

BANK OF ÅLAND PLC

# Annual Report 1998

# Bank of Åland Plc

## HIGHLIGHTS

	1998 FIM M	1997 FIM M
INCOME STATEMENT IN BRIEF		
Net income from financial operations	125.8	115.5
Other income	71.0	57.4
Expenses	-123.8	-102.4
Loan losses	<u>-1.0</u>	<u>-0.9</u>
Net operating profit	72.0	69.6
SELECTED BALANCE SHEET ITEMS, DEC. 31		
Lending	4,770	3,395
Deposits, including bonds issued etc.	5,026	4,094
Equity capital	356	346
Total assets	6,407	5,109
FINANCIAL RATIOS		
Return on equity, %	14.8	14.8
Shareholders' equity and reserves per share, FIM	44.45	43.26
Earnings per share, FIM	6.40	6.26
Risk-based capital ratio, %	11.0	13.3
Number of branch offices	28	26
Number of employees (Recalculated as full-time equivalents)	312	275

## FINANCIAL INFORMATION

The Bank of Åland will publish the following interim reports during the 1999 financial year:

The January–March 1999 interim report will appear on Friday April 23

The January–June 1999 interim report will appear on Friday August 20

The January–September 1999 interim report will appear on Thursday October 21

The interim reports are published on the Internet: [www.alandsbanken.fi](http://www.alandsbanken.fi). They can also be ordered from: Secretariat, Bank of Åland Ltd, P.O. Box 3, FIN-22101 MARIEHAMN, Åland, Finland. Fax: +358 204 291228. E-mail: [info@alandsbanken.fi](mailto:info@alandsbanken.fi)

*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 6,400-island Åland archipelago has 25,000 inhabitants. Its official language is Swedish.*

*This translation of the Swedish-language Annual Report uses the international currency codes for Finnish marks (FIM) and U.S. dollars (USD). At year-end 1998, USD 1 was approximately equal to FIM 5.10. Other currency codes used here: DEM = German marks, ECU = European Currency Units, GBP = British pounds and SEK = Swedish kronor.*

*“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), while 000 means thousand(s). Finnish place names are sometimes followed in parentheses by the corresponding Swedish place name.*



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○ FOLKE HUSELL ○

## Chief Executive Officer's comments

### *External factors and stock markets*

During 1998, the growth in the Finnish economy was strong, although problems elsewhere in the world increasingly affected the situation in Finland.

Information about the depth of the South East Asian economic crisis and assessments of its impact on the Western economies varied greatly from one period to another. There was also great uncertainty about Japan's ability to deal with its structural problems and its banking crisis. The same was true of Russia and its former satellite states. In Eastern Europe, moreover, the political situation was very unclear. Investors were thrown between hope and desperation, but an influx of liquidity still caused the Western world's stock markets to rise and interest rates to fall. When Brazil was also classified as an economy in distress, however, the overall effect was that pessimism temporarily took the upper hand. In October we witnessed a mini-crash which in many places wiped out the year's earlier stock market gains.

In this situation, the US Federal Reserve and the central

banks of the eleven western European member countries of the new Economic and Monetary Union (EMU) showed their determination by implementing interest rate cuts that the markets perceived as sufficiently resolute to provide the requisite stimulation. This led to a rapid market rebound, even before year-end lifting many stock exchanges almost to their earlier record levels. However, profit warnings from large well-known corporations had the effect of narrowing the upturn, which largely focused on growth stocks, whereas basic industries had a tough time. It may be too early to declare the emergency over in terms of threats to the growth of the American economy, which is so important to the whole world.

Unemployment in Finland fell to just below 10 per cent. Inflation was about 1 per cent on an annual basis. Generally speaking, the country was suffused by a large dose of economic optimism. The memory of the years of deep recession earlier in the 1990s began to fade somewhat. Among other things, this led to rising consumption and willingness to invest. Some capital goods were being bought up almost as fast

as during the "crazy days" of the 1980s. There was also a significant surge of interest in home ownership.

### *The banking industry*

The demand for credit grew, although companies continued to finance their capital spending internally as much as possible. People's willingness to take out home mortgage loans was undoubtedly affected by historically low nominal interest rates, which made many people forget that real interest rates were still historically high.

The background to these low interest rates was the general downturn in European and US rates and the increasingly clear interest rate convergence in Euroland (the soon-to-be euro zone), where as 1999 approached, all interest rates moved closer to those of the stronger currencies.

Although consumption was at a good level, the inclination of Finnish bank customers to save was even more apparent. This meant continued high bank savings and increased retirement savings. Savings in mutual funds (unit trusts), which were previously modest in Finland, also took off.

### *The Bank of Åland*

During 1998, the work of the Bank was largely characterised by growth in business volume and the implementation of previously planned measures.

The volume growth at our branch offices on the Finnish mainland clearly outdistanced our expectations, although to minimise the risks in its new loan portfolio, the Bank focused heavily on residential financing, i e, relatively small loans. Deposits also grew satisfactorily. But the most gratifying development was that the profitability of the new branches grew faster and better than we had previously dared to hope. As a result, during 1998 the Bank was able to take steps entirely as planned to open additional branch offices in Helsinki (Helsingfors). The Bank thus opened a new branch in December and another immediately after New Year, in January 1999.

During the autumn the Bank's mutual fund subsidiary, Ålandsbanken Fondbolag, began its operations. Internet services as well as IT support in the form of an internal Bank network (intranet) were likewise launched. The Bank recruited new employees for its expanded securities brokerage and asset management services, and new premises for these operations are being readied in Mariehamn. However, the most resource-demanding project was systems adjustments related to the introduction of the euro, which will coexist in Finland with the mark during 1999-2002. During the second half of 1998, this project occupied nearly all of the Bank's systems development staff, not to mention all the other individuals in the organisation who were involved in one way or another in the planning and implementation of the project. Only those who followed the project up close can appreciate its scale. More than 6,000 computer programmes at the Bank were euro-adapted. But everything proceeded both smoothly and as planned.

### *Problem loans*

Net loan losses were small, due to declining losses as well as reversals of earlier loss provisions. At year-end 1998, total nonperforming loans and other zero-interest receivables amounted to FIM 11.4 M or 0.2 per cent of loans and guarantees outstanding.

The tourist facilities taken over by the Bank during the years of deep recession were leased to an independent party.

### *New share issue to employees*

During 1998 an equity warrant programme was established for the Bank's regular staff, with a deviation from the shareholders' pre-emptive subscription right.

### *Earnings*

Net operating profit rose to FIM 72.0 M. The increase was mainly due to an improvement in net income from financial operations and to better income on the Bank's own securities trading.

### *Trend of earnings*

Due to lower interest rates, the Bank's primary return on equity capital is of steadily diminishing importance to net income from financial operations. Shrinking margins are meanwhile depressing the contribution of deposit-taking and lending operations. Only by means of larger volume can the Bank offset the above-mentioned negative impact on net income from financial operations. It is therefore important for the Bank to have a growth strategy that generates the requisite new business volume. Of the growth in the Bank's loan portfolio, which was 40.5 per cent during 1998, 39 percentage points came from the Finnish mainland offices.

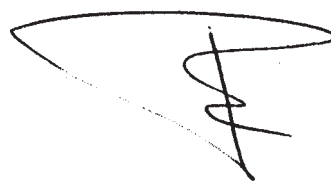
It is also important for the Bank to generate other types of revenues besides net income from financial operations. Examples of these are commission income from securities brokerage and foreign exchange dealing, mutual fund and asset management services as well as sales of pension plans. This part of the Bank's operations also developed favourably during 1998. With the aid of the new resources being allocated to the Bank's Capital Market Division, these revenues are expected to increase significantly over the next few years.

It is easy to see that the Bank is in the midst of a very large-scale investment and development programme, which not only requires heavy work inputs, but which at first also increases expenses, thereby affecting earnings. However, we anticipate that during 1999 and if necessary next year, we will realise capital gains in the Bank's securities portfolio to such an extent that these gains will easily offset the initially negative impact of the investment programme.

### *Warm gratitude*

In closing, I would like to thank all our customers and shareholders for this past year. Thank you for your confidence. I also want to express my warm gratitude to the entire staff of the Bank, who have made a huge contribution by expertly and whole-heartedly devoting their energies to improving the Bank, its services, business volume and systems.

