

# Bank of Åland

Investor Presentation  
February 2023

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An aerial photograph of a rugged, rocky coastline. The water is dark and turbulent, with white foam from waves crashing against the shore. The rocks are dark and jagged, with some areas illuminated by a bright, yellowish light, possibly from the sun or a spotlight. The overall scene is dramatic and emphasizes the natural beauty and ruggedness of the landscape.

# 1. Bank of Åland in Brief

**ÅLANDSBANKEN**

# Bank of Åland in Brief

## Bank of Åland Plc

- Established in 1919 on the Åland Islands, listed since 1942 on NASDAQ OMX Helsinki
- A Finnish bank targeting high net worth and affluent individuals
- Operations on the Åland Islands, Finnish mainland and Sweden
- Top-ranked in customer loyalty
- A long-standing tradition of stability and very low credit losses
- BBB+ rating with a stable outlook from S&P

## The Vision

- Create value for ambitious individuals and companies that appreciate relations:
  - Private Banking since 1982
  - IT services by Crosskey Banking Solutions since 2004
  - Premium Banking since 2004
  - Partnership Banking since 2016
- Delivering a large bank's range of services with a small bank's thoughtfulness and good sense
- Bank's customer surveys show that customers continue to appreciate Bank's expertise, personalized service, high ethical standards and sustainability work

# Financial Scorecard

December 31, 2022

<p><b>CET1 Capital Ratio</b> <b>12.0 %</b></p> <p><b>Capital</b></p> <ul style="list-style-type: none"><li>• Strong capital position</li><li>• Standardised approach used in Sweden</li><li>• The Board of Directors proposes a dividend of EUR 31.3 M for 2022, consisting of a regular dividend of EUR 1.60 per share plus an extra dividend of EUR 0.45 per share, subtracted from the Bank's CET1 capital ratio on December 31, 2022</li><li>• Capital requirements applicable are CET1 capital ratio 8.1 %, Tier 1 capital ratio 9.8 % and Total capital ratio 12.0 %</li><li>• Bank of Åland has an ample capital surplus: CET1 capital ratio +3.9 %, Tier 1 capital ratio +3.8 % and Total capital ratio +3.1 %</li></ul>	<p><b>Liquidity and Funding</b></p> <ul style="list-style-type: none"><li>• Loan/deposit ratio of 103 %</li><li>• Liquidity reserve at 21 % of total assets</li><li>• LCR at 138 %</li><li>• NSFR at 108 %</li><li>• BBB+ bank rating with stable outlook from S&amp;P</li></ul> <p><b>AAA Rating with Stable Outlook on Covered Bonds from S&amp;P</b></p>
<p><b>Loan Loss Level</b> <b>0.14 %</b></p> <p><b>Risk Management</b></p> <ul style="list-style-type: none"><li>• Long history of having the lowest loan loss level of all Finnish banks. Loan loss level of 0.14 % in 2022 (0.12 % in 2021)</li><li>• No trading positions or complex financial instruments</li><li>• Strict limits on exposures to financial institutions. Bulk of the exposure is to highly rated Nordic entities</li></ul>	<p><b>Profitability</b></p> <ul style="list-style-type: none"><li>• Operating profit in level with previous high, despite a very turbulent year</li><li>• Net operating profit of EUR 46.1 M in 2022 (EUR 49.2 M in 2021)</li><li>• ROE 12.8 % in 2022 (14.0 % in 2021)</li><li>• Future Outlook: The Bank of Åland expects its net operating profit in 2023 to be significantly better than in 2022</li></ul> <p><b>ROE 12.8 %</b></p>

# Stable Outlook on BBB+ Issuer Credit Rating by Standard & Poor's

Issuer Credit Rating	BBB+/Stable/A-2
Stand-alone credit profile	BBB+
Anchor	
• Business operations in economically robust regions in Finland and Sweden	A-
Business position	
• Despite some geographic and business diversification, concentrated focus on retail and private banking increases vulnerability to cyclical swings	Constrained -2
Capital and earnings	
• Strong risk-adjusted capitalization, earnings growth and low credit losses	Very Strong +2
Risk position	
• Geographic and business focus create some concentration risk	Moderate -1
Funding	
• Funding position supported by stable customer deposits	Adequate 0
Liquidity	Adequate 0
Comparable ratings analysis	0
Support	0
Additional loss-absorbing capacity support	0
Government-related entity support	0
Group support	0
Sovereign support	0
Additional factors	0

Source: [S&P Global Ratings Research Update](#) Jan 13, 2023

On July 13, 2022, S&P Global Ratings raised its long-term issuer credit rating on Bank of Åland to BBB+ from BBB

- The rationale behind the upgrade was forecasted strengthened capitalization, expectations of a significant improvement of the RAC ratio to 16 % by 2024, improved return on average common equity just below 15 % over 2022-2024 and a steady earnings generation supporting capital build-up

In S&P Global Ratings' latest research update on January 13, 2023, the outlook remained stable and reflects Standard & Poor's expectations that the Bank will maintain a sound financial profile and continue to make progress in building its capital base through earnings

- "Bank of Åland's retail private banking services will be the primary revenue driver, complemented by fees from asset management operations, and Crosskey"
- "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"
- "We expect core customer deposits to be the primary funding source for the bank"

An aerial photograph of a rocky coastline. The water is a deep, dark blue, and the rocks are dark grey and brown. A single white bird is perched on a rock in the middle ground. The text '2. Strategy and Market Position' is overlaid on the left side of the image.

## 2. Strategy and Market Position

# Three Markets – Two Strategies

## The Åland Islands

- 2 offices, market share > 50 %
- Full product range offered
- **The Bank for everyone**

## Finland

- 6 offices in affluent parts of Finland, market share > 1 %
- Full product range offered but “bread and butter” services only as a complement to Private Banking and Premium Banking service offerings
- **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 a complement to Private Banking and Premium Banking service offerings
- **Targeted segment: High Net Worth/ Affluent Individuals and their companies**

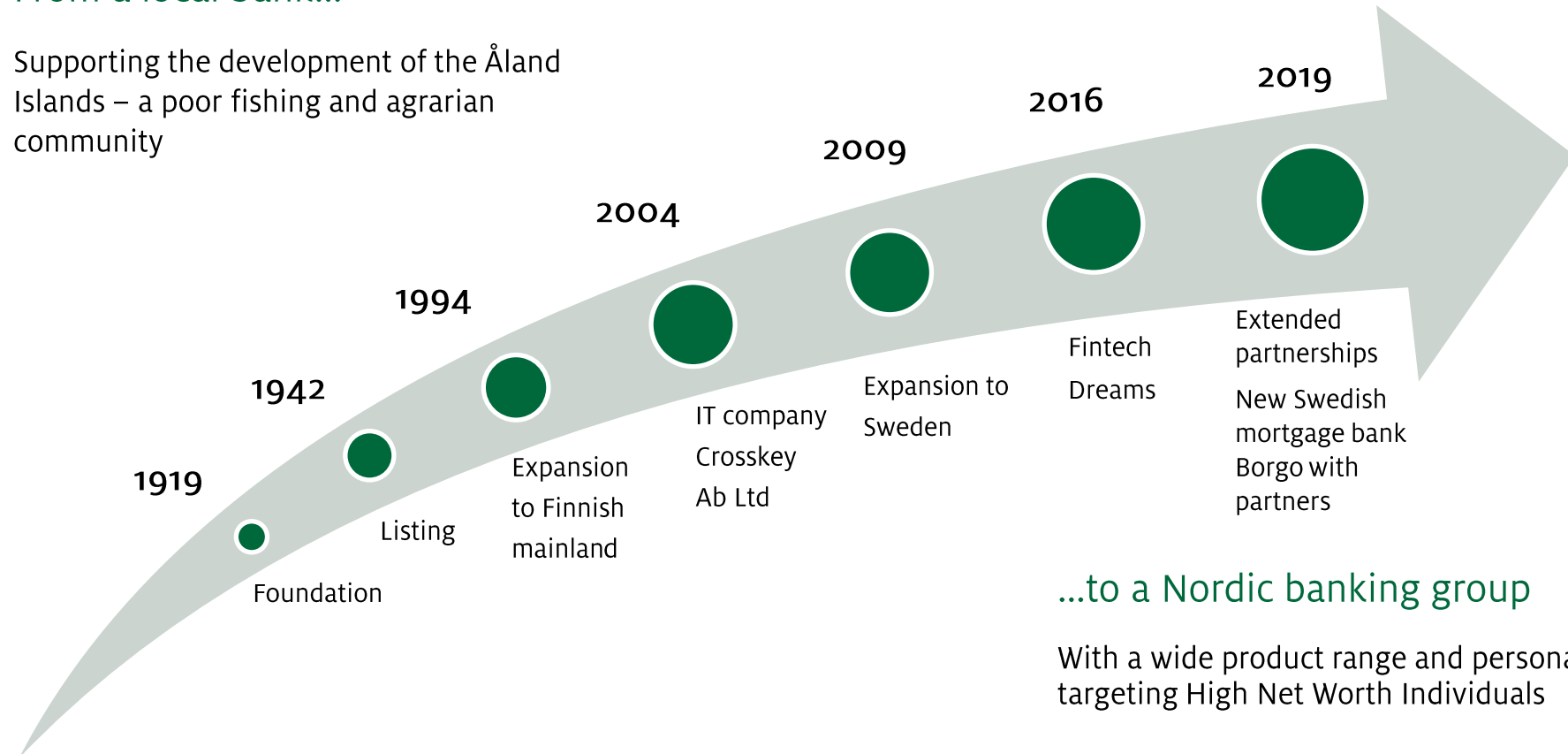




# Bank of Åland History of Strategic Decisions

From a local bank...

