ÅLANDSBANKEN

Interim Report

For the period January-September 2018 • October 23, 2018

January – September 2018

Compared to January – September 2017

- Net operating profit increased by 12 per cent to EUR 21.9 M (19.5).
- Profit for the period attributable to shareholders increased by 11 per cent to EUR 17.2 M (15.5).
- Net interest income decreased by 1 per cent to EUR 41.2 M (41.8).
- Net commission income increased by 2 per cent to EUR 37.8 M (37.1).
- Total expenses decreased by 3 per cent to EUR 72.6 M (74.6).
- Net impairment losses on financial assets (including recoveries) totalled EUR 0.9 M (1.5), equivalent to a loan loss level of 0.03 (0.05) per cent.
- Return on equity after taxes (ROE) amounted to 9.9 (9.2 per cent).
- Earnings per share amounted to EUR 1.12 (1.01).
- The common equity Tier 1 ratio amounted to 13.2 per cent (12.9 on December 31, 2017).
- Unchanged future outlook: The Bank of Åland expects its net operating profit in 2018 to be at about the same level as, or better than, in 2017.

The third quarter of 2018

Compared to the third quarter of 2017

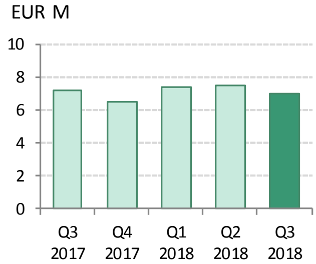
- Net operating profit decreased by 3 per cent to EUR 7.0 M (7.2).
- Profit for the period attributable to shareholders decreased by 3 per cent to EUR 5.6 M (5.8).
- Net interest income decreased by 6 per cent to EUR 13.3 M (14.3).
- Net commission income decreased by 1 per cent to EUR 12.1 M (12.2).
- Total expenses decreased by 7 per cent to EUR 22.7 M (24.4).
- Net impairment losses (including recoveries) totalled EUR 0.3 M (0.6), equivalent to a loan loss level of 0.03 (0.06) per cent.
- Return on equity after taxes (ROE) amounted to 9.4 (10.1) per cent.
- Earnings per share amounted to EUR 0.36 (0.38).

"During the first nine months of 2018 we improved our net operating profit by 12 per cent to EUR 21.9 M. We achieved this level of earnings in spite of a large-scale implementation of new regulations, a sharply increased EU Single Resolution Fund fee and a significantly weaker Swedish krona, which adversely affected both our business volume and our earnings.

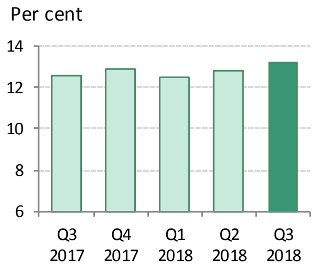
"A few years ago, the Bank of Åland was the first bank in the Nordic countries to begin partnering with new fintech companies. Our first such cooperation was with the company Dreams Nordic – a partnership that has developed nicely. During the third quarter, the Bank of Åland chose to become a part-owner of the company"

Peter Wiklöf, Managing Director

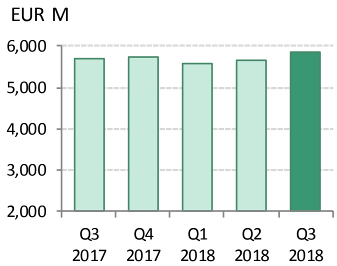
Net operating profit



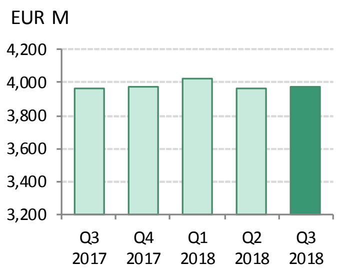
Common equity Tier 1 ratio



Actively managed assets



Lending



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

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

Financial summary

Group	Q3 2018	Q2 2018	%	Q3 2017	%	Jan-Sep 2018	Jan-Sep 2017	%
EUR M								
Income								
Net interest income	13.3	13.8	-4	14.3	-6	41.2	41.8	-1
Net commission income	12.1	12.6	-4	12.2	-1	37.8	37.1	2
Net income from financial items	0.6	1.7	-67	1.8	-70	3.8	2.1	78
Other income	4.1	4.4	-7	3.9	4	12.5	14.6	-14
Total income	**30.0**	**32.5**	**-8**	**32.2**	**-7**	**95.4**	**95.6**	**0**
Staff costs	-13.2	-14.5	-8	-14.1	-6	-42.8	-45.0	-5
Other expenses	-7.7	-8.3	-7	-8.3	-8	-24.3	-24.4	0
Depreciation/amortisation	-1.8	-1.8	0	-2.0	-8	-5.5	-5.3	5
Total expenses	**-22.7**	**-24.5**	**-7**	**-24.4**	**-7**	**-72.6**	**-74.6**	**-3**
Profit before impairment losses	**7.3**	**8.0**	**-9**	**7.8**	**-6**	**22.8**	**21.1**	**8**
Net impairment losses on financial assets	-0.3	-0.5	-44	-0.6	-55	-0.9	-1.5	-40
Net operating profit	**7.0**	**7.5**	**-7**	**7.2**	**-3**	**21.9**	**19.5**	**12**
Income taxes	-1.5	-1.6	-11	-1.5	0	-4.7	-4.0	17
Profit for the report period	**5.6**	**5.9**	**-5**	**5.8**	**-3**	**17.2**	**15.5**	**11**
Attributable to:								
Shareholders in Bank of Åland Plc	**5.6**	**5.9**	**-5**	**5.8**	**-3**	**17.2**	**15.5**	**11**
Volume								
Lending to the public	3,978	3,963	0	3,967	0			
Deposits from the public	3,085	3,095	0	3,230	-4			
Actively managed assets [1]	5,849	5,650	4	5,700	3			
Equity capital	237	230	3	230	3			
Balance sheet total	5,484	5,302	3	5,356	2			
Risk exposure amount	1,565	1,575	-1	1,553	1			
Financial ratios								
Return on equity after taxes, % (ROE) [2]	9.4	10.2		10.1		9.9	9.2	
Expenses/income ratio [3]	0.76	0.75		0.76		0.76	0.78	
Loan loss level, % [4]	0.03	0.05		0.06		0.03	0.05	
Liquidity coverage ratio (LCR), % [5]	131	135		109				
Loan/deposit ratio, % [6]	129	128		123				
Core funding ratio, % [7]	91	90		91				
Equity/assets ratio, % [8]	4.3	4.3		4.3				
Common equtiy Tier 1 capital ratio, % [9]	13.2	12.8		12.6				
Earnings per share, EUR [10]	0.36	0.38	-5	0.38	-4	1.12	1.01	10
Earnings per share after dilution, EUR	0.36	0.38	-5	0.37	-3	1.11	1.00	11
Equity capital per share, EUR [11]	15.34	14.92	3	14.98	2			
Equity capital per share after dilution, EUR	15.25	14.81	3	14.82	3			
Market price per Series A share, EUR	14.70	14.50	1	14.86	-1			
Market price per Series B share, EUR	13.85	13.50	3	14.90	-7			
Number of shares outstanding (not own shares), 000s	15,472	15,448	0	15,335	1			
Number of shares outstanding (not own shares), after dilution, 000s	15,580	15,586	0	15,588	0			
Working hours re-calculated to full-time equivalent positions	702	693	1	702	0	689	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 / Lending to the public at the beginning of the period
5 Liquidity coverage ratio (LCR) = liquid assets, level 1 and 2 / 30-day net outflow
6 Lending to the public / Deposits from the public
7 Lending to the public / Deposits including certificates of deposit, index bonds and debentures issued to the public plus covered bonds issued
8 Equity capital / Balance sheet total
9 (Common equity Tier 1 capital / Capital requirement) x 8%
10 Shareholders' portion of earnings for the period / Avarage number of shares
11 Shareholders' portion of equity capital / Number of shares less own shares on closing day

