ÅLANDSBANKEN

Year-end Report

For the period January–December 2018 • February 8, 2019

January – December 2018

Compared to January – December 2017

- Net operating profit increased by 11 per cent to EUR 29.0 M (26.0).
- Profit for the period attributable to shareholders increased by 11 per cent to EUR 22.9 M (20.7).
- Net interest income decreased by 2 per cent to EUR 54.5 M (55.9).
- Net commission income increased by 2 per cent to EUR 50.6 M (49.7).
- Total expenses decreased by 2 per cent to EUR 97.8 M (99.8).
- Net impairment losses on financial assets (including recoveries) totalled EUR 0.8 M (2.1), equivalent to a loan loss level of 0.02 (0.06) per cent.
- Return on equity after taxes (ROE) amounted to 9.8 (9.1) per cent.
- Earnings per share increased to EUR 1.48 (1.35).
- The common equity Tier 1 ratio amounted to 13.0 per cent (12.9 on December 31, 2017).
- The Board of Directors proposes a dividend of EUR 0.70 (0.65) per share.
- Future outlook: The Bank of Åland expects its net operating profit in 2019 to be at about the same level as in 2018.

The fourth quarter of 2018

Compared to the fourth quarter of 2017

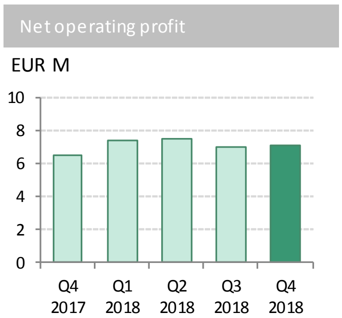
- Net operating profit increased by 9 per cent to EUR 7.1 M (6.5).
- Profit for the period attributable to shareholders increased by 10 per cent to EUR 5.7 M (5.2).
- Net interest income decreased by 6 per cent to EUR 13.3 M (14.1).
- Net commission income increased by 1 per cent to EUR 12.7 M (12.6).
- Total expenses were unchanged and amounted to EUR 25.2 M (25.3).
- Net impairment losses (including recoveries) totalled a net gain of EUR 0.1 M (net loss of 0.6), equivalent to a loan loss level of 0.00 (0.06) per cent.
- Return on equity after taxes (ROE) amounted to 9.4 (8.8) per cent.
- Earnings per share increased to EUR 0.37 (0.34).

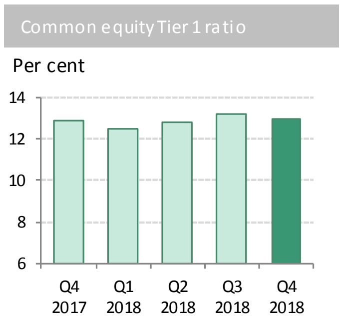
"During 2018 we improved our net operating profit by 11 per cent to EUR 29.0 M, despite the negative end of the year in the stock and fixed income markets. The Board of Directors proposes an increased dividend of EUR 0.70 (0.65) per share.

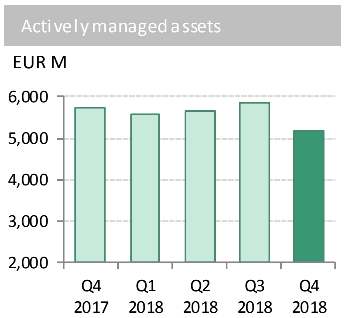
"The net inflow of actively managed assets was strong in our Private Banking segment with a focus on Sweden, EUR 397 M, which I am very satisfied with.

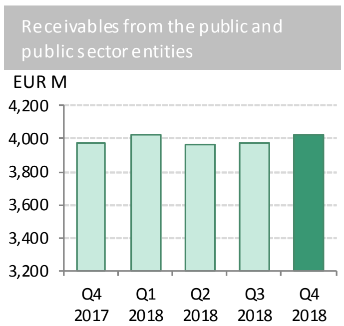
"During the fourth quarter we chose to enter into another partnership – with the fintech company Doconomy – in which we are together creating a globally unique customer platform that combines sustainability with financial services and saving."

Peter Wiklöf, Managing Director









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

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Financial summary

Group	Q4 2018	Q3 2018	%	Q4 2017	%	Jan-Dec 2018	Jan-Dec 2017	%
EUR M								
Income								
Net interest income	13.3	13.3	0	14.1	-6	54.5	55.9	-2
Net commission income	12.7	12.1	5	12.6	1	50.6	49.7	2
Net income from financial items	1.4	0.6		1.0	41	5.2	3.1	67
Other income	4.9	4.1	20	4.6	5	17.4	19.3	-10
Total income	**32.3**	**30.0**	**7**	**32.4**	**0**	**127.6**	**128.0**	**0**
Staff costs	-14.3	-13.2	8	-14.9	-4	-57.1	-59.8	-5
Other expenses	-9.2	-7.7	20	-8.5	8	-33.4	-32.9	2
Depreciation/amortisation	-1.8	-1.8	0	-1.9	-3	-7.3	-7.1	3
Total expenses	**-25.2**	**-22.7**	**11**	**-25.3**	**0**	**-97.8**	**-99.8**	**-2**
Profit before impairment losses	**7.0**	**7.3**	**-4**	**7.1**	**-2**	**29.8**	**28.2**	**6**
Net impairment losses on financial assets	0.1	-0.3		-0.6		-0.8	-2.1	-61
Net operating profit	**7.1**	**7.0**	**1**	**6.5**	**9**	**29.0**	**26.0**	**11**
Income taxes	-1.4	-1.5	-5	-1.3	4	-6.1	-5.3	14
Profit for the report period	**5.7**	**5.6**	**2**	**5.2**	**10**	**22.9**	**20.7**	**11**
Attributable to:								
Shareholders in Bank of Åland Plc	**5.7**	**5.6**	**2**	**5.2**	**10**	**22.9**	**20.7**	**11**
Volume								
Receivables from the public	4,022	3,978	1	3,979	1			
Deposits from the public	3,304	3,085	7	3,148	5			
Actively managed assets [1]	5,177	5,849	-11	5,737	-10			
Equity capital	242	237	2	234	4			
Balance sheet total	5,558	5,484	1	5,352	4			
Risk exposure amount	1,578	1,565	1	1,538	3			
Financial ratios								
Return on equity after taxes, % (ROE) [2]	9.4	9.4		8.8		9.8	9.1	
Expenses/income ratio [3]	0.78	0.76		0.78		0.77	0.78	
Loan loss level, % [4]	0.00	0.03		0.06		0.02	0.06	
Liquidity coverage ratio (LCR), % [5]	120	131		142				
Loan/deposit ratio, % [6]	122	129		126				
Core funding ratio, % [7]	90	91		88				
Equity/assets ratio, % [8]	4.4	4.3		4.4				
Common equtiy Tier 1 capital ratio, % [9]	13.0	13.2		12.9				
Earnings per share, EUR [10]	0.37	0.36	2	0.34	9	1.48	1.35	10
Earnings per share after dilution, EUR	0.37	0.36	2	0.34	8	1.48	1.34	10
Equity capital per share, EUR [11]	15.67	15.34	2	15.14	4			
Equity capital per share after dilution, EUR	15.58	15.25	2	15.02	4			
Market price per Series A share, EUR	13.30	14.70	-10	14.20	-6			
Market price per Series B share, EUR	13.10	13.85	-5	14.05	-7			
Number of shares outstanding (not own shares), 000s	15,472	15,472		15,435	0			
Number of shares outstanding (not own shares), after dilution, 000s	15,590	15,580	0	15,586	0			
Working hours re-calculated to full-time equivalent positions	692	702	-1	693	0	691	691	0

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

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

Comments

MACRO SITUATION AND REGULATORY REQUIREMENTS

The autumn of 2018 was dominated by worries about trade policy, Brexit and Italy. Most major economies saw continued good economic growth, but political developments raised questions about how sustainable this growth is and whether the next recession is approaching. The Finnish economy keeps growing, but its growth rate is slowing.

Since December 2015, the US Federal Reserve has raised its key interest rate nine times, of which four times during 2018. In December 2018, Sweden's Riksbank hiked its key rate for the first time since 2011. The European Central Bank has not yet followed suit.

