ÅLANDSBANKEN

Interim Report

For the period January-March 2018 • April 25, 2018

January–March 2018

Compared to January-March 2017

- Net operating profit amounted to EUR 7.4 M (7.4).
- Profit for the period attributable to shareholders decreased by 1 per cent to EUR 5.8 M (5.9).
- Net interest income increased by 1 per cent to EUR 14.1 M (13.9).
- Net commission income rose by 9 per cent to EUR 13.2 M (12.1).
- Total expenses increased by 1 per cent to EUR 25.3 M (25.1).
- Net impairment losses on financial assets (including recoveries) totalled EUR 0.2 M (0.5), equivalent to a loan loss level of 0.02 (0.05) per cent.
- Return on equity after taxes (ROE) amounted to 10.1 (10.6) per cent.
- Earnings per share amounted to EUR 0.38 (0.38).
- The common equity Tier 1 ratio amounted to 12.5 per cent (12.9 on December 31, 2017).
- Unchanged future outlook: The Bank of Åland expects its net operating profit in 2018 to be at about the same level as, or better than, in 2017.

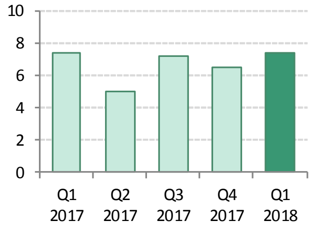
"During the first quarter of 2018, there was a high activity level among our financial investment customers, which is clearly evident from our strong net commission income. We were also able to enjoy a strong influx of new Private Banking customers, especially in Sweden but also in Finland. In absolute numbers, our quarterly net operating profit of EUR 7.4 M was at the same level as during the corresponding period of last year, but its quality is clearly better this year.

"Otherwise the period was characterised by extensive work, both at the Group level and together with our customers, to live up to the new international regulations (MiFID 2 and IFRS 9) that went into effect at the turn of the year."

Peter Wiklöf, Managing Director

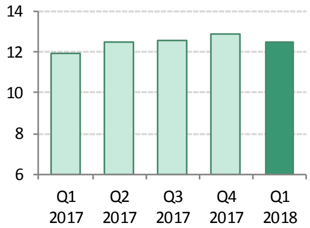
Net operating profit

EUR M



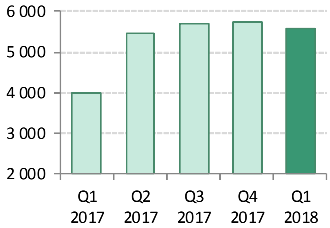
Common equity Tier 1 ratio

Per cent



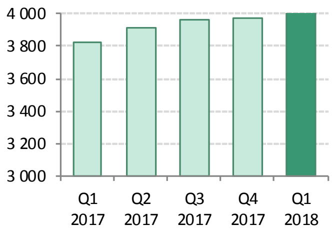
Actively managed assets

EUR M



Lending

EUR M



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

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Business Identity Code: 0145019-3. Telephone: +358 204 29 011. Website: www.alandsbanken.fi

Financial summary

Group	Q1 2018	Q4 2017	%	Q1 2017	%
EUR M					
Income					
Net interest income	14.1	14.1	-1	13.9	1
Net commission income	13.2	12.6	4	12.1	9
Net income from financial items	1.5	1.0	55	0.9	80
Other income	4.1	4.6	-12	6.1	-33
Total income	**32.9**	**32.4**	**1**	**32.9**	**0**
Staff costs	-15.1	-14.9	1	-15.9	-5
Other expences	-8.4	-8.5	-2	-7.7	9
Depreciation/amortisation	-1.9	-1.9	-1	-1.6	18
Total expenses	**-25.3**	**-25.3**	**0**	**-25.1**	**1**
Profit before impairment losses	**7.6**	**7.1**	**6**	**7.8**	**-3**
Impairment losses on financial assets	-0.2	-0.6	-68	-0.5	-56
Net operating profit	**7.4**	**6.5**	**13**	**7.4**	**0**
Income taxes	-1.6	-1.3	17	-1.5	4
Profit for the report period	**5.8**	**5.2**	**12**	**5.9**	**-1**
Attributable to:					
Shareholders in Bank of Åland Plc	**5.8**	**5.2**	**12**	**5.9**	**-1**
Volume					
Lending to the public	4,020	3,979	1	3,827	5
Deposits from the public [1]	3,098	3,148	-2	3,019	3
Actively managed assets [2]	5,575	5,737	-3	4,005	39
Equity capital	237	234	1	228	4
Balance sheet total	5,497	5,352	3	5,244	5
Risk exposure amount	1,611	1,538	5	1,596	1
Financial ratios					
Return on equity after taxes, % (ROE) [3]	10.1	8.8		10.6	
Expence/income ratio [4]	0.77	0.78		0.76	
Loan loss level, % [5]	0.02	0.06		0.05	
Liquidity coverage ratio (LCR), % [6]	148	142		118	
Loan/deposit ratio, % [7]	130	126		127	
Core funding ratio, % [8]	90	88		89	
Equity/assets ratio, % [9]	4.3	4.4		4.4	
Common equtiy Tier 1 capital ratio, % [10]	12.5	12.9		11.9	
Earnings per share, EUR [11]	0.38	0.34	11	0.38	-2
Earnings per share after dilution, EUR	0.37	0.34	10	0.38	-2
Equity capital per share, EUR [12]	15.33	15.14	1	14.90	3
Equity capital per share after dilution, EUR	15.22	15.02	1	14.74	3
Market price per Series A share, EUR	15.80	14.20	11	14.54	9
Market price per Series B share, EUR	14.75	14.05	5	14.20	4
Number of shares outstanding (not own shares), 000s	15,447	15,435	0	15,333	1
Number of shares outstanding (not own shares), after dilution, 000s	15,585	15,586	0	15,589	0
Working hours re-calculated to full-time equivalent positions	671	693	-3	689	-3

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

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

Comments

MACRO SITUATION AND REGULATORY REQUIREMENTS

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

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

BENCHMARK INTEREST RATES, AVERAGES, PER CENT

	Q1 2018	Q4 2017	Q1 2017
Euribor 3 mo	-0.33	-0.33	-0.33
Euribor 12 mo	-0.19	-0.19	-0.10
Stibor 3 mo	-0.44	-0.57	-0.52

Stock markets around the world began the year with substantial volatility. During the first quarter of 2018, share prices according to the Nasdaq Helsinki (OMXHPI) index rose marginally, while the Nasdaq Stockholm (OMXSPI) index fell by about 3 per cent.

During the first quarter of 2018, the average value of the Swedish krona in relation to the euro was 8 per cent lower than in the same period of 2017. Compared to its position at year-end 2017, the value of the krona was 5 per cent lower. When translating the income statement of the Bank of Åland's Swedish operations into euros, the average exchange rate for the period has been used, while the balance sheet has been translated at the exchange rate prevailing on the closing day of the period.