Mariehamn, January 1999



Folke Husell



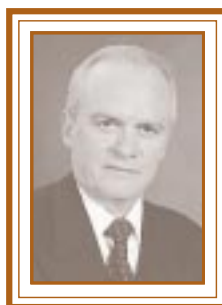
# Report of the Directors

## BOARD OF MANAGEMENT/BOARD OF DIRECTORS



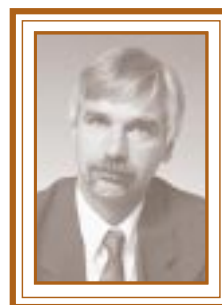
FOLKE HUSELL

Chairman  
Born 1945  
Member since  
1982



PETER GRÖNLUND

Vice Chairman  
Born 1948  
Member since  
1992



LARS DONNER

Born 1948  
Member since  
1986



EDGAR VICKSTRÖM

Born 1961  
Member since  
1996



LENNART HAGLUND

Born 1948  
Member since  
1997



JAN TALLQVIST

Born 1947  
Member since  
1997

## Operating results and profitability

The consolidated accounts include figures on the Bank of Åland Plc (Ålandsbanken Abp), the Bygghast Group and Ålandsbanken Fondbolag Ab.

### *Net income from financial operations*

During 1998, consolidated income from financial operations rose by 8.9 per cent to FIM 125.8 M, primarily due to sharp growth in lending volume. The margins between interest rates on deposits and lending narrowed further during the year. The return on the Bank's own investments declined due to lower interest rates than in 1997.

### *Other income*

Dividend income rose by 14.5 per cent to FIM 4.8 M. Commission income rose by 5.0 per cent to FIM 36.9 M. This increase came largely from the Bank's asset management and securities brokerage business. Guarantee com-

missions declined somewhat. Net income from the Bank's own securities trading amounted to FIM 10.8 M, which was a sharp increase compared to 1997. This income included FIM 7.9 M in unrealised changes in the value of the trading portfolio. Net income on foreign exchange dealing was about the same as the 1997 figure, totalling FIM 5.7 M. Other operating income rose by 39.8 per cent to FIM 11.4 M. This income included capital gains of FIM 4.6 M on the sale of properties and holdings in real estate corporations.

The effect on income from companies that are consolidated in the accounts according to the equity method amounted to FIM 1.4 M, compared to FIM 1.6 M in 1997.

Total income – net income from financial operations and other income plus the effect on income from companies consolidated according to the equity method – rose by 13.8 per cent to FIM 196.8 M.

### Expenses

The expansion of the Bank of Åland led to an increase in operating expenses during 1998. Recruitment of new employees raised staff costs by 15.7 per cent to FIM 70.3 M. Other administrative expenses (office costs, marketing, telecommunications and computer costs) rose by 32.5 per cent to FIM 26.9 M. Depreciation increased by 38.3 per cent to FIM 7.2 M. Due to higher rental costs, other operating expenses rose by 19.4 per cent to FIM 17.6 M.

Total expenses including planned depreciation rose by 20.9 per cent to FIM 123.8 M.

### Loan losses

Net loan losses and write-downs on securities held as financial fixed assets, plus recoveries and reversals of loss provisions, amounted to FIM 1.0 M. Reported net loan losses and write-downs as a percentage of the Bank's total receivables and contingent liabilities amounted to 0.02 per cent, as in 1997.

*Net operating profit* rose by 3.5 per cent to FIM 72.0 M.

### Appropriations

The Group increased its reserve for possible loan losses by FIM 6.8 M. Since planned depreciation exceeded recorded depreciation by FIM 1.0 M, the difference between recorded and planned depreciation was reduced by this amount.

### The balance sheet

The balance sheet total climbed 25.4 per cent to FIM 6.4 billion. The loan portfolio grew by 40.5 per cent. Total deposits from the public climbed by 22.8 per cent. Deposit accounts advanced by 15.6 per cent.

### Personnel

At the close of 1998, the number of employees, recalculated as full-time equivalents, was 312. This represented an increase of 37 positions compared to the close of 1997.

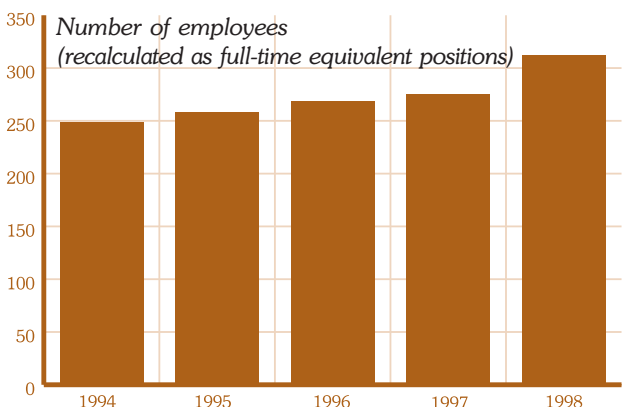
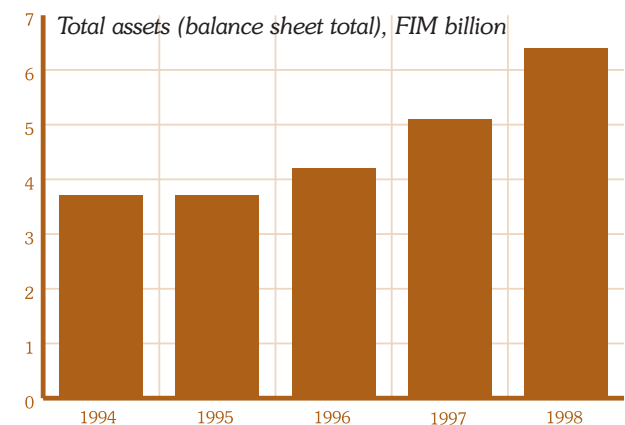
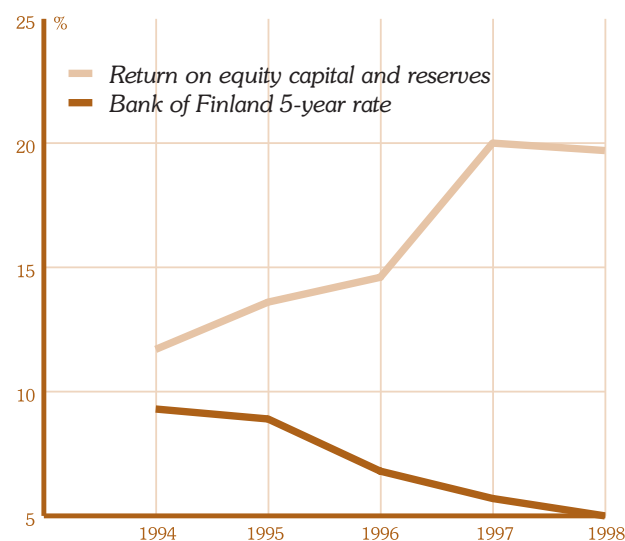
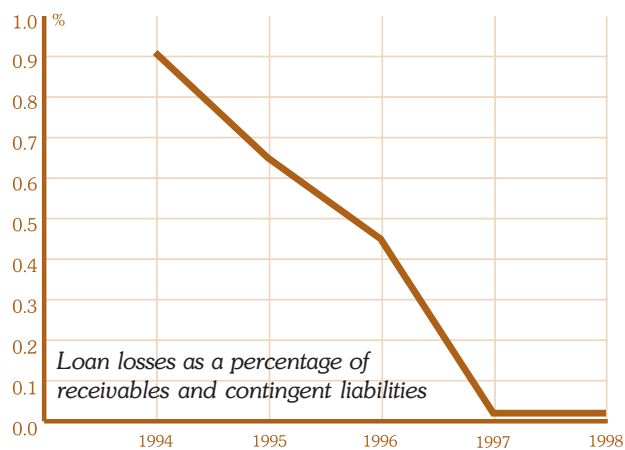
### Introduction of the euro

The Bank of Åland switched to the new euro currency as soon as its phase-in period in Finland and ten other European Union countries began in January 1999. This enables the Bank to offer most of its products denominated in euro. During 1998 substantial data processing and other administrative expenses for the euro project were charged to earnings.

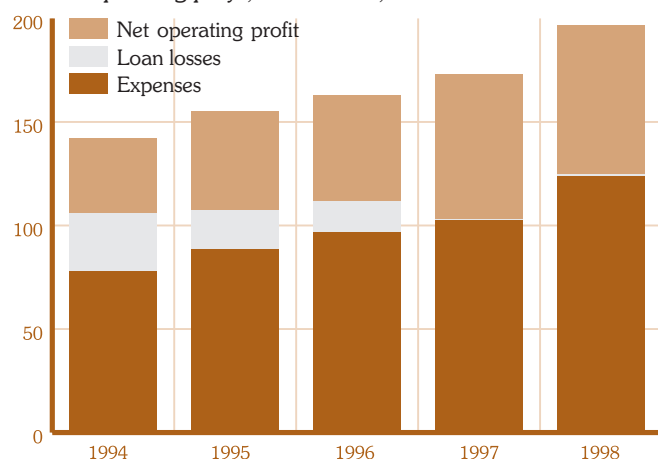
### Year 2000

The Year 2000 (Y2K) issue is related to problems that may occur in computers during the transition from 1999 to 2000. The Bank has made extensive preparations to ensure reliable operation of its computer systems during and after the beginning of the next millennium.