BENCHMARK INTEREST RATES, AVERAGES, PER CENT

	Q4 2018	Q3 2018	Q4 2017
Euribor 3 mo	-0.32	-0.32	-0.33
Euribor 12 mo	-0.14	-0.17	-0.19
Stibor 3 mo	-0.40	-0.37	-0.57

	2018	2017
Euribor 3 mo	-0.32	-0.33
Euribor 12 mo	-0.17	-0.15
Stibor 3 mo	-0.40	-0.50

Stock markets around the world showed substantial volatility in 2018 and ended the year with large downturns. During the year, share prices according to both the Nasdaq Helsinki (OMXHPI) equity index and the Nasdaq Stockholm (OMXSPI) index fell by 8 per cent.

During 2018, the average value of the Swedish krona (SEK) in relation to the euro (EUR) was 6 per cent lower than in 2017. Compared to its position at year-end 2017, the value of the krona on December 31, 2018 was 4 per cent lower. When converting 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 converted at the exchange rate prevailing on the closing day of the report period.

Among the regulations that went into effect during 2018 are:

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

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

IMPORTANT EVENTS

In November the Bank of Åland and FIM Asset Management, which is owned by S-Bank (S-Pankki) and manages that bank's mutual funds, began collaboration on certain mutual funds. As part of this collaboration, the FIM Global and Ålandsbanken Premium 100 mutual funds were merged. The combined fund's name is Ålandsbanken Global Aktie Placeringsfond. At the same time, the Bank of Åland's Emerging Markets and Kina Aktie (Chinese equity) mutual funds were merged with FIM's Emerging Markets ESG fund. The mergers occurred on December 18, 2018.

During the fourth quarter of 2018, the Bank of Åland and the Swedish fintech (financial technology) start-up Doconomy began collaboration in order to offer customers a platform where they can easily use their consumer power to make a positive difference for the climate and contribute to change as part of their daily life. The Bank of Åland has also chosen to become a minority shareholder in the company. Doconomy develops the DO app, a mobile banking service enabling customers to easily track their climate impact and compensate for it, both through certified climate compensation and sustainable saving.

In July, Standard & Poor's Global Ratings revised its outlook on the Bank of Åland Plc to positive from stable. The outlook was revised based on a high probability of stronger capitalisation and profitability.

In July, the Bank of Åland became a part-owner of Dreams Nordic AB, a Swedish-based company that the Bank has worked with since 2015. At that time, the Bank of Åland was the first bank in the Nordic countries to engage in this type of cooperation with a fintech market player. Today the Bank of Åland has more than 100,000 customers in Sweden who save for their dreams in bank accounts or mutual funds via the Dreams app.

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

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, together with its customers. In 2018 the Baltic Sea Project funded a total of nine projects that combat the problem of plastics in the Baltic Sea in various ways, totalling nearly EUR

250,000. The winning project was presented in February at the Helsinki International Boat Fair and consisted of a plastic collection system that can be used to remove waste from large areas of the sea. Since 1997 the Bank of Åland has awarded nearly EUR 2 M to various environmentally related projects.

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

During 2018, the number of Series B shares outstanding increased by 36,372 as a result of the Bank's obligations within the framework of its incentive and share savings programmes.

EARNINGS FOR THE FOURTH QUARTER OF 2018

Profit for the period attributable to shareholders amounted to EUR 5.7 M (5.2). This was an increase of EUR 0.5 M or 10 per cent from the same period of last year. Net operating profit rose by EUR 0.6 M or 9 per cent to EUR 7.1 M (6.5).

Return on equity after taxes increased to 9.4 per cent (8.8).

Total income was at an unchanged level of EUR 32.3 M (32.4). The weaker Swedish krona explained SEK 0.6 M of the decrease in income when converted to euros.

Net interest income decreased by EUR 0.8 M or 6 per cent to EUR 13.3 M (14.1), which was primarily explained by lower lending interest income.

Net commission income increased by EUR 0.1 M or 1 per cent to EUR 12.7 M (12.6).

Net income on financial items rose by EUR 0.4 M or 41 per cent to EUR 1.4 M (1.0), mainly due to higher net income from foreign exchange dealing and higher capital gains in the liquidity portfolio.

Information technology (IT) income was unchanged at EUR 4.4 M (4.4).

Total expenses were at an unchanged level of EUR 25.2 M (25.3). The weaker Swedish krona lowered total expenses by EUR 0.5 M.

Net impairment losses on financial assets were a net recovery of EUR 0.1 M (net loss of 0.6), equivalent to a loan loss level of 0.00 per cent (0.06).

EARNINGS FOR JANUARY – DECEMBER 2018

Profit for the period attributable to shareholders increased by EUR 2.2 M or 11 per cent to EUR 22.9 M (20.7). Net operating profit rose by EUR 3.0 M or 11 per cent to EUR 29.0 M (26.0).

Return on equity after taxes amounted to 9.8 per cent (9.1).

Total income was at an unchanged level of EUR 127.6 M (128.0). The weaker Swedish krona resulted in EUR 2.8 M lower income when converted to euros.

Net interest income decreased by EUR 1.4 M or 2 per cent to EUR 54.5 M (55.9), despite lower borrowing expenses. Negative and falling market interest rates – mainly the 12-month Euribor – along with increased price competition, had an adverse impact on interest income from lending. Re-weighting towards lower risk in the loan portfolio also adversely affected the lending margin.

Net commission income rose by EUR 0.9 M or 2 per cent to EUR 50.6 M (49.7), primarily thanks to increased income from customers' investment transactions.

Net income on financial items rose by EUR 2.1 M or 67 per cent to EUR 5.2 M (3.1), mainly thanks to higher capital gains in the liquidity portfolio and higher net income on foreign exchange dealing.

IT income fell by EUR 1.2 M or 7 per cent to EUR 16.4 M (17.6). The decrease was due to last year's nonrecurring income of EUR 1.5 M from licence sales of Bank of Åland subsidiary Crosskey's card system in the Swedish market.

Total expenses decreased by EUR 2.0 M or 2 per cent to EUR 97.8 M (99.8), even though fees for the resolution fund increased by EUR 1.7 M to EUR 2.6 M (0.9). The fee, which the Bank of Åland began to pay in May 2017, almost doubled in 2018 for the Finnish banks that are paying it. The main explanation for this dramatic fee increase is that during 2017 Nordea and Danske Bank moved their operations in Finland to branches and in 2018 no longer paid the fee in Finland. The remaining banks instead had to pay correspondingly more. Staff costs fell by EUR 2.7 M or 5 per cent, partly due to lower severance pay expenses. IT expenses decreased by EUR 1.6 M or 13 per cent. If the SEK/EUR exchange rate had been unchanged, total expenses would have been essentially unchanged.

Net impairment losses on financial assets decreased by EUR 1.3 M or 61 per cent to EUR 0.8 M (2.1), equivalent to a loan loss level of 0.02 per cent (0.06).

Tax expenses amounted to EUR 6.1 M (5.3), equivalent to an effective tax rate of 20.9 (20.5) per cent. Higher earnings in the Swedish branch, where the tax rate is higher than in Finland, were the main explanation for the higher effective tax rate.

STRATEGIC BUSINESS AREAS

The Group's EUR 3.0 M increase in net operating profit to EUR 29.0 M during 2018 was allocated as follows:

- Private Banking — -1.6 (lower net interest income, higher expenses)
- Premium Banking — +4.3 (higher net interest income, lower loan losses)
- Asset Management — -0.3 (2018 severance pay)
- IT — +0.8 (lower expenses)
- Corporate Units & Eliminations — -0.2

BUSINESS VOLUME

Actively managed assets declined by EUR 560 M or 10 per cent compared to 2017 and totalled EUR 5,177 M (5,737) at year-end 2018. The decrease was partly due to falling market values and partly due to changes in the Swedish premium pension system that led to a decrease in fund-of-funds volume without management income. In addition, volume declined as a result of the Bank's mutual fund collaboration with FIM. Net inflow of actively managed assets during 2018 totalled EUR 190 M (506).

Deposits from the public increased by EUR 156 M or 5 per cent and amounted to EUR 3,304 M (3,148) at year-end 2018. Excluding exchange rate effects (SEK/EUR), deposits from the public increased by EUR 194 M or 6 per cent.

