

Bank of Åland

Debt Investor Presentation
September 2016

Table of Contents

1. Bank of Åland in Brief	3
2. Bank of Åland – Strategy and Market Position	5
3. Earnings and Capital	19
4. Asset Quality and Covered Pool FIN	29
5. Liquidity and Funding	41
6. Contact Details	48
7. Appendix	50

A serene landscape of a calm sea with smooth, dark rocks in the foreground under a pale sky. The water is still, reflecting the light from the sky. The rocks are scattered across the lower part of the frame, some partially submerged. The sky is a uniform, light color, suggesting a clear day.

1. Bank of Åland in Brief

Bank of Åland in brief

- Bank of Åland Plc
 - A Finnish bank targeting high net worth and affluent individuals
 - Top ranked in customer loyalty
 - Tradition of stability and very low credit losses
 - BBB (negative) rating from S&P
- Covered bonds program
 - EUR 2 bn combined covered bond/senior Medium Term Note program updated in 2015
 - Two cover pools: Cover Pool FIN and Cover Pool SWE
 - Issuance under Finnish Covered Bond Legislation
 - Legal LTV cap at 70% and minimum 2% over-collateralization
 - Published commitment to a strong over-collateralization and six months liquidity in the program
 - AAA (stable) rating from S&P on both Pool FIN and Pool SWE covered bonds



2. Bank of Åland Strategy and Market Position

Three Markets – Two Strategies

The Åland Islands

- 5 offices + 2 rep offices, market share 55-60 %
- Full product range offered
- **A bank for everyone**

Finland

- 5 offices in affluent parts of Finland
- Full product range offered but “bread and butter” services only as complement to Private Banking and Premium Banking services offering
- **Targeted segment: High Net Worth / Affluent Individuals and their companies**

Sweden

- 3 offices in Sweden's largest cities
- Full product range offered but “bread and butter” services only as complement to Private Banking and Premium Banking services offering
- **Targeted segment: High Net Worth / Affluent Individuals and their companies**



Bank of Åland – a relationship bank with focus on Private Banking and Premium Banking customers

- Established in 1919 on Åland Islands
- Listed since 1942 on NASDAQ OMX Helsinki

- Total assets of EUR 4,718 M, as of June 30, 2016
- Investment volume of EUR 6,328 M, as of June 30, 2016
- Approximately 690 employees

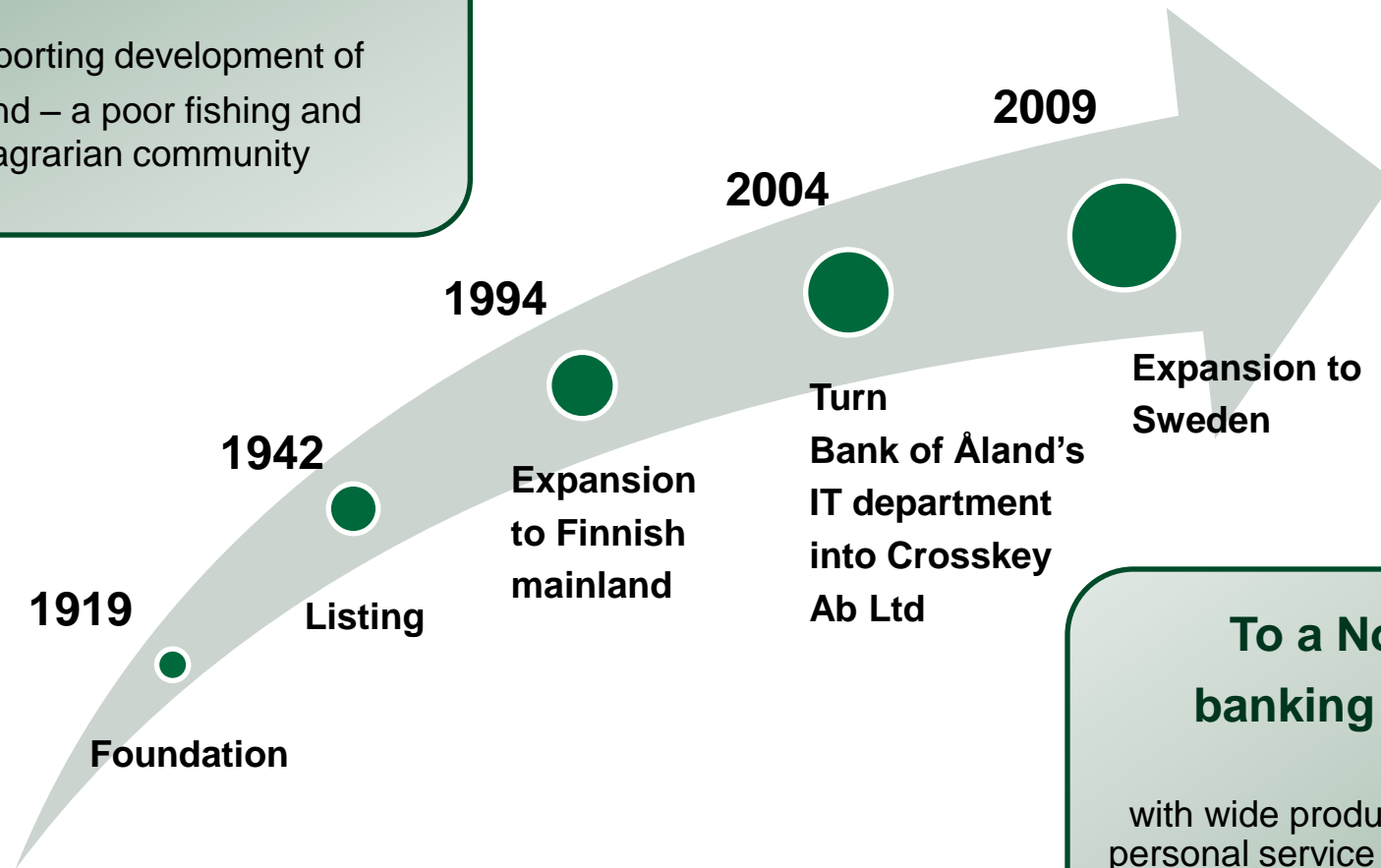
- Operations in the Åland Islands, Finnish mainland and Sweden
- More than 100,000 customers and top-ranked in customer loyalty*
- A long-standing tradition of stability and very low credit losses
- At the forefront for introducing new products in Finland

** 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, servicemindedness and personal advisors attracted particular mention.*

Bank of Åland History of Strategic Decisions

From a local bank

supporting development of Åland – a poor fishing and agrarian community



To a Nordic banking group

with wide product range and personal service targeting high net worth individuals

Bank of Åland vision

We create value for ambitious individuals and companies that appreciate relations

- Private Banking since 1982
- Premium banking since 2004

Service



Finance



Lifestyle

Safety

Private Banking 2015 Finland



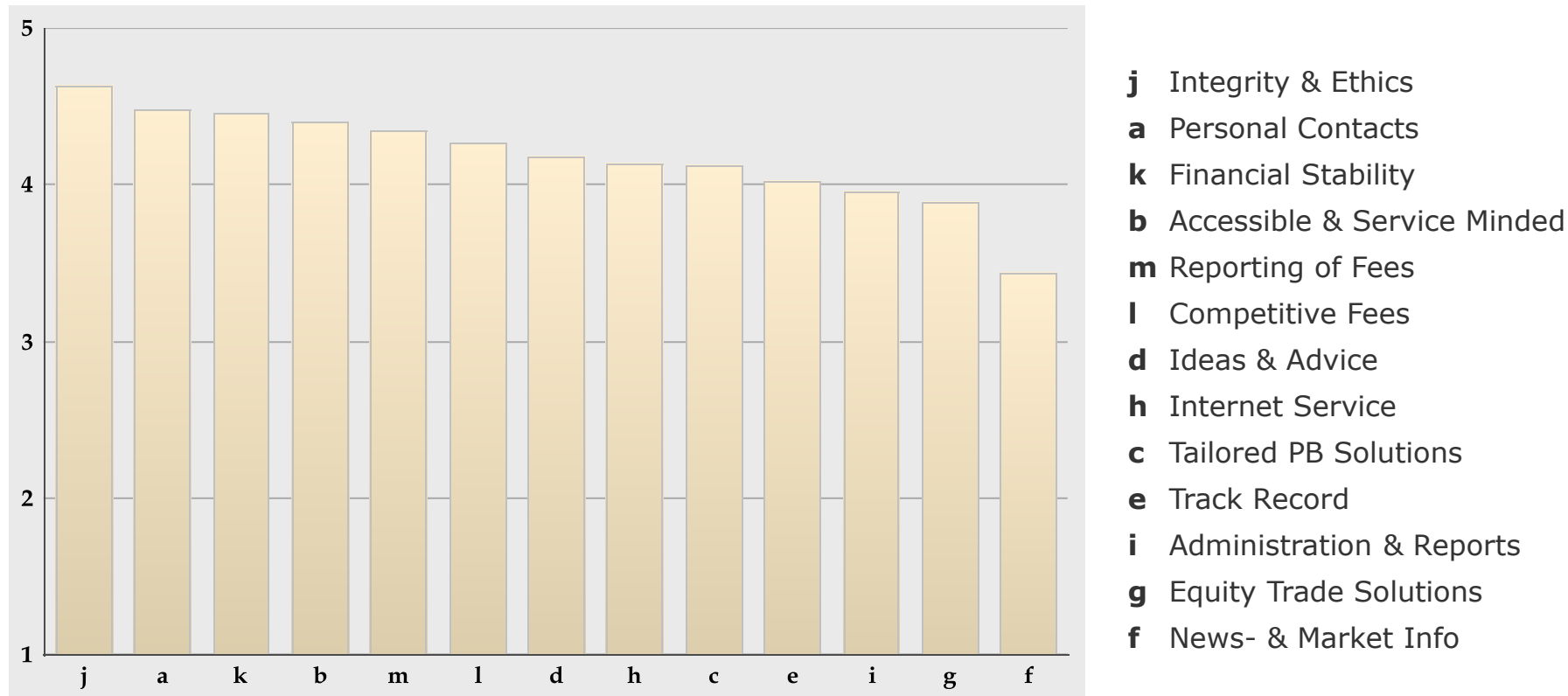
TNS Sifo Prospera

Overall performance

Rank	Score
1	3,87 Ålandsbanken
2	3,71 OP Pohjola
3	3,65 Nordea
4	3,63 Taaleritehdas
5	3,61 Handelsbanken
6	3,57 Evli
7	3,53 Danske Bank
8	3,40 Mandatum