Supporting the development of the Åland Islands – a poor fishing and agrarian community



...to a Nordic banking group

With a wide product range and personal service targeting High Net Worth Individuals

# Åland Index – Global Market Leader in Spend Based Calculations

Doconomy

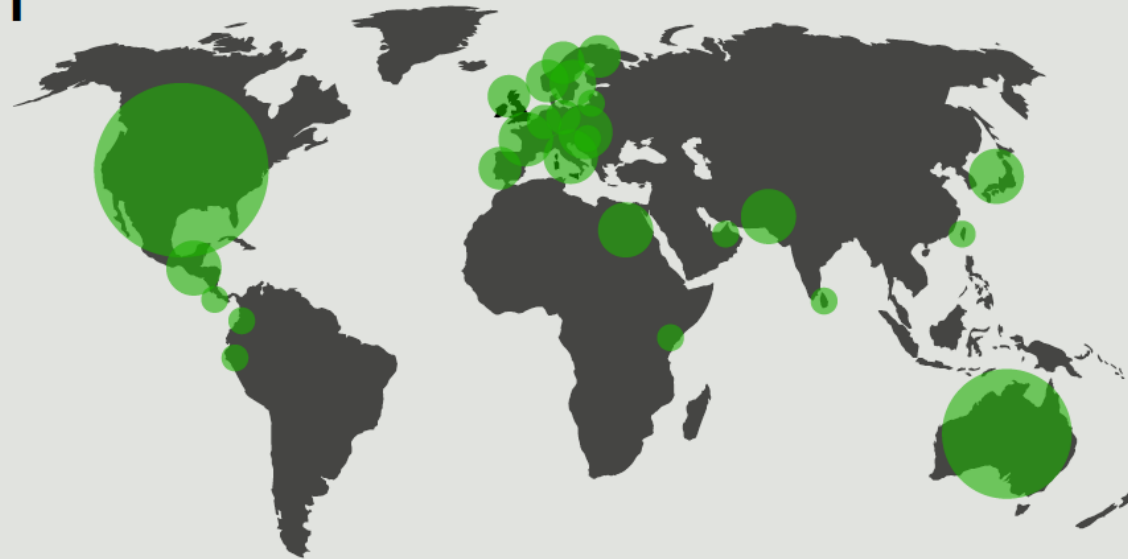
Introduction to Doconomy

Private & Confidential

12.01.2023

## Geographic reach ensures a global standard

- 68 clients
- 22 markets
- Client reach: 850+ million consumers



### Selected Clients



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# Other Strategic Fintech Partners

## BORGO IN BRIEF

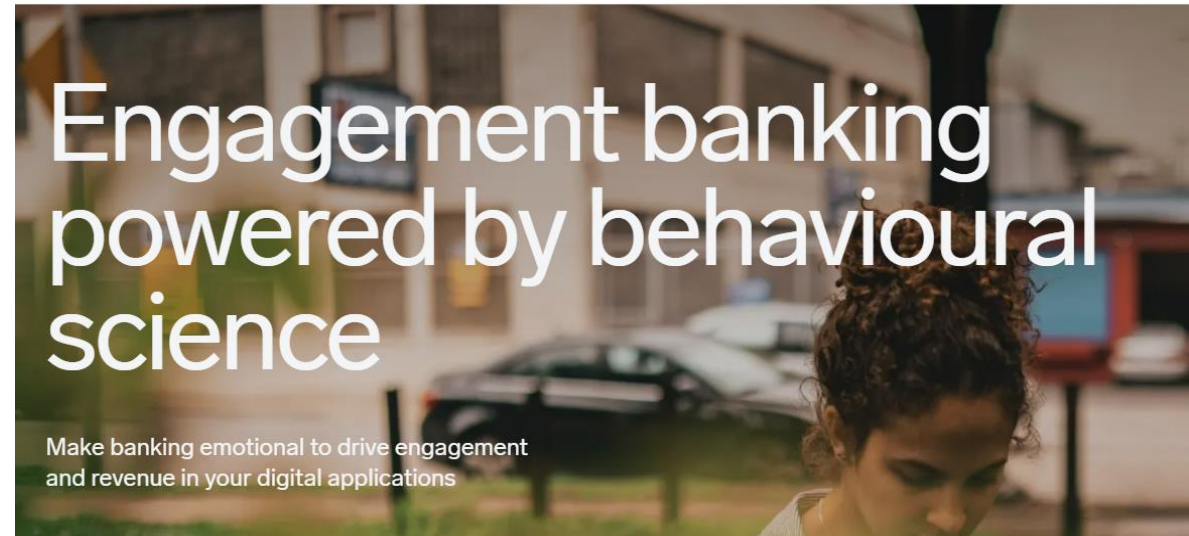
### STRONG DISTRIBUTION NETWORKS JOINING FORCES



Products

Solutions

Expertise



# Engagement banking powered by behavioural science

Make banking emotional to drive engagement  
and revenue in your digital applications

#### Distribution with track-record



SBAB historical mortgage provider and discontinued given capital constraints at the state-owned bank



Short term both Skandia and Bluestep Bank act as mortgage providers, but not perceived as sustainable long term

#### ÅLANDSBANKEN

Has been offering own mortgages in the Swedish market since 2009, expected to benefit from the ability scale up in the partnership, funding wise and operationally



Full-service bank, established in 1827, with existing distribution through SBAB and own balance sheet

*Proven historical distribution capacity*

#### Fully operational company

##### Seasoned management team and organisation

With a vision to transform the mortgage market by creating a new financial institution, combining modern technology with responsible lending principles – managing cost of funding, efficient capital structure, credit and liquidity risk

##### Financially strong partners, investors and experienced board of directors

Supporting the company financially and through industrial experience with a long-term perspective

*Pure-play mortgage company with distribution, access to capital market funding and organisation in place*

#### Scalable platform

##### Modern platform with high degree of automation

Allowing Borgo to build economies of scale and distributors to focus on sales, customer relationships and service

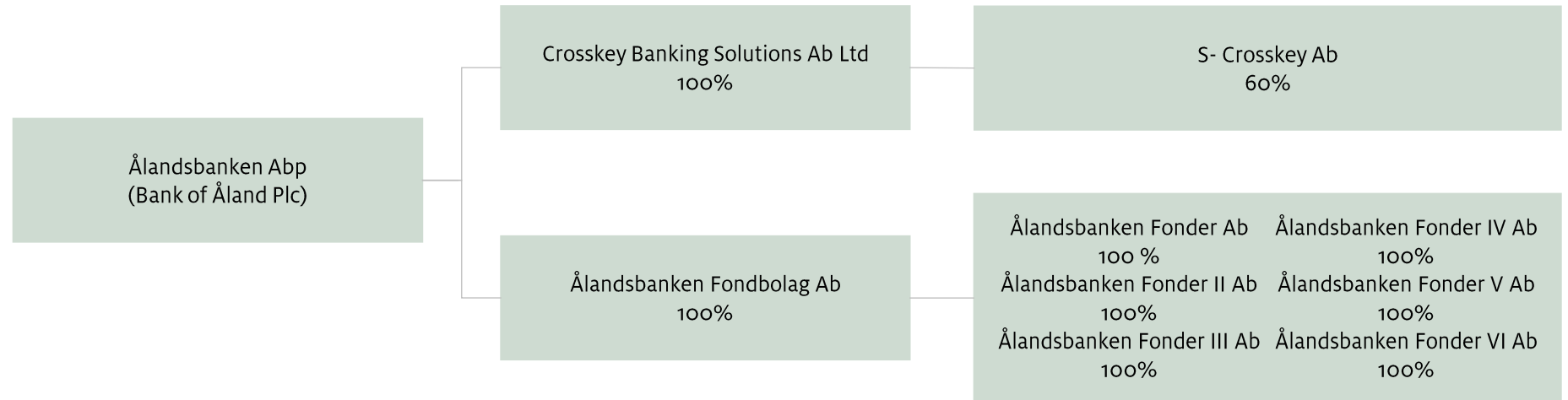
##### Partnerships with distributors and service providers

Proven IT-systems, payment services, credit administration processes and treasury support – at variable cost based on mortgage volume

*Legacy-free and scalable platform with benefits from outsourced back- and front-end*

Borgo

# Bank of Åland Group Legal and Ownership Structures




Major owners as of December 30, 2022	Share of capital	Share of votes
Wiklöf Anders with companies	21.8 %	29.8 %
The Family Kamprad Foundation	6.0 %	0.7 %
Alandia Insurance	5.3 %	11.0 %
Fennogens Investment S.A. (Family Ehrnrooth)	5.1 %	9.0 %
Pensionsförsäkringsaktiebolaget Veritas	2.6 %	2.0 %


Approximately 13,200 shareholders in total, half of them from the Åland Islands


### 3. Sustainability


# Bank of Åland's Sustainability Journey

**1919**  
**ÅLANDSBANKEN**  
The Bank established on strong values as a responsible actor

**2016**  
  
The Baltic Sea Card, Baltic Sea Account and the Åland Index are launched. Every year, the Bank donates an amount equivalent to up to 0.2 per cent of deposits in Baltic Sea Accounts for environmental work

**2019**  
  
The Bank of Åland signs the UN Principles for Responsible Banking and the Principles for Responsible Investment

**2020**  
  
The Bank of Åland launches the Nordic Region's first investment fund specializing exclusively in wind power

**2021**  
  
The Bank of Åland joins the UN Net-Zero Banking Alliance as a founding signatory

The Bank of Åland launches the Baltic Sea Project

The Bank of Åland conducts materiality analysis based on UN SDGs

Åland Index Solutions joint venture started with Doconomy


Ålandsbanken Green Bond ESG fund is the first Finnish bond fund to be granted the Nordic Swan Ecolabel


Ålandsbanken Global Equity fund was granted the Nordic Swan Ecolabel for its sustainable investment strategy


The Bank of Åland establishes its first climate targets according to the Paris Agreement and decides to become climate-neutral in keeping with Finland's climate policy decision


The Bank of Åland has started the process of setting its own science-based target


ÖSTERSJÖPROJEKTET  
BALTICSEAPROJECT  
ITÄMERIPIEIKTI









 SCIENCE BASED TARGETS  
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

# Sustainability Strategy – Our Four Areas of Sustainability

## Responsible Investments



- Considering ESG factors in all investment decisions
- Providing green investment products, such as the Green Bond ESG Fund and the Wind Power Fund
- Engaging in discussions through membership in Investment Forums Finsif & Swesif
- Measuring our funds' CO2 intensity and strive for gradually declining levels

## Responsible Lending



- Offering financing solutions that corresponds to the customer's repayment capacity and needs
- Supporting local entrepreneurship by granting EIF Innov Fin-guaranteed financing and demanding increased transparency in sustainability issues
- Promote green lending such as loans towards renewable energy projects

## Environmental Responsibility



- Striving to reduce carbon dioxide emissions
- Increasing global awareness to carbon dioxide emissions through the Åland Index
- Contributing to a cleaner Baltic Sea by supporting good initiatives through the Baltic Sea Project

## Social Responsibility



- Engaging in the Åland business community and driving development towards a more sustainable society through projects, donations and sponsorships
- Creating a work culture embracing diversity, inclusion and equality through actions such as ensuring gender balance in leadership positions, salary models, workshops and weekly measurements of engagement

### UN SDGs & Stakeholders



### Materiality analysis



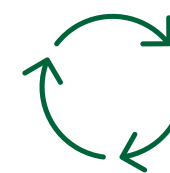
### Identify areas for sustainable development



### Setting targets




### Follow-up



# Our Sustainability Strategy is Focused on Seven UN SDGs


We selected seven of the seventeen SDGs based on their importance and relevance to our operations

**6 CLEAN WATER AND SANITATION**




We will begin to measure the water-intensity of our investments. Using the Åland Index, our customers will gain access to reports on their water consumption. As one of the founders, we are contributing to the annual awarding of the Stockholm Water Prize

**7 AFFORDABLE AND CLEAN ENERGY**




We give preference to green investment products and offer our customers investment products that benefit environment characteristics. With our Wind Power Fund, we are increasing the proportion of renewable energy in the Nordic countries