Receivables from the public rose by EUR 43 M or 1 per cent and amounted to EUR 4,022 M (3,979) at year-end 2018. Excluding the SEK/EUR exchange rate effect, lending increased by EUR 100 or 3 per cent.

CREDIT QUALITY

Lending to private individuals comprised 73 per cent of the loan portfolio. Home mortgage loans accounted for 78 per cent of lending to private individuals. Loans for the purchase of securities, with market-listed securities as collateral, comprised the second-largest type of lending to individuals. Loan-to-value ratios are conservative. Historically, the Bank of Åland has not had any substantial loan losses on this type of lending. The corporate portfolio has a close affinity with the retail portfolio, since many of the companies are owned by customers who, as individuals, are also Private Banking customers.

In compliance with IFRS 9, earlier individual and group impairment loss provisions have been replaced by expected Stage 1-3 loss provisions. For a majority of the Bank's receivables, provisions are made in Stage 1 and 2 according to the model. Non-performing receivables are dealt with in Stage 3 after individual assessment. Stage 3 loans increased during the report period by EUR 3.0 M to EUR 19.7 M. Stage 3 loans as a share of gross receivables from the public totalled 0.49 per cent (0.42 on January 1, 2018). The level of provisions for Stage 3 loans amounted to 47 (59) per cent.

The Bank of Åland Group had EUR 11.3 M (12.5 on January 1, 2018) in impairment loss provisions, of which EUR 0.9 M (1.5) in Stage 1; EUR 1.2 M (1.1) in Stage 2 and EUR 9.3 M (9.9) in Stage 3.

LIQUIDITY AND BORROWING

The Bank of Åland's liquidity reserve in the form of cash and deposits with the central bank, account balances and investments with other banks, liquid interest-bearing securities plus holdings of unencumbered covered bonds issued by the Bank amounted to EUR 1,195 M on December 31, 2018 (1,066 on December 31, 2017). This was equivalent to 22 (20) per cent of total assets and 30 (27) per cent of receivables from the public.

In September, the Bank of Åland issued EUR 250 M in non-covered bonds with a three-year maturity. In October, EUR 150 M in covered bonds matured. On December 31, 2018, the average remaining maturity on outstanding bonds was about 2.7 (3.2) years. During 2019, SEK 1,000 M in covered bonds will mature in March, EUR 100 M in covered bonds in June and SEK 750 M in covered bonds in December.

The Bank of Åland's core funding ratio, defined as receivables from 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 December 31.

The loan/deposit ratio amounted to 122 (126) per cent.

Of the Bank of Åland's external funding sources, deposits from the public accounted for 64 (63) per cent and covered bonds issued accounted for 22 (27) per cent.

The liquidity coverage ratio (LCR) amounted to 120 (142) per cent.

The net stable funding ratio (NSFR) amounted to 113 (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 positive 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 equity capital balance changed by EUR 3.1 M as a consequence of IFRS 9 and amounted to EUR 230.5 M on January 1, 2018. During 2018, equity capital changed in the amount of profit for the year, EUR 22.9 M; other comprehensive income, EUR -1.6 M; the issuance of new shares as part of the incentive programme, EUR 0.2 M; EUR 0.3 M related to the share savings programme; and payment to shareholders of a dividend totalling EUR -10.0 M. On December 31, 2018, equity capital amounted to EUR 242.4 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.

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

Common equity Tier 1 capital rose by EUR 6.8 M or 3 per cent during 2018 to EUR 204.4 M (197.6), mainly thanks to the comprehensive income for the period and lower provisions for expected losses due to IFRS 9. The deduction for intangible assets increased to EUR 5.1 M.

The risk exposure amount rose by EUR 37 M or 2 per cent to EUR 1,578 M (1,538). The credit risk exposure amount, excluding the risk weighting floor for home mortgage loans, fell by EUR 68 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 94 M. The operational risk exposure amount, calculated using a three-year rolling average of the Group's income, increased by EUR 11 M.

The common equity Tier 1 capital ratio amounted to 13.0 (12.9) per cent. Since the Bank of Åland has no hybrid capital, its common equity Tier 1 capital ratio is the same as its Tier 1 capital ratio.

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

The total capital ratio increased to 15.4 (14.2) per cent.

In addition to the basic capital requirement, various buffer requirements apply. These are mainly imposed by national regulatory authorities. The capital conservation buffer requirement, 2.5 per cent of common equity Tier 1 capital, applies in all European Union countries. The countercyclical capital buffer requirement may vary between 0-2.5 per cent. The decision concerning the size of a countercyclical capital buffer in Finland is made quarterly by the Board of the Financial

Supervisory Authority (FSA) on the basis of a macroeconomic stability analysis. So far, the FSA has not imposed any countercyclical buffer requirement related to Finnish exposures. As for Sweden, the Swedish FSA has set the requirement at 2.5 per cent of Swedish exposures. The Finnish FSA has identified systemically important institutions in Finland and has imposed individual buffer requirements for them. The Bank of Åland is not included in the buffer requirements for systemically important institutions.
Because of Nordea's move of its head office from Sweden to Finland, the Board of the Finnish FSA has decided that starting on July 1, 2019 it will introduce a systemic risk buffer for all credit institutions. The purpose of the buffer is to strengthen the risk tolerance of all credit institutions to structural systemic risks. For the Bank of Åland, a buffer requirement of 1.0 per cent applies. This requirement must be covered by common equity Tier 1 capital.

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

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

- Common equity Tier 1 capital ratio 10.7 per cent
- Tier 1 capital ratio 12.2 per cent
- Total capital ratio 14.2 per cent

DIVIDEND

The Board of Directors proposes that the Annual General Meeting approve the payment of a dividend of EUR 0.70 per share (0.65), equivalent to a total amount of EUR 10.8 M (10.0). The proposed dividend is equivalent to a 47 (48) per cent payout ratio.

IMPORTANT EVENTS AFTER CLOSE OF REPORT PERIOD

No important events have occurred after the close of the report period.

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.

FUTURE OUTLOOK

The Bank of Åland expects its net operating profit in 2019 to be at about the same level as in 2018.

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.

GENERAL MEETING

The Annual General Meeting will be held on April 3, 2019.

FINANCIAL INFORMATION

The Annual Report for 2018 will be published on Friday, March 1, 2019. The corporate governance statement and the risk report (Pillar 3) are included in the Annual Report.

The Interim Report for January–March 2019 will be published on Thursday, April 25, 2019.

The Half-year Financial Report for January–June 2019 will be published on Thursday, July 18, 2019.

The Interim Report for January–September 2018 will be published on Wednesday, October 23, 2019.

This Year-end Report is unaudited.

Mariehamn, February 8, 2019
THE BOARD OF DIRECTORS

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NOTES

Summary income statement

Group	Note	Q4 2018	Q3 2018	%	Q4 2017	%	Jan-Dec 2018	Jan-Dec 2017	%
EUR M									
Net interest income	6	13.3	13.3	0	14.1	-6	54.5	55.9	-2
Net commission income	7	12.7	12.1	5	12.6	1	50.6	49.7	2
Net income from financial items	8	1.4	0.6		1.0	41	5.2	3.1	67
IT income		4.4	3.8	15	4.4	1	16.4	17.6	-7
Other operating income		0.4	0.2	89	0.3	58	1.0	1.6	-38
Total income		**32.3**	**30.0**	**7**	**32.4**	**0**	**127.6**	**128.0**	**0**
Staff costs		-14.3	-13.2	8	-14.9	-4	-57.1	-59.8	-5
Other expenses	9	-9.2	-7.7	20	-8.5	8	-33.4	-32.9	2
Depreciation/amortisation		-1.8	-1.8	0	-1.9	-3	-7.3	-7.1	3
Total expenses		**-25.2**	**-22.7**	**11**	**-25.3**	**0**	**-97.8**	**-99.8**	**-2**
Profit before impairment losses		**7.0**	**7.3**	**-4**	**7.1**	**-2**	**29.8**	**28.2**	**6**
Net impairment losses on financial assets	10	0.1	-0.3		-0.6		-0.8	-2.1	-61
Net operating profit		**7.1**	**7.0**	**1**	**6.5**	**9**	**29.0**	**26.0**	**11**
Income taxes		-1.4	-1.5	-5	-1.3	4	-6.1	-5.3	14
Profit for the period		**5.7**	**5.6**	**2**	**5.2**	**10**	**22.9**	**20.7**	**11**
Attributable to:									
Non-controlling interests		0.0	0.0		0.0		0.0	0.0	-65
Shareholders in Bank of Åland Plc		**5.7**	**5.6**	**2**	**5.2**	**10**	**22.9**	**20.7**	**11**
Earnings per share, EUR		0.37	0.36	2	0.34	9	1.48	1.35	10
Earnings per share after dilution, EUR		0.37	0.36	2	0.34	8	1.48	1.34	10