*Source: TNS Sifo Prosperas Private Banking investigation in Finland 2015

Importance of each criterion among all interviewees



*Source: TNS Sifo Prosperas Private Banking investigation in Finland 2015

Performance on the most important parts

Integrity & Ethics

All	Rank	Score	
	1	4,50	Ålandsbanken
	2	4,18	OP Pohjola
	3	4,06	Nordea
	*4	4,00	Danske Bank
	*4	4,00	Taaleritehdas
	6	3,97	Evli
	7	3,87	Mandatum
	8	3,86	Handelsbanken

Personal Contacts

All	Rank	Score	
	1	4,29	Ålandsbanken
	2	4,08	Evli
	3	4,00	Taaleritehdas
	4	3,98	OP Pohjola
	5	3,93	Nordea
	6	3,91	Handelsbanken
	7	3,77	Danske Bank
	8	3,69	Mandatum

*Source: TNS Sifo Prosperas Private Banking investigation in Finland 2015

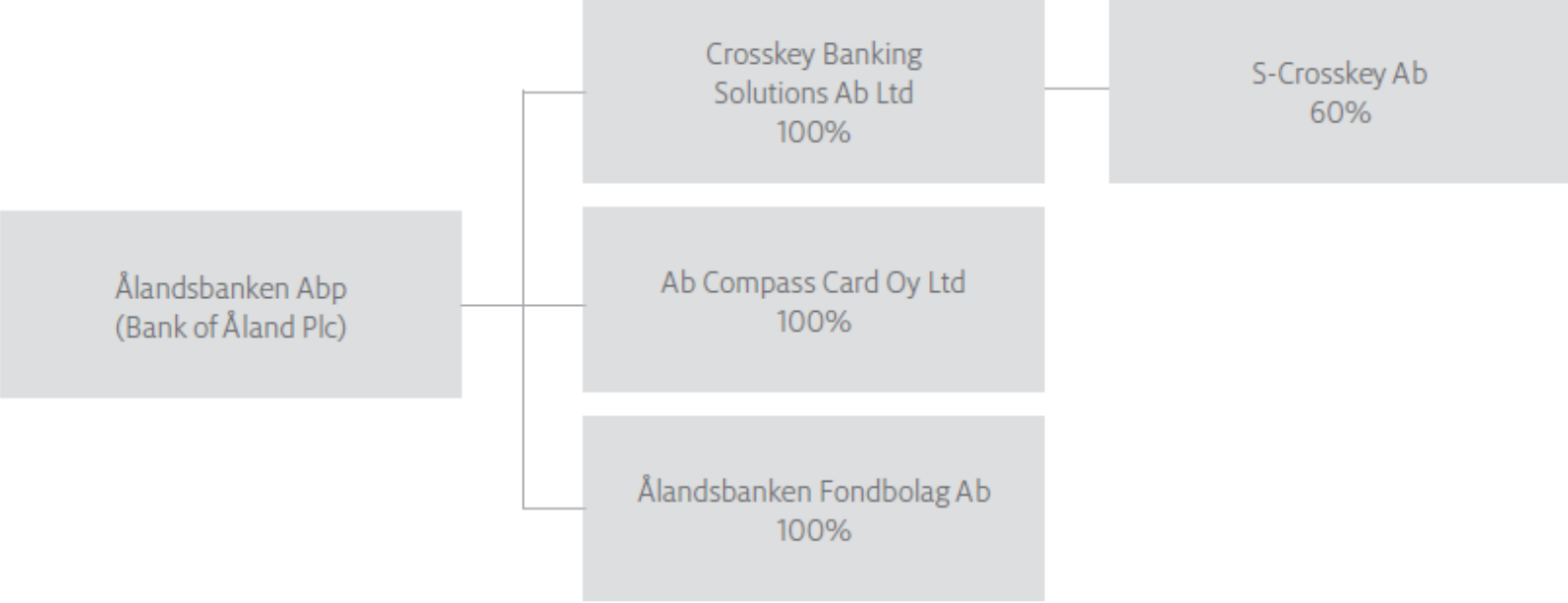
Willingnes to recommend

All Interviewees

Rank	Score	
1	3,87	Ålandsbanken
2	3,81	Handelsbanken
3	3,67	Taaleritehdas
4	3,66	OP Pohjola
5	3,58	Evli
6	3,50	Nordea
7	3,38	Danske Bank
8	3,19	Mandatum

*Source: TNS Sifo Prosperas Private Banking investigation in Finland 2015

Bank of Åland group legal structure



Ownership structure

Major owners	Share of capital	Share of votes
Anders Wiklöf with companies	19,2 %	24,1 %
Alandia-Bolagen	8,7 %	13,6 %
The Family Kamprad Foundation	6,0 %	0,7 %
Ålands Ömsesidiga försäkringsbolag	5,9 %	11,6 %
Fennogens Investment S.A. (Family Ehrnrooth)	3,4 %	7,5 %
	43,2 %	57,5 %

Other owners		
Svenska litteratursällskapet	1,4 %	3,0 %
Föreningen Konstsamfundet	0,5 %	1,1 %

Approximately 9,500 shareholders in total, mostly from the Åland Islands.

Standard & Poor's rating on Bank of Åland

Finnish banks

A-

Business position

-2

- Niche bank with geographical concentration to Finland and Sweden

Capital and earnings

+1

- Strong capital position
- Strong equity to assets ratio

Risk position

-1

- Geographical concentration to Finland and Sweden
- Small customer base with concentration risks

Liquidity and funding

0

- Above average with very strong deposit base

Bank of Åland stand alone rating

BBB

Cover Pool FIN, Cover Pool SWE

+9

- Very low credit losses and stable loan base
- Commitment to strong overcollateralization
- Commitment to six month liquidity buffer

Bank of Åland covered bonds rating

AAA

Scorecard



Capital

- S&P rating uplift for strong capital position
- Common Equity Tier 1 capital ratio 12.4 percent as of June 30, 2016
- IRB method for credit risk capital requirement not yet approved for the Swedish credit portfolio



Liquidity and Funding

- Core funding ratio of 94 percent as of June 30, 2016
- Liquidity reserve at 19 percent of total assets as of June 30, 2016
- LCR at 107 percent as of June 30, 2016
- NSFR at 109 percent as of June 30, 2016
- AAA rating on covered bonds



Risk Management

- Long history of having the lowest loan loss level of all Finnish banks. Loan loss level was 0.12 percent H1 2016.
- No trading or complex financial instruments
- No exposure to GIIPS countries, Russia or Ukraine
- Strict limits on exposure to financial institutions. Bulk of the exposure is to highly rated Nordic entities



Profitability

- Challenging interest rate environment
- Positive earnings trend, with Swedish business area now on positive figures for several years
- 12 months rolling net operating profit, excluding non-recurring items, of EUR 26.2 M Q2 2016
- Return on equity 9.2 percent H1 2016

3. Earnings & Capital

Long-term financial targets

- **Return on equity after taxes (ROE) shall exceed 10 per cent.**

As a bank for investors, with financing knowhow, the Bank of Åland has a business model that shall generate most earnings from operations with limited capital requirements. The Bank of Åland's earnings will benefit from higher interest rates

- **The Bank's capital adequacy, primarily defined as the core tier 1 capital ratio under the Basel regulations, shall clearly exceed all regulatory requirements.**

There is still uncertainty about how the Bank of Åland's core tier I capital ratio will be affected by the transition from the standardised approach to the IRB approach for corporate portfolio in Finland and the entire lending portfolio in Sweden as well as by the final shape of Basel 3. At present, the Executive Team interprets the ambition to clearly exceed regulatory requirements as meaning that the core Tier I 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.

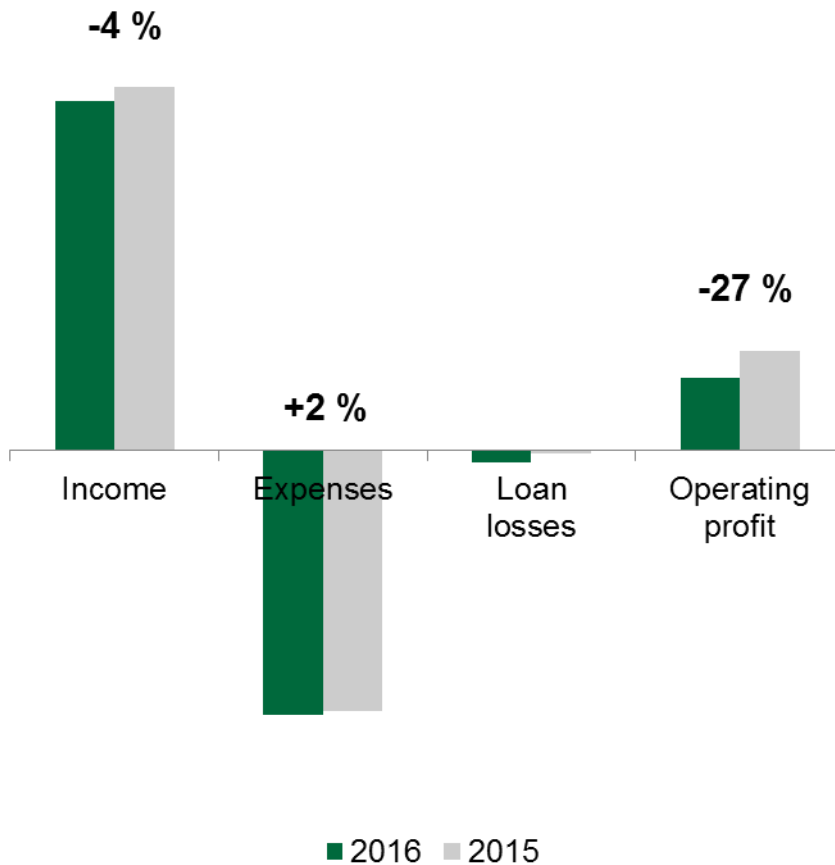
H1 2016 in summary

- Bank of Åland expects to have a result in 2016 that is in line with or lower than 2015
- A challenging market environment
 - Negative interest rates
 - Volatile equity markets and lower turnaround
 - Uncertainty around Brexit and the situation with European banks
- Strong increase in the deposit base
- Continued heavy interest in the Bank of Åland's housing-related mutual funds. Net inflow into Bostadsfonden and Tomtfonden was EUR 95 M.
- Digitalization and new service channels: Dreams, Trustly
- Green banking: Baltic sea –card introduced