Among the regulations that went into effect during 2018 are:

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

During the second quarter of 2018, PSD2 is expected to go into effect in Sweden and the European Union's General Data Protection Regulation (GDPR) is expected to go into effect.

IMPORTANT EVENTS

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

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

During the first quarter of 2018, the number of Series B shares outstanding increased by 11,918 as a result of the Bank's obligations within the framework of its incentive programme.

EARNINGS FOR JANUARY – MARCH 2018

Profit for the period attributable to shareholders decreased by EUR 0.1 M or 1 per cent to EUR 5.8 M (5.9). Net operating profit was unchanged at EUR 7.4 M (7.4).

Return on equity after taxes amounted to 10.1 per cent (10.6).

Income totalled EUR 32.9 M, which was the same level as the year-earlier period. Adjusted for last year's licence sales of Crosskey's card system in the Swedish market, income rose by EUR 1.5 M. This was mainly due to increased commission income from customers' investment transactions and strong net income on foreign exchange dealing.

Lower funding expenses helped boost net interest income by EUR 0.2 M or 1 per cent to EUR 14.1 M (13.9). Negative and falling market interest rates – mainly the 12-month Euribor – along with increased price competition, had an adverse impact on interest income from lending. Re-weighting towards lower risk in the loan portfolio also adversely affected the lending margin. To some extent, increased volume offset the price downturn.

Net commission income rose by EUR 1.1 M or 9 per cent to EUR 13.2 M (12.1), as a result of increased income from customers' investment transactions in the form of brokerage commissions as well as mutual fund and asset management commissions.

Net income on financial items rose by EUR 0.6 M or 80 per cent to EUR 1.5 M (0.9), mainly due to higher net income on foreign exchange dealing.

Information technology (IT) income fell by EUR 1.2 M or 23 per cent to EUR 4.0 M (5.2). The decrease was due to last year's nonrecurring income from licence sales of Crosskey's card system in the Swedish market.

Total expenses increased by EUR 0.2 M or 1 per cent to EUR 25.3 M (25.1). Fees for the new resolution fund totalled EUR 0.4 M. Lower production for own use (capitalisation of development expenses) totalling EUR 0.5 M and EUR 0.3 M higher depreciation and amortisation expenses were largely explained by the IT project to implement a new securities platform developed by the Bank's IT subsidiary, Crosskey. Staff costs fell by EUR 0.8 M, mainly due to lower severance payments.

Impairment losses on financial assets amounted to EUR 0.2 M, equivalent to a loan loss level of 0.02 per cent, compared to EUR 0.5 M and 0.05 per cent in the year-earlier quarter.

Tax expenses amounted to EUR 1.6 M (1.5), equivalent to an effective tax rate of 21.2 (20.3) per cent.

STRATEGIC BUSINESS AREAS

The Group's net operating profit was unchanged, compared to the year-earlier period, but core business in the form of Private Banking, Premium Banking and Asset Management improved its net operating profit by EUR 0.5 M, allocated as follows:

- Private Banking +0.3 (higher net commission income)
- Premium Banking +0.8 (higher net interest income, lower loan losses)
- Asset Management -0.6 (higher expenses)
- IT -1.0 (nonrecurring income in 2017)
- Corporate Units & Eliminations +0.4 (lower expenses)

BUSINESS VOLUME

Actively managed assets decreased by EUR 162 M or 3 per cent during the first quarter of 2018 and totalled EUR 5,575 M (5,737), but the net inflow of actively managed assets during the quarter totalled EUR 65 M (47). Assets under discretionary and advisory management rose by EUR 77 M or 3 per cent to EUR 2,675 M (2,598). Managed assets in the Group's own mutual funds fell by EUR 239 M or 8 per cent to EUR 2,900 M (3,139).

Deposits from the public decreased by EUR 50 M or 2 per cent during the first quarter and amounted to EUR 3,098 M (3,148).

During the first three months of 2018, lending to the public rose by EUR 41 M or 1 per cent to EUR 4,020 M (3,979).

CREDIT QUALITY

Lending to private individuals comprises 71 per cent of the loan portfolio. Home mortgage loans account for 78 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 individuals. Loan-to-value ratios are conservative. Historically, the Bank of Åland has not had any substantial loan losses on this type of lending. The corporate portfolio has a close affinity with the retail portfolio, since many of the companies are owned by customers who, as individuals, are also Private Banking customers.

In compliance with IFRS 9, earlier individual and group impairment loss provisions have been replaced by expected Stage 1-2 loss provisions. For a majority of the Bank's receivables, provisions are made in Stage 1 and 2 according to the model. Non-performing receivables are dealt with in Stage 3 after individual assessment. Stage 3 provisions in the loan portfolio increased by EUR 0.1 M during the first quarter. Stage 3 loans as a share of gross lending to the public totalled 0.46 per cent (0.42 on December 31, 2017). The level of provisions for Stage 3 loans amounted to 54 (59) per cent.

The Bank of Åland Group had EUR 12.9 M (12.8) in impairment loss provisions, of which EUR 1.5 M (1.7) in Stage 1, EUR 1.2 M; (1.1) in Stage 2 and EUR 10.1 M (10.0) in Stage 3.

LIQUIDITY AND BORROWING

The Bank of Åland's liquidity reserve in the form of cash and deposits with the central bank, account balances and investments with other banks, liquid interest-bearing securities plus holdings of unencumbered covered bonds issued by the Bank amounted to EUR 960 M on March 31, 2018 (1,066 on December 31, 2017). This was equivalent to 17 (20) per cent of total assets and 24 (27) per cent of lending to the public.

On March 31, 2018, the average remaining maturity on outstanding bonds was about 2.9 (3.2) years. During 2018, SEK 500 M in covered bonds will mature in June and EUR 150 M in covered bonds will mature in October.

The Bank of Åland's core funding ratio, defined as lending to the public divided by deposits from the public including certificates of deposit, index bonds and subordinated debentures issued to the public, as well as covered bonds issued, amounted to 90 (88) per cent on March 31.

The loan/deposit ratio amounted to 130 (126) per cent.

Of the Bank of Åland's external funding sources aside from equity capital, deposits from the public accounted for 62 (63) per cent and covered bonds issued accounted for 26 (27) per cent.

The liquidity coverage ratio (LCR) amounted to 148 (142) per cent.

The net stable funding ratio (NSFR) amounted to 106 (110) per cent.

RATING

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

EQUITY AND CAPITAL ADEQUACY

The opening balance of equity capital changed by EUR 3.1 M as a consequence of IFRS 9 and amounted to EUR 230.5 M on January 1, 2018. During the first quarter, equity capital changed in the amount of profit for the period, EUR 5.8 M; other comprehensive income, EUR 0.1 M; the issuance of new shares as part of the incentive programme, EUR 0.2 M; plus EUR 0.1 related to the share savings programme. On March 31, 2018, equity capital totalled EUR 236.8 M (233.6).

