Annual Report 2013

Bank of Åland Plc

ÅLANDSBANKEN

Going our own way

Bank of Åland Plc
Street address: Nygatan 2, Mariehamn

Postal address: PB 3, AX-22101 Mariehamn, Åland, Finland. Telephone +358 204 29011. Fax +358 204 291 228.
BIC: AABAFI22 www.alandsbanken.fi info@alandsbanken.fi

The year 2013 in brief

Financial summary of 2013

- Net operating income improved by 5 per cent to EUR 10.4 M (9.9). Excluding nonrecurring items, net operating income improved by EUR 15.3 M to EUR 12.4 M (–2.9).
- Profit for the year attributable to shareholders amounted to EUR 6.7 M (11.3).
- Earnings per share totalled EUR 0.46 (0.79).
- Return on equity after taxes (ROE) was 3.8 per cent (6.6).
- Net interest income increased by 3 per cent to EUR 42.4 M (41.2).
- Net commission income increased by 30 per cent to EUR 42.4 M (32.7).
- Total expenses decreased by 2 per cent to EUR 92.0 M (94.1).
- Net impairment losses on loans (including recoveries) decreased by 37 per cent to EUR 4.1 M (6.4), equivalent to a loan loss level of 0.13 (0.22) per cent.
- Managed assets increased by 4 per cent to EUR 4,407 M (4,252).
- Lending increased by 7 per cent to EUR 3,104 M (2,905).
- Deposits increased by 1 per cent to EUR 2,466 M (2,452).
- The core Tier 1 capital ratio decreased to 10.8 (10.9) per cent.
- The Board of Directors proposes an unchanged dividend of EUR 0.15 (0.15) per share.

Important events in 2013

FIRST QUARTER

- An extraordinary General Meeting in Mariehamn did not give a sufficient voting majority to the proposal of the Board of Directors to remove the section of the Bank's Articles of Association stating that a person who has reached the age of 67 may not be elected as a Board member.
- The Bank of Åland began to close down its wholly owned mutual fund companies Alpha Management Company S.A. (Luxembourg) and Ålandsbanken Fonder AB (Sweden). This decision will mean a yearly cost reduction of more than EUR 0.5 M. Administration of the funds was transferred to an external party in Luxembourg, while the Bank of Åland will continue to be responsible for fund management.
- The Bank of Åland announced its intention to seek a long-term business partner for the wholly owned subsidiary Crosskey Banking Solutions. Possible forms of collaboration may also include a reduction in the Bank of Åland's ownership.

SECOND QUARTER

- The Finnish Financial Supervisory Authority granted the Bank of Åland permission to calculate the capital requirement for operational risks in the Bank according to the standardised approach, instead of the basic indicator approach, starting on June 30, 2013.
- The Annual General Meeting elected Nils Lampi, Christoffer Taxell and Dan-Erik Woivalin as new members of the Bank's Board of Directors. Board members Agneta Karlsson, Anders Å Karlsson, Annika Wijkström and Anders Wiklöf were re-elected. At the statutory meeting of the Board the same day, Nils Lampi was elected Chairman and Christoffer Taxell was elected Vice Chairman of the Board.
- The Bank of Åland's lending to the public surpassed EUR 3 billion.

THIRD QUARTER

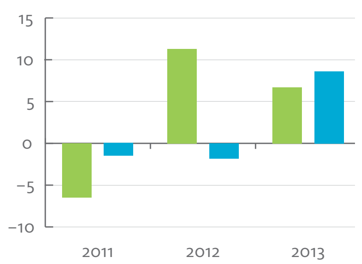
- For the first time, the Sweden business area reported positive quarterly earnings, excluding nonrecurring expenses.
- Crosskey signed an agreement to deliver IT services to Marginalen Bank in Sweden.

FOURTH QUARTER

- The Bank of Åland's net operating profit, excluding nonrecurring items, was the highest since the first quarter of 2009.

Profit for the year attributable to shareholders

EUR M

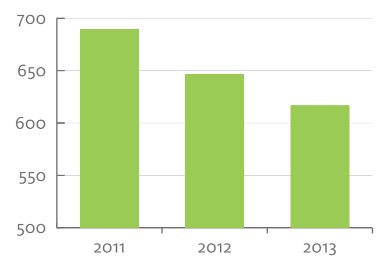


- Recognised profit
- Profit excluding nonrecurring items

Core Tier 1 capital ratio

Per cent

Full-time equivalent positions



Financial calendar

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

• January–March Interim Report	April 29, 2014
• January–June Interim Report	July 25, 2014
• January–September Interim Report	October 28, 2014

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 2013, the middle rate for EUR 1 was USD 1.3791 and SEK 8.8591.

“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.

MILJÖMÄRKT
441 678
Trycksak

Translation: Victor Kayfetz, SCAN EDIT, Oakland, CA
Cover photo: Johnér bildbyrå

Contents

About the Bank of Åland

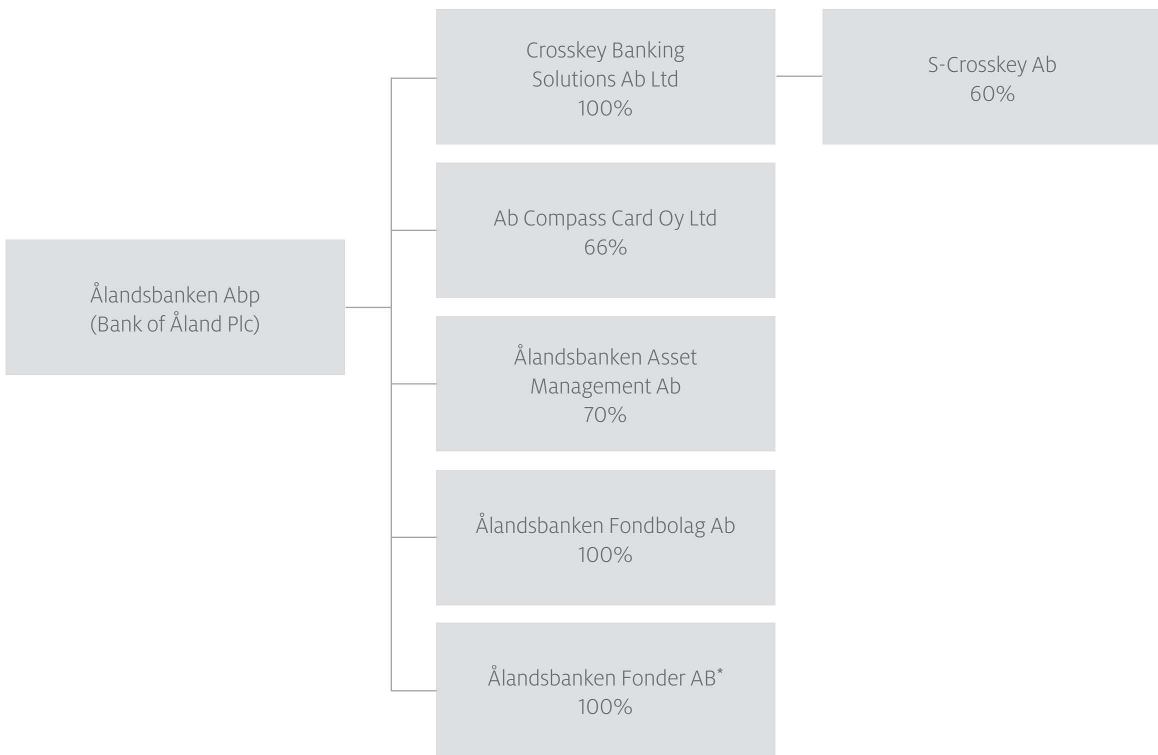
- The Bank of Åland (Ålandsbanken) was founded in 1919 as Ålands Aktiebank and has been listed on the Helsinki Stock Exchange (now the Nasdaq OMX Helsinki Oy) since 1942.
- The Head Office is located in Mariehamn, Åland. The Bank of Åland has a total of seven offices in the Åland Islands and six offices on the Finnish mainland: in in Helsinki, 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 six subsidiaries whose operations are connected in various ways with banking. They are Ålandsbanken Asset Management Ab, Ålandsbanken Fondbolag Ab, Ålandsbanken Fonder AB, 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 2013 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	2013	2012	2011	2010	2009
EUR M					
Income					
Net operating profit	10.4	10.0	−5.7	1.0	30.5
Profit for the year attributable to shareholders	6.7	11.6	−6.5	−2.9	26.2
Volume					
Managed assets	4,407	4,292	3,814	4,347	3,101
Lending to the public	3,104	2,906	2,737	2,573	2,546
Deposits from the public	2,466	2,447	2,544	2,600	2,411
Risk-weighted assets	1,481	1,402	1,729	1,664	1,636
Equity capital	184	186	181	154	162
Financial ratios					
Return on equity after taxes, % (ROE)	3.8	6.4	−3.9	−1.8	17.8
Expense/income ratio, %	0.86	0.85	1.04	0.93	0.88
Loan loss level, %	0.13	0.22	0.07	0.23	0.12
Gross non-performing assets, %	0.50	0.64	0.70	1.07	0.56
Core funding ratio, %	103	104	108	99	106
Equity/assets ratio, %	4.7	5.1	5.3	4.4	4.8
Core Tier 1 capital ratio, %	10.8	10.9	8.4	7.3	7.9
Working hours re-calculated to full-time equivalent positions	617	640	690	679	641

Group structure

Operating area	Company	Income	Total assets	Stake	Offices	Employees	Founded
Banking operations	Bank of Åland Plc	EUR 123.7 M	EUR 3,858.2 M		16	446	1919
Asset management	Ålandsbanken Asset Management AB	EUR 10.0 M	EUR 6.4 M	70%	1	28	2000
Fund management	Ålandsbanken Fondbolag Ab	EUR 7.6 M	EUR 2,8 M	100%	1	6	1998
	Ålandsbanken Fonder AB	EUR 0.8 M	EUR 1.1 M	100%	1	3	Acquired in 2009
IT	Crosskey Banking Solutions Ab Ltd	EUR 28.1 M	EUR 10.4 M	100%	4	207	2004
	S-Crosskey Ab	EUR 4.1 M	EUR 0.4 M	60%	1	1	2005
Issuance of credit and debit cards	Ab Compass Card Oy Ltd	EUR 6.9 M	EUR 38.1 M	66%	1	15	2006

Legal structure of the Group



*Under liquidation

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.

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
Nils Lampi, Chairman

Internal Auditing
Monica Österlund

Chief Executive Officer
Peter Wiklöf, Managing Director

Finnish Mainland Business Area
Anne-Maria Salonius, Director

Premium Banking
Private Banking

Helsinki
Espoo
Tampere
Turku
Parainen
Vaasa

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 & Business Development
Contact Center
Business Support – Customers, Accounts, Cards, Digital Banking Services, KAPMA Finland
Operations Sweden

Corporate Unit
Juhana Rauthovi, Chief Risk & Compliance Officer

Risk Control
Compliance & Operational Risks
Credit Department

Ålandsbanken Asset Management Ab
Christian Wetterstrand, Managing Director

Our determined efforts are beginning to bear fruit

Photographer: Daniel Eriksson

Peter Wiklöf, Managing Director

As we leave 2013 behind us, we do so with cautious optimism. Internationally, we see signs of an economic upturn, but above all we are beginning to see the results of our determined efforts. Especially pleasing is the Bank's success in the Swedish market.

If we start by choosing an international perspective, we see a global economy that showed signs of recovery in 2013. These signs led to sharply rising share prices in Europe and the United States. Meanwhile, central banks in the US, Europe and Japan continued their strong stimulus programmes to support the economic recovery.

Shifting our focus to the Nordic countries, we note that the Finnish economy is still saddled with structural problems and that growth is conspicuous by its absence. This leads to an unprompted feeling that Finnish self-confidence has suffered a blow, perhaps an unnecessarily powerful one. Meanwhile the Swedish economy is performing better, and the business climate in Sweden is more upbeat than in Finland.

And the Bank of Åland? We have clearly followed our own classic investment advice. We have not put all our eggs in one basket. By having a presence in Sweden, we have spread our risk.

For the Bank of Åland, 2013 was the year we saw the first results of all the measures that we have implemented over the past few years. We improved our net operating profit by a full EUR 15 million during the year. The reason for this upturn in earnings was that we managed to improve all our major sources of income: net interest income, net commission income and other income. Above all, during the year commission income surged by 30 per cent – without any increase in our expenses.

The strong improvement in our net commission income is attributable to rising share prices during 2013. Due to resurgent optimism, customer activity increased and the funds in their investment portfolios performed favourably.

Thanks to continued central bank stimulus measures and key interest rate cuts during the year by the European Central Bank and Sweden's Riksbank, market rates in the euro zone remained exceptionally low. In Sweden, too, we also saw market rates decline sharply during the year. Overall, these low interest rates are continuing to have an adverse effect on our net interest income. As a direct consequence of falling market rates, in recent years we have seen a persistent trend towards declining net interest income. We have now managed to reverse this trend with the help of larger lending volume and higher margins.

During the year we continued to issue bonds in the Nordic countries as well as in Germany and Austria. As our earnings have developed favourably, debt investors have become more interested in the Bank of Åland's bond issues.

Our growth continued in 2013. Lending rose by about EUR 200 million. Most of this growth comes from our Sweden business area, which over the past two years has shown a steady upward trend. Lending in Sweden now stands at SEK 7 billion, and during the third quarter we achieved positive quarterly earnings at the operational level for the first time. The improvement in earnings in Sweden was further consolidated during the final quarter of the year.

In Finland, at the beginning of 2013 we launched the first open mutual fund that invests in new residential properties. This gives our customers an opportunity to easily invest and save in the housing market. The new fund has been well received and by the end of 2013, subscriptions totalled about EUR 90 M.

In Åland we saw that because of the economic situation, companies were cautious and less interested in taking out new loans than in previous years. In Premium Banking (for individuals), however, lending grew by about 7 percent. This mainly consisted of home mortgage loans. In Private Banking, our customers were highly active and we saw seen a growing interest in alternative investments, rather than fixed income investments.

In 2013 our annual customer satisfaction surveys again gave us confirmation that there is a clear desire for a bank where long-term customer relationships are highly valued. Customers want a bank with strong investment know-how, combined with good financing expertise.

Despite the weak economy, we were able to reduce our non-performing loans. We kept credit losses at a controlled level and, except for shipping loans, our losses were very low. Shipping loans make up about 2 per cent – in other words a very limited portion – of the Bank of Åland's lending. In the shipping segment, too, we saw signs of improved business conditions late in the year.

Our corporate units have done extensive work to ensure that the Bank is well equipped to meet the new regulatory requirements that are already in place and that will gradually go into effect over the next few years. I especially want to point to progress in our financial management. Both the returns on our liquidity portfolio and our risk management have improved.

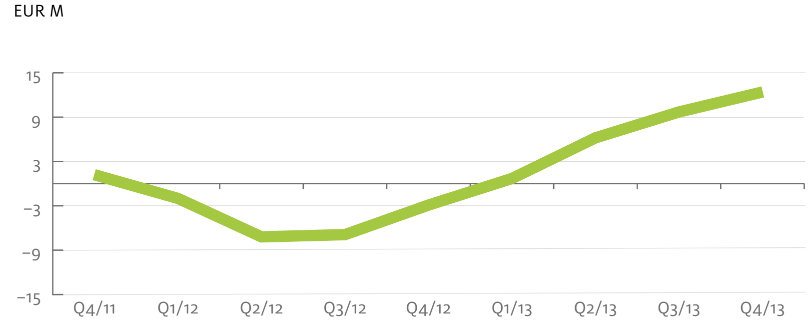
During 2013 our subsidiaries showed their strengths. In August, Crosskey Banking Solutions made its Swedish breakthrough when Marginalen Bank ordered IT solutions for both its internet banking and mobile banking. Our company Compass Card also landed its first external customer when the Mortgage Society of Finland selected us as the supplier for their card solutions.

Overall, today I see more reasons to be cheerful than to be worried. But it is still too early to declare victory. We have a way to go before reaching an acceptable level of returns, even though 2013 was a major step in the right direction.

In closing, I would like to extend a big "thank you" to our customers. The commitment and enthusiasm that you have shown must be unique in the banking world.

All Bank of Åland employees deserve at least an equally big "thank you" You have every reason to be proud of what we accomplished during 2013. Let us together continue our determined efforts to continue earning the trust of our customers.

Consolidated operating profit excluding nonrecurring items



Moving 12-month figures by quarter

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 and 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.

OUR 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 services.

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.

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 through good performance by ambitious people.

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.

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 and 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.

Photo: Shutterstock

Sustainability has to be more than a business buzzword

At the Bank of Åland, we have a long tradition of green thinking – which is self-evident considering our roots in the archipelago. Yet over the years our horizons have broadened and our vision encompasses more than clean seas. We see ourselves from a global perspective and want to do our part to contribute to long-term sustainability.

When we describe ourselves, we like to say: The Bank of Åland endeavours to conduct its business in a long-term sustainable way – financially, socially and environmentally.

It sounds modern and has a nice ring. But doesn't it sound a lot like business buzzwords?

Yes, it does.

These are big words that make demands – which we must be able to live up to every day. They are business buzzwords until we prove to ourselves and to the world that we mean what we say.

Fortunately, we have a concrete sustainability strategy to support our work. It is a strategy that helps us create awareness and guidelines for our priorities.

We do not live in a bubble. We are highly aware of how our activities affect individuals, society and the earth.

This is why at the Bank of Åland, we have four areas that we prioritise: Responsible investments, responsible lending, social responsibility and environmental responsibility.

RESPONSIBLE INVESTMENTS

- We have adopted the United Nations Principles for Responsible Investment. Among other things, this means that our corporate analyses take social and environmental aspects into account.
- As a member of the Finland Sustainable Investment Forum (FINSIF), we contribute to the dissemination of information and public discourse. We want to influence investors' and asset managers' attitudes towards investing responsibly.
- Starting in 2014, we are applying the above-mentioned UN principles to our entire mutual fund and discretionary asset management business.

RESPONSIBLE LENDING

- We support the economy by financing sound projects that can be successfully implemented.
- The Bank's risk management is adaptable to the specific needs of the economy at different times, for example national growth needs or any overheating in the housing market.
- We make our lending decisions based on an objective, responsible assessment of the customer's repayment ability. Like all other financial products, a loan must meet both the customer's needs and knowledge of the product's features.
- Each lending decision is based on our principles of sound risk management and current laws. We administer financing in a way that safeguards both customer needs and the bank's future.
- We use highly developed systems support as objective aids in credit risk assessment, but the final lending decision is always made by people.

SOCIAL RESPONSIBILITY

- We are a bank that believes in the development of individuals, businesses and society. We respect social and cultural diversity in our workforce and want to engage and retain the best talent. This is why we offer a workplace that is safe and healthy.
- We follow established guidelines for ethical behaviour and for identifying and managing conflicts of interest.
- We work actively to counter money laundering and other criminal activities. We base these efforts on industry standards and regulatory frameworks, but also our good relationships with customers and our understanding of their banking transactions.
- We share our expertise and experience in the community when this is requested.

ENVIRONMENTAL RESPONSIBILITY

- We are aware of the level of our own resource consumption. Our aim is to reduce this consumption and thereby reduce our burden on the environment.
- We actively contribute to offsetting our resource consumption and environmental impact by annually awarding funds to environmental projects. We support the environment each year by paying an environmental bonus of 0.2 per cent of the funds deposited in the Bank's Environmental Account. We also earmark one third of management commissions from our Eco Performance Fund for the same purposes.
- Our environmental plan gives us a clear guide on how to act and work every day.

WE WANT DIALOGUE

As for long-term sustainability, we want to be realists. We prefer small but concrete steps forward. In this work, we want to be inspired and learn from others.

We also realise the importance of clear communication about our projects. We want to tell about what we do and we want to learn more, so we believe that dialogue works best.

We communicate our sustainability efforts on our website, in the media and in our Annual Report. We explain our plans and policies regarding sustainable development and the steps we have taken. Twice a year, we distribute funds to environmental projects and publicise this via our website and the media.

We are happy to share information on our sustainability work and are of course also interested in hearing new ideas and gaining new insights.

Corporate units stand for clarity and efficiency

Photographer: Daniel Eriksson

Jan-Gunnar Eurell, Chief Financial Officer; Tove Erikslund, Chief Administrative Officer; Juhana Rauthovi, Chief Risk & Compliance Officer

CFO Corporate Unit

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

The CFO Corporate Unit continued to improve its organisational structure, operational processes and IT systems. A number of newly recruited employees brought new skills to the corporate unit during 2013.

Treasury: The department successfully established a new organisational structure during the year and boosted the returns on its liquidity portfolio through more active financial management. It carried out two successful covered bond issues, each for EUR 100 M, with maturities of 10 and 5.5 years, respectively. It also carried out two issues of non-covered bonds (senior unsecured) in Swedish kronor, totalling SEK 500 M and SEK 750 M and with maturities of 18 and 24 months, respectively. During the year, Treasury launched a new advanced tool for balance sheet management and risk measurement.

Business Control continued to refine its internal management model and the control process as well as internal reporting support for business control. The Bank of Åland's successful implementation of its new management model and related reporting support even drew international attention in business control circles.

Accounting continued its work to shorten and automate the process of compiling financial statements. New regulatory reporting requirements and amendments to the International Financial Reporting Standard (IFRS) rules system demanded significant efforts.

IT Management established its new organisational structure and took important steps to create processes that ensure efficient ordering procedures and a steady reduction in operational and administrative expenses in the IT field. The department also adopted a roadmap to achieve the Group's long-term goals related to the IT architecture of the Group's securities business.

Legal Affairs participated in the creation of a large number of new business agreements and updates of customer agreements based on new legislation. The department also helped update and streamline processes related to the work of the Board of Directors.

Purchasing & Internal Services helped with such tasks as procurement of new, more efficient printer solutions for the Group and new, more efficient procedures for customer mailings and postage. It obtained a building permit to expand the Head Office property in Mariehamn by about 4,000 square metres.

CAO Corporate Unit

Chief Administrative Officer (CAO) Tove Erikslund is in charge of the corporate unit that consists of the Human Resources, Marketing, Contact Center, Business Support, Business Support KAPMA Finland, Operations Sweden and Development & Projects departments.

Key concepts in the work of the CAO Corporate Unit during 2013 were efficiency, quality and internal relations.

The challenge is to manage higher business volume and more regulatory requirements without increased staffing in the corporate unit. These circumstances require prioritisation and optimal resource utilisation.

HUMAN RESOURCES

The Bank of Åland's leadership programme was launched, and the year's targets related to training, networks and mentorships were achieved. These programmes will continue during 2014.

The level of recruitments was the same as in prior years. Challenges include finding cutting-edge expertise in certain fields in Åland. Fortunately, interest in Bank of Åland as an employer has increased in both Sweden and on the Finnish mainland.

The department developed a new module for individual performance reviews as part of planning the long-term supply of expertise at the Bank of Åland. It also conducted the Bank's annual employee survey and played a leading role in the internal implementation of the Bank of Åland's branding project.

DEVELOPMENT & PROJECTS AND THE BUSINESS SUPPORT DEPARTMENTS

A number of services and products were developed and implemented in order to support customer growth in the Premium Banking segment and enable customers in Sweden to become full-service customers. In Åland a new Internet-based system for companies was developed and placed in service.

It is worth noting that most of the feasibility studies or projects that were implemented are fully or partly related to regulatory requirements or other regulations.

The Bank has started a comprehensive project to update most of our existing capital market systems. The aim is that within a few years the Bank will have a common system structure for its capital market activities in the three geographical markets. By harmonising systems and processes, the Bank can further increase its efficiency.

CONTACT CENTER

The volume of work handled by the Contact Center increased during the year. The Contact Center helps customers on the Finnish mainland, in Åland and in Sweden. It handled an average of about 6,000 customer cases per month.

One important project during 2013 was upgrading our telephone switchboard system and a new recording solution.

MARKETING

The department's primary task is to support our businesses in their marketing activities. It has helped create greater clarity in the Bank's visual identity, communications and self-image. Together with the Bank's advertising agency, the marketing department has worked with long-term brand development.

A number of activities have been launched to enhance and clarify communications through various internal channels and spaces.

CRO Corporate Unit

Chief Risk & Compliance Officer (CRO) Juhana Rauthovi is in charge of the corporate unit that consists of the Risk Control, Compliance & Operational Risks and Credit departments.

The task of the Group-wide risk management organisation is to protect the Bank of Åland's assets, earnings and brand. Its tools for completing this task include offering frameworks, support, oversight of regulatory compliance and risk management.

In 2013 the Risk Control department continued its implementation of the Asset-Liability Management system. To some extent, the system was employed for analysis and reporting of interest rate and liquidity risks. During the year, the department also devoted much effort to evaluating the quality and profitability of loans.

Compliance and Operational Risk focused on integrating the consequences of the massive regulatory framework for the banking sector with day-to-day operations. At the same time, the department further developed internal processes for regulatory compliance. During 2013, a new Group-wide incident management system was placed in service.

The Financial Supervisory Authority granted the Bank of Åland permission to calculate the Group's capital requirements according to the standardised approach for operational risk starting in June 2013.

The Credit department continued to work with the Bank's internal ratings based (IRB) project. In December 2013, the Financial Supervisory Authority began its review of the Bank's application to be allowed to use the IRB approach for the loans in the Bank's corporate portfolio in Finland. Systems support for introducing IRB models for loan approvals and analyses in Sweden as well, effective from the beginning of 2014, was implemented for both the household and corporate portfolios.

The signals are encouraging

Photographer: Daniel Eriksson

Birgitta Dahlén, Director, Åland Business Area

After many challenges during 2012, we now see a number of positive signs. There is growing interest in making investments, and both household and corporate credit quality has improved. We are also continuing to welcome new customers.

During 2013 we saw a high level of activity in our business area. Our customer focus during the year was built around the motto Retaining – Strengthening – Creating.

The goal has been both to retain customers and cultivate our customer base by actively offering the right services and products, thereby increasing our business volume.

The Bank of Åland is still a bank for the people of Åland, where we want to be a vital element of the community – among other things by helping children and young people enjoy meaningful free-time activities. By sponsoring local sports programmes, the Bank assists about 1,500 children and young people. We also assist children who are active in such fields as music, dance and theatre.

The latest market survey shows that our strength continues to be our employees' knowledge, courtesy and service-mindedness, as well as personal relationships. These are qualities that have become stronger compared to earlier surveys.

During the year, we also surveyed what customers think about the Premium Banking concept. A full 86 per cent of our Premium customers in Åland are satisfied and willing to recommend the concept to their friends.

NEW FUND AND NEW PARTNERSHIP

Lending to private individuals increased by more than 7 per cent. Deposits increased by EUR 15 M. During 2013 we also welcomed 681 new customers.

Based on the above figures, we see clear signs of a positive long-term trend. We also note a growing interest in equity investments and mutual funds.

During the year, 850 new customers began using the Bank of Åland's digital services. This means that 57 per cent of Åland residents aged 15–95 years are now regular users of our Internet Office.

The Sweden Package, which includes an account, debit card and Internet Office services in Sweden, was launched in late 2012 and was embraced by 550 new customers during 2013. Today the Sweden Package has a broad target group, including students and Åland residents who receive a salary or pension from Sweden. Now they no longer need to rely on a Swedish bank. The Sweden Package is also of interest to our corporate customers that trade with Sweden.

In December we signed a partnership agreement with the mutual insurance company Ålands Ömsesidiga Försäkringsbolag, enabling us to offer our joint customers a much-appreciated package solution for home mortgage financing and home insurance. This means that customers can now choose a 100 per cent Åland-based alternative.

After our Kyrkoby office sustained water damage last spring, we made a decision not to re-open the office. The premises were in need of extensive renovation to meet today's customer and safety standards.

ALTERNATIVE INVESTMENTS ATTRACTING ATTENTION

The level of activity in Private Banking was high during 2013. In an environment of falling interest rates, customers increasingly turned their attention to alternative investments. Instead of traditional deposits, fixed income funds and bonds became more attractive.

Bostadsfonden, our new mutual fund that invests in Finnish residential properties, became a popular alternative among Åland residents, who invested EUR 9 M in the fund during the year. Meanwhile, our investment insurance became more and more established, thanks to its tax efficiency and the option of linking it to discretionary asset management.

As customers became more interested in equities and alternative investments, our commission income also rose; during 2013 the increase was 17 percent.

We have broadened our Private Banking offering to include regular presentations of the Bank's investment strategy, which are appreciated by customers. In December, about 200 customers attended the year's final presentation.

THE CORPORATE SERVICES UNIT

Our Corporate Services unit is a market leader in Åland business financing and offers a wide range of services and products tailored for Åland-based companies. Our customers range from small and medium-sized businesses to large corporations with international operations.

The number of corporate customers rose during 2013. To meet the increased demand for advisory services, we added one financial advisor to the Corporate Services staff.

Despite a degree of caution among our corporate customers due to the general economic situation, demand for loans in most fields of business was good.

In shipping, we saw a continued weak market during 2013. For this reason, we continued to raise our loan loss provisions on customers in this industry. The market improved in all segments in late 2013, and the positive trend continued in early 2014.

We now see that most of our shipping customers have their vessels employed on contract and can service their borrowing obligations as planned. The Bank of Åland's loans to shipping operations now amount only to 2.1 per cent of its total lending portfolio. In other industries our credit quality has been good, with very small losses.

During 2013 we launched our Business Net payment solution for corporate customers. This service resembles the Bank of Åland's Internet Office but is tailored for companies. Based on initial reactions, we draw the conclusion that Åland-based entrepreneurs appreciate practical tools to facilitate their corporate administration.

The Corporate Services unit is involved in the Young Entrepreneurs project led by the Confederation of Åland Enterprise. Along with other Åland-based companies, we encourage students in primary and secondary schools to think creatively. We want to help make students aware of how they can start and run a business, build networks and dare to believe in themselves.

THE BUSINESS AREA DURING 2014

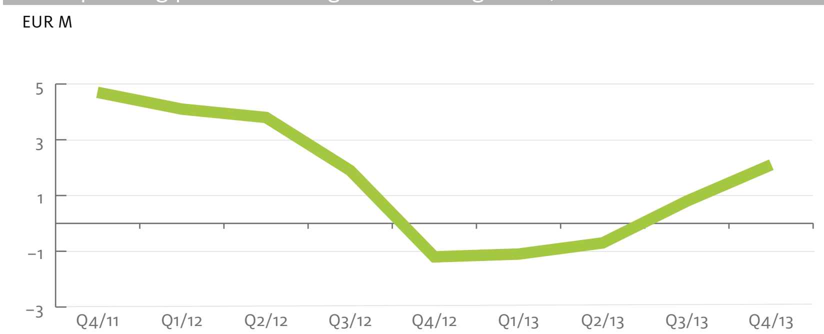
The competitive situation in Åland is challenging, but our goal is to maintain our market share.

We are continuing to contact our customers with investable capital to make sure that they are receiving the advisory services they need. In this way, we can also ensure that our customers are aware of everything we now can offer them. We view our new collaboration with Ålands Ömsesidiga Försäkringsbolag as a strong trump card. Together we can provide customers who need mortgage financing an affordable package that features simplicity, flexibility, service and responsible advisory services. With a team that includes construction advisors and local insurance expertise, we offer a package that no other bank in Åland has.

During 2014, the Corporate Services unit will continue on its current path. We will continue to refine our service concept and to offer Business Banking, our comprehensive product and service package for corporate customers.

In addition to the customary corporate services, our new Business Banking solution includes legal advisory services, our Business Net e-invoicing service and a krona-denominated account in Sweden. We can thus offer our corporate customers a comprehensive concept that makes it easier to be an entrepreneur.

Net operating profit excluding nonrecurring items, Åland Business Area



Moving 12-month figures by quarter

We succeeded in reversing the trend

Photographer: Daniel Eriksson

Anne-Maria Salonius, Director, Finnish Mainland Business Area

With a strong focus on the customer's entire financial situation, new products and a good influx of new customers, we succeeded in reversing the negative trend.

Our long-term strategy is still based on helping customers achieve comprehensive solutions. We are the bank for investors with financing know-how that is best at customer relationships. During 2013 we applied this strategy successfully within our three concepts: Private Banking, Premium Banking and Asset Management.

In 2013, we welcomed 12 per cent more new customers than in 2012. Meanwhile our recurring customer surveys show that our old customers are very pleased with the Bank of Åland. When asked if customers would recommend us to a friend, 88 per cent of Premium Banking customers replied that they would recommend us and a full 91 per cent of our Private Banking clients said they would do the same.

IMPROVED LOAN PORTFOLIO QUALITY AND HIGHER INTEREST MARGINS

After several years of excessively low home loan margins, in 2013 we finally saw a normalisation of home loan margins in Finland. This normalisation represented a near- doubling of the previous year's margins.

We have a relatively high amortisation rate among our existing loan customers. About 16 per cent of our loan portfolio is repaid annually. New loans can now be granted with higher margins than we have in loan principal that is being repaid. During late 2013, this enabled us to increase our net interest income even though we maintained about the same total lending volume as in 2012.

During the year, we chose to actively reduce the portion of our corporate loans that are not compatible with our long-term strategy. Our determined efforts on behalf of corporate customers that have had profitability problems have made progress, and the percentage of non-performing loans has more than halved over the past two years.

STRONG START FOR OUR HOUSING FUND

On the investment side, we continued to improve our positions. With an increase of 10 per cent, we set a new record in terms of managed assets. This trend is reflected in rising commission income; our net commission income rose by 25 per cent during 2013.

In late 2012 the Bank of Åland launched Bostadsfonden, Finland's first mutual fund that specialises in residential properties. It has been very well received. With fund subscriptions of more than EUR 90 M, we are seeing clear investor interest in newly constructed housing.

It is also especially gratifying that Bostadsfonden is contributing to the recovery of the Finnish economy. The money that our customers have invested in the fund has so far generated about 2,000 man-years of work in the construction sector.

ALL EXPERTISE UNDER ONE ROOF

Our efforts to offer comprehensive solutions have also included a concentration of our expertise in the Helsinki area. During the year, we closed the office in Munkkiniemi and the office on Aleksanterinkatu moved to new expanded premises on Bulevardi.

In August we gathered the financing and lending units of Private Banking into one highly expert team. Because of these steps, our customers now have all services under one roof: investment, financing, legal advisory services and everyday banking.

In 2014 we will further raise our profile as a bank for investors. Our plans include reorganising the operations of the Corporate Services office in Helsinki. We will also review additional opportunities to bring together our employees people in the building on Bulevardi. One alternative is to close the Tapiola office in Espoo.

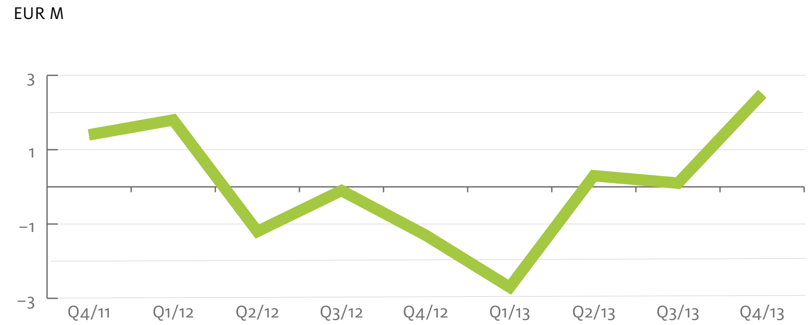
THE ECONOMIC SITUATION REMAINS CHALLENGING

As margins on home mortgage loans normalise, we will again see an opportunity to grow in that field. But the overall economic trend in Finland implies decreased activity in the housing market, which makes growth in home loans more difficult.

Meanwhile the authorities have had a negative attitude towards allowing banks to adjust the margins on older home mortgages loans to offset significantly higher funding costs due to new regulatory requirements. The consequence of this decision is obvious: Finns with mortgage loans have no incentive to switch banks, since a new bank and a new mortgage loan means a substantially higher interest expense for the customer. This has affected competition in 2013 and will probably do so in the future.

In 2014, our ambition is to take advantage of the efficiency-raising measures we have implemented, and we will show profitable growth on the Finnish mainland. We want to both deepen our relationship with existing customers and attract the interest of new customers in our defined customer segments.

Net operating profit excluding nonrecurring items, Finnish Mainland Business Area



Moving 12-month figures by quarter

We are enjoying a good tailwind

Photographer: Daniel Eriksson

Magnus Holm, Director, Sweden Business Area

Our operations developed in a positive direction during 2013. After a few strenuous years as we established the Bank of Åland's presence in Sweden, we are now benefiting from a tailwind.

The trend of earnings is moving the right way and our business model is working nicely. We are now building a business entity with recurrent revenue and are working with customer segments where we add genuine value through advanced expertise and senior employees, combined with an impressive level of service and accessibility.

We have been highly active and have succeeded in our effort to boost awareness of the Bank of Åland brand in Sweden. In spite of this, the bank is still a relatively unknown market player. We will thus continue to market ourselves to selected customer segments in Stockholm, Gothenburg and Malmö. No prospective customer should miss the opportunity to become a Bank of Åland customer and take advantage of our competitive offering.

Premium Banking is attracting interest

During 2013, Premium Banking attracted more than 1,200 new customers. Meanwhile we almost doubled our mortgage portfolio from SEK 455 M to SEK 855 M. In cooperation with SEB and Folksam, we also launched a very competitive insurance offering in the retirement savings field.

These developments are good evidence that we have succeeded in our ambition of reaching out and discussing personal finances in depth. Among other things, our presence at the Hem & Villa national home renovation fair and our own events elicited a very good response.

We also took important steps towards providing a level of service comparable to the Swedish major banks. In November, we signed an agreement with Finansiell ID-Teknik, the company that provides the BankID service in Sweden, enabling customers to identify themselves digitally. Other services that we will add during 2014 include mortgage loan protection, e-invoicing and credit cards.

Record growth for Private Banking

In 2013 the Private Banking unit had its best year so far. During the year, income rose by

18 per cent. We raised our ambitions, boosted our level of expertise and enjoyed fantastic growth.

In its yearly survey, *Euromoney* magazine ranked us in second place in the structured wealth management category, which was a major upswing from 2012 when we came in at eighth place. During 2013 we also gained ground in derivatives trading. Measured in volume, the Bank of Åland is now among the five largest players in the Swedish derivatives market.

Our focus on expertise and our strategy of having whole teams of specialists around each customer have also turned out well. This is evident from our growth in volume and new customer numbers.

The Bank of Åland's financial planning specialists work together with its asset managers to help customers build long-term value. Thus our clear ambition is and will remain to act as project managers for the overall finances of wealthy private individuals and entrepreneurs.

Because of the strong influx of customers to the Private Banking unit, we hired new employees and increased our workforce by about 10 per cent during the year. We deliberately focused on recruiting senior employees in order to strengthen our customer offering further.

During 2013, in additional to individual customer meetings, we carried out a number of seminars focusing on taxation rules for closely held companies and current rules related to residence abroad. Our financial planners are experts on international taxation of individuals and can thus help customer both when they move abroad and return to Sweden.

We also strengthened our Private Banking offering through strategic partnerships related to holding company accounting and administration as well as legal advisory services for entrepreneurs.

In other words, we are developing the Private Banking concept in the direction of a comprehensive Family Office.

Asset Management: Greater impact and quality

A number of important restructuring measures were implemented in Asset Management. The operations of our Swedish fund management company were discontinued, and administration was outsourced to a business partner in Luxembourg. This reduces costs, giving us greater flexibility in our future product development.

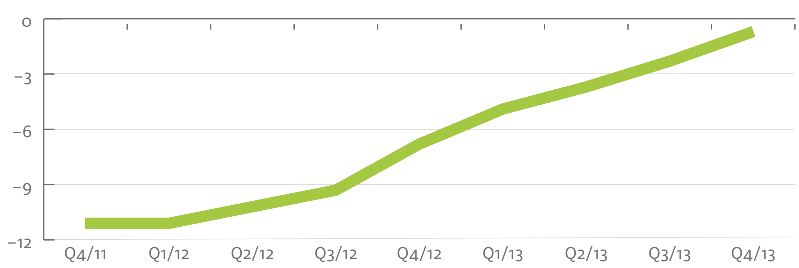
We also paved the way for new opportunities during 2014, when the Bank of Åland's Finnish-based mutual funds will become available in Sweden, thereby increasing the impact and quality of our overall offering.

Several of our fund products were highly successful. Our Commodity Fund deserves special mention, since it has delivered very good returns compared to our competitors.

During 2014, our ambition is to launch new products and expand our asset management services. We will offer customers a comprehensive product range that combines the Bank's own fund management with that of the best outside managers.

