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Bank of Aland PLC

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Bank of Åland PLC

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Stable/A-2

SACP: bbb+ →

Support: 0 →

Additional factors: 0

| | | |
|----------------------|-------------|----|
| Anchor | a- | |
| Business position | Weak | -2 |
| Capital and earnings | Very strong | +2 |
| Risk position | Moderate | -1 |
| Funding | Adequate | 0 |
| Liquidity | Adequate | |
| CRA adjustment | 0 | |

| | |
|-------------------|---|
| ALAC support | 0 |
| GRE support | 0 |
| Group support | 0 |
| Sovereign support | 0 |

| Issuer credit rating |
|------------------------|
| BBB+/Stable/A-2 |

ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview

| Key strengths | Key risks |
|---|--|
| Business operations in economically robust regions in Finland and Sweden. | Regional and customer concentration could expose the bank to revenue volatility. |
| Funding position supported by stable customer deposits. | Lower cost efficiency than peers', affected by nonbanking activities. |
| Strong risk-adjusted capitalization and low credit losses. | Sensitivity to Finnish and Swedish property markets. |

Bank of Åland's retail private banking services will be the primary revenue driver, complemented by fees from asset management operations, and Crosskey. Bank of Åland provides basic and advanced private banking products to its growing customer base of approximately 250,000 customers in Åland Islands, mainland Finland and Sweden. Developing a broad fund offering and the IT service provider Crosskey have meant non-interest income currently contributes 65%-70% to operating revenue. Although we expect net profit in 2022 to be roughly in line with 2021, net interest income will receive a boost from rising interest rates, and with other income also expected to pick up, we anticipate net profit averaging about €50 million over 2023-2024.

We project Bank of Åland's risk-adjusted capital (RAC) to be 15%-16% over the next two to three years following the carve-out of the Swedish mortgage portfolio to Borgo. As a result of a partnership between Bank of Åland, ICA Bank, IKANO Bank, Söderberg & Partners, and Sparbanken Syd, the Swedish online mortgage distribution platform Borgo was launched in 2021. Initially Bank of Åland transferred approximately Swedish krona (SEK) 10.5 billion (€0.9 billion)

of mortgage loans to Borgo in the first quarter of 2022; a final additional transfer of about SEK5 billion (€0.5 billion) is anticipated later in 2023. The asset transfers alter Bank of Åland's loan book composition and as of June 30, 2022, the RAC ratio stood at 14.5% and we expect it will be 15%-16% over the next two years, owing to a significant reduction in S&P Global Ratings' risk-weighted assets. In addition, the buildup of capital has also been supported by both stable earnings and capital instrument issuance.

Given Bank of Åland's commitment to certain regions, concentration risks will persist, in our view. Nearly 60% of the bank's loan book as of year-end 2021 was based in Finland, which includes Bank of Åland's strong foothold in the Åland Islands. Sweden represented the remaining share of the loan book. Over the next two to three years, we expect Finland will likely represent approximately 75% of lending, because Borgo will be originating a portion of the bank's Swedish mortgage growth. More generally the loan book is expected to maintain moderate geographic diversity, with a narrow number of client segments, and some exposure to large single names. This is somewhat offset by a prudent underwriting approach, with sound collateralization levels, where as of third-quarter 2022 nearly 75% of lending was to private individuals, of which approximately 72% was mortgages. Note that the weaker macroeconomic outlook in Finland and Sweden, however, will likely lead to a slight increase in the cost of risk to 0.18% in 2023 from 0.11% posted over 2020-2021.

We expect core customer deposits to be the primary funding source for the bank. Bank of Åland's granular deposit base now represents approximately 75% of the funding base because of the bank's amended business model for Swedish mortgage lending via Borgo. Due to the mortgage book transfer to Borgo, related covered bonds were also transferred and, as such, wholesale funding was down to 25% by Sept. 30, 2022, from about 34% as of year-end 2021. Therefore, the deposits will likely remain Bank of Åland's primary funding source over the next two to three years.

Outlook

The stable outlook on Bank of Åland reflects our view that the bank will maintain a sound financial profile and continue to make progress in building its capital base through earnings, leading to a RAC ratio of 15%-16% in the next 12-24 months. Supporting this view is our expectation that Bank of Åland's strong earnings capacity will allow for further business growth despite the more muted operating environment, along with stable shareholder distributions while bringing capitalization closer to domestic peers'.