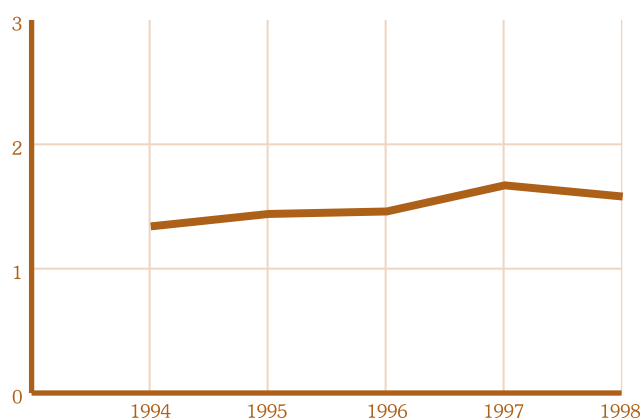
In keeping with the general timetable of the Finnish banks, the intention is to achieve full Year 2000 readiness during the first half of 1999. This task includes a complete review and adaptation of internal computer systems, hardware and telecommunications equipment as well as full-scale testing of systems and hardware to ensure Year 2000 compatibility.



### Net operating profit, 1994–1998, in FIM M



### Income/expense ratio



### Return on equity

Return on equity, measured as net operating profit divided by the sum of equity capital and reserves on January 1:

	1998		1997	
	FIM M	Return on equity	FIM M	Return on equity
Net operating profit				
before loan losses	73.0	19.9%	70.5	20.3%
Net operating income	72.0	19.7%	69.6	20.0%

### Profit margin

Profit margin is defined as the percentage of total income that remains after subtracting expenses, depreciation, loan losses and taxes. The profit margin of the Bank of Åland Group fell from 29.0 per cent in 1997 to 26.3 per cent in 1998.

### Income/expense ratio

This yardstick of efficiency is defined as income divided by expenses including depreciation - before or after loan losses, respectively. A ratio of 1.0 means that income exactly covers expenses.

	1998	1997
Income/expense ratio before loan losses	1.59	1.69
Income/expense ratio after loan losses	1.58	1.67

### Capital adequacy

The Group's capital adequacy according to the Credit Institutions Act: The capital adequacy rules require that the capital base in the form of shareholders' equity and reserves amount to at least 8 per cent of risk-weighted receivables and contingent liabilities.

	Dec 31, 98	Dec 31, 97
Capital base, FIM M		
Core capital	273.7	274.5
Supplementary capital	120.4	122.0
Extended portion of capital base for covering market risks	0.0	0.7
Total capital base	394.1	397.2

	Dec 31, 98	Dec 31, 97
Risk-weighted volume, FIM M	3,594.1	2,996.8
Total capital ratio, per cent	10.96	13.26
Core capital as percentage of risk-weighted volume	7.61	9.16

Comparative figures for 1997 have been recalculated to conform to current rules.

On January 15, 1999, the Bank issued a debenture loan of 10 million euro (FIM 59.5 M). This debenture loan, which is classified as supplementary capital, raises the total capital ratio by about 1.5 percentage points compared to the December 31, 1998 level.

### Risk management

Risk management in the Bank follows principles and instructions established by the Board of Management.

In the case of corporate loans, all customers have a contact person who is familiar with the customer's operations and other developments, as well as the loan collateral and risks. The Bank has an internal credit evaluation system, which it employs for regular monitoring of corporate customers' financial position and credit risk.

Decisions on loans and bank guarantees are made by the Bank's Board of Management, which may delegate decision-making to certain individuals or groups of individuals by means of special authorisations. According to the existing instructions, the Board of Management decides all cases that involve commitments larger than a certain amount. Large customer commitments are reported both internally and to the Financial Supervision Authority. According to the existing rules, a large customer risk is defined as a commitment equivalent to at least 10 per cent of the Bank's capital base.

The creditworthiness of private individuals is judged on the basis of the collateral offered and the disposable income of the borrower. A majority of the Bank's loans to private individuals are granted to customers who reside in one of the five regions of Finland where the Bank operates, and with residential property as collateral.

The loan portfolio includes very modest receivables from customers domiciled abroad. No commitments are located in crisis-affected parts of the world such as Russia, Asia or South America.



The Capital Market Division manages risks in the foreign exchange, money, bond and equity markets. The basic principles are that the Bank shall avoid risk- and position-taking. For this reason, the risk limits applicable to each field are very small.

The Bank measures and monitors the most central risks in these fields on a daily basis. Reports are supplied to the division management and to the head of the Loan Division weekly, and in case of deviations immediately also to the Bank's Board of Management. The Bank does not carry out active trading in derivative instruments.

### *The future*

The Bank intends to expand further, by opening another branch office in Helsinki and by developing electronic banking services via the Internet. In the asset management and

securities brokerage fields, the Bank of Åland will further develop and adapt its services and products to rising demand.

Net income from financial operations is expected to increase, despite continued keen price competition. Staff costs and other operating expenses will increase mainly as a consequence of recruitment of new employees and investments in new technology. Loan losses are expected to remain at a low level. Taken together, this will probably result in satisfactory earnings in 1999 as well.

## Five-year Group summary

(FIM M unless otherwise stated)

	1994	1995	1996	1997	1998	% change 97-98
Revenue	271.9	285.9	276.4	278.3	336.1	20.8
Net income from financial operations	97.1	113.3	111.8	115.5	125.8	8.9
Other income	45.0	41.7	51.2	57.4	71.0	23.7
Other expenses (incl. depreciation)	78.1	88.5	96.8	102.4	123.8	20.9
Loan losses	27.7	19.0	15.0	0.9	1.0	8.9
<i>Net operating profit</i>	36.4	47.6	51.2	69.6	72.0	3.5
As % of revenue	13.4	16.6	18.5	25.0	21.4	
Extraordinary items	0.0	0.0	-6.3	0.0	-2.1	
Profit before appropriations and taxes	36.4	47.6	44.8	69.6	69.9	0.4
As % of revenue	13.4	16.6	16.2	25.0	20.8	
Equity capital	324.9	338.9	332.1	346.1	356.3	2.9
Total assets	3,660.1	3,733.0	4,208.3	5,108.6	6,407.0	25.4
Contingent liabilities	629.8	658.3	624.7	692.9	606.2	-12.5
Return on equity, % <sup>1)</sup>	8.5	10.7	11.0	14.8	14.8	
Return on total assets, % <sup>2)</sup>	0.8	1.0	0.9	1.1	0.9	
Equity/assets ratio, % <sup>3)</sup>	8.9	9.1	7.9	6.8	5.6	
Income/expense ratio before loan losses <sup>4)</sup>	1.82	1.75	1.69	1.69	1.59	
Income/expense ratio after loan losses <sup>5)</sup>	1.34	1.44	1.46	1.67	1.58	
Risk-based capital ratio, %	14.5	14.2	12.7	13.3	11.0	

Figures for the years 1994-1997 have been recalculated to reflect 1998 accounting principles.

$$1) \frac{\text{Net operating profit minus standard tax}}{\text{Average equity capital}} \times 100$$

$$2) \frac{\text{Net operating profit minus standard tax}}{\text{Average total assets}} \times 100$$

$$3) \frac{\text{Equity capital}}{\text{Total assets}} \times 100$$

$$4) \frac{\text{Net income from financial operations plus other operating income}}{\text{Expenses excluding loan losses}}$$

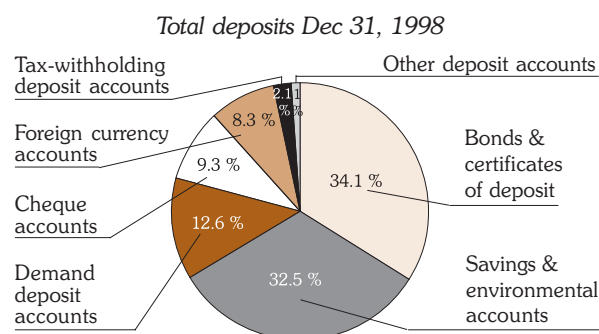
$$5) \frac{\text{Net income from financial operations plus other income}}{\text{Expenses including loan losses}}$$

# Deposits

During 1998, the Bank's total deposits from the public, including bonds issued and certificates of deposit, rose by FIM 932 M or 22.8 per cent and amounted to FIM 5,026 M.