Other comprehensive income included re-measurements of defined-benefit pension plans by EUR 0.3 M after taxes, in compliance with IAS 19.

Common equity Tier 1 capital rose by EUR 3.3 M or 2 per cent during the first quarter of 2018 to EUR 200.9 M (197.6), mainly due to the comprehensive income for the period and lower provisions for expected losses due to IFRS 9.

The risk exposure amount rose by EUR 73 M or 5 per cent to EUR 1,611 M (1,538). The credit risk exposure amount, excluding the risk weighting floor for home mortgage loans, fell by EUR 10 M. The Finnish FSA's 15 per cent risk weighting floor for mortgage loans, which was implemented starting on January 1, 2018, increased the risk exposure amount by EUR 73 M. The operational risk exposure amount, calculated using a three-year rolling average of the Group's income, increased by EUR 10 M.

The common equity Tier 1 capital ratio amounted to 12.5 (12.9) per cent. Since the Bank of Åland has no hybrid capital, its common equity Tier 1 capital ratio is the same as its Tier 1 capital ratio.

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

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

The total capital ratio decreased to 13.7 (14.2) per cent.

IMPORTANT EVENTS AFTER CLOSE OF REPORT PERIOD

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

RISK AND UNCERTAINTIES

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

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

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

UNCHANGED FUTURE OUTLOOK

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

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

FINANCIAL INFORMATION

The Half-year Financial Report for January–June 2018 will be published on Friday, July 20, 2018.

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

Mariehamn, April 25, 2018
THE BOARD OF DIRECTORS

Table of contents, financial information

NOTES

Summary income statement

Group	Note	Q1 2018	Q4 2017	%	Q1 2017	%
EUR M						
Net interest income	6	14.1	14.1	-1	13.9	1
Net commission income	7	13.2	12.6	4	12.1	9
Net income from financial items	8	1.5	1.0	55	0.9	80
IT income		4.0	4.4	-8	5.2	-23
Other operating income		0.1	0.3	-73	0.9	-91
Total income		**32.9**	**32.4**	**1**	**32.9**	**0**
Staff costs		-15.1	-14.9	1	-15.9	-5
Other expenses	9	-8.4	-8.5	-2	-7.7	9
Depreciation/amortisation		-1.9	-1.9	-1	-1.6	18
Total expenses		**-25.3**	**-25.3**	**0**	**-25.1**	**1**
Profit before impairment losses		**7.6**	**7.1**	**6**	**7.8**	**-3**
Impairment losses on financial assets	11	-0.2	-0.6	-68	-0.5	-56
Net operating profit		**7.4**	**6.5**	**13**	**7.4**	**0**
Income taxes		-1.6	-1.3	17	-1.5	4
Profit for the period		**5.8**	**5.2**	**12**	**5.9**	**-1**
Attributable to:						
Non-controlling interests		0.0	0.0	51	0.0	54
Shareholders in Bank of Åland Plc		**5.8**	**5.2**	**12**	**5.9**	**-1**
Earnings per share, EUR		0.38	0.34	11	0.38	-2

Summary statement of other comprehensive income

Group	Q1 2018	Q4 2017	%	Q1 2017	%
EUR M					
Profit for the period	**5.8**	**5.2**	**12**	**5.9**	**-1**
Cash flow hedge					
Gains/Losses arising during the period	2.2	3.5	-36	-0.2	
Transferred to the income statement	-2.2	-3.5	-37	0.4	
Net change in assets measured at fair value via other comprehensive income					
Gains/Losses arising during the period	-0.1	0.1		-0.1	32
Transferred to the income statement	0.0	0.0	-100	0.0	
Translation differences					
Gains/Losses arising during the period	0.5	0.2		0.0	
of which hedging of net investment in foreign operations	2.7	1.1		-0.1	
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	-0.5	-0.2		0.0	
of which cash flow hedges	0.0	0.0		0.0	-82
of which assets available for sale	0.0	0.0		0.0	32
of which hedging of net investments in foreign operations	-0.5	-0.2		0.0	
Items that have been or may be reclassified to the income statement	**-0.2**	**0.0**		**0.0**	
Re-measurements of defined benefit pension plans	0.4	-2.6		0.2	56
Taxes on items that may not be reclassified to the income statement	-0.1	0.5		0.0	56
Items that may not be reclassified to the income statement	**0.3**	**-2.1**		**0.2**	**56**
Other comprehensive income	**0.1**	**-2.1**		**0.2**	**-40**
Total comprehensive income for the period	**5.9**	**3.1**	**90**	**6.1**	**-2**
Attributable to:					
Non-controlling interests	0.0	0.0		0.0	
Shareholders in Bank of Åland Plc	**5.9**	**3.1**	**90**	**6.1**	**-2**

Income statement by quarter

Group	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
EUR M					
Net interest income	14.1	14.1	14.3	13.6	13.9
Net commission income	13.2	12.6	12.2	12.8	12.1
Net income from financial items	1.5	1.0	1.8	-0.6	0.9
IT income	4.0	4.4	3.6	4.4	5.2
Other operating income	0.1	0.3	0.3	0.2	0.9
Total income	**32.9**	**32.4**	**32.2**	**30.5**	**32.9**
Staff costs	-15.1	-14.9	-14.1	-14.9	-15.9
Other expenses	-8.4	-8.5	-8.3	-8.4	-7.7
Depreciation/amortisation	-1.9	-1.9	-2.0	-1.7	-1.6
Total expenses	**-25.3**	**-25.3**	**-24.4**	**-25.1**	**-25.1**
Profit before impairment losses	**7.6**	**7.1**	**7.8**	**5.5**	**7.8**
Impairment losses on financial assets	-0.2	-0.6	-0.6	-0.5	-0.5
Net operating profit	**7.4**	**6.5**	**7.2**	**5.0**	**7.4**
Income taxes	-1.6	-1.3	-1.5	-1.0	-1.5
Profit for the period	**5.8**	**5.2**	**5.8**	**3.9**	**5.9**
Attributable to:					
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Shareholders in Bank of Åland Plc	**5.8**	**5.2**	**5.8**	**3.9**	**5.9**