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

Comments

MACRO SITUATION AND REGULATORY REQUIREMENTS

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

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

The European Central Bank (ECB) and Sweden's Riksbank have not yet followed 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

	Q3 2018	Q2 2018	Q3 2017
Euribor 3 mo	-0.32	-0.33	-0.33
Euribor 12 mo	-0.17	-0.19	-0.16
Stibor 3 mo	-0.37	-0.37	-0.44

Stock markets around the world began the year with substantial volatility. During the first nine months of 2018, share prices according to the Nasdaq Helsinki (OMXHPI) index and the Nasdaq Stockholm (OMXSPI) index rose by 8 per cent.

During the first nine months of 2018, the average value of the Swedish krona (SEK) in relation to the euro (EUR) was 6 per cent lower than in the same period of 2017. Compared to its position at year-end 2017, the value of the krona on September 30, 2018 was more than 4 per cent lower. When translating the income statement of the Bank of Åland's Swedish operations into euros, the average exchange rate for the period has been used, while the balance sheet has been translated at the exchange rate prevailing on the closing day of the report period.

Among the regulations that went into effect during 2018 are:

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

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

IMPORTANT EVENTS

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 about 90,000 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. This year the Baltic Sea Project is funding a total of nine projects that combat the problem of plastics in the Baltic Sea in various ways, totalling nearly EUR 250,000. The winning project was presented in February at the Helsinki International Boat Fair and consisted of a plastic collection system that can be used to remove waste from large areas of the sea. Since 1997 the Bank of Åland has awarded nearly EUR 2 M to various environmentally related projects.

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

During the first nine months of 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 programme.

EARNINGS FOR THE THIRD QUARTER OF 2018

Profit for the period attributable to shareholders amounted to EUR 5.6 M (5.8). This was a decrease of EUR 0.2 M or 3 per cent from the same period of last year. Net operating profit fell by EUR 0.2 M or 3 per cent to EUR 7.0 M (7.2).

Return on equity after taxes amounted to 9.4 per cent (10.1).

Total income decreased by EUR 2.2 M or 7 per cent to EUR 30.0 M (32.2). The weaker Swedish krona explained SEK 0.8 M of the decrease in income.

Net interest income decreased by EUR 1.0 M or 6 per cent to EUR 13.3 M (14.3), which was primarily explained by lower lending income.

Net commission income decreased by EUR 0.1 M or 1 per cent to EUR 12.1 M (12.2), primarily due to lower brokerage commissions.

Net income on financial items fell by EUR 1.2 M to EUR 0.6 M (1.8), mainly due to lower valuation effects as part of hedge accounting.

Information technology (IT) income rose by EUR 0.2 M or 6 per cent to EUR 3.8 M (3.6) thanks to higher project income.

Total expenses fell by EUR 1.7 M or 7 per cent to EUR 22.7 M (24.4), despite a fee increase by the EU's Single Resolution Fund (SRF). Above all, staff costs and IT expenses were lower than in the same quarter of 2017. The weaker Swedish krona explained EUR 0.8 M of the decrease in expenses.

Net impairment losses on financial assets were at about the same level as during the year-earlier quarter and amounted to EUR 0.3 M (0.6), equivalent to a loan loss level of 0.03 per cent (0.06).

EARNINGS FOR JANUARY – SEPTEMBER 2018

Profit for the period attributable to shareholders increased by EUR 1.7 M or 11 per cent to EUR 17.2 M (15.5). Net operating profit rose by EUR 2.4 M or 12 per cent to EUR 21.9 M (19.5).

Return on equity after taxes amounted to 9.9 per cent (9.2).

Total income fell by EUR 0.2 M to EUR 95.4 M (95.6). The weaker Swedish krona resulted in EUR 2.1 M lower income when converted to euros.

Net interest income decreased by EUR 0.6 M or 1 per cent to EUR 41.2 M (41.8), 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 0.7 M or 2 per cent to EUR 37.8 M (37.1), primarily thanks to increased income from customers' investment transactions in the form of brokerage commissions and mutual fund commissions.

Net income on financial items rose by EUR 1.7 M or 78 per cent to EUR 3.8 M (2.1), mainly thanks to higher capital gains in the liquidity portfolio and higher net income on foreign exchange dealing.

IT income fell by EUR 1.3 M or 10 per cent to EUR 12.0 M (13.3). The decrease was due to last year's nonrecurring income of EUR 1.5 M from licence sales of Ban of Åland subsidiary Crosskey's card system in the Swedish market.

Total expenses decreased by EUR 2.0 M or 3 per cent to EUR 72.6 M (74.6), even though fees for the resolution fund increased by EUR 1.4 M to EUR 1.9 M (0.5). 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 pay the fee in Finland. The remaining banks must instead pay correspondingly more. Staff costs fell by EUR 2.2 M or 5 per cent, mainly due to lower severance pay expenses. IT expenses decreased by EUR 1.3 M or 11 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 0.6 M or 40 per cent to EUR 0.9 M (1.5), equivalent to a loan loss level of 0.03 per cent (0.05).

Tax expenses amounted to EUR 4.7 M (4.0), equivalent to an effective tax rate of 21.3 (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 2.4 M increase in net operating profit to EUR 21.9 M during the first nine months was allocated as follows:

- Private Banking -1.1 (lower net interest income, higher expenses)
- Premium Banking +3.0 (higher net interest income, lower loan losses)
- Asset Management -0.4 (2018 severance pay)
- IT +1.0 (lower expenses)
- Corporate Units & Eliminations -0.1

BUSINESS VOLUME

Actively managed assets increased by EUR 112 M or 2 per cent during the first nine months of 2018 and totalled EUR 5,849 M (5,737). Net inflow of actively managed assets during the first nine months totalled EUR 193 M (402).

