

Annual Report

2021

Bank of Åland Plc



Going our own way

ÅLANDSBANKEN

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Financial calendar

The Bank of Åland will publish the following Interim Reports during the 2022 financial year:

- January–March Interim Report April 26, 2022
- January–June Half-Year Financial Report July 19, 2022
- January–September Interim Report October 25, 2022

The Annual Report and all Interim Reports will be published on the Bank's website: www.alandsbanken.fi

They can be ordered from: info@alandsbanken.fi or from Secretariat, Bank of Åland Plc, PB 3, AX-22101 Mariehamn, Åland, Finland.

The Head Office of the Bank of Åland is in Mariehamn, capital of the autonomous Finnish province of Åland. Located in the Baltic Sea midway between Sweden and Finland, the 6,700-island Åland archipelago has more than 30,000 inhabitants. Its official language is Swedish.

This translation of the Swedish-language Annual Report uses the international currency codes for the European Central Bank euro (EUR) and the Swedish krona (SEK). At year-end 2021, the middle rate for EUR 1 was USD 1.1326 and SEK 10.2503.

"The Bank" refers to the Bank of Åland Plc (Ålandsbanken Abp), Parent Company of the Bank of Åland Group. Amounts have generally been rounded off to millions or thousands, but percentage figures, totals, ratios etc. are calculated on the exact amounts. The abbreviation M refers to million(s), and K means thousand(s).

Translation: Victor Kayfetz, SCAN EDIT, Oakland, CA
Cover: Anton Sucksdorff

About the Bank of Åland

- The Bank of Åland (Ålandsbanken) was founded in 1919 as Ålands Aktiebank and has been listed on the Helsinki Stock Exchange (now the Nasdaq Helsinki Oy) since 1942.
- The Head Office is located in Mariehamn, Åland. The Bank of Åland has a total of two offices in the Åland Islands and six offices on the Finnish mainland: in Helsinki, Tampere, Vaasa, Oulu, Turku and Parainen. In Sweden, the Bank of Åland has three offices: Stockholm, Gothenburg and Malmö.
- The Bank of Åland Group has two subsidiaries: the fund management company Ålandsbanken Fondbolag Ab and the information technology company Crosskey Banking Solutions Ab Ltd.
- In the Åland Islands, the Bank of Åland is a bank for all residents and is both in a position and with a desire to help develop the Åland of the future.
- On the Finnish mainland and in Sweden, the Bank of Åland has a niche strategy targeted to entrepreneurs, wealthy families and individual customers with sound finances. We offer two concepts: Private Banking and Premium Banking®.
- Over the years, the Bank of Åland has been an innovative pioneer in the financial services industry. The Bank of Åland's Premium Banking®, launched in 2004, has served as a model for competitors in the Nordic countries. The Åland Index, launched in 2016, has become established as an international standard for measuring the climate impact of consumption.
- The Bank of Åland has business partnerships with several financial technology ("fintech") companies and supplies services to companies operating in the financial services sector. The Bank is also a shareholder in a number of strategic partners.
- The Bank of Åland has proactively chosen to offer products that benefit the customer at various levels: first and foremost financially, but also by contributing to sustainable development. Including the 2021 amount, over the years the Bank's Baltic Sea Account (formerly the Environmental Account) has contributed almost EUR 3.3 M to projects that improve and protect the environment.

Bank of Åland Group	2021	2020	2019	2018	2017
EUR M					
Income					
Net operating profit	49.2	39.7	33.2	29.0	26.0
Profit for the year attributable to shareholders	39.9	31.5	26.3	22.9	20.7
Volume					
Lending to the public	4,788	4,378	4,110	4,022	3,979
Deposits from the public	4,070	3,605	3,368	3,304	3,148
Actively managed assets ¹	9,826	7,436	6,343	5,177	5,737
Equity capital	332	292	258	242	234
Risk exposure amount	1,976	1,671	1,583	1,578	1,538
Financial ratios					
Return on equity after taxes (ROE), % ²	14.0	11.6	10.7	9.8	9.1
Expense/income ratio ³	0.69	0.70	0.73	0.77	0.78
Loan loss level, % ⁴	0.12	0.11	0.08	0.02	0.06
Gross share of loans in stage 3, % ⁵	1.23	0.89	0.81	0.47	0.42
Liquidity coverage ratio (LCR), % ⁶	139 ⁷	159	139	120	142
Loan/Deposit ratio, % ⁸	118	121	122	122	126
Common equity Tier 1 capital ratio, % ⁹	12.1	14.3	13.4	13.0	12.9
Tier 1 capital ratio, % ¹⁰	13.6	14.3	13.4	13.0	12.9
Total capital ratio, % ¹¹	15.4	16.5	15.8	15.4	14.2
Working hours re-calculated to full-time equivalent positions	815	751	700	691	691
Earnings per share, EUR ¹²	2.55	2.02	1.69	1.48	1.35
Equity capital per share, EUR ¹³	19.39	18.76	16.61	15.67	15.14
Dividend per share, EUR	2.00	1.00	1.00	0.70	0.65

¹ Actively managed assets encompassed managed assets in the Group's own mutual funds as well as discretionary and advisory securities volume plus external funds with contractual earnings.

² Profit for the reporting period attributable to shareholders/Average shareholders' portion of equity capital.

³ Expenses/Income.

⁴ Impairment losses on loan portfolio and other commitments from lending to the public/Lending to the public at the end of the period.

⁵ Share of loans in stage 3/Gross lending to the public.

⁶ LCR assets at level 1 and 2/30-day net cash outflow.

⁷ Corrected calculation compared to Year-end Report.

⁸ Lending to the public/Deposits from the public.

⁹ Common equity Tier 1 capital/Risk exposure amount.

¹⁰ Tier 1 capital/Risk exposure amount.

¹¹ Own funds/Risk exposure amount.

¹² Shareholders' portion of profit for the period/Average number of shares.

¹³ Shareholders' portion of equity capital/Number of shares on closing day.

The year 2021 in brief

Financial summary of 2021

- Net operating profit increased by 24 per cent to EUR 49.2 M (39.7).
- Earnings per share increased by 26 per cent to EUR 2.55 (2.02).
- Return on equity after taxes (ROE) increased to 14.0 per cent (11.6).
- Net interest income increased by 6 per cent to EUR 62.2 M (58.9).
- Net commission income increased by 19 per cent to EUR 79.0 M (66.3).
- Total expenses increased by 15 per cent to EUR 121.9 M (105.6).
- Net impairment losses (including recoveries) amounted to EUR 4.9 M (4.9), equivalent to a loan loss level of 0.12 (0.11) per cent.
- Actively managed assets increased by 32 per cent to EUR 9,826 M (7,436).
- Deposits increased by 13 per cent to EUR 4,070 M (3,605).
- Lending increased by 9 per cent to EUR 4,788 M (4,378).
- The common equity Tier 1 capital ratio decreased to 12.0 per cent (14.3).
- The Board of Directors proposed a regular dividend of EUR 1.55 per share plus an extra dividend of EUR 0.45 per share.

Important events in 2021

FIRST QUARTER

- On January 1 the Board of Directors of the Bank of Åland approved the distribution of a dividend of EUR 1.00 per share (a regular dividend of EUR 0.80 and a 100th anniversary dividend of EUR 0.20) for the 2019 financial year, in compliance with the authorisation that the Board received from the Bank's Annual General Meeting (AGM) on April 2, 2020.

- The Bank of Åland opened a new office in Oulu on the Finnish mainland.
- In March, for the first time ever the Bank of Åland issued an additional Tier 1 (AT1) capital instrument totalling SEK 300 M.
- Borgo AB, an associated company of the Bank of Åland, received permission from the Swedish Financial Supervisory Authority to operate a financing business and to issue covered bonds.
- The AGM on March 30 re-elected the Board, consisting of Nils Lampi, Christoffer Taxell, Åsa Ceder, Anders Å. Karlsson, Ulrika Valassi and Anders Wiklöf. At the statutory meeting of the Board the same day, Nils Lampi was elected as Chairman and Christoffer Taxell as Vice Chairman.
- The AGM approved the distribution of a dividend of EUR 1.00 per share for the 2020 financial year.
- Together with its customers, the Bank of Åland continued its commitment to a cleaner Baltic Sea. The Baltic Sea Project contributed EUR 500,000 to various projects that promote the health of the Baltic Sea.

SECOND QUARTER

- For the eighth consecutive year, the Bank of Åland (Ålandsbanken) Euro Bond Fund was named the best Nordic fund in its category by Refinitiv Lipper. The Morningstar investment research company, which compares fund data and funds in their respective classes, also assigned the Bank of Åland Euro Bond Fund its highest rating – five stars – in all review cycles.
- On June 30 Alandia Holding, an associated company of the Bank of Åland, completed its acquisition of the Rettig Group's entire stake (24.9 per cent) in the marine insurance company Alandia Försäkring.

- Net operating profit during the quarter was the highest ever in the Bank's history.

THIRD QUARTER

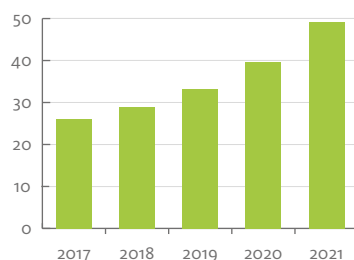
- In August the Bank of Åland sold its shareholding in the company Åland Index Solution as well as intellectual property (IP) rights to the Åland Index to Doconomy, a Swedish-based fintech company. The Bank of Åland still has a significant ownership stake in Doconomy.
- In September the Bank of Åland carried out an early redemption of SEK 2.5 billion in covered bonds from the Swedish pool with a final due date in November 2022. At the same time, the Bank issued new covered bonds in the amount of SEK 5.5 billion with a final due date in September 2026. The bond issue was unique, since these bonds carry contractual conditions that allow them to move from the Finnish to the Swedish legislative framework, and from the Bank of Åland as counterparty to Borgo as counterparty, when the Bank's Swedish mortgage loan portfolio is transferred to Borgo during the first half of 2022.
- Net operating profit during the quarter was again the highest ever in the Bank's history.

FOURTH QUARTER

- The Bank of Åland announced new long-term financial targets.
- Borgo started its operations in Sweden.
- In December, for the first time ever the Bank of Åland issued a green Tier 2 (T2) supplementary capital instrument totalling SEK 150 M.
- For the third consecutive year, full-year net operating profit was the highest ever in the Bank's history.

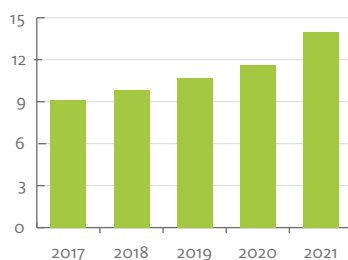
Net operating profit

EUR M



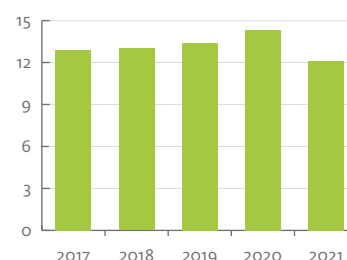
Return on equity after taxes (ROE)

per cent

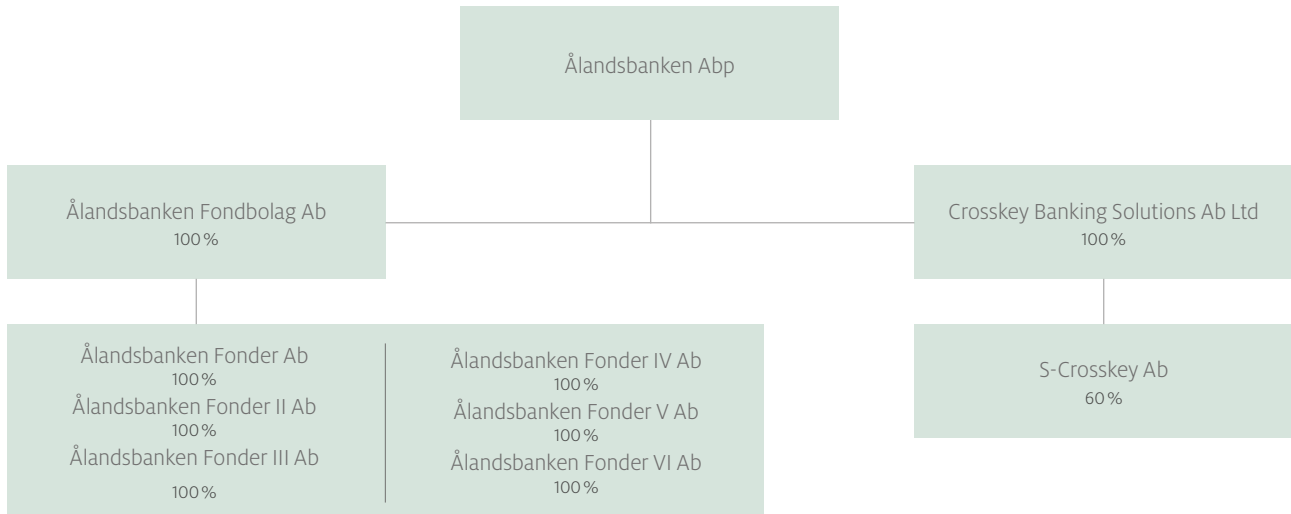


Common equity Tier 1 capital ratio

per cent

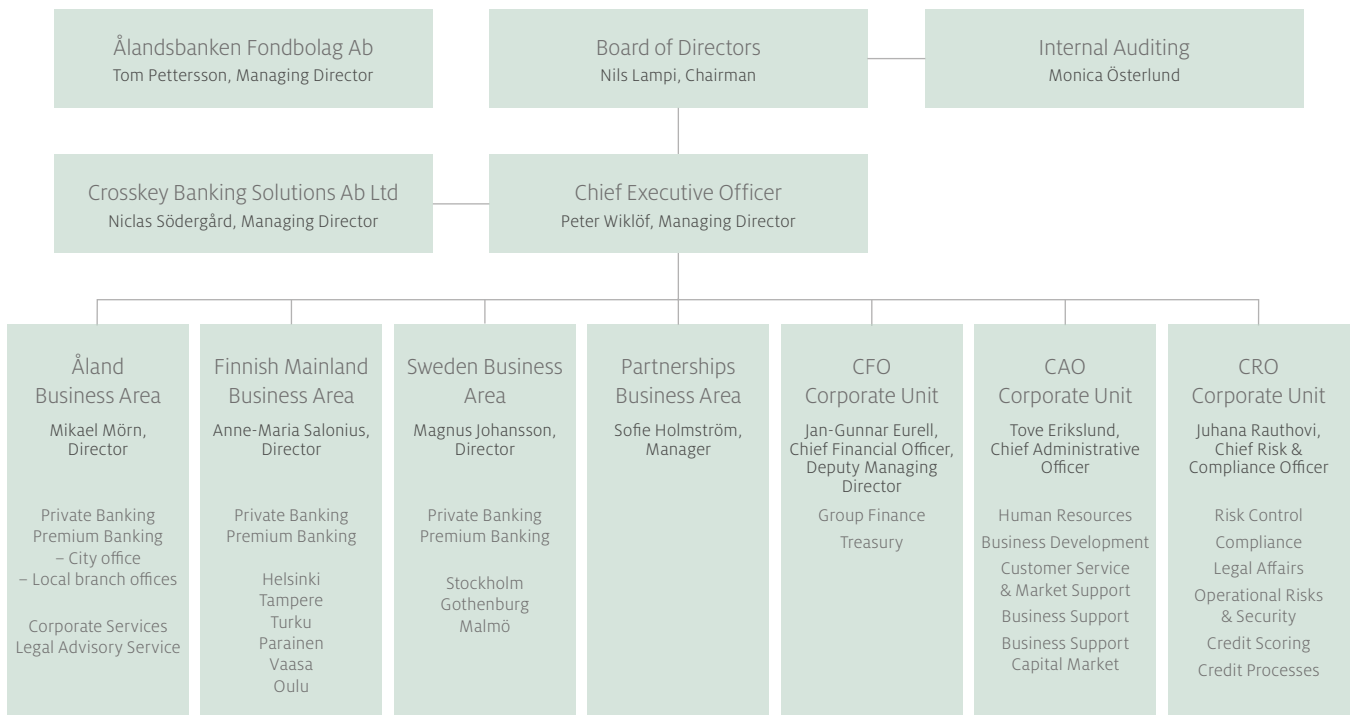


Legal structure of the Group



Associated companies consolidated in the Group: Mäklarhuset Åland Ab, 29%; IISÅ Holdco AB, 25%; Borgo AB, 22.5%, Alandia Holding 28%.

Organisational chart



Another year of strong volume growth and momentum



Photographer: Viktor Fremling

Peter Wiklöf, Managing Director

The ongoing coronavirus pandemic again dominated events in 2021. The year began with continued recommendations about remote work and avoiding larger gatherings, as well as not travelling. During the summer it began to feel as if the authorities could begin to ease the restrictions, but a new and more contagious coronavirus variant (Omicron) arrived late in the year, causing tighter restrictions to be reintroduced.

Despite a year of widespread global pandemic restrictions, stock markets performed very favourably. We saw the Helsinki Stock

Exchange gain 18 per cent and the Stockholm exchange 35 per cent. In the United States, the S&P 500 index grew by 27 per cent.

In fixed income markets, we continued to experience very low or negative interest rates and bond yields. This included short-term benchmark rates that are important to the Bank: the 3-month Euribor averaged -0.55 per cent and the 3-month Stibor -0.04 per cent. By the end of 2021, however, we could see clearly rising inflation figures, which led to rising long-term yields and caused the world's central banks to begin talking about ending their large-scale stimulative asset purchases and start hiking their key interest rates during the next couple of years. This communication led to increased volatility in the stock markets.

CONTINUED STRONG GROWTH

The good growth we have seen in recent years in our Private Banking and Premium Banking operations continued at a faster pace during 2021. The various pandemic restrictions thus did not hinder the development of our business. Digital meetings and various kinds of webinars became part of our everyday lives. Customers showed great understanding of our pandemic-adapted working methods. We were pleased to note that many new customers chose the Bank of Åland, both in Finland and in Sweden.

Because of this clear interest in our services from new customers, during 2021 we decided to start our first new office on the Finnish mainland in over 20 years. The office

was opened in Oulu and got off to a good start in its operations.

Our lending and deposits continued to grow at a healthy pace. Lending grew by 9 per cent to EUR 4,788 million and deposits by 13 per cent to EUR 4,070 M. This growth occurred in both our Private Banking and Premium Banking segments. However, lending was helped by our collaboration with ICA Bank, which – as part of preparations for the start-up of the jointly owned mortgage company Borgo – sold home mortgages directly in our balance sheet in the Swedish market.

The most exciting feature of our growth in 2021 was a very sharp increase in actively managed assets on behalf of our customers. The Bank of Åland has never before seen anything like the strong net inflow of new customer volume that we had during the year. By the end of 2021, we were able to record a positive net inflow of EUR 840 M. Combined with strong stock markets and good asset management earnings, this enabled our actively managed assets to grow by 32 per cent during the year to EUR 9,826 M.

POSITIVE INCOME TREND

During 2021 our total income grew by 17 per cent to EUR 176.0 M. Rising business volume during the year led to a strong income trend. Our net interest income rose by 6 per cent to EUR 62.2 M despite continued strong pressure on margins and negative market interest rates. Net commission income was the biggest cause for rejoicing in terms of earnings. Here we saw a 19 per cent increase to EUR 79.0 M. The main reason for this surge was the good volume trend in actively managed assets.

A few years ago, net interest income was still our largest source of earnings, but because of our success in financial investment operations together with our customers, net commission income is now clearly larger. This is a trend that we have wanted and have worked systematically to achieve.

Information technology (IT) income rose by 11 per cent to EUR 24.4 M. Our IT subsidiary Crosskey had another year of heavier demand for its services.

During 2021 we enjoyed some nonrecurring sources of income. This included selling

our rights related to the Åland Index to the Swedish fintech company Doconomy. The Åland Index is a method for measuring one's carbon footprint, created by the Bank of Åland. The purpose of the sale was to enable further global expansion of this method. We continue to have a strong ownership stake in Doconomy. Another source of positive non-recurring income came from our associated company Alandia Holding's acquisition of a 24.9 per cent stake in Alandia Försäkring, a marine insurance company. The net effect of nonrecurring transactions on the Bank's earnings totalled about EUR 5 M.

CONTINUED INVESTMENTS IN HUMAN RESOURCES AND IT

We continued our planned expansion efforts by investing in additional human resources and IT. Recalculated to full-time positions, we increased our employee count by 66. About half the new positions were at Crosskey and the other half at the Bank, where we added people both in our business operations and our corporate units. Staff costs rose by 13 per cent to EUR 71.1 M.

Other expenses rose by 20 per cent to EUR 36.5 M. The largest increase was from higher IT expenses. Due to some major projects requiring consultant expenses, as well as new customers at Crosskey, during 2021 we set up new infrastructure enabling the company to launch increased production.

Total expenses rose by 15 per cent to EUR 121.9 M.

CREDIT QUALITY AND IMPAIRMENT LOSSES

Despite the pandemic, we did not experience any general deterioration in our credit quality. The Bank of Åland had no large exposure to companies that were hard hit by the pandemic, but we have local exposure in Åland. We were thus pleased to note that the summer of 2021 was a very good tourist season in Åland, with tourists from the Finnish mainland arriving in unprecedented numbers. Our impairment losses during the year were at the same level as in 2020: EUR 4.9 M. These write-downs were mainly due to three large loan commitments. We chose

not to withdraw the approximately EUR 2.5 M in reserves created in 2020 because of the coronavirus pandemic, since we were still seeing extensive virus transmission in neighbouring regions.

RECORD EARNINGS

Overall, we can report another year of record-breaking earnings. Net operating profit increased by 24 per cent to EUR 49.2 M. This was our fifth straight year of higher net operating profit.

Return on equity after taxes (ROE) rose to 14.0 per cent, compared to 11.6 per cent in 2020. Because of the Bank's earnings success, during 2021 the Board of Directors chose to update our long-term financial targets.

As for the Bank's return on equity after taxes, our new target is that it shall exceed 15 per cent over time (previously 10 per cent). The common equity Tier 1 capital ratio shall exceed the Finnish Financial Supervisory Authority's minimum requirement by 1.75–3.0 percentage points. The payout ratio shall be 60 per cent or higher (previously 50 per cent), provided that capital adequacy does not fall below target.

CUSTOMERS APPRECIATE WHAT WE DO

Our own measurements during 2021 showed that customers' ratings of us improved from already good levels. We were pleased to note this both in our Private Banking segment and in Premium Banking.

The broad external customer survey conducted every year by market research company Kantar SIFO Prospera ranked the Bank of Åland as number one for Private Banking in Finland. The survey showed that customers especially appreciate and value our knowledge in the financial investment field, our personalised approach and our service-mindedness. We will continue to work hard to maintain this appreciation and the high marks from our customers.

Our customers also appreciated our asset management operations, which very successfully handled their investments during the year. For example, our Nordiska Småbolag fund had the best return of more

than 700 mutual funds in Finland (+57.2 per cent), while our broader Kapitalförvaltning fund received the maximum rating of five stars from Morningstar.

WE ARE NOW ALSO SELLING THE EXTENSIVE KNOWLEDGE IN OUR CORPORATE UNITS

One of our biggest projects over the past two years has been the start-up of the new mortgage company Borgo in Sweden. The Bank of Åland has several roles here. We are one of the founders of the company together with ICA Bank, Ikano Bank and Söderberg & Partners. The savings bank Sparbanken Syd will also become a co-owner. Home mortgage management has clear economies of scale, and together with the other co-owners we want to help create a Swedish market player that has both expertise in mortgage management and a far-flung distribution network.

In addition to our co-ownership role, we have assumed the role of providing day-to-day management of the business. Through a platform agreement, the Bank of Åland will deliver both the IT solution and service management in accounting, treasury, payments, deposits and home mortgages. This gives our skilled corporate units an opportunity to sell their extensive knowledge to other market players outside of the Bank of Åland.

The third role that the Bank of Åland will have in this partnership is to serve as one of the distributors of Borgo's home mortgages. We have agreed to transfer most of our existing mortgages in the Swedish market to Borgo early in 2022. The transfer will consist of approximately SEK 12.5 billion worth of mortgages. This transaction will have no major impact on the Bank of Åland's customers, since the Bank will continue to handle all contacts with its customers. The transfer will have a positive effect on the Bank of Åland's net operating profit in the first quarter of 2022, but after that it will mean a smaller loan portfolio in the Bank's own balance sheet and thus lower current net interest income. In the future, the Bank will

instead receive distribution payments for brokered loans and platform income for maintaining its various services to Borgo.

SUSTAINABILITY

One of the areas that we attach great importance to and are constantly working with is sustainability. The Bank of Åland was the only Finnish bank among the co-founders of the Net-Zero Banking Alliance. It was one of a total of 42 founding banks in this United Nations global initiative.

To enable us to monitor our progress in the sustainability field, our ability to measure and establish targets for our impact is absolutely crucial. This is not an easy task, and our entire industry is now working intensively to find models and methods for calculating our climate footprint. In many areas, our ability to measure our impact is still rather crude, but that does not prevent us from starting to do so. I am convinced that our methods will improve over the coming years.

During 2021 we expanded climate calculation efforts in our business operations. For the first time, we also calculated the climate impact of our core business, defined as our loan and treasury portfolios as well as our customers' financial investment business with us. We have also established our first climate targets according to the Paris Agreement and have decided that we shall become climate-neutral in keeping with Finland's climate policy decision.

Through these decisions, sustainability issues have become an integral part of our normal business planning. Making measurements and setting targets in the sustainability field will thus have a direct impact on our future policy decisions. Over the next few years, the authorities will increase pressure on our industry related to sustainability by enacting more and more regulations. We want to be well equipped for this necessary task.

CONTINUED GOOD MOMENTUM

We are starting 2022 with continued good forward momentum. The Bank of Åland is

in a strong position. We are well equipped for an exciting future journey, as a growing team whose collective expertise will be better than ever before.

It is an inspiring task to lead our ambitious and conscientious Bank of Åland team. I would like to express my sincere gratitude to all our employees, who have taken on the challenges created by the pandemic in an admirable way and who have not merely maintained the status quo, but have clearly moved our Bank forward.

Many thanks also to our existing and new customers for the trust that you show us.

Peter Wiklöf
Managing Director

Daring to go our own way

As large banks become ever larger and their customers feel ever smaller, a clear need arises – the need for a bank where each customer feels seen, heard and appreciated. The Bank of Åland has nearly a century behind it as an independent, innovative and customer-oriented bank. This is why it is self-evident that we will continue along a path where the needs of our customers are the guiding principle for our development.

OUR VISION

Our aim is to be the self-evident bank for individuals with ambitions and companies that value relationships.

OUR POSITION

The Bank of Åland is a bank for investors, with financing know-how. The Bank of Åland generates value for individuals and companies by delivering a large bank's range of services with a smaller bank's thoughtfulness and sense of dedication.

At the Bank of Åland, we focus on what problems we solve, what opportunities we create and how we deliver different types of value to our customers. We always go our own way, and that is how we persuade more and more friends to join us on this path. Our choice of position is ambitious and it is a position where the Bank of Åland foresees a clear customer need and a growing market. We are growing within selected target groups, putting special emphasis on financial investment operations at the same time as we deliver financing solutions and other banking services in an outstanding way.

A BANK FOR INVESTORS, WITH FINANCING KNOW-HOW

The Bank of Åland's proficiency as a bank for investors has been confirmed in all its markets over the past few years. This is demonstrated by its increasing number of customers, along with various industry awards. Our financing know-how has long traditions and will continue to play a central role.

CUSTOMER RELATIONSHIPS AND TRUST

All sound banking business is based on trust. This is especially evident in the way that customers handle their financial investments. We know that it requires time and dedication to build trust among new customers. The Bank of Åland offers a bank as it should be – a bank that wants individuals, companies and the community to have fertile ground for development.

We are convinced that strong, long-term relationships are built through good performance by ambitious people.

GOOD SERVICE VIA ALL CHANNELS

The Bank of Åland has always welcomed new technology that makes everyday life easier for our customers. Our Internet Bank has thus been a forerunner in the industry since its inception. In our development work, we draw no distinctions between personal and digital encounters. Regardless of the channel, our customers

shall always feel that they are receiving good service. Our relationships shall be equally strong in every channel. But we also take advantage of the special strengths of the various channels. Personal meetings are the most suitable channel for advisory services, while our Internet Office – delivered via the Web – and our banking app using mobile devices enable customers to gain a clear overview and seamlessly manage their everyday finances.

AN EVER-BROADENING RANGE OF PARTNERSHIPS

For many years, the Bank of Åland has collaborated with other market players within the IT field via its subsidiary Crosskey Banking Solutions. In the world that is now emerging, we are seeing that the Bank of Åland has the ability and the potential to offer products and services to other market players within a substantially broader field than IT services alone. In fintech, today the Bank of Åland is already a versatile and capable partner with the capacity to deliver solutions to companies in most financial service areas.

MAKING OURSELVES CLIMATE NEUTRAL

Given our close connection to the small community of Åland, located among thousands of islands in the middle of the Baltic Sea, sustainability work has been a natural element of our core values for a long time. Together with our customers, we have created products and services that both increase awareness and support concrete sustainability projects. Sustainability issues are an integral part of our usual operational management, where the Board of Directors, the Executive Team and all our employees have their role. Each quarter we transparently report our greenhouse gas emissions according to Greenhouse Gas Protocol (GHGP).

We begin with our materiality analysis, which is based on the 17 United Nations sustainable development principles. We analyse our operations and identify the areas where we have positive and negative impacts. Then we set clear sustainable development targets and regularly follow up our work. Our long-term target is to become a climate-neutral group and finally achieve net-zero emissions. In 2021 we joined the Net-Zero Banking global alliance, which means that by 2050 we shall report net-zero greenhouse gas emissions, in line with the Paris Agreement. With the help of GHGP Scope 1–3, we will calculate and report greenhouse gas emissions on a quarterly basis from our own operating activities and from the loan and treasury portfolios in our balance sheet, as well as from our customers' financial investment portfolios.



Projects that promote the health of the Baltic Sea

The Bank of Åland has supported the important work of various environmental organisations for more than 20 years. Through the Baltic Sea Project, the Bank has funded projects that promote a healthier Baltic Sea since 2014. Funding is divided into five different categories – digital innovations, concrete kilograms, engaging projects, local water protection projects as well as children’s and youth projects.



In 2021 the largest single grant went to a snow melting and cleaning project by Clewat, a company that specialises in waste removal from waterways. Stara, the City of Helsinki’s construction service company, tested Clewat’s new snow melting machine near the Viikii snow receiving site in the winter of 2021. During a test period of six weeks, just over 15,000 cubic meters of snow were melted and filtered. This is equivalent to 1,000 truckloads.

The Baltic Sea Project granted EUR 80,000 to the city of Mariehamn to build a wetland at the mouth of the Sviby River. Wetlands can reduce the amount of nutrients in runoff that cause eutrophication, improving the local aquatic environment and increasing biodiversity. This year the Baltic Sea Project also funded research and youth projects and provided grants to long-term partners.

- Clewat, Snowhow Project, EUR 130,000
- Baltic Sea Action Group, EUR 80,000
- John Nurminen Foundation, EUR 80,000
- City of Mariehamn, Svibyå wetland, EUR 80,000
- Race for the Baltic, EUR 50,000
- Finnish Environment Institute (SYKE), plastics in nesting areas, EUR 42,000
- WWF, EUR 25,000
- Friends of the Eider (Ådans Vänner), EUR 10,000
- Vahtolanlahti Bay Restoration Plan, EUR 5,500
- Rotary Water Kit Backpack youth project, EUR 5,000

Funding for the Baltic Sea Project is based on deposits in the Bank’s Baltic Sea Accounts. Every year, the Bank donates an amount equivalent to up to 0.2 per cent of deposits in Baltic Sea Accounts for environmental work. Over the years, the Bank has donated EUR 3,300,000 for the benefit of the environment.

A stimulating workplace

Many professional development opportunities



Photographer: Therese Andersson

Johan Haglöf, Human Resources Manager, Bank of Åland, and Monika Sigmark, Human Resources Manager at Crosskey.

The Bank of Åland Group is continuously recruiting new employees. Those who start in the Group have many opportunities for professional development. They are encouraged to follow their own ambitions and interests. A summer job may lead to a permanent position and eventually to the next step on the career ladder. Some employees move up very rapidly, sometimes to a new role in a new area.

“We have a great need for personnel. Our number of full-time positions increased by more than 60 during 2021, despite the current pandemic,” say Johan Haglöf, Human Resources Manager at the Bank of Åland, and Monika Sigmark, HR Manager at Crosskey.

The Group is a workplace where an employee has many different opportunities to develop new skills and create a career. This applies both to new graduates and to people who already have some years of work behind them. “Since the Bank of Åland is a full-service bank, we offer most of the same services as major banks. But our departments are much smaller. Employees must take great personal responsibility, and they gain a broader insight into the overall banking business. At the Bank, we have around 270 different positions. This means there is a wide range and that there are good opportunities to find a role that suits your interests and ambitions. The fact that we have offices both to the east and west of the Head Office in Mariehamn adds extra spice to certain positions. You can be sta-

tioned in Åland and work with Sweden, which has its own its laws and regulations, or vice versa,” says Mr Haglöf.

At the Bank, service adviser and service specialist jobs are two examples of classic entry-level positions that are suitable for those who have studied economics at some level. Other experiences may also be relevant, such as a background in a service profession or in the marketing industry.

These positions quickly provide an insight into how the Bank works, what services it offers and what customers want. This gives you a solid base to stand on and a strong advantage if you want to take on new challenges.

Collaboration with universities

Crosskey has engaged in intensive collaboration with several educational institutions – both in Åland and elsewhere – to cover its need for employees. It offers trainee programmes and paid internships. A traineeship period generally begins during the summer and may continue on an hourly basis while the trainees complete their studies.

“We are flexible as employers and offer different alternatives. Summer job holders can continue working on an hourly basis during the winter if it suits them, for example so they can complete their studies at the same time. Then they can return for a permanent job and after that there are many opportunities for various career paths at Crosskey,” says Ms Sigmark.

Many employees have been recruited from outside Åland. Some of them work at offices outside the province. Others have moved to Åland with their whole family. This in itself is positive for the Åland community, which welcomes new residents. Crosskey is also one of the participants in the Åland provincial government's Grit:lab project, a new form of technological training under the motto "Innovative Coding Education."

Banking knowledge is needed

Crosskey is unique – compared to pure IT companies – in needing product specialists with banking knowledge. This, in turn, means that there are opportunities for bank employees who are interested in IT to find a new career path at Crosskey. For example, they can

become important key individuals who know what is required to make banking systems user-friendly and can thus translate these requirements and needs for Crosskey's system developers. It also works the other way around: people with IT knowledge and having worked a number at Crosskey can continue to a position at the Bank of Åland.

"We also need people who want to be managers, and this doesn't necessarily require an IT background", says Ms Sigmark. She adds: "We try to create an inspiring atmosphere at Crosskey where employees help and support each other and they can be themselves. We have examples of our employees applying for jobs elsewhere, but then returning to us after a while. We see that as a positive recommendation! "



"I landed an internship at Crosskey during my studies at Åland University of Applied Sciences. Then I worked there evenings and weekends during my semesters. In the spring of 2013 I got a permanent job as an Application Developer. The focus of my working group was on internet banking and mobile apps. This was followed by a job in development of mobile apps. In 2017, I became an Application Manager and was given greater responsibility for development work and operations. As a System Architect, which I became in 2018, I am one of those responsible for overall technical design. I have always been more interested in technology than in things like personnel and managerial responsibilities, and I have had good opportunities for professional development at Crosskey. I have been encouraged to take on new tasks, and our industry is constantly growing and changing, which offers new challenges and opportunities."

Jimmy Mattsson,
System Architect at Crosskey.



"I had studied IT in Uppsala and worked for two years as an IT consultant in Stockholm, but I wanted to go home to Åland. In 2014 I got a job as a process owner at the Bank of Åland, responsible for development of payment services. The banking world was new to me, but my IT experience was very useful. In 2018, I moved to a position as a standards and testing manager and later to a position as a business developer. These roles included project management and managing the task of ensuring the benefits and quality of system orders. In 2021, I changed jobs within the Group and started at Crosskey, where I now have a management role. These jobs have succeeded each other in a natural way. Each time I have benefited from my previous experiences, meanwhile learning new areas. It has been a more meaningful journey than I expected when I started at the Bank."

Johanna Hamnström,
Product Manager at Crosskey.



"My journey within the Bank of Åland began in May 2017. I had studied economics in Västerås and got a summer job as a service advisor at the office in Godby. After that, I had the same job at the office in Mariehamn until November 2018 when a new door opened – a substitute position at Business Development where I first worked with the development of the Mobile Bank and as a project manager, and later as a business developer for partnerships. This, in turn, led to the job I have today as a partnership manager at the Partnerships Business Area. I wanted to advance, and the Bank offers good opportunities to develop your skills according to your own ambitions and interests. If you show that you want to, you can go far. I'm happy where I am now, but I also see that there are even more opportunities for professional development within the Group."

Victoria Eriksson,
Partnership Manager in the Partnerships
Business Area at the Bank of Åland.

During 2021 we established our climate targets

The Bank of Åland's long-term climate targets are now in place. By 2030 our greenhouse gas emissions (in CO₂e) shall be 50 per cent lower, by 2035 we shall be climate neutral and by 2050 our emissions shall be net-zero. These are ambitious but achievable targets. During 2021 many people in our organisation were given expanded responsibility for sustainability issues.

At the Bank of Åland today, sustainability issues are a natural element of operational management, with the Board of Directors, Executive Team and other employees all assuming clear roles. Our ambition to be part of the change towards a sustainable society is the most important driver. To help us, we have external regulations and internal governance in the form of policy documents and guidelines. The European Union has adopted regulations for achieving the goals of the Paris Agreement as well as the United Nations sustainable development goals.

The Bank of Åland's sustainability strategy has four areas of responsibility:

- Responsible investments
- Responsible lending
- Environmental responsibility
- Social responsibility

The purpose of these areas of responsibility is two-fold. First, they help us carry out responsible business operations. Second, they clarify how we contribute to the UN's Agenda 2030 for sustainable development.

Agenda 2030 comprises 17 goals, divided into 169 targets. We perform a materiality analysis based on the 17 sustainable development goals. We analyse our operations and identify the areas where we have a positive or negative impact. Then we establish clear development goals and follow up this work regularly.

Another source of support in our efforts to move our operations towards meeting the global goals is the UN Principles for Responsible Banking (PRB), which we have adopted and introduced at the Bank of Åland. As early as 2010 we signed the UN Principles for Responsible Investments (UNPRI), and in 2019 we adopted the six PRB principles:

- Alignment
- Impact and target setting
- Clients and customers
- Stakeholders
- Governance and culture
- Transparency and accountability

During 2021 we focused on the second principle: by carrying out a climate calculation of our balance sheet assets in the form of the loan portfolio and Treasury portfolio, as well as the financial investment portfolios we provide to our customers, we can analyse our own climate impact and identify goals.

The first principle has also been important in order to ensure that we are moving our operations in the right direction in terms of goals and our own impact, especially on the climate and environment.

In 2021 we joined the global Net-Zero Banking Alliance, which requires that by 2050 we shall report net-zero greenhouse gas emis-

sions, in line with the Paris Agreement. Using Scope 1–3 of the Greenhouse Gas Protocol (GHGP), we will calculate and report greenhouse gas emissions from our own business operations and emissions from the loan and treasury portfolios in our balance sheet as well as our customers' financial investment portfolios on a quarterly basis.

What our climate targets mean

Our long-term climate targets state that no later than 2035 the Bank of Åland shall be a climate-neutral organisation, which is in line with Finland's climate policy decision. We shall also report net-zero emissions by 2050. Our climate neutrality target also supports the Åland regional government's target of climate neutrality no later than 2035 as well as Sweden's target of climate neutrality by 2045.

In addition, the Bank's climate target supports Goal 6 of the Bärkraft initiative for a sustainable Åland: A significantly higher proportion of energy from renewable sources plus increased energy efficiency.

To enable the Bank of Åland to achieve the climate targets it has established, we need a climate strategy which ensures that we will take continuous steps towards reducing emissions. This strategy will be adopted during 2022.

UN principles followed by the Bank of Åland

	Adopted
UN Principles for Responsible Investment (UNPRI)	2010
UN Environment Program Finance Initiative (UNEP FI)	2019
Net-Zero Banking Alliance (NZBA)	2021

Our sustainability governance

At the Bank of Åland, sustainability issues are a natural element of our regular operational management, with the Board of Directors, Executive Team and other employees all assuming clear roles. During 2021 many people in our organisation were given expanded responsibility for sustainability issues.

REGULATIONS & INTERNAL GOVERNANCE

The development, management and governance of the Bank's sustainability work are based on the priorities of our stakeholders, external regulations and our own ambition to be part of the move towards a sustainable society. Regulations and frameworks such as the EU Taxonomy and Disclosure Regulations will also be an important focus in the future.

EXECUTIVE TEAM AND BOARD

The Board of Directors has the ultimate responsibility for governance of the Bank's sustainability work and is actively engaged in

sustainability issues. The Board adopts the Bank's sustainability strategy every two years.

The Managing Director/Chief Executive is responsible for ensuring implementation of the Bank's strategy, which shows which way the Bank is moving and what is needed to achieve its established targets. This responsibility also includes sustainability.

The Group-wide Executive Team is responsible for strategic sustainability work at the Bank of Åland. Based on a yearly materiality analysis and the Bank's sustainability strategy, the Executive Team creates plans for each sustainability area.

THE SUSTAINABILITY TEAM

The Sustainability Team carries out the Bank's overall sustainability work and acts as a forum for questions and decisions. The team consists of four people: our sustainability manager, sustainability strategist, sustainability developer and responsible investment manager.

THE ESG COMMITTEE FOR SUSTAINABLE INVESTMENTS

The Group's ESG Committee is tasked with monitoring global events, overseeing developments in sustainable investments and ensuring that the Bank of Åland's investment activities follow the strategy and guidelines for sustainable investments.

THE REGULATORY GROUP

The Bank's regulatory group compiles all global monitoring results and also maintains a list of the regulations that must be implemented.

THE PROJECT ORGANISATION

The Bank's project organisation carries out those development and implementation projects which are related to sustainability.

Our sustainability work during 2021 in a nutshell

There was a strong focus on climate issues in 2021. We devoted a lot of work to the actions that are required for a transition that will enable us to meet the upcoming Paris Agreement deadline.

In UNEP FI's PRB Collective Report, we note that the entire financial sector at the global level has focused on climate issues and worked to identify and set goals for the transition. One common denominator for all actors is a lack of reporting standards. It is thus a challenge to collect and produce comparable data on how climate impact is measured. But there is an important consensus on taking action now and starting with what we know. This consensus is based on the realisation that key stakeholder groups expect increased transparency regarding both climate and sustainability issues.

In addition, regulations in this field are expanding. This will help to establish a clear framework for such matters as reporting, transparency, objectives and timetables.

The Bank of Åland's contributions to the UN global goals

ABOUT OUR MATERIALITY ANALYSIS

Today the UN global sustainable development goals are an established source of guidance in our sustainability work. Together with

the principles for responsible banking that we have adopted, we have all the prerequisites to contribute to a sustainable transition.

The purpose of the Bank of Åland's materiality analysis is to identify areas for sustainable development in both the short and long term. The materiality analysis includes all 169 targets associated with the 17 global goals. It is used in order to look at our business from four responsibility perspectives: lending, investments, environment and social issues.

The materiality analysis includes monitoring of global events, identification of our stakeholders and their interests and identification of our impact from a sustainability perspective. The analysis helps us to identify the issues on which it is essential for the Bank to continue focusing and developing – based on areas in which our activities have a positive or negative impact on the UN's global goals.

RESULTS OF THE ANALYSIS

Two issues are increasingly central: first, how we will increase our knowledge and awareness of the impact of our core business on the climate and environment, and second, our impact on other goals that are part of the UN's global goals.

It is clear that regulations are increasingly extensive in the financial sector. For example, the European Union has adopted regulations aimed at helping achieve the objectives of the Paris Agreement and the UN's global sustainable development goals:

The EU Taxonomy Regulation is a tool for classifying what economic activities are environmentally sustainable. The purpose of the classification is to help investors identify and compare environmentally sustainable investments. Part of the taxonomy went into effect in January 2022 and we thus report the proportion of our assets in 2021 that were covered or not covered by the taxonomy. See page 19.

Our reporting for 2021 is connected with presenting economic activities that contribute significantly to the taxonomy's environmental targets for climate change mitigation and adaptation. Reporting requirements will increase gradually in the next few years. Our reporting for 2022 will include four of the Taxonomy's additional environmental objectives: sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; and restoration of biodiversity and ecosystems.

The Disclosure Regulation is an EU regulation on sustainability-related information that aims at creating a standard for how sustainability risks in financial products shall be presented. We worked with implementation of the regulation before it went into effect into force in March 2021, among other things by categorising our products according to the regulation and updating our policy for integrating sustainability risks in investment decisions and in our advisory services on investment and insurance. Later in 2021 we worked with the more detailed requirements that will go into effect on January 1, 2023 and with implementing supplementary disclosure obligations for investment products according to the Taxonomy. During 2022 we will continue our implementation of the regulations, which will include continuously evaluating the main negative consequences for sustainability factors that our investment decisions may represent.

We must ask customers' sustainability preferences when providing investment advisory services from August 2022 onward, in compliance with amendments to MiFID 2. Since our customers will base future investment decisions on sustainability preferences, this will partially fulfil the EU's objective that capital should increasingly flow into sustainable investments.

Our stakeholders will play a larger role, and requirements for transparency and external communication will be broadened. In order to understand the needs and driving forces that are important to stakeholders, we conduct stakeholder dialogues, both qualitative and quantitative, through various channels during the year. Customer and brand surveys, as well as industry forums where current issues and trends are addressed, are other examples of such dialogues. Dialogues are initiated both by the Bank of Åland and by stakeholders.

Sustainable products are increasingly seen as a hygiene factor throughout our product range, instead of as a separate product category. We view sustainability risks and impact assessments for sustainable development as an indisputable necessity.

AREAS FOR DEVELOPMENT DURING THE YEAR

- **Regulations:** Our continued work with interpretation and implementation of regulations has provided us with greater clarity about reporting, follow-up and communication.
- **Responsible lending and investments:** By analysing available data, we have increased our knowledge and awareness about our impact on the climate and environment. These insights have also helped us to work strategically to reduce our negative impact in keeping with the global goals.
- **Stakeholders:** We have deepened our understanding of what needs our stakeholders have and what drives their choices in various decision-making situations. The lowest common denominator for all stakeholder categories is that they expect increased transparency and credibility as well as more information than before.
- **Climate:** We have developed a climate calculation and analysis model in order to understand the impact that we, as a company, have on the climate and environment. These insights are fundamental now that we will be crafting the Bank of Åland's climate strategy.
- **Commitment:** We will continue working to create the right conditions for retaining strong employee and social commitment.

THE BANK OF ÅLAND'S MAIN STAKEHOLDERS

- | | |
|-------------------------------------|----------------------------------|
| • Customers | • Resellers |
| • Shareholders | • Suppliers |
| • Debt investors | • Partnership organisations |
| • Employees and potential employees | • Special interest organisations |
| • Rating agencies | • Media |

Like many other financial sector players, we worked during 2021 to increase our understanding of the impact of our operations on

the climate and environment, including water, biodiversity and ecosystems. This work is a direct consequence of our decision in 2020 to define the Bank of Åland's long-term climate targets as soon as possible.

In 2021 we thus took a further step to deepen our knowledge and analysis of the climate impact of our operations. We are doing this by calculating our emissions based on Scope 1, 2 and 3 of the Greenhouse Gas Protocol (GHGP), both upstream and downstream. Upstream refers to emissions that are created by how we carry out our own operations, for example through heating of the premises where we operate and business travel by our employees. Downstream refers to emissions that occur due to what we produce and sell. But financial products are a little special in nature. It is far from obvious how emissions from financial products should be calculated or what financial products should be included in the calculation.

In 2021, we took a major step forward and significantly expanded our calculations. We are now calculating emissions from the Bank of Åland's own business operations (upstream) as well as from its core operations in the form of lending, the assets in our treasury operations, assets and investment services in the form of mutual funds and certain securities portfolios (downstream). Our ambition is to continue expanding these calculations, and our ultimate goal is to calculate emissions for all operations. Today quite a lot of the data is missing.

Climate calculations face challenges in terms of obtaining reliable data and comparable standards for calculations within Scope 1, 2 and 3. We calculate as transparently as we can with the data we currently have. We will aim at expanding our calculations as we gain access to new data.

We are thus aware that in the future, we must broaden and adjust our calculations as standardised calculation models become available. It is also worth pointing out that today it is challenging to compare climate calculations in the finance sector, since standards are lacking and different organisations calculate in different ways.

The Bank of Åland's climate targets

During 2021 we established the Group's climate targets, which support the Paris Agreement and its important goal in the fight against climate change: that the global temperature increase should be kept well below 2 degrees and that efforts should be made to limit it to 1.5 degrees.

- The Bank of Åland shall reduce its CO₂e emissions by 50 per cent no later than 2030, compared to 2021.
- The Bank of Åland shall be a climate-neutral organisation no later than 2035, in line with Finland's climate policy decision.
- The Bank of Åland shall achieve net-zero emissions by 2050.

Climate calculations form the basis for our ability to develop a climate strategy that tells us how, and at what pace, we should reduce our greenhouse gas emissions in order to achieve the established climate target. This strategy will be completed in 2022.

The basis for our climate strategy is to gradually reduce greenhouse gas emissions according to clear targets on a yearly basis and

in the longer term. We are also aware that in the short term, we will not be able to reduce all emissions. One important element of our climate strategy is thus to include climate compensation for the emissions we are unable to avoid.

The Group-wide Executive Team has thus decided that from 2021 onwards, the Bank of Åland will compensate for the proportion of CO₂e emissions that are related to our own business operations and encompass Scope 1 and 2 plus supplier-related emissions from purchases in Scope 3 (upstream), which we can measure today.

What climate compensation represents

Simply put, climate compensation enables individuals, organisations and nations to support environmental projects around the world in order to offset their own carbon footprint.

Carbon compensation is a reduction in carbon dioxide or other greenhouse gas emissions that is made in order to offset emissions caused elsewhere. Every tonne of emissions that are reduced or removed by a compensatory project creates a carbon credit. Companies, nations and individuals can invest in these projects directly or buy credits for the emissions they generate.

There are many types of compensation projects, but they can generally be divided into two categories: projects that reduce carbon dioxide emissions, ones that reduce future emissions (such as wind power projects) and carbon capture projects that remove carbon dioxide from the atmosphere (such as forest-planting projects). Carbon credits are certified for quality and impact according to internationally recognised standards.