Summary balance sheet

Group	Note	Mar 31, 2018	Jan 1, 2018	Dec 31, 2017	%	Mar 31, 2017	%
EUR M							
Assets							
Cash and balances with central banks		422	524	524	-20	646	-35
Debt securities eligible for refinancing with central banks		688	634	634	9	513	34
Lending to credit institutions		166	93	93	78	114	45
Lending to the public and public sector entities	10, 11	4,020	3,975	3,979	1	3,827	5
Shares and participations		1	1	1	-1	1	2
Participations in associated companies		0	0	0	-20	0	74
Derivative instruments[1]	14	22	21	21	3	21	6
Intangible assets		17	17	17	-1	17	4
Tangible assets		24	24	24	-2	25	-6
Investment properties		0	0	0		0	-6
Current tax assets		1	1	1	18	0	
Deferred tax assets		6	6	5	-6	5	12
Other assets		107	32	32		55	93
Accrued income and prepayments[1]		25	22	22	12	20	25
Total assets		**5,497**	**5,350**	**5,352**	**3**	**5,244**	**5**
Liabilities							
Liabilities to credit institutions		236	206	206	14	236	0
Liabilities to the public and public sector entities	12	3,098	3,148	3,148	-2	3,019	3
Debt securities issued	12, 13	1,647	1,600	1,600	3	1,594	3
Derivative instruments[1]	14	27	23	23	18	32	-18
Current tax liabilities		0	0	0	-61	1	-93
Deferred tax liabilities		27	25	25	7	22	21
Other liabilities		157	50	50		44	
Provisions		1	1	1	10	1	1
Accrued expenses and prepaid income[1]		37	33	33	12	27	35
Subordinated liabilities	12	31	33	33	-6	37	-17
Total liabilities		**5,260**	**5,119**	**5,119**	**3**	**5,015**	**5**
Equity capital and non-controlling interests							
Share capital		42	42	42	0	42	1
Share premium account		33	33	33		33	
Reserve fund		25	25	25		25	
Fair value reserve		1	1	1	-12	1	
Unrestricted equity capital fund		27	27	27	1	26	3
Retained earnings		109	102	106	6	101	7
Shareholders´ portion of equity capital		**237**	**231**	**234**	**3**	**228**	**4**
Non-controlling interests´ portion of equity capital		0	0	0	-5	0	8
Total equity capital		**237**	**231**	**234**	**3**	**228**	**4**
Total liabilities and equity capital		**5,497**	**5,350**	**5,352**	**3**	**5,244**	**5**

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

Statement of changes in equity capital

Group

EUR M	Share capital	Share premium account	Reserve fund	Hedging reserve	Fair value reserve	Translation differance	Unrestricted equity capital fund	Retained earnings	Shareholders´ portion of equity capital	Non-controlling interests´ portion of equity capital	Total
Equity capital, Dec 31, 2016	**41.7**	**32.7**	**25.1**	**-0.2**	**1.7**	**-0.4**	**26.0**	**95.1**	**221.8**	**0.0**	**221.8**
Profit for the period								5.9	5.9	0.0	5.9
Other comprehensive income				0.1	-0.1	0.0		0.2	0.2		0.2
Incentive programme	0.0						0.1	0.0	0.1		0.1
Share savings programme	0.1						0.3	0.1	0.5		0.5
Equity capital, Mar 31, 2017	**41.7**	**32.7**	**25.1**	**-0.1**	**1.7**	**-0.4**	**26.4**	**101.2**	**228.4**	**0.0**	**228.4**
Profit for the period								14.8	14.8	0.0	14.8
Other comprehensive income				0.0	0.2	-0.2		-1.5	-1.5		-1.5
Dividends paid								-9.2	-9.2		-9.2
Incentive programme	0.2						0.5	0.0	0.8		0.8
Share savings programme							0.0	0.3	0.3		0.3
Equity capital, Dec 31, 2017	**41.9**	**32.7**	**25.1**	**0.0**	**1.8**	**-0.6**	**26.9**	**105.7**	**233.6**	**0.0**	**233.6**
Adjustment for application of IFRS 9					0.1			-3.2	-3.1		-3.1
Equity capital, Jan 1, 2018	**41.9**	**32.7**	**25.1**	**0.0**	**1.9**	**-0.6**	**26.9**	**102.5**	**230.5**	**0.0**	**230.5**
Profit for the period								5.8	5.8	0.0	5.8
Other comprehensive income				0.0	-0.1	-0.1		0.3	0.1		0.1
Incentive programme	0.0						0.1	0.0	0.2		0.2
Share savings programme							0.0	0.1	0.1		0.1
Equity capital, Mar 31, 2018	**42.0**	**32.7**	**25.1**	**0.0**	**1.8**	**-0.6**	**27.1**	**108.7**	**236.8**	**0.0**	**236.8**

Summary cash flow statement

Group	Jan-Mar 2018		Jan-Dec 2017		Jan-Mar 2017	
EUR M						
Cash flow from operating activities						
Net operating profit	7.4		26.0		7.4	
Adjustment for net operating profit items not affecting cash flow	3.2		12.9		2.1	
Gains/losses from investing activities	0.0		0.0		0.0	
Income taxes paid	-0.4		-2.5		-0.4	
Changes in assets and liabilities in operating activities	-69.5	-59.3	-171.0	-134.6	25.0	34.0
Cash flow from investing activities		-1.4		-7.6		-2.2
Cash flow from financing activities		-3.5		152.2		97.8
Exchange rate differences in cash and cash equivalents		-4.0		-2.9		0.2
Change in cash and cash equivalents		**-68.2**		**7.1**		**129.7**
Cash and cash equivalents at beginning of period		586.4		579.2		579.2
Cash and cash equivalents at end of period		518.1		586.4		709.0
Change in cash and cash equivalents		**-68.2**		**7.1**		**129.7**

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 11 offices. Through its subsidiary Crosskey Banking Solutions Ab Ltd, the Bank of Åland Group is also a supplier of modern banking computer systems for small and medium sized banks.

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

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

The Interim Report for the period January 1–March 31, 2018 was approved by the Board of Directors on April 24, 2018.

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, 2018 has been prepared in compliance with the International Financial Reporting Standards (IFRSs) and International Accounting Standards, IAS 34, "Interim Financial Reporting", which have been adopted by the European Union.

The 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, 2017.

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

ESSENTIAL ACCOUNTING PRINCIPLES

Except for the application of IFRS 9, "Financial instruments", which will be applied going forward starting on January 1, 2018, 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, 2017.

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

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

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

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

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

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

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

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

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

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

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

IFRS 15, "Revenue from contracts with customers", which is being applied retroactively starting January 1, 2017, has not had any effect on reported figures.

COMING CHANGES

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

ESTIMATES AND JUDGEMENTS

Preparation of this Interim Report in compliance with IFRSs requires the Company's Executive Team to make assessments, estimates and assumptions that affect the application of accounting principles and the recognised amounts of assets and liabilities, income and expenses as well as disclosures about commitments. Although these estimates are based on the best knowledge of the Executive Team on current events and measures, the actual outcome may diverge from the estimates. The substantial accounting assessments that have been made when applying the Group's accounting principles are primarily related to the application of the new impairment model and accounting of financial instruments.

ALTERNATIVE PERFORMANCE MEASURES

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

3. Transition to IFRS 9

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

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

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

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

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

4. Segment report

The Bank of Åland Group reports operating segments in compliance with IFRS 8, which means that operating segments reflect the information that the Group's Executive Team receives.

