

Interim Report

For the period January–March 2015 • April 28, 2015



January–March 2015

Compared to January–March 2014

- Net operating profit improved by EUR 7.1 M to EUR 9.4 M (2.3).
- Profit for the period attributable to shareholders improved by EUR 6.3 M to EUR 7.7 M (1.4).
- Net interest income increased by 7 per cent to EUR 12.7 M (11.9).
- Net commission income increased by 20 per cent to EUR 12.9 M (10.7).
- Total expenses decreased by 7 per cent to EUR 22.8 M (24.6).
- Net impairment losses on loans (including recoveries) decreased by 78 per cent to EUR 0.2 M (0.9), equivalent to a loan loss level of 0.02 (0.11) per cent.
- Return on equity after taxes (ROE) increased to 15.9 per cent (3.2).
- Earnings per share amounted to EUR 0.54 (0.10).
- The core Tier 1 capital ratio amounted to 11.3 per cent (December 31, 2014: 10.9 per cent).

“The Bank of Åland reported its best-ever net operating profit, excluding nonrecurring income, for a single quarter: EUR 9.4 million. All business areas continued to strengthen their earnings, and consolidated return on equity after taxes amounted to 15.9 per cent.

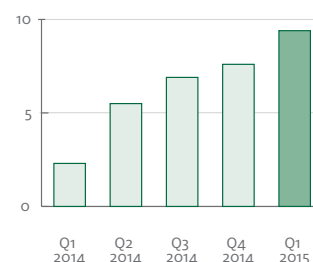
“Our operations in Sweden showed continued good volume and earnings growth, and profitability in this business area is approaching the levels we already have in the Finnish Mainland and Åland business areas.

“Despite the Bank’s positive earnings trend, it is essential to understand that today’s volatile capital markets and the many sources of concern that exist in our surroundings can rapidly change the operating conditions of banks and the capital markets for the worse.”

Peter Wiklöf, Managing Director

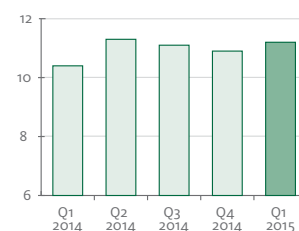
Net operating profit

EUR M



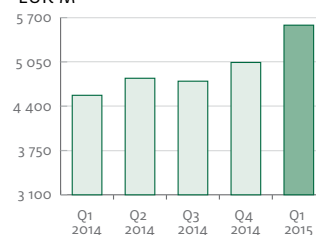
Core Tier 1 ratio

Per cent



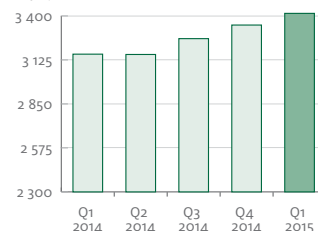
Managed assets

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 six offices in the Åland Islands, five offices elsewhere in Finland and three offices in Sweden. A total of four subsidiaries, whose operations are connected in various ways to banking, belong to the Bank of Åland Group.

Financial summary

Bank of Åland Group	Q1 2015	Q4 2014	%	Q1 2014	%
EUR M					
Income					
Net interest income	12.7	12.6	0	11.9	7
Net commission income	12.9	14.5	-12	10.7	20
Net income from financial items at fair value	2.4	2.2	10	1.1	
Other income	4.5	4.6	-2	4.0	11
Total income	32.4	34.0	-5	27.7	17
Expenses					
Staff costs	-13.7	-14.5	-6	-13.3	3
Other expenses	-7.2	-9.3	-22	-9.0	-20
Depreciation/amortisation	-1.9	-2.0	-6	-2.2	-15
Total expenses	-22.8	-25.8	-12	-24.6	-7
Profit before impairment losses	9.6	8.1	18	3.2	
Impairment losses on loans and other commitments	-0.2	-0.5	-64	-0.9	-78
Net operating profit	9.4	7.6	24	2.3	
Income taxes	-1.7	-1.6	8	-0.5	
Profit for the report period	7.7	6.1	28	1.8	
Attributable to:					
Non-controlling interests	0.0	0.4	-100	0.4	-100
Shareholders in Bank of Åland Plc	7.7	5.6	37	1.4	
Volume					
Lending to the public	3,416	3,343	2	3,161	8
Deposits from the public ¹	2,507	2,391	5	2,549	-2
Managed assets	5,589	5,042	11	4,560	23
Equity capital	203	196	4	185	10
Balance sheet total	4,418	4,292	3	4,069	9
Risk exposure amount	1,599	1,554	3	1,534	4
Financial ratios					
Return on equity after taxes, % (ROE) ²	15.9	11.7		3.2	
Expense/income ratio ³	0.70	0.76		0.89	
Loan loss level, % ⁴	0.02	0.06		0.11	
Gross non-performing receivables, % ⁵	0.61	0.65		1.07	
Level of provisions for doubtful receivables, % ⁶	68	66		47	
Core funding ratio, % ⁷	103	105		102	
Equity/assets ratio, % ⁸	4.6	4.6		4.5	
Tier 1 capital ratio, % ⁹	11.2	10.9	3	10.6	6
Earnings per share, EUR ¹⁰	0.54	0.39	37	0.10	
Earnings per share after dilution, EUR	0.54	0.39	38	0.10	
Equity capital per share, EUR ¹¹	14.04	13.49	4	12.63	11
Equity capital per share after dilution, EUR	14.01	13.46	4	12.63	11
Market price per Series A share, EUR	15.10	11.27	34	10.24	47
Market price per Series B share, EUR	14.15	10.87	30	8.25	72
Number of shares outstanding (not own shares), 000s	14,415	14,398	0	14,398	0
Number of shares outstanding (not own shares), after dilution, 000s	14,515	14,498	0	14,398	1
Working hours re-calculated to full-time equivalent positions	645	643	0	636	1

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 at the beginning of the period
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 plus 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

The central banks in Europe are continuing their expansionary monetary policies in the form of asset purchases and low key interest rates. In a number of countries, negative interest rates are a reality. Sweden's Riksbank lowered its key rate twice during the first quarter of 2015 to -0.25 per cent. The European Central Bank (ECB) key rate remained unchanged at 0.05 per cent.

Low interest rates squeeze the net interest income of banks and increase the risks of asset bubbles in national economies.