Net operating profit excluding nonrecurring items, Sweden Business Area

EUR M



Moving 12-month figures by quarter


Photographer: Daniel Eriksson

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

CROSSKEY WELCOMED NEW CUSTOMERS

Despite a slow start, 2013 turned out to be eventful and ended correspondingly stronger. Our commitment to existing customers increased and we also had the privilege of welcoming new customers. Today we are thus confident about the future.

During 2013, we focused our attention mainly on product development and customer acquisition. We saw the results of this work when Crosskey signed an agreement with Sweden's Marginalen Bank for the delivery of our e-banking solution. Crosskey also has signed an agreement with the Nordic lender Folkia for delivery of our card product and related services.

In Finland, we saw a successful launch when the mobile operator Elisa – one of our customers – unveiled its Lompakko service, a mobile wallet.

In November, Crosskey initiated a partnership with the Finnish software company Model IT. The partnership enables us to offer a complete, modern capital market system. This offering can be provided either as a product or a service. The goal is for Crosskey to unveil its new capital market offering during 2014.

Furthermore, Crosskey's customer S-Bank announced two acquisitions; it bought majority shareholdings in FIM, an independent asset manager, and in LocalTapiola Bank. This expansion makes S-Bank an even more important customer for us, especially since LocalTapiola Bank is also our customer.

SUCCESSFUL ADJUSTMENTS TO OUR STRATEGY

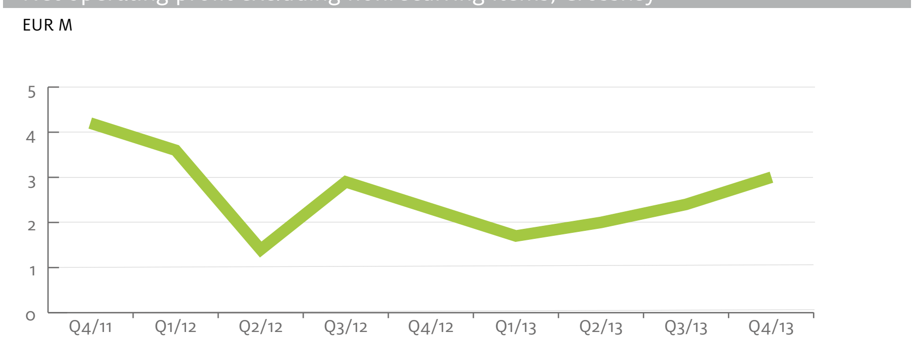
Crosskey is continuing to pursue a strategy of modularising its product and service offerings. We will increase the number of customers in the Nordic countries by offering more complete and, at the same time, more flexible products and services.

In line with this strategy, we have continued the transition to an "agile working method", and all our technology and product development teams have transitioned to this new method. In addition, we were certified in August as one of the few Nordic PCI DSS providers in the banking and finance industry. This certification confirms our high level of security.

REGULATIONS WILL SLOW NEW DEVELOPMENT WORK

In general, we foresee good demand and growth opportunities in certain product niches, such as card and mobile payments and e-banking solutions. In other fields, such as basic systems for banks and capital markets, the market and its players are being weighed down by numerous and extensive regulatory requirements, which will affect demand for new development work.

Net operating profit excluding nonrecurring items, Crosskey



Moving 12-month figures by quarter

Because of the cost of implementing the numerous regulations in the banking and financial market, at present market players are often inclined to give lower priority to the development of business systems and products. To some extent, macroeconomic factors also pose a threat to our growth.

Crosskey is nevertheless confident about 2014 and we expect that the number of our customers in the Nordic countries will increase. Especially in card and mobile payments and in e-banking solutions, there is heavy demand for the products and services we offer.

Ålandsbanken Asset Management Ab

Asset Management operates in Helsinki and is responsible for managing the investments 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.

Managed assets reach new levels

Bank of Åland Asset Management can post a year with strong numbers. Successful equity and fixed income investments have yielded good earnings in customer portfolios. Managed assets are now at a record-high EUR 1.6 billion.

The year began with the launch of Bostadsfonden, Finland's first mutual fund that invests exclusively in housing company shares. There has been heavy investor interest in the fund. Even during its first full year, invested capital exceeded EUR 139 million including borrowing. The number of unit holders is more than 2,000. Price performance was good, and the fund rose by about 10 percent.

Our customers' equity and fixed income investments yielded good returns, thanks to the good stock market year and greater interest in equities. Asset management earnings, along with new client volume, led to record-high managed assets of more than EUR 1.6 billion.

Profitability was significantly better than in 2012, and profit for the year totalled EUR 4.2 M (3.1). This 35 per cent increase was mainly due to increased allocation to equities and the record-sized assets we manage. Good management earnings also resulted in significant return-based fees.

A strong and experienced team

During the second half of 2013, the equities team and the private individual investment group recruited two additional experienced managers. Including these recruitments, Asset Management employed 28 people. Staff turnover remained at an exceptionally low level and Asset Management now has one of Finland's most experienced management teams.

Ab Compass Card Oy Ltd

In 2013, the number of cards increased by 8 per cent to 156,783. Our customers' card use increase by 9 per cent, and the loan portfolio rose by 13 per cent to EUR 36 M. The increase in expenses was still moderate and lending losses declined. The company's earnings for the year improved by EUR 0.5 million to EUR 0.3 million. Low interest rates also contributed to this earnings improvement.

The company achieved two important milestones during the year. Hypo Bank chose Compass Card to manage its co-branded cards, and a project was also launched to PCI-certify Compass Card. We are also close to launching so-called contactless cards, which make it easier for customers to pay small amounts. The customer does not need to insert the card in a reader or give their PIN number for each purchase.

During 2014, we expect both volume growth and low interest rates to result in further earnings improvements. LocalTapiola's merger with S-Bank may eventually lead to changes in the expected growth of Compass Card.

Ålandsbanken Fondbolag Ab

A strong first year for the housing fund

In 2013, the Bank of Åland's mutual fund business performed strongly. The newly launched housing fund (Bostadsfonden) was warmly received by investors. Return-wise, the results of fund management operations were generally good. In particular, Bostadsfonden and the Bank of Åland Commodity Fund yielded returns beyond expectations.

The biggest event in 2013 was the start-up of operations by Ålandsbanken Bostadsfond. This is the first open "non-UCITS" fund in the Finnish market that invests in housing companies. Compared to earlier closed housing funds in the form of limited partnerships or limited companies, the Bank of Åland's housing fund enables a broader target group to invest in and benefit from the returns on rental housing.

The housing fund awakened great interest among investors, and more than 2,000 customers subscribed for fund units. At year-end 2013, unit holders' investments in the fund totalled more than EUR 90 M. With borrowings included, the value of the Fund's housing portfolio amounted to EUR 139 M. At year-end, the fund owned 885 residential units. The return on the fund's "C" units during 2013 was 10.7 per cent, or well above expectations. The volume discounts that the fund received when purchasing large quantities of residential units accounted for a significant proportion of its good performance.

New structure for mutual fund business

At year-end 2013, mutual fund operations consisted of 22 funds in all. Managed assets in these funds totalled EUR 959 M, an increase of EUR 90 M compared to 2012.

The Bank of Åland's mutual fund operations were streamlined at Group level during the year. Fund operations in Sweden were discontinued and the former Swedish funds were moved to Luxembourg through cross-border fund mergers. There, operations were coordinated with the fund operations previously carried out in Luxembourg. The Bank discontinued its own fund management company in Luxembourg and is instead outsourcing administrative services to our partner, Banque de Luxembourg.

In 2014, our ambition is to create a single set of fund offerings for our customers in Finland and Sweden. We want to focus on products where the Bank of Åland's management will give our customers added value.

Meanwhile work is under way to adapt the Group's non-UCITS funds to the European Union's new Alternative Investment Fund Managers (AIFM) Directive. The goal is to obtain AIFM authorisation during the first half of 2014 for the mutual fund companies in Finland and Luxembourg that manage the Bank's funds. This will also provide new and improved conditions for the cross-border operations of the Bank's non-UCITS funds.

Focus on specialised funds

Among the funds that attracted the greatest customer interest during 2013 were the Bank's Commodity Fund, Bostadsfonden and the Bank's Europe Value Fund. Among asset management funds, the conservative Ålandsbanken Premium 30 attracted particular interest.

The management performance of the Premium funds was in line with expectations.

Return from the Bank's Commodity Fund has been exceptionally good since its inception, especially considering the precarious market climate for commodity investments. With a return from inception in 2010 of 32.1 per cent (compared to an index performance of –6.6 per cent during the same period) the fund tops Morningstar's comparative list of commodity funds.

The Bank of Åland's euro-denominated fixed income funds showed continued strong returns during the year. Despite generally low yields, these funds remained popular. The good management performance of the fixed income funds was due to their selective investments in corporate bonds. Over the years, this strategy has proved successful and has earned these funds maximum 5-star ratings according to Morningstar.

Will growth bounce back in China?

In connection with the nascent recovery of the world economy, we again expect an increased interest for equity investments during the coming year, including emerging market equities.

The Bank of Åland's China Growth Fund, an equity fund that invests in China, may be an attractive alternative in that case. China accounts for a large share of the world economy and has a natural place in a well-diversified global equity portfolio. Thanks to her Chinese background, fund manager Shirley Yeung has a good understanding of developments in China and also speaks the country's language. During 2013, China Growth outperformed the Chinese market average. Over a longer period, too, the fund's returns show that investments in the Chinese stock market have been successful.

Report of the Directors

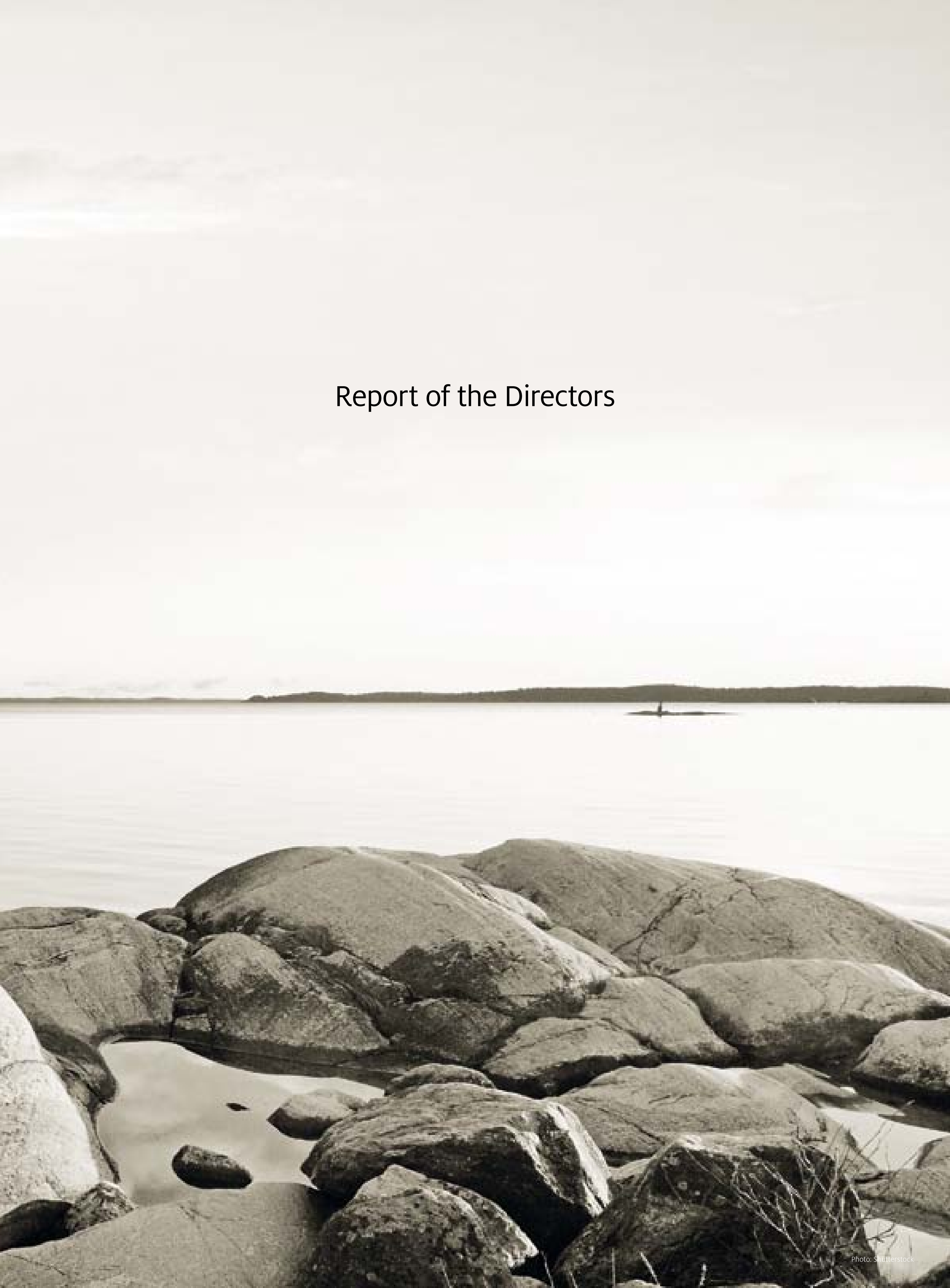


Photo: Shutterstock

Report of the Directors

Macro situation and regulatory requirements

The European debt crisis is still not over. This is adversely affecting the Finnish and Swedish economies and means that record-low interest rates stubbornly persist. Meanwhile signs of recovery have been visible in parts of the world economy, especially the United States. Long-term market yields rose during the year. Share prices rose by 26 per cent on the Nasdaq OMX Helsinki (OMXHPI) exchange and by 23 per cent on the Nasdaq OMX Stockholm (OMXSPI) during 2013.

BENCHMARK INTEREST RATES, AVERAGES, PER CENT

	2013	2012
Euribor 3 mo	0.22	0.57
Euribor 12 mo	0.54	1.11
Stibor 3 mo	1.19	2.00

The average value of the Swedish krona in relation to the euro was 1 per cent higher in 2013 than in 2012. On December 31, 2013, the value of the krona was 3 per cent lower than a year earlier. When translating the income statement of the Bank of Åland's Swedish operations into euros, average exchange rates for the period are used, while the balance sheet is translated at the exchange rate prevailing on the closing day.

More than five years after the onset of the financial crisis, the new post-crisis regulations and reporting rules have not yet been finally approved by all the requisite bodies. However, the European Parliament has approved the new Capital Requirements Directive (CRD IV), based on the Basel 3 regulations, which embodies rules on stricter capital requirements, larger liquidity buffer requirements, longer maturity requirements on borrowings by banks etc. The rules will officially enter into force through legislation, starting in 2014, but these rules have set the standard for the banking industry for a long time. However, the new regulations are resulting in additional costs to banks of 0.6–1.0 percentage points, calculated on the basis of lending volume. Starting in 2013, Finland also introduced a banking tax amounting to 0.125 per cent of risk-weighted assets, which further increases the Bank of Åland's lending costs. Since Finnish regulatory authorities have been very unwilling to let banks pass on these additional costs to existing loans of individual customers, as most other European countries have done, lending margins have been raised even more on new loans in Finland.

Important events

Two of the Bank of Åland's three wholly owned mutual fund (unit trust) companies, Alpha Management Company S.A. (Luxembourg) and Ålandsbanken Fonder AB (Sweden), were emptied of business operations. Alpha Management Company S.A. has been liquidated, while Ålandsbanken Fonder AB is under liquidation. The administration of these companies' funds has been transferred to an external party in Luxembourg. The change that has been implemented will mean a cost reduction of more than EUR 0.5 M annually.

The Bank of Åland has been granted permission by the Finnish Financial Supervisory Authority to calculate the capital requirement for operational risks according to the standardised approach, instead of the basic indicator approach, starting on June 30, 2013. The capital requirement has decreased by EUR 1.7 M as a consequence of this.

An Extraordinary General Meeting in Mariehamn on March 5, 2013, did not give a sufficient voting majority to the proposal of the Board of Directors to remove the section of the Articles of Association stating that a person who has reached the age of 67 may not be elected as a Board member. After that, a legal action was initiated against the Bank of Åland, in which the plaintiff claimed that this provision of the Bank's Articles of Association is discriminatory and thus illegal. On September 23, the District Court rejected the plaintiff's case on grounds that the Bank of Åland is not the correct respondent. The District Court's ruling has been appealed by the plaintiff.

On April 18, 2013, the Annual General Meeting elected Nils Lampi, Christoffer Taxell and Dan-Erik Woivalin as new members of the Bank's Board of Directors. Board members Agneta Karlsson, Anders Å Karlsson, Annika Wijkström and Anders Wiklöf were re-elected. At the statutory meeting of the Board the same day, Nils Lampi was elected Chairman and Christoffer Taxell was elected Vice Chairman of the Board.

The Bank of Åland intends to seek a long-term strategic business partner for the wholly owned subsidiary Crosskey Banking Solutions Ab Ltd. Possible forms of collaboration may include a reduction in the Bank of Åland's ownership. New regulations make banks less suitable as owners of IT companies. The growth of Crosskey has been rapid and has occurred with good profitability since the Bank of Åland's IT operations were turned into a limited liability company in 2004. Today Crosskey accounts for nearly one third of the number of employees in the Bank of Åland Group.

After several years of stable growth since being established in 2009, the Bank of Åland's operations in Sweden reported a positive net operating profit, excluding nonrecurring items, during the last two quarters of 2013.

Earnings

Profit for the report period attributable to shareholders amounted to EUR 6.7 M (11.3).

Underlying net operating profit excluding nonrecurring items improved by EUR 15.3 M to EUR 12.4 M. Nonrecurring items in 2013 consisted of a EUR 1.5 M provision for possible reduction in purchase price due to the tax authority's re-examination of older tax returns in the Swedish subsidiary that was sold, plus restructuring expenses of EUR 0.5 M in the Swedish asset management organisation. Nonrecurring items in 2012 consisted of a capital gain of EUR 13.8 M on the sale of the Swedish subsidiary that had been emptied of operations, a capital gain of EUR 1.0 M on the sale of the associated company Ålands Företagsbyrå, an impairment loss of EUR –0.8 M on shares in the equities-trading platform Burgundy and restructuring expenses of EUR 1.1 M in connection with staff cutbacks.

Return on equity after taxes was 3.8 (6.6) per cent.

Total income excluding nonrecurring items increased by EUR 11.4 M or 12 per cent to EUR 107.9 M.

Re-pricing in the loan portfolio and volume growth enabled the Bank to partly limit the adverse impact of sharply falling money market rates on net interest income. Net interest income increased by EUR 1.2 M or 3 per cent to EUR 42.4 M. The falling trend in net interest income has ended, having bottomed out in the first quarter of 2013.

Net commission income increased by EUR 9.7 M or 30 per cent to EUR 42.4 M, mainly due to higher income from investment and brokerage services.

Net income on financial items at fair value, excluding nonrecurring items, increased by EUR 0.4 M to EUR 7.3 M, mainly thanks to higher income from the Treasury unit's liquidity portfolio. Non-recurring items attributable to a possible purchase price reduction in 2013 are included in recognised net income on financial items at fair value. Included in 2012 was a capital gain on the sale of the Swedish subsidiary and Företagsbyrå plus an impairment loss on shares in Burgundy.

IT income increased by 2 per cent to EUR 14.8 M (14.5).

Total expenses decreased by EUR 2.1 M or 2 per cent to EUR 92.0 M, despite salary increases of about EUR 1.0 M as provided by collective agreements, a new banking tax expense of about EUR 1.7 M and higher recognised expenses in euros of about EUR 0.2 M due to a strengthening of the Swedish krona. Nonrecurring expenses in connection with restructuring decreased by EUR 0.6 M to EUR 0.5 M. Hours worked, recalculated to the number of full-time equivalent positions, decreased by 23 positions or 4 per cent to 617 (640). The impact of efficiency-raising measures implemented in recent years is clearly evident.

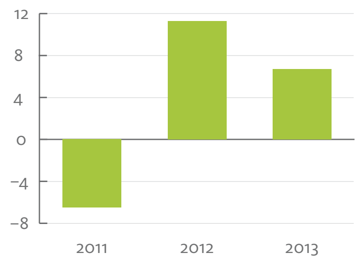
Net impairment losses on loans (including recoveries) amounted to EUR 4.1 M, equivalent to a loan loss level of 0.13 per cent, compared to EUR 6.4 M and 0.22 per cent in the preceding year. The gross impairment loss reserve for individual commitments increased by EUR 8.8 M (2.8), among other things because the earlier group impairment loss reserve for the shipping industry wad replaced by individual impairment losses. Gross actual losses amounted to EUR 3.9 M (1.9). Reversals of no longer necessary individual impairment loss reserves and recoveries of earlier impairment losses amounted to EUR 6.2 M (0.2). The net group impairment loss reserve attributable to the shipping industry decreased by EUR 2.5 M (2102: increased by 0.2) and was withdrawn. The group impairment loss reserve for the construction industry, totalling EUR 0.6 M, was withdrawn (0.0), while a new group impairment loss of EUR 0.7 M was made for high-risk commitments.

Income tax expense increased by EUR 4.7 M to EUR 2.7 M, due to substantially improved taxable earnings. Finnish corporate tax was lowered from 24.5 to 20.0 per cent effective on January 1, 2014, which lowered deferred tax liabilities by EUR 1.6 M.

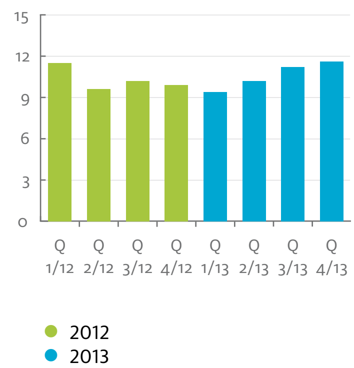
Business areas

The year's customer surveys gave continued high marks to the Bank of Åland. A full 91 per cent of Private Banking customers in the Finnish Mainland business area and 88 per cent of Premium Banking customers in the Finnish

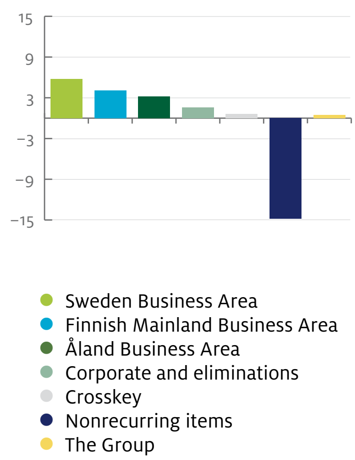
Profit for the year attributable to shareholders
EUR M



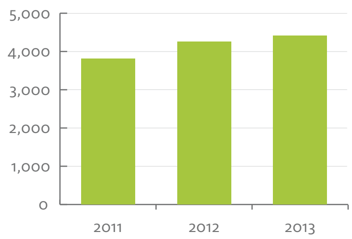
Net interest income by quarter
EUR M



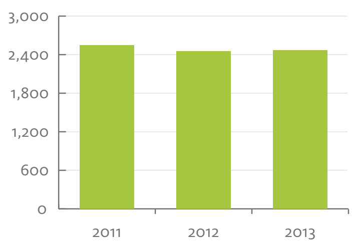
Change in operating income
EUR M



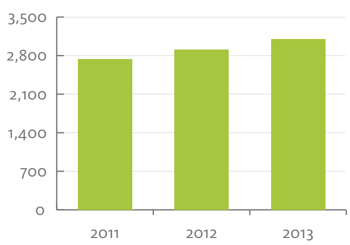
Managed assets
EUR M



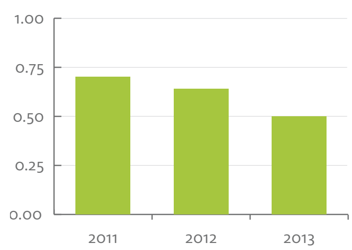
Deposits
EUR M



Lending
EUR M



Non-performing loans > 90 days
Per cent of lending



Mainland and Åland Mainland business areas responded that they were very satisfied and would gladly recommend the Bank of Åland to others. Customers in Sweden also confirmed that they are highly pleased with the Bank of Åland.

In all business areas, 2013 has been characterised by extensive customer activities, aimed at existing customers and their needs as well as new and potential customers.

The Åland business area continued to expand its collaboration with Åland Post in the archipelago, also initiating collaboration in Brändö. For some time, Åland Post has served as the banking representative of the Bank of Åland in Kumlinge and Kökar. In Brändö, the Bank of Åland is in charge of the collaboration. The office in Kyrkoby has been closed.

In the Finnish Mainland business area, the Bank closed its Munkkiniemi and Aleksanterinkatu offices in Helsinki, whose customers are now being served by the office in Espoo-Tapiola or from our expanded Bulevardi office in Helsinki.

The Sweden business area initiated an increased focus on retirement savings, with the Bank serving as an affiliated agent of the Folksam insurance company. The Gothenburg office moved to new premises. Business volume growth remained very high, especially in Private Banking.

Crosskey signed an agreement with a new customer in Sweden, Marginalen Bank.

The Group's net operating profit improved by EUR 0.5 M to EUR 10.4 M. The improvement was allocated as follows (EUR M):

- Sweden +5.8 (business volume growth and direct cost efficiency improvements)
- Finnish Mainland +4.1 (higher commission income and lower impairment losses)
- Åland +3.2 (higher commission income, improved cost efficiency and lower impairment losses)
- Corporate units +1.6 (Treasury, Compass Card, Fondbolag) incl. eliminations
- Crosskey +0.6 (higher revenue)
- Nonrecurring items –14.8 (sale proceeds from the Swedish subsidiary, Företagsbyrån, Burgundy, restructuring expenses)

Business volume

Managed assets increased by EUR 155 M and amounted to EUR 4,407 M (4,252). Higher market valuations offset net outflows from discretionary mandates, which included the end of a large assignment of about EUR 200 M in Sweden during the third quarter. Managed assets in the Bank of Åland Group's own mutual funds rose by EUR 93 M or 11 per cent to EUR 960 M (867). The new Bostadsfonden, a housing mutual fund which was launched at the turn of the year, was very well received. Net inflow into Bostadsfonden was EUR 88 M. Assets under discretionary management decreased by EUR 106 M or 6 per cent to EUR 1,685 M (1,791). Assets under advisory management rose by EUR 169 M or 11 per cent to EUR 1,762 M (1,593). Of total managed assets, the Sweden business area accounted for EUR 2,361 M or 54 (56) per cent.

Deposits from the public – including certificates of deposit, index bonds and debentures issued to the public – increased by EUR 14 M or 1 per cent, amounting to EUR 2,466 M (2,452) on December 31, 2013. Despite increased risk appetite among customers, together with low interest rates, this means that they reduced their account deposits to a greater extent and shifted to other investment alternatives.

Lending to the public totalled EUR 3,104 M (2,905). This represented an increase of EUR 198 M or 7 per cent. The lending increase was primarily related to the Swedish market.

Balance sheet total and off-balance sheet obligations

During 2013, the Group's balance sheet increased by EUR 254 M or 7 per cent to EUR 3,887 M. The increase was primarily related to lending to the public. The increase in lending was mainly funded through the issuance of covered bonds. Off-balance sheet obligations increased by EUR 13 M or 3 per cent to EUR 418 M. The increase was related to unutilised overdraft limits.

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.

Non-performing loans (more than 90 days) decreased by EUR 3.0 M to EUR 15.6 M (18.6) during 2013. As a share of lending to the public, non-performing receivables fell from 0.64 per cent to 0.50 per cent. The level of provisions for doubtful receivables, i.e. individual impairment losses as a proportion of all doubtful receivables, was 50 per cent compared to 83 per cent at year-end 2012.

The Bank of Åland Group had EUR 16.5 M (13.7) in impairment loss provisions, comprising individual impairments of EUR 15.8 M (10.6) and group impairments of EUR 0.7 M (3.1).

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 569 M on December 31, 2013 (483). This was equivalent to 15 per cent of total assets (13) and 18 per cent of lending to the public (17). Given the Bank's ability to issue further covered bonds, there is an additional unutilised liquidity reserve.

During 2014 about EUR 200 M in borrowing will mature. The average remaining maturity of outstanding bonds was about 3.1 years at year-end (3.0). During the first quarter, the Bank of Åland issued EUR 100 M in covered bonds with a 10-year maturity. During the second quarter, the Bank of Åland issued SEK 500 M in non-covered bonds with an 18-month maturity. During the third quarter, the Bank of Åland issued SEK 750 M in non-covered bonds with a 2-year maturity. During the third quarter, the Bank of Åland also issued EUR 17 M in subordinated debentures with a 5-year maturity and 20 per cent annual principal repayment. During the fourth quarter, the Bank of Åland issued EUR 100 M in covered bonds with a 5.5 year maturity.

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 103 per cent at year-end (103).

Rating

The Bank of Åland has a BBB/A-3 credit rating for long-term and short-term borrowing from the Standard & Poor's rating agency. The Bank's covered bonds received a Standard & Poor's credit rating of AA.

Equity and capital adequacy

Equity capital including non-controlling interests increased in the amount of total income for the period, EUR 7.9 M, and decreased by the dividend paid to Bank of Åland shareholders, EUR 2.2 M, and the dividend paid to non-controlling shareholders in subsidiaries, EUR 0.7 M. On December 31, 2013 equity capital totalled EUR 184.1 M (179.0). Other comprehensive income included re-measurements of defined-benefit pension plans by EUR 2.1 M, in compliance with IAS 19.

The equity/assets ratio decreased to 4.7 per cent, compared to 4.9 per cent at year-end 2012.

Core Tier 1 capital as defined in capital adequacy regulations increased by EUR 7.6 M to EUR 160.0 (152.4). The unrealised increases in the value of the fair value reserve that existed at year-end 2012 were largely realised during the year, which contributed to the increase.

Risk-weighted assets increased by EUR 80 M or 6 per cent to EUR 1,481 M (1,401), mainly due to increased lending in Sweden. Starting on June 30, 2013, the capital requirement for operational risks is being calculated according to the standardised approach instead of the basic indicator approach as earlier. This lowered the capital requirement by EUR 1.7 M, equivalent to risk-weighted assets of EUR 21 M.

The core Tier 1 capital ratio decreased to 10.8 (10.9) 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 fell to 15.2 (15.7) per cent.

Changes in group structure

The subsidiary Alpha Management Company S.A. (Luxembourg) has been liquidated. The subsidiary Ålandsbanken Fonder AB is under liquidation, a process that is expected to be completed during the first quarter of 2014.

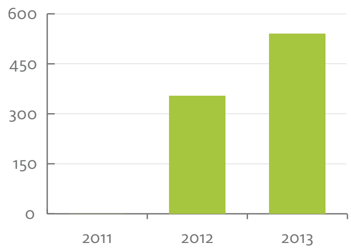
Dividend

The Board of Directors proposes that the Annual General Meeting approve the payment of a dividend of EUR 0.15 per share (0.15), equivalent to a total amount of EUR 2.2 M. The proposed dividend is equivalent to a 32 (19) per cent payout ratio.

Corrections

The Bank of Åland has corrected a number of items in older financial statements, simultaneously recalculating all historical comparative figures. These corrections are described in detail in the Bank's Year-end Report, published on February 14, 2014. The revised accounting principle for defined-benefit pensions in com-

Covered bonds
EUR M



pliance with IAS 19R, which went into effect in 2013, also led to the restatement of figures in historical financial statements.

Important events after the close of the report period

Because of changes in customer behaviour as well as changes in the business environment, the Bank of Åland is considering the introduction of changes in its office network, operations and organisational structure related to the Bank's business in the Helsinki region. For this reason, on January 15, 2014 the Bank of Åland convened co-determination negotiations. The need for staff cutbacks is estimated at six positions. The efficiency-raising measures that have been announced will lead to an annual cost reduction of about EUR 0.5 M. Restructuring expenses are estimated at a total of EUR 0.5 M.

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 direct exposure to the "GIIPS" countries (Greece, Italy, Ireland, Portugal and Spain) or to Cyprus.

Future outlook

The Bank's earnings performance is determined to a significant degree by external factors that are difficult to predict.

Income is expected to be higher in 2014 than in 2013 as a consequence of both increased volume and margins, but income is strongly dependent on how the fixed income and stock markets perform and is thus difficult to forecast. Total expenses and impairment losses on loans in 2014 are expected to be at about the same level as in 2013. Taken together, the result of these expectations is that in 2014 the Bank of Åland will report a somewhat better net operating profit and after-tax profit attributable to the shareholders than in 2013.

Since new securities legislation has removed the explicit obligation in interim reports to provide an account of probable developments during the current financial period, the Bank of Åland will refrain from providing earnings forecasts in interim reports. In accordance with legislative requirements, a statement on the Bank's future outlook will be presented only in the Annual Report.

Long-term financial targets

With reference to the extensive changes under way in the regulations affecting banks, since the financial crisis began the Bank of Åland has not had any officially communicated long-term financial targets.

The Board of Directors has approved the following new long-term financial targets..

- *Return on equity after taxes (ROE) shall exceed 10 percent.*
  As a bank for investors, with financing know-how, the Bank of Åland has a business model that shall generate most earnings from operations with limited capital requirements. The Bank of Åland's earnings will benefit from higher interest rates. After establishing a presence in the Swedish market and implementing several years of restructuring in the Group, we are now seeing a positive trend of earnings. The profitability target shall be achieved by 2016.
- *The Bank's capital adequacy, primarily defined as the core Tier 1 capital ratio under the Basel regulations, shall clearly exceed all regulatory requirements.*
  There is still uncertainty about how the Bank of Åland's core Tier I capital ratio will be affected by the transition from the standardised approach to the IRB approach for corporate portfolio in Finland and the entire lending portfolio in Sweden as well as by the final shape of Basel 3. At present, the Executive Team interprets the ambition to clearly exceed regulatory requirements as meaning that the core Tier I capital ratio, not taking into account transitional rules, should exceed 11 per cent.
- *Looking ahead, the payout ratio shall be at the same level as the Nordic banking industry standard.*
  The goal of the payout ratio is conditional on achieving the capital adequacy target. Over the next few years, the Bank of Åland will prioritise growth, among other things through increased lending. The Nordic industry standard is currently equivalent to a payout ratio of around 50 per cent.

FIVE-YEAR GROUP SUMMARY

Bank of Åland Group	2013	2012	2011	2010	2009
EUR M					
Net interest income	42.4	41.2	43.1	36.8	39.1
Net commission income	42.4	32.7	38.7	36.8	28.0
Net income from financial items carried at fair value	5.8	6.9	1.2	6.2	4.4
IT income	14.8	14.5	13.4	16.0	13.2
Other income	2.5	1.2	3.8	3.3	2.8
Nonrecurring income	−1.5	13.9	−1.1	0.0	0.0
Total income	**106.4**	**110.4**	**99.2**	**99.1**	**87.5**
Staff costs	−51.1	−51.2	−54.5	−53.7	−44.6
Derpreciation/amortisation and impairment losses on tangible and intangible assets	−8.0	−8.1	−6.7	−8.3	−6.4
Other expenses	−32.3	−33.6	−36.1	−30.2	−26.2
Restructuring expenses	−0.5	−1.1	−5.7	0.0	0.0
Total expenses	**−92.0**	**−94.1**	**−103.1**	**−92.2**	**−77.2**
Profit before loan losses etc.	**14.5**	**16.3**	**−3.9**	**6.9**	**10.3**
Impairment losses on loans and other commitments	−4.1	−6.4	−1.8	−5.9	−2.9
Negative goodwill	0.0	0.0	0.0	0.0	23.1
Net operating profit	**10.4**	**9.9**	**−5.7**	**1.0**	**30.5**
Income taxes	−2.7	2.0	0.4	−3.2	−3.7
Profit for the report period	**7.7**	**11.9**	**−5.3**	**−2.2,**	**26.8**
Attributable to:					
Non-controlling interests	1.0	0.6	1.2	0.6	0.6
Shareholders in Bank of Åland Plc	**6.7**	**11.3**	**−6.5**	**−2.8**	**26.2**
Volume					
Lending to the public	3,104	2,905	2,737	2,573	2,546
Deposits from the public [1]	2,466	2,452	2,544	2,600	2,411
Managed assets	4,407	4,252	3,814	4,347	3,101
Equity capital	184	179	181	154	162
Balance sheet total	3,887	3,633	3,400	3,475	3,379
Risk-weighted assets	1,481	1,401	1,729	1,664	1,636
Financial ratios					
Return on equity after taxes, % (ROE) [2]	3.8	6.6	−3.9	−1.8	17.8
Expense/income ratio, % [3]	0.86	0.85	1.04	0.93	0.88
Loan loss level, % [4]	0.13	0.22	0.07	0.23	0.12
Gross non-performing assets, % [5]	0.50	0.64	0.70	1.07	0.56
Core funding ratio, % [6]	103	103	108	99	106
Equity/assets ratio, % [7]	4.7	4.9	5.3	4.4	4.8
Tier 1 capital ratio, % [8]	10.8	10.9	8.4	7.3	7.9
Working hours re-calculated to full-time equivalent positions	617	640	690	679	641

[1] Deposits from the public and public sector entities, including certificates of deposit, index bonds and debentures issued to the public

[2] Profit for the report period attributable to shareholders/Average shareholders' portion of equity capital

[3] Expenses/Income

[4] Impairment losses on loan portfolio and other commitments/Lending to the public

[5] Non-performing receivables more than 90 days/Lending to the public including provisions for impairment losses

[6] Lending to the public/Deposits including certificates of deposit, index bonds and debentures issued to the public and covered bonds issued

[7] Equity capital / Balance sheet total

[8] (Core Tier 1 capital/Capital requirement)×8 %

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.

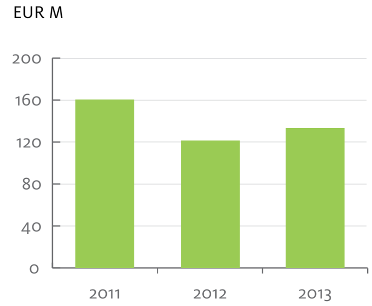
In accordance with a decision by the 2011 Annual General Meeting on purchases of the Bank's own shares for the purpose of implementing a share-based compensation programme for senior executives, the Bank has purchased its own shares. On December 31, 2013, its holding amounted to 25,000 Series B shares. The purchase price for these was EUR 243,803.15.

The Bank has no warrants or convertible bonds outstanding. The Annual General Meeting in April 2011 authorised the Board of Directors to divest a maximum of 25,000 of the company's own Series B shares that are in the company's possession, by means of a share issue in one or more amounts.

The authorisation includes the right to divest the company's own Series B shares that are in the company's possession, in exchange for payment or without payment, provided that there are convincing economic reasons for this (targeted share issue). Divestment of the company's own Series B shares by means of a share issue shall occur for the purpose of implementing the company's possible incentive programme. The authorisation includes the right to decide on all conditions of a share issue. The authorisation is in force for five years from the General Meeting's decision.

An Extraordinary General Meeting in August 2011 authorised the Board of Directors to decide no late than June 30, 2016 on special rights providing entitlement to shares. Supported by the authorisation, a maximum of 3,000,000 Series B shares may be issued.

Market capitalisation



Changes in share capital

	Share capital, EUR	Series A shares	Series B shares
2013	29,103,547.58	6,476,138	7,944,015
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

Trading in the Bank's shares

During 2013, the volume of trading in the Bank's Series A shares on the Nasdaq OMX Helsinki (Helsinki Stock Exchange) was EUR 1.0 M. Their average price was EUR 11.60. The highest quotation per share was EUR 13.67, the lowest EUR 10.02. Trading in Series B shares totalled EUR 4.9 M at an average price of EUR 8.11. The highest quotation was EUR 9.00, the lowest EUR 7.01.

On December 31, 2013, the number of registered shareholders was 9,549 and they owned 13,270,279 shares. There were also a total of 1,149,874 shares registered in the names of nominees.

