ÅLANDSBANKEN

Half-Year Financial Report

For the period January-June 2018 • July 20, 2018

January–June 2018

Compared to January - June 2017

- Net operating profit increased by 21 per cent to EUR 14.9M (12.3).
- Profit for the period attributable to shareholders increased by 19 per cent to EUR 11.7 M (9.8).
- Net interest income increased by 1 per cent to EUR 27.9 M (27.5).
- Net commission income rose by 3 per cent to EUR 25.8 M (24.9).
- Total expenses decreased by 1 per cent to EUR 49.8 M (50.2).
- Net impairment losses on financial assets (including recoveries) totalled EUR 0.7 M (1.0), equivalent to a loan loss level of 0.03 (0.05) per cent.
- Return on equity after taxes (ROE) amounted to 10.2 (8.8) per cent.
- Earnings per share amounted to EUR 0.76 (0.64).
- The common equity Tier 1 ratio amounted to 12.8 per cent (12.9 on December 31, 2017).
- Unchanged future outlook: The Bank of Åland expects its net operating profit in 2018 to be at about the same level as, or better than, in 2017.

The second quarter of 2018

Compared to the second quarter of 2017

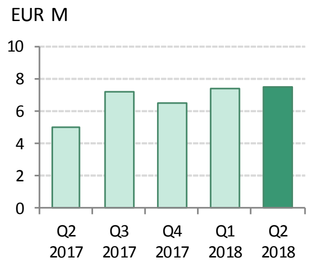
- Net operating profit increased by 51 per cent to EUR 7.5 M (5.0).
- Profit for the period attributable to shareholders increased by 50 per cent to EUR 5.9 M (3.9).
- Net interest income increased by 2 per cent to EUR 13.8 M (13.6).
- Net commission income decreased by 2 per cent to EUR 12.6 M (12.8).
- Total expenses decreased by 2 per cent to EUR 24.5 M (25.1).
- Net impairment losses on financial assets (including recoveries) totalled EUR 0.5 M (0.5), equivalent to a loan loss level of 0.05 (0.05) per cent.
- Return on equity after taxes (ROE) amounted to 10.2 (7.0) per cent.
- Earnings per share amounted to EUR 0.38 (0.26).

“We performed well during the first half of 2018, achieving our long-term financial targets even though the period was largely dominated by the implementation of extensive new regulations.

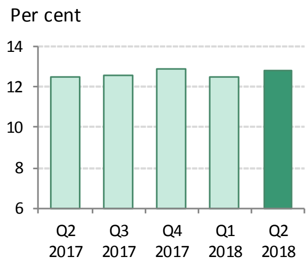
“We enjoyed a good influx of new Private Banking customers, especially in Sweden. Because of Swedish housing market instability and pricing levels we are seeing in Finland that are reminiscent of those we saw in our loan portfolio in 2008 – before the financial crisis – we have been more restrictive with new lending.”

Peter Wiklöf, Managing Director

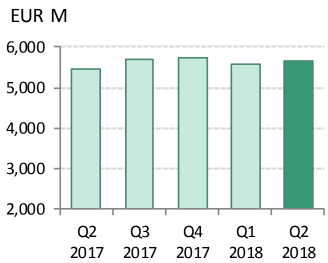
Net operating profit



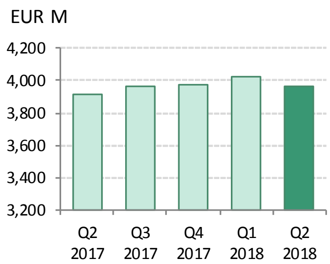
Common equity Tier 1 ratio



Actively managed assets



Lending



The Bank of Åland is a bank with strong customer relationships and personalised service. The Bank has extensive financial investment expertise and at the same time can offer good financing services. The commercial bank was founded in 1919 and has been listed on the Nasdaq Helsinki Oy (Helsinki Stock Exchange) since 1942. The Bank of Åland's Head Office is in Mariehamn. The Bank has three offices in the Åland Islands, five offices elsewhere in Finland and three offices in Sweden. A total of three subsidiaries, whose operations are connected in various ways to banking, belong to the Bank of Åland Group.

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Financial summary

Group	Q2 2018	Q1 2018	%	Q2 2017	%	Jan-Jun 2018	Jan-Jun 2017	%
EUR M								
Income								
Net interest income	13.8	14.1	-2	13.6	2	27.9	27.5	1
Net commission income	12.6	13.2	-4	12.8	-2	25.8	24.9	3
Net income from financial items	1.7	1.5	10	-0.6		3.2	0.3	
Other income	4.4	4.1	6	4.6	-6	8.5	10.7	-21
Total income	**32.5**	**32.9**	**-1**	**30.5**	**6**	**65.4**	**63.5**	**3**
Staff costs	-14.5	-15.1	-4	-14.9	-3	-29.5	-30.9	-4
Other expenses	-8.3	-8.4	-1	-8.4	-2	-16.6	-16.1	3
Depreciation/amortisation	-1.8	-1.9	-2	-1.7	7	-3.7	-3.3	13
Total expenses	**-24.5**	**-25.3**	**-3**	**-25.1**	**-2**	**-49.8**	**-50.2**	**-1**
Profit before impairment losses	**8.0**	**7.6**	**5**	**5.5**	**46**	**15.5**	**13.3**	**17**
Impairment losses on financial assets	-0.5	-0.2		-0.5	-10	-0.7	-1.0	-31
Net operating profit	**7.5**	**7.4**	**2**	**5.0**	**51**	**14.9**	**12.3**	**21**
Income taxes	-1.6	-1.6	5	-1.0	58	-3.2	-2.5	26
Profit for the report period	**5.9**	**5.8**	**1**	**3.9**	**50**	**11.7**	**9.8**	**19**
Attributable to:								
Shareholders in Bank of Åland Plc	**5.9**	**5.8**	**1**	**3.9**	**50**	**11.7**	**9.8**	**19**
Volume								
Lending to the public	3,963	4,020	-1	3,915	1			
Deposits from the public	3,095	3,098	0	3,130	-1			
Actively managed assets [1]	5,650	5,575	1	5,475	3			
Equity capital	230	237	-3	224	3			
Balance sheet total	5,302	5,497	-4	5,263	1			
Risk exposure amount	1,575	1,611	-2	1,537	2			
Financial ratios								
Return on equity after taxes, % (ROE) [2]	10.2	10.1		7.0		10.2	8.8	
Expenses/income ratio [3]	0.75	0.77		0.82		0.76	0.79	
Loan loss level, % [4]	0.05	0.02		0.05		0.03	0.05	
Liquidity coverage ratio (LCR), % [5]	135	148		110				
Loan/deposit ratio, % [6]	128	130		125				
Core funding ratio, % [7]	90	90		92				
Equity/assets ratio, % [8]	4.3	4.3		4.3				
Common equtiy Tier 1 capital ratio, % [9]	12.8	12.5		12.5				
Earnings per share, EUR [10]	0.38	0.38	1	0.26	49	0.76	0.64	18
Earnings per share after dilution, EUR	0.38	0.37	1	0.25	49	0.75	0.63	19
Equity capital per share, EUR [11]	14.92	15.33	-3	14.60	2			
Equity capital per share after dilution, EUR	14.81	15.22	-3	14.45	3			
Market price per Series A share, EUR	14.50	15.80	-8	14.40	1			
Market price per Series B share, EUR	13.50	14.75	-8	14.20	-5			
Number of shares outstanding (not own shares), 000s	15,448	15,447	0	15,335	1			
Number of shares outstanding (not own shares), after dilution, 000s	15,586	15,585	0	15,590	0			
Working hours re-calculated to full-time equivalent positions	693	671	3	680	2	686	685	0

1 Actively managed assets encompassed managed assets in the Group's own mutual funds, as well as discretionary and advisory securities volume.
2 Profit for the report period attributable to shareholders / Average shareholders´portion of equity capital
3 Expenses / Income
4 Impaiment losses on loan portfolio and other commitments / Lending to the public at the beginning of the period
5 Liquidity coverage ratio (LCR) = liquid assets, level 1 and 2 / 30-day net outflow
6 Lending to the public / Deposits from the public
7 Lending to the public / Deposits including certificates of deposit, index bonds and debentures issued to the public plus covered bonds issued
8 Equity capital / Balance sheet total
9 (Common equity Tier 1 capital / Capital requirement) x 8%
10 Shareholders' portion of earnings for the period / Avarage number of shares
11 Shareholders' portion of equity capital / Number of shares less own shares on closing day

IFRS 9 has been applied starting on January 1, 2018. Figures from historical periods have not been restated.

Comments

MACRO SITUATION AND REGULATORY REQUIREMENTS

The global economic boom is continuing. Right now the biggest threat to this strong growth seems to be a potential trade war.

The Finnish economy keeps growing. Once 2017 statistics had been compiled, the year became the first since 2010 to show a positive current account balance.

The European Central Bank (ECB) and Sweden's Riksbank have not yet dared to follow the example of the US Federal Reserve's repeated key interest rate hikes, but sooner or later they are expected to do so.

BENCHMARK INTEREST RATES, AVERAGES, PER CENT

	Q2 2018	Q1 2018	Q2 2017
Euribor 3 mo	-0.33	-0.33	-0.33
Euribor 12 mo	-0.19	-0.19	-0.13
Stibor 3 mo	-0.37	-0.44	-0.48

Stock markets around the world began the year with substantial volatility. During the first half of 2018, share prices according to the Nasdaq Helsinki (OMXHPI) index rose by 5 per cent, while the Nasdaq Stockholm (OMXSPI) index rose by less than 1 per cent.

During the first half of 2018, the average value of the Swedish krona (SEK) in relation to the euro (EUR) was 9 per cent lower than in the same period of 2017. Compared to its position at year-end 2017, the value of the krona was more than 6 per cent lower. When translating the income statement of the Bank of Åland's Swedish operations into euros, the average exchange rate for the period has been used, while the balance sheet has been translated at the exchange rate prevailing on the closing day of the report period.