BENCHMARK INTEREST RATES, QUARTERLY AVERAGES, PER CENT

	Q1 2015	Q4 2014	Q1 2014
Euribor 3 mo	0.05	0.08	0.29
Euribor 12 mo	0.26	0.33	0.56
Stibor 3 mo	0.07	0.32	0.94

During the first quarter, share prices on the Nasdaq OMX Helsinki (OMXHPI) rose by 16 per cent and prices on the Nasdaq OMX Stockholm (OMXSPI) by 15 per cent.

The average value of the Swedish krona in relation to the euro was 6 per cent lower during the first quarter than during the same quarter of 2014. On March 31, 2015, the krona was 1 per cent stronger than at the end of 2014. 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.

IMPORTANT EVENTS

The Bank of Åland and Ålandsbanken Asset Management have reached an agreement to merge during the first half of 2015. The boards of both companies approved the merger plan on January 7, 2015. As consideration for the merger, the minority shareholders of Ålandsbanken Asset Management will receive 762,912 newly issued Series B shares in the Bank of Åland plus a cash portion equivalent to 10 per cent of the value of the newly issued shares. These shares will entitle their holders to 5 per cent ownership in the Bank of Åland and 0.55 per cent of voting power. The new share issue will occur on the basis of the authorisation provided by the Annual General Meeting in April 2014.

EARNINGS FOR JANUARY-MARCH 2015

Profit for the period attributable to shareholders amounted to EUR 7.7 M (1.4). This was an improvement of EUR 6.3 M compared to the first quarter of 2014. Net operating profit improved by EUR 7.1 M to EUR 9.4 M (2.3). This was the best-ever net operating profit for a single quarter, excluding nonrecurring items, in the history of the Bank of Åland.

Return on equity after taxes amounted to 15.9 (3.2) per cent. For the third quarter in a row, the Bank of Åland thus achieved its long-term target of having a return on equity after taxes of at least 10 per cent.

Total income increased by EUR 4.7 M or 17 per cent to EUR 32.4 M. All types of income rose.

Due to re-pricing in the loan portfolio, lower funding costs and volume growth, net interest income increased by EUR 0.8 M or 7 per cent to EUR 12.7 M.

Net commission income rose by EUR 2.2 M or 20 per cent to EUR 12.9 M, mainly due to higher mutual fund commissions.

Net income on financial items at fair value rose by EUR 1.3 M to EUR 2.4 M, mainly due to higher net income from foreign exchange dealing.

Information technology (IT) income increased by EUR 0.4 M or 11 per cent to EUR 4.3 M, due to income from new Crosskey customers.

Total expenses decreased by EUR 1.8 M or 7 per cent to EUR 22.8 M, mainly because of lower deposit guarantee and banking tax expenses. The first quarter of last year also included restructuring expenses in the Finnish Mainland business area of about EUR 0.4 M and corporate strategic expenses of about EUR 1.0 M.

Impairment losses on loans amounted to EUR 0.2 M, equivalent to a loan loss level of 0.02 per cent, compared to EUR 0.9 M and 0.11 per cent in the year-earlier quarter.

Tax expense amounted to EUR 1.7 M, equivalent to an effective tax rate of 18.0 (19.9) per cent.

Profit attributable to non-controlling interests amounted to EUR 0.0 M (0.4), since Compass Card is now a wholly owned subsidiary and Ålandsbanken Asset Management is in the process of merging with the parent Bank.

BUSINESS AREAS

The Group's net operating income improved by EUR 7.1 M to EUR 9.4 M, allocated as follows:

• Sweden	+1.7	(business volume growth and higher income, especially net commission income, lower expenses)
• Finnish Mainland	+1.3	(lower expenses and lower impairment losses)
• Åland	+0.7	(higher income and lower expenses)
• Crosskey	-0.1	
• Corporate units incl. eliminations	+3.1	(higher Treasury income and lower strategic expenses)
• Nonrecurring items	+0.4	(restructuring expenses)

BUSINESS VOLUME

Managed assets increased by EUR 547 M or 11 per cent during the first quarter of 2015 and amounted to EUR 5,589 M (5,042), which was the highest-ever figure. Managed assets in the Bank of Åland Group's own mutual funds rose by EUR 93 M or 9 per cent to EUR 1,181 M (1,088). There was continued heavy interest in Bostadsfonden, a housing mutual fund. Net inflow into Bostadsfonden was EUR 34 M during the first quarter. The net assets of Bostadsfonden

amounted to EUR 208 M on March 31. Assets under discretionary management rose by EUR 135 M to EUR 1,842 M (1,707). Of total managed assets, the Sweden business area accounted for EUR 3,218 M or 58 (57) per cent.

Deposits from the public – including certificates of deposit, index bonds and subordinated debentures issued to the public – increased by EUR 116 M or 5 per cent during the first quarter and amounted to EUR 2,507 M (2,391).

Lending to the public totalled EUR 3,416 M (3,343). This represented an increase of EUR 73 M or 2 per cent during the first quarter. The increase in lending was primarily related to loans secured by residential properties in the Swedish market.

CREDIT QUALITY

Lending to private individuals comprises nearly two thirds of the loan portfolio. Home mortgage loans account for about 70 per cent 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.

Gross doubtful receivables decreased by EUR 0.8 M to EUR 20.9 M (21.7). As a share of lending to the public, doubtful receivables decreased from 0.65 per cent to 0.61 per cent. The level of provisions for doubtful receivables, i.e. individual impairment losses as a proportion of all doubtful receivables, was 68 per cent compared to 66 per cent at year-end 2014.

The Bank of Åland Group had EUR 15.8 M (15.8) in impairment loss provisions, comprising individual impairments of EUR 14.3 M (14.3) and group impairments of EUR 1.5 M (1.5).

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 792 M on March 31, 2015 (December 31, 2014: 646). This was equivalent to 18 (15) per cent of total assets and 23 (19) 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 the second half of 2015, about EUR 180 M in long-term funding will mature.

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 103 per cent at the end of the period (December 31, 2014: 105).

The liquidity coverage ratio (LCR) amounted to 112 per cent (December 31, 2014: 97).

RATING

The Bank of Åland has a credit rating from the Standard & Poor's rating agency of BBB/A-3 with a negative outlook for its long- and short-term borrowing. Standard & Poor's has revised the credit rating for covered bonds issued by the Bank of Åland in accordance with the updated criteria published on December 9, 2014.

As a result of this analysis, the credit rating on covered bonds has been raised to AAA with a stable outlook from AA with a negative outlook. "Stable outlook" reflects one unutilised credit upgrade step that exists in the programme.

