

Interim Report

For the period January–March 2014 • April 29, 2014



January–March 2014

Compared to January–March 2013

- Net operating profit improved by 25 per cent to EUR 3.2 M (2.5).
- Profit for the period attributable to shareholders improved by 22 per cent to EUR 2.1 M (1.7).
- Net interest income increased by 27 per cent to EUR 11.9 M (9.4).
- Net commission income increased by 14 per cent to EUR 10.7 M (9.3).
- Total expenses increased by 7 per cent to EUR 24.6 M (23.1).
- Net impairment losses on loans (including recoveries) decreased by 39 per cent to EUR 0.9 M (1.4), equivalent to a loan loss level of 0.11 (0.19) per cent.
- Return on equity after taxes (ROE) amounted to 4.7 per cent (4.0).
- Earnings per share amounted to EUR 0.15 (0.12).
- The core Tier 1 capital ratio calculated without transitional rules amounted to 10.6 per cent (December 31, 2013: 10.8 per cent).

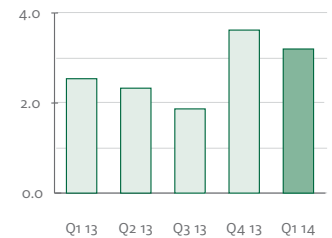
“During the first quarter of 2014, we attracted new customers and increased our volume in all business areas. This growth remains strongest in Sweden.

“As for earnings, it is especially pleasing to see the improvement in our net interest income, which grew by 27 per cent year-on-year. The quarter was a further step in the right direction towards achieving acceptable profitability.”

Peter Wiklöf, Managing Director

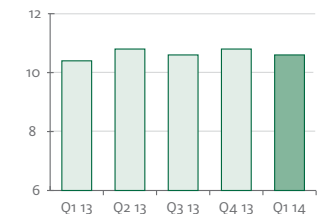
Net operating profit

EUR M



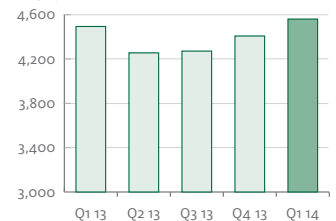
Core Tier 1 ratio

Per cent



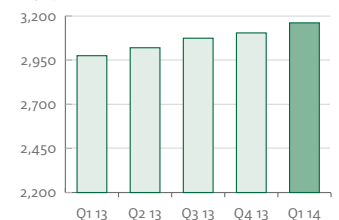
Managed assets

EUR M



Lending

EUR M



The Bank of Åland is a bank with strong customer relationships and personal 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 OMX Helsinki Oy (Helsinki Stock Exchange) since 1942. The Bank of Åland's Head Office is in Mariehamn. The Bank has seven offices in the Åland Islands, six offices elsewhere in Finland and three offices in Sweden. A total of six subsidiaries, whose operations are connected in various ways to banking, belong to the Bank of Åland Group.

Financial summary

Bank of Åland Group	Q1 2014	Q4 2013	%	Restated Q1 2013	%
EUR M					
Income					
Net interest income	11.9	11.6	2	9.4	27
Net commission income	10.7	12.8	-17	9.3	14
Net income from financial items at fair value	2.0	1.0	93	4.3	-53
Other income	4.0	4.2	-4	4.0	0
Total income	28.6	29.7	-4	27.0	6
Total expenses					
Staff costs	-13.3	-13.6	-2	-13.1	2
Other expenses	-9.1	-8.8	3	-8.1	12
Depreciation/amortisation	-2.2	-2.2	3	-1.9	18
Total expenses	-24.6	-24.6	0	-23.1	7
Profit before impairment losses	4.1	5.1	-20	4.0	2
Impairment losses on loans and other commitments	-0.9	-1.5	-41	-1.4	-39
Net operating profit	3.2	3.6	-12	2.5	25
Income taxes	-0.6	-0.4	77	-0.6	6
Profit for the report period	2.5	3.3	-22	1.8	38
Attributable to:					
Non-controlling interests	0.4	0.2		0.2	
Shareholders in Bank of Åland Plc	2.1	3.1	-31	1.7	22
Volume					
Lending to the public	3,161	3,104	2	2,975	6
Deposits from the public ¹	2,549	2,466	3	2,446	4
Managed assets	4,560	4,407	3	4,493	1
Equity capital	185	184	0	177	4
Balance sheet total	4,069	3,887	5	3,745	9
Risk-weighted assets	1,534	1,475	4	1,470	4
Financial ratios					
Return on equity after taxes, % (ROE) ²	4.7	6.9		4.0	
Expense/income ratio ³	0.86	0.83		0.85	
Loan loss level, % ⁴	0.11	0.19		0.20	
Gross non-performing receivables, % ⁵	0.45	0.50		0.58	
Level of provisions for doubtful receivables, % ⁶	47	50		73	
Core funding ratio, % ⁷	102	103		102	
Equity/assets ratio, % ⁸	4.5	4.7		4.7	
Tier 1 capital ratio, without transitional rules, % ⁹	10.6	10.8		10.4	
Earnings per share, % ¹⁰	0.15	0.21	-31	0.12	22
Equity capital per share, EUR ¹¹	12.63	12.54	1	12.27	4
Market price per Series A share, EUR	10.24	10.88	-6	12.50	-18
Market price per Series B share, EUR	8.25	7.94	4	8.14	1
Number of shares outstanding (not own shares), thousands	14,398	14,395	0	14,395	0
Working hours re-calculated to full-time equivalent positions	636	631	1	604	5

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 before provisions for impairment losses

⁶ Provisions for individual impairment losses / Doubtful receivables

⁷ Lending to the public / Deposits including certificates of deposit, index bonds and debentures issued to the public and covered bonds issued

⁸ Equity capital / Balance sheet total

⁹ (Core Tier 1 capital / Capital requirement) x 8 %

¹⁰ Shareholders' portion of earnings for the period/ Number of shares adjusted for share issue

¹¹ Equity capital/Number of shares on closing day

Comments

MACRO SITUATION AND REGULATORY REQUIREMENTS

Although the recession formally ended in the summer of 2013, both in the euro zone as a whole and in Finland, the European debt crisis is still not over. Economic growth is slow, and together with low inflation this means continued very low interest rates and no immediate prospect of interest rate increases. Geopolitical unrest has generated worries in the world's stock markets. At the end of the first quarter this year, share prices on the Nasdaq OMX Helsinki (OMXHPI) were essentially unchanged from the turn of the year, but prices on the Nasdaq OMX Stockholm (OMXSPI) had climbed by 4 per cent.

BENCHMARK INTEREST RATES, AVERAGES, PER CENT

	Q1 2014	Q4 2013	Q1 2013
Euribor 3 mo	0.29	0.24	0.21
Euribor 12 mo	0.56	0.53	0.57
Stibor 3 mo	0.94	1.3	1.22

The average value of the Swedish krona in relation to the euro was 4 per cent higher during the first quarter than in the year-earlier period. Compared to its year-end 2013 position, the krona weakened by 1 per cent during the quarter. When translating the income statement of the Bank of Åland's Swedish operations into euros, average exchange rates for the period have been used, while the balance sheet has been translated at the exchange rate prevailing on the closing day.

New calculation methods and disclosure requirements for capital adequacy went into effect on January 1, 2014 in compliance with the European Union's Capital Requirements Regulation (CRR).

