Annual Report 2012

Bank of Åland Plc

ÅLANDSBANKEN

Going our own way

The year 2012 in brief

Financial summary of 2012

- Profit for the year attributable to shareholders amounted to EUR 11.6 M (–6.5). Of profit for the year, EUR 13.8 M was proceeds from the divestment of the Bank's Swedish subsidiary, which had been emptied of operations.
- Earnings per share amounted to EUR 0.80 (–0.54).
- Return on equity after taxes (ROE) was 6.4 per cent (–3.9).
- Net interest income decreased by 4 per cent to EUR 41.2 M (43.1).
- Net commission income decreased 16 per cent to EUR 32.7 M (38.7).
- Total expenses decreased by 9 per cent to EUR 94.0 M (103.1).
- Net loan losses were EUR 6.4 M (1.8), equivalent to a loan loss level of 0.22 (0.07) per cent. Of loan losses, EUR 2.0 M consisted of group impairment losses for exposures to the shipping industry.
- Managed assets increased by 13 per cent to EUR 4,292 M (3,814).
- Lending increased by 6 per cent to EUR 2,906 M (2,737).
- Deposits decreased by 4 per cent to SEK 2,447 M (2,544).
- The core Tier 1 capital ratio increased to 10.9 per cent (8.4).
- The Board of Directors proposes a dividend of EUR 0.15 (0.00) per share.

Important events in 2012

FIRST QUARTER

- The Bank of Åland implemented a major reorganisation, which eliminated about 50 full-time positions and lowered annual operating expenses by about EUR 4 M.
- The Finnish Financial Supervisory Authority approved the Bank's application to be allowed to calculate the capital requirement for credit risks according to the Internal Ratings Based (IRB) approach for the Finnish household portfolio.
- The Bank of Åland received the 2012 Morningstar Fund Award as the best fixed interest fund manager in Finland.

SECOND QUARTER

- The Annual General Meeting elected Folke Husell, Anders Å Karlsson and Annika Wijkström as new members of the Bank's Board of Directors. At the statutory meeting of the Board the same day, Kaj-Gustaf Bergh was elected Chairman and Folke Husell was elected Vice Chairman of the Board.
- The transfer of all banking and asset management operations in Sweden from the Bank of Åland's subsidiary to its Swedish branch – Ålandsbanken Abp (Finland), svensk filial – was completed.

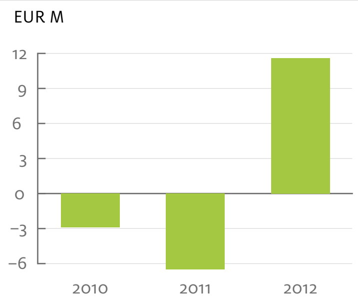
THIRD QUARTER

- The rating agency Standard & Poor's gave the Bank of Åland a BBB, i.e. investment grade credit rating and gave the Bank's covered bonds an AA credit rating.
- The Bank of Åland issued its first covered bonds.

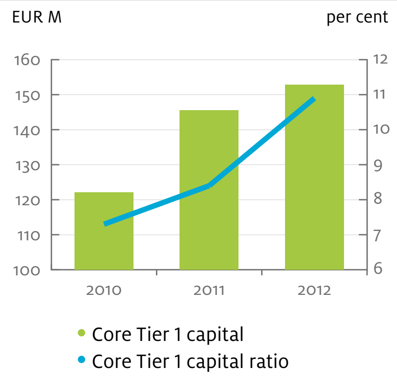
FOURTH QUARTER

- Further efficiency-raising measures reduced the number of full-time positions by about 30, of which about 20 in the subsidiary Crosskey Banking Solutions, and lowered annual operating expenses by about EUR 2 M.
- The Bank of Åland sold its Swedish subsidiary, which had been emptied of operations, with a positive impact on earnings of EUR 13.8 M.
- EUR 2 M in group loss impairments for exposures to the shipping industry were charged to earnings.
- The Bank launched Ålandsbanken Bostadsfond, a new mutual fund specialising in the Finnish housing industry.

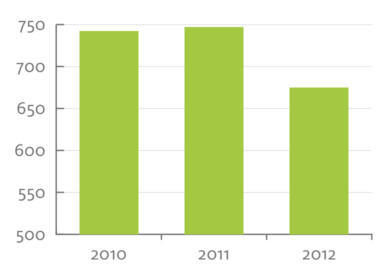
Profit for the year attributable to shareholders



Core Tier 1 capital and core Tier 1 capital ratio



Average number of employees



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Financial calendar

The Bank of Åland will publish the following Interim Reports during the 2013 financial year:

- January–March Interim Report — April 29, 2013
- January–June Interim Report — July 29, 2013
- January–September Interim Report — October 28, 2013

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 from 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 2012, the middle rate for EUR 1 was USD 1.3194 and SEK 8.5820.

"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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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 eight offices in the Åland Islands and seven offices on the Finnish mainland: in Helsinki (2), 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 seven subsidiaries whose operations are connected in various ways with banking. They are Ålandsbanken Asset Management Ab, Ålandsbanken Fondbolag 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.
- In the Åland Islands, the Bank of Åland is a bank for all residents, both in a position and with a desire to help develop the Åland of the future.
- On the Finnish mainland and in Sweden, the Bank of Åland has a niche strategy targeted to entrepreneurs, wealthy families and individual customers with sound finances. We offer two concepts: Private Banking and Premium Banking®. We also offer asset management services for institutional investors.
- 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 the 2012 amount, over the years the Bank's Environmental Account has contributed more than EUR 1 M to projects that improve and protect the environment.

Bank of Åland Group	2012	2011	2010	2009	2008
EUR M					
Income					
Profit before impairment losses and nonrecurring items	3.6	2.9	6.9	10.3	22.3
Net operating profit	10.0	−5.7	1.0	30.5	20.0
Profit for the year attributable to shareholders	11.6	−6.5	−2.9	26.2	14.0
Volume					
Managed assets	4,292	3,814	4,347	3,101	672
Lending to the public	2,906	2,737	2,573	2,546	2,193
Deposits from the public	2,447	2,544	2,600	2,411	2,126
Risk-weighted assets	1,402	1,729	1,664	1,636	1,282
Equity capital	186	181	154	162	138
Financial ratios					
Return on equity after taxes, % (ROE)	6.4	−3.9	−1.8	17.8	10.7
Expense/income ratio, %	85	104	93	88	70
Loan loss level, %	0.22	0.07	0.23	0.12	0.11
Gross non-performing assets, %	0.64	0.70	1.07	0.56	0.66
Core funding ratio, %	104	108	99	106	103
Equity/assets ratio, %	5.1	5.3	4.4	4.8	5.0
Core Tier 1 capital ratio, %	10.9	8.4	7.3	7.9	8.6
Working hours re-calculated to full-time equivalent positions	640	690	679	641	487

Group structure

Operating area	Company	Sales	Total assets	Stake	Offices	Employees	Founded
Banking operations	Bank of Åland Plc	EUR 139.8 M	EUR 3,608.4 M		18	431	1919
Asset management	Ålandsbanken Asset Management AB	EUR 7.7 M	EUR 4.7 M	70%	1	27	Acquired in 2009
Fund management	Ålandsbanken Fondbolag Ab	EUR 4.9 M	EUR 1.6 M	100%	1	6	2000
	Ålandsbanken Fonder AB	EUR 1.0 M	EUR 1.6 M	100%	1	3	Acquired in 2009
	Alpha Management Company S.A.	EUR 0.7 M	EUR 2.2 M	100%	1	0	Acquired in 2009
IT	Crosskey Banking Solutions Ab Ltd	EUR 27.7 M	EUR 14.8 M	100%	4	292	2004
	S-Crosskey Ab	EUR 4.3 M	EUR 0.3 M	60%	1	1	2005
Issuance of credit and debit cards	Ab Compass Card Oy Ltd	EUR 6.4 M	EUR 34.3 M	66%	1	13	2006

Efficiency drive and reorganisation have paid off

Photographer: Daniel Eriksson

The EUR 194 M increase in discretionary management meant that total volume set a new record for the Bank. I am naturally very pleased that in a challenging market situation, both new and old customers have so clearly shown their faith in us."

Peter Wiklöf, Managing Director

Two thousand twelve will go down in history as the year when the Bank of Åland readied itself to survive independently of the whims of the world.

The cuts and reorganisation we have undergone have sometimes been painful. But we have made our Bank less vulnerable. This is why we look forward with confidence. There is a clear demand for a small, independent bank with high ambitions.

The Bank implemented various efficiency-raising measures during the spring. We closed nine offices in Åland and reduced the headcount in our three geographic business areas and corporate units by about 50 people. We also halved the Bank's Executive Team.

During the autumn, we carried out a personnel reduction in the subsidiary Crosskey Banking Solutions, eliminating about 20 full-time positions.

Altogether during our 18 month long efficiency drive, we have taken steps that lower the Group's annual expenses by about EUR 10 billion. This is already visible in our 2012 results, where we lowered total expenses by 9 per cent, from EUR 103.1 M to EUR 94 M.

This has been a painful but necessary process. One comment that I heard during the spring was "With my brain I understand that this is necessary, but not with my heart."

I totally agree.

Yet the necessity of these steps is indisputable. The Bank of Åland has to be in such shape that we can survive independently of external circumstances.

DEPRESSED NET INTEREST INCOME

The Finnish and Swedish stock markets began the year with rising share prices. During the spring, however, fiscal turmoil intensified around Europe and share prices took a nosedive. During the autumn, equities began to recover and in December they rose more vigorously as a degree of optimism returned to the stock markets.

There is no question that this fiscal turmoil affected our customers. They cut back on their activity and shifted assets out of equities to fixed income markets.

In addition, the Euribor 3-month interest rate – a highly important benchmark for the Bank – fell from 1.34 per cent to a low of 0.17 per cent. Sharply falling market interest rates offset the positive effect on our net interest income that our rising volume of lending, +6 per cent, would have contributed.

RESTRAINED LENDING

For some years, Finland has had the lowest lending margins in Europe. This is why the Bank has deliberately been restrictive with its lending. Yet during 2012 we saw clearly rising margins on the Finnish mainland and in Åland. If this trend continues and a normalisation of lending margins occurs, it will create new opportunities for the Bank of Åland.

Another important reason behind rising margins is the new European regulatory framework known as Basel III. These regulations will make the banking system more stable, since banks will have to maintain higher reserves.

However, the consequence will be higher margins, since banks must compensate themselves for the costs associated with expanded reserves. The stability that Basel III endeavours to create is of course positive. But this stability will not be free, and the additional costs will be passed on to the customer.

TROUBLED SHIPPING INDUSTRY

It is clear to us that low interest rates have also enabled customers with weak finances to successfully service their loans. Our customers in the shipping industry have faced the most challenging situation. The export sectors in Finland and Sweden have felt the impact of the economic slowdown, and freight rates have been very low.

Our shipping customers have demonstrated a relative good ability to weather the bad times. But when the economic outlook deteriorated further late in 2012, we decided to enlarge our group impairment loss provision for the shipping industry by another EUR 2 M to EUR 2.5 M.

LESS DEPOSITS, MORE ASSET MANAGEMENT

During the year, the Bank's deposits fell by 4 per cent. The main reason was our successful covered bond issues: They enabled us to exchange the most expensive deposits and funding for a more affordable alternative.

Meanwhile our managed assets rose by 13 per cent. The EUR 194 M increase in discretionary management meant that total volume set a new record for the Bank. I am naturally very pleased that in a challenging market situation, both new and old customers have so clearly shown their faith in us.

Our expansion in Sweden has continued to show steady growth. Here too, our net interest income was affected by falling interest rates, but volume rose sharply. Lending increased by 35 per cent and deposits by 25 per cent. While continuing to expand, we lowered our expenses substantially.

We have now established our path to profitability in Sweden – although the market continues to be challenging.

A FOUNDATION TO BUILD ON

By working purposefully to control costs and to simplify our organisational structure, we have equipped ourselves for the future.

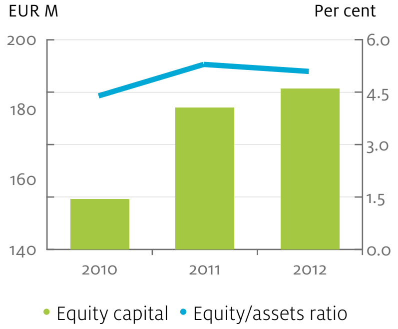
One source of support in this work is the AA credit rating that our covered bonds received from the credit agency Standard & Poor's. This rating confirms that the Bank of Åland maintains good quality in its home mortgage loans and that our financial position is strong.

In my view, the Bank of Åland now enjoys a stable foundation. The Bank's solvency level clearly surpasses that of major Nordic banks.

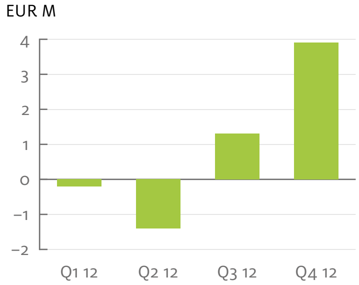
This has required a tough, focused effort by everyone at the Bank, and I would like to express my sincere gratitude for this. Together we have successfully laid the groundwork for profitability, even in an unfavourable market situation.

We have created a haven from the storm, but we are hoping for sunshine.

Equity capital and equity/assets ratio



Profit before impairment losses and nonrecurring items



Daring to go our own way

As large banks become ever larger and their customers feel ever smaller, a clear need arises – the need for a bank where each customer feels seen, heard and appreciated.

The Bank of Åland has nearly a century behind it as an independent, innovative, customer-oriented bank. This is why it is self-evident that we will continue along a path where the needs of our customers are the guiding principle for our development.

VISION

Our aim is to be the self-evident bank for individuals with ambitions and companies that value relationships.

OUR POSITION

The Bank of Åland is a bank for investors, with financing know-how. The Bank of Åland generates value for individuals and companies by delivering a large bank's range of services with a smaller bank's thoughtfulness and sense of dedication.

At the Bank of Åland, we focus on what problems we solve, what opportunities we create and how we deliver different types of value to our customers. We always go our own way, and that is how we persuade more and more friends to join us on this path.

Our choice of position is ambitious and it is a position where the Bank of Åland foresees a clear customer need and a growing market.

We are growing within the right target groups, putting special emphasis on financial investment operations at the same time as we deliver financing solutions and outstanding service in other banking areas.

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 its managed capital, along with various industry awards.

Our 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, we have preferred to adopt a more restrictive policy rather than working in low-profit activities.

CUSTOMER RELATIONSHIPS AND TRUST

All sound banking business is based on trust. This is especially evident in the way that customers handle their financial investments. We know that it requires time and dedication to build trust among new customers.

The Bank of Åland offers a bank as it should be – a bank that wants individuals, companies and the community to have fertile ground for development. We are convinced that strong, long-term relationships are built by ambitious people through their good performance.

GOOD SERVICE VIA ALL CHANNELS

The Bank of Åland has always welcomed new technology that makes everyday life easier for our customers. Our Internet Bank has thus been a forerunner in the industry since its inception. In our development work, we draw no distinctions between personal and digital encounters. Regardless of the channel, our customers shall always feel that they are receiving good service.

Our relationships shall be equally strong in every channel. But we also take advantage of the special strengths of the various channels. Personal meetings are the most suitable channel for advisory services, while our Internet Office – delivered via the Web and mobile devices – enables customers to gain a clear overview and seamlessly manage their everyday finances.

OUR THREE MARKETS

The Bank of Åland's vision and choice of preferred position are the same in our three markets, but there are also dissimilarities between them. In Åland, we are a bank for all residents and we contribute proactively to the Åland community. On the Finnish mainland and in Sweden, we emphasise financial investments and saving, 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 – often ambitious but always responsible.

We will continue on that path, while upholding our ambition to always put the customer first. Our own path is based on the conviction that a clear customer focus will give us both loyal customers and strong relationships. We take responsibility for the parts and we take responsibility for the whole.

The most important thing for our customers is that we ensure them a responsible sense of dedication that optimally satisfies their needs.

By providing such a customer experience, we go our own way.

Photographer: Daniel Eriksson

New corporate unit structure ensures clarity and efficiency

Photographer: Daniel Eriksson

Early in 2012 the Bank's corporate units underwent an extensive reorganisation. A new team has introduced common Group processes, and the efficiency gains are apparent.

Thanks to key recruitments, we have also been able to respond to ever-increasing external demands for proficiency.

The new corporate unit structure is headed by a Chief Financial Officer (CFO), a Chief Administrative Officer (CAO) and a Chief Risk & Compliance Officer (CRO). By appointing a CRO, the Bank of Åland has ensured that the Group complies with current regulations and can smoothly adjust to new regulations.

Chief Financial Officer

Chief Financial Officer Jan-Gunnar Eurell is in charge of the Accounting, Business Control, Treasury, IT Management, Legal Affairs and Purchasing & Internal Services departments.

2012 IN BRIEF:

- The Treasury department was centralised in Mariehamn and the Swedish department was closed. Treasury processes underwent significant changes and a new, more efficient systems support structure for the entire Group was placed in service.
- The Business Control department was established during the year. A new management model as well as planning and monitoring models were introduced for the entire Group.
- During the year, Accounting was established as a single department. We focused on uniform processes and accounting principles. The department is now also directly responsible for accounting functions in Sweden.
- The IT Management department was established and is headed by the Bank's new Chief Information Officer. We established IT management processes and began the task of formulating a clear IT strategy. IT expenses represent a very large proportion of the Bank's expenses. Supplier management and measures to reduce costs are thus top priorities.
- The Legal Affairs department took a further step towards becoming a Group-wide department, since it is now also responsible for helping the Bank of Åland in Sweden. Prioritised activities during the year were co-determination negotiations within the Group and dealing with new legislation.
- Purchasing & Internal Services was established as a new department entrusted with lowering expenses in such areas as real estate, office materials, internal distribution and archiving. We signed a new logistics and office material purchasing agreement, and we carried out a new procurement process for the Group's own insurance coverage.

Chief Administrative Officer

Chief Administrative Officer Tove Erikslund is in charge of the Human Resources, Marketing, Contact Center, Business Support, Business Support KAPMA FIN, Operations SWE and Development & Projects departments.

2012 IN BRIEF:

- Human Resources led the Group's co-determination negotiations. It also planned training packages for newly recruited employees as well as further training and leadership courses. It carried out the annual employee survey and the individual performance review process. Late in the year, the department's focus was on recruitments.
- The task of the Marketing department was changed to establishing partnerships with external suppliers, improving internal communications and providing back-up to the Bank's business areas in their marketing activities.
- The role of the Contact Center grew during the year, since the department was given Group-wide responsibility. This consisted of expanding its activities to include the Bank's Swedish operations as well. Telephone banking solutions for the entire Group were also implemented.
- Prioritised activities at the Business Support departments centred on continued implementation of Group-wide principles, process and IT systems in order to bring about cost synergies. A large proportion of development resources was reserved for meeting regulatory requirements and international standards.
- The Development & Projects department was established to ensure quality and improve efficiency in the Group's research and projects. One prioritised activity is to create a process for taking advantage of development suggestions presented within the Group.

Chief Risk & Compliance Officer

Chief Risk & Compliance Officer Juhana Rauthovi is in charge of the Risk Control, Operational Risks, Compliance and Credit departments.

2012 IN BRIEF:

- A Group-wide risk management organisation was established. Its clear structure permits better harmonisation and coordination of activities. During 2012, the organisation's focus was on creating better conditions for protecting the Bank of Åland's capital, earnings and brand by offering frameworks, support, oversight of regulatory compliance and risk management.
- The Credit department ran the Bank's Internal Ratings Based project and initiated the task of ensuring compliance with the Finnish Financial Supervisory Authority's requirements, to ensure that the Group retains the permission it was granted to apply the IRB approach to the household portfolio. The department also began the task of obtaining permission to apply IRB to the corporate portfolio and implement it in Sweden.
- Risk Control implemented the first phase of a new asset-liability management system, which allows the Group to measure and control interest rate, currency and liquidity risks at an advanced level. The department also did preparatory work for two new Basel III measurements: the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR).
- Compliance launched a new process for administering internal regulations that clarify areas of responsibility. This process also safeguards smooth, continuous updating of the Group's basic principles, guidelines and work descriptions.
- The Operational Risks department, which also includes Security & Continuity, began the task of obtaining permission to apply a standardised approach for calculating the Group's capital requirements for operational risks.

We are growing – despite the year's challenges

Photographer: Daniel Eriksson

One much-appreciated innovation during the year was the Sweden Package. About 150 customers in Åland chose to open a bank account in Sweden with the associated Internet Office services and debit card." Birgitta Dahlén, Director, Åland Business Area

Behind us, we have a year that included record-low interest rates and office closures. Our employees had to work hard, yet they showed incredible dedication. So it is gratifying that the Bank of Åland has attracted new customers in its already strong home market and that we have seen deposits increase by 8 per cent.

During 2012, major changes occurred in the Åland office network.

We closed nine local offices and also reduced our staffing. This was an emotional process for all those involved – these offices have existed for as long as our customers can remember. But we must remember that we continue to have many offices in Åland and we are proud of that.

We hope that our customers see the advantages that our new collaboration with Åland Post offers. In Kökar and Kumlinge, our customers can now do their banking business at the post office. We also opened a new office at the shop in Hammarland that replaces our previous offices in Eckerö and Hammarland. In addition, our office in Godby was completely renovated. It now meets all of today's security, equipment and customer advisory service standards.

As a result of these investments, our customers in several municipalities now have access to banking services every weekday.

DEDICATED AMBASSADORS

The level of commitment that our employees showed during 2012 goes beyond words. All the changes in the Bank have naturally required frequent and honest dialogue with our customers. Our employees did an incredible job of this. They have been patient, dedicated ambassadors for the Bank of Åland's strategy.

We saw one encouraging indication of our employees' commitment and proficiency in the market survey that was conducted during the spring. We were interested in learning what issues were most important to our customers.

The answer was clear: Customers value personalised attention and service. They want to have confidence in the proficiency of both their financial advisor and other Bank employees. The results showed that the Bank of Åland's employees easily live up to these high expectations.

GROWING VOLUME

During 2012 we welcomed new customers, which was further confirmation that the Bank of Åland's services are appreciated. In Åland, more than 400 private individuals and about 200 companies and organisations chose to become our customers.

This increase in customers also led to a 7 per cent increase in Premium Banking deposits, while lending rose by 8 per cent.

Among our corporate customers, deposits increased by 10 per cent.

We also saw the Private Banking concept make its breakthrough in Åland. The number of asset management customers increased by 9 per cent, and this trend has three probable explanations. In uncertain times, more and more customers prefer discretionary asset management, and customers appreciate the fact that the Bank of Åland's asset management portfolio is weighted towards Nordic equities. We can also report returns averaging 13.5 per cent annually since 2003.

On the whole, businesses and private individuals in Åland are still enjoy a stable financial situation, despite a turbulent external environment. The exception is the shipping industry. The reason is an oversupply of vessel capacity and low freight volume in our immediate vicinity. We maintain a close working relationship with our shipping industry customers to ensure that they can cope with the prevailing market situation, but in spite of this we have seen loan losses and loan loss provisions in shipping.

EASIER DAY-TO-DAY BANKING

One much-appreciated innovation during the year was the Sweden Package. About 150 customers in Åland chose to open a bank account in Sweden with the associated Internet Office services and debit card. Since many of our customers receive their salary, pension or other payments in Swedish kronor, this is an innovation that we know makes day-to-day banking easier. Today our customers in Åland have about SEK 23 M invested in Sweden.

STRONG COMMUNITY INVOLVEMENT

The Bank of Åland is continuing its traditional proactive role as a sponsor of children's and youth programmes. Via sport-related sponsorships, we are now providing support to about 1,500 young people in various types of sports.

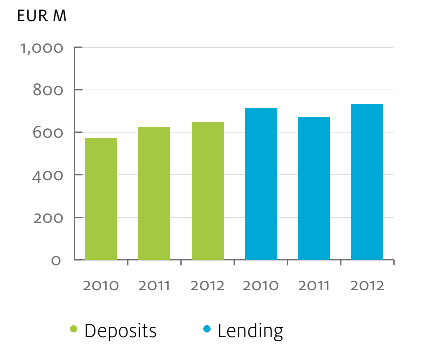
Another major project during the year was our collaboration with the Confederation of Åland Enterprise. Through our involvement in the Young Entrepreneurs project, we wish to inspire young people to become the entrepreneurs of the future. Åland has a long tradition of entrepreneurship, and entrepreneurial spirit will be needed for Åland's future growth.

WE ARE CAUTIOUSLY OPTIMISTIC

The big remaining source of concern is the economic performance of Finland and Sweden and how it will affect the Åland community. In spite of this, we have a positive view of growth, since we have seen earlier that the archipelago's service-oriented business sector is resilient to international downturns.

One important theme in 2013 is proactive customer dialogue. In this work, we are greatly helped by the Åland versions of the Bank's website and Internet office. These channels enable us to give customers in Åland more relevant information about everything from customer events to targeted financial investment opportunities.

Deposits and lending



Customer confidence intact despite headwinds

Photographer: Daniel Eriksson

In today's Finland, there is a need for a bank that is independent and domestic. Our customers value a bank with strong investment expertise that also offers financing solutions and banking services."

Anne-Maria Salonius, Director, Finnish Mainland Business Area

The year was dominant by a turbulent external environment, which placed even greater demands on our personalised advisory services. Despite numerous challenges, we enjoyed strong customer confidence and welcomed new customers. Successful portfolio management was one factor behind this, especially fixed income asset management, which has been a safer alternative.

During 2012, we implemented a number of measures to improve the efficiency and transparency of our organisation. As part of this process, we closed both our institutional equities trading operation in Helsinki and our Equities Research unit, as well as combining our financing know-how with investment expertise in the Private Banking unit.

Taken together, all these measures are the starting point for an even more attractive Private Banking offering. Today a majority of our customers choose both asset management and banking services, and the number of Private Banking customers increased by 17 per cent during the year. This stimulates us in our ambition to offer customers and their families the Finnish mainland's smoothest and best service in asset management and financing as well as tax and legal advisory services.

In Premium Banking, we continued to focus on package solutions that include financing and asset management via our Premium mutual funds. By maintaining continual contact with our customers, we were able to deepen our understanding of the personal needs that individual customers have. And that understanding naturally strengthens the entire customer relationship.

At the end of the year, we also broadened our product range. On December 31, 2012, Ålandsbanken Bostadsfond began its operations. This is Finland's first mutual fund that invests in housing. The Fund immediately attracted heavy interest among customer wishing to invest in rental housing.

FOCUSING ON THE PROFITABILITY OF THE LOAN PORTFOLIO

During 2012, we also devoted a lot of energy to increasing to profitability of the loan portfolio by renegotiating loans and pricing new ones at higher total interest rates. Despite these measures, our net interest income decreased by 11 per cent due to falling interest rates. Lending volume was relatively stable, while deposits decreased by 4 per cent.

For many years, the pricing of home mortgage loans on the Finnish mainland has been at unnaturally low levels, and profitability has consequently been low. During 2012, however, margins began to rise in all areas of financing, which is a necessary adjustment to the new regulatory frameworks that will go into effect during the next few years.

Low interest rates and economic uncertainty were very challenging, both in financing and asset management operations. We saw a welcome improvement during the autumn and can consequently report a year of rising investment volume, with managed capital climbing by 15 per cent.

Despite the increase in managed assets, our net commission income fell by 21 per cent during the year. The reasons were the closure of our institutional equities trading operation and lower brokerage commissions. Earnings in investment operations deteriorated due to decreased customer activity, especially in structured products, lower valuations in portfolios and a lower percentage of equity-related products in portfolios.

UNSHAKEN CONFIDENCE

The fact that both discretionary and advisory management increased during the year shows that we enjoy the confidence of our customers. The Bank's clear strategy towards long-term asset management is appreciated: Instead of only passively monitoring various benchmark indices, we have a proactive approach to the market that is supported by our own micro- and macroeconomic analyses. This is also why during much of 2012, we were under-weighted in equities and over-weighted in fixed income investments, since the risk-return ratio was more favourable in the fixed income market.

In today's Finland, there is a need for a bank that is independent and domestic. Our customers value a bank with strong investment expertise that also offers financing solutions and banking services.

We see three main reasons why new customers on the Finnish mainland choose the Bank of Åland: For several decades, we have offered our customers a high level of service, our existing customers often recommend us to their friends and we ourselves have proactively created new customer relationships.

The second reason is especially worth examining. Despite the weak market situation, as mentioned it was clear that customer confidence in us remained intact. And not only intact; as in prior years they have continued to tell their friends about the service that we offer our customers.

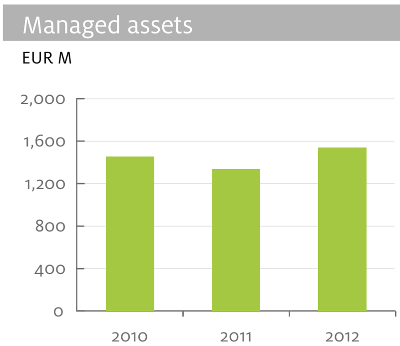
This realisation further strengthens our perception that the Bank's service philosophy is a success factor. Our customer advisors have long experience, and our employee turnover is low. The Bank's employees are accessible and show a proactive approach that continues to surprise customers.

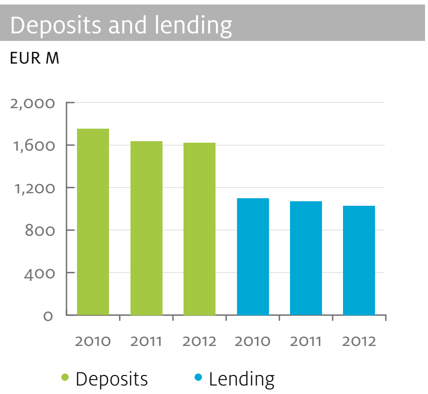
We consequently have an excellent foundation for continuing to build long-term customer relationships.

