Bank of Åland Plc

Annual Report 2011

We must dare to go our own way

ÅLANDSBANKEN

The year 2011 in brief

Financial developments

Developments in all business areas were positive, with an increased number of customers in both Premium and Private Banking, higher net interest income and a positive inflow of capital. This was offset during the autumn, however, by a sharp deterioration in the European financial market and the euro zone crisis. Together with the effects of changes in customer behaviour, this created a need for efficiency-raising measures in various sectors of the Bank.

During 2011, EUR 5.7 M was used or set aside in order to implement these measures. The Bank's negative net operating profit of EUR 5.7 M was also affected by a nonrecurring expense of EUR 1.1 M in the form of an impairment loss on the Bank's shareholding in the securities marketplace Burgundy.

During the year, the Bank strengthened its equity capital by means of a successful new share issue and received permission to engage in mortgage banking operations. The Swedish subsidiary Ålandsbanken Sverige AB was reorganised into a branch of the Bank of Åland.

Business operations

Operations in the Åland Islands developed satisfactorily, despite the weak market situation. The biggest successes occurred in the Premium Banking and Private Banking concepts. The number of Premium Banking customers increased by a full 27 per cent in Åland.

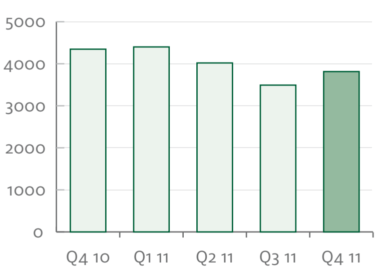
In the Finnish mainland business area, the Bank continued to its business development as a knowledgeable bank for financial investors which also offers financing solutions. Meanwhile there was a strong emphasis on personalised service and communication with the customer during 2011. Looking at the Bank's customer concepts, Premium Banking increased its number of customers by 5 per cent and Private Banking by 22 per cent.

In Sweden the implementation of the Bank's strategy, a new management and successful advertising campaigns positioned the Bank of Åland on the Swedish banking map as a fresh new contender that offers personalised service and all the banking services a customer needs. As a result of a competitive offer, 1,000 new accounts were opened in a short period. This offer was also instrumental in boosting home mortgage loans by 78 per cent. In Stockholm, Private Banking increased its business volume by 52 per cent. In Sweden total operating expenses – excluding restructuring expenses – decreased by 10 per cent.

The Bank's two largest subsidiaries continued to show good earnings: Crosskey Banking Solutions Ab Ltd at EUR 4.2 M and Ålandsbanken Asset Management Ab at SEK 5.1 M.

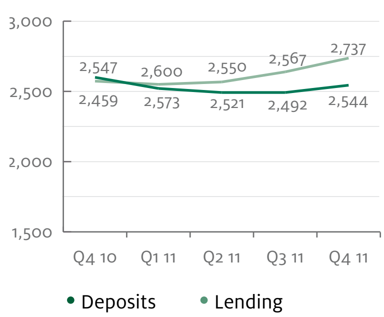
Managed assets

EUR M

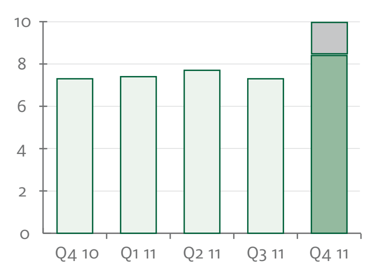


Deposits and lending

EUR M



Tier 1 capital ratio , %



Financial calendar

The Bank of Åland will publish the following Interim Reports during the 2012 financial year.

- January–March Interim Report April 30, 2012
- January–June Interim Report July 30, 2012
- January–September Interim Report October 29, 2012

The Annual Report and all Interim Reports will be published on the Internet: www.alandsbanken.fi

They can be ordered from: info@alandsbanken.fi or Secretariat, Bank of Åland Plc, PB 3, AX-22101 Mariehamn, Åland, Finland.

The Head Office of the Bank of Åland is in Mariehamn, capital of the autonomous Finnish province of Åland. Located in the Baltic Sea midway between Sweden and Finland, the 6,400-island Åland archipelago has more than 28,000 inhabitants. Its official language is Swedish.

This translation of the Swedish-language Annual Report uses the international currency codes for the European Central Bank euro (EUR) and the Swedish krona (SEK). At year-end 2011, the middle rate for EUR 1 was USD 1.2939 and SEK 8.912.

"The Bank" refers to the Bank of Åland Plc (Ålandsbanken Abp), Parent Company of the Bank of Åland Group. Amounts have generally been rounded off to millions or thousands, but percentage figures, totals, ratios etc. are calculated on the exact amounts. The abbreviation M refers to million(s), and K means thousand(s). Finnish-language place and company names are sometimes followed in parentheses by the corresponding Swedish-language name.

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Contents

About the Bank of Åland

- The Bank of Åland (Ålandsbanken) was founded in 1919 as Ålands Aktiebank and has been listed on the Helsinki Stock Exchange (now the Nasdaq OMX Helsinki Oy) since 1942.
- The Head Office is located in Mariehamn, Åland. The Bank of Åland has a total of 16 offices in the Åland Islands and eight offices on the Finnish mainland: in Helsinki (3), Espoo, Tampere, Vaasa, Turku and Parainen. In Sweden, the Bank of Åland has three offices: Stockholm, Gothenburg and Malmö.
- The Bank of Åland Group has a total of eight subsidiaries whose operations are connected in various ways with banking. They are Ålandsbanken Asset Management Ab, Ålandsbanken Equities Research Ab, Ålandsbanken Fondbolag Ab, Ålandsbanken Asset Management AB, Ålandsbanken Fonder AB, Alpha Management Company S.A., Ab Compass Card Oy Ltd and Crosskey Banking Solutions Ab Ltd, the latter with its own subsidiary S-Crosskey Ab.
- The Bank of Åland's vision is to be *"One bank for investors, with financing know-how, which is the best at building and maintaining customer relationships."*
- In the Åland Islands, the Bank of Åland is a bank for all residents, with an important position and a desire to help develop the Åland of the future.
- Over the years, the Bank of Åland has been an innovative pioneer in the financial services industry. The Bank of Åland's Premium Banking®, launched in 2004, has served as a model for competitors in the Nordic countries.
- The Bank of Åland has proactively chosen to offer products that benefit the customer at various levels: first and foremost financially, but also by contributing to sustainable development. Including 2011, the Bank's Environmental Account has contributed a total of nearly EUR 1 M to projects that improve and protect the environment.

Bank of Åland Group	2011	2010	2009	2008	2007
EUR M					
Income					
Net interest income	43.1	36.8	39.1	42.1	39.3
Net commission income	38.7	36.8	28.0	16.4	18.3
Impairment loss on shares	–1.1	0.0	0.0	0.0	0.0
Other operating income	18.5	25.5	20.3	15.9	18.0
Total income	**99.2**	**99.1**	**87.5**	**74.4**	**75.6**
Staff costs	–54.9	–53.7	–44.6	–28.3	–26.2
Other operating expenses	–42.5	–38.5	–32.6	–23.8	–19.8
Restructuring expenses	–5.7	0.0	0.0	0.0	0.0
Total expenses	**–103.1**	**–92.2**	**–77.2**	**–52.1**	**–46.0**
Profit before loan losses etc.	**–3.9**	**6.9**	**10.3**	**22.3**	**29.6**
Impairment losses on loans and other commitments	–1.8	–5.9	–2.9	–2.3	–1.0
Negative goodwill	0.0	0.0	23.1	0.0	0.0
Net operating profit	**–5.7**	**1.0**	**30.5**	**20.0**	**28.6**
Volume					
Lending to the public	2,737	2,573	2,546	2,193	2,104
Deposits from the public	2,544	2,600	2,411	2,126	1,921
Managed assets	3,814	4,347	3,101	672	947
Equity capital	181	154	162	138	135
Risk-weighted assets	1,729	1,664	1,636	1,282	1,206
Financial ratios					
Return on equity after taxes, % (ROE)	–3.9	–1.8	17.8	10.7	16.4
Expenses/income ratio, %	104	93	88	70	61
Loan loss level, %	0.07	0.23	0.12	0.11	0.05
Gross non-performing assets, %	0.70	1.07	0.56	0.66	0.24
Core funding ratio (Lending/deposits), %	108	99	106	103	110
Equity/assets ratio, %	5.3	4.4	4.8	5.0	4.9
Core Tier 1 capital ratio, %	8.4	7.3	7.9	8.6	8.6
Working hours re-calculated to full-time equivalent positions	690	679	641	487	470

Group structure

Operating area	Company	Sales	Total assets	Stake, %	Offices	Employees	Founded
Banking operations	Bank of Åland Plc	EUR 99.3 M*	EUR 3,426.6 M		27	457	1919
Asset management	Ålandsbanken Asset Management AB**	EUR 36.9 M	EUR 58.3 M	100	1	14	Acquired in 2009
	Ålandsbanken Asset Management Ab	EUR 9.7 M	EUR 5.9 M	70	1	25	2000
Fund management	Ålandsbanken Fondbolag Ab	EUR 5.5 M	EUR 1.6 M	100	1	7	1998
	Ålandsbanken Fonder AB	EUR 3.0 M	EUR 1.5 M	100	1	3	Acquired in 2009
	Alpha Management Company S.A.	EUR 2.3 M	EUR 2.0 M	100	1	0	Acquired in 2009
Equities research	Ålandsbanken Equities Research Ab	EUR 0.8 M	EUR 0.1 M	100	1	4	2009
IT	Crosskey Banking Solutions Ab Ltd	EUR 31.2 M	EUR 11.5 M	100	4	223	2004
	S-Crosskey Ab	EUR 3.4 M	EUR 0.3 M	60	1	1	2005
Issuance of credit and debit cards	Ab Compass Card Oy Ltd	EUR 3.1 M	EUR 28.9 M	66	1	13	2006

* Net interest income, commission income and other operating income.

** When Swedish operations changed to branch status on December 1, 2011, Ålandsbanken Sverige AB was reorganised into Ålandsbanken Asset Management AB, whose operations consist of asset management.

Successes swallowed up by external factors

Looking back at 2011 leads to mixed feelings. Until August we could see a clearly positive trend, resulting from a relatively strong market as well as measures and restructuring efforts that we had already undertaken. Both our net interest income and our commission income were developing favourably. Early in the autumn, the financial climate changed dramatically due to worries about the European economy, making it necessary to approve further efficiency-raising measures during the closing days of the year.

Developments in all our business areas are fundamentally positive, with an increased number of customers in our customer concepts, rising net interest income and a positive inflow of capital. Unfortunately this was offset by external circumstances that forced us to take actions for the future – actions of a nonrecurring nature, which adversely affected the year's earnings and caused us to report an operating loss of EUR 5.7 M for 2011.

The two major nonrecurring items that pulled down the year's earnings were a restructuring expense of EUR 5.7 M to create an organisation adapted in size and function to the tough business conditions of today and an impairment loss of EUR 1.1 M on the Bank's shareholding in the securities marketplace Burgundy. When our efficiency-raising measures have achieved their full effect, they will lower our level of expenses by an estimated EUR 8 M on an annual basis.

STABLE FOUNDATION NEEDED IN A TURBULENT WORLD

To enable us to expand our Bank further, during 2011 we achieved two important objectives. First, we are now authorised to carry out mortgage banking operations, thereby enabling us to increase our funding base by issuing covered bonds. Second, we carried out an oversubscribed new share issue, which both strengthened our capital base and demonstrated that we enjoy strong confidence from our shareholders.

Early in 2012, we also achieved our objective of being able to calculate our capital adequacy according to the same internal ratings-based (IRB) approach that the major banks use. This is something that we, with our portfolio of well-performing loans, can benefit from a number of ways.

BUSINESS AREAS MOVING IN RIGHT DIRECTION

Looking at our business areas, there has been good demand for financing solutions among Åland-based entrepreneurs. It is encouraging that there is dynamism in the Åland community despite financial turmoil. Our Premium Banking concept has made good progress in both the Åland and Finnish mainland business areas, together resulting in a 14 per cent increase in the number of customers, not least because of our new debt and credit card, which has some of the best features in the market. Private Banking also achieved major strides throughout the Group. Despite the general Finnish stock market downturn of 31 per cent (OMXHPI), managed assets decreased by only 12 per cent.

During 2009–2010 we adjusted our services for individual customers in the Finnish mainland business area to our vision of being "one bank for investors, with financing know-how". Our earnings show that we chose the right path. Our Corporate Service units in the Finnish mainland business areas followed suit by restructuring their business and target group in order to adhere to the same strategy.

In Sweden, since last spring we have been able to offer complete banking services. A successful branding campaign and a subsequent account offer, which attracted as many as 1,000 new customers in a short period, also greatly stimulated business. Under new management, our Swedish business is continuing to evolve towards the unique model that characterises the Bank of Åland and that we have successfully applied in our other markets. Private Banking and Asset Management operations are continuing as before and are being supplemented during 2012 by the Premium Banking service, aimed at

> Restructuring efforts, sometimes tough but necessary in order to ensure our future growth, dominated 2011. We must dare to go our own way.

a broader target group. This means that in Sweden, too, we are consolidating our position as the personalised bank that provides a high standard of comprehensive service.

During the spring, our banking computer system in Sweden was converted to the same system as in the rest of the Group. Meanwhile, customers there gained access to a modern and highly advanced Internet office. The conversion was carried out in collaboration with Crosskey in a very successful way. During the autumn our flagship Internet office was upgraded, with new functions in our other markets as well. Meanwhile a completely new Group website was launched.

Since December 1, our operations in Sweden are a branch of the Bank of Åland. The change from subsidiary status is one element of our effort to create a uniform structure in our business areas, while enabling us to streamline and achieve a significantly more advantageous tax situation.

A MORE EFFICIENT BANK IN 2012

I am fundamentally certain that we are doing the right things and that we have chosen the right way to expand and build further on a strong, independent Bank of Åland. However, external circumstances – including the European sovereign debt crisis – are anything but ideal. We can expect 2012 to be a year of hard work for continued growth. Meanwhile our efficiency-raising measures will lower our expenses. I am nevertheless counting on some bright spots: that 2012 will be the year when we make our genuine breakthrough in Sweden, thanks to increased awareness of us and of the opportunities we have to offer a broader group of customers personalised, dedicated, well-developed services. On the Finnish mainland, I believe in an aggressive effort to further strengthen our position. At home in Åland, one of our major focuses will be to support our companies and entrepreneurs through even better services.

Our potential exists on the path we have chosen, with our customers feeling they are being seen and heard. We will see the full effect of our efforts once market interest rates and the stock market have stabilised.

CUSTOMERS, SHAREHOLDERS AND EMPLOYEES WILL SUSTAIN US ALONG THE WAY

In 2011 our customers showed growing confidence in the Bank of Åland by investing more and more money with us, and our shareholders showed enormous confidence by actually oversubscribing our new share issue in a market situation of sharply falling bank share prices.

During the year, our employees did a superb job. For the first time since our change of strategy to a bank for financial investors, they have experienced a genuine economic downturn. Friendship is tested by adversity, and our employees have survived the challenge to their customer relationships. Nearly 90 per cent of our customers stated – in surveys conducted during the autumn when the stock market climate was at its gloomiest – that they can recommend our Private Banking services to a friend.

The organisation as a whole completed many resource-intensive projects during the year, such as our new card solutions, our updated Internet office and our website, the adjustment and implementation of Crosskey's banking system in our bank in Sweden, the share issue, preparations to carry out mortgage banking operations and the transition to branch status in Sweden.

I am proud of all the work that has been done to create a stable foundation for the future, and I would like to express my sincere gratitude to our customers, shareholders, employees and business partners.

Peter Wiklöf
Managing Director

Photographer: Daniel Eriksson

Daring to go our own way

As the largest banks become ever larger and individual customers feel ever smaller, a need arises – the need for a bank where the customer feels seen, heard and appreciated. With nearly a century behind it as an independent, innovative, customer-oriented bank, following a strategy of letting the needs of customers govern our development is a self-evident choice.

VISION

One bank for investors, with financing know-how, which is the best at building and maintaining customer relationships.

CHOICE OF POSITION

The Bank of Åland is a bank for investors, with financing know-how – a bank with close customer relationships that offers the same opportunities as the largest banks. A bank that dares to go its own way, and where every customer can feel that he or she is receiving personalised service and is not one member of a crowd.

This choice of position is challenging and may be regarded as unique, but it is a position where the Bank of Åland foresees a clear customer need and a growing market.

By putting special emphasis on financial investment operations, at the same time as the Bank offers financing solutions and outstanding service in other banking areas, the Bank of Åland can continue to attract interesting and profitable target groups.

A BANK FOR INVESTORS, WITH FINANCING KNOW-HOW

The Bank of Åland's proficiency as a bank for investors has been confirmed in all its markets over the past few years. This is demonstrated by its increasing number of customers and the growth in managed capital, along with various industry awards. The Bank's financing know-how has long traditions and will continue to play a central role, but due to the market situation and price competition of recent years, the Bank has preferred to adopt a more restrictive policy rather than working in low-profit activities.

CUSTOMER RELATIONSHIPS AND CONFIDENCE

To a great extent, the banking industry is a business based on confidence. This is especially evident in the way that customers handle their financial investments. The Bank of Åland knows that it takes time and requires persistent effort to gain the confidence of new customers. The results of surveys among the Bank's Private Banking customers in Åland and on the Finnish mainland show great confidence among customers. In Sweden, the Bank's rapid growth indicates the same trend.

PROVIDING DAY-TO-DAY BANKING SERVICES

Over time the Bank of Åland's Internet bank has been – and still is – a pioneer in the industry. During 2011 a more advanced, updated version was introduced in all markets and was well received. Of Premium Banking customers, 93 per cent use the Internet office for their day-to-day banking business, visiting an average of seven times per month. Visits to bricks-and-mortar bank offices are increasingly related to advisory services. This will affect developments in the office network in Åland. In the Bank's other markets, there are strategically located offices in major cities and towns.

IN DIFFERENT MARKETS

Although the Bank's vision and preferred choice of position are the same in all its markets, there are also dissimilarities between them.

In Åland, the Bank of Åland aims at being a bank for all residents of Åland and at contributing proactively to the Åland community. On the Finnish mainland and in Sweden, we emphasise saving and financial investments, while our strong financing know-how is an important element of our customer offering.

GOING OUR OWN WAY IS EMBEDDED IN OUR GENES

Over the years, the Bank of Åland has successfully and repeatedly chosen a path that was new and different. We will continue to do so when it is necessary in order to offer our customers the service they deserve.

Photography: Shutterstock

United by their commitment

During 2011 the Bank of Åland's customers, shareholders, employees and the overall community showed a strong interest in and commitment to its activities.

CUSTOMERS CREATE THE DRIVING FORCE

The opinions and needs of customers are a powerful guiding principle when the Bank of Åland chooses strategies for developing its customer concepts, services and products. This is reflected in the Customer Index 2011 loyalty survey in Finland, where the Bank scored highest for the customer experiences, compared to other players in its industry.

In *Euromoney* magazine's private banking survey, for the third consecutive year the Bank of Åland scored highest in the customer relationship management category in Finland and captured an honourable second place with regard to its overall service concept.

In the Swedish market, customers have now identified the Bank of Åland as an attractive player, which has stimulated greater employee motivation.

SHAREHOLDER CONFIDENCE

The new share issue that the Board of Directors decided to carry out, in order to strengthen the Bank's Tier 1 capital ratio in keeping with new capital adequacy requirements and to make increased lending to prioritised customer segments possible, was successfully implemented during the autumn. Despite the less than favourable situation for banking shares at that time, shareholders demonstrated their strong confidence in the Bank of Åland by subscribing for more than 104 per cent of the share issue.

LOYAL EMPLOYEES

During 2011, many of the Bank of Åland's employees were involved in various large-scale development projects with tight deadlines. Meanwhile the international economic situation and its impact on the Bank of Åland put pressure on all managers and their fellow employees.

The employee survey conducted in October nevertheless showed that the Bank's employees were highly motivated and strongly dedicated to their jobs. Many sub-categories in the survey showed the highest scores since 2006, but it is also apparent that employees have been affected by demanding professional development requirements in a tight economic situation. This is most clearly visible among managers, many of whom have shouldered larger overall responsibilities and the challenges of having employees stationed in different locations.

RECRUITMENT

The organisation faces growing demands for cutting-edge proficiency, due to increased regulations in the banking industry. A high degree of internal recruitment occurs in the Bank of Åland Group and is an important element of human resource development. Employees perceive this as stimulating, while it increases total collective knowledge about the Group's operations.

In 2011 the Bank of Åland scored among the 50 Nordic employers that university-level business students consider the most attractive, and it was also one of the companies on the list that climbed the most. Some 12,400 business students participated in the survey, which is conducted yearly by the Universum employer branding organisation in Sweden, Norway, Denmark and Finland.

REORGANISATION AND EFFICIENCY-RAISING MEASURES

The demand for more advisory services, fewer paper-based transactions at bank offices and customer and employee security demonstrated that adjustments to the office network were necessary. Meanwhile tougher banking regulations and a generally harsher global economic climate signalled a need for efficiency-raising.

> “ *The opinions and needs of customers are a strong guiding principle when the Bank of Åland chooses a path for developing its customer concepts, services and products.*

Funds generated from the Bank of Åland's Environmental Account have contributed to a permanent phosphorus removal system at the Vyborg wastewater treatment plant. The unit is expected to reduce direct releases of phosphorus in the Baltic Sera by 20 tonnes annually, thereby helping prevent eutrophication.

Photo: © Anu and Ilkka Lastumäki. John Nurminen Foundation, Clean Baltic Sea

During 2011 staff reductions occurred in the Sweden business area, among things due to the closing of the institutional equities trading unit and the process of transforming Swedish operations into a branch of the parent Bank.

Late in the year, the Executive Team announced a need to reduce staff by a total of 50 individuals, 30 of them in Åland and ten each on the Finnish mainland and in Sweden. Co-determination negotiations were expected to be completed in February 2012.

A CORPORATE CITIZEN

There is an explicit management policy that the Bank of Åland shall proactively contribute to community development in the Åland Islands. As a result, the Bank's Åland business area participates in various social programmes and activities to a greater extent than other business areas. *Ung Företagsamhet* (Young Enterprise) is a project in which the Bank of Åland works together with upper secondary schools and the Confederation of Åland Enterprise to provide young people with advice, guidance and a form of mentorship for the business activities they have started as part of their education.

Other projects in which the Bank of Åland participates are *Tillväxt Åland*, which aims at improving the growth of small rural and archipelago small businesses; a working group appointed by the Åland Government on the future supply of capital for Åland companies; and projects related to female entrepreneurship and leadership.

During 2011 the Bank of Åland played an active role as proud sponsor of various events, the largest being the celebration of Mariehamn's 150th anniversary as a city.

ENVIRONMENTAL DONATIONS

Thanks to customer interest in the Environmental Account, a record amount of money was distributed to causes that benefit the environment. Of a total of EUR 111,000 donated by the Bank in 2011, the John Nurminen Foundation received the largest amount, EUR 51,000 for a project involving the Vyborg wastewater treatment plant in north-western Russia. Every year the Bank of Åland donates an amount equivalent to 0.2 per cent of the funds in Environmental Accounts. To date, it has donated nearly EUR 1 M for environmental purposes.

Strong confidence

Operations in the Åland Islands developed well, despite difficult external conditions. The biggest successes were visible in the Premium Banking and Private Banking concepts. The number of Premium Banking customers increased by a full 27 per cent in Åland.

During 2011 the Åland Business Area worked proactively to deepen its existing customer relationships. This was reflected by an increase in the number of Premium and Private Banking customers. The almost sensational increase in Premium Banking customers can also be ascribed to the new services that were added to the Premium concept. These included the "Small Stock Exchange Package" and attractive insurance coverage connected to the new Premium card.

Private Banking also continued the previous year's growth in the number of mandates. The 2011 increase was more than 19 per cent. A large majority of the total number of mandates, 86 per cent, consisted of discretionary mandates.

Total assets under discretionary management fell by 14 per cent, due to the drastic downturn in the stock market during the autumn. Despite this decrease, management of the Åland portfolios can be described as successful compared to the general downturn of 31 per cent in the Helsinki Stock Exchange index (OMXHPI).

> *"The customer is always our starting point when we offer our services. No customer is like another, and each one must get a package of services that specifically fits him or her. This also applies to the choice of advisors. It is important for the customer to feel that the right personal chemistry is at work.*
>
> Birgitta Dahlén
> Director, Åland Business Area

GOING OUR OWN WAY MEANS SATISFIED CUSTOMERS

A customer survey that was conducted amid the most difficult phase of the market situation reflected great customer confidence, with new fewer than 92 per cent stating that they would recommend the Bank of Åland's Private Banking services to their friends.

Historically speaking, Åland asset managers have managed to get through several major stock market downturns with better than average outcomes. By daring to go their own way in the buying and selling process and by relying on cold facts, without looking too much at indices or letting themselves be swept along with market surges, Åland Private Banking managers have been able to build up a high level of trust in the past two decades. As a result, 91 per cent of customers surveyed responded that the service fully or partly met their expectations.

STABLE NET INTEREST INCOME

Deposits remained stable, despite the completion of the share issue and expanded asset management. Lending increased by 12 per cent. This is one result of the Bank's more active role in the market. The Bank of Åland is the market leader for deposits and lending in Åland. Total net interest income met our target and played a decisive role in the overall earnings of the business area.

Lending in Åland is stable and did not cause the bank any loan losses. The number of new mutual fund unit holders increased by 16 per cent.

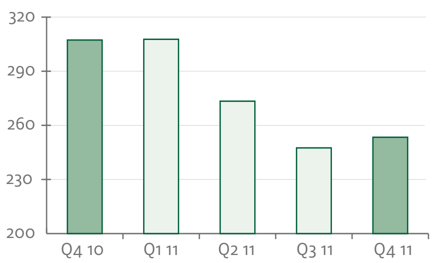
WHAT DID CUSTOMERS SEE?

During 2011, customers noticed both improvements and changes. Because the Bank has established operations in Sweden, Åland residents with business there can now receive significantly improved service. Customers who receive their salary or pension in Swedish kronor or who are studying in Sweden can administer their monetary flows via the newly created Sweden/Åland Package, which they can open at any of the Bank's Åland offices.

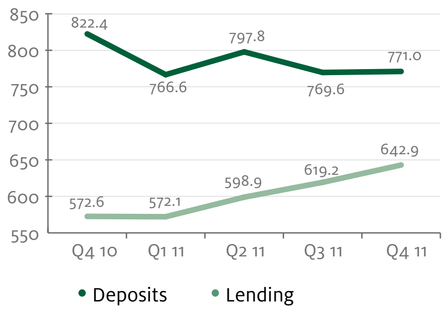
The changeover to the new MasterCard debit card gave customers a number of advantages, including greater flexibility and security. In the initial stage, however,

Photographer: Daniel Eriksson

Managed assets



Deposits and lending



a number of customers experienced problems when making purchases abroad, especially in Sweden. These problems were related to the higher security level of the new cards and occurred because some business owners had not updated their equipment. This was perceived as more disruptive in Åland than elsewhere due to the close contacts of Åland residents with Sweden.

Other measures that are visible to customers in all business areas are the updated and expanded Internet office and the improved website.

OFFICE NETWORK IN TRANSITION

Locally in Åland, service was expanded by keeping some offices open longer on Thursdays. The Bank decided that starting in 2012, service at the Kumlinge office will occur in collaboration with Åland Post and will thus offer longer office hours.

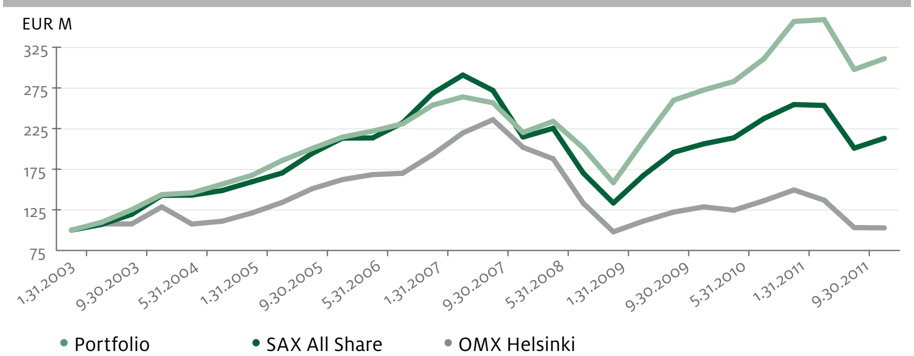
Late in 2011, the Bank decided to examine the potential for finding solutions for a number of rural and archipelago offices. Digital developments have noticeably changed the daily tasks of the offices in recent years. It is now easy to handle day-to-day banking business at home in front of a computer. Security aspects related to both customers and employees also affected this decision.

The trend towards fewer customer visits to bank offices makes it necessary to have more time for relaxed meetings with customers, when they can receive more specialised advice in a way that is convenient for them. During 2011 the Bank organised numerous customer gatherings and events. Examples are various information meetings, theatre and literature evenings, trips for seniors and participation in local events. The number of participants in the Bank's senior trip to Tuscany exceeded all expectations and was four times larger than originally estimated.

FUTURE OUTLOOK

During 2012 the Åland Business Area expects to further enhance its advisory services to customers. As for the office network, the objective is to find solutions and partnerships that can create a high level of service and accessibility as well as satisfied customers. The Bank's employees are dedicated and encounter a positive response among customers. The big source of concern is the consequences of economic developments in Europe and how they will impact the Åland economy, as well as what effects they will have on the stock market and interest rates.

Returns



Return history, Jan. 31, 2003 – Dec. 31, 2011

One year on the new path

The eight offices on the Finnish mainland devoted the year to following the new path chosen by the Bank – a strategy of being a knowledgeable bank for investors that also offers financing solutions and that has an extra passion for giving its customers personalised service.

During 2011, the business area has strongly focused its efforts on the two core concepts of Premium Banking and Private Banking. By fully presenting the contents of these two services, the Bank has enabled customers to choose the concept that fits their needs.

ACTIVE MANAGEMENT IMPORTANT

Thanks to the Bank's Premium Funds, the Premium Banking concept offers an opportunity for asset management that is active and participatory, yet simple and worry-free. During the tough stock market decline in August, customers saw evidence that the three Premium Funds had made sure to be greatly underweighted in equities, while many competing funds retained a more neutral allocation. This enabled the Bank's customers to feel comfortable with their choice of investment. This was true both of those who made one-time investments and those who chose to save in mutual funds every month.

The customer survey conducted by Private Banking early in the autumn, amid a difficult market situation, showed that these customers also appreciated the Bank's active management. They used terms like "fast-reacting", "flexible" and "better-than-average advisors". Other recurring descriptions were "personalised", "versatile" and "small-scale". A total of 88 per cent of respondents said they could recommend the service to friends and acquaintances. The survey also provided information about areas for improvement, and 30 per cent of respondents said they would like to be in contact with their advisor even more often, while 70 per cent said they were satisfied with their frequency of contact.

> *"In 2011 we were able to show how we work as a bank for investors. In good times, when the stock market is rising, this is easy. But now we know that we enjoy the confidence of our customers even in tough times – we are pleased and grateful for this.*
>
> Anne-Maria Salonius
> Director, Finnish Mainland Business Area

FREQUENT, PERSONALISED COMMUNICATION

The total number of Private Banking customers in the Finnish Mainland business area rose by 22 per cent. Despite a general downturn of 31 per cent on the Helsinki Stock Exchange (OMXHPI), managed assets remained largely unchanged from 2010 due to a good inflow of new assets.

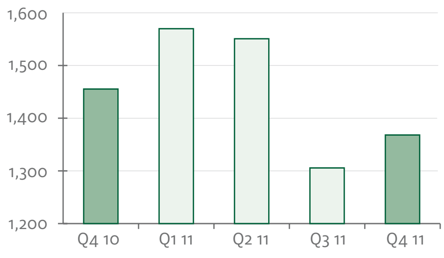
The Bank of Åland's unique position as an independent, customer-oriented bank that offers the full range of services that a customer needs was one of the components leading to the increases. Another is personal contacts and relationships with customers. Personalised, frequent communication with the customer was a key factor in maintaining a continued good relationship during the stock market situation that arose at the end of last summer.

PREMIUM BANKING EXPANDS

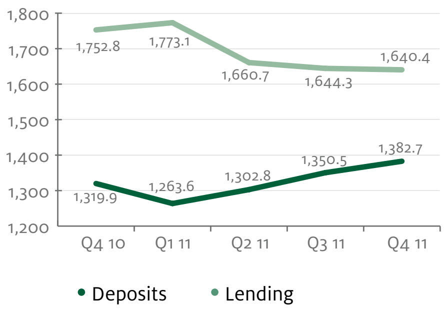
The number of customers enrolled in the Premium Banking concept also increased by more than 5 per cent. Among the factors behind this were a more active range of home mortgage loans and expanded features in the Premium Banking concept, for example a generous insurance package included with the new debit card. The monthly credit card invoicing system, which initially had no option for direct debiting, was supplemented with e-invoice service.

Photographer: Daniel Eriksson

Managed assets



Deposits and lending



CORPORATE SERVICES CHOOSE A NEW PATH

The Corporate Services office in Helsinki made the same strategy change as in banking services targeted to individuals. This means that lending is targeted to a greater extent to companies that also take advantage of the Bank's deposit and investment services. Another result of the change in strategy is that the Bank is applying the same criteria to its existing loan portfolio, which led to a deliberate decrease of more than 6 per cent in lending.

New employees focused on expanding investment advisory services and targeting new customer categories in this field.

SAFER INVESTMENTS ATTRACTIVE

Traditional banking operations gave the Finnish Mainland Business Area satisfactory net interest income, among other things because it was able to widen depressed lending margins. This step was justified by the higher refinancing expenses that affected the entire banking industry.

During the year, deposit accounts increased by 10 per cent. This was because both new and old customers chose a more cautious investment strategy in the prevailing market situation.

FREQUENT CONTACTS IMPORTANT

Intensive customer contacts dominated the year, both because of the need to pursue a frequent dialogue with customers about the prevailing investment market situation and in order to create new customer contacts. Active dialogue between the Bank's advisors and customers was especially important when the stock market took a nosedive, and it was also appreciated by customers.

There was heavy interest in various market information meetings. Customer evenings of a more relaxed nature, dealing with current themes like "Our Changing World" and "the Åland Champagne Salvage" also attracted large audiences.

CUSTOMER OPINIONS SHOW THE WAY

During 2012 operations will continue to focus strongly on customer relationships, while also investing in attracting new customers – preferably by taking advantage of the willingness that existing customers have expressed on various occasions to recommend the Bank's services.

Changing direction

With a new strategy, new management and well-placed advertising campaigns, the Bank of Åland is on its way to claiming a spot on the Swedish banking map. It is a new contender in the market, offering what the Bank of Åland has traditionally been good at: personalised service and a complete range of banking. It was time to dare to go our own way in an industry that consists of big banks and niche players.

The need to achieve a clearer profile and image in Sweden by applying what typifies the Bank in the Åland Islands and on the Finnish mainland was obvious at the beginning of 2011. It was also necessary to strengthen the potential for using the same concepts and success tools as in other markets to a greater extent. At the same time, this would enable the Bank to reduce costs.

The Executive Team decided to establish the Bank of Åland more forcefully in the Swedish market and strip away those operations that were not profitable or did not fit in. This included the institutional brokerage unit, which had played out its role due to the structural transformations that had occurred in the industry.

> *We have chosen to dare to go our own way as a small, personalised bank that gives its customers good service and personal dedication. We are sticking out our necks by saying that we will be the bank you have always wanted but didn't know existed.*
>
> Magnus Holm
> Director, Sweden Business Area

PUTTING ITSELF ON THE MAP

During the spring, all customer banking information was migrated over to the same type of banking system used in the rest of the Bank of Åland and all customers were given access to the same full-service Internet office as in the Bank's other markets. This provided a platform for offering a complete range of banking services to a broader customer group. During the summer the Bank carried out a strong advertising campaign that put the Bank of Åland brand on the Swedish banking map.

Early in the autumn, Magnus Holm took over as the new head of the Bank of Åland in Sweden, and the organisation was pared down to include well-developed Private Banking and Asset Management services. Meanwhile his team began building a Premium Banking concept equivalent to the one found in the Bank's other markets.

ÅLAND ACCOUNT A SUCCESS

Early in the autumn, the Swedish business area launched the Åland Account. The response exceeded all expectations. In a short period, 1,000 new accounts were opened. An increased interest for other services was also apparent. For example, home mortgage loans increased by 78 per cent.

The Bank's employees in Sweden were also positively affected by the more distinct strategy and way of organising operations, as well as the resulting response from customers. In last autumn's measurement of the employee motivation index, scores increased compared to 2010. Employee confidence in Swedish operations rose significantly.

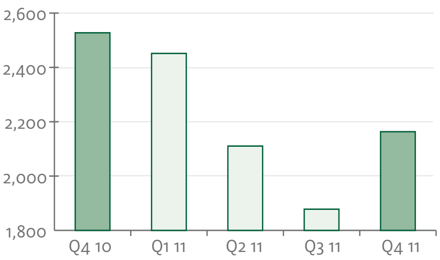
PRIVATE BANKING

Private Banking operations grew strongly during 2011, especially in Stockholm where business volume in this area increased by 52 per cent. The concept was refined during the year, so that it now has the same design at all Swedish offices and handles the full range of services for the customer in a smooth way. Entrepreneurs are one target group that has shown a particular interest in the team of experts that the Bank of Åland offers. They have access to specialised know-how that is tailored to their needs, for example related to start-ups, corporate structures, generation changes and financing. Entrepreneurs are

Photographer: Daniel Eriksson

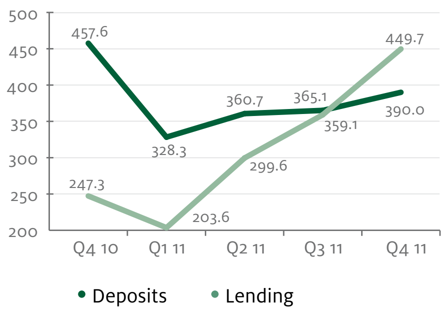
Managed assets

EUR M



Deposits and lending

EUR M



attracted by the entrepreneurial attitude that characterises the service they receive, even including the opportunity to get personalised, dedicated service outside of office hours – a concept that customers have described as "something no other Swedish bank can offer."

ASSET MANAGEMENT

During 2011 Asset Management recruited new expertise while further refining the customer and investment process. A clearer focus on medium-sized and large customers led to an increased number of management mandates and a more structured working method.

