. During 2015, each Board member attended Board and committee meetings as follows:

Attendance at Board and committee meetings, 2015

Board member	Board meetings Total number: 17 Number until 2015 AGM: 6	Audit Committee meetings Total number: 9 Number until 2015 AGM: 4[7]	Compensation Committee meetings Total number: 4 Number until 2015 AGM: 1	Nomination Committee meetings Total number: 3[5] Number until 2015 AGM: 3
Nils Lampi	17/17	9/9	4/4	3/3
Christoffer Taxell	17/17	Not a member	3/4[4]	Not a member
Agneta Karlsson	16/17	9/9	4/4	Not a member
Anders Å Karlsson	17/17	9/9	Not a member	Not a member
Göran Persson[1]	10/17	Not a member	Not a member	Not a member
Ulrika Valassi[2]	11/17	5/9	Not a member	Not a member
Annika Wijkström[3]	4/17	Not a member	1/4	Not a member
Anders Wiklöf	13/17	Not a member	Not a member	3/3
Dan-Erik Woivalin	14/17	Not a member	Not a member	Not a member[6]

[1] Member since the AGM on April 16, 2015, attended 10 of 11 meetings during the period.

[2] Member of the Board and the Audit Committee since May 5, 2015 when the amendment to the Articles of Association was registered with the National Board of Patents and Registration in Finland.

[3] Member until the AGM on April 16, 2015.

[4] Member of the Compensation Committee since Meeting 2, 2015.

[5] Members Jan Hanses (representing Alandia Försäkring) and Göran Lindholm (representing Ålands Ömsesidiga Försäkringsbolag) attended 3 out of 3 meetings of the Nomination Committee.

[6] Member since December 2015, but no committee meetings were held during December 2015..

[7] Folke Husell was a co-opted member of the Audit Committee until the AGM on April 16, 2015 and attended all 4 meetings during that period.

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, Göran Persson, Ulrika Valassi 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, Göran Persson and Ulrika Valassi 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, which is a major shareholder in the Bank. Anders Wiklöf is regarded as dependent in relation to a major shareholder due to his direct and indirect shareholding in the Bank. Dan-Erik Woivalin is deemed to be dependent on a major shareholder, since he is Chief Executive Officer of Ålands Ömsesidiga Försäkringsbolag.

Annika Wijkström, who was a Board member until the 2015 AGM, was independent in relation to the Bank as well as in relation to major shareholders.

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.

The committees of the Board

NOMINATION COMMITTEE

The main duty of the Nomination Committee is to prepare proposals before the AGM regarding the election of Board members as well as proposals concerning fees to the Chairman and other Board members.

Rules on how the Nomination Committee is appointed were established by the 2015 AGM. The Nomination Committee consists of four members: the Chairman of the Board and representatives of the three largest shareholders in the Bank in terms of voting power on November 1 of each year. If the Chairman of the Board represents any of the above shareholders, or in case a shareholder abstains from participating in the Nomination Committee, the right of membership is transferred to the next largest shareholder. The representative of the largest shareholder in terms of voting power is Chairman of the Nomination Committee.

Since December 2015, the Nomination Committee has consisted of Nils Lampi, Chairman of the Board; Board member Anders Wiklöf, by virtue of direct and indirect personal shareholdings; Jan Hanses, representing the insurance company Alandia Försäkring; and Dan-Erik Woivalin, representing Ålands Ömsesidiga Försäkringsbolag. Anders Wiklöf is Chairman of the Nomination Committee.

Until the Annual General Meeting in April 2015, the composition of the Nomination Committee was the same, except that Ålands Ömsesidiga Försäkringsbolag was represented by Göran Lindholm. Anders Wiklöf was Chairman of the Nomination Committee.

During 2015 the Nomination Committee met three (three) times. The average attendance of Committee members was 100 (100) 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 AGM the Audit Committee prepares proposals for the election of auditors and their fees. The Chairman of the Audit Committee reports regularly to the Board about the work and observations of the Committee.

Since the 2015 AGM, the Audit Committee has consisted of Nils Lampi, Chairman of the Board; and Board members Agneta Karlsson, Anders Å Karlsson and Ulrika Valassi, Chairman of the Audit Committee. During 2014 and until the 2015 AGM, the Audit Committee also included Folke Husell as a co-opted member. Folke Husell was Chairman of the Audit Committee.