Climate and environmental impact

Like other banks, the Bank of Åland has a relatively limited climate impact if we look at its own business operations. But via a bank's financial investment products, its customers own equity or debt instruments in businesses that have a climate impact. Through a bank's financing services, customers also own asset such as real estate and securities or carry out business activities that have a climate impact. The Bank of Åland's main negative climate impact occurs due to its financial investment and financing operations.

Climate targets combined with a climate strategy create the necessary conditions to deliberately and actively reduce that impact.

Although the greatest impact can be found in indirect emissions from its financial investment and financing operations, the Bank of Åland will continue to focus on the impact that our operational activities cause and strategically reduce CO₂e emissions.

During 2021 our focus was on the Bank's impact on the climate and environment. As a first step we established as a target that in line with the Paris Agreement, we will reduce our CO₂e emissions by 50 per cent no later than 2030, compared to 2021.

Our emissions in 2021 totalled 1,520,631 tonnes of CO₂e. We saw the following climate impacts in our core business operations and from our customers' financial investment portfolios, our loan portfolio and our treasury portfolio. This calculation is based on the GHG Accounting and Reporting standard and is based on available data within Scope 1, 2 and parts of Scope 3:

CO₂e emissions in various operations

Thousand tonnes	Quantity
Own business operations	0.8
Responsible lending	249.9
Treasury portfolio	3.7
Responsible investments	1,266.2
Total	1,520.6

Our own business operations

During the fourth quarter, the Bank of Åland implemented the GHGP for calculating and reporting greenhouse gas emissions. Emissions are reported in three scopes, where the Bank of Åland's climate calculation initially includes Scopes 1 and 2 as well as supplier-related emissions from purchases in Scope 3.

Total emissions in 2021 were 775 tonnes of CO₂e, an increase of 2.9 tonnes compared to the previous year. Scope 3 upstream is the category with the largest emissions, where the "waste" sub-category is the largest emission item. On the plus side, almost 90 per cent of our purchased electricity has a "green" origin label.

The Bank's environmental work has always come naturally, thanks to our geographic location in the Baltic Sea. The Environmental Account evolved into the Baltic Sea Account and today we are seeing that our contributions to improve the health of the Baltic Sea will also affect the climate. In the future, we will also see an increased focus on the impact of biodiversity on the climate.

Responsible lending

The Bank of Åland's lending to the public totalled EUR 4,788 M on December 31, 2021. In calculating emissions, the exposure of the entire loan portfolio was included.

The Bank of Åland's estimate of the total emissions financed via its lending in 2021 is 249,900 tonnes of carbon dioxide equivalent (refer to note). The Bank of Åland's target is to reduce CO₂ emissions from lending by 50 per cent between 2021 and 2030.

The Bank of Åland has estimated the CO₂e emissions financed via its lending by using the Åland Index climate impact tool, available data on properties and loan-to-value ratios, and published average emissions in Finland and Sweden. We estimate that our funding of companies and financial investments contributes the largest single impact on the Bank's financed emissions (70 per cent of total estimated emissions), compared to their share of the loan portfolio (35 per cent).

The financing of traditionally emission-intensive activities, such as agriculture and waste management, is assumed to contribute a high individual impact but makes up a marginal share of our loan portfolio. It should be noted that our calculations are based on current available data. Our calculations and models will be corrected as more data become available.

Our estimate of emissions financed via home mortgage loans was based on GHG Accounting and Reporting, a global standard. When calculating the carbon dioxide emissions from our lending, we calculated the emissions from activities financed within Scope 1 and 2.

The treasury portfolio

The treasury portfolio totalled EUR 1,606 M on December 31, 2021. When calculating the CO₂e emissions of our treasury portfolio, we followed the GHGP standard, with Bloomberg as our primary data source. The calculation includes Scope 1 and 2, but not Scope 3.

Bloomberg does not provide data for 13 per cent of our treasury portfolio. For that portion of the portfolio, we obtained CO₂e data either from other public data sources or made estimates using sector data or comparable issuers.

In 2021, the treasury portfolio's total emissions amounted to 3,696 tonnes of CO₂e. Seven per cent of the treasury portfolio accounts for 61 per cent of CO₂e emissions. Among those with the heaviest emissions were corporate bonds from the energy and manufacturing sectors, municipalities and covered bonds.

From the base year 2021 to the year 2030, the treasury portfolio's CO₂e emissions shall be reduced by 50 per cent.

Responsible investments

On December 31, 2021, the Bank of Åland had actively managed assets of EUR 9,828 M. Our estimate of carbon dioxide emissions from these assets was EUR 3,650 M. These figures consist of UCITS funds, since data for all AIF funds are missing. The figures do not include cash holdings of the funds or indirect positions such as ETFs and derivatives. For discretionary portfolios that are managed according to the Bank's model portfolios, we have only been able to include emissions data from direct shareholdings. We are thus missing emissions data on all funds, ETFs and all fixed income management that does not occur via direct models, as well as all "odd" portfolios that are classified as discretionary but that contain holdings (including equities) that do not belong to any model.

We have calculated the carbon dioxide emissions of the Bank's mutual funds and model portfolios on the basis of Scope 1, 2 and 3 (estimate). The calculations are made according to GHGP recommendations. All emissions have been converted to carbon dioxide equivalents (CO₂e). The Bank of Åland's total 2021 emissions from investment activities amounted to 1,266,000 tonnes of CO₂e. Scope 1 and Scope 2 emissions comprise about 25 per cent of total emissions, and 75 per cent is found in Scope 3 emissions from the companies in which investments were made.

Since climate reporting is expected to improve in the next few years, we foresee that the calculation methods for other financial instruments, such as outside mutual funds and ETFs, will become better. When that happens, the total emission figures from our financial investment operations are highly likely to be larger than the figures we are now reporting. All calculations are market value-weighted to reflect our ownership stake in companies.

Looking at emission data for the Bank's mutual funds compared to other funds, we see that all our funds have lower emissions than equivalent funds in each category. One example is our Europe Fund, which is one of those with the lowest emissions compared to other Europe funds offered in Sweden and Finland. The fund is underweight in holdings associated with large emissions; it is especially underweight in energy sector companies.

In both mutual funds and model portfolios, we see at the sectoral level that holdings in basic industries and electric power companies are among those with the largest emissions. We want to point out that these emissions are indirect figures, i.e. these companies' emissions will not decrease if we choose to reduce our holding. On the other hand, we see advocacy work – dialogue with companies – as an important tool to influence the transition towards a world with lower emissions.

In our financial investment operations, our target is a halving of emissions by 2030 compared to 2021. In addition, these operations will follow the Group's target of being net-zero by 2050 and climate-neutral by 2035 in line with Finland's goal.

The target of being net-zero by 2050 goes hand in hand with the ability of portfolio companies to achieve the Paris Agreement's goal of a global temperature increase no more than 1.5 degrees Celsius. Today this process will require a 7 per cent annual emissions reduction in a global portfolio. We will measure our portfolios' emissions and follow this plan. Our ambition is to own shares in companies that are in line with the Paris Agreement target of 1.5 degrees and influence companies that are not to change their operations.

Our compensation portfolio

We have developed a compensation portfolio that offsets emissions from our own operations – the 775 tonnes of CO₂e reported for the year 2021. This was done in collaboration with the Finnish non-profit Compensate, which offers companies and individuals easy access to high-quality greenhouse gas emission compensation.

Compensate's model, with its dynamic compensation portfolio, ensures the best climate impact and reduces the risks that may affect individual projects without compromising the integrity of the entire portfolio.

To ensure both climate integrity and actual impact, Compensate has a high standard of sustainability based on three pillars:

- Close collaboration with the research community.
- A highly selective compensation portfolio.
- Built-in overcompensation to guarantee an actual reduction of at least one tonne of CO₂ for each tonne of CO₂e compensation.

The contributions of the compensation portfolio:

- 80 per cent of the portfolio consists of projects that reduce and store greenhouse gases.
- 20 per cent of the portfolio consists of innovation projects, for example new technology for carbon capture and storage.
- The portfolio contains a built-in overcompensation to guarantee a genuine reduction in carbon dioxide.
- The portfolio makes a strong contribution to maintaining biological diversity and reducing socio-economic vulnerability.
- The portfolio contributes to all of the UN's 17 goals for sustainable development.

Greenhouse gas emissions (CO ₂ e)		2021	2020	
Thousand tonnes	Quantity	Quantity	%	
Greenhouse gases, thousand tonnes of CO ₂ e				
Scope 1				
Emissions from owned and controlled sources	0.0	0.0	26	
Total Scope 1	0.0	0.0	26	
Scope 2				
Energy-related emissions*	0.3	0.2	19	
<i>of which emissions from electricity according to the market-based method</i>	0.1	0.1	21	
Total Scope 2	0.3	0.2	19	
Scope 3 upstream ¹				
Purchased goods and services	0.1	0.1	1	
Capital goods	0.0	0.0	-3	
Transport and distribution	0.1	0.1	18	
Waste generated by own operations	0.2	0.2	1	
Business travel	0.1	0.2	-39	
Leased assets	0.0	0.0	15	
Total scope 3	0.5	0.5	-8	
Total greenhouse gases	0.8	0.8	0	
Climate compensation	-0.8			
Net greenhouse gases, thousand tonnes of CO₂e	0.0	0.8		
*Emissions from electricity according to location-based method subtracted from Nordic residual mix	0.8	0.7	9	

¹ Supplier-related emissions from purchases

Consumption		2021	2020	
	Quantity	Quantity	%	
Paper consumption, tonnes	19.7	19.0	4	
Energy consumption, GWh	2.20	2.18	1	
<i>of which renewable</i>	1.86	1.85	1	
<i>of which other</i>	0.34	0.33	3	
Number of business trips	578	1,004	-42	
<i>of which aircraft</i>	353	717	-51	
<i>of which ship</i>	126	89	42	
<i>of which train</i>	99	198	-50	

Greenhouse gas emissions (CO ₂ e)		2021
Thousand tonnes	Quantity	
Greenhouse gases, thousand tonnes of CO ₂ e		
Scope 3 downstream, investments ¹		
Loan portfolio exposure ²		
Residential properties	51.4	
Other properties	8.8	
Loans for purchases of securities	58.4	
Other	12.6	
Total private individuals	131.2	
Shipping		
Agriculture, forestry and fishing	15.7	
Energy, water and waste	14.9	
Other corporate loans	71.1	
Total companies	118.7	
Total loan portfolio exposures³	249.9	
Treasury ⁴		
Customers' financial investments		
Mutual funds ⁵	1,055.0	
Discretionary mandates ⁶	211.2	
Total customers' financial investments	1,266.2	
Total greenhouse gases, thousand tonnes of CO₂e	1,519.8	

¹ Only data for December 31, 2021 are available.

² Estimate based on the Åland Index climate impact tool, available data for properties and loan-to-value ratios and published average emission figures in Finland and Sweden.

³ The Bank of Åland's model provides a rough estimate of the loan portfolio's CO₂e emissions. The model is not exact enough to be used for comparisons with other banks.

⁴ All bonds in the Treasury portfolio are included in the calculations. Scope 1 and Scope 2 emissions in the invested issuers are weighted by ownership share based on holdings owned by the Bank of Åland on December 31, 2021. Bloomberg has been used as a data source, and in cases where data are not available from the issuer, estimates have been used. The treasury portfolio's cash positions and derivatives are not included in the calculations.

⁵ All UCITS funds are included in the calculations. Data are not available for AIF funds. Emissions in invested companies are weighted by the proportion of total shares owned by the funds on December 31, 2021. Bloomberg was used as a data source and in cases where data have not been available from the companies, estimates were used. This is largely the case in Scope 3 figures. The funds' cash positions, ETF holdings and derivatives were not included in the calculations.

⁶ Discretionary customer portfolios that follow model portfolios are included in the calculations. The emissions in the invested companies are weighted by ownership interest based on holdings owned by the funds on December 31, 2021. Bloomberg has been used as a data source, and where data are not available from the companies, estimates have been used. This is largely the case with the Scope 3 figures. Emission data are based on direct shareholdings. All funds, ETFs and all fixed-income management that does not occur via direct models are not included in the calculations. The same applies to all "odd" portfolios that are classified as discretionary but that contain holdings (including equities) that do not belong to any model.

Taxonomy reporting

Starting in 2021, the Bank of Åland is reporting exposures in the balance sheet that are covered by the EU's Taxonomy for sustainable investments. If an exposure is regarded as covered by the Taxonomy, this means there are criteria for assessing whether it is environmentally sustainable. Reporting is limited to first-hand data and thus does not include estimates or derivations, for example from the

EU's so-called NACE codes. This limitation means that only part of the Bank of Åland's exposures could be reported, since the lack of first-hand data meant that the extent of exposure to the Taxonomy could be neither defined nor quantified. The Bank of Åland estimates that Taxonomy reporting will increase in scope starting in the second year of implementation as more data become available.

Taxonomy reporting 2021

	Covered assets, % of total ⁷	Covered assets, % of total
Assets included in reporting ¹		
Exposures to economic activities subject to the taxonomy ²	56.0	42.6
Exposures to economic activities not subject to the taxonomy ³	0.0	0.0
Exposures exempted from reporting ⁴	3.7	
Derivatives	0.3	0.2
Exposures to companies not subject to NFRD ⁵	21.3	16.2
On-demand interbank loans		
Exposures not included in covered assets ⁶		23.9
Exposures to central governments, central banks and supranational issuers		
Trading portfolio		

¹ (EU) 2020/852 and (EU) 2021/2178 Article 10.3

² Home mortgages and housing-related loans to private individuals secured by underlying property as collateral, which are covered by technical screening criteria 7.1 – 7.7 in the European Commission's Delegated Regulation (EU) 2021/2139.

³ For exposures not subject to the taxonomy, the Bank of Åland has chosen not to report anything since first-hand data were not available and an assessment of whether the exposure is subject to the taxonomy was not possible.

⁴ Exposures excluded from the numerator in the Green Asset Ratio (GAR) and that are thus not assessed in the taxonomy.

⁵ In the case of the Bank of Åland, exposures not subject to the Non-Financial Reporting Directive (NFRD, 2014/95/EU) include companies with fewer than 500 employees, which mainly include Åland companies and entrepreneur-run companies on the Finnish mainland and in Sweden, as well as housing companies, tenant-owner associations and municipalities.

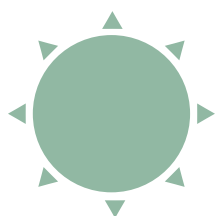
⁶ Exposures that are excluded from both the numerator and the denominator of the Green Asset Ratio.

⁷ Total assets minus assets to be excluded from both the numerator and the denominator of the GAR.

Our focus on the 17 UN global sustainable development goals

In 2021 we put a lot of effort into identifying our impact on the climate and environment. An expanded calculation and deeper analysis of the impact of our core business showed that – based on our current knowledge – our emissions have a particularly negative impact on six of the UN's 17 goals in terms of climate and environment. These are goals 6, 7, 12, 13, 14, and 15. In addition to our direct impact on the climate, we also have an impact on goals closely connected to climate and environment. One example is goal 12, *Responsible consumption*, where we can link the impact of our CO₂e emissions to the opportunity to influence consumption in order to reduce harmful emissions.

Overall, it is clear that a well-defined climate strategy will now be important in our future work. This strategy should include distinct targets, both yearly and long-term, and have a clear follow-up mechanism. We also know that beyond creating a climate strategy, the Bank of Åland should continue pursuing various activities that will help move us towards the established targets. An additional focus area is growth connected to goal 8.



Our goal is
100%
energy from renewable sources.

The Bank of Åland's climate targets

- The Bank of Åland shall reduce its CO₂e emissions by 50 per cent no later than 2030, compared to 2021.
- The Bank of Åland shall be a climate-neutral organisation no later than 2035, in line with Finland's climate policy decision.
- The Bank of Åland shall achieve net-zero emissions by 2050.

6 CLEAN WATER AND SANITATION



CLEAN WATER AND SANITATION

Goal

According to the Bank of Åland's climate strategy.

Commitments

We will begin to measure the water-intensity of our investments.

Using the Åland Index, our customers will gain access to reports on their water consumption.

One goal is to help reduce pollution in the Baltic Sea. We contribute to this work through the Baltic Sea Project, which supports companies and organisations that work actively to reduce pollution of waterways.

The Bank of Åland was one of the founders of the Stockholm Water Prize, which is awarded by the Stockholm International Water Institute (SIWI). We are still contributing to the annual awarding of the prize.

We have informally eco-labelled the water taps in our offices, which means that we only serve unbottled water.

Targets:

6.1
6.3
6.5
6.6
6B

7 AFFORDABLE AND CLEAN ENERGY



AFFORDABLE AND CLEAN ENERGY

Goal

According to the Bank of Åland's climate strategy.

Our goal is 100 per cent energy from renewable sources.

Commitments

We give preference to green investment products and offer our customers investment products that benefit environment characteristics (Article 8, Sustainable Finance Disclosure Regulation).

Since our Vindkraftsfond (Wind Power Fund) invests in wind farm projects, we are helping to increase the proportion of renewable energy in the Nordic countries.

In November 2021 the Bank of Åland's mutual fund company and its Swedish wind power partner OX2 signed a memorandum of understanding to develop the Noatun offshore wind power project Noatun in the Baltic Sea south of Åland. The Noatun project is in an early phase and, when completed, will consist of about 250 wind turbines that together will produce about 20 TWh per year, equivalent to the annual electricity consumption of some four million households. Noatun's production capacity will be 50 per cent higher than that of the Olkiluoto 3 nuclear power plant in Finland, which will go into service in the summer of 2022.

Targets:

7.2
7.3

12 RESPONSIBLE CONSUMPTION AND PRODUCTION



RESPONSIBLE CONSUMPTION AND PRODUCTION

Goal

According to the Bank of Åland's climate strategy.

Commitments

The Bank of Åland's Code of Conduct helps us and our suppliers to act responsibly and ethically. We follow regulations as well as policies on ethical conduct and the identification and management of conflicts of interest. Through training programmes and technical development, we help combat corruption, money laundering and other criminal activities.

During 2021, we participated in a food waste campaign organised as part of the Åland sustainability agenda Bärkraft. The aim of the campaign was to highlight the importance of healthy habits to reduce food waste.

Through the Baltic Sea Account and the Baltic Sea Card with the Åland Index, our customers have the opportunity to make their own environmentally friendly choices.

Together with the charity Emmaus Åland, we have made it easy for our employees to recycle clothes and shoes by using collection bins in the office.

How we travel is of great importance for our climate impact. Our business travel policy is thus part of our climate strategy to achieve the Bank of Åland's climate goals.

Targets:

- 12.5
- 12.6
- 12.7
- 12.8
- 12.2
- 12.3
- 12.4

13 CLIMATE ACTION



CLIMATE ACTION

Goal

According to the Bank of Åland's climate strategy.

Commitments

We calculate CO₂e emissions from our core business and our own operations in accordance with the GHG protocol.

We will compensate for climate emissions in 2021 from our own operations through a compensation portfolio (read more on page 17).

Our investment process includes analyses from the global index provider MSCI. We take into account company data such as environment, social responsibility, corporate governance, sustainability risks and combating climate change, which thus gives us a clearer overall picture of each company that is analysed. We offer Nordic Eco-labelled funds and are working to expand our product range. We invest in green bonds that contribute to lower emissions. We exclude investments in coal companies.

The Bank of Åland launched its framework for green bonds in October 2021.

We are part of the Climate Action 100+ initiative.

Targets:

- 13.1
- 13.2
- 13.3



14 LIFE BELOW WATER



LIFE BELOW WATER

Goal

According to the Bank of Åland's climate strategy.

Commitments

Through the Baltic Sea Account and the Baltic Sea Project, we and our customers help reduce pollution in the Baltic Sea. Various companies and organisations are given the opportunity to receive funds to turn their ideas for a healthier sea into reality. Our environmental work started as early as 1997 and has its origins in our location – in a mid-Baltic Sea archipelago.

Targets:

- 14.1
- 14.2
- 14.3
- 14.5
- 14.A

15 LIFE ON LAND



LIFE ON LAND

Goal

According to the Bank of Åland's climate strategy.

Commitments

Protecting, restoring and promoting the sustainable use of land-based ecosystems, sustainable forest management, combating desertification, halting and reversing soil degradation and halting the loss of biodiversity.

Through the Åland Index, we are increasing our employees' and customers' awareness of their own carbon footprint. At the same time, we are working to reduce our carbon dioxide emissions. Our employees are trained and committed to sustainability and environmental work, for example through local "keep nature clean" projects.

Targets:

- 15.1
- 15.5
- 15.A

Another of our focus areas is our significant impact on UN goal number 8

Decent work and economic growth. Our business is growing continuously and we have a clear long-term target for our financial growth. In Åland, we are a sizeable employer and provide jobs and taxes. Our role as an employer is especially important and we maintain decent working conditions based on collective bargaining agreements and current regulations. We work actively to promote social sustainability – an inclusive society, equal worth, sound values and broad community involvement. The Bank also complies with current regulations to combat corruption, money laundering and other criminal activities.

8 DECENT WORK AND ECONOMIC GROWTH



DECENT WORK AND ECONOMIC GROWTH

Goal

According to the Bank of Åland's climate strategy.

The Bank of Åland's long-term financial targets:

Return on equity after taxes (ROE) shall exceed 15 per cent over time.

The common equity Tier 1 capital ratio shall exceed the FIN-FSA's minimum requirement by 1.75–3.0 percentage points.

The payout ratio shall be 60 per cent or higher, provided that capital adequacy does not fall below target.

Commitments

We want to ensure the customer's repayment capacity and ensure that the loan meets the customer's needs.

We work to integrate sustainability risk into our risk assessment when new loans are granted. We offer banking services and lending to individuals and to companies of varying sizes.

Our investments exclude companies that violate the Global Compact, which helps to ensure decent working conditions.

We work actively to promote integration into society and diversity. For example, by welcoming work and language trainees we can contribute to employment, integration and diversity.

An annual salary analysis is a self-evident part of our gender equality work, and we apply a salary model that will ensure equal pay for equivalent work. Our goal is an equal gender distribution. The entire organisation shall be permeated by our goal of equal gender distribution, with at least 40 per cent women and a maximum of 60 per cent men.

We are pursuing gradual work environment improvements and we comply with applicable legal requirements. We attach great importance to continuously improving cooperation between us as employers and our staff and union representatives.

During 2021, the Bank of Åland – in addition to being a bank – also became an external banking service provider. Based on partnerships with fintech companies, which we have engaged in since 2016, we developed into a full-scale service provider to Borgo AB, a new lender in the Swedish mortgage market. This collaboration will achieve economies of scale, and the Swedish market can enjoy competitive interest rates. All the partnerships in which the Bank of Åland participates aim at improving economic efficiency and include technical innovation. Our partners share our values and have sustainable development as an important point in their shared everyday activities.

We are an active player in the business community and maintain a broad community involvement, mainly in Åland. We participate in various networks and share our expertise and experience when this is requested.

Targets:

8.1

8.2

8.3

8.5

8.7

8.8

8.10

All the goals are important to us

Our materiality analysis for 2022 also made it clear that other UN sustainable development goals, besides the six goals described on pages 20–21, are also important to us and our stakeholders. Our development plans thus also include these goals. We have identified several measurable objectives for 2022, besides the above-mentioned climate targets, to ensure that we have the right strategy to achieve progress.

Analysing one's own operations from a global sustainability perspective can sometimes be challenging. But the insights that this work provides will help advance our sustainability efforts. One example of a challenge is the two UN goals *No poverty* and *No hunger*, which we have discussed a lot internally. Although on an emotional level these goals feel extremely important, we are forced to realise and admit that we are not currently helping to promote them.

On the other hand, we are convinced that in the long run we will be able to pull our weight. Below we provide an overview of how our operations affect the UN's global sustainable development goals. Sustainability is a natural element of our business and therefore this year we have integrated other sustainability reporting into the existing chapters of our annual report.

4 QUALITY EDUCATION



QUALITY EDUCATION

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

We create conditions that enable our customers to study, by offering them student loans as well as affordable and specially tailored banking services for students.

All our asset managers have undergone Certified ESG Financial Analyst training. We aim at 100 per cent participation in our internal financial expertise training related to regulatory requirements. We provide a yearly advanced training course for those employees who have are certified investment advisors. We have also implemented an improved system for creating our own training programmes.

We have a well-established leadership programme that is provided yearly.

We participate in various networks and share our expertise and experience when this is requested.

Targets:
4.4
4.7

11 SUSTAINABLE CITIES AND COMMUNITIES



SUSTAINABLE CITIES AND COMMUNITIES

Make cities and human settlements inclusive, safe, resilient and sustainable.

The Bank's Bostadsfonden real estate mutual fund helps create a mix of rental and owner-occupied homes. Our Tomtfonden mutual fund contributes to urban infrastructure. We generate jobs while helping to reduce housing segregation.

In the premises where we work, we are expanding waste recycling, thereby helping to reduce our environmental impact. Our employees are encouraged to use fossil fuel-free modes of transport or use public transport.

Targets:
11.1
11.3
11.4
11.6
11.A

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



INDUSTRY, INNOVATION AND INFRASTRUCTURE

Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.

We support local entrepreneurship in Åland by providing funding guaranteed by the European Investment Fund (EIF). Our ambition is to contribute to greater awareness of sustainability issues among our corporate customers. This is done primarily through a dialogue about a company's sustainability plans at the time of lending.

Targets:
9.1
9.3
9.4
9.5
9.B

17 PARTNERSHIPS FOR THE GOALS



PARTNERSHIPS FOR THE GOALS

By connecting our operations to the UN's sustainable development goals and by being transparent, we are helping make these goals known to our stakeholders.

Thanks to several business partnerships, we are able to contribute to national and global awareness of sustainable development.

We have adopted the UN principles for responsible banking and responsible investment.



10 REDUCED INEQUALITIES



REDUCED INEQUALITIES

Reduce inequality within and among countries.

All employees must enjoy the same rights and pre-conditions regarding professional development. We offer language traineeships for people with native languages other than Swedish.

As for the psychological work environment, we have zero tolerance for discrimination, harassment and bullying. Through dialogue, education, awareness, clear guidelines and resolute action, our goal is openness and a safe environment for all.

We judge all customers and their repayment ability on the same basis. Our salary model and annual salary survey aim at ensuring equal pay for equivalent work.

Targets:

- 10.2
- 10.4
- 10.5
- 10.7
- 10.1

16 PEACE, JUSTICE AND STRONG INSTITUTIONS



PEACE, JUSTICE AND STRONG INSTITUTIONS

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

We maintain high ethical standards and follow regulations, policy documents and our Code of Conduct regarding ethical behaviour as well as identifying and managing conflicts of interest. Through training programmes and technical development, we help combat corruption, money laundering and other criminal activities. Our corporate culture is characterised by openness to different opinions. There is a high level of commitment within our organisation and we are continuing our efforts to improve it.

Targets:

- 16.4
- 16.5
- 16.6
- 16.7



3 GOOD HEALTH AND WELL-BEING



GOOD HEALTH AND WELL-BEING

Ensure healthy lives and promote well-being for all at all ages.

By providing banking services to companies and organisations, we can help increase health and well-being locally where we are.

We endeavour to create a good physical and psychological work environment, as well as a high level of commitment among all employees. Our long-term target is a commitment index above 8.0.

As for the psychological work environment, we have zero tolerance for discrimination, harassment and bullying. Through dialogue, training, awareness, clear guidelines and decisive action, our goal is openness and a safe environment for all.

Targets:

- 3.4
- 3.5
- 3.8

5 GENDER EQUALITY



GENDER EQUALITY

Achieve gender equality and empower all women and girls.

We make a conscious effort to ensure that all employees enjoy equal rights and opportunities with regard to compensation and professional development. We aim at achieving at least a 40/60 gender balance. At team and department levels, as well as in certain positions, there may still be imbalances. Our salary model and annual salary survey aim at ensuring equal pay for equivalent work. Our aim is to ensure that women's salaries are 95–105 per cent of men's salaries.

We contribute by judging all customers and their repayment capacity on the same basis. In the Group's gender equality work, we aim at achieving a gender balance when we recruit employees.

Locally, we endeavour to contribute to gender equality.

Targets:

- 5.1
- 5.4
- 5.5
- 5.A
- 5.B
- 5.C

Sustainable key figures

Information about employees

Employee mobility	2021	2020	2019
Expansion, %	18.6	14.4	13.1
Employee turnover, %	9.4	8.1	9.7

Expansion

By gender



● Women
● Men

By age category



● <30
● 30-50
● >50

By region



● Åland
● Finnish mainland
● Sweden

The Group hired 152 new regular employees during 2021. Expansion was 18.6 per cent compared to total full-time equivalent employees, which was an increase from 14.4 per cent in 2019.

Employee turnover

By gender



● Women
● Men

By age category



● <30
● 30-50
● >50

By region

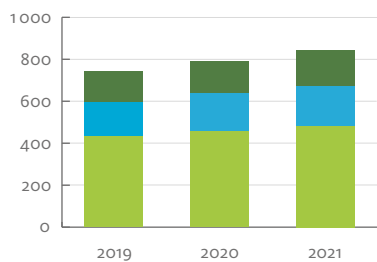


● Åland
● Finnish mainland
● Sweden

In the Bank of Åland Group, 77 people ended their regular employment during 2021. This included 10 retirements. As a percentage of total full-time equivalent employees, this was an employee turnover of 9.4 per cent, an increase from 8.1 per cent in 2020.

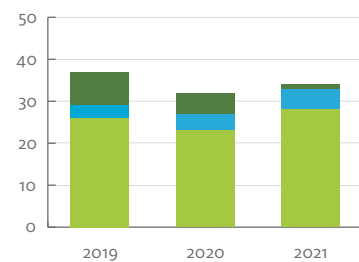
Employment contract type by region

Regular



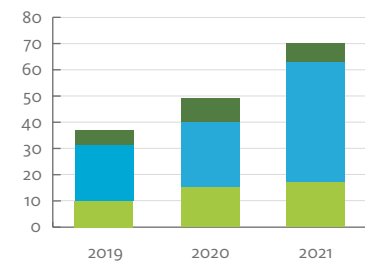
● Åland ● Finnish mainland ● Sweden

Temporary, monthly



● Åland ● Finnish mainland ● Sweden

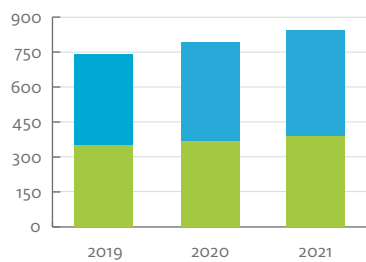
Temporary, hourly



● Åland ● Finnish mainland ● Sweden

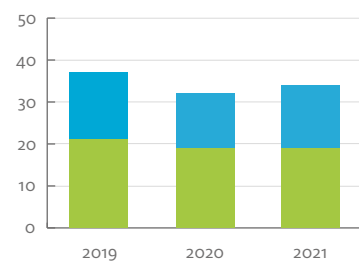
Employment contract type by gender

Regular



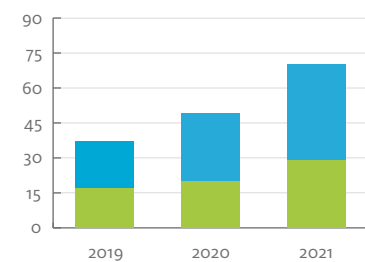
● Women ● Men

Temporary, monthly



● Women ● Men

Temporary, hourly



● Women ● Men

Part-time/full-time by gender									
Gender	2021			2020			2019		
	Part-time	Full-time	Total	Part-time	Full-time	Total	Part-time	Full-time	Total
Women	47	391	438	45	361	406	51	337	388
Men	46	464	510	39	428	467	35	393	428
Total	93	855	948	84	789	873	86	730	816

The number of jobs in the Group totalled 948 at the end of 2021 (2020: 873). Of these 948 employees, 844 (89 per cent) had permanent contracts and 104 (11 per cent) had temporary contracts. Women accounted for 46 per cent and men for 54 per cent of those with permanent contracts.

Women accounted for 54 per cent of all part-time jobs while men accounted for 46 per cent. Just over half the work force was stationed in Åland, while the remainder are divided between the Finnish mainland and Sweden.

Healthy attendance and accidents			
	2021	2020	2019
Healthy attendance, %	93.6	93.6	93.6
Accidents	14	14	9

Healthy attendance means the percentage of unique individuals among all employees who did not have a continuous absence longer than two weeks due to illness.

Information about diversity

Gender breakdown						
Gender	2021		2020		2019	
	Number	%	Number	%	Number	%
Senior executives						
Women	3	25	2	18	2	18
Men	9	75	9	82	9	82
Total	12	100	11	100	11	100
Board						
Women	3	27	3	27	3	27
Men	8	73	8	73	8	73
Total	11	100	11	100	11	100
Employees						
Women	438	46	406	47	388	48
Men	510	54	467	53	428	52
Total	948	100	873	100	816	100

Our goal is a balanced gender breakdown (at least 40/60). Total gender representation in the Group was 46/54 during 2021. Among senior executives the breakdown was 25 per cent women and 75 per cent men. At the Board level, the breakdown was 27 per cent women and 73 per cent men.

Age breakdown						
Age	2021		2020		2019	
	Number	%	Number	%	Number	%
Senior executives						
<30	0	0	0	0	0	0
30–50	5	42	4	36	4	36
>50	7	58	7	64	7	64
Total	12	100	11	100	11	100
Board						
<30	0	0	0	0	0	0
30–50	1	9	2	18	2	18
>50	10	91	9	82	9	82
Total	11	100	11	100	11	100
Employees						
<30	176	19	144	16	134	16
30–50	518	55	478	55	434	53
>50	254	27	251	29	248	30
Total	948	100	873	100	816	100

“Senior executives” refers to the Group’s Executive Team plus the managing director and deputy managing director of subsidiaries. “Board” refers to all board members in each Group company. These figures were compiled on the last day of each respective year.

The Bank of Åland's community involvement

Aside from paying income and value added taxes to the Finnish government, the Bank of Åland is a sizeable employer, especially in its Åland home market.

The Bank contributes to employment by providing about 530 jobs in Åland, which makes us the second largest private employer in Åland.

By paying social security fees, the Bank of Åland helps strengthen social protection. In addition, the Bank pays fees to the government's stability fund, which helps maintain financial stability in Finland.

The Bank is deeply involved in the Åland community and contributes to it mainly by supporting culture, sports and studies. By doing so, we are helping to create meaningful leisure activities and a future for children and young people. The Bank considers it important to ensure that Åland is a vibrant community that people want to remain in, move to and return to.

Through the Bank's employees, we participate actively in numerous community functions that are important to Åland.

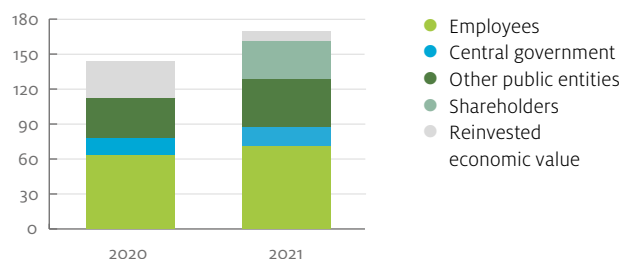
Information about community involvement

Economic value-added	2021	2020
EUR M		
Total income minus impairment losses	171.1	145.3
Value-added generated by serving the Bank's customers	171.1	145.3
Employees		
Salaries	52.4	47.1
Social security and other staff costs	18.7	15.8
Total value to employees	71.1	62.9
To central government		
Income taxes	7.5	6.9
Non-deductible value-added taxes	6.1	5.6
Deposit guarantee fees	0.0	0.0
Fees to government stability fund	2.8	2.7
Total value to central government	16.3	15.1
Suppliers ¹	41.2	33.8
Sponsorships	0.7	0.7
Total other value to society	42.0	34.4
Transactions with shareholders		
Dividend paid ²	31.2	0.0
CET1 capital instrument, dividend	0.8	
New share issue	-0.4	-0.2
Total transactions with shareholders	31.7	-0.2
Remaining in the Bank		
Reinvested economic value	9.0	31.7

¹ Refers to miscellaneous administrative expenses and depreciation/amortisation.

² On January 1, 2021, the Board of Directors approved a dividend of EUR 1 per share for the 2019 financial year. The dividend was paid to shareholders in January 2021.

Economic value-added



Finland's best Private Banking provider



Photographer: Viktor Fremling

Magnus Johansson, Director of the Sweden Business Area; Mikael Mörn, Director of the Åland Business Area; and Anne-Maria Saloniuss, Director of the Finnish Mainland Business Area.

The Private Banking segment encompasses Private Banking operations in Åland, on the Finnish mainland and in Sweden as well as asset management (Ålandsbanken Fondbolag Ab, Ålandsbanken Fonder Ab, Ålandsbanken Fonder II Ab, Ålandsbanken Fonder III Ab, Ålandsbanken Fonder IV Ab, Ålandsbanken Fonder V Ab and Ålandsbanken Fonder VI Ab).

Our Private Banking offering is one of the cornerstones of the Bank's business operations. Private Banking is where the Bank of Åland has its largest market share both on

the Finnish mainland and in Sweden.

Net operating profit from Private Banking in 2021 amounted to EUR 27.8 M, which was equivalent to 57 per cent of the Bank's total net operating profit. Return on allocated equity was 25.2 per cent. Actively managed assets rose by 32 per cent.

Private Banking continued to attract new customers in all three geographic home markets. During 2021 a number of new members were added to the team in order to meet heavy demand and be able to serve customers in the best way.

Due to the coronavirus pandemic, many customer meetings and customer events took place in digital formats during 2021 as

well, but the Bank's customer surveys show that customers continue to appreciate us greatly, especially due to the Bank's expertise and personalised service as well as high ethical standards and sustainability work. During the year, the Bank of Åland was named Finland's best Private Banking provider in Kantar Prospera's annual survey.

ASSET MANAGEMENT

Ålandsbanken Fondbolag manages the Bank of Åland's mutual funds and, as an intra-Group service, delivers all material supporting the Bank's asset management services to customers: from overall market outlook reports and asset allocation recom-

mendations to model portfolios for individual securities.

The final outcome of our management of Bank of Åland mutual funds and model portfolios was generally good, benefiting the Bank's customers. Some funds and portfolios performed exceptionally well during the year, driven both by the right management strategies and the market's overall strong performance.

The year 2021 has the potential to go down in history as one of the strongest years for risk assets in modern times. A combination of strong demand growth and extensive monetary and fiscal policy stimulus measures contributed to surprisingly strong profitability growth in the private sector. Rising corporate earnings laid a good foundation for stock markets, which rose on a broad front throughout the year and ended 2021 at close to historic record levels, despite increased inflationary pressures that led to gradually rising interest rates and bond yields.

The corporate bond market showed a mixed performance, where rising risk-free yields could not be fully offset by lower risk premiums. "High yield" bonds generated a positive return during the year while bonds with stronger credit quality generally lost some value as a result of rising risk-free yields.

Looking at 2022, we continue to view the global economic situation optimistically, although there are many indications that growth will decelerate somewhat compared to last year's extreme levels. Uncertainty about inflation and central bank actions should lead to more volatile markets in the short term. Further ahead, we foresee good potential for generating a healthy risk-adjusted return for our mutual fund investors.

In 2021, the medium-term corporate bond fund Ålandsbanken Euro Bond received the Refinitiv Lipppers Fund Award for the eighth year in a row as the best fund in its comparison category.

In May 2021 the Ålandsbanken Premium 30 fund merged with Ålandsbanken Premium 50, which at the same time changed its name to Ålandsbanken Kapitalförvaltning. During the year, the fund's returns were well above the level in its comparative category. Meanwhile it received a maximum 5-star rating from Morningstar for its performance over the past three years. Following the merger, the fund will be positioned as a

balanced active asset management fund targeted to both the Premium and Private Banking customer segments.

When stock markets entered a strong recovery phase after the initial coronavirus crisis in the spring of 2020, we launched a new equity fund specialising in small and medium sized enterprises (SMEs), the Ålandsbanken Nordiska Småbolag. The fund's first operating period in 2020 already looked very promising, since its returns were well above its benchmark index. During the full year 2021 it became the best-performing mutual fund in Finland, with a return of 57.2 per cent.

The Bank's real estate mutual funds continued their strong performance during the year. During 2021 the housing fund Ålandsbanken Bostadsfond successfully completed several real estate projects, resulting in strong returns to fund investors.

Ålandsbanken Tomtfond, which specialises in housing sites, has continued to perform according to expectations. However, its ability to identify investments that meet its return targets has been a limiting factor for growth in recent years, and it has normally held significant liquid assets while waiting to find suitable investment projects.

Ålandsbanken Vindkraft (Wind Power) got off to a flying start during its first year of operation. This mutual fund was launched late in 2020 and immediately invested in its first wind farm. In terms of timing, the launch was highly successful, since demand for wind farms rose sharply during 2021. Meanwhile fossil fuel prices have risen, which has strengthened the trend towards green energy. Technological advances are boosting the efficiency of wind power production. The upturn in price levels for wind farms was reflected in the fund's value through an 18.75 per cent upturn in 2021. This clearly exceeds the long-term expected return for the fund, which is 5–7 per cent annually.

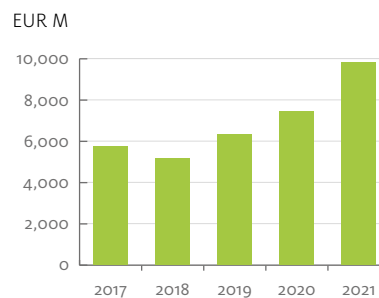
Ålandsbanken Fondbolag is actively participating in a project to create large-scale offshore wind power in the Baltic Sea according to the provincial government's Åland Sea Plan, which may open up major investment opportunities in the future. The Bank's wind power mutual fund appears to have good potential to grow in a profitable way. Wind power is the cheapest way to generate electricity, and the business is cur-

rently profitable without government subsidies. The demand for electricity is expected to soar as a result of the continued electrification of society. Meanwhile global climate targets are becoming stricter, which will require reduced emissions from fossil fuel energy production. Combined with the very strong advances in wind turbine technology in recent years, this means that the outlook for Ålandsbanken Vindkraft is promising.

During 2021 asset management operations established a climate strategy that follows the Bank of Åland's climate targets. Ålandsbanken Fondbolag's target is to halve carbon dioxide emissions in asset management by 2030 (compared to the 2020 level) and to be a carbon-neutral asset manager by 2035, in line with Finland's objectives. This is consistent with the Bank of Åland's emission reduction and carbon neutrality targets. Our method for achieving these goals within asset management will include research to ensure that the companies we invest in can demonstrate that their operations take into account the targets of the 2015 Paris Agreement in all their investment strategies.

Generally speaking, the Bank of Åland's mutual funds show a good level of overall sustainability. Among other things, the carbon dioxide intensity of their activities is low compared to the mutual fund sector as a whole. Two of the Bank's own mutual funds are also Nordic Swan Eco-labelled: the equity fund Ålandsbanken Global Aktie and the Green Bond ESG fund. Among the requirements for a Nordic Swan eco-label is that a fund may not invest in fossil fuel businesses. The Nordiska Småbolag mutual fund is also fossil fuel-free in nature.

Actively managed assets



More customers have financial investment potential

All individual and corporate customers who are not Private Banking customers are reported in the Premium Banking business segment. The Bank's Corporate Services unit in Åland is also part of this segment.

During 2021 the Premium Banking concept continued its focus on asset management and financial investments, primarily for the upper segment in its target group who have larger investable assets. While Private Banking has seen its customer base shift towards customers with increasing wealth that must be managed, the trend is similar in Premium Banking, although the financial investment volume per customer is substantially lower than in Private Banking.

The growth of actively managed assets remained very high. Deposits also continued to grow. Even though the Bank of Åland has chosen not to participate in price competition in the home mortgage market, but instead to concentrate on providing personalised service and advice, lending volume also increased.

Net operating profit from Premium Banking totalled EUR 11.6 M in 2021.

Before impairment losses, operating profit increased by 11 per cent and amounted to EUR 11.5 M.

Customer surveys continue to confirm that our customers appreciate the personalised service we provide. Customer satisfaction was at a record level. To a great extent, customers are willing to recommend us to their friends. Customer meetings via digital channels increased during the year due to coronavirus pandemic.

During the year, we continued working to achieve profitable growth. One special focus area was financial investments on behalf of affluent individuals. An innovation in 2021 was that we were the first bank in Finland to launch a share savings account with discretionary management, which is a product that complements our fund offering.

We continuously invest in skills development, and our employees participated in both internal and external training during the year.

THE ÅLAND CORPORATE SERVICES UNIT AND CORPORATE BANKING

The Bank of Åland's Corporate Services unit is the market leader in Åland and offers a wide range of services and products adapted for Åland-based companies. During the year, the department was divided into a Corporate Services unit and Bank of Åland Corporate Banking in order to broaden our offering and also provide services outside Åland.

Corporate Banking handles larger corporate groups with an international focus domiciled in Åland. In addition, the new unit offers advanced financing services to existing and potential customers through Private Banking on the Finnish mainland and in Sweden.

In 2021 the Corporate Services unit worked actively to offer Åland-based companies liquidity loans supported by the Åland provincial government to bridge over the negative impact of the coronavirus pandemic and related restrictions on their operations. The Åland business community is also being offered funding guaranteed by the European Investment Fund (EIF). With the help of EIF guarantees, the Bank's capital and credit risk expenses are decreasing, which in turn benefits companies. As a result, the Bank of Åland has been able to offer more favourable funding terms for small and medium sized companies that wish to expand their operations or make environmental and sustainability-related investments, for example.

The ambition of the Corporate Services unit is to be in the forefront in supplying the Åland business community with capital to invest in the transition to a more sustainable society. During the year, Corporate Services continued its involvement in projects and working groups organised by the Åland Chamber of Commerce and the provincial government. In this way, we want to contribute to a positive view of entrepreneurship and give business owners the opportunity to get started or expand their operations more easily business with the help of effective tools.



External service deliveries provide a broadened business model



Photographer: Therese Andersson

Sofie Holmström, Manager of the Partnerships Business Area.

The Bank of Åland's business partnerships include collaboration with Swedish fintech companies, service deliveries in the payments field in Sweden and Finland and delivery of wide-ranging services to the newly established Swedish mortgage company Borgo. The Bank of Åland also has ownership stakes in three partner companies: Dreams, Doconomy and Borgo.

The emergence of an increasingly digitised banking industry has led to the establishment of many financial technology (fintech) companies in recent years. The Bank has explored how the expertise within the Bank of Åland Group can be used to reach an ever larger market through business partnerships. The Bank was among the pioneers of this trend, initiating its first fintech partnership with Swedish-based Dreams AB as early as 2015. As a natural next step, the Bank's

broad expertise has been packaged as external service deliveries to the new Swedish home mortgage company Borgo AB, a partnership that began in 2019. Once again, the Bank of Åland has taken the lead – this time by expanding the ability of market participants to outsource full-scale banking services as well as reporting to authorities, internal business follow-up and financial reporting.

Outsourcing of such internal operations as IT services has existed in the banking industry for many years. The Bank's subsidiary Crosskey was established in 2004, and through this company the Group was able to start offering IT services to external parties, thereby generating new revenue. In addition, IT development remained an important field of intra-Group expertise. Together with other market players, the Bank of Åland Group has carried out further development work to continue maintaining top quality. By now also offering external back office services in banking, the Bank is maintaining this intra-Group expertise as before, while enabling more market players to benefit from our knowledge.

The Bank's mortgage collaboration with Borgo has been a focus of attention during 2021. This large-scale implementation project ran throughout the year. During the first quarter, Borgo received permission from the Swedish Financial Supervisory Authority to conduct financing operations and to issue covered bonds. During the fourth quarter, Borgo was able to begin offering its services to the Swedish mortgage market, and the Bank of Åland began providing service delivery for loan management, customer and account management as well as payments, treasury and financial reporting. During the year, the southern Swedish savings bank Sparbanken Syd joined the partnership alongside ICA Bank, Ikano Bank, Söderberg & Partners and the Bank of Åland, which launched the joint venture in 2019 and are all co-owners of Borgo.

On February 14, 2022, the Bank of Åland transferred its Swedish home mortgage to Borgo, and covered bonds were also transferred. Upon this transfer, the mortgages provided to customers of ICA Bank and Söderberg & Partners, which have been temporarily handled by the Bank of Åland pending the launch of Borgo, will also be transferred. These transfers will have a positive effect on 2022 earnings, while the collaboration will subsequently find its natural growth rate and continue to contribute increasingly to the Bank of Åland's earnings. In 2022 lending services will be expanded and the implementation project will be fully completed. When Sparbanken Syd's mortgages are transferred to Borgo, a significant

increase in volume will enable the Bank of Åland's platform service to be utilised to an even greater extent.

During 2021, collaboration with the Swedish fintech company Doconomy grew, since the Åland Index is now used in more than 20 countries and by 360 million people, establishing a global banking standard for carbon footprint calculation. Since April, the index has been offered to MasterCard customers all over the world and to the fintech company Klarna's customers via their own app.

Since fresh water is also in short supply in many countries and water consumption is an important factor in sustainable development, Doconomy further refined the Åland Index during 2021 by launching the world's first water impact calculator. Based on data from card transactions, the index responds with information on the amount of water that has been consumed, and users are made aware of their climate impact. In 2022, the Bank of Åland's customers will also be included in such water impact calculations. In addition, a calculation model for climate impact based on a person's lifestyle was launched during the year. The calculation, which is available to the general public, is based on how you answer selected questions. It then provides a measurement of your individual carbon footprint and inspiration for reducing your impact.

In order to make continued rapid expansion possible, in August the Bank of Åland chose to sell the intellectual property (IP) rights to the Åland Index to Doconomy and thus its stake in the jointly owned company Åland Index Solutions. The use of the Åland Index will continue to expand, and last autumn Doconomy carried out the largest funding round in Europe for climate fintech companies, securing investments of EUR 15 M. The Bank of Åland also participated in the funding round.

During 2021 Dreams continued to attract many users to its research-based savings app, which helps people achieve greater financial well-being. The Bank of Åland provides account management, payments services and mutual fund savings for more than 150,000 customers. In 2022 the product range will be expanded to also offer savings products that help private individuals

become debt-free more quickly and achieve balanced household finances. As a result of their successful collaboration since 2016, Dreams and the Bank of Åland have agreed to extend their partnership, since they will both benefit from continuing to create innovative services. The Bank of Åland has an ownership stake in Dreams AB, which is based in Sweden.

In the payments field, digitisation is also driving continued advances in the fintech sector. The Bank of Åland offers payments services that enable fintech companies to tailor the e-commerce and transaction payments experience of private individuals in new ways. Because of the Bank's long-term presence in both the euro and Swedish krona areas, its offering is competitive. There is good potential in this field going forward.