Deposits from the public decreased by EUR 63 M or 2 per cent during the first half and amounted to EUR 3,085 M (3,148). Excluding exchange rate effects (SEK/EUR), deposits from the public decreased by EUR 22 M.

During the first nine months of 2018, lending to the public rose by EUR 3 M to EUR 3,978 M (3,975). Excluding the SEK/EUR exchange rate effect, lending to the public increased by EUR 62 M or 2 per cent during the first nine months.

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 6.0 M to EUR 22.7 M. Stage 3 loans as a share of gross lending to the public totalled 0.57 per cent (0.42

on January 1, 2018). The level of provisions for Stage 3 loans amounted to 40 (59) per cent.

The Bank of Åland Group had EUR 11.2 M (12.5 on January 1, 2018) in impairment loss provisions, of which EUR 0.9 M (1.5) in Stage 1; EUR 1.3 M (1.1) in Stage 2 and EUR 9.1 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 1,162 M on September 30, 2018 (1,066 on December 31, 2017). This was equivalent to 21 (20) per cent of total assets and 29 (27) per cent of lending to 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 will mature. On September 30, 2018, the average remaining maturity on outstanding bonds was about 2.6 (3.2) years.

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 91 (88) per cent on September 30.

The loan/deposit ratio amounted to 129 (126) per cent.

Of the Bank of Åland's external funding sources aside from equity capital, deposits from the public accounted for 60 (63) per cent and covered bonds issued accounted for 25 (27) per cent.

The liquidity coverage ratio (LCR) amounted to 131 (142) per cent.

The net stable funding ratio (NSFR) amounted to 110 (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 the first nine months of 2018, equity capital changed in the amount of profit for the period, EUR 17.2 M; other comprehensive income, EUR -0.9 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 September 30, 2018, equity capital amounted to EUR 237.3 M (233.6).

Other comprehensive income included re-measurements of defined-benefit pension plans by EUR 0.4 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 9.2 M or 5 per cent during the first nine months of 2018 to EUR 206.8 M (197.6), mainly thanks to the comprehensive income for the period and lower provisions for expected losses due to IFRS 9.

The risk exposure amount rose by EUR 27 M or 2 per cent to EUR 1,565 M (1,538). The credit risk exposure amount, excluding the risk weighting floor for home mortgage loans, fell by EUR 78 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 13.2 (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 15.7 (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 planned 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, goes into effect starting in the third quarter of 2018.

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

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

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.

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 Year-end Report for 2018 will be published on Friday, February 8, 2019.

Mariehamn, October 23, 2018
THE BOARD OF DIRECTORS

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NOTES

Summary income statement

Group	Note	Q3 2018	Q2 2018	%	Q3 2017	%	Jan-Sep 2018	Jan-Sep 2017	%
EUR M									
Net interest income	6	13.3	13.8	-4	14.3	-6	41.2	41.8	-1
Net commission income	7	12.1	12.6	-4	12.2	-1	37.8	37.1	2
Net income from financial items	8	0.6	1.7	-67	1.8	-70	3.8	2.1	78
IT income		3.8	4.1	-7	3.6	6	12.0	13.3	-10
Other operating income		0.2	0.2	-5	0.3	-11	0.6	1.3	-58
Total income		**30.0**	**32.5**	**-8**	**32.2**	**-7**	**95.4**	**95.6**	**0**
Staff costs		-13.2	-14.5	-8	-14.1	-6	-42.8	-45.0	-5
Other expenses	9	-7.7	-8.3	-7	-8.3	-8	-24.3	-24.4	0
Depreciation/amortisation		-1.8	-1.8	0	-2.0	-8	-5.5	-5.3	5
Total expenses		**-22.7**	**-24.5**	**-7**	**-24.4**	**-7**	**-72.6**	**-74.6**	**-3**
Profit before impairment losses		**7.3**	**8.0**	**-9**	**7.8**	**-6**	**22.8**	**21.1**	**8**
Impairment losses on financial assets	10	-0.3	-0.5	-44	-0.6	-55	-0.9	-1.5	-40
Net operating profit		**7.0**	**7.5**	**-7**	**7.2**	**-3**	**21.9**	**19.5**	**12**
Income taxes		-1.5	-1.6	-11	-1.5	0	-4.7	-4.0	17
Profit for the period		**5.6**	**5.9**	**-5**	**5.8**	**-3**	**17.2**	**15.5**	**11**
Attributable to:									
Non-controlling interests		0.0	0.0		0.0	21	0.0	0.0	2
Shareholders in Bank of Åland Plc		**5.6**	**5.9**	**-5**	**5.8**	**-3**	**17.2**	**15.5**	**11**
Earnings per share, EUR		0.36	0.38	-5	0.38	-4	1.12	1.01	10

Summary statement of other comprehensive income

Group	Q3 2018	Q2 2018	%	Q3 2017	%	Jan-Sep 2018	Jan-Sep 2017	%
EUR M								
Profit for the period	**5.6**	**5.9**	**-5**	**5.8**	**-3**	**17.2**	**15.5**	**11**
Cash flow hedge								
Gains/Losses arising during the period		-0.6	-100	0.2	-100	1.7	4.3	-61
Transferred to the income statement		0.6	-100	-0.2	-100	-1.6	-4.1	-61
Assets available for sale								
Gains/Losses arising during the period	-0.1	-0.5	-74	0.4		-0.8	0.0	
Realised changes in value						0.0		
Transferred to the income statement	0.0	-0.7	-100	0.0		-0.7	0.0	
Translation differences								
Gains/Losses arising during the period	0.8	-0.8		-0.1		0.4	0.0	
of which hedging of net investment in foreign operations		0.0	-100	0.1	-100	2.6	0.5	
Transferred to the income statement								
Taxes on items that have been or may be reclassified to the income statement	0.0	0.2	-89	-0.1		-0.2	-0.2	59
of which cash flow hedges		0.0	-100	0.0	-100	0.0	0.0	-69
of which assets available for sale	0.0	0.2	-88	-0.1		0.3	0.0	
of which hedging of net investments in foreign operations		0.0	-100	0.0	-100	-0.5	-0.1	
Items that have been or may be reclassified to the income statement	**0.7**	**-1.7**		**0.3**		**-1.3**	**0.0**	
Changes in value of equity instruments	0.0	-0.1		0.0	62	-0.1	0.0	
Re-measurements of defined benefit pension plans	0.7	-0.6		-0.4		0.5	0.9	-48
Taxes on items that may not be reclassified to the income statement	-0.1	0.1		0.1		-0.1	-0.2	-54
of which changes in value of equity instruments	0.0	0.0		0.0	62	0.0	0.0	
of which re-measurements of defined-benefit pension plans	-0.1	0.1		0.1		-0.1	-0.2	-48
Items that may not be reclassified to the income statement	**0.6**	**-0.5**		**-0.3**		**0.3**	**0.8**	**-54**
Other comprehensive income	**1.2**	**-2.2**		**-0.1**		**-0.9**	**0.8**	
Total comprehensive income for the period	**6.8**	**3.6**	**86**	**5.7**	**19**	**16.3**	**16.3**	**0**
Attributable to:								
Non-controlling interests	0.0	0.0		0.0	21	0.0	0.0	2
Shareholders in Bank of Åland Plc	**6.8**	**3.6**	**86**	**5.7**	**19**	**16.3**	**16.3**	**0**