**8 DECENT WORK AND ECONOMIC GROWTH**



We work actively to promote social sustainability – an inclusive society, equal worth, sound values and broad community involvement, as well as following regulations and requirements to help combat corruption, money laundering and other criminal activities

**12 RESPONSIBLE CONSUMPTION AND PRODUCTION**



Our Code of conduct helps us and our suppliers to act responsibly and ethically. Our products offer customers the opportunity to make their own environmentally friendly choices



Doconomy

**360,000,000**


Bank customers worldwide can monitor the carbon footprint of their card purchases via Åland Index Solutions



**€ 3,800,000**

**funding good ideas for the environment since 1997.**

**13 CLIMATE ACTION**




We calculate CO<sub>2</sub> emissions from our own operations, our customers' financial investment portfolios, our loan portfolio and treasury portfolio. A compensation portfolio has been developed to offset emissions from our own operations. We offer Eco-labelled funds and intend to continue to expand our product range

**14 LIFE BELOW WATER**



Through the Baltic Sea Project and the Baltic Sea Account, we and our customers work together to help reduce pollution in the Baltic Sea

**15 LIFE ON LAND**



Through the Åland Index, we are increasing our employees' and customers awareness of their own carbon footprint. At the same time, we are working to reduce our CO<sub>2</sub> emissions. Our employees are trained and committed to sustainability and environmental work, for example through local "keep nature clean" projects



# Our Sustainability Governance Structure

## Sustainability is a natural element of the Bank of Åland's business strategy

Based on their specific roles, all executives and employees are responsible for ensuring that the Bank of Åland develops in a sustainable way. Among the tools of this work are directives, guidelines and plans that concretize the strategy in each area of sustainability

Board of Directors	Having the ultimate responsibility for governance of the Bank's sustainability work and adopting the Bank's sustainability strategy every two years
Executive Team	The Chief Executive is responsible for implementing the strategy. The Executive team is responsible for strategic sustainability work based on a yearly materiality analysis and the Bank's sustainability strategy
Sustainability Team	Carrying out the Bank's overall sustainability work and acting as a forum for questions and decisions. The team consists of four people: our sustainability manager, sustainability strategist, sustainability developer and responsible investment manager
ESG Committee	Monitoring global events, overseeing developments in sustainable investments and ensuring that strategies and guidelines for sustainable investments are being followed
Regulatory Group	Compiling all global monitoring results and also maintaining a list of regulations that must be implemented
Project Organization	Carrying out those development and implementation projects which are related to sustainability
The Chief Credit Officer	Ensuring that the Bank's lending complies with its sustainability goals and the regulations
Risk Control Department	Managing the Bank's climate risks

# Climate Targets

- In 2021 we established the Group's climate targets, which support the Paris Agreement and its important goal in the fight against climate change: that the global temperature increase should be kept well below 2 degrees and that efforts should be made to limit it to 1.5 degrees
- Climate calculations form the basis for our ability to develop a climate strategy that tells us how, and at what pace, we should reduce our greenhouse gas emissions in order to achieve the established climate targets. This strategy has been completed in 2022
- We have developed a compensation portfolio that offsets emissions from our own operations. The portfolio was developed in collaboration with the Finnish non-profit Compensate, which offers companies and individuals easy access to high-quality greenhouse gas emission compensation

## 2030 Target 1

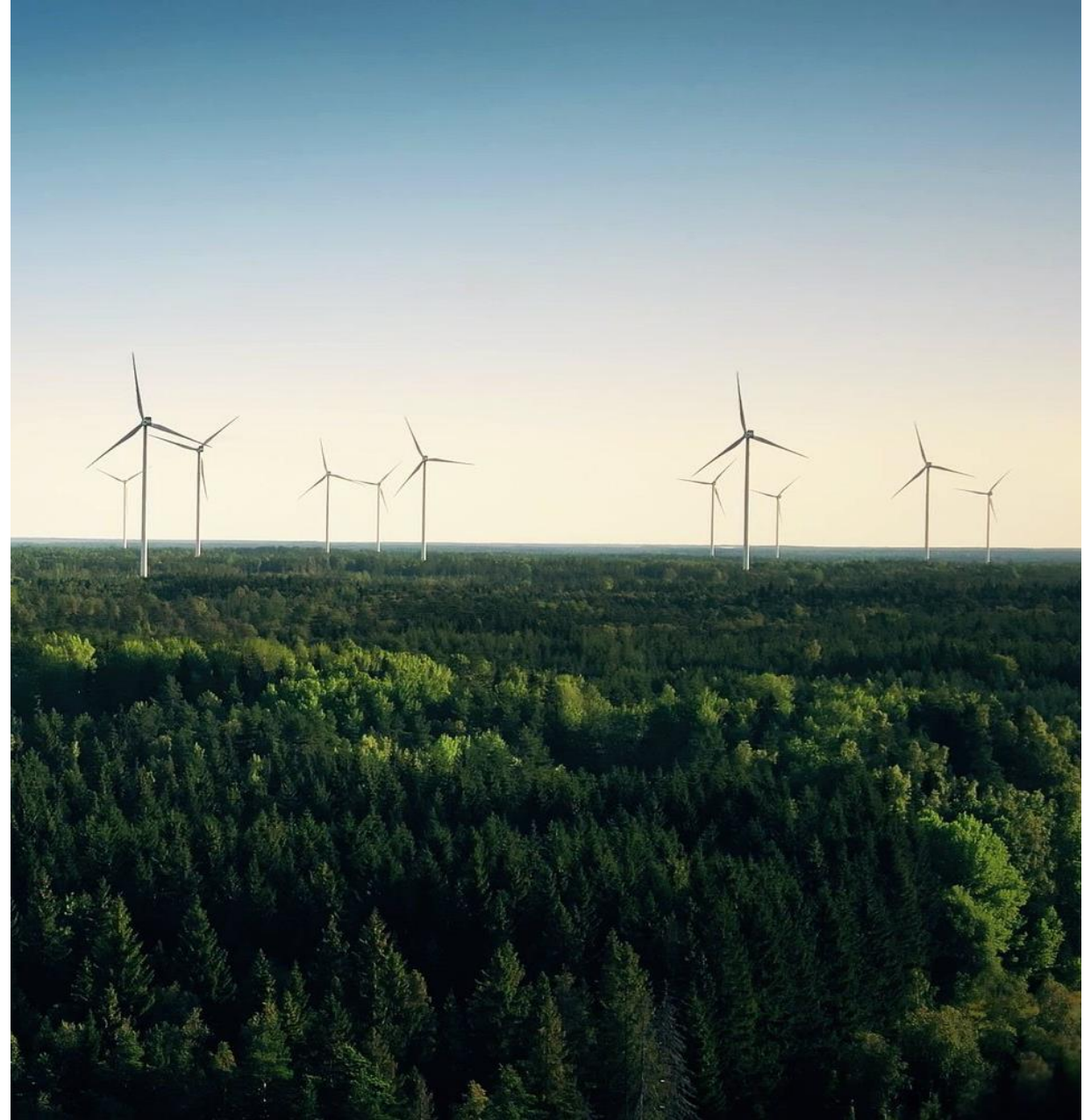
Reducing CO<sub>2</sub>e emissions by 50 per cent no later than 2030, compared to 2021

## 2035 Target 2

Being a climate-neutral organization no later than 2035, in line with Finland's climate policy decision

## 2050 Target 3

Achieving net-zero emissions by 2050



## 4. Financial Performance

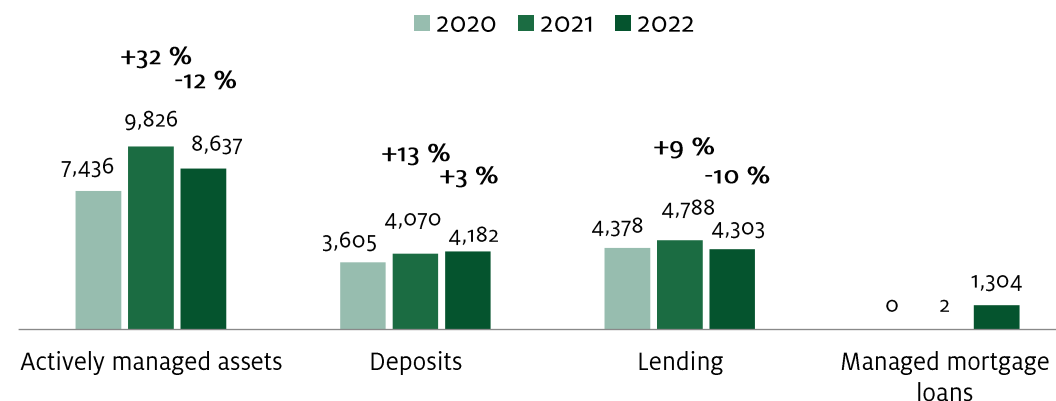
# Long-Term Financial Targets

<b>Profitability</b>	Return on equity after taxes (ROE) shall exceed 15 per cent over time
<b>Capitalization</b>	The Common Equity Tier 1 capital ratio shall exceed the FIN-FSA's minimum requirement by 1.75-3.0 percentage points
<b>Payout ratio</b>	The payout ratio shall be 60 per cent of shareholders' interest in profit or higher, provided that capital adequacy does not fall below the target

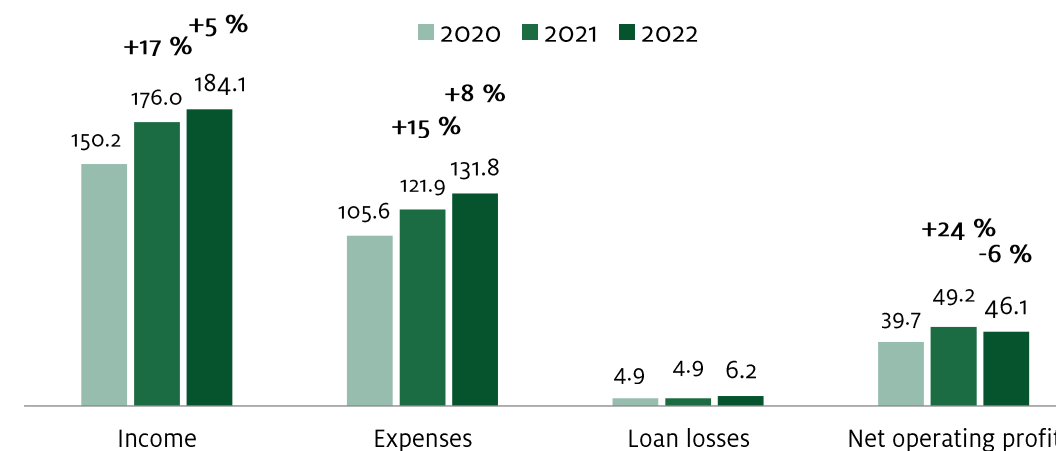
# 2022 in Summary

- 2022 was turbulent: with war in Ukraine, high inflation, rising interest rates and bond yields as well as plunging stock markets
- Russia's invasion of Ukraine has no direct impact on the Bank of Åland's credit portfolio. However, the Bank of Åland is affected by the changing macroeconomic conditions. The Bank has substantial positive net interest income sensitivity to rising short-term market interest rates
- In February, the Bank of Åland transferred most of its Swedish mortgage loans (SEK 10.4 billion) and related previously issued Covered Bonds (SEK 7.5 billion) to Borgo, in which the Bank of Åland is one of the main shareholders. The transaction had a nonrecurring positive effect in the Bank of Åland's income statement of EUR 9.8 M. An additional mortgage portfolio will be transferred to Borgo later
- Of the Bank of Åland's Stage 3 impairment loss provisions, EUR 6.0 M is related to a case in Sweden caused by credit fraud, where the customers were sentenced to prison terms for this crime. The Bank of Åland has the requisite insurance against crime and has filed a damage claim with its insurance company. The insurance company has not completed its damage investigation
- Finland's POP Bank has chosen the Bank of Åland's subsidiary Crosskey as its central banking system partner
- For the second year in a row, the Bank of Åland was named Finland's best Private Banking player in Kantar Prospera's survey
- Bank of Åland has acquired and annulled a total of 361,281 own Series B shares for a total amount of EUR 12.1 M
- A new share savings program was launched for all employees in the Group