EQUITY AND CAPITAL ADEQUACY

Equity capital including non-controlling interests changed in the amount of total income for the period, EUR 8.0 M; a transfer of the Bank's own shares, EUR 0.2 M; the share savings programme, EUR 0.1 M; and the dividends paid to non-controlling interests in subsidiaries, EUR 1.3 M. On March 31, 2015, equity capital totalled EUR 202.8 M (December 31, 2014: 195.9). Other comprehensive income included re-measurements of defined-benefit pension plans by EUR -0.7 M after taxes, in compliance with IAS 19.

Core Tier 1 capital increased by EUR 9.7 M during the first quarter to EUR 179.7 M (170.0).

The risk exposure amount increased by EUR 45 M or 3 per cent during the first quarter to EUR 1,599 M (1,554). The operational risk exposure amount, calculated using a three-year rolling average of the Group's income, increased by EUR 11 M.

The core Tier 1 capital ratio increased to 11.2 per cent (December 31, 2014: 10.9). 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 amounted to 11.9 (12.1) per cent.

In compliance with Article 28 of the European Union's Capital Requirements Regulation (EU 575/2013, CRR), the Bank of Åland's equity capital attributable to Series B shares is counted as a core Tier 1 capital instrument. Given the decision of the Annual General Meeting on April 16 to amend the Articles of Association with respect to the theoretical preferential right of Series B shares to a dividend, this is indisputable.

IMPORTANT EVENTS AFTER CLOSE OF REPORT PERIOD

On April 16, 2015, the Annual General Meeting elected Göran Persson and Ulrika Valassi as new members of the Board of Directors. Board members Nils Lampi, Christoffer Taxell, Agneta Karlsson, Anders Å. Karlsson, Anders Wiklöf and Dan-Erik Woivalin were re-elected. The Annual General Meeting also approved an amendment to the Articles of Association removing the theoretical preference element of Series B shares.

The Meeting approved the payment of a dividend of EUR 0.40 per share for 2014.

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 or Ukraine.

FUTURE OUTLOOK

In compliance with legal requirements, a statement on the Bank’s future outlook was presented in the Annual Report, which was published on March 16, 2015.

FINANCIAL INFORMATION

The Interim Report for January–June 2015 will be published on Friday, July 24, 2015.

The Interim Report for January–September 2015 will be published on Tuesday, October 27, 2015.

Mariehamn, April 28, 2015
THE BOARD OF DIRECTORS

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Summary income statement

Bank of Åland Group	Note	Q1 2015	Q4 2014	%	Q1 2014	%
EUR M						
Net interest income	5	12.7	12.6	0	11.9	7
Net commission income	6	12.9	14.5	-12	10.7	20
Net income from financial items at fair value	7	2.4	2.2	10	1.1	
IT income		4.3	4.7	-8	3.9	11
Other operating income		0.2	-0.1		0.1	24
Total income		32.4	34.0	-5	27.7	17
Staff costs		-13.7	-14.5	-6	-13.3	3
Other expenses	8	-7.2	-9.3	-22	-9.0	-20
Depreciation/amortisation		-1.9	-2.0	-6	-2.2	-15
Total expenses		-22.8	-25.8	-12	-24.6	-7
Profit before impairment losses		9.6	8.1	18	3.2	
Impairment losses on loans and other commitments	9	-0.2	-0.5	-64	-0.9	-78
Net operating profit		9.4	7.6	24	2.3	
Income taxes		-1.7	-1.6	8	-0.5	
Profit for the period		7.7	6.1	28	1.8	
Attributable to:						
Non-controlling interests		0.0	0.4	-100	0.4	-100
Shareholders in Bank of Åland Plc		7.7	5.6	37	1.4	
Earnings per share, EUR		0.54	0.39	37	0.10	

Summary statement of other comprehensive income

Bank of Åland Group	Q1 2015	Q4 2014	%	Q1 2014	%
EUR M					
Profit for the period	7.7	6.1	28	1.8	
Cash flow hedge					
Gains/Losses arising during the period	-1.9	5.7		3.4	
Transferred to the income statement	1.8	-5.8		-3.0	
Assets available for sale					
Gains/Losses arising during the period	2.6	1.2		1.6	58
Transferred to the income statement	-1.6	-1.7	-6	-1.1	44
Translation differences					
Gains/Losses arising during the period	0.1	-0.1		0.3	-60
<i>of which hedging of net investment in foreign operations</i>	-0.2	0.6		-0.6	-64
Transferred to the income statement	0.0	0.0		0.0	
Taxes on items that have been or may be reclassified to the income statement	-0.1	-0.2	-56	-0.1	49
<i>of which cash flow hedges</i>	0.0	0.0	-16	-0.1	
<i>of which assets available for sale</i>	-0.2	0.1		-0.1	86
<i>of which hedging of net investment in foreign operations</i>	0.1	-0.3		0.1	-35
Items that have been or may be reclassified to the income statement	0.9	-1.0		1.1	-21
Re-measurements of defined benefit pension plans	-0.8	0.3		-1.6	-49
Taxes on items that may not be reclassified to the income statement	0.2	-0.1		0.3	-49
Items that may not be reclassified to the income statement	-0.7	0.2		-1.3	-49
Other comprehensive income	0.2	-0.8		-0.2	
Total comprehensive income for the period	8.0	5.3		1.7	
Attributable to:					
Non-controlling interests	0.0	0.4		0.4	-100
Shareholders in Bank of Åland Plc	8.0	4.9		1.2	

Income statement by quarter

Bank of Åland Group	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
EUR M					
Net interest income	12.7	12.6	12.7	12.1	11.9
Net commission income	12.9	14.5	10.5	10.5	10.7
Net income from financial items at fair value ¹	2.4	2.2	1.9	1.5	1.1
IT income	4.3	4.7	3.8	4.9	3.9
Other operating income	0.2	-0.1	0.1	0.8	0.1
Total income	32.4	34.0	29.1	29.8	27.7
Staff costs	-13.7	-14.5	-12.0	-13.3	-13.3
Other expenses	-7.2	-9.3	-7.8	-8.8	-9.0
Depreciation/amortisation	-1.9	-2.0	-2.1	-2.0	-2.2
Total expenses	-22.8	-25.8	-21.9	-24.1	-24.6
Profit before impairment losses	9.6	8.1	7.2	5.6	3.2
Impairment losses on loans and other commitments	-0.2	-0.5	-0.3	-0.1	-0.9
Net operating profit	9.4	7.6	6.9	5.5	2.3
Income taxes ¹	-1.7	-1.6	-1.5	-1.3	-0.5
Profit for the period	7.7	6.1	5.4	4.3	1.8
Attributable to:					
Non-controlling interests	0.0	0.4	0.3	0.3	0.4
Shareholders in Bank of Åland Plc	7.7	5.6	5.1	4.0	1.4

¹ Under Q1 2014, a correction has been made concerning surplus values in the Bank's liquidity portfolio. This correction also affects the estimated income tax for that quarter.