During 2015 the Audit Committee met nine (nine) times. The average attendance of Committee members was 100 (97) 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 2015 AGM, the Compensation Committee has consisted of Nils Lampi, Chairman of the Board; and Board members Agneta Karlsson, Chairman of the Committee, and Christoffer Taxell.

During 2014 and until the 2015 AGM, the Compensation Committee consisted of the Board member Annika Wijkström, Chairman of the Committee; Nils Lampi, Chairman of the Board; and Board member Agneta Karlsson.

During 2015 the Compensation Committee met four (five) times. The average attendance of Committee members was 100 (93) 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.

The Group's Executive Team – other members

The Board appoints the other members of the Group-wide Executive Team.

The other members of the Executive Team advise the Managing Director, and the Executive Team deals with all major Bank-wide issues.

The Executive Team consists of the heads of the Bank's business areas and corporate units.

During 2015 the Executive Team met on 12 (11) occasions.

DISCLOSURES ABOUT THE MEMBERS OF THE EXECUTIVE TEAM, INCLUDING THE MANAGING DIRECTOR, AND THEIR SHAREHOLDINGS IN THE BANK

The Group-wide Executive Team consists of the following members:

Executive Team, 2015

Composition of the Executive Team and its members' areas of responsibility	Education Year of birth Executive Team member since what year	Shareholdings in the Bank on December 31, 2015 (direct ownership or via companies which the person controls). There are no shareholdings in other Bank of Åland Group companies.
Peter Wiklöf Managing Director, Chief Executive Chairman of the Executive Team	Master of Laws Born 1966 Member since 2008	Series A shares: 500 Series B shares: 11,054
Jan-Gunnar Eurell Chief Financial Officer Deputy Managing Director	Bachelor of Science (Economics) Master of Business Administration Born 1959 Member since 2011	Series A shares: 0 Series B shares: 14,469
Birgitta Dahlén Director, Åland Business Area	Bank officer training Born 1954 Member since 2010	Series A shares: 450 Series B shares: 1,259
Tove Erikslund Chief Administrative Officer	Master of Business Administration Born 1967 Member since 2006	Series A shares: 0 Series B shares: 1,127
Magnus Holm Director, Sweden Business Area	Economic studies Born 1962 Member since 2011	Series A shares: 0 Series B shares: 2,300
Tony Karlström Head, Asset Management	Studies in financial economics Born 1970 Member since 2015	Series A shares: 0 Series B shares: 0
Juhana Rauthovi Chief Risk & Compliance Officer	Licentiate in Laws, MSc (Econ), MSc (Tech) Master in International Management Born 1975 Member since 2012	Series A shares: 0 Series B shares: 5,923
Anne-Maria Salonius Director, Finnish Mainland Business Area	Master of Laws Attorney at Law Born 1964 Member since 2010	Series A shares: 0 Series B shares: 1,212

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

The Bank's Compensation Declaration, including the compensation report, is published on the Bank's website (in Swedish). Below is a brief summary.

PRINCIPLES FOR COMPENSATION

The members of the Bank's Board of Directors are not included in any incentive system, in addition to the established fees.

COMPENSATION TO THE BOARD OF DIRECTORS

The fees of the Board members are established by the General Meeting. During the period from the 2015 AGM and the end of the 2016 AGM, 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. The Chairman of each committee is paid EUR 1,000 per meeting attended.

During 2015, the members of the Board received fees totalling EUR 260,250 (228,250).

COMPENSATION TO THE MANAGING DIRECTOR

The Board of Directors establishes the salary benefits and other employment conditions of the Managing Director. During 2015 the Managing Director received a total salary of EUR 448,297 (335,958) including disbursal of previously earned holiday pay, fringe benefits and variable compensation. Of the variable compensation paid in 2015, EUR 27,930 was paid in cash and EUR 27,930 in Bank shares, in compliance with external regulations. 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 also included in the share savings programme that is offered to all Group employees. The share savings programme for 2015 and the programme for 2016 are described in the Bank's Compensation Declaration.

COMPENSATION TO OTHER MEMBERS OF THE EXECUTIVE TEAM

The Board of Directors establishes the salary benefits and other employment conditions of the other members of the Executive Team.

