

# Bank of Åland

Debt Investor Presentation  
Februari 2018

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# 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 (stable) rating from S&P
- Covered bonds program
  - EUR 2 bn combined covered bond/senior Medium Term Note program 2017 (Finnish law)
  - 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

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

## Finland

- 5 offices in affluent parts of Finland, market share 1 - 2 %
- 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, market share < 1 %
- 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**





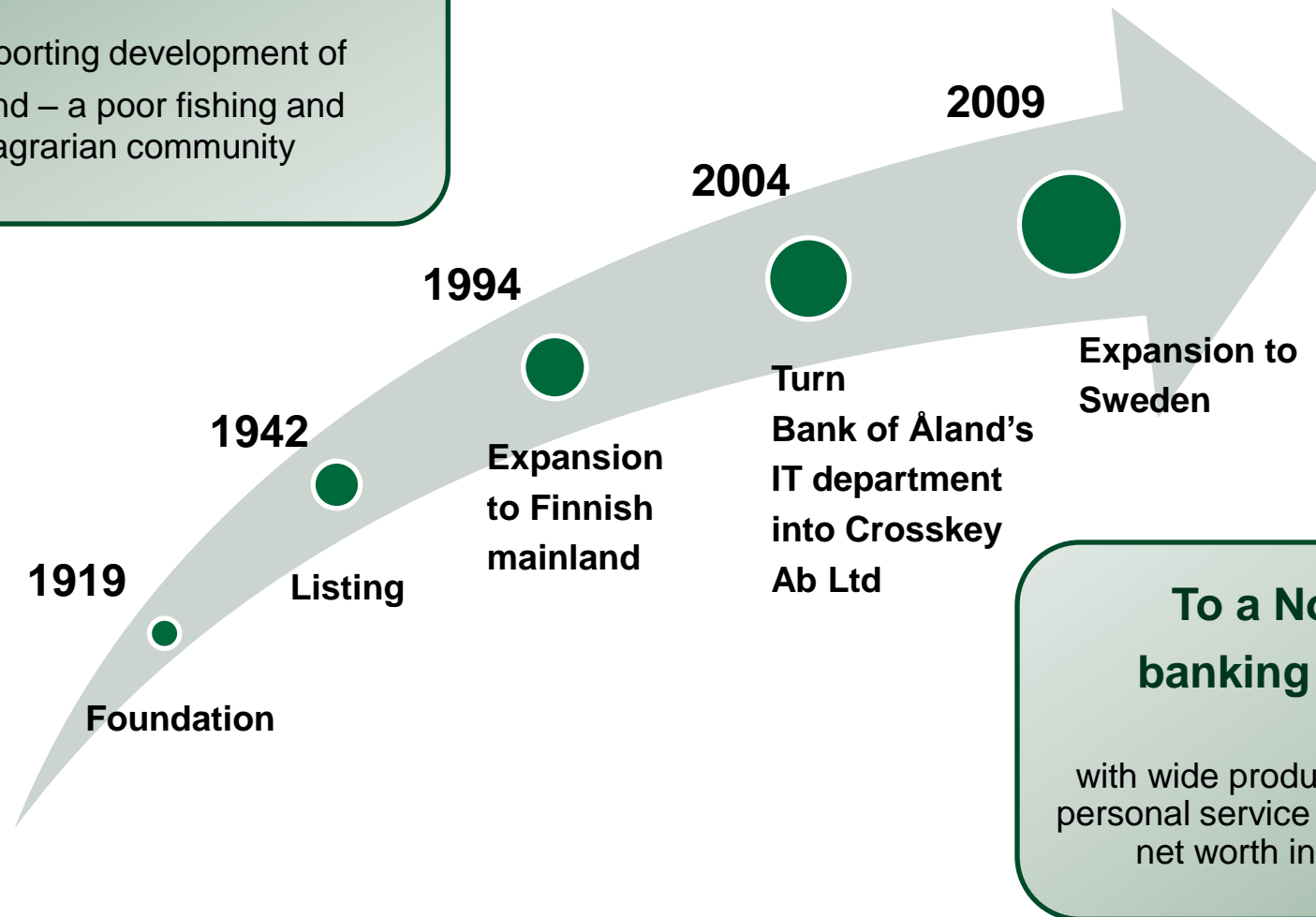
# Bank of Åland – a relationship bank with focus on Private Banking and Premium Banking customers

- Established in 1919 on Åland Islands
- Listed since 1942 on NASDAQ OMX Helsinki
  
- Total assets of EUR 5 353 M, as of Dec 31, 2017
- Actively managed assets of EUR 5 737 M, as of Dec 31, 2017
- Approximately 700 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