IMPORTANT EVENTS

On January 15, the Bank of Åland announced co-determination negotiations and a need to reduce the number of employees on the Finnish mainland by about six. These negotiations were completed. As a result, one person was dismissed from the Bank. The Bank of Åland reached agreement with four employees on voluntary arrangements. Eight employees were offered other positions at the Bank. Another result of the co-determination negotiations was that the Bank of Åland will close its offices in Tapiola, Espoo during the spring and that the Corporate Services office in Helsinki will be re-organised. When the approved measures achieved their full effect, the Bank will reduce its costs by about EUR 0.5 M on an annual basis. Restructuring expenses for these measures total about EUR 0.4 M, which is being charged to first quarter earnings.

The Bank of Åland has decided to improve the efficiency of its IT support and back office processes for asset management and securities processing. This change effort is expected to take about three years. The Bank of Åland has chosen Crosskey's new capital market concept, "Capital Markets from the Tap", after evaluating several alternative IT suppliers. The new Capital Markets system is a holistic solution that integrates several existing systems into a single platform.

EARNINGS FOR JANUARY-MARCH 2014

Profit for the period attributable to shareholders amounted to EUR 2.1 M. This was an improvement of EUR 0.4 M or 22 per cent compared to the first quarter of 2013.

Total income increased by EUR 1.6 M or 6 per cent to EUR 28.6 M.

Due to re-pricing in the loan portfolio, lower funding costs and volume growth, net interest income increased by EUR 2.5 M or 27 per cent to EUR 11.9 M. This was the fourth consecutive quarter of rising net interest income.

Net commission income rose by EUR 1.4 M or 14 per cent to EUR 10.7 M, mainly due to higher securities brokerage and lending commissions.

Net income on financial items at fair value decreased by EUR 2.3 M or 53 per cent to EUR 2.0 M but remained at a high level.

Information technology (IT) income increased by EUR 0.2 M or 5 per cent to EUR 3.9 M.

Total expenses increased by EUR 1.5 M or 7 per cent to EUR 24.6 M, mainly due to restructuring expenses of about EUR 0.4 M in the Finnish Mainland business area and corporate strategy expenses of about EUR 1.0 M.

Impairment losses on loans amounted to EUR 0.9 M, equivalent to a loan loss level of 0.11 per cent, compared to EUR 1.4 M and 0.19 per cent a year earlier. Impairment losses were primarily related to corporate loans in the Finnish Mainland business area.

Return on equity amounted to 4.7 (4.0) per cent.

BUSINESS AREAS

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

In the Åland business area, the Bank of Åland and the mutual insurance company Ålands Ömsesidiga Försäkringsbolag (Ömsen) have intensified their partnership related to insurance and financing solutions, aimed at raising the level of service and financial security when buying a home. This collaboration is based on offering a financial security package for customers taking out home mortgage loans. The offer includes Ömsen's insurance protection and damage prevention programme and products as well as a range of services from the Bank of Åland, among them legal advisory services, construction advisory services, financing and the Åland Premium Banking service. Together with Ömsen, the Bank of Åland has become a part-owner of the newly established Mäklarhuset Åland Ab estate agency.

In the Finnish Mainland business area, Private Banking and Premium Banking customer contacts in the Helsinki region have been concentrated at the Bulevardi office. The subsidiary Ålandsbanken Asset Management had one of its strongest-ever quarters in terms of earnings.

In the Sweden business area, the number of customers and business volume continued to grow. The product range has continuously been augmented in such a way that customers will not need any other bank. E-invoicing and BankID have been launched, and a credit card as well as mortgage loan protection will be launched shortly. For the third quarter in a row, the Sweden business area reported a positive net operating income, excluding nonrecurring items.

Crosskey has initiated a partnership with the Finnish software company Modul IT, enabling Crosskey to offer a complete, modern capital market system. Crosskey foresees good demand and growth opportunities in certain product niches, for example card and mobile payments and e-banking solutions.

The Group's net operating income improved by EUR 0.7 M to EUR 3.2 M, allocated as follows (EUR M):

• Finnish Mainland	+3.0	(higher income, especially commission income, and lower impairment losses)
• Sweden	+0.5	(business volume growth and higher income, especially net interest income)
• Åland	+0.1	(higher income)
• Crosskey	+0.3	(higher income)
• Corporate units	-2.8	(lower Treasury income and higher restructuring expenses)
• Nonrecurring items	-0.4	(restructuring expenses)

BUSINESS VOLUME

Managed assets increased by EUR 153 M or 3 per cent during the first quarter and amounted to EUR 4,560 M (4,407), which was the highest figure ever. Managed assets in the Bank of Åland Group's own mutual funds rose by EUR 14 M or 1 per cent to EUR 974 M (960). There was continued heavy interest in Bostadsfonden, a housing mutual fund. Net inflow into Bostadsfonden was more than EUR 14 M during the first quarter. Assets under discretionary management rose by EUR 44 M or 3 per cent to EUR 1,729 M (1,685). Assets under advisory management rose by EUR 95 M or 5 per cent to EUR 1,857 M (1,762). Of total managed assets, the Sweden business area accounted for EUR 2,457 M or 54 (54) per cent.

Deposits from the public – including certificates of deposit, index bonds and debentures issued to the public – rose by EUR 83 M or 3 per cent during the first quarter and amounted to EUR 2,549 M (2,466).

Lending to the public totalled EUR 3,161 M (3,104). This represented an increase of EUR 57 M or 2 per cent during the first quarter. The lending increase was primarily related to loans with residential properties as collateral in the Swedish market.

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 1.3 M to EUR 14.3 M (15.6) during the first quarter. As a share of lending to the public, non-performing receivables fell from 0.50 per cent to 0.45 per cent. The level of provisions for doubtful receivables, i.e. individual impairment losses as a proportion of all doubtful receivables, was 47 per cent compared to 50 per cent at year-end 2013.

The Bank of Åland Group had EUR 17.2 M (16.5) in impairment loss provisions, comprising individual impairments of EUR 16.0 M (15.8) and group impairments of EUR 1.3 M (0.7).

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 597 M on March 31, 2014 (December 31, 2013: 569). This was equivalent to 15 (15) per cent of total assets and 19 (18) per cent of lending to the public. 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, of which EUR 100 M matured during the first quarter. During the first quarter, the Bank of Åland issued SEK 750 M in non-covered bonds with a 2-year maturity. The average remaining maturity on outstanding bonds was about 3.1 (3.1) years at the end of the period.

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 102 per cent at the end of the period (December 31, 2013: 103).

The liquidity coverage ratio (LCR) amounted to 65 per cent (December 31, 2013: 61).

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 1.7 M, and decreased in the amount of the dividend paid to non-controlling interests in subsidiaries, EUR 1.0 M. On March 31, 2014, equity capital totalled EUR 184.8 M (December 31, 2013: 184.1). Other comprehensive income included re-measurements of defined-benefit pension plans by EUR -1.3 M after taxes, in compliance with IAS 19, due to lower long-term yields.

Because the European Union's Capital Requirements Regulation (EU 575/2013, CRR) has gone into effect and has begun to be applied, for the sake of comparability the figures as at December 31, 2013 have been restated and presented both in compliance with the regulations that applied on December 31, 2013 and in compliance with the EU's Capital Requirements Regulation, which began to be applied on January 1, 2014 (see Note 22). The most significant changes for the Bank of Åland regarding the capital base are that 100 per cent instead of 50 per cent of expected losses according to the internal ratings based (IRB) approach in excess of recognised losses are subtracted directly from core Tier 1 capital and that the portion of excess capital that belongs to non-controlling interests in subsidiaries may not be counted as part of core Tier 1 capital, with a gradual phase-in over the next few years.