Selling their knowledge outside the Bank



Photographer: Viktor Fremling

Tove Erikslund, Chief Administrative Officer; Jan-Gunnar Eurell, Chief Financial Officer; and Juhana Rauthovi, Chief Risk & Compliance Officer.

CFO Corporate Unit

Chief Financial Officer Jan-Gunnar Eurell is in charge of the Treasury and Group Finance departments. The CFO Corporate Unit has more than 30 employees in Mariehamn, Helsinki and Stockholm.

Treasury is responsible for optimising the Bank of Åland's portfolio and liquidity management. The department ensures that the Bank can meet its need for cost-effective refinancing in both the short and long term. Its responsibility for portfolio management also includes managing the interest rate, foreign exchange and liquidity risks that the Bank's business operations transfer to Treasury via internal prices.

Treasury manages a portfolio of about EUR 1.6 billion, of which about EUR 1.3 billion is the Bank's liquidity reserve. About 13 per cent of the holdings of debt instruments in the treasury portfolio consist of green bonds. Treasury manages capital market borrowing of about EUR 2.0 billion. Treasury operations are highly important to the Bank's earnings. Fortunately, the trend towards falling capital market funding costs continued during 2021.

The year witnessed many new types of capital market transactions. For the first time, Treasury issued an additional Tier 1 (AT1) capital instrument amounting to SEK 300 M, a green supplementary capital (T2) instrument for SEK 150 M and a new issue of SEK 5.5 billion in covered bonds with contractual conditions allowing them to move from Finnish law

to Swedish law and from the Bank of Åland as counterparty to Borgo as counterparty when the Bank's Swedish mortgage portfolio is transferred to Borgo during the first half of 2022.

The task of Group Finance is to deliver public information to the market and regulatory authorities, but also to develop and manage the Group's financial and business control. In addition, the department has Group-wide responsibility for the purchasing process, ownership of shared technical platforms and systems as well as workplaces and data warehousing.

The processes at Group Finance maintain high standards, with consolidated financial statements and internal financial control reports ready on the fifth banking day after

each report period. Estimated customer analysis and profitability reports are updated from the data warehouse. Work station equipment has gradually been modernised and rationalised, enabling the department to successfully manage the need for remote work during the coronavirus crisis. A systematic effort to streamline purchasing and supplier relationships has led to gradually lower expenses for purchased services. Sustainability has become an integral part of operational planning as well as financial reporting.

During 2022 the CFO Corporate Unit will continue its efforts to streamline and raise the quality of its work processes. Two of the Bank of Åland's platform services to the new Swedish mortgage company Borgo are treasury service and accounting service. One special project area is business intelligence and data management, with more and more data being stored in the "cloud" and increasingly forward-looking data analysis work becoming possible.

CAO Corporate Unit

Chief Administrative Officer Tove Erikslund is in charge of the Business Support, Business Support Capital Market, Customer Service @ Market Support, Business Development and Human Resources departments, as well as the sustainable development unit. The CAO Corporate Unit has about 140 employees in Mariehamn, Helsinki and Stockholm.

The Business Support Capital Market and Business Support departments are the largest clients of the Bank's prioritised development projects.

During 2021 the continued main focus was development work to adapt operations to current regulatory and market requirements. More than half of the costs of the Bank's prioritised development work during the year were related to new or amended regulations. During the coming year, the Bank expects it will need substantial work and investments for regulatory adaptations, especially in the payments and lending areas.

A large proportion of development work during 2021 was related to the Bank's investment in the Swedish mortgage company Borgo, where the Bank supplies the company's platform service. Further development and completion of these deliveries will continue during 2022.

During the year, efficiency improvement projects otherwise focused on reducing licensing expenses for IT systems, improving systems back-up for customer advisors and reducing paper print-outs. A multi-year effort to create mutually compatible customer databases is one example of deliveries with a substantial cost impact that were completed during 2021. To run efficient back office operations, it is increasingly important to develop common processes and systems for all business areas and different customer segments. IT development for the Bank's business partners and management of these services also create new requirements.

Robotic Process Automation (RPA) and the use of data warehousing also expanded during the year.

In the digitisation field, a number of innovations and improvements were made in the Internet Office and the Mobile Bank. For example, the Mobile Bank added mutual fund trading, applied to join the Swish mobile payments system in Sweden and now displays the share savings account in Åland and on the Finnish mainland. During 2021 the Bank broadened its service offering by adding a new credit card targeted to Private Banking customers as well as the Apple Pay and Google Pay mobile payments solutions.

Development work related to anti-money laundering and combating the financing of terrorism (AML/CFT) is continuously under way, since the field is steadily growing and banks are required to meet ever-higher standards.

The volume of cases handled by Customer Service continued to increase during 2021. Customers can contact the Bank via telephone, the Internet Office messaging service, email or online chat. One explanation for the increase in cases is the accessibility offered by the Mobile Bank. During 2021 the number of cases per month averaged about 14,000, compared to 13,700 in 2020. More and more customers are choosing to activate their e-ID, which makes it easier to identify themselves as well as log into the Internet Office and Mobile Bank.

The surveys that we continuously conduct show that Customer Service maintains high quality in its encounters with our customers. The surveys provide comparative background data on some 20 other banks in Finland and Sweden. The Bank of Åland's Net Promoter

Score (NPS) of 53 represents an improvement over 2020, when its NPS was 49. The banking sector's average was 34. General satisfaction with Customer Service was 88 per cent during the year, compared to 87 per cent for the banking sector.

Human Resources devoted a lot of effort to coordinating the Group's COVID-related work and managing the large expansion in staffing that occurred during the year. The department recruited 214 people to the Bank and its mutual fund subsidiary Ålandsbanken Fondbolag in 2021. Another focus was on skills development related to regulatory requirements. To improve employee empowerment work, it further refined various processes related to performance reviews and management by objectives as well as ways to measure employee commitment and work satisfaction.

During 2021 sustainability work was strengthened by creating a formal organisational structure for this purpose, which focused on the climate change issue. We worked to understand the Bank of Åland's climate impact – both from the organisation itself and via our operations in the form of the loan and treasury portfolios and our asset management business. We did this by making climate calculations of operations based on Scope 1, 2 and 3 of the international Greenhouse Gas Protocol (GHGP). This climate calculation was instrumental in enabling us to establish Group climate targets in December 2021; our long-term targets are to achieve climate neutrality by 2035 and net-zero by 2050.

During 2021 the Bank of Åland joined the Net-Zero Banking Alliance to further strengthen the important work that the financial sector needs to do in order to combat climate change.

As part of its efforts to achieve these targets, in 2021 the Bank of Åland also paid climate compensation for its own operational emissions.

CRO Corporate Unit

Chief Risk @ Compliance Officer Juhana Rauthovi is in charge of the Risk Control, Compliance, Operational Risks @ Security, Legal Affairs, Credit Scoring and Credit Processes departments. The corporate unit consists of about 70 people in Mariehamn, Helsinki and Stockholm.

The Risk Office Corporate Unit is primarily entrusted with protecting the Bank of Åland's assets, earnings and brand by providing a framework for risk and credit management. Its purpose is to maintain a healthy risk culture that corresponds to the Bank's risk appetite and risk-bearing ability.

The Risk Control department is responsible for independent oversight and reporting of the Bank's financial risks. The 2021 financial year was dominated by new regulatory requirements, and this will continue during 2022. During 2021 Risk Control worked with the implementation of a new internal definition of default and made a concerted effort, together with outside consultants, to update credit risk models to comply with the new definition and demanding new regulations, while improving them to even better reflect risk in the Bank's loan portfolios. The Finnish Financial Supervisory Authority has not yet approved the new models; this is expected during 2022.

During the 2022 financial year, Risk Control will continue with implementation of new regulatory requirements, primarily the Basel IV regulation. In addition, the department is participating in efforts to develop tools for identifying, measuring, monitoring and reporting risks attributable to climate change. Risk Control also works with the Bank's sustainability plan and strategy as they relate to responsible lending. This work has two aspects: both to preserve those portions of the Bank's lending that already have a positive impact on sustainable development and to design its lending to ensure that it will have a positive impact on selected targets that are part of the United Nations sustainable development goals.

Compliance is an independent department that identifies and monitors the Bank's compliance risks and reports on these to the Executive Team and the Board of Directors. The department provides advisory services and back-up to the Executive Team and the Bank's business operations on how to manage compliance risks in order to ensure that banking operations can follow regulatory requirements, focusing on the interests of customers. During 2021 the department's priorities included monitoring and providing back-up to banking operations by means of regulator-mandated development work that will reinforce the Bank's efforts to combat money laundering and financing of terrorism. Compliance strengthened its team in the field of investment services and was thus able to provide clearer back-up for compliance in the Bank's financial investment business.

The department also monitored and proposed measures related to how the Bank should oversee and follow up outsourcing arrangements.

During 2022 the department will continue to prioritise monitoring of compliance in financial investment services as well as implementation of new and coming sustainability regulations, with a focus on customer protection. Developing and improving the Bank's efforts to prevent money laundering and financing of terrorism are always high on the agenda, and this will continue in 2022.

Operational Risks & Security is an independent department that provides advisory services and back-up and sets standards for operational risk management. Its main areas of activity are information security, data protection, releases, continuity and emergency planning, security, criminal security, risk analysis and reporting and the new product approval (NPA) process. The department focuses on increasing awareness of operational risks, monitoring compliance in the field of liability and reporting operational risks and incidents to the Executive Team and public authorities. The 2021 financial year was dominated by participation in project work, research and acquisition of systems support for the Bank's records of processing activities under the General Data Protection Regulation (GDPR), improved cybersecurity, quality assurance of risk analyses, planning and coordination of the Bank's participation in the FATO 2021 national emergency preparedness exercise as well as process development related to the partly owned mortgage company Borgo.

During the 2022 financial year the department will continue to focus on advisory services, back-up, standard-setting, monitoring and reporting of operational risks. Back-up during implementation of systems support for establishing the Bank's registry of processing, further development of the fraud prevention process, quality assurance of the release process, back-up for physical security, evaluation of the Bank's cyber-maturity as well as further development of the Business Impact Analysis (BIA) are examples of planned activities. The department will continue to share its process development expertise in connection with the Bank's partly owned mortgage company Borgo.

The Legal Affairs department is responsible for meeting the needs of the Bank and the Group for legal expertise, since the Bank operates as a credit institution and issuer of securities. The department works continuously to provide back-up for business areas as

well as corporate units in developing and supplying products and services to the Bank's customers. During 2021 the department worked on implementation of new regulations, with an emphasis on sustainability-related regulations, legal issues related to the new mortgage company and the expansion of existing business partnerships. During 2022 the department will work with operational changes related to the start-up of the Borgo mortgage company partnership and continued implementation of new regulations – again with a strong emphasis on sustainability and legal issues related to new and existing business partnerships.

The Credit Scoring department develops and carries out credit analyses and oversight in order to ensure good credit quality in the Bank's lending. Despite the coronavirus pandemic, the proportion of unsettled loans in the lending portfolio remained at about the same level as at the beginning of the year, excluding some large exposures that are not connected to the coronavirus. There is good potential to keep the proportion of unsettled loans at current levels, provided the economy remains stable and real estate and share prices remain steady as the pandemic begins to fade. The department actively participates in deliveries related to the mortgage partnership as well as deliveries required by European Banking Authority (EBA) guidelines on loan origination and monitoring. The Credit Scoring department will participate in loan-related sustainability work in keeping with credit processes, regulatory requirements and the wishes of the Bank's lending business.

The Credit Processes department is responsible for administering and developing the Bank's lending process and ensuring that it fulfils internal and external regulations. The year was dominated by the implementation of new regulations such as the EBA guidelines on loan origination and monitoring, which went into effect in June, as well as developing a home loan platform for the new jointly owned mortgage company Borgo. A milestone was reached when the new home loan platform went into service during the fourth quarter. During 2022 there will be a focus on continued development of Borgo's digital home loan platform as well as ensuring sustainable and scalable processes related to new regulations. Credit Processes will also participate, together with Risk Control and Credit Scoring, in the implementation of coming sustainability regulations.

Crosskey is growing very fast

Crosskey is continuing its rapid expansion. At the end of 2021 the Bank of Åland's IT subsidiary had more than 300 full-time positions. During the past two years alone, this number increased by 55, or 22 per cent. In addition, the number of positions for outside consultants rose sharply.

Crosskey is becoming an increasingly large and important part of the Bank of Åland Group. The Bank's growing business partnerships are being made possible by ever-closer collaboration between the Bank and Crosskey to deliver not only IT services, but also complete banking services.

During 2021 Model IT, which was acquired in 2019, was merged with Crosskey. Model IT has enabled Crosskey to accelerate its growth as a provider of capital market services.

Crosskey extended and expanded its cooperation agreement with Finland's S-Bank (S-Pankki). The agreement is a continuation of the existing agreement that was signed in 2005 and which now encompasses all of Crosskey's banking solutions.

During 2021 Crosskey, in collaboration with the Bank of Åland, launched the banking platform for the new Swedish home mortgage bank Borgo, which is jointly owned by ICA Bank, Ikano Bank, Söderberg & Partners and the Bank of Åland.

Wealth manager Garantum's new capital market system in Sweden was also launched during the autumn.

In a happy start to the new year 2022, POP Bank has chosen Crosskey as its central banking system partner. On January 4, POP Bank signed a cooperation agreement with Crosskey on the renewal of its core banking system. POP Bank anticipates that it will introduce the new core banking system during 2025. The POP Bank Group is a Finnish financial group consisting of 21 cooperative banks, the digitally operating non-life insurance service Skadeförsäkring Ab, the central credit institution Bonum Bank Plc, and the central institution POP Bank Centre coop.

On October 1, 2021 Niclas Södergård took over as Managing Director, succeeding Thomas Lundberg. Södergård has a long background at Crosskey, including as the company's Chief Technology Officer.

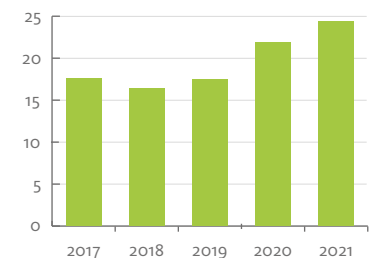
Employee satisfaction is measured by our yearly employee survey and is an important metric for Crosskey's efforts to achieve

a sustainable human resource policy. During the spring of 2021, the employee satisfaction level rose to the highest in company history. Crosskey is a certified Great Place to Work. Satisfaction among Crosskey's customers also rose to a record level, which is an important confirmation of its efforts to build long-term sustainable customer relationships.

Crosskey's computer halls are 100 per cent powered by electricity from renewable sources. In Åland, Crosskey is participating in a large Group-wide collaboration aimed at realising Åland's vision of being a completely sustainable society by 2051. One milestone on that path will be to fulfil the United Nations Agenda 2030, with its 17 global sustainable development goals, by 2030.

Non-Group income, Crosskey

EUR M



Niclas Södergård, Managing Director at Crosskey Banking Solutions Ab Ltd.

Report of the Directors



Report of the Directors

Macro situation

The COVID-19 (coronavirus) pandemic dominated 2021 as well. The pandemic initially faded in our area of operations and most restrictions were lifted, but late in the year the Omicron variant struck with great force, with new restrictions as a consequence.

Fiscal and monetary stimulus measures have been large. The economic recovery has been strong. For the local economy in the Åland Islands, the record-strong summer tourist season represented a welcome positive injection.

During 2021 long-term market yields began to move higher, but short-term market interest rates – which are more important to the Bank of Åland’s net interest income – remained at record-low levels. Central banks in Europe are expected to keep their key interest rates unchanged for a long time to come.

BENCHMARK INTEREST RATES, AVERAGES, PER CENT

	2021	2020
Euribor 3 mo	-0.55	-0.43
Euribor 12 mo	-0.49	-0.30
Stibor 3 mo	-0.04	0.08

During 2021 share prices according to the Nasdaq Helsinki stock exchange’s OMXHPI index rose by 18 per cent, while the Nasdaq Stockholm’s OMXSPI index rose by 35 per cent.

The average value of the Swedish krona (SEK) in relation to the euro (EUR) was 3 per cent higher during 2021 than in the year-earlier period and 2 per cent lower than at year-end 2020. When converting the income statement of the Bank’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.

Important events

On January 1, 2021 the Board of Directors of the Bank of Åland approved the distribution of a dividend totalling EUR 1 per share (a regular dividend of EUR 0.80 and a 100th anniversary dividend of EUR 0.20) for the 2019 financial year, in compliance with the authorisation that the Board received from the Bank’s Annual General Meeting on April 2, 2020.

On March 30, 2021, the Annual General Meeting (AGM) approved the distribution of a dividend of EUR 1.00 per share for the financial year 2020.

The AGM also decided to authorise the Board to approve acquisitions of no more than 1,500,000 of the Bank of Åland’s Series B shares. This is equivalent to about 10 per cent of all shares in the Company and about 16.4 per cent of all Series B shares in the Company. The Company’s own shares may be acquired in order to change the Company’s capital structure, to be used as consideration in acquisitions of companies or sectoral reorganisations or as part of the Company’s incentive programmes and may otherwise be transferred onward, be kept by the Company or be annulled. The shares may be acquired in one or more rounds.

The AGM re-elected the Board, consisting of Nils Lampi, Christoffer Taxell, Åsa Ceder, Anders Å Karlsson, Ulrika Valassi and Anders Wiklöf. 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.

In March, for the first time ever the Bank of Åland issued an additional Tier 1 (AT1) capital instrument, totalling SEK 300 M. This is a perpetual financial instrument, with a possibility of early redemption after five years. For financial reporting purposes, the instrument is regarded as equity capital.

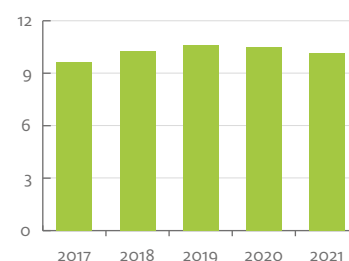
In December, for the first time ever the Bank of Åland issued a green Tier 2 (T2) supplementary capital instrument, totalling SEK 150 M. This instrument has a 20-year maturity, with a possibility of early redemption after five years. The proceeds of the instrument will be used for financing and refinancing wind power projects and mortgage loans for properties with high energy performance ratings.

During the report period, the number of Series B shares outstanding increased by 16,249 as a result of the Bank’s obligations within the framework of its employee incentive programmes.

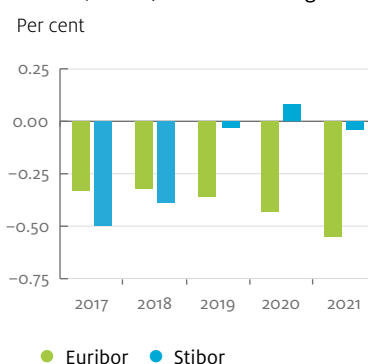
During the period, the Bank of Åland opened a new office in Oulu on the Finnish mainland.

In March 2021 Borgo AB, an associated company of the Bank of Åland, received permission from the Swedish Financial Supervisory Authority to operate a financing business and to issue covered bonds. In the fourth quarter, the company started its operations in Sweden. In September 2019 Borgo entered into a partnership with ICA Bank, Ikano Bank, Söderberg & Partners and the Bank of Åland (IISÅ Holdco AB) for the purpose of creating a new Swedish mortgage company. In August 2021 Sparbanken Syd (a southern Swedish savings bank) also signed a binding agreement with Borgo to join the partnership.

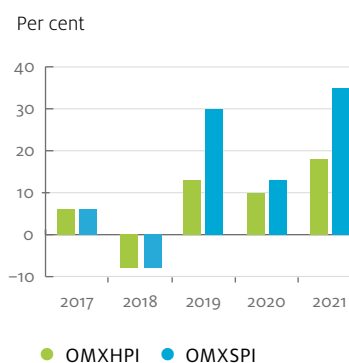
Average EUR/SEK exchange rate



Euribor/Stibor, 3-month averages

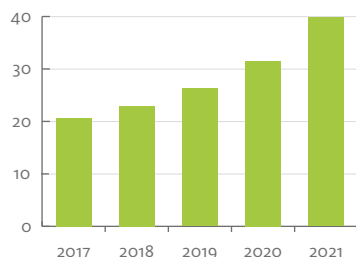


OMXHPI and OMXSPI



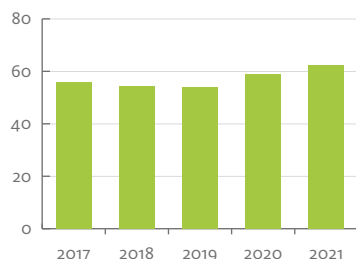
Profit attributable to shareholders

EUR M



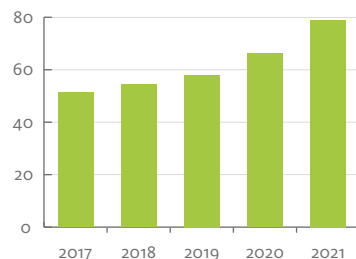
Net interest income

EUR M



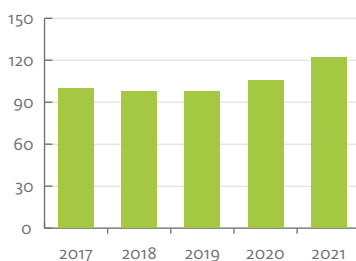
Net commission income

EUR M



Total expenses

EUR M



Together with its information technology subsidiary Crosskey Banking Solutions, the Bank of Åland is supplying platform solutions for the new mortgage company and contributing its existing knowledge on mortgage loan management.

Together with its customers, the Bank of Åland is continuing its commitment to a cleaner Baltic Sea. This year the Baltic Sea Project contributed EUR 500,000 to various projects that promote the health of the Baltic Sea.

Since 1997 the Bank of Åland has awarded EUR 3.3 M to various environmentally related projects.

For the eighth consecutive year, the Bank of Åland (Ålandsbanken) Euro Bond Fund was named the best Nordic fund in its category by Refinitiv Lipper. The Morningstar investment research company, which compares fund data and funds in their respective classes, also assigned the Bank of Åland Euro Bond Fund its highest rating – five stars – in all its review cycles.

On June 30 Alandia Holding completed its acquisition of Rettig Group's entire stake (24.9 per cent) in the marine insurance company Alandia Försäkring. Alandia Holding is a company created by the Bank of Åland, the pension insurance company Veritas Pensionsförsäkring, the cruise ferry company Viking Line, Föreningen Konstsamfundet (an association that supports the arts in Swedish-speaking Finland), Lundquist Shipping Company and Wiklöf Holding for the purpose of acquiring this shareholding in Alandia Försäkring. The express desire of the owners of Alandia Holding is to act as a long-term owner of Alandia Försäkring. Alandia Holding is an associated company of the Bank of Åland.

In August the Bank of Åland sold its shareholding in the company Åland Index Solution as well as intellectual property (IP) rights to the Åland Index to Doconomy, a Swedish-based fintech company. The Bank still has a substantial ownership stake in Doconomy.

Earnings

Net operating profit rose by EUR 9.5 M or 24 per cent to EUR 49.2 M (39.7). About EUR 5.0 M of net operating profit for the report period was attributable to nonrecurring items.

Profit for the period attributable to shareholders increased by EUR 8.3 M or 27 per cent to EUR 39.8 M (31.5).

Return on equity after taxes (ROE) increased to 14.0 per cent (11.6).

Total income rose by EUR 25.8 or 17 per cent to EUR 176.0 M (150.2).

Net interest income rose by EUR 3.3 M or 6 per cent to EUR 62.2 M (58.9). The increase came from higher lending volume and lower costs of deposits and capital market borrowing.

Net commission income rose by EUR 12.7 M or 19 per cent to EUR 79.0 M (66.3), mainly due to higher income from the Bank's asset management business.

Net income on financial items fell by EUR 2.3 M to EUR -0.4 M (1.8), mainly due to lower capital gains and re-measurement of liabilities attributable to an earn-out (contingent consideration) related to the purchase price of an asset.

Information technology (IT) income rose by EUR 2.5 M or 14 per cent to EUR 24.4 M (21.9). The increase came from higher project income.

Other income included nonrecurring positive effects related to associated companies and divestment of IP rights.

Total expenses increased by EUR 16.3 M or 16 per cent and totalled EUR 121.9 M (105.6). Higher staff costs and IT expenses plus increased depreciation/amortisation were the main reasons.

Total net impairment losses on financial assets were unchanged and amounted to EUR 4.9 M (4.9), equivalent to a loan loss level of 0.12 (0.11) per cent. These impairment losses were mainly due to a small number of individual loans. In the first quarter of 2020, the Bank made sizeable model-driven provisions for impairment losses in compliance with the IFRS 9 international financial reporting standard, which have not yet been utilised.

Tax expense amounted to EUR 9.3 M (8.2), equivalent to an effective tax rate of 19.0 (20.7) per cent.

Operating segments

The Group's EUR 9.5 M increase in net operating profit to EUR 49.2 M was allocated as follows:

- Private Banking -1.3 (higher impairment provisions)
- Premium Banking +5.3 (lower impairment provisions)
- IT -2.6 (higher expenses and earn-out)
- Corporate Units & Eliminations +8.1 (mainly nonrecurring effects)

Business volume

Actively managed assets on behalf of customers increased by EUR 2,390 M or 32 per cent compared to year-end 2020 and amounted to EUR 9,826 M (7,436). The increase was due to both positive net inflows and a positive market effect.

Deposits from the public rose by 13 per cent compared to year-end 2020 and amounted to EUR 4,070 M (3,605).

Lending to the public increased by 9 per cent compared to year-end 2020 and totalled EUR 4,788 M (4,378).

All these business volume figures were the highest recorded in the Bank of Åland's history.

Balance sheet total and off-balance sheet obligations

During 2021 the Group's balance sheet increased by EUR 600 M or 10 per cent to EUR 6,635 M (6,035). The increase was primarily related to lending to the public. The increase in assets was funded mainly through increased deposits from the public. Off-balance sheet obligations rose by EUR 294 M or 39 per cent to EUR 1,045 M. The increase was mainly related to lines of credit.

Credit quality

Lending to private individuals comprised 78 per cent of the loan portfolio. Home mortgage loans accounted for 76 per cent of this. Loans for the purchase of securities, with market-listed securities as collateral, comprised the second-largest type of lending to individuals. 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 compa-

nies are owned by customers who, as individuals, are also Private Banking customers.

The Bank of Åland Group had EUR 14.9 M in impairment loss provisions on December 31, 2021 (11.9 on December 31, 2020), of which EUR 2.1 M (2.5) in Stage 1, EUR 0.8 M (1.0) in Stage 2 and EUR 11.7 M (8.3) in Stage 3. During 2021, Stage 3 loans increased by EUR 16.8 M to EUR 47.3 M.

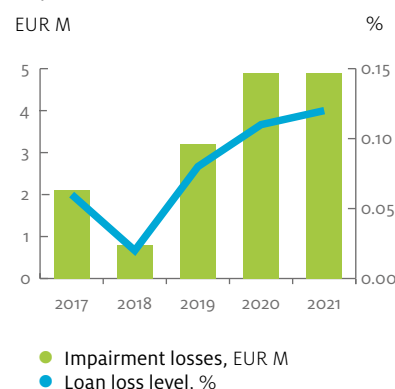
Stage 3 loans as a share of gross lending to the public totalled 1.23 per cent (0.89). The level of provisions for Stage 3 loans amounted to 20 (21) per cent. Most of these loans have good collateral.

Liquidity and borrowing

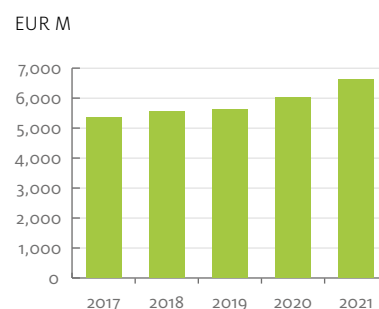
The Bank of Åland's liquidity reserve in the form of cash and deposits with the central bank, account balances and investments with other banks, liquid interest-bearing securities plus holdings of unencumbered covered bonds issued by the Bank amounted to EUR 1,320 M on December 31, 2021 (1,175 on December 31, 2020). This was equivalent to 20 (19) per cent of total assets and 28 (27) per cent of lending to the public.

In September 2021 the Bank of Åland carried out an early redemption of SEK 2.5 billion in covered bonds from the Swedish pool with a final due date in November 2022. At the same time, the Bank issued new covered bonds in the amount of SEK 5.5 billion with a final due date in September 2026. The bond issue was unique, since these bonds carry contractual conditions that allow them to move from the Finnish to the Swedish legislative framework, and from the Bank of Åland as counterparty to Borgo as

Impairment losses and loan loss level

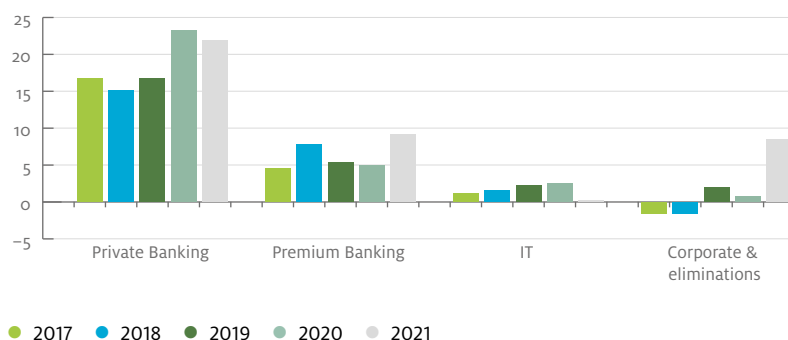


Balance sheet total



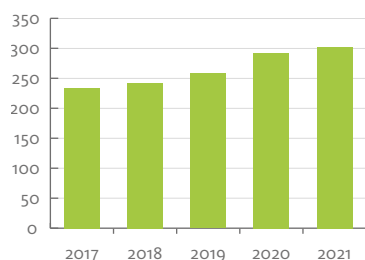
Profit attributable to shareholders, by segment

EUR M



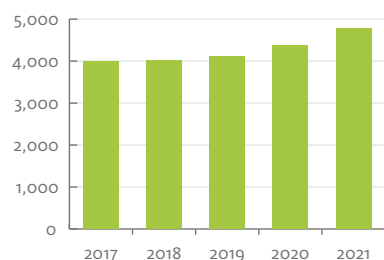
Equity capital attributable to shareholders

EUR M



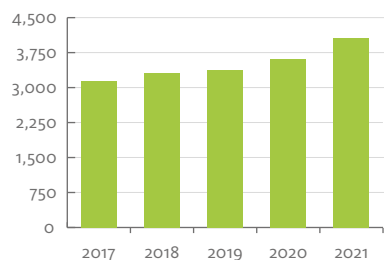
Lending

EUR M



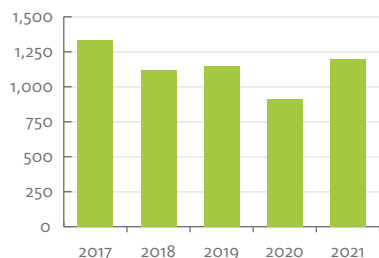
Deposits

EUR M



Covered bonds

EUR M



counterparty, when the Bank's Swedish mortgage loan portfolio is transferred to Borgo during the first half of 2022.

In September EUR 250 M in non-covered bonds also matured. The Bank chose not to renew them.

On December 31, 2021, the average remaining maturity of the Bank of Åland's bonds outstanding was about 3.1 (2.5) years.

The loan/deposit ratio amounted to 118 (121) per cent.

Of the Bank of Åland's external funding sources aside from equity capital, deposits from the public accounted for 66 (64) per cent and covered bonds issued accounted for 19 (16) per cent.

The liquidity coverage ratio (LCR) amounted to 139 (159) per cent.

The net stable funding ratio (NSFR) amounted to 109 (106) per cent.

Rating

The Bank of Åland had 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

During the report period, equity capital changed in the amount of profit for the period, EUR 39.9 M; other comprehensive income, EUR 1.9 M; the issuance of new shares as part of the incentive programme, EUR 0.4 M; distributed dividends totalling EUR 31.2 M to shareholders; distributed dividends of EUR 0.8 M to holders of additional Tier 1 (AT1) capital instruments; and issuance of AT1 capital, EUR 29.4 M. On December 31, 2021, equity capital amounted to EUR 331.9 M (292.4 on December 31, 2020).

Other comprehensive income included re-measurements of defined-benefit pension plans by EUR 5.1 M after taxes, in compliance with IAS 19.

Common equity Tier 1 capital rose by EUR 0.5 M during the report period to EUR 239.0 M (238.5). The Finnish Financial Supervisory Authority has granted permission for buy-backs of the Bank's own shares. The maximum amount that may be used for buy-backs is EUR 10.5 M. The amount is a fully deductible item in the capital base (own funds) even when these buy-backs have not occurred.

The risk exposure amount increased by 18 per cent during the report period and totalled EUR 1,976 M (1,671). The risk exposure amount for credit risk rose by EUR 290 M or 22 per cent. The elimination of the risk weight floor for mortgage loans in Finland decreased the risk exposure amount by EUR 108 M. A 26.5 per cent standardised upward adjustment of the risk exposure amount, calculated according to the IRB approach while awaiting an updated, approved IRB approach, increased the risk exposure amount by EUR 129 M. The operational risk exposure amount fell by EUR 4 M.

The common equity Tier 1 (CET1) capital ratio decreased to 12.1 (14.3) per cent.

The Tier 1 (T1) capital ratio, which had previously always been identical with the CET1 capital ratio, rose due to the issuance of AT1 instruments totalling SEK 300 M in March 2021 and amounted to 13.6 (14.3) per cent.

The total capital ratio decreased to 15.4 (16.5) per cent.

A mitigation measure in the calculation of the leverage ratio has been introduced, exempting exposures to central banks with relevance for the transmission of monetary policy. The Bank of Åland has taken this into account in its calculation of the leverage ratio, which amounted to 4.3 (4.2) per cent on December 31, 2021. Excluding the mitigation measure, it would have amounted to 3.9 (3.9) per cent.

In addition to the basic capital requirement, various buffer requirements apply. These are mainly imposed by national regulatory authorities. Due to the coronavirus crisis, several of these buffer requirements have been lowered. 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. For Finnish and Swedish exposures, the requirement remains 0.0 per cent. However, the Swedish Financial Supervisory Authority has decided to raise the amount of the countercyclical buffer to 1.0 per cent. The new buffer amount applies starting on September 29, 2021. The Swedish FSA is aiming at gradually raising the buffer amount to 2.0 per cent during 2022 if the economic recovery continues.

The buffer requirement established by the Finnish Financial Supervisory Authority (FIN-FSA) related to Pillar 2 capital adequacy regulations, totalling 1.5 per cent of the Group's risk exposure amount (REA), was lowered to 1.0 per

cent starting on September 30, 2021. This buffer requirement was previously supposed to be covered only by CET1 capital. Starting in 2021, part of the Pillar 2 requirement may also be covered by AT1 capital and supplementary capital, respectively.

The new minimum levels applicable to the Bank of Åland starting on September 30, 2021 are:

- Common equity Tier 1 capital ratio, 7.6 per cent
- Tier 1 capital ratio, 9.3 per cent
- Total capital ratio, 11.5 per cent

In relation to the above buffer requirements, the Bank of Åland has an ample capital surplus:

- Common equity Tier 1 capital ratio, +4.5 percentage points
- Tier 1 capital ratio, +4.3 percentage points
- Total capital ratio, +3.9 percentage points

Effective on January 1, 2022, Finland's Financial Stability Authority has given the Bank of Åland a formal minimum requirement for own funds and eligible liabilities (MREL) under European Union regulations, but in practice this does not represent any extra capital requirement beyond the already existing minimum requirements related to the Bank's total capital ratio and leverage ratio.

Due to an interpretation error regarding a bank-specific regulatory requirement, the Bank of Åland reported inaccurate capital adequacy disclosures earlier during 2021. The corrected disclosures were presented in a stock exchange release on December 19.

Acquisitions of the bank's own shares

The Board of Directors of the Bank of Åland has decided to begin acquisitions of the Bank's own shares, as authorised by the Annual General Meeting (AGM) on March 30, 2021. The maximum number of shares that may be acquired on the basis of the Board's acquisition decision, in one or more rounds, is 375,000 Series B shares, which is equivalent to 4.1 per cent of the total number of Series B shares and 2.4 per cent the total number of shares. The maximum amount that may be used for the buy-back is EUR 10.5 M. The Finnish Financial Supervisory Authority (FIN-FSA) has granted permission for the buy-back of the Bank's own shares.

The acquisition of shares will end at the latest on March 30, 2022. The shares will be acquired using unrestricted equity capital in

public trading on the Nasdaq Helsinki Oy (Helsinki Stock Exchange) in one or more rounds at a price determined in public trading on the Nasdaq Helsinki Oy on the day of the acquisition. The shares will be acquired and paid for according to the rules of Nasdaq Helsinki Oy.

The shares will be acquired in order to change the Bank of Åland's capital structure, to be used as consideration in acquisitions of companies or sectoral reorganisations or as part of the Bank of Åland's incentive programmes and may otherwise be transferred onward or kept by the Bank of Åland. There are thus weighty financial reasons to carry out a targeted acquisition of the Bank's own shares.

No acquisitions of the Bank's own shares had been carried out yet on December 31, 2021, but the maximum buy-back amount of EUR 10.5 M is nevertheless fully deductible from the Bank of Åland's CET1 capital.

Sustainability information

During the fourth quarter of 2021, the Bank of Åland implemented the Greenhouse Gas Protocol (GHGP) to estimate and report its greenhouse gas emissions. These emissions are reported in three scopes, where the Bank of Åland's climate estimate initially encompasses Scope 1 and 2 plus supplier-related emissions from purchases in Scope 3.

Emissions in 2021 totalled 775 tonnes of carbon dioxide equivalents, which was an increase of 3 tonnes compared to the preceding year. In its accounts, the Bank of Åland has set aside a cost of EUR 25,000, which is equivalent to full climate compensation for the estimated emissions.

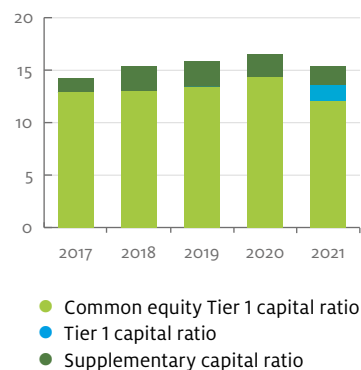
Dividend

The Board of Directors proposes that the Annual General Meeting approve payment of a regular dividend of EUR 1.55 per share for the 2021 financial year, equivalent to a total amount of EUR 24.5 M. The dividend is equivalent to a 61 per cent payout ratio.

The Board also proposes that the AGM approve payment of an extra dividend of EUR 0.45 per share, on the condition that the planned transfer of most of the Bank's Swedish mortgage loan portfolio to Borgo is implemented.

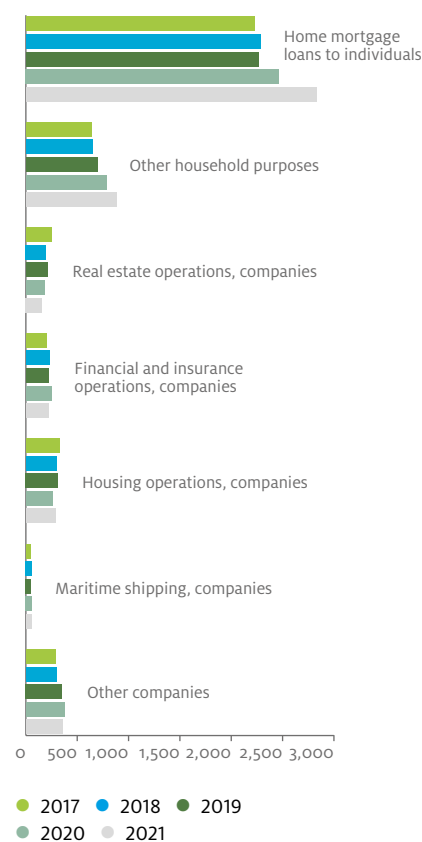
Capital ratios

Per cent



Lending by economic sector

EUR M



Important events after close of report period

POP Bank has chosen Crosskey as its central banking system partner. On January 4, 2022 POP Bank signed a cooperation agreement with Crosskey on the renewal of its core banking system. POP Bank anticipates that it will introduce the new core banking system during 2025.

The POP Bank Group is a Finnish financial group consisting of 21 cooperative banks, the digitally operating non-life insurance service P&C Insurance Ltd, the central credit institution Bonum Bank Plc, and the central institution POP Bank Centre coop.

On February 14, 2022, most of the Bank of Åland's Swedish mortgage loans and related previously issued covered bonds were transferred to Borgo. The nominal amount of the mortgage portfolio that was transferred is EUR 10.4 billion. The nominal amount of the previously issued covered bonds, which now have Borgo as their issuer, is EUR 7.5 billion. A smaller mortgage portfolio in the range of EUR 2 billion in size will be transferred later in 2022. After the transaction, the Bank of Åland's ownership stake in Borgo amounts to 19.9 per cent.

The transaction will increase the Bank of Åland's net operating income during the first quarter of 2022, with a nonrecurring positive effect in the EUR 10 M range. At the same time, this will mean a smaller loan portfolio in the Bank of Åland's own balance sheet and thus a lower current net interest income. In the future, the Bank of Åland will instead receive distribution fees for brokered loans and platform revenues for maintaining various services to Borgo. The total full-year effect on 2022 earnings is expected to be positive.

Risk and uncertainties

The single largest risk and uncertainty factor is still the global coronavirus pandemic.

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.

Since 2017 the Bank of Åland has had a pending case with the Swedish Tax Agency concerning value-added tax (VAT) for the financial year 2016. The Tax Agency has announced a decision on the matter, in which it states that the Bank of Åland must pay about EUR 0.5 M in VAT. The Bank of Åland does not agree with the Tax Agency's assessment and will appeal the Administrative Court's negative ruling of December 2021. A provision for half the amount has been made as a tax expense in the financial accounts.

Future outlook

The Bank of Åland expects its net operating profit in 2021 to about the same as in 2021.

The Bank is especially dependent on the performance of the fixed income and stock markets. There are concerns about economic developments in a number of important markets. For this reason, there is some uncertainty about the Bank's current forecast.

Updated long-term financial targets

The Board of Directors has approved the following updated long-term financial targets:

- Return on equity after taxes (ROE) shall exceed 15 per cent over time.
- The common equity Tier 1 capital ratio shall exceed the FIN-FSA's minimum requirement by 1.75-3.0 percentage points.
- The payout ratio shall be 60 per cent or higher, provided that capital adequacy does not fall below target.

The previous targets, which the Bank of Åland had since 2013 with only minor adjustments in their language, were:

- Return on equity after taxes (ROE) shall exceed 10 per cent.
- The Bank's capital adequacy, primarily defined as the common equity Tier 1 capital ratio under the Basel regulations, shall clearly exceed all regulatory requirements.
- The payout ratio shall eventually amount to 50 per cent. The payout ratio target presupposes that the capital adequacy target can be maintained.

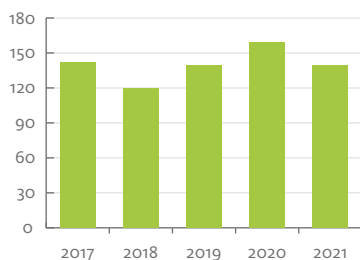
The Bank of Åland has a strategy and business model which implies that a growing proportion of earnings will come from asset management operations, IT operations and business partnerships that require comparatively limited equity capital. Combined with the growth that the Bank has experienced, this justifies raising the profitability target – expressed as return on equity after taxes – from 10 to 15 per cent.

The newly quantified target of a common equity Tier 1 capital ratio that is at least 1.75 percentage points above the minimum required by regulatory authorities indicates a slightly higher minimum than is customary in the banking sector. This reflects the Bank of Åland's conservative approach to risk.

As long as the capital adequacy target is achieved, at least 60 per cent of profit for the year shall be distributed to shareholders. In order to ensure efficient use of capital, share repurchases will also be employed.

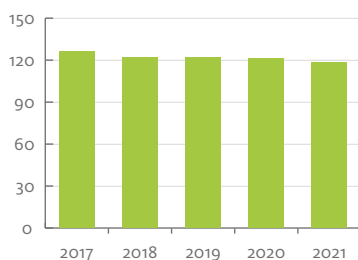
Liquidity coverage ratio

Per cent



Loan/deposit ratio

Per cent



FIVE-YEAR GROUP SUMMARY

Bank of Åland Group	2021	2020	2019	2018	2017
EUR M					
Net interest income	62.2	58.9	53.9	54.5	55.9
Net commission income	79.0	66.3	58.0	54.3	52.9
Net income from financial items carried at fair value	-0.4	1.8	3.9	1.5	-0.1
IT income	24.4	21.9	17.5	16.4	17.6
Other income	10.8	1.2	0.7	1.0	1.6
Total income	176.0	150.1	133.9	127.6	128.0
Staff costs	-71.1	-62.9	-57.0	-57.1	-59.8
Other expenses	-36.5	-30.3	-28.7	-33.4	-32.9
Derpreciation/amortisation and impairment losses on tangible and intangible assets	-14.3	-12.3	-11.8	-7.3	-7.1
Total expenses	-121.9	-105.6	-97.5	-97.8	-99.8
Profit before impairment losses	54.1	44.6	36.4	29.8	28.2
Impairment losses on loans and other commitments	-4.9	-4.9	-3.2	-0.8	-2.1
Net operating profit	49.2	39.7	33.2	29.0	26.0
Income taxes	-9.3	-8.2	-6.9	-6.1	-5.3
Profit for the report period	39.9	31.5	26.3	22.9	20.7
Attributable to:					
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Shareholders in Bank of Åland Plc	39.9	31.5	26.3	22.9	20.7
Volume					
Lending to the public	4,788	4,378	4,110	4,022	3,979
Deposits from the public	4,070	3,605	3,368	3,304	3,148
Actively managed assets ¹	9,826	7,436	6,343	5,177	5,737
Equity capital	332	292	258	242	234
Balance sheet total	6,635	6,035	5,607	5,558	5,352
Risk exposure amount	1,976	1,671	1,583	1,578	1,538
Financial ratios					
Return on equity after taxes (ROE), % ²	14.0	11.6	10.7	9.8	9.1
Expense/income ratio ³	0.69	0.70	0.73	0.77	0.78
Loan loss level, % ⁴	0.12	0.11	0.08	0.02	0.06
Gross share of loans in stage 3, % ⁵	1.23	0.89	0.81	0.47	0.42
Liquidity coverage ratio (LCR), % ⁶	139 ⁷	159	139	120	142
Net stable funding ratio (NSFR), % ⁸	109	106	115	113	110
Loan/deposit ratio, % ⁹	118	121	122	122	126
Common equity Tier 1 capital ratio, % ¹⁰	12.1	14.3	13.4	13.0	12.9
Tier 1 capital ratio, % ¹¹	13.6	14.3	13.4	13.0	12.9
Total capital ratio, % ¹²	15.4	16.5	15.8	15.4	14.2
Leverage ratio, % ¹³	4.3	4.2	3.7	3.6	3.6
Working hours re-calculated to full-time equivalent positions	815	751	700	691	691
Earnings per share, EUR ¹⁴	2.55	2.02	1.69	1.48	1.35
Equity capital per share, EUR ¹⁵	19.39	18.76	16.61	15.67	15.14
Dividend per share, EUR	2.00	1.00	1.00	0.70	0.65

¹ Actively managed assets encompassed managed assets in the Group's own mutual funds as well as discretionary and advisory securities volume plus external funds with contractual earnings.

² Profit for the reporting period attributable to shareholders/Average shareholders' portion of equity capital.

³ Expenses/Income.

⁴ Impairment losses on loan portfolio and other commitments from lending to the public/Lending to the public at the end of the period.

⁵ Share of loans in stage 3/Gross lending to the public.

⁶ LCR assets at level 1 and 2/30-day net cash outflow.

⁷ Corrected calculation compared to the figure in the Year-end Report.

⁸ Available stable funding/Stable funding requirement.

⁹ Lending to the public/Deposits from the public.

¹⁰ Common equity Tier 1 capital/Risk exposure amount.

¹¹ Tier 1 capital/Risk exposure amount.

¹² Own funds/Risk exposure amount.

¹³ Tier 1 capital/Total exposure metric.

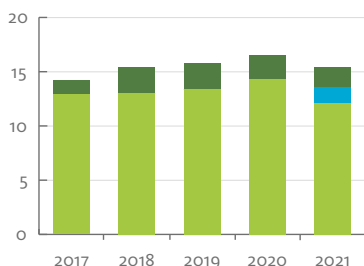
¹⁴ Shareholders' portion of profit for the period/Average number of shares.

¹⁵ Shareholders' portion of equity capital/Number of shares on closing day.

Facts on Bank of Åland shares

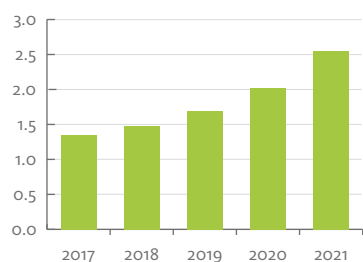
Market capitalisation

EUR M



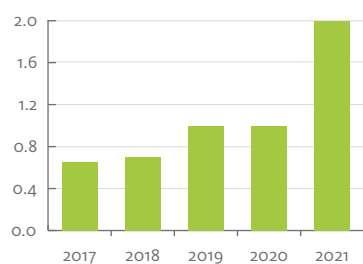
Earnings per share

euros



Dividend per share

euros



* Proposed by the Board of Directors for approval by the Annual General Meeting.

Share capital

The share capital of the Bank of Åland is EUR 42,029,289.89. The shares are divided into 6,476,138 Series A and 9,126,165 Series B shares. Each Series A share represents twenty (20) votes at shareholders' meetings and each Series B share one (1) vote. The Articles of Association stipulate that no representative at a General Meeting may vote for more than one fortieth of the number of shares represented at the Meeting.

In April 2019, the Annual General Meeting voted to authorise the Board to decide on the issuance of shares, option rights and other special rights entitling their holders to shares, as provided by the Finnish Companies Act, Chapter 10, Section 1. The authorisation concerns Series B shares. The total number of shares that may be issued with the support of the authorisation may not exceed 3,000,000 Series B shares. The authorisation covers one or more issues in exchange for payment or without payment and may also cover divestment of the Company's own shares. The authorisation replaces all of the Annual Meeting's earlier unutilised authorisations of shares, option rights and other special rights entitling their holders to shares. The Board's mandate is in force until April 3, 2024. So far 77,196 Series B shares (as of December 31, 2021) have been issued or divested as authorised, and consequently an additional 2,922,804 Series B shares may be issued or divested on the basis of the authorisation.