The ten largest shareholders, December 31, 2013

	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)	125	926,604	926,729	6.43	0.68
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	113,476	195,151	1.35	1.27
9	Palcmills Oy (financial service company)	87,500	107,500	195,000	1.35	1.35
10	OMXBS/Skandinaviska Enskilda Banken AB (nominee registered shares)	16,470	85,672	102,142	0.71	0.30

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

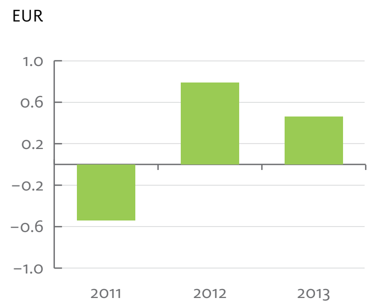
Shareholders by size of holding

Number of shares	Number of shareholders	Total number of shares held,	Average holding	Voting power, %
1 – 100	3,872	171,147	44	1.1
101 – 1,000	4,374	1,521,049	348	7.4
1,001 – 10,000	1,193	2,995,343	2,511	12.8
10,001 –	110	9,732,614	88,478	78.7
Of which, nominee registered shares		1,149,874		1.4

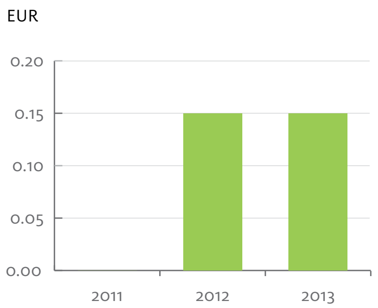
Shareholders by category

Category	Number of shares	% of shares
Private individuals	5,482,606	38.0
Companies	4,638,485	32.2
Financial institutions and insurance companies	1,588,651	11.0
Non-profit organisations	714,388	5.0
Government organisations	566,146	3.9
Foreign investors	280,003	1.9
Nominee registered shares	1,149,874	8.0
	14,420,153	**100.00**

Earnings per share



Dividend per share



Bank of Åland share data	2013	2012	2011	2010	2009
Number of shares, thousands[1]	14,395	14,395	14,414	11,536	11,536
Average number of shares, thousands	14,395	14,396	12,097	11,536	11,536
Earnings per share, EUR[2]	0.46	0.79	−0.54	−0.25	2.27
Dividend per share, EUR[3]	0.15	0.15	0.00	0.00	0.70
Dividend payout ratio[4]	32.3	19.1	0.0	0.0	30.9
Equity capital per share before dilution, EUR[5]	12.54	12.21	14.49	13.39	13.97
Market price per share, balance sheet date, EUR					
Series A	10.88	10.04	14.15	29.50	33.90
Series B	7.94	7.10	8.68	19.93	24.50
Price/earnings ratio[6]					
Series A	23.4	12.8	neg	neg	14.9
Series B	17.1	9.0	neg	neg	10.8
Effective dividend yield, %[7]					
Series A	1.4	1.5	0.0	0.0	2.1
Series B	1.9	2.1	0.0	0.0	2.9
Market capitalisation, EUR M	133.3	121.2	160.6	279.5	331.3

1 Number of registered share minus own shares on closing day

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

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

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

5 $\dfrac{\text{Shareholders' portion of equity capital}}{\text{Number of shares minus own shares on closing day}} \times 100$

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

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

Bank of Åland shares traded, Helsinki Stock Exchange					
Year		Thousands of shares	Volume as % of shares	Price paid, EUR: Highest/Lowest	Average price, EUR
2013	A	83	1.3	13.67–10.02	11.60
2013	B	605	7.6	9.00–7.01	8.11
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

Photographer: Daniel Eriksson

Consolidated income statement

(EUR K)

Bank of Åland Group	Note	Jan 1–Dec 31, 2013	Jan 1–Dec 31, 2012
Interest income		75,320	86,132
Interest expenses		−32,950	−44,957
Net interest income	G5	**42,371**	**41,175**
Commission income		50,270	40,110
Commission expenses		−7,830	−7,398
Net commission income	G6	**42,440**	**32,712**
Net income from financial items carried at fair value	G7	5,832	20,831
IT income		14,759	14,491
Share of income in associated companies		51	29
Other operating income	G8	984	1,153
Total income		**106,436**	**110,393**
Staff costs	G9	−51,497	−52,351
Other costs	G10	−32,460	−33,591
Depreciation/amortisation and impairment losses on tangible and intangible assets	G23, G24	−8,021	−8,135
Total expenses		**−91,978**	**−94,078**
Profit before impairment losses		**14,459**	**16,314**
Impairment losses on loans and other commitments	G11	−4,080	−6,430
Net operating profit		**10,379**	**9,884**
Income taxes	G12	−2,678	2,044
Net profit for the period		**7,701**	**11,928**
Attributable to:			
Non-controlling interests		1,009	613
Shareholders in Bank of Åland Plc		**6,692**	**11,315**
Earnings per share, EUR	G13	0.46	0.79

Consolidated statement of comprehensive income

(EUR K)

Bank of Åland Group	Note	Jan 1–Dec 31, 2013	Jan 1–Dec 31, 2012
Profit for the accounting period		**7,701**	**11,928**
Cash flow hedge		1,067	–1,551
Assets available for sale		–4,608	3,646
Translation differences [1]		874	–10,611
Income taxes	G12	723	2,086
Items that have been or may be reclassified to the income statement		**–1,945**	**–6,430**
Re-measurements of defined benefit pension plans	G38	2,677	–2,845
Income taxes	G12	–535	569
Items that have been or may be reclassified to the income statement		**2,141**	**–2,276**
Other comprehensive income	G35	**197**	**–8,705**
Total comprehensive income for the period		**7,898**	**3,223**
Attributable to:			
Non-controlling interests		1,009	613
Shareholders in Bank of Åland Plc		**6,889**	**2,610**

[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 7,556 K, which was thus moved to "Net income from securities transactions and foreign exchange dealing".

Consolidated balance sheet

(EUR K)

Bank of Åland Group	Note	Dec 31, 2013	Dec 31, 2012
Assets			
Cash and balances with central banks		50,161	132,547
Debt securities eligible for refinancing with central banks	G17	427,970	305,414
Lending to credit institutions	G18	130,575	103,546
Lending to the public	G19	3,104,086	2,904,511
Debt securities	G17	63,595	44,818
Shares and participations	G20	2,226	6,521
Shares and participations in associated companies	G21	798	763
Derivative instruments	G22	14,994	20,393
Intangible assets	G23	9,066	9,553
Tangible assets	G24	30,675	32,740
Other assets	G25	19,011	45,449
Accrued income and prepayments	G26	27,641	19,217
Deferred tax assets	G27	5,857	7,936
Total assets		**3,886,655**	**3,633,407**
Liabilities			
Liabilities to credit institutions	G28	346,517	374,555
Liabilities to the public	G29	2,177,171	2,127,358
Debt securities issued	G30	1,018,553	763,218
Derivative instruments	G22	20,195	14,660
Other liabilities	G31	35,674	66,494
Provisions	G32	680	1,094
Accrued expenses and prepaid income	G33	28,641	30,029
Subordinated liabilities	G34	63,830	64,139
Deferred tax liabilities	G27	11,312	12,812
Total liabilities		**3,702,573**	**3,454,359**
Equity capital and non-controlling interests			
Share capital		29,104	29,104
Share premium account		32,736	32,736
Reserve fund		25,129	25,129
Hedging reserve	G35	–387	–1,171
Fair value reserve	G35	1,117	4,533
Translation differences	G35	499	–189
Own shares		–244	–244
Unrestricted equity capital fund		24,485	24,485
Retained earnings	G35	68,102	61,428
Shareholders’ portion of equity capita		**180,541**	**175,811**
Non-controlling interests’ portion of equity capital		3,541	3,236
Total equity capital		**184,082**	**179,048**
Total liabilities and equity capital		**3,886,655**	**3,633,407**

Statement of changes in equity capital

(EUR K)

Bank of Åland Group

	Share capital	Share premium account	Reserve fund	Hedging reserve	Fair value reserve	Translation difference	Own shares	Unrestricted equity capital fund	Retained earnings	Shareholders' portion of equity capital	Non-controlling interests' portion of equity capital	Total
Equity capital, Dec 31, 2011	**29,104**	**33,272**	**25,129**	**0**	**1,781**	**7,823**	**−54**	**24,485**	**56,385**	**177,924**	**2,636**	**180,560**
Adjustment, correction of errors									−1,996	−1,996		−1,996
Adjustment for retroactive application									−1,992	−1,992		−1,992
Adjusted equity capital, Dec 31, 2011	**29,104**	**33,272**	**25,129**	**0**	**1,781**	**7,823**	**−54**	**24,485**	**52,397**	**173,936**	**2,636**	**176,572**
Profit for the period									11,315	11,315	613	11,928
Other comprehensive income				−1,171	2,753	−8,011			−2,276	−8,705	0	−8,705
Purchases of own shares							−190			−190		−190
Transactions with Group shareholders												
Dividend paid									0	0	0	0
Other		−536								−536		−536
Equity capital, Dec 31, 2012	**29,104**	**32,736**	**25,129**	**−1,171**	**4,533**	**−189**	**−244**	**24,485**	**61,428**	**175,811**	**3,236**	**179,048**
Profit for the period									6,692	6,692	1,009	7,701
Other comprehensive income				784	−3,416	688			2,141	197	0	197
Purchases of own shares							0			0		0
Transactions with Group shareholders												
Dividend paid									−2,159	−2,159	−704	−2,863
Equity capital, Dec 31, 2013	**29,104**	**32,736**	**25,129**	**−387**	**1,117**	**499**	**−244**	**24,485**	**68,102**	**180,541**	**3,541**	**184,082**

For further disclosures about change in equity capital, see Note G35

Consolidated cash flow statement

(EUR K)

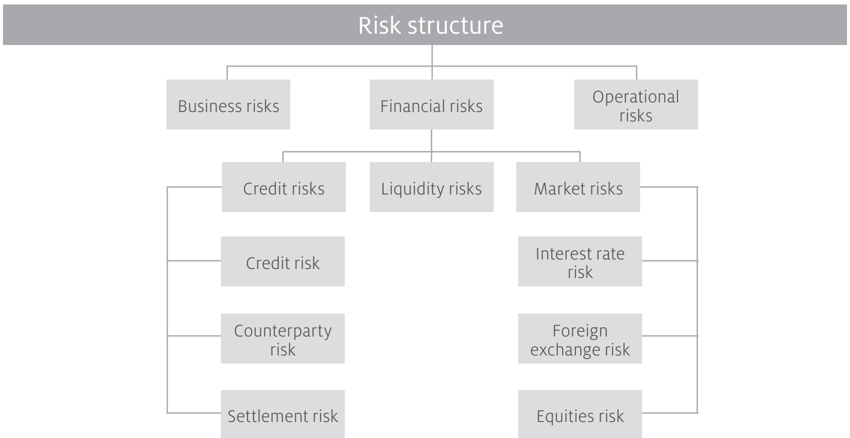
Bank of Åland Group	Jan 1–Dec 31, 2013	Jan 1–Dec 31, 2012
Cash flow from operating activities		
Net operating profit	10,379	9,884
Adjustment for net operating profit items not affecting cash flow		
Depreciation/amortisation and impairment losses on intangible and tangible assets	8,021	8,135
Impairment losses on loans and other commitments	4,034	6,465
Unrealised changes in value	2,072	–1,953
Accrued surpluses/deficits on debt securities and bonds issued	2,361	4,913
Effect of IAS 19	35	–296
Gains/losses from investment activity	821	–16,939
Income taxes paid	–857	–1,803
Increase (–) or decrease (+) in receivables from operating activities		
Debt securities eligible for refinancing with central banks	–107,529	–178,636
Lending to credit institutions	–5,191	4,989
Lending to the public	–226,480	–171,279
Other assets	–3,655	169,550
Increase (–) or decrease (+) in liabilities from operating activities		
Liabilities to credit institutions	–28,021	137,312
Liabilities to the public	64,992	–36,903
Debt securities issued	–77,658	–43,272
Other liabilities	–23,863	–32,914
Cash flow from operating activities	**–380,540**	**–142,746**
Cash flow from investing activities		
Investment in shares and participations	–144	–234
Divestment of shares and participations	22	929
Divestment of shares in associated companies and subsidiaries [1]	376	59,626
Investment in tangible assets	–1,859	–2,076
Divestment of tangible assets	32	637
Investment in intangible assets	–3,662	–2,744
Cash flow from investing activities	**–5,234**	**56,139**
Cash flow from financing activities		
Purchases of own shares	0	–190
Finance leases	–1,490	–1,282
Change in long-term borrowings	150,460	–213,092
Change in covered bonds issued	189,186	354,026
Change in subordinated debentures	–292	6,451
Dividend paid	–2,159	0
Dividend paid to minority	–704	–1,138
Cash flow from financing activities	**335,001**	**144,775**
Cash and cash equivalents at beginning of year	245,648	184,727
Cash flow from operating activities	–380,540	–142,746
Cash flow from investing activities	–5,234	56,139
Cash flow from financing activities	335,001	144,775
Exchange rate differences in cash and cash equivalents	–1,260	2,752
Cash and cash equivalents at end of year	**193,615**	**245,648**
Cash and cash equivalents consisted of the following items:		
Cash	6,003	7,683
Cheque account with Bank of Finland	44,158	124,864
Claims repayable on demand from credit institutions	121,369	98,104
Debt securities	22,085	14,997
Total cash and cash equivalents	**193,615**	**245,648**

[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 repayable 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 as well as claims on public sector entities that are not lending. "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 71,871 K (2012: 87,522), interest paid of EUR 30,867 K (40,044) and dividend income received of EUR 445 K (330).

Risks and risk management

General

Exposure to risk is a natural element of a bank's operations. The risks in the Bank of Åland Group can be generally categorised as business risks, financial risks and operational risks.



Risk organisation

The Bank of Åland's risk organisation is based on three lines of defence:

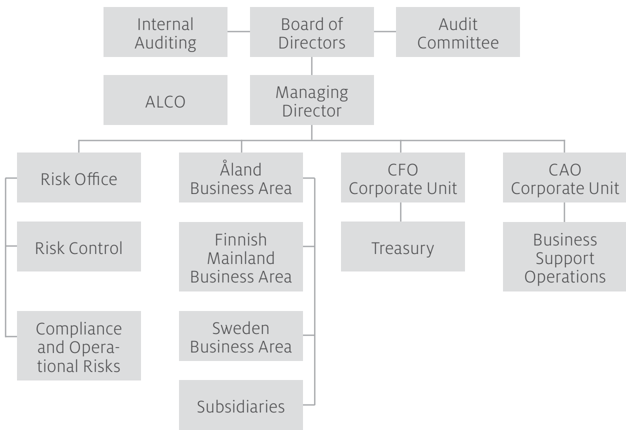
- First line of defence–Risk-takers
- Second line of defence–Risk monitoring and regulatory compliance
- Third line of defence–Independent auditing

"Risk-takers" refers to the operating units of the Bank. They have full responsibility for the risks that their own operations generate. Both their risk-taking and its management shall follow strategies, policies, guidelines and risk tolerances established by the Bank.

Independent oversight of risks and regulatory compliance are performed by the Risk Control Department as well as the Compliance and Operational Risks Department. Risk Control and Operational Risks maintain guidelines and frameworks for risk management, as well as promoting a sound risk culture by providing back-up to operating units in their risk management. The Compliance unit is responsible for monitoring regulatory compliance.

Independent auditing is performed by the Internal Auditing Department, which reports directly to the Board. Internal Auditing is entrusted with evaluation operations through independent oversight of administration and internal controls.

Risk organisation



BOARD OF DIRECTORS

The Board of Directors has overall responsibility for risk management and control. It adopts yearly policy documents that specify the overall principles and limits for risk management. The contents of these policy documents shall be based on the risk appetite and risk tolerance defined by the Board.

AUDIT COMMITTEE

The Audit Committee of the Board of Directors assists the Board in its responsibility for monitoring risk management, reports and internal controls.

MANAGING DIRECTOR

The Managing Director shall ensure that risk management complies with the principles and risk tolerances that the Board has approved. The Managing Director does this by setting guidelines based on the policy documents adopted by the Board. The Managing Director shall also ensure that business operations are adapted to the Bank's expertise and resources and that the Bank has the necessary resources and systems for oversight and monitoring.

RISK CONTROL

Risk Control, an independent department within the Bank, is responsible for continuously identifying, measuring, analysing, overseeing and reporting the Bank's financial risks. This includes regular oversight to ensure that the Bank's operations remain within the established risk tolerances and regularly reporting the Bank's financial and operational risks to the Executive Team and the Board.

OPERATIONAL RISKS

Operational Risks (part of the Compliance and Operational Risks Department) is a unit within the Bank that is responsible for analysing and reporting the Group's operational risks as well as maintaining regulations, working procedures and IT systems that support operating units in their management of operational risks.

BUSINESS AREAS, SUBSIDIARIES AND TREASURY

Business areas, subsidiaries and Treasury are responsible for the risk that arises in their own respective operational areas and for ensuring that it is managed within established limits and guidelines.

BUSINESS SUPPORT AND OPERATIONS

Business Support and Operations are the Bank's back office departments and are responsible for the execution of business transactions.

ALCO – THE ASSET-LIABILITY COMMITTEE

ALCO–the Asset-Liability Committee–is a forum within the Bank that deals with issues concerning capitalisation, funding and financial risks.

Risk management model

The purpose of the Bank's risk management model is to identify, measure, control and report risks in the Bank of Åland Group. The model is designed to meet external regulatory requirements as well as internal requirements and needs, while living up to good market practices.

The model consists of:

- Internal regulations, approved by the Board and the Managing Director, that establish allocation of responsibilities as well as principles and guidelines for management, measurement, control and reporting of the Group's risks
- Clear, documented working descriptions of processes
- Systems for measuring, monitoring and controlling risks, adapted to the complexity and scale of operations
- Regular reporting to the Board and the Executive Team
- Resources and expertise adapted to operations
- Incident reporting

ASSET-LIABILITY MANAGEMENT

Asset-Liability Management (ALM) is a concept that describes a process aimed at balancing the risks and the returns that arise in the Bank's operations in the financial market. A high risk may jeopardise future income, create a liquidity shortage and actually threaten the survival of the Bank. It is thus important that the Bank's risk exposure matches its risk appetite, as well as its risk tolerance and capacity for managing unexpected losses due to interest rate changes or other external events that are detrimental to the Bank.

During 2013 the Bank worked intensively with implementation of the ALM system Ambit Focus, which began late in 2012. The system was gradually placed in service during the year and is expected to be fully implemented during 2014. It will serve as an important parameter in the ALM process that the Bank is now creating. Among other things, this process will include analysis of the structure of interest rate refixing periods and maturities related to assets and liabilities, hedging strategies, capital planning, funding needs and stress tests. The process will consist of both static and dynamic scenarios, predefined as well as specific to separate business decisions.

Business risk

Business risk refers to the risk of lower earnings due to deterioration in business conditions. Business risk encompasses strategic risk, earnings risk and reputational risk.

Strategic risk refers both to changes in fundamental market conditions and to the work for which the Board and the Managing Director are responsible related to the planning and organisation of the company's operations.

Earnings risk implies volatility in earnings, for example due to unforeseen lower income as a consequence of lower business volume.

Reputational risk is the risk of a loss of respect among customers and employees as well as public authorities, which may lead to reduced income.

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 the exposure will not cover the Group's claim. All legal entities and physical persons, as well as the public sector, are regarded as counterparts in this context. Exposure refers to the sum of claims and investments, including off-balance sheet obligations. Credit risk also includes counterparty risk and country risk.

At the Bank of Åland, credit risk largely consists of receivables from private individuals and non-financial companies, and these receivable consist mainly of loans, overdraft facilities and guarantees granted. Within the framework of normal banking operations and risk management, credit risk also arises as a result of trading in financial instruments, so-called counterparty risk. Counterparty risk mainly consists of exposures to sovereigns (national governments) and financial institutions.

The table below shows the Group's credit risk exposure:

Credit risk exposure	2013	2012
EUR M		
Lending to the public	3,104	2,905
Lending to credit institutions	131	104
Debt securities eligible for refinancing with central banks	428	305
Other debt securities	64	45
Derivative instruments	15	20
Guarantees	24	15
Unutilised overdraft limits	76	69
Unutilised credit card limits	105	88
Lines of credit	176	195
Other obligations	36	38
Total	**4,159**	**3,784**

During 2013, the overall credit risk exposure of the Group largely increased at the same pace as the increase in lending to the public. Lending mainly increased in the Swedish home mortgage loan segment. Meanwhile there were also increases in exposures attributable to the Bank's liquidity and portfolio management, in the form of interbank deposit accounts and holdings of bonds issued by sovereigns and financial institutions. Overall credit strategy is regulated in the Group's credit policy document. The level of acceptable risk is established in the Group's risk policy and credit risk policy documents and in the individual business strategies of Group companies. Credit risk management is mainly based on formal credit or limit decisions. For counterparty risk, specific counterparty limits are established.

As a niche bank, the Bank of Åland is selective in its choice of customers, and borrowers must be of high quality. Quality standards are not set aside for the benefit of higher lending volume or to achieve higher returns. In order for its credit strategy to be successful, the Bank must know its customers well and be familiar with the economic sectors in which they work.

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. In the case of corporate loans, the customer generally has a contact person at the Bank who is familiar with the customer's business and economic sector as well as the risks and collateral related to the loan commitment. Large corporate loans must always be presented to the Credit Committee by the responsible contact person at the Bank before a loan is granted.

Every decision maker on credit matters at the Bank has an established individual limit, and within this framework the decision maker is entitled to manage credit risks. Decisions must be based on a written lending decision taken by the authorised decision maker. Credit committees make decisions on credit matters that fall outside the limit of an individual officer. 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 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. Before disbursement of a loan, a strict formal verification of the loan commitment documentation occurs.

Credit risks are followed up and analysed by the Group's Risk Control Department, which reports directly to the Managing Director on a monthly basis and to the Board of Directors on a quarterly basis.

In the Bank of Åland's operations in Åland and on the Finnish mainland, credit risk follow-up and analysis of exposures to private individuals and businesses are based mainly on internal statistical methods. Early in 2014, exposures in the Bank's Swedish operations will begin to be followed up according to the same methods. Until these methods have been placed in service, these exposures will mainly be analysed on the basis of external risk classification.

LENDING TO THE PUBLIC

Under "Lending to the public", a majority of all loans have been granted to private individuals and businesses with a home or other property as collateral. A large proportion of lending also occurs in exchange for the pledging of financial securities that are assigned a market value daily.

The table below shows a breakdown of the Bank's lending to the public by purposes, economic sectors and business areas.

Lending to the public	2013					
EUR M	Åland Business Area	Finnish Mainland Business Area	Sweden Business Area	Compass Card	Other/ eliminations	Total
Home loans	262	914	201	0	5	1,383
Securities and other investments	25	234	46	0	0	305
Business operations	42	72	12	0	0	126
Other household purposes	27	68	53	36	0	185
Total private individuals	**357**	**1,288**	**312**	**36**	**5**	**1,999**
Shipping	64	2	0	0	0	66
Wholesale and retail trade	22	24	4	0	0	50
Housing operations	17	33	128	0	0	178
Other real estate operations	36	73	281	0	0	390
Financial and insurance operations	46	113	45	0	–15	189
Hotel and restaurant operations	19	3	2	0	0	24
Other service operations	28	62	23	0	0	113
Agriculture, forestry and fishing	14	1	0	0	0	14
Construction	14	11	1	0	0	25
Other industry and crafts	28	7	0	0	0	35
Total companies	**287**	**328**	**484**	**0**	**–15**	**1,084**
Public sector and non-profit organisations	**8**	**13**	**0**	**0**	**0**	**21**
Total lending	**651**	**1,630**	**797**	**36**	**–10**	**3,104**

During 2013, lending increased the most in Swedish operations. This mainly went to the home mortgage loan segment and to housing and real estate companies, which comprise the Bank's specially selected growth area for lending. During the year, the Bank meanwhile decreased its lending for shipping and construction, economic sectors that the Bank has identified as high-risk sectors under prevailing market conditions.

COUNTERPARTY RISKS

Counterparty risk refers to the risk that the counterparty in a financial transaction cannot fulfil its obligation in the transaction. Counterparty risk may arise in the Bank's treasury operations in trading with financial instruments and in derivatives transactions.

The central banks, financial institutions and investment banks that the Group collaborates with must have good credit-worthiness to be able to support the Group's continued long-term development as well as to minimise credit risk. Exposure to various counterparties is limited by a set of regulations that is adopted by the Board of Directors. The limit is specifically set for the counterparty in question and restricts what type of agreement may be entered into after a decision by the Credit Committee.

The table below presents the Group's exposures allocated according to the credit ratings maintained by the external rating agencies Moody's and Standard & Poor's plus the type of exposure. This compilation only takes into account those counterparties for which overall exposure exceeds EUR 1 M.

Counterpart risk exposures (>EUR 1 M)

EUR M

Rating (S&P/ Moody´s)	Gov't bonds	Covered bonds	Other bonds	Certif.s of deposit	Interbank	Overnight	Sight deposit	Deriv's*	Total
AAA\Aaa	46.2	121.4	5.4			29.8	44.1		**246.9**
AA+\Aa1	11.1								**11.1**
AA\Aa2	43.5	10.5							**54.0**
AA–\Aa3			53.4			25.9	0.2	7.0	**86.5**
A+\A1			35.6		2.5	8.0	24.4	0.5	**70.9**
A\A2			43.8					4.0	**47.8**
A–\A3			30.2	6.0	3.8	29.7	0.5	0.7	**70.9**
BBB+\Baa1			27.5					1.1	**28.6**
BBB\Baa2			8.3						**8.3**
BBB–\Baa3			4.9					0.3	**5.2**
No rating				44.7	3.0				**47.7**
Total	**100.8**	**131.9**	**209.1**	**50.7**	**9.3**	**93.3**	**69.1**	**13.5**	**677.7**

*According to market values that are positive for the Bank.

The above table shows that the much of the Bank's counterparty exposures are attributable to holdings of government bonds and covered bonds in the highest rating category. Most other bond holdings are unsecured, and the Bank has no subordinated securities in its portfolio. Derivative exposures to other financial institutions occur exclusively within the framework of the Bank's risk management and portfolio management and through issuance of its own structured products.

CONCENTRATION RISK

Risk concentrations in lending arise, for example, when the loan portfolio includes concentrations of lending to certain individual customers/customer entities, economic sectors, regions or countries. The Bank manages concentration risk in its loan portfolio by setting limits on individual customers, economic sectors and loan purposes.

Banks are subject to legal limits on concentrations in relation to 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, exposure to a single customer or customer entity may not exceed 25 per cent of the Bank's capital base (except for exposures to sovereigns and central banks). In small institutions, however, a predetermined and higher limit for institutional exposures may be approved by the Board of Directors. At the end of 2013, the Group had 17 (17) large exposures. Of these, institutions accounted for 6 (5) and exposures to sovereigns totalled 4 (4).

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 Risk Control Department follows up the concentration risk in lending and reports regularly on this to the Executive Team and the Board of Directors. If limits are exceeded, this must be reported immediately to the Financial Supervisory Authority. Every year, the Bank examines the need for extra capital for concentration risk in its internal capital evaluation.

The table below shows customers and customer entities (including institutions) with commitments of more than 5 per cent of the Group's capital base. Below is also a breakdown of these customers by economic sectors.

Credit risk concentrations	2013		2012	
Number/EUR M		Percentage of capital base		Percentage of capital base
Number	32		35	
EUR M				
Total commitments > 5% of capital base	739.9		735.7	
Maximum	59.3	26.3	54.8	24.3
Top quartile	27.5	12.2	29.0	12.8
Median	18.6	8.3	15.0	6.6
Bottom quartile	15.0	6.7	11.8	5.2
Minimum	12.0	5.3	10.3	4.6

Economic sector	2013		2012	
EUR M		%		%
Financial operations (including institutions)	498.5	67	365.7	50
Construction and real estate operations	162.5	22	231.8	32
Shipping	49.0	7	52.7	7
Other household purposes	9.3	1	65.1	9
Public sector	14.5	2	12.9	2
Other industry and crafts	6.2	1	7.6	1
Total	**739.9**		**735.7**	

Customers and customer entities (including institutions) whose exposure comprises 5 per cent or more of the capital base were at the same exposure level as one year earlier, but these exposures were allocated among a somewhat smaller number of customers, 32 compared to 35 a year earlier. However, 57 per cent of this consisted of institutional exposures; the corresponding share on December 31, 2012 was 39 per cent. Taking this into account, and with more than half of the number of these customers consisting of financial institutions, the Bank's concentration risk among individual customers in its lending to the public decreased during 2013. The concentration of construction and real estate operations and individual private borrowers among the Bank's largest customers also decreased, as shown in the second table above.

DESCRIPTION OF THE RISK CLASSIFICATION SYSTEM FOR LENDING TO THE PUBLIC

The Bank's internal risk classification system divides exposures into seven risk categories based on the probability of default and six categories based on 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 company mechanisms that have been exempted from internal risk classification methods. The internal ratings based (IRB) model is intended to be the Group's most important method for estimating and externally reporting capital adequacy according to the Basel rules.

Since March 31, 2012, the Bank has used its IRB approach when calculating the capital requirement for credit risk in the Finnish household portfolio. For other loan portfolios, it is using the standardised approach for the time being. The Bank will gradually shift these portfolios into the IRB approach following approval by the Financial Supervisory Authority. In conjunction with its permit to use the IRB approach for the Finnish household portfolio, 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.

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 is the most important cornerstone of the credit approval process and for pricing credit risks when granting new loans. The Bank also relies on the internal system for risk follow-up, internal capital management and reporting of credit risk.

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

PD (Probability of Default)–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 based on key financial ratios of companies, their economic sectors and other factors.

LGD (Loss Given Default)–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 in the household portfolio. This means that the Bank estimates LGD using 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.

EAD (Exposure at Default)–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, however, 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.

EL (Expected Loss)–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. The Bank's model for calculating expected loss has elements of both Point in Time (LGD) and "through the cycle" approaches (PD) and, to summarise, is based on a full economic cycle including a recession. Since the risk parameters in this calculation include adjustments for economic cycles (see above), the outcome is a stressed EL value. EL is also regarded as the cost of credit risk in the Bank's pricing model, and for every loan, EL must be covered by actual interest income. Since the loss is assumed to be known there must also be a provision for it in the Bank's capital base, to the extent no impairment loss has already been recognised for the claim according to accounting principles.

UL (Unexpected Loss)–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 used in the capital adequacy analysis. The Bank makes allowances for the unexpected loss in its pricing, in the form of a cost of capital that includes a return requirement adopted by the Board of Directors.

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 measurements 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 rating is dynamic; in other words, it is re-assessed if there are signs that the counterparty's repayment ability has changed. The Internal Auditing Department performs independent monitoring of the risk classification system and its use in operations.

As mentioned above, 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 Upplysningscentralen AB (UC). For large corporate customers, the Bank must also perform a qualitative assessment of the customer, to be reported yearly.

Non-performing and weak loan commitments, as well as related trends, are reported monthly to the Managing Director and quarterly to the Board in conjunction with the Group's internal risk report.

The table below shows the Bank's exposures in the IRB-approved household portfolio, divided into PD categories. For each PD category, the Bank calculates a category value that is equivalent to the combined annual risk of default for exposures in each risk category.

IRB-approved household exposures with property as collateral										
	2013					2012				
Risk category	PD by category value, %	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	PD by category value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total
1	0.04	1	75.0	5.0	5.0	0.04	1	78.1	5.4	5.4
2	0.11	2	182.3	12.2	17.3	0.11	2	174.1	12.1	17.5
3	0.14	3	263.1	17.7	34.9	0.14	3	257.9	17.9	35.4
4	0.21	5	468.2	31.4	66.3	0.21	5	449.8	31.2	66.6
5	0.75	14	360.5	24.2	90.5	0.75	14	343.7	23.8	90.4
6	7.31	69	118.8	8.0	98.5	7.31	66	110.7	7.7	98.1
7	28.75	123	14.4	1.0	99.5	28.75	123	16.3	1.1	99.2
Defaulted	100	264	8.0	0.5	100.0	100.00	348	11.1	0.8	100.0
Total			**1,490.3**	**100.0**				**1,441.7**	**100.0**	
Risk category 1–5			**1,349.1**					**1,303.6**		
Risk category 1–5			**90.5%**					**90.4%**		

IRB-approved household exposures, small and medium-sized companies										
	2013					2012				
Risk category	PD by category value, %	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	PD by category value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total
1	0.15	7	3.9	2.6	2.6	0.15	8	4.3	2.8	2.8
2	0.22	9	10	6.6	9.2	0.22	9	9.4	6.2	9.0
3	0.79	19	30	19.8	28.9	0.79	18	27.8	18.3	27.2
4	2.61	36	41.5	27.4	56.3	2.61	36	50.7	33.3	60.5
5	7.8	69	37.4	24.7	80.9	7.80	67	30.9	20.3	80.8
6	13.07	96	18.1	11.9	92.9	13.07	85	15.3	10.0	90.9
7	53	101	8.9	5.9	98.7	53.00	88	12.1	7.9	98.8
Defaulted	100	296	1.9	1.3	100.0	100.00	281	1.8	1.2	100.0
Total			**151.7**	**100.0**				**152.3**	**100.0**	
Risk category 1–5			**122.8**					**123.1**		
Risk category 1–5			**80.9%**					**80.8%**		

IRB-approved household exposures, other household exposures										
	2013					2012				
Risk category	PD by category value, %	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	PD by category value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total
1	0.04	2	4.0	1.9	1.9	0.04	2	4.7	2.1	2.1
2	0.11	4	27.4	13.3	15.3	0.11	5	27.0	12.1	14.2
3	0.14	5	36.5	17.8	33.1	0.14	6	24.3	10.9	25.1
4	0.21	8	54.9	26.7	59.8	0.21	8	66.2	29.7	54.7
5	0.75	20	54.1	26.4	86.2	0.75	21	69.4	31.1	85.8
6	7.31	48	21.0	10.2	96.4	7.31	48	22.1	9.9	95.7
7	28.75	82	4.6	2.2	98.7	28.75	75	6.2	2.8	98.5
Defaulted	100	123	2.8	1.4	100.0	100.00	112	3.3	1.5	100.0
Total			**205.3**	**100.0**				**223.2**	**15.5**	
Risk category 1–5			**176.9**					**191.6**		
Risk category 1–5			**86.2%**					**85.8%**		

Exposure-weighted PD according to category value–including adjustment for economic cycles and safety margins–for all non-defaulted household exposures that were used in the calculation of capital requirements on December 31, 2013, was 1.74 per cent. For household exposures

with real estate as collateral, the weighted PD value amounted to 1.15 per cent, for small and medium-sized companies 7.61 per cent and other household exposures 1.71 per cent.
At the end of 2012, exposure weighted PD according to category value–including adjustment for economic cycles and safety margins–for all household exposures was 1.89 per cent, for small and medium-sized companies 8.22 per cent and for other household exposures 1.87 per cent.

The table below shows actual default outcomes during 2013. Please note that these actual outcomes were observed during a period when the macroeconomic situation was better than the average to which the cyclical adjustment is made.

Default frequency*

Exposure category	Actual outcome, %	Estimated value**
Household exposures with real estate as collateral	0.55	0.96
Small and medium-sized companies classified as household exposures	3.12	6.40
Other household exposures	1.38	2.45
Total household exposures	0.90	1.72

*Arithmetic median values

**Estimated on December 31, 2012. Includes cyclical adjustment and safety margins.

The table below shows EAD-weighted average LGD levels on December 31, 2013 in per cent for the respective exposure class where the IRB approach was applied.

LGD levels

Exposure category	Totalt, %	Defaulted, %
Household exposures with real estate as collateral*	11.7	31.4
Small and medium-sized companies classified as household exposures	19.0	47.5
Other household exposures	19.5	41.7
Total household exposures	13.2	36.1

*According to capital adequacy regulations, the average LGD value for exposures with residential property as collateral and without government guarantees may not be lower than 10 per cent.

The exposure-weighted LGD value for all non-defaulted household exposures on December 31, 2011 was 12.7 per cent. For household exposures with residential property as collateral, LGD totalled 10.9 per cent, for small and medium-sized companies 17.7 per cent and for other household exposures 20.0 per cent. The actual LGD value of the exposures that defaulted during 2012 is presented in the table below. When calculating observed LGD, only recoveries from residential property and financial collateral until December 31, 2013 has been taken into account. This means that the observed LGD level will fall further, since on December 31, 2013 there was remaining unsold collateral for defaults in 2012. It should also be noted that estimates of LGD on December 31, 2011 and December 31, 2012 are not directly comparable, since some minor adjustments in the model were made during the intervening period.

LGD levels

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 provision for individual impairment losses in the IRB-approved portfolio. The table shows that the amount of the deficit compared to recognised impairment losses on December 31, 2013 amounted to EUR 6.3 M. Half of this amount has been subtracted from core capital and half from supplementary capital in the capital adequacy calculation. The Basel 3 regulations specifies that starting on January 1, 2014 this amount must be subtracted in full from core capital.

Recognised impairment losses and expected losses	2013			2012		
EUR M						
Exposure category	Impairment losses	Estimated expected loss	Net	Impairment losses	Estimated Expected loss	Net
Household exposures with real estate as collateral	–1.6	4.4	2.8	–0.6	3.3	2.7
Small and medium-sized companies classified	–0.8	3.2	2.4	–1	3.5	2.5
Other household exposures	–1.7	2.8	1.1	–2.2	3.4	1.2
Total household exposures	**–4.1**	**10.4**	**6.3**	**–3.8**	**10.2**	**6.4**

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. 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 and exposures fully covered by collateral in residential property shall be assigned a risk weight of 35 per cent. The Bank of Åland 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. Starting on January 1, 2014, however, the Bank will switch to basing its risk weight for institutions on external ratings from the external credit rating institutions Moody's, Standard & Poor's and Fitch.

COLLATERAL MANAGEMENT AND CREDIT RISK MITIGATION

Collateral eliminates or reduces the bank's loss if the borrower cannot fulfil his payment obligations. As a main rule, loans to 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 various other types of financing.

The Bank regularly follows up the market values of property and securities that serve as collateral for loans. By applying conservative loan-to-value (LTV) ratios on collateral, the Bank makes allowances for a possible negative price trend for various forms of collateral, for example housing prices and market price changes for financial collateral. As a general rule, a loan may not exceed 70–75 per cent of the market value of residential property used as collateral. Collateral in the form of residential real estate is by far the most important type of collateral in the Bank's lending. Financial collateral is also widely used.

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

CREDIT RISK MITIGATION IN ANALYSING CAPITAL REQUIREMENTS

Credit risk mitigation (CRM) in the calculation of capital requirements refers to measures by which the Bank takes into account approved collateral that lowers the capital requirement for credit risk. The collateral that the Bank of Åland takes into account in calculating the capital requirement are homes, guarantees issued by sovereigns and institutions, deposit accounts in the Bank itself and other banks as well as financial collateral. The Bank uses the comprehensive method for financial collateral. Approved financial collateral according to capital adequacy regulations is adjusted for volatility using factors specified by the Financial Supervisory Authority and affect the LGD parameter for the exposure categories where IRB is applied, reducing the exposure amount for the exposures where the standardised approach is used.

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 and requiring that the collateral must exceed the receivables by a substantial amount. The Bank orders quarterly index adjustment of the residential real estate collateral portfolio in order to keep up with price developments in the housing market. In the

Bank's IRB models, the market value of residential real estate collateral affects the LGD parameter, while the standardised approach uses a risk weight set by the authorities of 35 per cent on loans that amount to 70 per cent of the market value of residential real estate collateral. 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 credit risk by means of guarantees, financial collateral and residential real estate collateral. The "Other collateral" category includes pledged deposit accounts that reduce the exposure in its entirety. Positive values in the guarantee column for the "Sovereigns" and "Institutions" exposure categories in the table indicate an inflow to these exposure categories by means of "substitution" of credit risk.