# 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

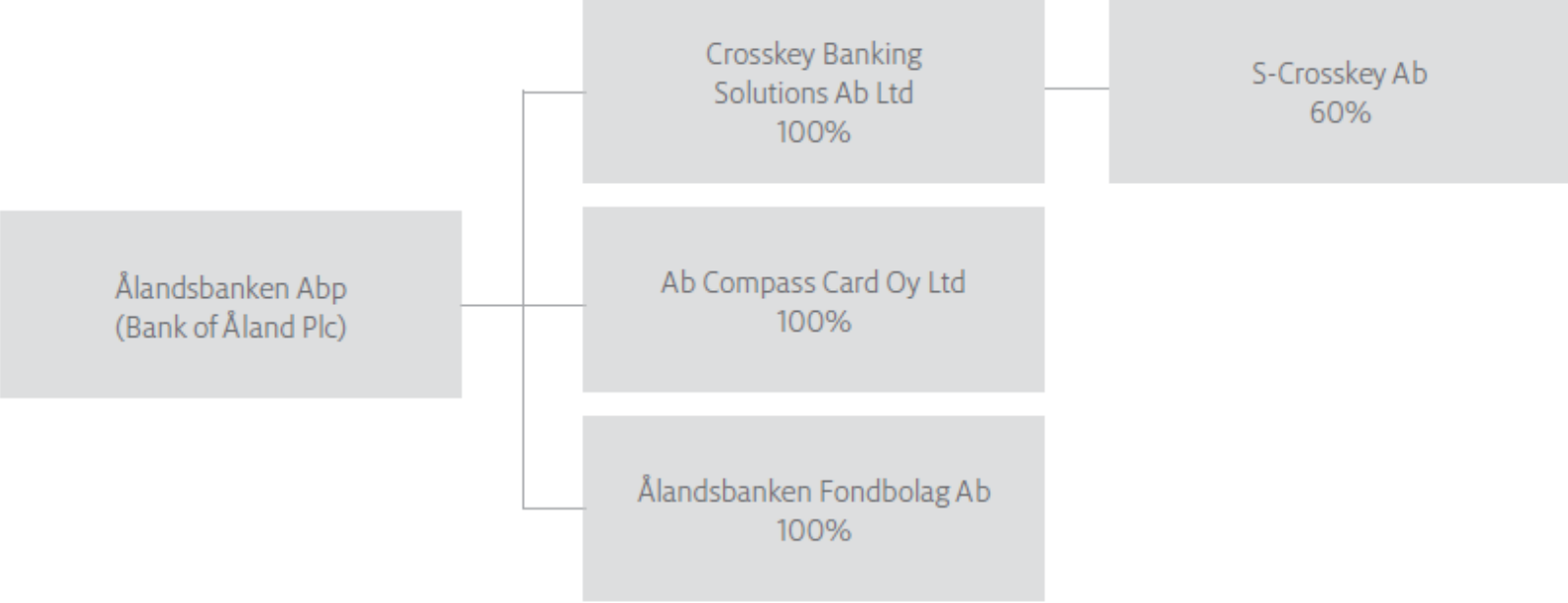
Finance



Lifestyle

Safety

# Bank of Åland group legal structure



# Ownership structure

<b>Major owners</b>	<b>Share of capital</b>	<b>Share of votes</b>
Anders Wiklöf with companies	19,0 %	24,2 %
Alandia-Bolagen	8,6 %	13,5 %
The Family Kamprad Foundation	6,0 %	0,7 %
Ålands Ömsesidiga försäkringsbolag	5,9 %	11,6 %
Fennogens Investments S.A. (Family Ehrnrooth)	4,1 %	7,0 %
	<b>43,5 %</b>	<b>56,9 %</b>
<b>Other owners</b>		
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

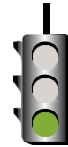
**Bank of Åland covered bonds rating** **AAA**

# Scorecard



## Capital

- S&P rating uplift for strong capital position
- Common Equity Tier 1 capital ratio 12.9 percent as of Dec 31, 2017
- IRB method for credit risk capital requirement not yet approved for the Swedish credit portfolio



## Liquidity and Funding

- Core funding ratio of 88 percent as of Dec 31, 2017
- Liquidity reserve at 20 percent of total assets as of Dec 31, 2017
- LCR at 142 percent as of Dec 31, 2017
- NSFR at 110 percent as of Dec 31, 2017
- AAA rating on covered bonds



## Risk Management

- Long history of having the lowest loan loss level of all Finnish banks. Loan loss level was 0.06 percent Q4 2017.
- No trading positions 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
- Net operating profit of EUR 6.5 M Q4 2017
- Return on equity 8.8 percent Q4 2017

### 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.**

## **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.



# 2017 in summary

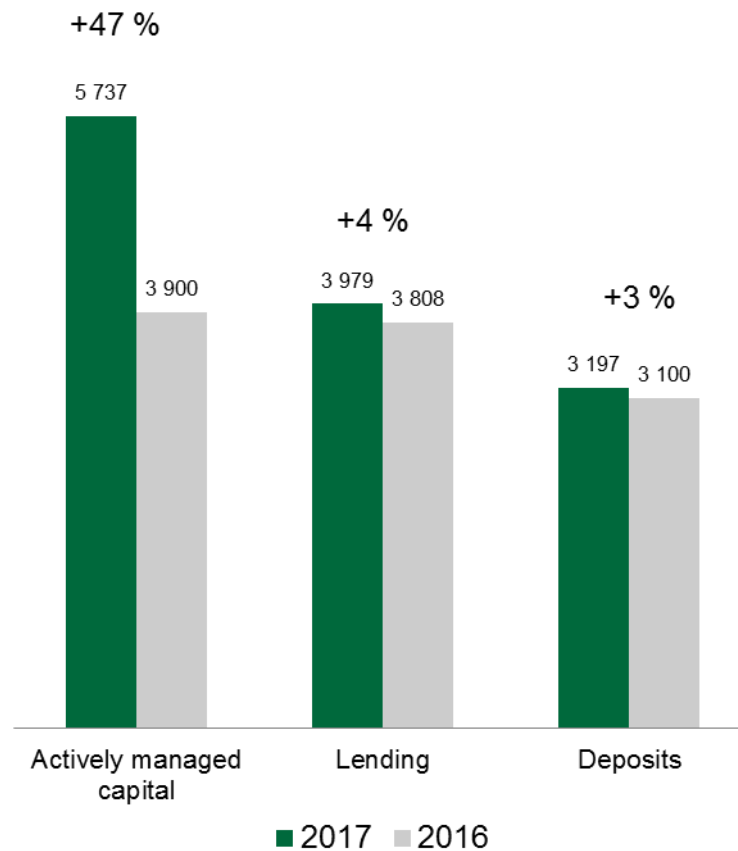
- Net operating profit EUR 26.0 M (25.1 M 2016)
- Return on Equity after tax (ROE) 9.1 percent (9.1 2016)
- Earnings per share EUR 1.35 (1.29 2016)
  
- Implementation of IT systems and ensuring compliance with new regulation
- Take over of EUR 1 300 M pension assets in the swedish pension system
- Continued heavy interest in the Bank of Åland's housing-related mutual funds.
- Again a top ranking from Private Banking clients in TNS Sifo Prospera survey
- Green banking: Baltic sea card and Aland index widely recognized
- Digitalization and new service channels: Dreams with over 50.000 clients