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

Group			Jan-Mar 2018				
EUR M	Private Banking	Premium Banking	Asset Management	IT	Corporate and Other	Eliminations	Total
Net interest income	6.5	6.4	0.0	0.0	1.2	0.0	14.1
Net commission income	7.7	2.8	2.5	0.0	0.0	0.0	13.2
Net income from financial items	0.7	0.1	0.0	0.0	0.7	0.0	1.5
IT income				7.8		-3.8	4.0
Other income	0.0	0.0	0.0	0.1	0.2	-0.2	0.1
Total income	**15.0**	**9.3**	**2.6**	**7.9**	**2.1**	**-4.0**	**32.9**
Staff costs	-2.7	-1.7	-1.8	-4.2	-4.8	0.0	-15.1
Other expenses	-1.3	-1.1	-0.5	-3.2	-5.7	3.5	-8.4
Depreciation/amortisation	-0.1	-0.1	0.0	-0.7	-1.4	0.5	-1.9
Internal allocation of expenses	-5.2	-4.2	-0.4	0.0	9.8	0.0	0.0
Total expenses	**-9.2**	**-7.1**	**-2.7**	**-8.1**	**-2.1**	**4.0**	**-25.3**
Profit before impairment losses	**5.8**	**2.3**	**-0.2**	**-0.3**	**-0.1**	**0.0**	**7.6**
Impairment losses on financial assets	-0.1	0.0			-0.1		-0.2
Net operating profit	**5.7**	**2.3**	**-0.2**	**-0.3**	**-0.2**	**0.0**	**7.4**
Income taxes	-1.2	-0.5	0.0	0.0	0.0		-1.6
Profit for the period attributable to shareholders	**4.5**	**1.8**	**-0.1**	**-0.2**	**-0.2**	**0.0**	**5.8**
Business volume							
Lending to the public	1,807	2,206			28	-21	4,020
Deposits from the public	1,670	1,402	3		41	-19	3,098
Actively managed assets	3,143	341	5,575			-3,485	5,575
Risk exposure amount	660	656	45	43	207		1,611
Equity capital	79	91	7	14	45		237
Financial ratios etc.							
Return on equity after taxes, % (ROE)	23.2	8.1	-8.9	-6.5	-1.5		10.1
Expense/income ratio	0.61	0.76	1.06	1.03	1.03		0.77
Loan loss level, %	0.02	0.00			1.50		0.02

Group			Jan-Mar 2017				
EUR M	Private Banking	Premium Banking	Asset Management	IT	Corporate and Other	Eliminations	Total
Net interest income	6.8	5.9	0.0	0.0	1.2	0.0	13.9
Net commission income	7.1	2.9	2.3	0.0	-0.1	0.0	12.1
Net income from financial items	0.2	0.2	0.0	0.0	0.6	0.0	0.9
IT income				8.8		-3.6	5.2
Other income	0.0	0.0	0.0	0.0	1.0	-0.2	0.9
Total income	**14.0**	**9.0**	**2.3**	**8.8**	**2.6**	**-3.8**	**32.9**
Staff costs	-2.8	-1.7	-1.1	-4.3	-5.9	0.0	-15.9
Other expenses	-1.2	-1.0	-0.4	-2.9	-5.4	3.2	-7.7
Depreciation/amortisation	-0.1	-0.2	0.0	-0.9	-0.8	0.3	-1.6
Internal allocation of expenses	-4.6	-4.2	-0.3		9.1		0.0
Total expenses	**-8.7**	**-7.0**	**-1.8**	**-8.1**	**-2.9**	**3.5**	**-25.1**
Profit before impairment losses	**5.3**	**2.0**	**0.5**	**0.7**	**-0.3**	**-0.3**	**7.8**
Impairment losses on financial assets	0.1	-0.5			-0.1		-0.5
Net operating profit	**5.4**	**1.5**	**0.5**	**0.7**	**-0.3**	**-0.3**	**7.4**
Income taxes	-1.1	-0.3	-0.1	-0.1	0.1		-1.5
Profit for the period attributable to shareholders	**4.3**	**1.2**	**0.4**	**0.6**	**-0.2**	**-0.3**	**5.9**
Business volume							
Lending to the public	1,637	2,175			36	-21	3,827
Deposits from the public	1,693	1,301	7		28	-9	3,019
Actively managed assets	2,811	298	4,005			-3,110	4,005
Risk exposure amount	602	663	11	44	275		1,596
Equity capital	72	88	2	11	56		228
Financial ratios etc.							
Return on equity after taxes, % (ROE)	23.6	5.3	75.3	21.1	-1.7		10.6
Expense/income ratio	0.62	0.78	0.80	0.92	1.11		0.76
Loan loss level, %	-0.02	0.09			0.77		0.05

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

5. Changes in Group structure

There are no changes during the period to report.

6. Net interest income

Group	Q1 2018	Q4 2017	%	Q1 2017	%
EUR M					
Lending to credit institutions and central banks	-0.2	-0.2	2	-0.2	-12
of which negative interest	-0.2	-0.3	-26	-0.3	-17
Lending to the public	15.9	16.0	-1	15.9	0
of which negative interest	0.0	0.0	-100	0.0	-100
Debt securities	0.1	0.1	2	0.1	-29
Derivatives	0.2	0.2	5	0.4	-46
Other interest income	0.0	0.0		0.0	
Total interest income	**15.9**	**16.0**	-1	**16.2**	-2
of which negative interest	-0.2	-0.3	-27	-0.3	-19
Liabilities to credit institutions and the public	-0.1	-0.1	-12	-0.1	-10
of which negative interest	-0.1	-0.1	2	-0.1	4
Liabilities to the public	0.8	0.9	-6	1.0	-16
of which negative interest	-0.1	-0.1	26	0.0	
Debt securities issued	0.5	0.6	-18	0.8	-34
of which negative interest	-0.1	-0.1	0	-0.1	0
Subordinated liabilities	0.2	0.2	-4	0.3	-7
Derivatives	0.4	0.3	50	0.4	5
Other interest expenses	0.0	0.0	-6	0.0	-35
Total interest expenses	**1.9**	**1.9**	-2	**2.3**	-18
of which negative interest	-0.3	-0.3	4	-0.2	54
Net interest income	**14.1**	**14.1**	**-1**	**13.9**	**1**
Interest margin, per cent	1.07	1.06		1.11	
Investment margin, per cent	1.03	1.02		1.09	

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

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

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

7. Net commission income

Group	Q1 2018	Q4 2017	%	Q1 2017	%
EUR M					
Deposits	0.2	0.2	7	0.2	0
Lending	0.7	0.9	-21	0.8	-9
Payment intermediation	1.6	1.7	-2	1.5	7
Mutual fund commissions	10.5	11.2	-6	5.2	
Management commissions	2.9	2.8	3	2.8	2
Securities commissions	3.8	2.8	35	3.3	16
Other commission income	0.8	0.8	-5	0.8	-3
Total commission income	**20.5**	**20.4**	**1**	**14.6**	**41**
Payment commission expenses	-1.0	-0.9	12	-0.9	4
Mutual fund commission expenses	-5.4	-5.8	-7	-0.6	
Management commission expenses	-0.2	-0.2	-3	-0.2	40
Securities commission expenses	-0.6	-0.7	-18	-0.6	0
Other commission expenses	-0.2	-0.2	-9	-0.2	-32
Total commission expenses	**-7.4**	**-7.8**	**-6**	**-2.5**	
Net commission income	**13.2**	**12.6**	**4**	**12.1**	**9**