## Volumes, EUR M



## Net operating profit, EUR M



# Q4 and 2022 Results

## Q4 Results

- Net operating profit Q4, EUR 10.6 M (10.2 M in Q4 2021), +4 %
- ROE Q4, 11.9 % (10.6 % in Q4 2021)

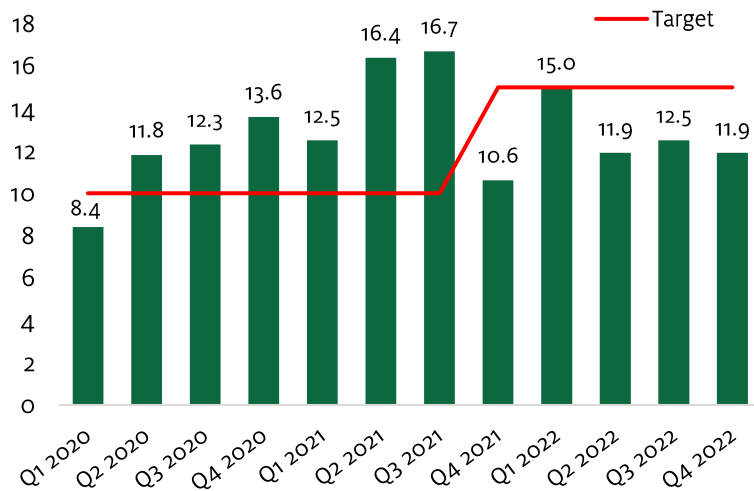
## 2022 Results

- Net operating profit 2022, EUR 46.1 M (49.2 M in 2021), -6 %
- ROE 2022, 12.8 % (14.0 % in 2021)
- Earnings per share 2022, EUR 2.37 (2.55 in 2021), -7 %

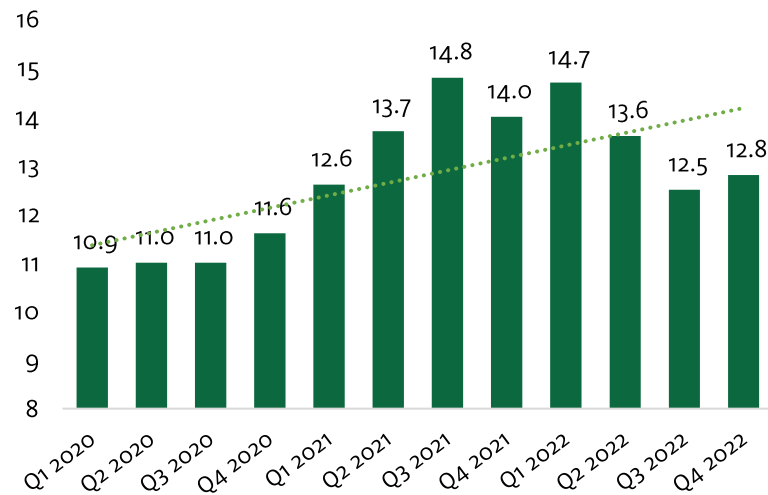
## Future Outlook

- The Bank of Åland expects its net operating profit in 2023 to be significantly better than in 2022
  - Dependent on the performance of the fixed income- and stock markets
  - Some uncertainty about the Bank's current forecast due to concerns about economic development in a number of important markets

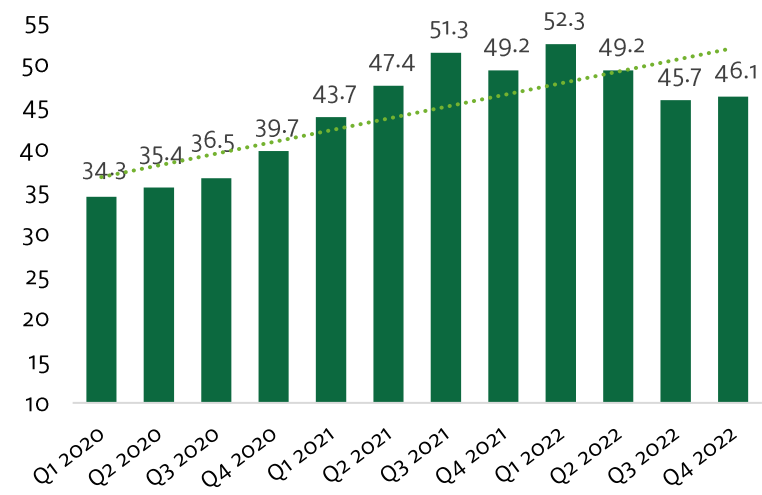
ROE %, 2020-2022



ROE, Rolling 12 Months, %



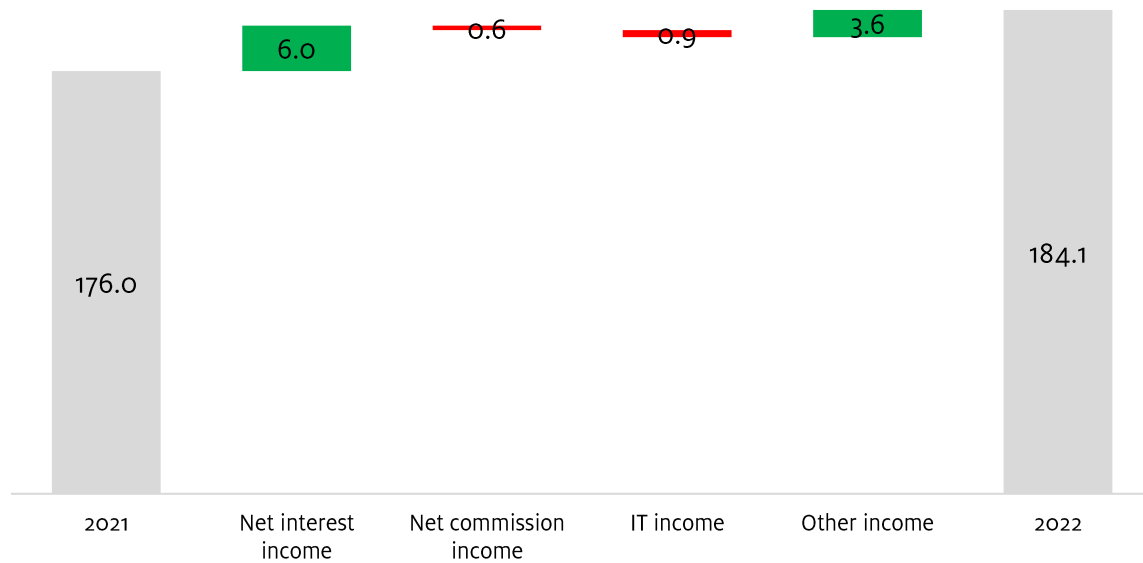
Net Operating Profit, Rolling 12 Months, EUR M



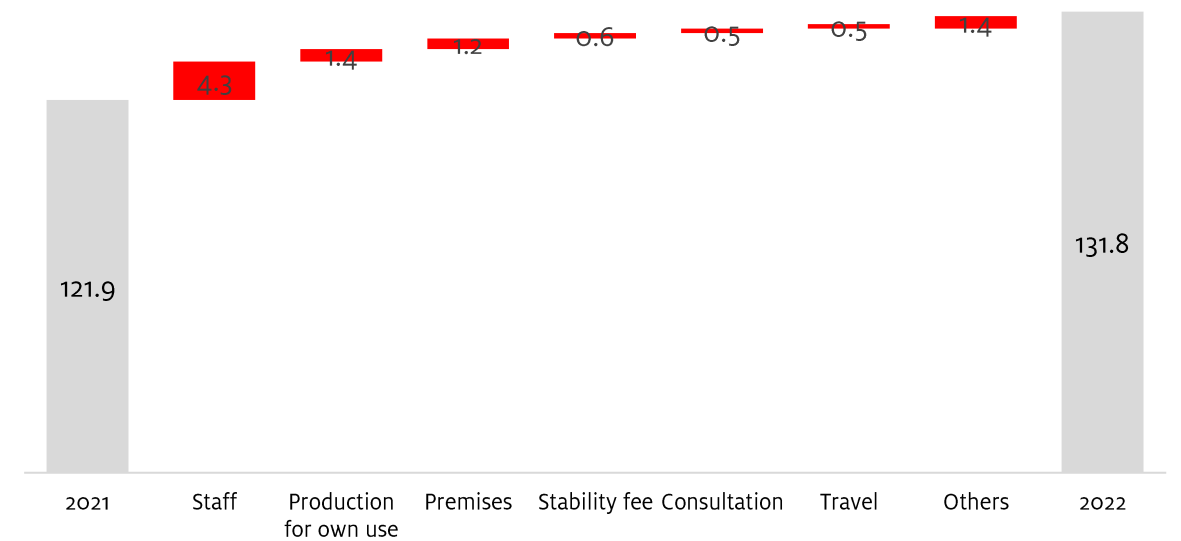
Statutory fees: EUR 2.0 M (Q1 2020), EUR 0.6 M (Q2 2020), EUR 2.8 M (Q1 2021), EUR -0.1 M (Q2 2021), EUR 3.6 M (Q1 2022) and EUR -0.1 M (Q2 2022)