# 2017 in summary

Operating profit, EUR M



Volumes, EUR M

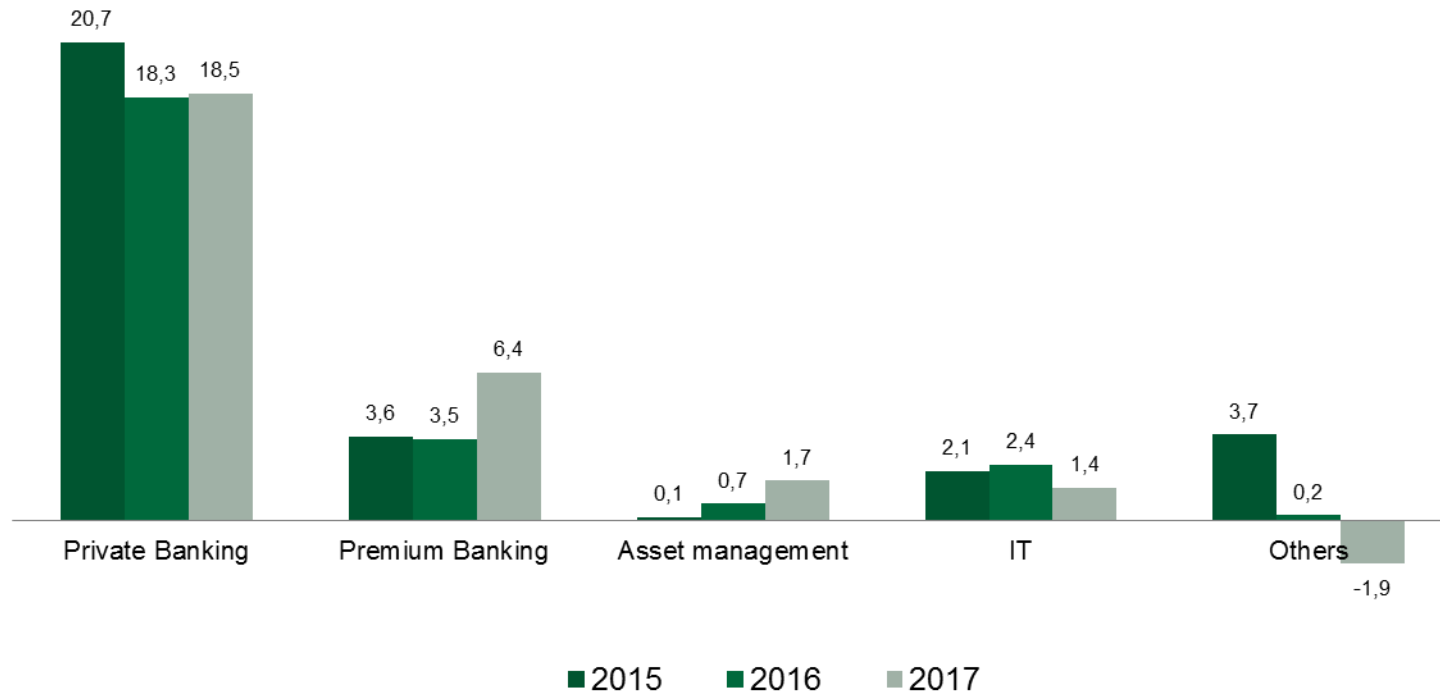


# Income statement

EUR M	Q4			Q3			Q4		
	2017	2017	%	2016	%	2017	2016	%	
Net interest income	14,1	14,3	-1	14,0	1	55,9	55,1	1	
Net comission income	12,6	12,2	4	12,2	3	49,7	44,9	11	
Net gains and losses on financial items	1,0	1,8	-46	0,3		3,1	4,2	-26	
IT income	4,4	3,6	21	4,5	-4	17,6	14,9	18	
Other income	0,3	0,3	6	0,2	44	1,6	1,3	29	
<b>TOTAL INCOME</b>	<b>32,4</b>	<b>32,2</b>	<b>1</b>	<b>31,2</b>	<b>4</b>	<b>128,0</b>	<b>120,4</b>	<b>6</b>	
Staff expenses	-14,9	-14,1	6	-14,8	0	-59,8	-57,0	5	
Other expenses	-8,5	-8,3	3	-7,5	13	-32,9	-28,3	16	
Depreciation	-1,9	-2,0	-6	-1,5	27	-7,1	-5,9	20	
<b>TOTAL EXPENSES</b>	<b>-25,3</b>	<b>-24,4</b>	<b>4</b>	<b>-23,8</b>	<b>6</b>	<b>-99,8</b>	<b>-91,3</b>	<b>9</b>	
<b>PROFIT BEFORE LOAN LOSSES</b>	<b>7,1</b>	<b>7,8</b>	<b>-8</b>	<b>7,4</b>	<b>-3</b>	<b>28,2</b>	<b>29,2</b>	<b>-3</b>	
Impairment losses on loans	-0,6	-0,6	9	-1,0	-41	-2,1	-4,1	-47	
<b>OPERATING PROFIT</b>	<b>6,5</b>	<b>7,2</b>	<b>-10</b>	<b>6,3</b>	<b>3</b>	<b>26,0</b>	<b>25,1</b>	<b>4</b>	
Income tax	-1,3	-1,5	-9	-1,4	-6	-5,3	-5,4	-2	
<b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>5,2</b>	<b>5,8</b>	<b>-10</b>	<b>4,9</b>	<b>5</b>	<b>20,7</b>	<b>19,7</b>	<b>5</b>	