Among the regulations that went into effect during 2018 are:

- MiFID 2, which aims at strengthening consumer protection for investors by creating uniform rules for investment firms, regulated markets and other trading platforms.
- IFRS 9, which replaces IAS 39 for classification and measurement of financial instruments.
- The General Data Protection Regulation (GDPR), which aims at creating a uniform, equal level of protection for personal information within the European Union (EU).
- The EU's revised Payment Services Directive (PSD2), which among other things regulates new types of services for making payments and obtaining account information.
- The Finnish Financial Supervisory Authority (FSA)'s 15 per cent risk weight floor for home mortgage loans, which applies to banks that use internal ratings-based (IRB) models in their capital requirement calculations and which will be included in the Pillar 1 requirement.
- The Swedish FSA's tightened principal repayment ("amortisation") requirement, which means that private individuals who take out a new home mortgage loan or increase their existing loan to more than 4.5 times their annual gross income must repay an additional 1 per cent of principal in addition to the previously existing principal repayment requirement.

On June 14, the Swedish Parliament approved a two-step corporate tax cut, from the current 22 per cent to 21.4 per cent during 2019 – 2020 and to 20.6 per cent starting in 2021.

IMPORTANT EVENTS

A new fund, Ålandsbanken Lunastustontti I Ky, was started during the second quarter of 2018. It is an alternative investment fund in the form of a limited partnership. The fund unit owners are Ålandsbanken Tomtfond, the Finnish construction company YIT and the Finnish pension insurance company Varma. Like Ålandsbanken Tomtfond, the fund invests in housing construction sites, but the newly started fund also has the opportunity to mortgage its investment properties. On June 30, 2018, the fund had invested EUR 23.2 M.

For the fifth consecutive year, the Bank of Åland (Ålandsbanken) Euro Bond Fund was named the best Nordic Fund in its category and received the prestigious Lipper Fund Award Nordic. The Fund won the award for all management periods that were analysed: 3, 5 and 10 years.

The Bank of Åland is continuing its commitment to a cleaner Baltic Sea. This year the Baltic Sea Project is funding a total of nine projects that combat the problem of plastics in the Baltic Sea in various ways, totalling nearly EUR 250,000. The winning project was presented in February at the Helsinki International Boat Fair and consisted of a plastic collection system that can be used to remove waste from large areas of the sea. Since 1997 the Bank of Åland has awarded nearly EUR 2 M to various environmentally related projects.

The Annual General Meeting on April 5, 2018 re-elected the Board consisting of Nils Lampi, Christoffer Taxell, Åsa Ceder, Anders Å. Karlsson, Göran Persson, Ulrika Valassi and Anders Wiklöf. Board member Dan-Erik Woivalin had declined re-election. At the statutory meeting of the Board the same day, Nils Lampi was elected as Chairman and Christoffer Taxell as Deputy Chairman of the Board. The AGM approved the payment of a divided of EUR 0.65 per share for the financial year 2017.

During the first half of 2018, the number of Series B shares outstanding increased by 12,418 as a result of the Bank's obligations within the framework of its incentive programme.

EARNINGS FOR THE SECOND QUARTER OF 2018

Profit for the period attributable to shareholders amounted to EUR 5.9 M (3.9). This was an increase of EUR 2.0 M or 50 per cent from the same period of last year. Net operating profit rose by EUR 2.5 M or 51 per cent to EUR 7.5 M (5.0).

Return on equity after taxes amounted to 10.2 per cent (7.0).

Total income rose by EUR 2.0 M or 6 per cent to EUR 32.5 M (30.5). If the SEK/EUR exchange rate had been unchanged, the increase in income would have been EUR 2.7 M or 9 per cent.

Net interest income increased by EUR 0.2 M or 2 per cent to EUR 13.8 M (13.6), which was primarily explained by lower borrowing expenses.

Net commission income decreased by EUR 0.2 M or 2 per cent to EUR 12.6 M (12.8), primarily due to lower lending commissions.

Net income on financial items rose by EUR 2.3 M to EUR 1.7 M (-0.6), mainly thanks to higher capital gains in the liquidity portfolio and higher net income on foreign exchange dealing.

Information technology (IT) income fell by EUR 0.3 M or 7 per cent to EUR 4.1 M (4.4) due to lower project income.

Total expenses fell by EUR 0.6 M or 2 per cent to EUR 24.5 M (25.1), despite a remarkable fee increase by the EU's Single Resolution Fund (SRF). For the Bank of Åland, the SRF fee amounted to EUR 0.9 M, compared to EUR 0.2 M for the year-earlier period. The fee, which the Bank of Åland began to pay in May 2017, almost doubled in 2018 for the Finnish banks that are paying the fee. The main explanation for this dramatic fee increase is that in 2017 Nordea and Danske Bank moved their operations in Finland to branches and in 2018 no longer pay the fee in Finland. The remaining banks must instead pay correspondingly more. The weaker Swedish krona resulted in EUR 0.6 M lower expenses than during the year-earlier period.

Impairment losses on financial assets were at about the same level as during the year-earlier quarter and amounted to EUR 0.5 M, equivalent to a loan loss level of 0.05 per cent (0.05).

EARNINGS FOR JANUARY – JUNE 2018

Profit for the period attributable to shareholders increased by EUR 1.9 M or 19 per cent to EUR 11.7 M (9.8). Net operating profit rose by EUR 2.6 M or 21 per cent to EUR 14.9 M (12.3).

Return on equity after taxes amounted to 10.2 per cent (8.8).

Total income rose by EUR 1.9 M or 3 per cent to EUR 65.4 M (63.5). If the SEK/EUR exchange rate had been unchanged, the increase in income would have been EUR 3.2 M or 5 per cent. The same period of last year included a nonrecurring information technology (IT) item of EUR 1.5 M from licence sales of the IT subsidiary Crosskey's card system in the Swedish market.

Net interest income increased by EUR 0.4 M or 1 per cent to EUR 27.9 M (27.5), primarily as a consequence of lower borrowing expenses. Negative and falling market interest rates – mainly the 12-month Euribor – along with increased price competition, had an adverse impact on interest income from lending. Re-weighting towards lower risk in the loan portfolio also adversely affected the lending margin. To some extent, increased volume offset the price downturn.

Net commission income rose by EUR 0.9 M or 3 per cent to EUR 25.8 M (24.9), primarily due to increased income from customers' investment transactions in the form of brokerage commissions and mutual fund commissions.

Net income on financial items rose by EUR 2.9 M to EUR 3.2 M (0.3), mainly due to higher capital gains in the liquidity portfolio and higher net income on foreign exchange dealing.

IT income fell by EUR 1.6 M or 16 per cent to EUR 8.1 M (9.7). The decrease was due to last year's nonrecurring income from licence sales of Crosskey's card system in the Swedish market.

Total expenses decreased by EUR 0.4 M or 1 per cent to EUR 49.8 M (50.2), even though fees for the resolution fund increased by EUR 1.1 M to EUR 1.3 M (0.2). Staff costs fell by EUR 1.3 M or 4 per cent, mainly due to lower severance pay expenses. IT expenses decreased by EUR 1.0 M or 15 per cent. If the SEK/EUR exchange rate had been unchanged, total expenses would have risen by EUR 0.8 M or 2 per cent to EUR 51.0 M.

Impairment losses on financial assets decreased by EUR 0.3 M or 31 per cent to EUR 0.72 M, equivalent to a loan loss level of 0.03 per cent (0.05).

Tax expenses amounted to EUR 3.2 M (2.5), equivalent to an effective tax rate of 21.5 (20.6) per cent.

STRATEGIC BUSINESS AREAS

The Group's EUR 2.6 M increase in net operating profit to EUR 14.9 M during the first half was allocated as follows:

- Private Banking -0.3 (higher expenses)
- Premium Banking +1.5 (higher net interest income, lower loan losses)
- Asset Management -0.8 (2018 severence pay)
- IT +0.1 (nonrecurring income in 2017, lower expenses)
- Corporate Units & Eliminations +1.8 (Higher Treasury income, 2017 severance pay)

The Group's core business in the form of Private Banking, Premium Banking and Asset Management improved their net operating profit by EUR 0.4 M altogether, even though Asset Management was charged severance pay expenses during the first quarter of 2018.

Last year the Group's IT operations (Crosskey Banking Solutions) were weighed down by large expenses connected to the implementation of the new Bank of Åland securities platform. Crosskey improved the earnings from its core business by EUR 1.6 M during the first half of 2018.

BUSINESS VOLUME

Actively managed assets decreased by EUR 87 M or 2 per cent during the first half of 2018 and totalled EUR 5,650 M (5,737). Net inflow of actively managed assets during the first half totalled EUR 152 M (192).

Deposits from the public decreased by EUR 53 M or 2 per cent during the first half and amounted to EUR 3,095 M (3,148). Excluding exchange rate effects (SEK/EUR), deposits from the public decreased by EUR 1 M.

During the first six months of 2018, lending to the public fell by EUR 12 M to EUR 3,963 M (3,975). Excluding exchange rate effects (SEK/EUR), lending to the public increased by EUR 65 M or 2 per cent during the first half.

CREDIT QUALITY

Lending to private individuals comprised 72 per cent of the loan portfolio. Home mortgage loans accounted for 78 per cent of lending to private individuals. Loans for the purchase of securities, with market-listed securities as collateral, comprised the second-largest type of lending to individuals. Loan-to-value ratios are conservative. Historically, the Bank of Åland has not had any substantial loan losses on this type of lending. The corporate portfolio has a close affinity with the retail portfolio, since many of the companies are owned by customers who, as individuals, are also Private Banking customers.

In compliance with IFRS 9, earlier individual and group impairment loss provisions have been replaced by expected

Stage 1-3 loss provisions. For a majority of the Bank's receivables, provisions are made in Stage 1 and 2 according to the model. Non-performing receivables are dealt with in Stage 3 after individual assessment. Stage 3 loans increased during the report period by EUR 10.7 M to EUR 27.4 M, which is primarily explained by a single sizeable commitment that became non-performing. However, collateral values are believed to be so good that provisions for expected losses were not significantly affected. Stage 3 loans as a share of gross lending to the public totalled 0.69 per cent (0.42 on January 1, 2018). The level of provisions for Stage 3 loans amounted to 31 (59) per cent.

The Bank of Åland Group had EUR 11.1 M (12.5 on January 1, 2018) in impairment loss provisions, of which EUR 1.2 M (1.5) in Stage 1; EUR 1.3 M (1.1) in Stage 2 and EUR 8.6 M (9.9) in Stage 3.

LIQUIDITY AND BORROWING

The Bank of Åland's liquidity reserve in the form of cash and deposits with the central bank, account balances and investments with other banks, liquid interest-bearing securities plus holdings of unencumbered covered bonds issued by the Bank amounted to EUR 1,002 M on June 30, 2018 (1,066 on December 31, 2017). This was equivalent to 19 (20) per cent of total assets and 25 (27) per cent of lending to the public.