Income statement by quarter

Group	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
EUR M					
Net interest income	13.3	13.8	14.1	14.1	14.3
Net commission income	12.1	12.6	13.2	12.6	12.2
Net income from financial items	0.6	1.7	1.5	1.0	1.8
IT income	3.8	4.1	4.0	4.4	3.6
Other operating income	0.2	0.2	0.1	0.3	0.3
Total income	**30.0**	**32.5**	**32.9**	**32.4**	**32.2**
Staff costs	-13.2	-14.5	-15.1	-14.9	-14.1
Other expenses	-7.7	-8.3	-8.4	-8.5	-8.3
Depreciation/amortisation	-1.8	-1.8	-1.9	-1.9	-2.0
Total expenses	**-22.7**	**-24.5**	**-25.3**	**-25.3**	**-24.4**
Profit before impairment losses	**7.3**	**8.0**	**7.6**	**7.1**	**7.8**
Impairment losses on financial assets	-0.3	-0.5	-0.2	-0.6	-0.6
Net operating profit	**7.0**	**7.5**	**7.4**	**6.5**	**7.2**
Income taxes	-1.5	-1.6	-1.6	-1.3	-1.5
Profit for the period	**5.6**	**5.9**	**5.8**	**5.2**	**5.8**
Attributable to:					
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Shareholders in Bank of Åland Plc	**5.6**	**5.9**	**5.8**	**5.2**	**5.8**

Summary balance sheet

Group	Note	Sep 30, 2018	Jan 1, 2018	Dec 31, 2017	%	Sep 30, 2017	%
EUR M							
Assets							
Cash and balances with central banks		569	524	524	9	361	58
Debt securities eligible for refinancing with central banks		692	634	634	9	669	3
Lending to credit institutions		120	93	93	29	149	-20
Lending to the public and public sector entities	11, 12	3,978	3,975	3,979	0	3,967	0
Shares and participations		2	1	1		1	
Participations in associated companies		0	0	0	7	0	72
Derivative instruments[1]	15	16	21	21	-27	24	-34
Intangible assets		17	17	17	-3	17	0
Tangible assets		23	24	24	-5	25	-8
Investment properties		0	0	0	-3	0	-8
Current tax assets		1	1	1		1	14
Deferred tax assets		5	6	5	4	5	18
Other assets		35	32	32	10	112	-69
Accrued income and prepayments[1]		26	22	22	18	26	1
Total assets		**5,484**	**5,350**	**5,352**	**2**	**5,356**	**2**
Liabilities							
Liabilities to credit institutions		215	206	206	4	215	0
Liabilities to the public and public sector entities	13	3,085	3,148	3,148	-2	3,230	-4
Debt securities issued	13, 14	1,761	1,600	1,600	10	1,457	21
Derivative instruments[1]	15	12	23	23	-45	25	-50
Current tax liabilities		2	0	0		0	
Deferred tax liabilities		27	25	25	9	24	12
Other liabilities		64	50	50	28	110	-42
Provisions		1	1	1	-44	1	-55
Accrued expenses and prepaid income[1]		33	33	33	1	31	9
Subordinated liabilities	13	47	33	33	42	33	41
Total liabilities		**5,247**	**5,119**	**5,119**	**3**	**5,126**	**2**
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	-28	1	
Unrestricted equity capital fund		27	27	27	1	26	3
Retained earnings		109	102	106	4	102	7
Shareholders´ portion of equity capital		**237**	**231**	**234**	**2**	**230**	**3**
Non-controlling interests´ portion of equity capital		0	0	0	12	0	9
Total equity capital		**237**	**231**	**234**	**2**	**230**	**3**
Total liabilities and equity capital		**5,484**	**5,350**	**5,352**	**2**	**5,356**	**2**

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								15.5	15.5	0.0	15.5
Other comprehensive income				0.1	0.0	-0.1		0.8	0.8		0.8
Dividends paid								-9.2	-9.2		-9.2
Incentive programme	0.0						0.1	0.0	0.1		0.1
Share savings programme	0.1						0.3	0.3	0.7		0.7
Equity capital, Sep 30, 2017	**41.7**	**32.7**	**25.1**	**0.0**	**1.8**	**-0.5**	**26.4**	**102.4**	**229.7**	**0.0**	**229.7**
Profit for the period								5.2	5.2	0.0	5.2
Other comprehensive income				0.0	0.1	-0.1		-2.1	-2.1		-2.1
Incentive programme	0.2						0.5		0.7		0.7
Share savings programme								0.1	0.1		0.1
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								17.2	17.2	0.0	17.2
Other comprehensive income				0.0	-1.2	-0.1		0.4	-0.9		-0.9
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, Sep 30, 2018	**42.0**	**32.7**	**25.1**	**0.0**	**0.7**	**-0.7**	**27.1**	**110.3**	**237.3**	**0.0**	**237.3**

Summary cash flow statement

Group	Jan-Sep 2018		Jan-Dec 2017		Jan-Sep 2017	
EUR M						
Cash flow from operating activities						
Net operating profit	21.9		26.0		19.5	
Adjustment for net operating profit items not affecting cash flow	9.5		12.9		8.7	
Gains/losses from investing activities	0.0		0.0		0.0	
Income taxes paid	-1.3		-2.5		-2.1	
Changes in assets and liabilities in operating activities	-153.2	-123.1	-171.0	-134.6	-120.2	-94.1
Cash flow from investing activities		-5.7		-7.6		-5.7
Cash flow from financing activities		202.2		152.2		-18.0
Exchange rate differences in cash and cash equivalents		-4.2		-2.9		-1.0
Change in cash and cash equivalents		**69.2**		**7.1**		**-118.8**
Cash and cash equivalents at beginning of period		586.4		579.2		579.2
Cash and cash equivalents at end of period		655.6		586.4		460.5
Change in cash and cash equivalents		**69.2**		**7.1**		**-118.8**

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–September 30, 2018 was approved by the Board of Directors on October 22, 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–September 30, 2018 has been prepared in compliance with the International Financial Reporting Standards (IFRSs) and International Accounting Standards, IAS 34, "Interim Financial Reporting", which have been adopted by the European Union.