Shares as part of variable compensation programmes

Newly issued or purchased Series B shares in the Bank are paid as part of the Bank of Åland's incentive programmes. In spring 2021, 16,249 newly issued Series B shares were disbursed. In March 2022, about 15,000 newly issued Series B shares will be disbursed. Another approximately 18,000 Series B shares will be disbursed as a delayed portion of incentive programmes during the years 2023–2026, provided that the criteria for disbursement are fulfilled. The number of shares is dependent on the share price on the disbursement date.

Acquisitions of the Bank's own shares

On March 30, 2021, the Annual General Meeting (AGM) authorised the Board of Directors to decide on acquisitions of the Bank of Åland's own Series B shares. The authorisation covers a maximum of 1,500,000 Series B shares and is in force until the end of the next AGM, but no longer than until September 30, 2022.

On the basis of this authorisation, the Board has decided to begin acquisitions of the Bank's own shares. The maximum number of shares that may be acquired on the basis of the Board's acquisition decision, in one or more rounds, is 375,000 Series B shares, which is equivalent to 4.1 per cent of all Series B shares and 2.4 per cent of all shares in the Bank of Åland. The maximum amount that may be used for the buy-back is EUR 10.5 M. The Finnish Financial Supervisory Authority (FIN-FSA) has granted permission for the buy-back of the Bank's own shares.

The acquisition of shares will end at the latest on March 30, 2022. The shares will be acquired using unrestricted equity capital in public trading on the Nasdaq Helsinki Oy (Helsinki Stock Exchange) in one or more rounds at a price determined in public trading on the Nasdaq Helsinki Oy on the day of the acquisition. The shares will be acquired and paid for according to the rules of Nasdaq Helsinki Oy.

The shares will be acquired in order to change the Bank of Åland's capital structure, to be used as consideration in acquisitions of companies or sectoral reorganisations or as part of the Bank of Åland's incentive programmes and may otherwise be transferred onward or kept by the Bank of Åland. There are thus weighty financial reasons to carry out a targeted acquisition. On December 31, 2021, no acquisitions of the Bank's own shares had been made yet.

Changes in share capital

Year	Share capital, EUR	Series A shares	Series B shares
2021	42,029,289.89	6,476,138	9,126,165
2020	42,029,289.89	6,476,138	9,109,916
2019	42,029,289.89	6,476,138	9,075,360
2018	41,974,063.28	6,476,138	8,995,547
2017	41,949,003.76	6,476,138	8,959,175

Trading in the Bank's shares

During 2021, the volume of trading in the Bank's Series A shares on the Nasdaq Helsinki Oy (Helsinki Stock Exchange) was EUR 9.2 M. Their average price was EUR 28.42. The highest quotation per share was EUR 33.20, the lowest EUR 22.40. Trading in Series B shares totalled EUR 28.7 M at an average price of EUR 26.25. The highest quotation was EUR 32.20, the lowest EUR 20.80.

On December 31, 2021, the number of registered shareholders was 12,170 and they owned 14,279,918 shares. There were also a total of 1,322,385 shares registered in the names of nominees. The number of directly registered shares increased by 12 per cent during 2021.

The ten largest shareholders

Shareholder	Series A shares	Series B shares	Total	% of shares	% of votes
1 Wiklöf Anders and companies	1,993,534	1,332,961	3,326,495	21.32	29.72
2 Citibank Europe PLC (nominee registered shares)	4,188	1,063,053	1,067,241	6.84	0.83
3 Alandia Försäkring Abp (insurance company)	754,908	302,632	1,057,540	6.78	11.11
4 Fennogens Investments S.A.	616,764	165,467	782,231	5.01	9.02
5 Pensionsförsäkringsaktiebolaget Veritas (pension insurance company)	123,668	265,754	389,422	2.50	1.98
6 Chilla Capital	277,500	0	277,500	1.78	4.00
7 Lundqvist Ben	253,574	0	253,574	1.63	3.66
8 Oy Etra Invest Ab (investment company)	0	225,000	225,000	1.44	0.16
9 Svenska Litteratursällskapet i Finland rf (literary society)	208,750	0	208,750	1.34	3.01
10 Nordea Life Assurance Finland Ltd	0	176,580	176,580	1.13	0.13

The above list also includes the shareholder's Group companies and shareholder-controlled companies.

Shareholders by size of holding

Number of shares	Number of shareholders	Total number of shares held	Average holding	Voting power, %
1-100	5,993	242,064	41	1.3
101-1,000	4,987	1,758,956	353	7.4
1,001-10,000	1,141	2,839,587	2,489	11.9
10,001-	109	10,761,696	98,731	79.4
<i>of which nominee registered shares</i>		1,322,385		1.5

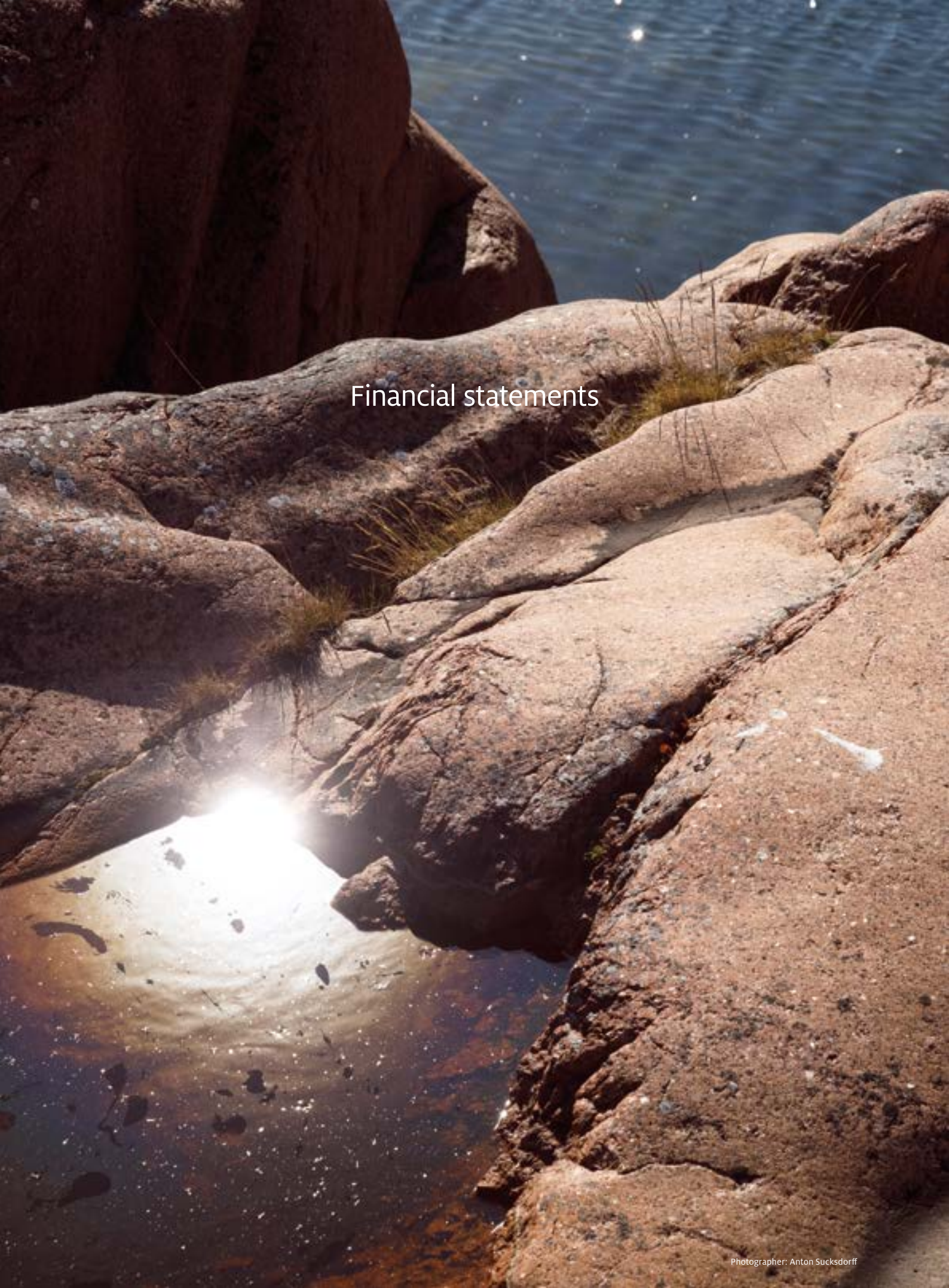
Shareholders by category

Category	Number of shares	% of shares
Private individuals	5,904,056	37.8
Companies	4,255,049	27.3
Financial institutions and insurance companies	2,125,861	13.6
Non-profit organisations	653,350	4.2
Government organisations	19,028	0.1
Foreign investors	1,322,574	8.5
Nominee registered shares	1,322,385	8.5
Total	15,602,303	100.0

Bank of Åland share data		2021	2020	2019	2018	2017
Number of shares, thousands ¹		15,602	15,586	15,551	15,472	15,435
Number of shares after dilution, thousands		15,636	15,634	15,601	15,590	15,586
Average number of shares, thousands		15,599	15,579	15,523	15,453	15,330
Earnings per share, EUR ²		2.55	2.02	1.69	1.48	1.35
Earnings per share after dilution, EUR		2.55	2.02	1.69	1.48	1.34
Dividend per share, EUR		1.55 ³	1.00	0.80	0.70	0.65
Extra dividend per share, EUR		0.45 ³		0.20		
Dividend payout ratio ⁴		60.7	49.5	47.3	47.2	48.5
Extra dividend payout ratio ⁴		17.6		11.8		
Equity capital per share, EUR ⁵		19.39	18.76	16.61	15.67	15.14
Equity capital per share after dilution, EUR		19.41	18.76	16.59	15.58	15.02
Market price per share, closing day, EUR						
Series A		32.60	21.60	17.00	13.30	14.20
Series B		31.50	20.90	16.55	13.10	14.05
Price/earnings ratio ⁶						
Series A		12.8	10.7	10.0	9.0	10.5
Series B		12.3	10.3	9.8	8.8	10.4
Effective dividend yield, % ⁷						
Series A		6.1	4.6	5.9	5.3	4.6
Series B		6.3	4.8	6.0	5.3	4.6
Market capitalisation, EUR M		498.6	330.3	260.3	204.0	217.8

1	Number of registered share minus own shares on closing day	4	$\frac{\text{Dividend for the accounting period}}{\text{Shareholders' interest in profit for the accounting period}} \times 100$	6	$\frac{\text{Share price on closing day}}{\text{Earnings per share}}$
2	$\frac{\text{Shareholders' interest in profit for the accounting period}}{\text{Average number of shares}}$	5	$\frac{\text{Shareholders' portion of equity capital}}{\text{Number of shares on closing day}}$	7	$\frac{\text{Dividend}}{\text{Share price on closing day}} \times 100$
3	Proposed by the Board of Directors for approval by the Annual General Meeting				

Bank of Åland shares traded, Helsinki Stock Exchange					
Year		Thousands of shares	Volume as % of shares	Price paid, EUR: Highest/Lowest	Average price, EUR
2021	A	321	5.0	33.20–22.40	28.42
2021	B	1,094	12.0	32.20–20.80	26.25
2020	A	198	3.1	21.80–14.90	18.71
2020	B	1,141	12.5	21.20–13.55	18.22
2019	A	914	14.1	17.00–13.10	14.95
2019	B	874	9.6	16.75–12.70	14.22
2018	A	81	1.3	17.10–13.20	14.11
2018	B	545	6.1	15.00–12.80	13.63
2017	A	167	2.6	15.89–13.06	14.85
2017	B	482	5.4	15.49–13.27	14.41



Financial statements

Consolidated income statement

(EUR K)

Bank of Åland Group		Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
	Note		
Interest income		69,390	68,064
Interest expenses		-7,161	-9,174
Net interest income	G7	62,229	58 890
Commission income		110,436	91,290
Commission expenses		-31,391	-24,977
Net commission income	G8	79,044	66,313
Net income from financial items carried at fair value	G9	-442	1,836
IT income		24,407	21,929
Share of income in associated companies		531	89
Other operating income	G10	10,254	1,090
Total income		176,024	150,148
Staff costs	G11	-71,115	-62,921
Other costs	G12	-36,543	-30,348
Depreciation/amortisation and impairment losses on tangible and intangible assets	G25, G26	-14,262	-12,304
Total expenses		-121,920	-105,573
Profit before impairment losses		54,104	44,575
Net impairment loss on financial assets	G13	-4,906	-4,857
Net operating profit		49,198	39,717
Income taxes	G14	-9,348	-8,232
Net profit for the period		39,850	31,485
Attributable to:			
Non-controlling interests		2	-1
Shareholders in Bank of Åland Plc		39,849	31,486
Earnings per share, EUR	G15	2,55	2.02
Earnings per share after dilution, EUR	G15	2,55	2.02

Consolidated statement of comprehensive income

(EUR K)

Bank of Åland Group		Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
	Note		
Profit for the accounting period		39,850	31,485
Assets measured via other comprehensive income			
Change in valuation at fair value		-608	3,160
Realised change in value		90	
Transferred to the income statement		-551	-2,046
Translation differences			
Gains/losses arising during the period		-2,240	3,479
Taxes on items that have been or may be reclassified to the income statement	G14	232	-223
Items that have been or may be reclassified to the income statement		-3,077	4,371
Changes in value of equity instruments			
Changes in value of equity instruments		-265	214
Translation differences		-43	
Re-measurements of defined benefit pension plans	K43	6,351	-2,801
Taxes on items that may not be reclassified to the income statement	K14	-1,038	517
Items that may not be reclassified to the income statement		5,005	-2,069
Other comprehensive income		1,928	2,302
Total comprehensive income for the period		41,778	33,787
Attributable to:			
Non-controlling interests		2	-1
Shareholders in Bank of Åland Plc		41,776	33,789

Consolidated balance sheet

(EUR K)

Bank of Åland Group		Dec 31, 2021	Dec 31, 2020
	Note		
Assets			
Cash and deposits with central banks		893,719	665,072
Debt securities	G19	717,864	777,683
Lending to credit institutions	G20	64,353	51,038
Lending to the public	G21	4,787,845	4,377,912
Shares and participations	G22	15,049	12,882
Shares and participations in associated companies	G23	14,603	1,449
Derivative instruments	G24	13,027	24,620
Intangible assets	G25	23,086	24,388
Tangible assets	G26	34,272	32,861
Investment properties	G26	307	313
Current tax assets		141	139
Deferred tax assets	G27	4,777	5,421
Other assets	G28	34,311	35,878
Accrued income and prepayments	G29	31,285	25,400
Total assets		6,634,639	6,035,058
Liabilities			
Liabilities to credit institutions and central banks	G30	867,491	509,491
Deposits from the public	G31	4,070,112	3,605,371
Debt securities issued	G32	1,196,535	1,440,933
Derivative instruments	G24	6,824	14,968
Current tax liabilities		4,271	5,131
Deferred tax liabilities	G27	34,571	32,231
Other liabilities	G33	49,844	57,372
Provisions	G34	363	409
Accrued expenses and prepaid income	G35	36,365	39,872
Subordinated liabilities	G36	36,343	36,913
Total liabilities		6,302,720	5,742,690
Equity capital and non-controlling interests			
Equity capital and non-controlling interests	G37		
Share capital		42,029	42,029
Share premium account		32,736	32,736
Reserve fund		25,129	25,129
Fair value reserve		2,990	4,129
Translation differences		-141	2,133
Unrestricted equity capital fund		27,994	27,611
Retained earnings		171,744	158,589
Shareholders' portion of equity capital		302,481	292,357
Non-controlling interests' portion of equity capital		13	11
Holders of additional Tier 1 capital		29,424	
Total equity capital		331,918	292,368
Total liabilities and equity capital		6,634,639	6,035,058

Statement of changes in equity capital

(EUR K)

Bank of Åland Group											
	Share capital	Share premium account	Reserve fund	Fair value reserve	Translation difference	Un-restricted equity capital fund	Retained earnings	Share-holders' portion of equity capital	Non-controlling interests' portion of equity capital	Holders of additional Tier 1 capital	Total
Equity capital, Dec 31, 2019	42,029	32,736	25,129	3,066	-1,347	27,398	129,330	258,343	13		258,355
Profit for the period							31,486	31,486	-1		31,485
Other comprehensive income				1,063	3,479		-2,241	2,302			2,302
Transactions with the Group's owners											
Incentive programme						213		213			213
Share savings programme							12	12			12
Equity capital, Dec 31, 2020	42,029	32,736	25,129	4,129	2,133	27,611	158,589	292,357	11		292,368
Profit for the period							39,849	39,849	2		39,850
Other comprehensive income				-1,139	-2,274		5,341	1,928			1,928
Transactions with the Group's owners											
Issuance of additional Tier 1 capital										29,424	29,424
Interest paid on Tier 1 capital instruments							-847	-847			-847
Dividends paid							-31,188	-31,188			-31,188
Incentive programme						383		383			383
Equity capital, Dec 31, 2021	42,029	32,736	25,129	2,990	-141	27,994	171,744	302,481	13	29,424	331,918

For further disclosures about changes in equity capital, see Note G37.

Consolidated cash flow statement

(EUR K)

Bank of Åland Group	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Cash flow from operating activities		
Net operating profit	49,198	39,717
Adjustment for net operating profit items not affecting cash flow		
<i>Depreciation/amortisation and impairment losses on intangible and tangible assets</i>	14,262	12,304
<i>Impairment losses on loans and other commitments</i>	5,347	5,462
<i>Unrealised changes in value</i>	1,406	479
<i>Accrued surpluses/deficits on debt securities and bonds issued</i>	6,653	5,829
<i>Defined benefit pension plan</i>	460	564
Gains/losses from investment activity	-1,936	-
Income taxes paid	-8,227	-4,856
Increase (-) or decrease (+) in receivables from operating activities		
<i>Debt securities</i>	50,762	8,438
<i>Lending to credit institutions</i>	-12,164	21,788
<i>Lending to the public</i>	-451,315	-216,527
<i>Other assets</i>	-2,043	1,229
Increase (+) or decrease (-) in liabilities from operating activities		
<i>Liabilities to credit institutions and central banks</i>	369,381	280,247
<i>Deposits from the public</i>	486,511	199,380
<i>Debt securities issued</i>	-232,783	-184,965
<i>Other liabilities</i>	-17,456	19,094
Cash flow from operating activities	258,054	188,184
Cash flow from investing activities		
Investment in shares and participations	-2,432	-3,249
Divestment of shares and participations	135	-
Investment in shares of associated companies and subsidiaries	-11,543	-1,139
Divestment of shares in associated companies and subsidiaries	764	-
Investment in tangible assets	-2,872	-1,373
Divestment of tangible assets	138	60
Investment in intangible assets	-5,919	-3,757
Cash flow from investing activities	-21,730	-9,457
Cash flow from financing activities		
Share issue	383	213
Issuance of additional Tier 1 capital	29,424	-
Payment of principal on lease liability	-4,038	-4,945
Increase in subordinated debentures	14,606	-
Decrease in subordinated debentures	-14,776	-
Dividend paid	-31,188	-
Interest paid on Tier 1 capital instruments	-847	-
Cash flow from financing activities	-6,435	-4,732
Exchange rate differences in cash and cash equivalents	-1,796	2,536
Change in cash and cash equivalents	228,093	176,528
Cash and cash equivalents at beginning of year	672,255	495,727
Cash flow from operating activities	258,054	188,184
Cash flow from investing activities	-21,730	-9,457
Cash flow from financing activities	-6,435	-4,732
Exchange rate differences in cash and cash equivalents	-1,796	2,536
Cash and cash equivalents at end of year	900,348	672,255
Cash and cash equivalents consisted of the following items:		
Cash and deposits with central banks	862,154	635,551
Lending to credit institutions that is repayable on demand	38,194	36,704
Total cash and cash equivalents	900,348	672,255

"Cash and cash equivalents" refers to cash, cheque account with the Bank of Finland, lending to credit institutions that is repayable on demand as well as other lending to credit institutions and debt securities with an original remaining maturity of less than three months as well as claims on public sector entities that are not lending. "Investing activities" refers to payments related to tangible and intangible assets as well as holdings of shares and participations aside from shares intended for trading. "Financing activities" refers to items among equity capital and liabilities that fund operating activities. The analysis was prepared according to the indirect method.

For further information regarding the consolidated cash flow statement, see Note G38.

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Notes to the consolidated financial statements

(EUR K)

G1. Corporate information

The Bank of Åland Plc (Ålandsbanken Abp) is a Finnish public company, organised in compliance with Finnish legislation and with its Head Office in Mariehamn. The Bank of Åland Plc 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 registered address:

Bank of Åland Plc
Nygatan 2
AX-22100 Mariehamn
Åland, Finland

A copy of the consolidated financial statements can be obtained from the Head Office or from the Bank's website www.alandbanken.fi

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

The consolidated financial statements for the financial year ending on December 31, 2021 were approved by the Board of Directors on February 23, 2021 and will be submitted to the 2022 Annual General Meeting for adoption. The Annual General Meeting has the opportunity to adopt or abstain from adopting the financial statements.

G2. Accounting principles

1. Basis for the report

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRSs) that have been adopted by the European Union. In addition, when preparing the notes to the consolidated financial statements, Finnish company and accounting legislation has also been applied. The consolidated financial statements are presented in thousands of euros (EUR K) unless otherwise stated. The consolidated financial statements have been prepared according to original cost, if not otherwise stated in the accounting principles.

Tables show rounded-off figures on all individual lines, but this means that the rounded-off figures do not always add up to the correct total.

2. Changes in accounting principles

The essential accounting principles used in preparing the Interim Report are the same as those used in preparing the financial statements for the year ending December 31, 2020.

The Bank of Åland has issued additional Tier 1 (AT1) capital. These instruments are classified as equity capital, since the instruments do not include any requirement that the Bank of Åland must pay the principal amount or interest to the holders. The Bank of Åland treats payments on financial instruments classified as equity capital (i.e. AT1 capital) as distributions of profits, and such payments are thus reported as dividends. Payment is made on a quarterly basis and the interest rate is the 3-month Stibor plus 3.75 per cent.

During 2021, the International Financial Reporting Interpretations Committee (IFRIC) issued a new agenda decision on accounting for development costs in cases where development involves software systems that an entity does not exercise control over, but instead buys as a service. In such cases, the entity is no longer allowed to capitalise the costs. Instead such development costs need to be expensed on a yearly basis. The decision is not expected to have any major effect on the Bank of Åland's financial position, earnings, cash flow or disclosures.

Other changes in accounting rules adopted during 2021 have had no major effect on the Group's financial position, earnings, cash flow or disclosures.

COMING REGULATORY CHANGES

A number of new standards and interpretations take effect for accounting years that begin after January 1, 2021. These coming regulatory changes are not expected to have any significant effect on the Group's financial position, earnings or disclosures.

3. Presentation of financial reports

Financial statements consist of a balance sheet, an income statement, a statement of comprehensive income, a statement of changes in equity capital, a cash flow statement and notes. Their purpose is to provide information about the position, financial performance and cash flows of a company that is useful in making economic decisions. Financial statements also present the results of the management team's administration of the resources entrusted to them.

The Group publishes an interim report for each quarter as well as a complete annual report.

4. Principles of consolidation

The consolidated financial statements are prepared in compliance with IFRS 10, "Consolidated financial statements" and encompass the Parent Company, the Bank of Åland Plc – including its Swedish branch, Ålandsbanken Abp (Finland), svensk filial – and all subsidiaries that the Parent Company controls. The Group controls a company when it is exposed to, or has rights to, variable returns from its holding in the company and has the ability to affect those returns through its influence on the company. When assessing whether a controlling interest exists, potential voting rights are considered as well as whether de facto control exists. The consolidation of subsidiaries occurs from the date when control is achieved to the divestment date.

In elimination, the acquisition method of accounting has been used. The acquisition method means that the payment which is transferred, the identifiable assets of the acquired company and liabilities assumed plus any non-controlling interests are carried at fair value on the acquisition date. Conditional consideration is recognised at fair value on the acquisition date. In case contingent consideration is classified as an equity instrument, no reassessment is made and settlement occurs as

part of equity capital. Other contingent consideration is reassessed on each reporting date and the change is recognised in the year's income statement. Intangible assets that are not found in the balance sheet of the acquired company, for example patents, brand names or customer relationships, are identified and measured at the time of the acquisition. In case of an acquisition where the payment which is transferred, any non-controlling interests and the fair value of any previously owned portion exceeds the fair value of the acquired assets and the liabilities assumed, the difference is recognised either as goodwill or negative goodwill. If goodwill arises, it is tested at least in conjunction with the annual financial statements. If negative goodwill arises, it is recognised as income in its entirety at the time of the acquisition. For goodwill amounts in companies where the Group has a controlling influence, or in subsidiaries where it has significant holdings without decision-making rights, see Note G25.

Transaction expenditures – except for those attributable to the issuance of equity instruments or debt instruments – are recognised directly in the income statement. The portions of equity capital and profit for the accounting period in subsidiaries that are attributable to non-controlling interests are split off and shown as separate items in the consolidated income statement and balance sheet. Losses attributable to non-controlling interests are allocated even in those cases where non-controlling interests will be negative.

Changes in percentages of ownership in a subsidiary where a controlling influence is retained are recognised as a transaction in equity capital. The difference between payment received and non-controlling interests' proportion of acquired net assets is recognised under "Retained earnings". Changes where a controlling influence ceases, gains or losses as well as items in other comprehensive income – except any re-measurements of defined benefit pension plans – are recognised in the income statement. Remaining holdings are carried at fair value and the change in value is recognised in the income statement.

The consolidated financial statements include those associated companies in which the Bank of Åland Group owns 20–50 per cent of the voting power or otherwise has significant influence. When consolidating associated companies, the equity method of accounting has been used. The equity method means that the carrying amount of the shares in the consolidated financial statements is equivalent to the Group's proportion of the associated company's equity capital and Group goodwill and any other remaining consolidated surplus and deficit values, adjusted for any impairment losses. The Group's proportion of the income in associated companies and any proportion of other comprehensive income are recognised on separate lines in the consolidated income statement and the consolidated statement of other comprehensive income, respectively. When the Group's proportion of an associated company's losses equals or exceeds its holding in the associated company, including any receivables without collateral, the Group recognises no further losses, unless the Group has assumed legal or informal obligations or made payments on behalf of the associated company.

Joint operations and joint ventures are collaborative arrangements in which the Bank of Åland and one or more business partners are entitled to all economic benefits related to an operation's assets and obligations for its liabilities. Mutual property and housing companies have been classified as joint operations. The Group recognises assets, liabilities, income and expenses based on its proportion of these. All intra-Group receivables, liabilities, income and expenses – including dividends and unrealised intra-Group profits – have been eliminated in the consolidated financial statements. Unrealised gains arising from transactions with associated companies are eliminated to an extent equivalent to the Group's proportion of ownership in the company, but only to the extent that there is no impairment.

5. Items in foreign currencies

The consolidated financial statements are prepared in euros (EUR), which is the reporting and functional currency of the Parent Company, Bank of Åland Plc. The functional currency of an operation is determined on the basis of the economic environment where the operation is carried out. The functional currency of the Group's operations outside Finland may diverge from the Group's reporting and functional currency. A foreign currency is defined as a currency other than the Group's functional currency. Income and expenses in foreign currencies are translated to the functional currency of Group companies and branches on the transaction date. Monetary assets and liabilities in foreign currencies are translated at the exchange rate prevailing on the closing day. Translation differences from equity instruments and debt instruments measured at fair value via other comprehensive income – as well as translation differences from hedging of net assets in foreign operations and fair value changes in related currency derivative instruments after taxes, to the extent that the hedge is effective – are recognised in "Other comprehensive income". Non-monetary items that are recognised at fair value are translated according to the exchange rate when fair value was established. Other non-monetary items have been translated at the exchange rate on the transaction date.

In the consolidated financial statements, the income statements, other comprehensive income items and cash flow statements of operations outside Finland are translated to euros according to the average exchange rates for the report period. The translation of balance sheet items to euros is performed using the exchange rates on the balance sheet date. The translation differences that arise when translating operations outside Finland are recognised separately in "Other comprehensive income" and are accumulated in a separate component in equity capital known as the translation reserve. When controlling interest ceases, the accumulated translation differences attributable to these operations are realised, at which time they are reclassified from the translation reserve in equity capital to the income statement.

6. Recognition of assets and liabilities in the balance sheet

The purchase and sale of shares, money and capital market instruments and derivatives in the spot market are recognised on the transaction date. Other financial assets and liabilities are normally recognised on the settlement date. Financial assets are removed from the balance sheet when the contractual rights to the cash flows that are attributable to the asset cease or when all risks and rewards associated with the asset are transferred to another party. A financial liability is removed from the balance sheet when the obligation ceases or is cancelled.

In case of a business acquisition, the acquired business is recognised in the consolidated accounts from the acquisition date. The acquisition date is the date when control over the acquired unit begins. The acquisition date may differ from the date when the transaction is legally confirmed. Assets and liabilities are removed from the balance sheet when controlling influence ceases.

Financial assets and liabilities are offset and recognised as a net amount or to simultaneously sell the asset and settle the liability. Further disclosures about offsetting of financial assets and liabilities are provided in Note G46.

The principles for recognition of assets and liabilities in the balance sheet are of special importance, for example, in the recognition of repurchase transactions, loans for the purchase of securities and leases. See the separate sections on these items below.

7. Classification of financial assets and liabilities

For purposes of measurement and recognition, in compliance with the provisions of IFRS 9, all financial assets and liabilities are classified in the following categories:

FINANCIAL ASSETS

1. Amortised cost
 - Investments held to maturity
 - Loans and other receivables
 - Other financial assets and liabilities
2. Fair value via income statement (“profit and loss”)
 - Held for trading
3. Fair value via other comprehensive income
 - Investments held to collect cash flows and available for sale
 - Equity instruments not held for trading

FINANCIAL LIABILITIES

1. Amortised cost
2. Fair value via income statement (“profit and loss”)
 - Derivative instruments not subject to hedge accounting

The allocation among the different categories is done on the basis of the Bank of Åland’s business model for the various holdings and the qualities of the cash flows that the assets create. The choice of the Bank of Åland’s business model reflects how groups of financial assets are jointly managed in order to achieve a certain purpose, for example to obtain cash flows and sell assets. Different groups of assets may have different business models. Classification in the balance sheet is independent of the measurement category. Different measurement principles may thus be applied to assets and liabilities that are recognised on the same line of the balance sheet. An allocation of the categories of financial assets and liabilities that are recognised in the balance sheet in terms of measurement category is provided in Note G16.

Most of the items in the consolidated balance sheet are financial instruments. A financial instrument is any form of contract that gives rise to a financial asset in one company and a financial liability or equity instrument in another company. Financial instruments are classified in the balance sheet on different lines depending on who the counterparty is, for example the public or a credit institution. If the financial instrument has no specific counterparty, or when it is quoted in a market, these financial instruments are classified in the balance sheet as various types of securities. Financial liabilities where the creditor has a lower priority than others are classified in the balance sheet as “Subordinated liabilities”.

A derivative is a financial instrument characterised by changes in its value due to changes in such variables as exchange rates, interest rates or share prices in an underlying asset, while little or no initial net investment is required. The contract is settled at a future date. Derivatives are recognised on their own lines in the balance sheet, together with contractually accrued interest, either as an asset or a liability depending on whether the contract has a positive or negative fair value.

Financial assets are recognised in the balance sheet on the transaction date when the purchase contract is signed, aside from contracts in the “loan receivables” measurement category, which are recognised on the payment date. The derecognition of financial assets occurs when the right to receive cash flows has expired or has essentially been transferred to another party. Financial liabilities are derecognised from the balance sheet when the liability ends because the contract has been fulfilled or cancelled.

On the first recognition date, all financial assets and liabilities are recognised at fair value. For assets and liabilities at fair value via the income statement, transaction costs are directly recognised in the income statement on the acquisition date. For other financial instruments, transaction expenses according to the effective interest method are included in cost.

FINANCIAL ASSETS AND LIABILITIES RECOGNISED AT AMORTISED COST

Recognised in the category “Financial assets and liabilities recognised at amortised cost” are interest-bearing financial assets that the Group holds as part of a business model whose aim is to hold financial assets for the purpose of receiving contractual cash flows. On predetermined dates, the contractual terms for the financial asset give rise to cash flows that are only payments of capital amounts and interest on the capital amount outstanding. The decision to hold an investment to maturity is made on the purchase date. Investments recognised at amortised cost are impairment tested according to the model for expected loan losses.

Loans and accounts receivable are recognised at amortised cost, that is, the discounted present value of all future payments attributable to the instrument, where the discount rate consists of the effective interest rate of the asset on the purchase date. When interest income is calculated, the effective interest rate for the recognised gross amount of a financial asset is used, except for those financial assets that have later been assigned poorer credit ratings. For these financial assets, the effective interest rate of the financial asset’s amortised cost is used during subsequent report periods (minus credit reserves). Loans and receivables are impairment tested according to the model for expected loan losses. Loans and accounts receivable that are defined as belonging to Stage 3 undergo impairment testing regularly and individually for each receivable. Impairment losses are recognised in the balance sheet at their net amounts, after subtracting expected and actual loan losses. Lease liabilities are reported as financial liabilities that are recognised at amortised cost.

FINANCIAL ASSETS AND LIABILITIES RECOGNISED AT FAIR VALUE VIA OTHER COMPREHENSIVE INCOME

A debt instrument is measured at fair value via other comprehensive income if it meets both of the following conditions and is not identified as carried at fair value via the income statement: it is held according to a business model whose aim can be achieved both by receiving contractual cash flows and selling financial assets, and on predetermined dates its contractual terms give rise to cash flows that are only payments of capital amounts and interest on capital amounts outstanding. Recognised in this measurement category are debt instruments that are initially recognised at amortised cost in the balance sheet and are later measured at fair value. The change in value is recognised under other comprehensive income, minus deferred tax. Upon divestment or impairment loss, the portion of accumulated income previously recognised under other comprehensive income is transferred to the income statement. Impairment testing of financial assets in this measurement category is performed according to the model based on expected loan losses. Divestments are recognised under “Net income from financial assets measured via other comprehensive income” and impairment losses under “Net income from financial items”. Interest attributable to this measurement category is recognised in the income statement under “Net interest income”.

The Bank of Åland has made an irrevocable choice to recognise equity holdings in the measurement category “Financial assets recognised at fair value via other comprehensive income”. This choice is made investment by investment. Equities are initially recognised at cost and are then measured at fair value. The change in value is recognised under other comprehensive income, minus deferred tax. Upon divestment or de-recognition from the balance sheet, the portion of accumulated income previously recognised under other comprehensive income, fair value reserve, is transferred to retained earnings. Dividends are recognised in the income statement.

FINANCIAL ASSETS AND LIABILITIES RECOGNISED AT FAIR VALUE VIA THE INCOME STATEMENT

All financial assets that are not classified as measured at amortised cost or fair value via other comprehensive income are measured at fair value via the income statement.

FINANCIAL LIABILITIES

Financial liabilities are classified as measured at amortised cost or fair value via the income statement. A financial liability is classified at fair value via the income statement if it is classified as a holding for trading purposes, as a derivative or has been identified as such on the first recognition date. Financial liabilities measured at fair value via the income statement are measured at fair value and net gains and losses, including interest expenses, are recognised in the income statement. Subsequent measurement of other financial liabilities occurs at amortised cost using the effective interest method. Interest expenses and exchange rate gains and losses are recognised in the income statement. Gains or losses upon de-recognition from the accounts are also recognised in the income statement.

RECLASSIFICATION OF FINANCIAL INSTRUMENTS

The provisions of IFRS 9 only allow reclassification of certain financial assets and only when a change of business model occurs. Reclassification of financial liabilities is not allowed.

EMBEDDED DERIVATIVES

An embedded derivative is a component of a combined financial instrument that also includes a host contract that is not a derivative, with the effect that some of the hybrid instrument's cash flows vary in a way similar to the cash flows from a stand-alone derivative.

An embedded derivative is separate from the host contract and is recognised separately among "Derivative instruments" in the balance sheet when its financial features are not closely related to those of the host contract, provided that the combined financial instrument is not recognised at fair value via the income statement.

8. Principles for recognising financial assets and liabilities at fair value

Fair value is defined as the price at which an asset could be sold or a liability transferred in a normal transaction between independent market players.

The fair value of financial instruments that are traded in an active market is equal to the current market price. Such a market is regarded as active when listed prices are easily and regularly available in a regulated market, trading location, reliable news service or the equivalent, and where the price information received can easily be verified through regularly occurring transactions. As a rule, the current market price is equivalent to the current purchase price of financial assets or the current sale price of financial liabilities. 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 valuation models. The valuation models that are used are based on incoming data that in all essential respects can be verified through market observations, for example market interest rates and share prices. As needed, an adjustment is made for other variables that a market player is expected to take into account in pricing.

The valuation techniques used are analysis of discounted cash flows, measurement with reference to financial instruments that are essentially similar and measurement with reference to recently completed transactions in the same financial instruments. When using

measurement techniques, market quotations are used to the greatest possible extent, but in case this is not possible, estimates are required in order to obtain fair value.

Day 1 gains or losses, that is, differences between transaction price and value according to a measurement model that arise on the first recognition date, are recognised in the income statement only in cases where the measurement model is based only on observable market data. Otherwise the difference is accrued over the lifetime of the financial instrument.

DEBT SECURITIES

Debt securities issued by sovereigns, as well as covered bonds and corporate bonds, are valued with the help of current market prices. In exceptional cases, corporate bonds may be measured using valuation techniques based on market yields for equivalent maturities, adjusting for credit and liquidity risk.

EQUITY INSTRUMENTS

Shares listed in an active market are valued at market price. When measuring unlisted shares and participations, the choice of valuation model is determined by what is deemed suitable for that particular instrument. Holdings in unlisted shares mainly consist of shares with a connection to the Bank's business, such as strategic partnerships and holdings in Åland companies. As a rule, such holdings are valued at the Bank's proportion of net asset value in the company, which is regarded as constituting a reasonable estimate of fair value. In companies that have recently carried out a new share issue without preferential rights based on previous holdings, each share is valued at this issue price, with a deduction for share illiquidity.

DERIVATIVES

Derivatives that are traded in an active market are valued at market price. Most of the Group's derivative contracts, among them interest rate swaps and various types of linear currency derivatives, are measured using valuation models based on market interest rates and other market prices. Valuation of non-linear derivative contracts that are not actively traded is also based on a reasonable estimate of market-based incoming data, for example volatility.

9. Impairment losses on loans and accounts receivable

Impairment losses on loans and accounts receivable are determined according to a model based on "expected credit loss" (ECL). This is based on changes in the credit risk of financial assets and consists of a three-stage model. Stage 1 consists of exposures that are performing without significantly higher credit risk being regarded as having occurred. Those exposures that under-perform and are regarded as having a significant change in credit risk are placed in Stage 2. In addition, exposures that have been granted forbearance measures are always placed in Stage 2. Exposures in Stage 3 fulfil the Group's default definition, in which an exposure is regarded as in default when a payment related to a significant amount is more than 90 days late. Other situations where the Group regards a credit exposure as in default is when the Bank honours a bank guarantee, the counterparty files for bankruptcy or it applies for debt restructuring. In addition, the Group assesses whether a counterparty should be regarded for other reasons as incapable of paying, which always includes cases where the Bank expands its forbearance measures on behalf of the 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 impairment loss model requires reporting of one year's expected loss from the initial date of recognition, and in case of a significant increase in credit risk, the impairment loss amount must be equivalent to the credit losses that are expected to arise during the remaining lifetime. A significant increase in credit risk is defined as a significant increase in the probability of a suspension of payment since the first reporting date. The Group assesses a significantly increased credit risk on the basis of a calculation of a relative change in probability of default (PD) for the remaining maturity of three times and an absolute change of at least 10 percentage points.

For all exposures, the Group applies a credit rating model for calculating expected loan losses. These calculations are based on internally developed models (probability of default = PD, loss given default = LGD and expected exposure at default = EAD), which take into account both historical data and probability-weighted forward-looking scenarios. The Bank of Åland uses a macro model with three forecast scenarios – a base scenario that has a 50 per cent weighting, a negative scenario that has a 25 per cent weighting and a positive scenario that has a 25 per cent weighting. The forecast period in the scenario is three year. These forecasts are revised at least yearly. A 12-month probability of default (PD) indicates the probability that a given commitment will default within 12 months, while a lifetime PD (for the remaining maturity) is equivalent to the probability that a given commitment will default during the entire remaining maturity of the financial asset. The PD model is based on historical data, the conditions that exist on the reporting date and 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 Group will incur assuming that the commitment defaults. The Group's LGD model is based on historical data. Exposure at default ((EAD) refers to an estimated credit exposure at a future default date, taking into account expected changes in the credit exposure on the balance sheet date. The Group's EAD model takes into account such factors as current contractual terms, assumptions about the honouring of guarantees, expected utilisation of credit limits and irrevocable off-balance sheet obligations.

The level of provisions is based on a broad range of relevant information from incoming data, assumptions and assessments by the Executive Team. The following points may have an especially large influence on the level of provisions: establishment of a significant increase in credit risk, forecasts of future macroeconomic scenarios and calculation methodology for both the expected loan loss within the coming 12 months and expected lifetime loan losses. Expected credit losses for receivables in Stage 2 and Stage 3 are determined by the Credit Committee of the Executive Team, based on data from the Group's model of expected credit losses. When making this determination, this Credit Committee may approve divergent treatment if their assessment is that there are special circumstances that the model does not take into account.

"Receivables with forbearance measures" refers to loan receivables for which the Bank has granted the borrower concessions because of his/her obviously worsened financial situation, in order to avoid problems with the borrower's repayment capacity and thereby maximise the repayment of the outstanding receivable. Concessions may include adjusted loan conditions, such as postponed principal repayments, a reduced interest margin or an extended repayment period, or refinancing, which may mean that a loan has been fully repaid close to its original due date and in connection with this has been replaced with a new loan. When granting a concession on agreed loan conditions, the responsible decision maker shall assess the customer's financial situation. In case a concession is granted to the customer due to his/her deteriorating financial situation, the receivable shall always be transferred to Stage 2 (as long as there is no basis for divergent treatment due to statutory payment moratorium rules). When granting a concession, if it is deemed that full

repayment of the receivables is unlikely unless the Group resorts to measures such as selling collateral or redeeming guarantees, the receivable is regarded as in default and is transferred to Stage 3. As long as it is only a matter of forbearance measures, i.e. the customer is not regarded as unlikely to make payments, the measure is individual for each loan. "Carrying amount" refers to gross exposures and includes not only restructured loans but also other loans in a customer entity.

The Group analyses the effects of forbearance measures as part of its reporting of modification results. The original present value of the loan based on discounted future cash flows is compared with the adjusted present value after any changes in cash flows. When a loan is modified but not removed from the balance sheet, significant increases in credit risk compared to the original credit risk are still assessed for impairment purposes. Modification results are recorded in the income statement and refer to the difference in the present value of the original and the new contractual cash flows discounted at the original effective interest rate and are accrued on a straight-line basis over the remaining life of the loan.

The impairment model in compliance with IFRS 9 requires the Executive Team to make judgements and estimates and make assumptions that affect the application of accounting principles. The single largest uncertainty factor is still the global coronavirus pandemic. In the prevailing situation, the Bank of Åland analysed selected economic sectors and types of loans that it believed would be affected most by the crisis. Customers who, under the prevailing circumstances, apply for postponement of loan principal payments are not automatically moved from Stage 1 to Stage 2, since the postponement of principal payments in itself does not represent a heightened risk of loss. For the Bank of Åland's part, the loan volume that has been granted postponement of principal payments amounts to EUR 150 M. This volume is recognised in Stage 1 if there are no other reasons besides the postponement of principal payments that justify another stage. In 2020 the FSA allowed banks to grant general forbearance or a so-called moratorium to customers due to the coronavirus pandemic. A moratorium means that loan mitigation measures, such as deferred principal payments, are granted without the need for individual assessment of whether the measure is a forbearance measure. This led to an increase in the number of principal payment deferrals granted by the Bank, but these moratoriums were reported separately from principal repayment deferrals granted through forbearance measures. This procedure was in force until March 31, 2021.

Provisions for loan losses on financial assets that are measured at amortised cost are made in the balance sheet as a reduction in the recognised gross carrying amount of the asset. Provisions for guarantees issued and unutilised credit lines are recognised as liabilities. Impairment losses on loans and accounts receivable as well as realised loan losses are recognised in the income statement under "Net impairment loss on financial assets". Financial assets are removed from the balance sheet when the right to receive cash flows from the asset has expired or has been transferred and the Group has transferred in virtually all risks and rewards associated with ownership to another party. An actual loss thus means that a loan or trade receivables is finally recorded as an impairment loss when bankruptcy has been confirmed or indigence has been determined as probable. Repayments of previously realised loan losses and recoveries of probable loan losses are recognised as income under "Net impairment loss on financial assets".

10. Hedge accounting

HEDGE ACCOUNTING AT FAIR VALUE

Hedge accounting at fair value can be applied to individual assets and liabilities as well as to portfolios of financial instruments in order to protect the Group from undesirable effects on income due to changes in the market prices of recognised assets or liabilities. When hedging fair value, both the hedging instrument – the derivative – and the

hedged risk in the hedged instrument at fair value are recognised in the income statement under “Net gains and losses on financial items at fair value”. One requirement to apply hedge accounting is that the hedge has been formally identified and documented. The hedge’s effectiveness must be measurable in a reliable way and is expected to remain and prove to have been very effective in offsetting changes in value during the reported periods.

CASH FLOW HEDGING

Cash flow hedging can be applied to individual assets and liabilities for the purpose of protecting the Group against undesirable effects on earnings due to changes in interest and exchange rates. Derivatives that comprise hedging instruments in cash flow hedging are recognised at fair value in the balance sheet. To the extent that the change in the value of the hedging instrument is effective, it is recognised in the hedging reserve under “Other comprehensive income”. Any ineffective portion is recognised in the income statement under “Net gains and losses on financial items at fair value”. The amount recognised in “Other comprehensive income” is transferred to the income statement upon the maturity of the issued debt security issued that has been hedged by cash flow hedging. One prerequisite for applying hedge accounting is that the hedge is formally identified and documented. Its effectiveness must be measurable in a reliable way and is expected to remain and prove to have been very effective in offsetting changes in value during the reported periods.

HEDGING OF NET INVESTMENTS IN FOREIGN OPERATIONS

Hedges of net investments in foreign operations are applied to protect the Group from translation differences that arise when operations in a functional currency other than the presentation currency are translated. Derivatives that comprise hedging instruments in hedges of net investments in foreign operations are recognised in “Other comprehensive income”.

Any ineffective portion is recognised in the income statement under “Net gains and losses on financial items at fair value”. If a foreign operation is divested, the gain or loss that arises on the hedging instrument is reclassified from “Other comprehensive income” and recognised in the income statement. One prerequisite for applying hedge accounting is that the hedge is formally identified and documented. Its effectiveness must be measurable in a reliable way and is expected to remain and prove to have been very effective in offsetting changes in value during the reported periods.

11. Intangible assets

Intangible assets consist of IT systems produced for the Group’s own use, externally procured systems, intangible assets from acquisitions of companies and acquired contracts.

CAPITALISATION OF PRODUCTION FOR OWN USE

If the computer system that is produced will probably generate future income or reduce expenses to an extent that exceeds its investment costs, the development expenses for the computer system are capitalised. Computer systems developed in-house are capitalised at actual cost. Development expenses that are not expected to yield a significant economic benefit are recognised as an expense in the income statement. Expenses for preliminary studies and research are recognised as an expense in the income statement.

AMORTISATION

Capitalised development expenses are normally amortised on a straight-line basis during 5–7 years. Amortisation begins when the computer system is ready for use.

Computer systems developed in-house	5–7 years
External computer systems	5–10 years
Acquired contract	10 years
Other intangible assets	3–5 years

EXTERNALLY PROCURED SYSTEMS

External computer systems are recognised in the balance sheet at cost minus accumulated amortisation and impairment losses.

ACQUIRED CONTRACTS

“Acquired contracts” refers to expenditures for rights to future cash flows and is recognised in the balance sheet at cost minus accumulated amortisation and impairment losses.

OTHER INTANGIBLE ASSETS

Other intangible assets include acquired customer contracts.

IMPAIRMENT LOSSES

Assets are reviewed yearly to determine if there is any indication of impairment. If such an indication arises, the recoverable amount is determined as the asset’s sale price or value in use, whichever is higher. Not yet completed development work is tested yearly for impairment, regardless of whether indications of loss of value have occurred. An impairment loss is recognised in the income statement if the carrying amount exceeds net realisable value. A previously recognised impairment loss is reversed only if a significant change has occurred in the valuation basis for impairment testing. The carrying amount after reversal may not exceed the carrying amount before the impairment loss.

GOODWILL

Goodwill corresponds to the share of cost that exceeds the fair value of assets purchased and liabilities taken over. Goodwill is not amortised but is tested yearly – or more often if a need exists – for impairment by discounting expected future cash flows in cash-generating units. Impairment losses are recognised in the income statement. See Note G25 for Group goodwill amounts.

12. Tangible assets

INVESTMENT PROPERTIES

Investment properties are held in order to earn rental income or value appreciation, or for both purposes. Investment properties consist of direct holdings as well as indirect holdings via property and housing companies. Investment properties are recognised separately according to the cost method in the balance sheet under tangible assets at cost less accumulated depreciation and impairment losses. In the income statement, “Net income from investment properties” is shown on a separate line under “Other income”. The properties have been appraised by a licensed estate agent.

PROPERTIES FOR THE GROUP’S OWN USE

Properties for the Group’s own use consist of direct holdings as well as indirect holdings via property and housing companies. Properties for the Group’s own use are recognised in the balance sheet at cost less accumulated depreciation and impairment losses.

OTHER TANGIBLE ASSETS

Other tangible assets consist of machinery and equipment, vehicles, renovations of rented premises and an art collection. Other tangible assets are carried in the balance sheet at cost minus accumulated depreciation and impairment losses. Any divestment gains/losses and disposals are recognised in income/expenses.

RIGHT-OF-USE ASSETS

“Right-of-use assets” refers to rental contracts and leases where the Group is the lessee and which are recognised as tangible assets in compliance with IFRS 16. When it comes to properties for the Group’s own use, these right-of-use assets primarily consist of bank and office premises. When it comes to other tangible assets, they primarily consist of IT equipment and vehicles. The depreciation period is usually a fixed period of between 1–9 years, with an average lease period of 4 years. For further information on lease management, see Point 14.

DEPRECIATION

Depreciation or amortisation is based on the expected economic service life of the assets. All depreciation/amortisation is on a straight-line basis.

Buildings	40 years
Technical equipment in buildings	12 years
Renovation in rented customer premises	5 years
Renovation in other rented premises.....	10 years
Machinery and equipment	4–10 years
Other tangible assets	3–5 years
Right-of-use assets	1–9 years
Land is not depreciated.	