On June 30, 2018, the average remaining maturity on outstanding bonds was about 2.8 (3.2) years. During 2018, EUR 150 M in covered bonds will mature in October.

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, as well as covered bonds issued, amounted to 90 (88) per cent on June 30.

The loan/deposit ratio amounted to 128 (126) per cent.

Of the Bank of Åland's external funding sources aside from equity capital, deposits from the public accounted for 63 (63) per cent and covered bonds issued accounted for 25 (27) per cent.

The liquidity coverage ratio (LCR) amounted to 135 (142) per cent.

The net stable funding ratio (NSFR) amounted to 107 (110) per cent.

RATING

The Bank of Åland has a credit rating from the Standard & Poor's Global Ratings agency of BBB/A-2 with a stable outlook for its long- and short-term borrowing. Covered bonds issued by the Bank of Åland have a credit rating of AAA with a stable outlook.

EQUITY AND CAPITAL ADEQUACY

The opening balance of equity capital changed by EUR 3.1 M as a consequence of IFRS 9 and amounted to EUR 230.5 M on January 1, 2018. During the first half of 2018, equity capital changed in the amount of profit for the period, EUR 11.7 M; other comprehensive income, EUR -2.1 M; the issuance of new shares as part of the incentive programme, EUR 0.2 M; EUR 0.2 related to the share savings programme; and payment to shareholders of a dividend totalling EUR -10.0 M. On June 30, 2018, equity capital amounted to EUR 230.5 M (233.6).

Other comprehensive income included re-measurements of defined-benefit pension plans by EUR -0.2 M after taxes, in compliance with IAS 19.

During the second quarter, the Financial Supervisory Authority approved a calibration of the Bank's own model for calculating the capital requirement in Finland. The new model led to a decrease in expected losses by EUR 1.1 M and a decrease in the risk exposure amount by EUR 51 M before – and by EUR 30 M after – taking into account the risk weighting floor for home mortgage loans.

Common equity Tier 1 capital rose by EUR 3.2 M or 2 per cent during the first half of 2018 to EUR 201.2 M (197.6), mainly due to the comprehensive income for the period and lower provisions for expected losses due to IFRS 9.

The risk exposure amount rose by EUR 37 M or 2 per cent to EUR 1,575 M (1,538). The credit risk exposure amount, excluding the risk weighting floor for home mortgage loans, fell by EUR 39 M. The Finnish FSA's 15 per cent risk weighting floor for mortgage loans, which was implemented starting on January 1, 2018, increased the risk exposure amount by EUR 92 M. The operational risk exposure amount, calculated using a three-year rolling average of the Group's income, increased by EUR 10 M.

The common equity Tier 1 capital ratio amounted to 12.8 (12.9) per cent. Since the Bank of Åland has no hybrid capital, its common equity Tier 1 capital ratio is the same as its Tier 1 capital ratio.

In May, the Bank of Åland issued SEK 200 M in subordinated debt instruments with a write-down clause to institutional investors in Sweden. The instrument has a 20-year maturity, with early repayment possible after five years and each year thereafter. The issue was priced at 3-month Stibor plus 2.40 per cent. This issue nearly doubled the Bank of Åland's supplementary capital.

The total capital ratio increased to 15.2 (14.2) per cent.

In addition to the basic capital requirement, various buffer requirements apply. These are mainly imposed by national regulatory authorities. The capital conservation buffer requirement, 2.5 per cent of common equity Tier 1 capital, applies in all European Union countries. The countercyclical capital buffer requirement may vary between 0-2.5 per cent. The decision concerning the size of a countercyclical capital buffer in Finland is made quarterly by the Board of the Financial Supervisory Authority (FSA) on the basis of a macroeconomic stability analysis. So far, the FSA has not imposed any countercyclical buffer requirement related to Finnish exposures. As for Sweden, the Swedish FSA has set the requirement at 2.0 per cent of Swedish exposures. The Finnish FSA has identified systemically important institutions in Finland and has imposed individual buffer requirements for them. The Bank of Åland is not included in the buffer requirements for systemically important institutions.

Because of Nordea's planned move of the bank's head office from Sweden to Finland, the Board of the Finnish FSA has decided that starting on July 1, 2019 it will introduce a systemic risk buffer for all credit institutions. The purpose of the buffer is to strengthen the risk tolerance of all credit institutions to structural systemic risks. For the Bank of Åland, a buffer requirement of 1.0 per cent applies. This requirement must be covered by common equity Tier 1 capital.

The Finnish FSA has established a buffer requirement related to Pillar 2 capital adequacy regulations totalling 1.5 per cent of the Group's risk exposure amount (REA). This requirement is related to credit concentration risk (1.0 per cent of REA) and interest rate risk in the balance sheet (0.5 per cent of REA). The requirement, which must be covered by common equity Tier 1 capital, goes into effect starting in the third quarter of 2018.

When all these buffer requirements are taken into account, the minimum levels for the Bank of Åland will be:

- Common equity Tier 1 capital ratio 10.4 per cent
- Tier 1 capital ratio 11.9 per cent
- Total capital ratio 13.9 per cent

IMPORTANT EVENTS AFTER CLOSE OF REPORT PERIOD

The Bank of Åland has become a part-owner of Dreams Nordic AB, a Swedish-based company that the Bank has worked with since 2015. At that time, the Bank of Åland was the first bank in the Nordic countries to engage in this type of cooperation with a fintech market player. Today the Bank of Åland has about 80,000 customers in Sweden who save for their dreams in bank accounts or mutual funds via the Dreams app.

RISK 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.

UNCHANGED FUTURE OUTLOOK

The Bank of Åland expects its net operating profit in 2018 to be at about the same level as, or better than, in 2017.

The Bank of Åland is especially dependent on developments in the fixed income and stock markets. There is concern about the economic trends in various important markets. For this reason, there is significant uncertainty in our current forecast of the future.

FINANCIAL INFORMATION

The Interim Report for January–September 2018 will be published on Tuesday, October 23, 2018.

Mariehamn, July 20, 2018
THE BOARD OF DIRECTORS

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NOTES

Summary income statement

Group	Note	Q2 2018	Q1 2018	%	Q2 2017	%	Jan-Jun 2018	Jan-Jun 2017	%
EUR M									
Net interest income	6	13.8	14.1	-2	13.6	2	27.9	27.5	1
Net commission income	7	12.6	13.2	-4	12.8	-2	25.8	24.9	3
Net income from financial items	8	1.7	1.5	10	-0.6		3.2	0.3	
IT income		4.1	4.0	2	4.4	-7	8.1	9.7	-16
Other operating income		0.2	0.1		0.2	26	0.3	1.1	-70
Total income		**32.5**	**32.9**	**-1**	**30.5**	**6**	**65.4**	**63.5**	**3**
Staff costs		-14.5	-15.1	-4	-14.9	-3	-29.5	-30.9	-4
Other expenses	9	-8.3	-8.4	-1	-8.4	-2	-16.6	-16.1	3
Depreciation/amortisation		-1.8	-1.9	-2	-1.7	7	-3.7	-3.3	13
Total expenses		**-24.5**	**-25.3**	**-3**	**-25.1**	**-2**	**-49.8**	**-50.2**	**-1**
Profit before impairment losses		**8.0**	**7.6**	**5**	**5.5**	**46**	**15.5**	**13.3**	**17**
Impairment losses on financial assets	10	-0.5	-0.2		-0.5	-10	-0.7	-1.0	-31
Net operating profit		**7.5**	**7.4**	**2**	**5.0**	**51**	**14.9**	**12.3**	**21**
Income taxes		-1.6	-1.6	5	-1.0	58	-3.2	-2.5	26
Profit for the period		**5.9**	**5.8**	**1**	**3.9**	**50**	**11.7**	**9.8**	**19**
Attributable to:									
Non-controlling interests		0.0	0.0	-87	0.0		0.0	0.0	
Shareholders in Bank of Åland Plc		**5.9**	**5.8**	**1**	**3.9**	**50**	**11.7**	**9.8**	**19**
Earnings per share, EUR		0.38	0.38	1	0.26	49	0.76	0.64	18

Summary statement of other comprehensive income

Group	Q2 2018	Q1 2018	%	Q2 2017	%	Jan-Jun 2018	Jan-Jun 2017	%
EUR M								
Profit for the period	**5.9**	**5.8**	**1**	**3.9**	**50**	**11.7**	**9.8**	**19**
Cash flow hedge								
Gains/Losses arising during the period	-0.6	2.2		4.4		1.7	4.1	-59
Transferred to the income statement	0.6	-2.2		-4.3		-1.6	-3.9	-59
Assets available for sale								
Gains/Losses arising during the period	-0.6	-0.1		-0.3	96	-0.7	-0.4	64
Realised changes in value		0.0	-100			0.0		
Transferred to the income statement	-0.7	0.0		0.0		-0.7	0.0	
Translation differences								
Gains/Losses arising during the period	-0.8	0.5		0.0		-0.4	0.0	
of which hedging of net investment in foreign operations	0.0	2.7		0.6		2.6	0.5	
Transferred to the income statement								
Taxes on items that have been or may be reclassified to the income statement	0.2	-0.5		-0.1		-0.3	-0.1	
of which cash flow hedges	0.0	0.0	30	0.0	-38	0.0	0.0	-69
of which assets available for sale	0.2	0.0		0.1		0.3	0.1	
of which hedging of net investments in foreign operations	0.0	-0.5		-0.1		-0.5	-0.1	
Items that have been or may be reclassified to the income statement	**-1.8**	**-0.1**		**-0.3**		**-1.9**	**-0.2**	
Re-measurements of defined benefit pension plans	-0.6	0.4		1.1		-0.2	1.4	
Taxes on items that may not be reclassified to the income statement	0.1	-0.1		-0.2		0.0	-0.3	
Items that may not be reclassified to the income statement	**-0.5**	**0.3**		**0.9**		**-0.2**	**1.1**	
Other comprehensive income	**-2.2**	**0.2**		**0.7**		**-2.1**	**0.9**	
Total comprehensive income for the period	**3.6**	**6.0**	**-39**	**4.6**	**-20**	**9.6**	**10.6**	**-10**
Attributable to:								
Non-controlling interests	0.0	0.0	-87	0.0		0.0	0.0	
Shareholders in Bank of Åland Plc	**3.6**	**6.0**	**-39**	**4.6**	**-20**	**9.6**	**10.6**	**-10**