Downside scenario

We could take a negative rating action if Bank of Åland failed to sustainably improve its RAC ratio above 15% in line with our base case, in which we assume sound business growth capacity and a robust ability to retain capital.

Furthermore, we could lower our rating if the bank's earnings profile materially weakened, asset quality unexpectedly deteriorated leading to higher credit losses, or the bank failed to curb cost pressures, which could arise in a more difficult market environment.

Upside scenario

We currently view a positive rating action as remote, given Bank of Åland's business and regional risk concentration with generally financially stronger, but smaller, customer population.

Key Metrics

Bank of Åland PLC--Key Ratios And Forecasts

| (%) | --Fiscal year ended Dec. 31 -- | | | | |
|--|--------------------------------|-------|--------------|-----------|-----------|
| | 2020a | 2021a | 2022f | 2023f | 2024f |
| Growth in operating revenue | 12.1 | 17.2 | (0.7)-(2.7) | 15.3-19.3 | 7.0-11.0 |
| Growth in customer loans | 6.5 | 9.4 | (8.5)-(10.5) | 1.0-3.0 | 2.0-4.0 |
| Net interest income/average earning assets (NIM) | 1.2 | 1.2 | 1.1-1.3 | 1.6-2.0 | 1.8-2.0 |
| Cost to income ratio | 70.3 | 69.3 | 75.1-76.1 | 68.0-69.0 | 64.9-66.9 |
| Return on average common equity | 11.4 | 13.4 | 11.8-13.8 | 14.8-16.8 | 16.6-17.6 |
| New loan loss provisions/average customer loans | 0.1 | 0.1 | 0.13-0.18 | 0.13-0.23 | 0.08-0.13 |
| Gross nonperforming assets/customer loans | 0.9 | 1.2 | 1.3-2.3 | 1.5-2.5 | 0.8-1.8 |
| Risk-adjusted capital ratio | 14.4 | 13.8 | 14.0-15.5 | 15.0-16.5 | 15.5-17.0 |

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin.

Anchor: 'a-' For Bank Of Åland's Operations In Finland And Sweden

To determine a bank's anchor, we use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores. The anchor is the starting point in assigning an issuer credit rating under our criteria for banks.

The 'a-' anchor for Bank of Åland considers the weighted-average economic risk in all countries the bank is exposed to, primarily Finland and Sweden. Under our BICRA methodology, Finland has similar economic and industry risk scores to Sweden; both economic and industry risk currently carry stable trends for both countries.

We view Finland as an innovative, wealthy, and small open economy with mature political and institutional frameworks. The Finnish economy showed strong resilience during the pandemic. After a contained GDP contraction of 2.3% during the first COVID-19 wave in 2020, then a strong rebound of 3.0% in 2021, growth of 2% is expected in 2022, because there was stronger-than-expected demand in the first half. However, for 2023 we see growth remaining flat due to slower economic activity expected from Finland's main trading partners. We expect domestic demand will be affected through lower private consumption due to declining real disposable incomes on rising prices. More muted consumer and business confidence could weaken the banking sector's growth prospects.

We do not see material economic imbalances in the Finnish economy as inflation-adjusted house prices show a slight decrease in 2023-2024, although regional differences persist. However, increasing household debt remains a concern and a swift increase in interest rates could weaken households' disposable income and consumption, given that more than 90% of mortgage loans are at variable rates. Fixed-rate mortgages remain an exception, although borrowers are increasingly taking interest-rate hedges.

In our view, regulatory standards and bank supervision in Finland are in line with those of European peers. The banking sector is dominated by two major banking groups, OP Financial Group and Nordea Bank, and underpinned by intense competition and low lending margins. That said, we believe that overall profitability and capitalization will remain resilient. We also expect banks' risk appetites to stay restrained. In our view, the risk of technology disruption remains moderate given banks' digital customer offerings and ongoing investment in innovation.

Finnish banks will remain dependent on external funding, which makes them vulnerable to changes in confidence sensitivity. That said, they continue to demonstrate good access to the capital markets. The Nordic banking system also remains highly interconnected, which results in potential spillover risks from external events.