ENCOURAGING RECOGNITION

During 2012, the Bank of Åland also received two encouraging awards. In its yearly private banking survey, Euromoney magazine declared that the Bank of Åland is the best at private banking in Finland in the *High Net Worth II* category. The Bank also received the *2012 Morningstar Fund Award* as the best fixed income fund manager in Finland.

We want to be the best at customer relationships and want to surpass our customers' expectations. We are working to ensure that all the customers in our target group will experience such a high level of service and quality in our advisory services that they recommend the Bank of Åland.





We are strengthening our foothold in Sweden

Photographer: Daniel Eriksson

"A majority of our new customers heard about the Bank of Åland via a recommendation. We view this very good evidence of the service and quality that we provide to our Private Banking customers."

Magnus Holm, Director, Sweden Business Area

During 2012, the Bank's operations in Sweden continue to grow and evolve. There is obviously room for a new contender in the Swedish banking market. We are seeing increased familiarity with the Bank of Åland brand. Interest in our products and services has increased significantly.

In February 2012, we launched Premium Banking in Sweden, a concept that had previously been successful on the Finnish mainland and in Åland. Our offering now includes a complete range of banking services for private individuals. These numerous services and benefits make life easier for our customers, and the concept definitely stands for fresh thinking in the Swedish market.

The launch of Premium Banking makes it possible to be a full-service customer at the Bank of Åland in Sweden and gather one's banking business with us.

New customers come to us for personalised service and the extra benefits that are included in the Premium concept. Through a partnership with Folksam, in November we were also able to offer customer an opportunity to add pension savings to the Bank of Åland's cost-effective solutions.

During 2012, the volume of deposits and lending at the Premium Banking unit in Stockholm nearly doubled. The number of new customers increased significantly. The prospects for 2013 consequently look very good and the influx of customers is expected to continue.

SPECIALIST TEAMS ATTRACT CUSTOMERS

In the Private Banking unit, during 2012 we carried out a large number of individual customer meetings and organised several well-attended customer gatherings with various themes. Examples of popular themes were: What is important to think about before moving abroad? How do you correctly handle voluntary disclosure of assets abroad? What should you think about when preparing for a change of generations?

We also initiated collaboration with various types of partners such as law firms, tax consultants, accounting firms and corporate finance companies. As a consequence of this strategy, business volume rose by about

20 per cent. Since 2011, the Private Banking unit has shown positive earnings.

A majority of our new customers heard about the Bank of Åland via a recommendation. We view this as very good evidence of the service and quality that we provide to our Private Banking customers. Our ambition is to build teams of specialists around each individual customer. In this way, we can guide customers in a professional way with respect to their total needs.

The offices in Stockholm, Malmö and Gothenburg have a complete range of individually tailored services and products in wealth management, stock brokerage, financing and legal matters – combined with our everyday banking services. Also worth noting is that our office in Malmö reached break-even in 2012.

Our Private Banking services were very well received during 2012. They received recognition from *Euromoney* magazine's annual private banking survey, which ranked the Bank of Åland in second place in the *Bespoke Wealth Planning* category.

We see this high ranking as further confirmation that our Financial Planning service concept has turned out well: We use this concept to project-manage the overall finances of wealthy entrepreneurs. The Bank of Åland's specialists in tax and corporate structures work together with the Bank's wealth managers to help entrepreneurs build long-term assets.

NEW ASSET MANAGEMENT SOLUTIONS

During 2012, the Asset Management unit further refined its working methods in the customer and investment process. We follow the *Need–Research–Solution* principle and assume that the optimal solution for a customer is governed by his or her current commitments. We work increasingly with consultative advisory services and have gained support for our way of viewing risk taking and risk control.

Via our customer magazine *ALM*, we have spread this concept to our institutional customers and external fund managers in various marketplaces. We have also put greater focus on our fund management solutions, which are based on *macro-driven asset allocation, portfolio building and risk budgeting.*

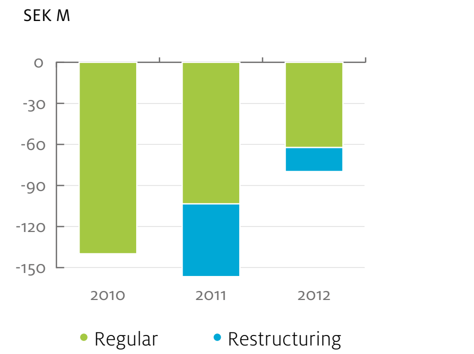
During 2012, a number of asset management products were launched. One example is the well-diversified BRIG 6 low risk fund, whose asset classes are adjusted to changes in the market. This fund is highly suitable as a base investment for those customers who wish to have a constant risk level. It provides good potential for high risk-adjusted returns. This is why BRIG 6 has become a popular alternative for long-term management of pension assets.

In addition, we received permit to market our successful Commodity Fund, which has shown very good results in relevant rankings and comparisons with competitors. Another fund innovation is our Defined Risk 12, which provides balanced risk and access to several different asset classes.

We also concentrated our management work and carried out a merger of the OMXS30 Swedish equity index fund and the TIME Fund. Both are now part of our Swedish Growth Fund.

We are noting an increased interest and a deeper understanding of our ambition to keep the risk level in our asset management solutions at a predictable level over time. We are thus very optimistic about the demand for the Bank of Åland's asset management products during 2013.

Net operating profit, legal structure, Sweden



The Bank of Åland's subsidiaries

The Group's 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

During 2012 we worked to modularise our range of services and products as well as our technology. Our ambition is to enable Crosskey to offer more stand-alone products and services. We want to enable both existing and new customers to easily choose individual services and products; they should not have to order unnecessarily extensive systems solutions.

During the year, Crosskey developed and delivered stand-alone products in our Card Solutions and Capital Market Solutions business areas, and we will continue development work in our other business areas. Card solutions are an attractive market for us. Several established market players are looking for new systems, and meanwhile new players are entering the market.

New development method introduced

Two new units were created to strengthen our development efforts and our customer service:

The Sales and Key Account Management unit develops both new and established customer relationships. The Process and Quality unit supports the organisation's efforts to focus on the right things and drive the transformation of Crosskey into an agile organisation; in other words, we must become more dynamic and flexible.

During the year, we carried out co-determination negotiations and streamlined our organisation, leading to the elimination of about 20 positions. Meanwhile we have gradually introduced a new, so-called agile development method, which will replace the traditional waterfall method. This reform process is being implemented step by step and will continue throughout 2013.

Our ambition is that after this reform, Crosskey will be a more flexible and at the same time productive organisation. The objective is to boost our efficiency and gain more development hours with our existing resources, while raising quality.

Milestones during 2012:

- Thomas Lundberg assumed his position as the new Managing Director on April 1.
- Crosskey was appointed a MasterCard Service Provider. This means that we can now offer products and services to those who issue or plan to issue MasterCards in Finland and the other Nordic countries. As part of this process, we have begun our PCI certification process, which is expected to lead to certification during 2013.
- We renewed our contract with the Bank of Åland.
- The Bank of Åland was approved as an Internal Ratings Based (IRB) bank for private individuals in January 2012, and our banking IT system provides the Bank's IRB systems support.
- Launch of new Internet banks for the Bank of Åland and S-Bank.
- The Bank of Ålands mobile bank was launched.
- The Global Market Trading system was delivered to Tapiola Bank.
- The Ming Trader order system was delivered to the Bank of Åland. Ming Trader is an order system for securities trading. It was developed by Crosskey and has now replaced the system previously used by the Bank of Åland in Sweden.

During the year we also developed a systems solution that supports mobile wallets. Development work for Finnish mobile operator Elisa was under way during virtually all of 2012, and Elisa plans to launch the product during the spring of 2013. Today the mobile wallet and systems support are a unique product in the Nordic payments market.

Regulations an obstacle

Discussions with both existing and new customers support is in our view that Crosskey's updated strategy is correct. The stand-alone products that we offer are the key to new customer relationships during 2013.

Yet one obstacle is the many changes in public regulatory systems for the financial sector. We see that it is a challenge for our potential customers in the banking sector to undergo a change of system to Crosskey's complete banking IT offering.

Ålandsbanken Asset Management Ab

Asset Management operates in Helsinki and is responsible for managing the investment portfolios of both private individuals and institutional customers. It also manages the assets of the Bank of Åland's mutual funds that are registered in Finland.

During the autumn, the company carried out recruitments, increasing the number of employees to 26. Two of these new employees manage the Bank of Åland's new housing investment fund, Bostadsfonden, which was started in order to meet heavy demand for a stable fund that invests in real estate with inflation protection.

In October, Christian Wetterstrand was appointed Managing Director of the company, succeeding Stefan Törnqvist, who stepped down after 12 years in this position.

During the year, the fixed income funds received good ratings. In addition, the head of the investment team, Jonny Sundström, was named Finland's best mutual fund manager by the British analytics company Citywire.

Profitability was worse than the year before, and profit was EUR 2.3 M (2011: EUR 5.1 M). Profitability deteriorated mainly because the large percentage of fixed income investments in customer portfolios generated smaller income.

Ab Compass Card Oy Ltd

During 2012, Compass Card experienced a year of growth. The total number of cards increased by 11 per cent and card use increased by 92 per cent. The company also signed a co-branding agreement with the banking arm of the Mortgage Society of Finland.

During the year, Compass Card unveiled new tools and services in order to offer our customers more secure card use. Compass Card customers are the first in Finland who can limit their card's area of use to certain countries and easily limit Internet purchases via their Net bank.

The company's earnings improved in 2012 but only reached EUR –0.2 M, compared to EUR –1.0 M in 2011.

The Bank of Åland's mutual fund operations

During 2012, the Bank of Åland's mutual fund operations were handled by three different companies: Ålandsbankens Fondbolag Ab in Finland, Ålandsbankens Fonder AB in Sweden and Alpha Management Company S.A. in Luxembourg. All of them are wholly owned subsidiaries of the Bank of Åland Plc.

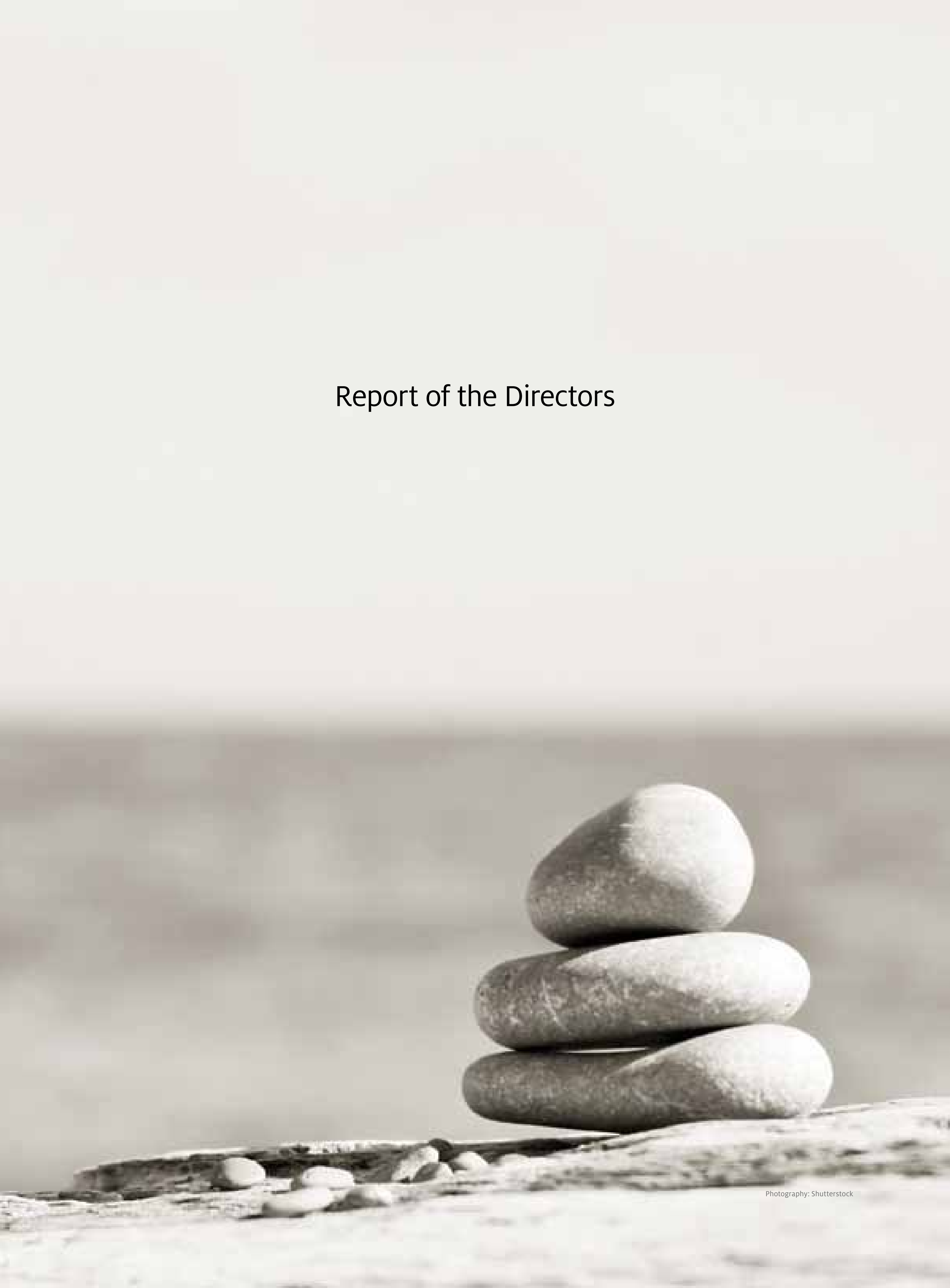
At the end of 2012, the companies managed 23 funds. Total managed assets were EUR 871 M, an increase of EUR 114 M compared to 2011. This included equity, balanced and fixed income funds. All funds are actively managed in keeping with the Bank of Åland's view of the market. The Bank also offers some special funds: Ålandsbanken Defined Risk 12, Ålandsbanken Commodity and the housing sector fund Ålandsbanken Bostadsfond Specialplaceringsfond.

The latter und was launched on December 31, 2012. It is the first open fund that invests in rental properties in Finland. Compared to earlier closed funds in the form of general partnerships or limited liability companies, it enables a broader target group to invest in housing through a mutual fund. It is an easy, efficient way to invest in housing; the investor does not have to worry about maintenance of the homes or rental administration.

During 2012, the Group initiated a coordination of its mutual fund activities. The number of fund management companies is being reduced from three to one, and mutual fund operations will be concentrated in Finland and Luxembourg. At the same time, the range of funds will be adjusted to some extent in order to correspond in the best way to the needs of customers.

The Bank of Åland has also signed the United Nations responsible investment principles for mutual fund operations.

Report of the Directors



Photography: Shutterstock

Report of the Directors

Macro situation and regulatory requirements

The euro zone debt crisis has dominated economic developments during 2012. The 3-month Euribor benchmark interest rate fell from 1.34 per cent to a record-low 0.19 per cent in one year. Since the 3-month Euribor determines a large proportion of customer lending rates, while the Bank's borrowing cost is not at all affected to the same extent by lower benchmark interest rates, this squeezes the Bank's net interest income. Regulatory requirements such as higher capital adequacy ratios, larger liquidity buffers, longer maturity on borrowings and increased administration for risk management and reporting also squeeze profitability – the latter especially in small banks. The estimated total additional cost of the new regulatory requirements is equivalent to a 0.6–1.0 percentage point increase in lending rates. Finland has also introduced a banking tax amounting to 0.125 per cent of risk-weighted assets, which further increases the Bank's lending costs starting in 2013. The Bank of Åland, like other banks, thus needs to raise its margins. During the latest period, we have seen a clear tendency towards higher lending margins in Finland. We expect lending margins to rise significantly from their current levels.

BENCHMARK INTEREST RATES, AVERAGES, PER CENT

	2012	2011
Euribor 3 mo	0.57	1.39
Euribor 12 mo	1.11	2.01
Stibor 3 mo	2.00	2.46
Stibor 12 mo	2.40	2.85

During 2012, the value of the Swedish krona in relation to the euro averaged 4 per cent higher than during the equivalent period of 2011. Compared to its year-end 2011 position, the krona appreciated more than 4 per cent. This represents a strong krona in historical terms. 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 exchange rate prevailing on the closing day.

Important events

During 2012, the Bank of Åland completed the restructuring of its operations in Sweden, which means that Swedish operations are now being pursued in the form of the Swedish branch of the parent Bank. This new, simplified corporate structure means more efficient capital utilisation and a more efficient tax situation, as well as more cost-effective corporate governance. During the fourth quarter, the Bank completed the divestment of its Swedish subsidiary, which had been emptied of operations, with a positive impact on earnings of SEK 13.8 M.

During 2012, for the first time in its history the Bank of Åland received a credit rating. The Bank received a BBB/A-3, i.e. investment grade credit rating with a stable outlook for its long-term and short-term borrowing from the rating agency Standard & Poor's. The Bank's covered bonds received an AA credit rating from Standard & Poor's.

During the third quarter, the Bank of Åland issued covered bonds for the first time, totalling EUR 300 M. During the fourth quarter, the Bank issued more than EUR 170 M worth of additional covered bonds, this time in Swedish kronor and mainly to Swedish investors. Covered bonds have provided the Bank of Åland with access to a new, efficient funding source. The covered bond market is liquid and is the portion of the capital market that has functioned best throughout the financial crisis. The interest cost is substantially lower than for non-covered bonds. By issuing covered bonds, the Bank of Åland increases its long-term funding as a share of total funding, which is in line with the new capital adequacy regulations.

During 2012, the Bank implemented a significant reorganisation and extensive efficiency-raising measures. During the first quarter, the number of positions in the Group was reduced by about 50, of which 30 in the Åland Islands, 10 on the Finnish mainland and 10 in Sweden. During the fourth quarter, the number of positions in the Group was further reduced by more than 30, of which about 20 in the subsidiary Crosskey Banking Solutions. The number of offices in Åland was reduced from 16 to eight plus two representative offices. On the Finnish mainland, institutional equities trading operations were closed. Extensive changes occurred in the corporate units of the Group.

During the first quarter of 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. The transition from the standardised approach to the IRB approach for the Finnish household portfolio reduced the Bank's risk-weighed assets by EUR 355 M. The Bank is continuing its efforts to implement the IRB approach in the Finnish corporate portfolio and the Swedish loan portfolio as well.

The Bank of Åland received the 2012 Morningstar Funds Award as the best fixed interest fund manager in Finland. The Bank earned the award for its three euro-denominated fixed income funds: Ålandsbanken Cash Manager, a short-term fixed income fund; Ålandsbanken Euro Bond, a medium-term fixed income fund; and Ålandsbanken Euro High Yield, a fixed income fund with higher potential return and risk than traditional fixed income funds.

On April 19, 2012, the Annual General Meeting elected Folke Husell, Anders Å Karlsson and Annika Wijkström as new members of the Bank's Board of Directors. Board members Kaj-Gustaf Bergh, Agneta Karlsson and Anders Wiklöf were re-elected. At the statutory meeting of the Board the same day, Kaj-Gustaf Bergh was elected Chairman and Folke Husell was elected Vice Chairman of the Board.

Earnings

Net operating profit in 2012 amounted to EUR 10.0 M, compared to EUR –5.7 M in the preceding year. Both 2012 and 2011 earnings included a number of nonrecurring items related to the restructuring of operations. The most significant items were EUR 13.8 M in income from the divestment of the Bank's Swedish subsidiary, which had been emptied of operations, a capital gain of EUR 1.0 M from the divestment of the associated company Ålands Företagsbyrå, plus impairment losses of EUR 0.8 M in 2012 and EUR 1.1 M in 2011 on the Bank's shareholding in the equities-trading platform Burgundy and restructuring expenses of EUR 1.1 M in 2012 and EUR 5.7 M in 2011 related to staff cutbacks. Excluding these nonrecurring items, net operating profit decreased from EUR 1.1 M to EUR –2.9 M in 2012. However, thanks to the measures that were undertaken, the trend of earnings before loan losses and nonrecurring items turned upward during the second half of 2012. Earnings bottomed out in the second quarter of 2012, when quarterly profit before loan losses and nonrecurring items was EUR –1.4 M. In the third quarter, this measure of earnings increased to EUR 1.3 M. In the fourth quarter it improved further to EUR 3.9 M.

Total income increased by EUR 11.2 M or 11 per cent to EUR 110.4 M (99.2). Of this increase, EUR 15.0 M was explained by the above-mentioned nonrecurring items.

Because of price adjustments in the lending portfolio and higher volume, the Bank was largely able to offset the negative impact of sharply falling money market interest rates on net interest income. Net interest income fell by EUR 1.9 M or 4 per cent to EUR 41.2 M. In the Sweden business area, net interest income increased by EUR 2.3 M or 25 per cent.

Net commission income fell by EUR 6.0 M or 16 per cent to EUR 32.7 M. Of this decrease, EUR 6.4 M was attributable to securities brokerage income, among other things due to the closure of institutional equities trading operations, which had income of EUR 2.2 M in 2011.

Net income from securities transactions and foreign exchange dealing amounted to EUR 10.1 M, compared to EUR 1.9 M in 2011. EUR 7.5 M consisted of foreign exchange gains related to the divestment of the Bank's Swedish subsidiary. Underlying earnings from financial asset management also developed favourably.

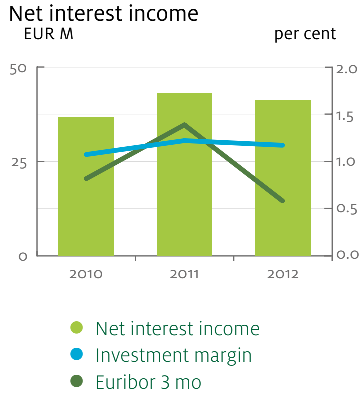
Net income from financial assets available for sale increased to EUR 10.8 M (–0.7). EUR 6.3 M in capital gains on the divestment of the Bank's Swedish subsidiary and EUR 1.0 M on the divestment of Ålands Företagsbyrå were the most important explanations for the increase, but underlying earnings from financial asset management also increased strongly.

Net income from investment properties was EUR 0.0 M. In 2011 this item amounted to EUR 0.9 M, of which EUR 0.8 M was related to a divestment gain.

Information technology (IT) income from Crosskey's operations increased by EUR 1.1 M or 8 per cent to EUR 14.5 M (13.4).

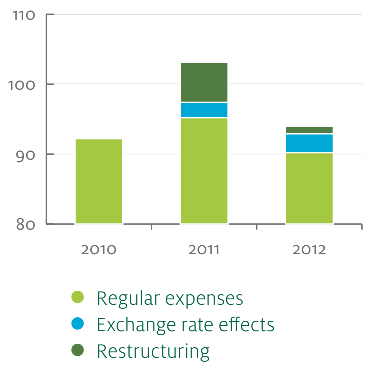
Total expenses fell by EUR 9.1 M or 9 per cent and amounted to EUR 94.0 M (103.1). Adjusted for restructuring expenses related to staff cutbacks both in 2012 and 2011, this was a decrease of EUR 4.4 M. Adjusted for exchange rate

Net interest income



Total expenses

EUR M



effects, the decrease was EUR 5.7 M or 6 per cent. The Bank of Åland previously announced cost savings in the range of EUR 10 M annually from the measures undertaken during 2011 and 2012. Of these, EUR 4 M was related to the closure of institutional equities trading in Sweden in June 2011, while EUR 4 M was related to the reorganisation that was implemented in the first quarter of 2012 and approximately EUR 2 M more was related to the measures implemented in the fourth quarter of 2012. Savings targets have been achieved by a wide margin. Expenses recognised for the full year 2012 were more than EUR 5 M lower than for the full year 2011 due to these measures, of which EUR 2 M was attributable to a full rather than a half year without institutional equities trading in Sweden and more than EUR 3 M was attributable to measures in 2012 totalling EUR 6 M. All else being equal, full year 2013 expenses will be about EUR 3 M lower than full year 2012 expenses due to these measures.

Net loan losses were EUR 6.4 M (1.8). Of impairment losses, EUR 2.0 M consisted of group impairment losses for exposures to the shipping industry. The loan loss level was 0.22 per cent, compared to 0.07 per cent the preceding year.

The tax effect was positive and amounted to EUR 2.2 M (0.4). The favourable tax situation is explained primarily by tax-exempt capital gains, while it was possible to reverse certain deferred tax liabilities. The tax situation also improved because Swedish operations now take place in the form of a branch of the Parent Company. In addition, Finnish corporate tax has been lowered from 26 to 24.5 per cent.

Profit for the year attributable to shareholders was EUR 11.6 M, compared to EUR –6.5 M in the preceding year.

Return on equity after taxes was 6.4 per cent (–3.9).

Net operating profit deteriorated in the Åland and Finnish Mainland business areas as well as in Crosskey Banking Solutions. Earnings in the Sweden business area improved. The effects on the consolidated financial statements of the divestment of the Swedish subsidiary are reported as part of the Sweden business area. Business operations in the Sweden business area also substantially improved their earnings. Expenses decreased throughout all business areas due to efficiency-raising measures. Net interest income in the Åland business area decreased by 18 per cent due to lower Euribor rates, while EUR 3.6 M in impairment losses mainly connected to shipping loans and about EUR 0.7 M in expenses for administration of these loans was charged to earnings. Net interest income in the Finnish Mainland business area also fell sharply as a consequence of lower Euribor rates. Compared to the preceding year, the business area did not include the closed-down Equities operations. Aside from lower net interest income, the lower net operating profit in the Finnish Mainland business area was also due to lower earnings at Ålandsbanken Asset Management. The improvement in the earnings of the Sweden business area primarily arose by means of cost reductions.

Balance sheet total and off-balance sheet obligations

During 2012, the Group's balance sheet increased by EUR 237 M or 7 per cent to EUR 3,637 M (3,400). The increase was primarily related to lending to the public. Off-balance sheet obligations fell by EUR 6 M or 1 per cent to EUR 405 M (411). The decrease was primarily related to unutilised overdraft limits.

Liquidity and borrowing

The Bank of Åland's liquidity reserve in the form of cash, account balances and investments with other banks, liquid interest-bearing securities plus holdings of unencumbered covered bonds issued by the Bank amounted to EUR 483 M (410) on December 31, 2012. This was equivalent to 13 per cent of total assets (12) and 17 (15) per cent of lending to the public.

Given the Bank's ability to issue high-quality covered bonds, there is an additional unutilised liquidity reserve.

The Bank has no significant long-term borrowing maturities during 2013.

Seventy-four per cent of the Bank of Åland's funding comes from deposits from the public, including certificates of deposit, index bonds and subordinated debentures. The Bank of Åland thus has a relatively small need for borrowing in the capital market. Of deposits from the public, EUR 140 M (155) consisted of time deposits, index bonds and debentures with a maturity of more than one year. Although the remainder consisted of sight deposits or has contractually shorter maturities than 1 year, this funding can largely be regarded as stable, based on historical customer behaviour.

The Bank of Åland's core funding ratio, defined as lending to the public divided by deposits from the public including certificates of deposit, index bonds and subordinated debentures issued to the public, plus covered bonds issued, amounted to 104 per cent at the end of 2012 (108).

Capital adequacy

Equity capital increased in the amount of total profit for the year, EUR 5.6 M, to EUR 186 M. The equity/assets ratio decreased to 5.1 per cent from a 5.3 per cent position at the end of 2011.

Core Tier 1 capital as defined in capital adequacy regulations amounted to EUR 152.9 M (145.5).

During the first quarter of 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. Risk-weighted assets decreased by EUR 327 M or 19 per cent during 2012 and amounted to EUR 1,402 M (1,729). Risk-weighted assets attributable to credit risks decreased by EUR 311 M or 20 per cent despite the increase in lending, since the IRB approach is being used instead of the standardised approach for the Finnish household portfolio.

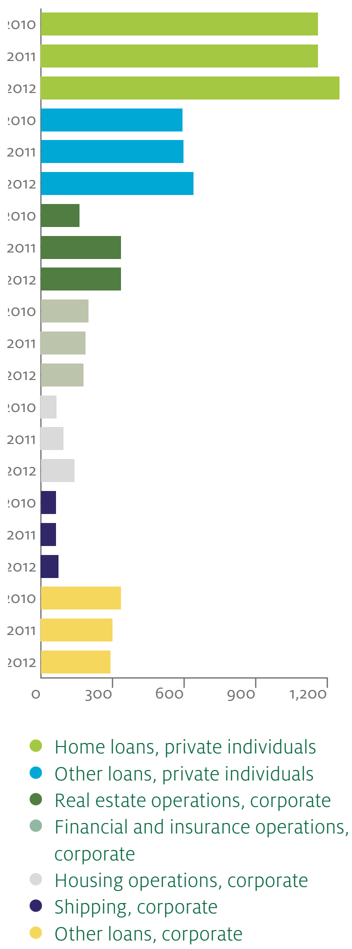
The core Tier 1 capital ratio increased to 10.9 (8.4) per cent, without taking transitional rules into account. Since the Bank of Åland has no hybrid capital, its core Tier 1 capital ratio is the same as its Tier 1 capital ratio. The total capital ratio was 16.1 (12.8) per cent.

In accordance with the 2011 Annual General Meeting's decision on purchases of the Bank's own shares for the purpose of implementing a share-based compensation programme for senior executives, the Bank has purchased its own shares. On December 31, 2012 this holding amounted to 25,000 Series B shares (6,263).