# Higher Income and Expenses

Income 2022, EUR M



Expenses 2022, EUR M



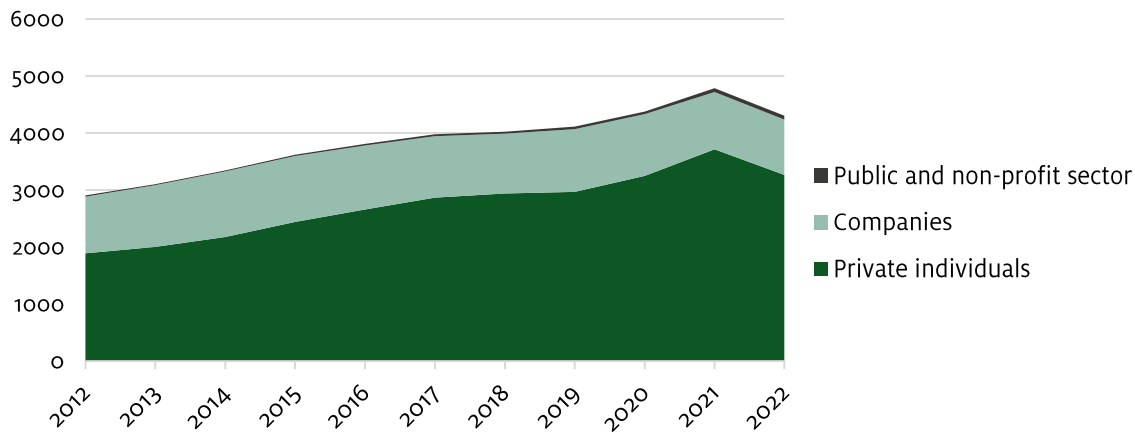
## 5. Asset Quality



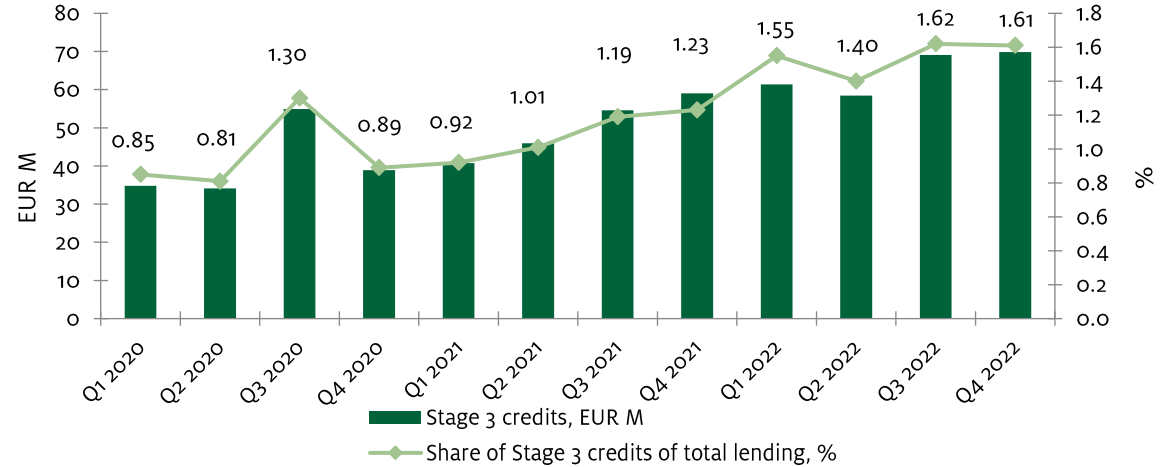
# Lending Strategy Focused on Balanced Credit Growth

- The Bank of Åland is a relationship Bank with the primary focus on customers with investment needs in the Private Banking and Premium Banking segments
  - Selective lending to high quality, affluent clients, where asset quality is prioritised over lending volume growth and higher returns
- The Bank of Åland is not granting credits as a standalone product to mass market clients or corporate clients
- Balanced growth in lending versus deposits in every business area
- Residential mortgages or property as collateral in at least half of the lending
- Many small loans are preferred to a few large
- Loan loss level of 0.14 % in 2022 (0.12 % in 2021)

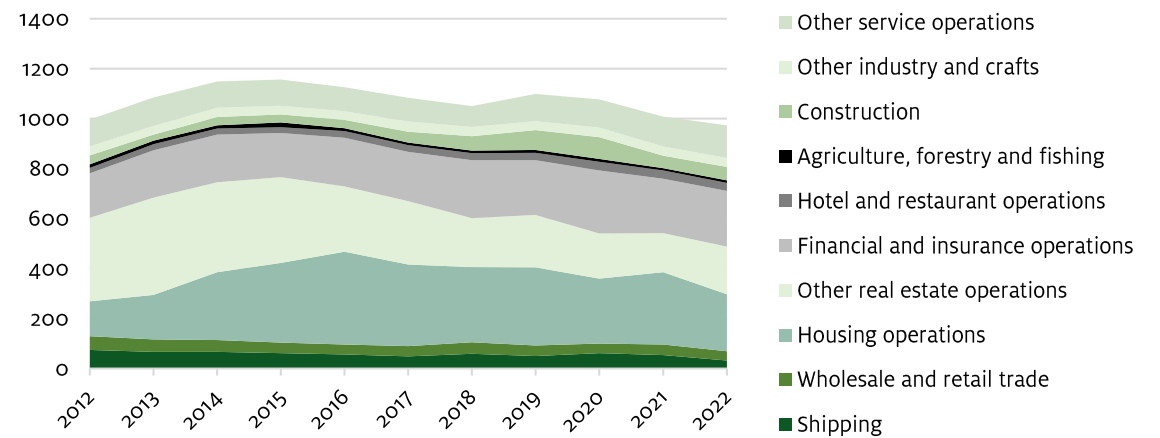
## Lending to the Public, EUR M




## Stage 3 Credits 2020-2022



## Lending to Companies, EUR M



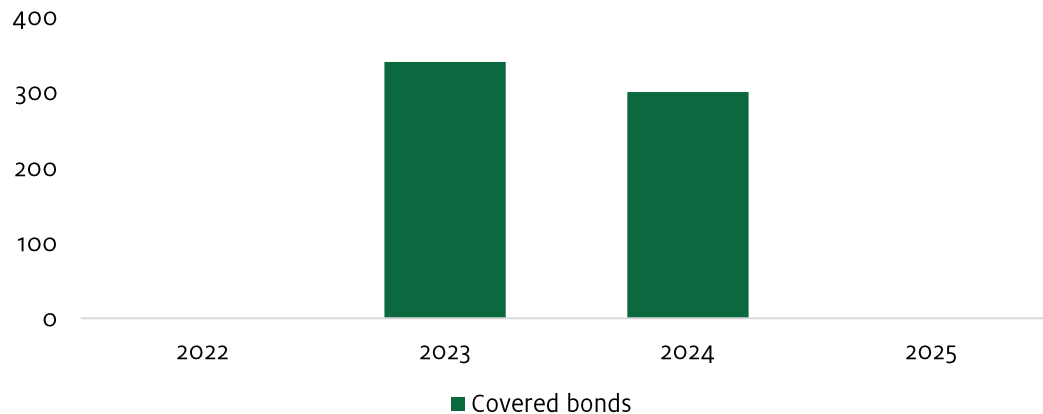


## 6. Liquidity and Funding

# Group Funding and Liquidity Management

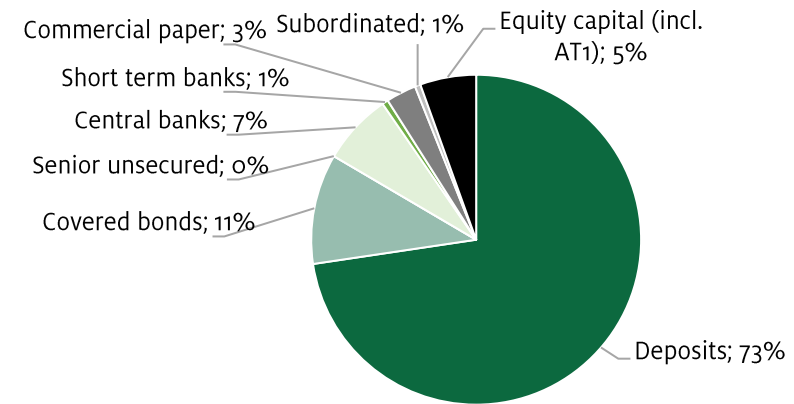
- Demand deposits and time deposits from core private customers and their companies are the main funding sources
- Covered Bonds, the main long-term funding source today, were introduced in early 2012 in order to diversify the funding mix and to form a reliable and cost-efficient funding channel
- Loans from central banks have grown from 2 % → 7 % since the start of the pandemic
- A balanced funding mix is maintained with a diversity of funding sources
- Well-diversified maturity profile with limited exposure to short-term wholesale funding

## Maturing Long-Term Funding\* December 31, 2022, EUR M



\* Excluding retained Covered Bonds

## Group Funding Profile December 31, 2022



## Themes 2023

- After the transfer of SEK Covered Bonds to Borgo, the share of customer deposits is high, above 70 % of the funding
- In adverse market conditions it has been a reasonable strategy to issue retained Covered Bonds and use those as collateral for funding from the central banks
- Demand conditions and the market situation favour issuance in Covered Bonds
- The balanced funding mix is maintained
- Effective on January 1, 2022, the Finnish FSA has given the Bank of Åland a formal MREL requirement under European Union regulations. The requirement consists of a minimum of 9 % total capital requirement and a minimum of 3 % leverage ratio. The MREL requirements have no material effect on the funding of the Bank

# Liquidity Reserve

- Very high quality in liquidity reserves
  - The most liquid and tradable assets
  - LCR and NSFR targets 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