IMPAIRMENT LOSSES

Assets are reviewed yearly to determine if there is any indication of impairment. If such an indication arises, the recoverable amount is determined as the asset’s sale price or value in use, whichever is higher. An impairment loss is recognised in the income statement if the carrying amount exceeds net realisable value. With the exception of goodwill, a previously recognised impairment loss is reversed only if a significant change has occurred in the valuation basis for impairment testing. The carrying amount after reversal may not exceed the carrying amount before the impairment loss.

13. Provisions

A provision is recognised when the Group has a present obligation as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate of the amount can be made. The provision is calculated at the present value of estimated outflow. Provisions are tested on each closing day and adjusted as needed, so that they correspond to the current estimate of the value of obligations.

Provisions are recognised for restructurings. Restructuring refers to extensive organisational changes, for example where employees receive severance pay for early termination or offices are closed. For a provision to be recognised, a restructuring plan must have been adopted and announced, so that it has created a well-grounded expectation among those affected that the company will implement the restructuring.

Provisions to the restructuring reserve related to other expenses are recognised in the balance sheet when the Group has adopted a detailed formal restructuring plan and the restructuring has either begun or been publicly announced.

Provisions related to litigation costs are recognised when the Group has identified the existing obligation and determined the probable outflow of resources that will be required in the event of a settlement.

Onerous contracts are recognised when the expected economic benefits received from a contract are lower than the unavoidable costs of meeting the obligations of the contract.

A contingent liability is recognised when there is a possible obligation as a result of past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not

wholly within the control of the Group, or when there is an obligation that is not recognised as a liability or provision because it is unlikely that an outflow of resources will be required or it cannot be estimated in a sufficiently reliable way. A contingent liability is not recognised as a provision in the balance sheet. Instead disclosures on contingent liabilities are provided in the notes to the Group’s financial reports.

14. Leases

IFRS 16 removes the requirement that lessees must distinguish between finance and operating leases and requires lessees to report a “right-of-use” asset and a lease liability for most leases in the balance sheet. A single discount rate has been applied to a portfolio of leases with essentially similar characteristics. The Bank of Åland applies the exemptions that the standard allows regarding leases running for 12 months or less (short-term leases) and leases where the underlying asset is of low value. These leases are recognised as expenses in the income statement.

LEASES WHERE THE BANK OF ÅLAND IS THE LESSEE

When entering into a contract, the Bank determines whether the contract is, or includes, a lease – which is defined as an agreement that, during a certain period, transfers to right to control the use of an identified asset, in exchange for compensation. Assets and liabilities that arise from leases are initially recognised at the present value of future lease payments, discounted by the incremental borrowing rate. The Bank reassesses whether a contract is, or includes, a lease only if the terms of the contract change. The Bank is exposed to possible future increases in variable lease payments based on an index or interest rate, which are not included in lease liability before they go into effect. When an adjustment in lease payments based on an index or an interest rate goes into effect, the lease liability is re-evaluated and adjusted in relation to right-of-use. Gains or losses attributable to changes in leases are recognised in the income statement.

When a contract goes into effect, right-of-use assets are recognised among tangible assets and the corresponding financial lease liability among other liabilities. Assets are recognised at the beginning of a lease at the amount corresponding to the fair value of the asset or the lower present value of minimum lease charges. The lease period is determined on the basis of the irrevocable lease period together with an assessment of both periods including the option of a lease extension (and the appropriateness of doing so) and an assessment of periods that include an option to terminate the lease if there is certainty that this option will not be used. Depreciation/amortisation is carried out on the basis of service life or the shorter lease period. Interest on for lease liabilities is recognised as an interest expense according to the effective interest method.

Impairment losses are recognised on the basis of individual judgements of the need.

LEASES WHERE THE BANK OF ÅLAND IS THE LESSOR

When the Bank of Åland is the lessor, on the initial date of the lease it determines whether the lease shall be classified as a finance or operating lease. A finance lease transfers from the lessor to the lessee substantially all the economic risks and rewards incidental to ownership of an asset. As a lessor, the Bank of Åland’s leasing operations consist of finance leases and are recognised as loan receivables. The carrying amount is equivalent to the present value of future lease payments. The difference between future lease payments and the present value of future lease payments is unearned income. As a result, lease fees received are recognised both in the income statement as interest income and in the balance sheet as a principal payment.

Since lessors bear the economic risks and advantages, the lease is classified as an operating lease. The Bank of Åland recognises fees

for operating leases as income on a straight-line basis over the lease period under "Other income". See Note G10. The Bank of Åland classifies subleases on the basis of the right-of-use that arises from the main lease, not on the basis of the underlying asset.

15. Revenue

IFRS 15, "Revenue from contracts with customers", means that the Group must recognise revenue in an amount that reflects the compensation that the Group expects to be entitled to receive in exchange for providing goods or services to a customer.

NET INTEREST INCOME

Interest income and expenses on financial instruments are calculated according to the effective interest method. This method recognises the income and expenses of the instruments evenly in relation to amounts outstanding during the period until the maturity date. This calculation includes fees paid or received by the contractual parties that are part of effective interest, transaction costs and all other surpluses and deficits.

NET COMMISSION INCOME

Income and expenses for various types of services are recognised in the income statement as "Commission income" and "Commission expenses", respectively. Commission income is recognised when the service is performed, which occurs when control of the service is transferred to the customer and the Group fulfils its performance obligation. Reported as "Commission income" are brokerage commissions, various forms of asset management fees, payment intermediation commissions and debit card fees. Foreign exchange commissions connected to customers' payments and securities trading are reported as payment intermediation commissions and securities commissions. Individual origination fees for loans and credit line commissions totaling substantial amounts are accrued over the life of the loan and are included in net interest income. No information is provided about remaining performance obligations that have an original expected maturity of no more than one year, or if the Bank of Åland is entitled to compensation from a customer in an amount directly equivalent to the value for the customer of the Bank's performance that has been achieved to date, which is permitted according to IFRS 15. Commission expenses are transaction-dependent and are directly related to commission income. Income is invoiced regularly. For commissions that apply for several years, only the portion related to services the customer has received during the accounting period in question is recognised.

Commission income and expenses are recognised when the service is performed. For commissions that concern more than one year, only the portion related to the accounting period is recognised.

NET INCOME FROM FINANCIAL ITEMS AT FAIR VALUE

Under "net income from financial items at fair value", realised and unrealised gains and losses from financial instruments carried at fair value via the income statement ("profit and loss") are recognised via the income statement, along with the ineffective portion in hedge accounting.

Recognised under "Net income from foreign exchange dealing" are gains and losses on exchange rate differences that arise from translation of assets and liabilities to euros.

Realised changes in the value of assets that are measured under other comprehensive income are recognised as "Net income from financial assets carried at fair value". Unrealised changes in value from assets measured under other comprehensive income include expected credit losses and modification results.

IT INCOME

The subsidiary Crosskey offers IT services that include design, implementation and support. Income is measured on the basis of the compensation specified in the contract with the customer. Systems sales with significant adaptations are administered as long-term projects. Contracts may include several different performance obligations, for example systems development and licences. If contracts include several performance obligations, the transaction price is allocated to each separate performance obligation based on their stand-alone sales prices. In cases where the sales price is not directly observable, the price is estimated based on expected cost plus a profit margin. Systems licence income from long-term projects is recognised as revenue based on degree of completion, when this can be reliably determined. The degree of completion is determined separately for each project as the share of work completed on the balance sheet date, compared to estimated total working hours for the project. Estimates concerning project income, expenses or degree of completion are revised if circumstances change. Increases and decreases in estimated income or expenses based on a changed assessment are recognised in the income statement during the period when the circumstances that led to the revision became known. If total expenditures will probably exceed total income for the project, the expected loss is immediately recognised as an expense. If the contract is cost-plus and based on price per hour, the income is recognised to the extent Crosskey is entitled to invoice the customer.

OTHER INCOME

Dividends on shares and participations as well as dividends on assets measured at fair value via the income statement are among the items recognised as "Other operating income". Also recognised here are capital gains from the divestment of non-current assets and rental revenue from investment properties. Rental revenue is recognised on a straight-line basis in the income statement in accordance with the terms of the lease.

16. Employee benefits

PENSION LIABILITIES

Post-retirement employee benefits consist of defined contribution and defined benefit plans. The plans recognised as defined contribution are those benefit plans under which the Group pays agreed fees to an external legal entity and then has no legal or informal obligation to pay additional fees if the legal entity lacks the assets to fulfil its obligation to the employee. Premiums paid to defined contribution plans are recognised continuously in the income statement as a staff cost. Other plans for post-employment benefits are recognised as defined benefit plans.

Pension coverage for employees in Finland has been arranged through the Finnish national pension system (a defined contribution-plan). There is also an older system via a pension fund (Ålandsbanken Abps Pensionsstiftelse r.s., a so-called A Fund defined benefit plan), which has been closed since 1991. Pension coverage for employees in Sweden follows the so-called BTP1 plan, which is defined contribution. A few previously agreed defined benefit BTP2 plans still exist.

A defined benefit pension solution pays a pension based on salary and length of employment, which means that the employer bears essentially all risks in fulfilling the pension obligation. For a majority of its defined benefit pension plans, the Group has set aside managed assets in pension funds or various kinds. Plan assets minus plan obligations in defined benefit pension plans are recognised in the balance sheet as a net asset. Actuarial gains and losses on pension obligations as well as returns that exceed the estimated returns on plan assets are recognised in "Other comprehensive income".

Recognised pension expense related to defined benefit plans consists of the net amount of the following items, which are all included in staff costs:

- Pension rights earned during the year, that is, the year's portion of the estimated final total pension disbursement. The calculation of pension rights earned is based on an estimated final salary and is subject to actuarial assumptions.
- Interest expense for the year, since the present value of the pension liability has increased as the period until its disbursement has decreased. To calculate the year's interest expense, the Bank uses the current swap interest rate (interest rate on January 1) for a maturity equivalent to the remaining time until disbursement of the pension liability.
- Estimated return (interest rate) on plan assets. Interest on plan assets is recognised in the income statement by applying the same interest rate used when setting the year's interest expense.
- The calculation of expenses and obligations related to the Group's defined benefit plans involve a number of judgements and assumptions that may have a significant effect on the amounts recognised.

Changes or curtailments in a defined benefit plan are recognised at the earlier of the following dates: when the change or curtailment in the plan occurs or when the company recognises related restructuring expenses and severance pay. Changes/curtailments are recognised directly in profit for the year.

17. Equity capital

HOLDERS OF ADDITIONAL TIER 1 CAPITAL

The Bank of Åland has issued additional Tier 1 (AT1) capital. These instruments are classified as equity capital, since the instruments do not include any requirement that the Bank of Åland must pay the principal amount or interest to the holders. If the instrument includes an interest payment requirement, depending on whether a future uncertain event beyond the control of both the issuer and the holder occurs or does not occur, the instrument shall be classified as a financial liability. The Bank of Åland treats payments on financial instruments classified as equity capital (i.e. AT1 capital) as distributions of profits, and such payments are thus reported as dividends. Payment is made on a quarterly basis and the interest rate is the 3-month Stibor plus 3.75 per cent.

18. Share-based payment

In its compensation policy document, the Group has made it possible for portions of its compensation to employees to be settled through its own shares, which are recognised as share-based payment. The fair value of the shares is calculated on the distribution date and allocated over the vesting period, while the corresponding increase in equity capital is recognised. The expense is based on the fair value of the shares on the distribution date. The fair value of the shares is calculated on the distribution date on the basis of their quoted market price. An assessment of how many shares employees will earn is carried out when calculating the recognised expense of share-based payment in accordance with the terms and conditions in the Group's compensation policy (for example continued employment). At the end of each report period, the Executive Team re-assesses its judgements about how many shares will be earned.

19. Income tax

Income tax in the income statement includes current taxes for the Group based on taxable income for the year, together with tax adjustments for prior years plus changes in deferred (imputed) taxes. Tax expense is recognised in the income statement as an expense, except for items recognised in other comprehensive income, in which

case the tax effect is also recognised as part of other comprehensive income. A deferred tax asset or liability has been established for temporary differences between the value of assets and liabilities for tax purposes and their carrying amount, by using tax rates applicable to future periods. Deferred tax liabilities and tax assets are calculated according to the tax rates expected to apply when the tax materialises (a law has been adopted but has not yet gone into effect). A deferred tax asset is recognised to the extent it is probable that future taxable income will arise against which the temporary difference can be utilised.

20. Non-current assets held for sale and discontinued operations

A non-current asset or a disposal group is classified as held for sale if its carrying amount will be largely recovered through a sale and not through use. The asset or disposal group must be available for immediate sale in its present condition and based on normal conditions. It must be highly probable that the sale will occur. A completed sale is expected to be recognised within one year. An independent business unit or a significant operation within a geographic area, or a subsidiary acquired exclusively with a view to resale, are also recognised as discontinued operations.

Non-current assets or disposal groups held for sale are presented on a separate line in the balance sheet and are measured at the lower of carrying amount and fair value less expected costs to sell. Liabilities that are related to these non-current assets are also presented on a separate line in the balance sheet. There were no non-current assets held for sale at the end of 2020 or 2021.

21. Operating segments

The Group reports operating segments in compliance with IFRS 8, which means that the segment report reflects the information that the Group's Executive Team receives. The Managing Director of the Group has been identified as the chief operating decision maker. The Group reports its various business areas as operating segments. A business area is a group of departments and companies that provide products or services that have risks and rewards that diverge from other business areas. Intra-Group transactions take place at market prices.

22. Cash and cash equivalents

"Cash and cash equivalents" refers to cash and deposits in the Finnish and Swedish central banks that may be used freely. "Deposits" refers to funds that are available at any time. This means that all cash and cash equivalents are immediately usable. Cash and cash equivalents in the cash flow statement are defined in compliance with IAS 7 and do not coincide with what the Group regards as cash and cash equivalents.

23. Significant judgements and estimation uncertainty

Preparation of financial statements in compliance with IFRSs requires the Executive Team to make judgements and estimates 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 judgements and estimates are based on the best knowledge of the Executive Team about current events and measures at the time of the judgement, the actual outcome may diverge from these judgements and estimates. Significant accounting judgements that were made when applying the Group's accounting principles were primarily related to impairment losses on loans and receivables. The sources of uncertainty which may lead to substantial adjustments in the following year's financial reports are described below.

MEASUREMENT OF LOANS AND ACCOUNTS RECEIVABLE

Loans and accounts receivable that are defined as belonging in Stage 3 undergo impairment testing regularly and individually for each receivable. Exposures that are subject to individual testing are identified on the basis of background data covering customers with defaulting commitments or commitments that will probably default during a given quarter. If necessary, the receivable is written down to its estimated recoverable value. This estimated recoverable value is based on an assessment of the counterparty's financial repayment ability and assumptions about the sale value of any collateral.

For those concentrations that do not need an impairment loss, according to an individual assessment, impairment losses are recognised using a model based on expected credit loss (ECL). The model, which consists of three stages, focuses on changes in the credit risk of financial assets. An assessment by the Executive Team may be required, especially concerning information that affects the calculation of expected loan losses such as earlier events, current circumstances and reasonable, verifiable forecasts of future economic conditions that may affect future expected cash flows. For further information, see Note G13.

ACTUARIAL CALCULATIONS OF PENSION OBLIGATIONS

Future pension liability is calculated using actuarial models. As a basis for the calculation, there are estimates of the discount rate (swap rate with maturity equivalent to the expected life of the pension liability), pay increase (expected future increase for pensions), inflation, employee turnover and expected return on assets. For further information, see Note G43.

MEASUREMENT OF GOODWILL

Goodwill is tested yearly for impairment losses by calculating whether the carrying amount exceeds the recoverable amount. Impairment testing is done by discounting expected future cash flows in cash-generating units. Expected future cash flows are based on cash flows estimated by the Executive Team. A change in the estimate of future cash flows, as a consequence of an economic downturn, new competitors or price pressures, may lead to an impairment loss on goodwill.

FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

To determine the fair value of financial instruments, judgements are made that may have a significant impact on the recognised amounts. The judgements referred to include the choice of measurement techniques, judgements on whether markets are active and on what market parameters can be observed. When employing measurement techniques, market quotations are used to the greatest possible extent, but in case this is not possible the Executive Team is required to make estimates in order to determine fair value.

If the fair value of financial instruments cannot be obtained from quotations in an active market, they are calculated with the aid of various measurement techniques, including mathematical models. The Executive Team assesses what market quotations are most suitable and what mathematical models shall be applied in the Group. For further information, see Note G17.

APPRAISAL OF INVESTMENT PROPERTIES AND PROPERTIES FOR OWN USE

The Executive Team carries out a yearly review of the values of investment properties and properties for the Group's own use to determine whether there is any indication of impairment. If such an indication occurs, the recoverable amount is determined as the higher of the sales price and the value in use of the asset. An impairment loss is then recognised in the income statement if the carrying amount exceeds the recoverable amount. Estimates of the values of the assets are made by independent outside appraisers. For further information, see Note G26.

LEASES

In assessing the present value of right-to-use assets and the related lease liability, estimates are made about determining the lease period and choice of discount rate. When the length of the lease is determined, the Executive Team takes into account all available information that provides an economic incentive to take advantage of an extension option or not to take advantage of an option to terminate the lease.

MEASUREMENT OF DEFERRED TAX

A deferred tax asset is recognised for identified taxable losses to the extent that it is probable that future taxable income will arise. The Executive Team regularly assesses when deferred tax should be recognised in the consolidated financial statements, based on expected future earnings performance. On every closing day, an assessment is made as to whether recognising a deferred tax is justified, based on the size of expected future taxable income. For further information, see Note G27.

SHARE-BASED PAYMENT

When calculating the recognised expense of share-based payment in accordance with the Group's compensation policy, the Executive Team estimates how many shares will be allocated to employees. The expense is based on the fair value of the shares at the moment they are distributed. For further information, see Note G11.

1. General

Exposure to risk is a natural element of a bank's operations. The Bank of Åland has a low risk profile, with a conservative attitude towards risk and with the aim that all risk shall derive from its normal business operations. Consequently its main risks consist of business risk, credit risk, liquidity risk, market risk and operational risk. The size of these risks is adapted to the risk-bearing ability of the Bank. This means that the Bank shall be able to cover losses related to these risks with its own funds (capital base) and earnings. The Bank of Åland carries out no trading operations. The Bank's low risk profile is reflected in its low losses related to financial and operational risks that have arisen over the years.

Internal controls, risks and risk management including information requirements according to the European Union's Capital Requirements Regulation, Chapter 8 (Pillar 3) at the Bank of Åland are described in greater detail in the Group's "Capital and risk management report", which is being published separately at the same time as this Annual Report.

2. Internal controls and risk management

2.1 RISK ORGANISATION

The Board of Directors has overall responsibility for risk management and control. The Board defines the risk appetite of the Bank's operations and adopts yearly policy documents that specify the overall principles for risk management as well as restrictions in the form of limits that operations shall stay within. The Bank's compliance with risk management principles and its risk positions are monitored regularly. The Board also approves essential methods and models that are used to measure the Bank's risks. The Audit Committee of the Board of Directors assists the Board in handling its tasks related to oversight of risk management, methods and models for risk measurement, risk reporting and internal controls.

The Managing Director shall ensure that risk management complies with the principles and risk tolerances that the Board has approved. The Managing Director does this by setting guidelines based on the policy documents adopted by the Board. The Managing Director shall also ensure that business operations are adapted to the Bank's expertise and resources and that the Bank has sufficient resources and systems for oversight and monitoring.

The Board of Directors appoints the members of the Group-wide Executive Team. These members consist of the heads of the Bank's business areas and corporate units; they serve as advisors to the Managing Director. The Managing Director and the other members of the Executive Team regularly receive reports on the Bank's limit positions and risk indicators.

Matters related to certain types of financial risks are handled by committees consisting of Executive Team members and other persons appointed by the Managing Director.

ALCO – the Asset and Liability Committee – is a decision-making body reporting to the Managing Director that deals with issues concerning financial risks, liquidity, funding and capitalisation. The Credit Committee of the Executive Team makes lending decisions for the Bank on large loan commitments according to approved credit limits.

In order to create a strong risk culture that permeates the entire organisation, the risk organisation at the Bank is based on three lines of defence, which have a clear allocation of responsibility between risk-takers and oversight units.

The first line of defence consists of the Bank's business areas, subsidiaries and Treasury unit plus related support units. They are each responsible for the risk that arises in their own day-to-day operations, which means that risk-taking occurs within established limits and that there are measurement and oversight processes.

The second line of defence consists of the independent Risk Control, Operational Risks and Security and Compliance departments, which all report to the Bank's Chief Risk Officer (CRO).

Risk Control is responsible for continuously identifying, measuring, analysing, overseeing and reporting the Bank's financial risks. This includes regular oversight to ensure that the Bank's operations remain within the established risk tolerances and regular reporting of the Bank's financial risks to the Executive Team, the Board and regulatory authorities. Risk Control is responsible for coordinating internal asset and liquidity evaluations and analyses the impact of stress tests on capital adequacy and liquidity positions. Risk Control is also responsible for coordinating and updating the Bank's recovery plan and for monitoring and reporting on the recovery plan's indicators.

The Operational Risks and Security department is responsible for analysing and reporting the Group's operational risks as well as information management, data protection and physical security.

The Compliance department is responsible for overseeing, controlling and ensuring that the Group maintains good regulatory compliance. The department identifies risks related to deficiencies in compliance, among other things by means of yearly risk analyses in the fields of customer protection, market behaviour, combating money laundering and the financing of terrorism, as well as permit and regulatory issues.

The second line of defence is responsible for promoting a sound risk culture by providing back-up to business operations in their introduction of processes for maintaining risk management that follows the principles adopted by the Board of Directors and the Managing Director.

The third line of defence consists of the Internal Audit department, which is directly subordinate to the Board of Directors. Internal Audit is entrusted with evaluating the Group's risk management through independent reviews of processes, models and systems. The department reports its observations to the Board.

2.2 RISK MANAGEMENT MODEL

The purpose of the Bank's risk management model is to identify, measure, control and report risks in the Group. The model is designed to meet external regulatory requirements as well as internal requirements and needs, while living up to sound market practices.

The model consists of:

- Internal regulations, approved by the Board and the Managing Director, that establish allocation of responsibilities as well as principles and guidelines for management, measurement, control and reporting of the Group's risks.
- Clear, documented descriptions of processes.
- Systems for measuring, monitoring and controlling risks, adapted to the complexity and scale of operations.
- Resources and expertise adapted to operations.
- Regular reporting to the Board and the Executive Team.
- Incident reporting.

The Bank's Asset and Liability Management (ALM) process is aimed at balancing the risks and the returns that arise in the Bank's operations in financial markets. A high risk may jeopardise future income, create a liquidity shortage and threaten the survival of the Bank. It is thus important that the Bank's risk exposure matches its risk appetite, as well as its capacity for managing unexpected losses due to interest rate changes or other external events that are detrimental to the Bank.

The ALM process includes analysis of the structure of interest rate repricing periods and maturities related to assets and liabilities, risk hedging strategies, capital planning, funding needs and stress tests. The process consists of both static and dynamic scenarios, predefined as well as specific to separate business decisions.

3. Capital management

The size of the Bank's capital requirement is stipulated in the European Union's Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD). The capital needs of banks are formulated in the regulations as capital requirements stating how much capital the banks need to maintain in relation to the risks found in their operations.

These capital requirements are divided into Pillar 1 requirements, Pillar 2 requirements, combined buffer requirements. In addition to binding capital requirements, there is Pillar 2 guidance. Pillar 1 requirements are the same for all institutions, and Pillar 2 requirements are set individually for each institution by a regulatory authority. The regulator has not established Pillar 2 guidance for the Bank.

According to the Pillar 1 requirements in Article 92 of the CRR, institutions must have a capital base that always fulfils the following requirements in relation to the risk exposure amount (REA):

- A common equity Tier 1 (CET1) capital ratio of at least 4.5 per cent
- A Tier 1 capital ratio of at least 6 per cent
- A total capital ratio of at least 8 per cent

The Pillar 2 capital requirements are calculated by evaluating other risks that are not covered by Pillar 1 regulations. In addition to these requirements, institutions must also maintain capital in the form of combined buffer requirements against economic downturns. These combined buffer requirements are established in the CRD.

Table 3.1

Capital adequacy	2021	2020
EUR M		
Equity capital according to balance sheet	302.5	292.4
Foreseeable dividend	-31.2	-31.2
Common equity Tier 1 capital before deductions	271.3	261.2
Intangible assets	-15.0	-22.9
Permission for buy-backs of own shares	-10.5	0.0
Non-controlling interests	0.0	0.0
Other items, net	0.0	0.0
Additional adjustments in value	-0.4	-0.5
Expected losses according to IRB approach beyond recognised losses (deficit)	-6.9	-3.7
Adjustments due to transitional rules related to IFRS 9	0.5	0.9
Common equity Tier 1 capital	239.0	238.5
Tier 1 capital instruments	29.4	0.0
Additional Tier 1 capital	29.4	0.0
Tier 1 capital	268.4	238.5
Supplementary capital instruments	36.4	37.0
Expected losses according to IRB approach beyond recognised losses (surpluses)	0.0	0.0
Supplementary capital	36.4	37.0
Total own funds	304.8	275.5
Capital requirements for credit risks according to IRB approach	38.8	39.8
Additional capital requirements for risk weight floor for mortgage loans	10.3	8.7
Capital requirements for credit risks according to standardised approach	91.1	67.0
Capital requirement for credit value adjustment risk	0.1	0.0
Capital requirement for operational risk	17.8	18.2
Capital requirement	158.1	133.6
Risk exposure amount	1,976.2	1,670.8
<i>of which % comprising credit risk</i>	88.7	86.0
<i>of which % comprising credit-worthiness adjustment risk</i>	0.0	0.0
<i>of which % comprising operational risk</i>	11.3	14.0
Capital ratios, %		
Common equity Tier 1 capital ratio	12.1	14.3
Tier 1 capital ratio	13.6	14.3
Total capital ratio	15.4	16.5
Requirements related to capital buffers, %		
Total common equity Tier 1 capital requirement including buffer requirement	7.6	8.5
<i>of which common equity Tier 1 capital requirement under Pillar 1</i>	4.5	4.5
<i>of which common equity Tier 1 capital requirement under Pillar 2</i>	0.6	1.5
<i>of which capital conservation buffer requirement</i>	2.5	2.5
<i>of which countercyclical capital buffer requirement</i>	0.0	0.0
<i>of which systemic risk buffer requirement</i>	0.0	0.0
Common equity Tier 1 capital available to be used as a buffer	12.1	14.3

Own funds (the capital base) are divided into two types: Tier 1 capital (T1) and supplementary capital (T2). Compared to 2020, when the Bank's entire Tier 1 capital consisted of common equity Tier 1 (CET1) capital, the Bank restructured its own funds during 2021. Own funds now also include additional Tier 1 (AT1) capital instruments issued by the Bank.

Common equity Tier 1 capital comprises the most permanent form of capital and is equivalent to equity capital according to the balance sheet after certain statutory adjustments.

The Bank of Åland's capital requirement for credit risks is calculated according to the IRB approach in the Finnish retail lending portfolio. For the corporate exposure class, the Bank applies the fundamental internal ratings based (F-IRB) approach. In Sweden and other countries, the capital requirement is calculated entirely using the standardised approach. For all other exposure categories, including equity exposures, the Bank uses the standardised approach to calculate the capital requirement for credit risk.

Table 3.1 shows the Group's capital adequacy calculation according to Pillar 1 at the end of 2021.

LEVERAGE RATIO

Leverage is a measure of bank solvency aimed at avoiding excessive debt. The leverage ratio is calculated as the ratio of Tier 1 capital to a specially defined exposure metric according to CRR. Unlike the capital adequacy calculation, the exposures are not risk-weighted when calculating the ratio.

Taking into account relief measures due to the COVID-19 pandemic (Article 429a.1 n in CRR), which represent temporary exemptions for certain exposures to central banks from the total exposure metric, the Bank of Åland's leverage ratio amounted to 4.3 per cent at the end of 2021, compared to 4.2 per cent at the end of 2020. Without taking these relief measures into account, the leverage ratio at the end of 2021 would have been 3.9 per cent.

Table 3.2

Leverage ratio	2021	2020
EUR M		
Tier 1 capital	268.4	238.5
Total exposure metric	6,272.9	5,624.8
<i>of which balance sheet items</i>	6,052.0	5,466.7
<i>of which off-balance sheet items</i>	220.9	158.1
Leverage ratio, %	4.3	4.2

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

4. Credit risk

Credit risk refers to the risk of loss due to the inability of a counterparty to fulfil obligations towards the Group and the risk that the collateral provided for the exposure will not cover the Group's receivables. Counterparties in this respect are all legal entities and physical persons as well as the public sector. Credit exposure arises through receivables and investments, including off-balance sheet commitments.

Overall credit strategy is regulated in a credit policy document adopted by the Board of Directors. The level of acceptable credit risk is also established in a separate financial risk policy and in the individual business strategies of Group companies. Credit risk management is mainly based on formal credit or limit decisions. For credit risk in treasury operations and counterparty risk, specific counterparty limits are established and are applicable for a maximum of one year.

4.1 RISK MANAGEMENT

The Bank of Åland's internal risk models are used for calculating provisions for future expected credit losses (ECL) in compliance with the IFRS 9 regulation and for calculating regulatory capital requirements in the form of unexpected losses (UL) and expected losses (EL) for the Bank's IRB-approved exposures. The parameters for the last-mentioned purpose contain a higher degree of conservatism, since they include various safety margins and are supposed to encompass a whole economic cycle. Both risk classifications are based on statistics derived from the Bank's own internal data for estimating the probability of default (PD) and loss given default (LGD) for the Bank's loan customers. For those exposures where the Bank lacks its own loss data history, calculation of ECL employs market-based PD levels from an outside supplier.

The internal risk classification system is the most important cornerstone of the credit approval process and for pricing credit risks when granting new loans. The Bank also relies on the internal system for monthly risk monitoring, internal capital management, the calculation

of risk-adjusted returns and reporting of credit risk to the Executive Team. The general risk management principles applied for managing risks that have a bearing on both ECL and capital requirements are the same in the Bank. Both ECL and regulatory capital requirements are included in the Bank's reporting to the Executive Team and the Board of Directors and have a strong connection to risk control in the Bank's risk management system. The Bank's operating units also monitor their credit risk based on these key figures on a monthly basis. The degree of loan loss provisions in relation to the volume of unsettled exposures is based on this reporting and is analysed.

4.2 MEASURING CREDIT RISK

According to the IFRS 9 regulation, credit risk exposures are divided 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 underperforming and are regarded as having undergone a significant change in credit risk are placed in Stage 2. A significant increase in credit risk is regarded as having occurred if the lifetime PD of the exposure has increased at least 3 times compared to initial lifetime PD and the absolute change is at least 10 percentage points. The Bank applies the presumption of 30 days' delay as a back-stop, in keeping with the IFRS 9 regulation. Exposures with amounts that are delayed more than 90 days, or that meet the Bank's definition of default in other respects, are moved to Stage 3.

An exposure that is deemed to be included in forbearance measures is moved to Stage 2, since the credit risk has increased significantly since initial recognition. Expanded forbearance measures imply that the exposure is becoming unsettled, and it is thus recognised as in Stage 3.

For backward transitions to lower stages, the Bank applies waiting periods. For exposures in Stage 2 with at least a 30-day delay, it applies a six month period and for loans in Stage 3 it applies a two month waiting period. For exposures with forbearance, the Bank applies a waiting period of 24 months before the exposure can revert to Stage 1, assuming that forbearance measures are no longer in place.

The model for calculating ECL is based on yearly future PD, LGD and EAD values as well as the discount rate of the loan. When estimating ECL, for each exposure the Bank calculates a 12-month ECL and a lifetime ECL that is applied when an exposure is deemed to have a significant increase in credit risk. The loan loss provision for Stages 2 and 3 are, by definition, based on lifetime ECL but diverge since certain Stage 3 exposures have individual impairment testing. In regulatory contexts, impairment amounts are regarded as specific credit risk adjustments.

The table below shows how large a percentage of exposures were found within each respective stage at the end of 2021. Exposures with lifetime PD of up to 10 per cent are viewed as “low risk”, exposures

from 10 up to and including 50 per cent as “medium risk” and exposures from 50 up to 100 per cent as “high risk”. Defaulted exposures are always assigned a PD of 100 per cent.

4.2.1 Collateral management and credit risk mitigation

Collateral eliminates or reduces the Bank’s loss if the borrower cannot fulfil his or her payment obligations and the Bank terminates its loan to the customer. As a main rule, loans to private individuals and companies are thus made against collateral. This applies, for example, to home mortgage financing to private individuals, loans to real estate companies, loans to private individuals and companies for the pur-

Table 4.2.1

Credit risk	2021				2020	
	Stage 1	Stage 2	Stage 3	Total	Total	
EUR M						
Lending to the public						
Low risk	4,445.3	22.5	0.0	4,467.7	4,057.4	
Medium risk	154.9	76.9	0.0	231.8	254.7	
High risk	3.1	39.0	0.0	42.1	46.4	
Ungraded ¹	0.3	0.1	0.2	0.5	0.7	
Defaulted	0.0	1.5	58.9	60.3	30.7	
Gross carrying amount	4,603.5	139.9	59.0	4,802.5	4,389.8	
Provision for expected credit loss	-2.1	-0.8	-11.7	-14.7	-11.9	
Net carrying amount	4,601.4	139.1	47.3	4,787.8	4,377.9	
Unutilised credit lines and guarantees						
Low risk	523.4	0.1	0.0	523.5	441.5	
Medium risk	1.1	0.2	0.0	1.3	40.5	
High risk	0.0	0.0	0.0	0.0	0.0	
Ungraded ¹	516.1	0.0	0.0	516.1	268.0	
Defaulted	0.8	0.7	2.9	4.4	0.8	
Gross nominal amount	1,041.3	1.0	2.9	1,045.3	750.8	
Provision for expected loss	-0.3	0.0	0.0	-0.3	-0.4	
Net carrying amount (provision)	-0.3	0.0	0.0	-0.3	-0.4	
Debt securities recognised at amortised cost						
Low risk	322.4			322.4	287.0	
Gross carrying amount	322.4	0.0	0.0	322.4	287.0	
Provision for expected credit loss	-0.1			-0.1	-0.2	
Net carrying amount	322.2	0.0	0.0	322.2	286.8	
Debt securities recognised at fair value via other comprehensive income						
Low risk	368.2			368.2	324.0	
Gross carrying amount	368.2	0.0	0.0	368.2	324.0	
Provision for expected credit loss	0.0			0.0	-0.2	
Net carrying amount	368.2	0.0	0.0	368.2	323.8	

¹ Instruments for which no probability of default has been established are reported as “ungraded”.

Table 4.2.2

Lending to the public	2021				2020	
	Stage 1	Stage 2	Stage 3	Total	Total	
EUR M						
Receivables without past-due amounts	4,552.9	128.8	45.2	4,726.9	4,316.1	
Receivables with past-due amounts <=30 days	50.6	8.6	1.0	60.2	54.3	
Receivables with past-due amounts >30 days	0.0	2.6	12.8	15.4	19.4	
Gross carrying amount	4,603.5	139.9	59.0	4,802.5	4,389.8	

chase of securities as well as various other types of financing. Unsecured loans are primarily granted in the case of small loans to private individuals and only in exceptional cases to companies. In the latter case, as a rule special loan conditions are established that give the Bank greater rights of renegotiation or loan termination.

Under "lending to the public", a majority of all loans have been granted to private individuals and businesses with a home or other property as collateral. A large proportion of such lending also occurs in exchange for the pledging of financial collateral that is largely assigned a market value daily.

The Bank regularly monitors the market values of property and securities that serve as collateral for loans. A follow-up of the market value of residential property used as collateral is performed quarterly, and where a need is demonstrated the Bank engages an external appraiser for re-appraisals.

By applying conservative loan-to-value (LTV) ratios on collateral, the Bank makes allowances for a possible negative price trend for various forms of collateral, for example housing prices and market price changes for financial collateral. As a general rule, a loan may not exceed 70–85 per cent of the market value of residential property used as collateral. The LTV ratio on financial collateral is mainly determined on the basis of the liquidity and credit quality of the financial instrument.

5. Liquidity risk

Liquidity risk refers to the risk of not being able to fulfil payment obligations on the maturity date due to a shortage of liquid assets, or that these obligations can only be fulfilled by obtaining the means of payment at a substantially higher cost or by selling positions at substantially lower market prices than expected.

5.1 RISK MANAGEMENT

In order to manage liquidity risks, the Bank has designed a framework consisting of a number of components:

- Observance of limits that ensure compliance with the Bank's risk appetite and risk tolerance.
- Continuous follow-up and analysis of the Bank's future liquidity needs, both short- and long-term.
- A well-diversified funding structure, both from the standpoint of financial instruments and maturity perspectives.
- A portfolio of home mortgage loans whose quality is of such a nature as to maintain the Bank's borrowing by means of covered bonds even in a stressed scenario.
- A well-developed investor base.
- A liquidity reserve with high-quality assets that safeguard access to liquidity during a lengthy period of limited access to capital market borrowing.

Based on the Bank's risk tolerance, the Board of Directors has established limits for the Bank's liquidity coverage ratio, net stable funding ratio, survival horizon and how large the amount of covered bonds issued may be as a proportion of the available collateral. Liquidity risk is managed by the Bank's Treasury unit, which is responsible for ensuring that risks respect the limits established by the Board of Directors. Liquidity risks are monitored and analysed by the Group's Risk Control department, which reports directly to the Managing Director on a monthly basis and to the Board of Directors on a quarterly basis in conjunction with the Group's risk report.

5.1.1 Liquidity reserve

In order to decrease its liquidity risk, the Bank maintains a liquidity reserve containing high-quality assets that shall serve as an alternative source of liquidity at times of limited or non-existent opportunities to borrow money in the external capital market. The reserve may consist of cash, accounts with central banks or other well-reputed banks that have a good credit rating, deposits with short maturities, holdings of debt securities issued by the Bank and securities of such credit quality that they are eligible for refinancing with central banks. To safeguard the good quality of the Bank of Åland's liquidity reserve, these investments are regulated by the Board of Directors. The size of the liquidity reserve must be sufficient to maintain the targeted survival horizon as well as the liquidity coverage ratio.

5.1.2 Funding

The Bank of Åland endeavours to achieve a well-diversified funding structure, both from the perspective of instruments and maturities. The Bank intends to be independent of individual depositors, investors, funding instruments or market segments.

Aside from equity capital, the Bank of Åland's funding sources consist mainly of deposits from the public, covered bonds, certificates of deposit and short- and long-term borrowing from credit institutions. One long-term goal is that deposits from the public shall account for more than 50 per cent of funding, excluding equity capital. At the end of 2021, deposits and covered bonds comprised more than 80 per cent of the Bank's funding structure.

Table 5.1.1.1

Liquidity reserve	2021	2020
EUR M		
Cash and deposits with central banks	894	665
Debt securities issued by sovereigns and public authorities	124	140
Covered bonds (ratings of AA- or higher)	269	334
Accounts with other banks	34	26
Debt securities issued by financial companies	0	4
Debt securities issued by non-financial companies	0	6
Total	1,320	1,175
<i>of which LCR-qualified</i>	1,265	1,118

5.2 MEASURING LIQUIDITY RISK

The balance sheet of the Bank and its maturity structure are an important parameter when calculating and analysing the Bank's liquidity risk. Based on the balance sheet, future cash flows are forecast. These are an important tool in managing and planning liquidity risks and borrowing requirements.

5.2.1 Liquidity coverage ratio, net stable funding ratio and core funding ratio

Regulatory authorities have adopted rules for liquidity risk that cover both short-term and structural liquidity under stressed conditions.

The purpose of the liquidity coverage ratio (LCR) is to ensure that banks have enough liquid assets to deal with short-term liquidity stress. This means that banks must have liquid assets of very high quality equivalent to at least the net cash outflow for 30 days under stressed conditions, that is, at least 100 per cent.

The net stable funding ratio (NSFR), a structural liquidity metric, requires that banks have enough stable funding to cover their funding needs in a one-year perspective, both under normal and stressed conditions. The minimum NSFR requirement is 100 per cent.

Table 5.2.1

Remaining maturity	2021								Total
	Repayable on demand	Undiscounted contractual cash flows						Not classified by maturity	
EUR M		<3 mo	3–6 mo	6–12 mo	1–5 yrs	5–10 yrs	>10 yrs		
Assets									
Cash and receivable from central banks	893.7								893.7
Debt securities eligible for refinancing with central banks		89.8	31.7	60.4	475.9	44.9			702.8
Other debt securities		0.0	0.0	0.0	12.5	2.6	0.0		15.1
Lending to credit institutions	64.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	64.4
Lending to the public	33.2	348.9	126.9	204.7	1,560.8	837.2	1,666.5	9.7	4,787.8
Shares and participations								29.7	29.7
Derivative instruments		0.1	1.6	0.0	9.0	0.8	1.6		13.0
Intangible assets								23.1	23.1
Tangible assets								34.3	34.3
Investment properties								0.3	0.3
Other assets								70.5	70.5
Total	991.2	438.8	160.2	265.1	2,058.2	885.4	1,668.1	167.2	6,634.6
Liabilities									
Liabilities to credit institutions and central banks	59.7	452.3	38.5	117.0	200.0	0.0	0.0		867.5
Deposits from the public	3,626.6	415.1	16.5	10.8	1.2	0.0	0.0		4,070.1
Debt securities issued		0.0	0.0	0.0	1,196.5	0.0	0.0		1,196.5
Derivative instruments		0.9	1.6	0.0	2.2	0.5	1.5		6.8
Other liabilities								125.4	125.4
Subordinated liabilities		0.0	0.0	2.3	0.0	0.0	34.1		36.3
Equity capital								331.9	331.9
Total	3,686.3	868.2	56.6	130.1	1,399.9	0.5	35.6	457.3	6,634.6

Table 5.2.1.1

Liquidity coverage ratio (LCR)	2021	2020
EUR M		
Liquid assets, level 1	1,162	1,037
Liquid assets, level 2	102	82
Liquid assets, total	1,265	1,118
Deposits from the public	180	167
Capital market funding	696	590
Other cash flows	68	53
Cash outflows	945	811
Inflows from fully performing exposures	53	50
Other cash inflows	58	58
Total cash inflows	112	108
Net cash outflow	833	703
Liquidity coverage ratio (LCR), %	139	159

LCR has been corrected compared to the Year-end Report.

Table 5.2.1.2

Net stable funding ratio (NSFR)		2021	2020
EUR M			
Required stable funding (RSF) items			
High-quality liquid assets (HQLA)		60	44
Other liquid assets		52	180
Other securities		122	127
Performing loans and other receivables		3,862	3,399
Derivative assets		8	0
Other assets		202	118
Off-balance sheet items		24	0
Total required stable funding		4,330	3,868
Available stable funding (ASF) items			
Own funds		337	276
Deposits from the public		2,437	2,292
<i>Stable deposits</i>		1,390	1,339
<i>Less stable deposits</i>		1,047	953
Deposits from other counterparties		481	392
Capital market funding		1,445	1,149
Other liabilities		0	0
Total available stable funding		4,700	4,109
Net stable funding ratio, %		109	106

5.3 ENCUMBERED ASSETS

Encumbered assets predominantly consist of home mortgage loans that are used as collateral for the Bank of Åland's covered bond issues outstanding.

The size of encumbered assets for covered bonds is based on the level of over-collateralisation that the credit rating agency Standard & Poor's requires of the Bank of Åland to ensure that the bonds are assigned a credit rating of AAA.

In addition to home mortgage loans, the Bank of Åland has provided collateral for its own liabilities, payment systems, brokerage operations and clearing in the form of government securities and bonds, mainly to central banks and credit institutions.

Table 5.3.1

Encumbered assets, carrying amount		2021			2020		
EUR M	Encumbered assets	Unencumbered assets	Total assets	Encumbered assets	Unencumbered assets	Total assets	
Interest-bearing securities	309	409	718	292	485	778	
Lending to the public	2,085	2,702	4,788	1,548	2,830	4,378	
Other assets	5	996	1,001	3	752	755	
Non-encumberable assets		128	128		124	124	
Total	2,400	4,235	6,635	1,843	4,192	6,035	
Per cent of total assets	36	64	100	31	69	100	

6. Market risk

Market risk is the risk that earnings, equity capital or value will decrease due to price changes and risk factors in financial markets. Market risk includes interest rate risk, foreign exchange risk and equity risk.

6.1 RISK MANAGEMENT

The Bank of Åland's Board of Directors decides on the Bank's risk appetite and establishes limits on interest rate risk, foreign exchange risk and equity risk. The Bank's market risks are low and primarily of a structural nature. They are managed by the Bank's Treasury unit. Positions are hedged when they enter the balance sheet and continuously in compliance with the principles established by the Bank's Board of Directors and the processes established by the Treasury unit.

6.2 INTEREST RATE RISK

Interest rate risk refers both to the risk of decreased net interest income (net interest income risk) and the risk of unfavourable changes in the value of the Bank's assets and liabilities when market interest rates change (value change risk). Interest rate risks arise mainly due to differences in the interest rate repricing periods and repricing dates between interest-bearing assets and liabilities.

Table 6.2.1 shows assets and liabilities that fall due for a new interest rate repricing during each respective time interval, assuming that demand deposits fall due on Day 1.

The Bank measures interest rate risk by means of sensitivity analyses of net interest income and the value of interest-bearing assets and liabilities in scenarios where the yield curve is stressed in various ways. Net interest income risk is measured as the sensitivity of net interest income during the next twelve months, assuming a constant balance sheet. Positions in the balance sheet undergo interest rate adjustments on their contractual or assumed interest rate adjustment dates. In the model, the interest rate repricing period of demand deposits is set at one day. Value change risk is measured as the sensitivity of the estimated present value of all existing interest-bearing items. When cal-

culating value change risk, the Bank uses two methods for the interest rate repricing period of demand deposits. In the first model, demand deposits are assigned a period of one day, while in the second model their repricing period is based on European Banking Authority (EBA) and Basel Committee regulations.

6.3 FOREIGN EXCHANGE RISK

Foreign exchange risk refers to the risk of unfavourable results due to changes in the exchange rates of currencies that the Bank is exposed to. The Bank's operations occur mainly in its two base currencies, euros and Swedish kronor. A limited proportion of its lending and deposits occurs in other currencies. The foreign exchange risk is primarily managed by means of matching, and if the potential foreign exchange risk remains at the end of day, the Bank adjusts it.

The Group's structural foreign exchange risk in Swedish kronor arises because its financial accounts are prepared in euros while the functional reporting currency of its Swedish branch is Swedish kronor. The branch is capitalised with endowment capital and accrued earnings that are reported in Swedish kronor. The purpose of this position is to ensure that the ratio of CET1 capital in Swedish kronor and the risk exposure amount in Swedish kronor is in balance with the Group's CET1 capital ratio. The structural foreign exchange position in Swedish kronor implies volatility in other comprehensive income. The Bank has permission from the FSA to exempt the structural foreign exchange position from the capital adequacy calculation.

6.4 EQUITY RISK

Equity risk is the risk of decrease in value due to price changes in the stock market. Since the Bank does not carry out any trading in equities for its own account, equity risk is very limited.

The Bank is exposed to equity risk through its strategic investments and other holdings. The Bank's strategic and other equity holdings are managed, in light of their purpose and nature, through separate Board decisions for strategic holdings and decisions by the Managing Director for other equity holdings.

Table 6.2.1

Interest rate repricing periods for assets and liabilities	2021					Total
	EUR M	Up to 3 mo	3–6 mo	6–12 mo	1–5 yrs	
Assets						
Cash and deposits with central banks	894	0	0	0	0	894
Debt securities eligible for refinancing with central banks	210	28	62	376	49	725
Lending to credit institutions	49	0	0	0	0	49
Lending to the public	2,714	669	1,038	514	525	5,460
Total interest-bearing assets	3,867	696	1,100	890	574	7,127
Liabilities						
Liabilities to credit institutions and central banks	512	39	113	194	0	858
Deposits from the public	4,061	16	11	1	0	4,089
Debt securities issued	550	1	1	654	0	1,205
Subordinated liabilities	34	0	3	3	10	51
Total interest-bearing liabilities	5,157	56	128	852	10	6,203
Off-balance sheet items	-562	104	-11	522	-51	3
Difference between assets and liabilities	-1,852	745	961	561	513	927

7. Operational risk

Operational risk refers to the risk of losses due to inappropriate or faulty internal processes, human errors, systemic errors or external events. Legal risks are included in operational risks. Operational risks occur in all operations. It is thus neither possible nor optimal to eliminate them entirely. The important thing is that risk-taking is deliberate and suitable actions are taken when the risks that are identified are too large. What risk level is considered optimal shall be established by the Board of Directors and constitutes the Bank's risk appetite.

7.1 RISK MANAGEMENT

The objective of operational risk management is to ensure that significant operational risks are identified and managed at a sufficient level in relation to the nature and the scope of the operations. Adequate procedures for computer protection and information security must be in place and be further developed based on the threat situation. The probability of significant unforeseen losses or threats to the Group's reputation must be minimised. The Executive Team and the Board of Directors must be informed regularly about the operational risks associated with Group operations. Adequate operational risk management is important to ensure trust in the Bank's operations, especially from a customer standpoint.

The Operational Risks & Security unit is responsible for "second line of defence" analyses of the Group's operational risks and for reporting these. The same is true of the Compliance department, which analyses risk from a compliance standpoint. The "third line of defence" also analyses the Group's risks, including operational risks. To obtain a completely current picture of the Group's risks, risk mapping and analyses from all three lines of defence must be coordinated. The Compliance and Operational Risk & Security units rely on risk analyses when developing focus areas for the work of the following year.

There are many ways to provide support to the Group's operations. Internal training courses are an important element of second defence line support for operational risk management. Processes that support a risk-based way of working as well as internal regulations and controls

are other means of support and of raising awareness. The new products approval process (NPAP) is one of the key processes for promoting risk management as early as in the development phase. Internal regulations relating to the operational risk management and compliance with the rules also serve as operational aids and directives. The Group has continuity plans for all business units, in order to maintain operations and limit interruptions, losses and damage in the event of various operational disruptions. At the Group level, insurance policies have been obtained to cover directors and officers, professional liability and crime. In addition to these insurance policies, Group companies have obtained company-specific insurance coverage.