Income statement by quarter

Group	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
EUR M					
Net interest income	13.8	14.1	14.1	14.3	13.6
Net commission income	12.6	13.2	12.6	12.2	12.8
Net income from financial items	1.7	1.5	1.0	1.8	-0.6
IT income	4.1	4.0	4.4	3.6	4.4
Other operating income	0.2	0.1	0.3	0.3	0.2
Total income	**32.5**	**32.9**	**32.4**	**32.2**	**30.5**
Staff costs	-14.5	-15.1	-14.9	-14.1	-14.9
Other expenses	-8.3	-8.4	-8.5	-8.3	-8.4
Depreciation/amortisation	-1.8	-1.9	-1.9	-2.0	-1.7
Total expenses	**-24.5**	**-25.3**	**-25.3**	**-24.4**	**-25.1**
Profit before impairment losses	**8.0**	**7.6**	**7.1**	**7.8**	**5.5**
Impairment losses on financial assets	-0.5	-0.2	-0.6	-0.6	-0.5
Net operating profit	**7.5**	**7.4**	**6.5**	**7.2**	**5.0**
Income taxes	-1.6	-1.6	-1.3	-1.5	-1.0
Profit for the period	**5.9**	**5.8**	**5.2**	**5.8**	**3.9**
Attributable to:					
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Shareholders in Bank of Åland Plc	**5.9**	**5.8**	**5.2**	**5.8**	**3.9**

Summary balance sheet

Group	Note	Jun 30, 2018	Jan 1, 2018	Dec 31, 2017	%	Jun 30, 2017	%
EUR M							
Assets							
Cash and balances with central banks		464	524	524	-12	557	-17
Debt securities eligible for refinancing with central banks		656	634	634	4	507	29
Lending to credit institutions		94	93	93	2	163	-42
Lending to the public and public sector entities	11, 12	3,963	3,975	3,979	0	3,915	1
Shares and participations		0	1	1	-14	0	-8
Participations in associated companies		0	0	0	-16	0	74
Derivative instruments[1]	15	18	21	21	-17	18	-3
Intangible assets		17	17	17	2	17	-1
Tangible assets		23	24	24	-4	24	-6
Investment properties		0	0	0		0	-6
Current tax assets		1	1	1	78	1	71
Deferred tax assets		6	6	5	8	5	19
Other assets		37	32	32	16	32	15
Accrued income and prepayments[1]		24	22	22	8	23	1
Total assets		**5,302**	**5,350**	**5,352**	**-1**	**5,263**	**1**
Liabilities							
Liabilities to credit institutions		203	206	206	-1	223	-9
Liabilities to the public and public sector entities	13	3,095	3,148	3,148	-2	3,130	-1
Debt securities issued	13, 14	1,591	1,600	1,600	-1	1,515	5
Derivative instruments[1]	15	15	23	23	-34	25	-40
Current tax liabilities		1	0	0		0	
Deferred tax liabilities		27	25	25	6	23	16
Other liabilities		57	50	50	14	62	-9
Provisions		1	1	1	-14	1	-24
Accrued expenses and prepaid income[1]		32	33	33	-2	25	30
Subordinated liabilities	13	50	33	33	51	35	41
Total liabilities		**5,072**	**5,119**	**5,119**	**-1**	**5,039**	**1**
Equity capital and non-controlling interests							
Share capital		42	42	42	0	42	1
Share premium account		33	33	33		33	
Reserve fund		25	25	25		25	
Fair value reserve		-1	1	1		1	
Unrestricted equity capital fund		27	27	27	1	26	3
Retained earnings		104	102	106	-1	97	7
Shareholders´ portion of equity capital		**230**	**231**	**234**	**-1**	**224**	**3**
Non-controlling interests´ portion of equity capital		0	0	0	-5	0	7
Total equity capital		**230**	**231**	**234**	**-1**	**224**	**3**
Total liabilities and equity capital		**5,302**	**5,350**	**5,352**	**-1**	**5,263**	**1**

1 Derivatives are reported starting on January 1, 2018 together with related accrued interest. Historical figures for comparative periods have been restated. The January 1, 2018 column is restated to account for the effects of IFRS 9 (EUR -3.1 M change in equity capital).

Statement of changes in equity capital

Group											
EUR M	Share capital	Share premium account	Reserve fund	Hedging reserve	Fair value reserve	Translation differance	Unrestricted equity capital fund	Retained earnings	Shareholders´ portion of equity capital	Non-controlling interests´ portion of equity capital	Total
Equity capital, Dec 31, 2016	**41.7**	**32.7**	**25.1**	**-0.2**	**1.7**	**-0.4**	**26.0**	**95.1**	**221.8**	**0.0**	**221.8**
Profit for the period								9.8	9.8	0.0	9.8
Other comprehensive income				0.1	-0.3	-0.1		1.1	0.9		0.9
Dividends paid								-9.2	-9.2		-9.2
Incentive programme	0.0						0.1	0.0	0.1		0.1
Share savings programme	0.1						0.3	0.2	0.6		0.6
Equity capital, Jun 30, 2017	**41.7**	**32.7**	**25.1**	**0.0**	**1.4**	**-0.4**	**26.4**	**96.9**	**223.9**	**0.0**	**223.9**
Profit for the period								10.9	10.9	0.0	10.9
Other comprehensive income				0.0	0.4	-0.1		-2.4	-2.1		-2.1
Incentive programme	0.2						0.5		0.7		0.7
Share savings programme								0.2	0.2		0.2
Equity capital, Dec 31, 2017	**41.9**	**32.7**	**25.1**	**0.0**	**1.8**	**-0.6**	**26.9**	**105.7**	**233.6**	**0.0**	**233.6**
Adjustment for application of IFRS 9					0.1			-3.2	-3.1		-3.1
Equity capital, Jan 1, 2018	**41.9**	**32.7**	**25.1**	**0.0**	**1.9**	**-0.6**	**26.9**	**102.5**	**230.5**	**0.0**	**230.5**
Profit for the period								11.7	11.7	0.0	11.7
Other comprehensive income				0.0	-1.1	-0.9		-0.1	-2.1		-2.1
Dividends paid								-10.0	-10.0		-10.0
Incentive programme	0.0						0.1	0.0	0.2		0.2
Share savings programme								0.2	0.2		0.2
Equity capital, Jun 30, 2018	**42.0**	**32.7**	**25.1**	**0.0**	**0.8**	**-1.5**	**27.1**	**104.2**	**230.5**	**0.0**	**230.5**

Summary cash flow statement

Group	Jan-Jun 2018		Jan-Dec 2017		Jan-Jun 2017	
EUR M						
Cash flow from operating activities						
Net operating profit	14.9		26.0		12.3	
Adjustment for net operating profit items not affecting cash flow	6.1		12.9		8.5	
Gains/losses from investing activities	0.0		0.0		0.0	
Income taxes paid	-0.6		-2.5		-1.4	
Changes in assets and liabilities in operating activities	-30.0	-9.6	-171.0	-134.6	75.4	94.8
Cash flow from investing activities		-2.6		-7.6		-3.8
Cash flow from financing activities		-43.6		152.2		-15.7
Exchange rate differences in cash and cash equivalents		-5.4		-2.9		0.9
Change in cash and cash equivalents		**-61.2**		**7.1**		**74.4**
Cash and cash equivalents at beginning of period		586.4		579.2		579.2
Cash and cash equivalents at end of period		525.1		586.4		653.6
Change in cash and cash equivalents		**-61.2**		**7.1**		**74.4**

Notes to the consolidated Half-Year Financial Report

1. Corporate information

The Bank of Åland Plc (Ålandsbanken Abp) is a Finnish public limited company with its Head Office in Mariehamn. It is a commercial bank with a total of 11 offices. Through its subsidiary Crosskey Banking Solutions Ab Ltd, the Bank of Åland Group is also a supplier of modern banking computer systems for small and medium sized banks.

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

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

The Half-Year Financial Report for the period January 1–June 30, 2018 was approved by the Board of Directors on July 19, 2018.

2. Basis for preparation of the Half-Year Financial Report and essential accounting principles

BASIS FOR PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

This Half-Year Financial Report for the period January 1–June 30, 2018 has been prepared in compliance with the International Financial Reporting Standards (IFRSs) and International Accounting Standards, IAS 34, "Interim Financial Reporting", which have been adopted by the European Union.

The Half-Year Financial Report does not contain all information and notes required in annual financial statements and should be read together with the consolidated financial statements for the year ending December 31, 2017.

Tables show correct rounded-off figures on each line, but this does not mean that rounded-off figures add up to the correct total. In cases where rounded-off figures add up to zero, they are shown as "0" in the tables, while a lack of figures is shown as an empty space.

ESSENTIAL ACCOUNTING PRINCIPLES

Except for the application of IFRS 9, "Financial instruments", which has been applied going forward since January 1, 2018 and went into service during the first quarter of 2018, the essential accounting principles used in preparing the Half-Year Financial Report are the same as those used in preparing the financial statements for the year ending December 31, 2017.

Starting on January 1, 2018, the international accounting standard known as IFRS 9, "Financial instruments", has replaced the standard known as IAS 39, "Financial instruments: Recognition and Measurement". IFRS 9, "Financial instruments" includes a new model for classification and measurement of financial instruments, a forward-looking "expected loss" impairment model and simplified conditions for hedge accounting.

The new rules about hedge accounting include simplifications of effectiveness testing and a broadening of the range of permitted hedging instruments and hedged items. The Bank of Åland has chosen not to apply IFRS 9 to hedge accounting.

The financial asset categories contained in IAS 39 are being replaced by three categories, with measurement taking place either at amortised cost, fair value reported via "Other comprehensive income" or fair value reported via the income statement ("profit and loss"). The classification into these three categories is based on a company's business model for the various holdings and the characteristics of the cash flows that result from the assets ("solely payments of principal and interest" or SPPI test). At the Bank of Åland, as for liquidity exposures it concerns two different portfolios with different purposes: one for the purpose of holding financial assets to collect their contractual cash flows (measured at amortised cost) and another for the purpose of both holding financial assets to collect their contractual cash flows and selling these financial assets (measured at fair value under "Other comprehensive income"). In addition, there is a portfolio for lending exposures, which is held for the purpose of collecting their contractual cash flows. All these portfolios pass the SPPI test.