According to the Finnish Financial Supervisory Authority's interpretation, subordinated debentures that are repaid before the end of the first five years of their maturity as provided by Article 63 of the EU's Capital Requirements Regulation (EU 575/2013) are not

included in the capital base to the extent that the institution has not had permanent access to this capital during the first five years. The interpretation does not apply to subordinated debentures, according to the transitional rules in Article 484 of the Capital Requirements Regulation, issued on December 31, 2011 or earlier. This interpretation significantly reduces the Bank of Åland's supplementary capital, since earlier Finnish practice has interpreted the Act on Credit Institutions in such a way that subordinated debentures with a maturity of five years that are counted as supplementary capital may include a repayment plan.

The calculation of the capital requirement is affected, above all, by the reduction in the capital requirement for the small and medium-sized enterprise (SME) supporting factor (March 31, 2014: EUR -3.3 M), higher capital requirements due to the transition to external credit rating for institutions (EUR 2.3 M) and the capital requirement for credit value/adjustment risk in OTC contracts (intangible effect).

Core Tier 1 capital according to the definition in the new capital adequacy regulations increased by EUR 2.4 M during the first quarter to EUR 162.3 (159.9).

Risk-weighted assets increased by EUR 59 M or 4 per cent to EUR 1,534 M (December 31, 2013: 1,475 using a comparable definition), mainly due to increased lending in Sweden.

The core Tier 1 capital ratio decreased to 10.6 (December 31, 2013: 10.8 using a comparable definition), 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 decreased to 11.9 (13.5) per cent.

IMPORTANT EVENTS AFTER THE CLOSE OF THE REPORT PERIOD

The Annual General Meeting on April 10, 2014 re-elected the Board of Directors consisting of Nils Lampi, Christoffer Taxell, Agneta Karlsson, Anders Å. Karlsson, Annika Wijkström, Anders Wiklöf and Dan-Erik Woivalin. The Annual General Meeting also approved the removal of the stipulation in the Bank's Articles of Association that a person who has reached the age of 67 is not eligible for election to the Board.

The Meeting approved the payment of a dividend of EUR 0.15 per share for the financial year 2013.

RISKS AND UNCERTAINTIES

The Bank of Åland's earnings are affected by external changes that the Company itself cannot control. Among other things, the Group's trend of earnings is affected by macroeconomic changes and changes in general interest rates, share prices and exchange rates, along with higher expenses due to regulatory decisions and directives as well as the competitive situation.

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

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

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

FUTURE OUTLOOK

In accordance with legislative requirements, a statement on the Bank's future outlook was presented in the Annual Report, which was published on March 14, 2014.

FINANCIAL INFORMATION

The Interim Report for January–June 2014 will be published on Friday, July 25, 2014.

The Interim Report for January–September 2014 will be published on Tuesday, October 28, 2014.

Mariehamn, April 29, 2014

THE BOARD OF DIRECTORS

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Summary income statement

Bank of Åland Group	Note	Q1 2014	Q4 2013	%	Restated Q1 2013	%
EUR M						
Net interest income	5	11.9	11.6	2	9.4	27
Net commission income	6	10.7	12.8	-17	9.3	14
Net income from financial items at fair value	7	2.0	1.0	93	4.3	-53
IT income		3.9	3.9	0	3.7	5
Other operating income		0.1	0.3	-57	0.3	-57
Total income		28.6	29.7	-4	27.0	6
Staff costs		-13.3	-13.6	-2	-13.1	2
Other expenses	8	-9.1	-8.8	3	-8.1	12
Depreciation/amortisation		-2.2	-2.2	3	-1.9	18
Total expenses		-24.6	-24.6	0	-23.1	7
Profit before impairment losses		4.1	5.1	-20	4.0	2
Impairment losses on loans and other commitments	9	-0.9	-1.5	-41	-1.4	-39
Net operating profit		3.2	3.6	-12	2.5	25
Income taxes	10	-0.6	-0.4	77	-0.6	6
Profit for the period		2.5	3.3	-22	1.8	38
Attributable to:						
Non-controlling interests		0.4	0.2		0.2	
Shareholders in Bank of Åland Plc		2.1	3.1	-31	1.7	22
Earnings per share, EUR		0.15	0.21	-31	0.12	22

Summary statement of other comprehensive income

Bank of Åland Group	Q1 2014	Q4 2013	%	Restated Q1 2013	%
EUR M					
Profit for the period	2.5	3.3	-22	1.8	38
Cash flow hedge	0.4	0.6	-33	0.3	13
Assets available for sale	-0.3	0.0		-3.5	-90
Translation differences	0.5	0.8	-32	-0.2	
Taxes on items that have been or may be reclassified to the income statement	-0.1	-0.3		0.8	
<i>of which cash flow hedge</i>	<i>-0.1</i>	<i>-0.1</i>	<i>-33</i>	<i>-0.1</i>	<i>-8</i>
<i>of which assets available for sale</i>	<i>0.1</i>	<i>0.0</i>		<i>0.9</i>	<i>-92</i>
<i>of which translation differences</i>	<i>-0.1</i>	<i>-0.2</i>	<i>-32</i>	<i>0.0</i>	
Items that have been or may be reclassified to the income statement	0.4	1.1	-58	-2.5	
Re-measurements of defined benefit pension plans	-1.6	0.6		0.0	
Taxes on items that may not be reclassified to the income statement	0.3	0.0		0.0	
Items that may not be reclassified to the income statement	-1.3	0.6		0.0	
Other comprehensive income	-0.9	1.7		-2.5	-66
Total comprehensive income for the period	1.7	5.0	-66	-0.7	
Attributable to:					
Non-controlling interests	0.4	0.2		0.2	
Shareholders in Bank of Åland Plc	1.2	4.8	-74	-0.9	

Income statement by quarter

Bank of Åland Group	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
EUR M					
Net interest income	11.9	11.6	11.2	10.2	9.4
Net commission income	10.7	12.8	10.4	9.9	9.3
Net income from financial items at fair value ¹	2.0	1.0	0.8	1.2	4.3
IT income	3.9	3.9	3.6	3.6	3.7
Other operating income	0.1	0.3	0.1	0.3	0.3
Total income	28.6	29.7	26.1	25.1	27.0
Staff costs	-13.3	-13.6	-11.7	-13.2	-13.1
Other expenses ¹	-9.1	-8.8	-8.9	-8.2	-8.1
Depreciation/amortisation	-2.2	-2.2	-2.1	-1.9	-1.9
Total expenses	-24.6	-24.6	-22.6	-23.2	-23.1
Profit before impairment losses	4.1	5.1	3.5	1.9	4.0
Impairment losses on loans and other commitments	-0.9	-1.5	-1.6	0.5	-1.4
Net operating profit	3.2	3.6	1.9	2.3	2.5
Income taxes	-0.6	-0.4	-1.1	-0.7	-0.6
Profit for the period	2.5	3.3	0.8	1.7	1.8
Attributable to:					
Non-controlling interests	0.4	0.2	0.3	0.3	0.2
Shareholders in Bank of Åland Plc	2.1	3.1	0.5	1.4	1.7

¹ Net income from financial assets available for sale related to the divestment of the Swedish subsidiary has been reclassified from "Net income from financial items at fair value" to "Other expenses", which had an impact on Q3 2013 above.