Business Position: Wealth Management, Retail Banking, And IT Service Franchise In Growth Regions Of Finland And Sweden

With assets of €6.1 billion as of Sep. 30, 2022 (assets under management of €8.2 billion), Bank of Åland is expected to maintain its small but specialized retail premium and private banking franchise on Finland's Åland Islands, and in certain selected areas in mainland Finland and Sweden. The bank has a modest market share of 1% nationwide but holds a leading position in its wealthy but very small home region, Åland Islands, with an estimated loan market share of 50% in its core business of private and premium retail banking. The business generated in Finland, including Åland Islands, is expected to represent about 70% of Bank of Åland's income by year-end 2022.

Nevertheless, the share of income generated from outside of Finland is expected to grow over the next two to three years because of some lending growth and IT-related fee income booked in Sweden. The latter is a result of the Crosskey AB Ltd. subsidiary that provides certain IT services to Borgo and several other Nordic partners. We also expect the bank will continue exploring innovative cooperation with fintechs, such as the climate impact calculation

"Åland Index" (a joint venture with Doconomy AB), in addition to partnerships with Dreams and Trustly to expand distribution channels.

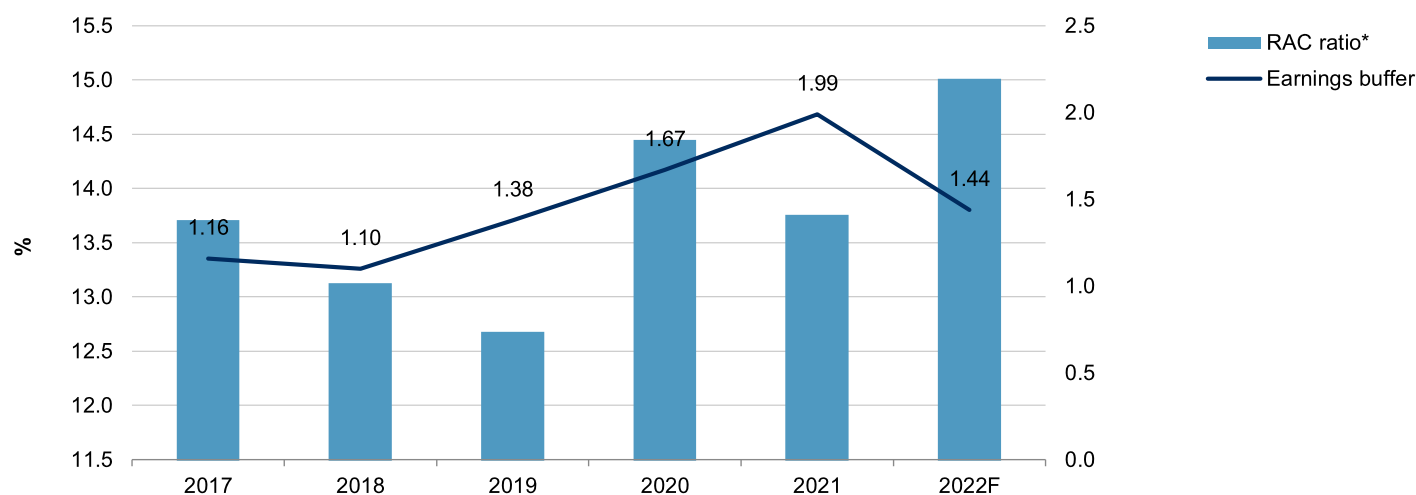
As a result of Bank of Åland's business mix, which leverages both balance sheet and off-balance sheet product offerings, management is seeking to deliver a return on equity above 15% over the long term, i.e., from 2024. The bank's five-year average of 11% indicates progress toward this goal has been made and we anticipate continued focus will remain from management to deliver stable earnings over time. Similarly, customer surveys ranked Bank of Åland as the top bank for private banking in Finland for the second year running, indicating client support for the bank's strategy. Generally, we recognize, however, that despite some geographic and business diversification, the bank's small retail and private banking franchise could be more vulnerable to further cyclical swings compared with larger and more diversified Nordic peers.