Fixed interest loans have been reclassified from fair value option (FVO) to amortised cost, which upon the transition to IFRS 9 has an effect of EUR 1.2 M that is recognised directly under equity capital. Starting on January 1, 2018, hedge accounting is being applied to these loans (fair value hedging).

The transition to IFRS 9 had a negative effect of EUR 3.1 M on equity capital, which consisted of:

- A reduction equivalent to EUR 2.4 M related to implementation of the expected loss principle
- A reduction equivalent to EUR 1.5 M related to reclassifications of fixed interest loans
- An increase equivalent to EUR 0.8 M related to deferred tax

For a complete accounting of the transition effects from IAS 39 to IFRS 9, see Note 3.

The new impairment model will require accounting for 12-month expected credit losses, from the date when the asset is first recognised. In case of a significant increase in credit risk, the impairment loss shall be equivalent to the credit losses that are expected to occur during the remaining life of the loan. A significant increase in credit risk as defined as a significant increase in the probability of default (PD) since the first reporting date. The Bank assesses a significant increase in credit risk based on an estimate of the relative change in PD for the remaining life of the loan times 3 and an absolute change of at least 10 percentage points.

To the greatest possible extent, the Bank of Åland is using the existing models and processes that are already being used for risk management and risk monitoring, in order to ensure that a uniform picture of the Bank is presented for risk and financial reporting purposes. The Bank of Åland will apply a credit rating model (PD x LGD x EAD) to all exposures.

The Bank of Åland will apply the transitional rules for the capital base.

IFRS 9 has also resulted in changes in the disclosure requirements in IFRS 7, "Financial instruments: Disclosure" and in FINREP reporting to regulatory authorities, which will affect the disclosures that are provided.

COMING CHANGES

IFRS 16, "Leases" (has been approved by the EU and will be applied for accounting periods beginning January 1, 2019 or later): The new standard replaces the current IAS 17 standard and related interpretations. IFRS 16 requires lessees to report a lease liability and a “right-of-use” asset. This accounting model resembles the current treatment of financial leases according to IAS 17. There are two applicable exemptions: short-term leases running for 12 months or less or leases of “low value items”, i.e. assets worth USD 5,000 or less. The lessor’s accounting is essentially equivalent to the current treatment according to IAS 17. The Bank of Åland is still evaluating IFRS 16’s impact on the Group’s financial reports.

ESTIMATES AND JUDGEMENTS

Preparation of this Interim Report in compliance with IFRSs requires the Company’s Executive Team to make assessments, estimates and assumptions 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 estimates are based on the best knowledge of the Executive Team on current events and measures, the actual outcome may diverge from the estimates. The substantial accounting assessments that have been made when applying the Group’s accounting principles are primarily related to the application of the new impairment model and accounting of financial instruments.

ALTERNATIVE PERFORMANCE MEASURES

Alternative performance measures are financial metrics of historical or future earnings developments, financial position or cash flow that have not been defined in applicable accounting regulations (IFRSs) or capital requirements regulations (CRD/CRR). The Bank of Åland uses alternative performance measures when they are relevant in order to monitor and describe the Bank’s financial situation, to facilitate comparability between periods and to provide additional usable information to the readers of its financial reports. These measures are not necessarily comparable to similar financial metrics that are presented by other companies.

3. Transition to IFRS 9

Transitional effects that have arisen concerning classification and measurement of financial instruments in connection with the transition to IFRS.

Group	IAS 39 reported on Dec 31, 2017							
Measurement	Fair value via other comprehensive income	Fair value via income statement ("profit and loss")			Amortised cost			**Total recognised value**
Category	Assets available for sale	Assets held for trading	Hedge accounting	Other	Assets held to maturity	Loans and accounts receivable	Other	
EUR M								
Assets								
Cash						524		524
Debt certificates eligible for refinancing with central banks	415		70	10	139			634
Lending to credit institutions						93		93
Lending to the public			56	32		3,891		3,979
Shares and participations	1							1
Derivative instruments		7	15	0				21
Accrued interest income							9	9
Receivables on mutual fund settlement proceeds							9	9
Total financial assets	**415**	**7**	**141**	**42**	**139**	**4,507**	**18**	**5,269**
Liabilities								
Liabilities to credit institutions							206	206
Liabilities to the public							3,148	3,148
Debt securities issued			755				845	1,600
Derivative instruments		7	15	1				23
Subordinated liabilities			8				25	33
Provisions							1	1
Accrued interest expenses							6	6
Liabilities on mutual fund settlement proceeds							19	19
Total financial liabilities		**7**	**777**	**1**			**4,251**	**5,036**

Group		IAS 9 restated on Jan 1, 2018							
Measurement		Fair value via other comprehensive income	Fair value via income statement ("profit and loss")			Amortised cost			**Total recognised value**
Category	Restatement due to IFRS 9	Assets held to maturity and available for sale	Assets held for trading	Hedge accounting	Other	Assets held to maturity	Loans and accounts receivable	Other	
EUR M									
Assets									
Cash							524		524
Debt certificates eligible for refinancing with central banks	0	415	10	70		139			634
Lending to credit institutions							93		93
Lending to the public	-4			87			3,888		3,975
Shares and participations		1							1
Derivative instruments			7	15					21
Accrued interest income								9	9
Receivables on mutual fund settlement proceeds								9	9
Total financial assets	**-4**	**415**	**17**	**172**		**139**	**4,505**	**18**	**5,265**
Liabilities									
Liabilities to credit institutions								206	206
Liabilities to the public								3,148	3,148
Debt securities issued				755				845	1,600
Derivative instruments			7	16					23
Subordinated liabilities				8				25	33
Provisions	0							1	1
Accrued interest expenses								6	6
Liabilities on mutual fund settlement proceeds								19	19
Total financial liabilities	**0**		**7**	**779**				**4,251**	**5,036**

Transitional effects that have arisen concerning impairment in connection with the transition to IFRS.

Group	Dec 31, 2017 - IAS 39				Jan 1, 2018 - IFRS 9			
	Group provisions	Individual provisions	Total	Transitional effects	Stage 1	Stage 2	Stage 3	Total
EUR M								
Private individuals								
Home loans	0.1	3.1	3.1	0.9	0.7	0.2	3.1	4.0
Securities and other investments	0.0	0.1	0.1	0.1	0.1	0.0	0.1	0.2
Business operations	0.1	1.7	1.9	-0.1	0.1	0.0	1.7	1.8
Other household purposes	1.4	0.4	1.8	0.7	0.5	0.6	1.5	2.5
Total, private individuals	**1.7**	**5.3**	**6.9**	**1.6**	**1.2**	**0.9**	**6.4**	**8.5**
Companies								
Shipping	0.0	0.2	0.2	0.1	0.0	0.0	0.2	0.3
Wholesale and retail trade	0.1	0.2	0.3	0.0	0.0	0.0	0.3	0.4
Housing operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other real estate operations		1.9	1.9	0.1	0.0	0.0	1.9	2.0
Financial and insurance operations	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.1
Hotel and restaurant operations	0.0		0.0	0.0	0.0	0.0	0.0	0.0
Other service operations	0.0	0.7	0.8	0.0	0.0	0.0	0.8	0.8
Agriculture, forestry and fishing			0.0	0.0	0.0			0.0
Construction	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.2
Other industry and crafts	0.0		0.0	0.1	0.0	0.1	0.0	0.1
Total, companies	**0.2**	**3.2**	**3.4**	**0.5**	**0.3**	**0.2**	**3.4**	**3.9**
Public sector and non-profit organisations				0.0	0.0	0.0		0.0
Total, public sector and non-profit organisations				**0.0**	**0.0**	**0.0**		**0.0**
Total provisions	**1.9**	**8.5**	**10.4**	**2.1**	**1.5**	**1.1**	**9.9**	**12.5**
Debt securities				0.1	0.1			0.1
Off-balance sheet items				0.2	0.1	0.0	0.1	0.2
Total	**1.9**	**8.5**	**10.4**	**2.4**	**1.7**	**1.1**	**10.0**	**12.8**

4. Segment report

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.

"Private Banking" encompasses Private Banking operations in Åland, on the Finnish mainland and in Sweden. "Premium Banking" encompasses operations in all customer segments excluding private banking in Åland, on the Finnish mainland and in Sweden. "Asset Management" encompasses Ålandsbanken Fondbolag Ab, Ålandsbanken Fonder Ab and the Bank's institutional sales organisation. "IT" encompasses the subsidiary Crosskey Banking Solutions Ab Ltd including S-Crosskey Ab. "Corporate and Other" encompasses all central corporate units in the Group, including Treasury and the subsidiary Ab Compass Card Oy Ltd.

Group			Jan-Jun 2018				
EUR M	Private Banking	Premium Banking	Asset Management	IT	Corporate and Other	Eliminations	Total
Net interest income	12.9	13.0	0.0	0.0	2.1	0.0	27.9
Net commission income	14.8	5.7	5.0	0.0	0.1	0.1	25.8
Net income from financial items	1.2	0.2	0.0	0.0	1.9	0.0	3.2
IT income				16.3		-8.1	8.1
Other income	0.1	0.1	0.0	0.2	0.5	-0.6	0.3
Total income	**28.9**	**19.0**	**5.0**	**16.4**	**4.6**	**-8.6**	**65.4**
Staff costs	-5.3	-3.3	-2.8	-8.5	-9.7		-29.5
Other expenses	-2.9	-2.4	-1.0	-5.9	-11.6	7.2	-16.6
Depreciation/amortisation	-0.1	-0.2	0.0	-1.5	-2.7	0.9	-3.7
Internal allocation of expenses	-10.4	-8.6	-0.8		19.7		
Nonrecurring items							
Total expenses	**-18.7**	**-14.4**	**-4.7**	**-15.9**	**-4.3**	**8.1**	**-49.8**
Profit before impairment losses	**10.2**	**4.6**	**0.3**	**0.5**	**0.4**	**-0.5**	**15.5**
Impairment losses on financial assets	-0.1	-0.4			-0.2		-0.7
Net operating profit	**10.1**	**4.2**	**0.3**	**0.5**	**0.1**	**-0.5**	**14.9**
Income taxes	-2.1	-0.9	-0.1	-0.1	-0.1		-3.2
Profit for the period attributable to shareholders	**8.1**	**3.4**	**0.3**	**0.5**	**0.0**	**-0.5**	**11.7**
Business volume							
Lending to the public	1,700	2,256			27	-21	3,963
Deposits from the public	1,626	1,436	3		46	-16	3,095
Actively managed assets	3,180	363	5,650		1	-3,543	5,650
Risk exposure amount	645	645	45	43	197		1,575
Equity capital	83	91	7	14	36		230
Financial ratios etc.							
Return on equity after taxes, % (ROE)	20.4	7.6	9.3	7.6	0.2		10.2
Expense/income ratio	0.65	0.76	0.93	0.97	0.92		0.76
Loan loss level, %	0.01	0.03			1.57		0.03