# Bank of Åland business segments 2015-2017

Operating profit, EUR M

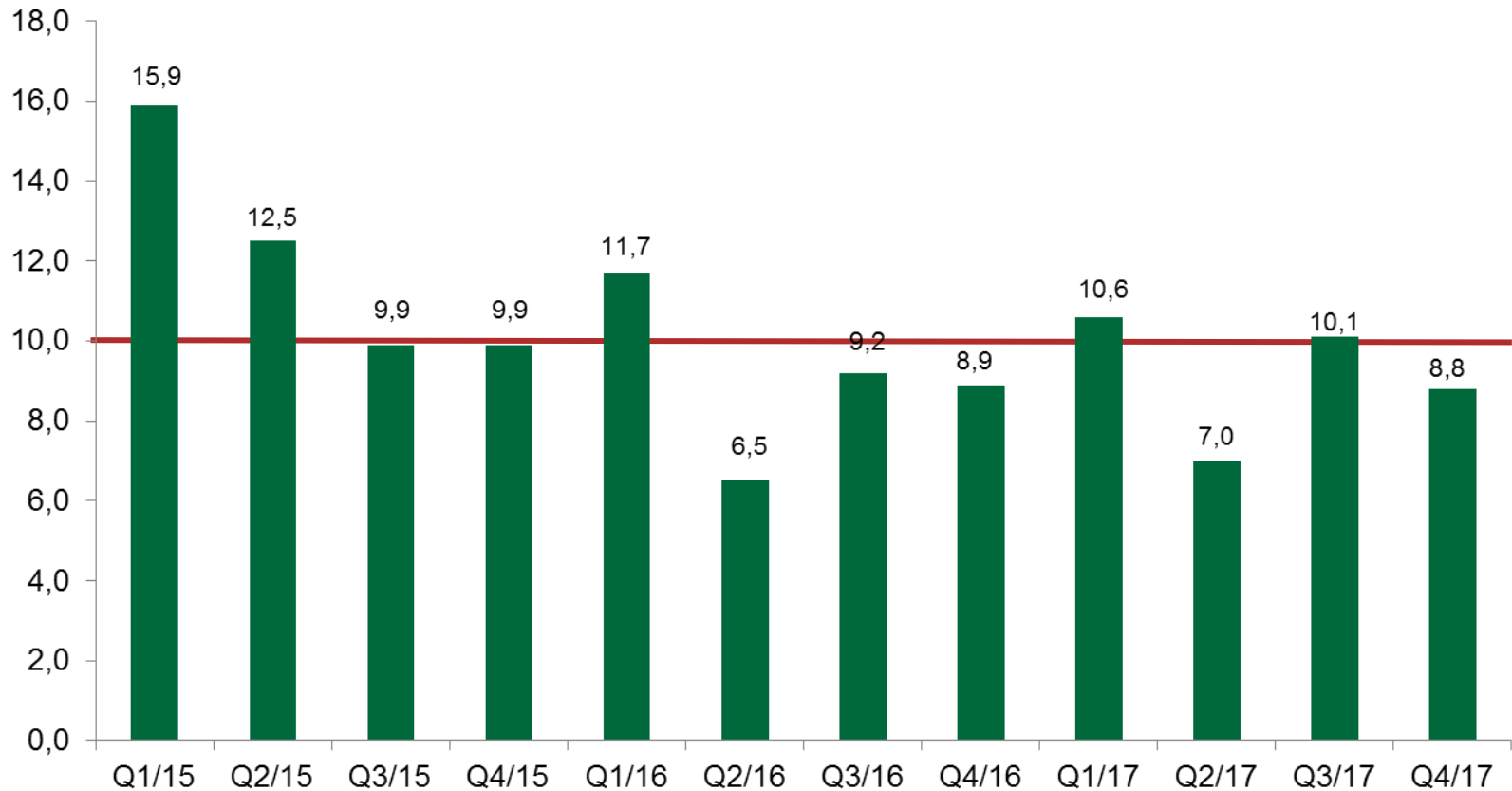


# Higher result in the core business

Change in the net operating profit 2017 vs. 2016

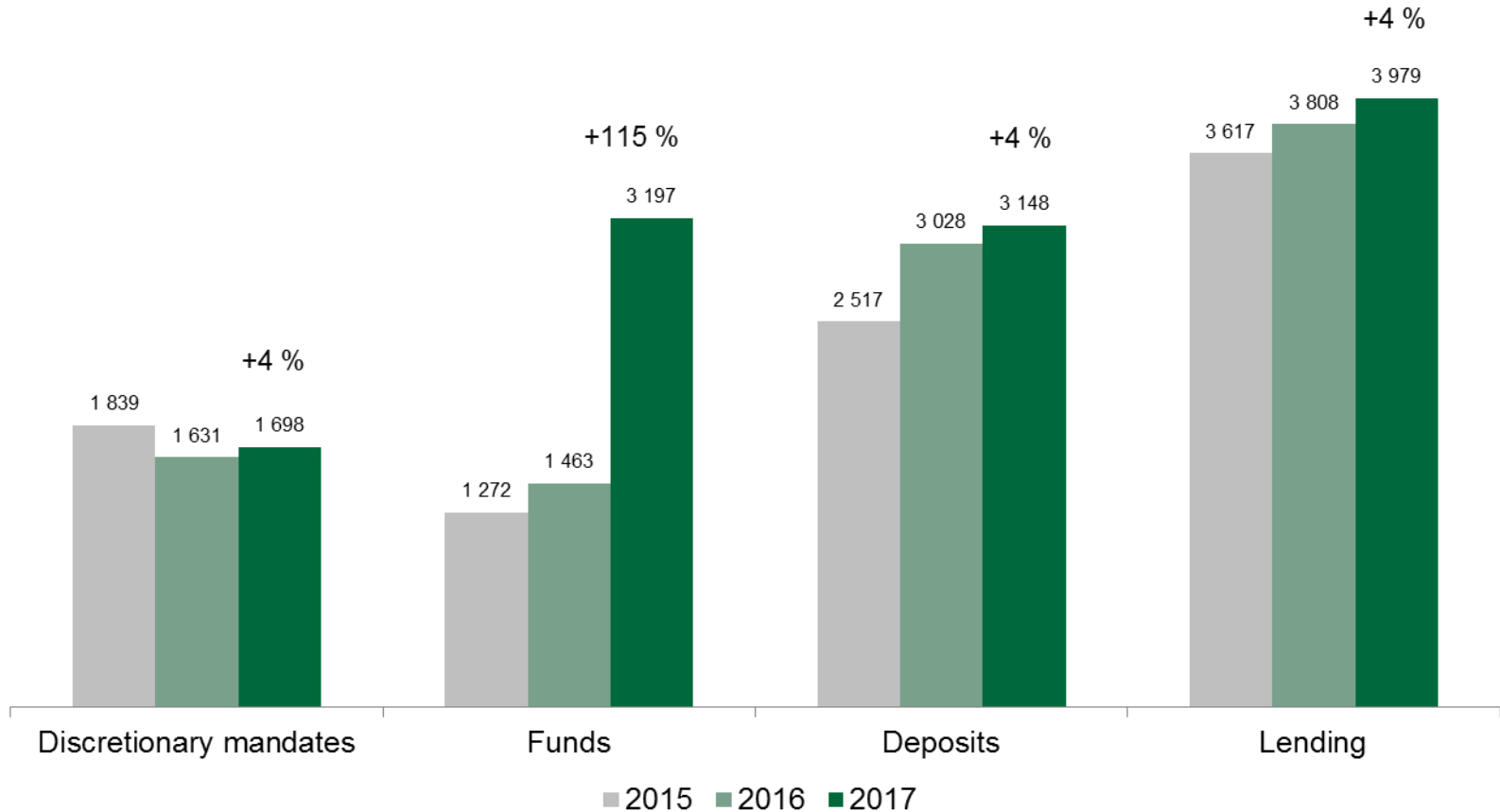
	EUR M
Private Banking	0,2
Private Banking	2,9
Asset Management	1,0
<b>Core business</b>	<b>4,1</b>
<hr/>	
IT	-1,0
Others	-2,2
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<b>TOTAL</b>	<b>0,9</b>