Capital And Earnings: Strengthening Risk-Adjusted Capitalization, Underpinned By Earnings Growth And Swedish Mortgage Book Carve-Out

Bank of Åland's growth strategy has generated robust earnings over the past several years and, coupled with hybrid instrument issuance, has led to a meaningful capital build for the bank (chart 1). We therefore forecast Bank of Åland's RAC will be 15%-16% over 2022-2024 compared with 14.5% in June 2022. While developments related to Borgo will have an impact on the bank's balance sheet and risk-weighted assets, leading to fluctuations in the capital ratio, over time we believe earnings will continue to be robust.

Chart 1

Earnings Steadily Helped Build Capital Ahead Of The 2021-2022 Borgo Launch S&P Global Ratings risk-adjusted capital versus earnings buffer



*As of year-end. % as of year-end, representing earnings net of normalized losses as a share of risk-weighted assets. Source: S&P Global Ratings, Bank of Åland reports.

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Annual core earnings are forecast to average about €50 million over the next two years (€40 million in 2021). This assumes loan growth of about 2%-3% in 2023-2024 and that losses represent about 0.1%-0.2% of the loan book, which is slightly higher compared with 2021, reflecting a weaker economic backdrop. As a result of rising interest rates, we believe net interest income will increase by approximately 40% in 2023. Our forecast also considers expense growth of about 6%-7% for 2022-2023, pointing to a cost-to-income ratio near 70%-75% over the same period, which is slightly weaker than the peer average of about 65%.

We incorporate the bank's share buyback program completed in December 2022 in our projections, because as of Dec. 14, 2022, €10.3 million of shares have been purchased. We don't expect any further capital optimization measures at this stage and more generally we assume distributions of approximately 50%-60% of annual net profits from the bank.

Currently the bank has two Tier 2 instruments (about €32 million) that qualify for intermediate equity in our total adjusted capital (TAC), in addition to one additional tier 1 instrument (SEK300 million). The TAC-eligible instruments (about €65 million) now represent approximately 22% of TAC, underpinning a somewhat weaker quality of capital compared with Nordic peers with no hybrid instruments included in TAC. In our forecast for the next two to three years, we expect the bank will issue replacement instruments in a timely manner.

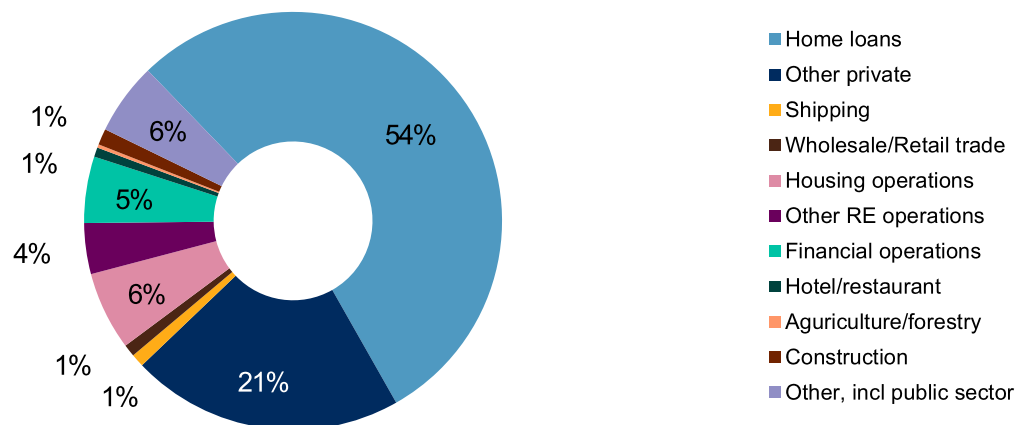
Risk Position: Geographic and Business Focus Create Some Concentration Risk, Partly Offset By High Share of Low-Risk Collateralized Lending

Bank of Åland's loan portfolio amounted to €4.2 billion as of Sept. 30, 2022, and remains focused on retail (75% of the net loan book) through primarily mortgages to individuals in Finland and Sweden. We expect the loan book will indicate robust asset quality and more generally, note the bank's product offering and daily operations lack complexity. Furthermore, Bank of Åland's foreign currency exposure and interest rate risk in the banking book are not significant.