This working method is based on the principle of *Need–Research–Solution*. It assumes that the optimal solution for a customer must be governed by his or her commitment situation and take into account such factors as return requirements, risk tolerance and investment horizon. At the same time, the focus is on asset management using a portfolio based on a unique combination of macroeconomic research and risk management. Here, too, customers appreciate the fact that dealing with the Bank of Åland is personalised and easy.

Customer relations were strengthened by extra active dialogue with customers because of the difficult conditions that have prevailed in the market.

SLIMMED-DOWN AND RESTRUCTURED

On December 1, 2011 the Bank of Åland's Swedish operations transitioned from a subsidiary, Ålandsbanken Sverige AB, to a branch of the Finnish-based parent Bank of Åland Plc. This change has both organisational and cost advantages. The task of reshaping operations was time-consuming, for example with regard to providing customer information and reviewing supplier contracts. In the future, however, it will result in a leaner organisation with lower costs. Although the long-term effects of this transformation are not yet visible, during 2011 the business area reduced its expenses – excluding restructuring expenses – by 10 per cent.

THE FUTURE

The Bank of Åland's operations in Sweden are now aiming at continuing to develop customer relationships based on new Åland Account customers as well as previous customers, among other things by launching Premium Banking early in 2012. In Private Banking and Asset Management, the Sweden business area is also continuing to develop the personal dedication that makes the Bank of Åland unique in the Swedish market and is the way the Bank has chosen.

The Bank of Åland's subsidiaries

The Group's eight subsidiaries are all related to banking operations. For additional facts about the subsidiaries, see the Group structure table on page 3.

CROSSKEY BANKING SOLUTIONS AB LTD

Crosskey Banking Solutions develops, delivers and manages banking IT solutions. It is a wholly owned subsidiary of the Bank of Åland Plc, with more than 200 employees stationed in Mariehamn, Stockholm, Helsinki and Turku. Crosskey concentrates mainly on the Nordic market, with customers such as the Bank of Åland, Tapiola Bank, S-Bank and DnB NOR.

The market situation for European banks has become tougher, and Crosskey sees both positive and negative effects in its field of operations. The positive side is that completely new market players that are not banks have begun to demand its services, thereby broadening its target group. The negative side is that margins are decreasing and banks are reviewing their expenses and spending less on new investments.

Crosskey Banking Solutions delivered a continued good operating income of EUR 4.2 M in 2011. During the year, the subsidiary saw many of its development projects go into operation by customers.

Good products in use

The new debit card system went into service and proved to be a usable and adaptable product that can create opportunities in other contexts as well. The new card system also enables users, in turn, to sell card services to other market players that want to issue debit cards with their own identity and various types of content, for example loyalty programmes.

The conversion of the banking system at the Bank of Åland in Sweden to a system equivalent to the one used in Åland and on the Finnish mainland was completely trouble-free. As a result, more organisations both in the Nordic countries and elsewhere have taken notice of Crosskey as an interesting industry player.

The updated and expanded version of the Internet bank has gone into service in all Bank of Åland markets, at the same time as the websites in these markets have been updated.

Renewed confidence

During the year, Tapiola Bank chose to renew its customer contract for another five years. The new contract means continued use of Crosskey's complete product portfolio.

To keep better track of development needs in its field, Crosskey has invested in market surveys of end customers. By working together with schools, the company creates connections with young users of IT services who at the same time are potential future employees. This is a way of gaining more information on market needs for onpass to the company's customers.

Crosskey has continuously worked according to quality management systems, and early in 2012 this will lead to the company's certification under the ISO 9001 international standard.

ÅLANDSBANKEN ASSET MANAGEMENT AB IN FINLAND

This subsidiary is located in Helsinki and is responsible for managing the assets that both private individuals and institutional customers have invested with the Bank. It also manages the assets of the Bank of Åland's mutual funds registered in Finland.

Ålandsbanken Asset Management Ab showed record figures for 2011. It had more than EUR 1.3 billion in assets under management and earned a record pre-tax profit of EUR 5.1 M, which represented a 6 per cent increase compared to the preceding year.

The securities market was turbulent during the year, and this instability seems likely to continue well into 2012. Customer portfolios had rather uneven valuation growth during 2011, but a shift to large under-weighting of equities during the late summer proved to be a correct move, which contributed to continued strong customer satisfaction.

ÅLANDSBANKEN ASSET MANAGEMENT AB IN SWEDEN

This company, which is located in Stockholm, has 17 employees. About half of them work with asset management and half with customers. Customer work is based on the principle of *Need–Research–Solution*. It assumes that the optimal solution for a customer must be governed by his or her commitment situation and take into account such factors as return requirements, risk tolerance and investment horizon. At the same time, there is a focus on management using a portfolio based on a unique combination of macroeconomic research and risk management. Here, too, customers appreciate the fact that dealing with the Bank of Åland is personalised and easy.

The company's management offering is based on a unique combination of macro-based asset allocation and risk budgeting. In addition, Asset Management offers solutions in the following asset classes: Swedish/Nordic and Chinese equities, commodities, Swedish fixed income and structured products. Managed assets total about SEK 7 billion.

AB COMPASS CARD OY LTD

Compass Card began its actual operations during 2011, when it launched debit cards and combi-cards with both debit and credit functions to supplement the first debit cards, which were issued late in 2010.

Like customers with debit cards, credit card customers have the opportunity to choose their own PIN code and to choose a card with their own unique photo. A total of more than 131,000 new cards were in use by year-end. During the year, the credit card was supplemented with access to the e-invoicing service. This replaces the direct debiting service, which will eventually be phased out.

The company's equity capital increased as a result of a new share issue of EUR 6 M. After the initial build-up and investment phase, during 2011 the business transitioned to regular operations. As the number of customers has grown, earnings have improved, but the full year ended with an operating income of EUR –1.0 M.

THE BANK OF ÅLAND'S MUTUAL FUNDS

The Bank of Åland's mutual fund operations are handled by three different companies: Ålandsbanken Fondbolag Ab, Finland; Ålandsbanken Fonder AB, Sweden; and Alpha Management Company S.A., Luxembourg. All of them are wholly owned subsidiaries of the Bank of Åland Plc.

At the end of 2011, the companies managed a total of 22 funds with total managed assets of EUR 757 M. These included equity, fixed income and asset management funds as well as a risk fund and a commodities fund. The management strategy of the funds is generally active and participatory, in keeping with the Bank of Åland's view of the market.

Fund operations in 2011 began with new record figures, both in terms of valuations and volume. The sovereign debt crisis in Europe nevertheless led to market instability early in the autumn, which was reflected both in the risk appetite of investors and the trend of equity and fixed income markets. On the whole, this had an adverse impact on fund operations during the autumn.

One of the funds worth mentioning is Ålandsbanken Eco Performance, which invests in companies that carry out environmentally sustainable operations. The environmental analysis of companies is conducted by an independent party, Experts in Responsible Investment Solutions (EIRIS). The fund has been favourably received in both Finland and Sweden and broadens the Bank of Åland's range of green savings and investment products.

The funds also include the Bank of Åland's three Premium asset management funds, which offer the Bank's discretionary asset management neatly packaged in fund format. These funds meanwhile give investors the tax advantages that fund investments imply. The Premium funds occupy a central position in the Bank of Åland's product offering to its Premium Banking customers.

The Bank of Åland's funds have adopted the United Nations Principles for Responsible Investment (UNPRI).

During 2012, fund operations in the Group will be coordinated according to the opportunities provided by the European Union's new UCITS IV directive. The aim is to offer an even more competitive range of funds and product concepts for Bank of Åland customers.

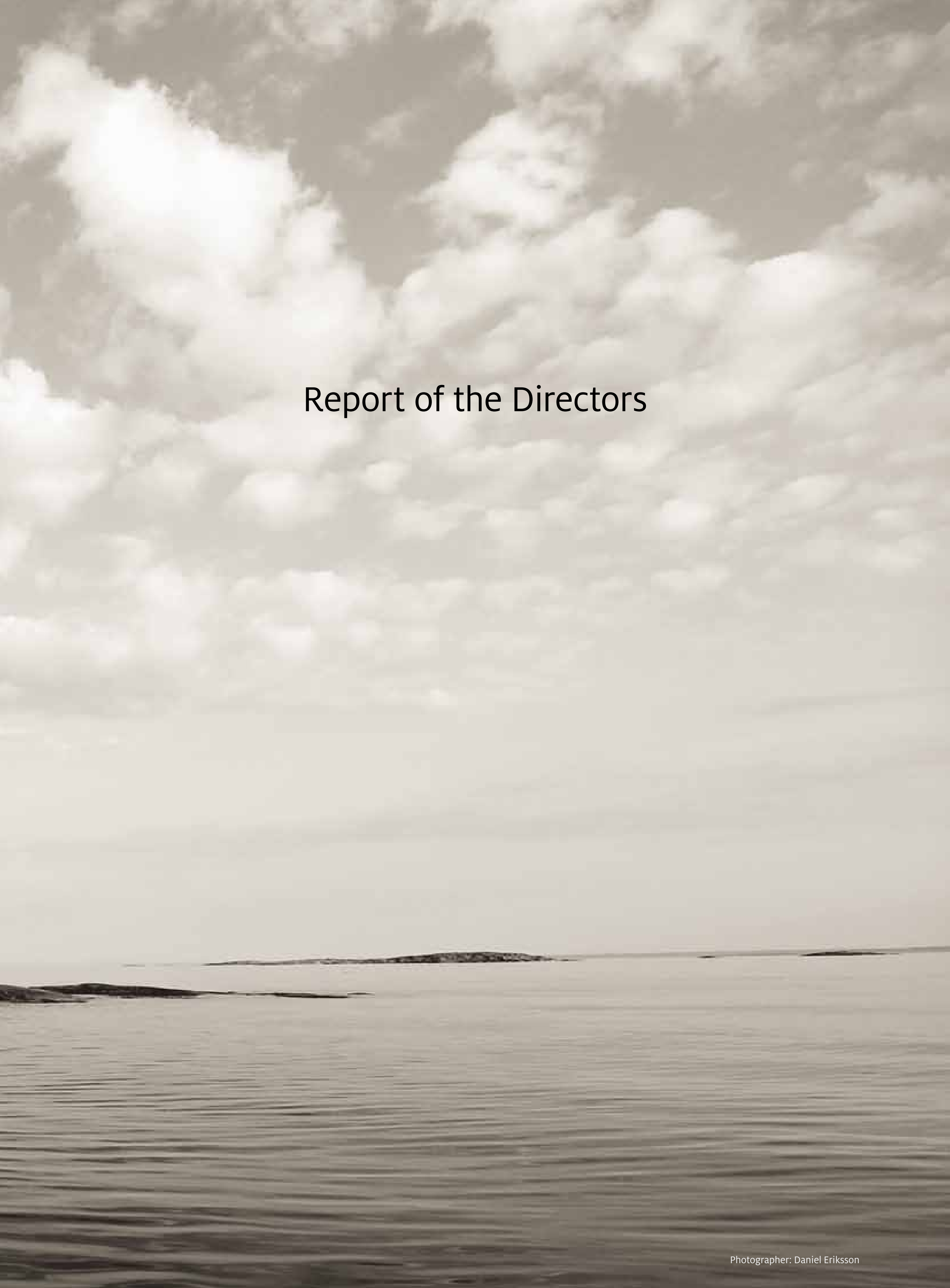
ÅLANDSBANKEN EQUITIES RESEARCH AB

This company will be discontinued during the first half of 2012.

COMPASS CARD

ÅLANDSBANKEN
FONDER

Report of the Directors



Photographer: Daniel Eriksson

Report of the Directors

Market overview

The latter part of 2011 represented a painful resumption of the global financial crisis that began in 2007–2008. The world economy is facing very big challenges, with the euro zone debt crisis among the most serious problems. The European banking system has sizeable holdings of sovereign bonds whose value is uncertain. This has caused large portions of the banking system to seem undercapitalised, which in turn has raised the risk premiums on banks and caused the world's money and capital markets to adopt a cautious attitude.

The renewed financial crisis means that earlier expectations of rising market interest rates have been replaced by expectations of falling market rates. Long-term yields fell dramatically during the year. Finnish ten-year government bond yields, which stood at around 3.5 per cent at the beginning of the year, fell from 3.3 per cent at the end of the first half to 2.5 per cent at year-end 2011. Swedish ten-year government bond yields, which stood at around 3.5 per cent at the beginning of the year, fell from 2.9 per cent at the end of the first half to 1.6 per cent at year-end. The European Central Bank (ECB) lowered its key interest rate twice during the fourth quarter to 1.00 per cent. Sweden's Riksbank lowered its key interest rate once during the fourth quarter to 1.75 per cent. Changes in the most important benchmark interest rates in the Finnish and Swedish money markets can be seen below.

BENCHMARK INTEREST RATES, AVERAGES, PER CENT

	2011	2010
Euribor 3 mo	1.39	0.81
Euribor 12 mo	2.01	1.35
Stibor 3 mo	2.46	0.93
Stibor 12 mo	2.85	1.42

The OMXHPI share index on the Nasdaq OMX Helsinki Oy (Helsinki Stock Exchange) fell by 31 per cent during the year but rose by 1 per cent during the fourth quarter. The OMXSPI index on the Nasdaq OMX Stockholm (Stockholm Stock Exchange) fell by 17 per cent during the year but rose by 7 per cent during the fourth quarter.

On December 30, 2011, the euro was worth just under 1 per cent less in relation to the Swedish krona than one year earlier, but the average exchange rate during 2011 was nearly 6 per cent lower than in 2010. In the past three years, exchange rate movements have been significant. The peak exchange rate for the euro against the krona occurred on April 21, 2009, when one euro was worth SEK 11.18. The euro's lowest exchange rate was recorded on March 1, 2011 at SEK 8.71. When translating the income statement of the Bank of Åland's Swedish operations to euros, average exchange rates for the period are used, while the balance sheet is translated at the existing exchange rate on the closing day. Because of the exchange rate effect, the income statement of the Bank's Swedish operations increased by 6 per cent expressed in euros, compared to the preceding year.

A situation with lower share prices, lower interest rates and a poorer economic outlook has an adverse effect on the Bank of Åland's income.

Important events

The Bank of Åland announced on December 28 that co-determination negotiations have begun for the purpose of improving the efficiency of its operations. The Group estimates that it will reduce its staff by about 50 people, 30 of them in Åland, 10 on the Finnish mainland and 10 in Sweden. The number of offices in Åland will decrease. On the Finnish mainland, institutional equities trading operations are being closed, similar to what occurred in Sweden in June. The largest changes are occurring in the corporate units of the Group. The efficiency-raising measures that have been announced will result in an annual expense reduction of about EUR 4 M. Restructuring expenses will total about EUR 3 M. Including measures approved earlier in 2011, gross expenses will fall by an estimated EUR 8 M annually when these measures have their full effect.

On December 1, the operations of the Swedish subsidiary Ålandsbanken Sverige AB changed into a branch of the Bank of Åland. Asset management operations are being kept in the Swedish subsidiary during a transitional period, since Ålandsbanken Sverige has various commitments that it chooses to phase out over a somewhat longer period. Aside from more efficient capital utilisation, the changeover to branch status also means a more efficient tax situation as well as more cost-effective corporate governance.

During the period September 22 to October 14, the Bank of Åland carried out a new share issue with preferential rights for existing shareholders, in order to meet stricter capital requirements and to finance continued growth in Finland and Sweden. The new share issue was oversubscribed. The share issue increased equity capital by EUR 30.3 M after subtracting issuing expenses.

On July 29, the Finnish Financial Supervisory Authority granted the Bank of Åland permission to issue covered bonds. This will provide the Bank of Åland with access to significantly more favourable long-term funding terms. In light of the new share issue, followed by the impact of the global financial crisis on capital markets, no covered bonds have been issued yet.

Crosskey Banking Solutions has signed a new multi-year agreement with Tapiola Bank, which has been one of Crosskey's major customers for some years. The new agreement means that during the next five years, Tapiola Bank will continue to use Crosskey's complete product portfolio, which covers everything from basic banking, payments and capital market systems to card systems and an Internet bank.

During 2011, the Bank's Swedish operations underwent significant changes. In addition to the changeover to branch status, Crosskey's basic banking system and Internet banking system were implemented, institutional equities trading operations employing about 15 people were closed, a new management team was recruited and a well-publicised brand advertising campaign took place. The influx of customers was very high in Sweden during the fourth quarter, with nearly 1,000 new customers.

On April 14, the Annual General Meeting elected Kaj-Gustaf Bergh and Per Axman as new members of the Bank of Åland's Board of Directors. Board members Göran Lindholm, Chairman; Leif Nordlund, Vice Chairman; Sven-Harry Boman; Agneta Karlsson and Anders Wiklöf were re-elected.

Earnings for the year in brief

During 2011, net operating profit totalled EUR –5.7 M, compared to EUR 1.0 M in the preceding year. Excluding restructuring expenses of EUR 5.7 M and the impairment loss of EUR 1.1 M on the Bank's shareholding in Burgundy (a securities marketplace owned by 13 Nordic banks), net operating profit was at about the same level as in 2010.

Income was EUR 99.2 M, which was at about the same level as in the preceding year. Income increased the most in Private and Premium Banking in Sweden as well as in the subsidiary Compass Card, where the number of cards that had been issued increased by more than 100,000 to 131,000 and income increased by more than EUR 1 M. Income from Private Banking and Premium Banking in Sweden increased by 45 per cent in local currency and totalled nearly EUR 17 M. Institutional equities trading operations in Sweden were closed in June after several years of significant operating losses. Accumulated income from institutional equities trading operations was thus more than EUR 1 M lower than in 2010.

Net interest income rose by 17 per cent to EUR 43.1 M (36.8) and was favourably affected by higher market interest rates as well as the increase in lending in the Swedish market.

Net commission income increased by 5 per cent to EUR 38.7 M (36.8), mainly driven by higher investment income.

Valuation income from financial management and financial assets available for sale fell by EUR 5.0 M or 81 per cent to EUR 1.2 M. IT income decreased by EUR 2.1 M, or 16 per cent, to EUR 13.4 M.

The Group's total income increased to EUR 99.2 M (99.1).

Expenses, excluding restructuring expenses of EUR 5.7 M, rose by 6 per cent to EUR 97.4 M (92.2). Excluding exchange rate effects, the rate of increase was 3 per cent. In addition to contractual pay increases, the expansion of Crosskey's operations as well as the build-up of Compass Card operations were important reasons, along with project expenses associated with making covered bonds possible, transitioning to the IRB approach for calculating capital requirements for credit risk and implementing a branch solution for the Bank's Swedish operations.

The Group's total expenses rose by 12 per cent to EUR 103.1 M (92.2).

Net loan losses totalled EUR 1.8 M (5.9). Loss provisions were primarily related to the Finnish Mainland business area. The loan loss level was 0.07 per cent, compared to 0.23 per cent in the preceding year, when a single corporate commitment on the Finnish mainland resulted in a loss provision of EUR 5 M. Of impairment losses, EUR 3.3 M consisted of individual impairment losses, and EUR 1.4 M represented reversals of group impairment losses. The consolidated balance sheet included individual impairment losses of EUR 7.7 M (4.6) and group loss impairments of EUR 1.1 M (2.4).

Balance sheet total and off-balance sheet obligations

At the end of 2011, the Group's balance sheet total was EUR 3,400 M (3,475). Off-balance sheet obligations increased to EUR 375 M (301).

Personnel

The number of full-time equivalent positions, recalculated from hours worked on a full-year basis, increased to 690 compared to 679 the preceding year. The changes were mainly attributable to an increase in the number of employees at Crosskey Banking Solutions, while the number of employees at Ålandsbanken Sverige AB* decreased.

Bank of Åland Group	2011	2010
Ålandsbanken Abp	316	299
Crosskey Banking Solutions Ab Ltd	210	193
Ålandsbanken Sverige AB*	119	144
Ålandsbanken Asset Management Ab	24	23
Ab Compass Card Oy Ltd	11	6
Ålandsbanken Fondbolag Ab	5	5
Ålandsbanken Equities Research Ab	5	9
Total number of full-time equivalent positions, recalculated from hours worked	**690**	**679**

* Most of the operations of Ålandsbanken Sverige AB were moved on December 1, 2011 to Ålandsbanken Abp (Finland), svensk filial, the Swedish branch of the Bank of Åland Plc, which means that the hours worked in the branch are reported as part of the Bank of Åland Plc.

Transactions with related parties

Financial transactions with related parties can be seen in Note 49, page 80.

Capital adequacy

Bank of Åland Group	Dec 31, 2011	Dec 31, 2010
EUR M		
Capital base		
Tier 1 capital	145.5	122.1
Supplementary capital	75.3	78.4
Total capital base	**220.7**	**200.5**
Capital requirement for credit risks	123.0	114.4
Capital requirement for operational risks	14.0	16.8
Capital requirement for market risks	1.4	1.9
Total capital requirement	**138.4**	**133.1**
Total capital ratio, %	**12.8**	**12.0**
Tier 1 capital ratio, %	8.4	7.3

The main difference for the difference between the capital base and recognised equity capital is that subordinated liabilities may be counted in the capital base.

Equity capital changed in the amount of total profit for the year, EUR –5.0 M, paid-up equity of EUR 30.3 M due to the share issue and as a result of the minority owner's capital contribution of EUR 2.0 M at Compass Card and totalled EUR 181 M. The equity/assets ratio increased to 5.3 per cent from 4.4 per cent at year-end 2010.

Tier 1 capital as defined in capital adequacy regulations increased by EUR 23.4 M to EUR 145.5 M (122.1).

Risk-weighted assets increased by EUR 65 M or 4 per cent from year-end 2010 and amounted to EUR 1,729 M (1,664). Operational risks recalculated to risk-weighted assets decreased by EUR 35 M or 17 per cent, which was attributable to Swedish operations. Operational risks are calculated on the basis of operating income over the preceding three years. Risk-weighted assets for credit risks rose by EUR 107 M or 8 per cent, mainly because of increased lending in Sweden.

The Tier 1 capital ratio increased to 8.4 (7.3) per cent. Since the Bank of Åland has no hybrid capital, its core Tier 1 capital ratio is the same as its Tier 1 capital ratio. The total capital ratio was 12.8 (12.0) per cent.

In June, with the permission of the Finnish Financial Supervisory Authority, the Bank of Åland redeemed debenture loan 2/2006, which the Bank of Åland Plc had issued on June 1, 2006. The debenture loan totalled EUR 8 M.

According to the new international capital adequacy rules, capital adequacy requirements for all banks are being tightened substantially. The core Tier 1 capital ratio – equity capital excluding various forms of hybrid capital that may be classified as Tier 1 capital – is the focus of attention. The minimum level of the core Tier 1 capital ratio, including the capital conservation buffer, will be 7.0 per cent. The minimum level for the Tier 1 capital ratio will be 8.5 per cent. The minimum level for the total capital ratio will be 10.5 per cent, including a capital conservation buffer of 2.5 per cent. The new minimum levels will formally enter into force in 2019, preceded by several years of gradual adjustment.

Today the Bank of Åland calculates its capital requirement for credit risks according to the standardised approach and the capital requirement for operational risks according to the basic indicator approach. A transition to the Internal Ratings Based (IRB) approach for credit risks and the standardised approach for operational risks would substantially improve the Bank of Åland's capital adequacy.

Managed assets

During the year, managed assets shrank by EUR 533 M or 12 per cent, mainly due to a sharp decrease in the market value of equity-related investments, and amounted to EUR 3,814 M (4,347). Managed assets in the Group's own mutual funds shrank by EUR 146 M or 16 per cent to EUR 757 M (903). Assets under discretionary management fell by EUR 75 M or 4 per cent to EUR 1,798 M (1,873). Assets under advisory management fell by EUR 312 M or 20 per cent to EUR 1,260 M (1,572). Of total managed assets, the Sweden business area accounted for EUR 2,163 M or 57 per cent.

Bank of Åland Group	2011	2010
EUR M		
Fund unit management	757	903
Discretionary asset management	1,798	1,873
Other asset management	1,260	1,572
Total managed assets	**3,814**	**4,347**
Of which own funds in discretionary and other asset management	338	340

Deposits

Deposits from the public, including certificates of deposit, index bonds and debentures issued to retail customers, amounted to EUR 2,544 M (2,600). This represented a decrease of EUR 56 M or 3 per cent during 2011. The new Åland Account attracted EUR 39 M in deposits in Sweden during a short period.

DEPOSITS FROM THE PUBLIC AND PUBLIC SECTOR, INCLUDING BONDS AND CERTIFICATES OF DEPOSIT ISSUED

Bank of Åland Group	Dec 31, 2011	Dec 31, 2010
EUR M		
Deposit accounts from the public and public sector		
Sight deposits	1,568	1,599
Time deposits	579	540
Total deposit accounts	**2,146**	**2,140**
Bonds and subordinated debentures[1]	189	235
Certificates of deposit issued to the public[1]	208	225
Total bonds and certificates of deposit	**397**	**460**
Total deposits	**2,544**	**2,600**

[1] This item does not include debt securities subscribed by credit institutions.

Lending

Lending to the public totalled EUR 2,737 M (2,573). This represented an increase of EUR 164 M or 6 per cent during 2011. Lending volume in the Finnish Mainland business area fell by 6 per cent during 2011. One important explanation is the Bank of Åland's strategic focus, which prioritises full-service customer relationships in the Private Banking and Premium Banking segments over market shares in the low-margin home mortgage lending market. The strategic decision to reduce the Bank's exposure to property improvement also contributed to the decrease. In the Åland business area, lending volume increased by 12 per cent, mainly at the Corporate Services unit. In Sweden, lending volume increased by 81 per cent in local currency, thanks to good credit demand from Private Banking customers.

Credit quality

Lending to private individuals comprises nearly two thirds of the loan portfolio. Home mortgage loans account for about two thirds of lending to private individuals. Loans for the purchase of securities, with market-listed securities as collateral, comprise the second-largest type of lending to private individuals. Loan-to-value figures are conservative. Historically, the Bank of Åland has never had any substantial loan losses on this type of lending.

The corporate portfolio has a close affinity with the household portfolio, since many of the companies are owned by customers who, as individuals, are also Private Banking customers. The percentage of total lending for shipping and property improvement has gradually decreased, as one element in further reducing the Bank of Åland's risk profile and utilising its equity capital more efficiently.

During 2011, gross non-performing loans (more than 90 days) fell by EUR 8.4 M or 30 per cent to EUR 19.3 M (27.7). The decrease was related to both corporate and household customers. As a share of lending to the public, non-performing loans fell from 1.07 per cent to 0.70 per cent.

The level of provisions for doubtful receivables, i.e. individual impairment losses as a proportion of all doubtful receivables, was 62 per cent compared to 55 per cent at year-end 2010. Including group impairment losses, the level of provisions amounted to 70 per cent, compared to 77 per cent at year-end 2010. The Group had EUR 8.8 M in impairment loss provisions, including individual impairments of EUR 7.7 M and group impairment losses of EUR 1.1 M.

LENDING TO THE PUBLIC AND PUBLIC SECTOR BY PURPOSE

Bank of Åland Group	Dec 31, 2011	Dec 31, 2010
EUR M		
Companies		
Shipping	63	62
Wholesale and retail trade	57	57
Housing operations	95	65
Other real estate operations	335	161
Financial and insurance operations	187	199
Hotel and restaurant operations	19	17
Other service operations	109	155
Agriculture, forestry and fishing	13	14
Construction	45	29
Other industry and crafts	36	36
	958	**796**
Private individuals		
Home loans	1,161	1,160
Securities and other investments	294	350
Business operations	126	102
Other household purposes	177	140
	1,757	**1,752**
Public sector and non-profit organisations	**22**	**25**
Total lending	**2,737**	**2,573**

Important events after the close of the report period

On February 13, 2012, the Finnish Financial Supervisory Authority approved the Bank's application to be allowed to calculate the capital requirement for credit risk according to the Internal Ratings Based (IRB) approach for the Finnish household portfolio. Approval of the IRB approach for the Finnish corporate portfolio is expected during the fourth quarter of 2012. The transition from the standardised approach to the IRB approach for the Finnish household portfolio will reduce risk-weighed assets by EUR 323 M and increase the Tier 1 capital ratio by 1.6 percentage points to 10.0 per cent before the limitation in the transitional rules applies.

Correction of error

During the third quarter of 2010, the Bank made an upward revaluation of EUR 0.8 M in the carrying amount of an investment property that was being sold. For various reasons, however, the sale was not completed until the fourth quarter of 2011. A capital gain of EUR 0.8 M is included in the fourth quarter 2011 financial statements. At the same time, the 2010 revaluation, which according to IFRSs was made in error, has been corrected in the historical comparative figures. The 2010 revaluation was not included in Tier 1 capital, so the correction affects no historically reported capital adequacy figures.

Changes in Group structure

The operations of Ålandsbanken Sverige AB were changed from subsidiary to branch status on December 1, 2011. Asset management operations are being kept in the subsidiary during a transitional period.

Risks and uncertainties

The Bank of Åland's earnings are affected by external changes that the Company itself cannot control. Among other things, the Group's trend of earnings is affected by macroeconomic changes and changes in general interest rates, as well as share prices, exchange rates and the competitive situation. During 2011, among other things the world was shaken by the earthquake disaster in Japan, political unrest in North Africa and the Middle East and deepening worries about the euro zone debt crisis.

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

The poorer economic outlook has adversely affected the shipping industry, among others. The risk of loan losses from this industry has thus increased. We are focusing especially on these customers. The Bank of Åland's total lending to companies in the shipping industry represents about 2 per cent of its overall lending volume.

The Group aims at achieving operations with reasonable and carefully considered risks. Its profitability is dependent on the ability of the organisation to identify, manage and price risks. The Group is exposed to credit risk, market risk, liquidity risk, operational risk, property risk and business risk.

Based on the positive trend and positive expectations at Compass Card, a deferred tax asset of EUR 1.0 M was recognised. If the conditions affecting the company should change in such a way that the company will not achieve a profit, the value of this asset may need to be re-assessed.

Future outlook

Market conditions that include low interest rates, low share prices and uncertain economic prospects are not favourable to the trend of earnings.

During 2011 the Group's Swedish operations underwent significant restructuring, which adversely affected earnings. Assuming that the positive trend related to customer influx and business volume continues during 2012, our assessment is that by the end of 2012 the Sweden business area will report positive earnings on a monthly basis. It is also our assessment that the accumulated start-up cost (the net effect on the Group's equity capital) for establishing the Bank of Åland's presence in Sweden will be close to zero by the end of 2012.

During the autumn, the economic situation deteriorated sharply and will affect the repayment ability of companies. This has been especially evident in the shipping industry, where loan impairment losses cannot be ruled out in 2012.

The efficiency-raising measured that have been implemented and initiated during 2011 will lower the Group's expense level by an estimated annual rate of EUR 8 M when they achieve their full effect. As a consequence of these measures, the Group's expenses will be lower in 2012 than in 2011, and based on our assessment of external factors we expect the Group to report a positive net operating profit in 2012.

Long-term financial targets

The new regulations that the authorities are putting in place after the financial crisis will lead to a need for the financial service industry to adjust its long-term financial targets. The Bank of Åland is currently working to adjust its long-term financial targets to this new environment. In this work, in the same way as before the financial crisis the Bank of Åland will among other things endeavour to have a capital base that, in relative terms, is at least at the same level as other Nordic banks with equivalent operations.

IFRSs

The Group's Annual Report for 2011 has been prepared in compliance with the International Financial Reporting Standards (IFRSs) approved by the European Union.

FIVE-YEAR GROUP SUMMARY

Bank of Åland Group	2007	2008	2009	2010	2011	% change, 10–11
EUR M unless otherwise stated						
Net interest income	39.3	42.1	39.1	36.8	43.1	17
Net commission income	18.3	16.4	28.0	36.8	38.7	5
Other income	18.0	15.9	20.3	25.5	17.4	−32
Total income	**75.6**	**74.4**	**87.5**	**99.1**	**99.2**	**0**
Staff costs	−26.2	−28.3	−44.6	−53.7	−60.0	12
Other expenses	−19.8	−23.8	−32.6	−38.5	−43.1	12
Total expenses	**−46.0**	**−52.1**	**−77.2**	**−92.2**	**−103.1**	**12**
Profit before loan losses etc.	**29.6**	**22.3**	**10.3**	**6.9**	**−3.9**	
Impairment losses on loans and other commitments	−1.0	−2.3	−2.9	−5.9	−1.8	−70
Negative goodwill	0.0	0.0	23.1	0.0	0.0	
Net operating profit	**28.6**	**20.0**	**30.5**	**1.0**	**−5.7**	
Income taxes	−7.6	−5.4	−3.7	−3.2	0.4	
Profit for the report period	**21.0**	**14.6**	**26.8**	**−2.2**	**−5.3**	
Attributable to:						
Non-controlling interests	0.7	0.6	0.8	0.6	1.2	
Shareholders in Bank of Åland Plc	**20.2**	**14.0**	**26.2**	**−2.9**	**−6.5**	
Volume						
Lending to the public	2,104	2,193	2,546	2,573	2,737	6
Deposits from the public [1]	1,921	2,126	2,411	2,600	2,544	−2
Managed assets	947	672	3,101	4,347	3,814	−12
Equity capital	135	138	162	154	181	17
Balance sheet total	2,592	2,770	3,379	3,475	3,400	−2
Risk-weighted assets	1,206	1,282	1,636	1,664	1,729	4
Financial ratios						
Return on equity after taxes, % (ROE) [2]	16.4	10.7	17.8	−1.8	−3.9	
Expenses/income ratio, % [3]	61	70	88	93	104	
Loan loss level, % [4]	0.05	0.11	0.12	0.23	0.07	
Gross non-performing assets, % [5]	0.24	0.66	0.56	1.07	0.70	
Level of provisions for doubtful receivables, % [6]	32	34	50	85	71	
Core funding ratio (Lending/deposits), % [7]	110	103	106	99	108	
Equity/assets ratio, % [8]	4.9	5.0	4.8	4.4	5.3	
Tier 1 capital ratio, % [9]	8.6	8.6	7.9	7.3	8.4	
Earnings per share, EUR [10]	1.75	1.22	2.27	−0.25	−0.54	
Equity capital per share, EUR [11]	11.54	11.87	13.97	13.32	12.34	
Working hours re-calculated to full-time equivalent positions	470	487	641	679	690	

[1] Deposits from the public and public sector entities, including bond loans and certificates of deposit
[2] (Profit for the report period attributable to shareholders / Average shareholders' portion of equity capital) × 100
[3] Expenses / Income
[4] Impairment losses on loan portfolio / loan portfolio
[5] (Non-performing loans more than 90 days) / loan portfolio) × 100
[6] Impairment loss provisions / doubtful receivables
[7] Lending volume / Deposits including certificates of deposit, index bonds and debentures issued to the public
[8] (Equity capital / Balance sheet total) × 100
[9] (Tier 1 capital / Capital requirement) × 8% × 100
[10] Shareholders' portion of earnings for the period / Registered shares on closing day
[11] Equity capital / Registered shares on closing day

Risk management in brief

During 2010 and 2011, sizeable portions of the new global regulations for the financial service industry were completed. They will require higher capitalisation and funding standards. The objective has been to create a more resilient financial system that is more transparent and is subjected to better oversight. The regulations will go into effect at the beginning of 2013 and will be completely phased in only during 2019 and onward.

The regulations include higher capitalisation levels and stricter, more comparable liquidity measures. Also being tightened are the rules for internal controls, risk management and corporate culture. The Bank of Åland has established a corporate unit for Risk and Lending Management. The head of this unit reports to the Managing Director and is responsible for the Group's independent risk management departments, portfolio analysis and the loan granting process. This creates a high-priority, Group-wide approach to risk matters.

The Bank of Åland's ambition is to pursue its operations with reasonable and carefully considered risks. Its profitability depends on the ability of the organisation to identify, manage and price risks. The purpose of risk management is to reduce the probability of unforeseen losses and/or threats to the reputation of the Group as well as to contribute to higher profitability and increased shareholder value. The Group is exposed to credit risk, liquidity risk, market risk, operational risk and business risk. Credit risk, which is the Group's most significant risk, encompasses claims on private individuals, companies, institutions and the public sector.

The Board of Directors has overall responsibility for ensuring that risk management is sufficient and for establishing systems and regulations for monitoring and limiting the Group's risk exposure. The Audit Committee assists the Board in handling these oversight tasks within internal control systems, risk management and reporting. The Managing Director oversees and supervises business operations in accordance with the Board's instructions, is responsible for day-to-day administration and for ensuring that the members of the Board receive sufficient information regularly about the regulations and the risk control systems that affect the Group and its administration and operations at all times. Each unit has primary responsibility for identifying and managing risks associated with its own operations. Risk management is audited by the Internal Auditing Department, which evaluates both the sufficiency of risk management and compliance with rules.

In addition to the standards of the Finnish Financial Supervisory Authority, the foundation of risk management is the European Union's capital adequacy directive, which is based on the Basel Committee's Basel 2 regulations. The Basel 2 regulations are based on three "pillars". In Pillar 1, the minimum capital adequacy for credit risk, market risk and operational risk is calculated. Pillar 2 includes the requirements for each institution's internal capital adequacy assessment process (ICAAP), where the calculation of capital concerns such risk categories and sub-areas not included in Pillar 1. Pillar 3 concerns each institution's obligation to disclose sufficient information about its business risks and their management to enable the market – represented by borrowers, depositors, investors and shareholders – to make soundly based, rational decisions.

Method used for Pillar 1

The Group uses simple methods to assess capital adequacy within Pillar 1. For credit risks the Group uses the standardised approach and for operational risks, the basic indicator approach. With the permission of the Finnish Financial Supervisory Authority, on March 31, 2012 the Bank of Åland Plc will begin applying an Internal Ratings Based (IRB) approach in compliance with Basel 2 to calculate its capital adequacy requirement for credit risk in the Finnish household portfolio. Our assessment is that this will substantially improve the Bank of Åland's capital adequacy. Other lending portfolios will transition to Internal Ratings Based approaches at a later date.

Method used for Pillar 2

The Group's operations are neither extensive nor complex, and they take place mainly in Finland and Sweden. At present, the Group uses no economic capital model or any other quantitative model. Based on these criteria, the Group regards its operations as classified according to the Finnish Financial Supervisory Authority's definition of small institutions. As a starting point for assessment of internal capital evaluation, the Group uses the results from Pillar 1. Based on these, it assesses whether the risk profile of the Group's own operations diverge substantially from the basic assumptions in the simpler methods in Pillar 1 and what importance these divergences have for capital adequacy.