8. Net income from financial items

Group	Q1 2018	Q4 2017	%	Q1 2017	%
EUR M					
Valuation category fair value via the income statement ("profit and losses")					
Debt securities	0.0	0.0	7	0.0	6
Shares and participations	0.0	0.0	-100	0.0	-100
Derivative instruments	0.0	0.2		0.3	
Loan receivables[1]	0.0	-0.2	-100	0.6	-100
Valuation category fair value via the income statement ("profit and losses")	**-0.1**	**-0.1**	**-14**	**0.8**	
Hedge accounting					
of which hedging instruments[1]	-1.5	-1.5	-1	-3.4	-55
of which hedged item[1]	1.9	1.6	19	3.0	-35
Hedge accounting[1]	**0.4**	**0.1**		**-0.4**	
Net income from foreign exchange dealing	**1.2**	**1.0**	**24**	**0.4**	
Net income from financial assets available for sale[2]	**0.0**	**0.0**		**0.0**	
Total	**1.5**	**1.0**	**55**	**0.9**	**80**

1 Fixed interest loans, which were previously reported under the fair value option, have been reclassified during the transition to IFRS 9 and are being reported starting on January 1, 2018 as part of fair value hedging.

2 In compliance with IFRS 9, changes in the market value of financial assets held to maturity and available for sale are recognised under comprehensive income, except for the portion of the change in market value of these assets that is due to changes in counterparty risk or exchange rates. These changes in value are reported in the income statement as "Net income from financial items".

9. Other expenses

Group	Q1 2018	Q4 2017	%	Q1 2017	%
EUR M					
IT expenses (excluding information services)	3.0	3.1	-3	3.2	-5
Premises and property expenses	1.3	1.4	-5	1.4	-1
Marketing expenses	0.5	0.5	1	0.6	-11
Information services	0.6	0.6	-4	0.5	10
Staff-related expenses	0.6	0.7	-10	0.6	-4
Travel expenses	0.3	0.4	-31	0.3	-6
Purchased services	0.4	0.7	-39	0.5	-20
Deposit guarantee fee	0.0	0.0	-100	0.0	-100
Stability fee	0.4	0.3	7	0.0	
Other expenses	1.6	1.6	3	1.5	10
Production for own use	-0.5	-0.9	-48	-1.0	-53
Total	**8.4**	**8.5**	**-2**	**7.7**	**9**

10. Lending to the public and public sector by purpose

Group	Mar 31, 2018			Dec 31, 2017	%	Mar 31, 2017	%
EUR M	Lending before provisions	Provisions	Lending after provisions	Lending after provisions		Lending after provisions	
Private individuals							
Home loans[1]	2,219	-4	2,215	2,224	0	2,118	5
Securities and other investments[1]	304	0	304	308	-1	254	20
Business operations	120	-2	118	120	-2	133	-12
Other household purposes	216	-2	214	213	0	195	10
Total, private individuals	**2,859**	**-9**	**2,851**	**2,865**	**-1**	**2,700**	**6**
Companies							
Shipping	46	0	46	48	-3	55	-15
Wholesale and retail trade	45	0	45	41	11	38	17
Housing operations	321	0	321	327	-2	367	-12
Other real estate operations	247	-2	245	253	-3	229	7
Financial and insurance operations	264	0	264	198	33	208	27
Hotel and restaurant operations	27	0	27	26	4	28	-3
Other service operations	96	-1	96	95	1	95	0
Agriculture, forestry and fishing	11	0	11	11	3	10	11
Construction	45	0	45	43	3	36	24
Other industry and crafts	40	0	40	41	-3	36	10
Total, companies	**1,142**	**-4**	**1,138**	**1,081**	**5**	**1,101**	**3**
Public sector and non-profit organisations	31	0	31	32	-3	26	22
Total, public sector and non-profit organisations	**31**	**0**	**31**	**32**	**-3**	**26**	**22**
Total lending	**4,033**	**-13**	**4,020**	**3,979**	**1**	**3,827**	**5**

11. Provisions for expected losses

Group	Stage 1	Stage 2	Stage 3	Total
EUR M				
Opening balance, January 1, 2018	**1.7**	**1.1**	**10.0**	**12.8**
Increases due to issuances and acquisitions	0.1	0.0	0.0	0.2
Decrease due to removal from report on financial position	0.0	0.0	-0.3	-0.3
Net changes due to changed credit risk	-0.2	0.0	0.4	0.2
Transfer to/from Stage 1	0.0	0.0	0.0	0.0
Transfer to/from Stage 2	-0.1	0.2	-0.1	0.0
Transfer to/from Stage 3	0.0	-0.1	0.1	0.0
Other adjustments (such as currency rate effect)	0.0	0.0	0.0	0.0
Closing balance, March 31, 2018	**1.5**	**1.2**	**10.1**	**12.9**
- of which lending to the public	1.4	1.2	10.0	12.5
- of which debt instruments	0.1	0.0	0.0	0.1
- of which off-balance sheet items	0.1	0.0	0.2	0.3
Change in provisions during the period				0.0
Actual losses during the period				0.2
Recovery of actual losses during the period				-0.1
Impairment losses on financial asset in the income statement				**0.2**

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

Group	Mar 31, 2018	Dec 31, 2017	%	Mar 31, 2017	%
EUR M					
Deposit accounts from the public and public sector					
Demand deposits	2,748	2,749	0	2,795	-2
Time deposits	349	399	-12	225	55
Total deposit accounts	**3,098**	**3,148**	**-2**	**3,019**	**3**
Certificates of deposit issued to the public [1]	3	7	-62	23	-89
Index bonds (structured products)	6	10	-38	16	-62
Subordinate debentures	31	33	-6	37	-17
Total bonds and certificates of deposit	**39**	**49**	**-20**	**76**	**-48**
Total deposits	**3,137**	**3,197**	**-2**	**3,095**	**1**

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

13. Debt securities issued

Group	Mar 31, 2018	Dec 31, 2017	%	Mar 31, 2017	%
EUR M					
Certificates of deposit	232	158	46	198	17
Covered bonds	1,309	1,332	-2	1,191	10
Senior non-covered bonds	100	100	0	189	-47
Index bonds (structured products)	6	10	-38	16	-62
Total	**1,647**	**1,600**	**3**	**1,594**	**3**