Credit risk according to the IRB approach

2013 EUR M	Exposure before credit risk protection	Guarantees	Other collateral	Net exposure before CF	Financial collateral*	Market value of residential collateral*
Household exposures with real estate as collateral	1,495.3	−6.7	−0.1	1,488.5	77.5	2,961.6
Small and medium-sized companies classified as household exposures	153.1	−1.6	0	151.5	22.4	219.3
Other household exposures	221.5	−16.5	−0.1	204.9	224.9	28.9
Total portfolios using the IRB approach	**1,869.9**	**−24.8**	**−0.2**	**1,844.9**	**324.8**	**3,209.8**

2012 EUR M	Exposure before credit risk protection	Guarantees	Other collateral	Net exposure before CF	Financial collateral*	Market value of residential collateral*
Household exposures with real estate as collateral	1,445.8	−5.7		1,440.1	56.1	2,834.0
Small and medium-sized companies classified as household exposures	153.3	−1.3		152.0	20.6	215.0
Other household exposures	237.5	−15.0	−0.1	222.4	211.3	28.3
Total portfolios using the IRB approach	**1,836.6**	**−22.0**	**−0.1**	**1,814.52**	**288**	**3,077.3**

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

Credit risk according to the standardised approach

2013 EUR M	Exposure before credit risk protection	Guarantees	Financial collateral	Other collateral	Net exposure before CF	70%
Exposures to sovereigns and central banks	150.4	36.4			186.8	0.0
Institutional exposures	508.6	0.2	−6.0		502.8	0.0
Company exposures	918.6	−11.6	−135.1		771.9	77.0
Household exposures with real estate as collateral	202.7				202.7	202.7
Small and medium-sized companies classified as household exposures	216.5		−2.5		214.0	180.1
Qualified revolving household exposures	36.1				36.1	0.0
Other household exposures	170.5		−21.0		149.4	0.0
Exposures to equities	3.1				3.1	
Other items	68.0				68.0	
Total portfolios using the standardised approach	**2,274,4**	**25.0**	**−164.6**	**0.0**	**2,134.8**	**459.8**

2012 EUR M	Exposure before credit risk protection	Guarantees	Financial collateral	Other collateral	Net exposure before CF	70%
Exposures to sovereigns and central banks	283.2	29.2			312.4	
Institutional exposures	372.8	2.3			375.1	
Company exposures	887.0	−9.4	−136.0		741.6	
Household exposures with real estate as collateral	116.6				116.6	116.6
Small and medium-sized companies classified as household exposures	121.8		−3.0		118.8	95.9
Qualified revolving household exposures	31.4				31.4	
Other household exposures	209.9		−23.2		186.7	
Exposures to equities	7.2				7.2	
Other items	88.4				88.4	
Total portfolios using the standardised approach	**2,118,3**	**22.1**	**−162.2**	**0.0**	**1,978.2**	**212.5**

During 2013, amounts of collateral in the form of financial collateral and guarantees issued by sovereigns and institutions increased significantly due to the favourable trend in financial markets. Market value in the form of residential property collateral used in the LGD parameter in the Bank's IRB-approved portfolio increased compared to lending volume. According to the above table, indicative average loan-to-value for residential property collateral in the IRB-approved portfolio was 57 per cent, compared to 59 per cent a year earlier.

The table below summarises the Group's overall credit risk exposure and risk-weighted receivables by exposure categories. The EAD amount indicates net exposure after taking into account some of the above-described credit risk mitigation techniques and credit conversion factors (CF).

Total EAD and average risk weight for credit risk exposures

2013 EUR M	Gross exposure	EAD	Risk weight, %	Risk-weighted assets	Capital requirement
Credit risk according to the IRB approach					
Household exposures with real estate as collateral	1,495.3	1,490.5	14	209.8	16.8
Small and medium-sized companies classified as household exposures	153.1	151.9	52	79.6	6.4
Other household exposures	221.5	205.4	17	35.7	2.9
Total exposures using the IRB approach	**1,869.9**	**1,847.8**	**18**	**325.1**	**26.0**
Credit risk according to the standardised approach					
Exposures to sovereigns and central banks	150.4	186.8	0	1	0
Institutional exposures	508.6	502.8	17	87.5	7.0
Company exposures	918.6	724.1	86	620.6	49.6
Household exposures with real estate as collateral	202.7	202.2	35	70.8	5.7
Small and medium-sized companies classified as household exposures	216.5	213.6	33	70.6	5.7
Qualified revolving household exposures	36.1	36.1	75	27.1	2.2
Other household exposures	170.5	147.2	58	85.2	6.8
Exposures to equities	3.1	3.1	101	3.1	0.3
Other items	68.0	68.0	49	33.4	2.7
Total exposures according to the standardised approach	**2,318.1**	**2,083.8**	**48**	**998.3**	**79.9**
Total capital requirement for credit risk	**4,188.0**	**3,931.6**	**34**	**1,323.4**	**105.9**

2012 EUR M	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**	**71.4**
Total capital requirement for credit risk	**3,955.0**	**3,795.7**	**32**	**1225.9**	**98.0**

Special IRB-related disclosures	2013	2012
EUR M		
Individual impairment losses attributable to IRB-approved portfolios	4.1	3.7
Estimated expected loss amount according to IRB models	–10.4	–10.2
Deficit subtracted from the capital base in the capital adequacy analysis (net EL)	–6.3	–6.5
Capital requirement according to the standardised approach for IRB-approved portfolios	56.0	56.0
Limit according to transitional rule (minimum 80% of above)	44.8	44.8
Additional capital requirement including net effect for deficit subtracted from the capital base	12.7	11.7

OVERDUE AND IMPAIRED RECEIVABLES

A receivable related to interest and/or loan principal is regarded as non-performing if contractual payment does not occur on the specified date and it is also overdue after 90 days. Loans and trade receivables are recognised in the balance sheet at the commencement of the contract at cost and subsequently at amortised cost. 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 a group of loans and customer receivables have an impairment. Loans and customer receivables have an impairment 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. A receivable is regarded as doubtful when an impairment has already been recognised one or more other receivables from the customer/customer entity.

Restructured receivables (forbearance) involves customers with obvious financial problems, meaning that an adjustment of loan conditions must be undertaken in order to avoid problems with the customer's repayment ability. It is incumbent upon the customer advisor to identify these cases and prepare them for the credit committee that is the decision-making body on these matters. The indication of customers affected by this process is that they have obvious financial problems, which means that these are not only temporary concerns but will affect the repayment of the entire loan. Clear signs of such problems are that the customer does not follow his or her repayment plan, but is guilty of repeated delays in payments. Disclosures of restructured loans are found in the notes to the financial statements.

Doubtful and non-performing receivables

2013

EUR M	Doubtful, gross	Doubtful receivables, %	Individual impairment provisions	Group impairment provisions	Level of provisions, %	Non-performing > 90 days	NP 60–89 days	NP 30–59 days	NP 5–29 days
Home loans	3.8	0.3	2.3	0.0	60	5.1	1.5	3.7	14.4
Securities and other investments	0.5	0.2	0.0	0.0	1	0.4	0.6	0.2	1.7
Business operations	0.6	0.5	0.5	0.0	74	1.2	0.3	2.0	2.9
Other household purposes	0.7	0.4	1.2	0.4	170	2.9	0.1	0.4	1.8
Total private individuals	**5.6**	**0.3**	**3.9**	**0.4**	**69**	**9.6**	**2.4**	**6.2**	**20.8**
Shipping	16.0	24.2	5.5	0.1	35	1.4	0.0	0.0	0.0
Wholesale and retail trade	2.6	5.2	0.8	0.0	30	1.2	0.1	0.4	2.3
Housing operations	2.8	1.6	2.0	0.0	73	1.4	0.0	0.1	0.1
Other real estate operations	0.8	0.2	0.3	0.0	42	0.0	0.0	0.0	1.2
Financial and insurance operations	0.1	0.0	0.1	0.1	93	0.3	0.0	0.0	1.2
Hotel and restaurant operations	0.0	0.0	0.0	0.0	0	0.1	0.2	0.3	0.7
Other service operations	1.4	1.3	1.2	0.1	88	1.0	0.0	0.2	1.9
Agriculture, forestry and fishing	0.0	0.0	0.0	0.0	0	0.0	0.0	0.0	0.0
Construction	2.3	9.3	2.0	0.0	84	0.4	0.0	0.2	0.0
Other industry and crafts	0.0	0.0	0.0	0.0	100	0.2	0.0	0.0	0.0
Total companies	**26.0**	**2.4**	**12.0**	**0.3**	**46**	**6.0**	**0.3**	**1.3**	**7.4**
Public sector and non-profit organisations	0	0.0	0	0	0	0	0	0	0
Total lending	**31.7**	**1.0**	**15.8**	**0.7**	**50**	**15.6**	**2.7**	**7.5**	**28.2**

2012

EUR M	Doubtful, gross	Doubtful receivables, %	Individual impairment provisions	Group impairment provisions	Level of provisions, %	Non-performing > 90 days	NP 60–89 days	NP 30–59 days	NP 5–29 days
Home loans	0.5	0.0	0.5	0.0	99	6.9	1.7	5.3	9.0
Securities and other investments	0.0	0.0	0.0	0.0	0	1.4	0.1	0.1	1.6
Business operations	0.7	0.5	0.9	0.0	130	3.0	0.2	0.4	2.5
Other household purposes	3.0	1.5	1.7	0.0	55	1.6	0.3	0.5	4.1
Total private individuals	**4.2**	**0.2**	**3.1**	**0.0**	**72**	**12.9**	**2.3**	**6.3**	**17.2**
Shipping	1.1	1.5	0.8	2.5	72	2.0	0.0	1.4	0.0
Wholesale and retail trade	0.1	0.3	0.3	0.0	198	0.6	1.9	0.1	0.7
Housing operations	1.9	1.4	1.9	0.0	100	0.0	0.0	0.1	2.6
Other real estate operations	2.0	0.6	2.1	0.6	106	0.2	0.2	0.9	8.1
Financial and insurance operations	2.5	1.4	1.8	0.0	74	0.8	0.4	0.1	0.1
Hotel and restaurant operations	1.0	4.7	0.3	0.0	29	0.1	0.0	0.0	1.1
Other service operations	0.0	0.0	0.0	0.0	0	1.3	0.1	3.0	2.6
Agriculture, forestry and fishing	0.0	0.0	0.0	0.0	0	0.0	0.0	0.0	0.0
Construction	0.0	0.0	0.3	0.0	0	0.5	0.0	1.0	1.0
Other industry and crafts	0.2	0.5	0.0	0.0	0	0.2	0.0	0.1	0.1
Total companies	**8.8**	**0.9**	**7.5**	**3.1**	**85**	**5.7**	**2.7**	**6.6**	**16.3**
Public sector and non-profit organisations	0	0.0	0	0.0	0	0.0	0.0	0.0	0.0
Total lending	**13.1**	**0.4**	**10.6**	**3.1**	**81**	**18.6**	**5.0**	**13.0**	**33.5**

During 2013, receivables on the Bank's lists of non-performing receivables generally decreased in the Group, especially related to companies. However, individual impairment losses, especially in the shipping industry, increased significantly from 2012. The overall level of provisions, calculated as individual and group impairment losses due to doubtful receivables, amounted to 50 per cent at year-end 2013, compared to 81 per cent a year earlier.

Liquidity risk

Liquidity risk refers to the risk that the Bank will not have access to cash and cash equivalents in order to meet its payment obligations. Given the business operations that the Bank of Åland runs, liquidity risk is a very substantial risk. In order to manage it, the Bank has designed a framework consisting of a number of components:

- limits that ensure compliance with the Bank's risk appetite and risk tolerance
- continuous follow-up and analysis of the Bank's future liquidity needs, both short- and long-term
- a well-diversified funding structure, both from the standpoint of financial instruments and maturity perspectives
- a portfolio of home mortgage loans whose quality is of such a nature as to maintain the Bank's borrowing using covered bonds even in a stressed scenario
- a well-developed investor base
- a liquidity reserve with high-quality assets that safeguard access to liquidity during a lengthy period of limited access to capital market borrowing

LIQUIDITY RISK LIMITS

Based on the Bank's risk tolerance, the Board of Directors has established limits for the Bank's survival horizon (number of days with positive cash flow) as well as how large the percentage of covered bonds issued may be in relation to the available collateral.

- The Bank's survival horizon shall amount to six months in a scenario where capital market borrowing is not available.
- Covered bonds issued may not exceed 80 per cent of the available collateral. This 80 per cent also includes required excess collateral.

CONTROL AND ANALYSIS

The balance sheet of the Bank and its maturity structure are an important parameter when calculating and analysing the Bank's liquidity risk. Based on the balance sheet, future cash flows are forecasted. These are an important tool in managing and planning liquidity risks and borrowing requirements.

Financial assets and liabilities – maturity overview

2013

EUR M	Repayable on demand	< 1 mo	1–3 mo	3–6 mo	6–9 mo	9–12 mo	1–2 yrs	2–5 yrs	> 5 yrs	Total cash flow	Carrying amount
Financial assets:											
Cash	50									50	50
Debt securities eligible for refinancing with central banks		16	10	18	5	22	48	279	48	446	428
Lending to credit institutions	51	76	4			0				132	131
Lending to the public	205	97	118	126	139	176	533	975	1,317	3,686	3,104
Debt securities eligible for refinancing with central banks		21	18	0	15	0	0	10		65	64
Total	**306**	**211**	**150**	**143**	**159**	**199**	**581**	**1,265**	**1,365**	**4,379**	**3,776**
Financial liabilities											
Liabilities to credit institutions	74	41	47	26	3	8	137	12		349	347
Liabilities to the public	1,764	129	103	93	48	43	2	1		2,181	2,177
Debt securities issued		67	120	59	126	73	226	459	215	1,346	1,019
Subordinated liabilities		20		12	4		14	17		68	64
Total	**1,838**	**257**	**270**	**189**	**182**	**124**	**379**	**489**	**215**	**3,944**	**3,606**
Derivative contracts											
Cash inflow		4	2	5	2	3	15	29	20	80	
Cash outflow		–1	–2	–3	–4	–3	–12	–28	–23	–77	
Total		**3**	**0**	**2**	**–1**	**–1**	**3**	**1**	**–4**	**3**	
GAP		**–44**	**–121**	**–44**	**–25**	**73**	**205**	**777**	**1,147**	**438**	

Sight deposits from the public, which are a significant source of funding, are contractually repayable on demand and are thus reported as a time category. In practice they are a source of financing that, based on historical behaviour, has largely proved to have a long maturity.

2012

EUR M	Repayable on demand	< 1 mo	1–3 mo	3–6 mo	6–9 mo	9–12 mo	1–2 yrs	2–5 yrs	> 5 yrs	Total cash flow	Carrying amount
Financial assets:											
Cash	133									133	133
Debt securities eligible for refinancing with central banks		6	0	2	2	12	36	205	55	319	305
Lending to credit institutions	52	52								104	104
Lending to the public	118	79	65	157	153	122	407	1,056	1,123	3,280	2,905
Debt securities eligible for refinancing with central banks		5	20	20						45	45
Total	**303**	**142**	**86**	**179**	**155**	**134**	**442**	**1,261**	**1,178**	**3,880**	**3,491**
Financial liabilities											
Liabilities to credit institutions	89	17	41	29	7	16	15	164		378	375
Liabilities to the public	1,784	116	136	135	31	58	3	1		2,263	2,127
Debt securities issued		48	98	39	22	20	217	298	64	806	763
Subordinated liabilities		3	0	16			32	17		69	64
Total	**1,873**	**183**	**275**	**219**	**61**	**94**	**268**	**480**	**64**	**3,516**	**3,329**
Derivative contracts											
Cash inflow		1	2	4	2	4	9	20	6	48	
Cash outflow		–1	–2	–3	–3	–3	–9	–18	–6	–44	
Total		**0**	**0**	**2**	**–1**	**1**	**0**	**2**	**0**	**4**	
GAP		**–41**	**–189**	**–38**	**94**	**41**	**175**	**783**	**1,114**	**368**	

One of the Bank of Åland's internal metrics for liquidity is the "survival horizon", defined as the period of positive accumulated cash flows. The survival horizon shows how long the Bank will remain viable during long periods of stress in capital markets, when access to new funding from ordinarily available funding sources would be limited or completely closed. In this calculation, sight deposits are assumed to be a substantially stable source of funding. On December 31, 2013, the Bank's survival horizon amounted to 180 days.

As a supplement to the analysis of future cash flows, the Bank uses a number of financial ratios such as the liquidity coverage ratio (LCR), the net stable funding ratio (NSFR) and the core funding ratio, a measure of what percentage of lending to the public is funded by customer deposits and covered bonds.

Financial ratios, liquidity risk	
Financial ratio	Definition
Liquidity coverage ratio – LCR	Liquid assets /(Cash inflows–cash outflows)
Net stable funding ratio – NSFR	Available stable funding/ Necessary stable funding
Core funding ratio	Lending/(deposits from the public, certificates of deposit, index bonds and subordinated debentures issued to the public plus covered bonds issued)

Financial ratios, liquidity risk	2013	2012
per cent		
LCR	61	88
NSFR	98	101
Core funding ratio	103	103

NSFR in 2013 is calculated according to the EBA's proposed model dated December 18, 2013.

The Bank's goal is to exceed the minimum LCR and NSFR levels introduced in the new regulations by an ample margin.

Liquidity coverage ratio (LCR)	2013	2012
EUR M		
Liquid assets, level 1	165	310
Liquid assets, level 2	106	68
Total liquid assets	**271**	**378**
Customer deposits	426	368
Market borrowing	11	48
Other cash outflows	131	173
Total cash outflows	**567**	**589**
Inflows from lending to non-financial customers falling due for payment	41	19
Other cash inflows	80	139
Total cash inflows	**121**	**158**
Net cash outflows	**446**	**430**
Liquidity coverage ratio (LCR), %	**61**	**88**

FUNDING

Aside from equity capital, the Bank of Åland's sources of funds consist mainly of deposits from the public, certificates of deposit, structured products, covered bonds, non-covered bonds and short- and long-term borrowing from credit institutions. The deposit base consists of deposit accounts both in euros and in Swedish kronor. Issues of capital market instruments have been made in euros and Swedish kronor.

The Bank of Åland's aim is a funding structure in which the Bank's customers–through deposit accounts (sight deposits and time deposits)–account for more than 50 per cent of total funding. Because of rapid growth in recent years, especially in the Swedish market, deposits as a proportion of total funding decreased from 66 per cent at the end of 2011 to 56 per cent by the end of 2013. Meanwhile, covered bonds have become an additional major source of relatively low interest costs and long contractual maturities. In the space of two years, covered bonds grew from 0 per cent to 17 per cent of total funding.

Bank of Åland has a long-term target of ensuring that the core funding ratio shall amount to a maximum of 100 percent. The Bank's lending shall thus not depend on unsecured capital market borrowing for its funding.

Funding sources
per cent

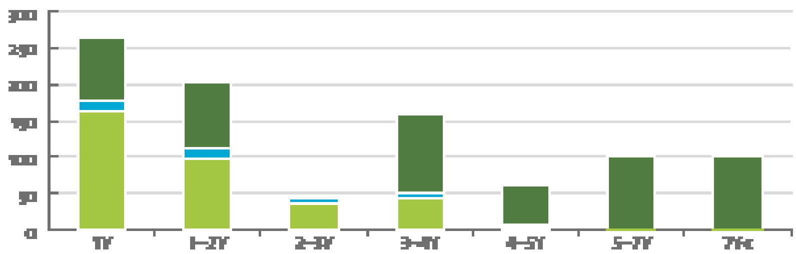
- Deposit accounts from the public 56%
- Certificates of deposit from the public 3%
- Short-term borrowing from credit institutions 5%
- Long-term borrowing from credit institutions 4%
- Covered bonds 17%
- Non-covered bonds 6%
- Equity index bonds 3%
- Subordinated liabilities 2%
- Equity capital 5%

FUNDING SOURCES

During 2012 the Bank of Åland issued its first covered bonds. During 2013 covered bonds with a nominal value of EUR 669 M were issued. In addition, during 2013 non-covered bonds totalling EUR 136 M were issued. Liabilities outstanding on December 31 can be seen in the table below. The Bank of Åland itself purchased EUR 129 M of covered bonds outstanding, which largely constitute collateral for long-term borrowing from credit institutions.

Bond issues outstanding	2013	2012
EUR M		
Covered bonds	669	469
Non-covered bonds	241	100
Total	**910**	**569**
Average maturity in years	3.08	3.06

Maturity structure, borrowing



● Covered bonds ● Subordinated debentures ● Non-covered bonds

At present, the Bank has a well-diversified maturity structure. The average maturity of the Bank's external debt increased during 2012 and 2013 from 0.6 years to more than 3 years. Since the difference between the Bank's credit rating (BBB) and the collateral pool's rating (AA) from Standard & Poor's is the maximum six steps, the difference in funding cost for covered and non-covered funding is significant, especially for longer maturities. As a result, the Bank has issued non-covered debt with maturities of two years or shorter. During 2013 the Bank issued covered bonds with maturities of up to 10 years.

MORTGAGE BANKING OPERATIONS

The collateral pool for covered bonds consists of home mortgage loans in the Åland and Finnish Mainland business areas. During 2014, Swedish home mortgage loans will be added to the collateral pool. The utilised assets in the collateral pool included over-collateralisation of 33 per cent for EUR 569 M of the covered bonds and 21 per cent over-collateralisation for EUR 100 M of the bonds.

Collateral pool	2013	2012
Assets available for the collateral pool, EUR M	1,167	1,061
Utilised assets in the collateral pool, EUR M	893	665
Number of loans	17,154	16,495
Number of borrowers	15,179	14,904
Number of properties	15,682	n.a.
Average loan volume, EUR	72,521	69,000
Average loan period, months	116	120

Covered bonds	2013	2012
Credit rating, S&P	AA	AA
Volume issued, face value, EUR M	669	469
Weighted average maturity	3.89	3.47
Breakdown by currency, %, EUR	75	64
Breakdown by currency, %, SEK	25	36

Unencumbered assets available to utilise for covered bond borrowing	2013	2012
EUR M		
Debt securities	392	250
Over-collateralisation, collateral pool	224	196
Assets that may be included in the collateral pool	275	396
Total	**891**	**842**

INVESTOR BASE

The Bank's Treasury Department is responsible for building up a stable investor base that purchases bonds issued by the Bank. The investor base must be well-diversified, with investors from different geographic areas and different markets. To achieve this, the Bank has build up relationships with debt investors and banks in Finland, Sweden and Central Europe. Access to short-term funding has been secured through agreements and arrangements with a number of counterparties.

This persistent work with investors has resulted in good demand for the Bank's bond issues, giving the Bank easier access to funding, smoother implementation of bond issues and lower funding costs.

LIQUIDITY RESERVE

The purpose of the liquidity reserve is to decrease the Bank's liquidity risk. At times of limited or non-existent opportunities to borrow money in the external capital market, the liquidity reserve shall serve as an alternative source of liquidity. This places demands on the quality of its assets. These assets must be cash invested in accounts with central banks or other well-reputed banks with a good credit rating or securities of such credit quality that they are eligible for refinancing with central banks. To safeguard the good quality of the Bank of Åland's liquidity reserve, these investments are regulated by the Board of Directors. The size of the liquidity reserve must be sufficient to maintain the targeted survival horizon as well as the liquidity coverage ratio.

The table below shows the size and holdings in the Bank's liquidity reserve on December 31, 2013. It demonstrates the results of the deliberate reduction in exposure to sovereigns and central banks and increase in exposure to financial institutions in order to increase returns yet preserve very low risk.

Liquidity reserve	2013	2012
EUR M		
Cash and investments with central banks	80	168
Debt securities issued by sovereigns and public authorities	85	133
Covered bonds (ratings of AA- or higher)	125	70
Own covered bonds	10	9
Accounts with other banks	10	10
Lending to credit institutions < 3 days	64	46
Debt securities issued by financial companies	182	48
Debt securities issued by non-financial companies	15	0
Total	**569**	**483**
Of which LCR-qualified	*273*	*378*

PREPAREDNESS PLAN FOR LIQUIDITY RISK

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.

CREDIT RATING

The credit rating agency Standard & Poor's has assigned a credit rating of BBB with a negative outlook for the Bank of Åland's senior borrowing. The negative future outlook is attributable to Standard & Poor's assessment of Finland's economic prospects.
The starting point for Standard & Poor's credit rating of a Finnish/Swedish bank is A–. Five different areas may then raise or lower the credit rating.

1. *Business position:* lowers the Bank of Åland's rating by two steps, mainly because the Bank of Åland is a niche bank with concentration risk in Finland and Sweden. Profitable Swedish operations would raise the rating one step.
2. *Capital & Earnings:* raises the rating by one step thanks to a strong equity/assets ratio and capital ratio.
3. *Risk Position:* lowers the rating by one step due to concentration risk in the loan portfolio, mainly geographic concentration in Finland and Sweden but to some extent also other concentration risks.
4. *Liquidity & Funding:* neither raises nor lowers the rating, but the Bank of Åland comes out well in this regard due to its strong deposit base.
5. *Support:* Since the Bank of Åland is not deemed systemically important in Finland, the Bank's rating is not raised due to government or other support.

The Bank of Åland's credit rating for covered bonds may be no more than six steps higher than the Bank's own rating for senior unsecured borrowing. This makes AA the highest possible rating. Standard & Poor's has assigned the bank of Åland's covered bonds the highest possible rating.

NEW LIQUIDITY RISK REGULATIONS

Regulatory authorities have adopted new rules for liquidity risk that cover both short-term and structural liquidity under stressed conditions.

According to the liquidity coverage ratio (LCR) requirement, banks must 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 fund their illiquid assets with stable funding.

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

Market risks

Market risk is a collective concept for interest rate risk, foreign exchange risk and equities risk and refers to the risk of adverse impact on earnings due to movements in market interest rates, exchange rates and share prices.

INTEREST RATE RISK

Interest rate risk refers to the risk of decreased net interest income and the risk of unfavourable changes in the value of the Bank's assets and liabilities when market interest rates change.

Interest rate risk arises when the interest rate refixing periods of assets and liabilities differ.

Interest rate risk is expressed in the Bank of Åland's income statement in two ways:
1. Net interest income risk–the change in net interest income (interest income minus interest expenses) due to changes in market interest rates.
2. Value change risk–the change in the market value of assets, liabilities and derivatives due to changes in market interest rates.

As for value change risk, there are two ways of measuring it: first, as the theoretical change in the estimated present value of all interest-bearing items; and second, as the recognised effect in the income statement and other comprehensive income on the assets, liabilities and derivatives that are carried at market value according to the accounting principles in force (effect on recognised equity capital).

Net interest income risk shows the effect of changes in interest rate on the Bank's earnings with regard to returns on interest-bearing assets and expenses on interest-bearing liabilities, during the next twelve months.

The Bank of Åland has traditionally reduced net interest income risk by swapping all fixed interest lending for variable interest and swapping all fixed interest liabilities for variable interest. When market interest rates have changed, interest on assets and liabilities has largely moved at the same pace, with the delays that exist when different benchmark interest rates for lending and deposits are not entirely matched. Equity capital, which has been classified as a long-term fixed-interest liability, has been invested in long-term bonds with fixed interest rates.

As long as Euribor/Stibor interest rates were at 3–4 per cent or higher, this strategy worked well. In the low interest rate environment that has become a reality since the financial crisis began in 2008, however, the Bank of Åland's traditional interest rate risk management no longer provides protection against net interest rate risk. Deposits connected to so-called transaction accounts are already priced at low levels even in a normal interest rate situation. When market interest rates have fallen by 4 percentage points, variable interest rates on the asset side have followed suit, while deposits that already had low interest rates have not been lowered to a corresponding extent. In practice, in a low interest rate situation the Bank of Åland thus has a sizeable volume of deposits that have fixed interest rates. This has adversely affected the Bank of Åland's net interest income during the past five years. Since the end of 2011, new fixed interest rate loans are no longer swapped for variable interest rates in order to reduce net interest rate risk. Market interest rates are currently so low, especially in euros, that today the Bank of Åland's assessment is that today it has no actual negative net interest income risk.

Net interest income risk is measured as the effect on net interest income of a parallel shift in the yield curve by +100 basis points.

Value change risk shows the effect of interest rate changes on the value of assets and liabilities (including off-balance sheet items). Value change risk should be regarded as a measure of the Bank's interest rate risk exposure. Value change risk is not based on the accounting principles in the consolidated financial statements according to IFRSs, but instead assumes that all assets and liabilities have a market value, at which they can be sold.

The Bank of Åland has a limited portfolio classified as "held for trading" that must be carried at market value in the income statement. The Treasury Department's bond portfolio is classified as available for sale, which means that only realised changes in value are reported in the income statement, while unrealised changes in value are reported in other comprehensive income.

All derivatives are recognised at market value in compliance with IFRSs. To avoid valuation problems in the income statement, those assets (fixed interest loans) and those liabilities (zero coupon bonds as part of equity index bonds and covered bonds with fixed interest rates) which have swaps that protect against net interest income risk have been classified in such a way that they are recognised at market value according to the fair value option in the case of loans and using hedge accounting with fair value hedging for the liabilities. By using fair value hedging of the interest rate risk in bonds that have been issued, only the interest rate component and not the Bank's own credit risk need be recognised at market value, which is consistent with the purpose of risk management, and unnecessary volatility in the income statement due to changes in credit risk on the Bank's own liabilities is avoided.

Customers' derivative transactions shall always be carried out back-to-back so that no open interest rate positions recognised at market value will arise.

The Bank of Åland's goal is to avoid volatility in the income statement due to changes in market interest rates. This occurs by means of various risk mitigation measures, for example the use of interest rate swaps and interest rate futures. For quantification and limitation of value change risk, however, the Bank uses the theoretical change in all interest-bearing items.

Based on the strategy the Bank has chosen, the valuation gain or loss attributable to interest rate movements should be close to zero in the income statement, except for capital gains or losses from the liquidity portfolio. Unrealised changes in value in the liquidity portfolio are visible in "Other comprehensive income".

Value change risk is measured as the effect on the value of assets and liabilities of a parallel shift in the yield curve by +100 basis points.

Interest rate refixing periods for assets and liabilities				2013		
EUR M	Up to 3 mo	3–6 mo	6–12 mo	1–5 yrs	Over 5 yrs	Total
Assets						
Claims on credit instutitions and central banks	175					175
Claims on the public	2,169	213	434	266	22	3,104
Debt securities	233	20	31	173	36	492
Total interest-bearing assets	**2,576**	**233**	**464**	**440**	**58**	**3,771**
Liabilities						
Liabilities to credit institutions	158	46	13	130		347
Deposits from the public	1,993	92	91	1		2,177
Debt securities	585	56	24	154	200	1,019
Subordinated liabilities		19	29	16		64
Total interest-bearing liabilities	**2,735**	**214**	**157**	**300**	**200**	**3,606**
Off-balance sheet items	**−43**	**−28**	**−7**	**−4**	**76**	
Difference between assets and liabilities	**−202**	**−9**	**301**	**136**	**−66**	

Volume that falls due for interest rate refixing in each time interval.

In the table, the interest rate refixing period for lending and sight deposits with the ÅAB Prime or ÅAB O/N benchmark interest rate, or with no benchmark interest rate, has been stated in the "Up to 3 months" time interval. The volume of deposits with such interest rate terms is sizeable. In the current low interest rate environment, the interest rate refixing period for these accounts is significantly longer in practice than the contractual period. When calculating net interest income risk and value change risk, the Bank of Åland model classifies this lending and these deposits as having a significantly longer interest rate refixing period than indicated in the table.

				2012		
EUR M	Up to 3 mo	3–6 mo	6–12 mo	1–5 yrs	Over 5 yrs	Total
Assets						
Claims on credit instutitions and central banks	228					228
Claims on the public	1,998	284	366	228	29	2,905
Debt securities	93	20	10	185	42	350
Total interest-bearing assets	**2,320**	**304**	**376**	**413**	**71**	**3,483**
Liabilities						
Liabilities to credit institutions	160	64	20	130		375
Deposits from the public	1,922	75	130	1		2,127
Debt securities	515	36	34	173	5	763
Subordinated liabilities		4	7	53		64
Total interest-bearing liabilities	**2,597**	**179**	**191**	**357**	**5**	**3,329**
Off-balance sheet items	**48**	**−40**	**8**	**−1**	**−16**	
Difference between assets and liabilities	**−229**	**85**	**192**	**56**	**51**	

The quantification of both net interest income risk and value change risk is greatly dependent on what assumptions are made about the interest rate refixing period for a number of items, especially regarding low-interest sight deposits without a benchmark interest rate connection to Euribor/Stibor. In the calculations below, sight deposits without contractual interest rate refixing periods have been assigned an interest rate refixing period in the model that varies between 3–12 months depending on the type of account.

Parallel shift in the yield curve	2013		2012	
EUR M	Basis points		Basis points	
	+100	−100	+100	−100
Net interest income risk	6.2	−3.5	5.0	−2.7
Value change risk	−7.0		−3.9	

Net interest income risk is calculated in the Bank's ALM system with a shift of ±100 basis points. Value change risk is calculated in the Bank's own model with a shift of -100 basis points.

Net interest income risk was relatively unchanged from 2012, but theoretical value change risk increased by EUR 3 M because the Bank's increased liquidity reserve was invested in bonds.

FACTORS THAT DRIVE INTEREST RATE RISK

As a rule, interest rate risk is measured as the effect of an interest rate change, but the size of this effect depends on a number of underlying factors:

- Interest rate adjustment risk –the time differences in interest rate refixing between assets and liabilities.
- Spread risk–even if assets and liabilities have the same interest rate refixing period, interest rate risk may arise if the spread between their respective benchmark interest rates changes, which may lead to an adverse effect on the Bank's earnings. One example of this is the spread between the interest rate on sight deposits and variable rate lending, which has shrunk alarmingly in the low interest rate situation of recent years, resulting in an adverse effect on the Bank's net interest income.
- Customer behaviour–interest rate developments may affect customer behaviour in such a way that customers decide to reinvest their variable interest rate deposits in fixed interest rate deposits or in some form of securities, such as equities. This affects the Bank's access to funding as well as the cost of funding.

All of these factors are taken into account when analysing and deciding how to manage the Bank's interest rate risk. Responsibility for interest rate risk management lies with the Bank's Treasury Department. The framework for the department's work are determined by the principles adopted by the Board of Directors in their treasury policy and risk policy documents as well as the limits established in the limits appendix to the risk policy document.

FOREIGN EXCHANGE RATE RISK

Foreign exchange risk refers to the risk of unfavourable results due to changes in the exchange rates of currencies that the Bank is exposed to.

The Group's operations occur mainly in its two base currencies, euros and Swedish kronor, but a limited proportion of its lending and deposits occurs in other currencies, creating a certain foreign exchange risk. This risk is restricted by limits established by the Board of Directors and is managed using currency swaps and currency futures.

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.

EQUITIES RISK

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

The Bank's exposure to equities consists of strategic investments in Åland-based companies and some other minor holdings. In addition, it is exposed to the equity-related option portion of repurchased structured products plus collection and administrative securities accounts that are part of share trading operations on behalf of customers.

Decisions on strategic investments are made by the Managing Director and/or the Board of Directors. Other holdings are restricted by limits and are ultimately decided by the Board of Directors.

Operational risk

Operational risk is defined as the probability of direct or indirect losses 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 Operational Risks unit is responsible for analysing and reporting the Group's operational risks and for maintaining regulations, working processes and IT systems in order to back up the management of operational risks by business units.

The Bank's management of operational risks is based on self-assessments, incident reporting, training, reporting to the Executive Team, maintenance of internal regulations, analysis of new products and services and continuity and emergency planning. Crosskey Banking Solutions reports to the Bank about all incidents that have occurred and on the findings of its risk-mapping analyses.

Operational risks in the Bank's main processes are evaluated annually. The evaluation assesses the probability and consequences of a loss event as well as trends and existing risk management. The Risk Control Department analyses risks based on the risk evaluations that have been conducted.

Incident reporting is part of mapping operational risks. The Risk Control Department analyses incidents and compiles reports to the affected bodies in the Group.

The Group has introduced a standardised risk identification process for new products and services. All significant units prepare continuity and emergency plans.

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 Corporate Unit also administers insurance protection and assists management on insurance issues.

During 2013, the net gain on realised operational risks was EUR 0.4 M. This figure shows a net gain because of a profitable transaction that was made in order to correct an erroneous position. Realised costs of operational risks have also historically been limited; in 2012 they amounted to EUR 0.2 M.

The Bank uses the standardised approach for calculating the capital requirement for operational risk. According to the standardised approach, the capital requirement for operational risk is calculated on the basis of disclosures in the financial statements adapted for the latest three financial years. The income indicator is estimated for the following eight business areas:

Business area	Percentage (beta factor)	Capital requirement, 2013, EUR M
Corporate financing	18	
Trading and financial management	18	
Brokerage operations, individual customers	12	
Banking, large customers	15	1.0
Banking, households	12	7.7
Payment and phase-out	18	2.9
Administrative assignments	15	
Asset management	12	1,1
Total capital requirement, operational risk		**12.6**

The total of the items that are taken into account when calculating the income indicator is multiplied by the above-mentioned percentage for the respective business area. The income indicator for the financial year is obtained by adding up the income indicators for the three latest years and then dividing by three. The above table shows a breakdown by business area of the Bank's total capital requirement for operational risk. This calculation is updated yearly at the end of the first quarter but always refers to the position for the previous full year. The capital requirement for operational risk related to IT-related operations in the Bank's subsidiary Crosskey Banking Solutions is included on the "Payment and phase-out" line in the above table.

Stress tests

As a supplement to the existing risk metrics, the Bank carries out various stress tests to identify the effects of exceptional, but plausible, changes in variables that are relevant to the Bank, such as interest rates, exchange rates or other external factors.

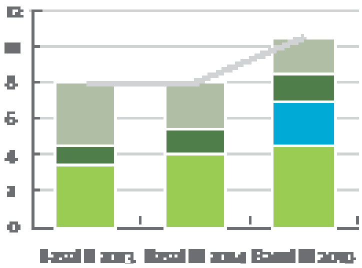
Liquidity risk management also includes stress tests that evaluate potential effects on liquidity if exceptional but reasonable events should occur. These stress tests are a supplement to normal liquidity management and their purpose is to confirm that the emergency plan is adequate in case of critical events.

Capital management and capital adequacy

THE CRD IV PACKAGE

In response to the financial crisis that began in 2007, the European Commission unveiled a proposal during the summer of 2011 for a new set of capital adequacy regulations in the form of a Capital Requirements Directive (CRD IV) and a new Capital Requirements Regulation (CRR), which were adopted by the European Parliament and the European Council on July 26, 2013 and will apply from January 1, 2014. The new rules (also known as Basel 3) require institutions in the European Union to have more capital of better quality and to maintain various capital buffers. The regulations allow capital base instruments that no longer meet the new requirements to be gradually phased out of the capital bases of banks. Aside from newly specified requirements for the instruments in banks' capital bases, the new rules include higher capital requirements for over-the-counter derivatives and positions in trading inventories. The new rules also include stricter requirements for institutions' reporting to regulatory authorities.

Basel 3
per cent



- Supplementary capital
- Additional Tier 1 capital
- Capital conservation buffer
- Core Tier 1 capital
- Minimum capital requirement including capital conservation buffer

Since the capital requirements for risks, for example related to lending, are increasing and must now increasingly be covered by capital that has higher return requirements, this in itself affects pricing by banks. The chart below illustrates how the capital base requirement will increase both qualitatively and quantitatively through the new regulations. Higher capital ratios and the introduction of capital buffers will be phased in gradually until 2019. The total capital requirement during 2014 remains 8 per cent of risk-weighted assets, but this capital must meet stricter quality requirements than under the Basel 2 regulations..

THE CAPITAL BASE

The Bank of Åland's capital base is divided into two types: Tier 1 capital and supplementary capital. Since the Bank has not issued any instruments in the "Other core capital" category, its entire Tier 1 capital consists of capital in the best category, i.e. core Tier 1 capital.

The most important characteristic of Tier 1 capital is that it 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 instruments that are included in the Bank's Tier 1 capital are perpetual and thus consist of equity capital according to accounting rules. The entire Tier 1 capital of the Group is of the unlimited Tier 1 capital type. In other words, the Group has complete decision-making rights on the use of these funds. The new capital conservation buffer that will gradually go into effect starting in 2016 will mean, in practice, that banks must have another 2.5 per cent of core Tier 1 capital. If the buffer requirement is not met, a number of restrictions are imposed. For example, the ability of a bank to pay dividends to its shareholders from earnings will be restricted.

However, certain downward adjustments in Tier 1 capital are made for items that have poorer capacity to absorb losses. Examples of such deductions are the undepreciated cost of intangible assets, revaluations of properties and surplus value in the Bank's pension assets and half of the deficit in the form of expected losses exceeding recognised impairment losses in the IRB-approved portfolio. The new capital adequacy rules stipulate that the entire deficit must be subtracted from Tier 1 capital, which will adversely affect the core Tier 1 capital ratio.

Unlike Tier 1 capital, supplementary capital is not as available for covering losses as Tier 1 capital and may thus not amount to more than total 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. The other half of the deficit in the form of expected losses exceeding recognised impairment losses of the IRB-approved portfolio is deducted from supplementary capital.

CAPITAL REQUIREMENT

The capital requirement for credit risks is calculated according to the advanced IRB approach in the Finnish household portfolio and using the standardised approach in the remaining portfolios. The Bank is working to obtain Financial Supervisory Authority permission in the near future to also introduce the IRB approach in the Finnish corporate portfolio as well as in the entire Swedish lending portfolio.

On June 30, 2013, the Bank switched from the basic indicator approach to the standardised approach in calculating the capital requirement for operational risks. The Bank applies the exemption for small trading inventories and thus estimates no capital requirement according to the market risk regulations. Instead it applies the credit risk rules to these items.