# Bank of Åland 2015-2017 ROE, percent



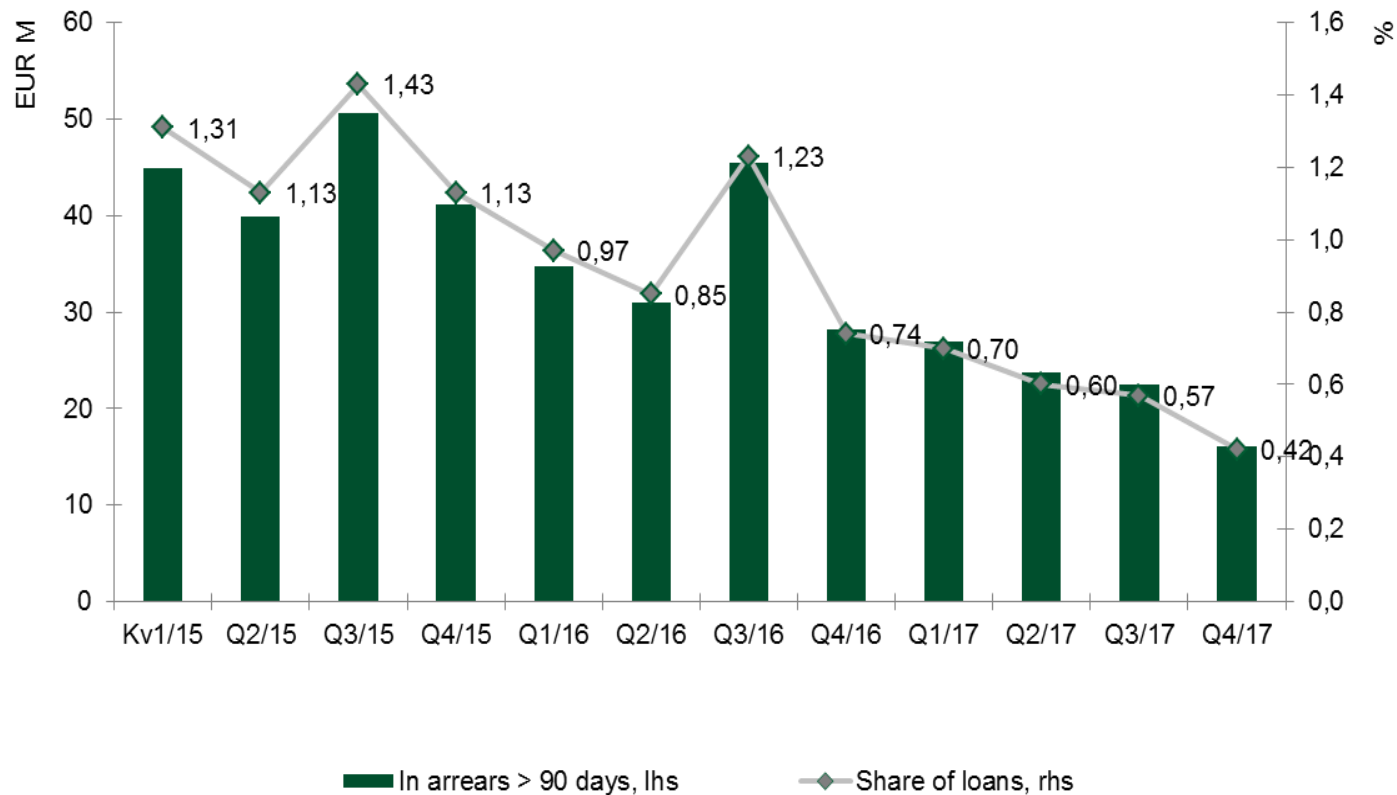
# Business volumes 2015-2017, EUR M

- A strong increase in assets under management. Others a very balanced growth.

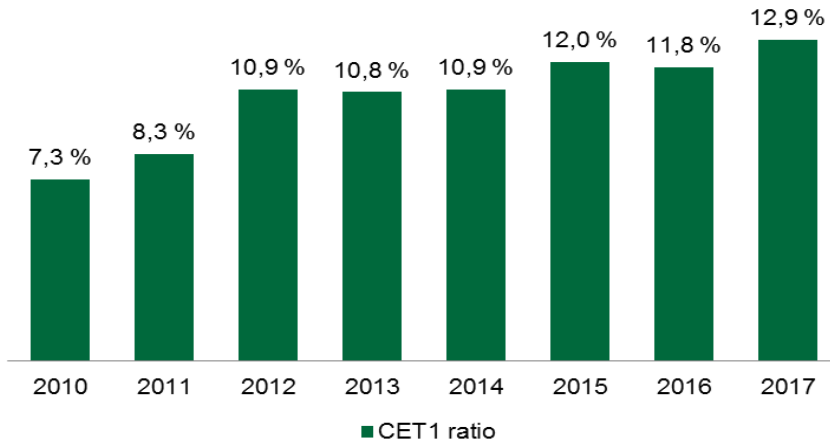




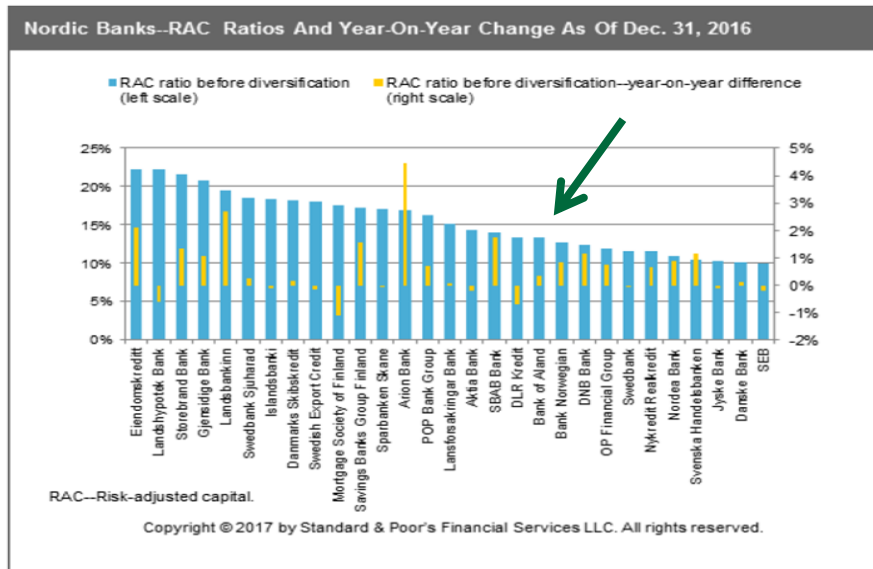
# Loans in arrears 2015-2017



# Commitment to a strong capital ratio



- Bank of Åland is committed to a strong capital ratio.
- S&P regards Bank of Åland's capital position as **"strong"**
- Conservative pay-out policy is to safeguard the capital position
- 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.