## Key metrics

### Liquidity reserve

**21 %**  
of total assets

### Liquidity portfolio

**EUR 1,226 M**

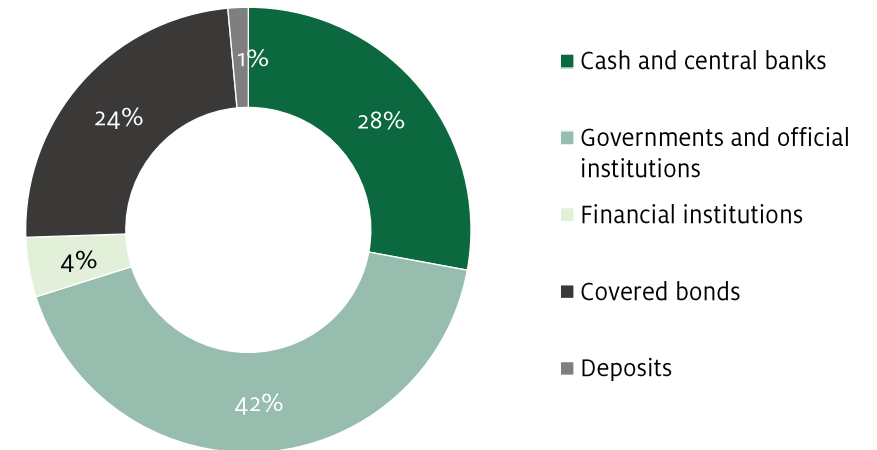
### LCR

**138 %**

### NSFR

**108 %**

## Composition of the Liquidity Reserve December 31, 2022



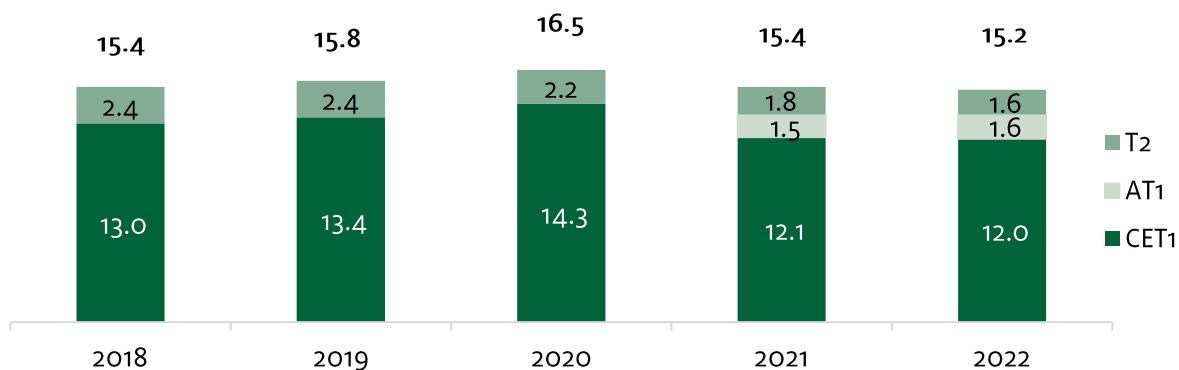
An aerial photograph of a rocky coastline. The water is a deep, dark blue, and the rocks are dark and jagged. A single white bird is perched on a rock in the middle ground. The text '7. Capital Position' is overlaid on the left side of the image.

## 7. Capital Position

# Committed to Maintaining a Strong Capital Ratio

- The Bank of Åland is committed to a strong capital ratio
- The Bank will continue to build up its capital base, improve and diversify earnings, and uphold a sound approach to risk
- Conservative pay-out policy is to safeguard the capital position
- As of 2022, the standardised 26.5 per cent upward adjustment in the risk exposure amount, calculated according to the current IRB approach while awaiting an updated approach, was raised to 45.5 per cent for the retail portfolio
- A new risk exposure amount of EUR 7 M was added due to an increased strategic foreign exchange position in Swedish kronor after the transfer of most of the Swedish mortgage loan portfolio to Borgo AB (publ)
- At year-end 2021, there was unutilised permission from the Finnish FSA for buy-backs of the Bank's own shares totalling up to EUR 10.5 M. This amount was fully deductible item in the capital base (own funds) even when these buy-backs had not occurred. As of December 31, 2022 there was no similar unutilised permission, as buy-backs had already been carried out
- The Board of Directors proposes a dividend of EUR 31.3 M for 2022, consisting of a regular dividend of EUR 1.60 per share plus an extra dividend of EUR 0.45 per share, subtracted from the Bank's CET1 capital ratio on December 31, 2022
- CET1 capital ratio for a small bank like the Bank of Åland is not comparable to larger banks with IRB methods

Capital position, %



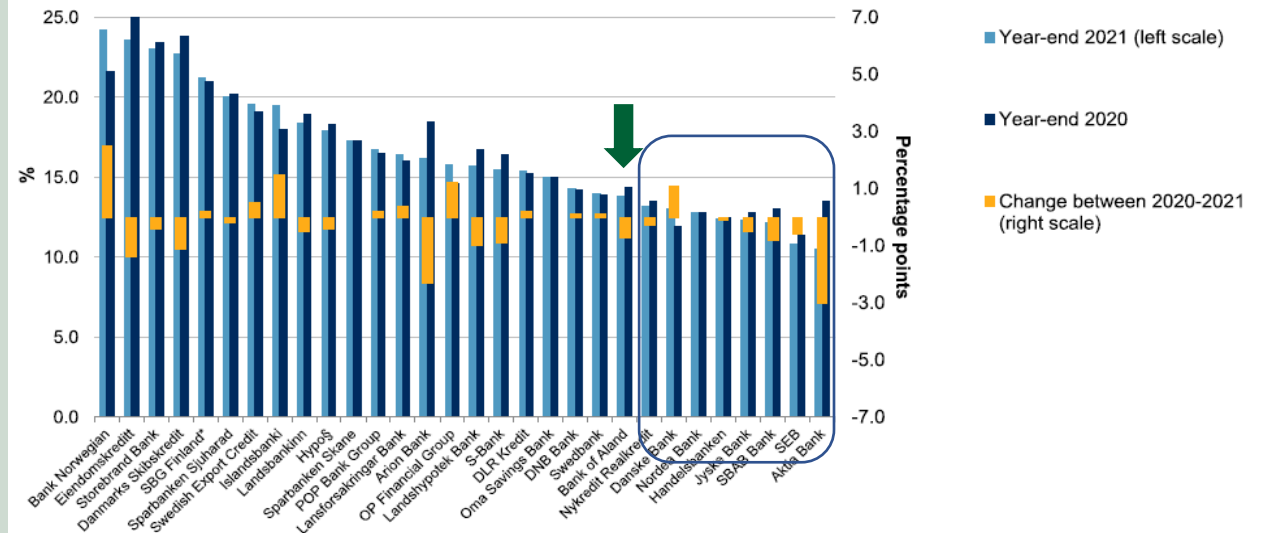
Percent	2020	2021	2022	Position 2022
Pillar 1 requirement	4.50	4.50	4.50	
Capital conservation buffer	2.50	2.50	2.50	
Countercyclical buffer	0.00	0.00	0.50	
Systemic risk buffer	0.00	0.00	0.00	
Pillar 2 requirement	1.50	0.56	0.56	
<b>CET1 capital requirement</b>	<b>8.50</b>	<b>7.56</b>	<b>8.06</b>	<b>12.0</b>
Pillar 1 requirement	1.50	1.50	1.50	
Pillar 2 requirement		0.19	0.19	
<b>AT1 capital requirement</b>	<b>1.50</b>	<b>1.69</b>	<b>1.69</b>	<b>1.6</b>
Tier 1 capital requirement	10.00	9.25	9.75	13.6
Pillar 1 requirement	2.00	2.00	2.00	
Pillar 2 requirement		0.25	0.25	
<b>T2 capital requirement</b>	<b>2.00</b>	<b>2.25</b>	<b>2.25</b>	<b>1.6</b>
<b>Total capital requirement</b>	<b>12.00</b>	<b>11.50</b>	<b>12.00</b>	<b>15.2</b>
Leverage ratio requirement		3.00	3.00	4.3

# S&P Views Bank of Åland's Capital Position to be a Credit Strength

S&P highlights that Bank of Åland's strong capital position is a credit strength

- Key strengths according to S&P
  - Strong risk-adjusted capitalization
  - Low credit losses
- The upgrade on the Bank's long-term issuer credit rating from BBB to BBB+ reflects S&P's forecast that Bank of Åland's capitalization will strengthen sustainably through 2024. S&P expects that the Bank's RAC ratio will improve to 15-16 % over the next two years from 14.5 % as of June 30, 2022

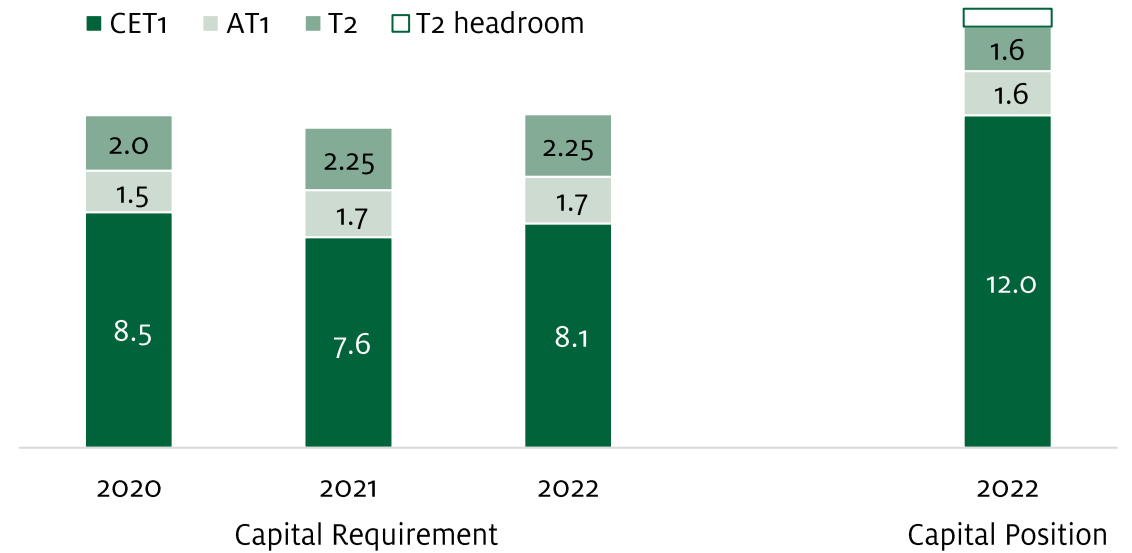
Nordic Banks' RAC Ratios On Dec. 31, 2021, Compared With Dec. 31, 2020



# Bank of Åland has Unutilized Headroom for T2 Capital

- Bank of Åland is allowed to cover 2 percentage units of the 8 % risk-weighted Pillar 1 requirement with Tier 2 capital
- In addition, 25 % of the Pillar 2 requirement imposed by Finnish FSA can be met by Tier 2 capital. As of today, the Pillar 2 requirement for Bank of Åland is 1.0 %
- In total, the Bank of Åland therefore has a Tier 2 capital need of 2.25 % which in December 2022 was equal to EUR 43.6 M
- In December 2022, the Tier 2 capital position was EUR 31.5 M, which translates into 1.6 % of REA
- To optimize the bank's capital position, Bank of Åland is contemplating the issuance of SEK 200 M (exp.) Tier 2 capital

Bank of Åland is contemplating to issue Tier 2 capital to optimize the capital position