Summary balance sheet

Bank of Åland Group	Note	Mar 31, 2015	Dec 31, 2014	%	Mar 31, 2014	%
EUR M						
Assets						
Cash and balances with central banks		138	86	60	59	
Debt securities eligible for refinancing with central banks		566	625	-9	357	59
Lending to credit institutions		175	129	36	274	-36
Lending to the public and public sector entities	10, 11	3,416	3,343	2	3,161	8
Debt securities		0	0	0	51	-100
Shares and participations		2	3	-16	2	-2
Participations in associated companies		1	1	1	1	-14
Derivative instruments	14	27	24	11	16	64
Intangible assets		8	8	2	9	-8
Tangible assets		26	27	-3	29	-10
Investment properties		0	0	0	1	-37
Current tax assets		0	0	55	0	97
Deferred tax assets		5	5	6	6	-9
Other assets		30	16	84	79	-62
Accrued income and prepayments		24	25	-8	25	-6
Total assets		4,418	4,292	3	4,069	9
Liabilities						
Liabilities to credit institutions		357	422	-15	406	-12
Liabilities to the public and public sector entities	12	2,321	2,201	5	2,257	3
Debt securities issued	12, 13	1,346	1,312	3	1,015	33
Derivative instruments	14	33	34	-3	24	38
Current tax liabilities		1	1	25	0	56
Deferred tax liabilities		15	14	11	11	39
Other liabilities		67	35	92	80	-17
Provisions		1	1	-22	0	40
Accrued expenses and prepaid income		30	29	4	34	-12
Subordinated liabilities	12	45	50	-9	56	-19
Total liabilities		4,215	4,096	3	3,885	9
Equity capital and non-controlling interests						
Share capital		29	29	0	29	0
Share premium account		33	33	0	33	0
Reserve fund		25	25	0	25	0
Fair value reserve		3	2	39	2	35
Own shares		0	0	-74	0	-74
Unrestricted equity capital fund		25	25	0	24	0
Retained earnings		88	81	9	68	29
Shareholders' portion of equity capital		202	194	4	182	11
Non-controlling interests' portion of equity capital		0	2	-78	3	-88
Total equity capital		203	196	4	185	10
Total liabilities and equity capital		4,418	4,292	3	4,069	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, 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	0.4	0.4			0.1	1.2	0.4	1.7
Transfer of own shares							0.0			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	1.5	0.9	-0.2	24.5	68.2	181.8	3.0	184.8
Comprehensive income for the period				-0.4	1.2	-0.9			14.3	14.3	1.0	15.3
Subscription options								0.1		0.1		0.1
<i>Transactions with Group shareholders</i>												
Dividend paid									-2.2	-2.2		-2.2
Acquisitions from non-controlling interests									0.2	0.2	-2.4	-2.2
Equity capital, Dec 31, 2014	29.1	32.7	25.1	-0.5	2.7	0.0	-0.2	24.6	80.6	194.2	1.7	195.9
Comprehensive income for the period				-0.1	0.8	0.2			7.1	8.0	0.0	8.0
Transfer of own shares							0.2			0.2		0.2
Share savings programme									0.1	0.1		0.1
<i>Transactions with Group shareholders</i>												
Dividend paid											-1.3	-1.3
Equity capital, Mar 31, 2015	29.1	32.7	25.1	-0.5	3.5	0.2	-0.1	24.6	87.7	202.4	0.4	202.8

Summary cash flow statement

Bank of Åland Group	Jan–Mar 2015		Jan–Dec 2014		Jan–Mar 2014	
EUR M						
Cash flow from operating activities						
Net operating profit	9.4		22.4		2.3	
Adjustment for net operating profit items not affecting cash flow	4.6		13.8		6.5	
Gains/losses from investing activities	0.0		-0.2		0.4	
Income taxes paid	-0.3		-1.6		-0.3	
Changes in assets and liabilities in operating activities	44.7	58.4	-151.7	-117.2	81.3	91.9
Cash flow from investing activities		-0.2		-3.7		-0.6
Cash flow from financing activities		-3.1		141.5		-30.9
Exchange rate differences in cash and cash equivalents		0.4		-2.3		-0.4
Change in cash and cash equivalents		55.6		18.2		59.9
Cash and cash equivalents at beginning of period		211.8		193.6		193.6
Cash and cash equivalents at end of period		267.3		211.8		253.5
Change in cash and cash equivalents		55.6		18.2		59.9

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 14 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, 2015 was approved by the Board of Directors on April 27, 2015.

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, 2015 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 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, 2014.

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.

The figures for the period January–March 2014 have been restated due to a correction in recognition of income from assets available for sale.

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, 2014.

COMING CHANGES

On July 24, 2014, the International Accounting Standards Board (IASB) published the final standard IFRS 9, Financial instruments, which will replace IAS 39, *Financial instruments: Recognition and measurement*. IFRS 9, *Financial instruments* includes a model for classification and measurement of financial instruments, a forward-

looking “expected loss” impairment model and a substantially reformed approach to hedge accounting. The classifications of financial assets contained in IAS 39 are being replaced by two classifications, with measurement taking place at fair value or amortised cost. It will still be possible to apply the fair value option specified in IAS 39. Changes in fair value must be recognised in the income statement (“through profit and loss”), except for changes in value of equity instruments not held for trading and for which an initial choice is made to recognise changes in value under “Other comprehensive income”. Most of the portions of IFRS 9 concerning financial liabilities coincide with the earlier rules in IAS 39.

The new impairment model will require more timely accounting for expected credit losses, from the date when the asset is first recognised. Among other things, the new hedge accounting rules simplify effectiveness testing and increase the scope of eligible hedging instruments and hedged items. According to the IASB, the standard will become compulsory starting on January 1, 2018, but it has not yet been adopted by the EU. Earlier application is allowed. The Bank of Åland is evaluating its impact on financial reporting, the consolidated balance sheet, the income statement and capital adequacy.