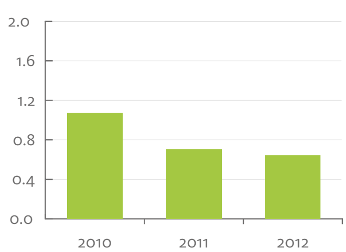
Bank of Åland Group	Dec 31, 2012	Dec 31, 2011
EUR M		
Capital base		
Tier 1 capital	152.9	145.5
Supplementary capital	73.3	75.3
Total capital base	**226.2**	**220.7**
Capital requirement for credit risks	98.1	123.0
Capital requirement for operational risks	14.1	14.0
Capital requirement for market risks	0.0	1.4
Total capital requirement	**112.2**	**138.4**
Total capital ratio, %	16.1	12.8
Tier 1 capital ratio, %	10.9	8.4
Core Tier 1 capital ratio, %	10.9	8.4

Lending
EUR M

Lending
EUR M



Non-performing loans
per cent of lending



Lending

Lending to the public totalled EUR 2,906 M (2,737). This represented an increase of EUR 169 M or 6 per cent. The lending increase was primarily related to home mortgage loans in the Swedish market.

LENDING TO THE PUBLIC AND PUBLIC SECTOR BY PURPOSE

Bank of Åland Group	Dec 31, 2012	Dec 31, 2011
EUR M		
Companies		
Shipping	74	63
Wholesale and retail trade	55	57
Housing operations	140	95
Other real estate operations	334	335
Financial and insurance operations	178	187
Hotel and restaurant operations	22	19
Other service operations	108	109
Agriculture, forestry and fishing	14	13
Construction	36	45
Other industry and crafts	35	36
	996	**958**
Private individuals		
Home loans	1,251	1,161
Securities and other investments	309	294
Business operations	126	126
Other household purposes	202	177
	1,889	**1,757**
Public sector and non-profit organisations	**21**	**22**
Total lending	**2,906**	**2,737**

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 ratios 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.

During 2012, gross non-performing loans (more than 90 days) decreased by EUR 0.7 M to EUR 18.6 M (19.3). As a share of lending to the public, non-performing loans fell from 0.70 per cent to 0.64 per cent during the year. The level of provisions for doubtful receivables, i.e. individual impairment losses as a proportion of all doubtful receivables, was 84 per cent compared to 62 per cent at year-end 2011. Including group impairment losses, the level of provisions amounted to 108 per cent, compared to 71 per cent at year-end 2011. The Bank of Åland Group had EUR 13.6 M in impairment loss provisions, including individual impairments of EUR 10.6 M and group impairment losses of EUR 3.1 M.

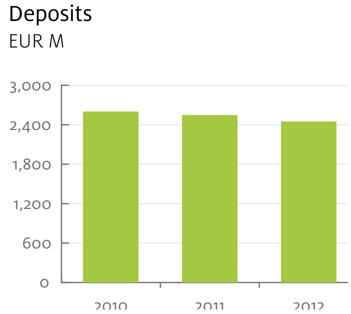
Deposits

Deposits from the public – including certificates of deposit, index bonds and debentures issued to retail customers – decreased by EUR 97 M during 2012 and amounted to EUR 2,447 M (2,544). Because of the Bank's successful covered bond issues, these bonds have partly replaced more expensive time deposits. In Sweden, the Åland Account continued to attract new customers. During 2012, Åland Account and fixed interest rate deposits increased by about EUR 100 M.

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

Bank of Åland Group	Dec 31, 2012	Dec 31, 2011
EUR M		
Deposit accounts from the public and public sector		
Sight deposits	1,652	1,568
Time deposits	475	579
Total deposit accounts	**2,127**	**2,146**
Bonds and subordinated debentures[1]	186	189
Certificates of deposit issued to the public[1]	134	208
Total bonds and certificates of deposit	**320**	**397**
Total deposits	**2,447**	**2,544**

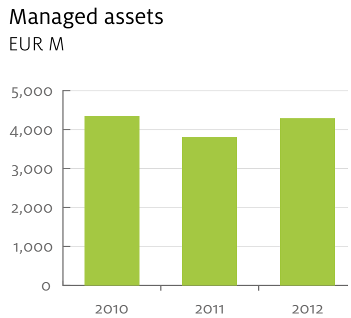
[1] This item does not include debt securities subscribed by credit institutions.



Managed assets

Managed assets increased by EUR 478 M or 13 per cent during 2012 and amounted to EUR 4,292 M (3,814). Managed assets in the Bank of Åland Group's own mutual funds rose by EUR 110 M or 15 per cent during 2012 to EUR 867 M (757). Assets under discretionary management rose by EUR 193 M or 11 per cent to EUR 1,991 M (1,798), which was the highest figure ever. Assets under advisory management rose by EUR 173 M or 13 per cent to EUR 1,433 M (1,260). Of total managed assets, the Sweden business area accounted for EUR 2,424 M or 56 per cent (57).

Bank of Åland Group	2012	2011
EUR M		
Fund unit management	867	757
Discretionary asset management	1,991	1,798
Other asset management	1,433	1,260
Total managed assets	**4,292**	**3,814**
Of which own funds in discretionary and other asset management	362	338



Personnel

The number of full-time equivalent positions, recalculated from hours worked, decreased by 50 or 7 per cent to 640 (690). The cutback occurred mainly in the parent Bank, including its Swedish branch.

Bank of Åland Group	2012	2011
Ålandsbanken Abp	385	316
Crosskey Banking Solutions Ab Ltd	202	210
Ålandsbanken Sverige AB*	6	119
Ålandsbanken Asset Management Ab	25	24
Ab Compass Card Oy Ltd	12	11
Ålandsbanken Fonder AB	3	
Ålandsbanken Fondbolag Ab	6	5
Ålandsbanken Equities Research Ab	1	5
Total number of full-time equivalent positions, recalculated from hours worked	**640**	**690**

* 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.

Changes in Group structure

During the fourth quarter, the Bank of Åland Plc completed its divestment of the wholly owned subsidiary Ålandsbanken Asset Management AB (formerly Ålandsbanken Sverige AB) in Sweden. It also completed its merger with the wholly owned subsidiary Ålandsbanken Equities Research Ab. Both of these companies had been emptied of business operations. During the fourth quarter, the Bank also sold its shares in the associated company Ålands Företagsbyrå Ab.

Dividend

In light of positive earnings attributable to the shareholders, the improved capital adequacy situation and a positive belief in the Bank's trend of earnings and capital generating capacity, the Board of Directors proposes that the Annual General Meeting approve the payment of a dividend of EUR 0.15 per share, equivalent to a total amount of EUR 2.2 M.

Authorisation for the Board to approve a share issue

The Annual General Meeting in April 2011 authorised the Board of Directors to approve the divestment of a maximum of 25,000 of the Company's own Series B shares that are in the Company's possession, through a share issue in one or more amounts.

This authorisation entitles the Board to divest the Company's own Series B shares that are in the Company's possession, in exchange for payment or without payment, and to diverge from the shareholders' preferential right, provided there are compelling financial reasons for this (targeted share issue). Divestment of the Company's own Series B shares through a share issue shall occur for the purpose of implementing any Company incentive programmes. The authorisation also entitles the Board to approve all terms and conditions of a share issue. The authorisation is in force for five years from the Annual General Meeting's decision.

The Extraordinary General Meeting in August 2011 authorised the Board to approve shares that entitle the holders to special rights no later than June 30, 2016. Based on this authorisation, a maximum of 3,000,000 Series B shares may be issued.

Important events after the close of the report period

In January, the Bank of Åland issued EUR 100 M worth of covered bonds with a 10-year maturity.

The Bank of Åland received permission from the Finnish Financial Supervisory Authority to calculate the capital requirement for operational risk according to the standardised approach starting on June 30, 2013.

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, share prices and exchange rates, along with higher expenses due to regulatory decisions and directives as well as the competitive situation.

The Group aims at achieving operations with reasonable and carefully considered risks. The Group is exposed to credit risk, liquidity risk, market risk, operational risk and business risk.

The Bank does not engage in trading for its own account.

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 is thus high. We are focusing especially on these customers. The Bank of Åland's lending to companies in the shipping industry represents about 3 per cent of its overall lending volume.

Based on the positive future expectations at Compass Card, a deferred tax asset of EUR 0.9 M was recognised. If the conditions affecting the company should change dramatically, 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

The Bank's earnings performance is determined to a significant degree by external factors that are difficult to predict. Since new securities legislation removes the explicit obligation in an interim report to provide an account of probable developments during the current financial period, the Bank of Åland is henceforth choosing to refrain from providing earnings forecasts in interim reports.

Income excluding nonrecurring items is expected to be higher in 2013 than in 2012 as a consequence of increased volume and margins, but income is strongly dependent on how the fixed income and stock markets perform and is thus difficult to forecast.

Because of the effect of the Finnish banking tax, higher pension expenses due to changes in accounting principles (IAS 19), salary increases as provided by collective agreements and the exchange rate effect of continued Swedish krona appreciation, the Group's overall reported expenses in 2013 will be at about the same level or slightly below their 2012 level, despite cost-saving effects of EUR 3 M.

Loan losses in 2013 are expected to be lower than in 2012 but nevertheless exceed the average expected loan loss level during an economic cycle.

Taken together, the result of these expectations is that in 2013 the Bank of Åland will report both a positive net operating profit and a positive after-tax profit attributable to the shareholders.

Since new securities legislation removes the explicit obligation in interim reports to provide an account of probable developments during the current financial period, the Bank of Åland is henceforth choosing to refrain from providing earnings forecasts in interim reports.

Long-term financial targets

While awaiting the final architecture of the new regulations governing the financial service industry, the Bank of Åland has not established new long-term financial targets. However, the Bank's ambition is to exceed legally mandated capitalisation and liquidity requirements by a wide margin while providing shareholders with the requisite return on equity.

IFRSs

The Group's Annual Report for 2012 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	2012	% change, 11–12	2011	2010	2009	2008
EUR M unless otherwise stated						
Earnings						
Net interest income	41.2	–4	43.1	36.8	39.1	42.1
Net commission income	32.7	–16	38.7	36.8	28.0	16.4
Other income	36.5		17.4	25.5	20.3	15.9
Total income	**110.4**	**11**	**99.2**	**99.1**	**87.5**	**74.4**
Staff costs	–52.3	–13	–60.0	–53.7	–44.6	–28.3
Other expenses	–41.7	–3	–43.1	–38.5	–32.6	–23.8
Total expenses	**–94.0**	**–9**	**–103.1**	**–92.2**	**–77.2**	**–52.1**
Profit before loan losses etc.	**16.4**		**–3.9**	**6.9**	**10.3**	**22.3**
Impairment losses on loans and other commitments	–6.4		–1.8	–5.9	–2.9	–2.3
Negative goodwill	0.0		0.0	0.0	23.1	0.0
Net operating profit	**10.0**		**–5.7**	**1.0**	**30.5**	**20.0**
Income taxes	2.2		0.4	–3.2	–3.7	–5.4
Profit for the report period	**12.2**		**–5.3**	**–2.2**	**26.8**	**14.6**
Attributable to:						
Non-controlling interests	0.6		1.2	0.6	0.8	0.6
Shareholders in Bank of Åland Plc	**11.6**		**–6.5**	**–2.9**	**26.2**	**14.0**
Volume						
Lending to the public	2,906	6	2,737	2,573	2,546	2,193
Deposits from the public [1]	2,447	–4	2,544	2,600	2,411	2,126
Managed assets	4,292	13	3,814	4,347	3,101	672
Equity capital	186	3	181	154	162	138
Balance sheet total	3,637	7	3,400	3,475	3,379	2,770
Risk-weighted assets	1,402	–19	1,729	1,664	1,636	1,282
Financial ratios						
Return on equity after taxes, % (ROE) [2]	6.4		–3.9	–1.8	17.8	10.7
Expenses/income ratio, % [3]	85		104	93	88	70
Loan loss level, % [4]	0.22		0.07	0.23	0.12	0.11
Gross non-performing assets, % [5]	0.64		0.70	1.07	0.56	0.66
Level of provisions for doubtful receivables, % [6]	108		71	85	50	34
Core funding ratio (Lending/deposits), % [7]	104		108	99	106	103
Equity/assets ratio, % [8]	5.1		5.3	4.4	4.8	5.0
Tier 1 capital ratio, % [9]	10.9		8.4	7.3	7.9	8.6
Earnings per share, EUR [10]	0.80		–0.54	–0.25	2.27	1.22
Equity capital per share, EUR [11]	12.70		12.34	13.32	13.97	11.87
Working hours re-calculated to full-time equivalent positions	640		690	679	641	487

[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 and other commitments / Lending to the public
[5] (Non-performing loans more than 90 days) / lending to the public) × 100
[6] Impairment loss provisions / Doubtful receivables
[7] Lending to the public / Deposits including certificates of deposit, index bonds and debentures issued to the public and covered bonds issued
[8] (Equity capital / Balance sheet total) × 100
[9] (Core Tier 1 capital / Capital requirement) × 8 % × 100
[10] Shareholders' portion of earnings for the period/ Number of shares adjusted for share issue
[11] Equity capital minus non-controlling interest in equity capital / Number of registered shares minus own shares on closing day

Risk management in brief

The new global regulations for the financial service industry require high 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 go into effect at the beginning of 2013 and will be completely phased in only during 2019 and afterward.

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, since March 31, 2012 the Bank of Åland Plc has applied 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. This has substantially improved 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.

According to Pillar 2, there are supplementary capital requirements for a stress test buffer, concentration risks in the credit portfolio, operational risks, interest rate risks in the Group's banking business and exchange rate risk. The single largest supplementary capital is related to the stress test buffer.

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

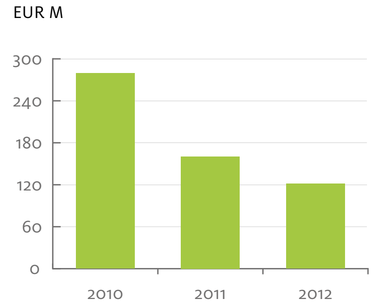
Share capital

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.

In accordance with a decision by the 2011 Annual General Meeting on purchases of the Bank's own shares for the purpose of implementing a share-based payment programme for senior executives, the Bank has purchased its own shares. On December 31, 2012, its holding amounted to 25,000 Series B shares (December 31, 2011: 6,263).

Market capitalisation



Changes in share capital

	Share capital, EUR	Series A shares	Series B shares
2012	29,103,547.58	6,476,138	7,944,015
2011	29,103,547.58	6,476,138	7,944,015
2010	23,282,837.26	5,180,910	6,355,212
2009	23,282,837.26	5,180,910	6,355,212
2008	23,282,837.26	5,180,910	6,355,212

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 2.4 M. Their average price was EUR 13.45. The highest quotation per share was EUR 15.22, the lowest EUR 9.34. Trading in Series B shares totalled EUR 3.6 M at an average price of EUR 8.39. The highest quotation was EUR 11.19, the lowest EUR 6.95.

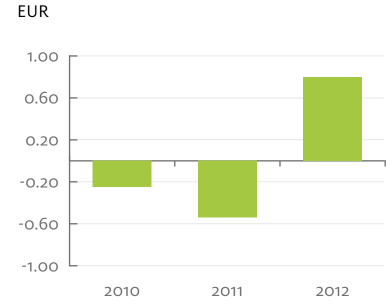
On December 31, 2012, the number of registered shareholders was 9,435 and they owned 13,291,255 shares. There were also a total of 1,128,898 shares registered in the names of nominees.

The ten largest shareholders, December 31, 2012

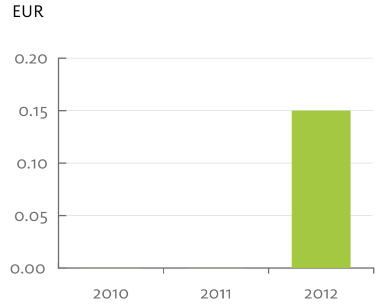
	Shareholder	Series A shares	Series B shares	Total	% of shares	% of votes
1	Anders Wiklöf and companies	1,589,396	1,296,549	2,885,945	20.01	24.07
2	Alandia-Bolagen (insurance group)	917,358	406,432	1,323,790	9.18	13.64
3	Ålands Ömsesidiga Försäkringsbolag (mutual insurance company)	794,566	262,901	1,057,467	7.33	11.75
4	Pohjola Bank OYJ (nominee registered shares)	2,567	936,334	938,901	6.51	0.72
5	Pensionsförsäkringsaktiebolaget Veritas (pension insurance company)	123,668	165,954	289,622	2.01	1.92
6	Ab Rafael (construction service company)	227,640	678	228,318	1.58	3.31
7	Svenska Litteratursällskapet i Finland (literary society)	208,750	0	208,750	1.45	3.04
8	Caelum Oy (investment company)	81,675	119,200	200,875	1.39	1.27
9	Palcmills Oy (financial service company)	87,500	107,500	195,000	1.35	1.35
10	Sijoitusrahasto Alfred Berg Small Cap Finland (mutual fund)	0	123,944	123,944	0.86	0.09

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

Earnings per share



Dividend per share



Shareholders by size of holding

Number of shares	Number of shareholders	Total number of shares held	Average holding	Voting power, %
1 – 100	3,843	167,219	44	1.10
101 – 1,000	4,303	1,491,694	347	7.49
1,001 – 10,000	1,182	2,980,135	2,521	12.70
10,001 –	107	9,781,105	91,412	78.72
Of which, nominee registered shares		1,128,898		1.32

Shareholders by category

Category	Number of shares	% of shares
Private individuals	5,485,353	38.0
Companies	4,591,786	31.8
Financial institutions and insurance companies	1,658,735	11.5
Non-profit organisations	736,642	5.1
Government organisations	566,186	3.9
Foreign investors	252,553	1.8
Nominee registered shares	1,128,898	7.8
	14,420,153	**100.00**

Bank of Åland share data	2012	2011	2010	2009	2008
Number of shares, M [1]	14.42	14.42	11.54	11.54	11.54
Average number of shares, M	14.40	12.10	11.54	11.54	11.54
Earnings per share, EUR [2]	0.80	−0.54	−0.25	2.27	1.22
Dividend per share, EUR [3]	0.15	0.00	0.00	0.70	0.50
Dividend payout ratio [4]	19	0	0	31	41
Equity capital per share before dilution, EUR [5]	12.70	14.49	13.39	13.97	11.87
Market price per share, balance sheet date, EUR					
Series A	10.04	14.15	29.50	33.90	26.60
Series B	7.10	8.68	19.93	24.50	17.24
Price/earnings ratio [6]					
Series A	12.6	neg	neg	14.9	21.9
Series B	8.9	neg	neg	10.8	14.2
Effective dividend yield, % [7]					
Series A	1.5	0	0	2.1	1.9
Series B	2.1	0	0	2.9	2.9
Market capitalisation, EUR M	121.4	160.6	279.5	331.3	247.4

1 Number of registered shares minus own shares on closing day

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

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

4 $\frac{\text{Dividend for the accounting period}}{\text{Shareholders' interest in profit for the accounting period}} \times 100$

5 $\frac{\text{Equity capital – non-controlling interest in equity capital}}{\text{Number of registered shares minus own shares on closing day}} \times 100$

6 $\frac{\text{Share price on closing day}}{\text{Earnings per share}}$

7 $\frac{\text{Dividend}}{\text{Share price on closing day}} \times 100$

Bank of Åland shares traded, Helsinki Stock Exchange					
Year		Thousands of shares	Volume as % of shares	Price paid, EUR: Highest/Lowest	Average price, EUR
2012	A	177	2.7	15.22–9.34	13.45
2012	B	430	5.4	11.19–6.95	8.39
2011	A	825	15.2	31.00–13.00	23.29
2011	B	1,663	24.9	19.90–8.29	14.08
2010	A	77	1.5	34.90–25.50	29.28
2010	B	282	4.4	25.60–17.72	22.05
2009	A	132	2.5	33.90–22.66	29.91
2009	B	317	5.0	25.80–16.50	23.43
2008	A	51	1.0	36.85–22.01	28.02
2008	B	164	2.6	28.40–16.28	23.44

Financial statements

Consolidated statement of financial position

(EUR K)

Assets	Note	Dec 31, 2012		Dec 31, 2011	
Cash			132,547		66,139
Debt securities eligible for refinancing with central banks	3				
Other			305,414		125,311
Claims on credit institutions	4				
Repayable on demand		51,699		71,728	
Other		51,847	103,546	57,290	129,017
Claims on the public and public sector entities	5, 6		2,905,566		2,737,017
Debt securities	3		44,818		198,182
Shares and participations	7		6,521		3,329
Shares and participations in associated companies	7		763		1,209
Derivative instruments	8		20,393		20,413
Intangible assets	9, 11				
Miscellaneous non-current expenditures		9,553		10,080	
Goodwill		1,373	10,926	1,373	11,453
Tangible assets	10, 11				
Investment properties		441		480	
Properties for own use		23,347		24,279	
Other tangible assets		8,951	32,740	7,558	32,316
Other assets	12		44,838		46,113
Accrued income and prepayments	13		26,432		26,099
Deferred tax assets	14		2,723		3,891
Total assets			**3,637,226**		**3,400,490**

Consolidated statement of financial position

(EUR K)

Liabilities and equity capital	Note	Dec 31, 2012			Dec 31, 2011		
Liabilities							
Liabilities to credit institutions and central banks							
Central banks			130,000			30,000	
Credit institutions							
Repayable on demand		88,795			41,788		
Other		155,760	244,555	374,555	158,495	200,283	230,283
Liabilities to the public and public sector entities							
Deposits							
Repayable on demand		1,784,004			1,702,019		
Other		343,161	2,127,166		444,347	2,146,366	
Other liabilities			192	2,127,358		332	2,146,698
Debt securities issued to the public	15						
Bonds			571,539			439,372	
Other			188,189	759,728		219,167	658,539
Derivative instruments and other liabilities held for trading	8			14,660			13,502
Other liabilities	16			66,503			59,090
Provisions	17			1,085			4,207
Accrued expenses and prepaid income	18			27,663			29,587
Subordinated liabilities	19			64,139			57,687
Deferred tax liabilities	14			15,543			20,338
Total liabilities				**3,451,234**			**3,219,930**
Equity capital							
Share capital	28			29,104			29,104
Share premium account				32,736			33,272
Other restricted reserves							
Reserve fund			25,129			25,129	
Fair value reserve	29						
Cash flow hedge		–1,171					
Translation differences in income		–296			7,823		
Fair value measurement		4,533	3,066	28,196	1,781	9,603	34,733
Own shares				–244			–54
Paid-up unrestricted equity reserve				24,485			24,485
Retained earnings	30			68,479			56,385
Shareholders' interest in equity capital				182,755			177,924
Non-controlling interest in capital				3,236			2,636
Total equity capital				**185,991**			**180,560**
Total liabilities and equity capital				**3,637,226**			**3,400,490**
Off-balance sheet obligations	55						
Obligations to a third party on behalf of customers							
Guarantees				14,609			18,716
Irrevocable commitments given to customers				353,043			358,279
Other				37,635			33,844
				405,287			**410,940**

Consolidated statement of comprehensive income

(EUR K)

	Note	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Interest income	31	86,132	85,743
Interest expenses	32	−44,957	−42,664
Net interest income		**41,175**	**43,079**
Commission income	33	40,110	46,731
Commission expenses	34	−7,398	−7,981
Net commission income		**32,712**	**38,750**
Income from equity investments	35	330	42
Net income from securities transactions and foreign exchange dealing	36	10,062	1,871
Net income from financial assets available for sale	37	10,756	−664
Net income from investment properties	38	1	944
IT income		14,491	13,447
Share of profit in companies consolidated according to the equity method		29	25
Other operating income	39	823	1,731
Total income		**110,379**	**99,225**
Staff costs	40	−52,264	−59,977
Other administrative expenses	41	−20,576	−20,931
Production for own use		1,465	1,794
Depreciation/amortisation and impairment losses on tangible and intangible assets		−8,135	−6,707
Other operating expenses	42	−14,480	−17,294
Total expenses		−93,990	−103,115
Profit before impairment losses		**16,389**	**−3,890**
Impairment losses on loans and other commitments	43	−6,430	−1,788
Net operating profit		**9,957**	**−5,681**
Income taxes	44	2,214	359
Profit for the accounting period		**12,171**	**−5,322**
Attributable to:			
Shareholders in Bank of Åland Plc		**11,558**	**−6,472**
Non-controlling interests		613	1,150
Total		**12,171**	**−5,322**
Other comprehensive income			
Cash flow hedge		−1,551	
Assets available for sale		3,646	619
Valuation differences [1]		−8,119	−282
Income tax on other comprehensive income	44	−513	−37
Total comprehensive income for the year		**5,634**	**−5,022**
Attributable to:			
Shareholders in Bank of Åland Plc		**5,021**	**−6,172**
Non-controlling interests		613	1,150
Total		**5,634**	**−5,022**
Earnings per share, EUR	46	**0.80**	**−0.54**

[1] In conjunction with the 2012 divestment of the Bank's Swedish subsidiary, which had been emptied of operations, the Bank realised a valuation difference of EUR 7.5 M, which was thus moved to "Net income from securities transactions and foreign exchange dealing".

Consolidated cash flow statement

(EUR K)

Bank of Åland Group	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Operating activities		
Net operating profit	9,957	–5,681
Adjustment for net operating profit items not affecting cash flow		
Impairment losses on loans and other commitments	6,465	1,812
Unrealised changes in value	–2,585	2,900
Depreciation/amortisation and impairment losses	8,135	6,707
Effect of pension fund	–383	–251
Accrued surpluses/deficits on debt securities and bonds issued	4,913	4,578
Gains from investing activities	–16,939	–1,151
Income taxes paid	–2,325	–3,495
Changes in assets and liabilities in operating activities		
Debt securities eligible for refinancing with central banks	–178,635	41,664
Claims on credit institutions	4,989	–3,362
Claims on the public and public sector entities	–168,925	–161,336
Other asset items	174,195	76,986
Liabilities to credit institutions	137,312	38,228
Liabilities to the public and public sector entities	–36,899	2,935
Debt securities issued	–44,341	–53,288
Other liability items	–34,724	–2,192
Cash flow from operating activities	**–139,790**	**–54,944**
Investing activities		
Equities	–2,451	196
Investments in associated companies and subsidiaries	1,000	0
Divestment of shares in associated companies and subsidiaries [1]	58,626	0
Tangible assets	–1,248	2,407
Intangible assets	–2,744	–3,086
Cash flow from investing activities	**53,183**	**–482**
Financing activities		
Dividend paid to non-controlling interests	–1,138	–1,085
Share issue	0	30,306
Non-controlling interests in subsidiaries	0	2,040
Purchases of own shares	–190	–54
Finance leases	–1,282	–1,220
Change in long-term borrowings from banks	–213,092	–81,508
Change in covered bonds issued	354,026	
Change in subordinated debentures	6,451	–15,278
Cash flow from financing activities	**144,775**	**–66,799**
Cash and cash equivalents		
Cash and cash equivalents at beginning of period	184,727	306,227
Cash flow from operating activities	–139,790	–54,944
Cash flow from investing activities	53,183	–482
Cash flow from financing activities	144,775	–66,799
Exchange rate differences in cash and cash equivalents	2,752	724
Cash and cash equivalents at end of period	**245,648**	**184,726**
Specification of cash and cash equivalents		
Cash	132,547	66,139
Claims on credit institutions	98,104	118,587
Debt securities	14,997	0
	245,648	**184,727**

[1] The Bank of Åland Plc sold its subsidiary Ålandsbanken Asset Management AB in Sweden on October 26, 2012. Payment received totalled EUR 58,568 K and the cash and cash equivalents in the subsidiary amounted to EUR 942 K. A transferred receivable of EUR 50,155 K was the most important balance sheet item.

"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 86,983 K (2011: 86,838), interest paid of EUR 39,505 K (42,303) and dividend income received of EUR 330 K (42).

Consolidated statement of changes in equity capital

(EUR K)

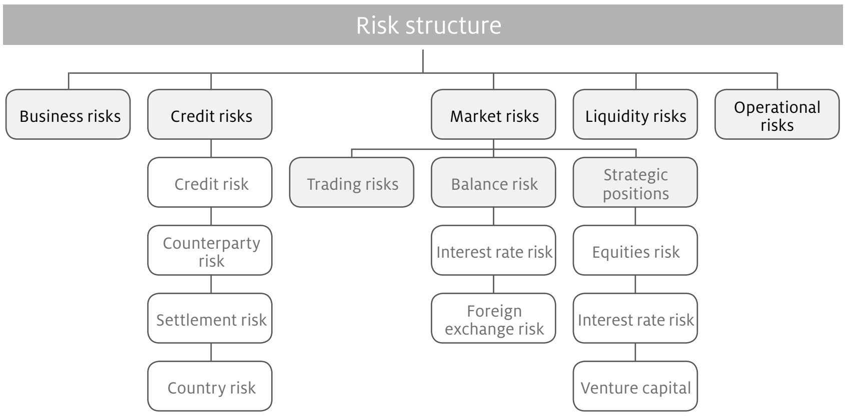
Bank of Åland Group

	Share capital	Paid-up unrestricted equity reserve	Share premium account	Reserve fund	Cash flow hedge	Own shares	Fair value reserve	Translation difference	Retained earnings	Share-holders' portion of equity capital	Non-controlling interests' portion of equity capital	Total
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**
Comprehensive income for the year					−1,171		2,753	−8,120	11,558	5,021	600	5,621
Dividend to shareholders									0	0		0
Purchases of own shares						−190				−190		−190
Other			−536						536	0		0
Equity capital, Dec 31, 2012	**29,104**	**24,485**	**32,736**	**25,129**	**−1,171**	**−244**	**4,533**	**−296**	**68,479**	**182,756**	**3,236**	**185,991**

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.

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 business risk and operational risk.

Ålandsbanken Fondbolag Ab and Ålandsbanken Fonder AB, whose operating area is mutual fund management, and Alpha Management Company S.A., whose operating area is to be responsible for funds registered in Luxembourg. Their operations are mainly subject to business risk and operational risk.