Method used for Pillar 3

The Group discloses capital adequacy information about its risks and their management in the Annual Report. This information provides the market with a true and fair picture of the Group's risks and risk control and is verified by the Group's external auditors.

For more detailed information on the Group's risk and capital management, evaluation of capital requirements and capital adequacy information, see "Risk management" in the consolidated financial statements, page 39.

Facts on Bank of Åland shares

Share capital

The share capital of the Bank of Åland is EUR 29,103,547.58. The maximum share capital according to the Articles of Association is EUR 32,292,081.88. The carrying amount equivalent of a share is EUR 2.02.

The shares are divided into 6,476,138 Series A and 7,944,015 Series B shares. Each Series A share represents twenty (20) votes at shareholders' meetings and each Series B share one (1) vote. The Articles of Association stipulate that no representative at the Annual General Meeting may vote for more than one fortieth of the number of votes represented at the Meeting. Series B shares enjoy priority over Series A shares for dividends of up to six (6) per cent of their previous nominal value.

Share issue

On September 13, 2011 the Bank of Åland's Board of Directors decided to carry out a share issue with preferential rights for existing shareholders.

The main points in the terms and conditions for the share issue were the following:

- The issue consisted of a maximum of 1,295,228 new Series A shares and a maximum of 1,588,803 new Series B shares.
- The subscription price was EUR 13 for a Series A share and EUR 8.60 for a Series B share.
- The record date was September 16, 2011.
- Shares that were traded in normal stock market trading starting on September 14, 2011 did not carry the right to participate in the share issue.
- The subscription period was September 22–October 13, 2011
- Subscription rights could be traded on the Nasdaq OMX Helsinki (Helsinki Stock Exchange) during the period September 22–October 6, 2011.

As a result of the share issue, the number of Series A shares increased by 1,295,228 to a total of 6,476,138 and the number of Series B shares by 1,588,803 to a total of 2,944,015. The shares were recorded on October 20 in the Finnish Trade Register. The new shares could be traded on the Nasdaq OMX Helsinki together with the old shares starting on October 21, 2011.

The share issue brought in a total of EUR 30,501,669.80. The share capital increased by EUR 5,820,710.32 and the paid-up unrestricted equity reserve increased by EUR 24,680,959.48. After subtracting share issue expenses, the Group's equity capital increased by EUR 30,305,525.10.

Trading in the Bank's shares

During 2011, the volume of trading in the Bank's Series A shares on the Nasdaq OMX Helsinki (Helsinki Stock Exchange) was EUR 19.5 M. Their average price was EUR 23.29. The highest quotation per share was EUR 31.00, the lowest EUR 13.00. Trading in Series B shares totalled EUR 24.3 M at an average price of EUR 14.08. The highest quotation was EUR 19.90, the lowest EUR 8.29.

On December 31, 2011, the number of registered shareholders was 9,387 and they owned 13,300,227 shares. There were also a total of 1,119,926 shares registered in the names of nominees.

Changes in share capital

	Share capital, EUR	Series A shares	Series B shares
2007	23,282,837.26	5,180,910	6,355,212
2008	23,282,837.26	5,180,910	6,355,212
2009	23,282,837.26	5,180,910	6,355,212
2010	23,282,837.26	5,180,910	6,355,212
2011	29,103,547.58	6,476,138	7,944,015

The ten largest shareholders, December 31, 2011

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

	Shareholder	Series A shares	Series B shares	Total	% of shares	% of votes
1	Wiklöf Anders	1,589,396	1,296,549	2,885,945	20.01	24.07
2	Alandia-Bolagen (insurance group)	917,358	406,432	1,323,790	9.18	13.64
3	Ålands Ömsesidiga Försäkringsbolag (mutual insurance company)	794,566	262,901	1,057,467	7.33	11.75
4	Pohjola Bank Abp (nominee registered shares)	2,567	499,859	502,426	3.48	0.40
5	Nordea Bank Finland Abp (nominee registered shares)	13,114	479,038	492,152	3.41	0.54
6	Pensionsförsäkringsaktiebolaget Veritas (pension insurance company)	123,668	165,954	289,622	2.01	1.92
7	Ab Rafael (construction service company)	227,640	678	228,318	1.58	3.31
8	Svenska Litteratursällskapet i Finland (literary society)	208,750	0	208,750	1.45	3.04
9	Caelum Oy (investment company)	81,675	120,000	201,675	1.40	1.28
10	Palcmills Oy (financial service company)	87,500	107,500	195,000	1.35	1.35

For private shareholdings by the Board of Directors and the Executive Team, see Note 48, page 80.

Shareholders by size of holding

Number of shares	Number of shareholders	Total number of shares held	Average holding	Voting power, %
1 – 100	3,760	161,927	43	1.08
101 – 1,000	4,315	1,485,729	344	7.46
1,001 – 10,000	1,202	3,013,444	2,507	12.79
10,001 –	110	9,759,053	88,719	78.68
Of which, nominee registered shares		1,119,926		1.27

Shareholders by category

Category	Number of shares	% of shares
Private individuals	5,500,171	38.1
Corporations	4,557,237	31.6
Financial institutions and insurance companies	1,663,723	11.5
Non-profit organisations	767,195	5.3
Government organisations	566,496	3.9
Foreign investors	245,405	1.7
Nominee registered shares	1,119,926	7.8
	14,420,153	**100.0**

Bank of Åland shares traded, Helsinki Stock Exchange

Year		Thousands of shares	Volume as % of shares	Price paid, EUR: Highest/Lowest	Average price, EUR
2007	A	807	15.6	38.35–24.31	30.70
2007	B	543	8.5	28.90–23.90	25.96
2008	A	51	1.0	36.85–22.01	28.02
2008	B	164	2.6	28.40–16.28	23.44
2009	A	132	2.5	33.90–22.66	29.91
2009	B	317	5.0	25.80–16.50	23.43
2010	A	77	1.5	34.90–25.50	29.28
2010	B	282	4.4	25.60–17.72	22.05
2011	A	825	15.2	31.00–13.00	23.29
2011	B	1,663	24.9	19.90–8.29	14.08

Bank of Åland share data

	2007	2008	2009	2010	2011
Number of shares, M [1]	11.54	11.54	11.54	11.54	14.42
Average number of shares, M	11.54	11.54	11.54	11.54	12.10
Earnings per share before dilution, EUR [2]	1.75	1.22	2.27	−0.25	−0.54
Earnings per share after dilution, EUR [3]	1.75	1.22	2.27	−0.25	−0.54
Dividend per share, EUR [4]	1.00	0.50	0.70	0.0	0.0
Dividend payout ratio [5]	40.30	28.80	26.50	0.0	0.0
Equity capital per share before dilution, EUR [6]	11.54	11.87	13.97	13.32	12.34
Market price per share, balance sheet date, EUR					
Series A	37.00	26.60	33.90	29.50	14.15
Series B	27.80	17.24	24.50	19.93	8.68
Price/earnings ratio [7]					
Series A	21.1	21.9	14.9	neg	neg
Series B	15.9	14.2	10.8	neg	neg
Effective dividend yield, % [8]					
Series A	2.7	1.9	2.1	0.0	0.0
Series B	3.6	2.9	2.9	0.0	0.0
Market capitalisation, EUR M	368.4	247.4	331.3	279.5	160.6

1 Number of shares on closing day

2 $\frac{\text{Shareholders' interest in profit for the year}}{\text{Average number of shares}}$

3 $\frac{\text{Shareholders' interest in profit for the year}}{\text{Average number of shares + shares outstanding}}$

4 Proposed by the Board of Directors for approval by the Annual General Meeting

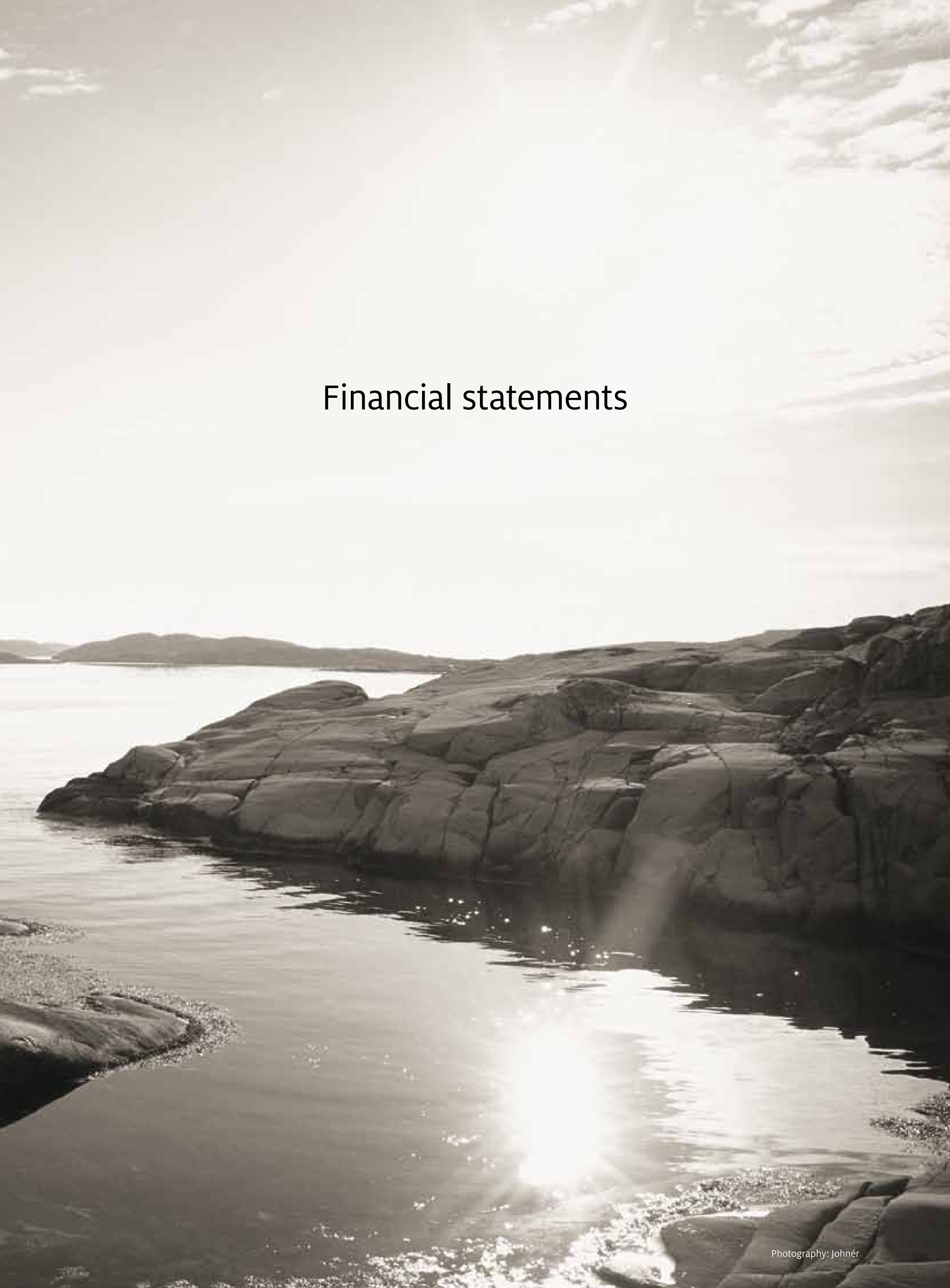
5 $\frac{\text{Dividend for the year}}{\text{Net operating profit}} \times 100$

6 $\frac{\text{Equity capital – minority interest in equity}}{\text{Number of registered shares on closing day}}$

7 $\frac{\text{Share price on closing day}}{\text{Earnings per share before dilution}}$

8 $\frac{\text{Dividend}}{\text{Share price on closing day}} \times 100$

Financial statements



Photography: Johnér

Consolidated statement of financial position

(EUR K)

Assets	Note	Dec 31, 2011		Dec 31, 2010	
Cash			66,139		61,210
Debt securities eligible for refinancing with central banks	3				
Treasury bills		0		43,825	
Other		125,311	125,311	123,920	167,745
Claims on credit institutions	4				
Repayable on demand		71,728		39,018	
Other		57,290	129,017	88,350	127,367
Claims on the public and public sector entities	5, 6		2,737,017		2,677,407
Debt securities	3		198,182		266,168
Shares and participations	7		3,329		4,980
Shares and participations in associated companies	7		1,209		1,400
Derivative instruments	8		20,413		35,341
Intangible assets	9, 11				
Miscellaneous non-current expenditures		10,080		8,833	
Goodwill		1,373	11,453	1,373	10,206
Tangible assets	10, 11				
Investment properties		480		1,403	
Properties for own use		24,279		24,860	
Other tangible assets		7,558	32,316	9,167	35,429
Other assets	12		46,113		58,343
Accrued income and prepayments	13		26,099		26,749
Deferred tax assets	14		3,891		2,284
Total assets			**3,400,490**		**3,474,630**

Consolidated statement of financial position

(EUR K)

Liabilities and equity capital	Note	Dec 31, 2011			Dec 31, 2010		
Liabilities							
Liabilities to credit institutions and central banks							
Central banks			30,000			50,000	
Credit institutions							
Repayable on demand		41,788			8,126		
Other		158,495	200,283	230,283	133,314	141,440	191,440
Liabilities to the public and public sector entities							
Deposits							
Repayable on demand		1,702,019			1,818,520		
Other		444,347	2,146,366		321,954	2,140,474	
Other liabilities			332	2,146,698		545	2,141,019
Debt securities issued to the public	15						
Bonds			439,372			553,684	
Other			219,167	658,539		235,985	789,669
Derivative instruments and other liabilities held for trading	8			13,502			10,110
Other liabilities	16			59,699			66,591
Accrued expenses and prepaid income	17			33,184			26,692
Subordinated liabilities	18			57,687			72,965
Deferred tax liabilities	14			20,338			21,693
Total liabilities				**3,219,930**			**3,320,180**
Equity capital							
Share capital	27			29,104			23,283
Share premium account				33,272			33,272
Other restricted reserves							
Reserve fund			25,129			25,129	
Fair value reserve	28						
Translation differences in income		7,823			8,016		
Fair value measurement		1,781	9,603	34,733	1,287	9,303	34,432
Own shares				−54			0
Paid-up unrestricted equity reserve				24,485			0
Retained earnings	29			56,385			62,857
Shareholders' interest in equity capital				177,924			153,844
Non-controlling interest in capital				2,636			606
Total equity capital				**180,560**			**154,450**
Total liabilities and equity capital				**3,400,490**			**3,474,630**
Off-balance sheet obligations	53						
Obligations to a third party on behalf of customers							
Guarantees				18,716			20,765
Irrevocable commitments given to customers				358,279			280,119
				377,095			**300,884**

Consolidated statement of comprehensive income

(EUR K)

	Note	Jan 1–Dec 31, 2011			Jan 1–Dec 31, 2010		
Interest income	30			85,743			67,191
Interest expenses	31			–42,664			–30,388
Net interest income				**43,079**			**36,802**
Income from equity investments	32			42			42
Commission income	33			46,731			43,703
Commission expenses	34			–7,981			–6,883
Net income from securities transactions and foreign exchange dealing	35						
Net income from securities transactions			–495			1,401	
Net income from foreign exchange dealing			2,366	1,871		3,403	4,804
Net income from financial assets available for sale	36			–664			1,445
Net income from investment properties	37			944			789
Other operating income	38			15,178			18,228
Administrative expenses							
Staff costs							
Wages, salaries and fees		44,867			40,192		
Pension expenses		7,526			7,031		
Other social security expenses		7,584	59,977		6,464	53,688	
Other administrative expenses	39		20,931			18,024	
Production for own use			–1,794	–79,114		–3,715	–67,998
Depreciation/amortisation and impairment losses on tangible and intangible assets				–6,707			–8,255
Other operating expenses	40			–17,294			–15,935
Impairment loss on loans and other commitments	41			–1,788			–5,889
Share of profit in companies consolidated according to the equity method				25			142
Net operating profit				**–5,681**			**996**
Income taxes	42						
Taxes for the year and prior years			2,716			2,810	
Change in deferred tax liabilities/assets			–3,075	359		407	–3,217
Profit for the year				**–5,322**			**–2,220**
Attributable to:							
Shareholders in Bank of Åland Plc				–6,472			–2,860
Non-controlling interests				1,150			640
Total				**–5,322**			**–2,220**
Other comprehensive income							
Assets available for sale				619			–756
Valuation differences				–282			3,408
Income tax on other comprehensive income	42			–37			1,116
Total comprehensive income for the year				**–5,022**			**1,547**
Attributable to:							
Shareholders in Bank of Åland Plc				–6,172			907
Non-controlling interests				1,150			640
Total				**–5,022**			**1,547**
Earnings per share	44						
Earnings per share be fore dilution, EUR				–0.54			–0.25
Earnings per share after dilution, EUR				–0.54			–0.25

Consolidated cash flow statement

(EUR K)

Bank of Åland Group	Jan 1–Dec 31, 2011	Jan 1–Dec 31, 2010
Operating activities		
Net operating profit	–5,681	996
Adjustment for net operating profit items not affecting cash flow		
Loan losses	1,812	5,913
Unrealised changes in value	2,900	–537
Depreciation/amortisation and impairment losses	6,707	8,255
Effect of pension fund	–251	–463
Accrued surpluses/deficits on debt securities and bonds issued	4,578	7,239
Gains from investing activities	–1,151	–951
Income taxes paid	–3,495	–4,242
Changes in assets and liabilities in operating activities		
Debt securities eligible for refinancing with central banks	41,664	18,995
Claims on credit institutions	–3,362	–7,069
Claims on the public and public sector entities	–161,336	–7,362
Other asset items	76,986	–70,211
Liabilities to credit institutions	38,228	–79,449
Liabilities to the public and public sector entities	2,935	52,658
Debt securities issued	–53,288	18,951
Other liability items	–2,192	–549
	–54,944	**–57,826**
Investing activities		
Equities	196	1,027
Investments in associated companies and subsidiaries	0	–132
Tangible assets	2,407	950
Intangible assets	–3,086	–4,722
	–482	**–2,878**
Financing activities		
Dividend paid to shareholders	0	–8,075
Dividend paid to non-controlling interests	–1,085	–939
Share issue	30,306	0
Non-controlling interests in subsidiaries	2,040	0
Purchases of own shares	–54	0
Finance leases	–1,220	–3,560
Change in long-term borrowings from banks	–81,508	14,666
Change in subordinated debentures	–15,278	14,390
	–66,799	**16,482**
Cash and cash equivalents		
Cash and cash equivalents on January 1	306,227	331,099
Cash flow from operating activities	–54,944	–57,826
Cash flow from investing activities	–482	–2,878
Cash flow from financing activities	–66,799	16,482
Exchange rate differences in cash and cash equivalents	724	19,349
Cash and cash equivalents on December 31	**184,726**	**306,227**
Specification of cash and cash equivalents		
Cash	66,139	61,210
Claims on credit institutions	118,587	120,299
Claims on the public and public sector entities	0	104,735
Debt securities	0	19,983
	184,727	**306,227**

"Cash and cash equivalents" refers to cash, cheque account with the Bank of Finland, claims payable on demand from credit institutions as well as other claims on credit institutions and debt securities with an original remaining maturity of less than three months. "Investing activities" refers to payments related to tangible and intangible assets as well as holdings of shares and participations aside from shares intended for trading. "Financing activities" refers to items among equity capital and liabilities that fund operating activities. The analysis was prepared according to the indirect method. "Operating activities" included interest received of EUR 86,838 K (2010: 63,367), interest paid of EUR 42,303 K (29,641) and dividend income received of EUR 42 K (42).

Consolidated statement of changes in equity capital

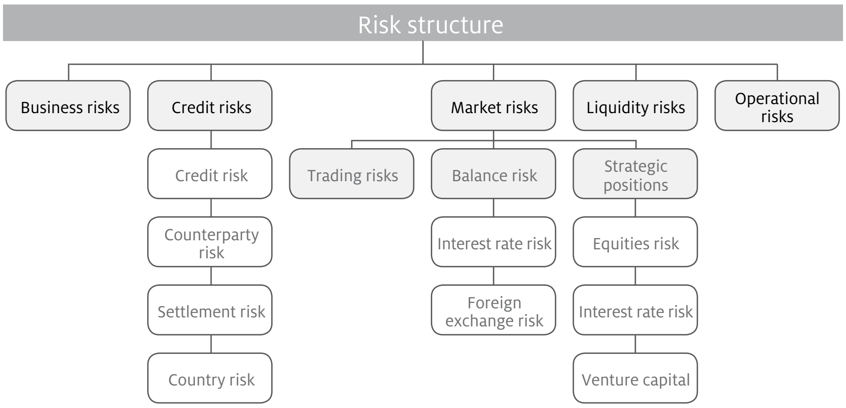
(EUR K)

Bank of Åland Group	Share capital	Paid-up unrestricted equity reserve	Share premium account	Reserve fund	Own shares	Fair value reserve	Translation difference	Retained earnings	Shareholders' portion of equity capital	Non-controlling interests' portion of equity capital	Total
Equity capital, Dec 31, 2009	**23,283**	**0**	**33,272**	**25,129**	**0**	**1,847**	**3,689**	**73,980**	**161,200**	**999**	**162,199**
Comprehensive income for the year						−560	4,327	−2,860	907	640	1,547
Dividend to shareholders								−8,075	−8,075	−1,089	−9,164
Purchases from non-controlling interests								−187	−185		−185
Other change in portion attributable to non-controlling interests										55	55
Equity capital, Dec 31, 2010	**23,283**	**0**	**33,272**	**25,129**	**0**	**1,287**	**8,016**	**62,857**	**153,847**	**606**	**154,450**
Comprehensive income for the year						494	−193	−6,472	−6,172	1,150	−5,022
Dividend to shareholders										−1,160	−1,160
Other change in portion attributable to non-controlling interests										2,040	2,040
Share issue	5,821	24,485							30,306		30,306
Purchases of own shares					−54				−54		−54
Equity capital, Dec 31, 2011	**29,104**	**24,485**	**33,272**	**25,129**	**−54**	**1,781**	**7,824**	**56,385**	**177,924**	**2,636**	**180,560**

Risk management

General

Risk is defined as the probability of negative divergence from an expected financial outcome. The risks in the Bank of Åland Group's operations are divided into five main categories: business risks, credit risks, market risks, liquidity risks and operational risks.



The Group's ambition is to pursue its operations with carefully considered risks. The profitability of the Group is dependent on the ability of the organisation to identify, manage and price risks. The purpose of risk management is to reduce the probability of unforeseen losses and/or threats to the reputation of the Group as well as to contribute to higher profitability and increased shareholder value. Good risk management maintains confidence in the Group among shareholders, customers, counterparties, employees and public authorities.

The operating areas and principal risk exposure of Group companies are as follows:
The Bank of Åland Plc (Ålandsbanken Abp), whose business areas are banking and securities operations. Its operations are subject to business risk, credit risk, market risk, liquidity risk and operational risk.

Alpha Management Company S.A., whose operating area is to be responsible for funds registered in Luxembourg. Its operations are mainly subject to operational risk.

Ab Compass Card Oy Ltd, whose operating area is issuance of credit and debit cards. Its operations are mainly subject to business risk, credit risk and operational risk.

Crosskey Banking Solutions Ab Ltd, whose operating area is information technology (IT). Its operations are mainly subject to business risk and operational risk.

Ålandsbanken Asset Management Ab, whose operating area is asset management. Its operations are mainly subject to operational risk.

Ålandsbanken Equities Research Ab, whose operating area is equities analysis. Its operations are mainly subject to operational risk.

Ålandsbanken Fondbolag Ab and Ålandsbanken Fonder AB, whose operating areas are mutual fund management. Their operations are mainly subject to operational risk.

Ålandsbanken Sverige AB, which is in the process of reorganisation into Ålandsbanken Asset Management AB, whose operating area is asset management. Its operations are mainly subject to operational risk.

Risk organisation

BOARD OF DIRECTORS

The Board of Directors has overall responsibility for risk-taking in the Group and adopts yearly policy documents covering the principles for business operations and risk management as well as rules and limits for risk-taking. The Group's risk positions are reported at least quarterly to the Board. The Board establishes principles, targets, guidelines and the scale of internal capital evaluation as well as the requirements for the measuring and analytical methods applied.

THE AUDIT COMMITTEE

The Audit Committee assists the Board of Directors in handling its responsibilities for monitoring internal control systems, risk management and reporting.

MANAGING DIRECTOR

The Managing Director oversees and supervises business operations in accordance with the Board's instructions and is responsible for day-to-day administration and for ensuring that the members of the Board receive sufficient information regularly about the regulations and the risk control systems that affect the Group, its administration and operations at all times.

The Executive Team serves as an advisory group to the Managing Director.

RISK OVERSIGHT UNIT

The Risk & Lending Management Corporate Unit is responsible for overseeing risk-taking and risk management as well as for follow-up of mandates and limits. The tasks of the corporate unit include providing the Board of Directors and Managing Director with information about the Group's risk positions and about the effect of major risk impact on earnings and the capital base.

TREASURY

The Treasury unit is responsible for overall financial structure, as well as for funding, liquidity risk, interest rate risk and foreign exchange risk.

INTERNAL AUDITING

Risk management is audited by the Internal Auditing Department, which evaluates risk management both in terms of sufficiency and compliance. Internal Auditing communicates its findings to the Executive Team and reports to the Audit Committee of the Board.

UNITS

Each unit has primary responsibility for identifying and managing risks associated with its own operations.

Risk measurement and systems

Risk management includes all activities for identifying, measuring, reporting and controlling risks. The cornerstone of risk management is the policy documents, limit systems and processes adopted by the Board of Directors, aimed at ensuring that operations are pursued in a safe, efficient manner. Risk follow-up and monitoring are performed primarily on the basis of limits. These limits reflect business strategy and external factors as well as risk appetite and risk tolerance. Information from operations is used in order to identify, analyse and control risks. Stress tests comprise part of the risk control function in the Group.

Business risk

Business risk is a function of the Group's focus and structure and of the environment and market the Group operates in.

Business risk is defined as:

Strategic risk

- risks in the selected strategy: risk exposure, risk appetite and the quality level of risk management
- risk that the selected strategy is not profitable
- risk of delays in adjusting the strategy to external changes

Microeconomic surroundings risk

- deficient or delayed adjustment of operations to structural changes in the industry as well as the actions of competitors

Risks related to the legal and regulatory environment

Risks related to the legal and regulatory environment arise due to changes in financial market regulation and oversight. Such changes in the regulatory environment are, for example, new capital adequacy rules, European Union (EU) legislation and other international rules. The changes in the legal and regulatory environment announced by the EU, which will be introduced by 2019, are very far-reaching and will have a significant impact on financial market players.

Credit risk

Credit risk is the risk of losses as a consequence of the inability of a counterparty to fulfil its obligations towards the Group and the risk that the collateral provided for this exposure will not cover the Group's claim. Credit risk also includes country risk and settlement risk. Settlement risk is the risk that the settlement of a securities transaction does not occur in the form of payment upon delivery. All legal entities and physical persons that the Group is exposed to are regarded as counterparties, and exposure refers to the sum of claims and investments including off-balance sheet obligations.

Credit risk includes receivables from private individuals, companies, institutions and public sector entities. The receivables consist mainly of loans, overdraft facilities and guarantees granted. Overall credit strategy is regulated by the Group's credit policy. The level of credit risks is established in risk policy, credit risk policy and credit policy documents and in the operating strategies of Group companies.

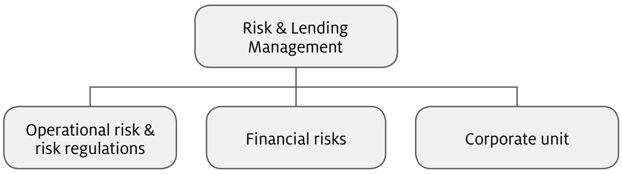
Credit risk management is based on formal credit or limit decisions. Every decision maker has an established individual limit, and within this framework the decision maker is entitled to manage credit risks. For Treasury-related credit risks, counterparty limits are established. Credit risks are followed up and analysed by the Group's risk oversight unit, which reports directly to the Managing Director. Follow-up and analysis of exposures to private individuals and companies in the Finnish operations of the Bank of Åland are based on internal statistical methods. Other exposures and exposures in the Bank's Swedish operations are followed up and analysed mainly on the basis of external risk classifications.

When using internal statistical methods, exposures are divided into risk categories based on the probability of default and the percentage of loss in case of default. In addition, there is a category for defaulting loans and a category for unclassified loans. The unclassified category includes loans to certain legal corporate mechanisms that have been exempted from internal risk classification methods.

Based on internal risk classification, measurement values established by the Board of Directors are reported monthly to the Managing Director and to the Executive Team and on a quarterly basis to the Audit Committee and the Board of Directors. The financial position and credit risk of corporate customers are also followed up with the help of the Rating Alpha risk classification system from the credit rating company Suomen Asiakastieto Oy in Finland and by UC AB in Sweden.

Non-performing loan commitments are reported monthly to the Managing Director and to the Executive Team. Large customer commitments are reported quarterly, both internally and to the Financial Supervisory Authority. The Group's risk oversight unit follows up risks in securities custodial accounts that serve as collateral for loans. Aside from following up the value of such accounts in relation to the loan amount, the risk oversight unit follows up risk concentrations in pledged securities.

Decisions on granting a loan, along with measures to be undertaken related to existing loans, must be based on a written loan decision made by an authorised person. A loan decision is made by individual decision makers or bodies that have been authorised to grant loans/unsecured credits within the framework of limits established by the Managing Director. Depending on the market area, credit committees make decisions on all credit matters that fall outside the limit of an authorised individual. The Credit Committee of the Executive Team make decisions on all credit matters that fall outside the above-mentioned credit committees. The Managing Director, the Heads of Lending and the Chief Legal Counsel of the Bank of Åland Plc form the Credit Committee of the Executive Team. The credit matters dealt with in the Credit Committee of the Executive Team are first dealt with by a corporate unit. The primary task of this corporate unit is to ensure that the material related to each credit matter provides a comprehensive and fair picture of the customer's financial situation and future repayment ability and the value of the collateral offered.



Credit management assumes that lending decisions will be based on sufficient knowledge about the customer. This means that the Bank primarily does business with customers active in the regions where the Bank has offices. The creditworthiness of private individuals is assessed on the basis of the disposable income of the customer and the collateral offered. In Finland, a majority of the loans to private individuals are granted with homes as collateral. In the case of corporate loans, the rule is that all customers have a contact person at the Bank who is familiar with the customer's business and economic sector as well as the risk and collateral related to the loan commitment. Of total lending in Sweden, most consists of lending in exchange for traditional collateral in the form of mortgages and collateral in tenant-owned cooperative residential units. The remainder is divided between borrowing against structured products and securities in custody accounts.

In assessments of corporate customers, the Bank uses its internal risk classification models. For those companies that are part of the corporate loan portfolio, this is supplemented with a qualitative risk assessment. Decisions by the Bank concerning new loans or limits for companies are based on credit analysis. This credit analysis must provide a sufficiently thorough picture of the loan applicant and the project to be financed. The loan portfolio includes certain receivables from customers domiciled outside Finland and Sweden. There are no commitments located in crisis-affected parts of the world.

The risk classification system

The Bank of Åland's risk classification system consists of a number of systems, methods, processes and procedures that back up the Bank's classification and quantification of credit risk. The system enables the Bank to measure credit risk in its portfolios in a reliable, consistent way. The internal rating is the most important model for calculating capital adequacy in compliance with Basel 2 rules (the IRB approach). The rating is dynamic; in other words, it is reassessed if there are signs that a counterparty's repayment capacity has changed.

The Risk and Lending Management Corporate Unit carries out a large-scale annual evaluation of the system, and the findings of this evaluation are reported to the Board of Directors. This oversight includes a yearly validation and calibration of the risk measures and models that are applied in risk classification. There is also regular monitoring to ensure that risk is being measured in a reliable, consistent way. The Internal Auditing Department performs independent monitoring of the risk classification system and its use in operations.

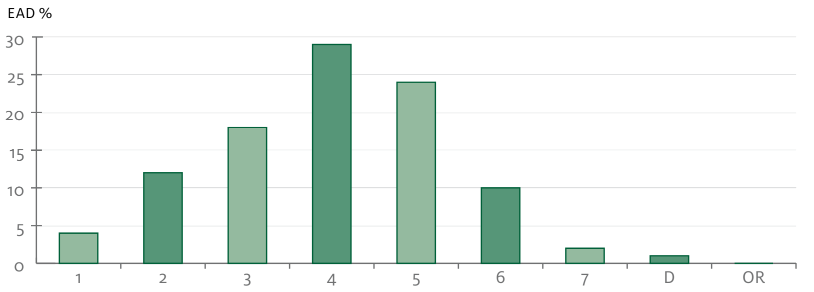
On the basis of the above system, exposures are divided into seven "probability of default" (PD) categories (1–7), where a low number indicates a low credit risk. Correspondingly, a low "loss given default" (LGD) number indicates a low loss in case of default. For exposures to households, the Bank applies its own models for estimating LGD, while for the corporate loan portfolio it uses the numbers prescribed by the Financial Supervisory Authority, taking into account certain approved forms of collateral.

In addition to these seven PD categories, there is a category for defaulting loans (D), where loans that have been unsettled for 90 days or longer are placed. There is also a category for unclassified loans (OR), which consists of loans that the Bank's statistical models do not yet include. Examples are certain legal mechanisms such as general partnerships, limited partnerships and associations. The Bank of Åland's branch in Sweden and Compass Card's exposures are not included in the IRB models.

These charts show exposures stated in per cent, divided into PD categories for the corporate portfolio and the household portfolio. The line between those companies that are part of the corporate portfolio and those that are part of the household portfolio is drawn on the basis of the Group's exposure to customer entities or the fulfilment of other criteria related to sales, total assets and number of employees.

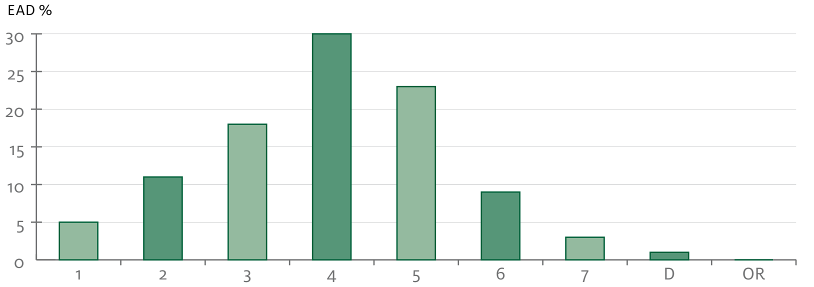
As for the household portfolio, exposures are allocated among PD categories 3 to 5, where a clear majority consists of exposures with real estate as collateral, which is deemed low-risk. The average default risk in PD category 5 amounts to about 0.75 per cent.

Household portfolio



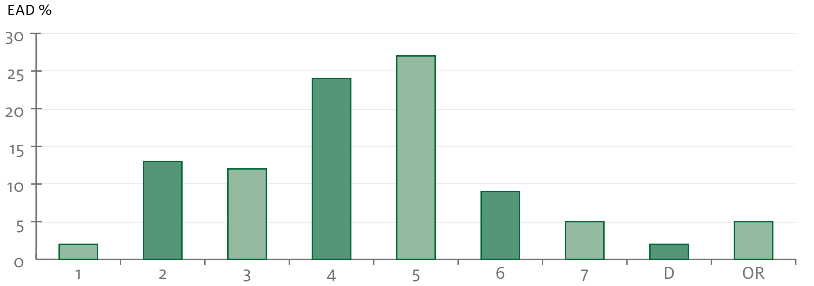
As a separate segment in the household portfolio, the chart shows the allocation of household exposures with real estate as collateral, which is the Bank's largest portfolio and is deemed low-risk.

Household portfolio with real estate as collateral



In a similar way, a majority of exposures in the corporate portfolio are allocated among PD categories 4 to 5, which are deemed a reasonable risk. The average default risk in PD category 5 amounts to about 3.75 per cent.

Corporate portfolio



CREDIT RISK CONCENTRATIONS

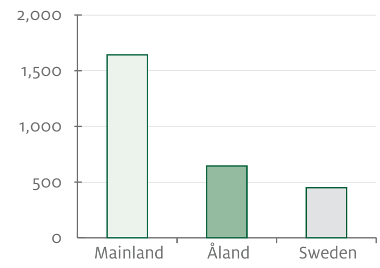
Risk concentrations sometimes arise when the loan portfolio includes loans to individual counterparties or customer entities, to certain economic sectors, to certain countries or in exchange for certain collateral.

Loan portfolio allocation by purpose/industry

EUR M		0% 10% 20% 30% 40%
Companies		
Shipping	62.9	
Wholesale and retail trade	57.0	
Housing operations	94.6	
Other real estate operations	334.7	
Financial and insurance operations	186.5	
Hotel and restaurant operations	19.4	
Other service operations	109.0	
Agriculture, forestry and fishing	13.2	
Construction	44.6	
Other industry and crafts	35.8	
Private individuals		
Home loans	1,160.6	
Securities and other investments	294.1	
Business operations	125.8	
Other household purposes	176.9	
Public sector and non-profit organisations	21.8	
Total lending	**2,737.0**	

The table to the left shows the allocation of the entire loan portfolio by purpose.

Loan portfolio allocation by region



EUR M	Exposure	%
Finland	2,287.3	84
Mainland	1,642.4	60
Åland	644.9	24
Sweden	449.7	16

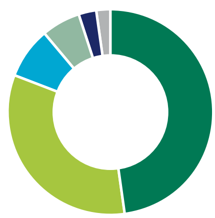
CUSTOMER CONCENTRATION

A customer entity refers to customers (physical persons or legal entities) that form a group or otherwise share substantial economic interests with each other. Substantial economic interests occur when economic difficulties for one customer in the customer entity lead to the likelihood that other or all customers belonging to the customer entity will also encounter payment difficulties. An excessive concentration of exposures to one single customer or group of customers with mutual ties may lead to a high loan loss risk.

The table below shows customers and customer entities (including institutions) with commitments of more than EUR 10 M, which constitutes 5 per cent of the Group's capital base. Also shown below is the allocation of these customers by economic sector.