Summary statement of other comprehensive income

Group	Q4 2018	Q3 2018	%	Q4 2017	%	Jan-Dec 2018	Jan-Dec 2017	%
EUR M								
Profit for the period	**5.7**	**5.6**	**2**	**5.2**	**10**	**22.9**	**20.7**	**11**
Cash flow hedge								
Gains/Losses arising during the period				3.5	-100	0.1	7.8	-98
Transferred to the income statement				-3.5	-100	-0.1	-7.6	-99
Assets available for sale								
Gains/Losses arising during the period	-1.0	-0.1		0.1		-1.8	0.1	
Realised changes in value						0.0		
Transferred to the income statement	-0.2	0.0		0.0		-0.8	0.0	
Translation differences								
Gains/Losses arising during the period	0.3	0.8	-60	0.2		0.7	0.1	
of which hedging of net investment in foreign operations				1.1	-100	2.6	1.6	60
Taxes on items that have been or may be reclassified to the income statement	0.2	0.0		-0.2		0.0	-0.4	-97
of which cash flow hedges				0.0	-100	0.0	0.0	-66
of which assets available for sale	0.2	0.0		0.0		0.5	0.0	
of which hedging of net investments in foreign operations				-0.2	-100	-0.5	-0.3	60
Items that have been or may be reclassified to the income statement	**-0.6**	**0.7**		**0.0**		**-1.9**	**0.0**	
Changes in value of equity instruments	0.1	0.0		0.0		0.0	0.0	-35
Re-measurements of defined benefit pension plans	-0.1	0.7		-2.6	-95	0.4	-1.6	
Taxes on items that may not be reclassified to the income statement	0.0	-0.1		0.5	-98	-0.1	0.3	
of which changes in value of equity instruments	0.0	0.0		0.0		0.0	0.0	-35
of which re-measurements of defined-benefit pension plans	0.0	-0.1		0.5	-95	-0.1	0.3	
Items that may not be reclassified to the income statement	**0.0**	**0.6**		**-2.1**	**-98**	**0.3**	**-1.3**	
Other comprehensive income	**-0.6**	**1.2**		**-2.1**	**-69**	**-1.5**	**-1.3**	**21**
Total comprehensive income for the period	**5.0**	**6.8**	**-26**	**3.1**	**62**	**21.4**	**19.4**	**10**
Attributable to:								
Non-controlling interests	0.0	0.0		0.0		0.0	0.0	-65
Shareholders in Bank of Åland Plc	**5.1**	**6.8**	**-25**	**3.1**	**62**	**21.4**	**19.4**	**10**

Income statement by quarter

Group	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
EUR M					
Net interest income	13.3	13.3	13.8	14.1	14.1
Net commission income	12.7	12.1	12.6	13.2	12.6
Net income from financial items	1.4	0.6	1.7	1.5	1.0
IT income	4.4	3.8	4.1	4.0	4.4
Other operating income	0.4	0.2	0.2	0.1	0.3
Total income	**32.3**	**30.0**	**32.5**	**32.9**	**32.4**
Staff costs	-14.3	-13.2	-14.5	-15.1	-14.9
Other expenses	-9.2	-7.7	-8.3	-8.4	-8.5
Depreciation/amortisation	-1.8	-1.8	-1.8	-1.9	-1.9
Total expenses	**-25.2**	**-22.7**	**-24.5**	**-25.3**	**-25.3**
Profit before impairment losses	**7.0**	**7.3**	**8.0**	**7.6**	**7.1**
Net impairment losses on financial assets	0.1	-0.3	-0.5	-0.2	-0.6
Net operating profit	**7.1**	**7.0**	**7.5**	**7.4**	**6.5**
Income taxes	-1.4	-1.5	-1.6	-1.6	-1.3
Profit for the period	**5.7**	**5.6**	**5.9**	**5.8**	**5.2**
Attributable to:					
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Shareholders in Bank of Åland Plc	**5.7**	**5.6**	**5.9**	**5.8**	**5.2**

Summary balance sheet

Group	Note	Dec 31, 2018	Jan 1, 2018	Dec 31, 2017	%
EUR M					
Assets					
Cash and balances with central banks		507	524	524	-3
Debt securities eligible for refinancing with central banks		815	634	634	29
Receivables from credit institutions		80	93	93	-14
Receivables from the public and public sector entities	11, 12	4,022	3,975	3,979	1
Shares and participations		3	1	1	
Participations in associated companies		0	0	0	28
Derivative instruments[1]	15	15	21	21	-28
Intangible assets		22	17	17	25
Tangible assets		22	24	24	-7
Investment properties		0	0	0	-3
Current tax assets		1	1	1	38
Deferred tax assets		5	6	5	6
Other assets		44	32	32	39
Accrued income and prepayments[1]		21	22	22	-3
Total assets		**5,558**	**5,350**	**5,352**	**4**
Liabilities					
Liabilities to credit institutions		250	206	206	21
Liabilities to the public and public sector entities	13	3,304	3,148	3,148	5
Debt securities issued	13, 14	1,588	1,600	1,600	-1
Derivative instruments[1]	15	8	23	23	-64
Current tax liabilities		2	0	0	
Deferred tax liabilities		28	25	25	11
Other liabilities		57	50	50	14
Provisions		0	1	1	-81
Accrued expenses and prepaid income[1]		31	33	33	-5
Subordinated liabilities	13	47	33	33	42
Total liabilities		**5,315**	**5,119**	**5,119**	**4**
Equity capital and non-controlling interests					
Share capital		42	42	42	0
Share premium account		33	33	33	
Reserve fund		25	25	25	
Fair value reserve		-1	1	1	
Unrestricted equity capital fund		27	27	27	1
Retained earnings		116	102	106	10
Shareholders´ portion of equity capital		**242**	**231**	**234**	**4**
Non-controlling interests´ portion of equity capital		0	0	0	3
Total equity capital		**242**	**231**	**234**	**4**
Total liabilities and equity capital		**5,558**	**5,350**	**5,352**	**4**

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								20.7	20.7	0.0	20.7
Other comprehensive income				0.1	0.1	-0.2		-1.3	-1.3		-1.3
Transactions with the Group's owners											
Dividends paid								-9.2	-9.2		-9.2
Incentive programme	0.2						0.6	0.0	0.8		0.8
Share savings programme	0.1						0.3	0.4	0.8		0.8
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								22.9	22.9	0.0	22.9
Other comprehensive income				0.0	-2.1	0.2		0.3	-1.5		-1.5
Transactions with the Group's owners											
Dividends paid								-10.0	-10.0		-10.0
Incentive programme	0.0						0.1	0.0	0.2		0.2
Share savings programme								0.3	0.3		0.3
Equity capital, Dec 31, 2018	**42.0**	**32.7**	**25.1**	**0.0**	**-0.1**	**-0.4**	**27.1**	**116.0**	**242.4**	**0.0**	**242.4**

Summary cash flow statement

Group	Jan-Dec 2018		Jan-Dec 2017	
EUR M				
Cash flow from operating activities				
Net operating profit	29.0		26.0	
Adjustment for net operating profit items not affecting cash flow	12.6		12.9	
Gains/losses from investing activities	-0.1		0.0	
Income taxes paid	-1.1		-2.5	
Changes in assets and liabilities in operating activities	-124.4	-84.0	-171.0	-134.6
Cash flow from investing activities		-11.9		-7.6
Cash flow from financing activities		54.3		152.2
Exchange rate differences in cash and cash equivalents		-3.7		-2.9
Change in cash and cash equivalents		**-45.3**		**7.1**
Cash and cash equivalents at beginning of period		586.4		579.2
Cash and cash equivalents at end of period		541.0		586.4
Change in cash and cash equivalents		**-45.3**		**7.1**

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–December 31, 2018 was approved by the Board of Directors on February 7, 2019.