Aside from increased capital requirements for counterparty risk, the Bank is affected by the elimination of the sovereign method and the transition to risk-weighting on the basis of external credit evaluations. The new regulations also include relief for small and medium-sized companies in the form of reduced capital requirements for these exposures, but the Bank's assessment is that this relief does not affect its own capital requirements to any great extent since the Financial Supervisory Authority has meanwhile chosen to continue applying the transitional rule between Basel 1 and Basel 2 even after the introduction of Basel 3. Today the Bank already meets the future requirement upon full implementation of Basel 3 of at least 7 per cent Tier 1 capital including a capital conservation buffer of 2.5 per cent.

LONG-TERM CAPITAL ADEQUACY TARGETS

The Group's capital management is regulated not only by capital adequacy regulations concerning the capital base and capital requirements, but also by the Group's long-term financial targets.

Since the beginning of the financial crisis, the Bank of Åland has not had any officially communicated long-term financial targets, with reference to the extensive changes under way in the regulations affecting the Bank. The Board of Directors has approved the following new long-term financial targets.

- The Bank's capital adequacy, primarily defined as the core Tier 1 capital ratio under the Basel regulations, shall exceed all regulatory requirements by a wide margin.

There is still uncertainty about how the Bank of Åland's core Tier 1 capital ratio will be affected by the transition from the standardised approach to the IRB approach for the corporate portfolio in Finland and for the entire lending portfolio in Sweden as well as by the final shape of Basel 3. At present, the Executive Team interprets the ambition to exceed regulatory requirements by a wide margin as meaning that the core Tier 1 capital ratio, not taking into account transitional rules, should exceed 11 per cent.

Capital adequacy	2013	2012
EUR M		
Equity capital according to balance sheet	184.1	179.0
Anticipated/proposed dividend including minority shareholders in subsidiaries	−3.1	−2.9
Deduction of surplus value in pension assets	−0.8	0.0
Fair value reserve	−1.1	−4.5
Translation difference	−0.9	0.2
Cash flow hedge	0.4	1.2
Intangible assets	−9.1	−9.6
Property revaluation during transition to IFRSs	−2.4	−2.6
Deferred tax asset	−4.1	−5.3
50% of expected losses according to IRB in addition to recognised losses	−3.1	−3.2
Core Tier 1 capital	**160.0**	**152.4**
Additional Tier 1 capital	**0.0**	**0.0**
Fair value reserve	1.1	4.5
Translation difference	0.9	−0.2
Property revaluation during transition to IFRSs	2.4	2.6
Debenture loans	63.8	64.1
50% of expected losses according to IRB in addition to recognised losses	−3.1	−3.2
Supplementary capital	**65.1**	**67.8**
Total capital base	**225.1**	**220.2**
Risk-weighted assets	**1,481.3**	**1,400.6**
Capital requirement for credit risk according to IRB approach	26.0	26.6
Capital requirement for credit risk according to standardised approach	79.9	71.4
Capital requirement for operational risk	12.6	14.1
Capital requirement	**118.5**	**112.0**
Addition according to transitional rules for IRB approach	12.7	11.7
Capital requirement including transitional rules	**131.2**	**123.9**
Core Tier 1 capital ratio, %	10.8	10.9
Total capital ratio,%	15.2	15.7
Core Tier 1 capital ratio including transitional rules, %	9.8	9.8
Total capital ratio including transitional rules, %	13.7	14.2

INTERNAL CAPITAL ADEQUACY ASSESSMENT

The purpose of the internal capital adequacy assessment procedure (ICAAP) is to ensure that the Group is sufficiently capitalised to cover its risks as well as conduct and develop its operations.

The Bank of Åland prepares and documents its own methods and processes to evaluating its capital requirement. Within the framework of its internal capital adequacy assessment, it thus takes into account all relevant risks that arise in the Group. The internal capital adequacy assessment also takes into account risks for which no capital is allocated according to Pillar 1.

The 2012 ICAAP evaluated a negative scenario of a lengthy economic downturn that adversely affects Finnish and Swedish export industry and leads to higher unemployment, sharply declining real estate prices in 2013–2014, falling share prices in 2013 without a rebound in 2014 and continued extremely low market interest rates.

The significant risks and capital requirement that has been identified in the Group according to Pillar 2 are shown in the table below.

Internal capital adequacy assessment	2012	2011*	Change
EUR M			
Pillar 1–capital requirement			
Credit risk, IRB	26.6	25.9	0.7
Credit risk, standardised approach	71.5	67.3	4.2
Operational risks	14.1	14.0	0.1
Market risks	0.0	1.4	–1.4
Total capital requirement in Pillar 1	**112.0**	**108.6**	**3.6**
Addition according to transitional rules for IRB approach	**12.0**	**11.5**	**0.5**
Pillar 2–capital requirement			
Credit risk in addition to Pillar 1	0.0	0.0	0.0
Credit concentration risk	7.6	4.3	3.3
Interest rate risk in banking operations	4.6	3.1	1.5
Exchange rate risk	0.2	0.2	0.0
Equity risk	0.7	1.2	–0.5
Property risk	0.0	0.0	0.0
Operational risks in addition to Pillar 1	2.8	3.5	–0.7
Pension liability risk	0.0	0.0	0.0
Business risk	17.6	15.9	1.7
Liquidity risk	0.0	0.0	0.0
Total capital need in Pillar 2	**33.5**	**28.2**	**5.3**
Total capital requirement and capital need	**157.7**	**148.3**	**9.4**
Available capital	**226.2**	**214.0**	**12.2**
of which core Tier 1 capital	**152.9**	**142.1**	**10.8**
of which supplementary capital	73.3	71.9	1.4
Capital buffer	**68.5**	**65.7**	**2.8**
Risk-weighted assets (Pillar 1)	**1,400.6**	**1,358**	**44**
Estimated need for core Tier 1 capital			
Minimum 7% core Tier 1 capital according to Pillar 1	98.1	95.1	3.1
Capital need according to Pillar 2	33.5	28.2	5.3
Total core Tier 1 capital need	**131.7**	**123.3**	**8.4**
Minimum level for core Tier 1 capital ratio, %	**9.4**	**9.1**	**0.3**
Core Tier 1 capital buffer	**21.3**	**18.8**	**2.4**
Accumulated operating loss in stress scenario	**30.3**	**15.9**	**14.4**

* The 2011 figures have been restated pro forma using IRB for the Finnish household portfolio.

Identified capital needs according to Pillar 2 amounted to EUR 33.5 M, of which the largest items were business risk at EUR 17.6 M (estimated phase-out costs for Swedish operations), concentration risks in the loan portfolio at EUR 7.6 M and interest rate risk in banking operations at EUR 4.6 M. Since all these identified capital needs are covered by core Tier 1 capital, the bank of Åland's overall capital needs related to core Tier 1 capital were EUR 131.7 M on December 31, 2012. Based on risk-weighted assets, this requirement was equivalent to a minimum core Tier 1 capital ratio of 9.4 per cent.

Capital planning for an economic downturn showed a capital need of EUR 30.3 M to cover the operating losses that would occur. This accumulated operating loss matches the identified capital need according to Pillar 2 reasonably well. The stress test generates accumulated loan losses of EUR 64 M during 2013-2016, of which EUR 25.7 M is related to the Åland business area, EUR 28.5 M is related to the Finnish Mainland business area, EUR 8.1 M is related to Sweden and EUR 1.7 M to Compass Card. Of the accumulated loan losses, EUR 47.9 M is related to corporate exposures in the corporate portfolio.

The core Tier 1 capital need of EUR 131.7 M should be compared to the reporting core Tier 1 capital of EUR 152.9 M on December 31, 2012. The Bank of Åland thus had a core Tier 1 capital buffer equivalent to EUR 21.3 M.

If we look at the full capital requirement, according to Pillar 1 it was EUR 112.2 M. Including EUR 12.0 M in additional capital according to the transitional rule for IRB, the capital requirement amounted to EUR 124.2 M. Adding the Pillar 2 need, the overall capital need was EUR 157.7 M. Since the entire capital base including supplementary capital amounted to EUR 226.2 M, the capital buffer at year-end was an ample EUR 68.5 M.

Photographer: Daniel Eriksson

Table of contents, notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED INCOME STATEMENT

NOTES TO THE CONSOLIDATED BALANCE SHEET

OTHER NOTES

Notes to the consolidated financial statements

(EUR K)

G1. 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 16 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, 2013 were approved by the Board of Directors on February 13, 2014 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.

G2. Accounting principles

1. Basis for the report

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRSs) that have been adopted by the European Union. In addition, when preparing the notes to the consolidated financial statements, Finnish company and accounting legislation have also been applied. The consolidated financial statements 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.

Tables show rounded-off figures on all individual lines, but this means that the rounded-off figures do not always add up to the correct total.

2. Changes in accounting principles etc.

CORRECTIONS

During 2013, the Bank of Åland corrected a number of items in older financial statements. These items are related to reporting of deferred tax assets in connection with the transfer of business assets and liabilities to the branch in Sweden, defined benefit pension plans in compliance with IAS 19 in Swedish operations, intangible assets that arose when purchasing the asset management company Allcap, market valuation of fixed interest loans and zero coupon bonds issued within the framework of the fair value option as well as fair value hedging and revaluation of the Head Office property when transitioning to IFRSs with regard to capital adequacy reporting.

Adjustments were made in comparative figures for 2012 and communicated in the Year-end Report that was published on February 14, 2014. The adjusted comparative figures can be seen in Note G42. Due to the corrections that were made, equity capital on January 1, 2012 decreased by EUR 2.0 M, while core Tier 1 capital in 2012 increased by EUR 1.3 M. Profit for 2012 was corrected by EUR –0.1 M. The change in equity capital on December 31, 2012 due to corrections in profit for the year and other comprehensive income amounted to EUR 0.0 M.

CHANGES IN ACCOUNTING PRINCIPLES

On January 1, 2013, the amended IAS 19, “Employee benefits”, went into effect for application in the European Union. It has had an impact on the Bank of Åland’s reporting of defined-benefit pension plans, since the “corridor approach” for accruing actuarial gains and losses has been eliminated. In addition, earlier assumptions about the return on plan assets have been replaced by an estimated return equivalent to the discount rate for pension liabilities which is reported in the income statement. Upon this transition, accumulated actuarial gains and losses have been reported in retained earnings. Subsequent remeasurements of obligations and assets will be recognised in “Other comprehensive income”. As a result of this change in principle, the Group’s equity capital in 2013 decreased by EUR 5.0 M. Adjustments were made in the comparable figures for 2012 and communicated in the Interim Report for the first quarter of 2013, which was published on April 29, 2013. The adjusted comparative figures can be seen in Note G42.

IFRS 13, “Fair value measurement”, also went into effect on January 1, 2013 for application in the EU. The standard includes common principles for fair value measurement of most of the assets and liabilities carried at fair value in the accounts. The application of IFRS 13 has not had any effect on the consolidated financial statements, but the new standard includes more extensive requirements for disclosures of fair value measurement. Disclosures about fair value measurement are provided in Note G15.

Starting with the 2013 financial year, new disclosures about offsetting of financial assets and liabilities are being provided, in compliance with IFRS 7, “Financial instruments – Disclosures”, which went into effect for application in the EU on January 1, 2013. These disclosures are found in Note G41.

The amended IAS 1, “Presentation of financial statements”, which went into effect for application in the EU on January 1, 2013, affected the Bank’s presentation of “Other comprehensive income”, since items that will later be reclassified to the income statement are reported separately from items that will not be reclassified. This does not change the factual content in “Other comprehensive income”, only the way it is presented.

Otherwise the accounting principles, classifications and calculation methods applied by the Group during the 2013 financial year coincide in all essential respects with the principles that were applied in the 2012 Annual Report.

COMING CHANGES IN REGULATIONS

IFRS 10, "Consolidated financial statement" and amendments that have been made to it (to be applied from 2014). IFRS 10 includes a model to be used in assessing whether or not a controlling interest exists for all investments that a company has, including what are today called special-purpose entities (SPEs) and are regulated in SIC-12. According to a preliminary analysis, the standard is not expected to affect the Group significantly.

IFRS 11, "Joint arrangements" and amendments to it (to be applied from 2014). The new standard will mainly result in two changes compared to IAS 31, "Interests in joint ventures". An investment is deemed to be a joint operation or a joint venture depending on what type of investment it is, and there are different reporting rules for these. A joint venture must be reported according to the equity method, and the proportional consolidation method will not be allowed. According to a preliminary analysis, the standard is not expected to affect the Group significantly.

IFRS 12, "Disclosure of interests in other entities" (to be applied from 2014). A new standard for disclosures on investments in subsidiaries, joint arrangements, associated companies and unconsolidated structured entities. The standard will result in new disclosures on the Group's holdings in other companies or investments.

Amended IAS 27, "Separate financial statements" (to be applied from 2014). The amended standard only includes rules for legal entities. The amendment is not expected to affect the Group.

Amended IAS 28, "Investments in associates and joint ventures" (to be applied from 2014). The amendment deals with what reporting method to use when holdings change and significant influence or joint control ceases or not. The amendment is not expected to affect the Group significantly.

Amended IAS 32, "Financial instruments: Presentation" (to be applied from 2014). The amendment concerns clarifications of when offsetting of financial assets and liabilities is allowed. The amendment is not expected to affect the Group significantly. The Bank of Åland has chosen not to apply the amended IAS 32 early. The standard will result in new disclosure requirements for the Group.

Amended IAS 36, "Impairment of assets – Recoverable amount disclosures for non-financial assets (to be applied from 2014). The amendment removes the disclosure requirement on recoverable amounts for all cash-generating units to which goodwill is allocated. It also coordinates the disclosure requirements concerning fair value less costs of disposal and value in use. The amendment is not expected to affect the Group significantly.

Amended IAS 39, "Financial instruments: Recognition and measurement. "Novation of derivatives and continuation of hedge accounting (to be applied from 2014). The amendment allows companies to continue using hedge accounting even though the counterparty in a derivatives contract has changed due to legislation. The standard is not expected to affect the Group significantly.

IFRIC 21, "Levies" (to be applied from 2014). The interpretation includes rules about various forms of levies that public authorities impose on companies and on what date an obligating event occurs that leads to the recognition of a liability. The interpretation has not yet been approved by the EU (to be applied from 2014). The interpretation is not expected to affect the Group significantly.

IFRS 9, "Financial Instruments" and amendments that have been made to it. The earliest date for mandatory application has not been decided. The standard is intended to replace IAS 39, "Financial instruments: Recognition and measurement". The International Accounting Standards Board (IASB) has published the first two parts of what will comprise the final IFRS 9. The first part deals with classification and measurement of financial assets. The categories of financial assets found in IAS 39 will be replaced by two categories, with measurement using fair value or amortised cost. The fair value option from IAS 39 will be retained. Changes in the value of derivatives in hedge accounting are not affected by this part of IFRS 9, but will be reported until further notice in compliance with IAS 39. The effect on the Group cannot be determined at this stage. IFRS 9, "Financial instruments", which will replace IAS 39, "Financial instruments: Recognition and measurement", is expected to have its biggest impact on the Bank of Åland's financial reports. Taking into account that much of the work with IFRS 9 remains, the Bank is abstaining from assessing in what ways its financial reports will be affected or when the new regulations will begin to be applied.

Amended IAS 19, "Employee benefits – Defined benefit plans: employee contributions" (to be applied from 2014). The amendment simplifies the reporting of defined-benefit plans in which fees for the plan come from participants or a third party. The amendment is not expected to affect the Group.

Annual improvements to IFRSs 2011–13 and 2010–2012 (these have not yet been approved by the EU). The changes are not expected to affect the Group significantly.

None of the other changes in the reporting regulations that have been issued for application are expected to have any significant impact on the Bank of Åland's financial reports, capital adequacy, large exposures or other conditions in compliance with operating rules.

3. Presentation of financial reports

Financial statements are a structured representation of the financial position and financial performance of a company. Their objective is to provide information about the position, financial performance and cash flows of a company that is useful in making economic decisions. Financial statements also present the results of the management team's administration of the resources entrusted to them. Complete financial reports consist of a balance sheet, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and notes. The Bank of Åland presents its statement of comprehensive income in the form of two statements. The Bank presents a separate income statement that includes all income and expense items in its earnings, unless a particular IFRS requires or permits another method. Other income and expense items are reported in "Other comprehensive income". The statement of comprehensive income includes earnings reported in the income statement and the components that make up other comprehensive income.

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

4. Principles of consolidation

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 payment transferred, the identifiable assets of the acquired company and liabilities assumed plus any non-controlling interests are carried at fair value on the acquisition date. 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. In case of an acquisition where payment transferred, any non-controlling interests and the fair value of any previously owned portion exceeds the fair value of the acquired assets and the liabilities assumed, the difference is recognised either as goodwill or negative goodwill. 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. There was no goodwill in companies where the Group would have a controlling influence in the consolidated financial statements at the end of 2012 or 2013.

Cost includes expenses attributable to acquisition, such as expenses for the use of experts before January 1, 2010. Starting on January 1, 2010, these expenses – except for transaction fees attributable to the issuance of equity instruments or debt instruments – are recognised in the income statement. Non-controlling interests are recognised on the basis of their proportional share of net assets.

The portions of equity capital and profit for the accounting period in subsidiaries that are attributable to non-controlling interests are split off and shown as separate items in the consolidated income statement and balance sheet. Losses attributable to non-controlling interests are allocated even in those cases where non-controlling interests will be negative.

Changes in percentages of ownership in a subsidiary where a controlling influence is retained are recognised as a transaction in equity capital. In case of changes where a controlling influence ceases, gains or losses as well as items in other comprehensive income are recognised in the income statement. Remaining holdings are carried at fair value and the change in value is recognised in the income statement.

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 carrying amount of the shares in the consolidated financial statements is equivalent to the Group's proportion of the associated company's equity capital and Group goodwill, adjusted for any impairment losses. The Group's proportion of the income in associated companies and any proportion of other comprehensive income are recognised on separate lines in the consolidated income statement and the consolidated statement of other comprehensive income, respectively.

Real estate and housing companies have been consolidated according to the proportionate consolidation method of accounting. This method means that the Group's proportion of ownership in these companies' income and expenses as well as in their assets and liabilities is recognised in the consolidated income statement, statement of other comprehensive income and balance sheet.

All intra-Group receivables, liabilities and transactions including dividends and intra-Group profits have been eliminated in the consolidated financial statements. Unrealised gains arising from transactions with associated companies are eliminated to an extent equivalent to the Group's proportion of ownership in the company.

5. Items in foreign currencies

The consolidated financial statements are prepared in euros (EUR), which is the reporting and functional currency of the Parent Company, Bank of Åland Plc. The functional currency of 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 translated to the functional currency of Group companies and branches on the transaction date. Monetary assets and liabilities in foreign currencies are translated at the exchange rate prevailing on the closing day. Translation differences from non-monetary items classified as financial assets available for sale and non-current assets are recognised 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, other comprehensive income items 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 when translating operations outside Finland are recognised separately in "Other comprehensive income" and are accumulated in a separate component in equity capital known as the translation reserve. When controlling interest ceases, the accumulated translation differences attributable to these operations are realised, at which time they are reclassified from the translation reserve in equity capital to the income statement.

6. Recognition of assets and liabilities in the balance sheet

The purchase and sale of shares as well as money and capital market instruments in the spot market are recognised on the transaction date. The same applies to derivatives. Other financial assets and liabilities are normally recognised on the settlement date. Financial assets are removed from the balance sheet when the contractual rights to the cash flows that are attributable to the asset cease or when all risks and rewards associated with the asset are transferred to another party. A financial liability is removed from the balance sheet when the obligation ceases or is cancelled.

In case of a business acquisition, the acquired business is recognised in the consolidated accounts from the acquisition date. The acquisition dare is the date when control over the acquired unit begins. The acquisition date may differ from the date when the transaction is legally confirmed. Assets and liabilities are removed from the balance sheet when controlling influence ceases.

Financial assets and liabilities are offset and recognised as a net amount in the balance sheet if the Bank has a contractual right and intention to settle the items with a net amount. Further disclosures about offsetting of financial assets and liabilities are provided in Note G41.

The principles for recognition of assets and liabilities in the balance sheet are of special importance, for example, in the recognition of repurchase transactions, loans for the purchase of securities and leases. See the separate sections on these items below.

7. Classification of financial assets and liabilities

For purposes of valuation, in compliance with the provisions of IAS 39, all financial assets and liabilities are classified in the following valuation categories:

1. Loans and other receivables
2. Assets held to maturity
3. Assets carried at fair value via the income statement ("profit and loss")
   - Assets held for trading
   - Other financial assets
4. Financial assets available for sale

Financial liabilities are divided into the following valuation categories:

1 Liabilities carried at fair value via the income statement ("profit and loss")
   - Financial liabilities held for trading
   - Other financial liabilities
2. Other financial liabilities

The classification in the balance sheet is independent of valuation category. Different valuation principles may thus be applied to assets and liabilities that are recognised on the same line in the balance sheet. An allocation of the categories of financial assets and liabilities recognised in the balance sheet in terms of valuation category is provided in Note G14.

On the first recognition date, all financial assets and liabilities are recognised at fair value. For assets and liabilities at fair value via the income statement, transaction costs are directly recognised in the income statement on the acquisition date. For other financial instruments, transaction costs are included in acquisition cost.

LOANS AND OTHER RECEIVABLES
Loans and receivables are recognised at amortised cost, which means the discounted present value of all future payments attributable to the instrument, where the discount rate consists of the effective interest rate of the asset on the acquisition date. Loans and receivables are tested for impairment losses when there is an indication of impairment. Impairment losses are recognised in the income statement. Loans and receivables are thus recognised at their net amounts, after subtracting probable and actual loan losses.

ASSETS HELD TO MATURITY
Recognised in the category "assets held to maturity" are interest-bearing assets that the Group intends and is able to hold until maturity. Such assets are recognised at accrued cost. They are tested for impairment losses when there is an indication of impairment. The Bank of Åland phased out its portfolio of assets held to maturity during the fourth quarter of 2012. A new portfolio of assets in this valuation category cannot be created until the fourth quarter of 2014 at the earliest.

ASSETS AND LIABILITIES HELD FOR TRADING
Assets and liabilities held for trading consist of listed financial instruments and derivatives. Financial instruments held for trading are recognised at fair value in the balance sheet. The Bank of Åland carries out no trading operations for its own account and thus has very limited assets and liabilities held for trading. The Bank's existing holdings in this valuation category mainly consist of derivative instruments attributable to index bonds issued by the Bank. For derivatives and any debt securities, interest attributable to this valuation category is recognised in "Net interest income". Changes in market value are recognised in the item "Net income from financial items carried at fair value".

FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE (THE FAIR VALUE OPTION)
The option included in IAS 39 to categorise financial instruments as recognised at fair value via the income statement has been applied to financial assets and liabilities not categorised as assets available for sale, in order to avoid inconsistencies in the valuation of assets and liabilities that comprise counter-positions to each other and are managed on a portfolio basis. The Bank of Åland measures the value of certain groups of derivative instruments and items protected by derivative instruments according to the fair value option. Such groups mainly include fixed-interest loans and debt securities as well as interest rate swaps matched to them. 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. Changes in the fair value of financial instruments carried at fair value are recognised in the income statement, under the item "Net income from financial items carried at fair value". Interest attributable to lending and debt securities is recognised in "Net interest income".

FINANCIAL ASSETS AVAILABLE FOR SALE
Debt securities as well as shares and participations that are neither held for active trading nor held to maturity are recognised in this valuation category. 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 fair value reserve to the income statement in a separate item, "Net income from financial assets available for sale", which is part of "Net income from financial items carried at fair value". Interest attributable to this category of assets is recognised directly in "Net interest income" in the income statement. Dividends on shares categorised as available for sale are recognised continuously in the income statement as "Other income". Impairment testing of financial assets available for sale occurs when there is an indication of impairment.

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

RECLASSIFICATION OF FINANCIAL INSTRUMENTS
The provisions of IAS 39 only allow reclassification of certain financial assets and only under exceptional circumstances. The Bank of Åland has not reclassified any financial instruments.

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.

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.

8. Principles for recognising financial assets and liabilities at fair value

Fair value is defined as the price at which an asset could be sold or a liability transferred in a normal transaction between independent market players.

The fair value of financial instruments that are traded in an active market is equal to the current market price. Such a market is regarded as active when listed prices are easily and regularly available in a regulated market, trading location, reliable news service or the equivalent, and where the price information received can easily be verified through regularly occurring transactions. As a rule, the current market price is equivalent to the current purchase price of financial assets or the current sale price of financial liabilities. The current market price of groups of financial instruments that are managed on the basis of the Bank's net exposure to market risk equals the current market price that would be received or paid if the net position were divested.

In the case of financial assets for which reliable market price information is not available, fair value is determined with the help of valuation models. The valuation models that are used are based on incoming data that in all essential respects can be verified through market observations, for example market interest rates and share prices. As needed, an adjustment is made for other variables that a market player is expected to take into account in pricing.

The valuation 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. 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.

Day 1 gains or losses, that is, gains and losses that arise when immediately measuring the value of new contracts and that are thus not dependent on fluctuations in interest rates or credit-worthiness, are recognised in the income statement.

DEBT SECURITIES

Debt securities issued by sovereigns and covered bonds are valued with the help of current market prices. Corporate bonds are measured using valuation techniques based on market yields for equivalent maturities, adjusting for credit and liquidity risk.

SHARES AND PARTICIPATIONS

Shares listed in an active market are valued at market price. When measuring unlisted shares and participation, the choice of valuation model is determined by what is deemed suitable for that particular instrument.

Holdings in unlisted shares mainly consist of various types of jointly owned operations with a connection to the Bank's business and holdings in Åland companies within the framework of Ålands Investerings Ab. As a rule, such holdings are valued at the Bank's proportion of net asset value in the company. Unlisted shares are essentially classified as available for sale. Changes in the value of these holdings are thus recognised in "Other comprehensive income".

DERIVATIVES

Derivatives that are traded in an active market are valued at market price. Most of the Group's derivative contracts, among them interest rate swaps and various types of linear currency derivatives, are measured using valuation models based on market interest rates and other market prices. Valuation of non-linear derivative contracts that are not actively traded is also based on a reasonable estimate of market-based incoming data, for example volatility.

LENDING CLASSIFIED AS CARRIED AT FAIR VALUE

Lending classified as carried at fair value via the income statement is carried at the present value of expected future cash flows. When making this calculation, market interest rate is adjusted for credit risk. The current credit risk premium is assumed to equal the original one as long is there is no evidence that the repayment ability of the counterparty has substantially deteriorated. Changes in the value of loans at fair value are reported in "Net income from financial items at fair value".

9. Impairment losses on loans

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, after the loan or customer receivable is recognised the first time, that have an adverse impact on future estimated cash flows, 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 on the basis of the Bank's internal risk classification system.

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 is probable that the borrower will enter bankruptcy or undergo 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".

10. Hedge accounting

HEDGE ACCOUNTING AT FAIR VALUE

Hedge accounting at fair value can be applied in certain cases when the interest rate exposure in a recognised financial asset or financial liability has been hedged with derivatives. With hedge accounting, the hedged risk in the hedged instrument is also re-measured at fair value. Both the change in the value of the hedging instrument, the derivative, and the change 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". The amount recognised in "Other comprehensive income" is restored to the income statement in periods when the hedged item affects income. 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. Hedges of net investments in foreign operations are recognised in a way similar to cash flow hedging. 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.

11. Intangible assets

Intangible assets 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 to an extent that exceeds its cost, 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. If such an indication arises, the recoverable amount is determined as the asset's sale price or value in use, whichever is higher. Not yet completed development work is tested yearly for impairment, regardless of whether indications of loss of value have occurred. 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. 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. There was no goodwill in the consolidated financial statements at the end of 2012 and 2013.

12. Tangible assets

INVESTMENT PROPERTIES

Investment properties are held in order to earn rental income or value appreciation. Investment properties consist of direct holdings as well as indirect holdings via real estate and housing companies. Investment properties are recognised separately in the balance sheet under tangible assets at cost less accumulated depreciation and impairment losses. In the income statement, net income from investment properties is shown on a separate line UNDER "Other income". 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 intangible and tangible assets	3–5 years

Land is not depreciated.

IMPAIRMENT LOSSES
Assets are reviewed yearly to determine if there is any indication of impairment. 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.

13. Provisions
A provision is recognised when the Group has a present obligation as a result of a past event, when it is probable that an outflow of resources 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 related to other expenses are recognised in the balance sheet when the Group has adopted a detailed formal restructuring plan and the restructuring has either begun or been publicly announced.

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.

A contingent liability is recognised when there is a possible obligation as a result of past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of the Group, or when there is an obligation that is not recognised as a liability or provision because it is unlikely that an outflow of resources will be required or it cannot be estimated in a sufficiently reliable way.

14. Leases
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. 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.

15. Revenue

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

NET COMMISSION INCOME
Income and expenses for various types of services are recognised in the income statement as "Commission income" and "Commission expenses", respectively. For example, this means that brokerage commissions and various forms of asset management fees are reported as commissions. Other types of income that are reported as commissions are payment intermediation commissions and debit card fees. Loan origination fees and commitment fees are accrued over the life of these loans and are included in "Net interest income", in those cases where they are not regarded as constituting cost coverage.

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 FINANCIAL ITEMS CARRIED AT FAIR VALUE
Realised and unrealised gains and losses from financial instruments carried at fair value via the income statement ("profit and loss") are recognised there along with the ineffective portion in hedge accounting.

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 and liabilities to euros.

Realised changes in the value of assets that were available for sale are recognised as "Net income from financial items carried at fair value".

IT INCOME
Annual licence income for IT systems is recognised as income on a straight-line basis during the respective year to which it is attributable. 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 estimated total number of 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.

OTHER INCOME
Dividends on shares and participations are among the items recognised as "Other operating income" Dividends on assets measured at fair value via the income statement are also recognised here.

16. Employee benefits

PENSION LIABILITIES
Post-retirement employee benefits consist of defined contribution and defined benefit plans. The plans recognised as defined contribution are those benefit plans under which the Group pays agreed fees to an external legal entity and then has no legal or informal obligation to pay additional fees if the legal entity lacks the assets to fulfil

its obligation to the employee. Premiums paid to defined contribution plans are recognised continuously in the income statement as a staff cost. Other plans for post-employment benefits are recognised as defined benefit plans.

Pension coverage for employees in Finland has been arranged partly through the Finnish national pension system (a defined contribution plan) and partly via a pension fund (Ålandsbanken Abps Pensionsstiftelse r.s., a so-called A Fund defined benefit plan). Pension coverage for employees in Sweden follows the so-called BTP multi-employer plan for banking employees and historically is largely defined benefit, but nowadays a growing proportion of Swedish pension plans are defined contribution.

A defined benefit pension solution pays a pension based on salary and length of employment, which means that the employer bears essentially all risks in fulfilling the pension obligation. For a majority of its defined benefit pension plans, the Group has set aside managed assets in pension funds or various kinds. Plan assets minus plan obligations in defined benefit pension plans are recognised in the balance sheet as a net asset. Actuarial gains and losses on pension obligations as well as returns that exceed the estimated returns on plan assets are recognised in "Other comprehensive income".

Recognised pension expense related to defined benefit plans consists of the net amount of the following items, which are all included in staff costs:

- Pension rights earned during the year, that is, the year's portion of the estimated final total pension disbursement. The calculation of pension rights earned is based on an estimated final salary and is subject to actuarial assumptions.
- Interest expense for the year, since the present value of the pension liability has increased as the period until its disbursement has decreased. To calculate the year's interest expense, the Bank uses the current swap interest rate (interest rate on January 1) for a maturity equivalent to the remaining time until disbursement of the pension liability.
- Estimated return (interest rate) on plan assets. Interest on plan assets is recognized in the income statement by applying the same interest rate used when setting the year's interest expense.

The calculation of expenses and obligations related to the Group's defined benefit plans involve a number of judgements and assumptions that may have a significant effect on the amounts recognised.

17. Share-based payment

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.

18. Income tax

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 for items recognised in other comprehensive income, in which case the tax effect is also recognised as part of other comprehensive income. 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.

19. Non-current assets held for sale and discontinued operations

A non-current asset or a disposal group is classified as held for sale if its carrying amount will be largely recovered through a sale and not through use. The asset or disposal group must be available for immediate sale in its present condition and based on normal conditions. It must be highly probable that the sale will occur. A completed sale is expected to be recognised within one year. Subsidiaries acquired exclusively with a view to resale are also recognised as discontinued operations.

Non-current assets or disposal groups held for sale are presented on a separate line in the balance sheet and are measured at the lower of carrying amount and fair value less expected costs to sell. Liabilities that are related to these non-current assets are also presented on a separate line in the balance sheet. The gain or loss on a discontinued operation is presented on a separate line in the income statement, after the gain or loss for the remaining operations.

20. Operating segments

The Group 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.

21. Cash and cash equivalents

"Cash and cash equivalents" refers to cash and deposits in the Finnish and Swedish central banks that may be used freely. "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.

22. Significant judgements and estimates

Preparation of financial statements in compliance with IFRSs requires the Executive Team to make judgements and estimates that affect the application of accounting principles and the recognised amounts of assets and liabilities, income and expenses as well as disclosures about commitments. Although these judgements and estimates are based on the best knowledge of the Executive Team and current events and measures at the time of the judgement, the actual outcome may diverge from these judgements and estimates. Judgements made by the Executive Team when applying IFRSs which have a significant impact on the financial reports and estimates that were made which may lead to substantial adjustments in the following year's financial reports are described below.

Measurement of loan and customer receivables

The value of the Group's receivables is tested regularly and individually for each receivable. As needed, an impairment loss is recognised for a receivable, bringing its value down to its estimated recoverable amount. The recoverable amount is based on an assessment of the counterparty's financial repayment ability and assumptions about the sales value of any collateral. The final outcome may diverge from original impairment losses.

Regarding group impairment losses for concentrations that have no impairment according to individual assessments, judgements and estimates are also made.

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.

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.

Appraisal of investment properties and properties for own use

The Executive Team carries out a yearly review of 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 occurs, the recoverable amount is determined as the higher of the sales price and the value in use of the asset. An impairment loss is recognised in the income statement if the carrying amount exceeds the recoverable amount. Estimates of the values of the assets are made by independent outside appraisers.

Measurement of deferred tax

A deferred tax asset is recognised for identified taxable losses to the extent that it is probable that future taxable income will arise. 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.

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.

23. Nonrecurring items

Effects on income from divestment of operations and strategic shareholdings, as well as restructuring expenses in connection with major organisational changes and closures of operations, are defined as nonrecurring items.

G3. Segment report

	Åland	Finnish Mainland	Sweden	Crosskey	Corporate and other segments	Eliminations	Total
	2013						
Net interest income	11,187	15,527	13,354	−166	2,074	394	42,371
Net commission income	7,768	16,836	15,711	−71	2,171	26	42,440
Net income from financial items carried at fair value	723	109	−184	0	6,665	24	7,338
Other income	233	235	234	28,300	32,081	−45,290	15,794
Nonrecurring items [1]	0	0	−1,507	0	0	0	−1,507
Total income	**19,912**	**32,707**	**27,609**	**28,062**	**42,992**	**−44,845**	**106,436**
Staff costs	−3,996	−9,252	−11,282	−13,443	−13,115	−35	−51,122
Other expenses	−3,768	−7,521	−6,649	−8,161	−19,989	13,753	−32,336
Depreciation/amortisation and impairment losses on intangible and tangible assets	−272	−926	−7	−3,497	−3,909	590	−8,021
Internal allocation of expenses	−6,946	−11,572	−12,221	0	−84	30,822	0
Omstruktureringskostnader	0	0	−499	0	0	0	−499
Total expenses	**−14,982**	**−29,271**	**−30,657**	**−25,101**	**−37,096**	**45,130**	**−91,978**
Profit before impairment losses	**4,930**	**3,436**	**−3,048**	**2,961**	**5,895**	**285**	**14,459**
Impairment losses on loans and other commitments	−2,812	−915	3	0	−355	0	−4,080
Net operating profit	**2,118**	**2,521**	**−3,046**	**2,961**	**5,540**	**285**	**10,379**
Income taxes	−519	−622	790	−697	−1,537	−94	−2,678
Non-controlling interests	0	−967	0	−1	−41	0	−1,009
Profit for the period attributable to shareholders	**1,599**	**933**	**−2,256**	**2,263**	**3,962**	**191**	**6,692**
Business volume							
Lending	651,177	1,630,306	796,775	0	40,784	−14,957	3,104,086
Deposits	744,978	1,009,313	550,074	0	162,202	−660	2,465,906
Managed assets	271,151	1,688,396	2,361,436	0	658,070	−572,101	4,406,953
Risk-weighted assets	342,115	426,351	510,958	41,484	160,581		1,481,489
Allocated equity capital	41,054	53,927	61,315	6,126	18,119		180,541
Financial ratios etc.							
Return on equity after taxes, % (ROE)	4.1	1.4	−3.9	38.4			3.8
Expense/income ratio	0.75	0.89	1.11	0.89	0.86		0.86
Gross non-performing loans, %	0.57	0.60	0.13		2.31		0.50
Loan loss level, %	0.43	0.06	0.00		0.87		0.13
Lending/deposits, %	87	162	145		25		126
Full-time equivalent positions [2]	66	114	74	191	178		622

[1] Income in 2013 of EUR –1.5 M from a purchase price reduction related to the Swedish subsidiary that was sold during 2012. Income in 2012 of EUR 13.8 M on the sale of the Swedish subsidiary that 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 shares in the equities-trading platform Burgundy.

[2] Number of full-time-equivalent positions, defined as employment level excluding employees on parental and long-term sick leave..

The Bank of Åland Group reports operating segments in compliance with IFRS 8, which means that operating segments reflect the information that the Group's Executive Team receives. In order to match the Bank of Åland's internal reporting to the Group's Executive Team, segment reporting for the period January-December 2012 has been changed. The comparative period has been restated in order to match the new segment reporting.

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. (until liquidation in November 2013). The Crosskey business area consisted of Crosskey Banking Solutions Ab and S-Crosskey Ab. "Corporate and other segments" consisted of all corporate-level entities in the Group including Treasury, as well as 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.

	2012						
	Åland	Finnish Mainland	Sweden	Crosskey	Corporate and other segments	Eliminations	Total
Net interest income	10,956	15,831	10,507	−112	3,502	491	41,175
Net commission income	6,691	13,389	11,136	−48	1,827	−283	32,712
Net income from financial items carried at fair value	241	97	611	0	6,339	−373	6,914
Other income	236	218	571	27,773	31,546	−44,668	15,676
Nonrecurring items [1]	996	0	12,578	0	0	344	13,917
Total income	**19,120**	**29,535**	**35,402**	**27,613**	**43,214**	**−44,489**	**110,393**
Staff costs	−4,100	−8,700	−12,264	−13,607	−12,874	296	−51,250
Other expenses	−3,969	−6,833	−6,889	−8,516	−20,355	12,969	−33,593
Depreciation/amortisation and impairment losses on intangible and tangible assets	−294	−831	−9	−3,162	−5,571	1,730	−8,135
Internal allocation of expenses	−7,166	−12,149	−10,740	0	−183	30,238	0
Restructuring expenses	−96	0	−606	−400	0	0	−1,102
Total expenses	**−15,624**	**−28,513**	**−30,507**	**−25,686**	**−38,982**	**45,233**	**−94,078**
Profit before impairment losses	**3,496**	**1,022**	**4,895**	**1,927**	**4,231**	**744**	**16,314**
Impairment losses on loans and other commitments	−3,603	−2,651	247	0	−423	0	−6,430
Net operating profit	**−108**	**−1,629**	**5,142**	**1,927**	**3,808**	**744**	**9,884**
Income taxes	26	386	−1,132	−491	3,199	56	2,044
Non-controlling interests	0	−704	0	−1	158	−66	−613
Profit for the period attributable to shareholders	**−81**	**−1,947**	**4,010**	**1,435**	**7,165**	**734**	**11,315**
Business volume							
Lending	646,949	1,621,744	608,707	0	39,539	−12,428	2,904,511
Deposits	730,283	1,027,889	483,910	0	215,676	−6,089	2,451,668
Managed assets	270,607	1,536,684	2,383,785	0	525,771	−465,040	4,251,806
Risk-weighted assets	325,445	434,375	449,011	45,604	146,170		1,400,605
Allocated equity capital	39,053	53,681	53,550	5,660	23,867		175,811
Financial ratios etc.							
Return on equity after taxes, % (ROE)	−0.4	−4.8	15.1	29.3			6.6
Expense/income ratio	0.82	0.97	0.86	0.93	0.90		0.85
Gross non-performing loans, %	0.72	0.75	0.17		1.52		0.64
Loan loss level, %	0.56	0.16	−0.04		1.07		0.22
Lending/deposits, %	89	158	126		18		118
Full-time equivalent positions [2]	69	118	83	205	173		647

G4. Product areas	2013					
	Daily banking services incl. Deposits	Financing services	Investment services	IT services	Other	Total
Net interest income	14,977	26,364	85	–166	1,110	42,371
Net commission income	6,691	3,928	31,307	–71	585	42,440
Net income from financial items carried at fair value	1,237	0	107	0	4,487	5,832
IT income	0	0	0	14,759	0	14,759
Other income	0	0	0	104	930	1,034
Total income	**22,906**	**30,292**	**31,499**	**14,625**	**7,113**	**106,436**

	2012					
	Daily banking services incl. Deposits	Financing services	Investment services	IT services	Other	Total
Net interest income	16,075	22,857	125	–112	2,230	41,175
Net commission income	5,619	3,032	24,086	–48	23	32,712
Net income from financial items carried at fair value	260	0	109	0	20,462	20,831
IT income	0	0	0	14,491	0	14,491
Other income	0	0	0	34	1,150	1,184
Total income	**21,954**	**25,889**	**24,321**	**14,365**	**23,865**	**110,393**

Daily banking services included net interest income from all deposit accounts, i.e. also savings accounts, time deposits and cash accounts connected to securities accounts, net commission income from deposits, cashier and payment intermediate services, cards, the Premium concept, bank safety deposit boxes etc. plus income from exchanging currencies. This includes all income from Ab Compass Card Oy Ltd.