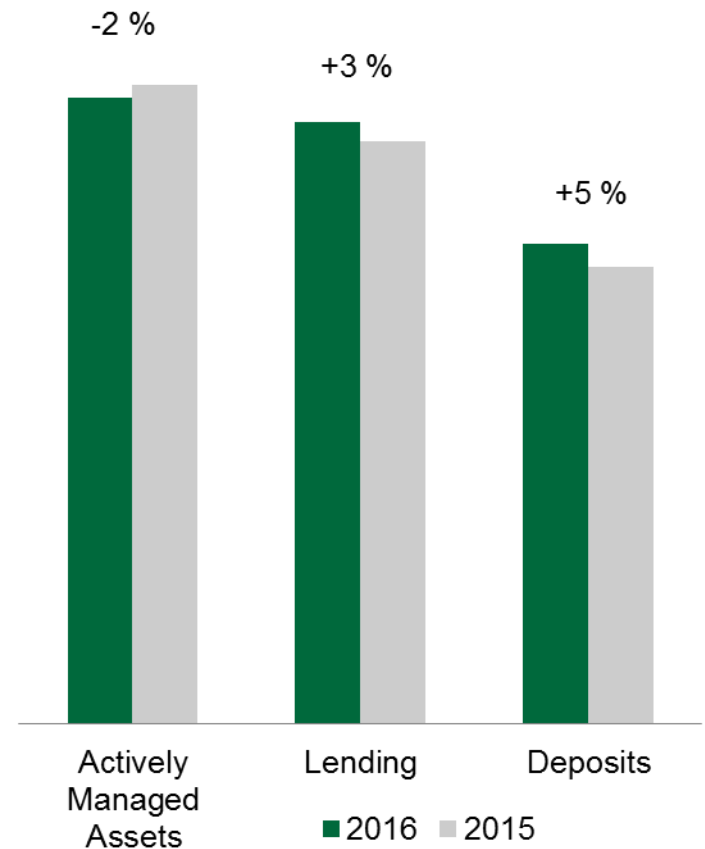
Expenses H1/16 included EUR 0.5 M as a finally determined reduction in purchase price related to the Swedish subsidiary that was sold in 2012.