Group			Jan-Jun 2017				
EUR M	Private Banking	Premium Banking	Asset Management	IT	Corporate and Other	Eliminations	Total
Net interest income	13.3	12.1	0.0	0.0	2.2	0.0	27.5
Net commission income	14.3	5.8	4.9	0.0	-0.1	0.1	24.9
Net income from financial items	0.3	0.3	0.0	0.0	-0.4	0.0	0.3
IT income				16.9		-7.3	9.7
Other income	0.1	0.0		0.2	1.1	-0.2	1.1
Total income	**27.9**	**18.3**	**5.0**	**17.0**	**2.7**	**-7.4**	**63.5**
Staff costs	-5.7	-3.5	-2.4	-8.7	-10.7		-30.9
Other expenses	-2.6	-2.0	-0.8	-6.2	-11.0	6.6	-16.1
Depreciation/amortisation	-0.1	-0.4	0.0	-1.7	-1.7	0.6	-3.3
Internal allocation of expenses	-9.3	-8.5	-0.7		18.4		
Total expenses	**-17.7**	**-14.3**	**-3.9**	**-16.6**	**-4.9**	**7.2**	**-50.2**
Profit before impairment losses	**10.3**	**4.0**	**1.1**	**0.4**	**-2.2**	**-0.2**	**13.3**
Impairment losses on financial assets	0.1	-1.3			0.2		-1.0
Net operating profit	**10.4**	**2.7**	**1.1**	**0.4**	**-2.0**	**-0.2**	**12.3**
Income taxes	-2.1	-0.6	-0.2	-0.1	0.4		-2.5
Profit for the period attributable to shareholders	**8.2**	**2.1**	**0.9**	**0.3**	**-1.5**	**-0.2**	**9.8**
Business volume							
Lending to the public	1,689	2,213			34	-22	3,915
Deposits from the public	1,716	1,382	1		35	-5	3,130
Actively managed assets	2,931	305	5,475		0	-3,236	5,475
Risk exposure amount	635	658	11	44	188		1,537
Equity capital	75	88	2	11	49		224
Financial ratios etc.							
Return on equity after taxes, % (ROE)	22.6	4.8	98.8	5.7	-6.4		8.8
Expense/income ratio	0.63	0.78	0.78	0.98	1.79		0.79
Loan loss level, %	-0.01	0.12			-1.26		0.05

Historical figures have been restated, since the model for dividing up all offices into Premium and Private Banking has been developed.

5. Changes in Group structure

During the first half of 2018, the Finnish-based Ålandsbanken Fonder Ab – a wholly owned subsidiary of Ålandsbanken Fondbolag Ab, the Bank's fund management subsidiary – was established.

6. Net interest income

Group	Q2 2018	Q1 2018	%	Q2 2017	%	Jan-Jun 2018	Jan-Jun 2017	%
EUR M								
Lending to credit institutions and central banks	-0.3	-0.2	21	-0.4	-26	-0.5	-0.6	-19
of which negative interest	-0.3	-0.2	15	-0.4	-28	-0.5	-0.7	-22
Lending to the public	15.8	15.8	0	15.7	0	31.6	31.7	0
of which negative interest	-0,0	-0,0		-0,0		-0,0	-0,0	71
Debt securities	0.2	0.2	-8	0.3	-31	0.4	0.5	-20
Derivatives	0.2	0.2	-18	0.2	-9	0.4	0.6	-34
Other interest income	0.0	0.0	30	0.0	-88	0.0	0.0	-79
Total interest income	**15.9**	**16.0**	**-1**	**15.8**	**0**	**31.9**	**32.1**	**-1**
of which negative interest	-0.3	-0.3	15	-0.4	-27	-0.6	-0.7	-20
Liabilities to credit institutions and central banks	-0.1	-0.1	29	-0.1	24	-0.2	-0.2	12
of which negative interest	-0.2	-0.1	15	-0.1	20	-0.3	-0.3	12
Liabilities to the public	0.9	0.8	11	1.0	-6	1.7	1.9	-12
of which negative interest	-0.1	-0.1	-27	-0,0		-0.1	-0,0	
Debt securities issued	0.7	0.6	17	0.9	-23	1.3	1.8	-26
of which negative interest	-0,0	-0.1		-0.1		-0.2	-0.2	-16
Subordinated liabilities	0.3	0.2	23	0.3	16	0.5	0.5	4
Derivatives	0.2	0.4	-40	0.2	52	0.6	0.5	19
Other interest expenses	0.0	0.0	-7	0.0	-30	0.0	0.0	-32
Total interest expenses	**2.0**	**2.0**	**3**	**2.2**	**-9**	**4.0**	**4.6**	**-13**
of which negative interest	-0.3	-0.3	-22	-0.2	5	-0.6	-0.4	34
Net interest income	**13.8**	**14.1**	**-2**	**13.6**	**2**	**27.9**	**27.5**	**1**
Interest margin, per cent	1.06	1.07		1.11		1.09	1.09	
Investment margin, per cent	1.03	1.03		1.09		1.06	1.07	

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).

Interest margin is interest on interest-bearing assets divided by the average balance of assets minus interest on interest-bearing liabilities divided by the average balance of liabilities. Average balance is calculated as the average of end-of-month figures for the period in question plus the opening balance for the period.

Investment margin is net interest income divided by the average balance sheet total.

7. Net commission income

Group	Q2 2018	Q1 2018	%	Q2 2017	%	Jan-Jun 2018	Jan-Jun 2017	%
EUR M								
Deposits	0.2	0.2	-5	0.2	-1	0.4	0.4	-1
Lending	0.8	0.7	15	1.1	-26	1.5	1.8	-19
Payment intermediation	1.7	1.6	3	1.6	6	3.3	3.1	6
Mutual fund commissions	10.4	10.5	-2	6.2	67	20.9	11.4	83
Management commissions	2.7	2.9	-7	2.7	-2	5.6	5.5	0
Securities commissions	2.9	3.8	-23	3.0	-3	6.8	6.3	7
Other commission income	1.0	0.8	23	1.0	0	1.7	1.8	-1
Total commission income	**19.6**	**20.5**	**-5**	**15.8**	**24**	**40.1**	**30.4**	**32**
Payment commission expenses	-1.0	-1.0	7	-1.0	7	-2.0	-1.9	5
Mutual fund commission expenses	-5.1	-5.4	-6	-1.0		-10.5	-1.6	
Management commission expenses	-0.2	-0.2	-20	-0.2	9	-0.4	-0.3	25
Securities commission expenses	-0.5	-0.6	-19	-0.6	-20	-1.0	-1.2	-10
Other commission expenses	-0.2	-0.2	9	-0.2	-25	-0.3	-0.5	-29
Total commission expenses	**-7.0**	**-7.4**	**-5**	**-2.9**		**-14.3**	**-5.4**	
Net commission income	**12.6**	**13.2**	**-4**	**12.8**	**-2**	**25.8**	**24.9**	**3**

8. Net income from financial items

Group	Q2 2018	Q1 2018	%	Q2 2017	%	Jan-Jun 2018	Jan-Jun 2017	%
EUR M								
Valuation category fair value via the income statement ("profit and losses")								
Debt securities	0.0	0.0	-11	0.0	18	-0.1	-0.1	11
Shares and participations				0.0	-100		0.1	-100
Derivative instruments	0.0	0.0		0.4	-96	0.0	0.7	-99
Loan receivables[1]				-1.6	-100		-1.0	-100
Valuation category fair value via the income statement ("profit and losses")	**0.0**	**-0.1**	**-52**	**-1.2**	**-98**	**-0.1**	**-0.4**	**-77**
Hedge accounting								
of which hedging instruments[1]	0.9	-1.5		-2.3		-0.6	-5.7	-89
of which hedged item[1]	-0.9	1.9		2.2		1.0	5.2	-82
Hedge accounting[1]	**0.0**	**0.4**		**-0.1**	**-81**	**0.3**	**-0.5**	
Net income from foreign exchange dealing	**1.0**	**1.2**	**-18**	**0.8**	**32**	**2.2**	**1.2**	**87**
Net income from financial assets [2]	**0.7**	**0.0**		**0.0**		**0.8**	**0.0**	
Total	**1.7**	**1.5**	**10**	**-0.6**		**3.2**	**0.3**	

1. Fixed interest loans, which were previously reported under the fair value option, have been reclassified during the transition to IFRS 9 and are being reported starting on January 1, 2018 as part of fair value hedging.
2. In compliance with IFRS 9, changes in the market value of financial assets held to maturity and available for sale are recognised under comprehensive income, except for the portion of the change in market value of these assets that is due to changes in counterparty risk or exchange rates. These changes in value are reported in the income statement as "Net income from financial items".