Summary balance sheet

Bank of Åland Group	Note	Mar 31, 2014	Dec 31, 2013	%	Restated Mar 31, 2013	%
EUR M						
Assets						
Cash and balances with central banks		59	50	18	67	-12
Debt securities eligible for refinancing with central banks		357	428	-17	296	21
Lending to credit institutions		274	131	.	107	.
Lending to the public and public sector entities	11, 12	3,161	3,104	2	2,975	6
Debt securities		51	64	-20	130	-61
Shares and participations		2	2	2	6	-63
Shares and participations in associated companies		1	1	-3	1	1
Derivative instruments	15	16	15	9	26	-36
Intangible assets		9	9	-6	9	-8
Tangible assets		29	30	-4	31	-7
Investment properties		1	1	0	1	-33
Current tax assets		0	0	25	1	-89
Deferred tax assets		6	6	-4	8	-28
Other assets		79	19	.	64	24
Accrued income and prepayments		25	28	-10	24	3
Total assets		4,069	3,887	5	3,745	9
Liabilities						
Liabilities to credit institutions		406	347	17	366	11
Liabilities to the public and public sector entities	13	2,257	2,177	4	2,153	5
Debt securities issued	13, 14	1,015	1,012	0	847	20
Derivative instruments	15	24	27	-11	24	0
Current tax liabilities		0	0	76	1	-55
Deferred tax liabilities		11	11	-3	12	-6
Other liabilities		80	36		71	13
Provisions		0	1	-38	0	19
Accrued expenses and prepaid income		34	29	20	33	6
Subordinated liabilities	13	56	64	-13	62	-10
Total liabilities		3,885	3,703	5	3,568	9
Equity capital and non-controlling interests						
Share capital		29	29		29	
Share premium account		33	33		33	
Reserve fund		25	25		25	
Fair value reserve		2	1	35	1	
Own shares		0	0	-12	0	-12
Unrestricted equity capital fund		24	24	0	24	0
Retained earnings		69	68	1	63	10
Shareholders' interest in equity capital		182	181	1	175	4
Non-controlling interests' portion of equity capital		3	4	-15	3	10
Total equity capital		185	184	0	177	4
Total liabilities and equity capital		4,069	3,887	5	3,745	9

Statement of changes in equity capital

Bank of Åland Group

EUR M	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, 2012	29.1	32.7	25.1	-1.2	4.5	-0.2	-0.2	24.5	61.4	175.8	3.2	179.0
Comprehensive income for the period				0.3	-2.7	0.0			1.2	-1.2	-0.5	-1.7
Equity capital, Mar 31, 2013	29.1	32.7	25.1	-0.9	1.9	-0.2	-0.2	24.5	62.7	174.6	2.7	177.3
Comprehensive income for the period				0.5	-0.7	0.7			7.6	8.1	1.5	9.6
<i>Transactions with Group shareholders</i>												
Dividend paid									-2.2	-2.2	-0.7	-2.9
Equity capital, Dec 31, 2013	29.1	32.7	25.1	-0.4	1.1	0.5	-0.2	24.5	68.1	180.5	3.5	184.1
Comprehensive income for the period				0.3	-0.3	0.4			0.8	1.2	0.4	1.7
Transfer of own shares							0.0			0.0		
<i>Transactions with Group shareholders</i>												
Dividend paid											-1.0	-1.0
Equity capital, Mar 31, 2014	29.1	32.7	25.1	-0.1	0.8	0.9	-0.2	24.5	68.9	181.8	3.0	184.8

Summary cash flow statement

Bank of Åland Group	Jan–Mar 2014		Jan–Dec 2013		Jan–Mar 2013	
EUR M						
Cash flow from operating activities						
Net operating profit	3.2		10.4		2.5	
Adjustment for net operating profit items not affecting cash flow	6.5		16.5		-0.1	
Gains/losses from investing activities	0.4		0.7		-1.6	
Income taxes paid	-0.3		-0.9		-0.8	
Changes in assets and liabilities in operating activities	82.2	91.9	-407.4	-380.5	-165.3	-165.2
Cash flow from investing activities		-0.6		-5.2		2.6
Cash flow from financing activities		-30.9		335.0		103.6
Exchange rate differences in cash and cash equivalents		-0.4		-1.3		2.8
Change in cash and cash equivalents		59.9		-52.0		-56.2
Cash and cash equivalents at beginning of period		193.6		245.6		245.6
Cash and cash equivalents at end of period		253.5		193.6		189.4
Change in cash and cash equivalents		59.9		-52.0		-56.2

Notes to the consolidated interim 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 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 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 OMX Helsinki Oy (Helsinki Stock Exchange).

The Interim Report for the financial period January 1–March 31, 2014 was approved by the Board of Directors on April 29, 2014.

2. Basis for preparation of the interim report and essential accounting principles

BASIS FOR PREPARATION OF THE INTERIM REPORT

This Interim Report for the period January 1–March 31, 2014 has been prepared in compliance with the International Financial Reporting Standards (IFRSs) and International Accounting Standards, IAS 34, "Interim Financial Reporting," that have been adopted by the European Union.

The Interim 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, 2013.

Tables show correct rounded-off figures on each line, but this does not mean that rounded-off figures add up to the correct total.

The impact on earnings of the divestment of businesses and strategic shareholdings, as well as restructuring expenses in connection with major organisational changes and discontinuation of business operations, are defined as nonrecurring items.

Comparative figures were corrected in conjunction with the 2013 financial statements. The effect of these corrections can be seen in the tables on pages 32–37 of the Year-end Report that was published on February 14, 2014.

In addition to the above corrections, clarifications have been made in the income statement, statement of other comprehensive income and balance sheet which affect their presentation and comparative figures, as well as those in the accompanying notes.

ESSENTIAL ACCOUNTING PRINCIPLES

The essential accounting principles used in preparing the Interim Report are the same as those used in preparing the financial statements for the year ending December 31, 2013.

Starting with the financial year 2014, IFRS 10, *Consolidated financial statement*, IFRS 11, *Joint arrangements*, and IFRS 12, *Disclosure of interests in other entities* went into effect for application in the European Union. Under the new rules, the current regulations about when a company shall be consolidated in the Group's financial statements in IAS 27 and SIC 12 are being replaced by a number of criteria for assessing when a controlling interest in another company exists. The application of the new rules does not affect the balance sheet, the income statement and the capital adequacy of the Group.

IFRS 10, *Consolidated financial statement* and amendments that have been made to it include 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. The standard does not affect the Group significantly.

IFRS 11, *Joint arrangements* and amendments to it 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. The standard will not affect the Group significantly.

IFRS 12, *Disclosure of interests in other entities* 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 28, *Investments in associates and joint ventures*. The amendment deals with what reporting method to use when holdings change and significant influence or joint control ceases or not. The amendment does not 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 is expected to be approved by the EU during the second quarter of 2014. The interpretation will not affect the Group significantly.

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.

3. 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.

The "Åland" business area includes office operations in Åland. "Finnish Mainland" includes office operations on the Finnish mainland and Ålandsbanken Asset Management Ab. The "Sweden" business area includes the operating units Ålandsbanken Abp (Finland) svensk filial (the Swedish branch of the Bank of Åland Plc) plus Ålandsbanken Fonder AB and Alpha Management Company S.A. (until its liquidation in November 2013). The "Crosskey" business area includes Crosskey Banking Solutions Ab Ltd and S-Crosskey Ab. "Corporate" includes all central corporate units in the Group, encompassing Treasury and the subsidiaries Ålandsbanken Fondbolag Ab and Ab Compass Card Oy Ltd.