2016 in summary

Operating profit

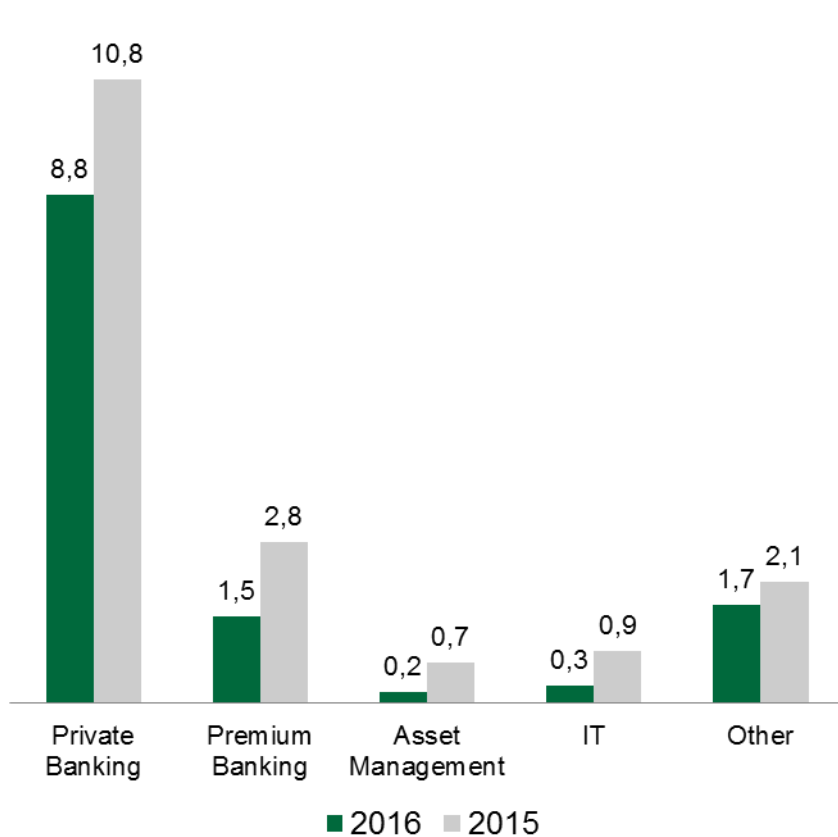


Volumes

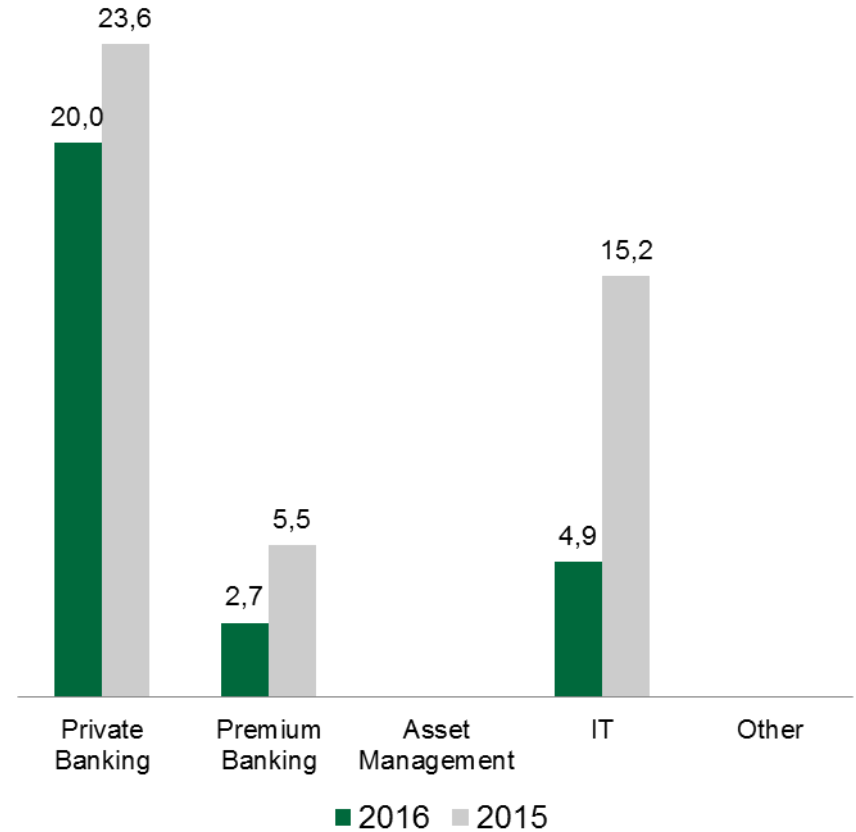


Bank of Åland business segments

Operating profit
EUR M



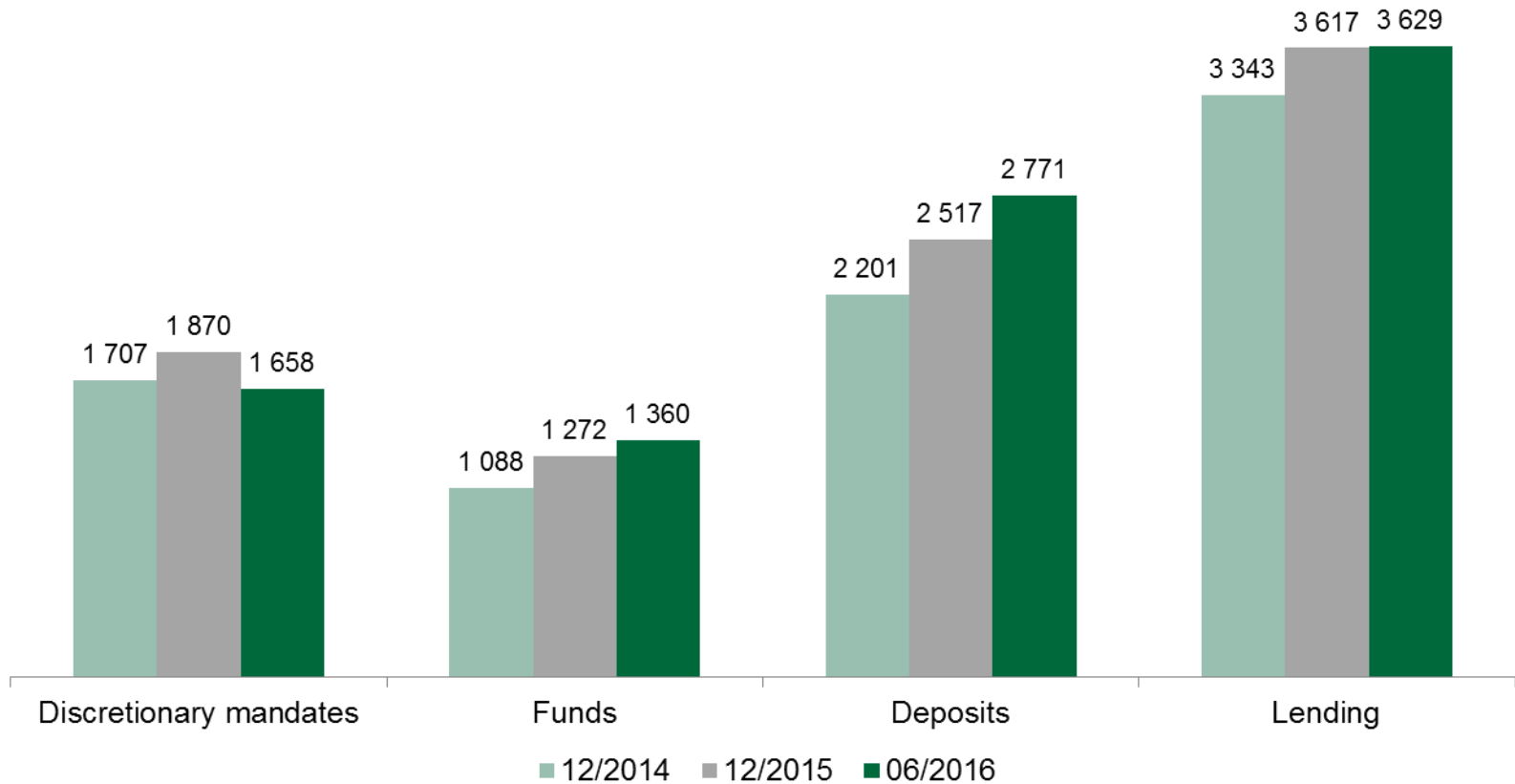
Return on Equity
%



Income statement

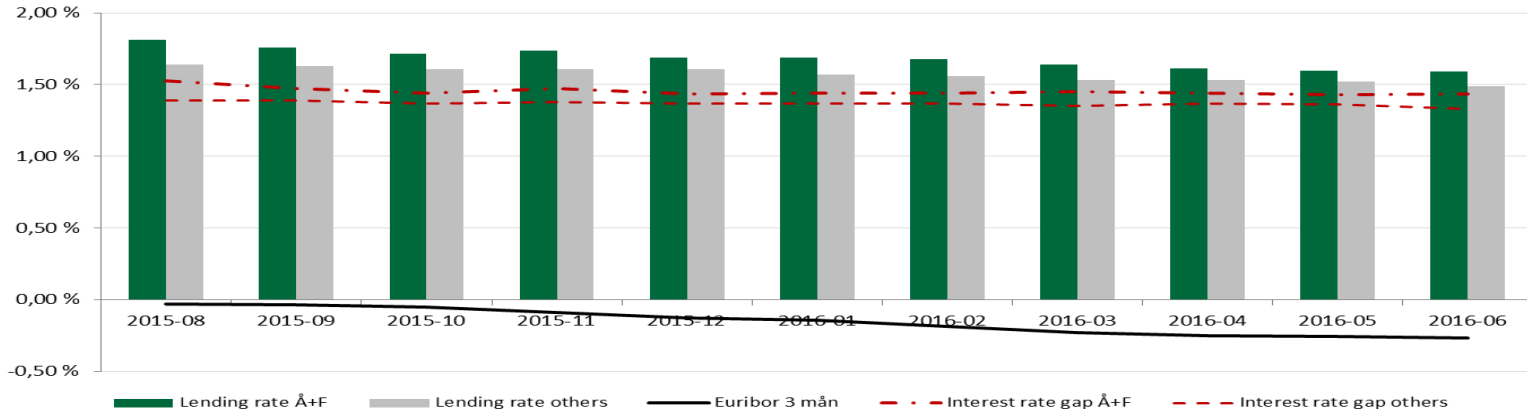
EUR M	Q2			Q1		Q2		H1	
	2016	2016	%	2015	%	2016	2015	%	
Net interest income	13,5	13,9	-3	12,9	5	27,5	25,6	7	
Net comission income	10,8	11,3	-5	11,9	-9	22,1	24,7	-11	
Net gains and losses on financial items	1,9	1,5	25	1,6	14	3,4	4,1	-18	
IT income	3,7	3,2	16	4,2	-12	6,8	8,5	-19	
Other income	0,2	0,6	-67	0,0		0,9	0,1		
TOTAL INCOME	30,1	30,6	-1	30,6	-2	60,7	63,0	-4	
Staff expenses	-14,7	-14,2	3	-14,1	4	-28,9	-27,8	4	
Other expenses	-7,7	-6,4	20	-6,7	15	-14,1	-13,9	1	
Depreciation	-1,5	-1,5	-5	-1,7	-14	-3,0	-3,6	-16	
TOTAL EXPENSES	-23,8	-22,2	7	-22,5	6	-46,0	-45,3	2	
PROFIT BEFORE LOAN LOSSES	6,3	8,4	-25	8,1	-22	14,7	17,8	-17	
Impairment losses on loans	-1,7	-0,4		-0,3		-2,1	-0,5		
OPERATING PROFIT	4,6	8,0	-42	7,8	-41	12,6	17,3	-27	
Income tax	-1,1	-1,7	-34	-1,6	-31	-2,8	-3,3	-16	
Non-controlling interests	0,0	0,0		0,0		0,0	0,0		
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	3,5	6,3	-45	6,2	-44	9,8	14,0	-30	