2. Basis for preparation of the Interim Report and essential accounting principles

BASIS FOR PREPARATION OF THE INTERIM REPORT

This Year-end Report for the period January 1–December 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 Year-end Report does not contain all information and notes required in annual financial statements and should be read together with the consolidated financial statements for the year ending December 31, 2017.

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

ESSENTIAL ACCOUNTING PRINCIPLES

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

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

The new rules about hedge accounting include simplifications of effectiveness testing and a broadening of the range of permitted hedging instruments and hedged items. Instead of applying IFRS 9 to hedge accounting, the Bank of Åland has chosen to continue applying the rules in IAS 39.

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.

Investments in equity instruments do not pass the SPPI test and the Bank of Åland has chosen to classify some at fair value via other comprehensive income.

As for the portions concerning financial liabilities, most of the principles coincide with the earlier IAS 39 rules, except for financial liabilities that are voluntarily measured at fair value according to the "fair value option" (FVO). For these liabilities, the change in value will be divided between changes attributable to own credit risk and changes in a benchmark interest rate. Changes in fair value due to changes in own credit risk are reported under other comprehensive income.

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 level of provisions according to the new impairment model is based on a broad range of relevant incoming data, assumptions and estimates from the Executive Team. In particular, the following points may have a major influence on the level of provisions: determination of a significant increase in credit risk, forecasts of future macroeconomic scenarios and methodology for calculating both expected loan loss within the next 12 months and estimated loan losses during the entire life of loans.

When calculating impairment losses, the Bank of Åland divides its exposures into three stages. Stage 1 consists of exposures that are performing without any significant increase in credit risk regarded as having occurred. Exposures that are under-performing and are regarded as having undergone a significant change in credit risk are placed in Stage 2. Exposures in Stage 3 fulfil the Bank of Åland's definition of non-performing, with an exposure regarded as non-performing when a payment related to a significant amount is more than 90 days late. Other situations where the Bank of Åland considers a credit exposure non-performing are when the Bank honours a bank guarantee, the counterparty is declared bankrupt or it applies for debt restructuring. In addition, the Bank assesses whether there are other reasons why a counterparty should be considered insolvent, which always includes cases where the Bank expands its forbearance measures for a customer.

By definition, a loan loss provision for Stage 2 or Stage 3 is based on lifetime loan losses, but they differ since Stage 3 exposures always undergo an individual impairment test. For backward transitions to better stages, the Bank applies cooling off periods. For exposures in Stage 2 it applies a six month period and for loans in Stage 3 it applies a two month cooling off period. For exposures with forbearance, the Bank applies a cooling off period of 24 months before the exposure can revert to Stage 1, assuming that forbearance measures are no longer in place.

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 for estimating expected loan losses on all exposures. These estimates are based on internally developed models (PD, LGD and EAD), which take into account both historical data and probability-weighted forward-looking scenarios.

The 12-month probability of default (PD) refers to the probability that a given commitment will default within 12 months, while lifetime PD (for remaining maturity) refers to the probability that a given commitment will default during the entire remaining life of the financial asset. The PD model is based on historical data, existing conditions on the closing date of the report period as well as future economic conditions that affect credit risk. Loss given default (LGD) is stated per commitment and is an estimate of the expected loss that the Bank of Åland will incur, assuming that the commitment defaults. The Bank's LGD model is based on historical data. Exposures at default (EAD) refers to an estimated loan exposure on a future default date, taking into account future changes in credit exposure on the closing date. The Bank of Åland's EAD model takes into account such factors as current contractual terms, assumptions about the fulfilment of guarantees, expected utilisation of credit limits and irrevocable off-balance sheet obligations.

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" replaced earlier revenue standards on January 1, 2018. The standard introduces a five-step model for determining how and when revenue should be recognised. The revenue standard also establishes expanded disclosure requirements. Aside from expanded disclosure requirements, its introduction had no impact on the Bank of Åland's financial reports.

COMING CHANGES

IFRS 16, "Leases" (which 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 removes the requirement that lessees must distinguish between finance and operational leases and requires lessees to report a "right-of-use" asset and a lease liability for most leases in the balance sheet. In the income statement, rent expenses are replaced by depreciation of the assets and interest expenses for the lease liability.

This accounting model resembles the current treatment of finance leases according to IAS 17. The Bank of Åland has chosen to apply the exemption found in IFRS 16, under which leases running for 12 months or less or leases of low-value assets will be recognised as expenses in the income statement. The lessor's accounting is essentially equivalent to the current treatment according to IAS 17.

Due to the introduction of IFRS 16, tangible assets related to right-of-use will increase by about EUR 15 M and the risk exposure amount will increase by the equivalent amount. The Bank of Åland is applying the modified retrospective approach, which means that the cumulative effect of the transition to IFRS 16 will be recognised as an adjustment to the opening balance of equity on January 1, 2019. No comparative figures will be restated. The most significant identified effect is that the Bank of Åland will need to report new assets and liabilities for its operational leases related to banking and office premises. Lease liabilities are initially being calculated upon the transition to IFRS 16 at the present value of remaining lease payments discounted using the incremental borrowing rate on the introductory date of January 1, 2019. Right-of-use assets will initially be recognised at an amount equal to the lease liability. On December 31, 2018, the Group's future minimum lease payments and non-cancellable operational leases amounted to EUR 8.6 M on an undiscounted basis.

IFRIC 23, "Uncertainty over Income Tax Treatments": This interpretation deals with how uncertainty regarding income tax amounts should be reported, for example how to report an existing deferred tax asset when the amount has been appealed and a discussion with a tax authority is under way. IAS 12, "Income Taxes" deals with reporting and measuring deferred tax assets and liabilities, but not how uncertainties regarding amounts should be treated. According to IASB, application will occur starting on January 1, 2019. The interpretation is not expected to have any impact on the Bank of Åland'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 (IFRS) 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 9.

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			
Category	Assets available for sale	Assets held for trading	Hedge accounting	Other	Assets held to maturity	Loans and accounts receivable	Other	Total recognised value
EUR M								
Assets								
Cash						524		524
Debt certificates eligible for refinancing with central banks	415		70	10	139			634
Receivables from credit institutions						93		93
Receivables from 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				
Category	Restatement due to IFRS 9	Assets held to maturity and available for sale	Hedge accounting	Assets held for trading	Hedge accounting	Other	Assets held to maturity	Loans and accounts receivable	Hedge accounting	Other	Total recognised value
EUR M											
Assets											
Cash								524			524
Debt certificates eligible for refinancing with central	0	415	70	10			139				634
Receivables from credit institutions								93			93
Receivables from the public	-4							3,888	87		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**	**70**	**17**	**15**		**139**	**4,505**	**87**	**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**	**16**				**763**	**4,251**	**5,036**

Transitional effects that have arisen concerning impairment in connection with the transition to IFRS 9.

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
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
Construction	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.2
Other industry and crafts	0.0		0.0	0.1	0.0	0.1	0.0	0.1
Total, companies	**0.2**	**3.2**	**3.4**	**0.5**	**0.3**	**0.2**	**3.4**	**3.9**
Public sector and non-profit organisations				0.0	0.0	0.0		0.0
Total, public sector and non-profit organisations				**0.0**	**0.0**	**0.0**		**0.0**
Total provisions	**1.9**	**8.5**	**10.4**	**2.1**	**1.5**	**1.1**	**9.9**	**12.5**
Debt securities				0.1	0.1			0.1
Off-balance sheet items				0.2	0.1	0.0	0.1	0.2
Total	**1.9**	**8.5**	**10.4**	**2.4**	**1.7**	**1.1**	**10.0**	**12.8**