14. Derivative instruments

Group	Mar 31, 2018						Dec 31, 2017		
	Nominal amount/maturity								
EUR M	Under 1 yr	1-5 yrs	over 5 yrs	Nominal amount	Positive market values	Negative market values	Nominal amount	Positive market values	Negative market values
Derivatives for trading									
Interest-related contracts									
Interest rate swaps	0	15	40	55	2	2	94	2	3
Interest rate futures	0	0	0	0	0	0	0	0	0
Interest rate options - purchased	0	0	0	0	0	0	0	0	0
Interest rate options - sold	0	0	0	0	0	0	0	0	0
Currency-related contracts									
Currency forward contracts	505	0	0	505	6	6	492	4	4
Equity-related contracts									
Equity options - purchased	5	0	0	5	1	0	5	1	0
Equity options - written	4	0	0	4	0	1	4	0	1
Other derivative contracts	0	0	0	0	0	0	8	0	0
Total	**513**	**15**	**40**	**568**	**9**	**9**	**603**	**7**	**8**
Derivatives for market value hedge									
Interest-related contracts									
Interest rate swaps	12	472	322	806	13	9	771	15	7
Total	**12**	**472**	**322**	**806**	**13**	**9**	**771**	**15**	**7**
Derivatives for cash flow hedge									
Interest-related contracts									
Interest rate and currency swaps	49	0	0	49	0	9	51	0	7
Total	**49**	**0**	**0**	**49**	**0**	**9**	**51**	**0**	**7**
Derivatives for hedging of net investment in foreign operations									
Currency-related contracts									
Currency swaps	60	0	0	60	0	0	55	0	0
Total	**60**	**0**	**0**	**60**	**0**	**0**	**55**	**0**	**0**
Total derivative instruments	**634**	**487**	**362**	**1,483**	**22**	**27**	**1,479**	**21**	**23**
of which cleared OTC									
of which cleared by other means	12	484	359	855	13	10	855	15	10

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

15. Financial instruments at fair value

Group		Mar 31, 2018		
EUR M	Instruments with quoted prices (Level 1)	Measurement techniques based on observable market data (Level 2)	Measurement techniques based on non-observable market data (Level 3)	Total
Debt securities eligible for refinancing with central banks	541			541
Lending to the public and public sector entities[1]		90		90
Shares and participations	0	0	1	1
Derivative instruments[2]	0	22		22
Total financial assets	**541**	**112**	**1**	**653**
Liabilities to the public and public sector entities		0		0
Debt securities issued		755		755
Derivative instruments[2]	0	27		27
Subordinated liabilities		6		6
Total financial liabilities	**0**	**787**	**0**	**787**

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

1 Fixed interest loans, which were previously reported under the fair value option, have been reclassified during the transition to IFRS 9 and are being reported starting on January 1, 2018 as part of fair value hedging.

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

Financial instruments for which there is price information that is easily available and that represent actual and frequently occurring transactions are measured at current market price. For financial assets, the current purchase price is used. For financial liabilities, the current sale price is used. The current market price of groups of financial instruments that are managed on the basis of the Bank's net exposure to market risk equals the current market price that would be received or paid if the net position were divested.

In the case of financial assets for which reliable market price information is not available, fair value is determined with the help of measurement models. Such models may, for example, be based on price comparisons, present value estimates or option valuation theory, depending on the nature of the instrument. The models use incoming data in the form of market prices and other variables that are deemed to influence pricing. The models and incoming data on which the measurements are based are validated regularly to ensure that they are consistent with market practices and generally accepted financial theory.

The measurement hierarchy

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

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

Changes in Level 3 are presented in a separate table.

Changes in Level 3 holdings	Jan-Mar 2018
EUR M	Shares and participations
Carrying amount on January 1	0.5
New purchases/reclassification	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
Carrying amount on December 31	**0.5**

16. Off-balance sheet commitments

Group	Mar 31, 2018	Dec 31, 2017	%	Mar 31, 2017	%
EUR M					
Guarantees	43	40	9	43	0
Unutilised overdraft limits	220	216	2	84	
Unutilised credit card limits	76	74	2	69	10
Lines of credit	137	142	-4	194	-29
Other commitments	17	14	23	26	-33
Total	**493**	**485**	**2**	**415**	**19**

17. Offsetting of financial assets and liabilities

Group	Assets			Liabilities		
	Mar 31, 2018	Dec 31, 2017	%	Mar 31, 2018	Dec 31, 2017	%
EUR M						
Financial assets and liabilities covered by offsetting, netting or similar agreements						
Gross amount	22	21	3	95	55	72
Offset amount						
Total	**22**	**21**	**3**	**95**	**55**	**72**
Related amounts not offset						
Financial instruments, netting agreements	-11	-11	0	-11	-11	0
Financial instruments, collateral				-10	-11	-4
Cash, collateral	0	-1	-100	-57	-25	
Total amounts not offset	**-11**	**-12**	**-7**	**-79**	**-47**	**69**
Net amount	**11**	**10**	**15**	**16**	**9**	**88**

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

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

18. Assets pledged

Group	Mar 31, 2018	Dec 31, 2017	%	Mar 31, 2017	%
EUR M					
Lending to credit institutions	68	30		50	36
Debt securities	180	162	11	164	10
Loan receivables constituting collateral (cover pool) for covered bonds	2,066	1,989	4	1,665	24
Other assets pledged	3	3	-4	3	-5
Total	**2,317**	**2,186**	**6**	**1,882**	**23**

19. Capital adequacy

Group	Mar 31, 2018	Dec 31, 2017	%	Mar 31, 2017	%
EUR M					
Equity capital according to balance sheet	236.8	233.6	1	228.5	4
Foreseeable dividend	-12.9	-10.0	28	-11.9	8
Common equity Tier 1 capital before deductions	**223.9**	**223.6**	**0**	**216.5**	**3**
Intangible assets	-16.6	-15.9	4	-15.2	9
Tax assets due to future profitability offset against tax liabilities within same tax category	0.0	0.0		0.0	
Deduction of surplus value in pension assets	0.0	0.0		0.0	
Non-controlling interests	0.0	0.0	-5	0.0	8
Cash flow hedge	0.0	0.0	-43	0.1	-64
Further adjustments in value	-0.5	-1.3	-59	-1.3	-58
Expected losses according to IRB approach beyond recognised losses (deficit)	-5.9	-8.8	-32	-10.1	-41
Common equity Tier 1 capital	**200.9**	**197.6**	**2**	**190.0**	**6**
Additional Tier 1 capital	**0.0**	**0.0**		**0.0**	
Tier 1 capital	**200.9**	**197.6**	**2**	**190.0**	**6**
Supplementary capital instruments	19.3	19.7	-2	18.7	3
Expected losses according to IRB approach beyond recognised losses (surplus)	1.1	1.7	0	0.0	0
Supplementary capital	**20.4**	**21.4**	**-5**	**18.7**	**9**
Total capital base	**221.3**	**219.0**	**1**	**208.7**	**6**
Capital requirement for credit risk according to the IRB approach	46.1	46.5	-1	47.3	-3
Capital requirement for risk weighting floor, home mortgage loans	5.8				
Capital requirement for credit risk according to standardised approach	59.8	60.3	-1	63.7	-6
Capital requirement for credit-worthiness adjustment risk	0.0	0.0	-23	0.4	-97
Capital requirement for operational risk	17.1	16.2	5	16.2	5
Capital requirement	**128.9**	**123.0**	**5**	**127.7**	**1**
Capital ratios					
Common equity Tier 1 capital ratio, %	12.5	12.9		11.9	
Tier 1 capital ratio, %	12.5	12.9		11.9	
Total capital ratio, %	13.7	14.2		13.1	
Risk exposure amount	1,611	1,538	5	1,596	1
of which % comprising credit risk	87	87		87	
of which % comprising credit-worthiness adjustment risk	0	0		0	
of which % comprising operational risk	13	13		13	