Although a geographic concentration is present, this is somewhat counterbalanced by the bank's focus on wealthy individuals, entrepreneurs, and their related corporations, and its strategy of engaging mainly in collateralized lending. As such, in terms of loan characteristics, the average loan-to-value seen on mortgages used in the covered pool (circa 50% of mortgages) was 54.6% as of the end of the third quarter of 2022, which compares well relative to peers. Of the 25% of net lending that is considered more corporate-like, just under 45% is related to commercial and residential real estate. Much of this business is a result of the bank's focus on long-term customer relationships. The remaining portion of corporate loan book is granular and well diversified (chart 2).

Chart 2**Private Lending And Real-Estate Related Lending Are The Largest Lending Exposures**

Bank of Åland's net loan book composition



Sources: S&P Global Ratings, Bank of Åland Q3 2022 report.

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Asset quality remained broadly resilient during the pandemic, with the cost of risk increasing to 0.11% in 2020-2021. While the ratio of nonperforming loans to total client loans has increased to at 1.62% as of the end of the third quarter of 2022, from 1.23% at year-end 2021, we believe much of this is linked to conservatism on single-name exposures and the weakened prevailing economic outlook. In line with broader market trends, we anticipate nonperforming loans could further increase in 2023 to about 1.9%-2% but that as conditions stabilize and lending growth picks up, by 2024 these figures will fall once again.

Funding And Liquidity: Funding Profile Dominated By Customer Deposits And Supplemented By Covered Bond Issuance

Bank of Åland's funding profile reflects a stable core customer deposit base, which now covers 75% of the bank's funding. Over the past few years, Bank of Åland has increased its use of wholesale funding via covered bonds to aid lending growth. While the Finnish covered mortgage pools will remain with Bank of Åland, the Swedish covered bonds have been transferred to Borgo in conjunction with the underlying assets.

We anticipate customer deposits will continue to represent about 70%-75% of funding over the next two to three years. Just over half of the deposit base consists of stable retail deposits. The remaining portion is related to corporates, which we view as a less stable source of funding. We do note that Bank of Åland exhibits a balanced S&P's Global Ratings' stable funding ratio of about 103% as of Sept. 30, 2022. Similarly, this is also reflected by a regulatory net stable funding ratio of 110% for the same period.

Bank of Åland's liquidity as expressed as a ratio of broad liquid assets to short-term wholesale funding of about 1.5x as

of the end of the third quarter of 2022 is expected to remain broadly stable. Given the stock of long-term funding has declined, we recognize the ratio will be somewhat volatile. Bank of Åland's liquidity reserve amounted to approximately €1.1 billion, or about 26% of customer deposits, as of Sept. 30, 2022, leading to a regulatory liquidity coverage ratio of 138%. This is in line with comparable Finnish peers' and well above the regulatory minimum of 100%. This portfolio consists of cash and securities, which are all eligible for repurchase agreement transactions at the Finnish or Swedish central banks.

Support: No Uplift To The SACP

We do not factor any external support into our assessment of Bank of Åland. We consider Finland to have had an effective resolution regime since January 2016. We consider that Bank of Åland has low systemic importance in Finland, with a market share of about 1% in customer lending and deposits, and we do not believe the response to nonviability of Bank of Åland would be a bail-in resolution. Therefore, we do not consider the ALAC criteria to be applicable to the bank, nor do we think that Bank of Åland is eligible for our resolution counterparty rating (RCR). RCRs recognize the default risk of certain bank liabilities that rank senior to other liabilities in a resolution.

Additional Rating Factors

No additional factors affect this rating.

Environmental, Social, And Governance

ESG Credit Indicators

| | | | | | | | | | | | | | | |
|-----|------------|-----|-----|-----|-----|------------|-----|-----|-----|-----|------------|-----|-----|-----|
| E-1 | E-2 | E-3 | E-4 | E-5 | S-1 | S-2 | S-3 | S-4 | S-5 | G-1 | G-2 | G-3 | G-4 | G-5 |
|-----|------------|-----|-----|-----|-----|------------|-----|-----|-----|-----|------------|-----|-----|-----|

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors are neutral in our assessment of Bank of Åland's creditworthiness.

Social and environmental credit factors are in line with those of peers in the banking industry, while the bank's governance standards are comparable with the practice in its home country.