Group operational risks are mapped yearly by first defence line operations through self-evaluation and other methods. Self-evaluations assess the probability and consequences of operational risks. Risks that are identified in the yearly self-evaluation and classified as risks at a high or unacceptable level must be managed without delay and be addressed as needed by the Group's Executive Team to ensure that sufficient steps are taken in order not to exceed the Group's risk appetite. Operational Risks & Security and Compliance analyse risks based, among other things, on the self-evaluations and risk mapping carried out in the organisation, and they monitor and report the results to the Executive Team. In addition, AML-CFT (Anti Money Laundering - Combating the Financing of Terrorism) risk analysis is performed within the bank at least once a year and reported to the Executive Team and the Board in a corresponding manner. The second defence line also carries out risk assessments, such as information security risk assessments, the Compliance department's yearly risk analysis in its field, and Operational Risks & Security's mapping of the Bank's operational risks. The most significant risks are referred to the Executive Team and the Board. During project work, NPAP is applied. Risk mapping is an important part of this process. The purpose of a comprehensive analysis that highlights a variety of risks is to avoid inadvertent risk-taking. Products and services that are new or have undergone significant changes must be secure and functional when they are put into use.

G4. Segment report

2021

	Private Banking	Premium Banking	IT	Corporate and other	Eliminations	Total
Net interest income	27,991	28,268	-2	5,981	-8	62,229
Net commission income	58,582	16,909	-75	3,343	286	79,044
Net income from financial items carried at fair value	12	-28	-747	327	-5	-442
IT income	0	0	42,817	340	-18,749	24,407
Other income	681	11	916	10,386	-1,209	10,785
Total income	87,267	45,161	42,907	20,375	-19,685	176,024
Staff costs	-18,568	-6,857	-22,940	-22,751	0	-71,115
Other expenses	-9,424	-5,228	-16,204	-21,131	15,445	-36,543
Depreciation/amortisation and impairment losses on intangible and tangible assets	-2,828	-364	-3,251	-11,206	3,387	-14,262
Internal allocation of expenses	-23,718	-21,261	0	44,979	0	0
Total expenses	-54,538	-33,710	-42,395	-10,109	18,832	-121,920
Profit before impairment losses	32,729	11,450	513	10,266	-854	54,104
Impairment losses on loans and other commitments	-4,898	103	0	-110	0	-4,906
Net operating profit	27,831	11,553	513	10,155	-854	49,198
Income taxes	-5,722	-2,367	-313	-946	0	-9,348
Non-controlling interests	0	0	-2	0	0	-2
Profit for the period attributable to shareholders in Bank of Åland Plc	22,109	9,185	198	9,209	-854	39,849
Net commission income						
Deposits	113	811	0	255	0	1,179
Lending	576	1,743	0	76	-2	2,394
Payment intermediation	1,653	6,355	0	3,245	0	11,253
Mutual fund commissions	59,467	5,682	0	927	-6,381	59,694
Asset management commissions	14,746	1,257	0	31	-149	15,885
Securities brokerage	13,935	1,305	0	1,249	0	16,489
Other commissions	386	2,704	0	508	-56	3,542
Total commission income	90,875	19,857	0	6,291	-6,588	110,436
Commission expenses	-32,294	-2,948	-75	-2,948	6,874	-31,391
Total net commission income	58,582	16,909	-75	3,343	286	79,044
Business volume, December 31						
Lending to the public	1,966,232	2,319,570	0	502,348	-305	4,787,845
Deposits from the public	1,960,205	2,064,482	0	64,290	-18,865	4,070,112
Actively managed assets	9,144,532	670,152	0	10,975	0	9,825,659
Risk exposure amount	752,967	582,014	75,000	566,175	0	1,976,156
Equity capital	82,265	88,347	27,747	133,559		331,918
Financial ratios etc.						
Return on equity (ROE), %	25.2	9.9	0.7	11.7		14.0
Expense/income ratio	0.62	0.75	0.99	0.50		0.69

	2020					
	Private Banking	Premium Banking	IT	Corporate and other	Eliminations	Total
Net interest income	28,431	27,124	2	3,341	-8	58,890
Net commission income	47,962	14,955	-75	3,171	300	66,313
Net income from financial items carried at fair value	-26	49	-80	1,879	15	1,836
IT income	0	0	37,499	1,163	-16,733	21,929
Other income	45	20	883	1,495	-1,264	1,180
Total income	76,412	42,148	38,229	11,049	-17,690	150,148
Staff costs	-15,812	-6,719	-19,945	-20,445	0	-62,921
Other expenses	-8,765	-4,943	-12,418	-20,070	15,849	-30,348
Depreciation/amortisation and impairment losses on intangible and tangible assets	-870	-271	-2,753	-10,844	2,433	-12,304
Internal allocation of expenses	-21,231	-19,906	0	41,137	0	0
Total expenses	-46,677	-31,839	-35,116	-10,223	18,282	-105,573
Profit before impairment losses	29,735	10,309	3,112	826	593	44,575
Impairment losses on loans and other commitments	-442	-4,102	0	-314	0	-4,857
Net operating profit	29,293	6,207	3,112	512	593	39,717
Income taxes	-6,022	-1,273	-643	-295	0	-8,232
Non-controlling interests	0	0	1	0	0	1
Profit for the period attributable to shareholders in Bank of Åland Plc	23,271	4,935	2,471	217	593	31,486
Net commission income						
Deposits	66	462	0	254	0	782
Lending	437	1,787	0	20	-1	2,243
Payment intermediation	1,509	6,103	0	3,054	0	10,666
Mutual fund commissions	45,836	4,690	0	707	-5,277	45,957
Asset management commissions	11,504	901	0	3	-88	12,319
Securities brokerage	13,758	1,058	0	1,236	0	16,052
Other commissions	409	2,482	0	436	-56	3,271
Total commission income	73,519	17,483	0	5,710	-5,422	91,290
Commission expenses	-25,557	-2,528	-75	-2,539	5,722	-24,977
Total net commission income	47,962	14,955	-75	3,171	300	66,313
Business volume, December 31						
Lending to the public	1,906,010	2,269,915	0	203,088	-1,100	4,377,912
Deposits from the public	1,708,260	1,850,522	0	59,435	-12,847	3,605,371
Actively managed assets	6,926,757	503,058	0	6,373	0	7,436,187
Risk exposure amount	668,441	591,737	75,000	335,672	0	1,670,850
Equity capital	87,969	92,142	25,531	86,714		292,357
Financial ratios etc.						
Return on equity (ROE), %	24.2	5.0	10.3	0.4		11.6
Expense/income ratio	0.61	0.76	0.92	0.93		0.70

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, as well as asset management (Ålandsbanken Fondbolag Ab and its six wholly owned subsidiaries). "Premium Banking" encompasses operations in all customer segments excluding Private Banking in Åland, on the Finnish mainland and in Sweden, as well as asset management. "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 partnerships.

G5. Product areas		2021				
	Daily banking services incl. deposits	Financing services	Investment services	IT services	Other	Total
Net interest income	5,847	54,699	0	-79	1,762	62,229
Net commission income	10,782	2,961	65,350	-75	28	79,044
Net income from financial items carried at fair value	0	-27	0	-747	333	-442
IT income	0	0	0	24,407	0	24,407
Other income	0	0	0	0	10,785	10,785
Total income	16,629	57,633	65,350	23,506	12,907	176,024

		2020				
	Daily banking services incl. deposits	Financing services	Investment services	IT services	Other	Total
Net interest income	7,197	50,706	0	-73	1,060	58,890
Net commission income	9,904	2,660	53,833	-75	-7	66,313
Net income from financial items carried at fair value	0	50	0	-80	1,866	1,836
IT income	0	0	0	21,929	0	21,929
Other income	0	0	0	0	1,180	1,180
Total income	17,101	53,416	53,833	21,701	4,098	150,148

Daily banking services included net interest income from all deposit accounts, i.e. also savings accounts, time deposits and cash accounts connected to securities accounts, net commission income from deposits, cashier and payment intermediate services, cards, the Premium concept, bank safety deposit boxes etc. plus income from exchanging currencies.

Financing services consisted of net interest income from all lending products, i.e. also securities account loans, as well as lending commissions and guarantee commissions.

Investment services included income from discretionary asset management, advisory asset management, mutual fund management and securities brokerage. Income from deposit accounts and loans that may be part of a customer's asset management were reported under daily banking services and financing services, respectively.

IT services included the operations of Crosskey Banking Solutions Ab Ltd.

G6. Geographic distribution		2021			2020		
	Finland	Sweden	Total	Finland	Sweden	Total	
Net interest income	35,051	27,178	62,229	31,695	27,194	58,890	
Net commission income	60,404	18,640	79,044	51,506	14,807	66,313	
Net income from financial items carried at fair value	-290	-152	-442	2,043	-206	1,836	
IT income	19,086	5,321	24,407	19,395	2,533	21,929	
Other income	10,677	108	10,785	988	192	1,180	
Total income	124,929	51,095	176,024	105,628	44,520	150,148	
Staff costs	-52,930	-18,185	-71,115	-47,897	-15,024	-62,921	
Other expenses	-17,369	-19,174	-36,543	-14,330	-16,018	-30,348	
Depreciation/amortisation	-12,205	-2,057	-14,262	-11,101	-1,203	-12,304	
Total expenses	-82,505	-39,415	-121,920	-73,328	-32,245	-105,573	
Profit before impairment losses	42,424	11,680	54,104	32,299	12,275	44,575	
Impairment losses on loans and other commitments	-2,229	-2,677	-4,906	-4,580	-278	-4,857	
Net operating profit	40,195	9,004	49,198	27,719	11,998	39,717	
Income taxes	-7,637	-1,711	-9,348	-5,745	-2,487	-8,232	
Non-controlling interests	-2	0	-2	1	0	1	
Profit for the period attributable to shareholders in Bank of Åland Plc	32,556	7,293	39,849	21,975	9,511	31,486	
Business volume, December 31							
Lending to the public	2,891,696	1,896,149	4,787,845	2,818,884	1,559,029	4,377,912	
Deposits from the public	2,918,143	1,151,968	4,070,112	2,572,244	1,033,127	3,605,371	
Actively managed assets	5,041,744	4,783,915	9,825,659	3,961,021	3,475,166	7,436,187	
Risk exposure amount	1,122,926	853,230	1,976,156	1,037,299	633,551	1,670,850	
Allocated equity capital	252,344	79,572	331,916	232,870	59,486	292,357	
Financial ratios etc.							
Return on equity (ROE), %	15.0	10.6	14.0	10.2	16.6	11.6	
Expense/income ratio	0.66	0.77	0.69	0.69	0.72	0.70	

Notes to the consolidated income statement

G7. Net interest income		2021			2020		
	Average balance	Interest	Average interest rate, %	Average balance	Interest	Average interest rate, %	
Lending to credit institutions and central banks	767,480	-875	-0.11	599,227	-217	-0.04	
Lending to the public	4,536,804	63,720	1.40	4,192,994	65,120	1.55	
Debt securities	733,128	335	0.05	745,678	304	0.04	
Interest-bearing assets	6,037,412	63,181	1.05	5,537,900	65,206	1.18	
Derivative instruments	16,639	1,075		23,731	1,309		
Other assets	184,028	166		173,748	7		
Total assets	6,238,079	64,422		5,735,379	66,523		
<i>of which interest according to the effective interest method</i>		63,988			66,124		
Liabilities to credit institutions and central banks	702,643	-2,923	-0.42	394,405	-408	-0.10	
Deposits from the public	3,744,845	1,580	0.04	3,424,885	2,305	0.07	
Debt securities issued	1,288,580	1,093	0.08	1,446,689	2,749	0.19	
Subordinated liabilities	30,161	865	2.87	36,065	1,148	3.18	
Interest-bearing liabilities	5,766,229	614	0.01	5,302,044	5,794	0.11	
Derivative instruments	9,101	1,479		13,898	1,740		
Other liabilities	154,602	100		146,873	99		
Total liabilities	5,929,932	2,193		5,462,815	7,633		
Total equity capital	308,147			272,564			
Total liabilities and equity capital	6,238,079			5,735,379			
<i>of which interest according to the effective interest method</i>		1,894			7,303		
Net interest income		62,229			58,890		
Interest margin			1.04			1.07	
Investment margin			1.00			1.03	

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 13 end-of-month figures.

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

G8. Net commission income		2021		2020	
Deposits			1,179		782
Lending			2,394		2,243
Payment intermediation			11,253		10,666
Mutual fund commissions			59,694		45,957
Asset management commissions			15,885		12,319
Securities brokerage			16,489		16,052
Legal services			737		732
Guarantee commissions			567		417
Other commissions			2,238		2,123
Total commission income			110,436		91,290
Payment commission expenses			-3,931		-3,808
Mutual fund commission expenses			-22,724		-17,389
Asset management commission expenses			-1,015		-1,048
Securities brokerage commission expenses			-3,051		-2,132
Other commission expenses			-671		-599
Total commission expenses			-31,391		-24,977
Net commission income			79,044		66,313

G9. Net income from financial items carried at fair value						
	2021			2020		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Valuation category fair value via the income statement ("profit and loss")						
Derivative instruments	728	23	751	0	-15	-15
Valuation category fair value via the income statement ("profit and loss")	728	23	751	0	-15	-15
Hedge accounting			0			
of which hedging instruments	-1,298	-2,835	-4,133	268	-428	-160
of which hedged item	1,443	2,860	4,303	-425	334	-91
Hedge accounting	145	25	170	-157	-94	-251
Net income from foreign currency revaluation	0	-220	-220	0	-331	-331
Modification results and ECL	0	197	197	0	-40	-40
Net income from financial assets	90	-1,430	-1,339	2,472	0	2,472
Total	964	-1,406	-442	2,315	-479	1,836

G10. Other income			
	2021		2020
Income from equity capital investments		81	0
Income in conjunction with transfer of assets		6,263	
Net income from investment properties		102	16
Rental income on properties		63	50
Miscellaneous income		3,745	1,023
Total		10,254	1,090
Specification of net income from investment properties			
Rental income		27	40
Capital gains		95	18
Other expenses		-21	-41
Total		102	16

G11. Staff costs		
	2021	2020
Salaries and fees	54,915	48,935
Compensation in the form of shares in Bank of Åland Plc	666	546
Pension expenses	9,141	8,221
Other social security expenses	6,392	5,220
Total	71,115	62,921
of which variable staff costs	3,805	2,559
of which staff outplacement expenses	109	309

Variable staff costs and staff outplacement expenses are reported including social insurance fees.

Salaries and fees		
Boards of Directors	345	339
Senior executives	3,417	2,824
Others	51,820	46,318
Total	55,582	49,481

"Boards of Directors" refers to all Board members of Group companies. "Senior executives" refers to the Group's Executive Team and to the Managing Director and Deputy Managing Directors of subsidiaries.

Salaries and fees to senior executives		
Salaries and fees	2,862	2,463
Share-based payment	555	361
Total	3,417	2,824

Pension expenses								
Managing Director			89				75	
Senior executives			530				375	
Others			8,523				7,771	
Total			9,141				8,221	
Pension expenses								
Defined benefit plan			864				1,005	
Defined contribution plan			8,277				7,216	
Total			9,141				8,221	
		Men	Women	Total		Men	Women	Total
Number of employees								
Åland		277	250	527		262	233	495
Finnish Mainland		124	116	240		104	106	210
Sweden		109	72	181		101	67	168
Total		510	438	948		467	406	873
Hours worked, recalculated to full-time equivalent positions								
Bank of Åland Plc				481				452
Crosskey Banking Solutions Ab Ltd				298				268
Ålandsbanken Fondbolag Ab				35				31
Total number of positions, recalculated from hours worked				815				751
		Men	Women			Men	Women	
Gender breakdown, %								
Board of Directors		67	33			67	33	
Senior executives		75	25			82	18	

"Board of Directors" refers to the Board of the Bank of Åland Plc.

	2021				2020			
	Managing Director	Senior executives	Other risk-takers	Others	Managing Director	Senior executives	Other risk-takers	Others
Total compensation								
Fixed compensation earned	353	1,954	5,616	44,521	351	1,750	11,405	33,724
Provisions for pensions	89	530	1,044	7,479	75	375	2,029	5,742
Variable compensation earned	235	875	745	1,284	152	571	1,309	218
Total	677	3,359	7,404	53,283	578	2,696	14,743	39,684
<i>of which postponed variable compensation</i>	94	350	185	88	61	228	227	0
<i>of which variable compensation paid</i>	141	525	560	1,196	91	343	1,081	218
Number of persons who received only fixed compensation	0	4	44	896	0	3	88	757
Number of persons who received both fixed and variable compensation	1	7	22	88	1	7	69	43
Total	1	11	66	984	1	10	157	800
Postponed variable compensation, January 1	176	492	523	0	139	299	677	0
Variable compensation postponed during the year	94	350	185	88	61	228	227	0
Disbursed during the year	-38	-22	-111	0	-24	-33	-171	0
Adjusted during the year	0	-57	-1	0	0	-2	-211	0
Postponed variable compensation, December 31	231	763	595	88	176	492	523	0
2016 share savings programmes								
Recognised expense related to payment in the form of shares in the Bank of Åland Plc								12
Recognised expense for social security fees related to share-based portion								5
Total recognised expense								17

CONDITIONS AND COMPENSATION

General

The Bank's compensation system shall be compatible with the Group's corporate strategy, goals and values, as well as being compatible with and promoting good, effective risk management. The compensation system shall be constructed in such a way that it does not counteract the long-term interests of the Group. An analysis is carried out to determine how the compensation system affects the financial risks that the Bank is subjected to and the management of these risks. There shall be a suitable balance between fixed and variable compensation. The Group's total compensation for a single earning period shall not build up and reward risks that may jeopardise the long-term interests of the Group.

The Bank has an earnings-based compensation system including the Managing Director and the rest of the Executive Team. There are also separate earnings-based compensation systems for employees in the Group's business areas. Earnings-based compensation for a single individual may not exceed an amount equivalent to 12 monthly salaries per financial year.

Board of Directors

The fees of the Board members are established by the General Meeting. During the period from the 2021 Annual General Meeting to the end of the 2022 Annual General Meeting, the members of the Board receive an annual fee as well as a fee for each Board and Committee meeting attended. The Chairman of the Board receives an annual fee of EUR 35,000, and the Deputy Chairman receives an annual fee of EUR 30,000. Other Board members each receive an annual fee of EUR 28,000. In addition, Board members are paid a meeting fee for each Board meeting they attend. The meeting fee amounts to EUR 1,000 for the Chairman and EUR 750 for other members per meeting attended. Each member of a Board committee is paid EUR 750 per committee meeting attended. The chairman of each respective committee receives a meeting fee of EUR 1,000 per committee meeting attended. The members of the Bank's Board of Directors are not included in share-based compensation systems.

Managing Director

The Managing Director receives a monthly salary of EUR 28,000. He also receives free automobile benefits and is entitled to the employee benefits that are generally applicable at the Bank. During 2021, the Managing Director was paid compensation totalling EUR 494,676 including fringe benefits and variable compensation. Of the variable compensation paid in 2021, EUR 64,728 was paid in cash and EUR 64,728 in Bank shares, in compliance with external regulations.

The Managing Director's minimum retirement age is 65 and his maximum retirement age is 70. He will receive a pension in accordance with the Finnish national pension system. He is not entitled to a supplementary pension in addition to the statutory public pension. The notice period in case of resignation initiated by the Managing Director is nine (9) months. During this notice period, he will receive a regular monthly salary. According to his employment contract, the Managing Director is entitled to severance pay totalling nine (9) months' salary in case of dismissal by the Bank. Upon resignation, the Managing Director is not entitled to any other compensation.

Senior executives

Compensation to other members of the Executive Team is paid as a fixed individual monthly salary plus generally applicable employment benefits at the Bank. The other members of the Executive Team are not covered by any supplementary pension arrangement. Due to a divergent pension system in Sweden, the Bank has obtained defined contribution-based supplementary pension insurance for members of the Executive Team residing in Sweden, with a retirement age of 65.

Disclosures concerning earnings-based (variable) compensation and share-based compensation systems

Earnings-based compensation for risk-takers¹ is paid in its entirety when the compensation is set, if the actual compensation sum for a single individual amounts to a maximum of EUR 50,000. If the compensation exceeds EUR 50,000, disbursement of at least 40 per cent of earnings-based compensation shall be postponed by at least three years (vesting period). If the earnings-based compensation for an individual amounts to an especially large percentage of total fixed and earnings-based compensation, the disbursement of at least 60 per cent of the earnings-based compensation is postponed in a similar way. Since the Bank of Åland Plc is a listed company, at least 50 per cent of the earnings-based compensation is paid in the Bank's shares. Since Ålandsbanken Fondbolag Ab is a fund management company, at least 50 per cent of variable compensation to risk-takers must be paid in fund units. The allocated shares/fund units must be held for at least 12 months (deferral period) before the recipient of the compensation may have access to them. The disbursement may be further postponed in light of a comprehensive assessment based on the Group's economic cycle, the nature of its business operations and risks and the job duties and responsibilities of the individual. The Bank is entitled to abstain from disbursing postponed earnings-based compensation if the Group's financial position has substantially deteriorated.

Share savings programmes

Since 2015 the Bank of Åland has had two ongoing share savings programmes that encompass all Group employees. The programmes consist of share-based payment that is delayed by 3 years. The share-based payment is allocated in the form of performance rights (future shares in the Bank of Åland Plc) for those participants who still have their share savings in a specially designated custody account at the close of the share savings programme. The objective of the programme is to further strengthen employee motivation, participation and long-term affinity with the Group by offering all employees the opportunity to obtain shares in the Bank on favourable terms. The first share savings programme, which began in 2015, was closed down during 2019. In March 2020 the Bank of Åland issued new Series B shares to fulfil its obligations as part of the first share savings programme that began in 2016. In conjunction with this, the share savings programme was closed down.

¹ "Risk-takers" in the Bank's compensation policy documents refers to staff members who are regarded as having a significant impact on the Bank's risk profile. During 2021 the number of risk-takers decreased due to changes in current regulations. The number of risk-takers on December 31, 2020 totalled 178, while the corresponding figure on December 31, 2021 was 78. The Bank has established qualitative and quantitative criteria for the purpose of identifying those employees who have a significant impact on the Bank's risk profile.

G12. Other expenses	2021	2020
IT expenses (excluding market data)	18,226	13,165
Rents	1,076	659
Other costs of premises and property	1,422	1,516
Marketing expenses	2,560	2,346
Information services	2,513	2,435
Staff-related expenses	2,429	1,796
Travel expenses	273	368
Purchased services	4,188	2,638
Guarantee fee ¹	5	5
Stability fee	2,753	2,656
Other expenses	6,847	6,475
Production for own use	-5,749	-3,711
Total	36,543	30,348

¹ "Guarantee fee" includes the deposit guarantee fee and the fee for the investor compensation fund.

Fees to the Financial Stability Authority		
Deposit guarantee fee	1,505	1,268
Paid by old deposit guarantee fund	-1,505	-1,268
Stability fee	2,753	2,656
Administration fee	24	23
Total	2,776	2,679

Based on the 2021 fee level, the Bank has prepaid deposit guarantee fees for about eight years.

Fees paid to auditors		
Auditing fees paid	464	380
Fees according to the Auditing Act, Chapter 1, Section 1, Point 2	8	50
Consulting fees paid		
<i>Tax matters</i>	77	125
<i>Other</i>	280	141
Total	829	696

These amounts include value-added tax (VAT).

Fees paid to KPMG OY Ab for expenses other than auditing totalled EUR 301 K (150).

G13. Expected credit (loan) losses

2021

	New and increased individual impairment losses	Recovered from earlier provisions	Utilised for actual losses	Actual losses	Recovery of actual losses	Total
Expected losses from financial assets recognised at amortised cost and from off-balance sheet obligations						
Lending to the public	12,264	-7,121	-2,343	2,714	-441	5,073
Off-balance sheet obligations	263	-351	0	0	0	-89
Debt securities	147	-226	0	0	0	-78
Total expected loan losses	12,674	-7,698	-2,343	2,714	-441	4,906
Expected loss from financial assets recognised at fair value via other comprehensive income						
Debt securities	108	-332				-224
Total expected loan losses via other comprehensive income	108	-332	0	0	0	-224

2020

	New and increased individual impairment losses	Recovered from earlier provisions	Utilised for actual losses	Actual losses	Recovery of actual losses	Total
Expected losses from financial assets recognised at amortised cost and from off-balance sheet obligations						
Lending to the public	12,106	-7,669	-5,021	5,619	-605	4,430
Off-balance sheet obligations	439	-69	0	0	0	370
Debt securities	180	-123	0	0	0	58
Total expected loan losses	12,725	-7,861	-5,021	5,619	-605	4,857
Expected loss from financial assets recognised at fair value via other comprehensive income						
Debt securities	403	-313				90
Total expected loan losses via other comprehensive income	403	-313	0	0	0	90

Expected loan losses via other comprehensive income are recognised in the income statement under "Net income from financial items at fair value".

2021

2020

	Reserve for individually assessed lending to the public	Provision for expected losses on off-balance sheet obligations	Reserve for expected losses on debt securities recognised at amortised cost	Total	Reserve for individually assessed lending to the public	Provision for expected losses on off-balance sheet obligations	Reserve for expected losses on debt securities recognised at amortised cost	Total
Change in impairment loss reserve								
Reserve on January 1	11,884	409	193	12,486	12,445	38	135	12,618
New and increased individual impairment losses	12,264	263	147	12,674	10,016	80	180	10,276
Net changes due to revisions in estimation method	0	0		0	2,091	358		2,449
Recovered from earlier provisions	-7,121	-351	-226	-7,698	-7,669	-69	-123	-7,861
Utilised for actual losses	-2,343	0	0	-2,343	-5,021	0	0	-5,021
Exchange rate differences	-30	-2		-32	23	1		25
Reserve on December 31	14,654	318	114	15,087	11,884	409	193	12,486
Receivables with forbearance measures								
Lending to the public								
Receivables without past-due amounts and receivables with past-due amounts <=30 days				14,635				23,282
Receivables with past-due amounts >30 days				0				370
Defaulted receivables				17,214				3,072
Gross carrying amount				31,849				26,724

"Receivables with forbearance measures" refers to loan receivables for which the Bank has granted the borrower concessions because of his/her obviously worsened financial situation, in order to avoid problems with the borrower's repayment capacity and thereby maximise the repayment of the outstanding receivable. Concessions may include adjusted loan conditions, such as postponed principal repayments, a reduced interest margin or an extended repayment period, or refinancing, which may mean that a loan has been fully repaid close to its original due date and in connection with this has been replaced with a new loan. The carrying amount refers to gross exposures and includes not only restructured loans but also other loans in a customer entity.

G14. Income taxes		2021	2020
Income statement			
Taxes related to prior years		389	331
Current taxes		7,093	6,519
Changes in deferred taxes		1,867	1,381
Total		9,348	8,232
Nominal tax rate in Finland, %		20.0	20.0
Non-taxable income/deductible expenses, %		-1.7	0.0
Swedish tax rate, %		0.4	0.6
Taxes related to prior years, %		0.3	0.2
Other, %		0.0	0.0
Effective tax rate, %		19.0	20.7
Other comprehensive income			
Current taxes		-176	
Changes in deferred taxes		982	-294
Total		806	-294

The tax rate in Sweden was 20.6 per cent, whereas in 2020 it was 21.4 per cent.

G15. Earnings per share		2021	2020
Profit for the period attributable to shareholders		39,849	31,486
Average number of shares before dilution		15,599,454	15,579,412
Average dilution effect			
Average number of shares after dilution		15,599,454	15,579,412
Earnings per share, EUR		2,55	2,02
Earnings per share after dilution, EUR		2,55	2,02

When calculating earnings per share, the average number of shares is calculated as a weighted average of shares outstanding during the period.

Notes to the consolidated balance sheet

G16. Classification of financial assets and liabilities		2021							
	Carried at fair value via income statement			Measurement via other comprehensive income		Measurement at amortised cost		Total carrying amount	Fair value
	Held for trading	Hedge accounting	Other	Hedge accounting ¹	Other	Hedge accounting ¹	Other		
Cash and deposits with central banks							893,719	893,719	893,719
Debt securities				27,377	368,240		322,247	717,864	717,768
Lending to credit institutions							64,353	64,353	64,353
Lending to the public						167,204	4,620,641	4,787,845	4,805,360
Shares and participations					15,049			15,049	15,049
Shares and participations in associated companies							14,603	14,603	14,603
Derivative instruments	3,331	9,696						13,027	13,027
Accrued interest income							12,735	12,735	12,735
Receivables on mutual fund settlement proceeds							10,748	10,748	10,748
Other assets			4,962					4,962	4,962
Total financial assets	3,331	9,696		27,377	383,289	167,204	5,939,056	6,534,905	6,552,324
Non-financial assets								99,733	
Total assets								6,634,639	

¹ The interest component in the contract is subject to hedge accounting.

2021									
	Carried at fair value via income statement			Measurement via other comprehensive income		Measurement at amortised cost		Total carrying amount	Fair value
	Held for trading	Hedge accounting	Other	Hedge accounting ¹	Other	Hedge accounting ¹	Other		
Liabilities to credit institutions and central banks							867,491	867,491	863,471
Deposits from the public							4,070,112	4,070,112	4,070,209
Debt securities issued							643,865	552,670	1,196,535
Derivative instruments	4,090	2,733							6,824
Subordinated liabilities								36,343	36,343
Accrued interest expenses								3,684	3,684
Liabilities on mutual fund settlement proceeds								7,685	7,685
Other liabilities								18,718	18,718
Total financial liabilities	4,090	2,733					643,865	5,556,703	6,207,392
Non-financial liabilities									95,328
Total liabilities									6,302,720

¹ The interest component in the contract is subject to hedge accounting.

2020									
	Carried at fair value via income statement			Measurement via other comprehensive income		Measurement at amortised cost		Total carrying amount	Fair value
	Held for trading	Hedge accounting	Other	Hedge accounting ¹	Other	Hedge accounting ¹	Other		
Cash and deposits with central banks							665,072	665,072	665,072
Debt securities				166,869	324,057		286,757	777,683	780,220
Lending to credit institutions							51,038	51,038	51,038
Lending to the public							129,784	4,248,129	4,377,912
Shares and participations					12,882				12,882
Shares and participations in associated companies								1,449	1,449
Derivative instruments	7,856	16,764							24,620
Accrued interest income								9,507	9,507
Receivables on mutual fund settlement proceeds								25,859	25,859
Total financial assets	7,856	16,764		166,869	336,939		129,784	5,287,810	5,946,022
Non-financial assets									89,036
Total assets									6,035,058
Liabilities to credit institutions and central banks							509,491	509,491	509,537
Deposits from the public							3,605,371	3,605,371	3,605,410
Debt securities issued							900,903	540,029	1,440,933
Derivative instruments	7,847	7,121							14,968
Subordinated liabilities								36,913	36,913
Accrued interest expenses								4,287	4,287
Liabilities on mutual fund settlement proceeds								18,636	18,636
Other liabilities								14,664	14,664
Total financial liabilities	7,847	7,121					900,903	4,729,391	5,645,262
Non-financial liabilities									97,428
Total liabilities									5,742,690

¹ The interest component in the contract is subject to hedge accounting.

G17. Measurement of financial assets and liabilities carried at fair value		2021			
		Level 1	Level 2	Level 3	Total
Debt securities		395,617			395,617
Lending to the public			167,204		167,204
Shares and participations		1,021		14,028	15,049
Derivative instruments			13,027		13,027
Other assets				4,962	4,962
Total financial liabilities carried at fair value		396,638	180,231	18,990	595,859
Debt securities issued			643,865		643,865
Derivative instruments			6,824		6,824
Total financial liabilities carried at fair value		0	650,689	0	650,689
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets and liabilities recognised at amortised cost					
Assets					
<i>Cash and deposits with central banks</i>	893,719		893,719		893,719
<i>Debt securities</i>	322,247	322,152			322,152
<i>Lending to credit institutions</i>	64,353		64,353		64,353
<i>Shares in associated companies</i>	14,603			14,603	14,603
<i>Lending to the public</i>	4,620,641		4,638,156		4,638,156
Total financial assets at amortised cost	5,915,563	322,152	5,596,227	14,603	5,932,982
Liabilities					
<i>Liabilities to credit institutions</i>	867,491		863,471		863,471
<i>Deposits from the public</i>	4,070,112		4,070,209		4,070,209
<i>Debt securities issued</i>	552,670		552,473		552,473
<i>Subordinated liabilities</i>	36,343		36,629		36,629
Total financial liabilities at amortised cost	5,526,616	0	5,522,782	0	5,522,782
		2020			
		Level 1	Level 2	Level 3	Total
Debt securities		477,918	13,008		490,926
Lending to the public			129,784		129,784
Shares and participations		857		12,026	12,882
Derivative instruments			24,620		24,620
Total financial liabilities carried at fair value		478,775	167,411	12,026	658,212
Debt securities issued			900,903		900,903
Derivative instruments			14,968		14,968
Total financial liabilities carried at fair value		0	915,871	0	915,871
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets and liabilities recognised at amortised cost					
Assets					
<i>Cash and deposits with central banks</i>	665,072		665,072		665,072
<i>Debt securities</i>	286,757	283,594	5,700		289,294
<i>Lending to credit institutions</i>	51,038		51,038		51,038
<i>Shares in associated companies</i>	1,449			1,449	1,449
<i>Lending to the public</i>	4,248,129		4,297,930		4,297,930
Total financial assets at amortised cost	5,252,445	283,594	5,019,739	1,449	5,304,783
Liabilities					
<i>Liabilities to credit institutions</i>	509,491		509,537		509,537
<i>Deposits from the public</i>	3,605,371		3,605,410		3,605,410
<i>Debt securities issued</i>	540,030		541,657		541,657
<i>Subordinated liabilities</i>	36,913		37,415		37,415
Total financial liabilities at amortised cost	4,691,804	0	4,694,019	0	4,694,019
Level 1	Instruments with quoted market prices				
Level 2	Measurement techniques based on observable market data				
Level 3	Measurement techniques based on non-observable market data				

	2021	2020
	Shares and participations	Shares and participations
Change in Level 3 holdings		
Carrying amount on January 1	12,026	9,358
New purchases	2,482	2,506
Divested/reached maturity during the year	-50	
Realised change in value	25	
Change in value recognised in other comprehensive income	-455	161
Carrying amount on December 31	14,028	12,026

No transfer between Level 1 and 2 has occurred.

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.

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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 measure-

ment 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 equity capital holdings for which the Bank of Åland, on the initial recognition date or upon transition to IFRS 9, has made an irrevocable choice to recognise subsequent changes in fair value under 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. No instruments were moved between Levels 1 and 2. Changes in Level 3 are presented in a separate table.

G18. Assets and liabilities by currency	2021				
	EUR	SEK	USD	Others	Total
Cash and cash equivalents	579,971	313,518	92	138	893,719
Debt securities	331,690	316,720	69,455	0	717,864
Lending to credit institutions	25,006	12,407	20,899	6,041	64,353
Lending to the public	2,870,276	1,896,199	21,371	0	4,787,845
Derivative instruments	11,308	1,719	0	1	13,027
Other items not allocated by currency	157,831				157,831
Total assets	3,976,081	2,540,562	111,816	6,180	6,634,639
Liabilities to credit institutions and central banks	336,656	530,126	491	219	867,491
Deposits from the public	2,826,612	1,131,338	95,534	16,627	4,070,112
Debt securities issued	846,934	349,602	0	0	1,196,535
Derivative instruments	4,313	2,510	0	0	6,824
Subordinated liabilities	2,266	34,077	0	0	36,343
Other items not allocated by currency, including equity capital	457,333				457,333
Total liabilities and equity capital	4,474,115	2,047,652	96,026	16,846	6,634,639
Other assets and liabilities allocated by currency as well as off-balance sheet items		361,112	14,993	-11,141	
Net position in currencies (EUR)		131,798	798	475	133,070

The net position in Swedish kronor is mainly the structural position that arises because the consolidated accounts are prepared in euros and the Swedish branch's accounts are in Swedish kronor.

	2020				
	EUR	SEK	USD	Others	Total
Cash and cash equivalents	593,681	71,066	120	205	665,072
Debt securities	399,139	338,561	39,984	0	777,683
Lending to credit institutions	29,750	6,032	2,252	13,004	51,038
Lending to the public	2,795,200	1,560,479	22,233	0	4,377,912
Derivative instruments	18,868	5,751	0	0	24,620
Other items not allocated by currency	138,733				138,733
Total assets	3,975,371	1,981,889	64,590	13,209	6,035,058
Liabilities to credit institutions and central banks	147,665	361,133	692	0	509,491
Deposits from the public	2,508,712	1,006,055	72,084	18,521	3,605,371
Debt securities issued	936,879	504,053	0	0	1,440,933
Derivative instruments	9,208	5,760	0	0	14,968
Subordinated liabilities	16,981	19,932	0	0	36,913
Other items not allocated by currency, including equity capital	427,383				427,383
Total liabilities and equity capital	4,046,828	1,896,933	72,776	18,521	6,035,058
Other assets and liabilities allocated by currency as well as off-balance sheet items		-1,917	-8,984	-5,787	
Net position in currencies (EUR)		86,873	798	475	88,145

G19. Holdings of debt securities	2021			2020		
	Nominal amount	Carrying amount	Loss reserve	Nominal amount	Carrying amount	Loss reserve
Debt securities eligible for refinancing with central banks						
Holdings at fair value via other comprehensive income						
<i>Government bonds</i>	56,389	56,918	10	18,149	18,512	21
<i>Covered mortgage bonds</i>	242,372	246,694	16	286,874	294,716	77
<i>Debt securities issued by credit institutions</i>	91,120	92,004	16	120,118	121,625	139
<i>Other debt securities</i>				42,522	43,056	15
Holdings at amortised cost						
<i>Government bonds</i>	85,059	85,868	40	15,481	15,746	8
<i>Covered mortgage bonds</i>	146,493	148,744	24	170,974	174,428	63
<i>Debt securities issued by credit institutions</i>	72,576	72,544	31	32,493	32,460	100
<i>Other debt securities</i>				57,317	58,429	19
Total debt securities eligible for refinancing with central banks	694,008	702,773	137	743,929	758,976	442
The entire holding consists of publicly listed debt securities.						
Other debt securities						
Holdings at fair value via other comprehensive income						
<i>Municipal certificates</i>				13,000	13,008	1
Holdings at accrued cost						
<i>Corporate bonds</i>	15,000	15,091	19	5,645	5,700	3
Total other debt securities	15,000	15,091	19	18,645	18,707	4
Total debt securities	709,008	717,864	156	762,574	777,683	447

G20. Lending to credit institutions	2021				2020			
	Repayable on demand	Other	Provision for expected loss	Total	Repayable on demand	Other	Provision for expected loss	Total
Finnish credit institutions	2,573	0	0	2,573	1,266	0	0	1,266
Foreign banks and credit institutions	61,780	0	0	61,780	49,772	0	0	49,772
Total	64,353	0	0	64,353	51,038	0	0	51,038

G21. Lending to the public	2021			2020		
	Gross carrying amount	Provision for expected loss	Net carrying amount	Gross carrying amount	Provision for expected loss	Net carrying amount
Companies	627,353	-2,721	624,632	616,182	-3,170	613,013
Public sector entities	8,770	-7	8,763	1,425	-4	1,421
Households	2,073,680	-7,268	2,066,412	2,029,695	-7,180	2,022,516
Household interest organisations	19,351	-17	19,335	12,917	-19	12,899
Household outside Finland	2,073,345	-4,641	2,068,704	1,729,575	-1,510	1,728,064
Total	4,802,500	-14,654	4,787,845	4,389,795	-11,883	4,377,912
<i>of which subordinated receivables</i>			262			262

	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Gross lending to the public	4,603,546	139,919	59,035	4,802,500	4,197,438	153,474	38,883	4,389,795
Provisions for expected losses								
Balance on January 1	2,508	1,047	8,328	11,883	500	860	11,085	12,445
Increases due to issuance and acquisitions	446	2	79	527	233	15	22	271
Reduction due to removals from the balance sheet	-531	22	-1,158	-1,667	-86	188	-1,587	-1,485
Reduction due to impairment losses	0	0	17	17	0	0	-3,431	-3,431
Transfer to Stage 1	431	-430	-1	0	712	-706	-6	0
Transfer to Stage 2	-538	900	-361	0	-412	826	-414	0
Transfer to Stage 3	-15	-232	247	0	-3	-612	615	0
Net changes due to change in credit risk	-189	-464	4,564	3,912	-429	376	2,024	1,971
Net changes due to changes in estimation method	0	0	0	0	1,982	96	13	2,091
Exchange rate differences and other adjustments	-1	-3	-21	-25	12	4	6	21
Balance on December 31	2,110	842	11,693	14,645	2,508	1,047	8,328	11,883
Net lending to the public	4,601,425	139,076	47,342	4,787,845	4,194,930	152,427	30,556	4,377,912
				Dec 31, 2021				Dec 31, 2020
Loan losses IFRS 9 – Key ratios								
Total coverage ratio, lending to the public				0.30				0.27
Coverage ratio, Stage 1, lending to the public				0.05				0.06
Coverage ratio, Stage 2, lending to the public				0.60				0.68
Coverage ratio, Stage 3, lending to the public				19.81				21.42
Share of lending to the public in Stage 3				1.23				0.89

G22. Shares and participations	2021	2020
Listed	1,021	857
Unlisted	14,028	12,026
Total shares and participations	15,049	12,882

The entire holding is classified as financial assets at fair value via other comprehensive income.

G23. Shares in associated companies	2021	2020
Carrying amount on January 1	1,449	293
Share of profit for the year	531	89
Acquisitions	5,669	
Divestments	-2	
Shareholder contributions	7,029	1,139
Dividends	-73	-73
Carrying amount on December 31	14,603	1,449

The following associated companies and joint ventures were consolidated according to the equity method of accounting on December 31, 2021:

	Registered office	Ownership, %
Mäklarhuset Åland Ab	Mariehamn	29
IISÅ Holdco AB	Stockholm	25
<i>Borgo AB</i>	Stockholm	10
Borgo AB	Stockholm	23
Alandia Holding Ab	Mariehamn	28

Combined financial information about these associated companies:

Assets	273,566	13,972
Liabilities	221,064	6,303
Sales	1,357	1,644
Profit for the year	6,965	-234

G24. Derivative instruments	2021			2020					
	Nominal amount/maturity			Nominal amount	Positive market values	Negative market values	Nominal amount	Positive market values	Negative market values
	Under 1 yr	1-5 yrs	over 5 yrs						
Derivatives for trading									
Interest-related contracts									
<i>Interest rate swaps</i>	6,000	0	6,060	12,060	1,612	1,580	64,110	2,992	2,973
Currency-related contracts									
<i>Currency forward contracts</i>	549,016	0	0	549,016	1,719	2,510	419,898	5,751	5,760
Total	555,016	0	6,060	561,076	3,331	4,090	484,008	8,743	8,734
Derivatives for fair value hedges									
Interest-related contracts									
<i>Interest rate swaps</i>	10,350	763,321	50,750	824,421	9,696	2,733	1,118,164	15,877	6,234
Total	10,350	763,321	50,750	824,421	9,696	2,733	1,118,164	15,877	6,234
Total derivative instruments	565,366	763,321	56,810	1,385,497	13,027	6,824	1,602,172	24,620	14,968
<i>of which cleared</i>	13,350	763,321	53,780	830,451	9,696	4,313	1,176,244	16,764	9,176

Derivatives are recognised together with their associated accrued interest.

G25. Intangible assets

2021

	Software developed in-house	Other software	Goodwill	Other intangible assets	Total
Cost on January 1	30,764	22,395	2,932	7,478	63,569
Cost of intangible assets added	5,740	429	0	0	6,168
Impairment losses for the year	-238	0	0	0	-238
Divestments and disposals	-282	-1,149	0	0	-1,431
Exchange rate effect	-68	-60	0	0	-128
Cost on December 31	35,916	21,615	2,932	7,478	67,940
Accumulated amortisation and impairment losses on January 1	-18,725	-18,537	-30	-1,889	-39,181
Divestments and disposals	282	1,149	0	0	1,431
Amortisation for the year	-3,010	-1,190	0	-2,833	-7,032
Impairment losses for the year	-163	-1	0	0	-164
Exchange rate effect	44	48	0	0	92
Accumulated amortisation and impairment losses on December 31	-21,571	-18,532	-30	-4,722	-44,854
Residual value on December 31	14,345	3,084	2,901	2,757	23,086

"Other intangible assets" include acquired contracts.

Goodwill in acquired businesses was allocated to the lowest possible cash-generating unit. The recovery amount for this was established on the basis of value in use. This means that the present value of the estimated future cash flows of the assets were calculated using a discount factor.

Impairment testing for cash-generating operations was carried out. A sensitivity analysis was performed, in which the variables included in the value in use model were changed and the effect was analysed.

For the projected cash flow, important factors are growth, profit margin and investments. The discount factor is another important parameter for valuation. The profit margin assumed in the model is also at the level of the final 2021 outcome. A negative 1 per cent change in growth, the profitability trend and the discount factor did not result in any impairment losses.

2020

	Software developed in-house	Other software	Goodwill	Other intangible assets	Total
Cost on January 1	26,923	22,094	2,932	7,478	59,427
Cost of intangible assets added	3,735	190	0	0	3,925
Divestments and disposals	0	-2	0	0	-2
Exchange rate effect	106	112	0	0	218
Cost on December 31	30,764	22,395	2,932	7,478	63,569
Accumulated amortisation and impairment losses on January 1	-15,733	-17,361	-30	-988	-34,112
Divestments and disposals	0	2	0	0	2
Amortisation for the year	-2,917	-1,090	0	-901	-4,908
Impairment losses for the year	0	0	0	0	0
Exchange rate effect	-75	-87	0	0	-162
Accumulated amortisation and impairment losses on December 31	-18,725	-18,537	-30	-1,889	-39,181
Residual value on December 31	12,039	3,858	2,901	5,589	24,388

"Other intangible assets" include acquired contracts.

G26. Tangible assets	2021			2020		
Investment properties			307			313
Properties for own use			13,244			14,702
Other tangible assets			5,278			4,734
Right-of-use assets			15,750			13,425
Total			34,578			33,175
	Investment properties	Properties for own use	Other tangible assets	Investment properties	Properties for own use	Other tangible assets
Cost on January 1	483	36,354	31,535	496	36,225	29,760
New acquisitions	0	368	1,956	0	127	1,689
Divestments and disposals	-7	-292	-248	-13	-4	-261
Transfer between items	0	-470	470	0	-5	5
Exchange rate effect	0	-6	-185	0	11	343
Cost on December 31	476	35,953	33,528	483	36,354	31,535
Accumulated depreciation on January 1	-169	-21,652	-26,801	-169	-20,408	-25,102
Depreciation for the year	0	-1,199	-1,807	0	-1,245	-1,590
Impairment losses for the year	0	-156	-10	0	0	0
Divestments and disposals	0	292	190	0	12	224
Exchange rate effects	0	6	178	0	-10	-333
Accumulated depreciation on December 31	-169	-22,709	-28,250	-169	-21,652	-26,801
Carrying amount	307	13,244	5,278	313	14,702	4,734
<i>of which buildings</i>	0	11,287		0	12,733	
<i>of which land and water</i>	0	1,820		0	1,825	
<i>of which shares in real estate companies</i>	307	138		313	144	

The carrying amount of investment properties was the same as their market value.

	2021		2020	
	Properties for own use	Other tangible assets	Properties for own use	Other tangible assets
Right-of-use assets				
Cost on January 1	19,713	7,856	13,757	7,586
New acquisitions	5,182	1,701	5,518	485
Divestments and disposals	-3,545	-7,757	-117	-218
Assessments and modifications	-1,538	-6		
Exchange rate effects	280	1	555	2
Cost on December 31	20,092	1,794	19,713	7,856
Accumulated depreciation on January 1	-6,860	-7,282	-3,262	-6,556
Depreciation for the year	-3,111	-558	-3,664	-944
Divestments and disposals	2,907	7,577	117	218
Assessments and modifications	1,174	2		
Exchange rate effects	17	0	-52	0
Accumulated depreciation on December 31	-5,875	-262	-6,860	-7,282
Carrying amount	14,217	1,532	12,852	573

The table concerning right-of-use assets provides information about the leases where the Group is the lessee. The Group recognises right-of-use for properties for the Group's own use, primarily consisting of bank and office premises, and for other tangible assets primarily consisting of IT equipment and vehicles. The average lease period is 5 years.

In some cases, especially for IT equipment, the Group has options to buy the leased assets at the end of the lease period. Some of the leases related to bank and office premises include both options to extend the leases and index clauses.

A maturity analysis of lease liabilities is presented in Note G33.

	2021	2020
Amounts recognised in the income statement		
Depreciation of right-to-use assets	-3,669	-4,546
Interest expenses for lease liabilities	-443	-555
Expenses attributable to short-term leases	-956	-554
Expenses attributable to low-value leases	-117	-101
Income from subleasing right-of-use assets	91	90

Total cash flow related to leases during 2021 was EUR 4,038 K (4,945).

G27. Deferred tax assets and liabilities	2021	2020
Deferred tax assets		
Provisions	79	0
Intangible assets	2,166	2,310
Pension liabilities	1,256	2,445
Impairment loss, financial liability	520	0
Income received in advance	110	222
Other	469	444
Financial assets measured via other comprehensive income		
Debt securities	176	0
Total deferred tax assets	4,777	5,421
Deferred tax liabilities		
Taxable temporary differences		
Untaxed reserves	30,606	28,155
Intangible assets	1,499	1,491
Tangible assets	1,547	1,602
Financial assets measured via other comprehensive income		
Debt securities	1	12
Shares and participations	917	970
Total deferred tax liabilities	34,571	32,231
Net deferred taxes	-29,794	-26,809

	2021				
	Dec 31, 2020	Recognised in income statement	Recognised in other comprehensive income	Exchange rate effects	Dec 31, 2021
Changes in deferred taxes, 2021					
Provisions	0	79			79
Intangible assets	819	-146		-7	666
Pension liabilities	2,445	92	-1,256	-25	1,256
Impairment loss, financial liability	0	520			520
Income received in advance	222	-111			110
Untaxed reserves	-28,155	-2,451			-30,606
Tangible assets	-1,534	62		-69	-1,541
Debt securities measured via other comprehensive income	-12		187		176
Shares and participations measured via other comprehensive income	-970		53		-917
Other	376	89			465
Total	-26,809	-1,867	-1,016	-100	-29,793

	2020					
	Dec 31, 2019	Acquisitions of businesses	Recognised in income statement	Recognised in other comprehensive income	Exchange rate effects	Dec 31, 2020
Changes in deferred taxes, 2020						
Provisions	8		-8			0
Intangible assets	1,101		-301		18	819
Pension liabilities	1,750		113	561	22	2,445
Income received in advance	0		222			222
Untaxed reserves	-26,660		-1,495			-28,155
Tangible assets	-1,622		86		2	-1,534
Debt securities measured via other comprehensive income	193			-205		-12
Shares and participations measured via other comprehensive income	-927			-43		-970
Other	374		2			376
Total	-25,783		-1,381	313	42	-26,809

G28. Other assets	2021	2020
Payment intermediation receivables	2,798	1,477
Receivables on mutual fund settlement proceeds	10,748	25,859
Accounts receivable	12,029	5,946
Receivable in conjunction with transfer of assets	4,962	0
Other	3,774	2,597
Total	34,311	35,878

G29. Accrued income and prepayments	2021	2020
Accrued interest income	12,735	9,507
Commissions receivable	7,286	6,100
Other accrued income	7,665	5,573
Other prepaid expenses	3,600	4,220
Total	31,285	25,400

G30. Liabilities to credit institutions	2021			2020		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Central banks		609,674	609,674		415,975	415,975
Finnish credit institutions	207	0	207	7,802	2,350	10,152
Foreign credit institutions	60,078	197,532	257,610	50,406	32,958	83,364
Total	60,285	807,206	867,491	58,208	451,283	509,491

G31. Deposits from the public	2021	2020
Companies	1,271,343	1,034,817
Public sector entities	73,032	44,927
Households	1,365,573	1,309,410
Household interest organisations	65,313	61,244
Outside Finland	1,294,851	1,154,973
Total	4,070,112	3,605,371

G32. Debt securities issued	2021		2020	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Certificates of deposit <i>of which at amortised cost</i>			280,163	280,056
Covered bonds <i>of which at amortised cost</i>	986,325	1,196,535	899,111	910,225
<i>of which for fair value hedge</i>	346,325	352,670	259,111	259,974
Unsecured bonds <i>of which for fair value hedge</i>	640,000	643,865	640,000	650,251
			250,000	250,652
			250,000	250,652
Total	986,325	1,196,535	1,429,274	1,440,933

"Fair value hedge" refers to hedge accounting of the interest component in the debt security.