4. Segment report

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

"Private Banking" encompasses Private Banking operations in Åland, on the Finnish mainland and in Sweden. "Premium Banking" encompasses operations in all customer segments excluding private banking in Åland, on the Finnish mainland and in Sweden. "Asset Management" encompasses Ålandsbanken Fondbolag Ab, Ålandsbanken Fonder Ab, Ålandsbanken Fonder II 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-Dec 2018				
EUR M	Private Banking	Premium Banking	Asset Management	IT	Corporate and Other	Eliminations	Total
Net interest income	24.6	26.4	0.0	-0.1	3.6	0.0	54.5
Net commission income	28.1	11.9	10.0	-0.1	0.5	0.2	50.6
Net income from financial items	2.0	0.5	0.0	0.0	2.8	0.0	5.2
IT income				32.5		-16.1	16.4
Other income	0.1	0.2	0.2	0.5	1.5	-1.5	1.0
Total income	**54.8**	**39.0**	**10.1**	**32.8**	**8.3**	**-17.4**	**127.6**
Staff costs	-10.4	-6.5	-4.9	-16.1	-19.1	0.0	-57.1
Other expenses	-6.2	-4.7	-2.2	-11.7	-23.1	14.5	-33.4
Depreciation/amortisation	-0.2	-0.4	0.0	-3.1	-5.4	1.8	-7.3
Internal allocation of expenses	-20.4	-17.1	-1.6		39.1		0.0
Total expenses	**-37.3**	**-28.7**	**-8.7**	**-30.9**	**-8.5**	**16.2**	**-97.8**
Profit before impairment losses	**17.5**	**10.2**	**1.4**	**1.9**	**-0.2**	**-1.1**	**29.8**
Net impairment losses on financial assets	0.1	-0.4			-0.6	0.0	-0.8
Net operating profit	**17.7**	**9.9**	**1.4**	**1.9**	**-0.7**	**-1.1**	**29.0**
Income taxes	-3.6	-2.0	-0.3	-0.4	0.2		-6.1
Profit for the period attributable to shareholders	**14.0**	**7.8**	**1.1**	**1.6**	**-0.5**	**-1.1**	**22.9**
Business volume							
Receivables from the public	1,739	2,280			25	-22	4,022
Deposits from the public	1,717	1,551	13		45	-22	3,304
Actively managed assets	3,107	325	5,177		1	-3,434	5,177
Risk exposure amount	625	645	45	43	220		1,578
Equity capital	75	91	7	14	55	0	242
Financial ratios etc.							
Return on equity after taxes, % (ROE)	18.0	8.7	17.9	12.2	-1.1		9.8
Expense/income ratio	0.68	0.74	0.86	0.94	1.02		0.77

Group			Jan-Dec 2017				
EUR M	**Private Banking**	**Premium Banking**	**Asset Management**	**IT**	**Corporate and Other**	**Eliminations**	**Total**
Net interest income	26.5	24.7	0.0	-0.1	4.8	0.0	55.9
Net commission income	28.2	11.7	9.8	-0.1	-0.1	0.2	49.7
Net income from financial items	0.8	0.6	0.1	-0.1	1.7	0.0	3.1
IT income				33.3		-15.6	17.6
Other income	0.2	0.0	0.0	0.5	1.7	-0.8	1.6
Total income	**55.6**	**37.1**	**9.8**	**33.5**	**8.1**	**-16.2**	**128.0**
Staff costs	-11.1	-7.0	-4.9	-16.3	-20.6		-59.8
Other expenses	-5.4	-4.3	-1.8	-12.5	-22.5	13.6	-32.9
Depreciation/amortisation	-0.2	-0.7	0.0	-3.4	-4.4	1.6	-7.1
Internal allocation of expenses	-19.7	-17.3	-1.4		38.4		0.0
Total expenses	**-36.4**	**-29.3**	**-8.1**	**-32.1**	**-9.1**	**15.2**	**-99.8**
Profit before impairment losses	**19.2**	**7.9**	**1.7**	**1.4**	**-1.0**	**-1.0**	**28.2**
Net impairment losses on financial assets	0.1	-2.3			0.0	0.0	-2.1
Net operating profit	**19.3**	**5.6**	**1.7**	**1.4**	**-1.0**	**-1.0**	**26.0**
Income taxes	-4.0	-1.2	-0.4	-0.3	0.4		-5.3
Profit for the period attributable to shareholders	**15.4**	**4.5**	**1.4**	**1.1**	**-0.6**	**-1.0**	**20.7**
Business volume							
Receivables from the public	1,789	2,181			30	-22	3,979
Deposits from the public	1,664	1,466	1		25	-9	3,148
Actively managed assets	3,081	340	5,737		0	-3,421	5,737
Risk exposure amount	653	620	11	44	209		1,538
Equity capital	73	86	2	11	61		234
Financial ratios etc.							
Return on equity after taxes, % (ROE)	20.8	5.1	81.3	10.0	-1.0		9.1
Expense/income ratio	0.65	0.79	0.83	0.96	1.12		0.78

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

5. Changes in Group structure

During 2018, the Finnish-based Ålandsbanken Fonder Ab and Ålandsbanken Fonder II Ab were established. Both are wholly owned subsidiaries of Ålandsbanken Fondbolag Ab, the Bank's fund management subsidiary.

6. Net interest income

Group	Q4 2018	Q3 2018	%	Q4 2017	%	Jan-Dec 2018	Jan-Dec 2017	%
EUR M								
Receivables from credit institutions and central banks	-0.2	-0.2	-10	-0.2	-2	-0.9	-1.0	-12
of which negative interest	-0.3	-0.3	19	-0.3	-1	-1.1	-1.3	-11
Receivables from the public and public sector entities	14.9	15.3	-3	16.0	-7	61.9	63.7	-3
of which negative interest	-0,0	-0,0	20	-0,0	40	-0,0	-0,0	61
Debt securities	0.2	0.2	1	0.2	-20	0.7	0.9	-23
Derivatives	0.1	0.1	4	0.2	-26	0.6	1.0	-32
Other interest income	0.0	0.0		0.0		0.0	0.0	-1
Total interest income	**15.0**	**15.4**	**-3**	**16.1**	**-7**	**62.3**	**64.5**	**-3**
of which negative interest	-0.3	-0.3	19	-0.3	0	-1.2	-1.3	-10
Liabilities to credit institutions and central banks	-0.1	-0.1	-8	-0.1	4	-0.5	-0.5	11
of which negative interest	-0.1	-0.1	0	-0.1	9	-0.6	-0.5	11
Liabilities to the public	0.6	0.9	-35	0.9	-29	3.3	3.8	-13
of which negative interest	-0.1	-0.1	34	-0.1	91	-0.4	-0.1	
Debt securities issued	0.7	0.7	-4	0.7	-5	2.8	3.3	-17
of which negative interest	-0.1	-0.1	-9	-0.1	17	-0.5	-0.4	30
Subordinated liabilities	0.3	0.3	-1	0.2	36	1.2	1.0	21
Derivatives	0.2	0.2	2	0.3	-28	1.0	1.0	4
Other interest expenses	0.0	0.0	-4	0.0	-21	0.1	0.1	-29
Total interest expenses	**1.7**	**2.1**	-17	**2.0**	-14	7.8	8.6	-10
of which negative interest	-0.4	-0.4	6	-0.3	30	-1.4	-1.0	49
Net interest income	**13.3**	**13.3**	**0**	**14.1**	**-6**	**54.5**	**55.9**	**-2**
Interest margin, per cent	0.98	1.01		1.09		1.04	1.08	
Investment margin, per cent	0.95	0.98		1.04		1.01	1.05	

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	Q4 2018	Q3 2018	%	Q4 2017	%	Jan-Dec 2018	Jan-Dec 2017	%
EUR M								
Deposits	0.2	0.2	-8	0.2	7	0.8	0.8	3
Lending	0.8	0.7	12	0.9	-10	3.0	3.5	-14
Payment intermediation	1.7	1.8	-4	1.7	4	6.9	6.4	8
Mutual fund commissions	9.9	10.5	-6	11.2	-12	41.3	33.4	24
Management commissions	2.7	3.0	-9	2.8	-2	11.3	11.0	2
Securities commissions	2.9	2.0	42	2.8	2	11.7	11.7	0
Other commission income	1.1	0.9	23	0.8	28	3.7	3.4	8
Total commission income	**19.3**	**19.1**	**1**	**20.4**	**-5**	**78.5**	**70.2**	**12**
Payment commission expenses	-1.0	-1.0	4	-0.9	16	-4.0	-3.8	7
Mutual fund commission expenses	-4.8	-5.2	-8	-5.8	-17	-20.6	-12.7	62
Management commission expenses	-0.2	-0.3	-25	-0.2	0	-0.9	-0.7	28
Securities commission expenses	-0.4	-0.4	-8	-0.7	-50	-1.8	-2.4	-25
Other commission expenses	-0.2	-0.2	11	-0.2	1	-0.7	-0.8	-21
Total commission expenses	**-6.6**	**-7.1**	**-7**	**-7.8**	**-15**	**-28.0**	**-20.4**	**37**
Net commission income	**12.7**	**12.1**	**5**	**12.6**	**1**	**50.6**	**49.7**	**2**