Business volumes 2014-2016, EUR M

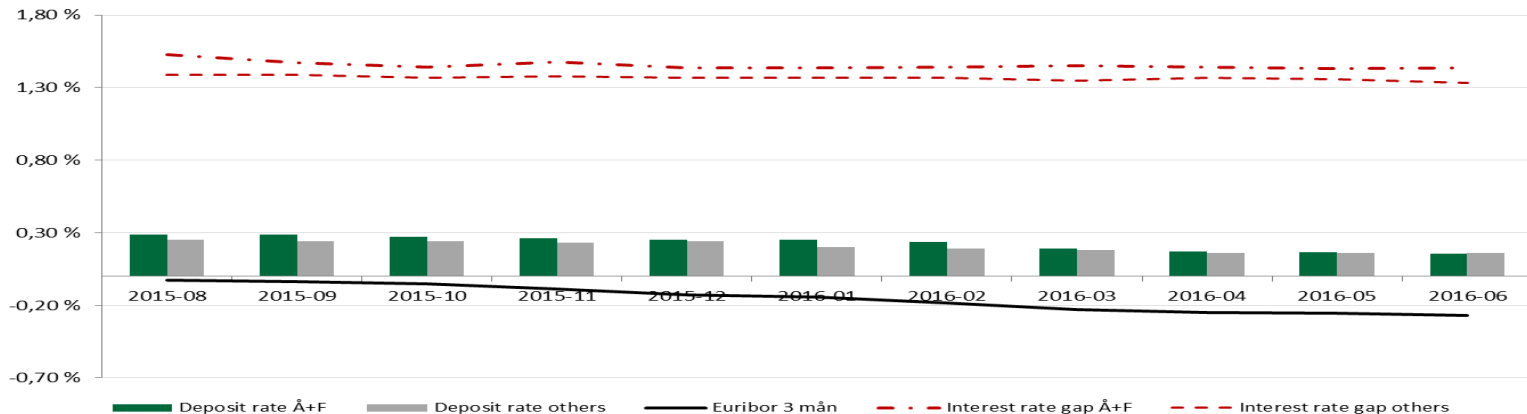


Interest margins vs. other Finnish banks

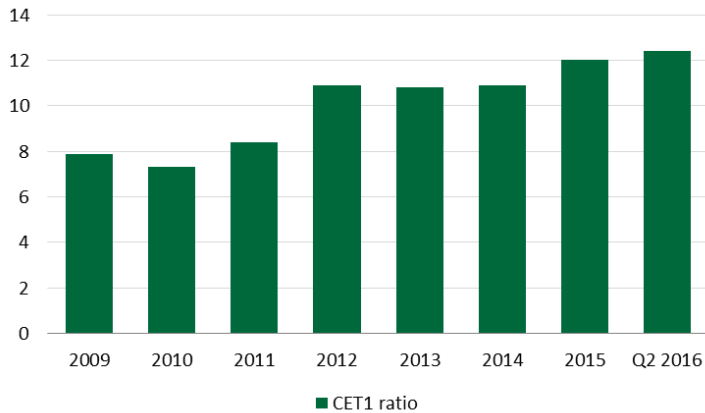
Lending rates



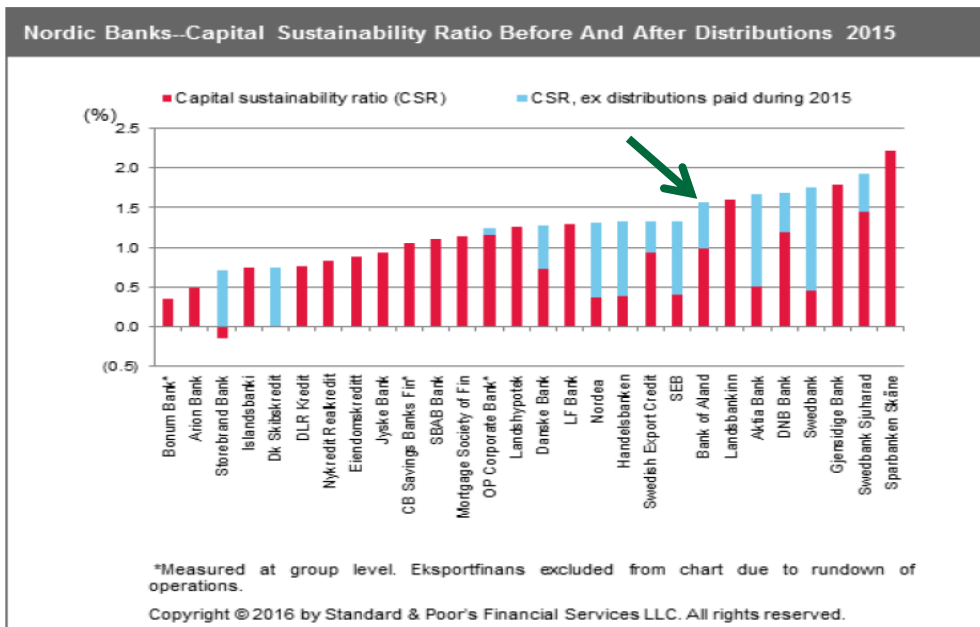
Deposit rates



Commitment to strong capital ratio

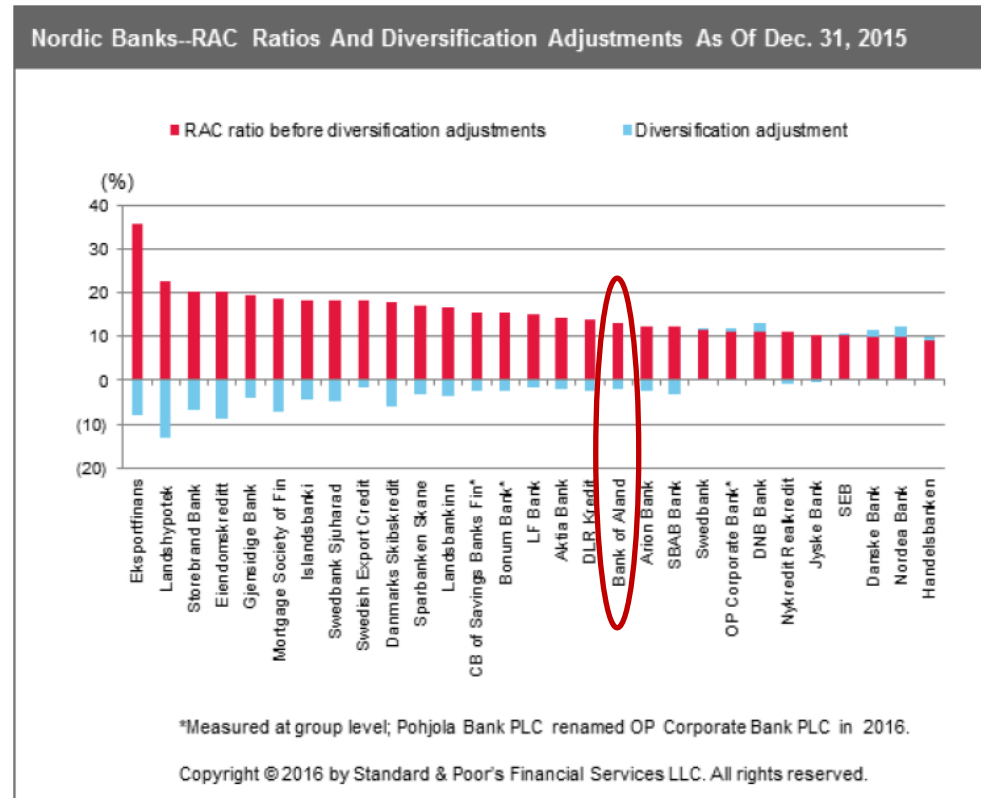


- Bank of Åland is committed to a strong capital ratio.
- The core tier 1 capital ratio for a small bank like Bank of Åland is not comparable to larger banks with IRB methods. Standard & Poor's rating method considers Bank of Åland well capitalized, giving a rating uplift of one notch at the current CT1 ratio level.
- The ambition is to be well capitalized, which currently translates to a CT1 ratio of at least around 11 percent.
- Conservative pay-out policy is to safeguard the capital position



S&P view: quality of the capital

- S&P regards Bank of Åland's capital position as **"strong"**
- Capital position is better than that of the large Scandinavian peers
- S&P RAC ratio makes an attempt to measure capital adequacy with regard to the **quality** of capital
- Bank of Åland has all of the capital in CET1 equity and retained earnings



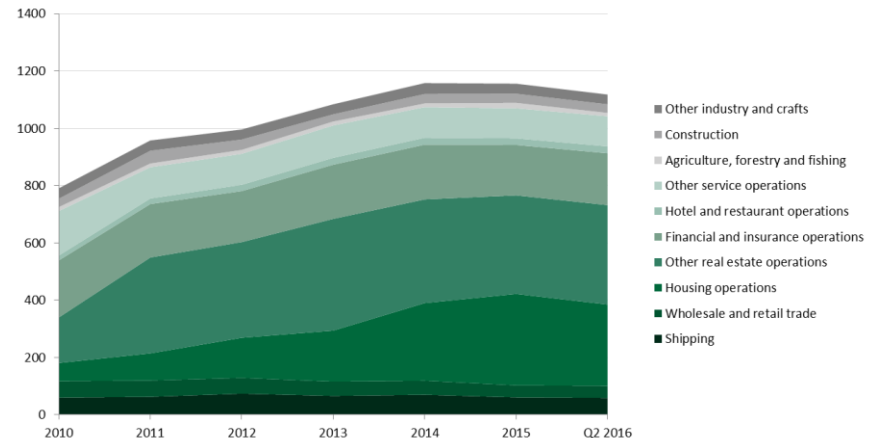
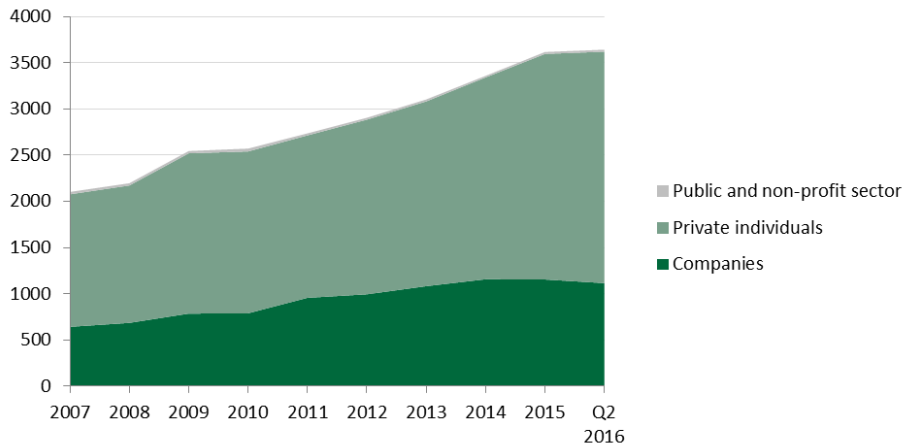
4. Asset Quality and Covered Pool FIN

Lending strategy

- Bank of Åland is a relationship bank with primary focus on customers with investment needs in the Private Banking and Premium Banking segments. Serving the core customers' credit needs are part of our commitment.
- Bank of Åland is not granting credits as a stand alone product to mass market clients or corporate clients.
- Every business area (Ålands Islands, Finland and Sweden) should have a balanced growth in lending versus deposits.
- At least half of the lending in every business area should be residential mortgages or have residential property as collateral.
- Many small loans are preferred to few large loans.

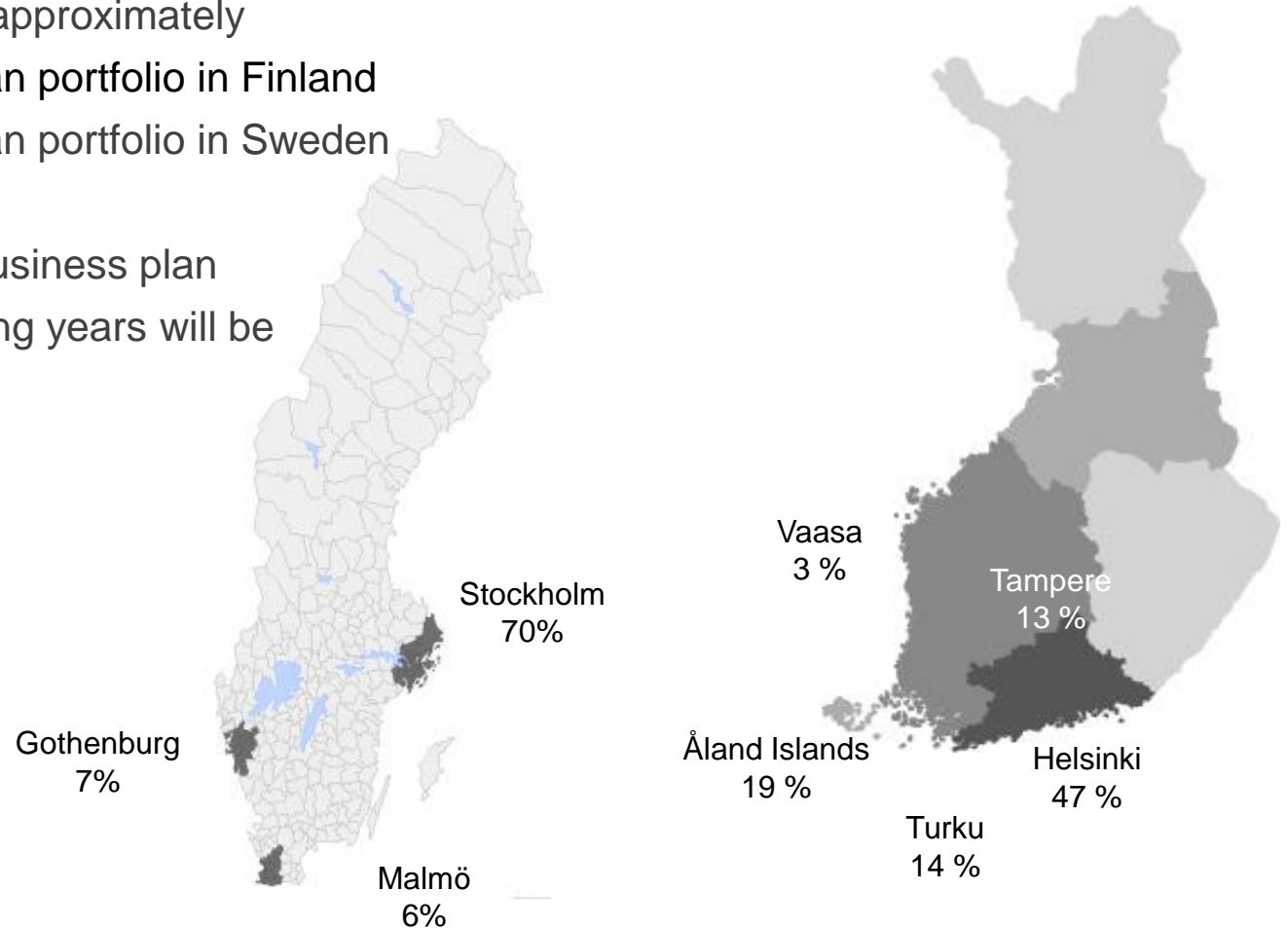
Balanced growth in the credit portfolio

- Total lending to the public was EUR 3 629 M 30 June 2016, an increase of 3 percent from a year ago
 - Selective lending to high quality borrowers
 - Asset quality prioritised over lending volume growth and higher returns
 - Lending must always be made in consideration of safeguarding Bank of Åland's strong brand and market reputation
- Loan loss level 0.12 percent in H1 2016 (0.03 H1 2015)