G33. Other liabilities	2021	2020
Payment intermediation liabilities	5,925	13,870
Liabilities on mutual fund settlement proceeds	7,685	18,636
Trade payables	3,387	1,836
Lease liabilities	16,118	13,843
Other	16,730	9,187
Total	49,844	57,372
Lease liabilities		
Short-term	3,085	3,677
Long-term	13,033	10,166
Total	16,118	13,843

G34. Provisions	2021				2020			
	Provisions for restructuring reserves	Provision for off-balance sheet obligations	Other provisions	Total	Provisions for restructuring reserves	Provision for off-balance sheet obligations	Other provisions	Total
Provisions on December 31 of the previous year	0	409	0	409	0	38	0	38
Provisions made during the year		263	50	313		439	165	603
Amounts utilised			-4	-4		0	-165	-165
Unutilised amounts recovered		-351		-351		-69		-69
Exchange rate changes		-2	0	-2		1	0	1
Provisions on December 31	0	318	45	363	0	409	0	409

The provisions for restructuring reserves were related to both Finland and Sweden. These provisions included both staff costs and other expenses, but primarily consisted of staff costs. "Provision for off-balance sheet obligations" refers to expected credit losses related to guarantees issued and unutilised credit lines. "Other provisions" consist of severance pay.

Since 2017 the Bank of Åland has had a pending case with the Swedish Tax Agency concerning value-added tax (VAT) for the financial year 2016. The Tax Agency has announced a decision on the matter, in which it states that the Bank of Åland must pay about EUR 0.5 M in VAT. The Bank of Åland does not agree with the Tax Agency's assessment and will appeal the Administrative Court's negative ruling of December 2021. A provision for half the amount has been made as a tax expense in the financial accounts.

G35. Accrued expenses and prepaid income	2021	2020	
Accrued interest expenses		3,684	4,287
Other accrued expenses		18,516	16,414
Commission liabilities		6,087	4,631
Pension liabilities		7,321	13,172
Prepaid income		757	1,369
Total		36,365	39,872

G36. Subordinated liabilities	2021			2020		
	Nominal amount	Carrying amount	Amount in own funds	Nominal amount	Carrying amount	Amount in own funds
Debenture loan 1/2015				8,603	8,603	8,603
Debenture loan 1/2016				6,173	6,173	6,173
Debenture loan 1/2017	2,266	2,266	2,266	2,266	2,266	2,266
Debenture loan 1/2018	19,512	19,476	19,512	19,932	19,871	19,932
Green Floating Rate Tier 2 Note 2021	14,634	14,601	14,634			
Total	36,411	36,343	36,411	36,974	36,913	36,974

	Interest rate:	Repayment:
Debenture loan 1/2017	3.75% fixed interest	August 18, 2037
Debenture loan 1/2018	3-month Stibor +2.40%	May 15, 2038
Green Floating Rate Tier 2 Note	3-month Stibor +2.15%	December 16, 2041

The loans may be repurchased in advance, but this is possible only with the permission of the Finnish Financial Supervisory Authority. In case the Bank is dissolved, the loans are subordinate to the Bank's other obligations.

Debenture loans 1/2017 and 1/2018 were issued with write-down clauses. In the event that the Bank of Åland's or the Group's common equity Tier 1 (CET1) capital ratio falls below 7 per cent, the loan principal is written down by 50 per cent.

G37. Specification of changes in equity capital	2021	2020	
Change in fair value reserve			
Fair value reserve on January 1		4,129	3,066
Divested or reached maturity during the year		-336	137
Unrealised change in market value for remaining and new holdings		-804	926
Fair value reserve on December 31		2,990	4,129
Change in translation differences			
Translation differences on January 1		2,133	-1,347
Change in translation differences attributable to branches		-2,093	3,644
Change in translation differences due to subsidiaries		14	-48
Change in translation differences attributable to additional Tier 1 capital		-250	
Other changes		55	-116
Translation differences on December 31		-141	2,133

Change in paid-up unrestricted equity capital fund		
Paid-up unrestricted equity capital fund on January 1	27,611	27,398
Share-based payment, incentive programme	383	213
Paid-up unrestricted equity fund on December 31	27,994	27,611
Retained earnings		
Retained earnings on January 1	158,589	129,330
Shareholders' portion of profit for the accounting period	39,849	31,486
Dividend paid	-31,188	0
Re-measurement of defined benefit pension plans	5,081	-2,241
Share savings programmes		12
Dividend on additional Tier 1 capital incl. Tax effect	-671	
Other	85	0
Retained earnings on December 31	171,744	158,589
Övrigt primärkapital		
Övrigt primärkapital vid årets ingång	0	
Emission av primärkapitaltillskott	29,424	
Övrigt primärkapital vid årets utgång	29,424	

Items under "Equity capital"

"Share premium account" includes amounts that were paid at the time of new share issues for shares in addition to their nominal value before September 1, 2006.

"Reserve fund" includes components transferred from equity capital in compliance with the Articles of Association or a decision of a General Meeting.

The fair value fund includes accumulated net change in fair value of debt instruments and equity instruments carried at fair value via other comprehensive income, until the asset is derecognised from the balance sheet. For debt instruments, the realised gain from a divestment is shown in the income statement. When equity instruments are sold, the revaluation amount of the instrument is transferred to retained earnings without affecting either income or other comprehensive income.

"Translation differences" comprises all exchange rate differences that arise when translating financial reports from foreign operations that have drawn up their financial reports in a currency other than the currency in which the Group's financial reports are presented.

"Unrestricted equity capital fund" comprises amounts that were paid at the time of new share issues for shares in addition to their nominal value starting on September 1, 2006.

Additional Tier 1 capital consists of an additional Tier 1 (AT1) capital instrument totalling SEK 300 M. This is a perpetual instrument, with a possibility of early redemption after five years. The interest rate is 3-month Stibor +3.75%.

Changes in number of shares	2021		2020	
	Series A shares	Series B shares	Series A shares	Series B shares
Number of shares on January 1	6,476,138	9,109,916	6,476,138	9,075,360
Shares issued, share savings programme				23,591
Shares issued, incentive programme		16,249		10,965
Number of shares on December 31	6,476,138	9,126,165	6,476,138	9,109,916

See the "Facts on Bank of Åland shares" section for more detailed information.

Other notes

G38. Reconciliation of liabilities attributable to financing activities

"Operating activities" included interest received of EUR 66,141 K (68,101), interest paid of EUR 7,898 K (9,870) and dividend income received of EUR 81 K (0).

Reconciliation of liabilities attributable to funding activities:

	Dec 31, 2020	Cash flow from funding activities	Changes not affecting cash flows		Other	Dec 31, 2021
			Effect of exchange rate changes	Accrual of surplus/deficit value		
Subordinated debenture loans	36,913	-170	-425	26		36,343
Lease liabilities	13,843	-4,038	170		6,142	16,118
Total liabilities attributable to funding activities	50,756	-4,208	-255	26	6,142	52,462

G39. Group structure

The Bank of Åland has two subsidiaries whose operations are connected in various ways to banking. The Bank holds a majority of the voting power in all subsidiaries.

Subsidiary	Registered office	Field of operations	Ownership, %
Ålandsbanken Fondbolag Ab	Finland/Mariehamn	Mutual fund management	100
Ålandsbanken Fonder Ab	Finland/Helsingfors	Mutual fund management	100
Ålandsbanken Fonder II Ab	Finland/Helsingfors	Mutual fund management	100
Ålandsbanken Fonder III Ab	Finland/Helsingfors	Mutual fund management	100
Ålandsbanken Fonder IV Ab	Finland/Mariehamn	Mutual fund management	100
Ålandsbanken Fonder V Ab	Finland/Helsingfors	Mutual fund management	100
Ålandsbanken Fonder VI Ab	Finland/Helsingfors	Mutual fund management	100
Crosskey Banking Solutions Ab Ltd	Finland/Mariehamn	IT	100
S-Crosskey Ab	Finland/Mariehamn	IT	60

The Bank of Åland has no holdings of structured entities. Ålandsbanken Fondbolag Ab manages mutual funds and alternate investment funds with a total value of EUR 4.3 billion.

Changes in Group structure

The wholly owned subsidiary Kiinteistö Oy Espoon Koivurinne was sold during 2021.

Model IT Oy, a wholly owned subsidiary of Crosskey Banking Solutions Ab, merged with Crosskey Banking Solutions.

The Bank of Åland sold its holding in the jointly owned Swedish company Åland Index Solutions AB.

Shares in associated companies and joint ventures	Registered office	Field of operations	Ownership, %
Mäklarhuset Åland Ab	Finland/Mariehamn	Estate agents	29
IISÅ Holdco AB	Sweden/Stockholm	Holding company	25
Borgo AB	Sweden/Stockholm	Home mortgage lending	10
Borgo AB	Sverige/Stockholm	Home mortgage lending	23
Alandia Holding Ab	Finland/Mariehamn	Holding company	28

Together with indirect ownership, the total ownership stake in Borgo AB is 25%.

Holdings in real estate companies

The Group holds participations in one property for its own use and ten investment properties, of which some are consolidated as follows.

	Business identity code	Consolidation	Ownership, %
Properties for own use			
Fastighets Ab Godbycenter	Finland/Finström	Joint operation	11
Investment properties			
Fastighets Ab Nymars	Finland/Sottunga	Joint operation	30
Fastighets Ab Västernäs City	Finland/Mariehamn	Joint operation	50
Fastighets Ab Horsklint	Finland/Kökar	Equity method	20

Fastighets Ab Godbycenter, Fastighets Ab Nymars and Fastighets Ab Västernäs City are mutual associations and, in compliance with IFRS 11, have thus been reported as "joint operations".

G40. Actively managed assets	2021	2020
Mutual fund management	4,298,456	3,439,096
Discretionary asset management	2,654,831	2,013,950
Advisory asset management	2,724,115	1,983,141
External mutual funds	148,256	
Total	9,825,659	7,436,187
of which own mutual funds in discretionary and advisory asset management	832,019	614,663

G41. Assets pledged	2021	2020
Collateral pledged for own liabilities		
Lending to credit institutions	18,604	13,689
Government securities and bonds	262,123	279,199
Lending to the public	2,085,371	1,547,808
Other	3,664	3,510
Total assets pledged for own liabilities	2,369,762	1,844,206

Assets pledged in the form of government securities and bonds were mainly provided as collateral to central banks. "Lending to the public" that was provided as collateral consisted of the registered collateral pool on behalf of holders of covered bonds. "Other assets pledged for own liabilities" refers mainly to endowment insurance.

Other assets pledged		
Government securities and bonds	51,093	19,446
Other	7,621	711
Total other assets pledged	58,714	20,157

Assets pledged in the form of government securities and bonds were mainly provided as collateral to central banks and credit institutions for payment systems, securities trading and clearing.

Assets were not pledged for the liabilities or commitments of others.

Except for loan receivables comprising the collateral pool for covered bonds, where legislation regulates minimum requirements for over-collateralisation, collateral that exceeds the nominal value of the liability is at the free disposal of the Bank.

G42. Off-balance sheet obligations	2021	2020
Guarantees	43,767	41,776
Unutilised overdraft limits	311,889	276,396
Unutilised credit card limits	88,116	85,559
Unutilised credit facilities	559,674	315,059
Other commitments	41,846	31,967
Total	1,045,293	750,757
<i>Provision for expected loss</i>	363	409

K43. Pension liabilities

Pension coverage for employees in Finland has been arranged partly through the Finnish national pension system (a defined contribution plan) and partly via the pension fund known as Ålandsbanken Abps Pensionsstiftelse (a defined benefit plan). Ålandsbanken Abps Pensionsstiftelse has been closed to new participants since June 30, 1991. Persons covered by this fund are entitled to retire at age 63–65 depending on their year of birth. The full retirement pension comprises 60 per cent of pensionable salary, which is calculated according to the same principles as in the national pension system. A family pension comprises 30–60 per cent depending on whether the surviving spouse is alone or has one or more children.

According to the Finnish collective bargaining agreement in the financial services sector, employees are partially entitled to pensions at a lower age than stipulated today by general legislation. The employer is required to provide vested pension benefits in the collective agreement for the financial services sector, which was confirmed during 2017 by a Labour Court ruling.

Pension coverage for employees in Sweden follows the so-called BTP multi-employer plan for banking employees and historically is largely defined benefit. Starting on May 1, 2013, new employees are covered by a new defined contribution supplementary pension plan known as BTP1. The BTP plan is secured through the insurance company SPP. In Sweden, the retirement pension is payable from age 65 and the guaranteed amount consists of 10 per cent of pensionable salary below 7.5 annually indexed "income base amounts" and 65 per cent of the portion of salary between 20 and 30 income base amounts. The guaranteed amount of a family pension is 32.5 per cent of the portion of salary between 7.5 and 20 income base amounts and 16.25 per cent of the portion of salary between 20 and 30 income base amounts.

The duration of defined benefit plans in Finland is 15 years and in Sweden 23 years.

	2021	2020
Carrying amount in the income statement		
Current service costs	262	337
Effects of curtailments and settlements	0	0
Interest expenses	73	97
Administrative expenses	184	196
Expenses (+)/revenue (-) recognised in the income statement	519	630
Restatement of defined benefit pension plans in "Other comprehensive income"		
Actuarial gain (+)/loss (-), demographic assumptions	-7	0
Actuarial gain (+)/loss (-), financial assumptions	2,819	-2,199
Actuarial gain (+)/loss (-), experience-based	891	-1,350
Actuarial gain (+)/loss (-) on plan assets	2,648	748
Other comprehensive income	6,351	-2,801
Total	5,832	-3,431
Carrying amount in the balance sheet		
Pension obligations	30,580	34,995
Fair value of plan assets	24,262	22,731
Net pension assets (+)/pension liabilities (-)	-6,318	-12,264
Net pension assets (+)/pension liabilities (-) in Finland	-4,055	-9,399
Net pension assets (+)/pension liabilities (-) in Sweden	-2,263	-2,865
	-6,318	-12,264

	2021	2020
Net change in pension assets		
January 1	-12,264	-8,785
Income	-519	-630
Other comprehensive income	6,351	-2,801
Premium payments	59	66
Exchange rate effects	55	-114
On December 31	-6,318	-12,264
Pension obligations		
January 1	34,995	31,499
Current service costs	262	337
Interest expenses	192	304
Benefits paid	-1,040	-836
Exchange rate effect	-126	142
Actuarial gains (+)/losses (-)	-3,703	3,549
Pension obligations on December 31	30,580	34,995
Plan assets		
January 1	22,731	22,611
Interest income	119	207
Premium payments	59	66
Benefits paid	-1,040	-836
Actuarial gains (+)/losses (-)	2,648	748
Exchange rate effects	-71	131
Administrative expenses	-184	-196
Plan assets on December 31	24,262	22,731
Breakdown of plan assets		
Listed shares and participations	7,979	6,332
Listed mutual fund units	4,465	4,283
Listed interest-bearing securities	8,037	7,681
Properties	2,427	2,301
Other plan assets	1,354	2,275
Total plan assets	24,262	22,872

Plan assets included shares in the Bank of Åland Plc with a market value of EUR 41 K (27), bonds worth EUR 0 K (613) and bank accounts worth EUR 696 K (1,041).

	Outcome, 2021	Forecast, 2022
Future cash flows		
Benefits paid	59	61

	2021		2020	
	Finland, %	Sweden, %	Finland, %	Sweden, %
Assumptions				
Discount rate	0.95	1.45	0.40	1.25
Increase in salary expenses	1.90	2.00	1.20	3.00
Pension index increase	1.90	2.00	1.50	1.80

Sensitivity of defined benefit obligations to changes in significant assumptions

	Change in assumptions, %	Increase in assumption	Decrease in assumption
Sensitivity analysis, net present value of pension obligation: increase (+)/decrease (-)			
Discount rate	0.5	-2,413	2,766
Expected increase in salaries	0.5	692	-665
Expected increase in pensions	0.5	2,541	-2,307

The sensitivity analysis is based on a change in one assumption, while all other assumptions remain constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method is used as when calculating the pension liabilities recognised in the balance sheet. The sensitivity analysis for the defined benefit plan in Sweden has been calculated using a discount rate and an expected pay increase.

The Bank is exposed to a number of risks because of its defined benefit plans. The most significant risks are described below.

ASSET VOLATILITY

Pension liabilities are calculated with the help of a discount rate based on corporate bonds with good credit ratings. If plan assets generate returns worse than the discount rate, this will cause a deficit. Plan assets include a sizeable percentage of equities, which in the long term are expected to provide a higher return than the discount rate, while providing higher volatility and risk in the short term. Because of the long-term nature of pension liabilities, the Bank believes that a continued high percentage of equities is suitable for managing the plans in an effective way.

CHANGES IN BOND YIELDS

In case the yields on corporate bonds fall, this leads to an increase in pension obligations. Partly offsetting this is the fact that the value of the bonds that are included in plan assets will increase.

INFLATION RISK

Pension obligations are connected to inflation. Higher inflation will lead to increased pension obligations. Plan assets are not affected by inflation to any great extent, which means that if inflation increases, this will lead to an increased deficit in pension plans.

LIFE EXPECTANCY

Pension plans generate pensions that extend through the lifetimes of employees. This means that if life expectancy increases, pension obligations will increase.

G44. Lease liabilities	2021			2020		
Financial lease liabilities will be paid as follows:	Minimum rents	Interest	Present value	Minimum rents	Interest	Present value
Under 1 year	3,526	441	3,085	4,122	444	3,677
1-5 years	11,937	955	10,981	10,641	993	9,648
Over 5 years	2,154	102	2,052	530	12	518
Total	17,616	1,498	16,118	15,293	1,450	13,843

G45. Disclosures about related parties	2021			2020		
	Board and Executive Team	Related companies	Associated companies	Board and Executive Team	Related companies	Associated companies
Assets						
Lending to the public	17,174	11,558	1,051	4,142	11,294	1,392
Other assets		1			1	
Accrued income and prepayments		68			63	
Total	17,174	11,627	1,051	4,142	11,358	1,392
Liabilities						
Deposits from the public	4,126	8,958	97,645	3,200	4,755	1,226
Subordinated liabilities					600	
Accrued expenses and prepaid income					11	
Total	4,126	8,958	97,645	3,200	5,366	1,226
Income and expenses						
Interest income	47	230	116	36	188	9
Interest expenses	0	-11		-1	-23	
Commission income	6	138	1	7	169	2
Other income		10			10	
Other expenses		0			0	
Total	52	367	117	42	344	11

The Bank of Åland Group consists of the parent company, the Bank of Åland Plc (Ålandsbanken Abp), the subsidiaries that are consolidated in the Group, associated companies, the Executive Team and other related companies. "Board and Executive Team" includes the Managing Director, individuals on the Board of Directors and other members of the Executive Team, as well as their close family members. "Related parties" includes companies or persons with significant influence. "Related companies" also refers to companies in which an individual belonging to the Executive Team or a close family member of such an individual has significant influence. "Related parties" include the pension fund Ålandsbanken Abp:s Pensionsstiftelse r.s.

Loans to employees are granted on commercial terms. "On commercial terms" means that loans, guarantees, collateral or financing occur on the same terms and according to the same assessments applied to the Bank of Åland's customers in general. The employee interest rate is used for loans to employees in Finnish operations. The employee interest rate is set by the Executive Team and amounted to 0.25 (0.25) per cent on December 31, 2021.

All transactions with related parties have occurred on commercial terms, aside from loans to the Executive Team, which in Finland have been granted at the employee interest rate.

For disclosures on salaries and fees paid to the Board of Directors and the Executive Team, see Note P33.

For disclosures on Group structure, see Note P39.

Compensation to senior executives	2021	2020
Salaries and other short-term compensation ¹	2,053	1,837
Share-based compensation	225	172
Total	2,278	2,009

"Senior executives" refers to the Executive Team including the Managing Director.

¹ Includes salary, benefits and variable compensation paid in cash.

G46. Offsetting of financial assets and liabilities	2021		2020	
	Assets	Liabilities	Assets	Liabilities
Financial assets and liabilities that are subject to offsetting, netting agreements or similar agreements				
Gross amount	13,027	53,857	24,620	55,961
Offset amounts				
Total	13,027	53,857	24,620	55,961
Related amounts not offset				
Financial instruments, netting agreements	-4,338	-4,338	-9,374	-9,374
Financial instruments, collateral		-39,478		-40,348
Cash, collateral	0	-9,752	-4,570	-170
Total amounts not offset	-4,338	-53,568	-13,944	-49,892
Net amount	8,689	288	10,676	6,069

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, which 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.

G47. Important events after the close of the accounting period

POP Bank has chosen Crosskey as its central banking system partner. On January 4, 2022 POP Bank signed a cooperation agreement with Crosskey on the renewal of its core banking system. POP Bank anticipates that it will introduce the new core banking system during 2025. The cooperation agreement will have no immediate effect on the daily banking services offered by POP Bank.

The POP Bank Group is a Finnish financial group consisting of 21 cooperative banks, the digitally operating non-life insurance service Skadeförsäkring Ab, the central credit institution Bonum Bank Plc, and the central institution POP Bank Centre coop.

On February 14, 2022, most of the Bank of Åland's Swedish mortgage loans and related previously issued covered bonds were transferred to Borgo. The nominal amount of the mortgage portfolio that

was transferred is EUR 10.4 billion. The nominal amount of the previously issued covered bonds, which now have Borgo as their issuer, is EUR 7.5 billion. A smaller mortgage portfolio in the range of EUR 2 billion in size will be transferred later in 2022. After the transaction, the Bank of Åland's ownership stake in Borgo amounts to 19.9 per cent.

The transaction will increase the Bank of Åland's net operating income during the first quarter of 2022, with a nonrecurring positive effect in the EUR 10 M range. At the same time, this will mean a smaller loan portfolio in the Bank of Åland's own balance sheet and thus a lower current net interest income. In the future, the Bank of Åland will instead receive distribution fees for brokered loans and platform revenues for maintaining various services to Borgo. The total full-year effect on 2022 earnings is expected to be positive.

Parent Company income statement

(EUR K)

Parent Company		Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
	Note		
Interest income		69,370	68,086
Interest expenses		-7,596	-8,619
Net interest income	P2	61,775	59,468
Commission income		51,556	45,909
Commission expenses		-8,989	-7,930
Net commission income	P3	42,567	37,979
Net income from financial items carried at fair value	P4	297	1,948
Income from equity capital investments	P5	18,654	6,423
Other income	P6	20,527	14,870
Total income		143,819	120,688
Staff costs	P7	-42,781	-38,389
Other expenses	P8	-41,823	-40,097
Depreciation/amortisation and impairment losses on tangible and intangible assets	P18, P19	-10,165	-8,228
Total expenses		-94,770	-86,714
Profit before loan losses		49,049	33,974
Expected loan losses from financial assets recognised at amortised cost	P9	-4,983	-4,802
Expected loan losses from other financial assets and impairment losses	P9	78	-58
Net operating profit		44,145	29,114
Appropriations		-12,087	-7,400
Income taxes	P10	-2,615	-3,520
Net profit for the accounting period		29,443	18,194

Parent Company balance sheet

(EUR K)

Parent Company		Dec 31, 2021	Dec 31, 2020
	Note		
Assets			
Cash and deposits with central banks		893,719	665,072
Debt securities eligible for refinancing with central banks	P13	702,753	758,976
Lending to credit institutions	P14	63,363	49,693
Lending to the public	P15	4,788,149	4,377,905
Debt securities	P13	15,111	18,707
Shares and participations	P16	15,049	12,882
Shares and participations in associated companies	P16	11,340	1,280
Shares and participations in Group companies	P16	3,346	3,458
Derivative instruments	P17	13,027	24,620
Intangible assets	P18	15,558	20,022
Tangible assets	P19	13,092	13,817
Other assets	P20	28,132	31,010
Accrued income and prepayments	P21	34,806	21,555
Deferred tax assets	P22	1,094	369
Total assets		6,598,538	5,999,366
Liabilities			
Liabilities to credit institutions and central banks	P23	867,432	509,421
Deposits from the public	P24	4,089,014	3,618,264
Debt securities issued	P25	1,196,535	1,440,933
Derivative instruments	P17	6,824	14,968
Other liabilities	P26	31,738	41,726
Provisions	P27	364	410
Accrued expenses and prepaid income	P28	20,444	23,643
Subordinated liabilities	P29	65,532	36,913
Deferred tax liabilities	P22	918	982
Total liabilities		6,278,800	5,687,258
Appropriations			
General loan loss reserve ¹		152,488	140,401
Total appropriations		152,488	140,401
Equity capital			
Share capital		42,029	42,029
Share premium account		32,736	32,736
Reserve fund		25,129	25,129
Fair value reserve		2,990	4,129
Translation differences		-750	1,285
Unrestricted equity capital fund		28,190	27,807
Retained earnings		36,926	38,592
Total equity capital		167,250	171,707
Total liabilities and equity capital		6,598,538	5,999,366
Off-balance sheet obligations			
Obligations to a third party on behalf of customers	P37		
<i>Guarantees</i>		46,024	44,032
Irrevocable commitments given on behalf of customers		966,197	683,637

¹ Loan loss provisions in compliance with Finland's Business Income Tax Act, Section 46.

Parent Company statement of changes in equity capital

(EUR K)

Parent Company								
	Share capital	Share premium account	Reserve fund	Fair value reserve	Translation difference	Unrestricted equity capital fund	Retained earnings	Total
Equity capital, Dec 31, 2019	42,029	32,736	25,129	3,066	-2,302	27,595	20,398	148,651
Profit for the year							18,194	18,194
Change in fair value				1,063				1,063
Translation difference					3,587			3,587
Incentive programme						213		213
Equity capital, Dec 31, 2020	42,029	32,736	25,129	4,129	1,285	27,807	38,592	171,707
Profit for the year							29,443	29,443
Change in fair value				-1,139			85	-1,055
Translation difference					-2,035			-2,035
Dividend payments							-31,188	-31,188
Incentive programme						383		383
Other							-5	-5
Equity capital, Dec 31, 2021	42,029	32,736	25,129	2,990	-750	28,190	36,926	167,250

For further data, see Note P40 and the section entitled "Facts on Bank of Åland shares".

Parent Company cash flow statement

(EUR K)

Parent Company	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Cash flow from operating activities		
Net operating profit	44,145	29,114
Adjustment for net operating profit items not affecting cash flow		
<i>Depreciation/amortisation and impairment losses on intangible and tangible assets</i>	10,165	8,228
<i>Impairment losses on loans and other commitments</i>	5,345	5,464
<i>Unrealised changes in value</i>	1,329	387
<i>Accrued surpluses/deficits on debt securities and bonds issued</i>	6,653	5,829
Income from investing activities	-2,641	-19
Dividends from associated companies and subsidiaries	-8,573	-6,423
Income taxes paid	-4,490	-2,624
Increase (-) or decrease (+) in receivables from operating activities		
<i>Debt securities eligible for refinancing with central banks</i>	50,762	8,438
<i>Lending to credit institutions</i>	-12,164	21,788
<i>Lending to the public</i>	-451,624	-216,521
<i>Other assets</i>	-6,774	8,851
Increase (+) or decrease (-) in liabilities from operating activities		
<i>Liabilities to credit institutions</i>	369,391	280,250
<i>Deposits from the public</i>	492,521	198,501
<i>Debt securities issued</i>	-232,783	-184,965
<i>Other liabilities</i>	-21,410	17,319
Total cash flow from operating activities	239,851	173,618
Cash flow from investing activities		
Investment in shares and participations	-2,432	-3,298
Divestment of shares and participations	135	0
Investment in shares of associated companies and subsidiaries	-10,060	-1,251
Divestment of shares in associated companies and subsidiaries	764	0
Dividends received from associated companies and subsidiaries	8,573	6,423
Investment in tangible assets	-455	-315
Divestment of tangible assets	21	19
Investment in intangible assets	-4,618	-1,854
Total cash flow from investing activities	-8,072	-276
Cash flow from financing activities		
Share issue	383	213
Increase in subordinated debentures	44,044	
Decrease in subordinated debentures	-14,776	
Dividend paid	-31,188	
Total cash flow from financing activities	-1,537	213
Cash and cash equivalents at beginning of year	670,911	494,821
Cash flow from operating activities	239,851	173,618
Cash flow from investing activities	-8,072	-276
Cash flow from financing activities	-1,537	213
Exchange rate differences in cash and cash equivalents	-1,796	2,536
Cash and cash equivalents at end of year	899,357	670,911
Cash and cash equivalents consisted of the following items:		
Cash and deposits with central banks	862,154	635,551
Lending to credit institutions that is repayable on demand	37,203	35,360
Total	899,357	670,911

"Cash and cash equivalents" refers to cash, cheque account with the Bank of Finland, lending to credit institutions that is repayable on demand, other lending to credit institutions and debt securities with an original remaining maturity of less than three months as well as claims on public sector entities that are not lending. "Investing activities" refers to payments related to tangible and intangible assets as well as holdings of shares and participations aside from shares intended for trading. "Financing activities" refers to items among equity capital and liabilities that fund operating activities. The analysis was prepared according to the indirect method.

"Operating activities" included interest received of EUR 66,540 K (68,341), interest paid of EUR 8,725 K (9,679) and dividend income received of EUR 81 K (1).

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Notes to the Parent Company financial statements

(EUR K)

P1. Parent Company accounting principles

The financial statements of the Bank of Åland Plc have been drawn up in accordance with the Finnish Credit Institutions Act, the Ministry of Finance ordinance on annual accounts and consolidated annual accounts of financial institutions and securities companies and the regulations of the Financial Supervisory Authority. The financial statements of the Bank of Åland Plc have been prepared in compliance with Finnish accounting standards (FAS). The Parent Company's financial statements are presented in thousands of euros (EUR K), unless otherwise stated.

Goodwill

Goodwill is amortised over 10 years.

Appropriations

Voluntary provisions that the Bank of Åland has made based on Section 46 of the Finnish Business Income Tax Act are recognised under "Appropriations".

Otherwise, please see the consolidated accounting principles.

Notes to the income statement

P2. Net interest income	2021	2020
Lending to credit institutions and central banks	3,164	810
Lending to the public	64,575	65,575
Debt securities	377	385
Derivative instruments	1,089	1,309
Other interest income	166	7
Total interest income	69,370	68,086
<i>of which interest according to the effective interest method¹</i>	68,937	67,687
Liabilities to credit institutions and central banks	1,115	621
Deposits from the public	2,454	2,756
Debt securities	769	2,331
Subordinated liabilities	1,744	1,148
Derivative instruments	1,479	1,740
Other interest expenses	36	23
Total interest expenses	7,596	8,619
<i>of which interest according to the effective interest method¹</i>	7,375	8,364
Net interest income	61,775	59,468

Interest income received from Group companies was EUR 93K (72).

Interest expenses paid to Group companies were EUR 0 K (0).

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

¹Negative interest income from investments is recognised as interest expenses, while negative interest received for liabilities is recognised as interest income.

P3. Net commission income	2021	2020
Deposits	1,179	782
Lending	2,395	2,244
Payment intermediation	11,124	10,633
Mutual fund commissions	885	551
Asset management commissions	15,885	12,319
Securities brokerage	16,489	16,052
Legal services	737	732
Guarantee commissions	623	473
Other commissions	2,238	2,123
Total commission income	51,556	45,909
Payment intermediation commission expenses	-4,212	-4,119
Asset management commission expenses	-1,015	-1,048
Securities brokerage commission expenses	-3,051	-2,132
Other commission expenses	-711	-630
Total commission expenses	-8,989	-7,930
Net commission income	42,567	37,979

P4. Net income from financial items carried at fair value	2021			2020		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Valuation category fair value via the income statement ("profit and loss")						
Derivative instruments	728	23	751	0	-15	-15
Valuation category fair value via the income statement ("profit and loss")	728	23	751	0	-15	-15
Hedge accounting						
of which hedging instruments	-1,298	-2,835	-4,133	268	-428	-160
of which hedged item	1,443	2,860	4,303	-425	334	-91
Hedge accounting	145	25	170	-157	-94	-251
Net income from foreign currency revaluation	0	-144	-144	0	-219	-219
Modification results and ECL	0	197	197	0	-40	-40
Net income from financial assets	753	-1,430	-677	2,472	0	2,472
Total	1,626	-1,329	297	2,315	-367	1,948

P5. Income from equity instruments	2021		2020	
Holdings recognised at fair value via other comprehensive income		81		0
Associated companies		73		73
Group companies, dividend paid		18,500		6,350
Total		18,654		6,423

P6. Other income	2021		2020	
Rental income on properties		82		87
Intra-Group services		10,902		10,770
Income from acquired contracts		1,500		1,500
Income in conjunction with transfer of assets		3,629		0
Platform service		540		1,453
Miscellaneous income		3,874		1,060
Total		20,527		14,870
Net income from investment properties				
Rental income		27		40
Capital gains		95		18
Other expenses		-21		-41
Total		102		16

P7. Staff costs	2021		2020	
Salaries and fees		32,529		29,408
Compensation in the form of shares in Bank of Åland Plc		666		508
Pension expenses		5,323		6,181
Other social security expenses		4,263		3,574
Total		42,781		38,389
Number of employees				
Permanent full-time employees		469		462
Permanent part-time employees		15		16
Temporary employees		75		55
Total		559		533

P8. Other expenses	2021	2020
IT expenses (excluding market data)	17,204	17,486
Rents	3,294	3,223
Other costs of premises and property	1,186	1,273
Marketing expenses	2,334	2,150
Market data	1,745	1,724
Staff-related expenses	1,555	1,159
Travel expenses	188	187
Purchased services	4,003	2,751
Guarantee fee ¹	5	5
Stability fee	2,753	2,656
Other expenses	7,556	7,485
Total	41,823	40,097

¹ "Guarantee fee" includes the deposit guarantee fee and the fee for the investor compensation fund.

Fees to the Financial Stability Authority		
Deposit guarantee fee	1,505	1,268
Paid by old deposit guarantee fund	-1,505	-1,268
Stability fee	2,753	2,656
Administration fee	24	23
Total	2,776	2,679

Based on the 2021 fee level, the Bank has prepaid deposit guarantee fees for about eight years.

Fees paid to auditors		
Auditing fees paid	281	246
In compliance with Finnish Auditing Act, Ch. 1, Sec. 1, Par. 2	8	49
Consulting fees paid		
<i>Tax matters</i>	63	118
<i>Other</i>	213	99
Total	566	511

These amounts include value-added tax (VAT).

Fees paid to KPMG OY Ab for expenses other than auditing totalled EUR 221 K (102).

P9. Expected credit (loan) losses	2021					
	New and increased individual impairment losses	Recovered from earlier provisions	Utilised for actual losses	Actual losses	Recovery of actual losses	Total
Expected losses from financial assets recognised at amortised cost and from off-balance sheet obligations						
Lending to the public	12,266	-7,123	-2,343	2,714	-441	5,073
Off-balance sheet obligations	266	-355	0	0	0	-90
Debt securities	147	-226	0	0	0	-78
Total expected loan losses	12,679	-7,704	-2,343	2,714	-441	4,905
Expected losses from financial assets recognised at fair value via other comprehensive income						
Debt securities	108	-332				-224
Total	108	-332	0	0	0	-224
	2020					
	New and increased individual impairment losses	Recovered from earlier provisions	Utilised for actual losses	Actual losses	Recovery of actual losses	Total
Expected losses from financial assets recognised at amortised cost and from off-balance sheet obligations						
Lending to the public	12,108	-7,670	-5,021	5,619	-605	4,432
Off-balance sheet obligations	446	-75	0	0	0	370
Debt securities	180	-123	0	0	0	58
Total expected loan losses	12,734	-7,868	-5,021	5,619	-605	4,860
Expected losses from financial assets recognised at fair value via other comprehensive income						
Debt securities	403	-313				90
Total	403	-313	0	0	0	90

Expected loan losses via other comprehensive income are recognised in the income statement under "Net income from financial items at fair value".

	2021				2020			
	Reserve for individually assessed receivables from the public sector and public sector entities	Provision for expected losses on off-balance sheet obligations	Reserve for expected losses on debt securities recognised at amortised cost	Total	Reserve for individually assessed receivables from the public sector and public sector entities	Provision for expected losses on off-balance sheet obligations	Reserve for expected losses on debt securities recognised at amortised cost	Total
Change in impairment loss reserve								
Reserve on January 1	11,884	410	193	12,486	12,444	39	135	12,618
New and increased individual impairment losses	12,266	266	147	12,679	10,018	88	180	10,286
Net changes due to revisions in estimation method	0	0		0	2,091	358		2,449
Recovered from earlier provisions	-7,123	-355	-226	-7,704	-7,670	-75	-123	-7,868
Utilised for actual losses	-2,343	0	0	-2,343	-5,021	0	0	-5,021
Exchange rate differences	-29	-2		-31	22	1		23
Reserve on December 31	14,654	318	114	15,087	11,884	410	193	12,486

P10. Income taxes	2021	2020
Income statement		
Taxes related to prior years		314
Current taxes		2,849
Changes in deferred taxes		-548
Total		2,615
Nominal tax rate in Finland, %		20.0
Non-taxable income/deductible expenses, %		-12.7
Swedish tax rate 22%		0.6
Taxes related to prior years, %		0.3
Other, %		0.0
Effective tax rate, %		8.2

Deferred tax assets and liabilities were calculated according to a 20.0 per cent tax rate, which went into effect on January 1, 2014. The tax rate in Sweden is 20.6 per cent, whereas in 2020 it was 21.4 per cent.

Notes to the balance sheet

	2021		2020	
	Total carrying amount	Fair value	Total carrying amount	Fair value
Cash and accounts with central banks	893,719	893,719	665,072	665,072
Debt securities eligible for refinancing with central banks	702,753	702,405	758,976	761,468
Lending to credit institutions	63,363	63,363	49,693	49,693
Lending to the public	4,788,149	4,805,663	4,377,905	4,427,713
Debt securities	15,111	15,363	18,707	18,752
Shares and participations	15,049	15,049	12,882	12,882
Shares and participations in associated companies	11,340	11,340	1,280	1,280
Shares in subsidiaries	3,346	3,346	3,458	3,458
Derivative instruments	13,027	13,027	24,620	24,620
Total financial assets	6,505,856	6,523,274	5,912,593	5,964,938
Liabilities to credit institutions	867,432	863,412	509,421	509,467
Deposits from the public	4,089,014	4,089,111	3,618,264	3,618,303
Debt securities issued	1,196,535	1,196,338	1,440,933	1,442,560
Derivative instruments	6,824	6,824	14,968	14,968
Subordinated liabilities	65,532	66,296	36,913	37,415
Subordinated liabilities	6,225,336	6,221,980	5,620,498	5,622,713

	2021			Total
	Level 1	Level 2	Level 3	
Financial instruments carried at fair value in the balance sheet				
Assets				
<i>Debt securities eligible for refinancing with central banks</i>	395,617			395,617
<i>Lending to the public</i>		167,204		167,204
<i>Shares and participations</i>	1,021		14,028	15,049
<i>Derivative instruments</i>		13,027		13,027
Total	396,638	180,231	14,028	590,897
Liabilities				
<i>Debt securities issued</i>		643,865		643,865
<i>Derivative instruments</i>		6,824		6,824
Total	0	650,689	0	650,689

	2020			Total
	Level 1	Level 2	Level 3	
Financial instruments carried at fair value in the balance sheet				
Assets				
<i>Debt securities eligible for refinancing with central banks</i>	477,918			477,918
<i>Lending to the public</i>		129,784		129,784
<i>Debt securities</i>		13,008		13,008
<i>Shares and participations</i>	857		12,026	12,882
<i>Derivative instruments</i>		24,620		24,620
Total	478,775	167,411	12,026	658,212
Liabilities				
<i>Debt securities issued</i>		900,903		900,903
<i>Derivative instruments</i>		14,968		14,968
Total	0	915,871	0	915,871

Level 1	Instruments with quoted market prices
Level 2	Measurement techniques based on observable market data
Level 3	Measurement techniques based on non-observable market data

	2021	2020
	Shares and participations	Shares and participations
Change in Level 3 holdings		
Carrying amount on January 1	12,026	9,358
New purchases	2,482	2,506
Divested/reached maturity during the year	-50	
Unrealised foreign exchange valuation	25	
Realised change in value	-455	161
Carrying amount on December 31	14,028	12,026

No transfer occurred between Level 1 and Level 2.

P12. Assets and liabilities by currency		2021			
		EUR	SEK	USD	Others
Cash and cash equivalents	579,971	313,518	92	138	893,719
Debt securities eligible for refinancing with central banks	316,579	316,720	69,455		702,753
Lending to credit institutions	25,006	11,417	20,899	6,041	63,363
Lending to the public	2,870,580	1,896,199	21,371		4,788,149
Debt securities	15,111				15,111
Derivative instruments	11,308	1,719		1	13,027
Other items not allocated by currency	122,417				122,417
Total assets	3,940,971	2,539,572	111,816	6,180	6,598,538
Liabilities to credit institutions and central banks	336,596	530,126	491	219	867,432
Deposits from the public	2,839,448	1,137,404	95,534	16,627	4,089,014
Debt securities issued	846,934	349,602			1,196,535
Derivative instruments	4,313	2,510		0	6,824
Subordinated liabilities	2,266	63,266			65,532
Other items not allocated by currency, including equity capital	373,202				373,202
Total liabilities and equity capital	4,402,760	2,082,907	96,026	16,846	6,598,538
Other assets and liabilities allocated by currency as well as off-balance sheet items		-354,235	-15,730	11,223	
Net position in currencies (EUR)		102,430	60	556	103,047

The net position in Swedish kronor is mainly the structural position that arises because the Bank's financial accounts are prepared in euros and the Swedish branch's financial accounts are in Swedish kronor.

		2020			
		EUR	SEK	USD	Others
Cash and cash equivalents	593,681	71,066	120	205	665,072
Debt securities eligible for refinancing with central banks	380,432	338,561	39,984	0	758,976
Lending to credit institutions	28,937	5,501	2,252	13,004	49,693
Lending to the public	2,795,193	1,560,479	22,233	0	4,377,905
Debt securities	18,707	0	0	0	18,707
Derivative instruments	18,868	5,751	0	0	24,620
Other items not allocated by currency	104,393				104,393
Total assets	3,940,210	1,981,358	64,590	13,209	5,999,366
Liabilities to credit institutions and central banks	147,595	361,133	692	0	509,421
Deposits from the public	2,517,169	1,010,490	72,084	18,521	3,618,264
Debt securities issued	936,879	504,053	0	0	1,440,933
Derivative instruments	9,208	5,760	0	0	14,968
Subordinated liabilities	16,981	19,932	0	0	36,913
Other items not allocated by currency, including equity capital	378,868				378,868
Total liabilities and equity capital	4,006,700	1,901,369	72,776	18,521	5,999,366
Other assets and liabilities allocated by currency as well as off-balance sheet items		9,746	8,984	5,787	
Net position in currencies (EUR)		89,734	798	475	91,007

P13. Holdings of debt securities	2021			2020		
	Nominal amount	Carrying amount	Loss reserve	Nominal amount	Carrying amount	Loss reserve
Debt securities eligible for refinancing with central banks						
Holdings at fair value via other comprehensive income						
<i>Government bonds</i>	56,389	56,918	10	18,149	18,512	21
<i>Covered mortgage bonds</i>	242,372	246,694	16	286,874	294,716	77
<i>Debt securities issued by credit institutions</i>	91,120	92,004	16	120,118	121,625	139
<i>Other debt securities</i>				42,522	43,056	15
Holdings at amortised cost						
<i>Government bonds</i>	85,059	85,868	40	15,481	15,746	8
<i>Covered mortgage bonds</i>	146,493	148,744	24	170,974	174,428	63
<i>Debt securities issued by credit institutions</i>	72,576	72,544	31	32,493	32,460	100
<i>Other debt securities</i>				57,317	58,429	19
Total debt securities eligible for refinancing with central banks	694,008	702,773	137	743,929	758,976	442

The entire holding consists of publicly listed debt securities.

Other debt securities						
Holdings at fair value via other comprehensive income						
<i>Municipal certificates</i>				13,000	13,008	1
Holdings at accrued cost						
<i>Corporate bonds</i>	15,000	15,091	19	5,645	5,700	3
Total other debt securities	15,000	15,091	19	18,645	18,707	4
Total debt securities	709,008	717,864	156	762,574	777,683	447

P14. Lending to credit institutions	2021				2020			
	Repayable on demand	Other	Provision for expected loss	Total	Repayable on demand	Other	Provision for expected loss	Total
Finnish credit institutions	2,573	0	0	2,573	453	0	0	453
Foreign banks and credit institutions	60,789	0	0	60,789	49,240	0	0	49,240
Total	63,363	0	0	63,363	49,693	0	0	49,693

P15. Lending to the public	2021			2020		
	Gross carrying amount	Provision for expected loss	Net carrying amount	Gross carrying amount	Provision for expected loss	Net carrying amount
Companies	627,658	-2,722	624,936	616,176	-3,171	613,005
Public sector entities	8,770	-7	8,763	1,425	-4	1,421
Households	2,073,680	-7,268	2,066,412	2,029,695	-7,180	2,022,516
Household interest organisations	19,351	-17	19,335	12,917	-19	12,899
Outside Finland	2,073,345	-4,641	2,068,704	1,729,575	-1,510	1,728,064
Total	4,802,804	-14,655	4,788,149	4,389,789	-11,884	4,377,905
<i>of which subordinated receivables</i>			262			262

P16. Shares and participations	2021		2020	
Holdings recognised at fair value via other comprehensive income				
Listed		1,021		857
Unlisted		14,028		12,026
Total		15,049		12,882
Shares and participations in associated companies		11,340		1,280
Shares and participations in Group companies		3,346		3,458
Total shares and participations		29,735		17,619

P17. Derivative instruments	2021						2020		
	Nominal amount/maturity			Nominal amount	Positive market values	Negative market values	Nominal amount	Positive market values	Negative market values
	Under 1 yr	1-5 yrs	over 5 yrs						
Derivatives for trading									
Interest-related contracts									
<i>Interest rate swaps</i>	6,000	0	6,060	12,060	1,612	1,580	64,110	2,992	2,973
Currency-related contracts									
<i>Currency forward contracts</i>	549,016	0	0	549,016	1,719	2,510	419,898	5,751	5,760
Total	555,016	0	6,060	561,076	3,331	4,090	484,008	8,743	8,734
Derivatives for fair value hedges									
Interest-related contracts									
<i>Interest rate swaps</i>	10,350	763,321	50,750	824,421	9,696	2,733	1,118,164	15,877	6,234
Total	10,350	763,321	50,750	824,421	9,696	2,733	1,118,164	15,877	6,234
Total derivative instruments	565,366	763,321	56,810	1,385,497	13,027	6,824	1,602,172	24,620	14,968
<i>of which cleared</i>	13,350	763,321	53,780	830,451	9,696	4,313	1,176,244	16,764	9,176

Derivatives are recognised together with their associated accrued interest.

P18. Intangible assets	2021				
	Software developed in-house	Other software	Goodwill	Other intangible assets	Total
Cost on January 1	1,455	37,483	31,584	7,278	77,800
Cost of intangible assets added	0	4,430	0	0	4,430
Impairment losses for the year	-576	0	0	0	-576
Divestments and disposals	0	-1,840	0	0	-1,840
Exchange rate effects	-7	-137	-381	0	-526
Cost on December 31	1,448	39,360	31,203	7,278	79,289
Accumulated amortisation and impairment losses on January 1	-728	-25,337	-29,872	-1,842	-57,779
Divestments and disposals	0	1,840	0	0	1,840
Amortisation for the year	-207	-3,230	-1,648	-2,793	-7,878
Impairment losses for the year	-401	-1	0	0	-402
Exchange rate effects	4	122	362	0	488
Accumulated amortisation and impairment losses on December 31	-931	-27,007	-31,158	-4,635	-63,731
Residual value on December 31	517	12,353	45	2,643	15,558
	2020				
	Software developed in-house	Other software	Goodwill	Other intangible assets	Total
Cost on January 1	1 441	35 256	30 870	7 278	74 846
Cost of intangible assets added	0	1 962	0	0	1 962
Impairment losses for the year	0	0	0	0	0
Divestments and disposals	0	0	0	0	0
Exchange rate effects	14	265	714	0	993
Cost on December 31	1 455	37 483	31 584	7 278	77 800

Accumulated amortisation and impairment losses on January 1	-515	-21 880	-26 462	-981	-49 838
Divestments and disposals	0	0	0	0	0
Amortisation for the year	-206	-3 241	-2 757	-861	-7 065
Impairment losses for the year	0	0	0	0	0
Exchange rate effects	-7	-216	-653	0	-876
Accumulated amortisation and impairment losses on December 31	-728	-25 337	-29 872	-1 842	-57 779
Residual value on December 31	728	12 146	1 712	5 436	20 022

"Other intangible assets" include acquired contracts.