Risk organisation

THE 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 that are 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.

THE 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.

THE RISK OVERSIGHT UNIT

The Risk Office, a 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 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. 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 risk evaluation work 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 in the legal and regulatory environment

Risks in 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 participants in the financial sector.

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 the Group's 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 classification.

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 defaulted 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 external risk classification, in Finland by the credit rating company Suomen Asiakastieto Oy in Finland and in Sweden by UC AB.

Non-performing loan commitments are reported monthly to the Managing Director and the Executive Team. Large customer commitments are reported monthly, both internally and to the Financial Supervisory Authority. The Group's risk oversight unit regularly 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 concerning existing loans, must be based on a written loan decision made by an authorised decision maker. Loan decisions are 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. Credit committees make decisions on all credit matters that fall outside the limit of an individual official. The Credit Committee of the Executive Team includes the Managing Director, the Chief Risk Officer (CRO) and the Credit Manager. The Credit Committee of the Executive Team makes decisions on credit matters up to EUR 10 M and the Bank's Board of Directors on credit matters larger than this. However, the Credit Committee may make decisions on matters larger than EUR 10 M that are deemed low-risk. Credit matters dealt with in the Credit Committee of the Executive Team are first dealt with by a credit unit. The primary task of this 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.

In risk assessment of corporate customers in the Åland and Finnish Mainland business areas, the Bank uses 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 a few receivables from customers domiciled outside Finland and Sweden.

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. Internal risk classification is the most important model for calculating capital adequacy in compliance with Basel 2 rules (the Internal Ratings Based or IRB approach). The rating is dynamic; in other words, it is reassessed if there are signs that a counterparty's repayment capacity has changed.

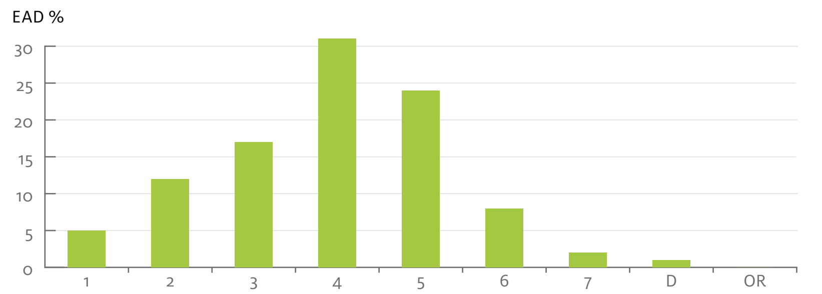
The Risk Office corporate unit carries out a large-scale annual evaluation of the system, and the findings of this evaluation are reported to the Board of Directors. This oversight includes a yearly validation and calibration of the risk measures and models that are applied in risk classification. There 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.

The Bank applies seven risk categories when performing risk classification of customers. In addition to these categories, there is a category for defaulted loans (D), where loans that have been unsettled for 90 days or longer are placed. There is also a category for loans exempted from classification (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.

These charts show exposures in the Åland and Finnish Mainland business areas 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 the customer entity or the fulfilment of other criteria related to sales, total assets and number of employees.

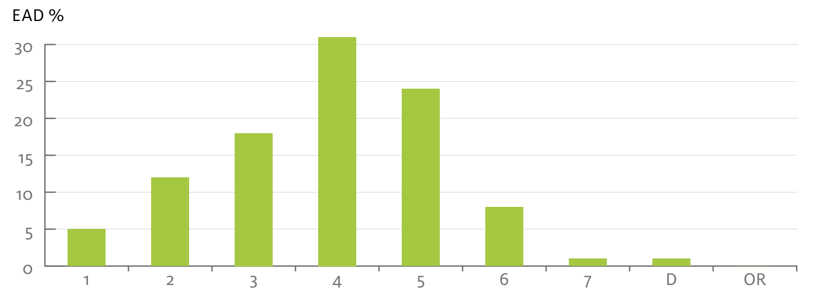
Household portfolio

As for the household portfolio, exposures are allocated among "probability of default" (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 1.24 per cent according to the category value.



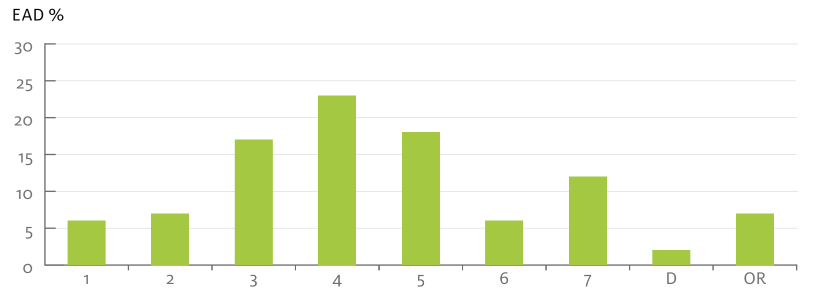
Household portfolio with real estate as collateral

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. A majority of exposures are allocated among PD categories 4 and 5. The average default risk in PD category 5 amounts to 0.75 per cent, which is deemed low-risk according to the category value.

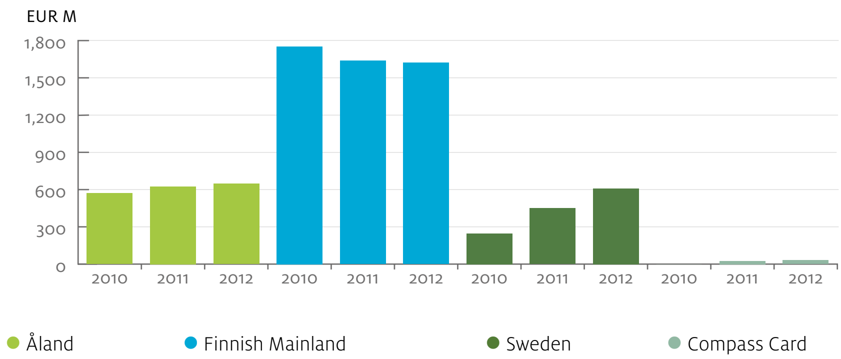


Corporate portfolio

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 according to the category value. The Bank has not yet received permission from the Financial Supervisory Authority to calculate the capital requirement for this portfolio according to the IRB model.



Lending by business area, 2010–2012



CREDIT RISK CONCENTRATIONS

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

CUSTOMER CONCENTRATION

A customer entity refers to customers (physical persons or legal entities) that form a corporate 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 exceeding 5 per cent of the Group's capital base. Also shown below is the allocation of these customers by economic sectors.

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	735.7		Financial operations	365.7
Number	35		Construction and real estate operations	231.8
Maximum	54.8	24.3	Private individuals	65.1
Minimum	10.3	4.6	Shipping	52.7
Median	15.0	6.6	Public sector	12.9
Top quartile	29.0	12.8	Other industry and crafts	7.6
Bottom quartile	11.8	5.2		

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 of the Bank's capital base, but in small institutions a predetermined and higher limit may be approved by the Board of Directors.

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

Large exposures	Dec 31, 2012
EUR M	
Sovereigns, institutions, companies and private individuals	
Large exposures – number	17
Large exposures – total, gross basis	707.2
Of which, free from limitations (for example exposures to sovereigns)	371.3
Capital base for coverage of large exposures	232.3

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

SOVEREIGN AND INSTITUTIONAL COUNTERPARTIES

The Group shall only work together with counterparties that are deemed capable of fulfilling their obligations towards the Group. The central banks, investment 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 limit may be set either for counterparties specifically or be based on a limitation according to ratings by external rating agencies. The table below shows the Group's exposures allocated according to ratings by the external credit rating agencies Moody's and Standard & Poor's. These exposures include all types of contracts that the Bank has entered into with the counterparty, for example bond holdings, derivative contracts and receivables payable on demand.

The compilations only take into account those sovereign and institutional counterparties for which overall exposure exceeds EUR 1 M.

Institutional exposures, Moody's / S&P	Exposure, EUR M	%
AAA/Aaa	272.2	47
AA/Aa	144.5	25
A/A	146.1	25
No rating available	15.0	3
	577.8	

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 real estate 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:

Financial collateral	
Type of securities	Market value pledged, EUR M
Equities	866.4
Bonds	144.2
Funds	72.5
Total	**1,083.1**

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.

General information on credit risk				Dec 31, 2012	
EUR M	Remaining maturity				
	0–3 mo	3–12 mo	1–5 yrs	>5 yrs	Total
Business and professional activities	94.8	133.5	514.3	245.4	996.1
Of which impaired receivables	0.0	0.0	0.3	7.2	7.5
Of which overdue receivables	10.2	1.3	11.6	9.4	32.5
Private individuals	181.2	255.2	983.1	469.1	1,888.7
Of which impaired receivables	0.4	0.0	0.1	2.3	2.8
Of which overdue receivables	5.6	5.1	6.0	24.9	41.6
Public sector entities	2.8	3.9	15.1	7.2	20.8
Of which impaired receivables	0.0	0.0	0.0	0.0	0.0
Of which overdue receivables	0.0	0.0	0.0	0.0	0.0
Total amount	**278.8**	**392.6**	**1,512.5**	**721.7**	**2,905.6**
Of which impaired receivables	0.4	0.0	0.4	9.5	10.3
Of which overdue receivables	15.8	6.4	17.6	34.3	74.1

The table shows the Group's total loan portfolio and overdue and impaired receivables on December 31, 2012. 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, 2012								
EUR M	Business		Private individuals		Public sector		Total	
	Overdue	Impaired	Overdue	Impaired	Overdue	Impaired	Overdue	Impaired
< 29 days	17.4	0.0	21.6	0.0	0.0	0.0	39.0	0.0
30–59 days	6.7	0.0	5.4	0.0	0.0	0.0	12.1	0.0
60–89 days	2.7	0.0	2.3	0.0	0.0	0.0	5.0	0.0
> 90 days	5.7	7.5	12.3	2.8	0.0	0.0	18.0	10.3
Total	**32.5**	**7.5**	**41.6**	**2.8**	**0.0**	**0.0**	**74.1**	**10.3**

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

Share price risk refers to the risk of decrease in value due to price changes in the stock market. Since the Bank does not carry out any trading for its own account, equity-related risk is very limited.

The Bank's exposure to equities consists of holdings in Åland-based companies, the equity-related option portion of repurchased structured products, holdings in the Bank's own mutual funds, pooling and administrative securities accounts plus some other minor holdings. Decisions on strategic investments are made by the Managing Director and/or the Board of Directors. Other holdings are restricted by limits, ultimately approved by the Board of Directors.

FOREIGN EXCHANGE RISK

Foreign exchange risk refers to the risk of unfavourable changes in value in the Bank's assets and liabilities due to changes in foreign exchange rates. The Group's operations occur mainly in euros and Swedish kronor, but a limited portion of its lending and deposits occur in other currencies, which creates a certain foreign exchange risk. This risk is restricted by limits established by the Board of Directors.

The Bank also has a structural foreign exchange risk in Swedish kronor since the Bank's financial accounts are prepared in euros while the functional reporting currency of its Swedish branch is Swedish kronor. The structural foreign exchange risk arises due to accrued profits/losses in the branch as well as the branch's endowment capital in Swedish kronor. This structural foreign exchange risk is dealt with through separate decisions by the Managing Director or 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.

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 calculating interest rate risk is based on standardised schedules for income risk and present value risk, i.e. on the calculations 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), constitutes 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, 2012

EUR M	Maturity interval									
	< 1 mo	1–3 mo	3–6 mo	6–9 mo	9–12 mo	1–2 yrs	2–5 yrs	>5 yrs	Non-interest-bearing	Total
Assets										
Claims on credit institutions and central banks	236.1									236.1
Claims on the public	1,258.0	741.1	283.8	231.4	134.2	38.9	189.2	28.9		2,905.5
Debt securities	28.5	64.5	20.0		10.4	21.2	163.3	42.4		350.2
Shares and participations									7.3	7.3
Tangible and intangible assets									43.7	43.7
Other assets									94.4	94.4
Total assets	**1,522.7**	**805.6**	**303.8**	**231.4**	**144.5**	**60.1**	**352.4**	**71.3**	**145.4**	**3,637.3**
Liabilities										
Liabilities to credit institutions	129.8	30.6	64.2	13.1	6.9	130.0				374.5
Deposits from the public	1,830.1	91.4	75.1	73.6	56.6	0.1	0.5			2,127.4
Debt securities	58.8	453.6	36.0	17.7	16.5	23.2	149.4	4.5		759.7
Subordinated liabilities		3.9	6.8			9.6	26.9	16.9		64.1
Other liabilities									125.5	125.5
Equity capital and reserves									186.0	186.0
Total liabilities and equity capital	**2,018.6**	**579.6**	**182.0**	**104.3**	**80.0**	**162.9**	**176.8**	**21.5**	**311.5**	**3,637.3**
Derivative contracts	2.5	45.9	−39.8	−1.0	8.6	10.9	−11.4	−15.7		
Difference between assets and liabilities	**−493.5**	**272.0**	**82.0**	**126.0**	**73.1**	**−91.9**	**164.2**	**34.2**	**−166.2**	

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. 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, 2012	Dec 31, 2011
EUR M		
Income risk	2.1	3.1
Present value risk	3.9	1.3

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 secondary 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 reserve	December 31, 2012	December 31, 2011
EUR M		
Liquidity reserve	483	410.3

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, 2012, the liquidity reserve amounted to EUR 483 M, which was equivalent to 13 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.

The Bank of Åland's most important metric for liquidity is the "survival horizon", which shows how long the Bank will remain viable during long periods of stress in capital markets, when access to new funding would be limited.

The Board of Directors has decided that this survival horizon must be at least six months under highly stressed conditions.

During the third quarter, the Bank of Åland issued covered bonds for the first time, totalling EUR 300 M. During the fourth quarter, the Bank issued more than EUR 170 M worth of additional covered bonds. Covered bonds have provided the Bank of Åland with access to a new, efficient funding source. By issuing covered bonds, the Bank of Åland increases its long-term funding as a share of total funding, which is in line with the new capital adequacy regulations.

Given the Bank's ability to issue further covered bonds, there is also an additional unutilised liquidity reserve. The Bank has no significant long-term borrowing maturities during 2013.

NEW LIQUIDITY METRICS

Regulatory authorities have established new liquidity rules that include both short-term and structural liquidity under stressed conditions.

According to the future liquidity coverage ratio (LCR) requirement, banks will be required to have liquid assets of very high quality equivalent to at least the net cash outflow for 30 days under stressed conditions.

According to the future net stable funding ratio (NSFR), which measures structural liquidity, banks will have to fully fund their illiquid assets with stable funding.

According to current plans, the LCR metric will be introduced gradually during 2015–2019 and the NSFR metric will be introduced in 2018.

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 risk is 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.

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. The CFO's corporate unit also administers insurance protection and assists management on insurance issues.

During 2012, the net cost of realised operational risks was EUR 0.2 M.

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.

The capital requirement for credit risks is calculated according to the Internal Ratings Based (IRB) approach for the Finnish household portfolio. For other portfolios, the standardised approach is used. The capital requirement for operational risks is calculated according to the basic indicator approach in the Basel 2 regulations, but starting on June 30, 2013 the Bank has received permission to apply the standardised method for operational risks.

The capital base can be divided into three categories: Tier 1 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 Tier 1 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. Since the Bank of Åland has no hybrid capital, core Tier 1 capital is identical with 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, which includes fixed-term and short-term items, 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.

Capital base	Dec 31, 2012	Dec 31, 2011
EUR M		
Tier 1 capital		
Share capital	29.1	29.1
(–) Own shares and participations	−0.2	−0.1
Share premium account	32.7	33.3
Other equity capital	24.5	24.5
Reserves	81.0	70.7
Hybrid capital instruments	0.0	0.0
(–) Deductions from Tier 1 capital	−14.2	−12.0
Total Tier 1 capital	**152.9**	**145.5**
Supplementary capital		
Upper supplementary capital	12.4	17.6
Lower supplementary capital (Debenture loans)	64.1	57.7
(–) Deductions from supplementary capital	−3.2	0.0
Total supplementary capital	**73.3**	**75.2**
Total capital base	**226.2**	**220.8**
Capital requirement		
Capital requirement for credit risks	98.1	123.0
Capital requirement for market risks	0.0	1.4
Capital requirement for operational risks	14.1	14.0
Total capital requirement	**112.2**	**138.4**
Total capital ratio, %	**16.1**	**12.76%**
Core Tier 1 capital ratio, %	**10.9**	**8.40%**
Capital requirement for transitional rule	12.0	
Capital adequacy taking transition rule into account, %	14.6	
Core Tier 1 capital ratio taking transitional rule into account, %	9.8	

Basel 2 and calculation of risk-weighted assets

CREDIT RISKS

IRB approach for calculating capital requirements

Since March 31, 2012, the Bank has used an internal ratings based (IRB) approach when calculating its capital requirement for credit risk in the Finnish household portfolio. For other loan portfolios, it uses the standardised approach. The Bank will gradually shift these portfolios into the IRB approach. In conjunction with its permit to use the IRB approach for the household portfolio, however, the Bank was granted permission to exempt sovereign, institutional and equities exposures from calculation according to the IRB approach, since these exposure categories historically and currently consist of a small number of counterparties. Subsidiaries in the Bank of Åland Group are also exempted from the IRB approach, according to the permit.

Internal ratings based (IRB) risk classification system

In the IRB approach, the Bank's own statistical calculations are based on internal data for estimating the *probability of default (PD)* and *loss given default (LGD)* for the Bank's loan customers. The internal risk classification system serves as an important source of support in the credit approval process when pricing loans. The system also constitutes an important cornerstone of the Bank's credit risk monitoring and reporting to the Executive Team and Board of Directors.

Some key concepts in the Bank's IRB model are:

Probability of default (PD) – the probability that a customer will default within twelve months. According to the Bank's overall definition, a customer is regarded as having defaulted when the delay related to unpaid interest and/or loan principal amounts to more than 90 days. However, other factors may also cause the customer to meet the Bank's definition of default, for example bankruptcy filings. The estimated PD value is adjusted for economic cycles, using a factor that will enable the PD value to cover a lengthy economic cycle (1991 onward). The Bank adds safety margins which, based on the size of the portfolios, proportionally correct for limited supporting data. The PD value that has been calculated is then placed in the Bank's seven point PD scale for non-defaulted loans. There is an additional category for loans that have defaulted and thus have a PD value of 100 per cent. The Bank's models for estimating the probability of default for household exposures are based entirely on statistical analysis data that the Bank has stored concerning the repayment histories of its customers. For corporate customers in the household portfolio, the Bank also uses external scoring data from the credit rating company Suomen Asiakastieto Oy, which are based on key financial ratios of companies, their economic sectors and other factors.

Loss given default (LGD) – the percentage of total exposure that the Bank expects to lose if a counterparty goes into default. LGD thus describes the safety situation of the commitment that the Bank has entered into with the customer. The Bank uses the advanced LGD approach, which means that the Bank estimates LGD based on its own internal data, which are based on historical recoveries from sale of collateral that has been taken over. Estimated LGD value is also adjusted for economic cycles in order to represent a recovery situation in an economic downturn situation.

Exposure at default (EAD) – the exposure amount, including accrued interest, which the Bank has in relation to the customer. Aside from the actual loan debt, EAD also takes into account unutilised portions of loans and limits using a credit conversion factor (CF). The CF describes the average percentage of utilisation of the unutilised portion of the commitment. The Bank is currently developing its own internal model so that it will also be able to estimate CF. For the time being, it is applying a factor of 100 per cent, which means that unutilised amounts are always taken fully in account in calculating the capital requirement as regards the IRB-approved household portfolio.

Expected loss (EL) – a percentage figure for the loss that the Bank expects on the loan. Multiplying PD and LGD by the EAD amount (PD × LGD × EAD) results in the expected loss expressed in euros. Since the risk parameters in this calculation include adjustments for economic cycles and safety margins (see above), the outcome is a stressed EL value. For every loan, EL must be covered by actual interest income, and since the loss is assumed to be known there must also be a provision for it in the Bank's capital base, according to capital adequacy regulations.

Unexpected loss (UL) – unlike EL, the capital requirement describes the unexpected loss that the Bank must make allowances for in its capital adequacy analysis, and this calculation uses such parameters as PD, LGD and EAD. These parameters are inserted into a risk-weighting formula stipulated by the Financial Supervisory Authority, but this formula is adjusted for different types of exposures, for example collateral including and not including residential real estate. Multiplying the risk weight by the exposure amount (EAD) results in the risk-weighted amount. This amount is multiplied by 8 per cent and results in the capital requirement that is used in the capital adequacy analysis.

The table below shows the Bank's exposures in the IRB-approved household portfolio, divided into PD categories. A category value is calculated for each PD category, which is equivalent to the overall annual risk of default for the exposures in each risk category. These levels are monitored annually in conjunction with model validation and oversight of the risk system. The risk classification system is examined regularly by the Bank's Internal Auditing unit, and validation reports are compiled and discussed at least yearly by the Bank's Board of Directors. Any model updates, known as calibrations, that are based on the model validation process occur only after approval by the Bank's Board of Directors.

Allocation and risk-weighting in PD categories for exposures administered using the IRB approach

	Household exposures with real estate as collateral			Small and medium-sized companies classified as household exposures			Other household exposures		
PD category	PD by category value, %	EAD, EUR M	Risk weight, %	PD by category value, %	EAD, EUR M	Risk weight %	PD by category value, %	EAD, EUR M	Risk weight %
1	0.04	78.1	1	0.15	4.3	8	0.04	4.7	2
2	0.11	174.1	2	0.22	9.4	9	0.11	27.0	5
3	0.14	257.9	3	0.79	27.8	18	0.14	24.3	6
4	0.21	449.8	5	2.61	50.7	36	0.21	66.2	8
5	0.75	343.7	14	7.80	30.9	67	0.75	69.4	21
6	7.31	110.7	66	13.07	15.3	85	7.31	22.1	48
7	28.75	16.3	123	53.00	12.1	88	28.75	6.2	75
Defaulted	100.00	11.1	348	100.00	1.8	281	100.00	3.3	112

The exposure-weighted PD value by category value, including adjustment for economic cycles and safety margins for all non-defaulted household exposures that was used in the capital requirement calculation on December 31, 2012 was 1.89 per cent. For household exposures with real estate as collateral, the weighted PD amounted to 1.18 per cent. For small and medium-sized companies in the household portfolio and other household exposures, it was 8.22 and 1.87 per cent, respectively.

At the end of 2011, the exposure-weighted PD value by category value, including adjustment for economic cycles and safety margins for all household exposures was 2.09 per cent. For household exposures with residential real estate as collateral, the weighted PD amounted to 1.38 per cent. For small and medium-sized companies in the household portfolio and other household exposures, it was 9.03 and 1.64 per cent, respectively. The table below shows the actual outcome of defaults during 2012. Note that these actual outcomes were observed during a period when the macroeconomic situation was better than the average situation to which the adjustment for economic cycles is made. Especially for small and medium-sized companies in the household portfolio, the observed default frequency during 2012 was below average.

Default frequency*

Exposure category	Actual outcome, %	Estimated value**, %
Household exposures with real estate as collateral	0.52	1.02
Small and medium-sized companies classified as household exposuresr	1.58	6.09
Other household exposures	1.43	2.54
Total household exposures	**0.83**	**1.77**

* Arithmetic averages
** Estimated on December 31, 2011. Includes adjustment for economic cycles and precautionary margin.

The table below shows the EAD-weighted average LGD levels in per cent for each respective exposure category when applying the IRB approach.

EAD-weighted average LGD

Exposure category	Total, %	Defaulted, %
Household exposures with real estate as collateral*	11.8	31.2
Small and medium-sized companies classified as household exposures	19.1	49.7
Other household exposures	20.7	44.5
Total household exposures	**13.5**	**35.9**

* According to the Financial Supervisory Authority's instructions, the average LGD value for exposures with residential property as collateral without a government guarantee may be no lower than 10 per cent.

The exposure-weighted LGD value for all non-defaulted household exposures on December 31, 2010 was 9.7 per cent. For household exposures with residential real estate as collateral, LGD amounted to 7.8 per cent, for small and medium-sized companies 16.3 per cent and for other household exposures 15.8 per cent. The actual LGD value for the exposures that defaulted during 2011 is presented in the table below. In calculating observed LGD, only recoveries from residential real estate and financial collateral until December 31, 2012 have been taken into account. As a result, the observed LGS value will fall further, since on December 31, 2012 there was still unsold collateral for 2011 defaults. It should also be noted that the estimates of LGD on December 31, 2010 and December 31, 2012 are not directly comparable, since the model has added various adjustments to economic cycles during this period.

Estimated LGD in relation to observed LGD

Exposure category	Estimated LGD, %	Observed LGD, %
Household exposures with real estate as collateral	7.8	12.0
Small and medium-sized companies classified as household exposures	16.3	11.7
Other household exposures	15.8	12.3
Total household exposures	**9.7**	**12.0**

The table below shows the Bank's estimated expected loss expressed in EUR M (PD × LGD × EAD) for the household portfolio. The expected amount is compared to the amount of the provision for individual impairment losses. The table shows that the amount that comprises the deficit compared to impairment losses recognised on December 31, 2012 amounts to EUR 6.5 M. Half of this amount will be subtracted from Tier 1 capital and half from supplementary capital in calculating capital adequacy. The estimated expected loss includes safety margins and adjustments to economic cycles as indicated above. The Bank's estimated expected loss thus exceeds the individual impairment losses that were recognised.

Impairment losses and estimated expected loss for portfolios administered using IRB

EUR M Exposure category	Impairment losses, Dec. 31, 2012	Estimated expected loss	Net amount
Household exposures with real estate as collateral	−0.6	3.3	2.7
Small and medium-sized companies classified as household exposures	−1.0	3.5	2.6
Other household exposures	−2.2	3.4	1.2
Total household exposures	**−3.7**	**10.2**	**6.5**

The table below shows, among other things, the capital requirement and risk weight for credit risk allocated according to exposure categories. The EAD amount also takes into account amounts subtracted from gross exposure using credit risk mitigation techniques in the form of government and bank guarantees as well as approved financial collateral according to the Financial Supervisory Authority's credit risk mitigation rules. The use of these mitigation techniques is described in greater detail below.

Total EAD and average risk weight for credit risk exposures

EUR M

Exposure category	Gross exposure	EAD	Risk weight, %	Risk-weighted assets	Capital requirement
Credit risk according to the IRB approach					
Household exposures with real estate as collateral	1,445.8	1,441.9	15	217.3	17.4
Small and medium-sized companies classified as household exposures	153.3	152.3	49	73.9	5.9
Other household exposures	237.5	223.2	18	41.1	3.3
Total exposures using the IRB approach	**1,836.6**	**1,817.4**	**18**	**332.3**	**26.6**
Credit risk according to the standardised approach					
Exposures to sovereigns and central banks	283.2	312.4	0	0.0	0.0
Institutional exposures	372.8	375.1	16	60.4	4.8
Company exposures	887.0	741.6	76	561.6	44.9
Household exposures with real estate as collateral	116.6	116.6	35	40.8	3.3
Small and medium-sized companies classified as household exposures	121.8	118.8	37	44.4	3.6
Qualified revolving household exposures	31.4	31.4	75	23.5	1.9
Other household exposures	209.9	186.7	66	122.3	9.8
Exposures to equities	7.3	7.3	100	7.3	0.6
Other items	88.4	88.4	38	33.3	2.6
Total exposures according to the standardised approach	**2,118.4**	**1,978.3**	**45**	**893.6**	**71.5**
Total capital requirement for credit risk	**3,955.0**	**3,795.7**	**32**	**1,225.9**	**98.1**

Special IRB-related disclosures	December 31, 2012
EUR M	
Individual impairment losses attributable to IRB-approved portfolios	3.7
Estimated expected loss amount according to IRB models	–10.2
Deficit subtracted from the capital base in the capital adequacy analysis (net EL)	–6.5
Capital requirement according to the standardised approach for IRB-approved portfolios	56.0
Limit according to transitional rule (minimum 80% of above)	44.8
Additional capital requirement including net effect for deficit subtracted from the capital base	11.7

STANDARDISED APPROACH FOR CALCULATION OF CAPITAL REQUIREMENT

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 by the authorities for the respective exposure category. The risk weight is based on ratings from the external rating institutions Standard & Poor's, Moody's and Fitch. Exposures to sovereigns (national governments) and their respective central banks in the European Economic Area (EEA) shall always be assigned a risk weight of 0 per cent. 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. For other exposure categories, the Bank uses risk weights established for the entire exposure category. The Bank also uses ratings from the above rating institutions for bonds and share issues that have been provided as collateral for lending.

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. Approved financial collateral affected the LGD parameter for the exposure categories where IRB is applied, reducing the exposure amount for the exposures where the standardised approach is used. However, all exposure categories have in common the use of guarantees, i.e. unpaid credit risk protection, where the exposure moves to the guarantor's exposure category and risk weight – in practice to the sovereign or institution exposure categories, where the standardised approach is always 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 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 residential real estate used as collateral in credit risk mitigation must meet special requirements set by the Financial Supervisory Authority to be approved; this includes requiring regular independent appraisals. The Bank order quarterly index adjustment of the residential real estate collateral portfolio in order to keep up with price developments in the housing market. The Bank's assessment is that the market values in the collateral system are conservative compared to these index adjustments. In the Bank's IRB models, residential real estate collateral affects the LGD parameter that is used in calculating the capital requirement. The standardised method uses a risk weight determined by authorities of 35 per cent on loans that amount to 70 per cent of the market value of residential real estate collateral. Loans that are not entirely covered by residential real estate collateral are divided into a covered and uncovered portion. In these calculations, commercial real estate is not accepted as credit risk mitigating collateral.