Geographical distribution of mortgage lending

- Clear concentration to the wealthiest parts of Finland and Sweden
- As of 31.12.2015 approximately
 - 71 % of the loan portfolio in Finland
 - 29 % of the loan portfolio in Sweden
- According to the business plan growth in the coming years will be mainly in Sweden



Cover pool characteristics, June 30, 2016

Cover Pool FIN	
Prime residential mortgages, %	100
Total nominal amount, EUR M	993
Weighted arithmetic average LTV	51
Number of unique loans	14 109
Number of borrowers	11 704
Average loan size, EUR T	70
Interest rate type, floating, %	90
Interest rate type, fixed, %	10
Average margin %	1,07
Weighted Average Seasoning	4,6 years
Amortising frequency, %	Monthly 74, quarterly 2, yearly 4, IO 20
Impaired loans	None

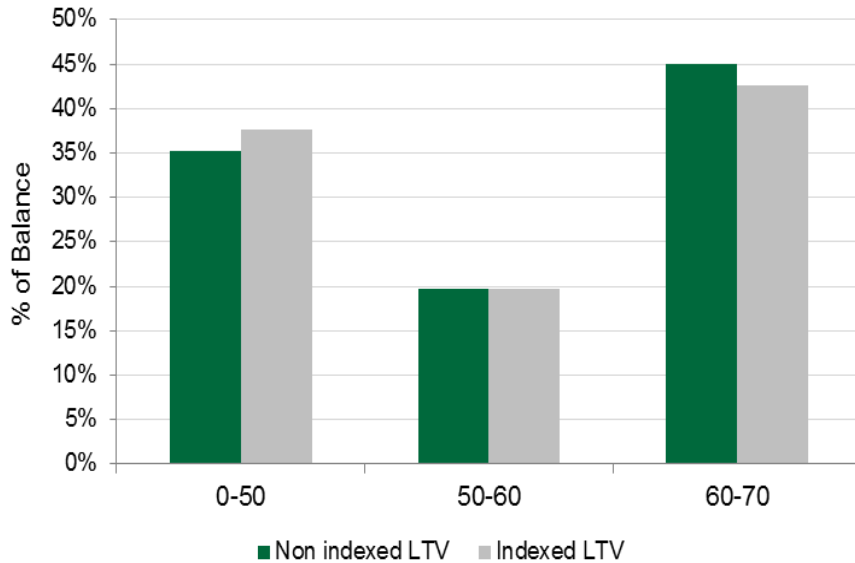
Commitment to high OC and strong liquidity

- Bank of Åland is committed to an overcollateralization clearly over the legislative minimum of 2 %. Overcollateralization is kept to a level that allows the maximum uplift of 4 notches in Standard & Poors covered bonds rating framework* or an AAA rating on the covered bonds.
- Bank of Åland is committed to maintain a liquidity buffer covering 180 days contractual outflows from the covered bonds issued. The liquidity buffer consists of contractual inflows and liquid assets in the cover pool.

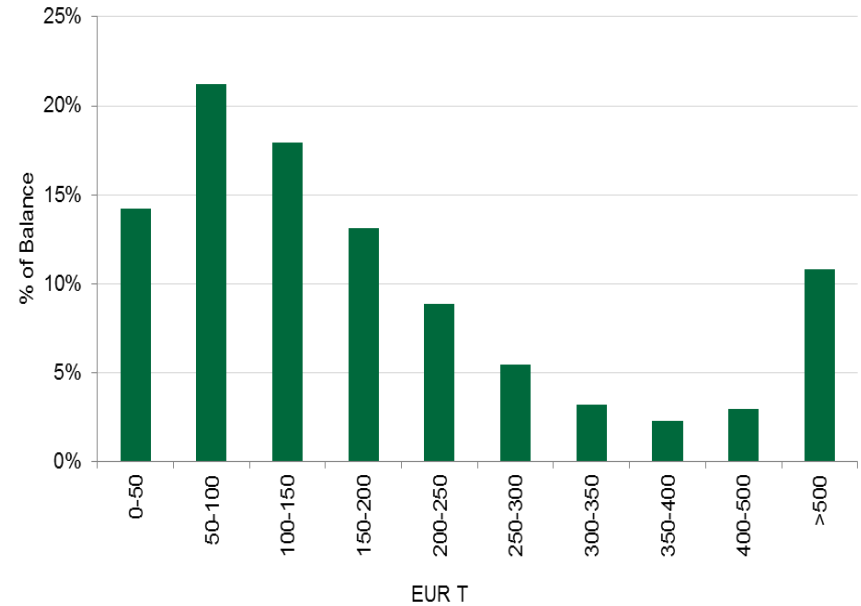
* Standard & Poors: Covered Bonds Criteria 9.12.2014