The 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. In cases where rounded-off figures add up to zero, they are shown as "0" in the tables, while a lack of figures is shown as an empty space.

ESSENTIAL ACCOUNTING PRINCIPLES

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

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

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

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

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.

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.

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.

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 (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			**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 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 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-Sep 2018				
EUR M	Private Banking	Premium Banking	Asset Management	IT	Corporate and Other	Eliminations	Total
Net interest income	18.8	19.8	0.0	0.0	2.7	0.0	41.2
Net commission income	21.1	8.7	7.6	0.0	0.2	0.2	37.8
Net income from financial items	1.4	0.3	0.0	0.0	2.1	0.0	3.8
IT income				23.7		-11.8	12.0
Other income	0.1	0.1	0.0	0.4	0.8	-0.8	0.6
Total income	**41.4**	**29.0**	**7.6**	**24.0**	**5.9**	**-12.4**	**95.4**
Staff costs	-7.7	-4.9	-3.9	-11.7	-14.6	0.0	-42.8
Other expenses	-4.4	-3.5	-1.5	-8.5	-16.8	10.4	-24.3
Depreciation/amortisation	-0.2	-0.3	0.0	-2.3	-4.1	1.3	-5.5
Internal allocation of expenses	-15.3	-12.7	-1.2		29.1		0.0
Total expenses	**-27.6**	**-21.3**	**-6.6**	**-22.5**	**-6.3**	**11.7**	**-72.6**
Profit before impairment losses	**13.8**	**7.6**	**1.0**	**1.5**	**-0.4**	**-0.7**	**22.8**
Impairment losses on financial assets	0.0	-0.4			-0.5	0.0	-0.9
Net operating profit	**13.8**	**7.2**	**1.0**	**1.5**	**-0.9**	**-0.7**	**21.9**
Income taxes	-2.8	-1.5	-0.2	-0.3	0.1		-4.7
Profit for the period attributable to shareholders	**11.0**	**5.7**	**0.8**	**1.2**	**-0.8**	**-0.7**	**17.2**
Business volume							
Lending to the public	1,713	2,260			25	-20	3,978
Deposits from the public	1,596	1,449	14		46	-19	3,085
Actively managed assets	3,326	371	5,849		1	-3,697	5,849
Risk exposure amount	627	650	45	43	200		1,564
Equity capital	77	90	7	14	49		237
Financial ratios etc.							
Return on equity after taxes, % (ROE)	18.6	8.4	17.6	13.0	-2.5		9.9
Expense/income ratio	0.67	0.74	0.87	0.94	1.07		0.76

Group			Jan-Sep 2017				
EUR M	Private Banking	Premium Banking	Asset Management	IT	Corporate and Other	Eliminations	Total
Net interest income	19.9	18.3	0.0	-0.1	3.6	0.0	41.8
Net commission income	21.1	8.8	7.3	-0.1	-0.1	0.1	37.1
Net income from financial items	0.5	0.5	0.0	0.0	1.1	0.0	2.1
IT income				24.1		-10.9	13.3
Other income	0.1	0.0	0.0	0.2	1.4	-0.4	1.3
Total income	**41.6**	**27.6**	**7.4**	**24.2**	**6.0**	**-11.2**	**95.6**
Staff costs	-8.4	-5.3	-3.6	-12.0	-15.7	0.0	-45.0
Other expenses	-3.9	-3.1	-1.4	-9.2	-16.8	10.0	-24.4
Depreciation/amortisation	-0.2	-0.5	0.0	-2.6	-3.0	1.1	-5.3
Internal allocation of expenses	-14.4	-12.7	-1.0		28.1		0.0
Total expenses	**-26.8**	**-21.7**	**-5.9**	**-23.7**	**-7.5**	**11.1**	**-74.6**
Profit before impairment losses	**14.8**	**6.0**	**1.4**	**0.5**	**-1.5**	**-0.1**	**21.1**
Impairment losses on financial assets	0.1	-1.8			0.2		-1.5
Net operating profit	**14.9**	**4.2**	**1.4**	**0.5**	**-1.3**	**-0.1**	**19.5**
Income taxes	-3.0	-0.9	-0.3	-0.1	0.3		-4.0
Profit for the period attributable to shareholders	**11.8**	**3.3**	**1.1**	**0.4**	**-1.0**	**-0.1**	**15.5**
Business volume							
Lending to the public	1,756	2,201			32	-21	3,967
Deposits from the public	1,660	1,533	1		43	-7	3,230
Actively managed assets	3,059	332	5,700		0	-3,391	5,700
Risk exposure amount	631	647	11	44	219		1,553
Equity capital	74	88	2	11	55		230
Financial ratios etc.							
Return on equity after taxes, % (ROE)	21.4	5.0	90.7	4.8	-2.8		9.2
Expense/income ratio	0.64	0.78	0.80	0.98	1.25		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 the first nine months of 2018, the Finnish-based Ålandsbanken Fonder Ab – a wholly owned subsidiary of Ålandsbanken Fondbolag Ab, the Bank's fund management subsidiary – was established.

6. Net interest income

Group	Q3 2018	Q2 2018	%	Q3 2017	%	Jan-Sep 2018	Jan-Sep 2017	%
EUR M								
Lending to credit institutions and central bank:	-0.2	-0.3	-13	-0.2	-3	-0.7	-0.8	-14
of which negative interest	-0.3	-0.3	-2	-0.3	3	-0.8	-1.0	-15
Lending to the public	15.3	15.8	-3	16.1	-5	47.0	47.8	-2
of which negative interest	-0,0	-0,0	22	-0,0	77	-0,0	-0,0	73
Debt securities	0.2	0.2	-12	0.2	-33	0.5	0.7	-24
Derivatives	0.1	0.2	-17	0.2	-35	0.5	0.8	-34
Other interest income	0.0	0.0	-90	0.0		0.0	0.0	-77
Total interest income	**15.4**	**15.9**	**-3**	**16.3**	**-5**	**47.3**	**48.4**	**-2**
of which negative interest	-0.3	-0.3	-1	-0.3	5	-0.9	-1.0	-13
Liabilities to credit institutions and central banks	-0.1	-0.1	-1	-0.1	17	-0.4	-0.3	14
of which negative interest	-0.1	-0.2	-7	-0.1	10	-0.4	-0.4	12
Liabilities to the public	0.9	0.9	4	0.9	0	2.7	2.9	-8
of which negative interest	-0.1	-0.1	54	0.0		-0.2	0.0	
Debt securities issued	0.7	0.7	1	0.8	-7	2.1	2.6	-20
of which negative interest	-0.1	-0.1	-1	-0.1	10	-0.4	-0.3	34
Subordinated liabilities	0.3	0.3	16	0.2	39	0.9	0.7	16
Derivatives	0.2	0.2	-21	0.2	5	0.8	0.7	15
Other interest expenses	0.0	0.0	-7	0.0	-27	0.0	0.1	-31
Total interest expenses	**2.1**	**2.0**	**2**	**2.0**	**1**	**6.1**	**6.6**	**-9**
of which negative interest	-0.4	-0.3	6	-0.2	49	-1.1	-0.7	58
Net interest income	**13.3**	**13.8**	**-4**	**14.3**	**-6**	**41.2**	**41.8**	**-1**
Interest margin, per cent	1.01	1.06		1.11		1.05	1.11	
Investment margin, per cent	0.98	1.03		1.06		1.02	1.06	