Financing services consisted of net interest income from all lending products, i.e. also securities account loans, as well as lending commissions and guarantee commissions.

Investment services included income from discretionary asset management, advisory asset management, fund management, securities brokerage and structured products. Income from deposit accounts and loans that may be part of a customer's asset management were reported under daily banking services and financing services, respectively.

IT services included the operations of Crosskey Banking Solutions Ab Ltd.

Notes to the consolidated income statement

G5. Net interest income	2013			2012		
	Average balance	Interest	Average interest rate, %	Average balance	Interest	Average interest rate, %
Lending to credit institutions	131,560	986	0.75	141,598	1,283	0.91
Lending to the public	3,013,182	70,018	2.32	2,831,481	76,725	2.71
Debt securities	415,259	3,732	0.90	334,322	6,633	1.98
Interest-bearing assets	**3,560,001**	**74,736**	**2.10**	**3,307,401**	**84,641**	**2.56**
Derivative instruments	19,233	563	2.93	21,691	1,454	6.70
Other assets	227,121	21	0.01	218,538	37	0.02
Total assets	**3,806,355**	**75,320**	**1.98**	**3,547,630**	**86,132**	**2.43**
Liabilities to credit institutions	365,784	4,495	1.23	335,129	5,879	1.75
Liabilities to the public	2,154,694	15,202	0.71	2,185,565	23,819	1.09
Debt securities issued	918,606	10,993	1.20	655,606	11,628	1.77
Subordinated liabilities	60,204	1,257	2.09	59,567	1,641	2.75
Interest-bearing liabilities	**3,499,288**	**31,947**	**0.91**	**3,235,867**	**42,966**	**1.33**
Derivative instruments	14,718	813	5.52	15,809	1,880	11.89
Other liabilities	113,628	190	0.17	120,789	111	0.09
Total liabilities	**3,627,634**	**32,950**	**0.91**	**3,372,465**	**44,957**	**1.33**
Total equity capital	178,721			175,165		
Total liabilities and equity capital	**3,806,355**			**3,547,630**		
Net interest income		**42,371**			**41,175**	
Interest margin			1.19			1.23
Investment margin			1.12			1.16

Interest from derivative instruments is recognised together with the item that they hedge within the framework of hedge accounting (fair value hedging and cash flow hedging) and the fair value option.

The interest margin is net interest income divided by interest-bearing assets. The investment margin is net interest income divided by the balance sheet total.

G6. Net commission income	2013	2012
Deposits	977	879
Lending	3,542	2,721
Payment intermediation	8,053	7,485
Mutual fund commissions	13,574	9,867
Asset management commissions	10,103	7,123
Securities brokerage	11,566	9,633
Insurance commissions	76	128
Legal services	593	664
Guarantee commissions	312	265
Other commissions	1,474	1,345
Total commission income	**50,270**	**40,110**
Commission income	3,733	4,285
Mutual fund commission expenses	1,282	0
Asset management commission expenses	629	0
Securities brokerage commission expenses	1,029	1,107
Other commission expenses	1,157	2,006
Total commission expenses	**7,830**	**7,398**
Net commission income	**42,440**	**32,712**

Mutual fund commission expenses and asset management commission expenses were not reported separately during the 2012 financial year. Comparative figures for 2012 are thus not shown. Mutual fund commission expenses and payment commission expenses for the financial year 2012 are found under payment intermediate commission expenses and other commission expenses.

G7. Net income from financial items carried at fair value	2013			2012		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Valuation category fair value via the income statement (“profit and loss”)						
Debt securities	0	−47	−47	−175	−159	−334
Shares and participations	866	80	946	−70	0	−70
Derivative instruments	−831	3,487	2,656	−2,123	438	−1,685
Loan receivables		−3,832	−3,832		1,797	1,797
Valuation category fair value via the income statement (“profit and loss”)	**35**	**−312**	**−277**	**−2,369**	**2,076**	**−293**
Hedge accounting						
of which hedging instruments		−4,400	−4,400		920	920
of which hedged item		4,542	4,542		−682	−682
Hedge accounting		**142**	**142**		**237**	**237**
Net income from foreign exchange dealing	**4,205**	**−323**	**3,882**	**9,647**	**484**	**10,131**
of which attributable to divestment of subsidiaries and associated companies				7,556		7,556
Net income from financial assets available for sale	**3,663**	**−1,579**	**2,085**	**11,600**	**−844**	**10,756**
of which attributable to divestment of subsidiaries and associated companies	0	−1,562	−1,562	7,318		7,318
Total	**7,903**	**−2,072**	**5,832**	**18,879**	**1,953**	**20,831**

G8. Other income	2013	2012
Income from equity capital investments	445	330
Net income from investment properties	–62	1
Rental income on properties	188	83
Capital gains on properties	0	233
Miscellaneous income	414	507
Total	**984**	**1 153**
Specification of net income from investment properties		
Rental income	26	2
Rental expenses	–19	–1
Impairment losses	–61	0
Other expenses	–8	0
Total	**–62**	**1**

G9. Staff costs	2013	2012
Salaries and fees	39,088	39,882
Compensation in the form of shares in Bank of Åland Plc	35	0
Pension expenses	6,808	6,546
Other social security expenses	5,566	5,923
Total	**51,497**	**52,351**
of which variable staff costs	1,610	650
of which staff outplacement expenses	412	2,667

Variable staff costs and staff outplacement expenses are reported including social insurance fees.

Salaries and fees		
Boards of Directors	310	303
Senior executives	2,523	2,710
Others	36,290	36,869
Total	**39,123**	**39,882**

"Boards of Directors" refers to all Board members of Group companies. "Senior executives" refers to the Group's Executive Team and to the Managing Director and Deputy Managing Directors of subsidiaries.

Pension expenses		
Pension expenses	48	42
Other senior executives	515	572
Others	6,245	5,932
Total	**6,808**	**6,546**

The Managing Director's retirement age is at least 63 and at most 68. He will receive a pension in accordance with the Finnish national pension system. Other senior executives in Finland will receive a pension in accordance with the Finnish national pension system. For senior executives in Sweden, a salary-based pension premium of 35 per cent is paid. The premium is paid monthly as long as employment continues, but no longer than to age 65.

Pension expenses		
Defined benefit plans	2,426	2,957
Defined contribution plans	4,382	3,589
Total	**6,808**	**6,546**

	Men	Women	Total	Men	Women	Total
Number of employees						
Åland	104	254	358	100	256	356
Finnish Mainland	43	106	150	42	108	150
Sweden	100	54	153	111	58	169
Sweden	**247**	**414**	**661**	**252**	**422**	**675**

Hours worked, recalculated to full-time equivalent positions		
Bank of Åland Plc	385	385
Crosskey Banking Solutions Ab Ltd	186	202
Ålandsbanken Asset Management AB		6
Ålandsbanken Asset Management Ab	27	25
Ab Compass Card Oy Ltd	12	12
Ålandsbanken Fondbolag Ab	5	6
Ålandsbanken Fonder AB	2	3
Ålandsbanken Equities Research Ab		1
Total number of positions, recalculated from hours worked	**617**	**640**

From June 1, 2012, the operations of Ålandsbanken Asset Management AB (formerly Ålandsbanken Sverige AB) were transferred to Ålandsbanken Abp (Finland) svensk filial (the Swedish branch of Bank of Åland Plc), which means that hours worked in the branch are reported as part of Bank of Åland Plc. Ålandsbanken Equities Research Ab merged with the Bank of Åland Plc during 2012.

	Men	Women	Men	Women
Gender breakdown, per cent				
Board of Directors	71	29	67	33
Senior executives	81	19	78	22

"Board of Directors" refers to the Board of the Bank of Åland Plc.

	Managing Director	Senior executives	Risk-takers	Others	Managing Director	Senior executives	Risk-takers	Others
Total compensation								
Fixed compensation earned	289	2,105	5,873	29,617	267	2,358	6,884	29,659
Provisions for pensions	48	515	1,122	5,123	42	572	1,462	4,470
Variable compensation earned	22	129	488	600	0	85	190	439
Total	**359**	**2,749**	**7,483**	**35,340**	**308**	**3,015**	**8,537**	**34,568**
of which postponed variable compensation	0	0	56	21	0	0	105	0
of which variable compensation paid	22	151	432	579	0	85	85	439
Number of persons who received only fixed compensation	0	9	94	572	1	8	88	576
Number of persons who received both fixed and variable compensation	1	6	32	49	0	7	26	23
Total	**1**	**15**	**126**	**621**	**1**	**15**	**114**	**599**
Postponed variable compensation, January 1	0	0	204	202	0	0	382	291
Variable compensation postponed during the year	0	0	56	21	0	0	105	0
Disbursed during the year	0	0	−40	−100	0	0	−294	−99
Adjusted during the year	0	0	−7	−4	0	0	12	10
Postponed variable compensation, December 31	**0**	**0**	**213**	**119**	**0**	**0**	**204**	**202**

CONDITIONS AND COMPENSATION

General

The Bank's compensation system shall be compatible with the Group's corporate strategy, goals and values, as well as being compatible with and promoting good, effective risk management. The compensation system shall be constructed in such a way that it does not counteract the long-term interests of the Group. An analysis is carried out to determine how the compensation system affects the financial risks that the Bank is subjected to and the management of these risks. There shall be a suitable balance between fixed and variable compensation. The Group's total compensation for a single earning period shall not build up and reward risks that may jeopardise the long-term interests of the Group. In constructing the Bank's compensation system, the Bank has taken into account Finnish Ministry of Finance decree 1372/2010 and the Financial Supervisory Authority's opinion 1/2011.

The Bank's Board of Directors has established an earnings-based compensation system for the 2013 and 2014 financial years, including the Managing Director and the rest of the Executive Team. The Board has also established separate earnings-based compensation systems for employees in the Group's business areas.

Earnings-based compensation for a single individual may not exceed an amount equivalent to 12 monthly salaries per financial year.

Board of Directors

The fees of the Board members are established by the General Meeting. During the period from the 2013 Annual General Meeting to the end of the 2014 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 15,000. Other Board members each receive an annual fee of EUR 12,000, but Board members residing outside Åland are paid twice this annual fee. The meeting fee amounts to EUR 1,000 for the Chairman and EUR 750 for other members.

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

The members of the Bank's Board of Directors are not included in share-based compensation systems.

Managing Director

The Managing Director receives a monthly salary of EUR 22,000. He also receives free automobile benefits and is entitled to the employee benefits that are generally applicable at the Bank. During 2013, the Managing Director was paid compensation totalling EUR 310,700 including fringe benefits.

The Managing Director's retirement age is at least 63 and at most 68. He will receive a pension in accordance with the Finnish national pension system. He is not entitled to a supplementary pension in addition to the statutory public pension.

The notice period in case of resignation initiated by the Managing Director is nine (9) months. During this notice period, he will receive a regular monthly salary. 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 any other compensation.

Senior executives

Compensation to other members of the Executive Team is paid as a fixed individual monthly salary plus generally applicable employment benefits at the Bank.

The other members of the Executive Team are not covered by any supplementary pension arrangement.

Due to a divergent pension system in Sweden, the Bank has obtained premium-based supplementary pension insurance for members of the Executive Team residing in Sweden, with a retirement age of 65.

Disclosures concerning earnings-based (variable) compensation and share-based compensation systems

Earnings-based compensation for risk-takers is paid in its entirety when the compensation is set, if the actual compensation sum for a single individual amounts to a maximum of EUR 50,000. If the compensation exceeds EUR 50,000, disbursal of at least 40 per cent of earnings-based compensation shall be postponed by at least three years (vesting period). If the earnings-based compensation for an individual amounts to an especially large percentage of total fixed and earnings-based compensation, the disbursal of at least 60 per cent of the earnings-based compensation is postponed in a similar way. Since the Bank of Åland Plc is a listed company, at least 50 per cent of the earnings-based compensation is paid in the Bank's shares. The allocated shares must be held for at least 3 months (deferral period) before the recipient of the compensation may have access to them.

The disbursement may be further postponed in light of a comprehensive assessment based on the Group's economic cycle, the nature of its business operations and risks and the job duties and responsibilities of the individual.

The Bank is entitled to abstain from disbursing postponed earning-based compensation if the Group's financial position has substantially deteriorated.

G10. Other expenses	2013	2012
IT expenses (excluding information services)	8,392	8,275
Premises and property expenses	6,160	6,065
Marketing expenses	2,533	3,021
Information services	2,161	2,367
Staff-related expenses	1,966	1,915
Travel expenses	1,174	1,214
Purchased services	2,970	3,300
Deposit guarantee	1,286	1,172
Banking tax	1,658	0
Other expenses	6,325	7,728
Production for own use	−2,167	−1,465
Total	**32,460**	**33,591**

	2013 Auditors elected by General Meeting	2013 Others	2012 Auditors elected by General Meeting	2012 Others
Fees paid to auditors				
Auditing fees paid	174	231	452	16
Consulting fees paid				
In compliance with Finnish Auditing Act, Ch. 1, Sec. 1, Par. 2	22	7	57	0
Tax matters	48	26	78	0
Other	106	120	82	0
Total	**350**	**384**	**669**	**16**

These amounts include value-added tax (VAT). The 2013 Annual General Meeting elected new auditors.

G11. Impairment losses on loans and other commitments	2013	2012
Individual impairment losses		
New and increased impairment losses	8,846	3,926
Reversals of impairment losses	–3,963	–1,323
Actual losses	3,856	1,862
Recoveries of actual losses	–2,246	–35
Total individual impairment losses	**6,492**	**4,430**
Group impairment losses		
New and increased impairment losses	1,937	2,000
Reversal of impairment losses	–4,350	0
Total Group impairment losses	**–2,413**	**2,000**
Total	**4,080**	**6,430**
Doubtful receivables		
Gross doubtful receivables	31,696	13,141
Individual impairment losses	15,753	10,613
Net doubtful receivables	15,943	2,528
Gross doubtful receivables as % of total	1.02	0.45
Level of individual provisions for doubtful receivables, %	50	81

	2013 Reserve for individually assessed receivables	2013 Reserve for receivables assessed by group	2013 Total	2012 Reserve for individually assessed receivables	2012 Reserve for receivables assessed by group	2012 Total
Change in impairment loss reserve						
Reserve on January 1	10,613	3,100	13,713	7,719	1,100	8,819
Provisions for the year	8,846	1,937	10,783	3,937	2,000	5,937
Reclassifications	260		260			
Recovered from earlier provisions	–635	–4,350	–4,985	–964	0	–964
Withdrawn for actual losses	–3,328		–3,328	–91		–91
Exchange rate effect	–3		–3	13		13
Reserve on December 31	**15,753**	**687**	**16,441**	**10,613**	**3,100**	**13,713**

In this context, "restructured loans" refers to loan receivables for which the Bank has granted the borrower concessions because of his/her obviously worsened financial situation, in order to avoid problems with the borrower's repayment ability. This may mean that the Bank grants adjusted loan terms such as repayment deferrals, a substantially extended repayment period or other concessions.

In 2013, the Bank began a follow-up on these commitments. During the year, loans with a total value of EUR 47.8 M were subjected to review (of which EUR 46.4 M in the corporate portfolio and EUR 1.4 M in the household portfolio). At the end of 2013 the total value of restructured loan receivables was EUR 41.2 M (of which EUR 39.8 M in the corporate portfolio and EUR 1.4 M in the household portfolio). The difference consisted of completed individual impairments of EUR 4.8 M and repayments of EUR 1.8 M. The adjusted loan terms mainly consisted of repayment deferrals and extended repayment periods.

G12. Income taxes	2013	2012
Income statement		
Taxes related to prior years	–1	10
Current taxes	1,489	2,324
Change in deferred taxes	1,190	–4,604
Total	**2,678**	**–2,270**
Nominal tax rate in Finland, %	24,5	24.5
Non-taxable income/deductible expenses, %	11.7	–35.5
Taxes on realised translation differences, %	3.9	0.0
Taxes related to losses in prior years, %	0.0	–7.7
Change in tax rate, %	–15.0	0.0
Other, %	0.7	–2.0
Effective tax rate, %	25.8	–20.7
Other comprehensive income		
Current taxes	469	–2,980
Change in deferred taxes	–682	196
Total	**–213**	**–2,783**

Deferred tax assets and liabilities were calculated according to a 20.0 per cent tax rate, which went into effect on January 1, 2014. The effect of the change in tax rate was equivalent to EUR 1,553 K.

G13. Earnings per share

	2013	2012
Profit for the period attributable to shareholders	**6,692**	**11,315**
Average number of shares outstanding before adjustments for repurchases, dilution etc.	14,420,153	14,420,153
Average holding of own shares	–25,000	–24,068
Average number of shares before dilution	14,395,153	14,396,085
Average dilution effect	0	0
Average number of shares after dilution	14,395,153	14,396,085
Earnings per share, EUR	**0.46**	**0.79**

When calculating earnings per share, the average number of shares is calculated as a weighted average of shares outstanding during the period. There were no dilution effects, and earnings per share were thus unchanged.

Notes to the consolidated balance sheet

G14. Classification of financial assets and liabilities — 2013

	Carried at fair value in income statement, divided into								
	Held for trading	Other	Hedge accounting	Financial assets available for sale	Invest-ments held to maturity	Loans and other receivables	Other financial assets/ liabilities	Total carrying amount	Fair value
Cash						50,161		50,161	50,161
Debt certificates eligible for refinancing with central banks			44,294	383,676				427,970	427,970
Lending to credit institutions						130,575		130,575	130,575
Lending to the public		127,090				2,976,996		3,104,086	3,137,642
Debt securities	3			63,592				63,595	63,595
Shares and participations	158			2,069				2,226	2,226
Shares and participations in associated companies							798	798	798
Derivative instruments	12,294	634	2,066					14,994	14,994
Accrued interest income							15,231	15,231	15,231
Receivables on mutual fund settlement proceeds							8,367	8,367	8,367
Total financial assets	**12,456**	**127,724**	**46,360**	**449,337**	**0**	**3,157,731**	**24,396**	**3,818,003**	**3,851,560**
Non-financial assets								68,652	
Total assets								**3,886,655**	
Liabilities to credit institutions							346,517	346,517	349,153
Liabilities to the public		86					2,177,086	2,177,171	2,180,162
Debt securities issued			528,988				489,565	1,018,553	1,024,927
Derivative instruments	5,551	5,674	8,969					20,195	20,195
Subordinated liabilities			16,869				46,961	63,830	64,271
Accrued interest expenses							12,768	12,768	12,768
Liabilities on mutual fund settlement proceeds							8,462	8,462	8,462
Total financial liabilities	**5,551**	**5,760**	**554,826**	**0**	**0**	**0**	**3,081,359**	**3,647,497**	**3,659,938**
Non-financial liabilities								55,076	
Total liabilities								**3,702,573**	

	2012								
	Carried at fair value in income statement, divided into								
	Held for trading	Other	Hedge accounting	Financial assets available for sale	Invest-ments held to maturity	Loans and other receivables	Other financial assets/ liabilities	Total carrying amount	Fair value
Cash						132,547		132,547	132,547
Debt certificates eligible for refinancing with central banks				305,414				305,414	305,414
Lending to credit institutions						103,546		103,546	103,546
Lending to the public		138,684				2,765,827		2,904,511	2,924,993
Debt securities	3,427			41,391				44,818	44,818
Shares and participations	4,231			2,290				6,521	6,521
Shares and participations in associated companies							763	763	763
Derivative instruments	15,918	706	3,769					20,393	20,393
Accrued interest income							11,784	11,784	11,784
Receivables on mutual fund settlement proceeds							37,894	37,894	37,894
Total financial assets	**23,576**	**139,390**	**3,769**	**349,095**	**0**	**3,001,920**	**50,441**	**3,568,191**	**3,588,673**
Non-financial assets								65,216	
Total assets								**3,633,407**	
Liabilities to credit institutions							374,555	374,555	376,581
Liabilities to the public		87					2,127,271	2,127,358	2,127,958
Debt securities issued			269,563				493,655	763,218	760,176
Derivative instruments	4,366	9,634	660					14,660	14,660
Subordinated liabilities							64,139	64,139	65,637
Accrued interest expenses							10,686	10,686	10,686
Liabilities on mutual fund settlement proceeds							35,915	35,915	35,915
Total financial liabilities	**4,366**	**9,721**	**270,223**	**0**	**0**	**0**	**3,106,221**	**3,390,531**	**3,391,613**
Non-financial liabilities								63,828	
Total liabilities								**3,454,359**	

G15. Measurement of financial assets and liabilities carried at fair value	2013			
	Level 1	Level 2	Level 3	Total
Debt securities eligible for refinancing with central banks	427,970			427,970
Lending to the public		127,090		127,090
Debt securities	12,648	50,947		63,595
Shares and participations	1,332	4	890	2,226
Derivative instruments	101	14,893		14,994
Total financial liabilities carried at fair value	**442,052**	**192,934**	**890**	**635,876**
Liabilities to the public		86		86
Debt securities issued		281,685		281,685
Derivative instruments		20,195		20,195
Subordinated liabilities		16,869		16,869
Total financial liabilities carried at fair value		**301,966**		**301,966**

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

	Shares and participations	Total
Change in Level 3 holdings		
Carrying amount on January 1	1,300	1,300
New purchases	30	30
Divested/reached maturity during the year	0	0
Realised change in value in the income statement	0	0
Unrealised change in value in the income statement	–17	–17
Change in value recognised in other comprehensive income	–423	–423
Transfer from Level 1 to Level 2	0	0
Transfer to Level 1 and 2	0	0
Carrying amount on December 31	**890**	**890**

No transfer occurred between Level 1 and Level 2.

	2012			
	Level 1	Level 2	Level 3	Total
Debt securities eligible for refinancing with central banks	305,414			305,414
Lending to the public		138,684		138,684
Debt securities	9,839	34,979		44,818
Shares and participations	5,216	5	1,300	6,521
Derivative instruments		20,393		20,393
Total financial assets carried at fair value	**320,468**	**194,061**	**1,300**	**515,829**
Liabilities to the public		87		87
Debt securities issued		96,527		96,527
Derivative instruments		14,660		14,660
Total financial liabilities carried at fair value		**111,274**		**111,274**

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

	Shares and participations	Total
Change in Level 3 holdings		
Carrying amount on January 1	1,307	1,307
New purchases	21	21
Divested/reached maturity during the year	0	0
Realised change in value in the income statement	0	0
Unrealised change in value in the income statement	–789	–789
Change in value recognised in other comprehensive income	761	761
Transfer from Level 1 to Level 2	0	0
Transfer to Level 1 and 2	0	0
Carrying amount on December 31	**1,300**	**1,300**

No transfer occurred between Level 1 and Level 2.

	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets and liabilities recognised at amortised cost, 2013					
Assets					
Cash and deposits with central banks	50,161		50,161		50,161
Lending to credit institutions	130,575		130,575		130,575
Shares in associated companies	798			798	798
Lending to the public	2,976,996		3,010,552		3,010,552
Total	**3,158,529**		**3,191,288**	**798**	**3,192,085**
Liabilities					
Liabilities to credit institutions	346,517		349,153		349,153
Liabilities to the public	2,177,084		2,180,076		2,180,076
Debt securities issued	736,848		743,242		743,242
Subordinated liabilities	46,961		47,402		47,402
Total	**3,307,410**		**3,319,873**		**3,319,873**

G16. Assets and liabilities by currency

2013	EUR	SEK	USD	Others	Total
Cash	47,977	1,918	37	229	50,161
Debt securities eligible for refinancing with central banks	418,372	9,598	0	0	427,970
Lending to credit institutions	10,387	76,265	32,192	11,730	130,575
Lending to the public	2,278,439	799,249	26,397	0	3,104,086
Debt securities	53,944	9,650	0	0	63,595
Derivative instruments	12,222	2,772	0	0	14,994
Other items not allocated by currency	95,275	0	0	0	95,275
Total assets	**2,916,616**	**899,453**	**58,626**	**11,959**	**3,886,655**
Liabilities to credit institutions	183,041	163,476	0	0	346,517
Liabilities to the public	1,531,293	569,827	57,798	18,254	2,177,171
Debt securities issued	700,501	318,052	0	0	1,018,553
Derivative instruments	13,352	6,843	0	0	20,195
Subordinated liabilities	63,830	0	0	0	63,830
Other items not allocated by currency, including equity capital	260,389	0	0	0	260,389
Total liabilities and equity capital	**2,752,407**	**1,058,197**	**57,798**	**18,254**	**3,886,655**
Other assets and liabilities allocated by currency as well as off-balance sheet items		–158,954	811	–8,364	
Net position in currencies (EUR)		210	18	2,069	2,297

	2012				
	EUR	SEK	USD	Others	Total
Cash	130,655	1,603	64	226	132,547
Debt securities eligible for refinancing with central banks	296,127	9,286	0	0	305,414
Lending to credit institutions	7,220	64,974	21,749	9,603	103,546
Lending to the public	2,282,666	592,306	28,861	678	2,904,511
Debt securities	34,979	9,839	0	0	44,818
Derivative instruments	15,768	4,625	0	0	20,393
Other items not allocated by currency	122,179	0	0	0	122,179
Total assets	**2,889,593**	**682,633**	**50,674**	**10,506**	**3,633,407**
Liabilities to credit institutions	190,394	184,162	0	0	374,555
Liabilities to the public	1,555,532	505,629	51,636	14,562	2,127,358
Debt securities issued	576,463	186,755	0	0	763,218
Derivative instruments	11,200	3,460	0	0	14,660
Subordinated liabilities	64,139	0	0	0	64,139
Other items not allocated by currency, including equity capital	289,477	0	0	0	289,477
Total liabilities and equity capital	**2,718,568**	**848,641**	**51,636**	**14,562**	**3,633,407**
Other assets and liabilities allocated by currency as well as off-balance sheet items		−166,189	−1,109	−5,106	
Net position in currencies (EUR)		181	147	1,050	1,377

G17. Holdings of debt securities

	2013		2012	
	Nominal value	Carrying amount	Nominal value	Carrying amount
Debt securities eligible for refinancing with central banks				
Fair value via the income statement				
Government bonds				
Covered bonds				
Other debt securities	42,900	44,416		
Holdings available for sale				
Government bonds	71,000	75,834	84,500	89,926
Covered bonds	117,680	120,639	124,826	130,555
Debt securities issued by credit institutions	140,100	140,398	25,000	25,687
Other debt securities	44,700	46,683	56,000	59,246
Total debt securities eligible for refinancing with central banks	**416,380**	**427,970**	**290,326**	**305,414**
of which unlisted	0	0	0	0
Other debt securities				
Fair value via the income statement				
Government bonds				
Covered bonds				
Certificates of deposit				
Other debt securities	3	3	3,960	3,427
Holdings available for sale				
Government bonds	2,000	2,000		
Covered bonds	9,595	9,647		
Certificates of deposit	51,000	50,944	35,000	34,979
Debt securities issued by credit institutions			6,409	6,412
Other debt securities	1,000	1,000		
Total other debt securities	**63,598**	**63,595**	**45,369**	**44,818**
of which unlisted	51,000	50,944	35,000	34,979
Total debt securities	**479,978**	**491,565**	**335,695**	**350,232**
of which unlisted	51,000	50,944	35,000	34,979

G18. Lending to credit institutions	2013			2012		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Finnish credit institutions	196	28,886	29,082	289		289
Foreign banks and credit institutions	51,650	49,843	101,493	51,410	51,847	103,256
Total	**51,846**	**78,729**	**130,575**	**51,699**	**51,847**	**103,546**

G19. Lending to the public	2013			2012		
	Amortised cost	Carried at fair value	Total	Amortised cost	Carried at fair value	Total
Companies	540,998		540,998	560,577		560,577
Public sector entities	5,008		5,008	5,580		5,580
Households	1,510,468	127,090	1,637,558	1,463,822	138,684	1,602,507
Household interest organisations	16,376		16,376	15,310		15,310
Outside Finland	904,145		904,145	720,538		720,538
Total	**2,976,995**	**127,090**	**3,104,086**	**2,765,827**	**138,684**	**2,904,511**
of which subordinated receivables			209			209

G20. Shares and participations	2013	2012
Holdings carried at fair value via the income statement		
Listed	158	4,231
Unlisted	0	0
Total	**158**	**4,231**
Holdings classified as available for sale		
Listed	1,190	984
Unlisted	879	1,305
Total	**2,069**	**2,290**
Total shares and participations	**2,226**	**6,521**

G21. Shares in associated companies	2013	2012
Carrying amount on January 1	763	1,209
Portion of profit for the year	51	29
Taxes	0	0
Shareholder contributions	0	0
Dividends	–16	–95
Acquisitions	0	0
Divestments	0	–380
Carrying amount on December 31	**798**	**763**

The following associated companies were consolidated according to the equity method of accounting on December 31, 2013:

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

Combined financial information about these associated companies

Assets	3,329	3,281
Liabilities	977	1,016
Sales	857	934
Profit for the year	166	68

G22. Derivative instruments and hedge accounting

	Nominal amount/maturity			2013			2012		
	Under 1 yr	1–5 yrs	over 5 yrs	Nominal amount	Positive market values	Negative market values	Nominal amount	Positive market values	Negative market values
Derivatives for trading									
Interest-related contracts									
Interest rate swaps	62,330	163,766	35,620	261,717	1,945	6,873	387,207	3,463	11,565
Interest rate futures	10,200	0	0	10,200	101	0			
Interest rate options – purchased	0	14,815	0	14,815	1	0	21,769	2	0
Interest rate options – sold	0	17,914	1,288	19,202	0	1	9,557	0	2
Currency-related contracts									
Currency forward contracts	83,942	13,777	0	97,718	873	1,215	21,393	2,903	1,768
Interest rate and currency swaps	5,511	5,567	0	11,078	138	111	91,626	128	96
Equity-related contracts									
Equity options – purchased	38,194	58,267	0	96,461	8,527	0	117,715	9,564	0
Equity options – written	3,919	2,110	0	6,029	0	1,683			
Other derivative contracts	0	25,022	0	25,022	1,343	1,343	25,022	564	569
Total	**204,096**	**301,238**	**36,908**	**542,242**	**12,929**	**11,226**	**674,289**	**16,624**	**13,999**
Derivatives for market value hedge									
Interest-related contracts									
Interest rate swaps	18,085	103,703	200,000	321,788	2,066	2,212	97,997	3,769	0
Total	**18,085**	**103,703**	**200,000**	**321,788**	**2,066**	**2,212**	**97,997**	**3,769**	**0**
Derivatives for cash flow hedge									
Currency-related contracts									
Interest rate and currency swaps	0	253,976	0	253,976	0	6,033	173,863	0	629
Total	**0**	**253,976**	**0**	**253,976**	**0**	**6,033**	**173,863**	**0**	**629**
Derivatives for hedging of net investment in foreign operations									
Currency-related contracts									
Currency swaps	33,412	0	0	33,412	0	723	41,515	0	31
Total	**33,412**	**0**	**0**	**33,412**	**0**	**723**	**41,515**	**0**	**31**
Total derivative instruments	**255,593**	**658,917**	**236,908**	**1,151,418**	**14,994**	**20,195**	**987,664**	**20,393**	**14,660**
of which cleared OTC									
of which cleared by other means	10,200			10,200	101				

G23. Intangible assets

	2013			
	Internally developed software	Other software	Other intangible assets	Total
Cost on January 1	7,307	14,827	11	22,145
Cost of intangible assets added	844	2,571	0	3,478
Divestments and disposals	–128	–352	0	–481
Transfers between items	0	0	0	–63
Exchange rate effect	0	–47	0	–47
Cost on December 31	**8,023**	**16,999**	**11**	**25,033**
Accumulated amortisation and impairment losses on January 1	–3,618	–8,972	–3	–12,592
Divestments and disposals	0	107	0	12
Amortisation for the year	–1,525	–1,993	–3	–3,521
Impairment losses for the year	0	0	0	95
Exchange rate effect	0	39	0	39
Accumulated amortisation and impairment losses on December 31	**–5,142**	**–10,819**	**–6**	**–15,967**
Residual value on December 31	**2,880**	**6,180**	**6**	**9,066**

	2012			
	Internally developed software	Other software	Other intangible assets	Total
Cost on January 1	7,335	12,642	12	19,988
Cost of intangible assets added	659	2,805	0	3,465
Divestments and disposals	−687	−482	0	−1,169
Transfers between items	0	−139	0	−139
Exchange rate effect	0	0	0	0
Cost on December 31	**7,307**	**14,827**	**11**	**22,145**
Accumulated amortisation and impairment losses on January 1	−2,740	−7,169	0	−9,909
Divestments and disposals	654	339	0	992
Amortisation for the year	−1,350	−1,886	−3	−3,239
Impairment losses for the year	−181	−339	0	−519
Exchange rate effect		83	0	83
Accumulated amortisation and impairment losses on December 31	**−3,618**	**−8,972**	**−3**	**−12,592**
Residual value on December 31	**3,689**	**5,855**	**9**	**9,553**

G24. Tangible assets

G24. Tangible assets	2013	2012
Investment properties	693	441
Properties for own use	22 923	23 347
Other tangible assets	7 059	8 951
Total	**30 675**	**32 740**

	2013			2012		
	Investment properties	Properties for own use	Other tangible assets	Investment properties	Properties for own use	Other tangible assets
Cost on January 1	750	32,335	31,383	856	31,781	28,025
New acquisitions	0	1,349	1,405	144	693	4,669
New construction and renovations	0	0	0	0	0	0
Divestments and disposals	0	−1,164	−913	−250	−307	−1,650
Transfers between items	322	−322	0	0	168	−29
Corrections		3,475				
Exchange rate effect	0	0	−311	0	0	369
Cost on December 31	**1,072**	**35,673**	**31,564**	**750**	**32,335**	**31,383**
Accumulated depreciation on January 1	−308	−8,987	−22,433	−377	−7,502	−20,467
Depreciation for the year	0	−1,281	−2,987	−2	−1,250	−3,067
Impairment losses for the year	−61	−164	−7	0	−58	0
Divestments and disposals	0	1,249	586	70	−178	1,493
Transfers between items	−9	0	0	0	0	0
Corrections		−3,566				
Exchange rate effects	0	0	335	0	0	−392
Accumulated depreciation on December 31	**−378**	**−12,750**	**−24,505**	**−308**	**−8,987**	**−22,433**
Carrying amount	**693**	**22,923**	**7,059**	**441**	**23,347**	**8,951**
of which buildings	0	20,938		0	21,037	
of which land and water	3	1,825		3	1,825	
of which shares in real estate companies	691	160		439	485	

The carrying amount of investment properties was the same as their market value in 2013.

G25. Other assets	2013	2012
Payment transfer receivables	0	3
Receivables on mutual fund settlement proceeds	8,367	37,894
Other	10,644	7,552
Total	**19,011**	**45,449**

G26. Accrued income and prepayments	2013	2012
Accrued interest income	15,231	11,784
Other accrued income	7,657	3,324
Prepaid taxes	79	466
Other prepaid expenses	4,674	3,643
Total	**27,641**	**19,217**

G27. Deferred tax assets and liabilities	2013	2012
Deferred tax assets		
Taxable losses	791	975
Provisions	58	178
Cash flow hedge	97	0
Intangible assets	4,458	5,913
Debt securities issued	125	241
Pension liabilities	283	580
Other	45	49
Total	**5,857**	**7,936**
Deferred tax liabilities		
Taxable temporary differences		
Untaxed reserves	7,341	6,457
Fair value option and hedging	657	1,333
Intangible assets	576	904
Tangible assets	1,990	2,506
Pension assets	468	142
Financial assets available for sale		
Debt securities available for sale	204	1,322
Shares and participations available for sale	75	149
Total	**11,312**	**12,812**
Net deferred tax liabilities	**5,454**	**4,877**

	2013					
	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Exchange rate effects	Effect of changed tax rate	Closing balance
Changes in deferred taxes, 2013						
Taxable losses	975	–7			–178	791
Provisions	178	–107			–13	58
Cash flow hedge	0	0	119		–22	97
Intangible assets	5,010	–532		–123	–472	3,882
Debt securities issued	241	–87			–28	125
Pension liabilities	580	–56		–177	–64	283
Untaxed reserves	–6,457	–2,525			1,640	–7,341
Market value hedge	–1,333	528			148	–657
Tangible assets	–2,506	68			448	–1,990
Pension assets	–142	–56	–376		106	–468
Debt securities available for sale	–1,322	0	1,072		46	–204
Shares and participations available for sale	–149	0	57		17	–75
Other	49	6			–10	45
Total	**–4,877**	**–2,766**	**871**	**–300**	**1,617**	**–5,454**

	2012				
	January 1	Recognised in income statement	Recognised in other comprehensive income	Exchange rate effects	December 31
Changes in deferred taxes, 2012					
Taxable losses	1,175	–200			975
Provisions	698	–521			178
Intangible assets	5,165	–331		176	5,010
Debt securities issued	268	–27			241
Pension liabilities	592	–35		22	580
Untaxed reserves	–12,214	5,757			–6,457
Market value hedge	–1,060	–273			–1,333
Tangible assets	–2,598	86	6		–2,506
Pension assets	–1,023	–33	915		–142
Debt securities available for sale	–534		–787		–1,322
Shares and participations available for sale	–43		–106		–149
Other	128	–45	–34		49
Total	**–9,446**	**4,378**	**–7**	**198**	**–4,877**

	2013	2012
Actual tax loss carry-forwards and their expiration year		
2017	368	682
2018	578	585
2019	482	481
2020	1,160	1,227
2021	881	981
2022	370	254
2023	120	
Total	**3,958**	**4,209**

Actual tax loss carry-forwards were equivalent to a deferred tax asset of EUR 791 K (1,031). Of this, EUR 791 K (975) 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.

G28. Liabilities to credit institutions

	2013			2012		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Central banks		130,000	130,000		130,000	130,000
Finnish credit institutions	17,091	37,555	54,646	26,959	64,240	91,199
Foreign banks and credit institutions	56,711	105,160	161,871	61,836	91,520	153,356
Total	**73,802**	**272,715**	**346,517**	**88,795**	**285,760**	**374,555**

G29. Liabilities to the public

	2013			2012		
	Amortised cost	Carried at fair value	Total	Amortised cost	Carried at fair value	Total
Companies	492,569		492,569	438,617		438,617
Public sector entities	32,387		32,387	37,958		37,958
Households	912,990	86	913,076	973,491	87	973,578
Household interest organisations	41,415		41,415	37,498		37,498
Outside Finland	697,724		697,724	639,707		639,707
Total	**2,177,086**	**86**	**2,177,171**	**2,127,271**	**87**	**2,127,358**

G30. Debt securities issued

	2013		2012	
	Nominal value	Carrying amount	Nominal value	Carrying amount
Certificates of deposit	133,901	133,787	188,458	188,189
of which at amortised cost	133,901	133,787	188,458	188,189
Covered bonds	544,618	540,439	354,984	354,092
of which at amortised cost	175,300	174,922	180,200	179,767
of which for market value hedge	200,000	196,680		
of which for cash flow hedge	169,318	168,836	174,784	174,325
Non-covered bonds	240,998	240,812	95,400	95,222
of which at amortised cost	156,339	156,258	95,400	95,222
of which for cash flow hedge	84,659	84,554		
Index bonds (structured products)	98,284	103,516	117,411	125,715
of which at amortised cost	25,077	24,599	28,941	29,188
of which for market value hedge	73,208	78,917	88,471	96,527
Total	**1,017,802**	**1,018,553**	**756,253**	**763,218**

G31. Other liabilities

	2013	2012
Payment transfer liabilities	13,429	15,943
Liabilities on mutual fund settlement proceeds	8,462	35,915
Other	13,784	14,636
Total	**35,674**	**66,494**

G32. Provisions

	2013			2012
	Provisions for restructuring reserves	Other provisions	Total	Total
Provisions on January 1	1,085	9	1,094	4,207
Provisions made during the year	405	283	689	713
Amounts utilised	–1,046	–2	–1,048	–3,456
Unutilised amounts recovered	–39		–39	–370
Exchange rate changes	–16		–16	
Provisions on December 31	**389**	**291**	**680**	**1,094**

The provisions for restructuring reserves were related to both Finland and Sweden. These provisions included both staff costs and other expenses, but primarily consisted of staff costs.