Bank of Åland Group		Jan-Mar 2014					
EUR M	Åland	Finnish Mainland	Sweden	Crosskey	Corporate	Eliminations	Total
Net interest income	2.8	4.4	4.4	-0.0	0.3	0.1	11.9
Net commission income	2.1	5.0	2.9	-0.0	0.6	0.0	10.7
Net income from financial items	0.2	0.0	0.1	0.0	1.7	0.0	2.0
Other income	0.0	0.0	0.1	7.1	7.9	-11.2	4.0
Nonrecurring items	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total income	5.1	9.5	7.5	7.1	10.5	-11.1	28.6
Staff costs	-1.0	-2.3	-3.0	-3.7	-3.3	0.0	-13.2
Other expenses	-1.1	-1.7	-1.6	-2.0	-5.9	3.4	-8.8
Depreciation/amortisation	-0.1	-0.2	-0.0	-0.9	-1.0	0.1	-2.1
Internal allocation of expenses	-1.9	-2.7	-2.9	0.0	-0.2	7.7	0.0
Restructuring expenses	0.0	-0.4	0.0	0.0	0.0	0.0	-0.4
Total expenses	-4.0	-7.3	-7.5	-6.6	-10.4	11.2	-24.6
Profit before impairment losses	1.1	2.2	0.0	0.5	0.1	0.1	4.1
Impairment losses on loans and other commitments	-0.1	-0.6	-0.0	0.0	-0.1	0.0	-0.9
Net operating profit	1.0	1.6	0.0	0.5	0.0	0.1	3.2
Income taxes	-0.2	-0.3	0.0	-0.1	0.0	-0.0	-0.6
Non-controlling interests	0.0	-0.4	0.0	0.0	-0.0	0.0	-0.4
Profit for the period attributable to shareholders	0.8	0.8	0.0	0.4	0.0	0.1	2.1
Business volume							
Lending to the public	651	1,653	831	0	40	-13	3,161
Deposits from the public	801	1,025	574	0	158	-10	2,549
Managed assets	286	1,723	2,457	0	683	-589	4,560
Risk-weighted assets	344	405	518	36	231		1,534
Allocated equity capital	38	50	61	6	26		182
Financial ratios etc.							
Return on equity after taxes, % (ROE)	8.3	6.4	0.0	23.0			4.7
Expense/income ratio	0.78	0.77	1.00	0.94	0.81		0.86
Gross non-performing receivables, %	0.59	0.45	0.24		2.34		0.45
Loan loss level, %	0.07	0.16	0.00		1.04		0.11
Lending/deposits, %	81	161	145		25		124
Full-time equivalent positions ¹	63	114	74	176	187		615

Bank of Åland Group		Jan-Mar 2013					
EUR M	Åland	Finnish Mainland	Sweden	Crosskey	Corporate	Eliminations	Total
Net interest income	2.6	3.7	2.8	-0.0	0.2	0.1	9.4
Net commission income	1.9	3.7	3.3	-0.0	0.4	0.0	9.3
Net income from financial items	0.1	0.0	0.7	0.0	3.5	0.0	4.3
Other income	0.1	0.0	0.1	6.5	7.6	-10.2	4.0
Nonrecurring items	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total income	4.6	7.4	6.9	6.5	11.7	-10.1	27.0
Staff costs	-1.0	-2.4	-2.9	-3.5	-3.3	-0.0	-13.1
Other expenses	-0.9	-1.8	-1.5	-1.9	-4.5	2.5	-8.1
Depreciation/amortisation	-0.1	-0.2	-0.0	-0.9	-0.9	0.2	-1.9
Internal allocation of expenses	-1.7	-2.8	-3.0	0.0	-0.1	7.6	-0.0
Restructuring expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenses	-3.6	-7.1	-7.4	-6.3	-8.9	10.2	-23.1
Profit before impairment losses	0.9	0.3	-0.5	0.2	2.8	0.2	4.0
Impairment losses on loans and other commitments	-0.0	-1.3	0.0	0.0	-0.1	0.0	-1.4
Net operating profit	0.9	-1.0	-0.5	0.2	2.8	0.2	2.5
Income taxes	-0.2	0.3	0.0	-0.1	-0.7	0.0	-0.6
Non-controlling interests	0.0	-0.2	0.0	-0.0	0.0	0.0	-0.2
Profit for the period attributable to shareholders	0.7	-0.9	-0.5	0.1	2.1	0.2	1.7
Business volume							
Lending to the public	648	1,622	680	0	38	-12	2,975
Deposits from the public	693	1,034	514	0	219	-10	2,450
Managed assets	281	1,603	2,532	0	582	-505	4,493
Risk-weighted assets	331	448	491	38	161		1,470
Allocated equity capital	40	55	59	6	15		175
Financial ratios etc.							
Return on equity after taxes, % (ROE)	6.9	-6.5	-3.4	11.2			4.0
Expense/income ratio	0.80	0.96	1.07	0.97	0.66		0.85
Gross non-performing receivables, %	0.48	0.74	0.25		1.93		0.58
Loan loss level, %	0.00	0.33	-0.01		1.17		0.20
Lending/deposits, %	93	157	132		17		121
Full-time equivalent positions ¹	65	114	73	189	170		612

¹Number of full-time-equivalent positions, defined as employment level excluding employees on parental and long-term sick leave.

4. Changes in Group structure

On March 14, 2014, the Bank of Åland Plc acquired 29.17 per cent of the shares in Mäklarhuset Åland Ab, which gives the Group a foothold in the estate agency sector. The total investment amounted to about EUR 0.1 M. The holding is reported according to the equity method.

5. Net interest income

Bank of Åland Group	Q1 2014	Q4 2013	%	Q1 2013	%
EUR M					
Interest income					
Credit institutions and central banks	0.2	0.3	-38	0.2	-20
The public and public sector entities	18.1	18.3	-1	16.5	10
Debt securities	1.1	1.1	-3	1.1	-2
Other interest income	0.3	0.3	-8	0.0	
Total interest income	19.6	20.0	-2	17.8	10
Interest expenses					
Credit institutions and central banks	-0.9	-1.0	-8	-1.3	-28
The public and public sector entities	-3.2	-3.6	-13	-4.2	-24
Debt securities	-3.1	-3.1	-1	-2.4	27
Subordinated liabilities	-0.3	-0.3	-12	-0.3	-24
Other interest expenses	-0.3	-0.3	-6	-0.3	1
Total interest expenses	-7.7	-8.3	-8	-8.5	-9
Net interest income	11.9	11.6	2	9.4	27
Investment margin, per cent ¹	1.19	1.20		1.02	

¹ Investment margin is defined as net interest income expressed as a percentage of the average balance sheet total.

6. Net commission income

Bank of Åland Group	Q1 2014	Q4 2013	%	Q1 2013	%
EUR M					
Deposits	0.2	0.2	4	0.2	9
Lending	1.1	1.0	14	0.5	
Payment intermediation	2.1	2.1	-3	1.9	6
Mutual fund commissions	3.2	4.3	-27	3.0	4
Management commissions	2.0	4.1	-52	2.0	-2
Securities commissions	3.6	2.6	40	3.2	13
Other commission income	0.5	0.5	13	0.6	-11
Total commission income	12.6	14.8	-15	11.5	10
Payment commission expenses	-1.0	-1.0	-1	-0.9	9
Mutual fund commission expenses	-0.2	-0.3	-14	-0.5	-48
Management commission expenses	-0.2	-0.1	28	-0.2	-23
Securities commission expenses	-0.2	-0.3	-13	-0.3	-23
Other commission expenses	-0.4	-0.3	11	-0.3	31
Total commission expenses	-2.0	-2.0	-1	-2.1	-9
Net commission income	10.7	12.8	-17	9.3	14