Commitments of more than EUR 10 M (5% of the Group's capital base)

EUR M		Percentage of capital base	Economic sector	Commitments
Total commitments > EUR 10 M	633.5		Financial operations	310.1
Number	28		Construction and real estate operations	203.6
Maximum	57.1	25.9%	Shipping	51.3
Minimum	11.0	5.0%	Other household purposes	39.6
Median	17.6	8.0%	Public sector	18.9
Top quartile	27.5	12.5%	Other industry and crafts	10.1
Bottom quartile	13.1	5.9%		



- Financial operations
- Construction and real estate operations
- Shipping
- Other household purposes
- Public sector
- Other industry and crafts

LARGE EXPOSURES

Banks are subject to legal limits on risk concentrations that arise from individual customers or customer entities. Large exposures are defined as customers and customer entities whose total exposure is 10 per cent or more of the Bank's capital base. According to the Financial Supervisory Authority's guidelines, exposures to a single customer or customer entity at the Bank may not exceed 25 per cent (institutions exempted) of the Bank's capital base.

The risk oversight unit follows up large exposures and reports on compliance quarterly to the Board of Directors and the Managing Director as well as the Financial Supervisory Authority. If limits are exceeded, this is reported immediately.

The amounts are shown as gross amounts, i.e. deductible collateral has not been subtracted.

Large exposures	Dec 31, 2011
EUR M	
Institutions, companies and private individuals	
Large exposures – number	10
Large exposures – total, gross basis	374.2
Capital base	220.7
Large exposures as percentage of total loan portfolio	13.7%

COUNTERPARTY RISK (INSTITUTIONS)

The Group shall only work together with counterparties that are deemed capable of fulfilling their obligations towards the Group. The banks and financial institutions that the Group works with must have good creditworthiness in order to support the continued development of the Group as well as minimise credit risk. Exposure to various counterparties is limited by a set of rules established by the Board of Directors. The table below shows the Group's institutional exposures allocated on the basis of ratings by the external credit rating agencies Moody's and Standard & Poor's. The compilations only take into account those counterparties for which overall exposure exceeds EUR 1 M.

Counterparty risk by region

The chart shows the Group's exposure to institutions, allocated by region.

Counterparty risks (institutions), Moody's / S&P		
EUR M	Exposure	%
AAA	5.3	2
AA	158.7	56
A	91.5	32
BBB	1.2	0
No rating available	25.0	9

COLLATERAL

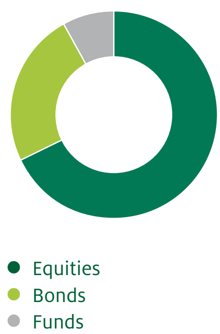
When the Bank assesses the credit risk of a given customer, it primarily assesses the repayment ability of the borrower. According to the Bank's credit policy, weak repayment ability can never be offset by the Bank being offered good collateral.

Collateral eliminates or reduces the Bank's loss if the borrower cannot fulfil his payment obligations. As a main rule, loans to both private individuals and companies are thus made against collateral. This applies, for example, to home mortgage financing to private individuals, loans to property companies, loans to private individuals and companies for the purchase of securities as well as many other types of financing.

Unsecured loans are primarily granted in the case of small loans to private individuals and only in exceptional cases to companies. In the latter cases, as a rule special loan conditions are established that give the Bank greater rights of renegotiation or loan termination.

Acceptable collateral and loan-to-value (LTV) ratios are specified in the Bank's internal instructions for lending operations. As a general rule a loan may not exceed 70–75 per cent of the market value of residential property used as collateral, 90 per cent in the case of bonds, 30–70 per cent for equities and 90 per cent of deposits and guarantees from other domestic credit institutions. Collateral in the form of residential property is by far the most important element of overall collateral in the Bank's lending, but financial collateral is also widely used. Financial collateral is allocated among equities, bonds and funds as follows at Bank of Åland Plc:

Allocation of financial collateral



Financial collateral	
Type of securities	Market value pledged
Equities	369.1
Bonds	127.5
Funds	42.6
Total	**539.2**

OVERDUE AND IMPAIRED RECEIVABLES

A receivable is regarded as overdue if contractual payment does not occur on the specified date. Loans and trade receivables are recognised in the balance sheet at the commencement of the contract at cost and subsequently at amortised cost. All loans and trade receivables are tested on a quarterly basis for impairment. At that time, the Group assesses whether there is objective evidence that an individual or group of loans and trade receivables has an impairment loss. Loans and trade receivables have an impairment loss only if objective evidence shows that one or more events have occurred that have an adverse impact on future cash flows for the financial asset, if these can be reliably estimated.

Impairment losses are recognised in the income statement under the item "Impairment loss on loans and other commitments". For more information, see "Loans and trade receivables" in the accounting principles. Impairment losses on loans and trade receivables are reported as needed on the basis of a customer-specific evaluation and an overall assessment of the loan portfolio.

Impairment losses on loans and trade receivables	2011		2010	
EUR M	Individual	Group	Individual	Group
Opening balance	4.6	2.5	3.7	2.5
Acquired balance	0.0	0.0	0.1	0.0
New and increased impairment losses	3.3	0.0	1.0	0.0
Reversals of impairment losses	−0.2	−1.4	−0.2	0.0
Established impairment loss/reversal	0.1	0.0	5.1	0.0
Recognised in the income statement	3.2	−1.4	5.9	0.0
Final impairment loss/reversal	−0.1	0.0	−5.1	0.0
Closing balance	**7.7**	**1.1**	**4.6**	**2.5**

General information on credit risk			Dec 31, 2011			
EUR M	Remaining maturity					
	0–3 mo	3–12 mo	1–5 yrs	5–10 yrs	10 yrs –	Total
Business and professional activities	287.3	143.7	287.3	134.1	105.4	957.8
Of which impaired receivables	0.1	0.0	0.0	0.3	5.7	6.1
Of which overdue receivables	2.5	8.1	2.6	5.8	11.0	30.0
Households	140.6	123.0	386.6	246.0	861.1	1,757.4
Of which impaired receivables	0.6	0.0	0.1	0.1	1.9	2.6
Of which overdue receivables	5.5	3.8	9.9	5.4	26.3	51.0
Public sector	13.7	0.0	1.1	6.3	0.7	21.8
Of which impaired receivables	0.0	0.0	0.0	0.0	0.0	0.0
Of which overdue receivables	0.0	0.0	0.0	0.0	0.0	0.0
Total amount	**441.7**	**266.7**	**675.1**	**386.5**	**967.1**	**2,737.0**
Of which impaired receivables	0.7	0.0	0.1	0.4	7.6	8.8
Of which overdue receivables	8.0	11.9	12.5	11.2	37.3	81.0

The table shows the Group's total loan portfolio and overdue and impaired receivables on December 31, 2011. A receivable is defined as overdue if contractual payment does not occur on the specified date and as impaired if an impairment loss on the loan has been recognised.

Impaired and overdue loans by purpose, Dec 31, 2011								
EUR M	Business		Households		Public sector		Total	
	Overdue	Impaired	Overdue	Impaired	Overdue	Impaired	Overdue	Impaired
< 29 days	11.8	0.0	30.4	0.0	0.0	0.0	42.2	0.0
30–59 days	5.3	0.0	7.0	0.0	0.0	0.0	12.3	0.0
60–89 days	4.2	0.0	2.7	0.0	0.0	0.0	6.9	0.0
> 90 days	8.7	6.2	10.9	2.6	0.0	0.0	19.6	8.8
Total	**30.0**	**6.2**	**51.0**	**2.6**	**0.0**	**0.0**	**81.0**	**8.8**

The table shows impaired and overdue loans by purpose, allocated by the number of days that the loan was overdue.

Market risk

Market risk is the risk of losses due to changes in interest rates as well as currency exchange rates and market prices of shares.

The Treasury unit manages and is responsible for interest rate and foreign exchange risks. All market risks, mandates and limits are monitored and followed up by the risk oversight unit.

SHARE PRICE RISK

The positions in the trading book consist of positions in equities and derivatives on an intraday basis as well as some longer positions. The Risk & Lending Management Corporate Unit monitors the limits on the trading book and the changes in longer-term holdings in strategic portfolios. Decisions on positions in strategic portfolios are made by the Managing Director or the Board of Directors. The risk oversight unit monitors the day-to-day positions in the trading book and reports equities portfolio trends monthly.

FOREIGN EXCHANGE RISK

Foreign exchange risk refers to the risk that arises from changes in the market value of the Bank's assets and liabilities as well as derivatives due to changes in foreign exchange rates. The Group's foreign exchange exposure arises from the administration of customer flows in foreign currencies. Foreign exchange operations are not extensive and the Group carries out no foreign exchange trading.

Foreign exchange positions are restricted by limits established by the Board of Directors. All balance sheet items in foreign currencies are restated in euros according to the European Central Bank's official middle rate quotation.

Foreign exchange risk for equity capital in Ålandsbanken Sverige AB has been hedged using currency forward contracts (see Note 8).

INTEREST RATE RISK

Interest rate risk refers to the effect of changes in interest rates on both net interest income (income risk) and the present value of interest rate-sensitive items (present value risk). Both these effects are calculated on the basis of gap analyses and measure various aspects of structural interest rate risk.

The Bank's internal method for estimating interest rate risk is based on standardised schedules for income risk and present value risk, i.e. on the estimates reported to the authorities. In the schedule of maturity intervals used in estimating both income risk and present value risk, items are arranged by remaining maturity, according to the period when changes in interest rates will have an effect on them. Stress tests are carried out for both income risk and for present value risk. The basic calculation of income risk evaluates how a one percentage point change affects net interest income. The stress tests are aimed at estimating the effects of major changes in interest rates. These effects are obtained by multiplying the basic calculation result by the desired interest rate change. Non-parallel changes in the interest rate curve are not taken into account in calculating income risk, either in the basic calculation or in stress tests. This is because income risk is calculated with a one-year horizon and all exposures thus lie within the short-term market interest rate interval. In calculating the present value risk, the effect of changes in interest rates on present value is measured over the entire maturity horizon. The basic calculation stipulated by regulatory authorities, which assumes a parallel change in the yield curve of two percentage points (200 basis points), is a stress test. The effects of major changes in interest rates, including non-parallel ones, are calculated by inserting the desired interest rate changes in the various maturity intervals.

Interest rate refixing periods between assets and liabilities (including derivatives), Dec 31, 2011

EUR M	Maturity interval													
	< 1 mo	1–3 mo	3–6 mo	6–9 mo	9–12 mo	1–2 yrs	2–3 yrs	3–4 yrs	4–5 yrs	5–7 yrs	7–10 yrs	10–15 yrs	>15 yrs	Non-interest-bearing	Total
Assets															
Claims on credit institutions and central banks	186.0	1.0													187.0
Claims on the public	1,120.8	983.1	215.1	167.0	111.4	6.2	32.2	64.0	3.1	19.0	15.1	0.1			2,737.0
Debt securities	20.4	67.1	49.2	84.2	9.5	44.1	1.5	4.2	25.2		18.0			0.2	323.5
Shares and participations														4.5	4.5
Tangible and intangible assets														43.8	43.8
Other assets														104.6	104.6
Total assets	**1,327.2**	**1,051.1**	**264.3**	**251.2**	**120.8**	**50.3**	**33.7**	**68.2**	**28.3**	**19.0**	**33.1**	**0.1**		**153.2**	**3,400.5**
Liabilities															
Liabilities to credit institutions	145.1	55.2						30.0							230.3
Deposits from the public	1,684.5	162.8	112.6	105.5	66.1	14.7	0.0	0.2		0.1					2,146.7
Debt securities	48.6	396.8	42.9	52.0	29.7	21.4	24.0	7.9	33.0	2.2					658.5
Subordinated liabilities		3.0	5.0				9.7	23.8			16.1				57.6
Other liabilities	0.3													126.6	126.9
Equity capital and reserves														180.6	180.6
Total liabilities and equity capital	**1,878.5**	**617.9**	**160.5**	**157.5**	**95.8**	**36.1**	**33.7**	**61.9**	**33.0**	**2.3**	**16.1**			**307.2**	**3,400.5**
Derivative contracts	7.7	105.2	−113.8	−27.7	10.4	44.9	25.4	−29.1	6.2	−27.2	−14.7				
Difference between assets and liabilities	**−543.5**	**538.4**	**−10.0**	**66.0**	**35.4**	**59.0**	**25.4**	**−22.8**	**1.5**	**−10.5**	**2.3**	**0.1**		**−154.0**	**0.0**

INCOME RISK

All assets and liabilities in the balance sheet are placed according to their remaining maturity or interest rate refixing date in maturity intervals, in which the difference ("gap") between assets and liabilities is calculated. Based on these gaps, the Bank calculates the sensitivity of net interest income to changes in interest rates during a 12-month period.

PRESENT VALUE RISK

Interest rate-sensitive assets and liabilities are placed in corresponding fashion in maturity intervals. Gaps in all intervals, even exceeding 20 years, are included in the calculation, with the present value of each gap being calculated by multiplying by a duration factor. The sum of these weighted gaps is the change in the present value of the balance sheet.

Parallel shift in interest rate curve by +100 basis points

	Dec 31, 2011	Dec 31, 2010
EUR M		
Income risk	3.1	1.4
Present value risk	1.3	−1.2

Liquidity risk

Liquidity risk is the risk that the Group cannot fulfil its payment obligations on the due date without a substantial increase in the cost of obtaining funds for payment. Liquidity risk may also consist of difficulty in selling an asset at a market price in the second-hand market on the desired date. Liquidity risk has several dimensions and arises mainly due to imbalances between cash flows in different maturities. The imbalance is counted as the difference between inflows to the asset side and outflows from the liability side of the balance sheet. Liquidity risk is measured with the help of maturity analyses and due date reports. The maturity analyses show how imbalances in cash flows for deposit and lending items are allocated by due date.

A liquidity reserve is funds that can be used to safeguard the ability to pay in the short term. The Group's ambition is to minimise liquidity risk by maintaining a liquidity reserve and spreading the risks among different instruments and different maturities. The Board of Directors establishes the size and structure of the liquidity reserve. The Board also establishes norms and mandates for structural funding risk. Liquidity risks are managed and reported by the Treasury unit. The risk oversight unit monitors the mandates established by the Board for liquidity risks.

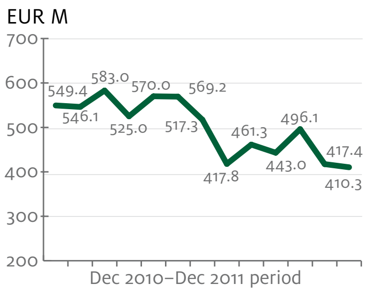
LIQUIDITY RISK MANAGEMENT

The Group's liquidity risk management is based on guidelines established by the Board of Directors which reflect a conservative approach to liquidity risk.

The Group maintains a liquidity reserve consisting of liquid assets such as cash, holdings in central banks, accounts and investments in other banks and liquid interest-bearing securities that are eligible for refinancing with central banks. On December 31, 2011, the liquidity reserve amounted to EUR 410 M, which was equivalent to 12 per cent of total assets in the balance sheet.

Structural funding risk refers to risk associated with the funding of long-term lending. Funding risks arise because of the need for external funding and because of the maturity structure of the debt portfolio. The maturity structure related to deposits and lending as well as external funding is allocated in different time intervals (gap analysis). Gap analysis is also supplemented with scenario tests where the effect on liquidity is stressed and analysed assuming, for example, sharply reduced deposit volume, increased utilisation of credit lines or inability to obtain funding in financial markets. In addition, the Group establishes regular liquidity forecasts, in which approaching maturities of assets and liabilities are followed up on a day-to-day basis. However, the assessment of the situation concerning both liquidity and funding risk is highly dependent on how sight deposits are assessed. Historically (in Finnish operations), sight deposits have provided very stable long-term funding, but in legal terms they are overnight deposits.

Liquidity reserve



LIQUIDITY RESERVE

During 2011, the Group's liquidity reserve averaged EUR 500 M or 15 per cent of total assets in the balance sheet.

Liquidity reserve	December 31, 2011	December 31, 2010
EUR M		
Liquidity reserve	410.3	549.4
Liquidity reserve requirement	340.0	347.5
Fulfilment ratio, %	121%	158 %

The requirement is 10 per cent of Group assets.

PREPAREDNESS PLAN FOR LIQUIDITY CRISES

The Group has a preparedness plan that includes a concrete action plan for management of liquidity crises and encompasses strategies for covering a negative cash flow in emergency situations. Liquidity risk management also includes stress tests that evaluate potential effects on liquidity if exceptional but reasonable events should occur. These stress tests are a supplement to normal liquidity management and their purpose is to confirm that the preparedness plan is adequate in case of critical events.

Operational risk

Operational risks are defined as the probability of direct or indirect losses or damage to the Group's reputation due to faulty or erroneous processes, employee behaviour, systems or events in the Group's surroundings. Operational risk management is an independent element of risk management. The objective is to ensure that substantial operational risks are identified, that the management of operational risks is organised in a way that is satisfactory in relation to the nature and the scope of the operations, that adequate procedures for information management and information security are applied, that the probability of unforeseen losses or threats to the Group's reputation is minimised and that the Board of Directors and management are informed of the operational risks associated with the Group's operations. The Board of Directors has overall responsibility for operational risk management and must be aware of the most important operational risks in the Group's various operations. The Managing Director is responsible for ensuring that the policy documents concerning operational risks adopted by the Board of Directors are implemented in practice. It is the task of every unit to manage the operational risks that are associated with its own operations. The risk oversight unit is responsible for maintaining and developing processes, systems support, inspections, training and reporting associated with operational risk management. Operational risks in the Group's products and main processes are evaluated yearly. This evaluation assesses the probability and consequences of a loss event as well as trends and existing risk management. The risk oversight unit analyses risks on the basis of the risk evaluations that have been carried out.

Incident reporting is part of the Group's overall management of operational risks. The risk oversight unit analyses incidents and compiles reports to the affected bodies in the Group.

The risk oversight unit also administers insurance protection and assists management on insurance issues.

At the Group level, insurance policies have been obtained to cover directors and officers, professional liability and crime. In addition to these insurance policies, Group companies have obtained company-specific insurance coverage.

During the years 2006–2011, the net cost of realised operational risks has averaged EUR 0.1 M annually.

Equities not included in the trading book

Equities not included in the trading book are initially accounted for at cost in the balance sheet and are subsequently recognised at fair value. Changes in value are recognised in equity capital under the "fair value reserve". Upon divestment, change in value is transferred from the reserve to the income statement as a separate item, "Net revenue from financial assets available for sale". Impairment losses are recognised in the income statement.

Fair value is derived from quotations in a functioning market. In those cases when market quotations are not available, equities are carried at net worth.

Capital management

The Group's capital management is regulated by the Financial Supervisory Authority's capital base and capital adequacy rules (Standard 4.3 a–k) as well as by the Group's long-term financial targets.

Capital adequacy for credit risks is calculated according to the standardised approach in the Basel 2 regulations and capital adequacy for operational risks according to the basic indicator approach in the Basel 2 regulations.

The capital base can be divided into three categories: core capital, supplementary capital and other capital base.

TIER 1 CAPITAL

Tier 1 capital is freely and immediately available for covering unforeseen losses. Tier 1 capital consists of share capital, reserve fund, share premium reserve, retained earnings and the portion of the year's profit that is not planned as a dividend. The Group's entire core capital is of the unrestricted Tier 1 capital type, i.e. the Group has full decision-making rights on the use of the funds. The non-amortised cost of intangible assets is subtracted from Tier 1 capital.

SUPPLEMENTARY CAPITAL

Supplementary capital is not as available for covering losses as Tier 1 capital and may thus not amount to more than Tier 1 capital. Supplementary capital can further be divided into upper and lower supplementary capital. Upper supplementary capital is, by its nature, long-term and may thus be included in its entirety. Upper supplementary capital consists mainly of a reappraisal of real property in conjunction with the transition to International Financial Reporting Standards (IFRSs). Lower supplementary capital includes fixed-term and short-term items and may total no more than half of Tier 1 capital. The Group's lower supplementary capital consists of subordinated debentures issued to the public. These are specified in the notes to the financial statements.

OTHER CAPITAL BASE

Other capital base may be used only for covering market risk. The Group has no items in this category.

OBJECTIVE OF THE CAPITAL BASE

The policy of the Group is to maintain a strong capital base in order to retain the confidence of investors, counterparties and the market, as well as ensure the sound business development of the Group. In its long-term financial targets, the Group has established that return on equity shall exceed the unweighted average of a defined group of Nordic banks, the total capital ratio shall amount to at least 10 per cent and core capital shall amount to at least 7 per cent of risk-weighted volume. No substantial changes in the Group's targets or capital management processes were made during 2011. During the year, the Group fulfilled all externally stipulated capital adequacy requirements.

Capital base	Dec 31, 2011	Dec 31, 2010
EUR M		
Tier 1 capital		
Share capital	29.1	23.3
(–) Own shares and participations	–0.1	
Share premium account	33.3	33.3
Other equity capital	24.5	
Reserves	70.7	75.7
Hybrid capital instruments	0.0	0.0
(–) Deductions from Tier 1 capital	–12.0	–10.2
Total Tier 1 capital	**145.5**	**122.1**
Supplementary capital		
Upper supplementary capital	17.6	17.3
Lower supplementary capital (Debenture loans)	57.7	61.0
(–) Deductions from supplementary capital	0.0	0.0
Total supplementary capital	**75.2**	**78.4**
Total capital base	**220.8**	**200.5**
Capital requirement		
Capital requirement for credit risks	123.0	114.4
Capital requirement for market risks	1.4	1.9
Capital requirement for operational risks	14.0	16.8
Total capital requirement	**138.4**	**133.1**
Total capital ratio	**12.76%**	**12.00%**
Tier 1 capital ratio	**8.40%**	**7.30%**

Basel 2 and capital requirements

CREDIT RISKS

The Bank uses the standardised approach when calculating its capital requirement for credit risks.

In the standardised approach, exposures are divided into various exposure categories depending on the counterparty, collateral or receivable. The exposure figures taken into account in the capital requirement calculation are then multiplied by the risk weight established for the respective exposure class. When calculating the capital requirement for credit risk, exposures to a sovereign (national government) and its central bank in the European Economic Area (EEA) shall be assigned a risk weight of 0 per cent. For exposures to other sovereigns, the Bank uses external ratings from the nationally approved rating institutions Moody's, Standard & Poor's and Fitch for calculating the capital requirement. The Bank also uses ratings from these institutions for bonds and share issues that have been provided as collateral for lending. Finland applies the "sovereign method" for exposures to credit institutions, which means that exposures to credit institutions shall be assigned a risk weight equivalent to one class below the rating given to the national government where the institution is located. However, exposures to banks in the European Union automatically carry a 20 per cent risk weight, in compliance with an EU directive. For other exposure classes, the Bank uses risk weights established for the entire exposure class.

Starting on March 31, 2012, with the permission of the Finnish Financial Supervisory Authority, the Bank will begin to apply the Internal Ratings Based (IRB) risk classification approach in compliance with Basel 2 to calculate its capital adequacy requirement for credit risk in the Finnish household portfolio. The other loan portfolios will switch to IRB approaches at a later date. The changeover from the standardised approach to the IRB approach for the Finnish household portfolio will decrease risk-weighted assets by EUR 323 M and increase the Tier 1 capital ratio by 1.6 percentage points to 10.0 per cent before the limit imposed by the transitional rules.

The table below shows the Group's balance sheet including off-balance sheet obligations by exposure categories. Exposure at default (EAD) refers to exposure after taking into account loan equivalent factors for off-balance sheet items.

Capital requirements for credit risks by exposure category

EUR M	Gross	EAD	Risk weight	Capital requirement, Dec 31, 2011	Capital requirement, Dec 31, 2010
Exposure category					
Sovereigns and central banks	240.1	239.6	0.0	0.0	0.0
Regional and local authorities	31.6	27.6	0.0	0.0	0.0
Public sector entities	0.1	0.0	0.0	0.0	0.0
Multinational development banks	0.1	0.1	0.0	0.0	0.0
Institutions	280.4	269.3	51.9	4.1	4.4
Companies	784.0	628.0	628.0	50.2	38.4
Households	329.5	297.9	223.4	17.9	16.3
Exposures with real estate as collateral	1,625.0	1,592.2	557.3	44.6	41.3
Exposure to funds	0.2	0.2	0.2	0.0	0.0
Unsettled items	19.7	19.6	24.9	2.0	2.6
High-risk items	0.0	0.0	0.0	0.0	0.0
Other items	95.5	95.5	51.7	4.1	11.3
Total				**123.0**	**114.3**

CREDIT RISK MITIGATION

"Credit risk mitigation" (CRM) in the calculation of capital requirements refers to measures by which the Bank protects itself against credit risks and which lower the capital requirement for credit risk. The collateral taken into account in calculating the capital requirement, aside from homes, consists of guarantees from sovereigns, the Province of Åland, local authorities and institutions, deposits in the Bank itself or other banks as well as financial collateral. The Bank of Åland uses the comprehensive method for financial collateral as a credit risk mitigation technique. The table below shows, by exposure category, the exposure amounts remaining after credit risk mitigation techniques have been applied.

The following financial collateral is taken into account in calculating capital requirements: shares listed in Sweden and Finland, exchange traded funds (ETFs) and bonds. The shares that are approved must be listed on recognised exchanges in Finland or Sweden. The market value of listed shares used as collateral is tracked on a daily basis. The value of approved bonds used by the Bank is determined weekly on the basis of buying and selling prices in the secondary market. The market value of financial collateral is volatility-adjusted for future changes in market value and for foreign exchange imbalances. In cases where valuations are made less often than daily, the given volatility adjustments are increased, depending on the valuation interval. The Bank uses the volatility adjustments specified by the Finnish or Swedish Financial Supervisory Authority. The largest proportion of financial collateral consists of equities, whose market value is exposed to market risk. Bonds used as collateral are also affected by developments in the equities and fixed income markets, which affects the capital requirement in this form of credit risk mitigation technique. All financial collateral that is used to reduce the capital requirement is individually approved by the risk oversight unit before it is taken into account in the capital requirement calculation and undergoes at least an annual assessment to ensure its acceptability as risk-mitigating collateral, in compliance with the regulations in force.

The tables show exposures by exposure category and how much is used by each credit risk mitigation technique. Exposure after CRM is after taking into account loan equivalent factors.

Exposure before and after CRM by exposure category

EUR M	Exposure before CRM	Exposure after CRM (EAD)
Exposure categories		
Sovereigns and central banks	227.0	239.6
Regional and local authorities	10.8	27.6
Public sector entities	0.1	0.0
Multilateral development banks	0.0	0.1
Institutions	276.9	269.3
Companies	959.7	628.0
Households	438.9	297.9
Exposures with real estate as collateral	1,625.0	1,592.1
Unsettled items	20.4	19.6
High-risk items	0.0	0.0
Other items	100.7	95.5
Total	**3,659.5**	**3,169.7**

Credit risk mitigation (CRM) techniques

EUR M	Guarantees	Financial collateral	Other collateral
Exposure category			
Companies	11,3	162,7	1,7
Households	22,6	85,6	1,3
Exposures with real estate as collateral	0,0	0,0	0,0
Unsettled items	0,2	0,1	0,5
Other items	0,0	5,2	0,0

MARKET RISKS

In calculating the capital requirement for market risks (position, settlement and counterparty risk) in the trading book, the Bank of Åland Plc applies the exemption for small trading books in the Finnish Financial Supervisory Authority's Standard 4.3g. Among other things, this means that in Pillar 1 the Bank calculates the capital requirement for its position risks in interest rate-related contracts according to the duration-based approach is used.

OPERATIONAL RISK

The Bank uses the basic indicator approach in calculating the capital requirement for operational risk. According to the basic indicator approach, the capital requirement for operational risk is calculated on the basis of the figures in the financial statements adopted for the past three financial years. The annual revenue indicator that the calculation of the capital requirement is based on is calculated in such a way that the adopted income statement items are first summarised at the annual level.

The revenue indicator is obtained by weighting the adjusted income statement items with a coefficient of 15 per cent. The capital requirement is calculated as the average of the revenue indicators through division by the number of years that the indicator has been positive.

Calculation of capital requirement

Basel 2, by pillars	Sub-areas for capital allocation	Bank of Åland's capital requirements
Pillar 1		
Minimum capital	Credit risk	Calculated according to standardised approach
	Foreign exchange risk	Calculated according to standardised approach
	Operational risk	Calculated according to basic indicator approach
	Market risk	Calculated according to the duration-based approach
Pillar 2 Complement to Pillar 1 risks:		
Credit risk	Undervaluation when choosing simpler Pillar 1 method	The risk cannot be quantified
	Residual risk in conjunction with credit risk mitigation	The risk does not arise
	Concentration risk	The supplementary capital requirement in Pillar 2 related to sectoral and customer concentrations is calculated with the help of the Herfindal index, which is recalculated to capital requirements
	Specific risks from securitisation	The risk does not arise
	Settlement risk	The risk does not arise in Finnish operations The risk cannot be quantified
Market risk	Structural interest rate risk and exchange rate risk	The supplementary capital requirement in Pillar 2 has been assessed on the basis of risk measurements and stress tests
	Property risk	Exposure is extremely small
Liquidity risk	Liquidity risk	Managed using liquidity buffer
	Structural funding risk	The supplementary capital requirement in Pillar 2 has been assessed on the basis of risk measurements and stress tests
Operational risk	Undervaluation when choosing simpler Pillar 1 method	Operational risks in Pillar 2 such as risks from processes and systems, personnel, legal and reputation risk are managed using control functions and self-evaluations
Risks outside Pillar 1:		
	Risks caused by changes in international macroeconomic conditions	The risk is evaluated using macro stress tests to ensure that actual capital is sufficient, i.e. that the risk is covered by the capital buffer
	Business risk: strategic risk, microeconomic risk, risks in regulatory environment	The risk is managed using risk control, i.e. corporate governance and capital buffer
	Insurance risk	The risk does not arise

Internal capital adequacy assessment procedure (ICAAP) and minimum capital base

The Basel 2 regulations are based on three pillars. In Pillar 1, the minimum capital requirement for credit risk, market risk and operational risk is calculated. Pillar 2 includes the requirements for each institution's own internal capital adequacy assessment procedure (ICAAP), in which the calculation of capital applies to those risk categories and sub-areas which are not included in Pillar 1. Pillar 3 concerns the obligation of each institution to disclose sufficient information on the risks in its operations and their management that the market – represented by borrowers, depositors, investors and shareholders – can make soundly based and rational decisions.

According to Principle 1 of Pillar 2, the Group must assess its capital adequacy and evaluate its capital in proportion to the material risks that the Group is exposed to in its operations, and as a consequence of major changes in external conditions. Capital adequacy must be assessed in a broader perspective than merely fulfilling capital requirements for credit risks, market risks and operational risks within the framework of Pillar 1.

The Group assesses its capital requirement in relation to its overall risk profile, maintains capital sufficient to meet its requirements and establishes a strategy for maintaining that level. The Group evaluates its capital adequacy on the basis of its own carefully considered view of the capital required to cover its material risks and planned risk-taking, as well as internal control and risk management proportional to the nature, scope and complexity of its operations.

The Group must maintain a good risk management capability and internal governance. Risk management capability is a combination of several factors. These include the amount, type and allocation of capital, access to capital and the profitability of operations. Capital serves as a buffer against unexpected losses. To have the desired effect, the buffer should be sufficiently large to be able to keep operations free of disruption. Risk management capability also includes qualitative factors such as internal governance, internal control and risk management, as well as internal capital assessment designed according to the principles established by the Financial Supervisory Authority.

Since the companies covered by the regulations differ from each other, among other things in terms of organisational structure and the nature, scope and complexity of their operations, the practical solutions for capital adequacy analysis, capital assessment and control may vary. The guidelines, principles and methods for each institution's internal capital adequacy assessment should be proportional to the nature and scope of its operations and the special features of its risk profile. This proportionality principle is emphasised, above all, in the methods for assessing risk-related capital requirements.

To make the proportionality principle more concrete, the Financial Supervisory Authority uses the concepts "large institutions" and "small institutions".

METHOD USED FOR PILLAR 1

The Group uses simple methods to assess capital adequacy within Pillar 1. For credit risks, it uses the standardised approach; for operational risks, the basic indicator approach.

METHOD USED FOR PILLAR 2

The Group's operations are neither extensive nor complex. At present, the Group uses no economic capital model or any other quantitative model. Capital adequacy within Pillar 1 is calculated using simple models such as the standardised approach for credit risks and the basic indicator approach for operational risks, with little or no capital requirement for market risks within Pillar 1. Based on these criteria, the Group regards its operations as classified according to the Finnish Financial Supervisory Authority's definition of small institutions.

CAPITAL BUFFER

Capital buffers are regarded as one element of good risk management capability. According to the Group's long-term financial targets, the total capital ratio shall amount to at least 10 per cent, and the Tier 1 capital ratio shall amount to at least 7 per cent.

MAIN RESULTS OF THE ANALYSIS

Assessment of risk exposure, risk control and capital adequacy. In this assessment, the following scale has been used:

- low risk
- reasonable risk
- high risk

Credit risk

The household portfolio

Credit risk in the household portfolio is deemed low.

In Finland, Åland accounts for 20 per cent and the Finnish mainland for 80 per cent of the Bank of Åland Plc's lending in the household portfolio. The bulk of mainland lending is allocated to the Helsinki region and the areas in and around the cities of Turku, Tampere and Vaasa. Due to the geographic distribution of its loan portfolio, to date the Bank of Åland has not been significantly affected by rising unemployment due to the financial crisis and the subsequent sovereign debt crisis in Europe.

The Bank of Åland's home mortgage loans have an average loan to value (LTV) ratio of less than 60 per cent, excluding personal guarantees. The market trend in the regions and residential market segments in which the Bank is active has not been such that there are compelling reasons at the portfolio level to make a downward adjustment in the market value of the collateral.

The Bank of Åland has high stress tolerance in the household portfolio in case a downturn in real estate prices should arise due to further deterioration in the economic situation during 2012 and 2013.

The corporate portfolio

The credit risk in the corporate portfolio is deemed reasonable.

Åland accounts for 45 per cent of the Bank of Åland Plc's lending in the corporate portfolio and the Finnish mainland 55 per cent. In the corporate portfolio, too, the bulk of mainland lending is allocated to companies that operate in the Helsinki region and the areas in and around Turku, Tampere and Vaasa.

The three largest economic sectors for the Bank's corporate lending are financial operations, miscellaneous real estate operations (mainly real estate improvement) and other service operations. Together, these three sectors account for more than 60 per cent of lending. By its nature, the real estate sector is late in the economic cycle and strongly connected to the growth situation in the overall economy, which affects future demand for both commercial and residential space.

The Bank of Åland's loan portfolio in miscellaneous real estate operations is deemed to have good stress tolerance, since a significant proportion of customers have reasonable LTV ratios (average for the portfolio below 70 per cent) and positive cash flow.

Operational risk

Operational risk is deemed reasonable.

The capital requirement for operational risk in the Bank of Åland Group, calculated according to the basic indicator approach, was EUR 14.0 M on December 31, 2011.

Theoretical annual expected value of operational risk, calculated in the self-assessment of operational risk, exceeds the capital requirement in the Bank of Åland Group, but insurance protection was not taken into account in the valuation. Taking into account insurance protection and the historical outcome of operational risks, in our assessment the capital reserved for operational risk under Pillar 1 is sufficient.

According to Pillar 1, capital is reserved to cover the losses that arise when an operational risk is realised. Since this risk, by its nature, is dependent on qualitative factors and should be managed by means of quality in processes, products and projects as well as by means of risk control, the Bank has built up its risk management system to limit and prevent the occurrence of loss in money or reputation. However, its control systems can never be fully comprehensive without becoming an obstacle to normal operations. New risks also arise, both in the company and its surroundings, which have not existed previously and which it has thus not been possible to protect the Group from. Despite preventive measures, a risk may be realised, which the Group's collective database of losses from operational risks demonstrates.

Liquidity risk and structural funding risk

The risks are deemed reasonable.

The Group's liquidity management is based on guidelines established by the Board of Directors which reflect a conservative approach to liquidity risk.

The Group maintains a liquidity reserve consisting of liquid assets such as holdings in central banks and other banks, assets that are eligible for refinancing with central banks or assets that can be transformed into liquidity. The Bank of Åland Plc's self-funding ratio – deposits from the public plus certificates of deposit and bonds issued to the public as a percentage of overall lending to the public – was 93 per cent.

The assessment of the situation with regard to both liquidity and funding risk is highly dependent on how one assesses sight deposits, which historically and even today are a very stable long-term form of funding in practice, but in legal terms are overnight deposits.

The Group has a preparedness plan that includes a concrete action plan for management of liquidity risks and encompasses strategies for covering a negative cash flow in emergency situations.

Interest rate risk

Interest rate risk is deemed reasonable.

Interest rate risks arise as a natural element of the Bank of Åland's business operations and are primarily due to differences in volume and interest rate fixing period between interest-bearing assets and liabilities. All interest rate risk in the Group is managed as structural interest rate risk.

Interest rate risk refers to the effect of changes in interest rates on both net interest income (income risk) and the present value of interest rate-sensitive items (present value risk).

Exposure to both income risk and present value risk is below the limits determined by the Board of Directors.

Business risk

All sub-areas in this category are deemed reasonable: strategic risk, microeconomic surroundings risk and risks caused by changes in legislation and regulatory practices.

The Group must be well prepared to make adjustments in its strategy in response to macroeconomic and industry-wide changes, as well as the activities of competitors, but also in response to the implementation of ongoing extensive changes in regulations.

The consequences of the international financial crisis increase at least the indirect risks to all banks, including the Bank of Åland. Since the Group has very little direct exposure to areas that are perceived as acute today, the Group's risk is deemed reasonable. Further changes in regulations and reporting instructions may possibly lead to relatively larger regulatory requirements for small institutions to fulfil.

Risk management capability

Risk management capability is deemed good.

The Group's good risk management capability is based on well-functioning and comprehensive risk control and sufficient equity capital to cover unexpected risks.

Capital buffer

The capital buffer is regarded as sufficient.