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	Q3 2018	Q2 2018	%	Q3 2017	%	Jan-Sep 2018	Jan-Sep 2017	%
EUR M								
Deposits	0.2	0.2	15	0.2	7	0.6	0.6	2
Lending	0.7	0.8	-11	0.8	-7	2.2	2.6	-15
Payment intermediation	1.8	1.7	7	1.6	13	5.1	4.7	9
Mutual fund commissions	10.5	10.4	1	10.8	-3	31.4	22.2	41
Management commissions	3.0	2.7	12	2.7	10	8.5	8.3	3
Securities commissions	2.0	2.9	-30	2.5	-19	8.8	8.9	-1
Other commission income	0.9	1.0	-11	0.8	7	2.6	2.6	1
Total commission income	**19.1**	**19.6**	**-2**	**19.4**	**-1**	**59.2**	**49.8**	**19**
Payment commission expenses	-1.0	-1.0	-6	-1.0	1	-3.0	-2.9	4
Mutual fund commission expenses	-5.2	-5.1	2	-5.4	-2	-15.8	-6.9	
Management commission expenses	-0.3	-0.2	73	-0.2	69	-0.7	-0.5	41
Securities commission expenses	-0.4	-0.5	-18	-0.5	-26	-1.4	-1.7	-15
Other commission expenses	-0.2	-0.2	-9	-0.2	-21	-0.5	-0.7	-26
Total commission expenses	**-7.1**	**-7.0**	**1**	**-7.2**	**-2**	**-21.4**	**-12.7**	**69**
Net commission income	**12.1**	**12.6**	**-4**	**12.2**	**-1**	**37.8**	**37.1**	**2**

8. Net income from financial items

Group	Q3 2018	Q2 2018	%	Q3 2017	%	Jan-Sep 2018	Jan-Sep 2017	%
EUR M								
Valuation category fair value via the income statement ("profit and losses")								
Debt securities	0.0	0.0	-65	0.0	-53	-0.1	-0.1	-7
Shares and participations				0.0	-100		0.1	-100
Derivative instruments	0.0	0.0		0.1		0.0	0.8	
Loan receivables[1]				-0.1	-100		-1.1	-100
Valuation category fair value via the income statement ("profit and losses")	**0.0**	**0.0**	**-7**	**-0.1**	**-59**	**-0.1**	**-0.4**	**-75**
Hedge accounting								
of which hedging instruments[1]	-1.8	0.9		0.6		-2.4	-5.1	-53
of which hedged item[1]	1.7	-0.9		0.5		2.7	5.7	-53
Hedge accounting[1]	**-0.1**	**0.0**		**1.1**		**0.3**	**0.5**	**-49**
Net income from foreign exchange dealing	**0.7**	**1.0**	**-30**	**0.8**	**-17**	**2.9**	**2.0**	**44**
Net income from financial assets [2]	**0.0**	**0.7**		**0.0**		**0.7**	**0.0**	
Total	**0.6**	**1.7**	**-67**	**1.8**	**-70**	**3.8**	**2.1**	**78**

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	Q3 2018	Q2 2018	%	Q3 2017	%	Jan-Sep 2018	Jan-Sep 2017	%
EUR M								
IT expenses (excluding market data)	2.5	2.5	0	3.0	-16	8.0	9.5	-15
Premises and property expenses	1.2	1.3	-4	1.4	-10	3.9	4.2	-6
Marketing expenses	0.4	0.5	-21	0.4	11	1.5	1.5	-3
Market data	0.6	0.6	12	0.5	17	1.8	1.6	11
Staff-related expenses	0.4	0.4	2	0.5	-16	1.5	1.7	-15
Travel expenses	0.2	0.3	-22	0.3	-14	0.8	0.9	-11
Purchased services	0.5	0.5	3	0.6	-8	1.5	1.6	-11
Deposit guarantee fee				0.0	-100		0.0	-100
Stability fee	0.6	0.9	-30	0.3	82	1.9	0.5	
Other expenses	1.5	1.8	-16	1.7	-12	5.0	4.9	1
Production for own use	-0.5	-0.6	-17	-0.4	13	-1.5	-2.1	-28
Total	**7.7**	**8.3**	**-7**	**8.3**	**-8**	**24.3**	**24.4**	**0**

10. Net impairment losses on financial assets

Group	Q3 2018	Q2 2018	%	Jan-Sep 2018
EUR M				
Changes in amortised cost				
Provisions - Stage 1	-0.3	-0.2	96	-0.7
Provisions - Stage 2	0.0	0.1		0.2
Provisions - Stage 3	0.5	-1.4		-0.8
Total	**0.2**	**-1.5**		**-1.3**
Actual losses for the period	0.2	1.9	-89	2.3
Recoveries of actual losses for the period	-0.1	0.0		-0.1
Total	**0.1**	**1.9**	**-95**	**2.2**
Total changes in amortised cost	**0.3**	**0.5**	**-45**	**0.9**
Loan loss level, %	0.03	0.05	-44	0.03
Off-balance sheet items				
Provisions - Stage 1	0.0	0.0		0.0
Provisions - Stage 2	0.0	0.0		0.0
Provisions - Stage 3	0.0	0.0		0.0
Total	**0.0**	**0.0**		**0.0**
Actual losses for the period				
Total off-balance sheet items	**0.0**	**0.0**		**0.0**
Debt instruments				
Provisions - Stage 1	0.0	0.0		0.0
Provisions - Stage 2				
Provisions - Stage 3				
Total	**0.0**	**0.0**		**0.0**
Actual losses for the period				
Total debt instruments	**0.0**	**0.0**		**0.0**
Total loan losses	**0.3**	**0.5**	**-42**	**0.9**