# SIFO Prospera survey on Private Banking 2017

## Overall Performance

Rank	Score	
17	16	17
1	*6	3,80 Taaleri
<b>2</b>	<b>1</b>	<b>3,74 Ålandsbanken</b>
3	4	3,70 Evli
4	3	3,66 OP
5	2	3,65 Handelsbanken
6	*6	3,56 Danske Bank
*7	5	3,55 Nordea
*7	*6	3,55 Nordnet
9	11	3,48 Aktia
10	10	3,46 FIM
11	9	3,42 LähiTapiola
12	12	3,28 Mandatum



- Base: Clients (& contacts for criteria f, g, k & l)
- Weighted average of criteria a-l (weighted with importance for the choice of supplier)



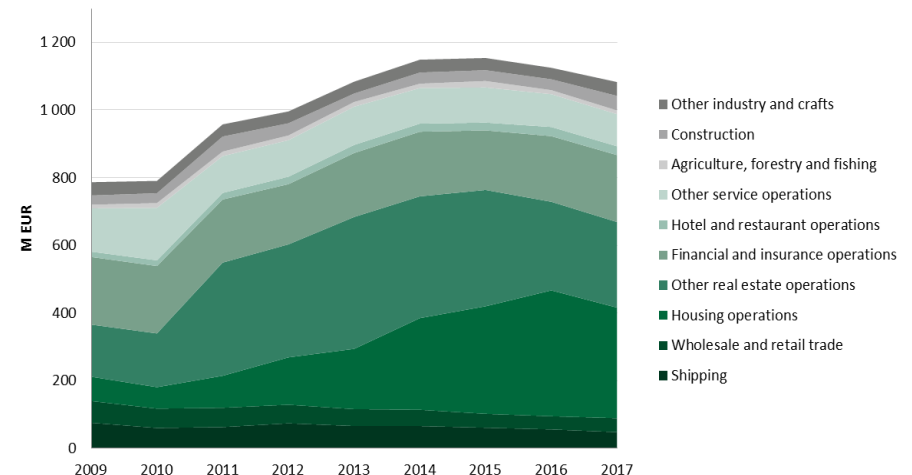
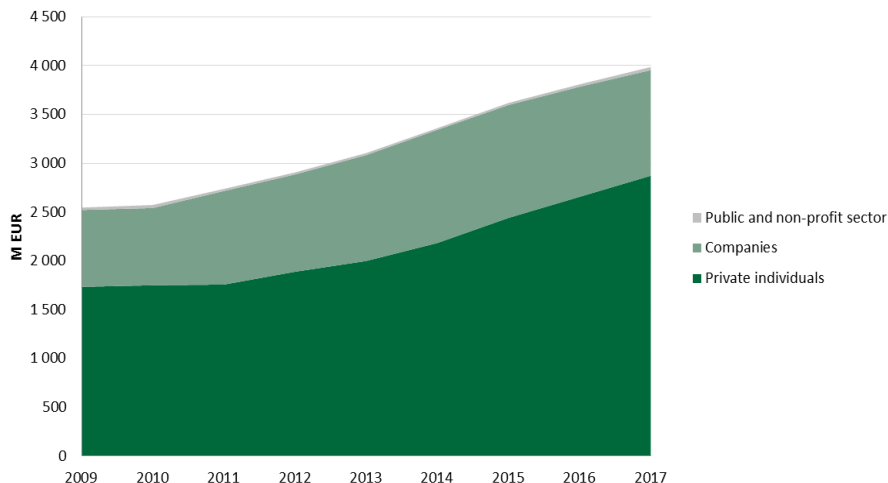
## 4. Asset Quality

# 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 (Åland 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

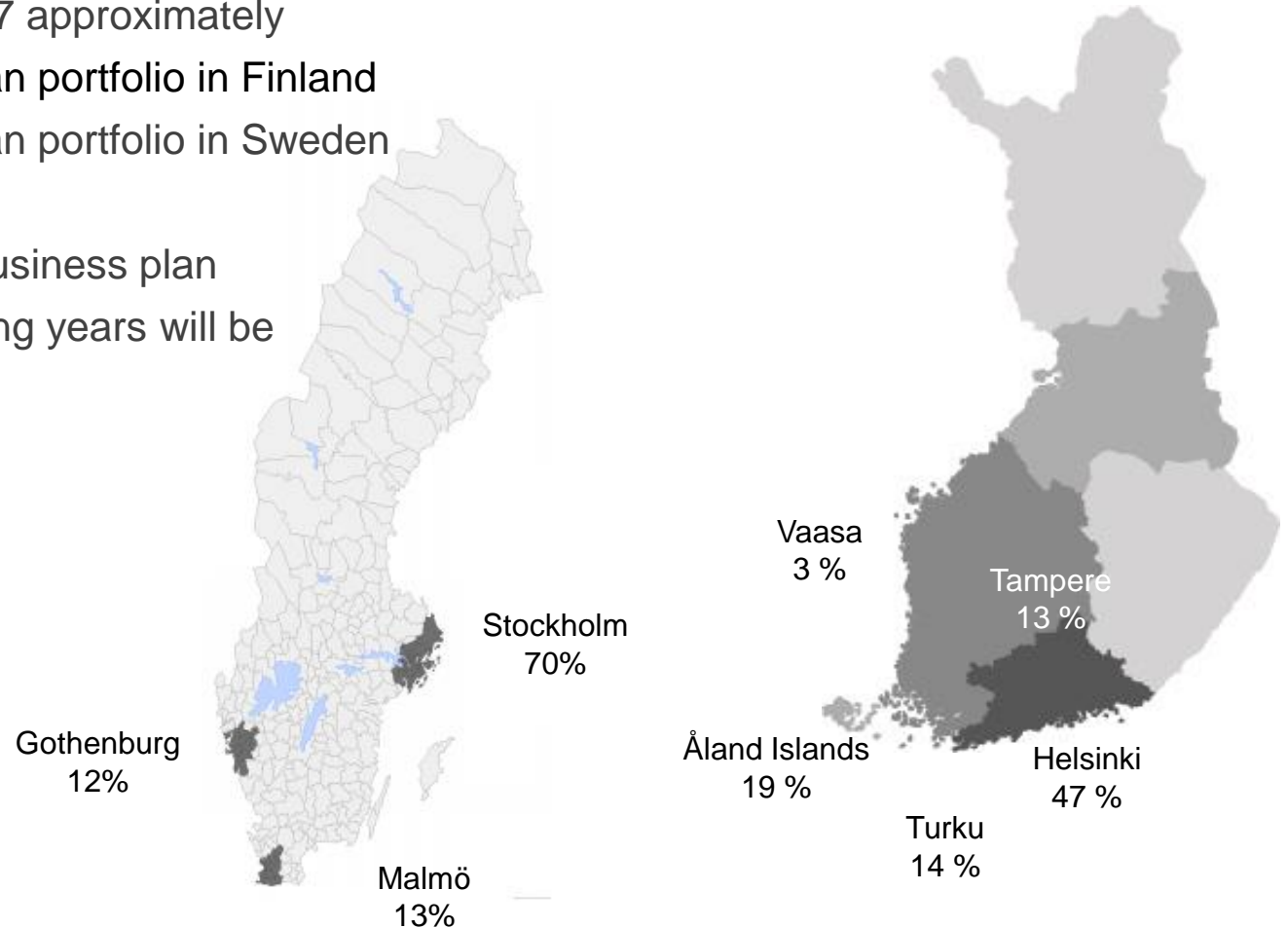
- Total lending to the public was EUR 3 979 M Dec 31 2017, an increase of 4 percent from a year ago
  - Selective lending to high quality borrowers
  - Asset quality prioritised over lending volume growth and higher returns
  - Lending must always be made in consideration of safeguarding Bank of Åland's strong brand and market reputation
- Loan loss level 0.06 percent in Q4 2017