The table below shows the amounts by which the Bank reduces its exposure amount by means of financial collateral and guarantees. The "Other collateral" category includes pledged deposit accounts that reduce the exposure in its entirety. Positive values in the table indicate an inflow to this exposure category by means of guarantees issued as collateral for loans.

Credit risk mitigation (CRM) methods

EUR M	Exposure before credit risk protection	Guarantees	Financial collateral	Other collateral	Net exposure
Credit risk according to the IRB approach					
Household exposures with real estate as collateral	1,445.8	–5.8	56.1*	0	1,441.9
Small and medium-sized companies classified as household exposures	153.3	–0.8	20.6*	–0.5	152.3
Other household exposures	237.5	–14.9	211.3*	–0.1	223.2
Credit risk according to the standardised approach					
Exposures to sovereigns and central banks	283.2	29.2			312.4
Institutional exposures	372.8	2.3			375.1
Company exposures	887.0	–7.7	–136.0	–1.7	741.6
Household exposures with real estate as collateral	116.6				116.6
Small and medium-sized companies classified as household exposures	121.8		–3.0		118.8
Qualified revolving household exposures	31.4				31.4
Other household exposures	209.9		–23.2		186.7
Exposures to equities	7.3				7.3

*Does not reduce exposure, but instead affects the LGD parameter

MARKET RISK

The Bank of Åland Plc applies the exemption for small trading books in the Finnish Financial Supervisory Authority's Standard 4.3g. It thus calculates the capital requirement for items in the trading book using the same methods that it uses for credit risk.

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.

Starting on June 30, 2013, the Bank has received permission to apply the standardised approach to operational risks.

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 IRB and standardised approach
	Foreign exchange risk	Calculated according to standardised approach
	Operational risk	Calculated according to basic indicator approach
	Market risk	Calculated according to the standardised approach for credit risk
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 additional 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 additional capital requirement in Pillar 2 has been assessed on the basis of risk measurements and stress tests
	Settlement risk	Exposure is extremely small
Liquidity risk	Liquidity risk	Managed using liquidity buffer
	Structural funding risk	The additional 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)

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 IRB approach and 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.

STRESS TESTS

Stress tests are used as supplementary calculations when assessing the sufficiency of the capital base. Stress tests refer to evaluations that are made to determine sensitivity to unusual but possible changes in economic variables or in the business environment. These tests may be both qualitative and quantitative. In the latter case, they calculate what effects changes in exposures have on profitability and the capital base.

Stress tests supplement the Bank of Åland's basic plan with an economic downturn scenario. This provides an indication of variations in earnings before loan losses as well as possible loan losses in a stressed scenario. The Group's financial strength is thus evaluated under significantly more difficult conditions than those on which the basic plan is predicated.

Macroeconomic factors constitute the largest reason why the Bank's earnings and financial stability may be jeopardised. In stressed scenarios, future earnings are lowered, loan losses are increased and average risk weights in the credit portfolio deteriorate.

In the governing document "The Bank of Åland's stress test policy", the Board of Directors establishes the principles for performing stress tests in the Group. This document defines the principles for performance, reporting and follow-up as well as organisation and allocation of responsibility.

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 22 per cent and the Finnish mainland for 78 per cent of the Bank'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 49 per cent of the Bank of Åland Plc's lending in the corporate portfolio and the Finnish mainland 51 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.

The credit risk is deemed high in the shipping industry, due to deterioration in the economic outlook in this industry. Lending to shipping companies totals about 7 per cent of the Bank's corporate portfolio. The Bank is focusing especially on these customers.

Sweden

The credit risk in both lending for the purchase of securities and the home mortgage loan portfolio is deemed low, and in miscellaneous real estate operations we deem it reasonable.
The largest sectors for the Bank's Swedish operations are home mortgage loans (16 per cent) and miscellaneous real estate operations (40 per cent). Lending for the purchase of securities also accounts for a large proportion of lending (13 per cent).

These sectors comprise a total of about 70 per cent of overall lending volume. Operations are mainly concentrated in Stockholm, Gothenburg and Malmö.

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 14.1 M on December 31, 2012.

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.

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.

The additional capital requirement for operational risks is estimated with the help of self-assessments.

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 core funding ratio, defined as lending to the public divided by deposits from the public – including certificates, index bonds and debentures issued to the public plus covered bonds issued – amounted to 104 per cent at the end of 2012.

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.

The additional capital requirement in Pillar 2 for interest rate risks is assessed on the basis of risk measurements and stress tests.

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.

Business risk is managed by means of risk control, i.e. corporate governance and a capital buffer.

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.

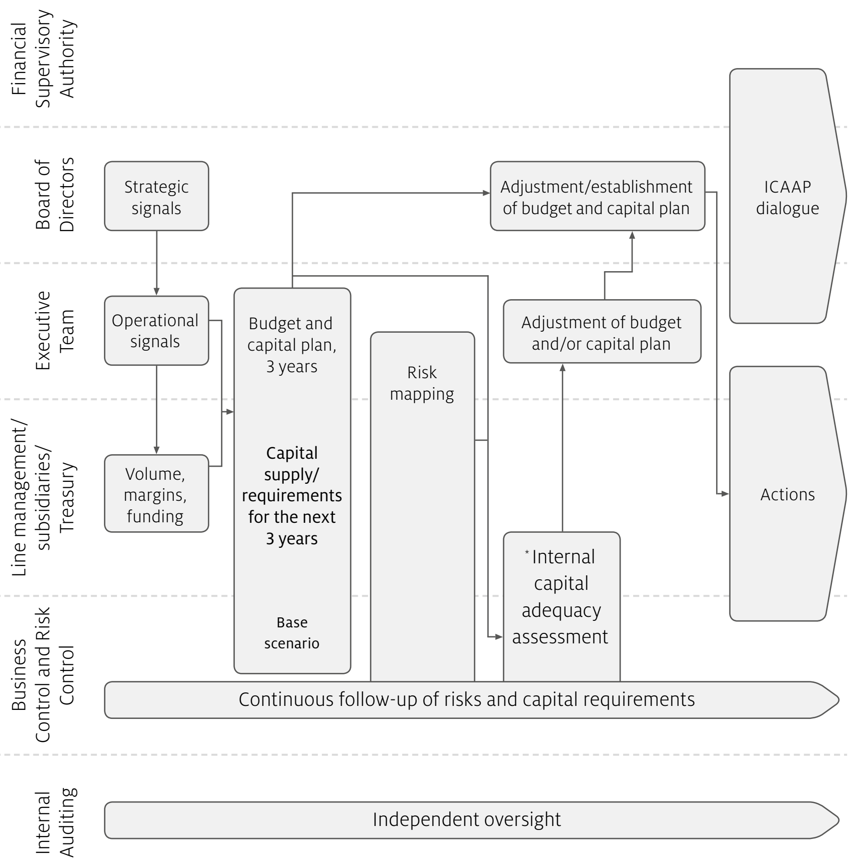
At the end of 2012, the Group's capital buffer exceeded the statutory minimum capital requirement by EUR 114.0 M. The capital base amounted to EUR 226.2 M and the minimum capital requirement was SEK 112.2 M. According to Pillar 2, there are additional capital requirements for a stress test buffer, concentration risks in the credit portfolio, operational risks, interest rate risks in the Group's banking business and exchange rate risk. The single largest supplementary capital is related to the stress test buffer.

The Group's internal capital evaluation noted that its 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 18 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 registered 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, 2012 were approved by the Board of Directors on February 15, 2013 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, 2012 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.

Principles of consolidation (IAS 27, IFRS 3)

The consolidated financial statements include the Parent Company, the Bank of Åland Plc – including its Swedish branch, Ålandsbanken Abp (Finland), svensk filial – 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 acquisition method of accounting has been used. The acquisition method means that the assets, liabilities, contingent assets and contingent liabilities of the acquired company on the acquisition date are carried at fair value. Intangible assets that are not found in the balance sheet of the acquired company, for example patents, brand names or customer relationships, are identified and measured at the time of the acquisition. After fair value measurement, either goodwill or negative goodwill arises. If goodwill arises, it is tested at least in conjunction with the annual financial statements. If negative goodwill arises, it is recognised as income in its entirety at the time of the acquisition. Costs that arise in conjunction with an acquisition are not treated as part of the acquisition calculation, but are recognised when they arise and services are received.

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 equity method means that the Group's proportion of an associated company's equity capital and income increases or decreases the carrying amount of the shares on the closing day of the financial statements. The Group's proportion 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.

Financial statements (IAS 1)

Financial statements are a structured representation of the financial position and financial performance of a company. Their objective is to provide information about the financial position, financial performance and cash flows of a company that is useful in making economic decisions. Financial statements are prepared in compliance with the International Financial Reporting Standards (IFRSs) adopted by the European Union as well as interpretations of these standards. A complete set of financial statements consists of a statement of financial position, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and notes.

The Group publishes an interim report for each quarter as well as a complete annual report for the financial year.

Items in foreign currencies (IAS 21)

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 an operation is determined on the basis of the economic environment where the operation is carried out. The functional currency of the Group's operations outside Finland may diverge from the Group's reporting and functional currency. 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.

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".

Non-current assets held for sale and discontinued operations (IFRS 5)

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction. The asset must be available for immediate sale in its present condition. Its sale must be highly probable. A completed sale is expected to be recognised within one year. Subsidiaries acquired exclusively with a view to resale are recognised as discontinued operations.

Non-current assets held for sale are reported on a separate line in the balance sheet and are valued at their carrying amount or their fair value after subtracting expected cost of sale, whichever is lower. Liabilities that are related to these non-current assets are also reported on a separate line in the balance sheet. Profit from discontinued operations is reported on a separate line in the balance sheet, after profit from continuing operations.

Financial instruments (IAS 39)

Most of the items in the consolidated balance sheet are financial instruments. A financial instrument is any form of contract that gives rise to a financial of one company and a financial liability or equity instrument of another company. Financial instruments are classified on different lines in the balance sheet depending on who the counterparty is, for example the public and credit institutions. If the financial instrument has no specific counterparty, or when it is quoted in a market, such a financial instrument is classified in the balance sheet as various types of securities. Financial liabilities for which the creditor has lower priority than others are labelled as "Subordinated liabilities".

A derivative is a financial instrument characterised by a change in its value, for example in response to exchange rates, interest rates or share prices, while requiring little or no initial net investment. The contract is settled at a future date. Derivatives are recognised on separate lines in the balance sheet, either as an asset or liability depending on whether the contract has a positive or negative fair value. Contractually accrued interest is recognised among prepaid or accrued income and expenses in the balance sheet.

Financial assets are recognised in the balance sheet on the transaction date when an acquisition contract has been signed, aside from contracts in the valuation category "Loan receivables", which are recognised on the settlement date. Derecognition of financial assets occurs when the right to receive cash flows has expired or essentially been transferred to another party. Financial liabilities are removed from the balance sheet when the liability ceases because the contract has been fulfilled or cancelled.

EMBEDDED DERIVATIVES

An embedded derivative is a component of a combined financial instrument that also includes a non-derivative host contract, with the effect that some of the hybrid instrument's cash flows vary in a way similar to the cash flows from a stand-alone derivative. An embedded derivative is separate from the host contract and is recognised separately among "Derivatives" in the balance sheet when its financial features are not closely related to those of the host contract, provided that the combined financial instrument is not recognised at fair value via the income statement.

REPURCHASE TRANSACTIONS

A genuine repurchase transaction, a so-called repo, refers to a contract where the parties have agreed on the sale of securities and the subsequent repurchase of corresponding assets at a predetermined price. In a repurchase transaction, a sold security remains in the balance sheet, since the Group is exposed to the risk that the security will fluctuate in value before the transaction expires. The payment received is recognised as a financial liability in the balance sheet, based on who the counterparty is. Sold securities are also recognised as assets pledged. The proceeds received for an acquired security, a so-called reverse repo, are recognised in the balance sheet as a loan to the selling party.

SECURITIES LOANS

Securities that have been lent out remain in the balance sheet, since the Group remains exposed to the risk that they will fluctuate in value. Securities that have been lent out are recognised on the transaction date as assets pledged, while borrowed securities are carried in the same way as other securities holdings of the same type. In cases where the borrowed securities are sold, so-called short selling, an amount corresponding to the fair value of the securities is recognised among "Other liabilities" in the balance sheet.

CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

Financial assets and liabilities recognised at fair value via the income statement

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.

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 measurement techniques. When using measurement techniques, market quotations are used to the greatest possible extent. The measurement techniques used are analysis of discounted cash flows, measurement with reference to financial instruments that are essentially similar and measurement with reference to recently completed transactions in the same financial instruments.

If the fair value of financial assets cannot be obtained from active market quotations, they are calculated with the help of various measurement techniques, including mathematical models. When using measurement 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.

LOANS AND CUSTOMER RECEIVABLES
Financial assets classified as loans and customer receivables are assets created by handing over funds, services or goods directly to the debtor. Loans and customer receivables are recognised at cost in the balance sheet when the funds are handed over and subsequently at amortised cost.

Impairment losses on loans and customer receivables
All loans and customer receivables are tested for impairment losses. On every closing day, the Bank assesses whether there is objective evidence for impairment losses on individual or group of loans and customer receivables has an impairment loss. Loans and customer receivables have an impairment loss if 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. The impairment loss is calculated as the difference between the carrying amount of the loan or customer receivables and the present value of expected future cash flows, discounted by the original effective interest rate of the receivable. 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 measurement of numerous factors, and the actual outcome may diverge from the estimated 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.

Objective evidence that one or more events have occurred that affect 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.

If the impairment decreases in subsequent periods, the previously recognised impairment loss is reversed. However, loan or customer receivables are never recognised at a higher value than their accrued cost would have been if the impairment loss had not occurred.

Impairment losses on loans and customer receivables as well as realised loan losses are recognised in the income statement under the item "Impairment loss on loans and other commitments". Repayments of previously realised loan losses as well as recoveries of earlier impairment losses are recognised as income under "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. The decision to hold an investment until maturity is made on the acquisition date. Impairment loss on an investment is recognised after individual examination.

FINANCIAL ASSETS AVAILABLE FOR SALE
Debt securities as well as shares and participations that are neither held for active trading nor held until maturity are recognised in this group. 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", less deferred tax. In case of divestment, sale or impairment loss, 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".

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

HEDGE ACCOUNTING AT FAIR VALUE
Hedge accounting at fair value is applied in certain cases when the interest rate exposure in a recognised financial asset or financial liability is hedged with derivatives. With hedge accounting, the hedged risk in the hedged instrument is also measured at fair value. Both the change in the value of the hedging instrument, the derivative, and the changed in the value of the hedged risk are recognised in the income statement under "Net gains and losses on financial items at fair value". One requirement to apply hedge accounting is

that the hedge has been formally identified and documented. The hedge's effectiveness must be measurable in a reliable way and is expected to remain and prove to have been very effective in offsetting changes in value during the reported periods.

CASH FLOW HEDGING

Derivative contracts can be entered into for the purpose of hedging the exposure to variations in future cash flows due to changes in interest and exchange rates. These hedges can be recognised as cash flow hedges, meaning that the effective portion of the change in the value of the derivative, the hedging instrument, is recognised in "Other comprehensive income". Any ineffective portion is recognised in the income statement under "Net gains and losses on financial items at fair value". When future cash flows lead to the recognition of a financial asset or financial liability, any gains or losses on the hedging instrument are eliminated from "Other comprehensive income" and recognised in the income statement in the same periods that the hedged item affects the income statement. One prerequisite for applying hedge accounting is that the hedge is formally identified and documented. Its effectiveness must be measurable in a reliable way and is expected to remain and prove to have been very effective in offsetting changes in value during the reported periods.

HEDGING OF NET INVESTMENTS IN FOREIGN OPERATIONS

Hedges of net investments in foreign operations are applied to protect the Group from translation differences that arise when operations in a functional currency other than the presentation currency are translated. Financial liabilities reported in the foreign operation's functional currency are translated at the closing day exchange rate. The portion of the exchange rate gain or loss from hedging instruments that is effective is recognised in "Other comprehensive income".

Any ineffective portion is recognised in the income statement under "Net gains and losses on financial items at fair value". When a foreign operation is divested, the gain or loss that arises on the hedging instrument is reclassified from "Other comprehensive income" and recognised in the income statement. One prerequisite for applying hedge accounting is that the hedge is formally identified and documented. Its effectiveness must be measurable in a reliable way and is expected to remain and prove to have been very effective in offsetting changes in value during the reported periods.

RECLASSIFICATION OF FINANCIAL ASSETS

Financial assets, excluding derivatives, which no longer meet the criteria for trading may be reclassified from the valuation category "Financial instruments at fair value", provided that extraordinary conditions exist. A reclassification to the valuation category "Investments held to maturity" also requires an intention and ability to hold the investment until maturity. The fair value of the assets at the time of reclassification is then regarded as being their acquisition cost.

Intangible assets (IAS 38)

Intangible assets are divided between "Miscellaneous non-current expenditures" and "Goodwill". "Miscellaneous non-current expenditures" consist of IT systems produced for the Group's own use and externally procured systems.

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.

EXTERNALLY PROCURED IT SYSTEMS

External computer systems are recognised in the balance sheet at cost minus accumulated depreciation/amortisation and impairment losses.

IMPAIRMENT LOSS

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 asset's sale price or value in use, whichever is higher. An impairment loss is recognised in the income statement if the carrying amount exceeds net realisable value. 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.

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.

GOODWILL IMPAIRMENT LOSS

Goodwill is tested yearly for impairment by calculating whether its carrying amount exceeds the recoverable amount. Impairment testing is done by discounting future expected cash flows in cash-generating units. Future expected cash flows are based on estimated cash flows. A change in the estimate of future cash flows, as a consequence of an economic downturn, new competitors or depressed prices, may lead to future goodwill impairment loss.

Tangible assets (IAS 2, 16, 40)

INVESTMENT PROPERTIES (IAS 40)

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 accumulated 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.

PROPERTIES FOR THE GROUP'S OWN USE

Properties for the Group's own use consist of direct holdings as well as indirect holdings via real estate and housing companies. Properties for the Group's own use are recognised in the balance sheet at cost less accumulated depreciation and impairment losses. 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.

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.

DEPRECIATION/AMORTISATION
Depreciation or 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
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.

IMPAIRMENT LOSSES
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 asset's sale price or value in use, whichever is higher. An impairment loss is recognised in the income statement if the carrying amount exceeds net realisable value. 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.

Provisions (IAS 37)
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 embodying economic benefits will be required to settle the obligation and when a reliable estimate of the amount can be made. The provision is calculated at the present value of estimated outflow. Provisions are tested on each closing day and adjusted as needed, so that they correspond to the current estimate of the value of obligations.

Provisions are recognised for restructurings. Restructuring refers to extensive organisational changes, for example where employees receive severance pay for early termination or offices are closed. For a provision to be recognised, a restructuring plan must have been adopted and announced, so that it has created a well-grounded expectation among those affected that the company will implement the restructuring.

Provisions to the restructuring reserve concerning other expenses are recognised in the balance sheet under "Other liabilities" 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.

Leases (IAS 17)
In compliance with IAS 17, leases are classified as finance leases and operating leases. A finance lease transfers from the lessor to the lessee substantially all the economic risks and rewards incidental to ownership of an asset. 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.

When the lessor bears the economic risks and rewards, the lease is classified as an operating lease. Lease payments for operating leases are recognised on a straight-line basis in the income statement as rental expenses over the lease term.

Most of the Group's leases are operating leases.

Impairment losses are recognised on the basis of individual judgements of the need.

Revenue (IAS 18)

INTEREST INCOME AND EXPENSES
Interest income and expenses on financial instruments are calculated according to the effective interest method. Interest income and expenses on financial instruments carried at fair value are also recognised here, including derivatives. The method recognised the income and expenses of the instruments evenly in relation to amounts outstanding during the period until the maturity date. 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.

INCOME FROM EQUITY INVESTMENTS
Dividends on shares and participations are recognised as income for the reporting period during which the right to receive payment was noted. Dividends on financial instruments carried at fair value are also recognised here.

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. Commission expenses are transaction-dependent and are directly related to commission income.

NET INCOME FROM SECURITIES TRANSACTIONS AND FOREIGN EXCHANGE DEALING
Realised and unrealised gains and losses from financial instruments held for trading is recognised in this group, as well as the change in the fair value of financial instruments carried at fair value via the income statement. No impairment losses are recognised on financial instruments held for trading and financial instruments carried at fair value via the income statement. Recognised under foreign exchange dealing are gains and losses on currency exchange activity as well as exchange rate differences that arise from translation of assets to euros, liabilities and currency swaps.

LICENCE INCOME FOR IT SYSTEMS
Annual licence income for IT systems is recognised as income on a straight-line basis during the respective year to which it is attributable.

SALES OF IT 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.

Employee benefits (IAS 19)

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 r.s., 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 IFRS regulations. The purpose of Ålandsbanken Abps Pensionsstiftelse r.s. 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 pension 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 either 10 per cent of the present value of the defined benefit liability or 10 per cent of the fair value of plan assets, whichever is greater. 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.

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).

Share-based payment (IFRS 2)

In its compensation policy document, the Group has made it possible for portions of its compensation to employees to be settled through its own shares, which are recognised as share-based payment. This means that an expense is recognised for the period that entitles employees to distribution of shares, while a corresponding increase in equity capital is recognised. The expense is based on the fair value of the shares on the distribution date. The fair value of the shares is calculated on the distribution date on the basis of their quoted market price. An assessment of how many shares employees will earn is carried out when calculating the recognised expense of share-based payment in accordance with the terms and conditions in the Group's compensation policy (for example continued employment). At the end of each report period, the Executive Team re-assesses its judgement about how many shares will be earned.

Income tax (IAS 12)

Income tax in the income statement 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. Tax expense is recognised in the income statement as an expense, except with items recognised directly in equity capital, in which case the tax effect is also recognised as part of equity capital. 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). A deferred tax asset is recognised to the extent it is probable that future taxable income will arise against which the temporary difference can be utilised.

Operating segments (IFRS 8)

The Bank of Åland reports operating segments in compliance with IFRS 8, which means that the segment report reflects the information that the Group's Executive Team receives. The Managing Director of the Group has been identified as the chief operating decision maker. The Group reports its various business areas as operating segments. A business area is a group of departments and companies that provide products or services that have risks and rewards that diverge from other business areas. Intra-Group transactions take place at market prices.

Cash and cash equivalents (IAS 7)

"Cash and cash equivalents" refers to cash and deposits in the Finnish and Swedish central banks that may be used freely. "Deposits" refers to funds that are available at any time. This means that all cash and cash equivalents are immediately usable. Cash and cash equivalents in the cash flow statement are defined in compliance with IAS 7 and do not coincide with what the Group regards as cash and cash equivalents.

Significant judgements and estimates

Preparation of financial statements in compliance with IFRSs requires the Executive Team to make judgements and estimates 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.

JUDGEMENTS

Financial instruments

If the fair value of financial assets cannot be obtained from active market quotations, they are calculated with the help of various measurement techniques, including mathematical models. When using measurement 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. The Executive Team makes an assessment of what market quotations are most suitable and what mathematical models shall be applied in the Group.

The Executive Team makes an assessment of what instruments hedge accounting shall apply to, in order to avoid volatility of income.

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. In the assessment of the Executive Team, this procedure 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.

ESTIMATES

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 estimated 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.

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 loss on investment property and properties for the Group's own use

The Executive Team annually reviews the values of investment properties and properties for the Group's own use to determine whether there is any indication of impairment. If such an indication arises, the recoverable amount is determined as the sales price or the value in use of the asset, whichever is higher. An impairment loss is recognised in the income statement if the carrying amount exceeds the recoverable amount. The values of assets are estimated by independent external appraisers.

Measurement of deferred tax

Deferred tax is recognised with regard to the differences between the carrying amounts of assets and liabilities and their tax base. A deferred tax asset is also recognised for identified taxable losses to the extent that it is probably that future taxable income will arise. A reduction of future tax attributable to deductible differences, tax allowances or unutilised tax deductions is referred to as a tax asset. Tax assets may only be recognised if they can be utilised against future taxable income. The Executive Team regularly assesses when deferred tax should be recognised in the consolidated financial statements, based on expected future earnings performance. On every closing day, an assessment is made as to whether recognising a deferred tax is justified, based on the size of expected future taxable income.

Financial instruments carried at fair value

When financial instruments are carried at fair value according to measurement techniques, a judgement is made as to what market data shall be used in the model. When employing measurement techniques, market quotations are used to the greatest possible extent, but in case this is not possible the Executive Team is required to make estimates in order to determine 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.

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).

Share-based payment

When calculating the recognised expense of share-based payment in accordance with the Group's compensation policy, the Executive Team estimates how many shares will be allocated to employees. The expense is based on the fair value of the shares at the moment they are distributed.

New accounting norms and standards

The following accounting norms and standards are being applied starting in 2013:

IAS 19, "EMPLOYEE BENEFITS" – AMENDMENT

The option of accruing actuarial gains and losses as part of the "corridor approach" or of recognising actuarial gains and losses directly in the income statement may not be applied. These items must be recognised immediately in other comprehensive income. In addition, the return on plan assets must henceforth be calculated using the same discount rate as pension liability. In the Group's assessment, the amendment will increase pension expenses recognised in the income statement by about EUR 400,000. At the end of 2012, equity capital would have been about EUR 6 M lower if the amended standard had been applied.

IAS 1, "Presentation of Financial Statements" – Amendment: Presentation of Items of Other Comprehensive Income

The amendment changes the grouping of transactions that are recognised in "Other comprehensive income". Items that will be reclassified to the income statement must be presented separately from those items that will not be reclassified to the income statement. The amendment does not change the factual content in "Other comprehensive income", only the way it is presented.

The following standards are not expected to have a material effect on the Group:
IAS 12, "Income Taxes" – amendment
IFRS 7, "Financial instruments: Disclosures" – amendment
IFRS 13, "Fair Value Measurement"

The following accounting norms and standards will apply starting in 2014 or later:
IFRS 10, "Consolidated Financial Statements" and amendment to *IAS 27, "Separate Financial Statements"*
IFRS 11, "Joint Arrangements" and amendment to *IAS 28, "Investments in Associates and Joint Ventures"*
IFRS 12, "Disclosures of Interests in Other Entities". "Investment Entities" contains amendments to *IFRS 10, IFRS 12 and IAS 27* (not yet approved by the EU)
IAS 32, "Financing Instruments: Presentation" – amendment
"Annual Improvements to IFRS: The 2009–2011 Cycle" (not approved by the EU)
IFRS 9, "Financial Instruments" (Not yet approved by the EU and no approval timetable at present)

2. Segment report

Dec 31, 2012	Åland	Finnish Mainland	Sweden	Crosskey	Corporate and eliminations	Total
Net interest income	11,766	17,262	11,313	−112	947	41,175
Commission income	6,691	13,389	11,136	−48	1,544	32,712
Other income	586	315	959	27,773	−7,059	22,574
Nonrecurring income[1]	996		12,922			13,917
Total income	**20,039**	**30,966**	**36,329**	**27,613**	**−4,568**	**110,378**
Staff costs	−4,100	−8,700	−12,264	−13,607	−12,491	−51,163
Other expenses	−4,263	−7,663	−6,990	−11,678	−11,132	−41,727
Internal allocation of expenses	−7,390	−12,071	−10,571		30,033	0
Restructuring expenses	−96		−606	−400		−1,102
Total expenses	**−15,849**	**−28,435**	**−30,431**	**−25,686**	**6,409**	**−93,991**
Profit before loan losses	**4,190**	**2,531**	**5,898**	**1,927**	**1,841**	**16,387**
Impairment losses on loans and other commitments	−3,603	−2,651	247		−423	−6,430
Net operating income	**587**	**−120**	**6,145**	**1,927**	**1,418**	**9,957**
Lending	648,722	1,626,871	608,707		21,266	2,905,566
Deposits	730,283	1,027,889	483,910		206,117	2,448,199
Managed assets	270,607	1,536,684	2,423,891		60,730	4,291,912
Interest income from the public and public sector entities						
Financial enterprises	8,415	11,258	11,629			31,302
Households						
Residential	4,950	18,583	4,618			28,151
Other	2,352	7,626	2,430			12,407
Miscellaneous	226	339	4,300			4,866
Total	**15,943**	**37,805**	**22,977**			**76,725**

[1] Proceeds of EUR 13.8 M from the sale of the Bank's Swedish subsidiary, which had been emptied of operations, a capital gain of EUR 1.0 M on the sale of the associated company Ålands Företagsbyrå and an impairment loss of EUR 0.8 M on the Bank's holding in Burgundy.

The Bank of Åland reports operating segments in compliance with IFRS 8, which means that the segment report reflects 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 the period January–December 2012 was changed. The comparative period was correspondingly restated.

The "Åland" business area consisted of office operations in Åland and equities trading operations in Mariehamn. The "Finnish Mainland" business area consisted of office operations on the Finnish mainland, Ålandsbanken Asset Management Ab and equities trading operations on the Finnish mainland, including Ålandsbanken Equities Research Ab (merged with the Bank on December 14, 2012). The "Sweden" business area consisted of the operating units Ålandsbanken Abp (Finland) svensk filial, Ålandsbanken Asset Management AB (until its divestment on October 26, 2012) plus Ålandsbanken Fonder AB and Alpha Management Company S.A. The "Crosskey" business area consisted of Crosskey Banking Solutions Ab and S-Crosskey Ab. "Corporate and eliminations" consisted of all corporate-level entities in the Group, intra-Group eliminations and the subsidiaries Ålandsbanken Fondbolag Ab and Ab Compass Card Oy Ltd.

The Group's segments, which follow its operational structure, also essentially correspond to the geographic distribution of the Group's activities.