Deposit accounts rose by FIM 447 M or 15.6 per cent and amounted to FIM 3,313 M. The increase was mainly attributable to Savings and Environmental Accounts.

Issues of certificates of deposit and bonds rose by FIM 485 M. This amount included the share index loans issued during 1998.



## *Deposits from the public and public sector entities, including bonds issued and certificates of deposit (FIM M)*

<i>Deposits from the public and public sector entities</i>	<b>Dec 31, 1998</b>	<b>Dec 31, 1997</b>	<b>% change</b>
Demand deposit accounts	632.1	597.3	5.8
Cheque accounts	469.3	418.8	12.1
Tax-withholding deposit accounts	105.8	81.4	30.0
Savings/Environmental accounts	1,635.8	1,335.3	22.5
Other deposit accounts	52.1	19.4	168.9
Total deposit accounts in FIM	2,895.1	2,452.1	18.1
Deposit accounts in foreign currencies	417.6	413.8	0.9
Total deposit accounts	3,312.7	2,866.0	15.6
<i>Bonds and certificates of deposit</i>	<u>1,713.7</u>	<u>1,228.8</u>	39.5
<b>TOTAL DEPOSITS</b>	5,026.4	4,094.7	22.8

# Lending

The Bank's total lending volume increased by FIM 1,375 M or 40.5 per cent and amounted to FIM 4,770 M as of December 31, 1998. Most of this increase went towards residential financing and to the service sector. Loans outstanding to the public sector and non-profit organisations declined somewhat.

Private households accounted for 53.9 per cent of the

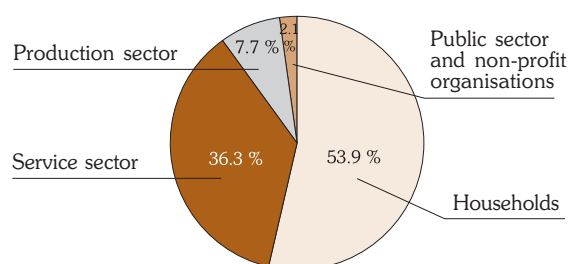
Bank's total loans outstanding, while business and professional activities accounted for 44.0 per cent. The corresponding figures in 1997 were 47.5 per cent and 49.1 per cent, respectively.

In 1998, the Bank discontinued its off-balance-sheet intermediation of customers' funds as loans to other customers. At the end of 1997, these loans amounted to FIM 326 M.

## Lending to the public and public sector entities (FIM M)

	Dec 31, 1998	Dec 31, 1997	% change
Overdraft facilities utilised	254.0	187.3	35.6
Loans	4,383.7	3,032.6	44.6
Loans disbursed from Åland government funds	49.3	53.8	-8.5
Lending in foreign currencies	82.8	121.4	-31.8
<b>TOTAL LENDING</b>	<b>4,769.7</b>	<b>3,395.1</b>	<b>40.5</b>

## Lending to the public, by sector, Dec 31, 1998



## Lending to the public and public sector entities, by sector (FIM M)

	Dec 31, 1998	Dec 31, 1997	% change
<b>BUSINESS AND PROFESSIONAL ACTIVITIES</b>			
<i>Service sector</i>			
Shipping	326.7	374.4	
Communications	66.3	59.8	
Hotels, restaurants, tourist cottages etc.	70.4	71.2	
Wholesale and retail trade	200.6	179.6	
Electricity, heating and water supply	19.2	19.7	
Housing and other property companies	249.9	197.8	
Other service business	797.9	451.2	
	1,730.9	1,353.7	27.9
<i>Production sector</i>			
Agriculture, forestry and fishing	166.7	124.7	
Food processing etc.	50.6	40.1	
Construction	46.1	24.7	
Other industry and crafts	105.1	126.3	
	368.5	315.7	16.7
<b>HOUSEHOLDS</b>			
Home loans	1,984.7	1,241.9	
Studies	51.8	40.2	
Other purposes (cars, boats, second homes, household appliances etc.)	533.0	330.4	
	2,569.6	1,612.6	59.3
<b>PUBLIC SECTOR AND NON-PROFIT ORGANISATIONS</b>			
	100.7	113.1	-10.9
<b>TOTAL LENDING</b>	<b>4,769.7</b>	<b>3,395.1</b>	<b>40.5</b>

# Our branch offices and corporate entities

Bank of Åland Plc (Ålandsbanken Abp) is a modern commercial bank that provides banking services for both private and corporate customers.

The Bank has branch offices in the Åland islands and in Helsinki (Helsingfors), Espoo-Tapiola (Esbo-Hagalund), Tampere (Tammerfors), Vaasa (Vasa), Turku (Åbo) and Parainen (Pargas).

Corporate entities can be found in Åland and in Helsinki (Helsingfors) and Turku (Åbo).

The Private Banking entity, which provides sophisticated asset management services, is found on Bulevardi (Bulevarden) in Helsinki (Helsingfors).

The map shows the following locations and staff members:

- VAASA (VASA)**: Lars Lönnblad
- TAMPERE (TAMMERFORS)**: Leena Honkasalo-Lehtinen
- ÅLAND Private Division**: Edgar Vickström
- ÅLAND Loan Division**: Lars Donner
- Vaasa (Vasa)**: Pekka Nuutinen
- Tampere (Tammerfors)**: Jan Tallqvist
- Turku (Åbo)**: Irmeli Tanner
- Espoo (Esbo)**: Anne-Maria Salenius
- Parainen (Pargas)**: Jan-Peter Pomrén
- Helsinki (Helsingfors)**: Kim Wikström
- Helsinki (Helsingfors) Bulevardi (Bulevarden)**: Maria Bernas-Hilli
- Helsinki (Helsingfors) Private Banking**: Maria Bernas-Hilli
- Helsinki (Helsingfors) Private Banking**: Maria Bernas-Hilli
- TURKU (ÅBO)**: Beatrice Ramström
- TURKU (ÅBO) Corporate Entity**: Tony Jäntti
- PARAINEN (PARGAS)**: Jan-Peter Pomrén
- ESPOO Tapiola (ESBO Hagalund)**: Irmeli Tanner
- ALEKSANTERINKATU (ALEXANDERSGATAN)**: Anne-Maria Salenius
- WESTERN HELSINKI (HELSINGFORS)**: Tuula Lehmuskoski

**Åland**  
Head Office in MARIEHAMN and 20 local branch offices

# The private market

During 1998, the private (or household) market was characterised by rapid expansion. Loans to private individuals rose by 59.3 per cent compared to the preceding year. Due to growing demand for the services of the Bank of Åland, it opened two new locations in Helsinki (Helsingfors). The Bank opened a branch office in the Munkkiniemi (Munksnäs) district in mid-December and a branch office at Aleksanterinkatu (Alexandersgatan) at the turn of the year. For some time, there has been a branch in the Tapiola (Hagalund) district of Espoo (Esbo), a Helsinki suburb. Another is planned in eastern Helsinki. Together, these branch offices provide a base for a broad and vigorous investment in the private market in the Finnish capital region. Meanwhile the Private Banking services at the Bulevardi (Bulevariden) office will be developed further. During 1998, the branch offices in Tampere (Tammerfors), Turku (Åbo) and Vaasa (Vasa) expanded their premises and hired new employees.

## *Financial planning*

Providing personal financial advice to customers is a guiding principle of the Bank's services. Working together with the customer, we seek loan and investment solutions that meet his or

her needs in the best possible way. During 1998, we introduced a new financial planning concept which provides effective computer support to the Bank's financial advisors and customers in their search for optimal solutions. For example, this working method focuses more than previously on fixed-rate loans, limited lines of credit and retirement savings plans, including plans for salaried employees. The method also underscores the advantages of diversification, even for small savers.

## *The Internet branch office*

The first version of the Bank of Åland "Internet branch office" was launched in 1998. At this stage, customers with home computers can use it to pay bills and check their account balances. It is our ambition to offer additional banking services on the Net as early as 1999. For customers living in locations where we have no offices, it will become possible to establish a customer relationship directly via the Net. To emphasise the status of the Internet branch office as a separate business area, late in 1998 the Bank recruited a branch director who will be responsible for this new profit centre and will lead the Bank's Internet development efforts.

# The corporate market

Many of the Bank of Åland's corporate customers had a good year in 1998. Falling interest rates and growing demand in many industries laid the groundwork for good profitability. The shipping industry showed a strong interest in new projects. Shipping companies engaged in transporting goods for the forest product industry took delivery of new vessels or placed orders for newbuildings. The land-based Åland business sector was characterised by a certain caution, although its willingness to invest again began to grow.