# Geographical distribution of mortgage lending

- Clear concentration to the wealthiest parts of Finland and Sweden
- As of Dec 31, 2017 approximately
  - 70 % of the loan portfolio in Finland
  - 30 % of the loan portfolio in Sweden
- According to the business plan growth in the coming years will be mainly in Sweden

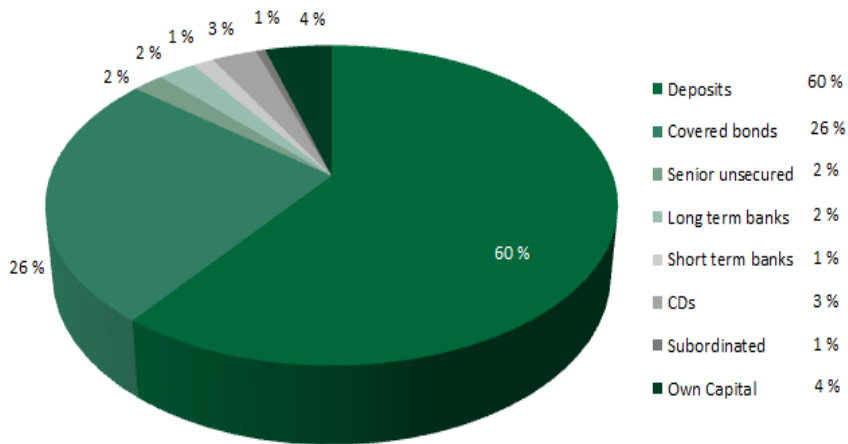


## 5. Liquidity and Funding

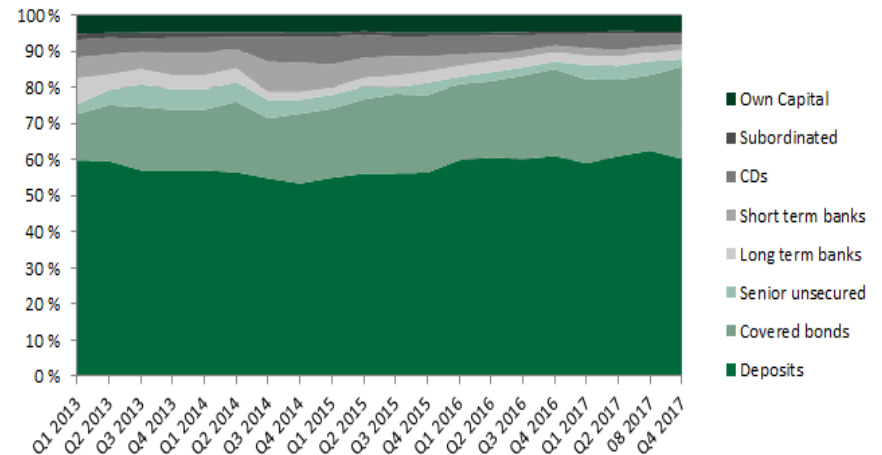
# Group funding profile Dec 31, 2017

- 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 profile Dec 31, 2017



Development of the funding profile 2013-2017



# 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 1 333 M outstanding
- Bank of Åland has also issued senior unsecured to maintain a balanced funding mix
  
- Themes 2018-2019
  - Demand conditions and the market situation favour issuance in covered bonds
  - Issuance in Senior unsecured will be affected of the upcoming MREL-guidelines and requirements for the bank

# Long term funding Dec 31, 2017

## Cover Pool FIN

ISIN	Nominal Amt	Settlement date	Maturity date	Coupon	Currency	EUR eq amt	Time to maturity
XS0862155941	500 000 000	12.12.2012	12.6.2018	QUARTLY STIB + 110,0	SEK	50 793 393	0,45
XS1117564572	150 000 000	8.10.2014	8.10.2018	0,5	EUR	150 000 000	0,77
XS0999478372	100 000 000	3.12.2013	3.6.2019	1,55	EUR	100 000 000	1,42
XS1238023813	250 000 000	26.5.2015	26.5.2020	0,375	EUR	250 000 000	2,40
XS0876678391	100 000 000	30.1.2013	30.1.2023	2,75	EUR	100 000 000	5,08
XS1496878742	250 000 000	29.9.2016	29.9.2023	0	EUR	250 000 000	5,75
						<b>900 793 393</b>	<b>3,14</b>

## 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	101 586 786	1,23
XS1155041004	750 000 000	16.12.2014	16.12.2019	QUARTLY STIB + 50,0	SEK	76 190 089	1,96
SE0010598474	2 500 000 000	22.11.2017	22.11.2022	QUARTLY STIB + 75,0	SEK	253 966 964	4,90
						<b>4 250 000 000</b>	<b>431 743 839</b>
							<b>3,52</b>