Requirements related to capital buffers, %	Mar 31, 2018	Dec 31, 2017	Mar 31, 2017
Total common equity Tier 1 capital requirements including buffer requirements	7.9	7.9	8.0
of which common equity Tier 1 capital requirement	4.5	4.5	4.5
of which capital conservation buffer requirement	2.5	2.5	2.5
of which countercyclical capital buffer requirement	0.9	0.9	1.0
Common equity Tier 1 capital available to be used as a buffer	12.5	12.9	11.9

Exposure class	Mar 31, 2018				
EUR M	Gross exposure	Exposure at default	Risk weight %	Risk exposure amount	Capital requirement
Credit risk according to the IRB approach					
Without own LGD estimates					
Corporate, other large companies	206.6	145.0	51	73.8	5.9
Corporate, small and medium sized companies	382.9	326.5	67	218.3	17.5
Corporate, special lending	7.1	7.1	83	5.9	0.5
Using own LGD estimates					
Retail with property as collateral (small and medium-sized companies)	105.9	105.6	27	28.9	2.3
Retail with property as collateral (private individuals)	1,782.4	1,772.6	11	194.4	15.6
Retail, other (small and medium-sized companies)	38.6	37.7	26	9.8	0.8
Retail, other	318.7	287.7	16	45.4	3.6
Total exposures according to IRB approach	**2,842.1**	**2,682.3**	**21**	**576.6**	**46.1**
Credit risk according to standardised approach					
Central government or central banks	532.8	586.5	0	0.0	0.0
Regional governments or local authorities	7.2	27.3	0	0.0	0.0
Public sector entities	5.1	5.1	0	0.0	0.0
Multilateral development banks	45.4	46.0	0	0.0	0.0
International organisations	22.1	22.1	0	0.0	0.0
Institutions	368.1	328.6	23	77.1	6.2
Corporates	563.7	228.3	98	223.5	17.9
Retail	160.9	81.6	72	59.0	4.7
Secured by mortgages on immovable property	924.1	920.5	33	301.4	24.1
Exposures in default	2.0	2.0	147	3.0	0.2
Items associated with particularly high risk	0.5	0.5	150	0.8	0.1
Covered bonds	372.7	372.6	10	37.3	3.0
Collective investment undertakings	0.0	0.0	0	0.0	0.0
Equity exposures	0.6	0.6	100	0.6	0.0
Other exposures	144.2	144.2	31	45.3	3.6
Total exposures according to standardised approach	**3,149.5**	**2,766.0**	**27**	**747.9**	**59.8**
Total risk exposure amount, credit risk	**5,991.6**	**5,448.3**	**24**	**1,324.5**	**106.0**

Exposure class	Dec 31, 2017				
EUR M	Gross exposure	Exposure at default	Risk weight %	Risk exposure amount	Capital requirement
Credit risk according to the IRB approach					
Without own LGD estimates					
Corporate, other large companies	178.3	145.7	51	74.6	6.0
Corporate, small and medium sized companies	345.7	318.7	66	211.2	16.9
Corporate, special lending	7.1	7.1	83	5.9	0.5
Using own LGD estimates					
Retail with property as collateral (small and medium-sized companies)	111.3	110.9	29	32.4	2.6
Retail with property as collateral (private individuals)	1,781.9	1,772.1	11	199.7	16.0
Retail, other (small and medium-sized companies)	38.3	37.5	28	10.5	0.8
Retail, other	323.8	293.0	16	47.0	3.8
Total exposures according to IRB approach	**2,786.4**	**2,685.1**	**22**	**581.3**	**46.5**
Credit risk according to standardised approach					
Central government or central banks	603.1	650.0	0	0.0	0.0
Regional governments or local authorities	7.4	26.5	0	0.0	0.0
Public sector entities	5.1	5.1	0	0.0	0.0
Multilateral development banks	46.0	46.2	0	0.0	0.0
International organisations	22.1	22.1	0	0.0	0.0
Institutions	297.3	255.7	24	62.3	5.0
Corporates	465.6	228.4	98	223.1	17.8
Retail	240.5	82.2	72	59.5	4.8
Secured by mortgages on immovable property	951.7	948.0	33	309.6	24.8
Exposures in default	0.0	0.0	150	0.0	0.0
Items associated with particularly high risk	0.4	0.4	150	0.6	0.0
Covered bonds	371.0	371.0	10	37.1	3.0
Collective investment undertakings	0.0	0.0	0	0.0	0.0
Equity exposures	0.7	0.7	100	0.7	0.1
Other exposures	68.4	68.4	89	60.5	4.8
Total exposures according to standardised approach	**3,079.2**	**2,704.5**	**28**	**753.5**	**60.3**
Total risk exposure amount, credit risk	**5,865.6**	**5,389.6**	**25**	**1,334.8**	**106.8**

Leverage ratio	Mar 31, 2018	Dec 31, 2017	%	Mar 31, 2017	%
EUR M					
Tier 1 capital	200.9	197.6	2	190.0	6
Total exposure measure	5,596.0	5,440.4	3	5,324.4	5
of which balance sheet items	5,494.3	5,340.6	3	5,221.9	5
of which off-balance sheet items	101.7	99.8	2	102.5	-1
Leverage ratio, %	3.6	3.6	-1	3.6	1

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

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TRANSLATION

Report on review of the interim report of Bank of Åland Plc as of and for the three month period ending March 31, 2018

To the Board of Directors of Bank of Åland Plc

Introduction

We have reviewed the summary balance sheet as of March 31, 2018 and the related summary income statement, summary statement of other comprehensive income, statement of changes in equity capital and summary cash flow statement of Bank of Åland Plc group for the three-month period then ended, as well as other explanatory notes to the consolidated financial statements. The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34 Interim Financial Reporting and other Finnish rules and regulations governing the preparation of interim reports. We will express our conclusion on the 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, in all material respects, is not prepared in accordance with IAS 34 Interim Financial Reporting and other applicable rules and regulations governing interim financial reporting preparation in Finland.

Helsinki, April 25, 2018

KPMG OY AB

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