The members of the Executive Team (excluding the Managing Director) were paid compensation totalling EUR 1,488,221 (1,343,964) including fringe benefits and variable compensation during 2015. Of the variable compensation paid during 2015, EUR 98,534 was paid in cash and EUR 98,534 in Bank shares, in compliance with external regulations. 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 that is offered to all Group employees.

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 directly depends on the ability of the organisation to identify, manage and price risks. The purpose of risk management is to reduce the probability of unforeseen losses and/or threats to the Group's reputation as well as contribute to higher profitability and shareholder value.

The Group is exposed to credit risk, counterparty risk, market risk, liquidity risk, operational risk and business risk. The latter is a consequence of the Group's strategy, competitiveness, ability to adapt to customer expectations, unfavourable business decisions and the environment and market the Group works in. Business risk is managed in conjunction with strategic planning. Credit risk, which is the Group's most significant risk, encompasses claims on private individuals, companies, institutions and the public sector. These claims mainly consist of loans, overdraft facilities and guarantees issued by the Bank.

The Board of Directors has overall responsibility for ensuring that risk management is sufficient and for establishing systems and regulations for monitoring and limiting the Bank's risk exposure. The Audit Committee assists the Board in handling these oversight tasks in internal control systems, risk management and reporting. The Managing Director oversees and supervises business operations in accordance with the Board's instructions, is responsible for day-to-day administration and for ensuring that the members of the Board receive sufficient information regularly about the Group's risk positions and the regulations that affect its operations.

The Bank works according to an allocation of responsibility in which each part of its business operations bears responsibility for its business and for managing its risks. The Risk Office Corporate Unit is responsible for independent risk monitoring, compliance with regulations, portfolio analysis, the loan granting process and debt collection. 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 "Risks and risk management" section in the Group's Annual Report.

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 the necessary number of deputies for them. An auditor is appointed yearly at the Annual General Meeting for the period up to the end of the next Annual General Meeting.

The latest AGM in 2015 re-elected Pauli Salminen, Birgitta Immerthal and Mari Suomela, Authorised Public Accountants (CGR), as auditors. Oskar Orrström, Authorised Public Accountant (CGR), was elected as a new auditor. The CGR-affiliated firm of KPMG Oy Ab was re-elected as deputy auditor.

During 2015, Group companies paid a total of EUR 302,482 (304,306 including value-added tax for auditing fees. In addition, they paid EUR 264,590 (330,287) including VAT for consulting assignments performed by KPMG Oy Ab.

Board of Directors

Nils Lampi

CHAIRMAN

CEO, Wiklöf Holding Ab
Bachelor of Economic Sciences
Born 1948
Chairman of the Board since April 18, 2013
Board member since April 18, 2013

Shareholdings in Bank of Åland Plc*:
Series A shares: 300 Series B shares: 700

Christoffer Taxell

DEPUTY CHAIRMAN

Master of Laws
Born 1948
Deputy Chairman of the Board since April 18, 2013
Board member since April 18, 2013

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: 1,000

Agneta Karlsson

Advisor/Consultant
Doctor of Economics, Associate Professor
Born 1954
Board member since 2003

Shareholdings in Bank of Åland Plc*:
Series A shares: 40 Series B shares: 28

Anders Å Karlsson

Business owner
Bachelor of Commerce
Born 1959
Board member since April 19, 2012

Shareholdings in Bank of Åland Plc*:
Series A shares: 3,000 Series B shares: 1,500

Göran Persson

Born 1949
Board member since 2015

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: None

Ulrika Valassi

CEO, Au Management AB
Master of Business Administration
Born 1967
Board member since 2015

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: None

Anders Wiklöf

Business owner
Doctor of Economics (honorary), Commercial Counsellor
Born 1946
Board member since 2006

Shareholdings in Bank of Åland Plc*:
Series A shares: 1,597,396 Series B shares: 1,326,549

Dan-Erik Woivalin

CEO, Ålands Ömsesidiga Försäkringsbolag
Master of Laws, Attorney at Law
Born 1959
Board member since April 18, 2013

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: None

Further information in Swedish and Finnish about the members of the Board can be found on the Bank's website *www.alandsbanken.fi*

* Shareholdings in the Bank on December 31, 2015 (direct ownership or via companies which the person controls).
There are no shareholdings in other Bank of Åland Group companies.