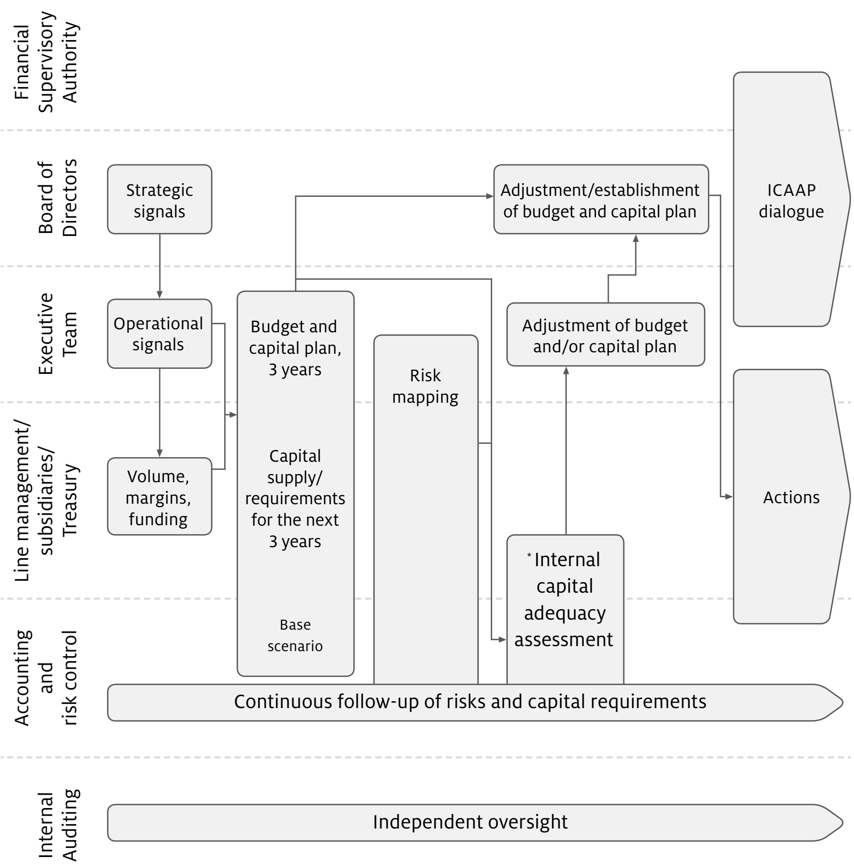
At the end of 2011, the Group's capital buffer exceeded the statutory minimum capital requirement by EUR 82.3 M. The capital base amounted to EUR 220.7 M and the minimum capital requirement was SEK 138.4 M.

The internal capital evaluation noted that the Group's capital buffer was sufficient to maintain a capital ratio exceeding the minimum capital requirement even in case of an improbable yet still possible macroeconomic trend that is highly unfavourable to the Group.

ORGANISATION

The Board of Directors establishes the general principles, targets, guidelines and scale of internal capital adequacy assessment, the general requirements for methods of measurement and analysis, the guiding principles of the capital adequacy assessment process and quality assurance principles. The Managing Director has overall responsibility for practical implementation, continuous monitoring and control of internal capital adequacy assessment and reporting to the Board of Directors. The CFO is responsible for practical implementation. Independent oversight of the internal capital adequacy assessment process is carried out by the Internal Auditing Department.

THE CAPITAL ADEQUACY ASSESSMENT PROCESS



* Internal capital adequacy assessment
- credit risks
- market risks
- operational risks
- business risks
- liquidity risks
- interest rate risks in banking portfolio
- concentration risks
- worst case scenarios

Table of contents, notes to the consolidated financial statements

Notes to the consolidated financial statements

(EUR K)

1. Accounting principles

Corporate information

The Bank of Åland Plc (Ålandsbanken Abp) is a Finnish public company, organised in compliance with Finnish legislation and with its Head Office in Mariehamn. The Bank of Åland Plc is a commercial bank with a total of 27 offices. Through its subsidiary Crosskey Banking Solutions Ab Ltd, the Bank of Åland Group is also a supplier of modern banking computer systems for small and medium-sized banks.

The Head Office of the Parent Company has the following address:
Bank of Åland Plc
Nygatan 2
AX-22100 Mariehamn
Åland, Finland

A copy of the consolidated financial statements can be obtained from the Head Office or from the website www.alandsbanken.fi.

The shares of the Bank of Åland Plc are traded on the Nasdaq OMX Helsinki Oy (Helsinki Stock Exchange).

The consolidated financial statements for the financial year ending on December 31, 2011 were approved by the Board of Directors on February 15, 2012 and will be submitted to the Annual General Meeting for adoption. The Annual General Meeting has the opportunity to adopt or abstain from adopting the financial statements.

BASIS FOR PREPARATION AND ESSENTIAL ACCOUNTING PRINCIPLES

The financial statements for the period January 1–December 31, 2011 have been prepared in compliance with the International Financial Reporting Standards (IFRSs) that have been adopted by the European Union. They are presented in thousands of euros (EUR K) unless otherwise stated. The consolidated financial statements have been prepared according to original cost, if not otherwise stated in the accounting principles.

New accounting norms and standards that apply starting in 2011:

IAS 24, "Related Party Disclosures"

The purpose of the amendments is to simplify the disclosure requirements for companies significantly influenced by central government and to clarify the definition of related parties. The Group is presenting its financial statement in compliance with the standard for the financial period that began on January 1, 2011.

Improvements to International Financial Reporting Standards (2010)

The standard was published as part of the International Accounting Standards Board's (IASB's) yearly process whose purpose is to deal with minor amendments to existing standards, known as the Annual Improvements Project. The amendments do not have any material impact on the consolidated financial statements.

The following standards have been amended:

IFRS 3, "Business Combinations"
IAS 1, "Presentation of Financial Statements"
IAS 27, "Consolidated and Separate Financial Statements"
IFRIC 13, "Customer Loyalty Programmes"

The Group is currently not affected by the following amendments:

IAS 32, "Financial Instruments: Presentation", "Classification of Warrants" (amendment)
IFRIC 14, "Prepayments of a Minimum Funding Requirement"
IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments"

New accounting norms and standards that apply starting in 2012 (not approved by the EU):

IAS 1, "Presentation of Financial Statements"
IAS 19, "Employee Benefits"
IFRS 1, "First-time Adoption of International Financial Reporting Standards"
IFRS 7, "Financial Instruments – Disclosures" (Approved by the EU)
IFRS 10, "Consolidated Financial Statements" concerning subsidiaries
IFRS 11, "Joint Arrangements"
IFRS 12, "Disclosures of Interests in Other Entities" related to holdings in subsidiaries, associated companies, joint arrangements etc.

The financial statements of the Bank of Åland Plc have been drawn up in accordance with the Finnish Credit Institutions Act, the Ministry of Finance ordinance on annual accounts and consolidated annual accounts of financial institutions and securities companies and the regulations of the Finnish Financial Supervisory Authority.

Principles of consolidation

The consolidated financial statements include the Parent Company, the Bank of Åland Plc, and all subsidiaries over which the Parent Company has direct or indirect control. The consolidation of subsidiaries occurs from the acquisition date to the divestment date. Subsidiaries acquired before January 1, 2004 are recognised according to the consolidation and accounting principles originally applied, in keeping with the exemption in IFRS 1. Subsidiaries acquired after January 1, 2004 are consolidated in compliance with IFRS 3, "Business Combinations".

The consolidated financial statements include those subsidiaries in which the Group directly or indirectly owns 50 per cent of the voting power, or which it otherwise controls. In elimination, the purchase method of accounting has been used. In the consolidated financial statements, all intra-Group transactions, receivables, liabilities and profits have been eliminated.

The consolidated financial statements include those associated companies in which the Bank of Åland Group owns 20–50 per cent of the shares or otherwise has significant influence. When consolidating associated companies, the equity method of accounting has been used. The Group's share of the income in associated companies is shown in the income statement under "Share of profit/loss in companies consolidated according to the equity method".

Real estate and housing companies have been consolidated according to the proportionate consolidation method of accounting.

All intra-Group receivables, liabilities and transactions including dividends and intra-Group profits have been eliminated in the consolidated financial statements.

Holdings in the equity capital and profit for the year of subsidiaries that are attributable to non-controlling interests are shown as separate items in the consolidated income statement and balance sheet. Changes in ownership interest in a subsidiary where the majority owner does not lose control are recognised as equity transactions. In case of changes where the majority owner loses control, gains or losses are recognised in comprehensive income.

Estimates and judgements

Preparation of financial statements in compliance with IFRSs requires the Executive Team to make estimates and judgements that affect the recognised amounts of assets and liabilities, income and expenses as well as disclosures about commitments. Although these estimates are based on the best knowledge of the Executive Team and current events and measures, the actual outcome may diverge from these estimates.

The most essential effects of estimates and judgements are the following:

FAIR VALUE OF FINANCIAL ASSETS

If the fair value of financial assets cannot be obtained from active market quotations, they are calculated with the help of various assessment techniques, including mathematical models. When using assessment techniques, market quotations are used to the greatest possible extent, but in case this is not possible, estimates are required in order to obtain fair value.

FAIR VALUE ASSESSMENT IN BUSINESS COMBINATIONS

Identifiable assets acquired, liabilities taken over and contingent liabilities in an acquisition of a company are recognised at fair value on the acquisition date.

GOODWILL IMPAIRMENT LOSS

Goodwill is tested annually for impairment by calculating whether the carrying amount is above the recoverable value. Impairment testing is performed by discounting expected future cash flows in cash-generating units. Expected future cash flows are based on cash flow estimates. A change in the estimate of future cash flows, as a consequence of an economic downturn, new competitors or a price squeeze may lead to a future goodwill impairment loss.

IMPAIRMENT LOSSES ON LOANS AND CUSTOMER RECEIVABLES

On every closing day, the Group assesses whether there is objective evidence for impairment losses on individual or groups of loans and customer receivables. An assessment by the Executive Team is required, especially in order to estimate amounts and timing of expected future cash flows that determine impairment loss amounts. The estimate is based on assessment of numerous factors, and the actual outcome may diverge from the impairment loss that is recognised.

Concerning group impairment loss for those concentrations that do not have impairment losses according to individual assessment, estimates and judgements are made concerning industry risk, geographic risk and other factors affecting cash flow.

ACTUARIAL CALCULATIONS OF PENSION OBLIGATIONS

Future pension liability is calculated using actuarial models. As a basis for the calculation, there are estimates of the discount rate (euro swap rate with maturity equivalent to the expected life of the pension liability), pay increase (expected future increase for pensions), inflation, employee turnover and expected return on assets (based on the Bank pension fund's financial investment plan). All assumptions are shown in Note 51.

Segment report

The Group presents its segment report in compliance with IFRS 8, which means that the segment report reflects the information received by the Executive Team. The Group reports its various business segments as segments. A business segment is a group of departments and companies that supply products or services that have risks and returns that diverge from other business segments. Intra-Group transactions occur at market prices.

Items in foreign currencies

The consolidated financial statements are prepared in euros (EUR), which is the reporting and functional currency of the Parent Company, Bank of Åland Plc. The functional currency of the Group's operations outside Finland may diverge from the Group's reporting and functional currency. The functional currency of an operation is determined on the basis of the economic environment where the operation is carried out. A foreign currency is defined as a currency other than the Group's functional currency.

Transactions in foreign currencies are recognised by Group companies at the functional exchange rate on the transaction date.

Monetary assets and liabilities in foreign currencies are translated at the exchange rate on the closing day. Translation differences from non-monetary items classified as financial assets available for sale and non-current assets are recognised directly in "Other comprehensive income". Non-monetary items that are recognised at fair value are translated according to the exchange rate when fair value was established. Otherwise non-monetary items have been translated at the exchange rate on the transaction date.

TRANSLATION OF OPERATIONS OUTSIDE FINLAND TO THE GROUP'S REPORTING CURRENCY

In the consolidated financial statements, the income statements and cash flow statements of operations outside Finland are translated to euros according to the average exchange rates for the report period. The translation of balance sheet items to euros is performed using the exchange rates on the balance sheet date. The translation differences that arise are recognised separately in "Other comprehensive income".

Revenue recognition principles

INTEREST INCOME AND EXPENSES

Interest income and expenses on asset and liability items are recognised according to the accrual principle. If a financial asset or group of financial assets has had an impairment loss, the interest income is recognised according to the original interest rate on the amount of the impairment loss.

COMMISSION INCOME AND EXPENSES

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

LICENCE INCOME

Annual licence income for computer systems is recognised as revenue on a straight-line basis during the respective year to which it is attributable.

SALES OF BANKING COMPUTER SYSTEMS

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

Intangible assets

CAPITALISATION OF PRODUCTION FOR OWN USE

If the computer system that is produced will probably generate future income or reduce expenses in excess of expense, the development expenses for the computer system are capitalised. Computer systems developed in-house are capitalised at actual cost. Capitalised development expenses are normally amortised on a straight-line basis over 3–5 years. The amortisation begins when the computer system is ready for use.

Development expenses that are not expected to yield a significant economic benefit are recognised as an expense in the income statement.

Expenses for preliminary studies and research are recognised as an expense in the income statement.

GOODWILL

Goodwill corresponds to the share of cost that exceeds the net asset value of a company that is purchased. Cost includes direct expenses attributable to the acquisition, such as expenses for the use of experts before January 1, 2010. In acquisitions after January 1, 2010, these costs are recognised as expenses. Goodwill is not amortised but is tested yearly, or more often if a need exists, for impairment by discounting expected future cash flows in cash-generating units. Impairment losses are recognised directly as expenses in the income statement.

OTHER INTANGIBLE ASSETS

Other intangible assets consist of external computer systems as well as renovations in rented premises and are recognised in the balance sheet at cost less amortisation and impairment losses.

Tangible assets

PROPERTIES FOR THE GROUP’S OWN USE

Properties for the Group’s own use consist of direct holdings and indirect holdings via real estate and housing companies.

Properties for the Group’s own use are recognised in the balance sheet at cost less depreciation and impairment loss. For its Head Office property, the Bank of Åland Group has chosen to apply the exemption in IFRS 1, by using deemed cost instead of original cost of tangible assets in the transition to IFRSs.

INVESTMENT PROPERTIES

Investment properties are held in order to earn rental income or value appreciation. Investment properties consist of direct holdings as well as indirect holdings via real estate and housing companies.

Investment properties are recognised separately in the balance sheet under tangible assets at cost less depreciation and impairment losses. In the income statement, net income from investment properties is shown on a separate line. The properties have been appraised by a licensed estate agent.

OTHER TANGIBLE ASSETS

Other tangible assets consist of machinery and equipment, vehicles and an art collection. Other tangible assets are carried in the balance sheet at cost minus depreciation and impairment losses. Any divestment gains/losses and disposals are recognised in income/expenses.

Impairment loss on tangible and intangible assets

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

Depreciation/amortisation

Buildings, technical equipment and machinery and equipment are noted at cost minus depreciation and any impairment loss. Depreciation is based on the expected economic service life of the assets. All depreciation/amortisation is on a straight-line basis.

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

Land is not depreciated.

Leases

In compliance with IAS 17, leases are classified as finance leases and other leases. A majority of rental contracts consist of finance leases.

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

Provisions

A provision is recognised when the Group has a present obligation as a result of a past event, when it is probable that an outflow of resources in the form of economic benefits will be required to settle the obligation and when a reliable estimate of the amount can be made.

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

Since the criteria in IAS 19, "Employee Benefits", are fulfilled, expenses are recognised as expenses and liabilities, and not as provisions.

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

Financial instruments

DETERMINATION OF FAIR VALUE

The fair value of financial instruments that are traded in an active market, for example financial assets and financial liabilities held for trading as well as financial assets available for sale, is based on market price quotations.

The fair value of financial instruments that are not traded in an active market is calculated with the help of various assessment techniques. When using assessment techniques, market quotations are used to the greatest possible extent. The assessment techniques used are analysis of discounted cash flows, assessment with reference to financial instruments that are essentially similar and assessment with reference to recently completed transactions in the same financial instruments.

CLASSIFICATION OF FINANCIAL INSTRUMENTS

For purposes of valuation, in compliance with IAS 39, financial instruments are classified in the following categories:

Financial instruments at fair value

Financial assets and liabilities held for trading

This category includes all financial assets and liabilities that are held to provide a short-term return. This category also includes all derivative instruments for which hedge accounting is not applied.

Financial assets and liabilities held for trading are recognised in the balance sheet at fair value and changes in fair value are recognised in the income statement.

In accordance with IAS 39, all derivatives will be recognised in the balance sheet at fair value and changes in fair value will be recognised in the income statement under "Net income from securities transactions and foreign exchange dealing".

Financial assets and liabilities at fair value (the fair value option)

The Executive Team measures the value of certain groups of derivative instruments and items protected by derivative instruments according to the fair value option. Such groups may include fixed-interest loans, equity index bond loans and deposit accounts as well as interest rate swaps. Fair value is calculated using generally accepted measurement methods, taking into account market information related to the items being measured. This procedure effectively reduces the volatility of income without applying hedge accounting, since the fluctuation in the value of derivative instruments is largely offset by the corresponding fluctuation in the value of the other components in the same group. Financial assets and liabilities for which recognition at fair value leads to more relevant information, since this valuation eliminates or significantly decreases inconsistencies in accounting, are identified at the time of acquisition as being recognised at fair value via profit or loss (the income statement) according to the fair value option.

Positive fair values of derivative instruments are recognised as assets in the balance sheet in the item "Derivative instruments" and negative fair values in the item "Derivative instruments and other liabilities held for trading". Changes in value are recognised in the income statement in the item "Net income from securities trading". Day one profits, that is, profits that arise from immediate value assessment of new contracts and that are thus not due to fluctuations in interest rates or creditworthiness, are included in the fair value option and are thus recognised as revenue through the fair value option.

Loans and trade receivables

Financial assets classified as loans and trade receivables are assets created by handing over funds, services or goods directly to the debtor.

Loans and trade receivables are recognised at the commencement of the contract at cost and subsequently at amortised cost. All loans and customer receivables are tested for impairment losses. On the closing day, the Bank assesses whether there is objective evidence that an individual or group of loans and customer receivables has an impairment loss. Loans and customer receivables have an impairment loss only if objective evidence shows that one or more events have occurred that have an impact on future cash flows for the financial asset, if these can be reliably estimated. Objective evidence that one or more events have occurred that affects estimated future cash flows may, for example, be:

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

Impairment losses are recognised in the income statement under the item "Impairment loss on loans and other commitments".

Investments held to maturity

Investments held to maturity are interest-bearing financial assets and are recognised at accrued cost using the effective interest rate method. Impairment loss on an investment is recognised after individual examination.

Financial assets available for sale

The assets in this group are initially recognised in the balance sheet at cost and subsequently carried at fair value. The change in value is recognised in "Other comprehensive income". When such an asset is divested, the change in value is derecognised from the reserve to the income statement in a separate item, "Net income from financial assets available for sale". Impairment losses are recognised in the income statement.

Cash and cash equivalents

"Cash and cash equivalents" refers to cash and deposits in the Finnish and Swedish central banks that may be used freely. In the cash flow statement, "Cash and cash equivalents" also refers to claims payable on demand from credit institutions as well as other claims on credit institutions and debt securities with an original remaining maturity of less than three months.

Other financial liabilities

Other financial liabilities are recognised in the balance sheet upon commencement of the contract at cost and subsequently at amortised cost.

Financial guarantees

Financial guarantees are recognised in the balance sheet at the beginning of the contract and carried with the corresponding deferred income. Guarantees are then recognised at an amount defined on the basis of IAS 37, or after subtracting revenue accrual from the original cost, whichever is larger.

Recognition in the balance sheet

Financial instruments are recognised in the balance sheet on the business day that an acquisition contract was signed. Financial instruments are derecognised when they reach maturity or are sold.

HEDGE ACCOUNTING

The Bank of Åland Plc applies hedge accounting according to IAS 39. Hedge accounting is used for hedging of the Group's foreign exchange risk for its equity capital in Ålandsbanken Sverige AB. This means that derivatives that protect equity capital are recognised at fair value in the balance sheet in a way similar to exchange rate changes in "Other comprehensive income". Hedge accounting is deemed to provide a more true and fair picture of the Group's earnings.

Employee benefits

PENSION LIABILITIES

Pension coverage for employees in Finland has been arranged partly through the Finnish national pension system and partly via a pension fund (Ålandsbanken Abps Pensionsstiftelse, a so-called A Fund). Pension coverage for employees in Sweden has been arranged through the pension company SPP. The Group's Swedish companies report this as a defined contribution solution, i.e. no liability calculation shall be made according to IRFS regulations. The purpose of Ålandsbanken Abps Pensionsstiftelse is to provide old age and disability pensions to those who belong to its sphere of operations, as well as family pensions to designated beneficiaries and funeral grants.

According to IAS 19, plans for post-employment benefits are classified as defined contribution or defined benefit plans. Under a defined contribution plan, the employer has no liability after having paid the agreed premiums that are related to an accounting period. Under a defined benefit plan, however, the employer retains a pension liability even after the end of the accounting period.

As for insurance under the Finnish national pension system, the old-age pension is regarded as a defined contribution plan from the standpoint of the employer. If the old-age pension has instead been arranged via a pension fund, the funded portion is regarded as a defined benefit plan and requires actuarial calculations to estimate the size of the liability.

A disability pension is a defined benefit plan, but in this case it is not a matter of a benefit accumulated on the basis of a person's length of service. This presupposes the use of actuarial models to calculate the size of the pension liability.

For the pension fund, the difference between the pension liability and the fair value of the assets that cover this liability is recognised as a liability or receivable in the balance sheet. Actuarial gains and losses are recognised in accordance with the corridor method in IAS 19.92-93. A portion of actuarial gain and loss is recognised if the net cumulative unrecognised actuarial gains and losses exceed the greater of either 10 per cent of the present value of the defined benefit obligation or 10 per cent of the fair value of plan assets.

The recognised portion of actuarial gain or loss is the excess determined as above, divided by the expected average remaining working lives of the employees participating in the plan. The Bank of Åland's pension fund, Ålandsbanken Abps Pensionsstiftelse r.s., has been closed to new members since June 30, 1991.

After the end of the employment period, there are no further pension obligations. All pension benefits to closely related persons are based on customary employment conditions.

Income tax

Income tax includes current taxes for the Group based on taxable income for the year, together with tax adjustments for prior years plus changes in deferred (imputed) taxes. A deferred tax asset or liability has been established for temporary differences between the value of assets and liabilities for tax purposes and their carrying amount, by using tax rates applicable to future periods. Deferred tax liabilities and tax assets are calculated according to the tax rates expected to apply when the tax materialises (a law has been adopted but has not yet gone into effect).

Capital base

According to the Finnish Financial Supervisory Authority's regulations, surpluses arising from the calculation of pension obligations may not be included in the capital base. The fair value reserve, less tax liabilities, is included in upper supplementary capital. Equity capital that arose from valuation of real estate according to the exemption rule in IFRS 1 is included in upper supplementary capital.

Notes to the statement of financial position

2. Segment report	Dec 31, 2011					
	Åland	Finnish Mainland	Sweden	Crosskey	Corporate and eliminations	Total
Net interest income	14,333	20,551	7,721	25	449	43,079
Commission income	7,128	13,646	14,218	–26	3,784	38,750
Other income	272	87	–803	31,164	–13,325	17,395
Total income	**21,733**	**34,284**	**21,135**	**31,163**	**–9,092**	**99,223**
Staff costs	–4,023	–9,284	–13,287	–13,794	–14,511	–54,899
Restructuring expenses	–103	–225	–4,934	0	–486	–5,748
Other expenses	–2,969	–6,584	–6,837	–13,301	–12,779	–42,469
Internal allocation of expenses	–8,854	–14,015	–12,338	0	35,206	0
Total expenses	**–15,948**	**–30,107**	**–37,395**	**–27,095**	**7,429**	**–103,116**
Profit before loan losses	**5,785**	**4,177**	**–16,260**	**4,068**	**–1,663**	**–3,893**
Loan losses	145	–1,995	221	0	–159	–1,788
Net operating income	**5,930**	**2,182**	**–16,038**	**4,068**	**–1,822**	**–5,681**
Lending	642,897	1,640,427	449,744		3,949	2,737,017
Deposits	771,018	1,382,740	390,048		–293	2,543,513
Managed assets	253,350	1,368,059	2,163,262		29,698	3,814,369
Interest income from the public and public sector entities						
Financial enterprises	7,240	13,435	4,588	0	0	25,263
Households						
Residential	5,169	20,659	3,130	0	0	28,958
Other	2,607	8,201	2,222	0	0	13,030
Miscellaneous	565	242	4,793	0	0	5,601
Total	**15,581**	**42,537**	**14,733**	**0**	**0**	**72,851**

The Bank of Åland reports operating segments in compliance with IFRS 8, which means that operating segments reflect the information that the Group's Executive Team receives. In order to match the Bank of Åland's internal reporting to the Group's Executive Team, segment reporting in the Annual Report for 2011 has been changed. The comparative period has been correspondingly restated.

The "Åland" business area includes office operations in Åland and equities trading operations in Mariehamn. The "Finnish Mainland" business area includes office operations on the Finnish mainland, Ålandsbanken Asset Management Ab and equities trading operations on the Finnish mainland, including Ålandsbanken Equities Research Ab. The "Sweden" business area includes the operating units Ålandsbanken Abp Finland) svensk filial (the Swedish branch of the Bank of Åland Plc, Finland), Ålandsbanken Sverige AB (undergoing reorganisation to Ålandsbanken Asset Management AB) plus Ålandsbanken Fonder AB and Alpha Management Company S.A. The "Crosskey" business area includes Crosskey Banking Solutions Ab and S-Crosskey Ab. "Corporate and eliminations" include all central corporate units in the Group, intra-Group eliminations and the subsidiaries Ålandsbanken Fondbolag Ab and Ab Compass Card Oy Ltd.

Dec 31, 2010	Åland	Finnish Mainland	Sweden	Crosskey	Corporate and eliminations	Total
Net interest income	14,339	19,942	5,251	18	−2,748	36,802
Commission income	6,892	15,206	14,405	−20	336	36,820
Other income	393	254	2,335	36,603	−14,277	25,308
Total income	**21,624**	**35,402**	**21,992**	**36,600**	**−16,688**	**98,930**
Staff costs	−4,046	−9,167	−15,220	−13,129	−12,126	−53,688
Other expenses	−2,683	−6,965	−5,838	−16,879	−5,993	−38,357
Internal allocation of expenses	−7,984	−12,860	−14,949	0	35,792	0
Total expenses	**−14,713**	**−28,992**	**−36,006**	**−30,008**	**17,673**	**−92,045**
Profit before loan losses	**6,911**	**6,411**	**−14,014**	**6,593**	**985**	**6,885**
Loan losses	320	−6,305	96	0	−1	−5,889
Net operating income	**7,232**	**106**	**−13,918**	**6,593**	**984**	**996**
Lending	572,560	1,752,784	247,327	0	0	2,572,672
Deposits	822,389	1,319,905	457,576	0	0	2,599,870
Managed assets	307,284	1,455,279	2,527,381	0	57,178	4,347,122
Interest income from the public and public sector entities						
Financial enterprises	5,146	10,888	2,517	0	0	18,551
Households						
Residential	4,242	17,325	380	0	0	21,947
Other	2,547	6,837	963	0	0	10,347
Miscellaneous	362	174	3,157	0	0	3,693
Total	**12,298**	**35,224**	**7,016**	**0**	**0**	**54,538**

3. Holdings of debt securities

	2011			2010		
	Listed	Other	Total	Listed	Other	Total
Debt securities eligible for refinancing						
Instruments held to maturity						
Treasury bonds	53,491	0	53,491	65,656	0	65,656
Other debt securities	0	0	0	7,457	0	7,457
Instruments available for sale						
Treasury bills	0	0	0	24,917	0	24,917
Treasury bonds	61,252	0	61,252	51,862	0	51,862
Other debt securities	3,543	0	3,543	6,403	0	6,403
Instruments held for trading						
Treasury bills	7,024	0	7,024	11,450	0	11,450
	125,311	**0**	**125,311**	**167,745**	**0**	**167,745**
Other debt securities						
Instruments held to maturity						
Miscellaneous debt securities	0	0	0	2,209	0	2,209
Instruments available for sale						
Treasury bonds	4,960	0	4,960	0	0	0
Certificates of deposit	0	134,228	134,228	0	54,830	54,830
Other	3,366	0	3,366	0	0	0
Instruments held for trading						
Certificates of deposit	0	0	0	0	209,129	209,129
Other	55,628	0	55,628	0	0	0
	63,955	**134,228**	**198,182**	**2,209**	**263,959**	**266,168**

4. Claims on credit institutions

	2011			2010		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Finnish credit institutions	389	10,000	10,389	19,358	902	20,260
Foreign credit institutions	71,339	47,290	118,628	19,660	87,447	107,107
	71,728	**57,290**	**129,017**	**39,018**	**88,350**	**127,367**

5. Claims on the public and public sector entities

	2011	2010
Financial enterprises	885,631	737,038
Public sector	7,091	112,785
Households	1,696,561	1,715,097
Non-profit organisations, household sector	14,821	17,108
Foreign	132,913	95,380
Total	**2,737,017**	**2,677,407**
Of which subordinated claims	160	158
Of which non-interest-bearing claims	1,491	158
Impairment losses		
Individual impairment losses recognised during the year	3,433	6,081
Individual impairment losses reversed during the year	–245	–192
Group impairment losses	–1,400	0
Total impairment losses	**1,788**	**5,889**

"Foreign" refers to lending outside the Group's home market.

6. Impairment losses on loans and trade receivables

	2011		2010	
	Individual	Group	Individual	Group
Balance, January 1	4,613	2,500	3,745	2,500
Acquired balance			0	0
Currency translation			86	0
New and increased impairment losses	3,314	0	961	0
Reversals of impairment losses	–245	–1,400	–168	0
Actual losses/reversals	120	0	5,096	0
Recognised in income statement	**3,188**	**–1,400**	**5,889**	**0**
Direct impairment losses/reversals	–82	0	–5,107	0
Balance, December 31	**7,719**	**1,100**	**4,613**	**2,500**

7. Shares and participations

	2011			2010		
	Listed	Other	Total	Listed	Other	Total
Shares and participations						
Held for trading	299	0	299	553	0	553
Available for sale	1,033	1,997	3,030	237	4,190	4,426
Shares and participations in associated companies	0	1,209	1,209	0	1,400	1,400

There are no holdings in other credit institutions. In the category "Shares available for sale", an impairment loss of EUR 213 K (162 after taxes) was reclassified during the year from "Comprehensive income for the year" to "Profit for the year". In addition, an impairment loss of EUR 1,108 K on the holding of shares in Burgundy available for sale was recognised directly in profit for the year.

8. Derivative instruments

	2011		2010	
	Fair value		Fair value	
	Positive	Negative	Positive	Negative
Interest rate derivatives				
Interest rate forward contracts	546	495	0	0
Interest rate swaps	5,618	9,727	4,298	5,660
Interest rate options				
Purchased	78	0	105	0
Sold	0	78	0	105
Currency derivatives				
Forward contracts	2,298	3,202	6,574	4,346
Interest rate and currency swaps	302	0	2	0
Equity derivatives				
Option contracts				
Purchased	11,570	0	24,363	0
	20,413	**13,502**	**35,341**	**10,110**

The equity derivatives that were purchased hedge option structures that are embedded in bonds issued to the public. Currency forward contracts included forward contracts with a nominal value of EUR 47.1 M included in the Bank of Åland's hedge accounting. The fair value of these forward contracts amounted to EUR -341 K on December 31, 2011 and was recognised in "Comprehensive income for the year". The forward contracts expire in 2012. Hedge accounting is used for hedging the Group's foreign exchange risk for equity capital in Ålandsbanken Sverige AB.

Nominal value of underlying asset by remaining maturity:

	2011				2010			
	Under 1 yr	1–5 yrs	Over 5 yrs	Total	Under 1 yr	1–5 yrs	Over 5 yrs	Total
Interest rate derivatives								
Interest rate forward contracts	448,833	0	0	448,833	0	0	0	0
Interest rate swaps	94,237	426,523	23,698	544,457	177,048	267,498	48,940	493,486
Interest rate options								
Purchased	0	24,167	741	24,908	57,451	4,701	1,138	63,290
Sold	0	24,167	741	24,908	57,451	4,701	1,138	63,290
Currency derivatives								
Forward contracts	59,675	3,167	0	62,841	197,542	85,978	0	283,520
Interest rate and currency swaps	172,825	66,346	89	239,259	123	1,999	0	2,122
Equity derivatives								
Option contracts								
Purchased	39,013	107,481	2,244	148,738	58,345	127,482	2,231	188,059
	814,582	**651,851**	**27,512**	**1,493,945**	**547,961**	**492,360**	**53,446**	**1,093,767**

9. Intangible assets	2011	2010
IT investments	9,827	6,467
Ongoing IT investments	253	2,367
Goodwill	1,373	1,373
	11,453	**10,206**
Of which internally generated IT investments		
Gross carrying amount	7,335	6,094
Accumulated amortisation	–2,740	–1,863
	4,594	**4,231**

10. Properties and shares and participations in real estate companies

	2011	2010
Investment properties		
Land and water	44	44
Buildings	140	146
Shares in real estate companies	295	1,212
	480	**1,403**
Properties for the Group's own use		
Land and water	2,325	2,338
Buildings	21,619	21,912
Shares in real estate companies	335	610
	24,279	**24,860**

11. Changes in intangible and tangible assets

2011	Land and buildings for own use	Investment properties	Other tangible assets	Goodwill	Other intangible assets	Total
Historical costs						
Cost on January 1	25,656	1,774	39,884	1,440	17,942	86,696
Deemed cost in compliance with IFRS 1	12,834	0	0	0	0	12,834
Increases during the year	858	0	1,899	0	3,305	6,062
Decreases during the year	–3,823	–917	–1,518	0	–85	–3,025
Cost on December 31	**35,525**	**856**	**40,265**	**1,440**	**21,163**	**102,568**
Accumulated depreciation/amortisation						
Accumulated depreciation/amortisation/ impairment losses on January 1	–13,630	–371	–30,717	–67	–9,109	–53,895
Accumulated depreciation/amortisation concerning decreases	3,638	0	1,383	0	102	1,803
Depreciation/amortisation for the year	–1,254	–5	–3,372	0	–2,076	–6,707
Impairment loss for the year	0	0	0	0	0	0
Accumulated depreciation/amortisation/ impairment losses on December 31	**–14,565**	**–377**	**–32,707**	**–67**	**–11,083**	**–58,799**
Carrying amount on December 31	**24,279**	**480**	**7,558**	**1,373**	**10,080**	**43,769**

2010	Land and buildings for own use	Investment properties	Other tangible assets	Goodwill	Other intangible assets	Total
Historical costs						
Cost on January 1	25,533	2,307	34,670	1,440	13,096	77,046
Deemed cost in compliance with IFRS 1	12,834	0	0	0	0	12,834
Increases during the year	1,196	0	6,754	0	5,469	14,220
Decreases during the year	–1,073	–533	–1,540	0	–623	–3,770
Cost on December 31	**38,490**	**1,774**	**39,884**	**1,440**	**17,942**	**99,530**
Accumulated depreciation/amortisation						
Accumulated depreciation/amortisation/ impairment losses on January 1	–12,651	–365	–24,548	–67	–7,892	–45,523
Accumulated depreciation/amortisation concerning decreases	205	0	–372	0	50	–117
Depreciation/amortisation for the year	–1,185	–6	–5,797	0	–1,267	–8,255
Impairment loss for the year	0	0	0	0	0	0
Accumulated depreciation/amortisation/ impairment losses on December 31	**–13,630**	**–371**	**–30,717**	**–67**	**–9,109**	**–53,895**
Carrying amount on December 31	**24,860**	**1,403**	**9,167**	**1,373**	**8,833**	**45,635**

12. Other assets	2011	2010
Cash items in the process of collection	4	16
From assets purchased on behalf of a customer	27,121	30,764
Other	18,988	27,563
Total	**46,113**	**58,343**

13. Accrued income and prepayments	2011	2010
Interest	13,192	14,296
Taxes	761	1,186
Other	12,146	11,268
Total	**26,099**	**26,749**

14. Deferred tax assets and liabilities	2011	2010
Deferred tax assets		
Accrual differences	1,963	2,214
From taxable losses	1,175	0
Other temporary differences	754	70
	3,891	**2,284**
Deferred tax liabilities		
Temporary differences	19,760	21,241
From the fair value reserve	578	452
Total	**20,338**	**21,693**
Actual tax loss carry-forwards and their expiration year		
2017	682	682
2018	585	585
2019	937	937
2020	1,648	1,648
20121	1,164	0
No expiration date	113,454	125,099
Total	**118,470**	**128,951**

Actual losses from prior years are equivalent to a deferred tax asset of EUR 30,983 K. EUR 1,175 K of this asset was reported in the balance sheet.

15. Debt securities issued to the public

	2011 Carrying amount	2011 Nominal amount	2010 Carrying amount	2010 Nominal amount
Certificates of deposit	219,167	220,341	235,985	236,479
Bonds	439,372	437,090	553,684	539,338
Total	**658,539**	**657,431**	**789,669**	**775,818**

16. Other liabilities

	2011	2010
Cash items in the process of collection	16,091	10,137
From assets sold on behalf of a customer	30,753	42,379
Provisions	610	1,163
Other	12,245	12,913
Total	**59,699**	**66,591**

The provisions consisted of rent for premises and IT expenses included in a restructuring reserve for Sweden and Finland. See Note 55 regarding the restructuring reserve.

Loss-making projects

	January 1	Utilised	Withdrawn	New	December 31
2011	119	–119	0	0	0
2010	158	–158	0	119	119

17. Accrued expenses and prepaid income

	2011	2010
Interest	5,773	5,412
Taxes	187	1,395
Other	27,224	19,885
Total	**33,184**	**26,692**

18. Subordinated liabilities

	2011 Carrying amount	2011 Nominal amount	2011 Amount in capital base	2010 Carrying amount	2010 Nominal amount	2010 Amount in capital base
Debenture loan 1/2006	0	0	0	449	8,287	8,287
Debenture loan 2/2006	0	0	0	8,287	8,287	8,287
Debenture loan 1/2008	2,103	2,103	2,103	2,464	2,464	2,464
Debenture loan 2/ 2008	897	897	897	1,511	1,511	1,511
Debenture loan 1/2009	16,119	16,119	16,119	16,518	16,518	16,518
Debenture loan 2/2009	9,682	9,682	9,682	13,434	13,434	13,434
Debenture loan 1/2010	8,385	8,385	8,385	10,312	10,312	10,312
Debenture loan 2/2010	15,442	15,442	15,442	19,930	19,930	19,930
Debenture loan 1/2011	5,000	5,000	5,000	0	0	0
Capital loan, Ålandsbanken Asset Management Ab	60	60	60	60	60	60
	57,687	**57,687**	**57,687**	**72,965**	**72,965**	**72,965**

	Interest rate:	Repayment:
Debenture loan 1/2008	3-month EURIBOR +0.15%	May 14, 2013
Debenture loan 2/2008	3-month EURIBOR +0.30%, starting May 14, 2013 3-month EURIBOR +2.00%	May 14, 2018
Debenture loan 1/2009	4% fixed interest, starting January 16, 2014 12-month EURIBOR +2.00%	January 15, 2019
Debenture loan 2/2009	3.15% fixed interest	June 3, 2014
Debenture loan 1/2010	3.30% fixed interest	January 26, 2015
Debenture loan 2/2010	3.25% fixed interest	June 1, 2015
Debenture loan 1/2011	12-month Euribor + 0.60%	June 6, 2016

All subordinated liabilities are included in lower supplementary capital. The loans may be repurchased in advance, but this is possible only with the permission of the Finnish Financial Supervisory Authority. In case the Bank is dissolved, the loans are subordinate to the Bank’s other obligations.