## Senior unsecured

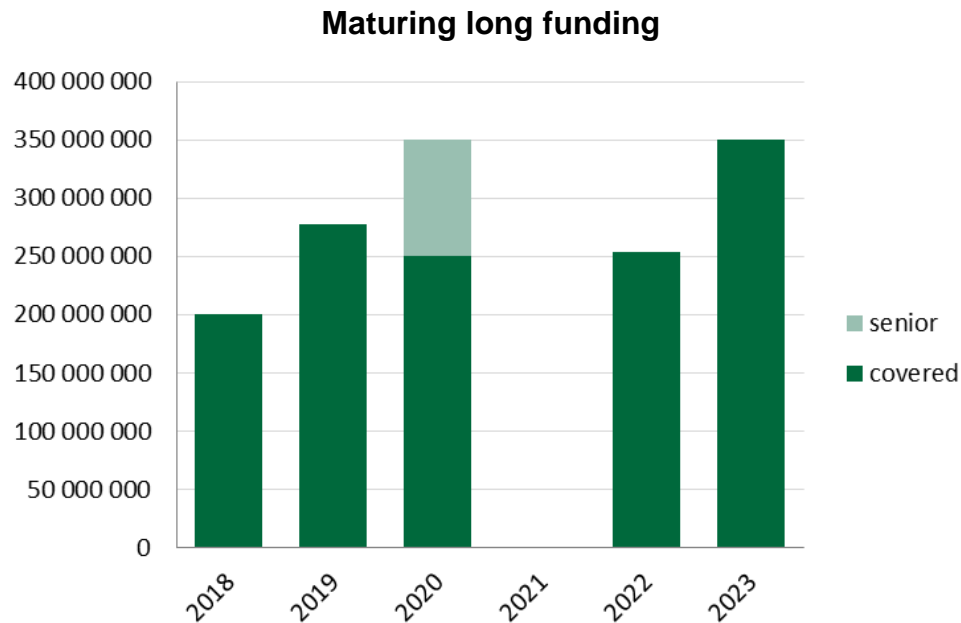
ISIN	Nominal Amt	Settlement date	Maturity date	Coupon	Currency	EUR eq amt	Time to maturity
XS1585198879	100 000 000	24.3.2017	24.3.2020	QUARTLY EUR + 63	EUR	100 000 000	2,23
						<b>100 000 000</b>	<b>2,23</b>

# Funding tools

- MTN-program (EUR 2 billion), Finnish 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
  - GMSLA

# 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
- Conservative approach to market risk within liquidity reserves
  - Assets with short duration
  - Well diversified counterparty risk profile

## Composition of the liquidity reserve

	31.12.2017 EUR M	31.12.2017 of total	31.12.2016 EUR M	31.12.2016 of total
Cash and central banks	523,8	49 %	513,0	57 %
Bonds issued by governments and official institutions	131,7	12 %	75,9	8 %
Bonds issued by financial institutions	0,0	0 %	0,0	0 %
Covered bonds	342,7	32 %	267,5	30 %
Deposits	67,4	6 %	49,7	5 %
	<b>1065,6</b>		<b>906,1</b>	



## 6. Contact Details

# Contact Details

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## 7. Appendix

# Key figures

	2017	2016	2015	2014	2013	2012
<b>Return on equity (ROE), %</b>	9,1	9,1	12,0	8,7	3,8	6,6
<b>Cost/income ratio, %</b>	78	76	73	80	87	85
<b>Loan loss level, %</b>	0,06	0,11	0,09	0,06	0,14	0,22
<b>Share of non-performing loans, gross, %</b>	0,35	0,57	0,87	0,65	0,50	0,64
<b>Level of provisions for non-performing loans, %</b>	60	50	34	66	48	81
<b>Core funding ratio, %</b>	88	89	100	105	103	103
<b>Equity/assets ratio, %</b>	4,4	4,3	4,6	4,6	4,7	4,9
<b>Core Tier 1 capital ratio, %</b>	12,9	11,8	12	10,9	10,8	10,9
<b>Total capital ratio, %</b>	14,2	13,0	12,9	12,1	15,2	15,7
<b>Earnings per share, EUR</b>	1,35	1,29	1,60	1,12	0,46	0,79
<b>Equity per share, EUR</b>	15,02	14,37	13,99	13,46	12,54	12,21
<b>Lending to the public, EUR M</b>	3 979	3 808	3 617	3 343	3 104	2 905
<b>Deposits from the public, EUR M</b>	3 197	3 100	2 675	2 391	2 466	2 452
<b>Shareholders equity, EUR M</b>	234	222	213	196	184	179
<b>Risk-weighted assets, EUR M</b>	1 538	1 576	1 581	1 554	1 481	1 401
<b>FTE</b>	691	685	663	644	617	640

# Income statement

EUR M	2017	2016	2015	2014	2013	2012
Net interest income	55,9	55,1	54,0	49,3	42,4	41,2
Net comission income	49,7	44,9	46,5	46,2	42,4	32,7
Other income	22,4	20,4	24,4	25,1	23,2	36,5
<b>Total income</b>	<b>128,0</b>	<b>120,4</b>	<b>124,9</b>	<b>120,6</b>	<b>108,0</b>	<b>110,4</b>
Staff costs	-59,8	-57,0	-56,0	-53,1	-51,5	-52,4
Other expenses	-40,0	-34,2	-35,6	-43,3	-42,0	-41,7
<b>Total expenses</b>	<b>-99,8</b>	<b>-91,3</b>	<b>-91,6</b>	<b>-96,4</b>	<b>-93,5</b>	<b>-94</b>
<b>Profit before loan losses</b>	<b>28,2</b>	<b>29,2</b>	<b>33,3</b>	<b>24,2</b>	<b>14,5</b>	<b>16,3</b>
Impairment losses on loans	-2,1	-4,1	-3,0	-1,8	-4,1	-6,4
<b>Operating profit</b>	<b>26,0</b>	<b>25,1</b>	<b>30,3</b>	<b>22,4</b>	<b>10,4</b>	<b>9,9</b>
Income taxes	-5,3	-5,4	-6,0	-4,8	-2,7	2,0
<b>Profit for the period</b>	<b>20,7</b>	<b>19,7</b>	<b>24,3</b>	<b>17,6</b>	<b>7,7</b>	<b>11,9</b>
Non-controlling interests	0	0	0	-1,5	-1,0	-0,6
<b>Attributable to the shareholders in Bank of Åland</b>	<b>20,7</b>	<b>19,7</b>	<b>24,3</b>	<b>16,1</b>	<b>6,7</b>	<b>11,3</b>



Thank you!

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