Bank of Åland remains dedicated to several environmental and societal projects in both its banking and asset management operations. For example, it remains committed to the "Baltic Sea Project" promoting the health of the Baltic Sea. Moreover, the bank has launched a fund that invests in small and mid-sized companies in the Nordics by focusing on responsible investment rules and guidelines. In addition, Bank of Åland leverages on the first payment card made from environmentally friendly materials, the Baltic Sea Card, which allows its customers to use the "Åland Index" to calculate the environmental impact of each credit card transaction and to offset the carbon footprint of their

purchases. Furthermore, the bank collaborates with Swedish Fintech Doconomy to provide a digital banking solution to track and alter behavior to reduce carbon emissions by measuring consumption patterns.

These partnerships demonstrate Bank of Åland's unique innovative and environmental approach to its banking business.

Key Statistics

Table 1

| Bank of Åland PLC--Key Figures | | | | | |
|---------------------------------------|-------------------------------|-------------|-------------|-------------|-------------|
| | --Year-ended Dec. 31-- | | | | |
| (Mil. €) | 2022* | 2021 | 2020 | 2019 | 2018 |
| Adjusted assets | 6,124.0 | 6,611.6 | 6,010.7 | 5,582.2 | 5,536.2 |
| Customer loans (gross) | 4,259.0 | 4,802.5 | 4,389.8 | 4,122.5 | 4,033.0 |
| Adjusted common equity | 221.2 | 220.1 | 263.9 | 214.4 | 210.1 |
| Operating revenues | 137.1 | 176.0 | 150.1 | 133.9 | 127.6 |
| Noninterest expenses | 97.6 | 121.9 | 105.6 | 97.5 | 97.8 |
| Core earnings | 28.3 | 39.9 | 31.5 | 26.3 | 22.9 |

*Data as of Sept. 30.

Table 2

| Bank of Åland PLC--Business Position | | | | | |
|---|-------------------------------|-------------|-------------|-------------|-------------|
| | --Year-ended Dec. 31-- | | | | |
| (%) | 2022* | 2021 | 2020 | 2019 | 2018 |
| Loan market share in country of domicile | N/A | 1.0 | 1.0 | 1.1 | 1.1 |
| Deposit market share in country of domicile | N/A | 1.4 | 1.3 | 1.4 | 1.4 |
| Total revenues from business line (currency in millions) | 137.1 | 176.0 | 150.1 | 133.9 | 127.6 |
| Retail banking/total revenues from business line | 79.2 | 75.2 | 79.0 | 78.4 | 81.4 |
| Commercial & retail banking/total revenues from business line | 79.2 | 75.2 | 79.0 | 78.4 | 81.4 |
| Other revenues/total revenues from business line | 20.8 | 24.8 | 21.0 | 21.6 | 18.6 |
| Return on average common equity | 12.9 | 13.4 | 11.4 | 10.5 | 9.6 |

*Data as of Sept. 30. N/A--Not applicable.

Table 3

| Bank of Åland PLC--Capital And Earnings | | | | | |
|--|-------------------------------|-------------|-------------|-------------|-------------|
| | --Year-ended Dec. 31-- | | | | |
| (%) | 2022* | 2021 | 2020 | 2019 | 2018 |
| Tier 1 capital ratio | 13.3 | 13.6 | 14.3 | 13.4 | 13.0 |
| S&P Global Ratings' RAC ratio before diversification | N/A | 13.8 | 14.4 | 12.7 | 13.1 |
| S&P Global Ratings' RAC ratio after diversification | N/A | 11.2 | 11.7 | 10.3 | 11.0 |
| Adjusted common equity/total adjusted capital | 78.2 | 77.0 | 93.9 | 92.6 | 92.5 |
| Net interest income/operating revenues | 35.4 | 35.4 | 39.2 | 40.3 | 42.7 |
| Fee income/operating revenues | 43.8 | 44.9 | 44.2 | 43.3 | 39.6 |
| Market-sensitive income/operating revenues | 7.7 | (0.4) | 1.2 | 2.9 | 4.1 |

Table 3

| Bank of Aland PLC--Capital And Earnings (cont.) | | | | | |
|---|------------------------|------|------|------|------|
| | --Year-ended Dec. 31-- | | | | |
| (%) | 2022* | 2021 | 2020 | 2019 | 2018 |
| Cost to income ratio | 71.2 | 69.3 | 70.3 | 72.8 | 76.6 |
| Provision operating income/average assets | 0.8 | 0.9 | 0.8 | 0.7 | 0.5 |
| Core earnings/average managed assets | 0.6 | 0.6 | 0.5 | 0.5 | 0.4 |

*Data as of Sept. 30. N/A--Not applicable.