9. Other expenses

Group	Q2 2018	Q1 2018	%	Q2 2017	%	Jan-Jun 2018	Jan-Jun 2017	%
EUR M								
IT expenses (excluding market data)	2.5	3.0	-16	3.3	-24	5.5	6.5	-15
Premises and property expenses	1.3	1.3	-3	1.4	-8	2.6	2.8	-5
Marketing expenses	0.5	0.5	-5	0.5	-3	1.1	1.2	-8
Market data	0.6	0.6	-6	0.5	5	1.1	1.1	7
Staff-related expenses	0.4	0.6	-33	0.6	-27	1.0	1.2	-15
Travel expenses	0.3	0.3	5	0.3	-13	0.6	0.7	-10
Purchased services	0.5	0.4	21	0.5	-4	0.9	1.1	-12
Deposit guarantee fee				0.0	-100		0.0	-100
Stability fee	0.9	0.4		0.2		1.3	0.2	
Other expenses	1.8	1.6	10	1.7	7	3.5	3.2	8
Production for own use	-0.6	-0.5	24	-0.7	-15	-1.1	-1.7	-38
Total	**8.3**	**8.4**	**-1**	**8.4**	**-2**	**16.6**	**16.1**	**3**

10. Impairment losses on financial assets

Group	Q2 2018	Q1 2018	%	Jan-Jun 2018
EUR M				
Changes in amortised cost				
Provisions - Stage 1	-0.2	-0.2	2	-0.3
Provisions - Stage 2	0.1	0.1	70	0.2
Provisions - Stage 3	-1.4	0.1		-1.3
Total	**-1.4**	**0.0**		**-1.4**
Actual losses for the period	1.9	0.2		2.1
Recoveries of actual losses for the period	0.0	-0.1		0.0
Total	**1.9**	**0.1**		**2.1**
Total changes in amortised cost	**0.5**	**0.2**		**0.7**
Loan loss level, %	0.05	0.02		0.03
Off-balance sheet items				
Provisions - Stage 1	0.0	0.0		0.0
Provisions - Stage 2	0.0	0.0		0.0
Provisions - Stage 3	0.0	0.0	-50	0.0
Total	**0.0**	**0.0**		**0.0**
Actual losses for the period				
Total off-balance sheet items	**0.0**	**0.0**		**0.0**
Debt instruments				
Provisions - Stage 1	0.0	0.0		0.0
Provisions - Stage 2				
Provisions - Stage 3				
Total	**0.0**	**0.0**		**0.0**
Actual losses for the period				
Total debt instruments	**0.0**	**0.0**		**0.0**
Total loan losses	**0.5**	**0.2**		**0.7**

11. Lending to the public and public sector by purpose

Group	Jun 30, 2018			Dec 31, 2017	%	Jun 30, 2017	%
EUR M	Lending before provisions	Provisions	Lending after provisions	Lending after provisions		Lending after provisions	
Private individuals							
Home loans[1]	2,237	-4	2,233	2,224	0	2,171	3
Securities and other investments[1]	308	0	308	308	0	274	12
Business operations	118	-2	116	120	-4	124	-7
Other household purposes	217	-3	215	213	1	197	9
Total, private individuals	**2,880**	**-9**	**2,871**	**2,865**	**0**	**2,767**	**4**
Companies							
Shipping	46	0	46	48	-3	52	-11
Wholesale and retail trade	48	0	47	41	16	38	23
Housing operations	316	0	316	327	-3	360	-12
Other real estate operations	230	0	230	253	-9	226	2
Financial and insurance operations	223	0	223	198	13	231	-3
Hotel and restaurant operations	29	0	29	26	11	27	6
Other service operations	80	-1	79	95	-16	96	-17
Agriculture, forestry and fishing	12	0	12	11	11	10	21
Construction	39	0	39	43	-10	41	-6
Other industry and crafts	38	0	38	41	-7	36	6
Total, companies	**1,062**	**-2**	**1,060**	**1,081**	**-2**	**1,117**	**-5**
Public sector and non-profit organisations	32	0	32	32	-1	30	6
Total, public sector and non-profit organisations	**32**	**0**	**32**	**32**	**-1**	**30**	**6**
Total lending	**3,974**	**-11**	**3,963**	**3,979**	**0**	**3,915**	**1**

12. Lending to the public and public sector by stage

Group	Stage 1	Stage 2	Stage 3	Total
EUR M				
Carrying amount, gross				
Opening balance, January 1, 2018	3,799.7	172.7	16.7	3,989.0
Closing balance, June 30, 2018	3,697.2	249.1	27.4	3,973.7
Provisions for expected losses				
Opening balance, January 1, 2018	**1.5**	**1.1**	**9.9**	**12.5**
Increases due to issuances and acquisitions	0.1	0.1	0.0	0.2
Decrease due to removal from report on financial position	0.0	0.0	-0.1	-0.1
Net changes due to changed credit risk	0.3	0.3	-2.1	-1.6
Transfer to Stage 1	0.0	0.0	0.0	0.0
Transfer to Stage 2	-0.3	0.2	0.1	0.0
Transfer to Stage 3	-0.4	-0.3	0.8	0.0
Currency rate effect	0.0	0.0	0.0	0.0
Closing balance, June 30, 2018	**1.2**	**1.3**	**8.6**	**11.1**
Carrying amount, net				
Opening balance, January 1, 2018	3,798.1	171.6	6.8	3,976.5
Closing balance, June 30, 2018	3,696.0	247.8	18.8	3,962.7

Impairment losses, IFRS 9 - Financial ratios	**June 30, 2018**	**March 31, 2018**	**January 1, 2018**
Total provision ratio, receivables from the public, %	0.28	0.31	0.31
Provision ratio, Stage 1, receivables from the public, %	0.03	0.04	0.04
Provision ratio, Stage 2, receivables from the public, %	0.52	0.49	0.65
Provision ratio, Stage 3, receivables from the public, %	31	53	59
Share of receivables from the public in Stage 3, %	0.69	0.46	0.42

13. Deposits from the public and public sector, including bonds and certificates of deposit issued

Group	Jun 30, 2018	Dec 31, 2017	%	Jun 30, 2017	%
EUR M					
Deposit accounts from the public and public sector					
Demand deposits	2,856	2,749	4	2,932	-3
Time deposits	239	399	-40	197	21
Total deposit accounts	**3,095**	**3,148**	**-2**	**3,130**	**-1**
Certificates of deposit issued to the public [1]	2	7	-70	10	-79
Index bonds (structured products)	2	10	-77	16	-86
Subordinate debentures [1]	31	33	51	35	41
Total bonds and certificates of deposit	**35**	**49**	**-29**	**60**	**-42**
Total deposits	**3,130**	**3,197**	**-2**	**3,190**	**-2**

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

14. Debt securities issued

Group	Jun 30, 2018	Dec 31, 2017	%	Jun 30, 2017	%
EUR M					
Certificates of deposit	233	158	47	229	2
Covered bonds	1,255	1,332	-6	1,082	16
Senior non-covered bonds	100	100	0	188	-47
Index bonds (structured products)	2	10	-77	16	-86
Total	**1,591**	**1,600**	**-1**	**1,515**	**5**

15. Derivative instruments

Group	Jun 30, 2018						Dec 31, 2017		
	Nominal amount/maturity								
EUR M	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		34	22	55	2	2	94	2	3
Currency-related contracts									
Currency forward contracts	663			663	5	6	492	4	4
Equity-related contracts									
Equity options - purchased	1			1	0		5	1	
Equity options - written	1			1		0	4		1
Other derivative contracts							8		
Total	**665**	**34**	**22**	**720**	**7**	**8**	**603**	**7**	**8**
Derivatives for market value hedge									
Interest-related contracts									
Interest rate swaps	97	383	323	803	11	7	771	15	7
Total	**97**	**383**	**323**	**803**	**11**	**7**	**771**	**15**	**7**
Derivatives for cash flow hedge									
Interest-related contracts									
Interest rate and currency swaps							51		7
Total							**51**		**7**
Derivatives for hedging of net investment in foreign operations									
Currency-related contracts									
Currency swaps							55		0
Total							**55**		**0**
Total derivative instruments	**762**	**417**	**345**	**1,523**	**18**	**15**	**1,479**	**21**	**23**
of which cleared OTC									
of which cleared by other means	97	413	342	852	11	8	855	15	10

Derivatives are reported starting on January 1, 2018 together with related accrued interest. Historical figures for comparative periods have been restated.

16. Financial instruments at fair value

Group		Jun 30, 2018		
EUR M	Instruments with quoted prices (Level 1)	Measurement techniques based on observable market data (Level 2)	Measurement techniques based on non-observable market data (Level 3)	Total
Debt securities eligible for refinancing with central banks	496			496
Lending to the public and public sector entities[1]		93		93
Shares and participations	0	0	0	0
Derivative instruments[2]		18		18
Total financial assets	**496**	**110**	**0**	**607**
Liabilities to the public and public sector entities				
Debt securities issued		705		705
Derivative instruments[2]		15		15
Subordinated liabilities		6		6
Total financial liabilities		**725**		**725**

Group		Dec 31, 2017		
EUR M	Instruments with quoted prices (Level 1)	Measurement techniques based on observable market data (Level 2)	Measurement techniques based on non-observable market data (Level 3)	Total
Debt securities eligible for refinancing with central banks	495			495
Lending to the public and public sector entities[1]		88		88
Shares and participations	0	0	1	1
Derivative instruments[2]	0	21		21
Total financial assets	**495**	**108**	**1**	**605**
Liabilities to the public and public sector entities				
Debt securities issued		755		755
Derivative instruments[2]		23		23
Subordinated liabilities		8		8
Total financial liabilities		**785**		**785**

1 Fixed interest loans, which were previously reported under the fair value option, have been reclassified during the transition to IFRS 9 and are being reported starting on January 1, 2018 as part of fair value hedging.
2 Derivatives are reported starting on January 1, 2018 together with related accrued interest. Historical figures for comparative periods have been restated.

Financial instruments for which there is price information that is easily available and that represent actual and frequently occurring transactions are measured at current market price. For financial assets, the current purchase price is used. For financial liabilities, the current sale price is used. 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 measurement models. Such models may, for example, be based on price comparisons, present value estimates or option valuation theory, depending on the nature of the instrument. The models use incoming data in the form of market prices and other variables that are deemed to influence pricing. The models and incoming data on which the measurements are based are validated regularly to ensure that they are consistent with market practices and generally accepted financial theory.

The measurement hierarchy
Financial instruments that are measured according to quoted prices in an active market for identical assets/liabilities are categorised as Level 1.Financial instruments that are measured using measurement models that are, in all essential respects, based on market data are categorised as Level 2. Financial instruments that are measured with the help of models based on incoming data that cannot be verified with external market information are categorised in Level 3. These assets essentially consist of unlisted shares. Such holdings are generally measured as the Bank’s portion of the net asset value of the company. Unlisted shares are essentially classified as available for sale. The changes in the value of these holdings are reported in “Other comprehensive income”.

In the above tables, financial instruments measured at fair value have been classified with regard to how they have been measured and the degree of market data used in this measurement on closing day. If the classification on closing day has changed, compared to the classification at the end of the previous year, the instrument has been moved between the levels in the table. During the period, no instruments were moved between Levels 1 and 2.

Changes in Level 3 are presented in a separate table.