IFRS 15, *Revenue from contracts with customers* has not yet been approved by the EU. The purpose of a new revenue standard is to have a single principle-based standard for all industries, which can replace existing standards and statements on revenue. The revenue standard also includes expanded disclosure requirements. IFRS 15 will go into effect in 2017, and earlier application is allowed, provided that the EU has adopted the standard. The Bank of Åland is still evaluating its impact on the Group’s financial reports.

Other new and amended IFRSs are not expected to have any significant effect on the Bank of Åland’s financial reports.

- Amended IAS 1, *Presentation of financial statements: Disclosure initiative* *
 - Amended IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture* *
 - Amended IFRS 11, *Joint arrangements: Accounting for acquisitions of interests in joint operations* *
 - IFRS 14, *Regulatory deferral accounts* *
 - Amended IAS 16 and IAS 38, *Clarification of acceptable methods of depreciation and amortisation* *
 - Amended IAS 19, *Employee benefits: Defined benefit plans – Employee contributions*
 - IAS 1 and IAS 27, *Consolidated and separate financial statements: Equity method in separate financial statements* *
 - Annual improvements to IFRSs (2010–2012), (2011–2013), (2012–2014) *
- (* Has not yet been approved by the EU)

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 (until its liquidation in May 2014). 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 2015					
EUR M	Åland	Finnish Mainland	Sweden	Crosskey	Corporate	Eliminations	Total
Net interest income	2.8	4.9	4.4	0.0	0.6	0.1	12.7
Net commission income	2.4	4.7	4.4	0.0	1.4	0.0	12.9
Net income from financial items	0.2	0.1	0.0	0.0	2.2	0.0	2.4
Other income	0.0	0.0	0.1	8.0	0.2	-3.8	4.5
Total income	5.4	9.7	8.8	7.9	4.4	-3.8	32.4
Staff costs	-1.0	-2.4	-2.7	-3.9	-3.7	0.0	-13.7
Other expenses	-0.7	-0.8	-1.3	-2.7	-5.3	3.5	-7.2
Depreciation/amortisation	-0.1	-0.2	0.0	-0.9	-0.9	0.1	-1.9
Internal allocation of expenses	-1.8	-2.9	-3.1	0.0	7.9	0.0	0.0
Nonrecurring items	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenses	-3.6	-6.3	-7.1	-7.6	-1.9	3.6	-22.8
Profit before impairment losses	1.9	3.4	1.7	0.4	2.4	-0.1	9.6
Impairment losses on loans and other commitments	0.0	-0.1	0.0	0.0	-0.1	0.0	-0.2
Net operating profit	1.8	3.3	1.7	0.4	2.4	-0.1	9.4
Income taxes	-0.4	-0.7	-0.4	-0.1	-0.1	0.0	-1.7
Non-controlling interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit for the period attributable to shareholders	1.4	2.5	1.4	0.3	2.2	-0.1	7.7
Business volume							
Lending to the public	681	1,717	989	0	46	-17	3,416
Deposits from the public	832	1,017	576	0	91	-10	2,507
Managed assets	434	1,984	3,218	0	138	-185	5,589
Risk exposure amount	326	394	566	49	264	0	1,599
Allocated equity capital	46	60	50	9	38	0	202
Financial ratios etc.							
Return on equity after taxes, % (ROE)	13.1	17.5	9.6	12.6	0.0		15.9
Expense/income ratio	0.66	0.65	0.80	0.95	0.44		0.70
Gross non-performing receivables, %	1.14	2.09	0.00		2.15		1.31
Loan loss level, %	0.02	0.02	0.00		0.75		0.02
Lending/deposits, %	82	169	172		50		136
Full-time equivalent positions ¹	67	113	74	201	197		652

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	0.8	0.0	1.1
Other income	0.0	0.0	0.0	7.1	0.3	-3.4	4.0
Total income	5.1	9.5	7.4	7.1	2.0	-3.4	27.7
Staff costs	-1.0	-2.3	-3.0	-3.7	-3.3	0.0	-13.2
Other expenses	-1.1	-1.7	-1.5	-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	7.5	0.0	0.0
Nonrecurring items	0.0	-0.4	0.0	0.0	0.0	0.0	-0.4
Total expenses	-4.0	-7.3	-7.4	-6.6	-2.7	3.5	-24.6
Profit before impairment losses	1.1	2.2	0.0	0.5	-0.7	0.1	3.2
Impairment losses on loans and other commitments	-0.1	-0.6	0.0	0.0	-0.4	0.3	-0.9
Net operating profit	1.0	1.6	0.0	0.5	-1.1	0.4	2.3
Income taxes	-0.2	-0.3	0.0	-0.1	0.2	0.0	-0.5
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	-1.0	0.4	1.4
Business volume							
Lending to the public	651	1,653	831	0	40	-13	3,161
Deposits from the public	802	1,011	574	0	171	-10	2,549
Managed assets	286	1,723	2,594	0	94	-138	4,560
Risk exposure amount	344	405	518	36	231	0	1,534
Allocated equity capital	45	64	63	9	1	0	182
Financial ratios etc.							
Return on equity after taxes, % (ROE)	7.4	5.5	0.0	16.3	0.0		3.2
Expense/income ratio	0.78	0.77	1.00	0.94	1.37		0.89
Gross non-performing receivables, %	0.83	0.97	0.25		2.34		0.78
Loan loss level, %	0.07	0.16	0.00		4.21		0.11
Lending/deposits, %	81	163	145		23		124
Full-time equivalent positions ¹	63	114	74	195	186		632

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

4. Changes in Group structure

The Bank of Åland and Ålandsbanken Asset Management Ab have reached an agreement to merge during the first half of 2015.