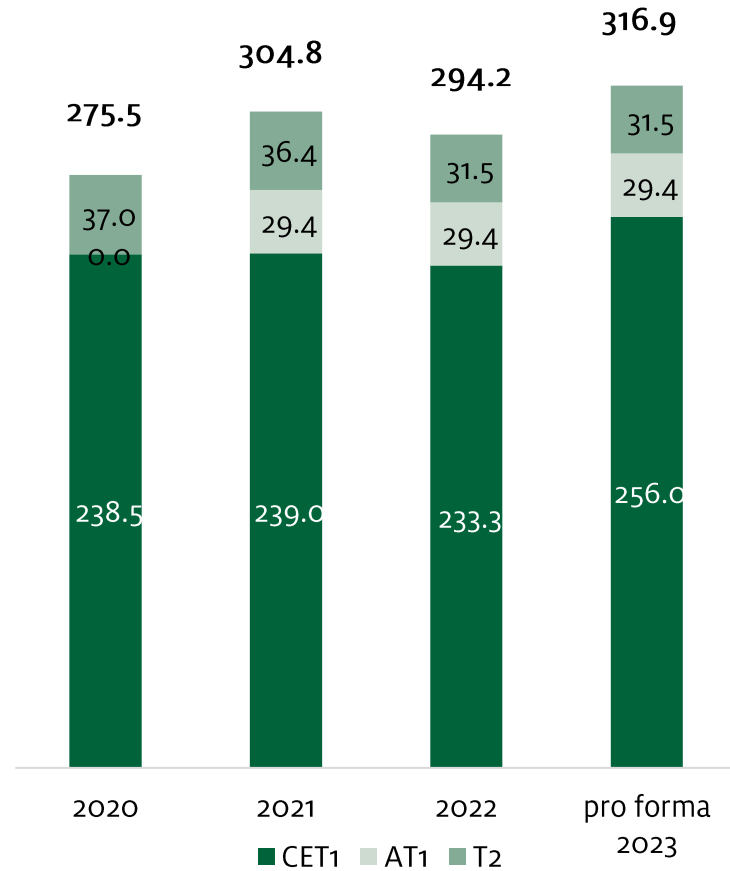




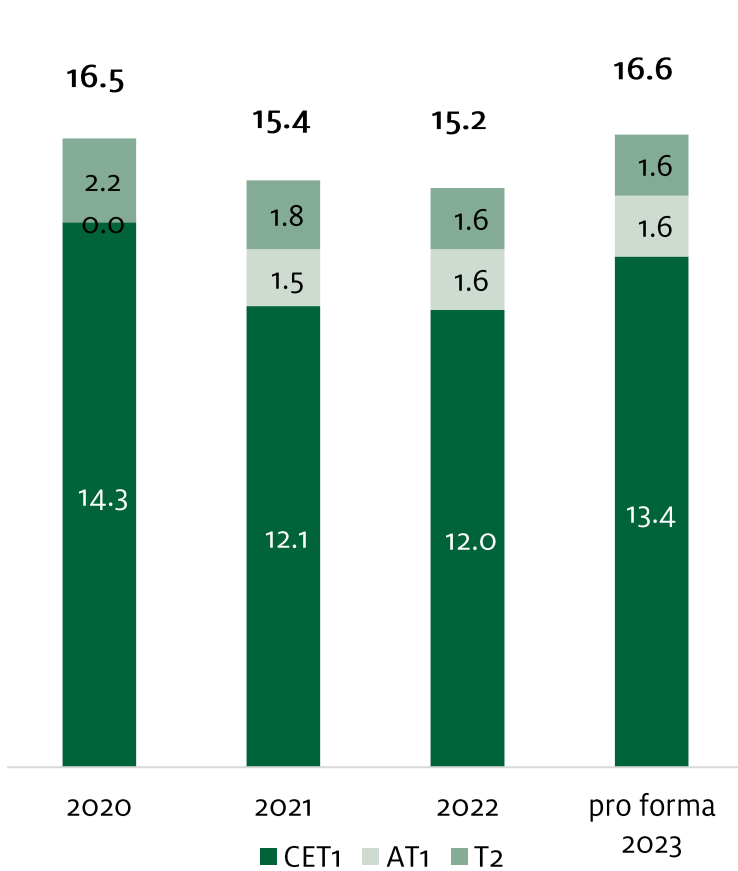
# Bank of Åland's Capital Position

EUR M and Capital Ratios in %

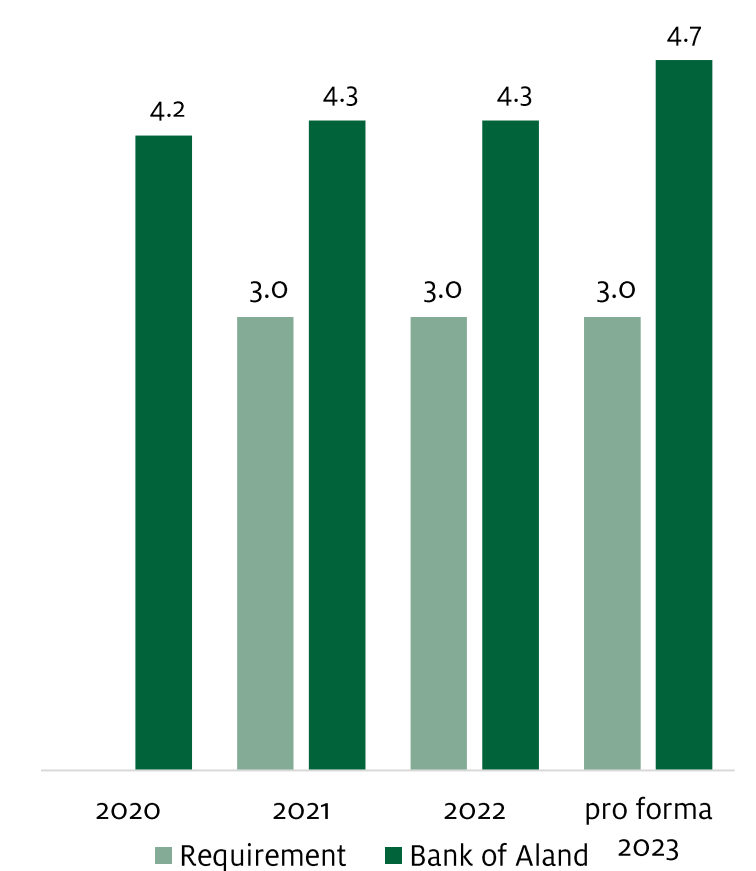
Capital base, EUR M



Capital ratios, %



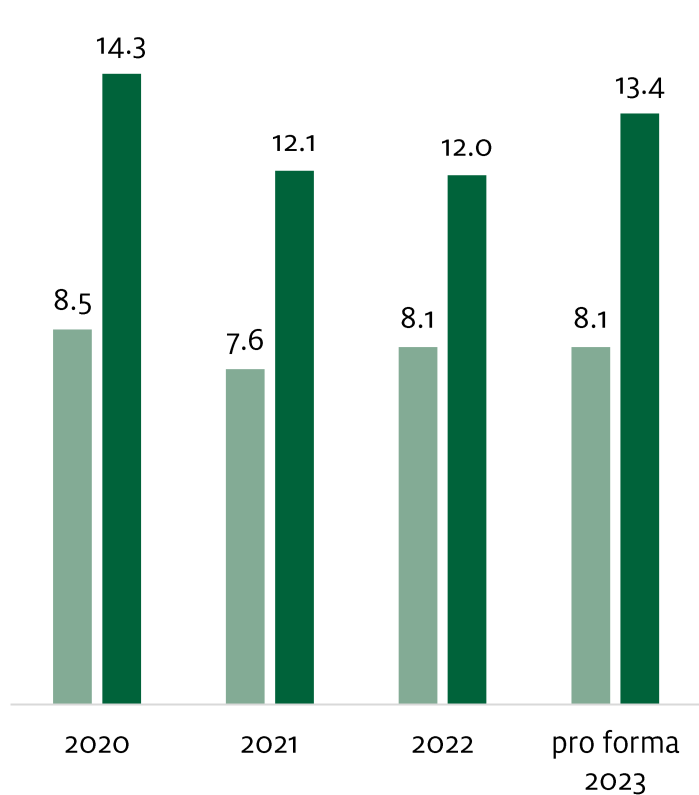
Leverage ratio, %



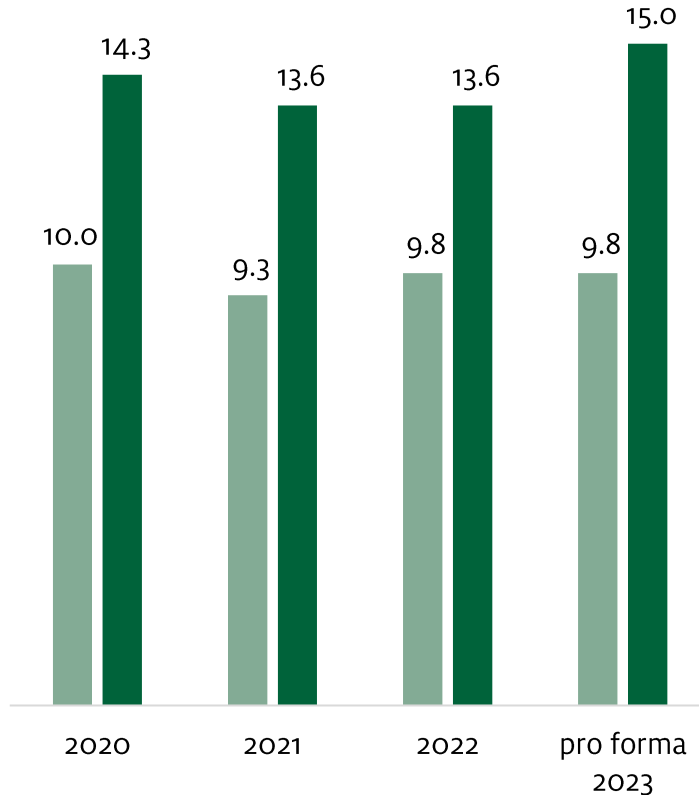
# Bank of Åland's Capital Position and Requirements