The corporate banking entities in Turku (Åbo) and Helsinki

(Helsingfors) reported strong interest in their services. Many small and medium-sized companies contacted the Bank's offices in an attempt to find more advantageous alternatives, coupled with personal service. Housing and real estate companies showed a significant increase in loan demand. There is a strong need to finance the renovation of older properties in major metropolitan regions. Many banks are interested in this market, with keen competition as a result. In today's market, certain listed companies and municipalities negotiate margins that are unattractive from the Bank of Åland's viewpoint.

# Foreign exchange and capital markets

## *The foreign exchange, money and bond markets*

Despite economic depression in Asia and financial collapse in Russia, Finland managed to maintain high growth during 1998. Imports climbed as a result of higher consumption and stronger willingness to invest. The forest product industry exceeded its high 1997 level, while the electronics industry grew rapidly. Finland's export successes led to sizeable trade and current account surpluses.

Preparations for the third phase of EMU – the introduction of the euro – dominated the activity on European financial markets in 1998. Despite the turbulence under way in Asia, Russia and Latin America, the currency situation in the soon-to-be EMU area was relatively stable. The only adjustments

*The new currency dealing room in Mariehamn.*



in the Exchange Rate Mechanism (ERM) band occurred on March 16, when the Irish pound was revalued by 3 per cent while the Greek drachma was devalued by 14 per cent. The bilateral exchange rates between the currencies of the eleven countries belonging to the new currency union were fixed during the weekend of May 1–3 without great drama. For the Finnish mark, this meant an expected rate of FIM 3.0400 per DEM, which the market also adhered to during the autumn financial turmoil. On New Year's Eve, the European Commission set the final conversion factors for the currencies of the EMU countries against the euro. The movements of the Swedish krona were wide during 1998. Its value fluctuated between FIM 0.7092 and 0.6188.

The money and bond markets also prepared for the introduction of the common currency during 1998. Extensive tests were implemented and new payment systems were developed in the run-up to New Year 1999. Interest rates trended weakly downward during 1998. On March 19, however, the Bank of Finland raised its tender rate by 15 basis points to 3.40 per cent, which surprised the market. On December 3, the central bank lowered the tender rate to 3.00 per cent in a joint action with other central banks in the soon-to-be EMU area. This was a historic action.

The approaching currency union, combined with continued globalisation and slower growth, led to keener competition and severe price pressures during the year. This trend was apparent in long-term interest rates, which dropped to historically low levels. The spread between Finnish and German long-term bond yields fluctuated in the 15–50 basis point interval, depending on overall economic forecasts. At year-end, however, the interval narrowed to 20 points.

Since the structure of the European business sector remains dependent on the manufacturing sector, which is sensitive to economic cycles, over the next few years we will probably become accustomed to low inflation and low interest rates.

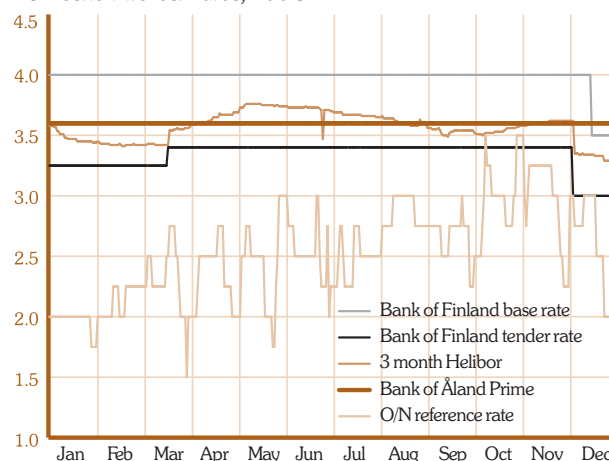
### The stock market

Falling interest rates, combined with increased private retirement savings, channelled more and more money into stock markets. The stock exchanges rose sharply in most Western industrialised countries. The largest increase was in the Helsinki Stock Exchange, where the HEX Index climbed by 68.5 per cent. The main factor behind this surge in share prices was Nokia, which at times accounted for more than 50 per

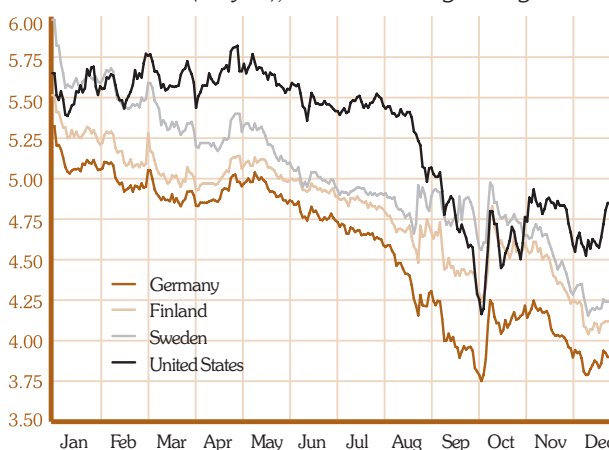
cent of total market capitalisation on the Exchange. In contrast, share prices for basic industry and cyclical companies fell. More than two thirds of listed companies in Finland saw their share prices fall during 1998. The Helsinki Stock Exchange's Portfolio Index rose by 15.6 per cent.

In January, the Bank of Åland issued two new share index loans: Europe West/East and Global II. These loans were subscribed in an amount of FIM 68 M. In June, the Bank issued another share index loan, Top of the World, which was also successful and was subscribed in an amount of FIM 100 M.

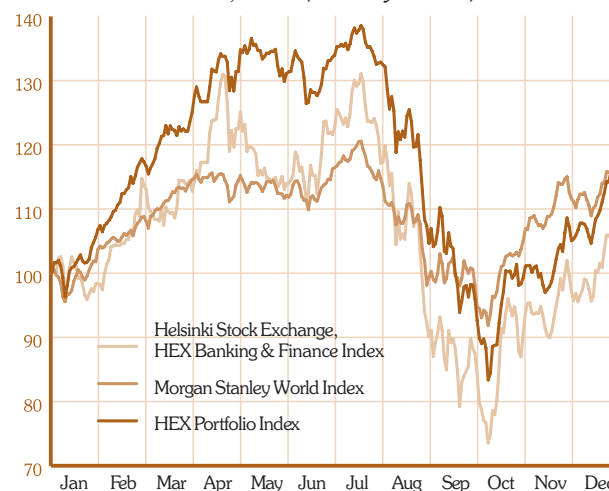
Domestic interest rates, 1998



Government bonds (10-year), interest rate change during 1998



Stock market indexes, 1998 (January = 100)



Currency exchange rates during 1998, percentage change compared to the Finnish mark



# Facts on Bank of Åland shares

## Share capital

The share capital of the Bank of Åland is FIM 80,162,000. The maximum share capital according to the Articles of Association is FIM 192 M. The shares are divided into 4,320,000 Series A and 3,696,200 Series B shares with a nominal value of FIM 10 apiece. Each Series A share represents twenty (20) votes at shareholders' meetings and each Series B share one (1) vote. Series B shares enjoy priority over Series A shares for dividends of up to six (6) per cent of nominal value.

## Changes in share capital

	Share capital	Series A shares	Series B shares
1994	FIM 48,000,000	4,320,000	480,000
1995	72,000,000	4,320,000	2,880,000
1996	80,000,000	4,320,000	3,680,000
1997	80,000,000	4,320,000	3,680,000
1998	80,162,000	4,320,000	3,696,200

## Convertible capital loan

During the spring of 1997, the Bank of Åland issued a convertible capital loan of FIM 100 M to the public. The capital loan pays annual interest of six (6) per cent and falls due for payment in its entirety on April 2, 2007.

	Issued	Conversions recorded in Finnish Trade Register	Remaining
Amount, FIM	100,000,000	1,620,000	98,380,000
Number of loan certificates:	10,000	162	9,838
Equivalent number of Series B shares	1,000,000	16,200	983,800

As of January 31, 1999, an additional 1,152 loan certificates, equivalent to FIM 11,520,000 or 115,200 Series B shares, had been converted. The remaining principal amount of the capital loan is FIM 86,860,000.

## Conversion terms

Each loan certificate with a nominal value of FIM 10,000 may be converted into 100 Series B shares with a nominal value of FIM 10 per share. The conversion price is thus FIM 100 per share. The conversion of loan certificates may increase the number of Series B shares by 1,000,000. The right of conversion for the loan began on April 2, 1998 and ends when the loan reaches maturity. Conversion may take place each year during the period April 2–January 31.