11. Lending to the public and public sector by purpose

Group	Sep 30, 2018			Dec 31, 2017	%	Sep 30, 2017	%
EUR M	Lending before provisions	Provisions	Lending after provisions	Lending after provisions		Lending after provisions	
Private individuals							
Home loans	2,258	-4	2,254	2,224	1	2,199	3
Securities and other investments	309	0	309	308	0	291	6
Business operations	114	-2	112	120	-7	124	-9
Other household purposes	222	-3	219	213	3	200	9
Total, private individuals	**2,904**	**-9**	**2,895**	**2,865**	**1**	**2,814**	**3**
Companies							
Shipping	45	0	45	48	-6	50	-10
Wholesale and retail trade	47	0	46	41	14	41	13
Housing operations	319	0	319	327	-2	358	-11
Other real estate operations	200	0	199	253	-21	256	-22
Financial and insurance operations	240	0	240	198	21	206	16
Hotel and restaurant operations	28	0	28	26	7	26	6
Other service operations	80	-1	80	95	-16	94	-16
Agriculture, forestry and fishing	11	0	11	11	6	10	15
Construction	45	0	45	43	5	44	3
Other industry and crafts	38	0	38	41	-8	37	1
Total, companies	**1,053**	**-2**	**1,051**	**1,081**	**-3**	**1,122**	**-6**
Public sector and non-profit organisations	32	0	32	32	-1	31	3
Total, public sector and non-profit organisations	**32**	**0**	**32**	**32**	**-1**	**31**	**3**
Total lending	**3,989**	**-11**	**3,978**	**3,979**	**0**	**3,967**	**0**

12. Lending to the public and public sector by stage

Group	Stage 1	Stage 2	Stage 3	Total
EUR M				
Carrying amount, gross				
Opening balance, January 1, 2018	3,799.7	172.7	16.7	3,989.0
Closing balance, September 30, 2018	3,801.2	164.9	22.7	3,988.7
Provisions for expected losses				
Opening balance, January 1, 2018	**1.5**	**1.1**	**9.9**	**12.5**
Increases due to issuances and acquisitions	0.1	0.1	0.1	0.3
Decrease due to removal from report on financial position	0.0	0.0	-0.1	-0.2
Net changes due to changed credit risk	0.1	0.2	-1.7	-1.4
Transfer to Stage 1	0.0	0.0	0.0	0.0
Transfer to Stage 2	-0.3	0.2	0.1	0.0
Transfer to Stage 3	-0.5	-0.4	0.9	0.0
Currency rate effect	0.0	0.0	0.0	0.0
Closing balance, September 30, 2018	**0.9**	**1.3**	**9.1**	**11.2**
Carrying amount, net				
Opening balance, January 1, 2018	3,798.1	171.6	6.8	3,976.5
Closing balance, September 30, 2018	3,800.3	163.6	13.6	3,977.5

Impairment losses, IFRS 9 - Financial ratios	**September 30, 2018**	**June 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	0.03	0.04
Provision ratio, Stage 2, receivables from the public, %	0.77	0.52	0.65
Provision ratio, Stage 3, receivables from the public, %	40	31	59
Share of receivables from the public in Stage 3, %	0.57	0.69	0.42

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

Group	Sep 30, 2018	Dec 31, 2017	%	Sep 30, 2017	%
EUR M					
Deposit accounts from the public and public sector					
Demand deposits	2,842	2,749	3	2,849	0
Time deposits	243	399	-39	381	-36
Total deposit accounts	**3,085**	**3,148**	**-2**	**3,230**	**-4**
Certificates of deposit issued to the public [1]	2	7	-71	10	-81
Index bonds (structured products)	2	10	-77	12	-82
Subordinate debentures [1]	27	33	42	33	41
Total bonds and certificates of deposit	**31**	**49**	**-36**	**55**	**-43**
Total deposits	**3,117**	**3,197**	**-3**	**3,286**	**-5**

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

14. Debt securities issued

Group	Sep 30, 2018	Dec 31, 2017	%	Sep 30, 2017	%
EUR M					
Certificates of deposit	152	158	-4	175	-14
Covered bonds	1,259	1,332	-5	1,081	16
Senior non-covered bonds	349	100		188	86
Index bonds (structured products)	2	10	-77	12	-82
Total	**1,761**	**1,600**	**10**	**1,457**	**21**

15. Derivative instruments

Group	Sep 30, 2018						Dec 31, 2017		
	Nominal amount/maturity								
EUR M	Under 1 yr	1-5 yrs	over 5 yrs	Nominal amount	Positive market values	Negative market values	Nominal amount	Positive market values	Negative market values
Derivatives for trading									
Interest-related contracts									
Interest rate swaps		34	22	55	2	2	94	2	3
Currency-related contracts									
Currency forward contracts	488			488	3	2	492	4	4
Equity-related contracts									
Equity options - purchased	1			1	0		5	1	
Equity options - written	1			1		0	4		1
Other derivative contracts							8		
Total	**490**	**34**	**22**	**545**	**5**	**5**	**603**	**7**	**8**
Derivatives for market value hedge									
Interest-related contracts									
Interest rate swaps	93	883	75	1,052	11	8	771	15	7
Total	**93**	**883**	**75**	**1,052**	**11**	**8**	**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	**583**	**917**	**97**	**1,597**	**16**	**12**	**1,479**	**21**	**23**
of which cleared OTC									
of which cleared by other means	93	913	94	1,101	11	9	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		Sep 30, 2018		
EUR M	Instruments with quoted prices (Level 1)	Measurement techniques based on observable market data (Level 2)	Measurement techniques based on non-observable market data (Level 3)	Total
Debt securities eligible for refinancing with central banks	520			520
Lending to the public and public sector entities[1]		96		96
Shares and participations	0	0	2	2
Derivative instruments[2]		16		16
Total financial assets	**520**	**111**	**2**	**634**
Liabilities to the public and public sector entities				
Debt securities issued		951		951
Derivative instruments[2]		12		12
Subordinated liabilities		2		2
Total financial liabilities		**966**		**966**

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

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

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

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

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

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

Changes in Level 3 are presented in a separate table.