G33. Accrued expenses and prepaid income

	2013	2012
Accrued interest expenses	12,768	10,686
Other accrued expenses	245	513
Taxes	13,557	13,460
Prepaid income	2,071	5,370
Total	**28,641**	**30,029**

G34. Subordinated liabilities

	2013			2012		
	Nominal amount	Carrying amount	Amount in capital base	Nominal amount	Carrying amount	Amount in capital base
Debenture loan 1/2008	0	0	0	3,192	3,192	3,192
Debenture loan 2/2008	0	0	0	681	681	681
Debenture loan 1/2009	16,835	16,835	16,835	16,908	16,908	16,908
Debenture loan 2/2009	3,410	3,410	3,410	6,821	6,821	6,821
Debenture loan 1/2010	4,381	4,381	4,381	6,575	6,575	6,575
Debenture loan 2/2010	7,992	7,992	7,992	11,868	11,868	11,868
Debenture loan 1/2011	3,004	3,004	3,004	3,950	3,950	3,950
Debenture loan 1/2012	11,219	11,219	11,219	14,024	14,024	14,024
Debenture loan 1/2013	16,886	16,869	16,869	0	0	0
Capital loan, Ålandsbanken Asset Management Ab	120	120	120	120	120	120
Total	**63,847**	**63,830**	**63,830**	**64,139**	**64,139**	**64,139**
of which market value hedge	16,886	16,869	16,869			

	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
Debenture loan 1/2013	2.30% fixed interest	July 3, 2018
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.

G35. Specification of changes in equity capital

	2013	2012
Change in hedge reserve		
Hedge reserve on January 1	–1,171	0
Unrealised changes in value during the year	806	–1,171
Recognised in the income statement due to ineffectiveness	0	0
Effect of change in tax rate	–22	
Hedge reserve on December 31	**–387**	**–1,171**
Change in fair value reserve		
Fair value reserve on January 1	4,533	1,781
Divested or reached maturity during the year	–2,836	–1,075
Impairment loss in the income statement	17	40
Unrealised change in market value for remaining and new holdings	–660	3,788
Effect of change in tax rate	63	
Fair value reserve on December 31	**1,117**	**4,533**
Change in translation differences		
Translation differences on January 1	–189	7,823
Change in translation differences attributable to branches	678	492
Change in translation differences due to subsidiaries	979	–5,822
Change in translation differences related to hedging of net investment in foreign operations	–901	–2,412
Other changes	–79	107
Effect of change in tax rate	10	
Translation differences on December 31	**499**	–189

Specification of retained earnings		
Share of accumulated appropriations	29,364	19,897
Difference between fair value of pension assets and pension liabilities in defined benefit plans	2,207	2,426
Total non-distributable retained earnings	**31,571**	**22,323**
Distributable	36,531	39,105
Total retained earnings	**68,102**	**61,428**

Other notes

G36. Assets pledged	2013	2012
Cash	8,167	8,402
Government securities and bonds	188,650	176,143
Lending to the public	892,569	665,141
Other	2,066	2,314
Total assets pledged for own liabilities	**1,091,452**	**852,000**

"Other assets pledged for own liabilities" refers to endowment insurance. "Lending to the public" that was provided as collateral consisted of the registered collateral pool on behalf of holders of covered bonds.

Other assets pledged		
Cash	18,816	5,959
Government securities and bonds	23,021	29,202
Shares	29,823	18,413
Total other assets pledged	**71,660**	**53,574**

Assets pledged in the form of government securities and bonds were mainly provided as collateral to central banks and credit institutions for payment systems, securities trading and clearing. Assets pledged in the form of shares mainly consisted of shares lent to others.

G37. Contingent liabilities and commitments	2013	2012
Guarantees	23,646	14,609
Unutilised overdraft limits	75,859	69,147
Unutilised credit card limits	105,250	88,412
Lines of credit	176,384	195,484
Other	36,433	37,635
Total	**417,572**	**405,287**

G38. Pension liabilities

Pension coverage for employees in Finland has been arranged partly through the Finnish national pension system (a defined contribution plan) and partly via the pension fund known as Ålandsbanken Abps Pensionsstiftelse (a defined benefit plan). Ålandsbanken Abps Pensionsstiftelse has been closed to new participants since June 30, 1991. Persons covered by this fund are entitled to retire at age 60–65 depending on their year of birth. The full retirement pension comprises 60 per cent of pensionable salary, which is calculated according to the same principles as in the national pension system. A family pension comprises 30–60 per cent depending on whether the surviving spouse is alone or has one or more children.

Pension coverage for employees in Sweden follows the so-called BTP multi-employer plan for banking employees and historically is largely defined benefit. Starting on May 1, 2013, new employees are covered by a new defined premium supplementary pension plan known as BTP1. The BTP plan is secured through the insurance company SPP. In Sweden, the retirement pension is payable from age 65 and the guaranteed amount consists of 10 per cent of pensionable salary below 7.5 annually indexed “income base amounts” (SEK 424,500 in 2013) and 65 per cent of the portion of salary between 20 and 30 income base amounts. The guaranteed amount of a family pension is 32.5 per cent of the portion of salary between 7.5 and 20 income base amounts and 16.25 per cent of the portion of salary between 20 and 30 income base amounts.

The duration of defined benefit plans in Finland is 14 years and in Sweden 26 years.

	2013	2012
Carrying amount in the balance sheet		
Pension obligations	20,612	22,452
Fair value of plan assets	21,538	20,664
Net pension assets (+)/pension liabilities (–)	**926**	**–1,788**
Pension assets in Finland	2,340	578
Pension liabilities in Sweden	1,414	2,366
	926	**–1,788**
Carrying amount in the income statement		
Current service costs	412	367
Interest expenses	62	–113
Administrative expenses	48	0
Expenses (–)/revenue (+) recognised in the income statement	**523**	**253**
Restatement of defined benefit pension plans in “Other comprehensive income”		
Actuarial gain (+)/loss (–), financial assumptions	1,041	–2,125
Actuarial gain (+)/loss (–), experience-based	1,001	–1,464
Actuarial gain (+)/loss (–) on plan assets	635	744
	2,677	**–2,845**
Total	**2,154**	**–253**
Change in pension obligations		
January 1	1,788	–1,730
Income	523	253
Other comprehensive income	–2,677	3,734
Premium payments	–477	–517
Exchange rate effects	–83	47
On December 31	**–926**	**1,788**
Pension obligations		
January 1	22,452	17,654
Current service costs	404	371
Interest expenses	684	754
Benefits paid	–748	–804
Exchange rate effect	–134	0
Actuarial gains (–)/losses (+)	–2,046	4,478
Pension obligations on December 31	**20,612**	**22,452**

Plan assets		
January 1	20,664	19,383
Interest income	623	866
Premium payments	477	517
Benefits paid	−748	−804
Actuarial gains (−)/losses (+)	630	744
Exchange rate effects	−60	0
Contributions	−48	−42
Plan assets on December 31	**21,538**	**20,664**
Breakdown of plan assets		
Listed shares and participations	6,893	5,226
Listed mutual fund units	2,149	0
Listed interest-bearing securities	7,572	9,714
Properties	3,139	3,307
Other plan assets	1,785	2,417
Total plan assets	**21,538**	**20,664**

Plan assets included shares in Bank of Åland Plc with a market value of EUR 13 K (12), bonds worth EUR 568 K (900) and bank deposits worth EUR 1,205 K (1,848).

	Outcome, 2013	Forecast, 2014
Future cash flows		
Benefits paid	488	472

	2013		2012	
	Finland, %	Sweden, %	Finland, %	Sweden, %
Assumptions				
Discount rate	3.2	4.0	3.0	3.5
Increase in salary expenses	1.9	3.0	1.9	3.0
Pension index increase	2.1	3.0	2.1	3.0
Inflation	2.0	2.0	2.0	2.0
Staff turnover	0.0	4.0	0.0	4.0

	Change in assumptions,%	Increase in assumption	Decrease in assumption
Sensitivity analysis			
Discount rate	0,5	−1,579	1,776
Expected increase in salaries	0,5	190	−147
Expected increase in pensions	0,5	1,103	−999

The sensitivity analysis is based on a change in one assumption, while all other assumptions remain constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method is used as when calculating the pension liabilities recognised in the balance sheet. The sensitivity analysis for the defined benefit plan in Sweden has been calculated only for the discount rate.

The Bank is exposed to a number of risks because of its defined benefit plans. The most significant risks are described below.

ASSET VOLATILITY:

Pension liabilities are calculated with the help of a discount rate based on corporate bonds with good credit ratings. If plan assets generate returns worse than the discount rate, this will cause a deficit. Plan assets include a sizeable percentage of equities, which in the long term are expected to provide a higher return than the discount rate, while providing higher volatility and risk in the short term. Because of the long-term nature of pension liabilities, the Bank believes that a continued high percentage of equities is suitable for managing the plans in an effective way.

CHANGES IN BOND YIELDS:

In case the yields on corporate bonds fall, this leads to an increase in pension obligations. Partly offsetting this is the fact that the value of the bonds that are included in plan assets will increase.

INFLATION RISK:

Pension obligations are connected to inflation. Higher inflation will lead to increased pension obligations. Plan assets are not affected by inflation to any great extent, which means that if inflation increases, this will lead to an increased deficit in pension plans.

LIFE EXPECTANCY:

Pension plans generate pensions that extend through the lifetimes of employees. This means that if life expectancy increases, pension obligations will increase.

G39. Lease liabilities and rental obligations	2013	2012
Lease payments due		
under 1 year	4,853	5,219
1–5 years	6,638	6,677
over 5 years	1,618	2,179
Total lease payments due	**13,109**	**14,075**
Finance leases, present value		
under 1 year	1,192	1,236
1–5 years	1,688	2,379
over 5 years	0	0
Total finance leases, present value	**2,880**	**3,615**
Finance leases, minimum rents		
under 1 year	1,324	1,398
1–5 years	1,811	2,598
over 5 years	0	0
Total financial leases, minimum rents	**3,135**	**3,996**
Interest expenses	255	381
Machinery and equipment, recognised value	2,868	3,378

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.

G40. Disclosures about related parties	2013			2012		
	Board and Executive Team	Related companies	Associated companies	Board and Executive Team	Related companies	Associated companies
Assets						
Lending to credit institutions						
Lending to the public	2,531	7,277	500	2,604	6,534	500
Other assets			0			9
Accrued income and prepayments			79			62
Total assets	**2,531**	**7,277**	**579**	**2,604**	**6,534**	**570**
Liabilities						
Liabilities to credit institutions						
Liabilities to the public	834	681	1,940	1,470	5,406	2,447
Debt securities issued			200			200
Subordinated liabilities			360			680
Accrued expenses and prepaid income			1			1
Total liabilities	**834**	**681**	**2,501**	**1,470**	**5,406**	**3,327**
Income and expenses						
Interest income	49	169	23	65	173	23
Interest expenses	–6	0	–22	–10	–1	–38
Commission income	0	1	79		4	62
Commission expenses						
Other income			7			9
Other expenses						
Total	**43**	**170**	**87**	**55**	**176**	**56**

"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. "Associated companies" also includes Ålandsbanken Abp:s Pensionsstiftelse r.s. Members of the Board of Directors and the Executive Team may be granted a personal loan in a maximum amount of EUR 250,000 (0,000) with approved collateral. The employee interest rate is set by the Executive Team and amounted to 0.971 per cent (0.935) on December 31, 2013. All transactions with related parties have occurred on commercial terms. For disclosures on salaries and fees paid to the Board of Directors and the Executive Team, see Note P35.

G41. Offsetting of financial assets and liabilities	2013		2012	
	Derivatives	Repurchasing agreements plus lending and borrowing of securities	Derivatives	Repurchasing agreements plus lending and borrowing of securities
Financial assets that are offset or covered by offsetting agreements				
Gross amount of financial assets	14,994		20,393	
Gross amount of financial liabilities offset in the balance sheet				
Net amount of financial assets recognised in the balance sheet	**14,994**		**20,393**	
Related amounts not offset in the balance sheet				
Financial instruments that do not meet offsetting criteria	5,087		16,250	
Financial collateral received				
Net amount	**9,907**		**4,143**	
Financial liabilities that are offset or covered by offsetting agreements				
Gross amount of financial liabilities	20,195	12,874	14,660	5,441
Gross amount of financial assets offset in the balance sheet				
Net amount of financial liabilities recognised in the balance sheet	**20,195**	**12,874**	**14,660**	**5,441**
Related amounts not offset in the balance sheet				
Financial instruments that do not meet offsetting criteria	7,912		6,577	
Financial collateral pledged	2,350	12,874	1,320	5,441
Net amount	**9,933**	**0**	**6,763**	**0**

The tables report financial instruments that were offset in the balance sheet in compliance with IAS 32 and those that were covered by legally binding master netting agreements or similar agreements not qualified for netting. The financial instruments consisted of derivatives, repurchase agreements (repos) and reverse repos, securities deposits and securities loans. Collateral consisted of financial instruments or cash received or paid for transactions covered by legally binding netting agreements or similar agreements. The value of the collateral was limited to the related amount recognised in the balance sheet, so the excess value of collateral is not included. Amounts not offset in the balance sheet are presented as a reduction in the carrying amount of financial assets or liabilities in order to recognise the net exposure of the asset and liability.

G42. Restatement of financial reports due to revised IAS 19 and corrections

The restatement is attributable to recognition of defined benefit pensions in compliance with the revised IAS 19, "Employee benefits". Shown below is the IAS 19 adjustment for the financial years 2011 and 2012 in the same column.

The corrections are related to a number of items in older financial statements that have been corrected. These items are related to reporting of deferred tax assets in connection with the transfer of business assets and liabilities to the branch in Sweden, defined benefit pension plans in compliance with IAS 19 in Swedish operations, intangible assets that arose when purchasing the asset management company Allcap, market valuation of fixed interest loans and zero coupon bonds issued within the framework of the fair value option as well as fair value hedging and revaluation of the Head Office property when transitioning to IFRSs with regard to capital adequacy reporting.

	2012	IAS 19 adjustments	Corrections	Adjusted 2012
Interest income	86,132			86,132
Interest expenses	−44,957			−44,957
Net interest items	**41,175**			**41,175**
Commission income	40,110			40,110
Commission expenses	−7,398			−7,398
Net commission income	**32,712**			**32,712**
Net income from financial items carried at fair value	20,818		14	20,831
IT income	14,491			14,491
Share of profit in associated companies	29			29
Other income	1,153			1,153
Total income	**110,379**		**14**	**110,393**
Staff costs	−52,264	−230	143	−52,351
Other expenses	−33,591			−33,591
Depreciation/amortisation and impairment losses on intangible and tangible assets	−8,135			−8,135
Total expenses	**−93,990**	**−230**	**143**	**−94,078**
Profit before impairment losses	**16,389**	**−230**	**157**	**16,314**
Impairment losses on loans and other commitments	−6,430			−6,430
Net operating profit	**9,957**	**−230**	**157**	**9,884**
Income taxes	2,214	56	−226	2,044
Net operating profit	**12,171**	**−174**	**−68**	**11,928**
Attributable to:				
Non-controlling interests	613			613
Shareholders in Bank of Åland Abp	**11,558**	**−174**	**−68**	**11,315**
Earnings per share, EUR	0,80		−0,01	0,79
Profit for the accounting period	**12,171**	**−174**	**−68**	**11,928**
Cash flow hedge	−1,551			−1,551
Assets available for sale	3,646			3,646
Translation differences	−8,119		107	−10,611
Income taxes	−513			2,086
Items that may not be reclassified to the income statement	**−6,537**		**107**	**−6,430**
Restatement of defined benefit pension plans	0	3,734	889	−2,845
Income taxes	0	−915	−346	569
Items that may not be reclassified to the income statement	**0**	**2,819**	**543**	**−2,276**
Other comprehensive income	**−6,537**	**−2,819**	**650**	**−8,705**
Total comprehensive income for the accounting period	**5,634**	**−2,993**	**582**	**3,223**
Attributable to:				
Non-controlling interests	613			613
Shareholders in Bank of Åland Plc	**5,021**	**−2,993**	**582**	**2,610**

	2012	IAS 19 adjustments	Corrections	Adjusted 2012
Assets				
Cash and deposits with central banks	132,547			132,547
Debt securities eligible for refinancing with central banks	305,414			305,414
Lending to credit institutions	103,546			103,546
Lending to the public	2,905,566		−1,054	2,904,511
Debt securities	44,818			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		−1,373	9,553
Tangible assets	32,740			32,740
Other assets	44,838			45,451
Accrued income and prepayments	26,432	6,604		19,217
Deferred tax assets	2,723		5,213	7,936
Total assets	**3,637,226**	**6,604**	**2,786**	**3,633,409**
Liabilities				
Liabilities to credit institutions	374,555			374,555
Liabilities to the public	2,127,358			2,127,358
Debt securities issued	759,728		3,490	763,218
Derivative instruments	14,660			14,660
Other liabilities [1]	66,494			66,494
Provisions [1]	1,094			1,094
Accrued expenses and prepaid income	27,663		2,366	30,029
Subordinated liabilities	64,139			64,139
Deferred tax liabilities	15,543	−1,618	−1,113	12,812
Total liabilities	**3,451,234**	**−1,618**	**4,743**	**3,454,359**
Equity capital and non-controlling interests				
Share capital	29,104			29,104
Share premium account	32,736			32,736
Reserve fund	25,129			25,129
Hedging reserve	−1,171			−1,171
Fair value reserve	4,533			4,533
Translation differences	−296		107	−189
Own shares	−244			−244
Unrestricted equity capital fund	24,485			24,485
Retained earnings	68,479	−4,986	−2,064	61,428
Shareholders’ portion of equity capital	**182,755**	**−4,986**	**−1,957**	**175,811**
Non-controlling interests’ portion of equity capital	3,236			3,236
Total equity capital	**185,991**	**−4,986**	**−1,957**	**179,048**
Total liabilities and equity capital	**3,637,226**	**−6,604**	**2,786**	**3,633,407**

[1] “Other liabilities” and “Provisions” have been corrected, compared to previously published data.

Parent Company income statement

(EUR K)

Parent Company	Note	Jan 1–Dec 31, 2013	Jan 1–Dec 31, 2012
Interest income		73,897	83,870
Net lease income	P3	3	18
Interest expenses		–33,003	–46,630
Net interest income	P2	**40,896**	**37,258**
Commission income		34,153	24,633
Commission expenses		–4,625	–3,390
Net commission income	P4	**29,527**	**21,243**
Net income from financial items carried at fair value	P6	9,836	26,404
Income from equity capital investments	P5	3,783	2,828
Other income	P7	1,986	2,057
Total income		**86,028**	**89,790**
Staff costs	P8	–33,832	–34,088
Other expenses	P9	–34,416	–35,036
Depreciation/amortisation and impairment losses on tangible and intangible assets	P20, P21	–6,153	–7,720
Impairment losses on other financial assets	P10	–134	–1,815
Total expenses		**–74,533**	**–78,659**
Profit before impairment losses		**11,494**	**11,131**
Impairment losses on loans and other commitments	P11	–3,725	–5,616
Net operating profit		**7,770**	**5,516**
Appropriations		–10,100	23,498
Income taxes	P12	–111	–663
Net profit for the accounting period		**–2,441**	**28,351**

Parent Company balance sheet

(EUR K)

Parent Company	Note	Dec 31, 2013	Dec 31, 2012
Assets			
Cash and deposits with central banks		50,161	132 547
Debt securities eligible for refinancing with central banks	P15	427,970	305 414
Lending to credit institutions	P16	130,090	101 568
Lending to the public	P17	3,077,495	2 876 297
Debt securities	P15	60,594	44 818
Shares and participations	P18	2,226	6 521
Shares and participations in associated companies	P18	1,001	1 001
Shares and participations in Group companies	P18	11,441	12 514
Derivative instruments	P19	14,994	20 393
Intangible assets	P20	25,122	27 751
Tangible assets	P21	17,631	18 625
Other assets	P22	17,263	42 461
Accrued income and prepayments	P23	22,063	18 263
Deferred tax assets	P24	198	212
Total assets		**3,858,249**	**3 608 384**
Liabilities			
Liabilities to credit institutions	P25	329,451	358 614
Liabilities to the public	P26	2,180,714	2 138 989
Debt securities issued	P27	1,009,865	749 615
Derivative instruments	P19	26,588	23 835
Other liabilities	P28	31,391	60 248
Provisions	P29	649	1 085
Accrued expenses and prepaid income	P30	23,627	20 054
Subordinated liabilities	P31	63,710	64 019
Deferred tax liabilities	P24	279	1 471
Total liabilities		**3,666,275**	**3 417 930**
Appropriations			
General loan loss reserve[1]		36,454	26,354
Total appropriations		**36,454**	**26,354**
Equity capital			
Share capital		29,104	29,104
Share premium account		32,736	32,736
Reserve fund		25,129	25,129
Hedging reserve		–387	0
Fair value reserve		1,118	4,533
Translation differences		–48	128
Unrestricted equity capital fund		24,681	24,681
Own shares		–244	–244
Retained earnings		43,432	48,033
Total equity capital		**155,520**	**164,100**
Total liabilities and equity capital		**3,858,249**	**3,608,384**
Off-balance sheet obligations	P39		
Obligations to a third party on behalf of customers			
Guarantees		27,310	18,549
Irrevocable commitments given on behalf of customers		255,366	281,984
Other		36,433	37,635

[1] Loan loss provision in compliance with the Finnish Business Income Tax Act, Section 46.

Parent Company statement of changes in equity capital

(EUR K)

Parent Company	Share capital	Share premium account	Reserve fund	Hedging reserve	Fair value reserve	Translation difference	Unrestricted equity capital fund	Own shares	Retained earnings	Total
Dec 31, 2011	**29,104**	**32,736**	**25,129**	**0**	**1,775**	**–70**	**24,681**	**–54**	**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
Dec 31, 2012	**29,104**	**32,736**	**25,129**	**0**	**4,533**	**128**	**24,681**	**–244**	**48,033**	**164,100**
Change in fair value				–387	–3,416					–3,803
Translation differences						–168				–168
Purchases of own shares										0
Profit for the year									–2,441	–2,441
Dec 31, 2013	**29,104**	**32,736**	**25,129**	**–387**	**1,118**	**–48**	**24,681**	**–244**	**43,432**	**155,520**

See also the section entitled “Facts on Bank of Åland shares”.

Parent Company cash flow statement

(EUR K)

Parent Company	2013	2012
Cash flow from operating activities		
Net operating profit	7,770	5,516
Adjustment for net operating profit items not affecting cash flow		
Depreciation/amortisation and impairment losses on intangible and tangible assets	6,153	7,720
Impairment losses on loans and other commitments	3,705	5,644
Unrealised changes in value	–872	551
Accrued surpluses/deficits on debt securities and bonds issued	2,581	4,861
Income from investing activities	–197	–23,990
Dividends from associated companies and subsidiaries	–3,338	–2,498
Income taxes paid	–4	0
Increase (–) or decrease (+) in receivables from operating activities		
Debt securities eligible for refinancing with central banks	–107,528	–178,628
Lending to credit institutions	–5,191	4,989
Lending to the public and public sector entities	–223,943	–135,567
Other assets	389	169,464
Increase (–) or decrease (+) in liabilities from operating activities		
Liabilities to credit institutions	–18,146	121,853
Liabilities to the public and public sector entities	56,904	–85,390
Debt securities issued	–74,642	–42,592
Other liabilities	–22,521	1,401
Total cash flow from operating activities	**–378,883**	**–146,668**
Cash flow from investing activities		
Investment in shares and participations	–144	–136
Divestment of shares and participations	1	929
Divestment of shares in associated companies and subsidiaries	376	59,626
Dividends received from associated companies and subsidiaries	3,338	2,498
Investment in tangible assets	–430	–897
Divestment of tangible assets	32	637
Investment in intangible assets	–2,767	–3,465
Total cash flow from investing activities	**407**	**59,193**
Cash flow from financing activities		
Purchases of own shares	0	–190
Change in long-term borrowings	139,460	–213,100
Change in covered bonds issued	189,186	354,026
Change in subordinated debentures	–292	6,391
Dividend paid	–2,159	0
Total cash flow from financing activities	**326,195**	**147,127**
Cash and cash equivalents at beginning of year	243,671	181,266
Cash flow from operating activities	–378,883	–146,668
Cash flow from investing activities	407	59,193
Cash flow from financing activities	326,195	147,127
Exchange rate differences in cash and cash equivalents	–1,260	2,752
Cash and cash equivalents at end of year	**190,129**	**243,671**
Cash and cash equivalents consisted of the following items:		
Cash	6,003	7,683
Cheque account with Bank of Finland	44,157	124,864
Claims repayable on demand from credit institutions	120,884	96,127
Debt securities	19,084	14,997
Total	**190,129**	**243,671**

"Cash and cash equivalents" refers to cash, cheque account with the Bank of Finland, claims repayable 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 as well as claims on public sector entities that are not lending. "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 70,614 K (2012: 71,954), interest paid of EUR 31,046 K (35,819) and dividend income received of EUR 445 K (330).

Photo: Shutterstock

Table of contents, notes to the Parent Company financial statements

Notes to the Parent Company financial statements

(EUR K)

P1. 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). The Parent Company's financial statements are presented in thousands of euros (EUR K), unless otherwise stated.

Goodwill

Goodwill is amortised over 10 years.

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.

Otherwise, please see the consolidated accounting principles.

Notes to the income statement

P2. Net interest income	2013	2012
Lending to credit institutions	986	1,286
Lending to the public	68,636	75,104
Debt securities	3,701	6,539
Derivative instruments	563	937
Other interest income	13	21
Total interest income	**73,899**	**83,888**
Liabilities to credit institutions	4,286	5,680
Liabilities to the public	15,211	25,851
Debt securities issued	11,425	12,123
Subordinated liabilities	1,251	1,636
Derivative instruments	813	1,340
Other interest expenses	17	0
Total interest expenses	**33,003**	**46,630**
Net interest income	**40,896**	**37,258**

Interest income received from Group companies was EUR 220 K (2012: 317).

Interest expenses paid to Group companies was EUR 17 K (1,994).

Interest from derivative instruments is recognised together with the item that they hedge within the framework of hedge accounting (fair value hedge and cash flow hedge) and the fair value option.

Net impairment losses on interest for impaired receivables in 2013 amounted to EUR –52 K (61).

P3. Net lease income	2013	2012
Rental income	3	18
Total	**3**	**18**

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

P4. Net commission income	2013	2012
Deposits	979	879
Lending	3,544	2,723
Payment intermediation	3,611	3,441
Mutual fund commissions	7,019	2,691
Asset management commissions	7,937	5,234
Securities brokerage	8,663	7,287
Insurance commissions	76	128
Legal services	593	664
Guarantee commissions	381	312
Other commissions	1,351	1,274
Total commission income	**34,153**	**24,633**
Payment intermediation commission expenses	1,578	1,637
Mutual fund commission expenses	552	0
Asset management commission expenses	220	0
Securities brokerage commission expenses	1,029	1,107
Other commission expenses	1,247	646
Total commission expenses	**4,625**	**3,390**
Net commission income	**29,527**	**21,243**

Mutual fund commission expenses and asset management commission expenses were not reported separately during the 2012 financial year. Comparative figures for 2012 are thus not shown. Mutual fund commission expenses and payment commission expenses for the financial year 2012 are found under payment intermediate commission expenses and other commission expenses.

P5. Income from equity capital instruments	2013	2012
Financial assets available for sale	445	330
Group companies, dividend paid	3,322	2,404
Associated companies	16	95
Total	**3,783**	**2,828**

P6. Net income from financial items carried at fair value	2013			2012		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Valuation category fair value via the income statement (“profit and loss”)						
Debt securities	0	−47	−47	−175	−159	−334
Shares and participations	866	80	946	0	0	0
Derivative instruments	−831	3,266	2,435	−2,123	−351	−2,474
Loan receivables						
Valuation category fair value via the income statement (“profit and loss”)	**35**	**3,300**	**3,334**	**−2,299**	**−510**	**−2,808**
Hedge accounting						
of which hedging instruments		−2,628	−2,628		0	0
of which hedged item		2,863	2,863		0	0
Hedge accounting		**235**	**235**		**0**	**0**
Net income from foreign exchange dealing	**4,990**	**−1,084**	**3,906**	**−603**	**803**	**200**
of which attributable to divestment of subsidiaries and associated companies						
Net income from financial assets available for sale	**3,938**	**−1,579**	**2,360**	**29,857**	**−844**	**29,013**
of which attributable to divestment of subsidiaries and associated companies		−1,562	−1,562	25,842		25,842
Total	**8,963**	**872**	**9,836**	**26,955**	**−551**	**26,404**

P7. Other income	2013	2012
Rental income on properties	214	90
Capital gains on properties	0	233
Miscellaneous income	1,772	1,733
Total	**1,986**	**2,057**
Net income from investment properties		
Rental income	26	2
Rental expenses	−19	−1
Impairment losses	−61	0
Other expenses	−8	0
Total	**−62**	**1**

P8. Staff costs

P8. Staff costs	2013	2012
Salaries and fees	24,967	24,612
Compensation in the form of shares in Bank of Åland Plc	35	0
Pension expenses	4,398	5,113
Other social security expenses	4,432	4,363
Total	**33,832**	**34,088**

	Average number of employees	Average number of employees
Number of employees		
Permanent full-time employees	380	345
Permanent part-time employees	66	79
Total	**446**	**424**

P9. Other expenses

P9. Other expenses	2013	2012
IT expenses (excluding information services)	15,670	15,343
Premises and property expenses	4,734	4,504
Marketing expenses	5,830	5,328
Purchased services	2,715	3,010
Banking tax	1,658	0
Other expenses	5,974	10,123
Production for own use	−2,166	−3,274
Total	**34,416**	**35,036**

	2013 Auditors elected by General Meeting	2013 Others	2012 Auditors elected by General Meeting	2012 Others
Fees paid to auditors				
Auditing fees paid	161	161	303	0
Consulting fees paid				
In compliance with Finnish Auditing Act, Ch. 1, Sec. 1, Par. 2	0	5	57	0
Tax matters	40	13	46	0
Other	106	99	81	0
Total	**307**	**278**	**487**	**0**

These amounts include value-added tax (VAT). The 2013 Annual General Meeting elected new auditors.

P10. Impairment losses on other financial assets

P10. Impairment losses on other financial assets	2013	2012
Impairment losses on shares and participations in subsidiaries	134	1,815
Total	**134**	**1,815**

During 2013, impairment losses were related to Ålandsbanken Fonder AB. During 2012, impairment losses were related to Ålandsbanken Fonder AB and Alpha Management Company S.A.

P11. Impairment losses on loans and other commitments

	2013	2012
Individual impairment losses		
New and increased impairment losses	8,673	3,357
Reversals of impairment losses	−3,963	−996
Actual losses	3,648	1,282
Recoveries of actual losses	−2,220	−28
Total	**6,137**	**3,616**
Group impairment losses		
New and increased impairment losses	1,937	2,000
Reversals of impairment losses	−4,350	0
Total	**−2,413**	**2,000**
Total	**3,725**	**5,616**
Doubtful receivables		
Gross doubtful receivables	32,108	13,141
Individual impairment losses	15,243	10,276
Net doubtful receivables	16,864	2,865
Gross doubtful receivables as % of total	1,04	0,46
Level of individual provisions for doubtful receivables, %	48	78

	2013 Reserve for individually assessed receivables	2013 Reserve for receivables assessed by group	2013 Total	2012 Reserve for individually assessed receivables	2012 Reserve for receivables assessed by group	2012 Total
Change in reserve for probable loan losses						
Reserve on January 1	10,276	3,100	13,376	7,904	1,100	9,004
Provisions for the year	8,673	1,937	10,610	3,368	2,000	5,368
Reclassifications	260		260			
Recovered from earlier provisions	−635	−4,350	−4,985	−917	0	−917
Withdrawn for actual losses	−3,328		−3,328	−91		−91
Exchange rate effect	−3		−3	13		13
Reserve on December 31	**15,243**	**687**	**15,930**	**10,276**	**3,100**	**13,376**

Impairment losses on interest for impaired receivables in 2013 amounted to EUR −52 K (61).

P12. Income taxes

	2013	2012
Income statement		
Taxes related to prior years	−1	0
Current taxes	0	0
Change in deferred taxes	111	663
Total	**111**	**663**
Nominal tax rate in Finland, %	24,5	24,5
Non-taxable income/deductible expenses, %	−10,5	−23,7
Taxes on realised translation differences, %	−17,3	0,0
Change in tax rate, %	−1,0	0,0
Other, %	−0,5	1,4
Effective tax rate, %	−4,8	2,3
Other comprehensive income		
Current taxes	−97	0
Change in deferred taxes	−1,192	895
Total	**−1,288**	**895**

Deferred tax assets and liabilities were calculated according to a 20.0 per cent tax rate, which went into effect on January 1, 2014. The effect of the change in tax rate was equivalent to EUR 23 K.

P13. Fair values and carrying amounts of financial assets and liabilities and fair value levels

	2013		2012	
	Total carrying amount	Fair value	Total carrying amount	Fair value
Cash	50,161	50,161	132,547	132,547
Debt securities eligible for refinancing with central banks	427,970	427,970	305,414	305,414
Lending to credit institutions	130,090	130,090	101,568	101,568
Lending to the public	3,077,495	3,111,210	2,876,297	2,892,813
Debt securities	60,594	60,594	44,818	44,818
Shares and participations	2,226	2,226	6,521	6,521
Shares and participations in associated companies	1,001	1,001	1,001	1,001
Shares in subsidiaries	11,441	11,441	12,514	12,514
Derivative instruments	14,994	14,994	20,393	20,393
Total financial assets	**3,775,973**	**3,809,688**	**3,501,073**	**3,517,589**
Liabilities to credit institutions	3,294,51	332,064	358,614	376,581
Liabilities to the public	2,180,714	2,183,795	2,138,989	2,127,958
Debt securities issued	1,009,865	1,017,906	749,615	7,57,938
Derivative instruments	26,588	26,588	23,835	23,835
Subordinated liabilities	63,710	64,271	64,019	65,637
Total financial liabilities	**3,610,328**	**3,624,624**	**3,335,072**	**3,351,949**

2013	Level 1	Level 2	Level 3	Total
Financial instruments carried at fair value in the balance sheet				
Assets				
Debt securities eligible for refinancing with central banks	427,970			427,970
Debt securities	9,647	50,947		60,594
Shares and participations	1,332	4	890	2,226
Derivative instruments	101	14,893		14,994
Total	**439,051**	**65,844**	**890**	**505,785**
Liabilities				
Debt securities issued		196,680		196,680
Derivative instruments		26,588		26,588
Subordinated liabilities		16,869		16,869
Total		**240,138**		**240,138**

2012	Level 1	Level 2	Level 3	Total
Financial instruments carried at fair value in the balance sheet				
Assets				
Debt securities eligible for refinancing with central banks	305,414			305,414
Debt securities	9,839	34,979		44,818
Shares and participations	5,216	5	1,300	6,521
Derivative instruments		20,393		20,393
Total	**320,468**	**55,377**	**1,300**	**377,145**
Liabilities				
Derivative instruments		23,835		23,835
Total		**23,835**		**23,835**

Level 1	Instruments with quoted market prices.
Level 2	Measurement techniques based on observable market data.
Level 3	Measurement techniques based on non-observable market data.

	2013	2012
	Shares and participations	Shares and participations
Change in Level 3 holdings		
Carrying amount on January 1	1,300	1,307
New purchases	30	21
Unrealised change in value in the income statement	–17	–789
Change in value recognised in other comprehensive income	–423	761
Carrying amount on December 31	**890**	**1,300**

No transfer occurred between Level 1 and Level 2.