7. Net income from financial items at fair value

Bank of Åland Group	Q1 2014	Q4 2013	%	Q1 2013	%
EUR M					
Valuation category fair value via the income statement ("profit and loss")					
Debt securities	0.2	0.0		0.0	
Shares and participations	0.1	0.6	-88	0.0	
Derivative instruments	0.0	0.1	-82	1.2	-99
Loan receivables	-0.3	-0.7	-55	-1.2	-73
Valuation category fair value via the income statement ("profit and loss")	-0.1	0.0		0.0	
Hedge accounting					
<i>of which hedging instruments</i>	4.5	-3.1		1.2	
<i>of which hedged item</i>	-4.9	3.4		-1.1	
Hedge accounting	-0.4	0.3		0.0	
Net income from foreign exchange dealing	0.5	1.1	-54	1.2	-56
Net income from financial assets available for sale	1.9	-0.4		3.1	-38
Total	2.0	1.0	93	4.3	-53

8. Other expenses

Bank of Åland Group	Q1 2014	Q4 2013	%	Q1 2013	%
EUR M					
IT expenses (excluding information services)	1.9	2.1	-11	2.1	-11
Premises and property expenses	1.4	1.5	-10	1.6	-13
Marketing expenses	0.7	0.8	-20	0.6	16
Information services	0.6	0.5	2	0.6	0
Staff-related expenses	0.5	0.5	3	0.5	6
Travel expenses	0.3	0.4	-16	0.2	33
Purchased services	1.7	0.8		0.9	86
Deposit guarantee fee	0.2	0.3	-37	0.3	-29
Banking tax	0.4	0.4	5	0.4	0
Other expenses	1.8	2.0	-10	1.4	35
Production for own use	-0.4	-0.7	-40	-0.5	-12
Total	9.1	8.8	3	8.1	12

9. Impairment losses on loans and other commitments

Bank of Åland Group	Q1 2014	Q4 2013	%	Q1 2013	%
EUR M					
Impairment losses					
Actual losses for the period	0.1	0.3	-76	3.0	-97
Recoveries of actual losses	0.0	0.0	-55	0.0	7
Total	0.1	0.3	-78	3.0	-98
Specific provisions for individually valued receivables					
New and increased provisions	0.9	5.2	-83	1.4	-36
Reversals of earlier provisions	-0.1	-0.1	60	-0.2	-30
Utilised for actual losses	0.0	-0.2	-100	-2.8	-100
Total	0.7	4.8	-85	-1.6	
Net provisions for the period, receivables valued by group	0.1	-3.7		0.0	
Net loan losses	0.9	1.5	-41	1.4	-39

10. Income taxes

Bank of Åland Group	Q1 2014	Q4 2013	%	Q1 2013	%
EUR M					
Taxes for the period and prior periods	0.5	0.2	98	0.6	-18
Change in tax rate	0.0	-1.6		0.0	
Change in deferred tax assets/liabilities	0.2	1.7	-91	0.0	
Income taxes	0.6	0.4	77	0.6	6

11. Lending to the public and public sector by purpose

Bank of Åland Group	Mar 31, 2014			Dec 31, 2013	%	Mar 31, 2013	%
EUR M	Lending before provisions	Provisions	Lending after provisions	Lending after provisions		Lending after provisions	
Companies							
Shipping	72	-6	66	66	0	73	-9
Wholesale and retail trade	53	-1	52	50	5	55	-6
Housing operations	214	-1	213	178	20	145	47
Other real estate operations	378	-2	375	390	-4	348	8
Financial and insurance operations	191	0	191	189	1	189	1
Hotel and restaurant operations	23	0	23	24	-3	23	1
Other service operations	102	-1	100	113	-11	118	-15
Agriculture, forestry and fishing	13	0	13	14	-10	13	1
Construction	30	-2	28	25	12	37	-23
Other industry and crafts	38	0	38	35	9	35	7
Total, companies	1,113	-13	1,100	1,084	1	1,037	6
Private individuals							
Home loans	1,418	-2	1,415	1,383	2	1,266	12
Securities and other investments	308	0	308	305	1	314	-2
Business operations	130	0	130	126	3	133	-2
Other household purposes	193	-1	191	185	3	205	-6
Total, private individuals	2,049	-4	2,044	1,999	2	1,918	7
Public sector and non-profit organisations	17	0	17	21	-22	21	-21
Total, public sector and non-profit organisations	17	0	17	21	-22	21	-21
Total lending	3,178	-17	3,161	3,104	2	2,975	6

12. Doubtful receivables and impairment losses

Bank of Åland Group	Mar 31, 2014	Dec 31, 2013	%	Mar 31, 2013	%
EUR M					
Gross doubtful receivables	33.7	31.7	6	12.8	
of which private individuals	5.9	5.7	4	2.6	
of which companies	27.7	26.0	7	10.2	
Doubtful receivables as % of total	1.07	1.02	4	0.43	
Provisions for individually valued receivables	16.0	15.8	1	9.0	78
Net doubtful receivables	17.7	15.9	11	3.4	
Level of provisions for doubtful receivables, %	47	50	-5	73	-35
Provisions for receivables valued by group	1.3	0.7	84	3.1	-59
of which private individuals	0.9	0.4		0.0	
of which companies	0.3	0.3	12	3.1	-89
Total level of provisions for doubtful receivables, %	51	52	-1	94	-46
Non-performing receivables > 90 days past due	14.3	15.6	-9	17.4	-18
of which private individuals	9.6	9.6	0	12.6	-24
of which companies	4.7	6.0	-22	4.9	-4
Gross non-performing receivables > 90 days as % of total	0.45	0.50	-10	0.58	-23

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

Bank of Åland Group	Mar 31, 2014	Dec 31, 2013	%	Mar 31, 2013	%
EUR M					
Deposit accounts from the public and public sector					
Sight deposits	1,849	1,757	5	1,686	10
Time deposits	408	420	-3	467	-12
Total deposit accounts	2,257	2,177	4	2,153	5
Certificates of deposit issued to the public ¹	148	122	21	112	32
Index bonds (structured products)	88	97	-9	114	-23
Subordinated debentures	56	64	-13	62	-10
Total bonds and certificates of deposit	292	283	3	288	1
Total deposits	2,549	2,461	4	2,441	4

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

14. Debt securities issued

Bank of Åland Group	Mar 31, 2014	Dec 31, 2013	%	Mar 31, 2013	%
EUR M					
Certificates of deposit	160	134	19	176	-9
Covered bonds	544	540	1	460	18
Senior non-covered bonds	223	241	-7	97	
Index bonds (structured products)	88	97	-9	114	-23
Total	1,015	1,012	0	847	20

15. Derivative instruments

Bank of Åland Group	Mar 31, 2014						Dec 31, 2013		
EUR M	Nominal amount/maturity			Nominal amount	Positive market values	Negative market values	Nominal amount	Positive market values	Negative market values
	Under 1 yr	1-5 yrs	over 5 yrs						
Derivatives for trading									
Interest-related contracts									
<i>Interest rate swaps</i>	49	230	26	304	4	7	262	2	7
<i>Interest rate and currency swaps</i>	6	0	0	6	0	0	11	0	0
<i>Interest rate futures</i>	10	0	0	10	0	0	10	0	0
<i>Interest rate options – purchased</i>	3	11	0	15	0	0	15	0	0
<i>Interest rate options – sold</i>	3	15	1	19	0	0	19	0	0
Currency-related contracts									
<i>Currency forward contracts</i>	62	11	0	73	1	0	98	1	1
Equity-related contracts									
<i>Equity options – purchased</i>	35	55	0	90	7	0	96	9	0
<i>Equity options – written</i>	31	50	0	81	0	7	94	0	8
Other derivative contracts	0	22	0	22	1	1	25	1	1
Total	199	395	27	621	13	15	630	13	18
Derivatives for market value hedge									
Interest-related contracts									
<i>Interest rate swaps</i>	0	56	200	256	3	0	322	2	2
Total	0	56	200	256	3	0	322	2	2
Derivatives for cash flow hedge									
Interest-related contracts									
<i>Interest rate and currency swaps</i>	0	251	0	251	0	8	254	0	6
Total	0	251	0	251	0	8	254	0	6
Derivatives for hedging of net investment in foreign operations									
Currency-related contracts									
<i>Currency forward contracts</i>	33	0	0	33	0	0	33	0	1
Total	33	0	0	33	0	0	33	0	1
Total derivative instruments	232	702	227	1,161	16	24	1,239	15	27
<i>of which cleared OTC</i>									
<i>of which cleared by other means</i>	10	0	0	10	0	0	10	0	0