	Dec 31, 2011					
	Åland	Finnish Mainland	Sweden	Crosskey	Corporate and eliminations	Total
Net interest income	14,301	19,491	9,044	25	218	43,079
Commission income	6,554	16,946	14,210	–26	1,066	38,750
Other income	627	145	1,416	31,164	–14,851	18,502
Nonrecurring income [1]			–1,107			–1,107
Total income	**21,482**	**36,582**	**23,563**	**31,163**	**–13,567**	**99,223**
Staff costs	–4,126	–9,284	–13,380	–13,794	–13,940	–54,523
Other expenses	–2,964	–7,351	–9,947	–13,122	–9,461	–42,844
Internal allocation of expenses	–9,048	–14,953	–11,863		35,864	0
Restructuring expenses		–225	–5,229		–294	–5,748
Total expenses	**–16,138**	**–31,813**	**–40,419**	**–26,915**	**12,169**	**–103,116**
Profit before loan losses	**5,345**	**4,769**	**–16,856**	**4,248**	**–1,398**	**–3,893**
Impairment losses on loans and other commitments	145	–2,395	221		241	–1,788
Net operating income	**5,489**	**2,374**	**–16,635**	**4,248**	**–1,157**	**–5,681**
Lending	640,815	1,636,583	449,744		9,875	2,737,017
Deposits	676,246	1,184,485	390,048		293,084	2,543,863
Managed assets	253,303	1,335,830	2,163,262		61,975	3,814,369
Interest income from the public and public sector entities						
Companies	7,240	13,435	4,588			25,263
Households						
Residential	5,169	20,659	3,130			28,958
Other	2,607	8,201	2,222			13,030
Miscellaneous	565	242	4,793			5,601
Total	**15,581**	**42,537**	**14,733**			**72,851**

[1] Impairment loss of EUR 1.1 M on the bank's shareholding in Burgundy.

3. Holdings of debt securities	2012			2011		
	Listed	Other	Total	Listed	Other	Total
Debt securities eligible for refinancing						
Instruments held to maturity						
Treasury bonds				53,491		53,491
Instruments available for sale						
Treasury bonds	89,926		89,926	61,252		61,252
Other debt securities	215,488		215,488	3,543		3,543
Instruments held for trading						
Other debt securities				7,024		7,024
Closing balance	**305,414**		**305,414**	**125,311**		**125,311**
Other debt securities						
Instruments held to maturity	0	0	0	0	0	0
Instruments available for sale						
Treasury bonds				4,960		4,960
Certificates of deposit		34,979	34,979		134,228	134,228
Other	6,412		6,412	3,366		3,366
Instruments held for trading						
Other	3,427		3,427	55,628		55,628
Closing balance	**9,839**	**34,979**	**44,818**	**63,955**	**134,228**	**198,182**

4. Claims on credit institutions	2012			2011		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Finnish credit institutions	289		289	389	10,000	10,389
Foreign credit institutions	51,410	51,847	103,256	71,339	47,290	118,628
Closing balance	**51,699**	**51,847**	**103,546**	**71,728**	**57,290**	**129,017**

5. Claims on the public and public sector entities	2012	2011
Companies	929,307	885,631
Public sector entities	5,580	7,091
Households	1,841,682	1,696,561
Non-profit organisations, household sector	15,310	14,821
Foreign	113,686	132,913
Closing balance	**2,905,566**	**2,737,017**

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

6. Impairment losses on loans and trade receivables	2012			2011		
	Individual	Group	Total	Individual	Group	Total
Opening balance	7,719	1,100	8,819	4,613	2,500	7,113
New and increased impairment losses	2,848	2,000	4,848	3,314		3,314
Reversals of impairment losses	−245		−245	−245	−1,400	−1,645
Actual losses/reversals	1,827		1,827	120		120
Recognised in income statement	**4,430**	**2,000**	**6,430**	**3,189**	**−1,400**	**1,789**
Direct impairment losses/reversals	−1,536		−1,536	−82		−82
Closing balance	**10,613**	**3,100**	**13,713**	**7,719**	**1,100**	**8,819**
Companies	7,098	3,100	10,198	4,626	1,100	5,726
Households	3,104		3,104	2,683		2,683
Foreign	411		411	411		411
Closing balance	**10,613**	**3,100**	**13,713**	**7,719**	**1,100**	**8,819**

A few loans have been renegotiated, for example in the shipping industry, with the Bank and the customer agreeing to change the repayment period and interest rate terms.

7. Shares and participations	2012			2011		
	Listed	Other	Total	Listed	Other	Total
Shares and participations						
Held for trading	4,231		4,231	299		299
Available for sale	984	1,305	2,290	1,033	1,997	3,030
Shares and participations in associated companies		763	763		1,209	1,209

There are no holdings in other credit institutions. In the category "Shares available for sale", a revaluation of EUR 740 K was made to the fair value reserve and impairment losses of EUR 40 K were recognised directly in profit for the year.

An impairment loss of EUR 844 K on the entire shareholding in Burgundy was recognised directly in profit for the year.

8. Derivative instruments

	2012		2011	
	Fair value		Fair value	
	Positive	Negative	Positive	Negative
Interest rate derivatives				
Interest rate forward contracts			546	495
Interest rate swaps	7,232	11,565	5,618	9,727
Interest rate ceilings		4		
Interest rate options				
Purchased	2		78	
Sold		2		78
Currency derivatives				
Forward contracts	2,903	1,799	2,298	3,202
Interest rate and currency swaps	128	725	302	
Equity derivatives				
Option contracts				
Purchased	9,564		11,570	
Other derivate instruments	564	564		
Closing balance	**20,393**	**14,660**	**20,413**	**13,502**

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 41.6 M included in the Bank of Åland's hedge accounting. The fair value of these forward contracts amounted to EUR -31 K on December 31, 2012 and was recognised in "Other comprehensive income". The forward contracts expire in 2013. Hedge accounting is used for hedging the Group's foreign exchange risk for endowment capital in Ålandsbanken Abp (Finland), svensk filial.

Nominal value of underlying asset by remaining maturity:

	2012				2011			
	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			448,833
Interest rate swaps	48,493	311,028	27,687	387,207	94,237	426,523	23,698	544,457
Interest rate options								
Purchased	1,282	20,487		21,769		24,167	741	24,908
Sold		9,557		9,557		24,167	741	24,908
Currency derivatives								
Forward contracts	55,088	7,820		62,908	59,675	3,167		62,841
Interest rate and currency swaps	80,403	127,149	57,937	265,489	172,825	66,346	89	239,259
Equity derivatives								
Option contracts								
Purchased	25,067	92,648		117,715	39,013	107,481	2,244	148,738
Other derivatives		15,780	9,242	25,022				
Total	**210,333**	**584,469**	**94,866**	**889,667**	**814,582**	**651,851**	**27,512**	**1,493,945**

9. Intangible assets

	2012	2011
IT investments	8,459	9,827
Ongoing IT investments	1,085	253
Goodwill	1,373	1,373
Other	9	
Closing balance	**10,926**	**11,453**
Of which internally generated IT investments		
Gross carrying amount	7,307	7,335
Accumulated amortisation	−4,022	−2,740
Total	**3,284**	**4,594**

10. Properties and shares and participations in real estate companies

	2012	2011
Investment properties		
Land and water	3	44
Buildings	0	140
Shares in real estate companies	439	295
Closing balance	**441**	**480**
Properties for the Group's own use		
Land and water	1,825	2,325
Buildings	21,037	21,619
Shares in real estate companies	485	335
Closing balance	**23,347**	**24,279**

11. Changes in intangible and tangible assets

2012

	Land and buildings for own use	Investment properties	Other tangible assets	Goodwill	Other intangible assets	Total
Historical costs						
Cost on January 1	18,947	856	28,025	1,440	19,988	69,256
Deemed cost in compliance with IFRS 1	12,834					12,834
Translation differences			369			369
Increases during the year	693	144	4,669		3,465	8,971
Decreases during the year	−307	−250	−1,705		−1,169	−3,432
Transfer between items	168		−29		−139	0
Cost on December 31	**32,335**	**750**	**31,328**	**1,440**	**22,145**	**87,997**
Accumulated depreciation/amortisation						
Accumulated depreciation/amortisation/ impairment losses on January 1	−7,502	−377	−20,467	−67	−9,909	−38,321
Translation differences			−392		83	−309
Accumulated depreciation/amortisation concerning decreases	−178	70	1,549		992	2,433
Depreciation/amortisation for the year	−1,250	−2	−3,067		−3,239	−7,558
Impairment loss for the year	−58				−519	−577
Accumulated depreciation/amortisation/ impairment losses on December 31	**−8,987**	**−308**	**−22,377**	**−67**	**−12,592**	**−44,332**
Carrying amount on December 31	**23,347**	**441**	**8,951**	**1,373**	**9,553**	**43,665**

2011

	Land and buildings for own use	Investment properties	Other tangible assets	Goodwill	Other intangible assets	Total
Historical costs						
Cost on January 1	21,671	1,774	28,852	1,440	16,768	70,505
Deemed cost in compliance with IFRS 1	12,834					12,834
Increases during the year	1,114		12,490		4,520	18,124
Decreases during the year	−3,839	−917	−13,317		−1,300	−19,373
Cost on December 31	**31,781**	**856**	**28,025**	**1,440**	**19,988**	**82,090**
Accumulated depreciation/amortisation						
Accumulated depreciation/amortisation/ impairment losses on January 1	−9,645	−371	−19,686	−67	−7,935	−37,704
Translation differences			−18		0	−18
Accumulated depreciation/amortisation concerning decreases	3,397		2,621		89	6,108
Depreciation/amortisation for the year	−1,254	−5	−3,385		−2,063	−6,707
Accumulated depreciation/amortisation/ impairment losses on December 31	**−7,502**	**−377**	**−20,467**	**−67**	**−9,909**	**−38,321**
Carrying amount on December 31	**24,279**	**480**	**7,558**	**1,373**	**10,080**	**43,769**

12. Other assets	2012	2011
Cash items in the process of collection	3	4
From assets purchased on behalf of a customer	37,894	27,121
Other	6,941	18,988
Closing balance	**44,838**	**46,113**

13. Accrued income and prepayments	2012	2011
Interest	11,784	13,192
Taxes	1,078	761
Other	13,571	12,146
Closing balance	**26,432**	**26,099**

14. Deferred tax assets and liabilities	2012	2011
Deferred tax assets		
Accrual differences	1,521	1,963
From taxable losses	975	1,175
Other temporary differences	227	754
Closing balance	**2,723**	**3,891**
Deferred tax liabilities		
Temporary differences	14,072	19,760
From the fair value reserve	1,471	578
Closing balance	**15,543**	**20,338**
Actual tax loss carry-forwards and their expiration year		
2017	682	682
2018	585	585
2019	481	937
2020	1,227	1,648
2021	981	1,164
No expiration date	254	113,454
Total	**4,209**	**118,470**

Actual tax loss carry-forwards were equivalent to a deferred tax asset of EUR 1,031 K (30,983). Of this, EUR 975 K (1,175) was reported in the consolidated balance sheet, which was related to companies that were loss-making in 2012 and 2011. The reporting of deferred tax was due to positive expected earnings, which indicate that the deferred tax can be utilised.

15. Debt securities issued to the public	2012		2011	
	Carrying amount	Nominal amount	Carrying amount	Nominal amount
Bonds	571,539	567,795	439,372	437,090
Certificates of deposit	188,189	188,458	219,167	220,341
Closing balance	**759,728**	**756,253**	**658,539**	**657,431**

16. Other liabilities	2012	2011
Cash items in the process of collection	15,943	16,091
From assets sold on behalf of a customer	35,915	30,753
Other	14,645	12,245
Closing balance	**66,503**	**59,090**

17. Provisions	2012	2011
Rent for premises	86	498
Information technology (IT)	0	112
Staff costs	999	3,597
Closing balance	**1,085**	**4,207**

The provisions consisted of restructuring reserves in Finland and Sweden. See Note 57 regarding the restructuring reserve.

18. Accrued expenses and prepaid income	2012	2011
Interest	10,686	5,773
Taxes	−487	187
Other	17,463	23,627
Closing balance	**27,663**	**29,587**

19. Subordinated liabilities

	2012			2011		
	Carrying amount	Nominal amount	Amount in capital base	Carrying amount	Nominal amount	Amount in capital base
Debenture loan 1/2008	3,192	3,192	3,192	2,103	2,103	2,103
Debenture loan 2/2008	681	681	681	897	897	897
Debenture loan 1/2009	16,908	16,908	16,908	16,119	16,119	16,119
Debenture loan 2/2009	6,821	6,821	6,821	9,682	9,682	9,682
Debenture loan 1/2010	6,575	6,575	6,575	8,385	8,385	8,385
Debenture loan 2/2010	11,868	11,868	11,868	15,442	15,442	15,442
Debenture loan 1/2011	3,950	3,950	3,950	5,000	5,000	5,000
Debenture loan 1/2012	14,024	14,024	14,024			
Capital loan, Ålandsbanken Asset Management Ab	120	120	120	60	60	60
Total	**64,139**	**64,139**	**64,139**	**57,687**	**57,687**	**57,687**

	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
Debenture loan 1/2012	3.00% fixed interest	June 12, 2017
Capital loan, Ålandsbanken Asset Management Ab	5.00% fixed interest	December 31, 2019

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.

20. Maturity breakdown of claims and liabilities

2012	Under 3 mo	3–12 mo	1–5 yrs	Over 5 yrs	Not classified by maturity	Total
Assets						
Cash	132,547					132,547
Debt securities eligible for refinancing with central banks	5,859	10,357	236,707	52,491		305,414
Claims on credit institutions	103,546					103,546
Claims on the public and public sector entities	278,824	392,604	1,512,467	721,672		2,905,566
Debt securities	24,836	19,982				44,818
Shares and participations					6,521	6,521
Shares and participations in associated companies					763	763
Derivative instruments					20,393	20,393
Intangible assets					10,926	10,926
Tangible assets					32,740	32,740
Other assets					44,838	44,838
Accrued income and prepayments					26,432	26,432
Deferred tax assets					2,723	2,723
Closing balance	**545,611**	**422,943**	**1,749,174**	**774,163**	**145,336**	**3,637,226**
Liabilities						
Liabilities to credit institutions	147,067	52,489	175,000			374,556
Liabilities to the public and public sector entities	1,890,617	233,074	3,667			2,127,358
Debt securities issued	152,576	70,197	474,168	62,787		759,728
Derivative instruments					14,660	14,660
Other liabilities					66,503	66,503
Provisions					1,085	1,085
Accrued expenses and prepaid income					27,663	27,663
Subordinated debentures		3,875	60,144	120		64,139
Deferred tax liabilities					15,543	15,543
Equity capital					185,991	185,991
Closing balance	**2,190,260**	**359,635**	**712,979**	**62,907**	**311,445**	**3,637,226**

	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					3,329	3,329
Shares and participations in associated companies					1,209	1,209
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
Closing balance	**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					59,090	59,090
Provisions					4,207	4,207
Accrued expenses and prepaid income					29,587	29,587
Subordinated debentures		5,309	34,156	18,222		57,687
Deferred tax liabilities					20,338	20,338
Equity capital					180,560	180,560
Closing balance	**2,207,548**	**692,078**	**143,031**	**50,550**	**307,283**	**3,400,490**

21. Assets and liabilities in euros and other currencies

	2012			2011		
	Euros	Other currencies	Total	Euros	Other currencies	Total
Claims on credit institutions	5,217	98,329	103,546	17,522	111,495	129,017
Claims on the public and public sector entities	2,264,681	640,885	2,905,566	2,265,919	471,098	2,737,017
Debt securities	334,535	15,698	350,232	292,969	30,524	323,493
Derivative instruments	15,768	4,625	20,393	15,485	4,928	20,413
Other assets including cash	194,028	63,460	257,488	166,193	24,356	190,550
Closing balance	**2,814,229**	**822,997**	**3,637,226**	**2,758,089**	**652,401**	**3,400,490**
Liabilities to credit institutions and central banks	221,758	152,797	374,555	117,612	112,671	230,283
Liabilities to the public and public sector entities	1,555,602	571,756	2,127,358	1,663,545	483,153	2,146,698
Debt instruments issued to the public	747,365	12,363	759,728	646,213	12,326	658,539
Derivative instruments	11,200	3,460	14,660	7,337	6,165	13,502
Subordinated liabilities	64,139	0	64,139	57,687	0	57,687
Other liabilities	44,815	65,978	110,793	78,449	34,771	113,221
Closing balance	**2,644,879**	**806,355**	**3,451,234**	**2,570,843**	**649,087**	**3,219,930**

22. Assets and liabilities by categories

2012	Loans and trade receivables	Financial instruments held to maturity	Financial instruments held for trading	Financial instruments at fair value	Financial instruments available for sale	Non-financial instruments	Total
Assets							
Cash	132,547						132,547
Debt securities eligible for refinancing with central banks					305,414		305,414
Claims on credit institutions	103,546						103,546
Claims on the public and public sector entities	2,747,560			158,007			2,905,566
Debt securities			3,427		41,391		44,818
Share and participations			4,231		2,290		6,521
Shares and participations in associated companies					763		763
Derivative instruments			15,919	4,474			20,393
Intangible assets						10,926	10,926
Tangible assets						32,740	32,740
Other assets						44,838	44,838
Accrued income and prepayments						26,432	26,432
Deferred tax assets						2,723	2,723
Closing balance	**2,983,652**		**23,577**	**162,481**	**349,857**	**117,658**	**3,637,225**

2012	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	374,555			374,555
Liabilities to the public and public sector entities	2,127,271	87		2,127,358
Debt securities issued to the public	660,963	98,765		759,728
Derivative instruments and other liabilities held for trading		14,660		14,660
Other liabilities			66,503	66,503
Provisions			1,085	1,085
Accrued expenses and prepaid income			27,663	27,663
Subordinated liabilities	64,139			64,139
Deferred tax liabilities			15,543	15,543
Closing balance	**3,226,929**	**113,512**	**110,794**	**3,451,234**

23. Fair value and carrying amount of assets and liabilities

	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash	132,547	132,547	66,139	66,139
Debt securities eligible for refinancing with central banks				
Available for sale	305,414	305,414	64,795	64,795
Intended to be held to maturity			53,491	56,766
Held for trading			7,024	7,024
Claims on credit institutions	103,546	103,546	129,017	129,017
Claims on the public and public sector entities				
Carried at fair value	158,007	158,007	161,104	161,104
Other	2,747,560	2,754,129	2,575,913	2,581,314
Debt securities	44,818	44,818	198,182	198,182
Shares and participations	6,521	6,521	3,329	3,329
Shares and participations in associated companies	763	763	1,209	1,209
Derivative instruments	20,393	20,393	20,413	20,413
Intangible assets	10,926	10,926	11,453	11,453
Tangible assets				
Investment properties	441	770	480	979
Properties for own use	23,347	26,279	24,279	27,292
Other tangible assets	8,951	9,341	7,758	7,948
Other assets	44,838	44,838	46,113	46,113
Accrued income and prepayments	26,432	26,432	26,099	26,099
Deferred tax assets	2,723	2,723	3,891	3,891
Closing balance	**3,637,226**	**3,647,445**	**3,400,490**	**3,413,068**
Liabilities and equity capital				
Liabilities to credit institutions and central banks				
Other	374,555	376,581	230,283	229,986
Liabilities to the public and public sector entities				
Carried at fair value	87	87	12,095	12,095
Other	2,127,271	2,127,871	2,134,602	2,139,781
Debt instruments issued to the public				
Carried at fair value	98,765	98,765	124,782	124,782
Other	660,963	661,411	533,757	534,267
Derivative instruments	14,660	14,660	13,502	13,502
Other liabilities	66,503	66,503	59,090	59,090
Provisions	1,085	1,085	4,207	4,207
Accrued expenses and prepaid income	27,663	27,663	29,587	29,587
Subordinated liabilities	64,139	65,637	57,687	59,201
Deferred tax liabilities	15,543	15,543	20,338	20,338
Closing balance	**3,451,234**	**3,455,806**	**3,219,930**	**3,226,835**

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.

24. Financial assets and liabilities at fair value by categories

2012	Category 1	Category 2	Category 3	Total
Financial assets				
Debt securities eligible for refinancing with central banks	305,414			305,414
Claims on the public and public sector entities		158,007		158,007
Other debt securities	9,839	34,979		44,818
Shares and participations	5,216	5	1,300	6,521
Derivative instruments		20,393		20,393
Closing balance	**320,468**	**213,384**	**1,300**	**535,152**
Financial liabilities				
Liabilities to the public and public sector entities		87		87
Debt securities issued to the public		98,765		98,765
Derivative instruments		14,660		14,660
Closing balance		**113,512**		**113,512**

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	1,307
Gains/losses in "Comprehensive income"	−789
Gains/losses in "Other comprehensive income"	761
Purchases/Divestments	21
Change in currency exchange rate	0
Closing balance	**1,300**

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

25. Loans and trade receivables at fair value	2012	2011
Nominal value	147,668	153,408
Change in fair value	10,087	7,528
Change in credit risk	251	169
	158,007	**161,104**
Other	2,747,560	2,575,913
Closing balance	**2,905,566**	**2,737,017**

Loans and trade receivables carried at fair value on December 31, 2012 were EUR 10,338 K (7,210) higher than the nominal amount at maturity. On December 31, 2012, changes in credit risk had affected the accumulated value of change in fair value by EUR 1,562 K (1,311). 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.

26. Financial liabilities at fair value	2012	2011
Liabilities to credit institutions		
Carried at fair value	0	0
Other	374,555	230,283
Closing balance	**374,555**	**230,283**
Liabilities to the public and public sector entities		
Carried at fair value		
Nominal value	84	12,053
Change in fair value	3	76
Change in credit risk	0	–33
	87	**12,095**
Other	2,127,271	2,134,602
Closing balance	**2,127,358**	**2,146,698**
Debt securities issued to the public		
Carried at fair value		
Nominal value	99,122	126,177
Change in fair value	–535	–1,744
Change in credit risk	178	350
	98,765	**124,782**
Other	660,963	533,757
Closing balance	**759,728**	**658,539**

Financial liabilities carried at fair value on December 31, 2012 were EUR 354 K (1,058) lower than the nominal amount at maturity. On December 31, 2012, changes in credit risk had affected the accumulated amount of change in fair value by EUR 121 K (974). The change in credit risk for 2012 is calculated on the basis of actual credit spreads against swaps (6 yrs) for A-rated banks in Europe.

27. Fair value option	2012			2011		
	Opening bal., Jan 1, 2012	Change for the year	Closing bal., Dec 31, 2012	Opening bal., Jan 1, 2011	Change for the year	Closing bal., Dec 31, 2011
Balance sheet						
Claims on the public and public sector entities	7,696	2,642	10,338	4,786	2,910	7,696
Derivative instruments	2,850	1,625	4,474	3,181	–332	2,850
Liabilities to the public and public sector entities	42	–39	3	264	–222	42
Debt securities issued to the public	1,395	–1,751	–357	2,050	–655	1,395
Derivative instruments	–8,081	–1,553	–9,634	–4,589	–3,492	–8,081
Retained earnings	4,138	697	4,835	5,299	–1,161	4,138
Deferred tax liabilities	383	–209	174	748	–365	383
Income statement						
Net income from securities trading		923			–1,790	
Change in deferred tax liabilities		–209			–365	
Taxes		–18			994	
Profit for the year		**697**			**–1,161**	

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.

28. 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.
The Bank's holds 25,000 (6,263) of its own shares.

Changes in share capital	Share capital, EUR	Series A shares, number	Series B shares, number
2012	29,103,547.58	6,476,138	7,944,015
2011	29,103,547.58	6,476,138	7,944,015
2010	23,282,837.26	5,180,910	6,355,212
2009	23,282,837.26	5,180,910	6,355,212
2008	23,282,837.26	5,180,910	6,355,212

The ten largest shareholders, December 31, 2012:
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. Anders Wiklöf and companies	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 Pankki OYJ (nominee registered shares)	2,567	936,334	938,901	6.51	0.72
5.Pensionsförsäkringsaktiebolaget Veritas	123,668	165,954	289,622	2.01	1.92
6. Ab Rafael	227,640	678	228,318	1.58	3.31
7. Svenska Litteratursällskapet i Finland	208,750	0	208,750	1.45	3.04
8. Caelum Oy	81,675	119,200	200,875	1.39	1.27
9. Palcmills Oy	87,500	107,500	195,000	1.35	1.35
10. Sijoitusrahasto Alfred Berg Small Cap Finland	0	123,944	123,944	0.86	0.09

29. Fair value reserve

	2012			2011		
	Positive figures	Negative figures	Total	Positive figures	Negative figures	Total
Debt securities	5,395		5,395	2,182		2,182
Shares	740	−131	609	377	−200	177
Total	**6,135**	**−131**	**6,004**	**2,559**	**−200**	**2,359**
Deferred tax liability			−1,471			−578
Closing balance			**4,533**			**1,781**

30. Retained earnings

	2012	2011
Non-distributable		
Share of accumulated appropriations	19,897	37,638
Share of difference between fair value of assets and pension liabilities in the pension fund	5,422	5,133
	25,319	**42,772**
Distributable	43,160	13,613
Closing balance	**68,479**	**56,385**

In light of positive earnings attributable to the shareholders, the improved capital adequacy situation and a positive belief in the Bank's trend of earnings and capital generating capacity, the Board of Directors proposes that the Annual General Meeting approve the payment of a dividend of EUR 0.15 per share, equivalent to a total amount of EUR 2.2 M.

Notes to the statement of comprehensive income

31. Interest income

	2012	2011
Credit institutions and central banks	1,283	2,834
Public and public sector entities	76,725	72,851
Debt securities	6,633	8,299
Derivative instruments	222	194
Other interest income	1,269	1,565
Total	**86,132**	**85,743**

32. Interest expenses

32. Interest expenses	2012	2011
Credit institutions and central banks	5,879	2,204
Public and public sector entities	23,819	22,580
Debt instruments issued to the public	11,628	14,146
Derivative instruments	215	643
Subordinated liabilities	1,641	1,798
Other interest expenses	1,776	1,294
Total	**44,957**	**42,664**

33. Commission income

33. Commission income	2012	2011
Deposit commissions	879	846
Lending commissions	2,721	3,315
Payment intermediation commissions	7,485	5,244
Mutual fund unit commissions	9,867	10,830
Management commissions	7,174	8,329
Securities commissions	9,627	15,997
Underwriting commissions	6	17
Insurance commissions	128	83
Legal services	664	465
Guarantee commissions	265	275
Other commissions	1,294	1,329
Total	**40,110**	**46,731**

34. Commission expenses

34. Commission expenses	2012	2011
Service charges paid	698	1,151
Other	6,700	6,830
Total	**7,398**	**7,981**

35. Income from equity instruments

35. Income from equity instruments	2012	2011
Financial assets available for sale	330	42
Total	**330**	**42**

36. Net income from securities trading and foreign exchange operations

	2012			2011		
	Net capital gains and losses	Net changes in fair value	Total	Net capital gains and losses	Net changes in fair value	Total
Debt securities	–175	–159	–334	177	70	247
Shares and participations	–70		–70	895	–434	461
Fair value option		1,100	1,100		1,998	1,998
Derivative instruments	–2,123	1,358	–766	–1,640	–1,561	–3,201
Securities trading	**–2,369**	**2,299**	**–69**	**–568**	**73**	**–495**
Foreign exchange operations	8,941	1,190	10,131	2,419	–53	2,366
Total	**6,573**	**3,489**	**10,062**	**1,850**	**21**	**1,871**

37. Net income from financial assets available for sale

	2012	2011
Capital gains	11,600	656
Impairment losses	–844	–1,320
Total	**10,756**	**–664**

Capital gains of EUR 6.3 M were related to the divestment of the Swedish subsidiary. In addition to this, the divestment resulted in foreign exchange gains of EUR 7.5 M, which is reported in Note 36 as “Foreign exchange operations”.

38. Net income from investment properties

38. Net income from investment properties	2012	2011
Rental income	2	94
Rental expenses	–1	–56
Depreciation		–20
Capital gains/losses		906
Other net income		20
Total	**1**	**944**

39. Other operating income	2012	2011
Rental income on properties	83	105
Capital gains on properties	233	244
Other property income	2	7
Other income	505	1,376
Total	**823**	**1,732**

40. Staff costs	2012	2011
Salaries and fees	39,882	44,867
Pension expenses	6,459	7,526
Other social security expenses	5,923	7,584
Total	**52,264**	**59,977**

41. Other administrative expenses	2012	2011
Staff costs	1,752	2,469
Office costs	1,089	1,287
IT costs	10,461	9,803
Communication	3,140	3,565
Marketing	3,514	3,500
Miscellaneous	620	306
Total	**20,576**	**20,931**

42. Other operating expenses	2012	2011
Rental expenses	4,631	5,887
Other property expenses	1,434	736
Fee to security funds	1,172	1,072
Miscellaneous expenses	7,244	9,600
Total	**14,480**	**17,294**

43. Impairment losses on loans and other commitments	2012	2011
Individual impairment losses	4,710	3,457
Group impairment losses	2,000	−1,400
Reversals	−280	−269
Total	**6,430**	**1,788**

Interest recognised on impaired receivables according to original interest amounted to EUR 108 K (85).

44. Income taxes	2012	2011
Net operating income	9,957	−5,681
Tax-exempt sales income	−15,775	
Gain with unrecorded deferred tax asset	1,267	
Tax-exempt income	−166	−495
Deductible taxation expense	−2,031	
Non-deductible expenses	225	661
Losses in current year	253	11,606
Losses from prior years	−3,107	−3,435
Net profit from associated companies	−29	−25
Other	327	
Taxable profit	**−9,079**	**2,631**
Taxes	2,324	2,727
Taxes from prior years	10	−10
Change in deferred taxes	−4,548	−2,042
Impact of changed tax rate		−1,033
Taxes on profit for the year	**−2,214**	**−359**
Fair value reserve (deferred)	893	126
Cash flow hedge/Translation differences (realised)	−380	−89
Taxes on other comprehensive income	**513**	**37**

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.