8. Net income from financial items

Group	Q4 2018	Q3 2018	%	Q4 2017	%	Jan-Dec 2018	Jan-Dec 2017	%
EUR M								
Valuation category fair value via the income statement ("profit and losses")								
Debt securities		0.0	-100	0.0	-100	-0.1	-0.2	-33
Shares and participations				0.0	-100		0.1	-100
Derivative instruments	0.0	0.0		0.2	-98	0.0	0.9	
Loan receivables[1]				-0.2	-100		-1.3	-100
Valuation category fair value via the income statement ("profit and losses")	**0.0**	**0.0**		**-0.1**		**-0.1**	**-0.5**	**-78**
Hedge accounting								
of which hedging instruments[1]	2.9	-2.3		-1.5		0.0	-6.7	
of which hedged item[1]	-2.8	2.2		1.6		0.4	7.3	-94
Hedge accounting[1]	**0.2**	**-0.1**		**0.1**	**82**	**0.4**	**0.6**	**-30**
Net income from foreign exchange dealing	**1.2**	**0.7**	**69**	**1.0**	**19**	**4.1**	**3.0**	**36**
Net income from financial assets	**0.1**	**0.0**		**0.0**		**0.8**	**0.0**	
Total	**1.4**	**0.6**		**1.0**	**41**	**5.2**	**3.1**	**67**

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.

9. Other expenses

Group	Q4 2018	Q3 2018	%	Q4 2017	%	Jan-Dec 2018	Jan-Dec 2017	%
EUR M								
IT expenses (excluding market data)	2.9	2.5	16	3.1	-6	10.9	12.5	-13
Premises and property expenses	1.3	1.2	6	1.4	-6	5.2	5.6	-6
Marketing expenses	0.7	0.4	68	0.5	27	2.2	2.1	5
Market data	0.6	0.6	-8	0.6	-6	2.3	2.2	6
Staff-related expenses	0.7	0.4	59	0.7	-1	2.1	2.4	-11
Travel expenses	0.4	0.2	64	0.4	-7	1.2	1.3	-10
Purchased services	0.8	0.5	44	0.7	10	2.2	2.3	-5
Guarantee fee[1]	0.0			0.0		0.0	0.0	
Stability fee	0.6	0.6	0	0.3	83	2.6	0.9	
Other expenses	2.0	1.5	29	1.6	23	7.0	6.5	7
Production for own use	-0.8	-0.5	62	-0.9	-13	-2.3	-3.0	-23
Total	**9.2**	**7.7**	**20**	**8.5**	**8**	**33.4**	**32.9**	**2**

1. Guarantee fees include the deposit guarantee fee and investor compensation fund fee.

10. Net impairment losses on financial assets

Group	Q4 2018	Q3 2018	%	Jan-Dec 2018
EUR M				
Changes in amortised cost				
Provisions - Stage 1	0.0	-0.3		-0.6
Provisions - Stage 2	-0.1	0.0		0.1
Provisions - Stage 3	0.2	0.5	-66	-0.6
Total	**0.1**	**0.2**	**-41**	**-1.2**
Actual losses for the period	0.1	0.2	-40	2.4
Recoveries of actual losses for the period	-0.2	-0.1	74	-0.3
Total	**-0.1**	**0.1**		**2.1**
Total changes in amortised cost	**0.0**	**0.3**	**-84**	**1.0**
Loan loss level, %	0.00	0.03	-84	0.03
Off-balance sheet items				
Provisions - Stage 1	0.0	0.0	-88	0.0
Provisions - Stage 2	0.0	0.0		0.0
Provisions - Stage 3	-0.1	0.0		-0.2
Total	**-0.1**	**0.0**		**-0.2**
Actual losses for the period				
Total off-balance sheet items	**-0.1**	**0.0**		**-0.2**
Debt instruments				
Provisions - Stage 1	0.0	0.0	-17	0.1
Provisions - Stage 2				
Provisions - Stage 3				
Total	**0.0**	**0.0**	**-17**	**0.1**
Actual losses for the period				
Total debt instruments	**0.0**	**0.0**	**-17**	**0.1**
Total loan losses	**-0.1**	**0.3**		**0.8**

11. Receivables from the public and public sector by purpose

Group	Dec 31, 2018			Dec 31, 2017	
EUR M	Receivables before provisions	Provisions	Receivables after provisions	Receivables after provisions	%
Private individuals					
Home loans	2,292	-4	2,287	2,224	3
Securities and other investments	309	0	309	308	0
Business operations	114	-2	112	120	-7
Other household purposes	231	-3	229	213	7
Total, private individuals	**2,946**	**-9**	**2,937**	**2,865**	**3**
Companies					
Shipping	59	0	59	48	23
Wholesale and retail trade	46	0	46	41	13
Housing operations	301	0	301	327	-8
Other real estate operations	197	0	196	253	-22
Financial and insurance operations	231	0	231	198	17
Hotel and restaurant operations	28	0	28	26	11
Other service operations	84	-1	84	95	-12
Agriculture, forestry and fishing	11	0	11	11	5
Construction	57	0	57	43	33
Other industry and crafts	37	0	37	41	-10
Total, companies	**1,052**	**-2**	**1,050**	**1,081**	**-3**
Public sector and non-profit organisations	35	0	35	32	7
Total, public sector and non-profit organisations	**35**	**0**	**35**	**32**	**7**
Total	**4,033**	**-11**	**4,022**	**3,979**	**1**

12. Receivables from the public and public sector by stage

Group	Stage 1	Stage 2	Stage 3	Total
EUR M				
Carrying amount, gross				
Opening balance, January 1, 2018	3,798.2	172.7	16.7	3,987.6
Closing balance, December 31, 2018	3,847.5	165.7	19.7	4,033.0
Provisions for expected losses				
Opening balance, January 1, 2018	**1.5**	**1.1**	**9.9**	**12.5**
Increases due to issuances and acquisitions	0.3	0.0	0.2	0.5
Decrease due to removal from report on financial position	-0.1	-0.2	-2.4	-2.7
Net changes due to changed credit risk	-0.4	0.8	1.3	1.6
Transfer to Stage 1	0.5	-0.5	0.0	0.0
Transfer to Stage 2	-0.2	0.7	-0.4	0.0
Transfer to Stage 3	0.0	-0.7	0.7	0.0
Net changes due to changed estimation method	-0.6	0.0	0.1	-0.6
Currency rate effect	0.0	0.0	0.0	0.0
Closing balance, December 31, 2018	**0.9**	**1.2**	**9.3**	**11.3**
Carrying amount, net				
Opening balance, January 1, 2018	3,796.7	171.6	6.8	3,975.1
Closing balance, December 31, 2018	3,846.7	164.6	10.4	4,021.7

Impairment losses, IFRS 9 - Financial ratios	**December 31, 2018**	**September 30, 2018**	**January 1, 2018**
Total provision ratio, receivables from the public, %	0.28	0.28	0.31
Provision ratio, Stage 1, receivables from the public, %	0.02	0.02	0.04
Provision ratio, Stage 2, receivables from the public, %	0.71	0.77	0.65
Provision ratio, Stage 3, receivables from the public, %	47	40	59
Share of receivables from the public in Stage 3, %	0.49	0.57	0.42

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

Group	Dec 31, 2018	Dec 31, 2017	%
EUR M			
Deposit accounts from the public and public sector			
Demand deposits	3,103	2,749	13
Time deposits	200	399	-50
Total deposit accounts	**3,304**	**3,148**	**5**
Certificates of deposit issued to the public [1]	1	7	-79
Index bonds (structured products)		10	-100
Subordinate debentures [1]	27	33	42
Total bonds and certificates of deposit	**29**	**49**	**-41**
Total deposits	**3,332**	**3,197**	**4**

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

14. Debt securities issued

Group	Dec 31, 2018	Dec 31, 2017	%
EUR M			
Certificates of deposit	121	158	-23
Covered bonds	1,117	1,332	-16
Senior non-covered bonds	350	100	
Index bonds (structured products)		10	-100
Total	**1,588**	**1,600**	**-1**