## Equity warrants

On March 20, 1998, the Annual General Meeting of the Bank of Åland approved the issuance of a maximum of 1,000,000 warrants entitling their holders to subscribe for a maximum of

1,000,000 Series B shares in all. As an important motivational factor for the employees of the Bank, these equity warrants were offered to Bank employees without payment. All of the warrants were subscribed.

## Terms of share subscription

Each equity warrant entitles the holder to subscribe for one (1) Series B share with a nominal value of FIM 10. The warrants are divided into four series, with a maximum of 250,000 warrants in each series. The share subscription period for Series I begins on April 1, 2000, for Series II on April 1, 2001, for Series III on April 1, 2002 and for Series IV on April 1, 2003. Subscription may take place each year during the period April 1–February 28 and the subscription period ends for all warrant certificates on December 30, 2003. The subscription price per share is:

Series I	FIM 110
Series II	FIM 115
Series III	FIM 120
Series IV	FIM 125

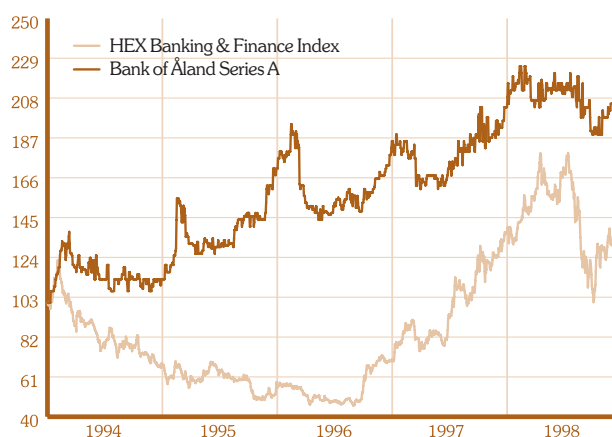
The subscription price is lowered by the sum of dividends per share distributed after January 1, 1999.

## Trading in the Bank's shares

During 1998, the volume of trading in the Bank's Series A shares on the Helsinki Stock Exchange was FIM 8.1 M. Their average price was FIM 116.36. The highest quotation per share was FIM 125, the lowest FIM 105. Trading in Series B shares totalled FIM 70.5 M at an average price of FIM 109.75. The highest quotation was FIM 119, the lowest FIM 98.

On December 31, 1998, the number of registered shareholders was 8,559. There were also a total of 112,224 shares registered in the names of trustees. Of the Bank of Åland's shares, 15,891 have not yet been exchanged from certificates to the book-entry share account system.

Changes in Bank of Åland Series A share price, 1994–1998, compared to HEX Banking & Finance Index in Finland (1994=100).



## The ten largest shareholders

Shareholder	Series A shares	Series B shares	Total of shares	% of shares	% of votes
1. The Chips Group (food processing)	848,531	215,765	1,064,296	13.3	19.1
2. Alandia-bolagen (insurance)	509,572	255,416	764,988	9.5	11.6
3. Ålands Ömsesidiga Försäkringsbolag (insurance)	430,276	-	430,276	5.4	9.6
4. Caelum Oy (investment company)	221,200	176,200	397,400	5.0	5.1
5. Mattsson Rafael	167,758	2,706	170,464	2.1	3.7
6. Ålandsbankens Pensionsstiftelse r.s. (The Bank's pension fund)	158,614	-	158,614	2.0	3.5
7. Nacawi Ab (investment company)	50,000	65,556	115,556	1.4	1.2
8. Wiklöf Anders	46,921	54,586	101,507	1.3	1.1
9. Palkkiyhymä (investment company)	50,000	33,333	83,333	1.0	1.1
10. Stiftelsen Hilda o. Gustaf Eriksons Understödsfond r.s. (charitable foundation)	49,454	25,483	74,937	0.9	1.1

After year-end 1998, changes have occurred in the ownership structure. Alandia-bolagen is now the largest shareholder, with 11.7 per cent of shares and 13.9 per cent of votes. The Chips Group holds 6.3 per cent of shares and 11.2 per cent of votes. Ålands Ömsesidiga Försäkringsbolag holds 6.4 per cent of shares and 10.3 per cent of votes.

## Shareholders by size of holding

Number of shares	Number of shareholders	Total number of shares held	Average holding
1 - 100	4,003	182,548	46
101 - 1 000	3,755	1,262,671	336
1 001 - 10 000	736	1,887,052	2,564
10 001-	65	4,555,814	70,089
Shares registered in name of trustee		112,224	
Share certificates not yet exchanged		15,891	

## Shareholders by category

Category	Number of shares	% of shares
Private individuals	3,707,332	46.2
Corporations	2,318,964	28.9
Insurance companies	1,196,567	14.9
Banks	13,981	0.2
Other financial institutions	9,914	0.1
Government organisations	280,004	3.5
Non-profit organisations	188,684	2.4
Foreign investors	172,639	2.2
Shares registered in name of trustee	112,224	1.4
Share certificates not yet exchanged	15,891	0.2

## Shareholdings by members of the Board of Management and the Supervisory Board

	Series A shares	Series B shares	% of shares	% of votes
Board of Management	17,628	5,000	0.3%	0.4%
Supervisory Board	82,925	72,764	1.9%	1.9%

Members of the Board of Management also owned 60 loan certificates of the capital loan issued by the Bank of Åland in 1997, which may be converted to 6,000 Series B shares. They also owned 62,200 equity warrants, which may be used to subscribe for an equal number of Series B shares. Capital loan and warrant holdings by members of the Board of Management entitle them to a theoretical shareholding of 0.7 per cent of the Bank of Åland's share capital.

## Bank of Åland shares traded, Helsinki Stock Exchange

Year		Thousands of shares	Volume as % of shares	Price paid: Highest <sup>*)</sup> /Lowest <sup>*)</sup>	Average price <sup>*)</sup>
1994	Series A	477	11.0	71.12-51.74	57.79
1994	Series B	182	37.9	67.90-49.86	58.33
1995	Series A	380	8.8	88.32-58.20	70.64
1995	Series B	492	18.4	85.67-60.55	71.24
1996	Series A	214	4.5	100.41-80.00	85.65
1996	Series B	1,497	47.3	98.60-77.60	86.27
1997	Series A	349	8.1	113.00-89.00	98.28
1997	Series B	1,044	28.4	118.00-85.00	96.40
1998	Series A	70	1.6	125.00-105.00	116.36
1998	Series B	642	17.4	119.00-98.00	109.27

<sup>\*)</sup> Adjusted for share issues.



## Bank of Åland (Group) share data

	1994	1995	1996	1997	1998	% change 97-98
Number of shares, M	4.80	7.20	8.00	8.00	8.02	
Average number of shares, M, adjusted for issues	7.42	7.64	7.91	8.00	8.01	
Number of shares at year-end, M, adjusted for issues	7.42	7.75	8.00	8.00	8.02	
Earnings per share, FIM <sup>1)</sup>	3.68	4.67	4.65	6.26	6.40 <sup>9)</sup>	2,2
Dividend per share, FIM <sup>2)</sup>						
Series A	9.50	8.00	5.00	5.25	5.25	
Series B	9.50	8.00	5.00	5.25	5.25	
Dividend per share, FIM, adjusted for issues						
Series A	6.14	7.44	5.00	5.25	5.25	
Series B	6.14	7.44	5.00	5.25	5.25	
Dividend payout ratio <sup>3)</sup>	125.4	121.1	78.2	60.4	59.3	
Shareholders' equity and reserves per share, FIM <sup>4)</sup>	43.78	43.71	41.52	43.26	44.45 <sup>9)</sup>	2,7
Market price per share, FIM <sup>5)</sup>						
Series A	87.50	93.10	99.00	113.00	110.00	
Series B	80.00	92.00	92.50	116.00	103.20	
Market price, adjusted for issues, FIM <sup>5)</sup>						
Series A	56.59	86.56	99.00	113.00	110.00	-2,7
Series B	51.77	85.57	92.50	116.00	103.20	-11,0
Price/earnings ratio, Series A <sup>6)</sup>	15.4	18.5	21.3	18.0	17.2	
Price/earnings ratio, Series B <sup>6)</sup>	14.1	18.3	19.9	18.5	16.1	
Effective dividend yield, % <sup>7)</sup>						
Series A	10.9	8.6	5.1	4.6	4.8	
Series B	11.9	8.7	5.4	4.5	5.1	
Yield incl. tax compensation according to avoir fiscal, % <sup>8)</sup>						
Series A	14.5	11.5	7.0	6.5	6.6	
Series B	15.8	11.6	7.5	6.3	7.1	
Market capitalisation, FIM M <sup>5)</sup>	416.4	667.2	768.1	915.0	856.6	-6,4

Figures for 1994–1997 have been recalculated to reflect 1998 accounting principles.

$$1) \frac{\text{Net operating income} - \text{standard tax}}{\text{Average number of shares, adjusted for new share issue}}$$

The calculation of this ratio for 1998 has taken into account conversions in the capital loan during the period January 1–31, 1999.

$$2) \text{The Board of Management's proposal to the Annual General Meeting.}$$

$$3) \frac{\text{Dividend for the year}}{\text{Net operating profit}} \times 100$$

$$4) \frac{\text{Equity capital} + \text{reserves} - \text{imputed taxes due}}{\text{Number of shares at year-end, adjusted for new share issues}}$$

$$5) \text{At year-end.}$$

$$6) \frac{\text{Year-end share price, adjusted for new share issues}}{\text{Earnings per share}}$$

$$7) \frac{\text{Dividend, adjusted for new share issues}}{\text{Year-end share price, adjusted for new share issues}}$$

$$8) \frac{\text{Dividend, adjusted for new share issues} + \text{tax compensation}}{\text{Year-end share price, adjusted for new share issues}}$$

9) If all equity warrants and subscription rights to which the convertible capital loan is entitled are exercised, earnings per share are FIM 5.91 and the ratio "shareholders' equity and reserves per share" is higher than the figure presented in the table.