LTV and loan size Cover Pool FIN June 30, 2016

LTV distribution

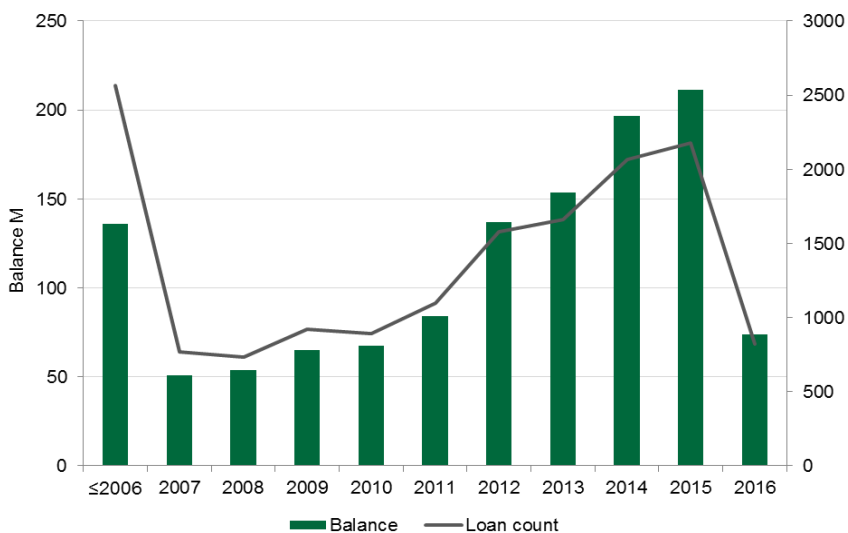


Loans by size

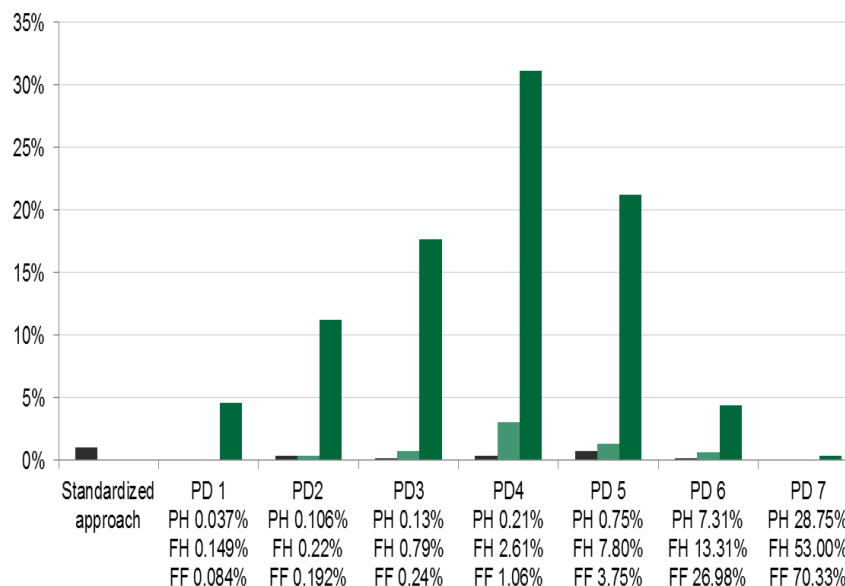


Origination and credit quality Pool FIN June 30, 2016

Origination



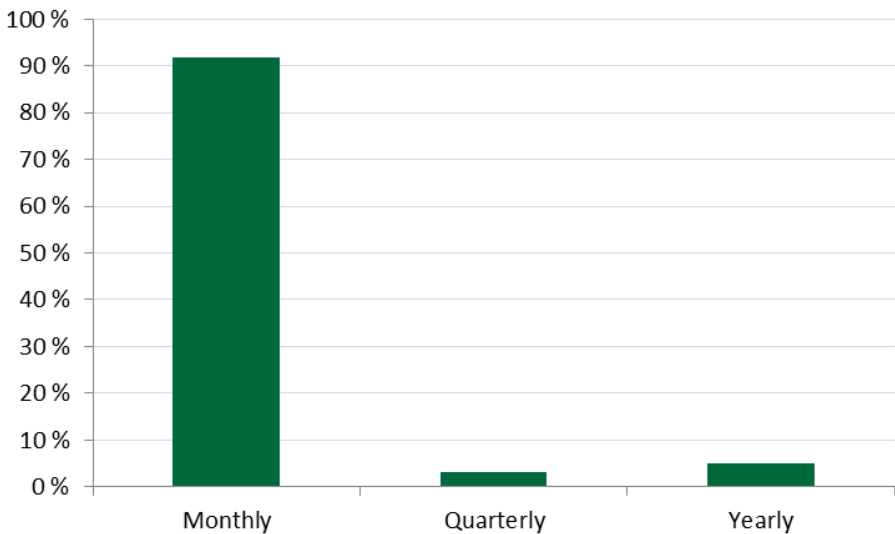
Credit quality



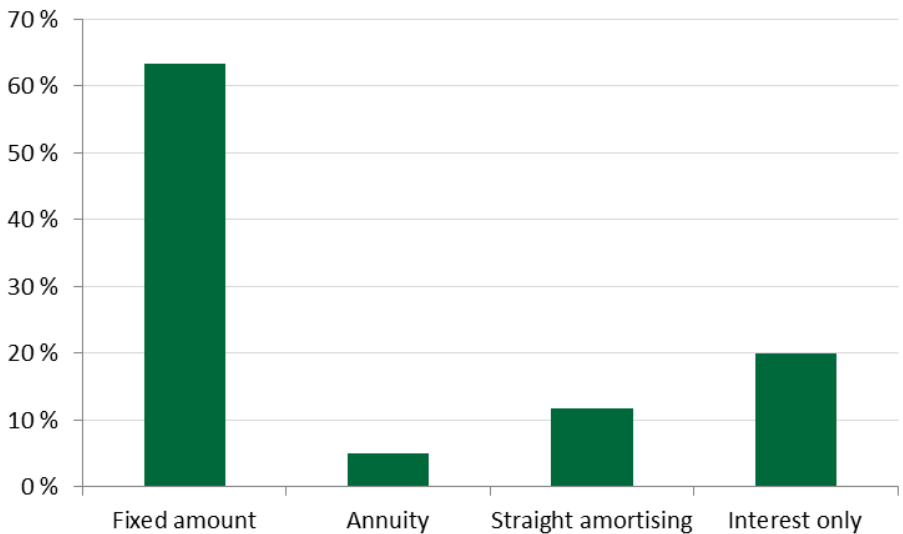
- Companies in the Corporate Portfolio (FF)
- Small & Medium Sized Companies in the Household Portfolio (FH)
- Private Individuals (PH)