16. Financial instruments at fair value

Bank of Åland Group		Mar 31, 2014		
EUR M	Instruments with quoted prices (Level 1)	Appraisal techniques based on observable market data (Level 2)	Appraisal techniques based on non-observable market data (Level 3)	Total
Debt securities eligible for refinancing with central banks	357			357
Lending to the public and public sector entities		116		116
Debt securities	21	30	0	51
Shares and participations	1	0	1	2
Derivative instruments		16		16
Total financial assets	379	162	1	542
Liabilities to the public and public sector entities		0		0
Debt securities issued		266		266
Derivative instruments	0	24		24
Subordinated liabilities		28		28
Total financial liabilities	0	318	0	318

Bank of Åland Group		Dec 31, 2013		
EUR M	Instruments with quoted prices (Level 1)	Appraisal techniques based on observable market data (Level 2)	Appraisal techniques based on non-observable market data (Level 3)	Total
Debt securities eligible for refinancing with central banks	428			428
Lending to the public and public sector entities		127		127
Debt securities	13	51		64
Shares and participations	1	0	1	2
Derivative instruments	0	15	0	15
Total financial assets	442	193	1	636
Liabilities to the public and public sector entities		0		0
Debt securities issued		272		272
Derivative instruments		27		27
Subordinated liabilities		17		17
Total financial liabilities	0	316	0	316

17. Off-balance sheet commitments

Bank of Åland Group	Mar 31, 2014	Dec 31, 2013	%	Mar 31, 2013	%
EUR M					
Guarantees	24	24		14	70
Unutilised overdraft limits	81	76	6	74	9
Unutilised credit card limits	109	105	4	94	16
Lines of credit	85	176	-52	194	-56
Total	298	381	-22	376	-21

18. Offsetting of financial assets and liabilities

Bank of Åland Group	Mar 31, 2014		Dec 31, 2013	
EUR M	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	16		15	
Gross amount of financial liabilities offset in the balance sheet				
Net amount of financial assets recognised in the balance sheet	16		15	
Related amounts not offset in the balance sheet				
Financial instruments that do not meet offsetting criteria	8		5	
Financial collateral received				
Net amount	8		10	
Financial liabilities that are offset or covered by offsetting agreements				
Gross amount of financial liabilities	24	15	20	13
Gross amount of financial assets offset in the balance sheet				
Net amount of financial liabilities recognised in the balance sheet	24	15	20	13
Related amounts not offset in the balance sheet				
Financial instruments that do not meet offsetting criteria	14		8	
Financial collateral pledged	2	15	2	13
Net amount	8	0	10	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.

19. Assets pledged for own liabilities

Bank of Åland Group	Mar 31, 2014	Dec 31, 2013	%	Dec 31, 2013	%
EUR M					
Bonds as assets pledged	266	212	26	135	-4
Loan receivables constituting collateral (cover pool) for covered bonds	894	893	0	771	0
Total	1,160	1,104	5	906	-1

20. Maturity breakdown of assets and liabilities

Bank of Åland Group	Mar 31, 2014										
EUR M	Payable on demand	< 1 month	1–3 months	3–6 months	6–9 months	9–12 months	1–2 years	2–5 years	> 5 years	Total cash flow	Carrying amount
Financial assets											
Cash and balances with central banks	59									59	59
Debt securities eligible for refinancing with central banks		29	6	26	13	3	56	204	43	380	357
Lending to credit institutions		273	3							276	274
Lending to the public	180	91	94	149	169	139	610	943	1,382	3,757	3,161
Debt securities		15	0	0	15	0	0	11	12	54	51
Total financial assets	239	408	103	174	197	142	667	1,158	1,437	4,526	3,902
Financial liabilities											
Liabilities to credit institutions											
Liabilities to credit institutions	116	69	45	10	20	133	6	12		410	406
Liabilities to the public	1,854	133	110	63	44	57	3	1		2,265	2,257
Debt securities issued		75	49	106	88	6	297	243	213	1,077	1,015
Subordinated liabilities			12	4		5	14	24		59	56
Total financial liabilities	1,970	277	216	182	152	201	320	280	213	3,812	3,734
Derivative contracts											
Incoming cash flow		1	27	4	20	29	249	354	243	926	
Outgoing cash flow		-1	-25	-5	-20	-27	-248	-357	-246	-930	
		0	2	-1	-1	2	1	-3	-3	-4	
GAP	-1,731	131	-111	-9	44	-57	347	875	1,222	710	

Bank of Åland Group		Dec 31, 2013									
EUR M	Payable on demand	< 1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	> 5 years	Total cash flow	Carrying amount
Financial assets											
Cash and balances with central banks	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		21	18	0	15	0	0	10		65	64
Total financial assets	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	119	59	125	73	224	456	215	1,339	1,012
Subordinated liabilities		20		12	4		14	17		68	64
Total financial liabilities	1,838	257	269	189	181	124	377	486	215	3,937	3,600
Derivative contracts											
Incoming cash flow		4	2	5	2	3	15	29	20	80	
Outgoing cash flow		-1	-2	-3	-4	-3	-12	-28	-23	-77	
		3	0	2	-1	-1	3	1	-4	3	
GAP	-1,531	-44	-120	-44	-24	73	207	780	1,147	445	

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.

21. Interest rate refixing periods

Bank of Åland Group		Mar 31, 2014					
EUR M	< 3 months	3–6 months	6–12 months	1–5 years	> 5 years	Total	
Assets							
Lending to credit institutions	328					328	
Lending to the public and public sector entities	2,097	304	451	289	20	3,161	
Debt securities	223	21	27	95	43	408	
Total interest-bearing assets	2,648	325	478	384	63	3,898	
Liabilities							
Liabilities to credit institutions	248	10	149	0	0	406	
Liabilities to the public and public sector entities	2,082	89	85	1	0	2,257	
Debt securities issued	496	129	34	156	200	1 015	
Subordinated liabilities	13	3	4	35	0	56	
Total interest-bearing liabilities	2,839	231	272	192	200	3,734	
Off-balance sheet items	-100	-103	-24	-5	194		
Difference between assets and liabilities	-291	-9	181	187	57		

Bank of Åland Group		Dec 31, 2013					
EUR M	< 3 months	3–6 months	6–12 months	1–5 years	> 5 years	Total	
Assets							
Lending to credit institutions	175					175	
Lending to the public and public sector entities	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	
Liabilities to the public and public sector entities	1,993	92	91	1		2,177	
Debt securities issued	584	55	24	149	200	1,012	
Subordinated liabilities		19	29	16		64	
Total interest-bearing liabilities	2,734	213	157	295	200	3,599	
Off-balance sheet items	-43	-28	-7	-4	76		
Difference between assets and liabilities	-201	-8	301	141	-66		

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 as < 3 months. 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.