Changes in Level 3 holdings	Jan-Jun 2018
EUR M	Shares and participations
Carrying amount on January 1	0.5
Divested/reached maturity during the year	0.0
Change in value recognised in "Other comprehensive income"	-0.1
Carrying amount on June 30	**0.4**

17. Off-balance sheet commitments

Group	Jun 30, 2018	Dec 31, 2017	%	Jun 30, 2017	%
EUR M					
Guarantees	44	40	11	42	5
Unutilised overdraft limits	220	216	2	86	
Unutilised credit card limits	77	74	3	71	8
Lines of credit	156	142	9	192	-19
Other commitments	19	14	37	21	-10
Total	**515**	**485**	**6**	**412**	**25**

18. Offsetting of financial assets and liabilities

Group	Assets			Liabilities		
	Jun 30, 2018	Dec 31, 2017	%	Jun 30, 2018	Dec 31, 2017	%
EUR M						
Financial assets and liabilities covered by offsetting, netting or similar agreements						
Gross amount	18	21	-17	40	55	-28
Offset amount						
Total	**18**	**21**	**-17**	**40**	**55**	**-28**
Related amounts not offset						
Financial instruments, netting agreements	-9	-11	-18	-9	-11	-18
Financial instruments, collateral					-11	-100
Cash, collateral		-1	-100	-29	-25	16
Total amounts not offset	**-9**	**-12**	**-23**	**-38**	**-47**	**-19**
Net amount	**9**	**10**	**-9**	**2**	**9**	**-75**

Derivatives are reported starting on January 1, 2018 together with related accrued interest. Historical figures for comparative periods have been restated.

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 that allow netting of obligations to counterparties in case of default. 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.

19. Assets pledged

Group	Jun 30, 2018	Dec 31, 2017	%	Jun 30, 2017	%
EUR M					
Lending to credit institutions	33	30	8	63	-48
Debt securities	186	162	14	168	11
Loan receivables constituting collateral (cover pool) for covered bonds	2,053	1,989	3	1,660	24
Other assets pledged	3	3	1	3	0
Total	**2,275**	**2,186**	**4**	**1,894**	**20**

20. Capital adequacy

Group	Jun 30, 2018	Dec 31, 2017	%	Jun 30, 2017	%
EUR M					
Equity capital according to balance sheet	230.5	233.6	-1	223.9	3
Foreseeable dividend	-5.7	-10.0	-44	-4.6	24
Common equity Tier 1 capital before deductions	**224.8**	**223.6**	**1**	**219.4**	**2**
Intangible assets	-16.4	-15.9	3	-15.7	5
Tax assets due to future profitability offset against tax liabilities within same tax category					
Deduction of surplus value in pension assets					
Non-controlling interests	0.0	0.0	-5	0.0	7
Cash flow hedge		0.0	-100	0.0	-100
Further adjustments in value	-0.5	-1.3	-62	-1.3	-62
Expected losses according to IRB approach beyond recognised losses (deficit)	-6.7	-8.8	-24	-10.5	-36
Common equity Tier 1 capital	**201.2**	**197.6**	**2**	**191.9**	**5**
Additional Tier 1 capital					
Tier 1 capital	**201.2**	**197.6**	**2**	**191.9**	**5**
Supplementary capital instruments	38.0	19.7	93	19.3	97
Expected losses according to IRB approach beyond recognised losses (surplus)		1.7		2.5	
Supplementary capital	**38.0**	**21.4**	**78**	**21.9**	**74**
Total capital base	**239.3**	**219.0**	**9**	**213.8**	**12**
Capital requirement for credit risk according to the IRB approach	43.4	46.5	-7	47.9	-9
Capital requirement for risk weighting floor, home mortgage loans	7.4				
Capital requirement for credit risk according to standardised approach	58.2	60.3	-4	58.6	-1
Capital requirement for credit-worthiness adjustment risk	0.0	0.0	-28	0.2	-96
Capital requirement for operational risk	17.1	16.2	5	16.2	5
Capital requirement	**126.0**	**123.0**	**2**	**123.0**	**2**
Capital ratios					
Common equity Tier 1 capital ratio, %	12.8	12.9		12.5	
Tier 1 capital ratio, %	12.8	12.9		12.5	
Total capital ratio, %	15.2	14.2		13.9	
Risk exposure amount	1,575	1,538	2	1,537	2
of which % comprising credit risk	86	87		87	
of which % comprising credit-worthiness adjustment risk	0	0		0	
of which % comprising operational risk	14	13		13	

In May, the Bank of Åland issued SEK 200 M in subordinated debt instruments with a write-down clause to institutional investors in Sweden. The instrument has a 20-year maturity, with early repayment possible after five years and each year thereafter. The issue was priced at 3-month Stibor plus 2.40 per cent. This issue nearly doubled the Bank of Åland's supplementary capital.

Requirements related to capital buffers, %	Jun 30, 2018	Dec 31, 2017	Jun 30, 2017
Total common equity Tier 1 capital requirements including buffer requirements	7.9	7.9	7.9
of which common equity Tier 1 capital requirement	4.5	4.5	4.5
of which capital conservation buffer requirement	2.5	2.5	2.5
of which countercyclical capital buffer requirement	0.9	0.9	0.9
Common equity Tier 1 capital available to be used as a buffer	12.8	12.9	12.5

Exposure class	Jun 30, 2018				
EUR M	Gross exposure	Exposure at default	Risk weight %	Risk exposure amount	Capital requirement
Credit risk according to the IRB approach					
Without own LGD estimates					
Corporate, other large companies	185.7	139.7	50	70.5	5.6
Corporate, small and medium sized companies	363.2	333.4	68	226.2	18.1
Corporate, special lending	5.3	5.3	112	5.9	0.5
Using own LGD estimates					
Retail with property as collateral (small and medium-sized companies)	111.6	111.0	23	25.5	2.0
Retail with property as collateral (private individuals)	1,791.0	1,780.6	10	175.3	14.0
Retail, other (small and medium-sized companies)	40.9	39.7	21	8.5	0.7
Retail, other	324.4	292.1	10	30.2	2.4
Total exposures according to IRB approach	**2,822.0**	**2,701.8**	**20**	**542.2**	**43.4**
Credit risk according to standardised approach					
Central government or central banks	510.2	555.7			
Regional governments or local authorities	15.4	35.7			
Public sector entities	5.1	5.1			
Multilateral development banks	45.1	46.0			
International organisations	22.1	22.1			
Institutions	307.1	268.2	25	67.3	5.4
Corporates	463.2	210.9	98	206.3	16.5
Retail	156.3	78.6	72	57.0	4.6
Secured by mortgages on immovable property	945.0	941.9	33	307.7	24.6
Exposures in default	2.1	2.1	147	3.1	0.2
Items associated with particularly high risk	0.6	0.6	150	0.9	0.1
Covered bonds	384.5	384.3	10	38.4	3.1
Collective investment undertakings					
Equity exposures	0.6	0.6	100	0.6	0.0
Other exposures	75.3	75.3	61	45.7	3.7
Total exposures according to standardised approach	**2,932.5**	**2,627.1**	**28**	**726.9**	**58.2**
Total risk exposure amount, credit risk	**5,754.5**	**5,328.9**	**24**	**1,269.1**	**101.5**

Exposure class	Dec 31, 2017				
EUR M	Gross exposure	Exposure at default	Risk weight %	Risk exposure amount	Capital requirement
Credit risk according to the IRB approach					
Without own LGD estimates					
Corporate, other large companies	178.3	145.7	51	74.6	6.0
Corporate, small and medium sized companies	345.7	318.7	66	211.2	16.9
Corporate, special lending	7.1	7.1	83	5.9	0.5
Using own LGD estimates					
Retail with property as collateral (small and medium-sized companies)	111.3	110.9	29	32.4	2.6
Retail with property as collateral (private individuals)	1,781.9	1,772.1	11	199.7	16.0
Retail, other (small and medium-sized companies)	38.3	37.5	28	10.5	0.8
Retail, other	323.8	293.0	16	47.0	3.8
Total exposures according to IRB approach	**2,786.4**	**2,685.1**	**22**	**581.3**	**46.5**
Credit risk according to standardised approach					
Central government or central banks	603.1	650.0			
Regional governments or local authorities	7.4	26.5			
Public sector entities	5.1	5.1			
Multilateral development banks	46.0	46.2			
International organisations	22.1	22.1			
Institutions	297.3	255.7	24	62.3	5.0
Corporates	465.6	228.4	98	223.1	17.8
Retail	240.5	82.2	72	59.5	4.8
Secured by mortgages on immovable property	951.7	948.0	33	309.6	24.8
Exposures in default	0.0	0.0	150	0.0	0.0
Items associated with particularly high risk	0.4	0.4	150	0.6	0.0
Covered bonds	371.0	371.0	10	37.1	3.0
Collective investment undertakings					
Equity exposures	0.7	0.7	100	0.7	0.1
Other exposures	68.4	68.4	89	60.5	4.8
Total exposures according to standardised approach	**3,079.2**	**2,704.5**	**28**	**753.5**	**60.3**
Total risk exposure amount, credit risk	**5,865.6**	**5,389.6**	**25**	**1,334.8**	**106.8**

Leverage ratio	Jun 30, 2018	Dec 31, 2017	%	Jun 30, 2017	%
EUR M					
Tier 1 capital	201.2	197.6	2	191.9	5
Total exposure measure	5,407.6	5,440.4	-1	5,338.0	1
of which balance sheet items	5,299.6	5,340.6	-1	5,239.3	1
of which off-balance sheet items	108.0	99.8	8	98.7	9
Leverage ratio, %	3.7	3.6	2	3.6	4

The leverage ratio is calculated according to the situation at the end of the period. Tier 1 capital includes profit for the period.

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TRANSLATION

Report on review of the Half-Year Financial Report of Bank of Åland Plc for the accounting period January 1 – June 30, 2018

To the Board of Directors of Bank of Åland Plc

Introduction

We have reviewed the summary balance sheet as of June 30, 2018 and the related summary income statement, summary statement of other comprehensive income, statement of changes in equity capital and summary cash flow statement of Bank of Åland Plc group for the six-month period then ended, as well as other explanatory notes to the consolidated financial statements. The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the Half-Year Financial Report in accordance with IAS 34 Interim Financial Reporting and other Finnish rules and regulations governing the preparation of interim reports. We will express our conclusion on the Half-Year Financial Report based on our review.

Scope of review

We conducted our review in accordance with the Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the standards on auditing and other generally accepted auditing practices and consequently does not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Half-Year Financial Report, in all material respects, is not prepared in accordance with IAS 34 Interim Financial Reporting and other applicable rules and regulations governing Half-Year Financial Report preparation in Finland.

Helsinki, July 20, 2018

KPMG OY AB

Marcus Tötterman
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Authorised Public Accountant, KHT

Daniel Haglund
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