45. Net interest income, net income on financial items and impairment losses

	2012					
	From interest		From valuations		From selling/ divestment/ contract	
	Revenue	Expense	Fair value	Impairment		Total
Financial assets at fair value						
For trading purposes	3,928		1,792		−3,478	2,241
Others (fair value option)	6,305		2,848			9,152
Investments held to maturity	1,724				3,356	5,080
Loans and trading receivables	69,628		−211	−4,933	−1,497	62,987
Financial assets available for sale						
Of which in income statement	4,548			−40	7,440	11,947
Financial liabilities at fair value						
For trading purposes			518			518
Others (fair value option)		−2,649	354			−2,295
Financial liabilities at accrued cost		−42,309	−44			−42,353
Total	**86,132**	**−44,957**	**5,256**	**−4,973**	**5,821**	**47,278**

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

46. Earnings per share

	2012	2011
Earnings per share, EUR		
Profit for the year / Average number of shares	11,557,844 / 14,395,153 = 0.80	−6,472,321 / 12,096,821 = −0,54

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

47. Number of employees

	2012		2011	
	Average employees	Change	Average employees	Change
Permanent full-time employees	569	−45	614	−12
Permanent part-time employees	106	−27	133	17
Total	**675**	**−72**	**747**	**5**

Average number of employees divided into full-time and part-time employees.

48. Salaries/fees paid to the Board of Directors and Executive Team

	2012	2011
Members of the Board of Directors	303	315
Managing Directors	985	1,365
Deputy Managing Directors	304	652
Other members of the Executive Team	1,923	1,313

The amount includes the value of fringe benefits. 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.

Managing Director

The Board of Directors establishes the salary benefits and other employment conditions of the Managing Director. During 2012 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 receive 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 above-mentioned severance pay.

There was no incentive programme for the Managing Director and key individuals in 2012.

49. Fees paid to auditors

	2012	2011
Auditing fees paid	452	443
Consulting fees paid		
In compliance with Finnish Auditing Act, Ch. 1, Sec. 1, Par. 2	57	7
Taxes	78	23
Other	82	180
Total	**669**	**653**

These amounts include value-added tax (VAT).

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

2012	Series A shares	Series B shares	Total shares	% of shares	% of votes
Board of Directors					
Bergh Kaj-Gustaf	0	0	0	0.00	0.00
Husell Folke	27,776	10,787	38,563	0.27	0.41
Karlsson Agneta	40	28	68	0.00	0.00
Karlsson Anders	700	0	700	0.00	0.01
Wijkström Annika	0	0	0	0.00	0.00
Wiklöf Anders	289,383	119,185	408,568	2.83	4.30
Total	**317,899**	**130,000**	**447,899**	**3.11**	**4.72**
Executive Team					
Wiklöf Peter	0	3,750	3,750	0.03	0.00
Eurell Jan-Gunnar	0	500	500	0.00	0.00
Dahlén Birgitta	450	338	788	0.01	0.01
Erikslund Tove	0	0	0	0.00	0.00
Holm Magnus	0	0	0	0.00	0.00
Rauthovi Juhana	0	0	0	0.00	0.00
Salonius Anne-Maria	0	0	0	0.00	0.00
Total	**450**	**4,588**	**5,038**	**0.03**	**0.01**

51. Financial transactions with related parties	2012			2011		
	Board and Executive Team	Related companies	Associated companies	Board and Executive Team	Related companies	Associated companies
Loans						
Loans outstanding, January 1	2,592	6,912	500	3,031	13,660	1,000
Taken out during the year	98			474	8,525	
Principal paid during the year	–85	–378		–349	–4,092	
Loans outstanding, December 31	2,604	6,534	500	3,156	18,093	1,000
Interest income	65	173	23	64	168	4
Commission income				0	9	
Deposit accounts						
Deposit accounts, January 1	1,155	2,576	429	409	14,874	2,283
Deposit accounts, December 31	1,470	5,406	599	500	27,304	1,310
Interest expenses	10	1	3	2	40	4
Other commissions and fees	0	4		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 (250,000) with approved collateral. The employee interest rate is set by the Executive Team and amounted to 0.935 per cent (2.044) on December 31, 2012. All transactions with related parties have occurred on commercial terms.

Notes concerning assets pledged and contingent liabilities

52. Collateral provided	2012		2011	
	Nominal value of debt	Carrying amount of collateral	Nominal value of debt	Carrying amount of collateral
Loan receivables constituting collateral (cover pool) for covered bonds	473,812	665,141		
For debts to credit institutions and central banks	184,438	249,005	30,008	62,696
For other debts	26,815	33,499	32,878	37,425
For unutilised limits	25,649	167,920	40,348	55,103
Other	3,199	3,162	18,162	24,997
Total	**713,913**	**1,118,728**	**121,396**	**180,220**

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

Except for loan receivables constituting collateral for covered bonds, where legislation specifies minimum standards for excess collateral, the collateral that exceeds the nominal value of the debt is freely available to the Bank.

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

	2012	2011
Present value of pension liabilities	18,173	13,801
Fair value of plan assets	–18,751	–18,042
Status	**–578**	**–4,241**
Unrecognised actuarial gains (+) / losses (–)	–6,604	–2,639
Liabilities recognised in the balance sheet	**–7,182**	**–6,880**
Current service costs	78	85
Interest expenses	619	604
Administrative expenses		311
Expected return on plan assets	–1,145	–1,251
Recognised net actuarial gain (–) / loss (+)	104	0
Receivable (–) / liability (+) recognised in the income statement	**–344**	**251**
Opening balance	**–5,060**	**–5,622**
Expenses (+) / income (–) in the income statement	344	562
Closing balance	**–4,716**	**–5,060**
Assumptions		
Discount rate	3.00%	4,60%
Expected return on assets	6.50%	6,50%
Increase in salaries	1.90%	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	26.20%	33,00%
Financial market instruments	42.10%	44,60%
Properties	18.70%	18,20%
Cash and other current assets	13.00%	4,20%
Total	**100.00%**	**100,00%**
Reconciliation of present value of pension liabilities		
Opening balance	13,801	13,023
Current service costs	78	85
Interest expenses	619	604
Benefits paid	–803	–838
Actuarial gains (–) / losses (+)	4,478	927
Total	**18,173**	**13,801**
Reconciliation of fair value of plan assets		
Opening balance	18,042	19,699
Expected return on plan assets	810	1,251
Benefits paid	–803	–838
Actuarial gains (+) / losses (–)	744	–2,033
Additional payment	–42	–37
Closing balance	**18,751**	**18,042**
Specification of the fund's holdings in the Bank of Åland Plc		
Bank of Åland Plc shares	12	0
Equity index bonds	0	249
Corporate bonds	900	444
Mutual fund holdings	0	
Bank deposits	1,848	416
Total	**2,761**	**1,109**

An estimated additional payment of EUR 50 K is expected for 2013 (EUR 42 K for 2012). An estimate of the present value of pension liabilities as well as fair value of plan assets was carried out on December 31, 2012 by Janne Sorainen 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. In 2012 the Group made experience-based adjustments related to obligations totalling EUR 1,464 K (2011: EUR 687 K) and related to assets of EUR 409 K (2011: EUR -2,033 K).

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

	2012	2011	2010	2009	2008
Present value of pension liabilities	18,173	13,801	13,023	13,074	12,740
Fair value of plan assets	–18,751	–18,042	–19,699	–18,793	–15,473
Status	**–578**	**–4,241**	**–6,676**	**–5,719**	**–2,733**

54. Lease liabilities and rental obligations	2012	2011
Lease payments and rental obligations due		
Within 1 year	5,219	4,939
More than 1 and less than 5 years	6,677	9,574
More than 5 years	2,179	2,680
Total	**14,075**	**17,193**
Finance leases, present value		
Within 1 year	1,236	779
More than 1 and less than 5 years	2,379	346
More than 5 years	0	0
Total	**3,615**	**1,126**
Finance leases, minimum rents		
Within 1 year	1,398	790
More than 1 and less than 5 years	2,598	350
More than 5 years	0	0
Total	**3,996**	**1,140**
Interest expenses	381	14
Carrying amount		
Machinery and equipment	3,378	1,104

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.

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 1,328 K excluding value-added tax.

55. Off-balance sheet commitments	2012	2011
Guarantees	14,609	18,716
Unutilised overdraft limits	69,147	90,187
Unutilised credit card limits	88,412	79,895
Lines of credit	195,484	188,297
Other	37,635	33,844
Total	**405,287**	**410,939**

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

Other notes

56. Managed assets	2012	2011
Mutual fund (unit trust) management	867,416	756,727
Discretionary asset management	1,991,471	1,797,660
Other asset management	1,433,026	1,259,648
Total managed assets	**4,291,912**	**3,814,035**
Of which own funds in discretionary and other asset management	–361,847	–337,669

57. Changes in Group structure 2012

During the fourth quarter, the Bank of Åland Plc completed its divestment of the wholly owned subsidiary Ålandsbanken Asset Management AB in Sweden. It also completed its merger with the wholly owned subsidiary Ålandsbanken Equities Research Ab. Both of these companies had been emptied of business operations. During the fourth quarter, the Bank also sold its shares in the associated company Ålands Företagsbyrå Ab.

Bank of Åland Group	2012				
	Dec 31, 2011	Utilised	Withdrawn	New reserve	Dec 31, 2012
Restructuring reserve					
Rent for premises	498	–470	–28	86	86
IT	112	–112			
Provisions	**610**	**–583**	**–28**	**86**	**86**
Staff costs	3,597	–2,874	–343	619	999
Total	**4,207**	**–3,456**	**–370**	**705**	**1,085**

Obligations on December 31, 2012 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.

	2012	2011
Goodwill		
Opening balance		
Gross	1,373	1,373
Goodwill recognised during the period	0	0
Impairment loss	0	0
Closing value	**1,373**	**1,373**

In impairment testing, discount rate of 20 per cent (2011: 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 22.5 per cent or in case cash flows should deteriorate by 8.4 per cent.

58. Subsidiaries and associated companies 2012

Subsidiaries

The following subsidiaries were consolidated according to the purchase method of account as of December 31, 2012:

	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 Fonder AB	Stockholm	100
Alpha Management Company S.A.	Luxembourg	100

The following associated companies were consolidated as of December 31, 2012:

	Registered office	Ownership, %
Ålands Fastighetskonsult Ab	Mariehamn	20
Ålands Investerings Ab	Mariehamn	36

	2012	2011
Combined financial information about these associated companies:		
Assets	3,281	4,309
Liabilities	1,016	1,648
Sales	934	3,256
Profit for the year	**68**	**–65**

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, 2012:

Properties for the Group's own use	Registered office	Ownership, %
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

Parent Company balance sheet

(EUR K)

Assets	Note	Dec 31, 2012		Dec 31, 2011	
Cash			132,547		66,139
Debt securities eligible for refinancing with central banks	2				
Other			305,414		125,311
Claims on credit institutions	3				
Repayable on demand		49,721		68,267	
Other		51,847	101,568	57,290	125,556
Claims on the public and public sector entities	4, 5		2,876,297		2,726,123
Debt securities	2		44,818		193,222
Shares and participations	6		6,521		3,327
Shares and participations in associated companies	6		1,001		1,005
Shares and participations in Group companies	6		12,514		48,291
Derivative instruments	7		20,393		20,413
Intangible assets	8, 10		27,751		29,328
Tangible assets	9, 10				
Investment properties as well as shares and participations in investment properties		438		620	
Other properties as well as shares and participations in real estate companies		14,389		14,732	
Other tangible assets		3,798	18,625	4,532	19,884
Other assets	11		42,461		35,111
Accrued income and prepayments	12		18,263		32,062
Deferred tax assets	13		212		875
Total assets			**3,608,384**		**3,426,648**

Parent Company balance sheet

(EUR K)

Liabilities and equity capital	Note	Dec 31, 2012			Dec 31, 2011		
Liabilities							
Liabilities to credit institutions							
Central banks			130,000			30,000	
Credit institutions							
Repayable on demand		61,967			41,365		
Other		166,647	228,614	358,614	158,382	199,747	229,747
Liabilities to the public and public sector entities							
Deposits							
Repayable on demand		1,666,785			1,630,747		
Other		472,014	2,138,799		573,196	2,203,943	
Other liabilities			190	2,138,989		329	2,204,272
Debt securities issued to the public	14						
Bonds			561,025			428,821	
Other			188,590	749,615		219,667	648,488
Derivative instruments	7			23,835			24,354
Other liabilities	15			60,334			61,096
Accrued expenses and prepaid income	16			21,054			17,653
Subordinated liabilities	17			64,019			57,627
Deferred tax liabilities	13			1,471			576
Total liabilities				**3,417,930**			**3,243,813**
Difference between recorded and planned depreciation							258
Reserves				26,354			49,594
Total accumulated appropriations				**26,354**			**49,852**
Equity capital	21, 22						
Share capital	23			29,104			29,104
Share premium account				32,736			32,736
Other restricted reserves							
Reserve fund			25,129			25,129	
Translation difference			128			−70	
Fair value reserve	24		4,533	29,791		1,775	26,835
Paid-up unrestricted equity reserve				24,681			24,681
Own shares				−244			−54
Retained earnings				19,681			8,386
Profit for the year				28,351			11,295
Total equity capital				**164,100**			**132,982**
Total liabilities and equity capital				**3,608,384**			**3,426,648**
Off-balance sheet obligations	48						
Obligations to a third party on behalf of customers							
Guarantees				18,549			20,695
Irrevocable commitments given on behalf of customers				281,984			282,153
Other				37,635			33,844
				338,168			**336,693**

Parent Company income statement

(EUR K)

	Note	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Interest income	27	83,870	69,027
Net leasing income	28	18	9
Interest expenses	29	–46,630	–34,964
Net interest income		**37,258**	**34,071**
Commission income	30	24,633	15,417
Commission expenses	31	–3,390	–2,576
Net commission income		**21,243**	**12,841**
Income from equity investments	32	2,828	14,320
Net income from securities transactions and foreign exchange dealing	33	–2,609	–1,447
Net income from financial assets available for sale	34	29,013	–684
Other operating income	35	2,057	2,636
Total income		**89,790**	**61,737**
Staff costs	36	–34,088	–23,383
Other administrative expenses	37	–22,510	–15,942
Depreciation/amortisation and impairment losses on tangible and intangible assets		–7,720	–4,132
Impairment loss on other financial assets		–1,815	–105
Other operating expenses	38	–12,526	–9,202
Total expenses		**–78,659**	**–52,764**
Profit before impairment losses		**11,131**	**8,973**
Impairment losses on loans and other commitments	39	–5,616	–2,066
Net operating profit		**5,516**	**6,908**
Appropriations		23,498	3,500
Income taxes	40	–663	888
Profit for the accounting period		**28,351**	**11,295**

Table of contents, notes to the Parent Company financial statements

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 euros 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 in the balance sheet 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.

2. Holdings of debt securities	2012			2011		
	Listed	Other	Total	Listed	Other	Total
Debt securities eligible for refinancing						
Instruments held to maturity						
Treasury bills				53,491		53,491
Instruments available for sale						
Treasury bonds	89,926		89,926	61,252		61,252
Other debt securities	215,488		215,488	3,543		3,543
Instruments available for trading						
Other debt securities				7,024		7,024
Closing balance	**305,414**		**305,414**	**125,311**		**125,311**
Other debt securities						
Instruments available for sale						
Certificates of deposit		34,979	34,979		134,228	134,228
Other	6,412		6,412	3,366		3,366
Instruments available for trading						
Other	3,427		3,427	55,628		55,628
	9,839	**34,979**	**44,818**	**58,995**	**134,228**	**193,222**

3. Claims on credit institutions	2012			2011		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Finnish credit institutions	150		150	62	10,000	10,062
Foreign credit institutions	49,572	51,847	101,419	68,205	47,290	115,495
Closing balance	**49,721**	**51,847**	**101,568**	**68,267**	**57,290**	**125,556**

4. Claims on the public and public sector entities	2012	2011
Companies	941,776	907,402
Public sector entities	5,580	7,091
Households	1,799,945	1,663,896
Non-profit organisations, household sector	15,310	14,821
Foreign	113,686	132,913
Closing balance	**2,876,297**	**2,726,123**

5. Impairment losses on loans and trade receivables	2012			2011		
	Individual	Group	Total	Individual	Group	Total
Opening balance	**7,904**	**1,100**	**9,004**	**4,007**	**2,500**	**6,507**
Acquired balance				490		490
New and increased impairment losses	2,606	2,000	4,606	3,517		3,517
Reversals of impairment losses	−245		−245	−111	−1,400	−1,511
Actual losses/reversals	1,254		1,254	59		59
Recognised in income statement	**3,616**	**2,000**	**5,616**	**3,466**	**−1,400**	**2,066**
Direct impairment losses/reversals	−1,243		−1,243	−59		−59
Closing balance	**10,276**	**3,100**	**13,376**	**7,904**	**1,100**	**9,004**
Companies	7,098	3,100	10,198	4,905	1,100	6,005
Households	2,767		2,767	2,587		2,587
Foreign	411		411	411		411
Closing balance	**10,276**	**3,100**	**13,376**	**7,904**	**1,100**	**9,004**

6. Shares and participations	2012			2011		
	Listed	Other	Total	Listed	Other	Total
Shares and participations						
Available for sale	5,216	1,305	6,521	1,330	1,997	3,327
Shares and participations in associated companies		1,001	1,001		1,005	1,005
Shares and participations in Group companies		12,514	12,514		48,291	48,291
Closing balance	**5,216**	**14,821**	**20,037**	**1,330**	**51,293**	**52,623**

An impairment loss of EUR 844 M on the entire shareholding in Burgundy was recognised directly in profit for the year.

7. Derivative instruments

	2012		2011	
	Fair value		Fair value	
	Positive	Negative	Positive	Negative
Interest rate derivatives				
Interest rate forward contracts			546	495
Interest rate swaps	7,232	11,565	5,618	9,727
Interest rate ceilings		4		
Interest rate options				
Purchased	2		78	
Written		2		78
Currency derivatives				
Forward contracts	2,903	1,799	2,298	3,202
Interest rate and currency swaps	128	725	302	
Equity derivatives				
Option contracts				
Purchased	9,564		11,570	
Written		9,175		10,853
Other derivatives	564	564		
Closing balance	**20,393**	**23,835**	**20,413**	**24,354**

Nominal value of underlying asset by remaining maturity:

	2012				2011			
	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			448,833
Interest rate swaps	48,493	311,028	27,687	387,207	94,237	426,523	23,698	544,457
Interest rate options								
Purchased	1,282	20,487		21,769		24,167	741	24,908
Written		9,557		9,557		24,167	741	24,908
Currency derivatives								
Forward contracts	55,088	7,820		62,908	59,675	3,167		62,841
Interest rate and currency swaps	80,403	127,149	57,937	265,489	172,825	66,346	89	239,259
Equity derivatives								
Option contracts								
Purchased	25,067	92,648		117,715	39,013	107,481	2,244	148,738
Written	25,067	92,648		117,715	39,013	107,481	2,244	148,738
Closing balance	**235,400**	**677,117**	**94,866**	**1,007,383**	**853,595**	**759,331**	**29,756**	**1,642,683**

8. Intangible assets

	2012	2011
IT investments	4,744	6,369
Ongoing IT investments	1,301	629
Goodwill	18,911	19,134
Other	2,795	3,196
Closing balance	**27,751**	**29,328**

9. Properties and shares and participations in real estate companies

	2012	2011
Investment properties		
Land and water	3	44
Buildings	0	140
Shares in real estate companies	435	435
Closing balance	**438**	**620**
Properties for the Group's own use		
Land and water	139	147
Buildings	13,788	14,123
Shares in real estate companies	462	462
Closing balance	**14,389**	**14,732**

10. Changes in intangible and tangible assets

2012	Land and buildings for own use	Investment properties	Other tangible assets	Goodwill	Other intangible assets	Total
Historical costs						
Cost on January 1	15,063	997	19,639	20,298	18,535	74,531
Translation differences			369			369
Increases during the year			370	2,020	3,698	6,088
Decreases during the year	−212	−250	−353		−2,414	−3,230
Transfer between items	29		−29			0
Cost on December 31	**14,880**	**746**	**19,995**	**22,318**	**19,819**	**77,758**
Accumulated depreciation/amortisation						
Accumulated depreciation/amortisation/ impairment losses on Jan 1	−5,621	−377	−15,107	−1,164	−8,341	−30,609
Translation differences			−356	−35	68	−323
Accumulated depreciation/amortisation concerning decreases	115	70	267		1,527	1,980
Depreciation/amortisation for the year	−275	−2	−1,001	−2,208	−3,207	−6,693
Impairment losses for the year					−1,026	−1,026
Accumulated depreciation/amortisation/ impairment losses on Dec 31	**−5,781**	**−308**	**−16,197**	**−3,407**	**−10,979**	**−36,672**
Revaluations						
Revaluations, January 1	5,289					5,289
Decreases during the year						
Revaluations, December 31	**5,289**					**5,289**
Carrying amount on December 31	**14,389**	**438**	**3,798**	**18,911**	**8,840**	**46,376**

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	10,986	1,182	17,235	46,499
Acquired balance			9,561	19,116	1,677	30,354
Increases during the year			608	568	3,054	4,230
Decreases during the year	−370	−666	−1,517	−568	−3,431	−6,552
Cost on December 31	**15,063**	**997**	**19,639**	**20,298**	**18,535**	**74,531**
Accumulated depreciation/amortisation						
Accumulated depreciation/amortisation/ impairment losses on Jan 1	−5,611	−371	−6,455	−768	−9,295	−22,500
Acquired balance			−9,155		−456	−9,611
Translation differences			−13,391	−2,063		−15,454
Accumulated depreciation/amortisation concerning decreases	314		1,349	568	3,419	5,650
Depreciation/amortisation for the year	−323	−5	−832	−507	−2,009	−3,678
Impairment losses for the year				−454		−454
Accumulated depreciation/amortisation/ impairment losses on Dec 31	**−5,621**	**−377**	**−15,107**	**−1,164**	**−8,341**	**−30,609**
Revaluations						
Revaluations, January 1	5,377					5,377
Decreases during the year	−88					−88
Revaluations, December 31	**5,289**					**5,289**
Carrying amount on December 31	**14,732**	**620**	**4,532**	**19,134**	**10,194**	**49,212**

11. Other assets

	2012	2011
Cash items in the process of collection	3	4
From assets bought on behalf of customers	37,894	27,121
Other	4,564	7,986
Closing balance	**42,461**	**35,111**

12. Accrued income and prepayments	2012	2011
Interest	11,916	13,062
Taxes	0	0
Other	6,347	19,000
Closing balance	**18,263**	**32,062**

13. Deferred tax assets and liabilities	2012	2011
Deferred tax assets		
Temporary differences	178	698
From taxable losses	35	177
Closing balance	**212**	**875**
Deferred tax liabilities		
From the fair value reserve	1,471	576
Closing balance	**1,471**	**576**

Accumulated appropriations included a deferred tax liability of EUR 6,457 K (2011: 12,214).

14. Debt securities issued to the public	2012		2011	
	Carrying amount	Nominal amount	Carrying amount	Nominal amount
Bonds	561,025	567,795	428,821	437,090
Certificates of deposit	188,590	188,860	219,667	220,841
Closing balance	**749,615**	**756,655**	**648,488**	**657,931**

15. Other liabilities	2012	2011
Cash items in the process of collection	15,943	16,091
From assets sold on behalf of customers	35,915	30,753
Provisions	1,085	3,210
Other	7,391	11,042
Total	**60,334**	**61,096**

16. Accrued expenses and prepaid income	2012	2011
Interest	10,812	5,770
Other	10,242	11,883
Closing balance	**21,054**	**17,653**

17. Subordinated debentures						
	Carrying amount	Nominal amount	Amount in capital base	Carrying amount	Nominal amount	Amount in capital base
Debenture loan 1/2008	3,192	3,192	3,192	2,103	2,103	2,103
Debenture loan 2/ 2008	681	681	681	897	897	897
Debenture loan 1/2009	16,908	16,908	16,908	16,119	16,119	16,119
Debenture loan 2/2009	6,821	6,821	6,821	9,682	9,682	9,682
Debenture loan 1/2010	6,575	6,575	6,575	8,385	8,385	8,385
Debenture loan 2/2010	11,868	11,868	11,868	15,442	15,442	15,442
Debenture loan 1/2011	3,950	3,950	3,950	5,000	5,000	5,000
Debenture loan 1/2012	14,024	14,024	14,024			
Closing balance	**64,019**	**64,019**	**64,019**	**57,627**	**57,627**	**57,627**

	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
Debenture loan 1/2012	3.00% fixed interest	December 6, 2017

18. Maturity breakdown of claims and liabilities

2012	Under 3 mo	3 – 12 mo	1 – 5 yrs	Over 5 yrs	Not classified by maturity	Total
Assets						
Cash	132,547					132,547
Debt securities eligible for refinancing with central banks	5,859	10,357	236,707	52,491		305,414
Claims on credit institutions	101,568					101,568
Claims on the public and public sector entities	238,274	394,604	1,521,467	721,952		2,876,297
Debt securities	24,836	19,982				44,818
Shares and participations					6,521	6,521
Shares and participations in associated companies					1,001	1,001
Shares and participations in Group companies					12,514	12,514
Derivative instruments					20,393	20,393
Intangible assets					27,751	27,751
Tangible assets					18,625	18,625
Other assets					42,461	42,461
Accrued income and prepayments					18,263	18,263
Deferred tax assets					212	212
Closing balance	**503,084**	**424,943**	**1,758,174**	**774,443**	**147,741**	**3,608,384**
Liabilities						
Liabilities to credit institutions	146,125	52,489	160,000			358,614
Liabilities to the public and public sector entities	1,902,248	233,074	3,667			2,138,989
Debt securities issued	142,463	70,197	474,168	62,787		749,615
Derivative instruments					23,835	23,835
Other liabilities					60,334	60,334
Accrued expenses and prepaid income					21,054	21,054
Subordinated debentures		3,875	60,144			64,019
Deferred tax liabilities					1,471	1,471
Equity capital and reserves					190,454	190,454
Closing balance	**2,190,836**	**359,635**	**697,979**	**62,787**	**297,148**	**3,608,384**

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	125,556					125,556
Claims on the public and public sector entities	339,297	332,919	1,206,722	847,183		2,726,123
Debt securities	71,368	92,142	29,712			193,222
Shares and participations					3,327	3,327
Shares and participations in associated companies					1,005	1,005
Shares and participations in Group companies					48,291	48,291
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
Closing balance	**611,838**	**482,085**	**1,277,243**	**865,183**	**190,296**	**3,426,648**
Liabilities						
Liabilities to credit institutions	199,747			30,000		229,747
Liabilities to the public and public sector entities	1,894,869	295,493	13,826	84		2,204,272
Debt securities issued	155,701	404,604	85,939	2,244		648,488
Derivative instruments					24,354	24,354
Other liabilities					61,096	61,096
Accrued expenses and prepaid income					17,653	17,653
Subordinated debentures		5,309	34,097	18,222		57,627
Deferred tax liabilities					576	576
Equity capital and reserves					182,834	182,834
Closing balance	**2,250,317**	**705,406**	**133,862**	**50,550**	**286,513**	**3,426,648**

19. Assets and liabilities in euros and other currencies

	2012			2011		
	Euro	Other currencies	Total	Euro	Other currencies	Total
Claims on credit institutions	5,073	96,495	101,568	17,188	108,368	125,556
Claims on the public and public sector entities	2,235,412	640,885	2,876,297	2,255,025	471,098	2,726,123
Debt securities	334,535	15,698	350,232	288,009	30,524	318,533
Derivative instruments	15,768	4,625	20,393	15,485	4,928	20,413
Other assets including cash	174,783	85,110	259,894	190,904	45,118	236,023
Closing balance	**2,765,571**	**842,813**	**3,608,384**	**2,766,612**	**660,036**	**3,426,648**
Liabilities to credit institutions and central banks	205,817	152,797	358,614	116,763	112,983	229,747
Liabilities to the public and public sector entities	1,565,855	573,134	2,138,989	1,664,613	539,659	2,204,272
Debt securities issued to the public	737,252	12,363	749,615	636,308	12,180	648,488
Derivative instruments	20,375	3,460	23,835	18,189	6,165	24,354
Subordinated liabilities	64,019	0	64,019	57,627	0	57,627
Other liabilities	21,967	60,891	82,858	46,766	32,559	79,325
Closing balance	**2,615,285**	**802,646**	**3,417,930**	**2,540,267**	**703,546**	**3,243,813**

20. Fair value and carrying amount of assets and liabilities

	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash	132,547	132,547	66,139	66,139
Debt securities eligible for refinancing with central banks				
Available for sale	305,414	305,414	71,820	71,820
Intended to be held to maturity			53,491	56,765
Claims on credit institutions	101,568	101,568	125,556	125,556
Claims on the public and public sector entities				
Other	2,876,297	2,882,735	2,726,123	2,732,843
Debt securities available for sale	44,818	44,818	193,222	193,222
Shares and participations available for sale	6,521	6,521	3,327	3,327
Shares and participations in associated companies	1,001	1,001	1,005	1,005
Shares and participations in Group companies	12,514	12,514	48,291	48,291
Derivative instruments	20,393	20,393	20,413	20,413
Intangible assets	27,751	27,751	29,328	29,328
Tangible assets				
Investment properties	438	766	620	1,120
Properties for own use	14,389	26,279	14,732	27,287
Other tangible assets	3,798	4,188	4,532	4,922
Other assets	42,461	42,461	35,111	35,111
Accrued income and prepayments	18,263	18,263	32,062	32,062
Deferred tax assets	212	212	875	875
Closing balance	**3,608,385**	**3,627,431**	**3,426,648**	**3,450,087**
Liabilities				
Liabilities to credit institutions	358,614	260,640	229,747	229,450
Liabilities to the public and public sector entities				
Other	2,138,989	2,139,589	2,204,272	2,209,449
Debt instruments issued to the public				
Other	749,615	750,256	648,488	649,655
Derivative instruments	23,835	23,835	24,354	24,354
Other liabilities	60,334	60,334	61,096	61,096
Accrued expenses and prepaid income	21,054	21,054	17,653	17,653
Subordinated liabilities	64,019	65,517	57,627	59,141
Deferred tax liabilities	1,471	1,471	576	576
Closing balance	**3,417,930**	**3,322,694**	**3,243,813**	**3,251,373**

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, 2010	**23,283**	**0**	**32,736**	**25,129**		**1,287**		**8,473**	**90,908**
Reversal of revaluation								−88	−88
Change in fair value						488			488
Translation differences							−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**
Change in fair value						2,758			2,758
Translation differences							198		198
Purchases of own shares					−190				−190
Profit for the year								28,351	28,351
December 31, 2012	**29,104**	**24,681**	**32,736**	**25,129**	**−244**	**4,533**	**128**	**48,032**	**164,100**

22. Retained earnings

	2012	2011
Distributable		
Unrestricted equity reserve	24,681	24,681
Retained earnings	19,681	8,386
Profit for the year	28,351	11,295
Closing balance	**72,713**	**44,362**

23. Share capital

See Note 28 in the notes to the consolidated financial statements.