22. Capital adequacy

Bank of Åland Group	Mar 31, 2014	Dec 31, 2013	%	Dec 31, 2013	%	Mar 31, 2013	%
EUR M		New rules		Recognised		Recognised	
Equity capital according to balance sheet	184.8	184.1	0	184.1		175.6	5
Anticipated/proposed dividend including non-controlling interests	-3.1	-3.1	0	-3.1		-2.2	45
Core Tier 1 capital before deductions	181.7	181.0	0	181.0		173.4	5
Intangible assets	-8.5	-9.1	-6	-9.1		-9.2	-8
Property revaluation	-2.3	-2.4	-2	-2.4		-2.5	-9
Tax assets due to future profitability offset against tax liabilities within same tax category	-0.7	-0.5	47	-4.1		-5.3	-86
Surplus value in pension assets	0.0	-0.8	-100	-0.8		0.0	
Non-controlling interests	-0.6	-0.7	-15				
Fair value reserve	-1.0	-1.2	-18	-1.1		0.7	
Translation difference	-0.9	-0.9	6	-0.9		-1.2	-23
Cash flow hedge	0.1	0.4	-80	0.4		-0.3	
Expected losses according to IRB approach beyond recognised losses	-5.4	-6.0	-10	-3.1		-3.3	83
Core Tier 1 capital	162.3	159.9	2	160.0		152.4	5
Additional Tier 1 capital	0.0	0.0		0.0	0	0.0	0
Tier 1 capital	162.3	159.9	2	160.0		152.4	6
Fair value reserve	1.0	1.2	-18	1.1		-0.7	
Translation difference	0.9	0.9	0	0.9		1.2	
Property revaluation	2.3	2.4	-4	2.4		2.5	
Debenture loans	16.7	35.7	-53	63.8		61.9	
Supplementary capital before deductions	20.9	40.2	-48	68.2		64.9	
Expected losses according to IRB approach in addition to recognised losses				-3.1		-3.3	
Supplementary capital	20.9	40.2	-48	65.1		61.6	
Total capital base	183.2	200.1	-8	225.1		214.0	
Capital requirement for credit risk according to the IRB approach	25.0	25.0	0	26.0		26.8	
Capital requirement for credit risk according to standardised approach	84.7	80.4	5	79.9		76.4	
Capital requirement for operational risks	13.0	12.6	3	12.6		14.4	
Capital requirement including transitional rules	122.7	118.0	4	118.5		117.6	
Additional amount according to transitional rules for IRB approach	14.0	14.0	0	12.7		11.2	
Capital requirement including transitional rules	136.7	132.0	4	131.2		128.8	
Core Tier 1 capital ratio, %	10.6	10.8	-2	10.8		10.4	
Tier 1 capital ratio, %	10.6	10.8	-2	10.8		10.4	
Total capital ratio, %	11.9	13.5	-12	15.2		14.6	
Core Tier 1 capital ratio using transitional rules, %	9.5	9.7	-2	9.8		9.5	
Tier 1 capital ratio under transitional rules, %	9.5	9.7	-2	9.8		9.5	
Total capital ratio under transitional rules, %	10.7	12.1	-11	13.7		13.3	
Risk-weighted assets	1,534.1	1,475.1	4	1,481.5		1,469.7	
of which % comprising credit risk	89	89	0	89		89	
of which % comprising market risk							
of which % comprising operational risk	11	11	-1	11		11	

Exposure category	Mar 31, 2014				
	EUR M	Gross exposure	Exposure at default	Risk weight %	Risk-weighted assets
Credit risk according to the IRB approach					
Household exposures with property as collateral	1,521.3	1,516.2	14	211.4	16.9
Small and medium-sized companies classified as household exposures	157.0	156.1	41	63.4	5.1
Other household exposures	221.5	205.0	19	38.0	3.0
Total exposures according to the IRB approach	1,899.8	1,877.3	17	312.8	25.0
Credit risk according to the standardised approach					
Exposure to sovereigns and central banks	158.3	190.8	0	0.0	0.0
Institutional exposures	599.3	593.2	25	147.3	11.8
Corporate exposures	919.6	708.2	87	614.6	49.2
Household exposures with property as collateral	214.3	213.8	35	74.8	6.0
Small and medium-sized companies classified as household exposures	206.0	194.8	31	60.8	4.9
Qualifying revolving retail exposures	35.7	35.7	75	26.8	2.1
Other household exposures	188.7	128.4	76	97.5	7.8
Equity exposures	4.2	4.2	101	4.2	0.3
Other items	124.1	124.1	26	32.8	2.6
Total exposures according to the standardised approach	2,450.4	2,193.2	48	1,058.7	84.7
Total capital requirement for credit risk	4,350.1	4,070.5	34	1,371.5	109.7

Exposure category	Dec 31, 2013				
	EUR M	Gross exposure	Exposure at default	Risk weight %	Risk-weighted assets
Credit risk according to the IRB approach					
Household exposures with property 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	44	66.4	5.3
Other household exposures	221.5	205.4	17	35.7	2.9
Total exposures according to the IRB approach	1,869.9	1,847.8	17	312.0	25.0
Credit risk according to the standardised approach					
Exposure to sovereigns and central banks	150.4	186.8	0	0.0	0.0
Institutional exposures	508.6	502.8	24	122.5	9.8
Corporate exposures	918.6	724.1	83	602.4	48.2
Household exposures with property as collateral	202.7	202.2	35	70.8	5.7
Small and medium-sized companies classified as household exposures	216.5	213.6	28	60.5	4.8
Qualifying revolving retail exposures	36.1	36.1	75	27.1	2.2
Other household exposures	170.5	147.2	58	85.2	6.8
Equity exposures	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	2,274.5	2,083.8	48	1,005.0	80.4
Total capital requirement for credit risk	4,144.4	3,931.6	33	1,317.0	105.4

23. Managed assets

Bank of Åland Group	Mar 31, 2014	Dec 31, 2013	%	Mar 31, 2013	%
EUR M					
Fund unit management	974	960	1	894	9
Discretionary asset management	1,729	1,685	3	1,880	-8
Other asset management	1,857	1,762	5	1,719	8
Total managed assets	4,560	4,407	3	4,493	1
Of which own funds in discretionary and other asset management	454	456	0	385	18

24. Hours worked, recalculated to full-time equivalent positions

Bank of Åland Group	Q1 2014	Q4 2013	%	Q1 2013	%
Bank of Åland Plc	399	397	0	375	6
Crosskey Banking Solutions Ab Ltd	194	191	2	181	7
Ålandsbanken Asset Management Ab	28	27	4	27	3
Ab Compass Card Oy Ltd	11	11	-2	12	-10
Ålandsbanken Fondbolag Ab	5	5	8	5	3
Ålandsbanken Fonder AB	0	0		3	-100
Total number of positions, recalculated from hours worked	636	631	1	604	5

TRANSLATION

Report on review of the interim report of Ålandsbanken Abp as of and for the three months period ending March 31, 2014

TO THE BOARD OF DIRECTORS OF THE BANK OF ÅLAND PLC

INTRODUCTION

We have reviewed the summary balance sheet as of 31 March 2014, the summary income statement, the summary statement of other comprehensive income, the statement of changes in equity capital and the summary cash flow statement of Ålandsbanken Abp group for the three-month period then ended, as well as a summary of significant accounting policies and 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 this interim financial information in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and other Finnish rules and regulations governing the preparation of interim reports. We will express our conclusion on the interim 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 interim report does not give a true and fair view of the consolidated financial position as at 31 March 2014 and the result of its operations and cash flows for the three-month period then ended, in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU and other applicable rules and regulations governing interim financial reporting preparation in Finland.

Helsinki, April 29, 2014

Pauli Salminen
Authorised Public Accountant

Birgitta Immerthal
Authorised Public Accountant

Mari Suomela
Authorised Public Accountant