15. Derivative instruments

Group	Dec 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		34	22	55	2	3	94	2	3
Currency-related contracts									
Currency forward contracts	383			383	1	1	492	4	4
Equity-related contracts									
Equity options - purchased							5	1	
Equity options - written							4		1
Other derivative contracts							8		
Total	**383**	**34**	**22**	**438**	**3**	**3**	**603**	**7**	**8**
Derivatives for market value hedge									
Interest-related contracts									
Interest rate swaps	105	870	78	1,053	12	5	771	15	7
Total	**105**	**870**	**78**	**1,053**	**12**	**5**	**771**	**15**	**7**
Derivatives for cash flow hedge									
Interest-related contracts									
Interest rate and currency swaps							51		7
Total							**51**		**7**
Derivatives for hedging of net investment in foreign operations									
Currency-related contracts									
Currency swaps							55		0
Total							**55**		**0**
Total derivative instruments	**488**	**903**	**100**	**1,491**	**15**	**8**	**1,479**	**21**	**23**
of which cleared OTC									
of which cleared by other means	105	900	97	1,102	13	7	855	15	10

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

16. Financial instruments at fair value

Group	Dec 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	626			626
Receivables from the public and public sector entities[1]		100		100
Shares and participations	0	0	3	3
Derivative instruments[2]		15		15
Total financial assets	**626**	**115**	**3**	**744**
Liabilities to the public and public sector entities				
Debt securities issued		953		953
Derivative instruments[2]		8		8
Subordinated liabilities		2		2
Total financial liabilities		**964**		**964**

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
Receivables from the public and public sector entities[1]		88		88
Shares and participations	0	0	1	1
Derivative instruments[2]	0	21		21
Total financial assets	**495**	**108**	**1**	**605**
Liabilities to the public and public sector entities				
Debt securities issued		755		755
Derivative instruments[2]		23		23
Subordinated liabilities		8		8
Total financial liabilities		**785**		**785**

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

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

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

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

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

Changes in Level 3 are presented in a separate table.

Changes in Level 3 holdings	Jan-Dec 2018
EUR M	Shares and participations
Carrying amount on January 1	0.5
New purchases/reclassification	2.1
Divested/reached maturity during the year	-0.1
Change in value recognised in "Other comprehensive income"	0.0
Carrying amount on December 31	**2.5**

17. Off-balance sheet commitments

Group	Dec 31, 2018	Dec 31, 2017	%
EUR M			
Guarantees	43	40	10
Unutilised overdraft limits	228	216	6
Unutilised credit card limits	76	74	2
Lines of credit	131	142	-8
Other commitments	14	14	4
Total	**493**	**485**	**2**

18. Offsetting of financial assets and liabilities

Group	Assets			Liabilities		
	Dec 31, 2018	Dec 31, 2017	%	Dec 31, 2018	Dec 31, 2017	%
EUR M						
Financial assets and liabilities covered by offsetting, netting or similar agreements						
Gross amount	15	21	-28	39	55	-30
Offset amount						
Total	15	21	-28	39	55	-30
Related amounts not offset						
Financial instruments, netting agreements	-7	-11	-33	-7	-11	-33
Financial instruments, collateral				-14	-11	32
Cash, collateral		-1	-100	-15	-25	-40
Total amounts not offset	**-7**	**-12**	**-37**	**-37**	**-47**	**-21**
Net amount	**8**	**10**	**-17**	**2**	**9**	**-75**

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

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

19. Assets pledged

Group	Dec 31, 2018	Dec 31, 2017	%
EUR M			
Lending to credit institutions	23	30	-26
Debt securities	141	162	-13
Loan receivables constituting collateral (cover pool) for covered bonds	1,615	1,989	-19
Other assets pledged	3	3	1
Total	**1,781**	**2,186**	**-18**

20. Capital adequacy

Group	Dec 31, 2018	Dec 31, 2017	%
EUR M			
Equity capital according to balance sheet	242.4	233.6	4
Foreseeable dividend	-10.8	-10.0	8
Common equity Tier 1 capital before deductions	**231.6**	**223.6**	**4**
Intangible assets	-21.0	-15.9	32
Non-controlling interests	0.0	0.0	3
Cash flow hedge		0.0	-100
Net other items	0.0		
Further adjustments in value	-0.6	-1.3	-52
Expected losses according to IRB approach beyond recognised losses (deficit)	-6.1	-8.8	-31
Adjustments due to transitional rules related to IFRS 9	0.6		
Common equity Tier 1 capital	**204.4**	**197.6**	**3**
Additional Tier 1 capital			
Tier 1 capital	**204.4**	**197.6**	**3**
Supplementary capital instruments	37.5	19.7	91
Expected losses according to IRB approach beyond recognised losses (surplus)	0.4	1.7	
Supplementary capital	**37.9**	**21.4**	**78**
Total capital base	**242.4**	**219.0**	**11**
Capital requirement for credit risk according to the IRB approach	42.4	46.5	-9
Capital requirement for risk weighting floor, home mortgage loans	7.5		
Capital requirement for credit risk according to standardised approach	59.3	60.3	-2
Capital requirement for credit-worthiness adjustment risk	0.0	0.0	-70
Capital requirement for operational risk	17.1	16.2	5
Capital requirement	**126.2**	**123.0**	**3**
Capital ratios			
Common equity Tier 1 capital ratio, %	13.0	12.9	1
Tier 1 capital ratio, %	13.0	12.9	1
Total capital ratio, %	15.4	14.2	8
Risk exposure amount	1,578	1,538	3
of which % comprising credit risk	86	87	0
of which % comprising credit-worthiness adjustment risk	0	0	-71
of which % comprising operational risk	14	13	2

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

Requirements related to capital buffers, %	Dec 31, 2018	Dec 31, 2017
Total common equity Tier 1 capital requirements including buffer requirements	8.0	7.9
of which common equity Tier 1 capital requirement	4.5	4.5
of which capital conservation buffer requirement	2.5	2.5
of which countercyclical capital buffer requirement	1.0	0.9
Common equity Tier 1 capital available to be used as a buffer	13.0	12.9

Exposure class	Dec 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	156.0	52	80.5	6.4
Corporate, small and medium sized companies	349.0	325.4	66	214.2	17.1
Corporate, special lending	5.3	5.3	88	4.6	0.4
Using own LGD estimates					
Retail with property as collateral (small and medium-sized companies)	109.6	108.9	23	25.4	2.0
Retail with property as collateral (private individuals)	1,802.9	1,792.7	9	166.7	13.3
Retail, other (small and medium-sized companies)	38.8	37.9	21	8.1	0.6
Retail, other	339.3	302.7	10	30.5	2.4
Total exposures according to IRB approach	**2,851.5**	**2,728.7**	**19**	**530.0**	**42.4**
Credit risk according to standardised approach					
Central government or central banks	546.7	610.2	0	0.0	0.0
Regional governments or local authorities	30.6	53.2	0	0.0	0.0
Public sector entities	5.0	5.0	0	0.0	0.0
Multilateral development banks	45.2	46.7	0	0.0	0.0
International organisations	42.2	42.2	0	0.0	0.0
Institutions	311.6	272.2	25	67.7	5.4
Corporates	440.5	195.2	98	191.9	15.4
Retail	177.7	88.7	72	64.3	5.1
Secured by mortgages on immovable property	963.8	963.0	33	315.9	25.3
Exposures in default	3.4	3.3	135	4.5	0.4
Items associated with particularly high risk	0.0	0.0	150	0.0	0.0
Covered bonds	492.9	492.8	10	49.3	3.9
Equity exposures	2.7	2.7	100	2.7	0.2
Other exposures	82.0	82.0	54	44.5	3.6
Total exposures according to standardised approach	**3,144.2**	**2,857.3**	**26**	**740.8**	**59.3**
Total risk exposure amount, credit risk	**5,995.7**	**5,586.0**	**23**	**1,270.8**	**101.7**

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
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	Dec 31, 2018	Dec 31, 2017	%
EUR M			
Tier 1 capital	204.4	197.6	3
Total exposure measure	5,635.9	5,440.4	4
of which balance sheet items	5,538.9	5,340.6	4
of which off-balance sheet items	97.0	99.8	-3
Leverage ratio, %	3.6	3.6	

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