Table 4

| Bank of Aland PLC--Risk-Adjusted Capital Framework Data | | | | | |
|---|-----------------|-----------------------|--------------------------------|-----------------------------------|---|
| (Mil. €) | Exposure* | Basel III RWA | Average Basel III RW(%) | S&P Global Ratings RWA | Average S&P Global Ratings RW (%) |
| Credit risk | | | | | |
| Government & central banks | 1,033.0 | 0.0 | 0.0 | 16.5 | 1.6 |
| Of which regional governments and local authorities | 85.5 | 0.0 | 0.0 | 3.1 | 3.6 |
| Institutions and CCPs | 815.1 | 114.1 | 14.0 | 109.0 | 13.4 |
| Corporate | 1,199.2 | 548.9 | 45.8 | 452.9 | 37.8 |
| Retail | 3,459.1 | 663.0 | 19.2 | 940.0 | 27.2 |
| Of which mortgage | 2,784.5 | 449.0 | 16.1 | 641.7 | 23.0 |
| Securitization§ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other assets† | 82.8 | 76.4 | 92.3 | 81.9 | 98.9 |
| Total credit risk | 6,589.1 | 1,402.4 | 21.3 | 1,600.3 | 24.3 |
| Credit valuation adjustment | | | | | |
| Total credit valuation adjustment | -- | 0.0 | -- | 0.0 | -- |
| Market Risk | | | | | |
| Equity in the banking book | 15.7 | 65.2 | 416.0 | 135.0 | 861.9 |
| Trading book market risk | -- | 9.1 | -- | 13.6 | -- |
| Total market risk | -- | 74.2 | -- | 148.6 | -- |
| Operational risk | | | | | |
| Total operational risk | -- | 243.6 | -- | 273.3 | -- |
| | Exposure | Basel III RWA | Average Basel II RW (%) | S&P Global Ratings RWA | % of S&P Global Ratings RWA |
| Diversification adjustments | | | | | |
| RWA before diversification | -- | 1,892.5 | -- | 2,022.3 | 100.0 |
| Total Diversification/ Concentration Adjustments | -- | -- | -- | 426.7 | 21.1 |
| RWA after diversification | -- | 1,892.5 | -- | 2,448.9 | 121.1 |
| | | Tier 1 capital | Tier 1 ratio (%) | Total adjusted capital | S&P Global Ratings RAC ratio (%) |
| Capital ratio | | Standard & Poor's RWA | Standard & Poor's RWA | Standard & Poor's RWA | Standard & Poor's RWA |
| Capital ratio before adjustments | | 265.6 | 14.0 | 293.0 | 14.5 |

Table 4

| Bank of Aland PLC--Risk-Adjusted Capital Framework Data (cont.) | | | | |
|--|-------|------|-------|------|
| Capital ratio after adjustments† | 265.6 | 14.0 | 293.0 | 12.0 |

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions.

‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of 'June. 30 2022', S&P Global Ratings.

Table 5

| (%) | --Year-ended Dec. 31-- | | | | |
|---|-------------------------------|-------------|-------------|-------------|-------------|
| | 2022* | 2021 | 2020 | 2019 | 2018 |
| Growth in customer loans | (15.1) | 9.4 | 6.5 | 2.2 | 1.1 |
| Total diversification adjustment/S&P Global Ratings' RWA before diversification | N/A | 22.3 | 23.7 | 23.6 | 19.3 |
| Total managed assets/adjusted common equity (x) | 27.8 | 30.1 | 22.9 | 26.2 | 26.4 |
| New loan loss provisions/average customer loans | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 |
| Net charge-offs/average customer loans | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 |
| Gross nonperforming assets/customer loans + other real estate owned | 1.6 | 1.2 | 0.9 | 0.8 | 0.5 |
| Loan loss reserves/gross nonperforming assets | 26.0 | 24.8 | 30.5 | 37.1 | 57.4 |

*Data as of Sept. 30. N/A--Not applicable.