# Ålandsbanken Fondbolag Ab

Ålandsbanken Fondbolag Ab is a wholly-owned subsidiary of the Bank of Åland Plc (Ålandsbanken Abp). It was established on April 14, 1998 and received its operating licence from the Ministry of Finance on June 23.

On October 23, 1998, Ålandsbanken Fondbolag Ab launched four new mutual funds (unit trusts) for the public: Placeringsfonden Ålandsbanken *Global Blue Chip*, Placeringsfonden Ålandsbanken *Europe Active Portfolio*, Placeringsfonden Ålandsbanken *Share Index Loan* and Placeringsfonden Ålandsbanken *Liquidity*.

The Financial Supervision Authority approved the statutes of these mutual funds on October 2, 1998. On October 23, the trusts were listed on the Helsinki Stock Exchange.

## Figures on the mutual funds

	Ålandsbanken Global Blue Chip	Ålandsbanken Europe Active Portfolio
Number of unit holders	173	201
Number of units	37,406.2032	74,597.5862
Size of mutual fund, FIM	3,755,062.91	7,771,431.31
Unit price, Dec 31, 1998, FIM	100.44	104.18
	Ålandsbanken Share Index Loan	Ålandsbanken Liquidity.
Number of unit holders	132	16
Number of units	37,544.3894	16,169.7535
Size of mutual fund, FIM	3,817,282.13	1,636,650.67
Unit price, Dec 31, 1998	101.68	101.22

# Consolidated income statement

(Amounts in FIM 000)

	Jan 1-Dec 31, 1998		Jan 1-Dec 31, 1997	
Interest income		265,497		221,663
Interest expenses		<u>-139,726</u>		<u>-106,176</u>
NET INCOME FROM FINANCIAL OPERATIONS		125,770		115,487
Income from investments in form of equity capital		4,767		4,165
Commission income		36,910		35,153
Commission expenses		-1,737		-1,382
Net income from securities transactions and foreign exchange dealing				
<i>Net income from securities transactions</i>		10,812		2,963
<i>Net income from foreign exchange dealing</i>		<u>5,676</u>	16,489	<u>5,396</u>
Other operating income		11,425		8,170
Administrative expenses				
<i>Staff costs</i>				
<i>Wages and salaries</i>		58,270		49,178
<i>Pensions</i>		7,431		6,796
<i>Other social security costs</i>		<u>4,601</u>	70,303	<u>4,780</u>
<i>Other administrative expenses</i>		<u>26,918</u>	-97,221	<u>20,308</u>
Depreciation and write-downs of tangible and intangible assets		-7,185		-5,194
Other operating expenses		-17,628		-14,768
Loan and guarantee losses		1,478		-362
Write-downs of securities held as financial fixed assets		-2,484		-562
Share of operating results of company consolidated according to the equity method		<u>1,401</u>		<u>1,557</u>
NET OPERATING PROFIT		71,987		69,560
Extraordinary items				
<i>Extraordinary income</i>		70		0
<i>Extraordinary expenses</i>		<u>-2,201</u>	<u>-2,131</u>	<u>0</u>
PROFIT BEFORE APPROPRIATIONS AND TAXES		69,855		69,560
Income taxes				
<i>Taxes for the year and previous years</i>		17,643		14,712
<i>Change in imputed tax due</i>		<u>1,624</u>	<u>-19,267</u>	<u>4,008</u>
PROFIT FOR THE YEAR		50,588		50,840

# Consolidated balance sheet

(Amounts in FIM 000)

<b>ASSETS</b>	<b>Dec 31, 1998</b>		<b>Dec 31, 1997</b>	
Cash		299,501		113,242
Claims usable as collateral in central bank		668,408		796,940
Claims on credit institutions				
<i>Repayable on demand</i>	4,629		249	
<i>Other</i>	<u>336,248</u>	340,878	<u>423,217</u>	423,467
Claims on the public and public sector entities		4,769,744		3,395,122
Leasing assets		3,886		2,736
Debt securities		12,835		103,548
Shares and participations		50,987		46,057
Shares and participations in the Group's associated companies		26		26
Shares and participations in Group companies		13,169		12,224
Intangible assets		17,913		7,585
Tangible assets				
<i>Shares and participations in real estate corporations</i>	83,347		86,528	
<i>Other tangible assets</i>	<u>21,988</u>	105,335	<u>15,848</u>	102,376
Other assets		27,749		20,537
Accrued income and prepayments		94,201		84,741
Imputed tax claim		<u>2,358</u>		<u>0</u>
		6,406,989		5,108,602

# Consolidated balance sheet

(Amounts in FIM 000)

LIABILITIES AND EQUITY CAPITAL	Dec 31, 1998		Dec 31, 1997	
<i>Liabilities</i>				
Liabilities to credit institutions				
<i>Repayable on demand</i>		3,351		28,138
<i>Other</i>	26,210	29,561	77,601	105,740
Liabilities to the public and public sector entities				
<i>Deposits</i>				
<i>Repayable on demand</i>	3,020,060		2,636,024	
<i>Other</i>	292,058	3,312,118	229,940	2,865,964
<i>Other liabilities</i>	49,985	3,362,103	54,616	2,920,580
Debt securities issued to the public				
<i>Bonds</i>		180,111		17,866
<i>Other</i>	2,233,059	2,413,169	1,508,646	1,526,511
Other liabilities		82,428		60,414
Accrued expenses and deferred income		43,596		29,437
Imputed taxes due		21,454		19,830
<i>Equity capital</i>				
Share capital		80,162		80,000
Share premium reserve		1,458		0
Revaluation reserve		22,013		22,013
Reserve fund		149,411		149,411
Capital loan		98,380		100,000
Profit brought forward		52,666		43,826
Profit for the year		50,588		50,840
		6,406,989		5,108,602
OFF-BALANCE SHEET				
COMMITMENTS				
Commitments given to a third party on behalf of a customer				
<i>Guarantees and pledges</i>	102,166	102,166	416,381	416,381
Irrevocable commitments given in favour of a customer		504,052		276,475
		606,218		692,856

# Parent Company income statement

(Amounts in FIM 000)

	Jan 1- Dec 31, 1998		Jan 1-Dec 31, 1997	
Interest income		265,049		221,238
Net leasing income		585		673
Interest expenses		<u>-139,829</u>		<u>-106,176</u>
NET INCOME FROM FINANCIAL OPERATIONS		125,805		115,736
Income from investments in form of equity capital				
<i>In the Group's associated companies</i>		527		561
<i>In other companies</i>		<u>4,240</u> 4,767		<u>3,604</u> 4,165
Commission income		36,889		35,153
Commission expenses		-1,737		-1,382
Net income from securities transactions and foreign exchange dealing				
<i>Net income from securities transactions</i>		10,812		2,963
<i>Net income from foreign exchange dealing</i>		<u>5,676</u> 16,489		<u>5,396</u> 8,359
Other operating income		11,441		8,170
Administrative expenses				
<i>Staff costs</i>				
<i>Wages and salaries</i>		57,917		49,178
<i>Pensions</i>		7,367		6,796
<i>Other social security costs</i>		<u>4,580</u> 69,864		<u>4,780</u> 60,753
<i>Other administrative expenses</i>		<u>26,519</u> -96,383		<u>20,308</u> -81,062
Depreciation and write-downs on tangible and intangible assets		-7,145		-5,194
Other operating expenses		-17,621		-14,768
Loan and guarantee losses		1,341		-611
Write-downs on securities held as financial fixed assets		<u>-2,484</u>		<u>-562</u>
NET OPERATING PROFIT		71,362		68,003
Extraordinary items				
<i>Extraordinary income</i>		70		0
<i>Extraordinary expenses</i>		<u>-2,201</u> <u>-2,131</u>		<u>0</u> <u>0</u>
PROFIT BEFORE APPROPRIATIONS AND TAXES		69,230		68,003
Provisions		-5,800		-14,315
Income taxes		<u>-20,000</u>		<u>-14,712</u>
PROFIT FOR THE YEAR		43,430		38,976