5. Net interest income

Bank of Åland Group	Q1 2015	Q4 2014	%	Q1 2014	%
EUR M					
Interest income					
Credit institutions and central banks	0.0	0.1	-58	0.2	-75
The public and public sector entities	17.6	18.1	-3	18.1	-3
Debt securities	0.8	0.8	0	1.1	-23
Other interest income	0.1	0.2	-36	0.3	-55
Total interest income	18.6	19.3	-3	19.6	-5
Interest expenses					
Credit institutions and central banks	-0.5	-0.6	-27	-0.9	-51
The public and public sector entities	-2.2	-2.5	-12	-3.2	-31
Debt securities issued	-2.9	-3.1	-6	-3.1	-7
Subordinated liabilities	-0.2	-0.3	-10	-0.3	-7
Other interest expenses	-0.2	-0.2	-7	-0.3	-40
Total interest expenses	-5.9	-6.6	-11	-7.7	-23
Net interest income	12.7	12.6	0	11.9	7
Investment margin, per cent ¹	1.16	1.19		1.19	

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 2015	Q4 2014	%	Q1 2014	%
EUR M					
Deposits	0.2	0.2	5	0.2	-5
Lending	1.2	3.9	-70	1.1	4
Payment intermediation	2.2	2.2	-1	2.1	7
Mutual fund commissions	5.0	4.3	18	3.2	58
Management commissions	2.3	3.1	-24	1.9	22
Securities commissions	3.7	2.5	44	3.6	1
Insurance commissions	0.0	0.0	79	0.0	
Other commission income	0.6	0.6	-2	0.5	18
Total commission income	15.2	16.8	-9	12.6	20
Payment commission expenses	-1.1	-1.1	1	-1.0	13
Mutual fund commission expenses	-0.3	-0.2	52	-0.2	7
Management commission expenses	-0.2	-0.3	-17	-0.2	21
Securities commission expenses	-0.5	-0.4	20	-0.2	
Other commission expenses	-0.3	-0.3	-6	-0.4	-9
Total commission expenses	-2.4	-2.3	5	-2.0	21
Net commission income	12.9	14.5	-12	10.7	20

7. Net income from financial items at fair value

Bank of Åland Group	Q1 2015	Q4 2014	%	Q1 2014	%
EUR M					
Valuation category fair value via the income statement ("profit and loss")					
Debt securities	0.0	0.0	-79	0.2	-97
Shares and participations	0.1	0.0		0.1	78
Derivative instruments	0.3	0.4	-27	0.0	
Loan receivables	-0.4	-0.5	-34	-0.3	15
Valuation category fair value via the income statement ("profit and loss")	0.1	0.0		-0.1	
Hedge accounting					
<i>of which hedging instruments</i>	1.0	2.1	-52	4.5	-77
<i>of which hedged item</i>	-1.4	-1.9	-28	-4.9	-72
Hedge accounting	-0.4	0.2		-0.4	-1
Net income from foreign exchange dealing	1.1	0.4		0.5	
Net income from financial assets available for sale	1.6	1.7	-7	1.0	51
Total	2.4	2.2	10	1.1	

8. Other expenses

Bank of Åland Group	Q1 2015	Q4 2014	%	Q1 2014	%
EUR M					
IT expenses (excluding information services)	2.5	2.9	-15	1.9	32
Premises and property expenses	1.3	1.5	-10	1.4	-4
Marketing expenses	0.7	0.6	9	0.6	3
Information services	0.6	0.5	4	0.6	2
Staff-related expenses	0.6	0.6	5	0.5	15
Travel expenses	0.3	0.5	-34	0.3	0
Purchased services	0.8	0.8	-7	1.7	-54
Deposit guarantee fee	0.0	0.2	-100	0.3	-100
Banking tax	0.0	0.4	-100	0.4	-100
Other expenses	1.5	1.7	-11	1.7	-10
Production for own use	-1.0	-0.5		-0.4	
Total	7.2	9.3	-22	9.0	-20

9. Impairment losses on loans and other commitments

Bank of Åland Group	Q1 2015	Q4 2014	%	Q1 2014	%
EUR M					
Impairment losses					
Actual losses for the period	0.3	2.1	-88	0.1	
Recoveries of actual losses	0.0	0.0	10	0.0	65
Total	0.2	2.1	-89	0.1	
Specific provisions for individually valued receivables					
New and increased provisions	0.3	1.4	-76	0.9	-60
Reversals of earlier provisions	-0.2	-1.2	-80	-0.1	77
Utilised for actual losses	-0.2	-2.1	-93	0.0	
Total	0.0	-1.8	-98	0.7	
Net provisions for the period, receivables valued by group	0.0	0.2		0.1	
Net loan losses	0.2	0.5	-64	0.9	-78

10. Lending to the public and public sector by purpose

Bank of Åland Group	Mar 31, 2015		Dec 31, 2014	%	Mar 31, 2014	%
EUR M	Lending before provisions	Provisions	Lending after provisions	Lending after provisions	Lending after provisions	
Companies						
Shipping	72	-4	68	66	3	66
Wholesale and retail trade	49	-1	48	48	0	52
Housing operations	323	-1	322	271	19	213
Other real estate operations	338	-2	336	360	-7	375
Financial and insurance operations	186	0	186	191	-3	191
Hotel and restaurant operations	25	0	25	24	4	23
Other service operations	103	-2	101	105	-3	100
Agriculture, forestry and fishing	12	0	12	13	-11	13
Construction	28	0	28	33	-14	28
Other industry and crafts	38	0	37	38	-2	38
Total, companies	1,174	-11	1,163	1,149	1	1,100
Private individuals						
Home loans	1,577	-3	1,574	1,539	2	1,415
Securities and other investments	331	0	331	320	4	308
Business operations	131	-1	130	125	4	130
Other household purposes	201	-1	200	194	3	191
Total, private individuals	2,241	-5	2,236	2,178	3	2,044
Public sector and non-profit organisations	17	0	17	17	0	17
Total, public sector and non-profit organisations	17	0	17	17	0	17
Total lending	3,432	-16	3,416	3,343	2	3,161

11. Doubtful receivables and impairment losses

Bank of Åland Group	Mar 31, 2015	Dec 31, 2014	%	Mar 31, 2014	%
EUR M					
Gross doubtful receivables	20.9	21.7	-3	33.7	-38
of which private individuals	8.2	8.2	0	5.9	38
of which companies	12.8	13.5	-5	27.7	-54
Doubtful receivables as % of total	0.61	0.65	-5	1.07	-43
Provisions for individually measured receivables	14.3	14.3	0	16.0	-11
Net doubtful receivables	6.7	7.4	-9	17.7	-62
Level of provisions for doubtful receivables, %	68	66	3	47	43
Provisions for receivables measured by group	1.5	1.5	-1	1.3	18
of which private individuals	1.1	1.1	1	0.9	21
of which companies	0.4	0.4	-7	0.3	11
Total level of provisions for doubtful receivables, %	75	73	3	51	47
Non-performing receivables > 90 days past due	44.9	29.4	53	24.6	82
of which private individuals	18.3	14.0	31	12.9	42
of which companies	26.6	15.5	72	11.8	
Provisions for individually measured receivables	-10.3	-10.2	1	-10.3	0
Carrying amount after taking individual provisions into account	34.6	19.2	80	14.3	
Gross non-performing receivables > 90 days as % of total	1.31	0.88	49	0.78	69