Table 6

| (%) | --Year-ended Dec. 31-- | | | | |
|--|-------------------------------|-------------|-------------|-------------|-------------|
| | 2022* | 2021 | 2020 | 2019 | 2018 |
| Core deposits/funding base | 74.8 | 66.2 | 64.7 | 65.0 | 64.1 |
| Customer loans (net)/customer deposits | 100.8 | 117.6 | 121.4 | 122.0 | 121.7 |
| Long-term funding ratio | 87.5 | 82.9 | 84.2 | 89.9 | 90.3 |
| Stable funding ratio | 102.6 | 105.4 | 104.9 | 110.9 | 112.7 |
| Short-term wholesale funding/funding base | 13.2 | 18.1 | 16.6 | 10.6 | 10.2 |
| Regulatory net stable funding ratio | 110.0 | 109.0 | 106.0 | 115.0 | 113.0 |
| Broad liquid assets/short-term wholesale funding (x) | 1.5 | 1.4 | 1.4 | 2.1 | 2.3 |
| Broad liquid assets/total assets | 17.7 | 23.3 | 22.0 | 21.1 | 22.1 |
| Broad liquid assets/customer deposits | 25.9 | 38.0 | 36.8 | 35.0 | 37.1 |
| Net broad liquid assets/short-term customer deposits | 8.2 | 10.6 | 11.1 | 18.7 | 21.4 |
| Regulatory liquidity coverage ratio (LCR) (x) | 138.0 | 151.9 | 159.0 | 138.8 | 120.2 |
| Short-term wholesale funding/total wholesale funding | 50.2 | 51.9 | 46.8 | 30.0 | 28.0 |
| Narrow liquid assets/3-month wholesale funding (x) | N/A | 2.5 | 2.5 | 5.0 | 4.4 |

*Data as of Sept. 30. N/A--Not applicable.

Bank of Aland plc--Rating Component Scores

| | |
|----------------------|-----------------|
| Issuer Credit Rating | BBB+/Stable/A-2 |
| SACP | bbb+ |
| Anchor | a- |
| Economic risk | 2 |
| Industry risk | 3 |

Bank of Aland plc--Rating Component Scores (cont.)

| | |
|-----------------------------|-------------|
| Business position | Weak |
| Capital and earnings | Very strong |
| Risk position | Moderate |
| Funding | Adequate |
| Liquidity | Adequate |
| Comparable ratings analysis | 0 |
| Support | 0 |
| ALAC support | 0 |
| GRE support | 0 |
| Group support | 0 |
| Sovereign support | 0 |
| Additional factors | 0 |

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Nordic Credit Outlook: An Uneven Road Ahead, Jan. 9, 2023
- Banking Industry Country Risk Assessment Update: December 2022, Dec. 21, 2022
- Global Bank Country-By-Country Outlook 2023: Greater Divergence Ahead, Nov. 16, 2022
- European Banks' Residential Mortgage Losses Should Remain Contained Even As Economies Slow, Nov. 15, 2022
- EMEA Financial Institutions Monitor 4Q2022: Fresh Turmoil Brings New Hardships, Nov. 4, 2022
- Bank of Aland PLC Upgraded To 'BBB+' On Increased Capital; Outlook Stable, Jul. 13, 2022
- Banking Industry Country Risk Assessment: Finland, June 1, 2022
- SLIDES: Nordic Banks Shift Their Focus To Profitable Growth, March 16, 2022

- Ratings On Nine Finnish Financial Institutions Affirmed Under Revised Criteria; Outlooks Unchanged, Feb. 4, 2022
- Bank of Aland Affirmed At 'BBB/A-2' On Correction Of Criteria Misapplication; Outlook Remains Positive, Jul. 15, 2021

Ratings Detail (As Of January 13, 2023)*

Bank of Aland PLC

| | |
|----------------------|-----------------|
| Issuer Credit Rating | BBB+/Stable/A-2 |
| Senior Secured | AAA/Stable |

Issuer Credit Ratings History

| | |
|-------------|------------------|
| 13-Jul-2022 | BBB+/Stable/A-2 |
| 22-Jan-2021 | BBB/Positive/A-2 |
| 19-May-2020 | BBB/Negative/A-2 |
| 25-Jul-2018 | BBB/Positive/A-2 |

Sovereign Rating

| | |
|---------|-----------------|
| Finland | AA+/Stable/A-1+ |
|---------|-----------------|

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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