19. Maturity breakdown of claims and liabilities

2011	Under 3 mo	3–12 mo	1–5 yrs	Over 5 yrs	Not classified by maturity	Total
Assets						
Cash	66,139					66,139
Debt securities eligible for refinancing with central banks	9,478	57,024	40,809	18,000		125,311
Claims on credit institutions	129,017					129,017
Claims on the public and public sector entities	350,192	332,919	1,206,722	847,183		2,737,017
Debt securities	71,368	92,142	34,672			198,182
Shares and participations					4,538	4,538
Derivative instruments					20,413	20,413
Intangible assets					11,453	11,453
Tangible assets					32,316	32,316
Other assets					46,113	46,113
Accrued income and prepayments					26,099	26,099
Deferred tax assets					3,891	3,891
	626,194	**482,085**	**1,282,203**	**865,183**	**144,823**	**3,400,490**
Liabilities						
Liabilities to credit institutions	200,283			30,000		230,283
Liabilities to the public and public sector entities	1,844,696	284,273	17,646	84		2,146,698
Debt securities issued	162,569	402,497	91,229	2,244		658,539
Derivative instruments					13,502	13,502
Other liabilities					59,699	59,699
Accrued expenses and prepaid income					33,184	33,184
Subordinated debentures		5,309	34,156	18,222		57,687
Deferred tax liabilities					20,338	20,338
Equity capital					180,560	180,560
	2,207,548	**692,078**	**143,031**	**50,550**	**307,283**	**3,400,490**

2010	Under 3 mo	3–12 mo	1–5 yrs	Over 5 yrs	Not classified by maturity	Total
Assets						
Cash	61,210	0	0	0	0	61,210
Debt securities eligible for refinancing with central banks	48,421	25,900	83,630	9,795	0	167,746
Claims on credit institutions	127,367	0	0	0	0	127,367
Claims on the public and public sector entities	507,449	396,916	947,548	825,494	0	2,677,407
Debt securities	129,498	116,429	20,241	0	0	266,168
Shares and participations					6,380	6,380
Derivative instruments					35,341	35,341
Intangible assets					10,206	10,206
Tangible assets					35,428	35,428
Other assets					58,343	58,343
Accrued income and prepayments					26,749	26,749
Deferred tax assets					2,284	2,284
	873,945	**539,245**	**1,051,419**	**835,289**	**174,731**	**3,474,630**
Liabilities						
Liabilities to credit institutions	160,831	604	18,009	11,996	0	191,440
Liabilities to the public and public sector entities	1,970,395	132,664	37,960		0	2,141,019
Debt securities issued	199,208	172,407	416,367	1,687	0	789,669
Derivative instruments					10,110	10,110
Other liabilities					66,591	66,591
Accrued expenses and prepaid income					26,692	26,692
Subordinated debentures	2,062	8,615	35,912	26,376	0	72,965
Deferred tax liabilities					21,693	21,693
Equity capital					154,450	154,450
	2,332,496	**314,290**	**508,248**	**40,059**	**279,537**	**3,474,630**

20. Assets and liabilities in euros and other currencies

	2011			2010		
	Euros	Other currencies	Total	Euros	Other currencies	Total
Claims on credit institutions	17,522	111,495	129,017	43,495	83,872	127,367
Claims on the public and public sector entities	2,265,919	471,098	2,737,017	2,303,468	373,939	2,677,407
Debt securities	292,969	30,524	323,493	322,862	111,051	433,913
Derivative instruments	15,485	4,928	20,413	28,677	6,664	35,341
Other assets including cash	166,193	24,356	190,550	163,332	37,269	200,602
	2,758,089	**652,401**	**3,400,490**	**2,861,834**	**612,796**	**3,474,630**
Liabilities to credit institutions and central banks	117,612	112,671	230,283	86,400	105,040	191,440
Liabilities to the public and public sector entities	1,663,545	483,153	2,146,698	1,607,729	533,290	2,141,019
Debt instruments issued to the public	646,213	12,326	658,539	779,793	9,876	789,669
Derivative instruments and liabilities held for trading	7,337	6,165	13,502	5,301	4,810	10,110
Subordinated liabilities	57,687	0	57,687	72,965	0	72,965
Other liabilities	78,449	34,771	113,221	78,258	36,719	114,977
	2,570,843	**649,087**	**3,219,930**	**2,630,446**	**689,734**	**3,320,180**

21. Assets and liabilities by categories

2011		Financial instruments					
	Loans and trade receivables	held to maturity	held for trading	at fair value	available for sale	Non-financial instruments	Total
Assets							
Cash	66,139	0	0	0	0	0	66,139
Debt securities eligible for refinancing with central banks	0	53,491	7,024	0	64,795	0	125,311
Claims on credit institutions	129,017	0	0	0	0	0	129,017
Claims on the public and public sector entities	2,575,913	0	0	161,104	0	0	2,737,017
Debt securities	0	0	55,628	0	142,554	0	198,182
Share and participations	0	0	0	0	3,329	0	3,329
Shares and participations in associated companies	0	0	0	0	1,209	0	1,209
Derivative instruments	0	0	17,563	2,850	0	0	20,413
Intangible assets	0	0	0	0	0	11,453	11,453
Tangible assets	0	0	0	0	0	32,316	32,316
Other assets	0	0	0	0	0	46,113	46,113
Accrued income and prepayments	0	0	0	0	0	26,099	26,099
Deferred tax assets	0	0	0	0	0	3,891	3,891
	2,771,070	**53,491**	**80,216**	**163,954**	**211,887**	**119,872**	**3,400,490**

2011				
	Financial liabilities at accrued cost	Financial liabilities at fair value	Non-financial liabilities	Total
Liabilities and equity capital				
Liabilities to credit institutions and central banks	230,283	0	0	230,283
Liabilities to the public and public sector entities	2,134,602	12,095	0	2,146,698
Debt securities issued to the public	533,757	124,782	0	658,539
Derivative instruments and other liabilities held for trading	0	13,502	0	13,502
Other liabilities	0	0	59,699	59,699
Accrued expenses and prepaid income	0	0	33,184	33,184
Subordinated liabilities	57,687	0	0	57,687
Deferred tax liabilities	0	0	20,338	20,338
	2,956,330	**150,379**	**113,221**	**3,219,930**

22. Fair value and carrying amount of assets and liabilities

	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash	66,139	66,139	61,210	61,210
Debt securities eligible for refinancing with central banks				
Available for sale	64,795	64,795	83,182	83,182
Intended to be held to maturity	53,491	56,766	73,113	75,690
Held for trading	7,024	7,024	11,450	11,450
Claims on credit institutions	129,017	129,017	127,367	127,367
Claims on the public and public sector entities				
Carried at fair value	161,104	161,104	193,001	193,001
Other	2,575,913	2,581,314	2,484,406	2,485,260
Debt securities	198,182	198,182	266,168	266,168
Shares and participations	3,329	3,329	4,980	4,980
Shares and participations in associated companies	1,209	1,209	1,400	1,400
Shares and participations in Group companies	0	0	0	0
Derivative instruments	20,413	20,413	35,341	35,341
Intangible assets	11,453	11,453	10,206	10,206
Tangible assets				
Investment properties	480	979	1,403	1,968
Properties for own use	24,279	27,292	24,860	27,532
Other tangible assets	7,758	7,948	9,167	9,556
Other assets	46,113	46,113	58,343	58,343
Accrued income and prepayments	26,099	26,099	26,749	26,749
Deferred tax assets	3,891	3,891	2,284	2,284
	3,400,490	**3,413,068**	**3,474,630**	**3,481,689**
Liabilities and equity capital				
Liabilities to credit institutions and central banks				
Carried at fair value	0	0	55,767	55,767
Other	230,283	229,986	135,673	135,658
Liabilities to the public and public sector entities				
Carried at fair value	12,095	12,095	15,018	15,018
Other	2,134,602	2,139,781	2,126,001	2,126,989
Debt instruments issued to the public				
Carried at fair value	124,782	124,782	175,464	175,464
Other	533,757	534,267	614,205	615,062
Derivative instruments	13,502	13,502	10,110	10,110
Other liabilities	59,699	59,699	66,591	66,591
Accrued expenses and prepaid income	33,184	33,184	26,692	26,692
Subordinated liabilities	57,687	59,201	72,965	74,683
Deferred tax liabilities	20,338	20,338	21,693	21,693
	3,219,930	**3,226,835**	**3,320,180**	**3,323,728**

The fair value of assets and liabilities repayable on demand is equivalent to their nominal value. The fair value of fixed-term assets and liabilities corresponds to the present value of future cash flows. For listed shares, the last closing price has been used. The fair value of unlisted shares has been calculated by estimating their percentage of equity capital. The appraisal of real estate was performed by a licensed estate agent. Certain investment properties have limited transfer rights, since they have Finnish government-subsidised loans, and this is reflected in their value.

23. Financial assets and liabilities at fair value by categories

2011	Category 1	Category 2	Category 3	Total
Financial assets				
Debt securities eligible for refinancing with central banks	64,795	0	0	64,795
Claims on the public and public sector entities	0	161,104	0	161,104
Other debt securities	63,955	134,228	0	198,182
Shares and participations	1,332	690	1,307	3,329
Derivative instruments	0	20,413	0	20,413
	130,082	**316,435**	**1,307**	**447,824**
Financial liabilities				
Liabilities to credit institutions and central banks	0	0	0	0
Liabilities to the public and public sector entities	0	12,095	0	12,095
Debt securities issued to the public	0	124,782	0	124,782
Derivative instruments	0	13,502	0	13,502
	0	**150,379**	**0**	**150,379**

Category 1	Appraised according to market quotations in an active market for identical assets/liabilities.
Category 2	Appraised on the basis of indirect or direct prices not included in Category 1.
Category 3	Appraised without observable market data.

Specification of category 3	Shares
Opening balance	2,452
Gains/losses in “Comprehensive income”	–1,265
Gains/losses in “Other comprehensive income”	77
Purchases/Divestments	32
Change in currency exchange rate	11
Closing balance	**1,307**

2010	Category 1	Category 2	Category 3	Total
Financial assets				
Debt securities eligible for refinancing with central banks	94,632	0	0	94,632
Claims on the public and public sector entities	0	193,001	0	193,001
Other debt securities	211,338	54,830	0	266,168
Shares and participations	1,852	676	2,452	4,980
Derivative instruments	0	35,341	0	35,341
	307,822	**283,848**	**2,452**	**594,122**
Financial liabilities				
Liabilities to credit institutions and central banks	0	55,767	0	55,767
Liabilities to the public and public sector entities	0	15,018	0	15,018
Debt securities issued to the public	0	171,513	0	171,513
Derivative instruments	0	10,110	0	10,110
	0	**252,408**	**0**	**252,408**

Category 1	Appraised according to market quotations in an active market for identical assets/liabilities.
Category 2	Appraised on the basis of indirect or direct prices not included in Category 1.
Category 3	Appraised without observable market data.

Specification of category 3	Shares
Opening balance	2,303
Gains/losses in “Comprehensive income”	–115
Gains/losses in “Other comprehensive income”	6
Purchases/Divestments	20
Change in currency exchange rate	238
Closing balance	**2,452**

24. Loans and trade receivables at fair value

	2011	2010
Nominal value	153,408	188,215
Change in fair value	7,528	4,410
Change in credit risk	169	376
	161,104	**193,001**
Other	2,575,913	2,379,672
Total	**2,737,017**	**2,572,672**

Loans and trade receivables carried at fair value on December 31, 2011 were EUR 7,210 K higher than the nominal amount at maturity. On December 31, 2011, changes in credit risk had affected the accumulated value of change in fair value by EUR 1,311 K. The change in credit risk is calculated on the basis of an assumption about credit losses adopted by the Executive Team in conjunction with its budget work.

25. Financial liabilities at fair value

	2011	2010
Liabilities to credit institutions		
Carried at fair value		
Nominal value	0	55,769
Change in fair value	0	54
Change in credit risk	0	–56
	0	**55,767**
Other	230,283	135,673
Total	**230,283**	**191,440**
Liabilities to the public and public sector entities		
Carried at fair value		
Nominal value	12,053	15,279
Change in fair value	76	–246
Change in credit risk	–33	–15
	12,095	**15,018**
Other	2,134,602	2,126,001
Total	**2,146,698**	**2,141,019**
Debt securities issued to the public		
Carried at fair value		
Nominal value	126,177	177,513
Change in fair value	–1,744	–2,227
Change in credit risk	350	178
	124,782	**175,464**
Other	533,757	614,205
Total	**658,539**	**789,669**

Financial liabilities carried at fair value on December 31, 2011 were EUR 1,508 K lower than the nominal amount at maturity. On December 31, 2011, changes in credit risk had affected the accumulated amount of change in fair value by EUR 974 K. The change in credit risk for 2011 is calculated on the basis of actual credit spreads against swaps (5 yrs) for A-rated banks in Europe.

26. Fair value option

	2011			2010		
	Opening bal., Jan 1, 2011	Change for the year	Closing bal., Dec 31, 2011	Opening bal., Jan 1, 2010	Change for the year	Closing bal., Dec 31, 2010
Balance sheet						
Claims on the public and public sector entities	4,786	2,910	7,696	6,566	–1,780	4,786
Derivative instruments	3,181	–332	2,850	4,282	–1,101	3,181
Liabilities to the public and public sector entities	264	–222	42	21	243	264
Debt securities issued to the public	2,050	–655	1,395	938	1,112	2,050
Derivative instruments	–4,589	–3,492	–8,081	–6,580	1,991	–4,589
Profit brought forward	5,299	–1,161	4,138	4,955	344	5,299
Deferred tax liabilities	748	–365	383	637	110	748
Income statement						
Net income from securities trading		–1,790			465	
Change in deferred tax liabilities		–365			110	
Taxes		994			–231	
Profit for the year		**–1,161**			**344**	

The lending portion of groups originally classified as carried at fair value in the fair value option may be repaid in advance, and then the other components in the fair value option remain. The interest rate risk that arises is covered by new interest rate swaps that are carried at fair value in the trading portfolio and are thus not included in the fair value option portfolio.

27. Share capital

The share capital of the Bank of Åland is EUR 29,103,547.58. The maximum share capital according to the Articles of Association is EUR 32,292,081.88. The carrying amount equivalent of a share is EUR 2.02. The shares are divided into 6,476,138 Series A and 7,944,015 Series B shares. Each Series A share represents twenty (20) votes at shareholders' meetings and each Series B share one (1) vote. The Articles of Association stipulate that no representative at the Annual General Meeting may vote for more than one fortieth of the number of votes represented at the Meeting. Series B shares enjoy priority over Series A shares for dividends of up to six (6) per cent of their previous nominal value.

On September 13, 2011 the Bank of Åland's Board of Directors decided to carry out a share issue with preferential rights for existing shareholders.

The main points in the terms and conditions for the share issue were the following:

- The issue consisted of a maximum of 1,295,228 new Series A shares and a maximum of 1,588,803 new Series B shares.
- The subscription price was EUR 13.00 for a Series A share and EUR 8.60 for a Series B share.
- The record date was September 16, 2011.
- Shares that were traded in normal stock market trading starting on September 14, 2011 did not carry the right to participate in the share issue.
- The subscription period was September 22–October 13, 2011.
- Subscription rights could be traded on the Nasdaq OMX Helsinki (Helsinki Stock Exchange) during the period September 22–October 6, 2011.

The shares were recorded on October 20 in the Finnish Trade Register. The new shares could be traded on the Nasdaq OMX Helsinki together with the old shares starting on October 21, 2011.

Changes in share capital	Share capital, EUR	Series A shares, number	Series B shares, number
2007	23,282,837.26	5,180,910	6,355,212
2008	23,282,837.26	5,180,910	6,355,212
2009	23,282,837.26	5,180,910	6,355,212
2010	23,282,837.26	5,180,910	6,355,212
2011	29,103,547.58	6,476,138	7,944,015

The ten largest shareholders, December 31, 2010:
The list also includes shareholders' Group companies and shareholder-controlled companies.

Shareholders	Series A shares	Series B shares	Total number of shares	% of shares	% of votes
1 Wiklöf Anders	1,589,396	1,296,549	2,885,945	20.01%	24.07%
2 Alandia-Bolagen	917,358	406,432	1,323,790	9.18%	13.64%
3 Ålands Ömsesidiga Försäkringsbolag	794,566	262,901	1,057,467	7.33%	11.75%
4 Pohjola Bank Abp (nominee registered shares)	2,567	499,859	502,426	3.48%	0.40%
5 Nordea Bank Finland Abp (nominee registered shares)	13,114	479,038	492,152	3.41%	0.54%
6 Pensionsförsäkringsaktiebolaget Veritas	123,668	165,954	289,622	2.01%	1.92%
7 Ab Rafael	227,640	678	228,318	1.58%	3.31%
8 Svenska Litteratursällskapet i Finland	208,750	0	208,750	1.45%	3.04%
9 Caelum Oy	81,675	120,000	201,675	1.40%	1.28%
10 Palcmills Oy	87,500	107,500	195,000	1.35%	1.35%

28. Fair value reserve

	2011			2010		
	Positive figures	Negative figures	Total	Positive figures	Negative figures	Total
Debt securities	2,182	0	2,182	1,788	−285	1,502
Shares	377	−200	177	490	−254	237
Total	**2,559**	**−200**	**2,359**	**2,278**	**−539**	**1,739**
Deferred tax liability			−578			−452
Fair value reserve			**1,781**			**1,287**

29. Retained earnings

	2011	2010
Non-distributable		
Share of accumulated appropriations	37,638	39,480
Share of difference between fair value of assets and pension liabilities in the pension fund	5,133	4,846
	42,772	**44,326**
Distributable	13,613	18,531
Total	**56,385**	**62,857**

Notes to the statement of comprehensive income

30. Interest income	2011	2010
Credit institutions and central banks	2,834	1,710
Public and public sector entities	72,851	54,538
Debt securities	8,299	9,210
Derivative instruments	194	1,405
Other interest income	1,565	328
Total	**85,743**	**67,191**

31. Interest expenses	2011	2010
Credit institutions and central banks	2,204	3,143
Public and public sector entities	22,580	15,160
Debt instruments issued to the public	14,146	8,196
Derivative instruments	643	1,417
Subordinated liabilities	1,798	1,573
Other interest expenses	1,294	900
Total	**42,664**	**30,388**

32. Income from equity instruments	2011	2010
Financial assets available for sale	42	42
Group companies	0	0
Associated companies	0	0
Total	**42**	**42**

33. Commission income	2011	2010
Deposit commissions	846	855
Lending commissions	3,315	2,891
Payment intermediation commissions	5,244	3,428
Mutual fund unit commissions	10,830	8,832
Management commissions	8,329	8,646
Securities commissions	15,997	15,368
Underwriting commissions	17	1
Insurance commissions	83	119
Legal services	465	414
Guarantee commissions	275	225
Other commissions	1,329	2,923
Total	**46,731**	**43,703**

34. Commission expenses	2011	2010
Service charges paid	1,151	899
Other	6,830	5,984
Total	**7,981**	**6,883**

35. Net income from securities trading and foreign exchange operations	2011			2010		
	Net capital gains and losses	Net changes in fair value	Total	Net capital gains and losses	Net changes in fair value	Total
Debt securities	177	70	247	−1,993	1,238	−755
Shares and participations	895	−434	461	22	−65	−43
Fair value option	0	1,998	1,998	0	−481	−481
Derivative instruments	−1,640	−1,561	−3,201	1,935	746	2,680
Securities trading	**−568**	**73**	**−495**	**−36**	**1,437**	**1,401**
Foreign exchange operations	2,419	−53	2,366	2,120	1,283	3,403
	1,850	**21**	**1,871**	**2,085**	**2,720**	**4,804**

36. Net income from financial assets available for sale	2011	2010
Capital gains	656	1,610
Impairment losses	−1,320	−165
Total	**−664**	**1,445**

37. Net income from investment properties

37. Net income from investment properties	2011	2010
Rental income	94	61
Rental expenses	–56	–52
Depreciation	–20	–33
Capital gains/losses	906	777
Other net income	20	36
Total	**944**	**789**

38. Other operating income

38. Other operating income	2011	2010
Rental income on properties	105	111
Capital gains on properties	244	102
Other property income	7	5
IT income	13,447	15,959
Other income	1,376	2,050
Total	**15,178**	**18,228**

39. Other administrative expenses

39. Other administrative expenses	2011	2010
Staff costs	2,469	2,068
Office costs	1,287	1,181
IT costs	9,803	8,840
Communication	3,565	3,026
Marketing	3,500	2,457
Miscellaneous	306	452
Total	**20,931**	**18,024**

40. Other operating expenses

40. Other operating expenses	2011	2010
Rental expenses	5,887	5,302
Capital loss on properties	0	1
Other property expenses	736	784
Fee to security funds	1,072	898
Miscellaneous expenses	9,600	8,951
Total	**17,294**	**15,935**

41. Impairment losses on loans and other commitments

41. Impairment losses on loans and other commitments	2011	2010
Individual impairment losses	3,457	6,081
Group impairment losses	–1,400	0
Reversals	–269	–192
Total	**1,788**	**5,889**

Interest recognised on impaired receivables according to original interest amounted to EUR 85 K.

42. Income taxes

42. Income taxes	2011	2010
Net operating income	–5,681	996
Tax-exempt income	–495	–884
Non-deductible expenses	661	1,711
Non-deductible losses	11,606	15,867
Losses from prior years	–3,435	0
Net profit from associated companies	–25	–83
Taxable profit	**2,631**	**17,607**
Tax, 26%	684	4,578
Taxes from prior years	–10	–1,361
Impact of changed tax rate	–1,033	0
Taxes in income statement	**–359**	**3,217**
Fair value reserve (deferred)	126	–197
Translation differences (realised)	–89	–919
Taxes on other comprehensive income	**37**	**–1,116**

Deferred tax assets and liabilities are calculated according to a tax rate of 24.5 per cent, which went into effect on January 1, 2012.

43. Income, expenditure, profit and loss

2011	From interest		From valuations		From selling/ divestment/ contract	
	Revenue	Expense	Fair value	Impairment		Total
Financial assets at fair value						
For trading purposes	2,140	0	−7,458	0	−800	−6,119
Others (fair value option)	5,838	0	2,886	0	0	8,723
Investments held to maturity	2,160	0	0	0	0	2,160
Loans and trading receivables	71,637	0	49	−1,790	−219	69,676
Financial assets available for sale	0	0	0	0	0	
Of which in income statement	3,969	0	0	−1,321	656	3,304
Of which in balance sheet	0	0	0	0	0	0
Financial liabilities at fair value	0	0	0	0	0	
For trading purposes	0	0	2,486	0	0	2,486
Others (fair value option)	0	−2,877	652	0	0	−2,225
Financial liabilities at accrued cost	0	−39,787	−211	0	0	−39,998
	85,743	**−42,664**	**−1,597**	**−3,111**	**−363**	**38,008**

2010	From interest		From valuations		From selling/ divestment/ contract	
	Revenue	Expense	Fair value	Impairment		Total
Financial assets at fair value						
For trading purposes	3,445	−1,399	14,451	0	−3,136	13,360
Others (fair value option)	6,516	0	−1,011	0	0	5,505
Investments held to maturity	3,269	0	0	0	933	4,202
Loans and trading receivables	51,434	0	−599	−905	−5,079	44,851
Financial assets available for sale						
Of which in income statement	2,527	0	0	165	347	3,039
Of which in balance sheet	0	0	0	0	0	0
Financial liabilities at fair value						
For trading purposes	0	0	−7,786	0	0	−7,786
Others (fair value option)	0	−4,226	1,129	0	0	−3,097
Financial liabilities at accrued cost	0	−24,763	0	0	0	−24,763
	67,191	**−30,388**	**6,183**	**−740**	**−6,936**	**35,309**

44. Earnings per share

	2011	2010
Earnings per share before dilution, EUR		
Profit for the year / Average number of shares	−6,472,321 / 12,096,821 = −0.54	−2,860,454 / 11,536,122 = −0.25
Earnings per share after dilution, EUR		
Profit for the year / Average number of shares + shares outstanding	−6,472,321 / 12,096,821 = −0.54	−2,860,454 / 11,536,122 = −0.25

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

Notes concerning staff, Board of Directors and Executive Team

45. Number of employees	2011		2010	
	Average employees	Change	Average employees	Change
Permanent full-time employees	614	–12	626	–14
Permanent part-time employees	133	17	116	–16
	747	**5**	**742**	**–30**

46. Salaries/fees paid to the Board of Directors and Executive Team	2011	2010
Members of the Board of Directors	315	235
Managing Directors	1,365	923
Deputy Managing Directors	652	465
Other members of the Executive Team	1,313	1,142

The amount includes the value of fringe benefits. In addition to his fee, EUR 306,000 excluding value-added tax was paid to Board member Per Axman as compensation for consulting assignments. There are no pension obligations to the members of the Board of Directors. The pension benefits of the Managing Directors and Deputy Managing Directors are based on customary terms of employment.

Incentive programme, 2011 earnings year, for the Bank of Åland's Managing Director and key individuals

The incentive programme has been adopted by the Bank's Board of Directors. The programme was established in accordance with the regulations governing incentive systems in the Finnish financial services industry. Those entitled to compensation under the programme include the Managing Director and individuals belonging to the Executive Team. The Bank's Board members are not included in the Bank's share-related incentive system. Under the incentive programme, variable compensation may be payable in the form of Series B shares in the Bank of Åland Plc plus a cash amount to cover taxes and fees similar to taxes arising from the compensation.

The maximum compensation that may be payable during the 2011 incentive programme is 25,000 Series B shares plus a cash amount to cover taxes and fees similar to taxes arising from the compensation.

The maximum compensation per individual eligible for compensation in 2011 is one year's salary. Of the total approved incentive to be disbursed under the programme, the Managing Director may receive a maximum of 30 per cent. Monitoring of targets occurs continuously, while the final outcome is established after the consolidated financial statements have been adopted. The Managing Director's allocation under the programme is established by the Board. The outcome for other individuals eligible for compensation is established by the Bank's Compensation Committee.

The 2011 financial year

Since it was apparent from an early stage that the financial criteria established by the Board of Directors for the incentive programme would not be achieved, targets for key individuals and what key individuals are included in the programme have not been established by the Managing Director. Thus no expense was recognised and no payment was disbursed for the 2011 financial year.

47. Fees paid to auditors	2011	2010
Auditing fees paid	443	441
Consulting fees paid		
In compliance with Finnish Auditing Act, Ch. 1, Sec. 1, Par. 2	7	12
Taxes	23	9
Other	180	232
Total	**653**	**694**

These amounts include value-added tax (VAT).

48. Private shareholdings of the Board of Directors and Executive Team	2011				
	Series A shares	Series B shares	Total shares	% of shares	% of votes
Board of Directors					
Lindholm, Göran	2,363	2,973	5,336	0.04%	0.04%
Nordlund, Leif	90	323	413	0.00%	0.00%
Axman, Per	0	7,000	7,000	0.00%	0.01%
Bergh, Kaj-Gustaf	0	0	0	0.00%	0.00%
Boman, Sven-Harry	69	655	724	0.01%	0.00%
Karlsson, Agneta	40	28	68	0.00%	0.00%
Wiklöf, Anders	289,383	119,185	408,568	2.83%	4.30%
Total	**291,945**	**130,164**	**422,109**	**2.93%**	**4.34%**
Executive Team					
Wiklöf, Peter	0	3,750	3,750	0.03%	0.00%
Woivalin, Dan-Erik	0	0	0	0.00%	0.00%
Dahlén, Birgitta	450	338	788	0.01%	0.01%
Engman, Teija	0	0	0	0.00%	0.00%
Erikslund, Tove	0	0	0	0.00%	0.00%
Eurell, Jan-Gunnar	0	500	500	0.00%	0.00%
Holm, Magnus	0	0	0	0.00%	0.00%
Rosenholm, Johnny	0	3,000	3,000	0.02%	0.00%
Salonius, Anne-Maria	0	0	0	0.00%	0.00%
Total	**450**	**7,588**	**8,038**	**0.06%**	**0.01%**

49. Financial transactions with related parties	2011				2010	
	Board and Executive Team	Related companies	Subsidiaries	Associated companies	Board and Executive Team	Related companies
Loans						
Loans outstanding, January 1	3,031	13,660	767	1,000	3,157	13,427
Taken out during the year	474	8,525	20,327	0	887	2,850
Principal paid during the year	−349	−4,092	0	0	−596	−2,117
Loans outstanding, December 31	3,156	18,093	21,671	1,000	3,449	14,160
Interest income	64	168	41	4	67	131
Commission income	0	9	0	0	0	0
Deposit accounts						
Deposit accounts, January 1	409	14,874	5,952	2,283	473	2,821
Deposit accounts, December 31	500	27,304	57,577	1,310	498	15,463
Interest expenses	2	40	2	4	3	32
Other commissions and fees	0	9	0	0	0	9

"Board and Executive Team" includes individuals on the Board of Directors and Executive Team of the Bank of Åland Plc as well as their respective spouse and minor children. "Related companies" refers to companies in which individuals on the Board of Directors or Executive Team of the Bank of Åland Plc hold a significant percentage of the votes or can exercise significant influence. Members of the Board of Directors and the Executive Team may be granted a personal loan in a maximum amount of EUR 250,000 with accepted collateral. The employee interest rate is set by the Executive Team and amounted to 2.044 per cent on December 31, 2011. All transactions with related parties have occurred on commercial terms.

Notes concerning assets pledged and contingent liabilities

50. Collateral provided	2011		2010	
	Nominal value of debt	Carrying amount of collateral	Nominal value of debt	Carrying amount of collateral
For debts to credit institutions and central banks	30,008	62,696	105,905	193,816
For other debts	32,878	37,425	19,433	19,433
For unutilised limits	40,348	55,103	45,687	48,291
Other	18,162	24,997	0	0
Total	**121,396**	**180,220**	**171,025**	**261,539**

The collateral consisted of claims on credit institutions, debt securities and other assets. No collateral was provided for the debts or obligations of others.

51. Pension liabilities in Ålandsbanken Abps Pensionsstiftelse r.s.	2011	2010
Present value of pension liabilities	13,801	13,023
Fair value of plan assets	–18,042	–19,699
Status	**–4,241**	**–6,676**
Unrecognised actuarial gains (+) / losses (–)	–2,639	321
Liabilities recognised in the balance sheet	**–6,880**	**–6,355**
Current service costs	85	91
Interest expenses	604	637
Administrative expenses	311	0
Expected return on plan assets	–1,251	–1,191
Recognised net actuarial gain (–) / loss (+)	0	0
Receivable (–) / liability (+) recognised in income statement	**251**	**463**
Opening balance	**–5,622**	**–6,085**
Expenses (+)/income (–) in the income statement	562	463
Closing balance	**–5,060**	**–5,622**
Assumptions		
Discount rate	4.60%	4.75%
Expected return on assets	6.50%	6.50%
Increase in salaries	2.50%	2.50%
Pension index increase	2.10%	2.10%
Inflation	2.00%	2.00%
Staff turnover	0.00%	0.00%
Asset classes as a percentage of total plan assets		
Equity instruments	33.00%	32.90%
Financial market instruments	44.60%	36.30%
Properties	18.20%	17.90%
Cash and other current assets	4.20%	12.90%
	100.00%	**100.00%**
Reconciliation of present value of pension liabilities		
Opening balance	13,023	13,074
Current service costs	85	91
Interest expenses	604	637
Benefits paid	–838	–788
Actuarial gains (–) / losses (+)	927	9
	13,801	**13,023**
Reconciliation of fair value of plan assets		
Opening balance	19,699	18,793
Expected return on plan assets	1,251	1,191
Benefits paid	–838	–788
Actuarial gains (+) / losses (–)	–2,033	621
Additional payment	–37	–118
Closing balance	**18,042**	**19,699**
Specification of the fund's holdings in the Bank of Åland Plc		
Bank of Åland Plc shares	0	28
Equity index bonds	249	250
Corporate bonds	444	568
Bank deposits	416	2,346
Total	**1,109**	**3,193**

No estimated additional payment is expected for 2012 (EUR 37,000 for 2011). An estimate of the present value of pension liabilities as well as fair value of plan assets was carried out on December 31, 2011 by Jarkko Pajunen and Kaisa Pitkänen of Innova Oy. The Bank's Swedish operations have a defined contribution solution through the insurance company SPP. The Group's Swedish companies report this as a defined contribution solution, i.e. no estimate of liabilities shall be carried out according to IFRS rules.

Amounts for the financial year in question and the four preceding financial years

	2011	2010	2009	2008	2007
Present value of pension liabilities	13,801	13,023	13,074	12,740	14,322
Fair value of plan assets	–18,042	–19,699	–18,793	–15,473	–17,823
Status	–4,241	–6,676	–5,719	–2,733	–3,501

IFRS standards have been applied since January 1, 2004.

52. Lease liabilities and rental obligations	2011	2010
Lease payments and rental obligations due		
Within 1 year	4,939	4,884
More than 1 and less than 5 years	9,574	11,749
More than 5 years	2,680	3,456
	17,193	**20,089**
Finance leases, present value		
Within 1 year	779	1,163
More than 1 and less than 5 years	346	970
More than 5 years	0	0
	1,126	**2,134**
Finance leases, minimum rents		
Within 1 year	790	1,201
More than 1 and less than 5 years	350	1,051
More than 5 years	0	0
	1,140	**2,252**
Interest expenses	14	118
Carrying amount		
Machinery and equipment	1,104	2,124

The Group has finance leases on cars, computers and IT equipment. Certain leases include an option to buy the asset. When leases are renewed, new negotiations take place. The most essential leases are related to computers. There are no variable fees or index clauses for these agreements. The agreements imply that the Group may redeem the machinery or continue to rent the machinery at a predetermined price when the actual rental period expires. The agreement also entitles the lessee to return the machinery. The financed amount of the largest agreement amounted to EUR 708 K excluding value-added tax. Operating leases consist of rental obligations. Rental obligations mainly include business premises with fixed-period agreements of up to ten years. The rent level is generally tied to an index and is adjusted as specified in the lease.

53. Off-balance sheet commitments	2011	2010
Guarantees	18,716	20,765
Unutilised overdraft limits	90,187	82,139
Unutilised credit card limits	79,895	0
Lines of credit	188,297	197,980
Total	**377,095**	**300,884**

The lines of credit do not include fixed-interest loans with a set interest rate.

Other notes

54. Managed assets	2011	2010
Mutual fund (unit trust) management	756,727	902,844
Discretionary asset management	1,797,660	1,872,752
Other asset management	1,259,648	157,526
Total	**3,814,035**	**4,347,122**
Of which own funds in discretionary and other asset management	–337,669	–339,652

55. Changes in Group structure 2011

On December 1, 2011 the operations of the Swedish subsidiary Ålandsbanken Sverige AB changed in a branch of the Bank of Åland. Asset management operations were kept in the Swedish subsidiary during a transitional period, since Ålandsbanken Sverige AB has various commitments that it chooses to phase out over a somewhat longer period. Aside from more efficient capital utilisation, the changeover to branch status also means a more efficient tax situation as well as more effective corporate governance.

Bank of Åland Group	2011				
	Dec 31, 2010	Utilised	Withdrawn	New reserve	Dec 31, 2011
Restructuring reserve					
Rent for premises	0	0	0	498	498
IT	279	–279	0	112	112
Provisions	**279**	**–279**	**0**	**610**	**610**
Staff costs	765	–2,089	–200	5,121	3,597
Total	**1,044**	**–1,868**	**–700**	**5,732**	**4,207**

Obligations on December 31, 2011 consisted of IT licences and termination and severance pay to employees, which will be disbursed in compliance with contracts until 2013. The final amounts may be affected in case any of the terminated individuals become employees of other companies during the period.

	2011	2010
Goodwill		
Opening balance		
Gross	1,373	1,373
Goodwill recognised during the period	0	0
Impairment loss	0	0
Closing balance	**1,373**	**1,373**

In impairment testing, discount rate of 20 per cent (2010: 20 per cent) was used and future cash flows were assumed to be unchanged compared to 2011. Impairment tests showed that an impairment loss arises when the discount rate is 60 per cent or in case cash flows should deteriorate by 46 per cent.

56. Subsidiaries and associated companies — 2011

Subsidiaries

The following subsidiaries were consolidated according to the purchase method of account as of December 31, 2011:

	Registered office	Ownership
Ab Compass Card Oy Ltd	Mariehamn	66%
Crosskey Banking Solutions Ab Ltd	Mariehamn	100%
S-Crosskey Ab	Mariehamn	60%
Ålandsbanken Asset Management Ab	Helsinki	70%
Ålandsbanken Fondbolag Ab	Mariehamn	100%
Ålandsbanken Equities Research Ab	Helsinki	100%
Ålandsbanken Sverige AB	Stockholm	100%
Ålandsbanken Fonder AB	Stockholm	100%
Alpha Management Company S.A.	Luxembourg	100%

The following associated companies were consolidated as of December 31, 2011:

	Registered office	Ownership
Ålands Företagsbyrå Ab	Mariehamn	22%
Ålands Fastighetskonsult Ab	Mariehamn	20%
Ålands Investerings Ab	Mariehamn	36%

	2011	2010
Combined financial information about these associated companies:		
Assets	4,309	4,567
Liabilities	1,648	1,508
Sales	3,256	3,183
Profit for the year	**–65**	**251**

Housing and real estate companies

The following housing and real estate companies were consolidated according to the proportional method of accounting as of December 31, 2011:

	Registered office	Ownership
Properties for the Group's own use		
FAB Västernäs City	Mariehamn	50%
FAB Nymars	Sottunga	30%
FAB Godby Center	Finström	11%
Investment properties		
FAB Sittkoffska gården	Mariehamn	22%
FAB Horsklint	Kökar	20%

57. Correction of error 2010

During the third quarter of 2010, the Bank made an upward revaluation of EUR 0.8 M before taxes in the carrying amount of an investment property that was being sold. For various reasons, however, the sale was not completed until the fourth quarter of 2011. A capital gain of EUR 0.8 M is included in the fourth quarter 2011 financial statements. At the same time, the 2010 revaluation, which according to IFRSs was made in error, has been corrected in the historical comparative figures. The 2010 revaluation was not included in Tier 1 capital, so the correction affects no historically reported capital adequacy figures.