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

Bank of Åland Group	Mar 31, 2015	Dec 31, 2014	%	Mar 31, 2014	%
EUR M					
Deposit accounts from the public and public sector					
Sight deposits	2,033	1,817	12	1,854	10
Time deposits	288	384	-25	403	-28
Total deposit accounts	2,321	2,201	5	2,257	3
Certificates of deposit issued to the public ¹	77	75	1	148	-48
Index bonds (structured products)	64	65	-2	88	-28
Subordinated debentures	45	50	-9	56	-19
Total bonds and certificates of deposit	186	190	-3	292	-36
Total deposits	2,507	2,391	5	2,549	-2

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

13. Debt securities issued

Bank of Åland Group	Mar 31, 2015	Dec 31, 2014	%	Mar 31, 2014	%
EUR M					
Certificates of deposit	322	292	10	160	
Covered bonds	799	795	1	544	47
Senior non-covered bonds	161	160	1	223	-28
Index bonds (structured products)	64	65	-2	88	-28
Total	1,346	1,312	3	1,015	33

14. Derivative instruments

Bank of Åland Group		Mar 31, 2015					Dec 31, 2014		
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>	128	94	16	238	4	6	247	4	6
<i>Interest rate and currency swaps</i>	0	0	0	0	0	16	32	0	19
<i>Interest rate futures</i>	10	0	0	10	0	0	10	0	0
<i>Interest rate options – purchased</i>	10	1	0	11	0	0	12	0	0
<i>Interest rate options – sold</i>	10	1	0	11	0	0	12	0	0
Currency-related contracts									
<i>Currency forward contracts</i>	163	6	0	169	1	1	89	1	1
Equity-related contracts									
<i>Equity options – purchased</i>	17	35	0	52	6	0	52	4	0
<i>Equity options – written</i>	14	28	0	42	0	6	43	0	4
Equity forward contracts	1	0	0	1	0	0	1	0	0
Other derivative contracts	0	22	0	22	1	1	22	1	1
Total	354	186	16	556	12	30	519	11	31
Derivatives for market value hedge									
Interest-related contracts									
<i>Interest rate swaps</i>	0	150	100	250	15	1	252	14	1
Total	0	150	100	250	15	1	252	14	1
Derivatives for cash flow hedge									
Interest-related contracts									
<i>Interest rate and currency swaps</i>	81	161	0	242	0	2	213	0	2
Total	81	161	0	242	0	2	213	0	2
Derivatives for hedging of net investment in foreign operations									
Currency-related contracts									
<i>Currency swaps</i>	20	0	0	20	0	0	14	0	0
Total	20	0	0	20	0	0	14	0	0
Total derivative instruments	454	498	116	1,068	27	33	998	24	34
<i>of which cleared OTC</i>									
<i>of which cleared by other means</i>	10	0	0	10	0	0	10	0	0

15. Financial instruments at fair value

Bank of Åland Group		Mar 31, 2015		
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	566			566
Lending to the public and public sector entities		94		94
Debt securities	0	0	0	0
Shares and participations	2	0	1	2
Derivative instruments	0	27		27
Total financial assets	567	121	1	688
Liabilities to the public and public sector entities		0		0
Debt securities issued		259		259
Derivative instruments	0	33		33
Subordinated liabilities		23		23
Total financial liabilities	0	314	0	314

Bank of Åland Group		Dec 31, 2014		
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	625			625
Lending to the public and public sector entities		93		93
Debt securities	0	0	0	0
Shares and participations	2	0	1	3
Derivative instruments	0	24		24
Total financial assets	627	118	1	745
Liabilities to the public and public sector entities		0		0
Debt securities issued		259		259
Derivative instruments	0	34		34
Subordinated liabilities		25		25
Total financial liabilities	0	317	0	317

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 January-March 2015, no instruments were moved between Levels 1 and 2. Changes in Level 3 are presented in a separate table.

Change in Level 3 holdings	Jan-Mar 2015
EUR M	Shares and participations
Carrying amount on January 1	0.5
New purchases	0.0
Divested/reached maturity during the year	0.0
Realised change of value in the income statement	0.0
Unrealised change of value in the income statement	0.0
Change in value recognised in "Other comprehensive income"	0.0
Total	0.5

16. Off-balance sheet commitments

Bank of Åland Group	Mar 31, 2015	Dec 31, 2014	% Mar 31, 2014	%
EUR M				
Guarantees	22	22	1	-8
Unutilised overdraft limits	78	82	-4	-3
Unutilised credit card limits	120	120	-1	10
Lines of credit	226	186	21	85
Total	445	410	9	49

17. Offsetting of financial assets and liabilities

Bank of Åland Group	Mar 31, 2015		Dec 31, 2014	
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	27		24	
Gross amount of financial liabilities offset in the balance sheet				
Net amount of financial assets recognised in the balance sheet	27		24	
Related amounts not offset in the balance sheet				
Financial instruments that do not meet offsetting criteria	-21		-19	
Financial collateral received	-6		-5	
Net amount	0		0	
Financial liabilities that are offset or covered by offsetting agreements				
Gross amount of financial liabilities	33	39	34	1
Gross amount of financial assets offset in the balance sheet				
Net amount of financial liabilities recognised in the balance sheet	33	39	34	1
Related amounts not offset in the balance sheet				
Financial instruments that do not meet offsetting criteria	-21		-19	
Financial collateral pledged	-3	-39	-2	-1
Net amount	9	0	12	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.

18. Assets pledged

Bank of Åland Group	Mar 31, 2015	Dec 31, 2014	%	Mar 31, 2014	%
EUR M					
Lending to credit institutions	46	4		14	
Debt securities	81	195	-58	200	-59
Loan receivables constituting collateral (cover pool) for covered bonds	1,317	1,312	0	894	47
Other assets pledged	3	3		10	-73
Total	1,447	1,514	-4	1,119	29