P14. Assets and liabilities by currency

2013	EUR	SEK	USD	Others	Total
Cash and deposits with central banks	47,977	1,918	37	229	50,161
Debt securities eligible for refinancing with central banks	418,372	9,598	0	0	427,970
Lending to credit institutions	9,903	76,265	32,192	11,730	130,090
Lending to the public	2,251,849	799,249	26,397	0	3,077,495
Debt securities	50,944	9,650	0	0	60,594
Derivative instruments	12,222	2,772	0	0	14,994
Other items not allocated by currency	96,944	0	0	0	96,944
Total assets	**2,888,211**	**899,453**	**58,626**	**11,959**	**3,858,249**
Liabilities to credit institutions	165,975	163,476	0	0	329,451
Liabilities to the public	1,534,836	569,827	57,798	18,254	2,180,714
Debt securities issued	691,813	318,052	0	0	1,009,865
Derivative instruments	19,746	6,843	0	0	26,588
Subordinated liabilities	63,710	0	0	0	63,710
Other items not allocated by currency, including equity capital	247,921	0	0	0	247,921
Total liabilities and equity capital	**2,724,001**	**1,058,197**	**57,798**	**18,254**	**3,858,249**
Other assets and liabilities allocated by currency as well as off-balance sheet items		–158,954	811	–8,364	
Net position in currencies (EUR)		210	18	2,069	2,297

2012	EUR	SEK	USD	Others	Total
Cash and deposits with central banks	130,655	1,603	64	226	132,547
Debt securities eligible for refinancing with central banks	296,127	9,286	0	0	305,414
Lending to credit institutions	5,243	64,974	21,749	9,603	101,568
Lending to the public	2,254,451	592,306	28,861	678	2,876,297
Debt securities	34,979	9,839	0	0	44,818
Derivative instruments	15,768	4,625	0	0	20,393
Other items not allocated by currency	127,348	0	0	0	127,348
Total assets	**2,864,571**	**682,633**	**50,674**	**10,506**	**3,608,384**
Liabilities to credit institutions	174,452	184,162	0	0	358,614
Liabilities to the public	1,567,163	505,629	51,636	14,562	2,138,989
Debt securities issued	562,927	186,689	0	0	749,615
Derivative instruments	20,375	3,460	0	0	23,835
Subordinated liabilities	64,019	0	0	0	64,019
Other items not allocated by currency, including equity capital	273,312	0	0	0	273,312
Total liabilities and equity capital	**2,693,613**	**848,575**	**51,636**	**14,562**	**3,608,384**
Other assets and liabilities allocated by currency as well as off-balance sheet items		–165,761	–815	–3,006	
Net position in currencies (EUR)		181	147	1,050	1,377

P15. Holdings of debt securities	2013		2012	
	Nominal value	Carrying amount	Nominal value	Carrying amount
Debt securities eligible for refinancing with central banks				
Fair value via the income statement				
Government bonds				
Covered bonds				
Other debt securities	42,900	44,416		
Holdings available for sale				
Government bonds	71,000	75,834	84,500	89,926
Covered bonds	117,680	120,639	124,826	130,555
Debt securities issued by credit institutions	140,100	140,398	25,000	25,687
Other debt securities	44,700	46,683	56,000	59,246
Total	**416,380**	**427,970**	**290,326**	**305,414**
of which unlisted	0	0	0	0
Other debt securities				
Fair value via the income statement				
Government bonds				
Covered bonds				
Certificates of deposit				
Other debt securities	3	3	3,960	3,427
Holdings available for sale				
Government bonds				
Covered bonds	9,595	9,647		
Certificates of deposit	51,000	50,944	35,000	34,979
Other debt securities			6,409	6,412
Total	**60,598**	**60,594**	**45,369**	**44,818**
of which unlisted	51,000	50,944	35,000	34,979
Total debt securities	**476,978**	**488,564**	**335,695**	**350,232**
of which unlisted	51,000	50,944	35,000	34,979

P16. Lending to credit institutions	2013			2012		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Finnish credit institutions	31	28,886	28,917	150	0	150
Foreign banks and credit institutions	51,330	49,843	101,173	49,572	51,847	101,419
Total	**51,361**	**78,729**	**130,090**	**49,721**	**51,847**	**101,568**

P17. Lending to the public	2013			2012		
	Amortised cost	Carried at fair value	Total	Amortised cost	Carried at fair value	Total
Companies	555,956		555,956	573,004		573,004
Public sector entities	5,008		5,008	5,580		5,580
Households	1,596,011		1,596,011	1,561,865		1,561,865
Household interest organisations	16,376		16,376	15,310		15,310
Outside Finland	904,145		904,145	720,538		720,538
Total	**3,077,495**	**0**	**3,077,495**	**2,876,297**	**0**	**2,876,297**
of which subordinated receivables			349			349

P18. Shares and participations

P18. Shares and participations	2013	2012
Holdings carried at fair value via the income statement		
Listed	158	4,231
Unlisted	0	0
Total	**158**	**4,231**
Holdings classified as available for sale		
Listed	1,190	984
Unlisted	878	1,305
Total	**2,068**	**2,290**
Shares and participations in associated companies	1,001	1,001
Shares and participations in Group companies	11,441	12,514
Total shares and participations	**14,668**	**20,036**

P19. Derivative instruments

P19. Derivative instruments	Nominal amount/maturity			2013			2012		
	Under 1 yr	1–5 yrs	over 5 yrs	Nominal amount	Positive market values	Negative market values	Nominal amount	Positive market values	Negative market values
Derivatives for trading									
Interest-related contracts									
Interest rate swaps	80,415	222,583	35,620	338,618	3,967	6,898	387,207	7,232	11,565
Interest rate futures	10,200	0	0	10,200	101	0			
Interest rate options – purchased	0	14,815	0	14,815	1	0	21,769	2	0
Interest rate options – sold	0	17,914	1,288	19,202	0	1	9,557	0	2
Currency-related contracts									
Currency forward contracts	83,942	13,777	0	97,718	873	1,215	21,393	2,903	1,768
Interest rate and currency swaps	5,511	5,567	0	11,078	138	111	265,489	128	725
Equity-related contracts									
Equity options – purchased	38,194	58,267	0	96,461	8,527	0	117,715	9,564	0
Equity options – written	36,061	57,832	0	93,893	0	8,077	117,715	0	9,175
Other derivative contracts	0	25,022	0	25,022	1,343	1,343	25,022	564	569
Total	**254,323**	**415,776**	**36,908**	**707,007**	**14,950**	**17,644**	**965,868**	**20,393**	**23,804**
Derivatives for market value hedge									
Interest-related contracts									
Interest rate swaps	0	44,886	200,000	244,886	44	2,188	0	0	0
Total	**0**	**44,886**	**200,000**	**244,886**	**44**	**2,188**	**0**	**0**	**0**
Derivatives for cash flow hedge									
Currency-related contracts									
Interest rate and currency swaps	0	253,976	0	253,976	0	6,033	0	0	0
Total	**0**	**253,976**	**0**	**253,976**	**0**	**6,033**	**0**	**0**	**0**
Derivatives for hedging of net investment in foreign operations									
Currency-related contracts									
Currency forward contracts	33,412	0	0	33,412	0	723	41,515	0	31
Total	**33,412**	**0**	**0**	**33,412**	**0**	**723**	**41,515**	**0**	**31**
Total derivative instruments	**287,735**	**714,639**	**236,908**	**1,239,281**	**14,994**	**26,588**	**1,007,383**	**20,393**	**23,835**
of which cleared OTC									
of which cleared by other means	10,200			10,200		101			

P20. Intangible assets

2013	Other software	Goodwill	Other non-current expenditures	Total
Cost on January 1	14,046	22,318	5,773	42,137
Cost of intangible assets added	2,480	0	1,181	3,661
Divestments and disposals	−896	0	−1,118	−2,014
Transfers between items	0	0	0	0
Exchange rate effects	−72	−661	0	−733
Cost on December 31	**15,558**	**21,657**	**5,835**	**43,051**
Accumulated amortisation and impairment losses on January 1	−8,002	−3,407	−2,977	−14,386
Divestments and disposals	107	0	1,188	1,295
Amortisation for the year	−2,166	−2,097	−505	−4,768
Impairment losses for the year	0	0	−234	−234
Exchange rate effects	46	119	0	165
Accumulated amortisation and impairment losses on December 31	**−10,015**	**−5,385**	**−2,529**	**−17,929**
Residual value on December 31	**5,543**	**16,272**	**3,307**	**25,122**

2012	Other software	Goodwill	Other non-current expenditures	Total
Cost on January 1	12,828	20,298	5,708	38,833
Cost of intangible assets added	3,538	2,020	160	5,718
Divestments and disposals	−2,319	0	−95	−2,414
Transfers between items	0	0	0	0
Exchange rate effects	0	0	0	0
Cost on December 31	**14,046**	**22,318**	**5,773**	**42,137**
Accumulated amortisation and impairment losses on January 1	−5,830	−1,164	−2,511	−9,505
Divestments and disposals	1,468		59	1,527
Amortisation for the year	−2,739	−2,208	−467	−5,415
Impairment losses for the year	−969		−58	−1,026
Exchange rate effects	68	−35		33
Accumulated amortisation and impairment losses on December 31	**−8,002**	**−3,407**	**−2,977**	**−14,386**
Residual value on December 31	**6,045**	**18,911**	**2,795**	**27,751**

P21. Tangible assets

P21. Tangible assets	2013	2012
Investment properties	690	438
Properties for own use	13,805	14,389
Other tangible assets	3,136	3,798
Total	**17,631**	**18,625**

	2013 Investment properties	2013 Properties for own use	2013 Other tangible assets	2012 Investment properties	2012 Properties for own use	2012 Other tangible assets
Cost on January 1	746	14,880	19,995	997	15,063	19,639
New acquisitions	0	0	267	0	0	370
New construction and renovations	0	0	0	0	0	0
Divestments and disposals	0	–38	–586	–250	–212	–353
Transfers between items	322	–322	0	0	29	–29
Exchange rate effects	0	0	–311	0	0	369
Cost on December 31	**1,068**	**14,521**	**19,364**	**746**	**14,880**	**19,995**
Accumulated depreciation on January 1	–308	–5,781	–16,197	–377	–5,621	–15,107
Depreciation for the year	0	–272	–881	–2	–275	–1,001
Impairment losses for the year	–61	0	–7	0	0	0
Divestments and disposals	0	46	551	70	115	267
Transfers between items	–9	0	0	0	0	0
Exchange rate effects	0	0	306	0	0	–356
Accumulated depreciation on December 31	**–378**	**–6,006**	**–16,228**	**–308**	**–5,781**	**–16,197**
Revaluations on January 1		5,289			5,289	
Revaluations for the year		0			0	
Decreases during the year		0			0	
Accumulated revaluations on December 31		**5,289**			**5,289**	
Carrying amount	**690**	**13,805**	**3,136**	**438**	**14,389**	**3,798**
of which buildings	0	13,516		0	13,788	
of which land and water	3	139		3	139	
of which shares in real estate companies	687	149		435	462	

The carrying amount of investment properties was the same as their market value in 2013.

P22. Other assets

P22. Other assets	2013	2012
Payment transfer receivables	0	3
Receivables on mutual fund settlement proceeds	8,367	37,894
Other	8,895	4,564
Total	**17,263**	**42,461**

P23. Accrued income and prepayments

P23. Accrued income and prepayments	2013	2012
Accrued interest income	15,199	11,916
Other accrued income	3,833	4,102
Prepaid taxes	4	0
Other prepaid expenses	3,023	2,245
Total	**22,063**	**18,263**

P24. Deferred tax assets and liabilities

P24. Deferred tax assets and liabilities	2013	2012
Deferred tax assets		
Taxable losses	43	35
Provisions	58	178
Cash flow hedge	97	0
Total	**198**	**212**
Deferred tax liabilities		
Financial assets available for sale		
Debt securities available for sale	204	1,322
Shares and participations available for sale	75	149
Total	**279**	**1,471**
Net deferred tax liabilities	**–82**	**–1,259**

	2013			
	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Closing balance
Changes in deferred taxes, 2013				
Taxable losses	35	8		43
Provisions	178	–120		58
Cash flow hedge	0		97	97
Debt securities available for sale	–1,322		1,118	–204
Shares and participations available for sale	–149		74	–75
Total	**–1,259**	**–111**	**1,288**	**–82**

	2012			
	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Closing balance
Changes in deferred taxes, 2012				
Taxable losses	177	–142		35
Provisions	698	–521		178
Cash flow hedge	0			0
Debt securities available for sale	–533		–789	–1,322
Shares and participations available for sale	–43		–106	–149
Total	**299**	**–663**	**–895**	**–1,259**

Accumulated appropriations included a deferred tax liability of EUR 7,291 K (6,457).

P25. Liabilities to credit institutions	2013			2012		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Central banks		130,000	130,000		130,000	130,000
Finnish credit institutions	138	37,441	37,580	131	75,127	75,257
Foreign banks and credit institutions	56,711	105,160	161,871	61,836	91,520	153,356
Total	**56,849**	**272,601**	**329,451**	**61,967**	**296,647**	**358,614**

P26. Liabilities to the public	2013			2012		
	Amortised cost	Carried at fair value	Total	Amortised cost	Carried at fair value	Total
Companies	495,098		495,098	448,862		448,862
Public sector entities	32,387		32,387	37,958		37,958
Households	913,090		913,090	973,586		973,586
Household interest organisations	41,415		41,415	37,498		37,498
Outside Finland	698,724		698,724	641,085		641,085
Total	**2,180,714**	**0**	**2,180,714**	**2,138,989**	**0**	**2,138,989**

P27. Debt securities issued	2013		2012	
	Nominal value	Carrying amount	Nominal value	Carrying amount
Certificates of deposit	134,401	134,287	188,860	188,590
of which at amortised cost	134,401	134,287	188,860	188,590
Covered bonds	544,618	540,439	354,984	354,092
of which at amortised cost	175,300	174,922	180,200	179,767
of which for fair value hedge	200,000	196,680		
of which for cash flow hedge	169,318	168,836	174,784	174,325
Unsecured bonds	240,998	240,812	95,400	95,222
of which at amortised cost	156,339	156,258	95,400	95,222
of which for cash flow hedge	84,659	84,554		
Index bonds (structured products)	98,284	94,328	117,411	111,712
of which at amortised cost	98,284	94,328	117,411	111,712
Total	**1,018,302**	**1,009,865**	**756,655**	**749,615**

P28. Other liabilities

P28. Other liabilities	2013	2012
Payment transfer liabilities	13,429	15,943
Liabilities on mutual fund settlement proceeds	8,462	35,915
Other	9,501	8,390
Total	**31,391**	**60,248**

P29. Provisions

P29. Provisions	2013			2012
	Provisions for restructuring reserves	Other provisions	Total	Total
Provisions on January 1	1,085	0	1,085	4,207
Provisions made during the year	405	262	667	704
Amounts utilised	–1,046	–2	–1,048	–3,456
Unutilised amounts recovered	–39		–39	–370
Exchange rate changes	–16		–16	
Provisions on December 31	**389**	**260**	**649**	**1,085**

The provisions for restructuring reserves were related to both Finland and Sweden. These provisions included both staff costs and other expenses, but primarily consisted of staff costs.

P30. Accrued expenses and prepaid income

P30. Accrued expenses and prepaid income	2013	2012
Accrued interest expenses	12,769	10,812
Other accrued expenses	8,646	7,842
Prepaid income	2,212	1,401
Total	**23,627**	**20,054**

P31. Subordinated liabilities

P31. Subordinated liabilities	2013			2012		
	Carrying amount	Nominal amount	Amount in capital base	Carrying amount	Nominal amount	Amount in capital base
Debenture loan 1/2008	0	0	0	3,192	3,192	3,192
Debenture loan 2/2008	0	0	0	681	681	681
Debenture loan 1/2009	16,835	16,835	16,835	16,908	16,908	16,908
Debenture loan 2/2009	3,410	3,410	3,410	6,821	6,821	6,821
Debenture loan 1/2010	4,381	4,381	4,381	6,575	6,575	6,575
Debenture loan 2/2010	7,992	7,992	7,992	11,868	11,868	11,868
Debenture loan 1/2011	3,004	3,004	3,004	3,950	3,950	3,950
Debenture loan 1/2012	11,219	11,219	11,219	14,024	14,024	14,024
Debenture loan 1/2013	16,886	16,869	16,869	0	0	0
Total	**63,727**	**63,710**	**63,710**	**64,019**	**64,019**	**64,019**
Of which market value hedge	16,886	16,869	16,869			

	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	3.00% fixed interest	June 12, 2017
Debenture loan 1/2012	3.00% fixed interest	June 12, 2017
Debenture loan 1/2013	2.30% fixed interest	July 3, 2018

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.

P32. Maturity breakdown of financial assets and liabilities

2013	Repayable on demand	< 1 mo	1–3 mo	3–6 mo	6–9 mo	9–12 mo	1–2 yrs	2–5 yrs	> 5 yrs	Total cash flow	Carrying amount
Financial assets											
Cash and deposits with central banks	50,161									50,161	50,161
Debt securities eligible for refinancing with central banks		15,997	10,493	17,762	4,677	22,205	47,805	279,118	48,049	446,105	427,970
Lending to credit institutions	51,361	74,381	3,773			0				129,514	130,090
Lending to the public	178,146	97,196	117,516	125,519	138,877	176,321	533,200	975,464	1,317,354	3,659,593	3,077,495
Debt securities		21,041	15,000	37	15,040	40	178	10,331		61,668	60,594
Total financial assets	**279,668**	**208,615**	**146,781**	**143,318**	**158,594**	**198,566**	**581,183**	**1,264,913**	**1,365,403**	**4,347,041**	**3,746,310**
Financial liabilities											
Liabilities to credit institutions	56,849	41,433	47,219	25,648	3,444	8,155	137,159	12,264		332,171	329,451
Liabilities to the public	1,767,263	128,728	102,645	92,688	48,250	42,908	1,514	555		2,184,551	2,180,714
Debt securities issued		66,811	120,482	50,110	126,449	73,382	225,905	459,048	215,296	1,337,482	1,009,865
Subordinated liabilities		20,360		11,970	3,766		14,182	17,498		67,775	63,710
Total financial liabilities	**1,824,112**	**257,332**	**270,346**	**180,416**	**181,908**	**124,445**	**378,760**	**489,365**	**215,296**	**3,921,979**	**3,583,740**
Derivative contracts											
Cash inflow		3,861	2,405	4,602	2,424	2,776	14,903	29,354	19,878	80,202	
Cash outflow		–1,128	–2,368	–2,956	–3,691	–3,441	–12,028	–28,230	–23,387	–77,229	
		2,733	**36**	**1,646**	**–1,267**	**–664**	**2,875**	**1,123**	**–3,509**	**2,973**	
GAP		**–45,983**	**–123,528**	**–35,453**	**–24,581**	**73,457**	**205,298**	**776,671**	**1,146,598**	**428,035**	

	2012										
	Repayable on demand	< 1 mo	1–3 mo	3–6 mo	6–9 mo	9–12 mo	1–2 yrs	2–5 yrs	> 5 yrs	Total cash flow	Carrying amount
Financial assets											
Cash and deposits with central banks	132,547									132,547	132,547
Debt securities eligible for refinancing with central banks		6,483	468	1,922	1,576	12,237	35,979	205,120	55,102	318,888	305,414
Lending to credit institutions	49,721	52,295								102,016	101,568
Lending to the public	90,263	78,840	65,122	157,317	153,492	121,807	406,519	1,055,765	1,122,531	3,251,656	2,876,297
Debt securities		5,000	20,000	20,000						45,000	44,818
Total financial assets	**272,531**	**142,618**	**85,590**	**179,240**	**155,069**	**134,043**	**442,498**	**1,260,885**	**1,177,633**	**3,850,107**	**3,460,644**
Financial liabilities											
Liabilities to credit institutions	61967	22,667	41,108	29,171	7,373	16,103	15,000	163,900		362,290	358,614
Liabilities to the public	1,795,400	115,528	135,796	134,582	31,163	58,063	3,357	538		2,274,428	2,138,989
Debt securities issued		47,564	97,897	39,045	22,211	20,112	203,854	297,825	63,894	792,403	749,615
Subordinated liabilities		3,097	5	16,216			31,931	17,389		68,638	64,019
Total financial liabilities	**1,857,367**	**193,857**	**274,806**	**219,014**	**60,748**	**94,278**	**254,142**	**479,652**	**63,894**	**3,497,758**	**3,311,237**
Derivative contracts											
Cash inflow		1,132	1,950	4,163	2,166	3,587	8,989	20,277	5,655	47,919	
Cash outflow		−845	−1,944	−2,524	−2,832	−2,786	−9,075	−18,095	−5,801	−43,901	
		287	**6**	**1,639**	**−666**	**802**	**−86**	**2,182**	**−145**	**4,018**	
GAP		**−50,952**	**−189,209**	**−38,136**	**93,656**	**40,566**	**188,269**	**783,415**	**1,113,593**	**356,367**	

Sight deposits from the public, which are a significant source of funding, are contractually repayable on demand and are thus reported as having a maturity of <3 months. In practice they are a source of financing that, based on historical behaviour, has largely proved to have a long maturity.

P33. Claims on Group companies	2013	2012
Lending to the public	14,957	12,428
Other assets	219	191
Accrued income and prepayments	599	1,239
Closing balance	**15,776**	**13,857**

P34. Liabilities to Group companies	2013	2012
Liabilities to the public	3,529	11,623
Debt securities issued	500	401
Other liabilities	680	484
Accrued expenses and prepaid income	298	328
Closing balance	**5,007**	**12,837**

Notes concerning staff, Board of Directors and Executive Team

P35. Salaries/fees paid to the Board of Directors and Executive Team	2013	2012
Bergh, Kaj-Gustaf	20	50
Husell, Folke	35	33
Karlsson, Agneta	41	41
Karlsson, Anders Å	38	33
Lampi, Nils	32	
Taxell, Christoffer	27	
Wijkström, Annika	43	30
Wiklöf, Anders	29	30
Woivalin, Dan-Erik	18	
Axman, Per		14
Boman, Sven-Harry		13
Lindholm, Göran		14
Nordlund, Leif		13
Members of the Board of Directors	281	271
Managing Director	311	267
Other members of the Executive Team	1,331	1,421

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 are based on customary terms of employment.

P36. Private shareholdings of the Board of Directors and the Executive Team in Bank of Åland Plc

See the section on the Board of Directors and the Executive Team.

P37. Financial transactions with related parties

See Note G40 in the notes to the consolidated financial statements.

Notes concerning assets pledged and contingent liabilities

P38. Assets pledged	2013	2012
Assets pledged for own liabilities		
Cash	8,167	8,402
Government securities and bonds	188,650	176,143
Lending to the public	892,569	665,141
Other	2,066	2,314
Total assets pledged for own liabilities	**1,091,452**	**852,000**

"Other assets pledged for own liabilities" refers to endowment insurance.

Other assets pledged		
Cash	18,816	5,959
Government securities and bonds	23,021	29,202
Shares	29,823	18,413
Total other assets pledged	**71,660**	**53,574**

Assets pledged consisted of claims on credit institutions, debt securities and other assets. No assets were pledged for the debts or commitments of others.

Except for loan receivables comprising the collateral pool for covered bonds, where legislation regulates the minimum requirements for excess collateral, the collateral that exceeds the nominal value of the liability is freely available to the Bank.

P39. Off-balance sheet commitments	2013	2012
Guarantees	27,310	18,549
Unutilised overdraft limits	78,982	82,947
Lines of credit	176,384	199,038
Other	36,433	37,635
Total	**319,110**	**338,168**
Guarantees for subsidiaries	3,664	3,940
Unutilised overdraft limits for subsidiaries	3,123	4,454
Credit lines to subsidiaries	0	13,000

P40. Rental obligations	2013	2012
Rental payments due		
Under 1 year	3,061	3,415
More than 1 and less than 5 years	3,307	3,749
Over 5 years	0	37
Total	**6,368**	**7,202**

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

Other notes

P41. Managed assets	2013	2012
Mutual fund unit management	299,042	211,590
Discretionary asset management	234,647	256,875
Other asset management	413,089	363,903
Total	**946,779**	**832,369**
Of which in own funds	–116,220	–96,766

P42. Subsidiaries and associated companies		2013	
	Registered office	Ownership, %	Carrying amount
Subsidiaries			
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	931
Total			**11,441**
Associated companies			
Ålands Fastighetskonsult Ab	Mariehamn	20	1
Ålands Investerings Ab	Mariehamn	36	1,000
Total			**1,001**
Housing and real estate companies	Registered office	Ownership, %	Carrying amount
Properties for the Group's own use			
FAB Nymars	Sottunga	30	49
FAB Godby Center	Finström	11	100
Total			**149**
Investment properties			
FAB Västernäs City	Mariehamn	50	300
FAB Sittkoffska gården	Mariehamn	22	300
FAB Horsklint	Kökar	20	12
Other			76
Total			**687**

Proposed allocation of profit

According to the financial statements, distributable profit of the Bank of Åland Plc is EUR 68,113,016.97, of which the loss for the financial year is EUR 2,441,196.21. According to the consolidated financial statements, distributable profit of the Bank of Åland Group is EUR 61,015,518.74. 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 68,113,016.97, be allocated as follows:

For Series A and Series B shares outstanding as of December 31, 2013, a dividend of EUR 0.15 per share, totalling	2,159,272.95
To be carried forward as retained earnings	65,953,744.02
	68,113,016.97

Mariehamn, February 14, 2014

Nils Lampi	Christoffer Taxell	Agneta Karlsson
Anders Å Karlsson	Annika Wijkström	Anders Wiklöf
Dan-Erik Woivalin	Peter Wiklöf, Managing Director	

To the Annual General Meeting of Ålandsbanken Abp

Auditors' Report

This document is an English translation of the Swedish auditor's report. Only the Swedish version of the report is legally binding.

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Ålandsbanken Abp for the year ended 31 December, 2013. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated 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 consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of 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 Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act, Act on Credit Institutions 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 Board of Directors. The procedures selected depend on the auditor's judgment, 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 entity's preparation of financial statements and report of the Board of 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 Board of 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 give 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 company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, March 14, 2014

Pauli Salminen Authorized Public Accountant	Birgitta Immerthal Authorized Public Accountant	Mari Suomela Authorized Public Accountant
KPMG Oy Ab Töölönlahdenkatu 3 A 00100 Helsinki	KPMG Oy Ab Töölönlahdenkatu 3 A 00100 Helsinki	KPMG Oy Ab Töölönlahdenkatu 3 A 00100 Helsinki

Corporate Governance Statement

The Corporate Governance Statement is being issued in conjunction with the Report of the Directors for 2013.

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 Mariehamn, Finland. In complying with the Code, the Bank departs from Recommendation 22, "Appointment of members to the committees", since the Nomination Committee may includes members who are not members of the Bank of Åland Plc's Board of Directors. In order to broaden the competency of the Audit Committee, the Bank's Audit Committee also includes one co-opted member who is not a member of the Bank's Board of Directors.

The Corporate Governance Statement has been prepared in compliance with Recommendation 54 of the Code and according to the Securities Market Act, Chapter 7, Section 7, 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. Since the 2013 Annual General Meeting, the Board has consisted of seven members. The Managing Director may not be a member of the Board. A person who has attained the age of 67 years is not eligible to be elected a Board member. [2]

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.

[1] *The Annual General Meeting on April 18, 2013 voted 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 Annual General Meeting voted not to remove the provision that limits voting rights.*

[2] *The Extraordinary General Meeting on March 5, 2013 dealt with the question of removing the age limit on a Board member. The General Meeting voted to keep the age limit unchanged.*

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, 2013	
Nils Lampi, Chairman Bachelor of Economic Sciences	Born 1948 Member since April 18, 2013 Mariehamn, Åland
Christoffer Taxell, Vice Chairman Master of Laws	Born 1948 Member since April 18, 2013 Turku, Finland
Agneta Karlsson Doctor of Economics, Associate Professor	Born 1954 Member since 2003 Sund, Åland
Anders Å Karlsson Bachelor of Commerce	Born 1959 Member since 2012 Lemland, Åland
Annika Wijkström Master of Arts	Born 1951 Member since 2012 Stockholm, Sweden
Anders Wiklöf, Commercial Counsellor Business owner	Born 1946 Member since 2006 Mariehamn, Åland
Dan-Erik Woivalin Master of Laws	Born 1959 Member since April 18, 2013 Mariehamn, Åland

Board members who resigned during 2013	
Kaj-Gustaf Bergh, Chairman Bachelor of Economic Sciences Managing Director, Föreningen Konstsamfundet r.f.	Born 1955 Member from 2011 to April 18, 2013 Kyrkslätt, Åland
Folke Husell, Deputy Chairman Master of Laws, Attorney at Law, Master of Arts	Born 1945 Member from 2012 to April 18, 2013 Mariehamn, Åland

During 2013, the Board held 21 meetings. The Board members' average attendance was 94.24 per cent.

INDEPENDENCE OF THE BOARD MEMBERS

In the assessment of the Board of Directors, Nils Lampi, Chairman of the Board; Christoffer Taxell, Vice Chairman of the Board; and Board members Agneta Karlsson, Anders Å Karlsson, Annika Wijkström and Anders Wiklöf are independent in relation to the Bank. Board member Dan-Erik Woivalin is deemed to be dependent on the Bank, since he was an employee of the Bank until January 2013.

Christoffer Taxell, Agneta Karlsson and Annika Wijkström are also independent in relation to major shareholders. Nils Lampi is deemed to be dependent in relation to a major shareholder since he is CEO of Wiklöf Holding, which is a major shareholder in the Bank. 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. Dan-Erik Woivalin is deemed to be dependent on a major shareholder, since he is an employee of Ålands Ömsesidiga Försäkringsbolag.

Kaj-Gustaf Bergh, who did not make himself available for re-election at the 2013 Annual General Meeting, was independent in relation to the Bank and to major shareholders. Folke Husell, 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.

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 "Board of Directors and Executive Team" section of the Annual Report.

The committees of the Board

NOMINATION COMMITTEE

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. The Board appoints the Nomination Committee and has established its Rules of Procedure.

The Nomination Committee consists of four members: the Chairman of the Board and representatives of the three largest shareholders in the Bank in terms of voting power on November 1 of each respective year. If the Chairman of the Board represents any of the above shareholders, or in case a shareholder abstains from participating in the Nomination Committee, the right of membership is transferred to the next largest shareholder.

Since December 2013, the Nomination Committee has consisted of Nils Lampi, Chairman of the Board; Board member Anders Wiklöf, by virtue of his direct and indirect personal shareholding; Leif Nordlund, representing Alandia Försäkring; and Göran Lindholm, representing Ålands Ömsesidiga Försäkringsbolag.

Until the Annual General Meeting in April 2013, the Nomination Committee consisted of Board members Anders Wiklöf, Chairman; and then-Chairman of the Board Kaj-Gustaf Bergh; as well as Leif Nordlund, representing Alandia Försäkring; and Göran Lindholm, representing Ålands Ömsesidiga Försäkringsbolag.

During 2013 the Nomination Committee met twice. The average attendance of Committee members was 75 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.

Since the 2013 Annual General Meeting, the Audit Committee has consisted of Nils Lampi, Chairman of the Board; and Board members Agneta Karlsson and Anders Å Karlsson. The Audit Committee also includes Folke Husell as a co-opted member and Chairman of the Committee.

Until the 2013 Annual General Meeting, the Audit Committee consisted of then-Board member Folke Husell, Chairman; Agneta Karlsson and Anders Å Karlsson.

During 2013 the Audit Committee met 12 times. The average attendance of Committee members was 97.67 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.

Since the 2013 Annual General Meeting, the Compensation Committee has consisted of Board member Annika Wijkström, Chairman; Nils Lampi, Chairman of the Board; and Board member Agneta Karlsson.

Until the 2013 Annual General Meeting, the Compensation Committee consisted of Kaj-Gustaf Bergh, then-Chairman of the Board; and Board members Agneta Karlsson and Annika Wikström.

During 2013 the Compensation Committee met 4 times. The average attendance of Committee members was 100 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 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 "Board of Directors and Executive Team" section of 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 of heads of the Bank's business areas and corporate units.

During 2013 the Executive Team met on 10 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 "Board of Directors and Executive Team" section of 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 2013 Annual General Meeting and the end of the 2014 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 15,000.

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 per meeting attended.

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

During 2013, the members of the Board received fees totalling EUR 280,750.

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 2013 the Managing Director received a compensation of EUR 310,700 (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.

The Managing Director participates in an earnings-based compensation system, which is described in detail in the Bank's Compensation Declaration on its website *www.alandsbanken.fi/för investerare/förvaltning och styrning* (in Swedish).

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 compensation totalling EUR 1,330,646 during 2013. Otherwise the members of the Executive Team receive the Bank's generally applicable employee benefits. Due to a diverging pension system in Sweden, the Bank has established premium-based supplementary pension insurance plans for members of the management team domiciled in Sweden, with a retirement age of 65.

The Executive Team participates in an earnings-based compensation system, which is described in detail in the Bank's Compensation Declaration on its website *www.alandsbanken.fi/för investerare/förvaltning och styrning* (in Swedish).

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. No allocation to the Personnel Fund has been made for the years 2008–2013.

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. In addition, 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 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 Team. 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 and legislation, the main foundations of the Group's risk management are the European Union's capital adequacy directive and regulation, which are 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 "Risks and risk management" section in the Group's Annual Report.

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 2013 appointed Pauli Salminen, Birgitta Immerthal and Mari Suomela, Authorised Public Accountants (CGR). The CGR-affiliated firm of KPMG Oy Ab, with Kim Järvi, Authorised Public Accountant (CGR) in charge, was elected as the new deputy auditor.

During 2013, until the 2013 Annual General Meeting, Terhi Mäkinen and Bengt Nyholm, Authorised Public Accountants (CGR) as well as Erika Sjölund, Authorised Public Accountant (GRM), acted as auditors for the Bank. The CGR-affiliated firm of Ernst & Young Oy, with Anders Svennas, Authorised Public Accountant (CGR) in charge, acted as deputy auditor.

During 2013, Group companies paid a total of EUR 404,417 including value-added tax for auditing fees. In addition, they paid EUR 328,902 including VAT to auditors for consulting assignments.

Board of Directors and Executive Team

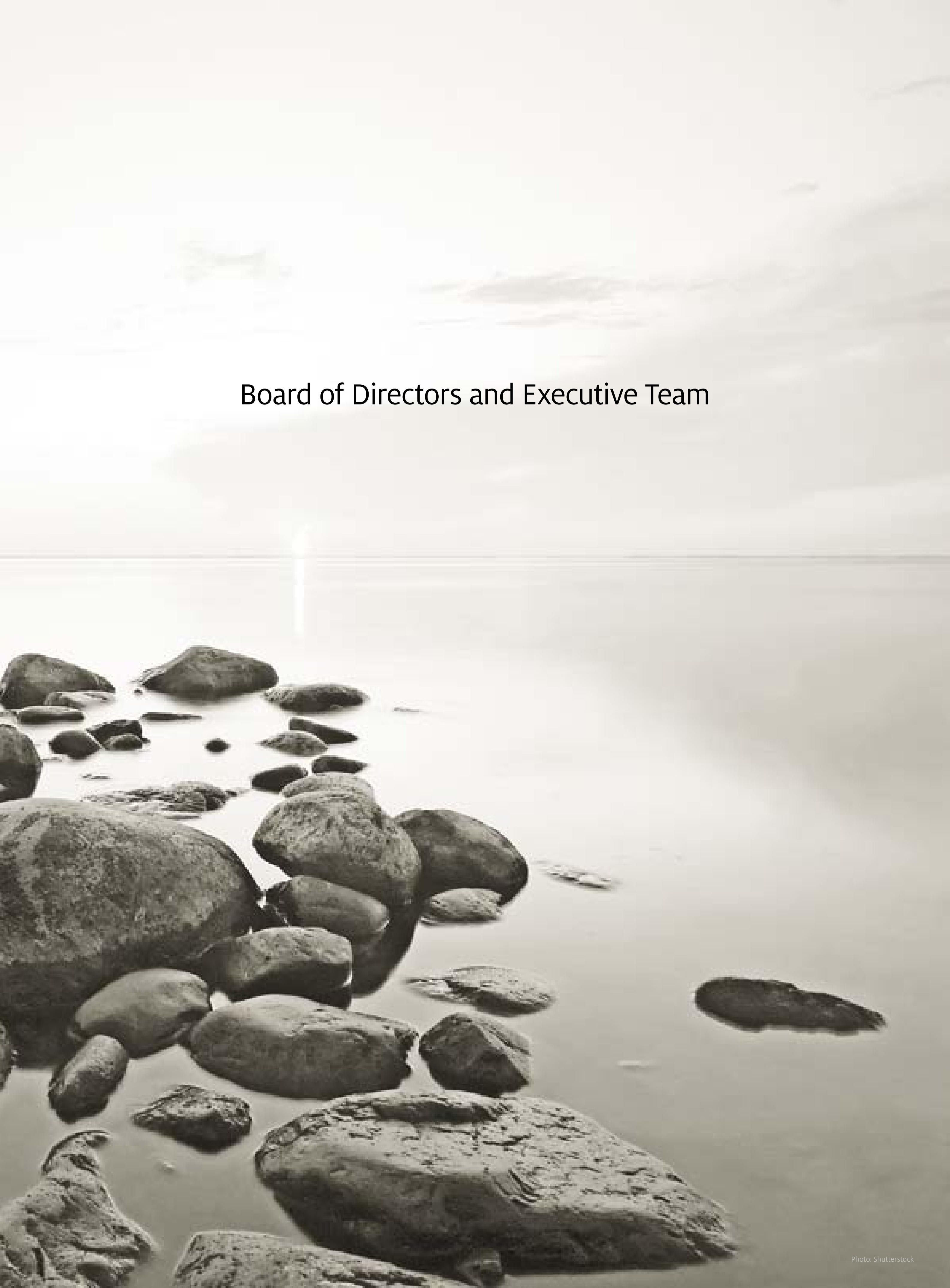


Photo: Shutterstock

Board of Directors

Nils Lampi

CHAIRMAN

Chief Executive Officer, Wiklöf Holding Ab.
Bachelor of Economic Sciences. Born 1948
Chairman of the Board since April 18, 2013. Board member since April 18, 2013

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: None Series B shares: None

Christoffer Taxell

VICE CHAIRMAN

Master of Laws. Born 1948
Vice Chairman of the Board since April 18, 2013. Board member since April 18, 2013

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: None Series B shares: None

Agneta Karlsson

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

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: 40 Series B shares: 28

Anders Å Karlsson

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

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: 1,060 Series B shares: None

Annika Wijkström

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

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: None Series B shares: None

Anders Wiklöf

Business owner
Commercial Counsellor. Born 1946
Board member since 2006

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: 1,589,396 Series B shares: 1,296,549

Dan-Erik Woivalin

Master of Laws. Attorney at Law. Born 1959
Board member since April 18, 2013

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: None Series B shares: None

Kaj-Gustaf Bergh

Managing Director,
Föreningen Konstsamfundet r.f
Born 1955
Resigned April 18, 2013

Folke Husell

Master of Laws. Attorney at Law.
Master of Arts. Born 1945
Resigned April 18, 2013

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

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: None Series B shares: 3,750

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

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: None Series B shares: 2,100

Birgitta Dahlén

Director, Åland Business Area
Bank officer training. Born 1954
Member of the Executive Team since 2010

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: 450 Series B shares: 1,338

Tove Erikslund

Chief Administrative Officer
Master of Business Administration. Born 1967
Member of the Executive Team since 2006

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: None Series B shares: None

Magnus Holm

Director, Sweden Business Area
Economic studies. Born 1962
Member of the Executive Team since 2011

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: None Series B shares: None

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

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: None Series B shares: None

Anne-Maria Salonius

Director, Finnish Mainland Business Area
Attorney at Law, Master of Laws. Born 1964
Member of the Executive Team since 2010

Own and related parties' holdings in Bank of Åland Plc:
Series A shares: None Series B shares: None

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

The Bank of Åland Plc's list of stock exchange releases in 2013
(published in Finnish and Swedish only, except that the releases marked * are also available in English)

Stock exchange releases in 2013

January

January 7, 2013	Annual General Meeting and financial information in 2013
January 21, 2013	Bank of Åland's 2012 earnings substantially better than previous year *

February

February 1, 2013	Notice to convene the Extraordinary General Meeting of Shareholders *
February 7, 2013	Public warning to Ålandsbanken Abp (Bank of Åland Plc) for omissions concerning the custody of customer assets
February 11, 2013	Shareholders representing more than one tenth of all shares request that an Extraordinary General Meeting shall be held
February 15, 2013	Year-end Report for the period January–December 2012 *

March

March 5, 2013	Notification of items of business discussed at the Bank of Åland Plc's Extraordinary General Meeting on March 5, 2013
March 6, 2013	Invitation to the Annual General Meeting
March 20, 2013	Bank of Åland Plc's financial statements, Annual Report and Corporate Governance Statement for 2012 have been published
March 21, 2013	Future outlook
March 28, 2013	Supplement/addition to the invitation to the Annual Meeting

April

April 18, 2013	Release on items of business dealt with at the Annual General Meeting of the Bank of Åland Plc (Ålandsbanken Abp) on April 18, 2013 *
April 29, 2013	Interim Report, January–March 2013 *

July

July 29, 2013	Interim Report, January–June 2013 *
July 30, 2013	CORRECTION: Interim Report, January–June 2013 *

October

October 28, 2013	Interim Report, January–September 2013 *
October 28, 2013	Bank of Åland Plc: Annual General Meeting and financial information in 2014

Address list

Bank of Åland Plc

Head Office
Street address: Nygatan 2
Postal address: PB 3
AX-22101 Mariehamn
Åland, Finland

Telephone +358 204 29 011
info@alandsbanken.fi
www.alandsbanken.fi

HELSINKI
Bulevardi 3
FI-00120 Helsinki, Finland
Telephone +358 204 293 600

ESPOO-TAPIOLA
Länsituulentie 4
FI-02100 Espoo, Finland
Telephone +358 204 293 500

TAMPERE
Hämeenkatu 8
FI-33100 Tampere, Finland
Telephone +358 204 293 200

TURKU
Hansakortteli
Eerikinkatu 17
FI-20100 Turku, Finland
Telephone +358 204 293 100

PARAINEN
Kauppiaskatu 24
FI-21600 Parainen, Finland
Telephone +358 204 293 150

VAASA
Hovioikeudenpuistikko 11
FI-65100 Vaasa, Finland
Telephone +358 204 293 300

STOCKHOLM
Stureplan 19
SE-107 81 Stockholm, Sweden
Telephone +46 8 791 48 00

GOTHENBURG
Kungsportsavenyen 1
SE-411 36 Gothenburg, Sweden
Telephone +46 31 333 45 00

MALMÖ
Stortorget 11
SE-211 22 Malmö, Sweden
Telephone +46 40 600 21 00

info@alandsbanken.se
www.alandsbanken.se

AB COMPASS CARD OY LTD
PB 3
AX-22100 Mariehamn
Åland, Finland
Telephone +358 204 29 033
compasscard@compasscard.fi

CROSSKEY BANKING SOLUTIONS AB LTD
Head Office
Elverksgatan 10
AX-22100 Mariehamn
Åland, Finland
Telephone +358 204 29 022
information@crosskey.fi

Helsinki
Plaza Pilke, Äyritie 16
FI-01510 Vantaa, Finland
Telephone +358 204 29 022

Stockholm
Rådmansgatan 40
SE-113 58 Stockholm, Sweden
Telephone +46 8 791 49 00

Turku
Lemminkäisenkatu 32
FI-20520 Turku, Finland
Telephone +358 204 29 022

S-CROSSKEY AB
Elverksgatan 10
AX-22100 Mariehamn
Åland, Finland
Telephone +358 204 29 022

ÅLANDSBANKEN ASSET MANAGEMENT AB
Bulevardi 3, 3rd fl.
FI-00120 Helsinki, Finland
Telephone +358 204 293 700
aam@alandsbanken.fi

ÅLANDSBANKEN FONDBOLAG AB
PB 3
AX-22101 Mariehamn
Åland, Finland
Telephone +358 204 29 088
fond@alandsbanken.fi