Consolidated statement of comprehensive income		Jan 1–Dec 31, 2010	
	Before correction	After correction	Correction amount
Net income from investment properties	1,589	789	800
Net operating profit	**1,796**	**996**	**800**
Change in deferred tax assets/liabilities	−615	−407	−208
Profit for the year	**−1,628**	**−2,220**	**592**
Total comprehensive income for the year	**2,139**	**1,547**	**592**
Profit for the year attributable to shareholders in Bank of Åland Plc	−2,268	−2,860	592
Total comprehensive income for the year attributable to shareholders in Bank of Åland Plc	1,499	907	592
Earnings per share before dilution, EUR	−0.20	−0.25	
Earnings per share after dilution, EUR	−0.20	−0.25	

Consolidated statement of financial position			
Assets			
Investment properties	2,203	1,403	800
Total assets	**3,475,430**	**3,474,630**	**800**
Liabilities and equity capital			
Deferred tax liabilities	21,901	21,693	208
Total liabilities	**3,320,388**	**3,320,180**	**208**
Profit for the year attributable to shareholders in Bank of Åland Plc	−2,268	−2,860	592
Total equity capital	**155,042**	**154,450**	**592**
Total liabilities and equity capital	**3,475,430**	**3,474,630**	**800**

Parent Company balance sheet

(EUR K)

Assets	Note	Dec 31, 2011		Dec 31, 2010	
Cash			66,139		60,858
Debt securities eligible for refinancing with central banks	2				
Treasury bills		7,024		22,920	
Other		118,287	125,311	123,920	146,840
Claims on credit institutions	3				
Repayable on demand		68,267		23,247	
Other		57,290	125,556	81,280	104,527
Claims on the public and public sector entities	4, 5		2,726,123		2,321,776
Debt securities	2		193,222		54,830
Shares and participations	6		3,327		2,528
Shares and participations in associated companies	6		1,005		1,005
Shares and participations in Group companies	6		48,291		41,130
Derivative instruments	7		20,413		29,835
Intangible assets	8, 10		29,328		8,354
Tangible assets	9, 10				
Investment properties as well as shares and participations in investment properties		620		1,292	
Other properties as well as shares and participations in real estate companies		14,732		15,199	
Other tangible assets		4,532	19,884	4,532	21,022
Other assets	11		35,111		32,922
Accrued income and prepayments	12		32,062		19,869
Deferred tax assets			875		0
Total assets			**3,426,648**		**2,845,498**

Parent Company balance sheet

(EUR K)

Liabilities and equity capital	Note	Dec 31, 2011			Dec 31, 2010		
Liabilities							
Liabilities to credit institutions							
Central banks			30,000			50,000	
Credit institutions							
Repayable on demand		41,365			8,134		
Other		158,382	199,747	229,747	31,912	40,046	90,046
Liabilities to the public and public sector entities							
Deposits							
Repayable on demand		1,630,747			1,366,890		
Other		573,196	2,203,943		321,950	1,688,840	
Other liabilities			329	2,204,272		551	1,689,391
Debt securities issued to the public	14						
Bonds			428,821			531,917	
Other			219,667	648,488		236,785	768,702
Derivative instruments	7			24,354			28,912
Other liabilities	15			61,096			42,322
Accrued expenses and prepaid income	16			17,653			8,506
Subordinated liabilities	17			57,627			72,905
Deferred tax liabilities	13			576			452
Total liabilities				**3,243,813**			**2,701,238**
Difference between recorded and planned depreciation				258			258
Reserves				49,594			53,094
Total accumulated appropriations				**49,852**			**53,352**
Equity capital	21						
Share capital	22			29,104			23,283
Share premium account				32,736			32,736
Other restricted reserves							
Reserve fund			25,129			25,129	
Translation difference			–70				
Fair value reserve	23		1,775	26,835		1,287	26,416
Paid-up unrestricted equity reserve				24,681			0
Own shares				–54			0
Retained earnings				8,386			342
Profit for the year				11,295			8,131
Total equity capital				**132,982**			**90,908**
Total liabilities and equity capital				**3,426,648**			**2,845,498**
Off-balance sheet obligations	46						
Obligations to a third party on behalf of customers							
Guarantees				20,695			52,286
Irrevocable commitments given on behalf of customers				282,153			135,358
				302,848			**187,645**

Parent Company income statement

(EUR K)

	Note	Jan 1–Dec 31, 2011			Jan 1–Dec 31, 2010		
Interest income	26			69,027			55,751
Net leasing income	27			9			6
Interest expenses	28			–34,964			–25,002
Net interest income				**34,071**			**30,755**
Income from equity investments	29						
In Group companies			14,061			8,141	
In associated companies			217			230	
In other companies			42	14,320		42	8,413
Commission income	30			15,417			14,864
Commission expenses	31			–2,576			–2,252
Net income from securities transactions and foreign exchange dealing	32						
Net income from securities transactions			–3,341			1,483	
Net income from foreign exchange dealing			1,894	–1,447		–101	1,382
Net income from financial assets available for sale	33			–684			1,298
Other operating income	34			2,636			2,124
Administrative expenses							
Staff costs							
Wages, salaries and other remuneration		18,933			14,890		
Pension expenses		2,824			2,248		
Other social security expenses		1,627	23,383		781	17,919	
Other administrative expenses	35		15,942	–39,326		14,814	–32,733
Depreciation/amortisation and impairment losses on tangible and intangible assets				–4,132			–2,702
Other operating expenses	36			–9,202			–6,664
Impairment losses on loans and other commitments	37			–2,066			–5,984
Impairment loss on other financial assets				–105			0
Net operating profit				**6,908**			**8,502**
Appropriations				3,500			–380
Income taxes	38			888			9
Profit for the year				**11,295**			**8,131**

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Notes to the Parent Company financial statements

1. Parent Company accounting principles

The financial statements of the Bank of Åland Plc have been drawn up in accordance with the Finnish Credit Institutions Act, the Ministry of Finance ordinance on annual accounts and consolidated annual accounts of financial institutions and securities companies and the regulations of the Financial Supervisory Authority. The financial statements of the Bank of Åland Plc have been prepared in compliance with Finnish accounting standards (FAS).

Items in foreign currencies

Assets and liabilities in foreign currencies are translated to euro according to the European Central Bank exchange rate on the balance sheet date.

Revenue recognition principles

INTEREST INCOME AND EXPENSES

Interest income and expenses on asset and liability items are recognised according to the accrual principle. If a financial asset or group of financial assets has had an impairment loss, the interest income is recognised according to the original interest rate on the amount after impairment loss.

COMMISSION INCOME AND EXPENSES

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

Depreciation/amortisation

Buildings, technical equipment and machinery and equipment are noted at cost minus depreciation and any impairment losses. Depreciation/amortisation is based on the expected economic service life of the assets. All depreciation/amortisation is on a straight-line basis.

Buildings	40 years
Technical equipment in buildings	12 years
Machinery and equipment	3–10 years
Computer systems (amortisation)	3–5 years
Other tangible assets	3–5 years
Renovations in rented premises	4–10 years

Land is not depreciated.

Financial instruments

For purposes of valuation, financial instruments are classified in the following categories:

FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

This category includes all financial assets and liabilities that are held to provide a short-term return. The category also includes all derivative instruments for which hedge accounting is not applied. Financial assets and liabilities held for trading are recognised in the balance sheet at fair value, and changes in fair value are recognised in the income statement. All derivative instruments are recognised in the balance sheet at fair value. Positive fair values of derivative instruments are recognised as assets in the balance sheet in the item “Derivative instruments” and negative fair values in the item “Derivative instruments and other liabilities held for trading”. Changes in value are recognised in the income statement in the item “Net income from securities trading”.

LOANS AND TRADE RECEIVABLES

Financial assets classified as loans and trade receivables are assets created by handing over funds, services or goods directly to the debtor.

Loans and trade receivables are recognised at the commencement of the contract at cost and subsequently at amortised cost. Impairment loss on loans and receivables is recognised as needed on the basis of a customer-specific evaluation as well as an overall assessment of the lending portfolio.

INVESTMENTS HELD TO MATURITY

Investments held to maturity are interest-bearing financial assets and are recognised at amortised cost using the effective interest rate method of accounting. Impairment loss of an investment is recognised after individual examination.

FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale are assets not included in any of the above categories and that are not derivative instruments.

The assets in this category are initially recognised in the balance sheet at cost and subsequently carried at fair value. The change in fair value is recognised under equity as the “Fair value reserve”. When such an asset is sold the change in fair value is derecognised from the reserve in a separate item, “Net income from financial assets available for sale”. Impairment losses are recognised in the income statement.

OTHER FINANCIAL LIABILITIES

Other financial liabilities are recognised in the balance sheet upon commencement of the contract at cost and subsequently at amortised cost.

PENSION ARRANGEMENTS

The legally mandated pension coverage for employees has been arranged through the retirement insurance company Pensions-Alandia. Other pension benefits are handled through the Bank’s pension fund, Ålandsbanken Abps Pensionsstiftelse. Pension liabilities are fully covered.

Notes to the balance sheet

2. Holdings of debt securities	2011			2010		
	Listed	Other	Total	Listed	Other	Total
Debt securities eligible for refinancing						
Instruments held to maturity						
Treasury bills	53,491	0	53,491	65,656	0	65,656
Instruments available for sale						
Treasury bills	0	0	0	22,920	0	22,920
Treasury bonds	61,252	0	61,252	51,862	0	51,862
Other debt securities	3,543	0	3,543	6,403	0	6,403
Instruments available for trading						
Treasury bills	7,024	0	7,024	0	0	0
	125,311	**0**	**125,311**	**146,840**	**0**	**146,840**
Other debt securities						
Instruments available for sale						
Certificates of deposit	0	134,228	134,228	0	54,830	54,830
Other	3,366	0	3,366	0	0	0
Instruments available for trading						
Other	55,628	0	55,628	0	0	0
	58,995	**134,228**	**193,222**	**0**	**54,830**	**54,830**

3. Claims on credit institutions	2011			2010		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Finnish credit institutions	62	10,000	10,062	19,242	0	19,242
Foreign credit institutions	68,205	47,290	115,495	4,005	81,280	85,286
	68,267	**57,290**	**125,556**	**23,247**	**81,280**	**104,527**

4. Claims on the public and public sector entities	2011	2010
Financial enterprises	907,402	633,232
Public sector	7,091	8,049
Households	1,663,896	1,569,011
Non-profit organisations, household sector	14,821	17,108
Foreign	132,913	94,376
Total	**2,726,123**	**2,321,776**
Of which subordinated claims	300	298
Of which non-interest-bearing claims	1,538	158
Impairment losses		
Individual impairment losses recognised during the year	3,576	6,007
Individual impairment losses reversed during the year	−111	−22
Group impairment losses	−1,400	0
Total impairment losses	**2,066**	**5,984**

5. Impairment losses on loans and trade receivables	2011		2010	
	Individual	Group	Individual	Group
Opening balance	**4,007**	**2,500**	**3,101**	**2,500**
Acquired balance	490	0	0	0
New and increased impairment losses	3,517	0	905	0
Reversals of impairment losses	−111	−1,400	0	0
Actual losses/reversals	59	0	5,079	0
Recognised in income statement	**3,466**	**−1,400**	**5,984**	**0**
Direct impairment losses/reversals	−59	0	−5,079	0
Closing balance	**7,904**	**1,100**	**4,007**	**2,500**

6. Shares and participations

6. Shares and participations	2011			2010		
	Listed	Other	Total	Listed	Other	Total
Shares and participations						
Available for sale	1,330	1,997	3,327	237	2,292	2,528
Shares and participations in associated companies	0	1,005	1,005	0	1,005	1,005
Shares and participations in Group companies	0	48,291	48,291	0	41,130	41,130
	1,330	**51,293**	**52,623**	**237**	**44,427**	**44,664**

An impairment loss of EUR 1,108 M on the Bank's holding of shares available for sale in Burgundy was recognised directly in profit for the year.

7. Derivative instruments

7. Derivative instruments	2011		2010	
	Fair value		Fair value	
	Positive	Negative	Positive	Negative
Interest rate derivatives				
Interest rate forward contracts	546	495	0	0
Interest rate swaps	5,618	9,727	4,293	5,279
Interest rate options				
Purchased	78	0	22	0
Written	0	78	0	22
Currency derivatives				
Forward contracts	2,298	3,202	1,156	823
Interest rate and currency swaps	302	0	2	0
Equity derivatives				
Option contracts				
Purchased	11,570	0	24,363	0
Written	0	10,853	0	22,789
	20,413	**24,354**	**29,835**	**28,912**

Nominal value of underlying asset by remaining maturity:

	2011				2010			
	Under 1 yr	1–5 yrs	Over 5 yrs	Total	Under 1 yr	1–5 yrs	Over 5 yrs	Total
Interest rate derivatives								
Interest rate forward contracts	448,833	0	0	448,833	0	0	0	0
Interest rate swaps	94,237	426,523	23,698	544,457	160,300	258,605	48,940	467,845
Interest rate options								
Purchased	0	24,167	741	24,908	0	2,231	0	2,231
Written	0	24,167	741	24,908	0	2,231	0	2,231
Currency derivatives								
Forward contracts	59,675	3,167	0	62,841	56,243	390	0	56,633
Interest rate and currency swaps	172,825	66,346	89	239,259	123	0	0	123
Equity derivatives								
Option contracts								
Purchased	39,013	107,481	2,244	148,738	58,345	127,482	2,231	188,059
Written	39,013	107,481	2,244	148,738	51,567	127,482	2,231	181,280
	853,595	**759,331**	**29,756**	**1,642,683**	**326,578**	**518,422**	**53,402**	**898,401**

8. Intangible assets

8. Intangible assets	2011	2010
IT investments	6,369	4,192
Ongoing IT investments	629	763
Goodwill	19,134	414
Other	3,196	2,985
Total	**29,328**	**8,354**

9. Properties and shares and participations in real estate companies

	2011	2010
Investment properties		
Land and water	44	44
Buildings	140	146
Shares in real estate companies	435	1,102
Total	**620**	**1,292**
Properties for the Group's own use		
Land and water	147	159
Buildings	14,123	14,577
Shares in real estate companies	462	462
Total	**14,732**	**15,199**

10. Changes in intangible and tangible assets

2011

	Land and buildings for own use	Investment properties	Other tangible assets	Goodwill	Other intangible assets	Total
Historical costs						
Cost on January 1	15,433	1,663	10,984	1,182	17,235	46,497
Acquired balance			9,561	19,116	1,677	30,354
Increases during the year	0	0	537	568	3,190	4,295
Decreases during the year	−285	−666	−1,482	−568	−3,567	−6,567
Cost on December 31	**15,148**	**997**	**19,600**	**20,298**	**18,535**	**74,578**
Accumulated depreciation/amortisation						
Accumulated depreciation/amortisation/ impairment losses on Jan 1	−5,611	−371	−6,453	−768	−9,295	−22,498
Accumulated depreciation/amortisation concerning decreases	229	0	1,372	562	3,420	5,583
Acquired balance			−9,155		−456	−9,611
Depreciation/amortisation for the year	−323	−5	−832	−504	−2,011	−3,676
Impairment losses for the year	0	0	0	−454		−454
Accumulated depreciation/amortisation/ impairment losses on Dec 31	**−5,706**	**−377**	**−15,068**	**−1,164**	**−8,341**	**−30,656**
Revaluations						
Revaluations, January 1	5,377	0	0	0	0	5,377
Decreases during the year	−88	0	0	0	0	−88
Revaluations, December 31	**5,289**	**0**	**0**	**0**	**0**	**5,289**
Carrying amount on December 31	**14,732**	**620**	**4,532**	**19,134**	**10,194**	**49,212**

2010	Land and buildings for own use	Investment properties	Other tangible assets	Goodwill	Other intangible assets	Total
Historical costs						
Cost on January 1	15,465	2,196	10,161	1,182	15,218	44,223
Increases during the year	167	0	1,088	0	6,569	7,824
Decreases during the year	–200	–533	–265	0	–4,552	–5,550
Cost on December 31	**15,433**	**1,663**	**10,984**	**1,182**	**17,235**	**46,497**
Accumulated depreciation/amortisation						
Accumulated depreciation/amortisation/ impairment losses on Jan 1	–5,445	–365	–5,878	–532	–8,003	–20,223
Accumulated depreciation/amortisation concerning decreases	164	0	171	0	91	427
Depreciation/amortisation for the year	–331	–6	–746	–236	–1,383	–2,702
Impairment losses for the year	0	0	0	0	0	0
Accumulated depreciation/amortisation/ impairment losses on Dec 31	**–5,611**	**–371**	**–6,453**	**–768**	**–9,295**	**–22,498**
Revaluations						
Revaluations, January 1	5,395	0	0	0	0	5,395
Decreases during the year	–18	0	0	0	0	–18
Revaluations, December 31	**5,377**	**0**	**0**	**0**	**0**	**5,377**
Carrying amount on December 31	**15,199**	**1,292**	**4,532**	**414**	**7,940**	**29,376**

11. Other assets	2011	2010
Cash items in the process of collection	4	16
From assets bought on behalf of customers	27,121	30,764
Other	7,986	2,142
Total	**35,111**	**32,922**

12. Accrued income and prepayments	2011	2010
Interest	13,062	9,705
Taxes	0	1,186
Other	19,000	8,979
Total	**32,062**	**19,869**

13. Deferred tax assets and liabilities	2011	2010
Deferred tax liabilities		
Temporary differences	0	0
From the fair value reserve	576	452
Total	**576**	**452**

Accumulated appropriations included a deferred tax liability of EUR 12,214 K (2010: 13,872).

14. Debt securities issued to the public	2011		2010	
	Carrying amount	Nominal amount	Carrying amount	Nominal amount
Certificates of deposit	219,667	220,841	236,785	237,279
Bonds	428,821	437,090	531,917	539,338
Total	**648,488**	**657,931**	**768,702**	**776,618**

15. Other liabilities	2011	2010
Cash items in the process of collection	16,091	10,137
From assets sold on behalf of customers	30,753	27,509
Provisions	3,210	0
Other	11,042	4,677
Total	**61,096**	**42,322**

16. Accrued expenses and prepaid income	2011	2010
Interest	5,770	3,887
Other	11,883	4,619
Total	**17,653**	**8,506**

17. Subordinated debentures

See Note 18 to the consolidated financial statements.

18. Maturity breakdown of claims and liabilities

2011	Total	Under 3 mo	3 – 12 mo	1 – 5 yrs	Over 5 yrs	Not classified by maturity
Assets						
Cash	66,139	66,139	0	0	0	0
Debt securities eligible for refinancing with central banks	125,311	9,478	57,024	40,809	18,000	0
Claims on credit institutions	125,556	125,556	0	0	0	0
Claims on the public and public sector entities	2,726,123	339,297	332,919	1,206,722	847,183	0
Debt securities	193,222	71,368	92,142	29,712	0	0
Shares and participations	52,623					52,623
Derivative instruments	20,413					20,413
Intangible assets	29,329					29,329
Tangible assets	19,884					19,884
Other assets	35,111					35,111
Accrued income and prepayments	32,062					32,062
Deferred tax assets	875					875
	3,426,648	**611,838**	**482,085**	**1,277,243**	**865,183**	**190,296**
Liabilities						
Liabilities to credit institutions	229,747	199,747	0	0	30,000	0
Liabilities to the public and public sector entities	2,204,272	1,894,869	295,493	13,826	84	0
Debt securities issued	648,488	155,701	404,604	85,939	2,244	0
Derivative instruments	24,354					24,354
Other liabilities	61,096					61,096
Accrued expenses and prepaid income	17,653					17,653
Subordinated debentures	57,627	0	5,309	34,097	18,222	0
Deferred tax liabilities	576					576
Equity capital and reserves	182,834					182,834
	3,426,648	**2,250,317**	**705,406**	**133,862**	**50,550**	**286,513**

2010	Total	Under 3 mo	3 – 12 mo	1 – 5 yrs	Over 5 yrs	Not classified by maturity
Assets						
Cash	60,858	60,858				
Debt securities eligible for refinancing with central banks	146,840	34,974	25,900	76,173	9,795	
Claims on credit institutions	104,527	104,527				
Claims on the public and public sector entities	2,321,776	273,688	294,120	929,817	824,151	
Debt securities	54,830	29,969	24,860			
Shares and participations	44,665					44,665
Derivative instruments	29,835					29,835
Intangible assets	8,354					8,354
Tangible assets	21,022					21,022
Other assets	32,922					32,922
Accrued income and prepayments	19,869					19,869
	2,845,498	**504,016**	**344,880**	**1,005,990**	**833,946**	**156,667**
Liabilities						
Liabilities to credit institutions	90,047	59,462	604	17,984	11,997	
Liabilities to the public and public sector entities	1,689,392	1,537,842	124,000	27,550		
Debt securities issued	768,702	197,767	167,377	401,871	1,687	
Derivative instruments	28,912					28,912
Other liabilities	42,322					42,322
Accrued expenses and prepaid income	8,506					8,506
Subordinated debentures	72,905	2,062	8,615	35,912	26,316	
Deferred tax liabilities	452					452
Equity capital and reserves	144,260					144,260
	2,845,498	**1,797,133**	**300,596**	**483,317**	**40,000**	**224,452**

19. Assets and liabilities in euros and other currencies

	2011			2010		
	Euro	Other currencies	Total	Euro	Other currencies	Total
Claims on credit institutions	17,188	108,368	125,556	40,664	63,863	104,527
Claims on the public and public sector entities	2,255,025	471,098	2,726,123	2,298,897	22,880	2,321,776
Debt securities	288,009	30,524	318,533	200,526	1,144	201,670
Derivative instruments	15,485	4,928	20,413	28,677	1,157	29,835
Other assets including cash	190,904	45,118	236,023	179,707	7,983	187,690
	2,766,612	**660,036**	**3,426,648**	**2,748,471**	**97,027**	**2,845,498**
Liabilities to credit institutions and central banks	116,763	112,983	229,747	86,295	3,751	90,046
Liabilities to the public and public sector entities	1,664,613	539,659	2,204,272	1,613,569	75,823	1,689,392
Debt securities issued to the public	636,308	12,180	648,488	758,973	9,729	768,702
Derivative instruments and liabilities held for trading	18,189	6,165	24,354	28,090	823	28,912
Subordinated liabilities	57,627	0	57,627	72,905	0	72,905
Other liabilities	46,766	32,559	79,325	47,854	3,426	51,280
	2,540,267	**703,546**	**3,243,813**	**2,607,687**	**93,551**	**2,701,238**

20. Fair value and carrying amount of assets and liabilities

	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash	66,139	66,139	60,858	60,858
Debt securities eligible for refinancing with central banks				
Available for sale	71,820	71,820	81,184	81,184
Intended to be held to maturity	53,491	56,765	65,656	68,187
Claims on credit institutions	125,556	125,556	104,527	104,527
Claims on the public and public sector entities				
Carried at fair value	0	0	0	0
Other	2,726,123	2,732,843	2,321,776	2,327,234
Debt securities available for sale	193,222	193,222	54,830	54,830
Shares and participations available for sale	3,327	3,327	2,528	2,528
Shares and participations in associated companies	1,005	1,005	1,005	1,005
Shares and participations in Group companies	48,291	48,291	41,130	41,130
Derivative instruments	20,413	20,413	29,835	29,835
Intangible assets	29,328	29,328	8,354	8,354
Tangible assets				
Investment properties	620	1,120	1,292	1,968
Properties for own use	14,732	27,287	15,199	27,532
Other tangible assets	4,532	4922	4,532	4,921
Other assets	35,111	35,111	32,922	32,922
Accrued income and prepayments	32,062	32,062	19,869	19,869
Deferred tax assets	875	875	0	0
	3,426,648	**3,450,087**	**2,845,498**	**2,866,887**
Liabilities				
Liabilities to credit institutions	229,747	229,450	90,046	90,031
Liabilities to the public and public sector entities				
Carried at fair value	0	0	0	0
Other	2,204,272	2,209,449	1,689,391	1,690,383
Debt instruments issued to the public				
Carried at fair value	0	0	0	0
Other	648,488	649,655	768,702	767,509
Derivative instruments	24,354	24,354	28,912	28,912
Other liabilities	61,096	61,096	42,322	42,322
Accrued expenses and prepaid income	17,653	17,653	8,506	8,506
Subordinated liabilities	57,627	59,141	72,905	74,623
Deferred tax liabilities	576	576	452	452
	3,243,813	**3,251,373**	**2,701,238**	**2,702,740**

The fair value of assets and liabilities repayable on demand is equivalent to their nominal value. The fair value of fixed-period assets and liabilities corresponds to the present value of future cash flows. For listed shares, the last closing price has been used. The fair value of unlisted shares has been calculated by estimating their percentage of equity capital. The appraisal of real estate was performed by a licensed estate agent.

21. Changes in equity capital

	Share capital	Paid-up unrestricted equity reserve	Share premium account	Reserve fund	Own shares	Fair value reserve	Translation difference	Retained earnings	Total
December 31, 2009	**23,283**	**0**	**32,736**	**25,129**	**0**	**1,847**	**0**	**8,436**	**91,431**
Dividend to shareholders								−8,075	−8,075
Reversal of revaluation								−18	−18
Change in fair value						−560			−560
Profit for the year								8,131	8,131
December 31, 2010	**23,283**	**0**	**32,736**	**25,129**	**0**	**1,287**	**0**	**8,473**	**90,908**
Reversal of revaluation								−88	−88
Change in fair value						488			488
Translation difference							−70		−70
Share issue	5,821	24,681							30,502
Purchases of own shares					−54				−54
Profit for the year								11,295	11,295
December 31, 2011	**29,104**	**24,681**	**32,736**	**25,129**	**−54**	**1,775**	**−70**	**19,681**	**132,982**

22. Share capital

See Note 27 in the notes to the consolidated financial statements.

23. Fair value reserve

	2011			2010		
	Positive figures	Negative figures	Total	Positive figures	Negative figures	Total
Debt securities	2,175	0	2,175	1,788	−285	1,502
Shares	377	−200	177	490	−254	237
Total	**2,552**	**−200**	**2,352**	**2,278**	**−539**	**1,739**
Deferred tax liability			−576			−452
Fair value reserve			**1,775**			**1,287**

24. Claims on Group companies

	2011	2010
Claims on the public	21,671	767
Claims on credit institutions	0	313
Other assets	493	439
Accrued income and prepayments	6,726	7,168
Total	**28,890**	**8,686**

25. Liabilities to Group companies

	2011	2010
Liabilities to the public	57,577	5,952
Debt securities issued	500	800
Other liabilities	1,677	965
Accrued expenses and prepaid income	282	126
Total	**60,036**	**7,843**

Notes to the income statement

26. Interest income

	2011	2010
Credit institutions and central banks	2,682	1,213
Public and public sector entities	59,612	47,454
Debt securities	6,164	5,673
Derivative instruments	194	1,405
Other interest income	376	6
Total	**69,027**	**55,751**

Interest income received from Group companies was EUR 1,191 K (2010: 18).

27. Net lease income

	2011	2010
Rental income	9	6
Total	**9**	**6**

According to a decision of the Executive Team, no new leases will be signed.

28. Interest expenses	2011	2010
Credit institutions and central banks	2,608	1,909
Public and public sector entities	15,195	12,182
Debt instruments issued to the public	14,662	8,897
Derivative instruments	153	265
Subordinated liabilities	1,795	1,569
Other interest expenses	552	180
Total	**34,964**	**25,002**

Interest paid to Group companies was EUR 678 K (2010: 261).

29. Income from equity instruments	2011	2010
Financial assets available for sale	42	42
Group companies, dividend paid	582	1,191
Group companies, anticipated dividend	13,480	6,950
Associated companies	217	231
Total	**14,320**	**8,413**

30. Commission income	2011	2010
Deposit commissions	846	853
Lending commissions	1,941	2,545
Payment intermediation commissions	3,118	3,306
Mutual fund unit commissions	1,351	1,303
Management commissions	2,403	1,970
Securities commissions	3,812	2,912
Underwriting commissions	17	1
Insurance commissions	83	119
Legal services	465	414
Guarantee commissions	312	481
Other commissions	1,068	959
Total	**15,417**	**14,864**

31. Commission expenses	2011	2010
Service charges paid	425	493
Other commission expenses	2,150	1,759
Total	**2,576**	**2,252**

32. Net income from securities trading and foreign exchange operations	2011			2010		
	Net capital gains and losses	Net changes in fair value	Total	Net capital gains and losses	Net changes in fair value	Total
Debt securities	0	70	70	0	0	0
Shares and participations	117	12	129	123	2	124
Fair value option	0	0	0	0	0	0
Derivative instruments	−434	−3,106	−3,540	1,935	−576	1,359
Securities trading	**−317**	**−3,024**	**−3,341**	**2,057**	**−574**	**1,483**
Foreign exchange operations	1,946	−52	1,894	−770	669	−101
Total	**1,629**	**−3,076**	**−1,447**	**1,287**	**95**	**1,382**

33. Net income from financial assets available for sale	2011	2010
Capital gains and losses	636	1,464
Impairment losses	−1,320	−165
Total	**−684**	**1,298**

34. Other operating income	2011	2010
Rental income on properties	237	297
Capital gains on properties	1,149	880
Other property income	7	5
Other income	1,243	943
Total	**2,636**	**2,124**

35. Other administrative expenses	2011	2010
Staff costs	818	502
Office costs	886	782
Computer costs	9,713	10,052
Communication	1,776	1,561
Marketing	2,268	1,434
Miscellaneous	481	482
Total	**15,942**	**14,814**

36. Other operating expenses	2011	2010
Rental expenses	2,382	1,569
Capital loss from properties	0	1
Other property expenses	685	730
Fee to security funds	1,072	810
Miscellaneous expenses	5,063	3,555
Total	**9,202**	**6,664**

37. Impairment losses on loans and other commitments	2011	2010
Individual impairment losses	3,597	6,007
Group impairment losses	−1,400	0
Reversals	−131	−22
Total	**2,066**	**5,984**

Interest recognised on impaired receivables according to original interest amounted to EUR 85 K. The impairment losses were aimed in their entirety at "Claims on the public and public sector entities".

38. Income taxes	2011	2010
Taxes for the year	0	2
Taxes from prior years	−13	−11
Changes in deferred tax assets	−875	0
Taxes in the income statement	**−888**	**−9**

Notes concerning staff, Board of Directors and Executive Team

39. Number of employees	2011		2010	
	Average employees	Change	Average employees	Change
Permanent full-time employees	357	98	259	−14
Permanent part-time employees	100	24	76	−6
	457	**122**	**335**	**−20**

From December 1, 2011, most of the operations of Ålandsbanken Sverige AB were transferred to Ålandsbanken Abp svensk filial (the Swedish branch of Bank of Åland Plc), which means that hours worked in the branch are reported as part of Bank of Åland Plc.

40. Salaries/fees paid to the Board of Directors and Executive Team	2011		2010	
Lindholm, Göran	41		29	
Nordlund, Leif	40		26	
Axman, Per	33		0	
Bergh, Kaj-Gustaf	31		0	
Boman, Sven-Harry	42		33	
Janér, Kent	6		23	
Karlsson, Agneta	32		27	
Taberman, Teppo	7		27	
Wiklöf, Anders	32		24	
Members of the Board of Directors		263		188
Managing Director		267		260
Deputy Managing Director		0		66
Other members of the Executive Team		1,249		881

The amount includes the value of fringe benefits. In addition to his Board fee, EUR 306,000 excluding VAT was paid to Board member Per Axman as compensation for consulting assignments. There are no pension obligations to the members of the Board of Directors. The pension benefits of the Managing Director and Deputy Managing Director are based on customary terms of employment.

41. Private shareholdings of the Board of Directors and Executive Team

See Note 48 to the consolidated financial statements.

42. Financial transactions with related parties

See Note 49 to the consolidated financial statements.

Notes concerning assets pledged and contingent liabilities

43. Collateral provided

	Nominal value of debt	Carrying amount of collateral	Nominal value of debt	Carrying amount of collateral
For debts to credit institutions and central banks	30,008	62,696	50,136	112,317
For other debts	26,381	30,928	0	0
For unutilised limits	40,348	55,103	21,991	24,595
Other	18,162	24,997	0	0
Total	**114,899**	**173,724**	**72,127**	**136,912**

The collateral consisted of claims on credit institutions, debt securities and other assets. No collateral was provided for the debts or obligations of others.

44. Pension liabilities in Ålandsbanken Abps Pensionsstiftelse r.s.

	2011	2010
Pension liabilities in Ålandsbanken Abps Pensionsstiftelse r.s.	13,801	13,023
Carrying amount, liability deficit in pension fund	0	0

The probable market value of plan assets in the pension fund exceeds the fund's pension liabilities by EUR 4.7 M.

45. Rental obligations

	2011	2010
Rental payments due		
Within 1 year	3,351	1,175
More than 1 and less than 5 years	6,096	2,398
More than 5 years	0	151
Total	**9,448**	**3,724**

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

46. Off-balance sheet commitments

	2011	2010
Guarantees	20,695	52,287
Unutilised overdraft limits	93,856	82,550
Lines of credit	188,297	52,809
Total	**302,848**	**187,645**
Guarantees for subsidiaries	1,979	36,593
Unutilised overdraft limits for subsidiaries	3,669	1,024

Other notes

47. Managed assets	2011	2010
Mutual fund unit management	176,528	201,899
Discretionary asset management	256,204	281,082
Other asset management	303,627	352,249
Total	**736,358**	**835,230**
Of which in own funds	−81,445	−83,888

48. Changes in Group structure

See Note 55 to the consolidated financial statements.

49. Subsidiaries and associated companies	2011	
Subsidiaries	Registered office	Ownership
Ab Compass Card Oy Ltd	Mariehamn	66%
Crosskey Banking Solutions Ab Ltd	Mariehamn	100%
S-Crosskey Ab	Mariehamn	60%
Ålandsbanken Asset Management Ab	Helsinki	70%
Ålandsbanken Fondbolag Ab	Mariehamn	100%
Ålandsbanken Equities Research Ab	Helsinki	100%
Ålandsbanken Sverige AB	Stockholm	100%
Ålandsbanken Fonder AB	Stockholm	100%
Alpha Management Company S.A.	Luxembourg	100%
Associated companies	Registered office	Ownership
Ålands Företagsbyrå Ab	Mariehamn	22%
Ålands Fastighetskonsult Ab	Mariehamn	20%
Ålands Investerings Ab	Mariehamn	36%

	2011	2010
Combined financial information about these associated companies:		
Assets	4,309	4,567
Liabilities	1,648	1,508
Sales	3,256	3,183
Profit for the year	**−65**	**251**

Housing and real estate companies	Registered office	Ownership
FAB Västernäs City	Mariehamn	50%
FAB Nymars	Sottunga	30%
FAB Godby Center	Finström	11%
FAB Sittkoffska gården	Mariehamn	22%
FAB Horsklint	Kökar	20%

Proposed allocation of profit

According to the financial statements, distributable profit of the Bank of Åland Plc is EUR 19,681,030.70, of which profit for the financial year is EUR 11,295,444.71. According to the consolidated financial statements, distributable profit of the Bank of Åland Group is EUR 13,613,151.52. No significant changes in the financial position of the Company have occurred since the end of the financial year.

The Board of Directors proposes to the Annual General Meeting that there be no dividend and that distributable funds be carried forward in the accounts as retained earnings.

Mariehamn, February 15, 2012

Göran Lindholm	Leif Nordlund	Per Axman
Kaj-Gustaf Bergh	Sven-Harry Boman	Agneta Karlsson
Anders Wiklöf	Peter Wiklöf, Managing Director	

To the Annual General Meeting of the Bank of Åland Plc

Auditors' Report

We have audited the accounting records, the financial statements, the Report of the Directors and the administration of the Bank of Åland Plc for the financial year January 1 – December 31, 2011. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity capital, cash flow statement and notes to the financial statements, as well as the Parent Company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the Report of the Directors and for ensuring that the consolidated financial statements provide true and fair disclosures in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and that the Parent Company financial statements and the Report of the Directors provide true and fair disclosures in accordance with laws and regulations in Finland governing the preparation of the financial statements and Report of the Directors. The Board of Directors is responsible for making appropriate arrangements for oversight of the accounts and financial administration, and the Managing Director shall see to it that the accounts are in compliance with the law and that financial administration has been arranged in a reliable manner.

Responsibility of the Auditor

Our responsibility is to express an opinion on the financial statements, the consolidated financial statements and the Report of the Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the Report of the Directors are free from material misstatement, and whether the members of the Board of Directors of the Parent Company and the Managing Director are guilty of an act or negligence which may result in liability for damages towards the Company or have violated the Finnish Companies Act, the Finnish Credit Institutions Act or the Articles of Association of the Company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the Report of the Directors. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of financial statements and the Report of the Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the Report of the Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements provide a true and fair view of the financial position, financial performance and cash flows of the Group in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Opinion on the financial statements and the Report of the Directors

In our opinion, the financial statements and the Report of the Directors provide a true and fair view of both the Group's and the Parent Company's financial position and the results of their operations, in compliance with the Finnish laws and regulations in force governing the preparation of financial statements and the Report of the Directors. The disclosures in the Report of the Directors are consistent with the disclosures in the financial statements.

Mariehamn, March 12, 2012

Bengt Nyholm Certified Public Accountant	Terhi Mäkinen Certified Public Accountant	Leif Hermans Certified Public Accountant
Ernst & Young Ab Elielinaukio 5 B FI-00100 Helsinki Finland	Ernst & Young Ab Elielinaukio 5 B FI-00100 Helsinki Finland	Hermans & Revisorernas Ab Torggatan 5 22100 Mariehamn Åland, Finland

Corporate Governance Statement

The Corporate Governance Statement is being issued in conjunction with the Report of the Directors for 2011.

Finnish Corporate Governance Code

The Finnish Corporate Governance Code ("the Code"), which is available on the website www.cgfinland.fi, is intended to be followed by companies that are listed on the NASDAQ OMX Helsinki ("Helsinki Stock Exchange"). The Code went into effect on October 1, 2010 and is applied according to the "comply or explain" principle, which means that departures from its recommendations must be disclosed and explained. A company is regarded as complying with the Code even if it departs from an individual recommendation, provided that it discloses and explains the departure.

The Bank of Åland Plc ("the Bank"), which is listed on the Helsinki Stock Exchange, is a public company domiciled in Finland. In complying with the Code, the Bank departs from Recommendation 22, "Appointment of members to the committees", since the Nomination Committee includes one member who is not a member of the Bank of Åland Plc's Board of Directors. This member represents one of the major shareholder groupings in the Bank.