19. Capital adequacy

Bank of Åland Group	Mar 31, 2015	Dec 31, 2014	%	Mar 31, 2014	%
EUR M					
Equity capital according to balance sheet	202.8	195.9	4	184.8	10
Anticipated/proposed dividend	-8.5	-5.8	48	-2.7	
Core Tier 1 capital before deductions	194.2	190.1	2	182.1	7
Intangible assets	-7.3	-7.2	1	-8.5	-14
Property revaluation	-2.1	-2.1	-3	-2.3	-10
Tax assets due to future profitability offset against tax liabilities within same tax category	-0.5	-0.5	9	-0.7	-29
Non-controlling interests	-0.1	-1.3	-95	-1.0	-93
Unrealised accumulated positive change in value	0.0	-4.5	-100	-1.9	-100
Cash flow hedge	0.5	0.5	18	0.1	
Expected losses according to IRB approach beyond recognised losses	-5.1	-4.9	2	-5.4	-6
Core Tier 1 capital	179.7	170.0	6	162.3	11
Additional Tier 1 capital	0.0	0.0		0.0	
Tier 1 capital	179.7	170.0		162.3	11
Supplementary capital instruments	9.2	11.0	-16	16.7	-45
Unrealised accumulated positive change in value	0.0	4.5	-100	1.9	-100
Property revaluation	2.1	2.1	-3	2.3	-10
Supplementary capital	11.3	17.7	-36	20.9	-46
Total capital base	191.0	187.6	2	183.2	4
Capital requirement for credit risk according to the IRB approach	24.8	24.2	2	25.0	-1
Capital requirement for credit risk according to standardised approach	87.9	85.7	3	84.7	4
Capital requirement for credit-worthiness adjustment risk	1.3	1.3	0		
Capital requirement for operational risk	13.9	13.0	7	13.0	7
Capital requirement	127.9	124.3	3	122.7	4
Capital ratios					
Core Tier 1 capital ratio, %	11.2	10.9	3	10.6	6
Tier 1 capital ratio, %	11.2	10.9	3	10.6	6
Total capital ratio, %	11.9	12.1	-1	11.9	0
Risk exposure amount	1,599.1	1,553.6	3	1,534.1	4
of which % comprising credit risk	88	89	0	89	-1
of which % comprising credit-worthiness adjustment risk	1	1			
of which % comprising operational risk	11	11	4	11	2

Exposure category	Mar 31, 2015					
	EUR M	Gross exposure	Exposure at default	Risk weight %	Risk exposure amount	Capital requirement
Credit risk according to the IRB approach						
Households with property as collateral (small and medium-sized companies)		120.3	119.3	34	40.5	3.2
Households with property as collateral (not small and medium-sized companies)		1,598.3	1,591.7	14	217.6	17.4
Households, other (small and medium-sized companies)		35.5	34.7	36	12.5	1.0
Households, other (not small and medium-sized companies)		234.5	215.1	18	39.6	3.2
Total exposures according to the IRB approach		1,988.6	1,960.8	16	310.1	24.8
Credit risk according to the standardised approach						
Exposure to sovereigns or central banks ¹		305.2	346.5	0	0.0	0.0
Exposures to institutions		362.3	354.6	31	109.5	8.8
Corporate exposures		988.3	640.9	96	612.6	49.0
Household exposures		135.8	68.5	74	50.4	4.0
Exposures with real property mortgages as collateral		682.8	679.7	35	234.8	18.8
Past due exposures		25.4	15.8	124	19.6	1.6
Items associated with especially high risk		1.5	1.5	150	2.3	0.2
Covered bonds		201.1	201.1	10	20.1	1.6
Collective investment companies (funds)		1.7	1.7	100	1.7	0.1
Equity exposures		1.2	1.2	102	1.2	0.1
Other items		67.7	67.7	69	46.6	3.7
Total exposures according to the standardised approach		2,773.1	2,379.2	46	1,098.8	87.9
Total risk exposure amount		4,761.7	4,340.0	32	1,408.9	112.7

Exposure category	Dec 31, 2014					
	EUR M	Gross exposure	Exposure at default	Risk weight %	Risk exposure amount	Capital requirement
Credit risk according to the IRB approach						
Households with property as collateral (small and medium-sized companies)		122.2	121.1	36	43.4	3.5
Households with property as collateral (not small and medium-sized companies)		1,583.4	1,577.1	13	210.0	16.8
Households, other (small and medium-sized companies)		35.6	34.8	35	12.3	1.0
Households, other (not small and medium-sized companies)		225.8	206.9	18	36.9	3.0
Total exposures according to the IRB approach		1,966.9	1,939.9	16	302.6	24.2
Credit risk according to the standardised approach						
Exposure to sovereigns or central banks ¹		319.8	359.8	0	0.0	0.0
Institutional exposures		341.8	336.1	31	105.1	8.4
Corporate exposures		935.4	662.1	94	621.8	49.7
Household exposures		137.4	66.5	74	49.1	3.9
Exposures with real property mortgages as collateral		620.8	617.7	35	213.3	17.1
Past due exposures		18.3	8.7	134	11.7	0.9
Items associated with especially high risk		0.3	0.3	150	0.4	0.0
Covered bonds		214.8	214.8	10	22.4	1.8
Collective investment companies (funds)		2.1	2.1	100	2.1	0.2
Equity exposures		1.2	1.2	102	1.2	0.1
Other items		52.8	52.8	85	44.7	3.6
Total exposures according to the standardised approach		2,644.7	2,322.1	46	1,071.8	85.7
Total risk exposure amount		4,611.7	4,261.9	32	1,374.5	110.0

¹ This exposure category also includes regional self-government bodies, public sector entities, international organisations and multilateral development banks.

Capital requirement according to transitional rules for Basel 1 floor	Mar 31, 2015	Dec 31, 2014	%	Mar 31, 2014	%
EUR M					
Capital requirement adjusted according to Basel 1 floor rule	127.9	141.3	-9	136.7	-6
Capital base according to Basel 1	196.1	192.6	2	188.6	4
Surplus capital according to transitional rules for Basel 1 floor	68.2	51.3	33	51.8	32
Ratio of capital base to capital requirement according to Basel 1 floor, %	153.3	136.3	12	137.9	11

Leverage ratio	Mar 31, 2015	Dec 31, 2014	%
EUR M			
Tier 1 capital	178.0	171.8	4
Total exposure measure	4,656.6	4,516.9	3
of which balance sheet items	4,415.4	4,270.2	3
of which off-balance sheet items	241.2	246.8	-2
Leverage ratio, %	3.8	3.8	1

Leverage ratio is calculated as the arithmetic average of the monthly leverage ratios during a quarter. Tier 1 capital includes profit for the period.

Report on review of the interim report of Ålandsbanken Abp as of and for the three months period ending March 31, 2015

To the Board of Directors of Ålandsbanken Abp

INTRODUCTION

We have reviewed the summary balance sheet as of 31 March 2015, 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 2015 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 28, 2015

Pauli Salminen

Mari Suomela

Oskar Orrström

Authorised Public Accountant

Authorised Public Accountant

Authorised Public Accountant