Executive Team

Peter Wiklöf

Managing Director. Chief Executive
Master of Laws
Born 1966
Chairman and member of the Executive Team since 2008

Shareholdings in Bank of Åland Plc*:
Series A shares: 500 Series B shares: 11,054

Jan-Gunnar Eurell

Chief Financial Officer. Deputy Managing Director
Master of Business Administration, Bachelor of Science (Economics)
Born 1959
Member of the Executive Team since 2011

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: 14,469

Birgitta Dahlén

Director, Åland Business Area
Bank officer training
Born 1954
Member of the Executive Team since 2010

Shareholdings in Bank of Åland Plc*:
Series A shares: 450 Series B shares: 1,259

Tove Erikslund

Chief Administrative Officer
Master of Business Administration
Born 1967
Member of the Executive Team since 2006

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: 1,127

Magnus Holm

Director, Sweden Business Area
Economic studies
Born 1962
Member of the Executive Team since 2011

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: 2,300

Tony Karlström

Head, Asset Management
Studies in financial economics
Born 1970
Member of the Executive Team since 2015

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: None

Juhana Rauthovi

Chief Risk & Compliance Officer
Licentiate in Laws, MSc (Econ), MSc (Tech),
Master in International Management
Born 1975
Member of the Executive Team since 2012

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: 5,923

Anne-Maria Salonius

Director, Finnish Mainland Business Area
Attorney at Law, Master of Laws
Born 1964
Member of the Executive Team since 2010

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: 1,212

Further information in Swedish and Finnish about the members of the Executive Team can be found on the Bank's website *www.alandsbanken.fi*

* Shareholdings in the Bank on December 31, 2015 (direct ownership or via companies which the person controls).
There are no shareholdings in other Bank of Åland Group companies.

The Bank of Åland Plc's list of stock exchange releases in 2015
(published in Finnish and Swedish only, except that the releases marked * are also available in English)

Stock exchange releases, 2015

January

January 7, 2015	Bank of Åland Plc and Ålandsbanken Asset Management Ab initiate merger

February

13.02.2015	Year-end Report for the period January–December 2013*

March

March 16, 2015	The 2014 Annual Report of the Bank of Åland Plc, with the future outlook for 2015
March 19, 2015	Notice to convene the Annual General Meeting
March 19, 2015	Amendments with respect to the Bank of Åland's Series B shares
March 25, 2015	Transfer of own Series B shares for implementation of incentive programme
March 27, 2015	Disclosure of change in shareholdings under chapter 9, section 10 of the Securities Markets Act

April

April 16, 2015	Release on items of business dealt with at the Annual General Meeting of the Bank of Åland Plc (Ålandsbanken Abp)
April 23, 2015	Standard & Poor's raises credit rating on covered bonds issued by the Bank of Åland Plc to AAA with a stable outlook
April 28, 2015	Interim Report for the period January–March 2015

May

May 6, 2015	Standard & Poor's raises its credit rating on all covered bonds issued by the Bank of Åland Plc to AAA with a stable outlook
May 26, 2015	Implementation of the merger between Bank of Åland Plc and Ålandsbanken Asset Management Ab and the issuance of Series B shares

June

June 1, 2015	Merger between the Bank of Åland Plc and Ålandsbanken Asset Management Ab implemented
June 1, 2015	Disclosure of change in shareholdings pursuant to Chapter 9, Section 10 of the Finnish Securities Markets Act

July

July 2, 2015	Tony Karlstöm to join Executive Team at Bank of Åland Plc
July 10, 2015	Bank of Åland's net operating profit substantially better than last year
July 25, 2015	Interim Report for the period January–June 2015

August

August 12, 2015	Disclosure of change in shareholdings pursuant to Chapter 9, Section 10 of the Finnish Securities Markets Act
August 26, 2015	Issue of Series B shares as part of the Bank of Åland's share saving programme for employees

October

October 27, 2015	Interim Report for the period January–September 2015
October 27, 2015	Annual General Meeting and financial information, 2016

November

November 25, 2015	Bank of Åland Plc will continue with a share savings programme for its employees in 2016

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