24. Fair value reserve

	2012			2011		
	Positive figures	Negative figures	Total	Positive figures	Negative figures	Total
Debt securities	5,395	0	5,395	2,175	0	2,175
Shares	740	−131	609	377	−200	177
Total	**6,135**	**−131**	**6,004**	**2,552**	**−200**	**2,352**
Deferred tax liability			−1,471			−576
Closing balance			**4,533**			**1,775**

25. Claims on Group companies

	2012	2011
Claims on the public	22,673	21,671
Claims on credit institutions	401	0
Other assets	898	493
Accrued income and prepayments	576	6,726
Closing balance	**24,547**	**28,890**

26. Liabilities to Group companies

	2012	2011
Liabilities to the public	22,393	57,577
Debt securities issued	401	500
Other liabilities	997	1,677
Accrued expenses and prepaid income	1,092	282
Closing balance	**24,882**	**60,036**

Notes to the income statement

27. Interest income

	2012	2011
Credit institutions and central banks	1,286	2,682
Public and public sector entities	75,104	59,612
Debt securities	6,539	6,164
Derivative instruments	222	194
Other interest income	718	376
Total	**83,870**	**69,027**

Interest income received from Group companies was EUR 336 K (2011: 1,191).

28. Net lease income	2012	2011
Rental income	18	9
Total	**18**	**9**

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

29. Interest expenses	2012	2011
Credit institutions and central banks	5,680	2,608
Public and public sector entities	25,851	15,195
Debt instruments issued to the public	12,123	14,662
Derivative instruments	215	153
Subordinated liabilities	1,636	1,795
Other interest expenses	1,126	552
Total	**46,630**	**34,964**

Interest paid to Group companies was EUR 307 K (2011: 678).

30. Commission income	2012	2011
Deposit commissions	879	846
Lending commissions	2,723	1,941
Payment intermediation commissions	3,441	3,118
Mutual fund unit commissions	2,691	1,351
Management commissions	5,234	2,403
Securities commissions	7,281	3,812
Underwriting commissions	6	17
Insurance commissions	128	83
Legal services	664	465
Guarantee commissions	312	312
Other commissions	1,274	1,068
Total	**24,633**	**15,417**

31. Commission expenses	2012	2011
Service charges paid	356	425
Other commission expenses	3,034	2,150
Total	**3,390**	**2,576**

32. Income from equity instruments	2012	2011
Financial assets available for sale	330	42
Group companies, dividend paid	2,404	582
Group companies, anticipated dividend	0	13,480
Associated companies	95	217
Total	**2,828**	**14,320**

33. Net income from securities trading and foreign exchange operations	2012			2011		
	Net capital gains and losses	Net changes in fair value	Total	Net capital gains and losses	Net changes in fair value	Total
Debt securities	−175	−159	−334		70	70
Shares and participations	0		0	117	12	129
Derivative instruments	−2,123	−351	−2,474	−434	−3,106	−3,540
Securities trading	**−2,299**	**−510**	**−2,808**	**−317**	**−3,024**	**−3,341**
Foreign exchange operations	−256	455	200	1,946	−52	1,894
Total	**−2,554**	**−54**	**−2,609**	**1,629**	**−3,076**	**−1,447**

34. Net income from financial assets available for sale	2012	2011
Capital gains and losses	29,857	636
Impairment losses	−844	−1,320
Total	**29,013**	**−684**

35. Other operating income	2012	2011
Rental income on properties	90	237
Capital gains on properties	233	1,149
Other property income	2	7
Other income	1,731	1,243
Total	**2,057**	**2,636**

36. Staff costs	2012	2011
Salaries and fees	24,612	18,933
Pension expenses	5,113	2,824
Other social security expenses	4,363	1,627
Total	**34,088**	**23,383**

37. Other administrative expenses	2012	2011
Staff costs	970	818
Office costs	853	886
Computer costs	15,164	9,713
Communication	2,086	1,776
Marketing	3,010	2,268
Miscellaneous	426	481
Total	**22,510**	**15,942**

38. Other operating expenses	2012	2011
Rental expenses	3,241	2,382
Other property expenses	1,211	685
Fee to security funds	1,183	1,072
Miscellaneous expenses	6,891	5,063
Total	**12,526**	**9,202**

39. Impairment losses on loans and other commitments	2012	2011
Individual impairment losses	3,888	3,597
Group impairment losses	2,000	–1,400
Reversals	–273	–131
Total	**5,616**	**2,066**

Interest recognised on impaired receivables according to original interest amounted to EUR 61 K (85).

40. Income taxes	2012	2011
Taxes for the year	0	0
Taxes from prior years		–13
Changes in deferred tax assets	663	–875
Taxes in the income statement	**663**	**–888**

Notes concerning staff, Board of Directors and Executive Team

41. Number of employees	2012		2011	
	Average employees	Change	Average employees	Change
Permanent full-time employees	345	–12	357	98
Permanent part-time employees	79	–21	100	24
Total	**424**	**–33**	**457**	**122**

Average number of employees divided into full-time and part-time employees.

42. Salaries/fees paid to the Board of Directors and Executive Team

	2012		2011	
Axman, Per	14		33	
Bergh, Kaj-Gustaf	50		31	
Boman, Sven-Harry	13		42	
Husell, Folke	33			
Janér, Kent			6	
Karlsson, Anders Å	33			
Karlsson, Agneta	41		32	
Lindholm, Göran	14		41	
Nordlund, Leif	13		40	
Taberman, Teppo			7	
Wijkström, Annika	30			
Wiklöf, Anders	30		32	
Members of the Board of Directors		271		263
Managing Director		267		267
Other members of the Executive Team		1,421		1,249

The amount includes the value of fringe benefits. 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.

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

See Note 50 to the consolidated financial statements

44. Financial transactions with related parties

See Note 51 to the consolidated financial statements.

Notes concerning assets pledged and contingent liabilities

45. Collateral provided

	2012		2011	
	Nominal value of debt	Carrying amount of collateral	Nominal value of debt	Carrying amount of collateral
Loan receivables constituting collateral (cover pool) for covered bonds	473,812	665,141		
For debts to credit institutions and central banks	184,438	249,005	30,008	62,696
For other debts	24,586	31,271	26,381	30,928
For unutilised limits	25,649	167,920	40,348	55,103
Other	3,199	3,162	18,162	24,997
Total	**711,684**	**1,116,499**	**114,899**	**173,724**

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

Except for loan receivables constituting collateral for covered bonds, where legislation specifies minimum standards for excess collateral, the collateral that exceeds the nominal value of the debt is freely available to the Bank.

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

	2012	2011
Pension liabilities in Ålandsbanken Abps Pensionsstiftelse r.s.	18,173	13,801
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 0.6 M.

47. Rental obligations

	2012	2011
Rental payments due		
Within 1 year	3,415	3,351
More than 1 and less than 5 years	3,749	6,096
More than 5 years	37	0
Total	**7,202**	**9,448**

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

48. Off-balance sheet commitments	2012	2011
Guarantees	18,549	20,695
Unutilised overdraft limits	82,947	93,856
Lines of credit	199,038	188,297
Other	37,635	33,844
Total	**338,168**	**336,693**
Guarantees for subsidiaries	3,940	1,979
Unutilised overdraft limits for subsidiaries	4,454	3,669
Credit lines to subsidiaries	13,000	

Other notes

49. Managed assets	2012	2011
Mutual fund unit management	211,590	176,528
Discretionary asset management	256,875	256,204
Other asset management	363,903	303,627
Total	**832,369**	**736,358**
Of which in own funds	−96,766	−81,445

50. Changes in Group structure

See Note 57 to the consolidated financial statements.

51. Subsidiaries and associated companies	2012		
Subsidiaries	Registered office	Ownership, %	Carrying amount
Ab Compass Card Oy Ltd	Mariehamn	66	6,270
Crosskey Banking Solutions Ab Ltd	Mariehamn	100	2,505
S-Crosskey Ab	Mariehamn	60	
Ålandsbanken Asset Management Ab	Helsinki	70	895
Ålandsbanken Fondbolag Ab	Mariehamn	100	841
Ålandsbanken Fonder AB	Stockholm	100	1,095
Alpha Management Company S.A.	Luxembourg	100	909
Total			**12,514**
Associated companies	Registered office	Ownership, %	Carrying amount
Ålands Fastighetskonsult Ab	Mariehamn	20	1
Ålands Investerings Ab	Mariehamn	36	1,000
Total			**1,001**

	2012	2011
Combined financial information about these associated companies:		
Assets	3,281	4,309
Liabilities	1,016	1,648
Sales	934	3,256
Profit for the year	**68**	**-65**

Housing and real estate companies	Registered office	Ownership, %	Carrying amount
Properties for the Group's own use			
FAB Västernäs City	Mariehamn	50	313
FAB Nymars	Sottunga	30	49
FAB Godby Center	Finström	11	100
Total			**462**
Investment properties			
FAB Sittkoffska gården	Mariehamn	22	348
FAB Horsklint	Kökar	20	12
Other			76
Total			**435**

Proposed allocation of profit

According to the financial statements, distributable profit of the Bank of Åland Plc is EUR 72,713,486.13, of which profit for the financial year is EUR 28,351,495.94. According to the consolidated financial statements, distributable profit of the Bank of Åland Group is EUR 43,159,626.52. 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 the distributable profit of the Bank of Åland Plc, EUR 72,713,486.13, be allocated as follows:

For Series A and Series B shares outstanding as of December 31, 2012, a dividend of EUR 0.15 per share, totalling	2,159,273.10
To be carried forward as retained earnings	70,554,213.03
	72,713,486.13

Mariehamn, February 15, 2013

Kaj-Gustaf Bergh	Folke Husell	Agneta Karlsson
Anders Å Karlsson	Annika Wijkström	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, 2012. 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 13, 2013

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

Corporate Governance Statement

The Corporate Governance Statement is being issued in conjunction with the Report of the Directors for 2012.

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 two members who are not members of the Bank of Åland Plc's Board of Directors. These members represent two of the major shareholders/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.[1]

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 2012 the Board consisted of six 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 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.

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[1] The Annual General Meeting on April 18, 2013 will vote on a proposal to remove the limit on voting rights from the Bank's Articles of Association. The proposal was introduced by shareholders representing more than one tenth of all shareholders in the Bank.

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, 2012

Kaj-Gustaf Bergh, Chairman Bachelor of Economic Sciences, Master of Laws Managing Director, Föreningen Konstsamfundet r.f.	Born 1955 Member since 2011 Kyrkslätt
Folke Husell, Deputy Chairman Master of Laws, Attorney at Law, Master of Arts	Born 1945 Member since April 19, 2012 Mariehamn, Åland
Agneta Karlsson Doctor of Economics, Associate Professor	Born 1954 Member since 2003 Sund, Åland
Anders Å Karlsson Bachelor of Commerce	Born 1959 Member since April 19, 2012 Lemland, Åland
Annika Wijkström Master of Arts	Born 1951 Member since April 19, 2012 Stockholm
Anders Wiklöf, Commercial Counsellor Business owner	Born 1946 Member since 2006 Mariehamn, Åland

Board members who resigned during 2012

Göran Lindholm, Chairman Master of Laws Managing Director, Ålands Ömsesidiga Försäkringsbolag	Born 1955 Member from 2003 to April 19, 2012 Lemland, Åland
Leif Nordlund, Deputy Chairman Master of Laws Managing Director, Redarnas Ömsesidiga Försäkringsbolag, Försäkrings Ab Alandia and Försäkrings Ab Liv-Alandia	Born 1959 Member from 2003 to April 19, 2012 Hammarland, Åland
Per Axman Economic studies, Wallenberg Institute SEB, 1994/95 Entrepreneur	Born 1961 Member from 2011 to April 19, 2012 Stockholm
Sven-Harry Boman Master of Economic Sciences Consultant, Certified Public Accountant (CGR)	Born 1944 Member from 2003 to April 19, 2012 Mariehamn, Åland

During 2012, the Board held 25 meetings. The Board members' average attendance was 93.67 per cent.

INDEPENDENCE OF THE BOARD MEMBERS

In the assessment of the Board of Directors, Board members Kaj-Gustaf Bergh, Agneta Karlsson, Anders Å Karlsson, Folke Husell, Annika Wijkström and Anders Wiklöf are independent in relation to the Bank. Board members Kaj-Gustaf Bergh, Agneta Karlsson, Folke Husell and Annika Wijkström are also independent in relation to major shareholders. Anders Å Karlsson is deemed to be dependent in relation to a major shareholder in the Bank due to his position as a Board member of Ålands Ömsesidiga Försäkringsbolag. Anders Wiklöf is regarded as dependent in relation to a major shareholder due to his direct and indirect shareholding in the Bank.

Göran Lindholm and Leif Nordlund, who did not make themselves available for re-election at the 2012 Annual General Meeting, were independent in relation to the Bank. 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, however, Lindholm and Nordlund were dependent in relation to major shareholders in the Bank. Sven-Harry Boman, who did not make himself available for re-election due to the age limit, was independent in relation to the Bank and to major shareholders in the Bank. Per Axman, who did not make himself available for re-election at the 2012 Annual General Meeting, was engaged by the Bank for consulting assignments to such an extent that he was deemed dependent in relation to the Bank. Per Axman was 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.

Until April 19, 2012, the Nomination Committee consisted of Board members Anders Wiklund, Chairman; Göran Lindholm and Leif Nordlund. In addition, Jesper Blomsterlund, who was not a member of the Bank's Board of Directors, was a member of the Committee. Blomsterlund represented one of the major shareholder groupings in the Bank in terms of voting power.

Since December 2012, the Nomination Committee has consisted of Board members Anders Wiklöf, Chairman, and Kaj-Gustaf Bergh, as well as Göran Lindholm and Leif Nordlund, who represent two of the major shareholders/shareholder groupings in the Bank.

During 2012 the Nomination Committee met six times. The average attendance of Committee members was 100 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.

Until April 19, 2012, the Audit Committee consisted of Board members Sven-Harry Boman, Chairman; Agneta Karlsson and Leif Nordlund.

Since the 2012 Annual General Meeting, the Audit Committee has consisted of Board members Folke Husell, Chairman; Agneta Karlsson and Anders Å Karlsson.

During 2012 the Audit Committee met 19 times. The average attendance of Committee members was 91.23 per cent.

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.

Until April 19, 2012, the Compensation Committee consisted of Board members Göran Lindholm, Chairman; Agneta Karlsson and Leif Nordlund.

Since the 2012 Annual General Meeting, the Compensation Committee has consisted of Board members Kaj-Gustaf Bergh, Chairman; Agneta Karlsson and Annika Wijkström.

The Compensation Committee met on three occasions during 2012. The average attendance of Committee members was 88.89 per cent.

Managing Director

Since 2008 the Managing Director of the Bank has been Peter Wiklöf, Master of Laws (born 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 – other members
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 2012 the Executive Team met on 12 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 the period from the 2012 Annual General Meeting and the end of the 2013 Annual General Meeting, the members of the Board receive an annual fee as well as a fee for each Board and Committee meeting attended.

The Chairman of the Board receives an annual fee of EUR 30,000.

Other Board members each receive an annual fee of EUR 12,000, but Board members residing outside Åland are paid twice this annual fee. A meeting fee is also payable for each Board meeting attended. The meeting fee amounts to EUR 1,000 for the Chairman and EUR 750 for other members.

A member of a Board committee is paid EUR 750 per meeting attended.

During 2012, the members of the Board received fees totalling EUR 271,000.

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

MANAGING DIRECTOR

The Board of Directors establishes the salary benefits and other employment conditions of the Managing Director. During 2012 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 receive 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 above-mentioned 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 1,421,011 during 2012. Otherwise the members of the Executive Team receive the Bank's generally applicable employee benefits.

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. There is a Credit Committee of the Executive Team for credit matters that cannot be decided by the country-specific units, while the largest matters are decided by the Bank's Board of Directors.

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 together with the Business Control Department at Group level. These departments are responsible for the consolidated accounts and the consolidated financial statements, financial control systems and internal auditing, 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 and receives the Group's internal financial reporting every month. 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 internal auditing work.

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 Office 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. The Risk Office 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 Department, which regularly reports its 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 organisations 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

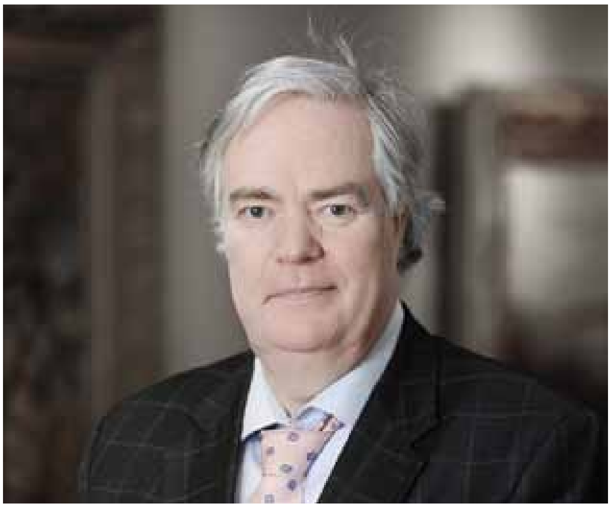
According to its Articles of Association, the Bank shall have at least three auditors and a requisite number of deputies for them. An auditor is appointed yearly at the Annual General Meeting for the period up to the end of the next Annual General Meeting.

The latest Annual General Meeting in 2012 appointed Terhi Mäkinen and Bengt Nyholm, Authorised Public Accountants (CGR) as well as Erika Sjölund, Authorised Public Accountant (GRM) as auditors. The CGR-affiliated firm of Ernst & Young Oy, with Anders Svennas, Authorised Public Accountant (CGR) in charge, acts as deputy auditor.

During 2012 Group companies paid a total of EUR 452,109 including value-added tax for auditing fees. In addition, they paid EUR 216,631 including VAT to auditors for consulting assignments.

Photography: Shutterstock

Board of Directors



Kaj-Gustaf Bergh

CHAIRMAN

Managing Director Föreningen Konstsamfundet
Bachelor of Economic Sciences, Master of Laws. Born 1955
Chairman since April 19, 2012. Board member since 2011

Folke Husell

DEPUTY CHAIRMAN

Master of Laws, Attorney at Law, Master of Arts. Born 1945
Deputy Chairman since April 19, 2012. Board member since April 19, 2012

Agneta Karlsson

Doctor of Economics. Associate Professor. Born 1954
Board member since 2003

Anders Å Karlsson

Bachelor of Commerce. Born 1959
Board member since April 19, 2012

Annika Wijkström
Master of Arts. Born 1951
Board member since April 19, 2012

Anders Wiklöf
Business owner
Commercial Counsellor. Born 1946
Board member since 2006

Per Axman
Entrepreneur
Born 1961
Resigned April 19, 2012

Sven-Harry Boman
Consultant, Certified Public Accountant (CGR)
Born 1944
Resigned April 19, 2012

Göran Lindholm
Managing Director, Ålands Ömsesidiga Försäkringsbolag
Born 1955
Resigned April 19, 2012

Leif Nordlund
Managing Director, Redarnas Ömsesidiga Försäkringsbolag, Försäkrings Ab Alandia and Försäkrings Ab Liv-Alandia
Born 1959
Resigned April 19, 2012

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

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

Teija Engman

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

Johnny Rosenholm

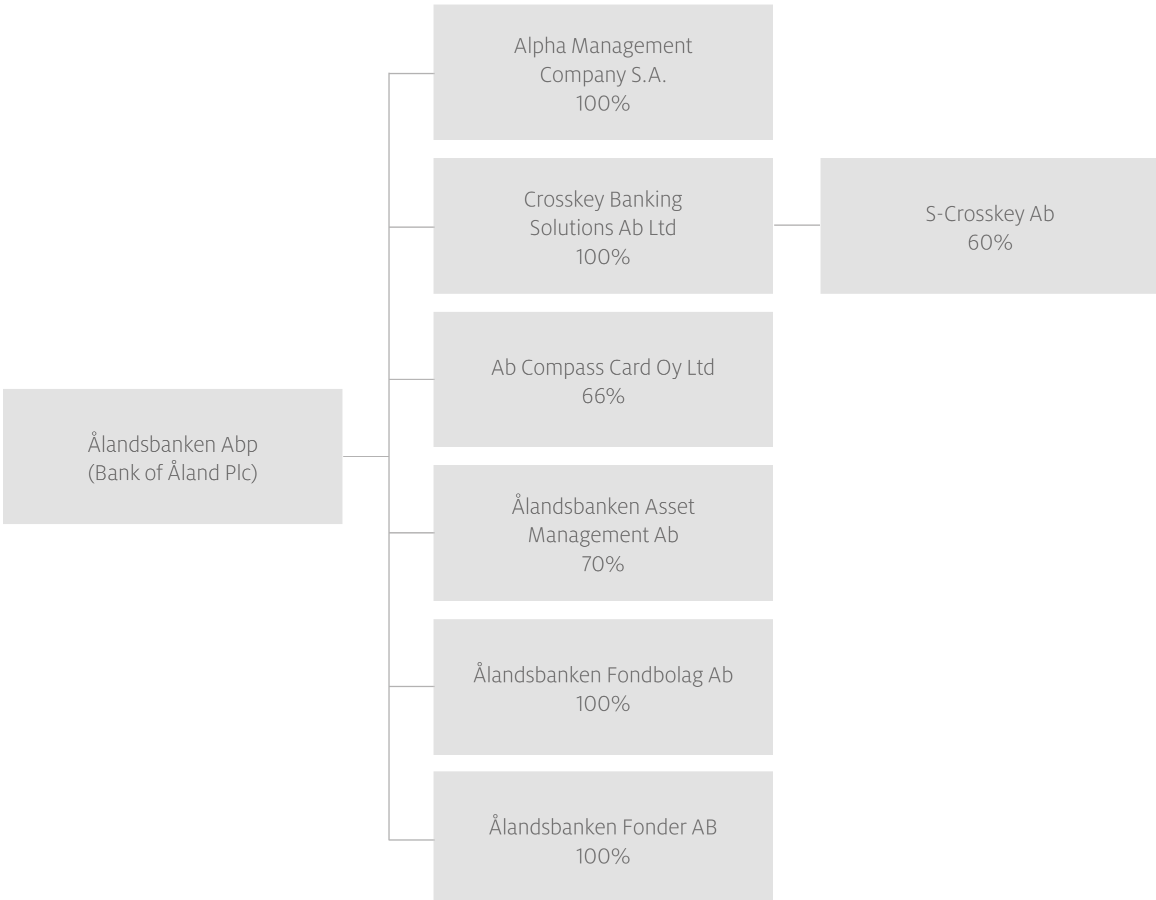
Department Manager
Member of the Executive Team since 2008.
Resigned February 29, 2012.

Dan-Erik Woivalin

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

Legal structure of the Group



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

Bank of Åland Abp, February 1, 2013

Organisational chart

Crosskey Banking Solutions Ab Ltd
Thomas Lundberg, Managing Director

Ab Compass Card Oy Ltd
Kimmo Autio, Managing Director

Ålandsbanken Fondbolag Ab
Tom Pettersson, Managing Director

Board of Directors
Kaj-Gustaf Bergh, Chairman

Internal Auditing
Monica Österlund

Chief Executive Officer
Peter Wiklöf, Managing Director

Finland Mainland Business Area
Anne-Maria Salonius, Director

Premium Banking Helsinki
Private BankingHelsinki
Corporate Services
Premium Banking
Espoo-Tapiola
Tampere
Vaasa
Turku-Parainen

Åland Business Area
Birgitta Dahlén, Director

Premium Banking
• Customer Advisory Services
• City office
• Local branch offices

Private Banking
Corporate Services

Sweden Business Area
Magnus Holm, Director

Premium Banking
Private Banking
Asset Management

Stockholm
Gothenburg
Malmö

Corporate Unit
Jan-Gunnar Eurell, Chief Financial Officer, Deputy Managing Director

Accounting
Business Control
Treasury
IT Management
Legal Affairs
Purchasing & Internal Services

Corporate Unit
Tove Erikslund, Chief Administrative Officer

Human Resources
Marketing
Contact Center
Business Support, Banking
Business Support, KAPMA FIN
Operations Sweden
Development & Projects

Corporate Unit
Juhana Rauthovi, Chief Risk & Compliance Officer

Risk Control
Operational risks
Compliance
Credit Department

Ålandsbanken Asset Management Ab
Christian Wetterstrand, Managing Director

Ålandsbanken Fonder AB
Johan Karlsson, Managing Director

Alpha Management Company S.A.
Conducting persons
Gunnar Dahlfors
Michael Lange

The Bank of Åland Plc's list of stock exchange releases in 2012
(published in Finnish and Swedish only, except that the releases marked * are also available in English)

Stock exchange releases in 2012

January

January 2, 2012	Bank of Åland Plc – purchases of own shares, December 30, 2011
January 4, 2012	Financial information in 2012
January 5, 2012	Bank of Åland Plc – purchases of own shares, January 4, 2012
January 9, 2012	Bank of Åland Plc – purchases of own shares, January 5, 2012
January 10, 2012	Bank of Åland Plc – purchases of own shares, January 9, 2012
January 11, 2012	Bank of Åland Plc – purchases of own shares, January 10, 2012
January 13, 2012	Notification of change in shareholding in compliance with Chapter 2, Section 10 of the Finnish Securities Market Act
January 16, 2012	Bank of Åland Plc – purchases of own shares, January 13, 2012
January 17, 2012	Bank of Åland Plc – purchases of own shares, January 16, 2012
January 18, 2012	Bank of Åland Plc – purchases of own shares, January 17, 2012
January 19, 2012	Bank of Åland Plc – purchases of own shares, January 18, 2012
January 20, 2012	Bank of Åland Plc – purchases of own shares, January 17, 2012
January 23, 2012	Bank of Åland Plc – purchases of own shares, January 20, 2012
January 24, 2012	Bank of Åland Plc – purchases of own shares, January 23, 2012
January 25, 2012	Bank of Åland Plc – purchases of own shares, January 24, 2012
January 26, 2012	Bank of Åland Plc – purchases of own shares, January 25, 2012
January 26, 2012	Bank of Åland's 2011 net operating profit substantially lower than previous forecast*
January 30, 2012	Bank of Åland Plc – purchases of own shares, January 27, 2012
January 31, 2012	Bank of Åland Plc – purchases of own shares, January 30, 2012

February

February 1, 2012	Bank of Åland Plc – purchases of own shares, January 31, 2012
February 2, 2012	Thomas Lundberg new Managing Director of Bank of Åland Plc's subsidiary Crosskey Banking Solutions Ab Ltd
February 16, 2012	Year-end Report for the period January–December 2010*
February 28, 2012	Co-determination negotiations completed at Bank of Åland Plc*

March

March 12, 2012	Bank of Åland Plc's financial statements, Annual Report and Corporate Governance Statement for 2011 have been published
March 23, 2011	Invitation to the Annual General Meeting

April

April 17, 2012	Change in the proposal of the Board of Directors to be discussed at the Bank of Åland Plc's Annual General Meeting on April 19, 2012
April 19, 2012	Notification of items of business discussed at the Bank of Åland Plc's Annual General Meeting
April 30, 2012	Interim Report, January–March 2012*

July

July 12, 2012	Bank of Åland completes its restructuring plan and signs letter of intent on company divestment that will make possible a capital gain of EUR 6 million
July 24, 2012	Bank of Åland covered bonds receive "AA" credit rating from Standard & Poor's*
July 30, 2012	Interim Report, January–June 2011*

August

August 10, 2012	Bank of Åland receives "BBB" credit rating from Standard & Poor's*

September

September 6, 2012	Co-determination negotiations at Crosskey Banking Solutions Ab Ltd
September 11, 2012	Bank of Åland Abp lowers prime rate
September 25, 2012	Christian Wetterstrand new Managing Director of Bank of Åland Abp's subsidiary Ålandsbanken Asset Management Ab
September 26, 2012	Bank of Åland completes its restructuring plan in Sweden and carries out company divestment with a capital gain of EUR 6 million

October

October 29, 2012	Interim Report, January–September 2012*
October 29, 2012	Bank of Åland Abp: Co-determination negotiations completed at Crosskey Banking Solutions Ab Ltd and at the Bank of Åland's Swedish branch

November

November 20, 2012	Standard & Poor's sees increased risks for the Finnish banking sector and is changing its outlook for the Bank of Åland Plc, among others*

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