Changes in Level 3 holdings	Jan-Sep 2018
EUR M	Shares and participations
Carrying amount on January 1	0.5
New purchases/reclassification	1.9
Divested/reached maturity during the year	0.0
Change in value recognised in "Other comprehensive income"	-0.1
Carrying amount on September 30	**2.4**

17. Off-balance sheet commitments

Group	Sep 30, 2018	Dec 31, 2017	%	Sep 30, 2017	%
EUR M					
Guarantees	44	40	11	40	10
Unutilised overdraft limits	218	216	1	223	-2
Unutilised credit card limits	78	74	5	73	7
Lines of credit	135	142	-5	136	-1
Other commitments	19	14	34	29	-35
Total	**494**	**485**	**2**	**500**	**-1**

18. Offsetting of financial assets and liabilities

Group	Assets			Liabilities		
	Sep 30, 2018	Dec 31, 2017	%	Sep 30, 2018	Dec 31, 2017	%
EUR M						
Financial assets and liabilities covered by offsetting, netting or similar agreements						
Gross amount	16	21	-27	48	55	-14
Offset amount						
Total	**16**	**21**	**-27**	**48**	**55**	**-14**
Related amounts not offset						
Financial instruments, netting agreements	-10	-11	-10	-10	-11	-10
Financial instruments, collateral				-14	-11	32
Cash, collateral	0	-1	-49	-19	-25	-22
Total amounts not offset	**-10**	**-12**	**-12**	**-44**	**-47**	**-6**
Net amount	**5**	**10**	**-45**	**4**	**9**	**-55**

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	Sep 30, 2018	Dec 31, 2017	%	Sep 30, 2017	%
EUR M					
Lending to credit institutions	34	30	11	50	-32
Debt securities	185	162	14	162	14
Loan receivables constituting collateral (cover pool) for covered bonds	2,064	1,989	4	1,660	24
Other assets pledged	3	3	3	3	1
Total	**2,287**	**2,186**	**5**	**1,875**	**22**

20. Capital adequacy

Group	Sep 30, 2018	Dec 31, 2017	%	Sep 30, 2017	%
EUR M					
Equity capital according to balance sheet	237.3	233.6	2	229.7	3
Foreseeable dividend	-8.4	-10.0	-17	-7.3	15
Common equity Tier 1 capital before deductions	**228.9**	**223.6**	**2**	**222.4**	**3**
Intangible assets	-16.2	-15.9	2	-15.3	6
Deduction of surplus value in pension assets					
Non-controlling interests	0.0	0.0	12	0.0	9
Cash flow hedge		0.0	-100	0.0	-100
Net other items	0.0				
Further adjustments in value	-0.5	-1.3	-60	-1.5	-64
Expected losses according to IRB approach beyond recognised losses (deficit)	-5.4	-8.8	-38	-10.0	-46
Common equity Tier 1 capital	**206.8**	**197.6**	**5**	**195.7**	**6**
Additional Tier 1 capital					
Tier 1 capital	**206.8**	**197.6**	**5**	**195.7**	**6**
Supplementary capital instruments	37.9	19.7	92	20.1	88
Expected losses according to IRB approach beyond recognised losses (surplus)	0.3	1.7		2.9	
Supplementary capital	**38.2**	**21.4**	**79**	**23.0**	**66**
Total capital base	**245.0**	**219.0**	**12**	**218.7**	**12**
Capital requirement for credit risk according to the IRB approach	42.8	46.5	-8	48.1	-11
Capital requirement for risk weighting floor, home mortgage loans	7.5				
Capital requirement for credit risk according to standardised approach	57.7	60.3	-4	59.9	-4
Capital requirement for credit-worthiness adjustment risk	0.0	0.0		0.0	47
Capital requirement for operational risk	17.1	16.2	5	16.2	5
Capital requirement	**125.2**	**123.0**	**2**	**124.3**	**1**
Capital ratios					
Common equity Tier 1 capital ratio, %	13.2	12.9		12.6	
Tier 1 capital ratio, %	13.2	12.9		12.6	
Total capital ratio, %	15.7	14.2		14.1	
Risk exposure amount	1,565	1,538		1,553	
of which % comprising credit risk	86	87		87	
of which % comprising credit-worthiness adjustment risk	0	0		0	
of which % comprising operational risk	14	13		13	

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

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

Exposure class	Sep 30, 2018				
EUR M	Gross exposure	Exposure at default	Risk weight %	Risk exposure amount	Capital requirement
Credit risk according to the IRB approach					
Without own LGD estimates					
Corporate, other large companies	207.4	158.2	54	86.2	6.9
Corporate, small and medium sized companies	337.4	313.8	68	212.8	17.0
Corporate, special lending	5.3	5.3	87	4.6	0.4
Using own LGD estimates					
Retail with property as collateral (small and medium-sized companies)	107.0	106.5	23	25.0	2.0
Retail with property as collateral (private individuals)	1,790.2	1,779.9	9	167.4	13.4
Retail, other (small and medium-sized companies)	40.3	39.3	21	8.1	0.6
Retail, other	336.0	300.9	10	31.5	2.5
Total exposures according to IRB approach	**2,823.6**	**2,703.9**	**20**	**535.6**	**42.8**
Credit risk according to standardised approach					
Central government or central banks	630.4	690.8			
Regional governments or local authorities	13.4	35.7			
Public sector entities	5.0	5.0			
Multilateral development banks	45.2	46.2			
International organisations	42.0	42.0			
Institutions	353.8	314.4	25	77.3	6.2
Corporates	445.9	194.2	98	190.2	15.2
Retail	152.7	76.2	73	55.3	4.4
Secured by mortgages on immovable property	945.8	944.9	33	309.7	24.8
Exposures in default	3.0	2.3	147	3.4	0.3
Items associated with particularly high risk	0.4	0.4	150	0.6	0.0
Covered bonds	365.9	365.9	10	36.6	2.9
Collective investment undertakings					
Equity exposures	0.6	0.6	100	0.6	0.0
Other exposures	75.1	75.1	63	47.4	3.8
Total exposures according to standardised approach	**3,079.4**	**2,793.7**	**26**	**721.1**	**57.7**
Total risk exposure amount, credit risk	**5,903.0**	**5,497.6**	**23**	**1,256.7**	**100.5**

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

Leverage ratio	Sep 30, 2018	Dec 31, 2017	%	Sep 30, 2017	%
EUR M					
Tier 1 capital	206.8	197.6	5	195.7	6
Total exposure measure	5,580.2	5,440.4	3	5,461.1	2
of which balance sheet items	5,478.7	5,340.6	3	5,346.6	2
of which off-balance sheet items	101.6	99.8	2	114.5	-11
Leverage ratio, %	3.7	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.

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TRANSLATION

Report on review of the Interim Report of Bank of Åland Plc for the accounting period January 1 – September 30, 2018

To the Board of Directors of Bank of Åland Plc

Introduction

We have reviewed the summary balance sheet as of September 30, 2018 and the related summary income statement, summary statement of other comprehensive income, statement of changes in equity capital and summary cash flow statement of Bank of Åland Plc group for the nine-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 report preparation in Finland.

Helsinki, October 23, 2018

KPMG OY AB

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Authorised Public Accountant, KHT

Mari Suomela
Authorised Public Accountant, KHT

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Authorised Public Accountant, HT