Cash flow characteristics June 30, 2016

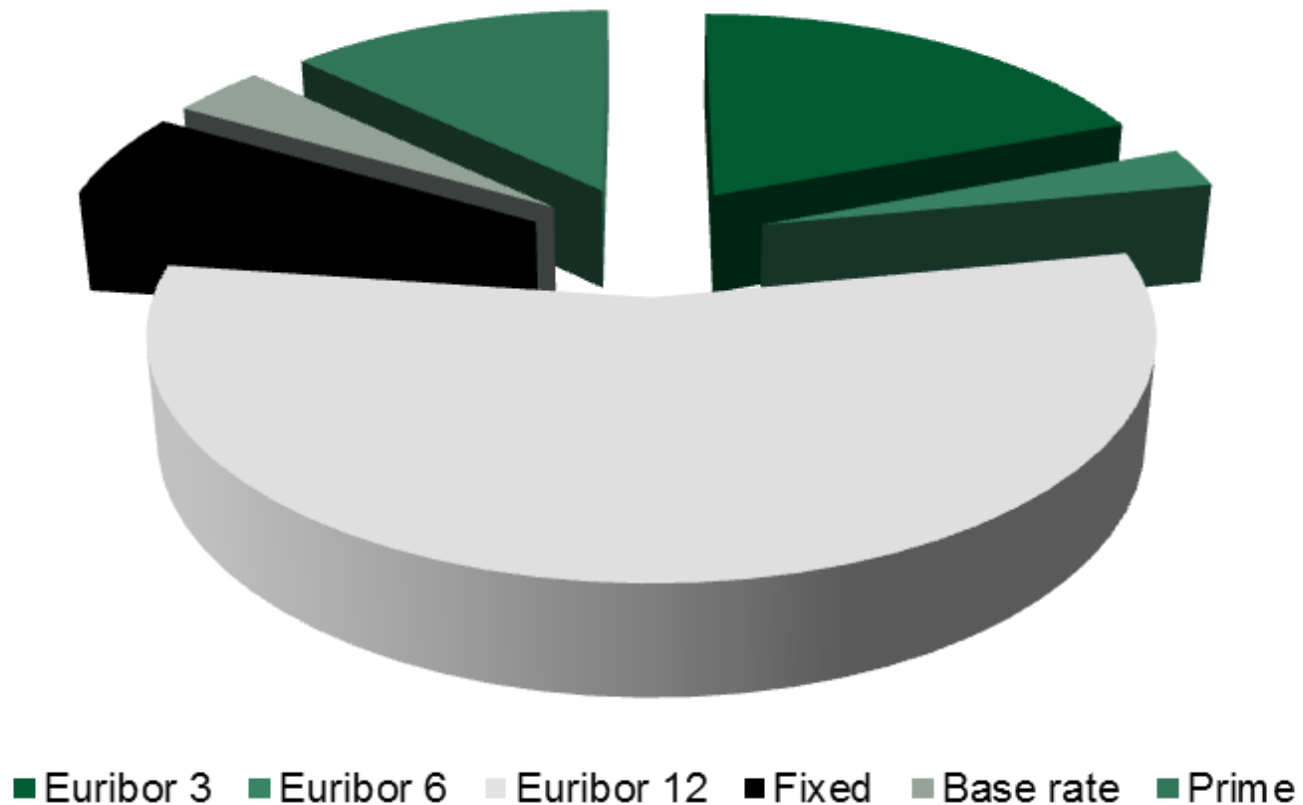
Interest Payment Frequency



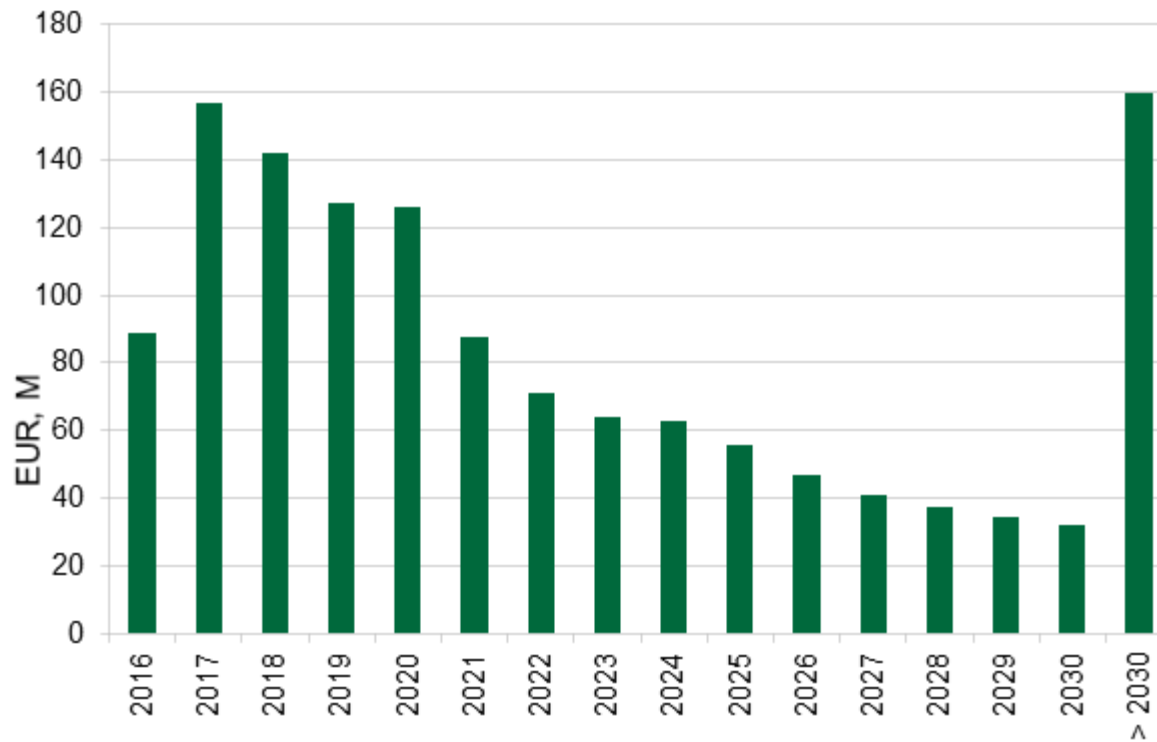
Repayment type



Reference rates in Cover Pool FIN June 30, 2016



Cash flow profile in Cover pool FIN June 30, 2016



74 % of the loans in the pool are monthly amortizing

Covered Pool FIN Purpose of Use June 30, 2016



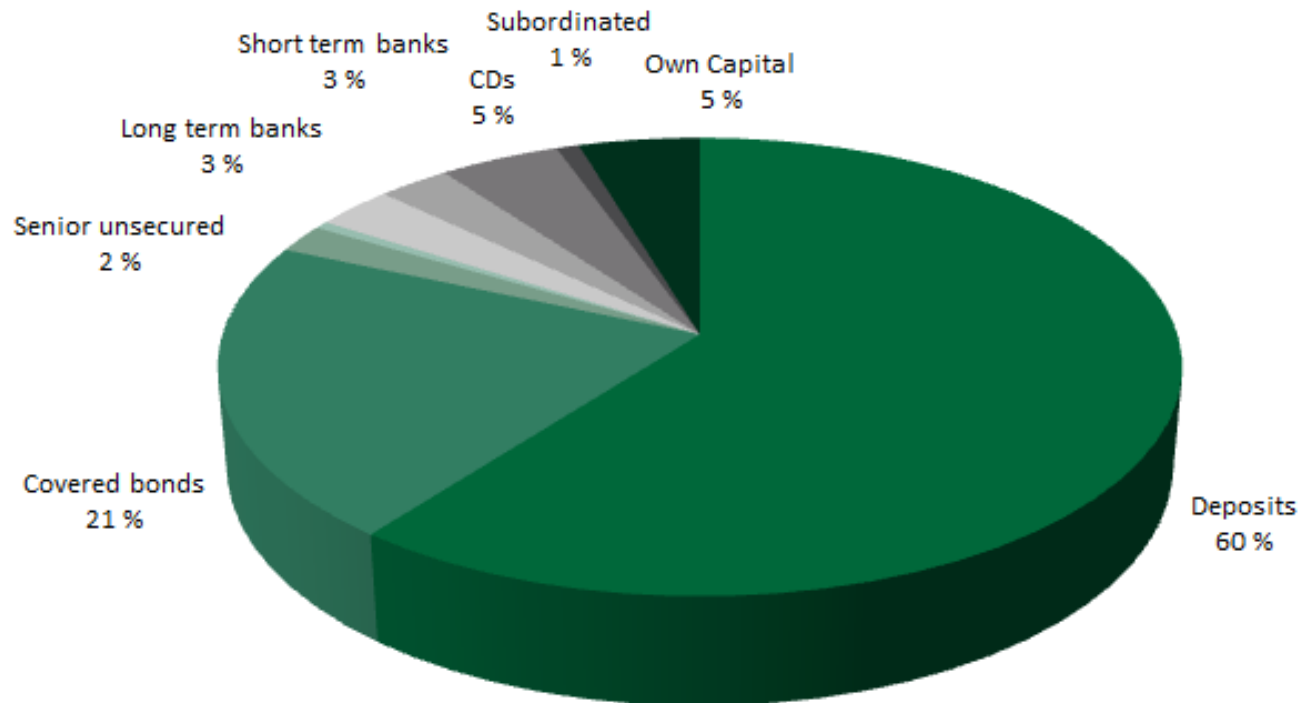
Purposes of use, EUR T

Residential property for own use- construction	124 537	}	Purchase	914 806
Residential property for own use- purchase	211 864			
Shares in housing companies- for own use	406 552			
Secondary residence	45 766			
Buy to let- property	38 430			
Buy to let- shares in housing companies	87 657	}	Refurbishment	87 626
Residential property- refurbishment	87 626			
Studies- loan to finance studies	564	}	Other	197 570
Consumption	38 393			
Securities	29 700			
Business operations	128 913			
			Totalt EUR T	1 200 002

5. Liquidity and Funding

Group funding profile June 30, 2016

- Demand deposits, time deposits and certificates of deposits from core private customers and their companies are the main funding sources
- Strong capitalization
- Covered bonds are the main long term funding instrument



Funding strategy

- Covered bond programme was created in early 2012 in order to diversify funding sources and to form a reliable and cost effective funding channel
- Since the launch of the programme both EUR- and SEK- denominated covered bonds have been issued totalling EUR 942 M outstanding
- During 2012-2014 Bank of Åland built a credit curve 2-10 years in covered bonds
- In 2013-2015 Bank of Åland has also issued in SEK senior unsecured to maintain a balanced funding mix

- Themes 2016-2017
 - Demand conditions and the market situation favour issuance in covered bonds
 - Issuance in Senior unsecured depends on market conditions and upcoming MREL-guidelines

Long term funding June 30, 2016

Cover Pool FIN

ISIN	Nominal Amt	Settlement date	Maturity date	Coupon	Currency	EUR eq amt	Time to maturity
XS0828359116	100 000 000	14.9.2012	14.9.2016	S/A EURIBOR + 65,0	EUR	100 000 000	0,21
XS0862156089	1 000 000 000	12.12.2012	12.6.2017	QUARTLY STIB + 100,0	SEK	106 109 802	0,95
XS0862155941	500 000 000	12.12.2012	12.6.2018	QUARTLY STIB + 110,0	SEK	53 054 901	1,95
XS1117564572	150 000 000	8.10.2014	8.10.2018	0,5	EUR	150 000 000	2,27
XS0999478372	100 000 000	3.12.2013	3.6.2019	1,55	EUR	100 000 000	2,93
XS1238023813	250 000 000	26.5.2015	26.5.2020	0,375	EUR	250 000 000	3,91
XS0876678391	100 000 000	30.1.2013	30.1.2023	2,75	EUR	100 000 000	6,59
						859 164 704	2,90

Cover Pool SWE

ISIN	Nominal Amt	Settlement date	Maturity date	Coupon	Currency	EUR eq amt	Time to maturity
XS1077864905	1 000 000 000	23.6.2014	25.3.2019	QUARTLY STIB + 55,0	SEK	106 109 802	2,73
XS1155041004	750 000 000	16.12.2014	16.12.2019	QUARTLY STIB + 50,0	SEK	79 582 352	3,46
						1 044 856 858	3,05

Senior unsecured

ISIN	Nominal Amt	Settlement date	Maturity date	Coupon	Currency	EUR eq amt	Time to maturity
XS1326511596	850 000 000	27.11.2015	27.11.2017	QUARTLY STIB + 90	SEK	90 193 332	1,41
						90 193 332	1,41

Funding tools

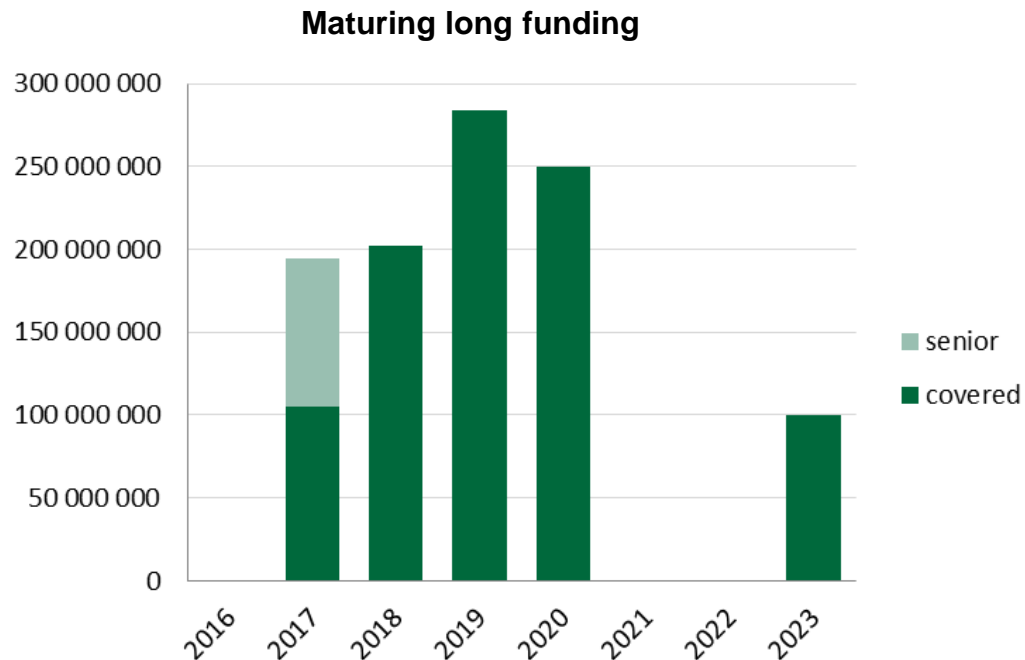
- EMTN-program (EUR 2 billion), English jurisdiction
 - Covered Bond, Senior debt and Subordinated debt
 - Tailored to institutional clients

- CD-program in Sweden (SEK 10 billion), Swedish jurisdiction

- Other
 - CD's in Finland
 - GMRA
 - Equity lending

Liquidity management

- Well-diversified maturity profile
- Limited exposure to short term funding
- Bank of Åland is committed to continuously cover the next 180 liquidity need for the program in the cover pools



Liquidity position

- Very high quality in liquidity reserves
 - The most liquid and tradable assets
 - LCR target reached
- Coordinated cash pools between Finland and Sweden
- LCR 107 % June 30, 2016
- Conservative approach to risk within liquidity reserves
 - Assets with short duration
 - Strict limits for counterparty
 - No exposure to GIIPS countries, Russia or Ukraine
- NSFR 109 % June 30, 2016

Composition of the liquidity reserve

	30.6.2016	30.6.2016	31.12.2015	31.12.2015
	mEUR	of total	M EUR	of total
Cash and central banks	356,0	39 %	199,5	26 %
Bonds issued by governments and official institutions	93,3	10 %	130,8	17 %
Bonds issued by financial institutions	14,8	2 %	83,3	11 %
Covered bonds	379,0	42 %	313,5	41 %
Deposits	62,0	7 %	44,7	6 %
	905,0		771,8	

6. Contact Details

Contact Details

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7. Appendix

Key figures

	2015	2014	2013	2012	2011
Return on equity (ROE), %	12,0	8,7	3,8	6,6	-3,9
Cost/income ratio, %	73	80	87	85	104
Loan loss level, %	0,09	0,06	0,14	0,22	0,07
Share of non-performing loans, gross, %	0.87	0,65	0,50	0,64	0,70
Level of provisions for non-performing loans, %	34	66	48	81	71
Core funding ratio, %	100	105	103	103	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
Total capital ratio, %	12,9	12,1	15,2	15,7	12,8
Earnings per share, EUR	1,59	1,12	0,46	0,79	-0,54
Equity per share, EUR	13,99	13,46	12,54	12,21	12,34
Investment volume, EUR M	7 076	6 312	5 784	5 227	4 798
Lending to the public, EUR M	3 617	3 343	3 104	2 905	2 737
Deposits from the public, EUR M	2 675	2 391	2 466	2 452	2 546
Shareholders equity, EUR M	213	196	184	179	181
Risk-weighted assets, EUR M	1 581	1 554	1 481	1 401	1 729
FTE	663	644	617	640	690

Income statement

EUR M	2015	2014	2013	2012	2011
Net interest income	54,0	49,3	42,4	41,2	43,1
Net comission income	46,5	46,2	42,4	32,7	38,7
Other income	24,4	25,1	23,2	36,5	17,4
Total income	124,9	120,6	108,0	110,4	99,2
Staff costs	-56,0	-53,1	-51,5	-52,4	-60
Other expenses	-35,6	-43,3	-42,0	-41,7	-43,1
Total expenses	-91,6	-96,4	-93,5	-94	-103,1
Profit before loan losses	33,3	24,2	14,5	16,3	-3,9
Impairment losses on loans	-3,0	-1,8	-4,1	-6,4	-1,8
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 period	24,3	17,6	7,7	11,9	-5,3
Non-controlling interests	0,0	-1,5	-1,0	-0,6	-1,2
Attributable to the shareholders in Bank of Åland	24,3	16,1	6,7	11,3	-6,5



Thank you!

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