Capital Ratios in %

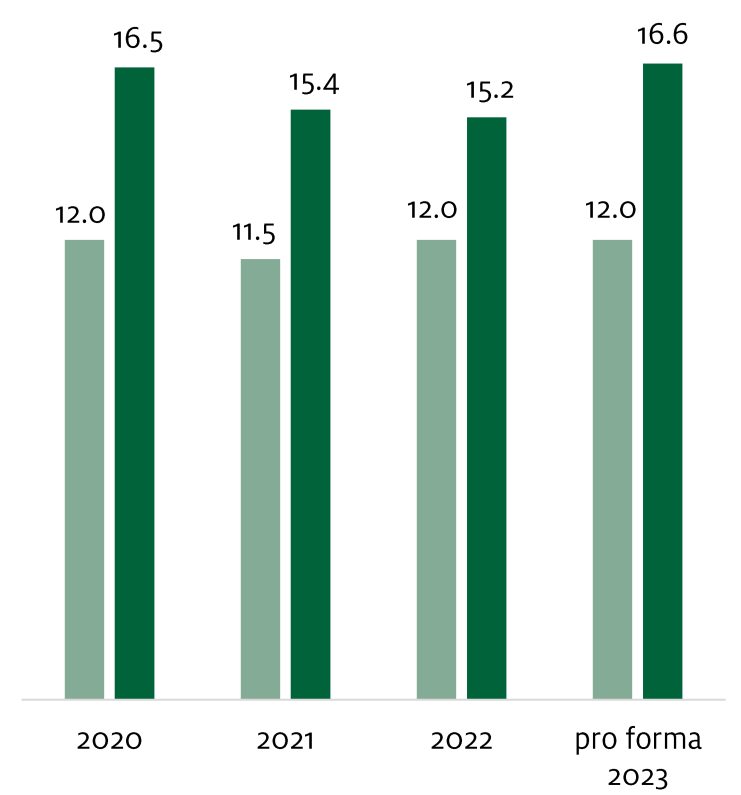
Common Equity Tier 1, %



Tier 1, %



Total Capital, %



■ Requirement ■ Bank of Åland

■ Requirement ■ Bank of Åland

■ Requirement ■ Bank of Åland

## 8. Proposed T2 Transaction

# Indicative Term Sheet for Bank of Åland's Proposed Tier 2

<b>Issuer</b>	Alandsbanken Abp (Ticker: AABHFH)
<b>Issuer rating</b>	BBB+ (stable) by S&P
<b>Currency and Exp. Deal Size</b>	SEK 200 M
<b>Maturity</b>	20NC5
<b>First Call Date</b>	[**] February 2028 (5 year)
<b>Status</b>	Subordinated, Senior only to any AT1 Notes, Parity Securities or any other obligations of the Issuer ranking, or expressed to rank, junior to the Tier 2 Notes of the Issuer
<b>Format</b>	Subordinated note, Tier 2
<b>Optional Redemption Dates</b>	The Issuer may redeem all, but not some only, of the notes on the first call date (as defined in the Final Terms) or on any subsequent interest payment date thereafter at their redemption price subject to the Competent Authority approval
<b>Special Event Redemption</b>	Upon the occurrence of a Withholding Tax Event, Tax Event or Capital Event and subject to approval by the Competent Authority, the Issuer may, at its option, having given not less than 30 days' notice to the Noteholders redeem all (but not some only) of the Tier 2 Notes at their Outstanding Principal Amount, together with interest accrued to (but excluding) the date of redemption
<b>Loss Absorption Mechanism - Write-Down</b>	Permanent 50 % write-down upon breach of 7 % CET1 Ratio of the Issuer or the Group
<b>Coupon Structure/ Interest</b>	Floating Rate Notes/ Floating (quarterly)
<b>Governing Law</b>	Finnish Law
<b>Listing</b>	Helsinki Stock Exchange
<b>Clearing</b>	Euroclear Sweden
<b>Target Market</b>	MIFID II professionals/eligible counterparties only (all distribution channels). No PRIIPs key information document (KID) has been prepared as not available to retail in EEA
<b>Denomination</b>	SEK 2,000,000
<b>Documentation</b>	Under the Issuer's EUR 2,000,000,000 Medium Term Note, Covered Bond, Tier 2 Note and Additional Tier 1 Capital Note Programme dated October 31, 2022, and supplemented February 2, 2023

## 9. Appendix

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# Key Figures

	Q4 2022	Q4 2021	2022	2021	2020	2019	2018
ROE, %	11.9	10.6	12.8	14.0	11.6	10.7	9.8
Expense/ income ratio, %	73	70	72	69	70	73	77
Loan loss level, %	0.20	0.30	0.14	0.12	0.11	0.08	0.02
CET1 capital ratio, %	12.0	12.1	12.0	12.1	14.3	13.4	13.0
Total capital ratio, %	15.2	15.4	15.2	15.4	16.5	15.8	15.4
Earnings per share, EUR	0.55	0.51	2.37	2.55	2.02	1.69	1.48
Equity capital per share, EUR	18.82	19.39	18.82	19.39	18.76	16.61	15.67
Lending to the public, EUR M	4,303	4,788	4,303	4,788	4,378	4,110	4,022
Deposits from public, EUR M	4,182	4,070	4,182	4,070	3,605	3,368	3,304
Equity capital, EUR M	316	332	316	332	292	258	242
Risk exposure amount, EUR M	1,938	1,976	1,938	1,976	1,671	1,583	1,578
FTE	862	817	854	815	751	700	691

# Income Statement

EUR M	Q4 2022	Q4 2021	2022	2021	2020	2019	2018
Net interest income	19.7	16.2	68.2	62.2	58.9	53.9	54.5
Net commission income	18.4	21.5	78.4	79.0	66.3	58.0	54.3
Other income	8.9	8.5	37.5	34.8	24.9	22.0	18.8
<b>Total income</b>	<b>47.0</b>	<b>46.2</b>	<b>184.1</b>	<b>176.0</b>	<b>150.1</b>	<b>133.9</b>	<b>127.6</b>
Staff costs	-19.6	-18.0	-75.5	-71.1	-62.9	-57.0	-57.1
Other expenses	-14.6	-14.4	-56.3	-50.8	-42.6	-40.5	-40.7
<b>Total expenses</b>	<b>-34.1</b>	<b>-32.5</b>	<b>-131.8</b>	<b>-121.9</b>	<b>-105.6</b>	<b>-97.5</b>	<b>-97.8</b>
<b>Profit before impairment losses</b>	<b>12.9</b>	<b>13.8</b>	<b>52.3</b>	<b>54.1</b>	<b>44.6</b>	<b>36.4</b>	<b>29.8</b>
Net impairment loss on financial assets	-2.2	-3.5	-6.2	-4.9	-4.9	-3.2	-0.8
<b>Net operating profit</b>	<b>10.6</b>	<b>10.2</b>	<b>46.1</b>	<b>49.2</b>	<b>39.7</b>	<b>33.2</b>	<b>29.0</b>
Income taxes	-2.1	-2.3	-9.3	-9.3	-8.2	-6.9	-6.1
<b>Net profit for the period</b>	<b>8.5</b>	<b>7.9</b>	<b>36.8</b>	<b>39.9</b>	<b>31.5</b>	<b>26.3</b>	<b>22.9</b>
Non-controlling interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Shareholders in Bank of Åland Plc</b>	<b>8.5</b>	<b>7.9</b>	<b>36.8</b>	<b>39.8</b>	<b>31.5</b>	<b>26.3</b>	<b>22.9</b>



# Balance Sheet

Bank of Åland Group	Dec 31, 2022	Dec 31, 2021		Dec 31, 2022	Dec 31, 2021
<i>Assets</i>			<i>Liabilities</i>		
Cash and balances with central banks	342	894	Liabilities to credit institutions and central banks	434	867
Debt securities	1,000	718	Deposits from the public	4,182	4,070
Lending to credit institutions	43	64	Debt securities issued	793	1,197
Lending to the public	4,303	4,788	Derivative instruments	24	7
Shares and participations	49	15	Current tax liabilities	3	4
Participations in associated companies	7	15	Deferred tax liabilities	35	35
Derivative instruments	27	13	Other liabilities	47	50
Intangible assets	21	23	Provisions	1	0
Tangible assets	36	34	Accrued expenses and prepaid income	32	36
Investment properties	0	0	<u>Subordinated liabilities</u>	<u>31</u>	<u>36</u>
Current tax assets	1	0	<b>Total liabilities</b>	<b>5,581</b>	<b>6,303</b>
Deferred tax assets	6	5			
Other assets	29	34	<i>Equity capital and non-controlling interests</i>		
<u>Accrued income and prepayments</u>	<u>35</u>	<u>31</u>	Share capital	42	42
<b>Total assets</b>	<b>5,898</b>	<b>6,635</b>	Share premium account	33	33
			Reserve fund	25	25
			Fair value reserve	-11	3
			Unrestricted equity capital fund	28	28
			Retained earnings	170	172
			<b>Shareholders' portion of equity capital</b>	<b>287</b>	<b>302</b>
			Non-controlling interests' portion of equity capital	0	0
			Additional Tier 1 capital holders	29	29
			<b>Total equity capital</b>	<b>316</b>	<b>332</b>
			<b>Total liabilities and equity capital</b>	<b>5,898</b>	<b>6,635</b>

# Outstanding Long-Term Funding\* December 31, 2022

## Cover pool FIN

ISIN	Nominal Amt	Settlement date	Maturity date	Coupon	Currency	EUR eq amt	Time to maturity
XS0876678391	90 000 000	30-01-2013	30-01-2023	2.75	EUR	90 000 000	0.08
XS1496878742	250 000 000	29-09-2016	29-09-2023	0	EUR	250 000 000	0.75
FI4000375241	300 000 000	19-03-2019	19-03-2024	0.125	EUR	300 000 000	1.22
						<b>640 000 000</b>	<b>0.87</b>

\* Excluding retained covered bonds

# Sustainability Information

Bank of Åland Group	Q4 2022	Q3 2022	%	Q4 2021	%	1.1 – 31.12 2022	1.1 – 31.12 2021	%
<b>Greenhouse gases, tonnes of CO<sub>2</sub>e</b>								
<b>Scope 1</b>								
Emissions from owned and controlled resources	2.3	2.7	-13	3.2	-28	7.0	5.9	20
<b>Scope 2</b>								
Energy-related emissions	0.2	4.2	-96	21.7	-99	30.7	73.0	-58
<i>of which from electricity according to market-based method<sup>1</sup></i>	0.0	4.2	-100	21.6	-100	30.0	72.5	-59
<b>Scope 3*</b>								
Purchased goods and services	23.0	22.5	2	27.5	-16	116.5	89.2	31
Capital goods	1.6	1.0	63	1.8	-11	5.1	7.9	-36
Transport and distribution	35.4	30.7	15	21.4	65	119.5	98.4	21
Waste generated by own operations	0.5	0.5	8	0.5	11	2.1	1.8	13
Business travel	143.1	127.9	12	63.6	125	378.5	97.9	287
Leased assets	2.5	1.5	70	1.1	121	6.2	4.3	45
<b>Total scope 3</b>	<b>206.2</b>	<b>184.1</b>	<b>12</b>	<b>115.9</b>	<b>78</b>	<b>627.8</b>	<b>299.5</b>	<b>110</b>
<b>Total greenhouse gases, tonnes of CO<sub>2</sub>e</b>	<b>208.7</b>	<b>191.0</b>	<b>9</b>	<b>140.9</b>	<b>48</b>	<b>665.5</b>	<b>378.4</b>	<b>76</b>
Climate compensation	-208.7	-191.0	9	-775.2		-665.5	-775.2	-14
<b>Net greenhouse gases, tonnes of CO<sub>2</sub>e</b>	<b>0.0</b>	<b>0.0</b>				<b>0.0</b>		
1) Emissions from electricity according to location-based method subtracted from Nordic Residual Mix, tonnes of CO <sub>2</sub> e	171.1	204.6	-16	219.2	-22	784.9	803.6	-2
<b>*Supplier-related emissions from purchases</b>								
Emissions per employee (tonnes/average full-time equivalent)	0.95	0.84		0.69		0.77	0.47	
Emissions per EUR M earned (tonnes/EUR M)	4.44	4.47		3.05		3.61	2.15	

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