The Corporate Governance Statement has been prepared in compliance with Recommendation 54 of the Code and according to the Securities Market Act, Chapter 2, Section 6, Paragraph 3.

The General Meeting

The influence of the shareholders in the Bank is exercised via the General Meeting, which is the Bank's highest decision-making body. The Annual General Meeting shall be held annually no later than in June. In addition to the Annual General Meeting, an Extraordinary General Meeting may be convened to deal with a specified item of business. The Bank's shares consist of two series: Series A shares, which carry 20 votes per share, and Series B shares, which carry one vote per share. The Bank's Articles of Association state that no shareholder may vote at a General Meeting for more than one fortieth of the number of votes represented at the Meeting.

The Annual General Meeting elects the members of the Board of Directors and the auditors and, among other things, approves their fees, adopts the income statement and balance sheet and votes on the issue of discharging the Board and the Managing Director from liability for the financial year in question. Shareholders who wish to have an item of business dealt with at the Annual General Meeting must submit a written request to the Board by the date specified on the Bank's website.

Information about and minutes from the Bank's General Meetings are available in Swedish and Finnish on the Bank's website, www.alandsbanken.fi. Notice of the Meeting and material about items of business to be dealt with at the Meeting are available on the website.

Board of Directors

The members of the Board of Directors are elected by the shareholders at the Annual General Meeting. The Board's term of office ends at the closing of the next Annual General Meeting after the election. The Board shall consist of at least five and at most seven members and at most two deputy members. During 2011 the Board consisted of seven members. The Managing Director may not be a member of the Board. A person who has attained the age of 67 years is not eligible to be elected a Board member. The Bank's Chief Legal Counsel is the Secretary of the Board.

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

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

The Board of Directors, which meets after being convened by the Chairman of the Board, regularly discusses the economic situation in the financial markets. Supported by the Managing Director's recurrent reports on operational activities, the Board monitors the strategy, financial outcomes and overall long-term objectives of the Bank's operations. Beyond this, the Board deals with other matters raised in compliance with the Annual Accounts Act, the Articles of Association and other regulations that affect the Bank's operations and administration, as well as matters referred by individual Board members and by the Executive Team.

Composition of the Board, 2011	
Göran Lindholm, Chairman Master of Laws Managing Director, Ålands Ömsesidiga Försäkringsbolag	Born 1955 Member since 2003
Leif Nordlund, Deputy Chairman Master of Laws Managing Director, Redarnas Ömsesidiga Försäkringsbolag, Försäkrings Ab Alandia and Försäkrings Ab Liv-Alandia	Born 1959 Member since 2003
Per Axman, Economic studies, Wallenberg Institute SEB, 1994/95 Entrepreneur	Born 1961 Member since April 14, 2011
Kaj-Gustaf Bergh, Bachelor of Economic Sciences, Master of Laws Managing Director, Föreningen Konstsamfundet r.f.	Born 1955 Member since April 14, 2011
Sven-Harry Boman Master of Economic Sciences Consultant, Certified Public Accountant (CGR)	Born 1944 Member since 2003
Agneta Karlsson Doctor of Economics, Associate Professor Director of Åland International Institute of Comparative Island Studies (AICIS); Senior Research Fellow, Statistics and Research Åland (ÅSUB)	Born 1954 Member since 2003
Kent Janér, Master of Business Administration Manager of the Nektar specialised mutual fund Nektar Asset Management AB; Partner, Brummer & Partners AB	Born 1961 Member from 2003 until April 14, 2011
Teppo Taberman Master of Science in Economics Financial advisor and professional Board member	Born 1944 Member from 2007 until April 14, 2011
Anders Wiklöf Commercial Counsellor Business owner	Born 1946 Member since 2006

During 2011, the Board held 26 meetings. The Board members' average attendance was 95.6 per cent.

INDEPENDENCE OF THE BOARD MEMBERS

In the assessment of the Board of Directors, Board members Kaj-Gustaf Bergh, Sven-Harry Boman, Agneta Karlsson, Göran Lindholm, Leif Nordlund and Anders Wiklöf are independent in relation to the Bank. Board member Per Axman has been engaged by the Bank for consulting assignments to such an extent that he is deemed dependent on the Bank. Board members Kaj-Gustaf Bergh, Sven-Harry Boman, Agneta Karlsson and Per Axman are independent in relation to major shareholders. Since Göran Lindholm is Managing Director of Ålands Ömsesidiga Försäkringsbolag and Leif Nordlund is Managing Director of Redarnas Ömsesidiga Försäkringsbolag, Försäkrings Ab Alandia and Försäkrings Ab Liv-Alandia, Lindholm and Nordlund are dependent in relation to major shareholders in the Bank. Anders Wiklöf is regarded as dependent in relation to a major shareholder due to his direct and indirect shareholding in the Bank. Kent Janér and Teppo Taberman, who did not make themselves available for re-election at the 2011 Annual General Meeting, were independent in relation to the Bank and independent in relation to major shareholders.

EVALUATION OF THE WORK OF THE BOARD

The Board of Directors conducts a yearly evaluation of its performance and work. The evaluation includes a questionnaire in which each Board member assesses the work of the Board during the year. The Chairman of the Board also has individual conversations with each Board member. Led by the Chairman of the Board, the evaluation is also discussed and dealt with at a subsequent Board meeting.

DISCLOSURES ABOUT BOARD MEMBERS AND THEIR SHAREHOLDINGS IN THE BANK

More detailed information about the Board members and their shareholdings in the Bank can be found in the Annual Report.

The committees of the Board

NOMINATION COMMITTEE

The Board, which appoints the members of the Nomination Committee, has established its duties in Rules of Procedure. The main duty of the Nomination Committee is to prepare proposals before the Annual General Meeting regarding the election of Board members as well as proposals concerning fees to the Chairman and other Board members.

During 2011 the Nomination Committee consisted of Board members Leif Nordlund, Chairman; Göran Lindholm and Anders Wiklöf. In addition, Jesper Blomsterlund, who is not a member of the Bank's Board of Directors, represented one of the major shareholder groupings in the Bank in terms of voting power.

No separate compensation is paid to the members of the Nomination Committee.

During 2011 the Nomination Committee met five times. The average attendance of Committee members was 95 per cent.

AUDIT COMMITTEE

The Board of Directors, which appoints the members of the Audit Committee, has established its duties in Rules of Procedure. The Audit Committee assists the Board, among other things, in fulfilling its duties in overseeing the internal control and risk management systems, reporting, the audit process and observance of laws and regulation. In addition, before the Annual General Meeting the Audit Committee prepares proposals for the election of auditors and their fees.

The Chairman of the Audit Committee reports regularly to the Board about the Committee's work and observations.

During 2011 the Audit Committee consisted of Board members Sven-Harry Boman, Chairman; Agneta Karlsson, Teppo Taberman (until April 14, 2011) and Leif Nordlund (from April 14, 2011).

Each member of the Audit Committee is paid a meeting fee of EUR 750 for each meeting attended.

During 2011 the Audit Committee met 14 times. The average attendance of Committee members was 78.57 per cent.

COMPENSATION COMMITTEE

During 2011 the Bank's Board of Directors appointed a Compensation Committee. The duties of the Compensation Committee are to prepare key compensation-related decisions and evaluate the Bank's compensation policy and the principles for variable compensation. The Compensation Committee decides on measures for monitoring the application of the principles for the compensation system and assesses its suitability and effect on the Group's risks and risk management.

During 2011 the Compensation Committee consisted of Board members Göran Lindholm, Chairman; Agneta Karlsson and Leif Nordlund.

The Compensation Committee met on one occasion during 2011. All Committee members participated in the meeting.

Managing Director

Since 2008 the Managing Director of the Bank has been Peter Wiklöf, Master of Laws (b. 1966).

The Managing Director is appointed and dismissed by the Board of Directors. His employment conditions are established in a written contract that is approved by the Board.

Among other things, the Managing Director is responsible for the day-to-day administration of the Bank and for ensuring that this is managed in compliance with law, the Articles of Association, other regulations and the instructions and directions of the Board. In addition, the Managing Director is responsible for ensuring that the decisions of the Board and the Executive Team are implemented. The Managing Director reports regularly to the Board.

DISCLOSURES ABOUT THE MANAGING DIRECTOR AND HIS SHAREHOLDING IN THE BANK

More detailed disclosures about the Managing Director and his shareholding in the Bank can be seen in the Annual Report.

The Group's Executive Team

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

The Executive Team is an advisor to the Managing Director and deals with all major Bank-wide issues.

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

During 2011 the Executive Team met on 13 occasions.

DISCLOSURES ABOUT THE MEMBERS OF THE EXECUTIVE TEAM AND THEIR SHAREHOLDINGS IN THE BANK

More detailed disclosures about the members of the Executive Team and their shareholdings in the Bank can be seen in the Annual Report.

EVALUATION OF THE WORK OF THE MANAGING DIRECTOR AND THE EXECUTIVE TEAM

The Board of Directors, led by the Chairman of the Board, evaluates the work of the Managing Director and the rest of the Executive Team yearly. The Managing Director and other members of the Executive Team do not attend this evaluation.

Compensation to the Board, the Managing Director and other members of the Executive Team

PRINCIPLES FOR COMPENSATION

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

BOARD OF DIRECTORS

The fees of the Board members are established by the General Meeting. During 2011 the members of the Board received fees of EUR 263,000, to be divided as follows:

- Chairman of the Board, EUR 15,000 as an annual fee and EUR 1,000 as a fee per meeting,
- Board members residing in Åland, EUR 12,000 each as an annual fee and EUR 750 as a fee per meeting,
- other Board members, EUR 24,000 as an annual fee and EUR 750 as a fee per meeting,
- plus EUR 750 per meeting of the Board's Audit Committee attended.

Otherwise the members of the Board enjoy generally applied Bank employee benefits to a limited extent.

During 2011, in addition to his Board fee, Board member Per Axman was paid EUR 306,000 as compensation for consulting assignments.

MANAGING DIRECTOR

The Board of Directors establishes the salary benefits and other employment conditions of the Managing Director. During 2011 the Managing Director received a salary of EUR 266,520 (including fringe benefits). The Managing Director's retirement age is at least 63 and at most 68. The Managing Director will recieve a pension in accordance with the Finnish national pension system. The Managing

Director receives free automobile benefits and the Bank's generally applicable employee benefits. The notice period in case of resignation initiated by the Managing Director is nine (9) months. According to his employment contract, the Managing Director is entitled to severance pay totalling nine (9) months' salary in case of dismissal by the Bank. Upon resignation, the Managing Director is entitled to no other compensation than the abovementioned severance pay.

OTHER MEMBERS OF THE EXECUTIVE TEAM

The Board of Directors establishes the salary benefits and other employment conditions of the Executive Team. The members of the Executive Team (excluding the Managing Director) were paid salaries totalling EUR 1,249,000 during 2011. Otherwise the members of the Executive Team receive the Bank's generally applicable employee benefits.

INCENTIVE PROGRAMME, 2011 EARNINGS YEAR, FOR THE BANK OF ÅLAND'S MANAGING DIRECTOR AND KEY INDIVIDUALS

An incentive programme for 2011 has been adopted by the Bank's Board of Directors. The programme was established in accordance with the regulations governing incentive systems in the Finnish financial services industry.

Those entitled to compensation under the programme include the Managing Director and individuals belonging to the Executive Team of the Bank.

Under the incentive programme, variable compensation may be payable in the form of Series B shares in the Bank of Åland Plc plus a cash amount to cover taxes and fees similar to taxes arising from the compensation.

In assessing whether compensation is payable, the budget outcome for the financial year in question and compliance with regulations by the individual eligible for compensation are taken into account.

The maximum compensation payable under the 2011 incentive programme is 25,000 Series B shares plus a cash amount to cover taxes and fees similar to taxes arising from the compensation.

In 2011 the maximum compensation per individual eligible for compensation is one year's salary.

Of the total approved incentive to be disbursed under the programme, the Managing Director may receive a maximum of 30 per cent.

Monitoring of targets occurs continuously, while the final outcome is established after the consolidated financial statements have been adopted.

The Managing Director's allocation under the programme is established by the Board. The outcome for other individuals eligible for compensation is established by the Bank's Compensation Committee.

PRINCIPLES FOR DISBURSEMENT

Of the approved compensation, an individual eligible for compensation receives a maximum of 60 per cent of his or her portion during the years 2012–2014. The remaining 40 per cent will be paid in 2015. One requirement for payment is that the individual entitled to compensation is an employee of the Group on the payment date.

An individual entitled to compensation is obligated to keep half of the shares that have been allotted to him or her through the incentive programme until the total value of these shares is equivalent to one year's gross salary. Such holdings shall be retained while the individual entitled to compensation is an employee of the Group.

THE 2011 FINANCIAL YEAR

Since it was apparent from an early stage that the financial criteria established by the Board of Directors for the incentive programme would not be achieved, targets for key individuals and what key individuals are included in the programme have not been established by the Managing Director. Thus no expense was recognised and no payment was disbursed for the 2011 financial year.

Personnel Fund

In 2004, as part of a long-term incentive system the Board of Directors decided to introduce a profit bonus system in compliance with Finland's Personnel Fund Act.

The Personnel Fund was established in January 2005. All employees, including the Managing Director and the Executive Team, are members of the Personnel Fund. Every year the Board establishes the basis for calculating the profit bonus per employee.

Lending structure

At the Bank, the office responsible for a customer is responsible for that customer's loans. Customer and loan responsibility rests with the head of the office and his/her fellow employees at the office. Those employees who work with lending have personal decision-making limits for those customers that they are responsible for.

If larger loans are needed, there is a Credit Committee for operations in Finland and one for operations in Sweden. The largest loans are approved by the Credit Committee of the Executive Team.

Financial reporting process

The fundamental principles of internal controls in the financial reporting process are a clear allocation of roles as well as instructions and an understanding of how financial results are achieved.

The Group's reporting is compiled centrally by the Accounting Department at Group level. The Department is responsible for the consolidated accounts and the consolidated financial statements, financial control systems, tax analysis, accounting principles and instructions, the Group's reporting to regulatory authorities and publication of the Group's financial information. Accounting managers at the respective subsidiaries are responsible for ensuring that their accounts meet the Group's standards, and they report monthly to their company's management and the Group's Accounting Department.

The Internal Auditing Department assists the external auditors with the examination of financial information in accordance with an audit plan drawn up in advance. Internal Auditing is an independent unit and works on behalf of the Board of Directors.

External auditors examine the Group's interim reports, Annual Report and Corporate Governance Statement and submit an auditors' report to the Group's Board of Directors.

The Group's Executive Team deals with the Group's internal financial reporting every month and with the external interim reports or the Annual Report every quarter.

The Audit Committee assists the Board in its continuous monitoring work by examining the quarterly financial reports and the annual financial statements, as well as dealing with the observations of the external and internal auditors.

The Board of Directors deals with interim reports or the Annual Report every quarter. The Board also examines the auditors' reports, audit plans and conclusions of the external auditors concerning interim reports and the Annual Report. The Board meets with the external auditors at least once a year.

Internal Auditing

The Internal Auditing Department consists of three positions and reports directly to the Board of Directors. The purpose of internal auditing work is to objectively provide the Board and the Executive Team with independent assessments of operational business and management processes and the Group's risk management, governance and controls.

Internal Auditing reports regularly to the Board, the Audit Committee and the Executive Team. The Board adopts a yearly plan for the work of Internal Auditing.

Risk management

The Group's ambition is to pursue its operations with reasonable and carefully considered risks. Its profitability depends on the ability of the organisation to identify, manage and price risks. The purpose of risk management is to reduce the probability of unforeseen losses and/or threats to the Group's reputation as well as contribute to higher profitability and shareholder value. The Group is exposed to credit risk, market risk, liquidity risk, operational risk, property risk and business risk. The latter is a consequence of the Group's strategy, competitiveness, ability to adapt to customer expectations, unfavourable business decisions and the environment and market the Group works in. Business risk is managed in conjunction with strategic planning. Credit risk, which is the Group's most significant risk, encompasses claims on private individuals, companies, institutions and the public sector. These claims mainly consist of loans, overdraft facilities and guarantees issued by the Bank.

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

The Bank works according to an allocation of responsibility in which each part of its business operations bears responsibility for its business and for managing its risks. The Risk and Lending Management Corporate Unit is responsible for independent risk monitoring, portfolio analysis and the loan granting process. This implies identifying, measuring, analysing and reporting all of the Group's significant risks as well as examining the loan matters presented to the Credit Committee of the Executive Management. The corporate unit also ensure that risks and risk management live up to the Bank's risk tolerance and that the management of the Bank regularly receives reports and analyses on the current situation. Risk management is audited by the Internal Auditing Department, which evaluates risk management both in terms of sufficiency and compliance.

In addition to the standards of the Finnish Financial Supervisory Authority, the foundation of the Group's risk management is the European Union's capital adequacy directive, which is based on the regulations of the Basel Committee. For more detailed information on the Group's risk management, capital management, evaluation of capital requirements and capital adequacy information, see the "Risk management" section in the Group's financial statements.

Compliance

Monitoring and assessment of the Bank's compliance with regulations is managed by the Group's Compliance Officer, who regularly reports his observations to the Audit Committee.

Insider administration

The Bank maintains insider registers both in its capacity as a securities issuer and broker. Those individuals at the Bank who are insiders are subject to the Finnish Financial Supervisory Authority's standards on insider reporting and registers, the insider trading guidelines of the Federation of Finnish Financial Services and the Bank's internal rules. The Bank has also adopted the insider regulations of the Helsinki Stock Exchange and has introduced a trading restriction, under which insiders at the Bank are not entitled to trade in the Bank's securities during a 14-day period before the publication of the Bank's annual financial statements or interim reports. The trading restriction also includes minors for whom Bank insiders are guardians and foundations in which Bank insiders have a controlling influence.

The Bank is also affiliated with the SIRE system, which means that insiders' trading in listed securities is automatically updated in the Bank's insider register. An insider's securities holdings are public. The Bank's register manager and its internal auditors regularly monitor the disclosures that insiders have made to the Bank's insider register.

Auditors

According to its Articles of Association, the Bank shall have at least three auditors and a requisite number of deputies for them. An auditor is appointed yearly at the Annual General Meeting for the period up to the end of the next Annual General Meeting.

The latest Annual General Meeting appointed Leif Hermans, Terhi Mäkinen and Bengt Nyholm, Authorised Public Accountants (CGR) as auditors. Erika Sjölund, Authorised Public Accountant (GRM) acts as deputy auditor.

During 2011 Group companies paid a total of EUR 443,027 including value-added tax for auditing fees. In addition, they paid EUR 209,647 including VAT to auditors for consulting assignments.

Photographer: Daniel Eriksson

Board of Directors

Göran Lindholm
Chairman

Managing Director,
Ålands Ömsesidiga
Försäkringsbolag

Master of Laws
Born 1955

Chairman of the Board
since 2003
Board member since 2003

Leif Nordlund
Deputy Chairman

Managing Director,
Redarnas Ömsesidiga
Försäkringsbolag,
Försäkrings Ab Alandia
and Försäkrings Ab
Liv-Alandia

Master of Laws
Born 1959

Deputy Chairman of the
Board since 2003
Board member since 2003

Per Axman

Entrepreneur

Economic studies,
Wallenberg Institute SEB,
1994/95
Born 1961

Board member since
April 14, 2011

Kaj-Gustaf Bergh

Managing Director,
Föreningen
Konstsamfundet

Bachelor of Economic
Sciences, Master of Laws
Born 1955

Board member since
April 14, 2011

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

Sven-Harry Boman

Consultant, Certified Public Accountant (CGR)

Master of Economic Sciences
Born 1944

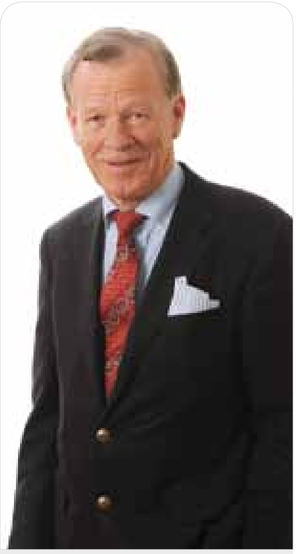
Board member since 2003

Agneta Karlsson

Director of Åland International Institute of Comparative Island Studies (AICIS); Senior Research Fellow, Statistics and Research Åland (ÅSUB)

Doctor of Economics
Associate Professor
Born 1954

Board member since 2003



Anders Wiklöf

Business owner

Commercial Counsellor
Born 1946

Board member since 2006

Kent Janér
Master of Business Administration
Born 1961
Resigned April 14, 2011

Teppo Taberman
Master of Science in Economics
Born 1944
Resigned April 14, 2011

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

Executive Team

Peter Wiklöf

Managing Director
Chief Executive

Master of Laws
Born 1966

Chairman and member of the Executive Team since 2008

Jan-Gunnar Eurell

Chief Financial Officer
Deputy Managing Director

Master of Business Administration, Bachelor of Science (Economics)
Born 1959

Member of the Executive Team since 2011

Birgitta Dahlén

Director, Åland Business Area

Bank officer training
Born 1954

Member of the Executive Team since 2010

Tove Erikslund

Chief Administrative Officer

Master of Business Administration
Born 1967

Member of the Executive Team since 2006

Teija Engman

Chief Information Officer

Member of the Executive Team since 2010. Resigned February 29, 2012.

Johnny Rosenholm

Department Manager

Member of the Executive Team since 2008. Resigned February 29, 2012.

Dan-Erik Woivalin

Chief Legal Counsel

Member of the Executive Team since 2003. Resigned February 29, 2012.

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

Magnus Holm

Director, Sweden Business Area

Economic studies
Born 1962

Member of the Executive Team since 2011

Juhana Rauthovi

Chief Risk Officer

Licentiate in Laws, MSc (Econ), MSc (Tech); Master in International Management
Born 1975

Member of the Executive Team since 2012

Anne-Maria Salonius

Director, Finnish Mainland Business Area

Attorney at Law, Master of Laws
Born 1964

Member of the Executive Team since 2010

Peter Michelsson

Director, Business Development/ Capital Market Finland Corporate Unit

Member of the Executive Team since 2008. Resigned December 28, 2011.

Tom Westerén

Communications and Marketing Director, Communications Corporate Unit

Member of the Executive Team since 2009. Resigned December 28, 2011.

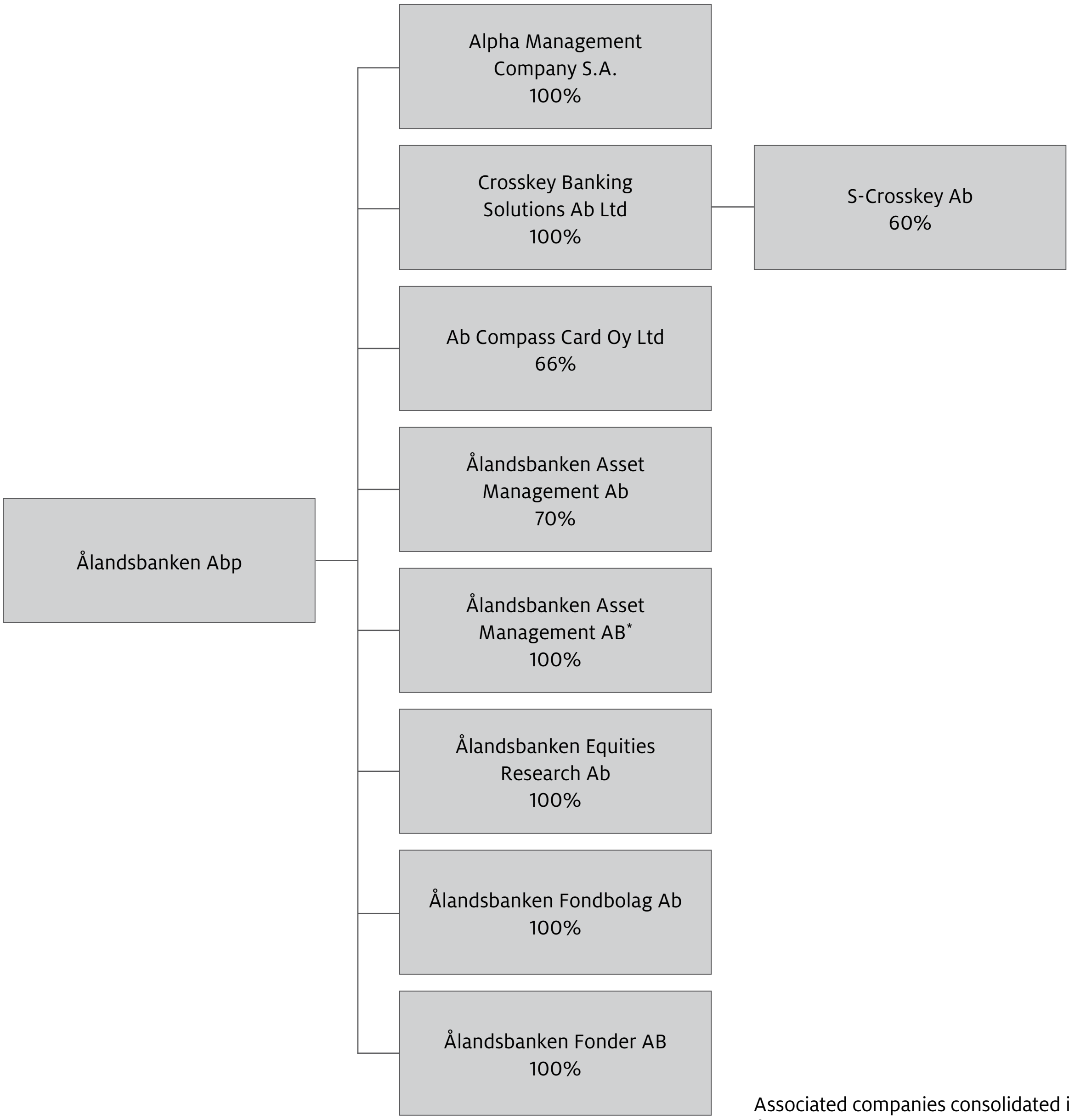
Mats Andersson

Ålandsbanken Sverige AB Managing Director

Member of the Executive Team since 2010. Resigned June 29, 2011.

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

Legal structure of the Group

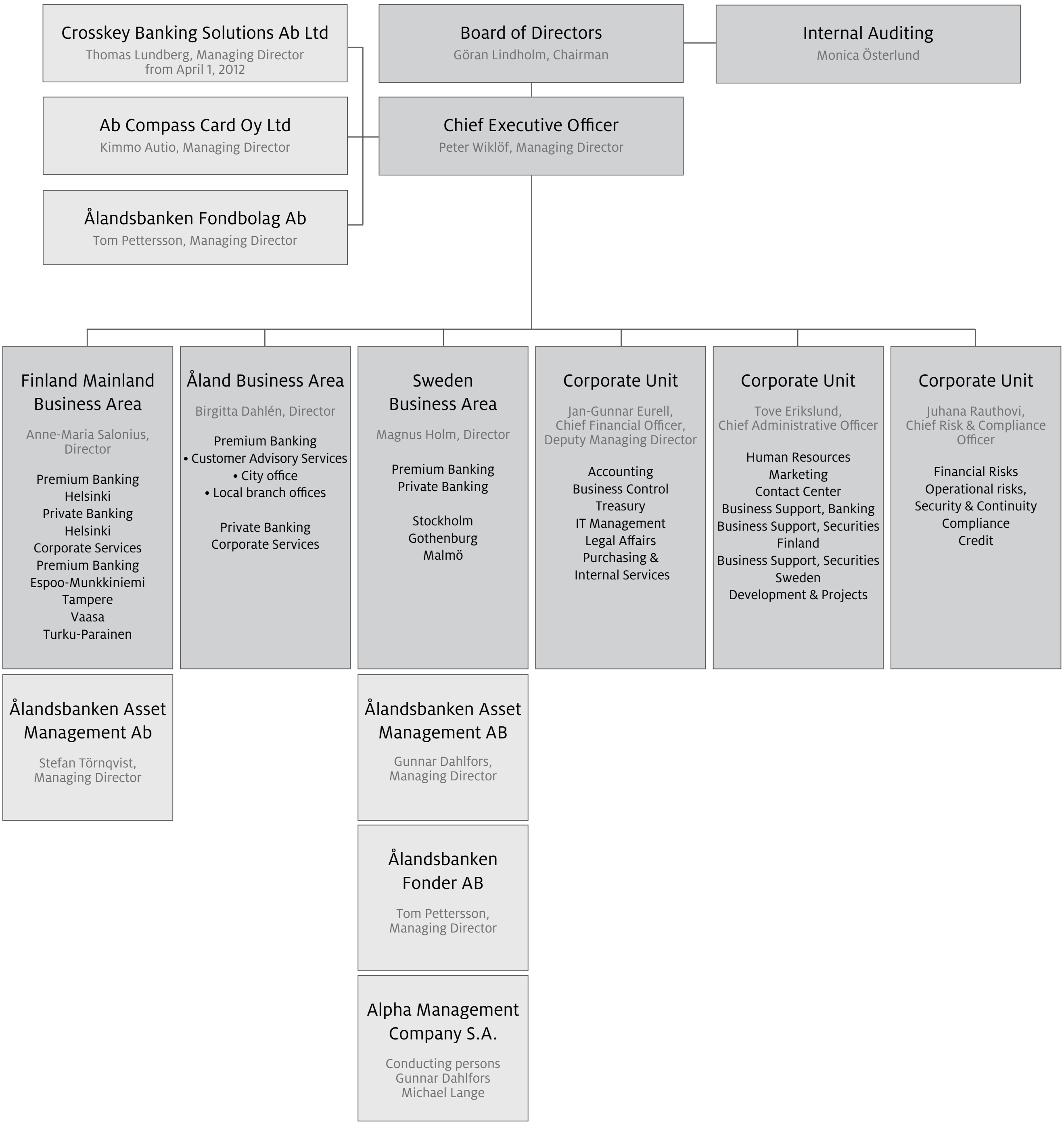


Associated companies consolidated in the Group:
Ålands Investerings Ab, 36%
Ålands Företagsbyrå Ab, 22%
Ålands Fastighetskonsult Ab, 20%
There is also one small real estate company, in which the Bank of Åland has more than 50% ownership.

* When Swedish operations changed to branch status on December 1, 2011, Ålandsbanken Sverige AB was reorganised into Ålandsbanken Asset Management AB, whose operations consist of asset management.

Bank of Åland Abp, March 1, 2012

Organisational chart



The Bank of Åland Plc's list of stock exchange releases in 2010
(published in Finnish and Swedish only, except that the financial reports marked * are also available in English)

Stock exchange releases in 2011

February

February 21, 2011	Year-end Report for the period January–December 2010*

March

March 14, 2011	Bank of Åland Plc's financial statements, Annual Report and Corporate Governance Statement for 2010 have been published
March 18, 2011	Invitation to the Annual General Meeting
March 21, 2011	Notification of change in shareholding in compliance with Chapter 2, Section 10 of the Finnish Securities Market Act

April

April 14, 2011	Notification of items of business discussed at the Bank of Åland Plc's Annual General Meeting
April 15, 2011	Statutory meeting of the Bank of Åland Plc's Board of Directors
April 29, 2011	Interim Report, January–March 2011*

May

May 5, 2011	Official reprimand to Bank of Åland Plc for neglect of disclosure of periodic information

June

June 14, 2011	Bank of Åland will focus on becoming one of the leading banks for entrepreneurs and wealthy private individuals in Sweden
June 29, 2011	Bank of Åland planning new share issue
June 29, 2011	New Managing Director at Ålandsbanken Sverige AB
June 29, 2011	Executive Team member Mats Andersson resigning

July

July 29, 2011	Bank of Åland receives permission to carry out mortgage banking operations and issue covered bonds
July 29, 2011	Invitation to Extraordinary General Meeting

August

August 1, 2011	Interim Report, January–June 2011*
August 23, 2011	Magnus Holm assumes position of Managing Director of Ålandsbanken Sverige AB
August 24, 2011	Notification of items of businesses discussed at the Bank of Åland Plc's Extraordinary General Meeting on August 24, 2011

September

September 13, 2011	Bank of Åland has decided to carry out share issue
September 14, 2011	Notification of change in shareholding in compliance with Chapter 2, Section 10 of the Finnish Securities Market Act
September 14, 2011	Notification of change in shareholding in compliance with Chapter 2, Section 10 of the Finnish Securities Market Act
September 14, 2011	Notification of change in shareholding in compliance with Chapter 2, Section 10 of the Finnish Securities Market Act

September 15, 2011	Notification of change in shareholding in compliance with Chapter 2, Section 10 of the Finnish Securities Market Act
September 15, 2011	CORRECTION: Notification of change in shareholding in compliance with Chapter 2, Section 10 of the Finnish Securities Market Act
September 16, 2011	Publication of prospectus for Bank of Åland Plc's share issue
September 21, 2011	Bank of Åland has made an addition to the prospectus for its share issue

October

October 14, 2011	Bank of Åland's share issue has been oversubscribed
October 19, 2011	Final result of Bank of Åland's share issue
October 19, 2011	Notification of change in shareholding in compliance with Chapter 2, Section 10 of the Finnish Securities Market Act
October 19, 2011	Notification of change in shareholding in compliance with Chapter 2, Section 10 of the Finnish Securities Market Act
October 19, 2011	Notification of change in shareholding in compliance with Chapter 2, Section 10 of the Finnish Securities Market Act
October 19, 2011	CORRECTION: Notification of change in shareholding in compliance with Chapter 2, Section 10 of the Finnish Securities Market Act
October 31, 2011	Interim Report, January–September 2011*

November

November 25, 2011	Notification of change in shareholding in compliance with Chapter 2, Section 10 of the Finnish Securities Market Act
November 25, 2011	Notification of change in shareholding in compliance with Chapter 2, Section 10 of the Finnish Securities Market Act

December

December 1, 2011	Ålandsbanken Sverige AB's operations changing to branch status
December 12, 2011	Bank of Åland Abp to begin purchases of own shares
December 20, 2011	Bank of Åland Plc – purchases of own shares, December 19, 2011
December 21, 2011	Bank of Åland Plc – purchases of own shares, December 20, 2011
December 22, 2011	Bank of Åland Plc – purchases of own shares, December 21, 2011
December 23, 2011	Bank of Åland Plc – purchases of own shares, December 22, 2011
December 27, 2011	Bank of Åland Plc – purchases of own shares, December 23, 2011
December 28, 2011	More and more customers want more and more advanced advisory services
December 28, 2011	Executive Team members Peter Michelsson and Tom Westerén resigning
December 28, 2011	Bank of Åland Plc – purchases of own shares, December 27, 2011

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* When Swedish operations changed to branch status on December 1, 2011, Ålandsbanken Sverige AB was reorganised into Ålandsbanken Asset Management AB.

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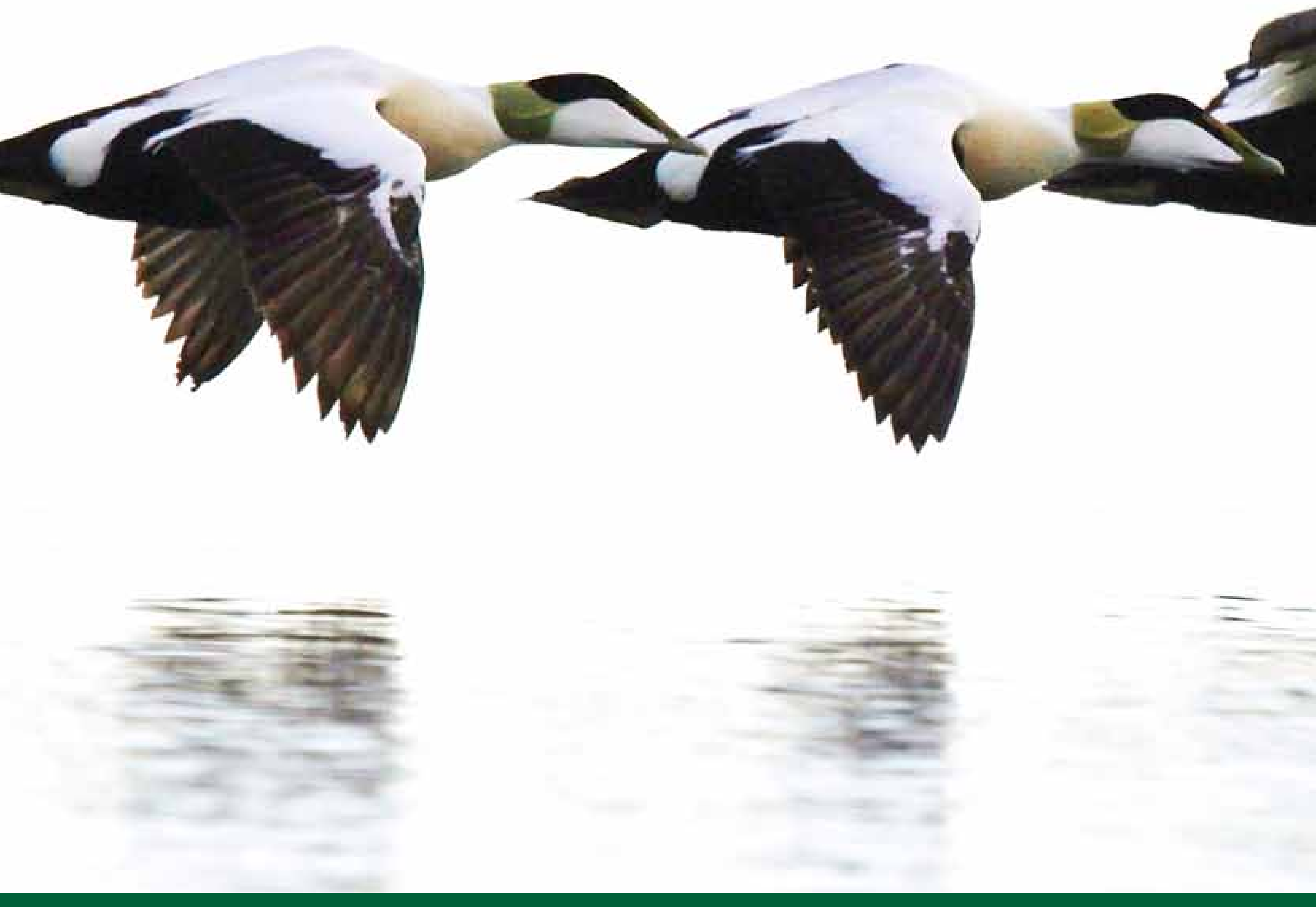

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