P19. Tangible assets	2021			2020		
Investment properties			402			402
Properties for own use			10,530			11,643
Other tangible assets			2,161			1,772
Total			13,092			13,817
	Investment properties	Properties for own use	Other tangible assets	Investment properties	Properties for own use	Other tangible assets
Cost on January 1	571	21,185	15,529	581	21,060	15,281
New acquisitions	0	368	277	0	127	223
Divestments and disposals	0	-291	-199	-10	0	-253
Transfer between items	0	-470	470	0	-5	5
Exchange rate effects	0	-2	-145	0	3	273
Cost on December 31	571	20,790	15,932	571	21,185	15,529
Accumulated depreciation on January 1	-169	-14,831	-13,756	-169	-13,947	-13,442
Depreciation for the year	0	-845	-299	0	-882	-267
Impairment losses for the year	0	-156	-10	0	0	0
Divestments and disposals	0	281	154	0	0	217
Exchange rate effects	0	1	140	0	-2	-265
Accumulated depreciation on December 31	-169	-15,550	-13,771	-169	-14,831	-13,756
Revaluations on January 1		5,289			5,289	
Accumulated revaluations on December 31		5,289			5,289	
Carrying amount	402	10,530	2,161	402	11,643	1,772
<i>of which buildings</i>	0	10,295		0	11,404	
<i>of which land and water</i>	0	134		0	139	
<i>of which shares in property companies</i>	402	100		402	100	

The carrying amount for investment properties is the same as market value.

P20. Other assets	2021		2020	
Payment intermediation receivables		2,798		1,477
Receivables on mutual fund settlement proceeds		10,748		25,859
Accounts receivable		5,871		1,099
Receivables in conjunction with transfer of assets		4,962		0
Other		3,753		2,576
Total		28,132		31,010

P21. Accrued income and prepayments	2021		2020	
Accrued interest income		12,735		9,520
Other accrued income		9,804		9,924
Other prepaid expenses		12,268		2,112
Total		34,806		21,555

P22. Deferred tax assets and liabilities	2021	2020
Deferred tax assets		
Provisions	79	0
Unused tax depreciation	141	102
Impairment loss, financial liability	520	
Income received in advance	110	222
Debt securities measured via other comprehensive income	176	0
Other	68	46
Total deferred tax assets	1,093	369
Deferred tax liabilities		
Financial assets measured via other comprehensive income		
<i>Debt securities</i>		12
<i>Shares and participations</i>	917	970
Total deferred tax liabilities	917	982
Net deferred taxes	176	-613

Accumulated appropriations included a deferred tax liability of EUR 30,496 K (28,080).

	2021			
	Dec 31, 2020	Recognised in income statement	Recognised in other comprehensive income	Dec 31, 2021
Changes in deferred taxes				
Provisions	0	79		79
Unused tax depreciation	102	39		141
Measurement, financial liability	0	520		520
Income received in advance	222	-111		110
Debt securities measured via other comprehensive income	-12		187	176
Shares and participations measured via other comprehensive income	-970		53	-917
Other	46	22		68
Total	-613	548	240	176

	2020			
	Dec 31, 2019	Recognised in income statement	Recognised in other comprehensive income	Dec 31, 2020
Changes in deferred taxes				
Provisions	8	-8		0
Unused tax depreciation	123	-21		102
Income received in advance	0	222		222
Debt securities measured via other comprehensive income	193		-205	-12
Shares and participations measured via other comprehensive income	-927		-43	-970
Other	27	19		46
Total	-576	211	-248	-613

P23. Liabilities to credit institutions	2021			2020		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Central banks		609,674	609,674		415,975	415,975
Finnish credit institutions	148	0	148	7,733	2,350	10,083
Foreign banks and credit institutions	60,078	197,532	257,610	50,406	32,958	83,364
Total	60,226	807,206	867,432	58,138	451,283	509,421

P24. Deposits from the public	2021		2020	
Companies		1,290,245		1,047,710
Public sector entities		73,032		44,927
Households		1,365,573		1,309,410
Household interest organisations		65,313		61,244
Outside Finland		1,294,851		1,154,973
Total		4,089,014		3,618,264

P25. Debt securities issued	2021		2020	
	Nominal value	Carrying amount	Nominal value	Carrying amount
Certificates of deposit			280,163	280,056
<i>of which at amortised cost</i>			280,163	280,056
Covered bonds	986,325	1,196,535	899,111	910,225
<i>of which at amortised cost</i>	346,325	352,670	259,111	259,974
<i>of which fair value hedge</i>	640,000	643,865	640,000	650,251
Unsecured bonds			250,000	250,652
<i>of which fair value hedge</i>			250,000	250,652
Total	986,325	1,196,535	1,429,274	1,440,933

"Fair value hedge" refers to hedge accounting of the interest component in the debt security.

P26. Other liabilities	2021		2020	
Payment intermediation liabilities		5,935		13,870
Fund settlement liabilities		7,685		18,636
Trade payables		2,481		1,344
Other		15,637		7,876
Total		31,738		41,726

P27. Provisions	2021				2020			
	Provisions for restructuring reserves	Provision for off-balance sheet obligations	Other provisions	Total	Provisions for restructuring reserves	Provision for off-balance sheet obligations	Other provisions	Total
Provisions on December 31 of the previous year	0	410	0	410	0	39	0	39
Provisions during the year		266	50	316		446	10	456
Amounts utilised			-4	-4		0	-10	-11
Unutilised amounts recovered		-355		-355		-75		-75
Exchange rate changes		-2	0	-2		1		1
Provisions on December 31	0	319	45	364	0	410	0	410

The provisions for restructuring reserves were related to both Finland and Sweden. These provisions included both staff costs and other expenses, but primarily consisted of staff costs. "Provision for off-balance sheet obligations" refers to expected credit losses related to guarantees issued and unutilised credit lines. "Other provisions" consist of severance pay.

Since 2017 the Bank of Åland has had a pending case with the Swedish Tax Agency concerning value-added tax (VAT) for the financial year 2016. The Tax Agency has announced a decision on the matter, in which it states that the Bank of Åland must pay about EUR 0.5 M in VAT. The Bank of Åland does not agree with the Tax Agency's assessment and will appeal the Administrative Court's negative ruling of December 2021. A provision for half the amount has been made as a tax expense in the financial accounts.

P28. Accrued expenses and prepaid income	2021		2020	
Accrued interest expenses		3,699		4,287
Other accrued expenses		13,547		12,322
Accrued taxes		1,929		3,691
Prepaid income		1,271		3,343
Total		20,444		23,643

P29. Subordinated debentures	2021			2020		
	Nominal amount	Carrying amount	Amount in own funds	Nominal amount	Carrying amount	Amount in own funds
Debenture loan 1/2015				8,603	8,603	8,603
Debenture loan 1/2016				6,173	6,173	6,173
Debenture loan 1/2017	2,266	2,266	2,266	2,266	2,266	2,266
Debenture loan 1/2018	19,512	19,476	19,512	19,932	19,871	19,932
Green Floating Rate Tier 2 Note 2021	14,634	14,601	14,634			
<i>Additional Tier 1 capital</i>						
Floating Rate Perpetual AT1 Note 2021	29,267	29,188	29,267			
Total	65,679	65,532	65,679	36,974	36,913	36,974

	Interest rate:	Repayment:
Debenture loan 1/2017	3.75 % fixed interest	August 18, 2037
Debenture loan 1/2018	3-month Stibor +2.40 %	May 15, 2038
Green Floating Rate Tier 2 Note	3-month Stibor + 2.15%	December 16, 2041
Floating Rate Perpetual AT1 Note	3-month Stibor +3.75%	Perpetual

The loans may be repurchased in advance, but this is possible only with the permission of the Finnish Financial Supervisory Authority. In case the Bank is dissolved, the loans are subordinate to the Bank's other obligations.

Debenture loans 1/2017 and 1/2018 were issued with write-down clauses. In the event that the Bank of Åland's or the Group's common equity Tier 1 (CET1) capital ratio falls below 7 per cent, the loan principal is written down by 50 per cent.

P30. Maturity breakdown of assets and liabilities

2021

	Undiscounted contractual cash flows							Not classified by maturity	Total
	Repayable on demand	<3 mo	3–6 mo	6–12 mo	1–5 yrs	5–10 yrs	>10 yrs		
Assets									
Cash and receivable from central banks	893,719								893,719
Debt securities eligible for refinancing with central banks		89,799	31,710	60,446	475,903	44,895			702,753
Lending to credit institutions	63,363								63,363
Lending to the public	33,160	348,909	126,865	204,690	1,560,831	837,181	1,666,534	9,979	4,788,149
Other debt securities					12,548	2,566			15,111
Shares and participations								29,735	29,735
Derivative instruments		117	1,622		8,960	777	1,551		13,027
Intangible assets								15,558	15,558
Tangible assets								13,092	13,092
Other assets								64,032	64,032
Total	990,241	438,825	160,197	265,135	2,058,243	885,418	1,668,085	132,396	6,598,538
Liabilities									
Liabilities to credit institutions and central banks	59,664	452,263	38,505	117,000	200,000				867,432
Deposits from the public	3,645,571	414,998	16,456	10,826	1,163				4,089,014
Debt securities issued					1,196,535				1,196,535
Derivative instruments		909	1,633	33	2,230	498	1,521		6,824
Other liabilities								53,464	53,464
Subordinated liabilities				2,266			63,266		65,532
Equity capital and appropriations								319,738	319,738
Total	3,705,235	868,171	56,593	130,125	1,399,927	498	64,787	373,202	6,598,538

2020

Undiscounted contractual cash flows

	Undiscounted contractual cash flows						Not classified by maturity	Total
	Repayable on demand	<3 mo	3-6 mo	6-12 mo	1-5 yrs	5-10 yrs		
Assets								
Cash and receivable from central banks	665,072							665,072
Debt securities eligible for refinancing with central banks		60,898	31,710	20,372	619,847	26,149		758,976
Lending to credit institutions	29,856	-15					19,853	49,693
Lending to the public	16,849	383,821	154,425	284,315	1,420,179	724,385	69,532	4,377,905
Other debt securities		13,007			5,074	626		18,707
Shares and participations							17,619	17,619
Derivative instruments		2,244	3,500	887	16,026		1,963	24,620
Intangible assets							20,022	20,022
Tangible assets							13,817	13,817
Other assets							52,934	52,934
Total	711,777	459,956	189,635	305,573	2,061,126	751,160	193,777	5,999,366
Liabilities								
Liabilities to credit institutions and central banks	53,008	330,938	4,983	3,492	117,000			509,421
Deposits from the public	3,490,068	110,771	2,548	13,830	1,048			3,618,264
Debt securities issued		139,539	140,624	250,652	910,118			1,440,933
Derivative instruments		2,271	3,501	70	5,398	1,798		14,968
Other liabilities							66,760	66,760
Subordinated liabilities			8,603	6,173	2,266			36,913
Equity capital and appropriations						19,871		312,108
Total	3,543,076	583,518	160,258	274,217	1,035,830	1,798	21,800	5,999,366

P31. Claims on Group companies	2021	2020
Lending to the public	0	1,114
Other assets	226	424
Accrued income and prepayments	2,753	4,820
Total	2,979	6,359

P32. Liabilities to Group companies	2021	2020
Deposits from the public	19,155	12,844
Other liabilities	1,243	1,029
Accrued expenses and prepaid income	1,709	3,315
Total	22,107	17,188

Notes concerning staff, Board of Directors and Executive Team

P33. Salaries/fees paid to the Board of Directors and Executive Team	2021	2020
Lampi, Nils	63	62
Taxell, Christoffer	48	49
Ceder, Åsa	46	50
Karlsson, Anders Å	50	50
Valassi, Ulrika	52	53
Wicklöf, Anders	43	40
Board members	301	304
Managing Director	495	450
Other members of the Executive Team	1,784	1,559

The amount includes the value of fringe benefits. There are no pension obligations to the members of the Board of Directors. The pension benefits of the Managing Director are based on customary terms of employment.

P34. Private shareholdings of the Board of Directors and the Executive Team in Bank of Åland Plc

See the Board of Directors and Executive Team sections.

P35. Financial transactions with related parties

See Note G45 in the notes to the consolidated financial statements.

Notes concerning assets pledged and contingent liabilities

P36. Assets pledged	2021	2020
Assets pledged for own liabilities		
Lending to credit institutions	18,604	13,689
Government securities and bonds	262,123	279,199
Lending to the public	2,085,371	1,547,808
Other	3,664	3,510
Total assets pledged for own liabilities	2,369,762	1,844,206

Assets pledged in the form of government securities and bonds were mainly provided as collateral to central banks. "Lending to the public" that was provided as collateral consisted of the registered collateral pool on behalf of holders of covered bonds. "Other assets pledged for own liabilities" refers mainly to endowment insurance.

Other assets pledged		
Government securities and bonds	51,093	19,446
Other	7,621	711
Total other assets pledged	58,714	20,157

Assets pledged in the form of government securities and bonds were mainly provided as collateral to central banks and credit institutions for payment systems, securities trading and clearing.

Assets were not pledged for the liabilities or commitments of others.

Except for loan receivables comprising the collateral pool for covered bonds, where legislation regulates minimum requirements for over-collateralisation, collateral that exceeds the nominal value of the liability are at the free disposal of the Bank.

P37. Off-balance sheet obligations	2021	2020
Guarantees	46,024	44,032
Unutilised overdraft limits	318,407	283,018
Unutilised credit card limits	88,116	85,559
Unutilised credit lines	559,674	315,059
Other commitments	41,846	31,967
Total	1,054,067	759,636
<i>Provision for expected loss</i>	363	409
Guarantees for subsidiaries	2,257	2,257
Unutilised overdraft limits for subsidiaries	7,273	6,623
Unutilised credit facilities for subsidiaries	0	0

P38. Rental obligations	2021	2020
Rental payments due		
Under 1 year	2,882	2,882
More than 1 and less than 5 years	7,958	7,920
More than 5 years	294	1,662
Total	11,134	12,464

Rental obligations were equivalent to the rental expenses that would arise upon termination of all rental agreements.

Other notes

P39. Subsidiaries and associated companies	2021		
	Registered office	Ownership, %	Carrying amount
Subsidiaries			
Crosskey Banking Solutions Ab Ltd	Mariehamn	100	2,505
<i>S-Crosskey Ab</i>	Mariehamn	60	
Ålandsbanken Fondbolag Ab	Mariehamn	100	841
<i>Ålandsbanken Fonder Ab</i>	Mariehamn	100	
<i>Ålandsbanken Fonder II Ab</i>	Mariehamn	100	
<i>Ålandsbanken Fonder III Ab</i>	Mariehamn	100	
<i>Ålandsbanken Fonder IV Ab</i>	Mariehamn	100	
<i>Ålandsbanken Fonder V Ab</i>	Helsinki	100	
<i>Ålandsbanken Fonder VI Ab</i>	Helsinki	100	
Total			3,346
Associated companies			
Mäklarhuset Åland Ab	Mariehamn	29	20
IISÅ Holdco AB	Stockholm	25	79
<i>Borgo AB</i>	Stockholm	10	
Borgo AB	Stockholm	23	8,207
Åland Index Solutions AB	Stockholm	28	3,034
Total			11,340
Housing and real estate companies			
Properties for the Group's own use			
<i>FAB Godby Center</i>	Finström	11	100
Total			100
Investment properties			
FAB Horsklint	Kökar	20	12
FAB Nymars	Sottunga	30	30
FAB Västernäs City	Mariehamn	50	300
Total			342

P40. Distributable profit	2021	2020
Retained earnings	36,926	38,592
Dividend paid in January 2021		-15,586
Unrestricted equity capital fund	28,190	27,807
Capitalised development expenditures	-517	-728
Total	64,599	50,085

Proposed allocation of profit

According to the financial statements, distributable profit – after subtracting capitalised development expenses – including the unrestricted equity capital fund is EUR 64,599,158.81, of which the profit for the financial year is EUR 29,442,550.86. No significant changes in the financial position of the Company have occurred since the end of the financial year.

The Board of Directors proposes to the Annual General Meeting that the distributable profit of the Bank of Åland Plc, EUR 64,599,158.81 be allocated as follows:

For Series A and Series B shares outstanding, a dividend of EUR 1.55 per share plus an extra dividend of EUR 0.45 per share from retained earnings,

totalling	31,204,606.00
To be carried forward as retained earnings	33,394,552.81

Mariehamn, February 23, 2022

Nils Lampi,
Chairman

Christoffer Taxell,
Deputy Chairman

Åsa Ceder

Anders Å Karlsson

Ulrika Valassi

Anders Wiklöf

Peter Wiklöf,
Managing Director

Auditors' note

A report on the audit performed has been issued today.

Helsinki, February 23, 2022

Marcus Tötterman
KHT

Fredrik Westerholm
KHT

Henry Maarala
KHT

Auditors' Report

This document is an English translation of the auditors' report in the Swedish language. Only the auditors' report in the Swedish language is legally binding.

Opinion

We have audited the financial statements of Bank of Åland Plc (business identity code 0145019-3) for the accounting period January 1 – December 31, 2021. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity capital, cash flow statement and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of changes in equity capital, cash flow statement and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the Group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice, are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the Group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and understanding, the non-audit services that we have provided to the parent company and Group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note G 12 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of

materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was any evidence of management bias that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters	How these matters were addressed in the audit
Valuation of lending to the public and public sector entities (Accounting Principles and Notes G3, G13, G21, P9, P15)	

- Lending to the public amounted to EUR 4.8 billion. This comprises approximately 72 per cent of the Group's total assets.
- IFRS 9 Financial Instruments standard is applied in the calculation of expected credit losses. Calculation of expected credit losses involves assumptions, estimates and management judgment. For example, in respect of the probability and amount of the expected credit losses as well as determining the significant increases in credit risk.
- Due to the significance of the carrying amount involved, complexity of the accounting methods used for measurement purposes and management judgement involved, lending to the public is addressed as a key audit matter.
- We have reviewed the principles and controls attributable to approval, recognition and monitoring of loans and have tested controls attributable to the process of calculating expected credit losses. Our audit included reviewing the most important single impairment losses during the financial period.
- We assessed the models and the key assumptions for calculating expected credit losses as well as tested the controls related to the calculation process for expected credit losses. Our audit procedures included an analysis of the most significant individual impairments recognised during the financial period.
- We considered the impacts of the COVID-19 pandemic on the credit risk position and the accounting for expected credit losses.

- Our IFRS and financial instruments specialists were involved in the audit.
- Furthermore, we considered the appropriateness of the notes provided by the Bank of Åland in respect of loans and other receivables and expected credit losses.

Net commission income and IT income (Accounting Principles and Notes G8 and P3)

- The assets managed by the Bank of Åland entitles to fee and commission income on the grounds of the agreements entered into with customers and the cooperation parties. The Group also derives IT income based on customer agreements. Commissions and IT income are a significant item in the Group's income statement.
- The calculation of commissions and IT income comprises manual phases and the determination of the commission amount and revenue recognition may involve management judgement.
- Due to the significance of the income amount and the judgement involved, net commission and IT income are considered a key audit matter.
- We assessed the methods used by the Bank of Åland for calculation of mutual fund and asset management commissions and IT income.
- Our review regarding the accounting of mutual fund and asset management commissions and IT income focused on controls in the billing and fee calculation processes. Our audit procedures involved an assessment of the functionality and effectiveness of these controls.
- Our audit procedures included testing of commission calculations on a sample basis, as well as an assessment of the underlying related agreements and fund statutes where fees have been defined. We utilised data analysis in our analysis of the charged fees.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the Group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the Group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the parent company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

Employees of KPMG Oy Ab have served as auditors elected by the Annual General Meeting since the spring of 2013, representing an uninterrupted engagement of 9 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report. We have obtained the report of the Board of Directors and

the Annual Report prior to the date of this auditors' report. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, February 23, 2022

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Corporate Governance Statement



Corporate Governance Statement

The Corporate Governance Statement is being issued as a separate report in conjunction with the Report of the Directors for 2021 and was prepared by the Audit Committee of the Board of Directors.

Legislation and recommendations on corporate governance

The Finnish Corporate Governance Code ("the Code"), which is available on the website www.cgfinland.fi, is intended to be followed by companies listed on the Nasdaq OMX Helsinki ("Helsinki Stock Exchange"). The Code is applied according to the "comply or explain" principle, which means that departures from its recommendations must be disclosed and explained. A company is regarded as complying with the Code even if it departs from an individual recommendation, provided that it discloses and explains the departure.

The Bank of Åland Plc ("the Bank"), which is listed on the Helsinki Stock Exchange, is a public company domiciled in Mariehamn, Finland. The Bank is subject to legislation including the Finnish Companies Act, the Credit Institutions Act and the Securities Markets Act, as well as the Bank's Articles of Association and the Code. The Corporate Governance Statement has been prepared in compliance with the Code's reporting instructions and according to the Finnish Securities Market Act, Chapter 7, Section 7. In applying the Code, the Bank departs from Recommendation 15, "Appointment of members to committees", since the Bank's Compensation Committee includes one co-opted member who is not a member of the Bank's Board of Directors. The co-opted member is also Chairman of the Committee. The purpose of this departure is to broaden the Compensation Committee's experience and expertise base on compensation matters. The need for outside expertise is assessed separately before each appointment date.

This Corporate Governance Statement, the Articles of Association and other disclosures required according to the Code are available at the Company's website, www.alandsbanken.fi.

Board of Directors

COMPOSITION OF THE BOARD

The members of the Board of Directors are elected by the shareholders at the Annual General Meeting (AGM). The Board's term of office ends at the closing of the next AGM after the election. According to the Articles of Association, the Board shall consist of at least five and at most eight members. During 2021, the Board consisted of six members. The Managing Director may not be a member of the Board.

PRESENTATION OF BOARD MEMBERS AND THEIR SHAREHOLDINGS IN THE BANK

Composition of the Board, 2021		
Name, main occupation and education	Year of birth Board members since what year Place of residence	Board members' shareholdings in the Bank on December 31, 2021 (direct ownership or via companies which the Board member controls). There are no shareholdings in other Bank of Åland Group companies.
Nils Lampi, Chairman CEO, Wiklöf Holding Ab Bachelor of Economic Sciences	Born 1948 Member since 2013 Mariehamn, Åland	Series A shares: 567 Series B shares: 5,543
Christoffer Taxell, Deputy Chairman Master of Laws	Born 1948 Member since 2013 Turku, Finland	Series A shares: 0 Series B shares: 1,833
Åsa Ceder Master of Science in Economics Actuary	Born 1965 Member since 2016 Mariehamn, Åland	Series A shares: 0 Series B shares: 0
Anders Å Karlsson Business owner Bachelor of Commerce	Born 1959 Member since 2012 Lemland, Åland	Series A shares: 3,000 Series B shares: 1,500
Ulrika Valassi Business owner Master of Business Administration	Born 1967 Member since 2015 Stockholm, Sweden	Series A shares: 0 Series B shares: 0
Anders Wiklöf Business owner Doctor of Economics (honorary) Commercial Counsellor	Born 1946 Member since 2006 Mariehamn, Åland	Series A shares: 1,993,534 Series B shares: 1,332,961

THE BOARD'S ASSESSMENT OF THE INDEPENDENCE OF ITS MEMBERS IN RELATION TO THE BANK AND MAJOR SHAREHOLDERS

In the assessment of the Board of Directors, the Chairman of the Board and all other Board members are independent of the Bank. Christoffer Taxell, Anders Å Karlsson and Ulrika Valassi are also independent in relation to major shareholders. Nils Lampi, Chairman of the Board, is deemed to be dependent in relation to a major shareholder since he is CEO of Wiklöf Holding, which is a major shareholder in the Bank. Anders Wiklöf is regarded as dependent in relation to a major shareholder due to his direct and indirect shareholding in the Bank. Anders Å Karlsson is deemed to be dependent in relation to a major shareholder in the Bank since he is a Board member of Alandia Försäkring Abp, which has a major shareholding in the Bank.

THE WORK OF THE BOARD

The Board of Directors oversees the administration of the Bank's affairs and is responsible for ensuring that its operations are appropriately organised. The Board is also responsible for overall policy and strategy issues and for ensuring that risk oversight is sufficient and that management systems are working. The duties of the Board also include appointing and, if necessary, dismissing the Managing Director, his deputy and other members of the Executive Team, as well as deciding their salary benefits and other employment conditions. The Board shall constitute a quorum when more than half its members are present.

The Board has established Group-wide internal Rules of Procedure for its work. These Rules of Procedure, which are evaluated annually and revised as needed, mainly regulate the division of labour between the Board, the Managing Director and other members of the Executive Team. The Rules of Procedure also regulates meeting procedures, minutes of meetings and reporting procedures. The Board of Directors, which

meets after being convened by the Chairman of the Board, regularly discusses the economic situation in the financial markets.

Supported by the Managing Director's recurrent reports on operational activities, the Board monitors the strategy, financial outcomes and overall long-term objectives of the Bank's operations. Beyond this, the Board deals with other matters raised in compliance with the Annual Accounts Act, the Articles of Association and other regulations that affect the Bank's operations and administration, as well as matters referred by individual Board members and by the Executive Team.

EVALUATION OF THE WORK OF THE BOARD

The Board of Directors conducts a yearly internal evaluation of its performance and its work. The evaluation includes a questionnaire in which each Board member assesses the work of the Board during the year. The Chairman of the Board also has individual conversations with each Board member. Led by the Chairman of the Board, the evaluation is also discussed and dealt with at a subsequent Board meeting, and decisions are made on actions to be taken as a result of the evaluation.

BOARD MEETINGS

During 2021, the Board held 22 (21) meetings. The Board members' average attendance was 98 (98) per cent. During 2021, each Board member attended Board and committee meetings as follows:

Attendance at Board meetings, 2021

Board member	Board meetings
	Total number: 22
Nils Lampi	21/22
Christoffer Taxell	22/22
Åsa Ceder	22/22
Anders Å Karlsson	22/22
Ulrika Valassi	22/22
Anders Wiklöf	21/22

DIVERSITY PRINCIPLES

According to the Credit Institutions Act and the Code, the Board shall establish principles for promoting diversity in the composition of the Board and have as a goal of the credit institution that both genders shall be equally represented on the Board. The Bank of Åland seeks a good balance in the composition of the Board, with the aim that the Board as a whole shall possess the expertise and experience required to monitor and develop the Company. Achieving this goal requires that as a group, the Board possesses a breadth in terms of education, personal qualities, experience, gender and age. Allocation between genders shall be equal, and both genders shall thus be represented in the proposal that is presented on the occasion of each nomination as a new Board member. During the financial year, the members of the Board have collectively achieved the variation in education, experience and talents required for the task. Both genders are represented on the Board, with the allocation between the genders being 33 per cent women and 67 per cent men.

The committees of the Board

NOMINATION COMMITTEE

The main duty of the Nomination Committee is to prepare proposals before the AGM regarding the election of Board members as well as proposals concerning fees to the Chairman, Vice Chairman and other Board members.

Rules on how the Nomination Committee is appointed were established by the 2015 AGM. The Nomination Committee consists of four members: the Chairman of the Board and representatives of the three largest shareholders in the Bank in terms of voting power on November 1 of each year. If the Chairman of the Board represents any of the above shareholders, or in case a shareholder abstains from participating in the Nomination Committee, the right of membership is transferred to the next largest shareholder. The representative of the largest shareholder in terms of voting power is Chairman of the Nomination Committee.

The Nomination Committee consists of Nils Lampi, Chairman of the Board; Board member Anders Wiklöf, by virtue of direct and indirect personal shareholdings; Jan Hanses, representing the insurance company Alandia Försäkring Abp; and Georg Ehrnrooth, representing Fennogens Investments S.A. Anders Wiklöf is Chairman of the Nomination Committee.

During 2021 the Nomination Committee met 3 (2) times. The average attendance of Committee members was 100 (100) per cent.

Attendance at Nomination Committee meetings, 2021

Member	Nomination Committee meetings Total number: 3
Anders Wiklöf, <i>Chairman of the Committee</i>	3/3
Nils Lampi	3/3
Jan Hanses	3/3
Georg Ehrnrooth	3/3

AUDIT COMMITTEE

The Board of Directors, which appoints the members of the Audit Committee, has established its duties in Rules of Procedure. The Audit Committee assists the Board, among other things, in fulfilling its duties in overseeing the internal control and risk management systems, reporting, the audit process and observance of laws and regulations. In addition, before the AGM the Audit Committee prepares proposals for the election of auditors and their fees. The Chairman of the Audit Committee reports regularly to the Board about the work and observations of the Committee.

The Audit Committee consists of Nils Lampi, Chairman of the Board; and Board members Anders Å Karlsson and Ulrika Valassi, Chairman of the Audit Committee. Board member Åsa Ceder was a member of the Audit Committee until the AGM on March 30, 2021. During 2021 the Audit Committee met 10 (11) times.

The average attendance of Committee members was 100 (100) per cent.

Attendance at Audit Committee meetings, 2021

Member	Audit Committee meetings Total number: 10
Ulrika Valassi, <i>Chairman of the Committee</i>	10/10
Åsa Ceder ¹	3/3
Anders Å Karlsson	10/10
Nils Lampi	10/10

¹ Member of the Audit Committee until the AGM on March 30, 2021, attended 3 out of 3 meetings during the period.

COMPENSATION COMMITTEE

The duties of the Compensation Committee are to prepare key compensation-related decisions and evaluate the Bank's compensation policy and the principles for variable compensation. The Compensation Committee decides on measures for monitoring the application of the principles for the compensation system and assesses its suitability and effect on the Group's risks and risk management.

The Compensation Committee consists of Nils Lampi, Chairman of the Board; Board member Christoffer Taxell and former Board member Agneta Karlsson as a co-opted member and Chairman of the Committee.

During 2021 the Compensation Committee met 3 (6) times. The average attendance of Committee members was 100 (100) per cent.

Attendance at Compensation Committee meetings, 2021

Member	Audit Committee meetings Total number: 3
Agneta Karlsson, <i>Chairman of the Committee</i>	3/3
Nils Lampi	3/3
Christoffer Taxell	3/3

Managing Director

The Managing Director of the Bank is Peter Wiklöf, Master of Laws (born 1966). The Managing Director's shareholdings in the Bank can be seen in the table to the right.

Among other things, the Managing Director is responsible for the day-to-day administration of the Bank and for ensuring that this is managed in compliance with law, the Articles of Association, other regulations and the instructions and directions of the Board. In addition, the Managing Director is responsible for ensuring that the decisions of the Board are implemented.

The Managing Director reports regularly to the Board. The Managing Director is appointed and dismissed by the Board of Directors. His employment conditions are established in a written contract that is approved by the Board.

The Group's Executive Team – other members

The Board appoints the other members of the Group-wide Executive Team. The other members of the Executive Team advise the Managing Director, and the Executive Team deals with all major Bank-wide issues. The Executive Team consists of the heads of the Bank's business areas and corporate units.

Their shareholdings in the Bank can be seen in the table below.

During 2021 the Executive Team met on 11 (12) occasions.

DISCLOSURES ABOUT EXECUTIVE TEAM MEMBERS, INCLUDING THE MANAGING DIRECTOR, AND THEIR SHAREHOLDINGS IN THE BANK

The Group-wide Executive Team, 2021		
Composition of the Executive Team and its members' areas of responsibility	Education Year of birth Executive Team member since what year	Shareholdings in the Bank on December 31, 2021 (direct ownership or via companies which the person controls). There are no shareholdings in other Bank of Åland Group companies.
Peter Wiklöf Managing Director, Chief Executive Chairman of the Executive Team	Master of Laws Born 1966 Member since 2008	Series A shares: 500 Series B shares: 33,970
Jan-Gunnar Eurell Chief Financial Officer Deputy Managing Director	Bachelor of Science (Economics) Master of Business Administration Born 1959 Member since 2011	Series A shares: 0 Series B shares: 33,164
Tove Erikslund Chief Administrative Officer	Master of Business Administration Born 1967 Member since 2006	Series A shares: 0 Series B shares: 6,827
Sofie Holmström Manager, Partnerships Business Area	Master of Science, IT Management Bachelor of Commerce, Business Administration Born 1985 Member since 2021	Series A shares: 0 Series B shares: 614
Magnus Johansson Director, Sweden Business Area	Bachelor of Science (Economics) Born 1972 Member since 2017	Series A shares: 0 Series B shares: 11,740
Mikael Mörn Director, Åland Business Area	Associate of Arts in Commerce Born 1965 Member since 2017	Series A shares: 0 Series B shares: 5,690
Juhana Rauthovi Chief Risk & Compliance Officer	Licentiate in Laws, M.Sc. (Econ.), M.Sc. (Tech.) Master in International Management Born 1975 Member since 2012	Series A shares: 0 Series B shares: 12,907
Anne-Maria Salenius Director, Finnish Mainland Business Area	Master of Laws Attorney at Law Born 1964 Member since 2010	Series A shares: 0 Series B shares: 8,608

EVALUATION OF THE WORK OF THE MANAGING DIRECTOR AND THE EXECUTIVE TEAM

The Board of Directors, led by the Chairman of the Board, evaluates the work of the Managing Director and the rest of the Executive Team yearly. The Managing Director and other members of the Executive Team do not attend this evaluation.

Internal controls and risk management systems related to the financial reporting process

GENERAL

Internal controls and risk management in the financial reporting process are an integral element of operational systems and daily routines. To achieve this integration, the Group employs clear and easily accessible internal instructions. In developing new systems, products, services and/or routines, internal controls are taken into account. The organisation has clearly defined responsibilities and powers as well as clear reporting mechanisms.

FINANCIAL REPORTING PROCESS

The fundamental principles of internal controls in the financial reporting process are a clear allocation of roles as well as instructions and an understanding of how financial results are achieved.

The Group's reporting is compiled centrally by Group Finance. This department is responsible for the consolidated accounts and the consolidated financial statements, accounting principles, policy documents and instructions, financial control systems, tax analysis, reporting to regulatory authorities and publication of financial information. The respective subsidiaries are responsible for ensuring that their accounts meet the Group's standards, and they report monthly to their company's management and Group Finance.

The Internal Auditing Department assists the external auditors with the examination of financial information in accordance with an audit plan drawn up in advance. Internal Auditing is an independent unit and works on behalf of the Board of Directors.

External auditors examine the Group's interim reports, half-year financial report, Annual Report and Corporate Governance Statement and submit an auditors' report to the Audit Committee and to the Group's Board of Directors.

The Group's Executive Team deals with the Group's internal financial reporting every month and with the interim reports, half-year financial report or the Annual Report every quarter.

The Audit Committee assists the Board in its continuous monitoring work by examin-

ing the quarterly financial reports, the half-year financial report and the annual financial statements, as well as dealing with the observations of the external and internal auditors.

The Board of Directors deals with interim reports, the half-year financial report or the Annual Report every quarter and receives the Group's internal financial reporting every month. The Board also examines the auditors' reports, audit plans and conclusions of the external auditors concerning interim reports, the half-year financial report and the Annual Report. The Board meets with the external auditors at least quarterly.

RISK MANAGEMENT

The Group's ambition is to pursue its operations with reasonable and carefully considered risks. Its profitability directly depends on the ability of the organisation to identify, manage and price risks. The purpose of risk management is to reduce the probability of unforeseen losses and/or threats to the Group's reputation as well as contribute to higher profitability and shareholder value.

The Group is exposed to credit risk, counterparty risk, market risk, liquidity risk, operational risk and business risk. The latter is a consequence of the Group's strategy, competitiveness, ability to adapt to customer expectations, unfavourable business decisions and the environment and market the Group works in. Business risk is managed in conjunction with strategic planning. Credit risk, which is the Group's most significant risk, encompasses receivables from private individuals, companies, institutions and the public sector. These receivables mainly consist of loans, overdraft facilities and guarantees issued by the Bank.

The Board of Directors has overall responsibility for governance and monitoring, that is, for ensuring that risk management is sufficient and for establishing systems and regulations for monitoring and limiting the Bank's risk exposure. The Audit Committee assists the Board in handling these oversight tasks in internal control systems, risk management and reporting. The Managing Director oversees and supervises business operations in accordance with the Board's instructions, is responsible for day-to-day administration and for ensuring that the members of the Board receive sufficient

information regularly about the Group's risk positions and the regulations that affect its operations.

The Bank works according to an allocation of responsibility between three different lines of defence, in which each part of its business operations within the first line of defence bears responsibility for its business and for managing its risks. Within the second line of defence, the Risk Office Corporate Unit is responsible for independent risk monitoring (financial risks) and operational risks (among other things compliance with regulations). The Risk Office Corporate Unit is also responsible for the credit approval process. This includes identifying, measuring, analysing and reporting all of the Group's significant risks as well as examining the loan matters presented to the Credit Committee of the Executive Team. The Risk Office is also responsible for data protection as well as informational and corporate security in the Group. The corporate unit also ensures that risks and risk management live up to the Bank's risk appetite and risk tolerance and that the management of the Bank regularly receives reports and analyses on the current situation. Within the third line of defence, the Risk Office is audited by the Internal Auditing Department, which evaluates risk management both in terms of sufficiency and compliance.

In addition to the regulations and instructions of the Finnish Financial Supervisory Authority and national legislation, the main foundations of the Group's risk management are numerous directives and regulations at the European Union level. For more detailed information on the Group's risk management, capital management, evaluation of capital requirements and capital adequacy information, see the Capital and Risk Management Report for 2021. The report is posted on the Bank's website, www.alandsbanken.fi.

LENDING STRUCTURE

At the Bank, the Private Banking and Premium Banking units in Åland, on the Finnish mainland and in Sweden bear responsibility for lending via mandates. Those employees who work with lending have personal loan granting limits for the customers that they are responsible for. In Åland there is also a corporate lending unit. Responsibility for

lending rests with the management of each respective unit along with those responsible for customers according to the above-mentioned structure. If decisions regarding larger loans are needed, there is a Credit Committee for operations in Finland and one for operations in Sweden. In addition, there is a Credit Committee of the Executive Team for credit matters that cannot be decided by the country-specific units due to their size. The largest commitments are decided by the Bank's Board of Directors.

During 2022 the Bank will transfer to the mortgage company Borgo AB the mortgage portfolio that has been built up via partnerships. Part of the Bank's own mortgage loans will also be transferred to Borgo AB. As a result of this collaboration, part of the new mortgage loans that the Bank provides to its customers will be issued by Borgo AB.

COMPLIANCE

Independent monitoring and assessment of the Bank's compliance with regulations is managed by the Group's Compliance department, with a focus on customer protection, behaviour in the market, combating money laundering and the financing of terrorism as well as permitting and regulatory matters. The Compliance department regularly reports its observations to the Bank's Executive Team and Board of Directors.

Internal Auditing

The Internal Auditing department is an independent department that reports directly to the Board of Directors.

The purpose of internal auditing work is to provide the Board and the Executive Team with objective and independent assessments of operational activities, operational business and management processes and the Group's risk management, governance and controls. Internal Auditing reports regularly to the Board, the Audit Committee and the Executive Team. The Board adopts a yearly plan for internal auditing work.

Special decision making procedure concerning related party transactions

Decisions on loans to related parties who are entitled to the employee interest rate are made by the Bank's Board of Directors.

Insider administration

In their capacities as an investment firm and a fund management company, respectively, the Bank of Åland and its subsidiary Ålandsbanken Fondbolag maintain insider registers in compliance with the Act on Investment Services or the Act on Mutual Funds.

In its capacity as a listed company, the Bank only maintains project-specific insider lists. These project-specific insider lists are established immediately when information that the Bank, in compliance with applicable regulations, deems to be insider information arises. Persons included on project-specific insider lists are prohibited from trading in the Bank's financial instruments as long as they are included on such a list.

The Bank does not maintain any permanent insider list, or any list of persons who participate in the preparation of interim reports and annual accounts. Persons discharging managerial responsibilities at the Bank and persons closely associated with them are obligated to immediately report their transactions in the Bank's financial instruments. The Bank publishes stock exchange releases on these transactions.

In accordance with the EU's Market Abuse Regulation and the insider regulations of the Nasdaq Helsinki Oy (the Helsinki Stock Exchange), the Bank of Åland Group has introduced a trading restriction, under which persons in management positions as well as all Group employees may not trade in the Bank's financial instruments during a 30-day period before and including the publication date of the Bank's financial reports. The trading restriction also includes minors for whom persons in management positions or Group employees are guardians, as well as organisations in which people in management positions or Group employees have a controlling influence.

The Bank observes a silent period of three weeks prior to the publication of an interim report, half-year financial report or year-end report.

For employees who participate in providing investment services, the Bank also applies Group-wide trading restrictions that are based on the trading rules established by such professional organisations as Finance Finland, the Swedish Securities

Dealers Association and the Swedish Investment Fund Association.

The Bank's Legal Affairs department regularly monitors information reported to the insider register and insider lists, as well as information about people in management positions and their related parties. The Bank's Compliance department regularly monitors employee compliance with the trade restrictions in force.

Regulations for related party transactions

The Bank has established internal regulations for identification and decision making concerning transactions with related parties. The internal regulations govern such matters as identification, reporting and oversight of related party transactions as well as the decision making process and management of conflicts of interest.

Auditors

According to its Articles of Association, the Bank shall have at least three auditors and the necessary number of deputies for them. An auditor is appointed yearly at the Annual General Meeting (AGM) for the period up to the end of the next Annual General Meeting.

The latest AGM in 2021 re-elected Marcus Tötterman, CGR, and Fredrik Westerholm, CGR. It also elected Henry Maarala, CGR, as an auditor. The CGR-affiliated firm of KPMG Oy Ab was re-elected as deputy auditor.

During 2021, Group companies paid a total of EUR 429,233 (379,936) including value-added tax for auditing fees. In addition, they paid EUR 344,309 (149,758) including VAT for consulting assignments performed by KPMG Oy Ab.

Compensation to the Board, Managing Director and other Executive Team members

The Bank's compensation statement, including its compensation report for 2021, has been published in Swedish and Finnish on the Bank's website, www.alandsbanken.fi.

Board of Directors



Nils Lampi

CHAIRMAN

CEO, Wiklöf Holding Ab
Bachelor of Economic Sciences
Born 1948
Chairman of the Board since 2013
Board member since 2013



Christoffer Taxell

DEPUTY CHAIRMAN

Master of Laws
Born 1948
Deputy Chairman of the Board since 2013
Board member since 2013



Åsa Ceder

Business owner
Master of Science in Economics
Actuary
Born 1965
Board member since 2016



Anders Å Karlsson

Business owner
Bachelor of Commerce
Born 1959
Board member since 2012



Ulrika Valassi

Business owner
Master of Business Administration
Born 1967
Board member since 2015



Anders Wiklöf

Business owner
Doctor of Economics (honorary), Commercial Counsellor
Born 1946
Board member since 2006

Further information in Swedish and Finnish about the members of the Board can be found on the Bank's website www.alandsbanken.fi

Executive Team



Peter Wiklöf

Managing Director, Chief Executive
Master of Laws
Born 1966
Chairman and member of the Executive Team since 2008



Jan-Gunnar Eurell

Chief Financial Officer, Deputy Managing Director
Master of Business Administration, Bachelor of Science (Economics)
Born 1959
Member of the Executive Team since 2011



Tove Erikslund

Chief Administrative Officer
Master of Business Administration
Born 1967
Member of the Executive Team since 2006



Magnus Johansson

Director, Sweden Business Area
Bachelor of Science (Economics)
Born 1972
Member of the Executive Team since 2017



Mikael Mörn

Director, Åland Business Area
Associate of Arts in Commerce
Born 1965
Member of the Executive Team since 2017



Juhana Rauthovi

Chief Risk & Compliance Officer
Licentiate in Laws, MSc (Econ), MSc (Tech),
Master in International Management
Born 1975
Member of the Executive Team since 2012



Anne-Maria Saloniis

Director, Finnish Mainland Business Area
Attorney at Law, Master of Laws
Born 1964
Member of the Executive Team since 2010



Sofie Holmström

Manager, Partnerships Business Area
Master of Science, IT Management
Bachelor of Commerce, Business Administration
Born 1985
Member of the Executive Team since 2021

Further information in Swedish and Finnish about the members of the Executive Team can be found on the Bank's website www.alandsbanken.fi

Definitions

ACTIVELY MANAGED ASSETS

Managed assets in the Bank's own mutual funds plus securities custodial accounts with discretionary and advisory asset management agreements.

ALTERNATIVE PERFORMANCE MEASURES

Alternative performance measures are financial metrics of historical or future earnings developments, financial position or cash flow that have not been defined in applicable accounting regulations (IFRSs) or capital requirements regulations (CRD/CRR).

The Bank of Åland uses alternative performance measures when they are relevant in order to monitor and describe the Bank's financial situation, to facilitate comparability between periods and to provide additional usable information to the readers of its financial reports.

These measures are not necessarily comparable to similar financial metrics that are presented by other companies.

CAPITAL COVER RATIO

Own funds divided by risk exposure amount.

COMMON EQUITY TIER 1 (CET1) CAPITAL

Equity capital excluding proposed dividend, deferred tax and intangible assets and certain other adjustments according to the European Union's Capital Requirements Regulation No. 575/2013 (CRR).

COMMON EQUITY TIER 1 (CET1) CAPITAL RATIO

Common equity Tier 1 (CET1) capital divided by risk exposure amount. Replaces "core Tier 1 capital" concept.

EARNINGS PER SHARE

Shareholders' portion of earnings for the period divided by average number of shares.

EQUITY/ASSETS RATIO

Equity capital as a percentage of balance sheet total.

EQUITY CAPITAL PER SHARE

Shareholders' portion of equity capital divided by number of shares less own shares on closing day.

EXPECTED CREDIT LOSS (ECL)

The present value of expected future credit (loan) losses on financial assets. ECL is a product of PD, LGD and exposure at default.

EXPENSE/INCOME RATIO

Total expenses divided by total income.

GROSS EQUITY/ASSETS RATIO

Tier 1 capital divided by balance sheet total plus certain off-balance sheet items recalculated using conversion factors defined in the standardised approach.

GROSS LENDING TO THE PUBLIC IN STAGE 3, %

Gross lending to the public in Stage 3, divided by lending to the public before provisions for impairment losses.

INVESTMENT MARGIN

Net interest income as percentage of average* balance sheet total.

LEVEL OF PROVISIONS FOR LENDING TO THE PUBLIC IN STAGE 3

Provisions for impairment losses in Stage 3 as a percentage of gross lending to the public in Stage 3.

LIQUIDITY COVERAGE RATIO (LCR)

High-quality liquid assets as a percentage of estimated net liquidity outflow during a 30-day period.

LOAN/DEPOSIT RATIO

Lending to the public divided by deposits from the public.

LOAN LOSS LEVEL

Net impairment losses on loan portfolio and other commitments in lending to the public divided by lending to the public at the beginning of the period.

LOSS GIVEN DEFAULT (LGD)

LGD specifies the percentage of loss in an exposure, in the event of a default.

NET STABLE FUNDING RATIO (NSFR)

Available stable funding as a percentage of necessary stable funding.

OWN FUNDS (REPLACES CAPITAL BASE CONCEPT)

Total of Tier 1 capital and Tier 2 (supplementary) capital.

PAYOUT RATIO

Dividend per share as a percentage of earnings per share.

PROBABILITY OF DEFAULT (PD)

The probability that a counterparty or a contract will default within 12 months.

RETURN ON EQUITY AFTER TAXES (ROE)

Profit for the report period attributable to shareholders divided by average shareholders' portion of equity capital.

RISK EXPOSURE AMOUNT

Assets and off-balance sheet commitments, risk-weighted according to capital adequacy regulations for credit risk and market risk. Operational risks are calculated and expressed as risk exposure.

TIER 1 CAPITAL

Common equity Tier 1 (CET1) capital including certain loss-absorbing subordinated debentures ("additional Tier 1 capital").

TIER 2 (SUPPLEMENTARY) CAPITAL

Mainly subordinated debentures that do not meet requirements to be included as additional Tier 1 capital.

* Average of 13 end-of-month figures.

Stock exchange releases, 2021

JANUARY

January 1, 2021 Decision on dividend distribution for 2019

FEBRUARY

February 5, 2021 Year-end Report for the period January – December 2020
 February 10, 2021 Managers' Transactions ((Eurell)
 February 24, 2021 Managers' Transactions (Eurell)
 February 24, 2021 Notification of an application for the admission of a security to trading in a regulated market
 February 26, 2021 The 2020 Annual Report of the Bank of Åland Plc
 February 26, 2021 Bank of Åland Plc's targeted share issues for implementation of the share savings programme for employees and the variable compensation system for members of the Executive Team and key individuals

MARCH

March 5, 2021 Managers' Transactions (Salonius)
 March 5, 2021 Managers' Transactions (Eurell)
 March 5, 2021 Managers' Transactions (Rauthovi)
 March 5, 2021 Managers' Transactions (Mörn)
 March 5, 2021 Managers' Transactions (Wiklöf)
 March 5, 2021 Notice to convene the Annual General Meeting
 March 9, 2021 Managers' Transactions (Johansson)
 March 9, 2021 Managers' Transactions (Erikslund)
 March 9, 2021 Notice of an application for the admission of a security to trading in a regulated market
 March 30, 2021 Decisions at the 2020 Annual General Meeting of the Bank of Åland Plc

APRIL

April 27, 2021 Bank of Åland Plc: Interim Report for the period January – March 2021

JUNE

June 16, 2021 Managers' Transactions (Johansson)
 June 16, 2021 Managers' Transactions (Johansson)

JULY

July 8, 2021 Bank of Åland's net operating profit substantially better than last year, and preliminary Q2 earnings
 July 20, 2021 Bank of Åland Plc: Half-Year Financial Report for the period January – June 2021
 July 20, 2021 Bank of Åland Plc: Financial information and Annual General Meeting, 2022

AUGUST

August 17, 2021 Ålandsbanken Abp announces a consent solicitation for its up to SEK 2,500,000,000 Covered Bond due 2022 issued under Ålandsbanken Abp's EUR 2,000,000,000 Medium Term Note and Covered Bond Programme and initiates a procedure in writing
 August 17, 2021 Ålandsbanken starts consent solicitation process with certain noteholders in order to be prepared for contemplated transfer of its Swedish mortgage loans to Borgo
 August 25, 2021 Ålandsbanken Abp announces an increase in the Call Price in the consent solicitation process for its Notes due 2022
 August 26, 2021 Niclas Södergård new Managing Director of Bank of Åland Plc's subsidiary Crosskey Banking Solutions Ab Ltd
 August 27, 2021 Ålandsbanken Abp announces results of the consent solicitation process for its Notes due 2022

SEPTEMBER

September 1, 2021 Ålandsbanken Abp announces conditional exercise of the Call Option for its Notes due 2022
 September 2, 2021 Ålandsbanken Abp announces that the condition precedent for the exercise of the Call Option for its Notes due 2022 has been satisfied and further announces the redemption date and the payment date of the Consent Fee
 September 10, 2021 Approval of the prospectus by the Finnish Financial Supervision Authority and notification of an application for the admission of a security to trading in a regulated market

OCTOBER

October 26, 2021 Bank of Åland Plc: Interim Report for the period January – September 2021
 October 26, 2021 Bank of Åland updates its long-term financial targets

NOVEMBER

November 9, 2021 Bank of Åland begins acquisitions of its own shares

DECEMBER

December 15, 2021 Bank of Åland Plc: Notification of an application for the admission of a security to trading in a regulated market
 December 19, 2021 Correction of capital adequacy disclosures published during 2021

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