# Parent company balance sheet

(Amounts in FIM 000)

<b>ASSETS</b>	<b>Dec 31, 1998</b>		<b>Dec 31, 1997</b>	
Liquid assets		299,501		113,242
Claims usable as collateral at central bank		668,408		796,940
Claims on credit institutions				
<i>Repayable on demand</i>	4,629		249	
<i>Other</i>	<u>336,248</u>	340,878	<u>423,217</u>	423,467
Claims on the public and public sector entities		4,769,744		3,395,122
Leasing assets		3,886		2,736
Debt securities		12,835		103,548
Shares and participations		50,987		46,057
Shares and participations in the Group's associated companies		26		26
Shares and participations in Group companies		15,786		11,242
Intangible assets		17,676		7,585
Tangible assets				
<i>Shares and participations in real estate corporations</i>	83,347		86,528	
<i>Other tangible assets</i>	<u>21,957</u>	105,304	<u>15,848</u>	102,376
Other assets		27,689		20,537
Accrued income and prepayments		<u>94,231</u>		<u>84,741</u>
		6,406,951		5,107,620

# Parent company balance sheet

(Amounts in FIM 000)

LIABILITIES AND EQUITY CAPITAL	Dec 31, 1998		Dec 31, 1997	
<i>Liabilities</i>				
Liabilities to credit institutions				
<i>Repayable on demand</i>		3,351		28,138
<i>Others</i>	26,210	29,561	77,601	105,740
Liabilities to the public and public sector entities				
<i>Deposits</i>				
<i>Repayable on demand</i>	3,020,606		2,636,024	
<i>Other</i>	292,058	3,312,665	229,940	2,865,964
<i>Other liabilities</i>		49,985	54,616	2,920,580
Debt securities issued to the public				
<i>Bonds</i>		180,111		17,866
<i>Other</i>		2,236,559	1,508,646	1,526,511
Other liabilities		82,412		60,414
Accrued expenses and deferred income		43,492		29,437
<i>Accumulated provisions</i>				
Difference between recorded and planned depreciation		1,851		2,891
Reserves		74,769		67,929
<i>Equity capital</i>				
Share capital		80,162		80,000
Share premium reserve		1,458		0
Revaluation reserve		22,013		22,013
Reserve fund		149,411		149,411
Capital loan		98,380		100,000
Profit brought forward		693		3,717
Profit for the year		43,430		38,976
		6,406,951		5,107,620
OFF-BALANCE SHEET				
COMMITMENTS				
Commitments given to a third party on behalf of a customer				
<i>Guarantees and pledges</i>	102,166	102,166	416,381	416,381
Irrevocable commitments given in favour of a customer		504,052		276,475
		606,218		692,856

# Accounting principles

## *General*

The accounts of the Bank of Åland Plc (Ålandsbanken Abp) and the Bank of Åland Group have been drawn up in accordance with the current provisions of the Finnish Credit Institutions Act and in compliance with the regulations of the Financial Supervision Authority. Figures in the financial statements are based on the original values of business transactions unless otherwise mentioned. Income and expenses booked in the income statements are accrued in accordance with the performance principle. Comparative figures for previous accounting periods have been recalculated according to current rules.

## *Consolidated financial statements*

The consolidated financial statements include figures on the Bank of Åland Plc, the Bygghast Group and Ålandsbanken Fondbolag Ab. In accordance with the regulations of the Financial Supervision Authority, subsidiaries and associated companies whose balance sheet total is less than one per cent of the Bank's balance sheet total, and whose impact on the Group's financial position and equity capital is negligible, have been excluded from the consolidated financial statements.

The Bygghast Group has been consolidated according to the equity method of accounting. This means that in the consolidated accounts, the value of the parent Bank's share in the Bygghast Group reflects any changes in the equity capital of the company. The consolidated income statement reports the Bank's share in the company's earnings. The accounts of Ålandsbanken Fondbolag Ab have been consolidated according to the purchase method of accounting.

By way of exception to the income statements of Group companies, the item "Net leasing income" only consists of the difference between leasing rents and planned depreciation on leasing assets. Additional depreciation on leasing assets and capital gains/losses on the sale of leasing assets are entered in the consolidated income statement under the item "Loan and guarantee losses".

In the consolidated balance sheet, voluntary provisions made by Group companies, including the difference between planned and recorded depreciation, have been apportioned between the earnings for the financial year and equity capital and between the change in imputed taxes due and imputed taxes due.

## *Items denominated in foreign currencies*

Assets and liabilities denominated in foreign currencies are translated to Finnish marks at the Bank of Finland's year-end middle rate.

## *Valuation of securities*

Debt securities, shares and participations are broken down into two categories: current-asset securities and securities held as fixed financial assets. Debt securities held as fixed financial assets shall comprise: debt securities which are meant to be held until the date of maturity, shares and participations in

subsidiaries and associated companies, and other shares that the Bank must own in order to obtain necessary services.

Securities classified as current-asset which are traded by the Bank are valued in the balance sheet at their probable sale price on the balance sheet date. Other current-asset securities are valued at their purchase price or their probable sale price on the balance sheet date, whichever is lower. If the probable sale price of a security held as a fixed financial asset is permanently lower than the purchase price, the difference is entered as an expense.

If the amount paid for a debt security was above or below its nominal value, the difference is spread over the maturity of the debt security.

## *Depreciation*

Assets subject to wear and tear are depreciated according to a plan based on the projected economic service life of the items. Buildings and structures are depreciated on a straight-line basis over 40 years. Technical equipment in buildings is depreciated over 12 years. Machinery and equipment as well as other expenditures on long-term assets are depreciated on a straight-line basis over 4–10 years. Land and real estate revaluations are not depreciated. Depreciation on leasing items is calculated by accrual of acquisition prices over the contract period according to the annuity method, using as the residual value a conservative estimate of the probable value of the equipment at the end of the contract period.

## *Loan and guarantee losses*

Actual or probable loan losses during the year are reported in the accounts as loan losses. A loss whose amount has been established through a final bankruptcy audit or a bankruptcy receiver's estimate of the distribution of assets, a composition agreement or other agreement where the Bank abstains from a claim or it has otherwise been forgiven, is reported as an actual loss. A claim or part thereof is reported as a probable loan loss if the customer is deemed insolvent and, on the balance sheet date:

- it is not considered likely that the customer's ability to pay will improve to such a degree that payment can be made and
- the probable value of the collateral or other security provided for the claim does not cover the portion of the receivable reported as a loan loss.

When estimating the probable value of the collateral that has been posted as security for a claim, the main principle applied is its market value. In cases where this principle cannot be applied, the value reported is based on the estimated earnings of the collateral.

Previously booked loan losses which have been recovered are reported as reductions in the year's loan losses.

## *Write-downs of securities held as fixed financial assets*

If, on the balance sheet date, the probable sale price of securities included in the balance sheet items "Share and participations in Group companies" or "Shares and participations in Group associated companies" or of securities held as fixed



financial assets included in the balance sheet items “Shares and participations” or “Debt securities” or of shares and participations in real estate corporations included in the balance sheet item “Tangible assets” is permanently lower than the book value, the difference between book value and the probable sale price is reported as an expense under this item in the income statement

Property that served as security for unpaid claims and property acquired for the reorganisation of a client’s business operations is included among the above balance sheet items.

### *Nonperforming loans*

A loan is classified as nonperforming when interest or principal has fallen due for payment and the agreed payment has not been received within 90 days. Guarantee commitments honoured by the Bank are reported as nonperforming loans. In case of bankruptcy, a loan is booked as nonperforming the day an application for bankruptcy is submitted. When a loan is booked as nonperforming, accrued interest income is cancelled at the same time, in keeping with the performance principle.

### *Extraordinary items*

Substantial income and expenses that are exceptional in nature and are not attributable to actual business operations are reported as extraordinary income and expenses. Extraordinary items are presented in the “Notes to the financial statements”, Note 6.

### *Pension arrangements*

The legally mandated pension coverage for employees has been arranged through the retirement insurance company Försäkringsaktiebolaget Pensions-Alandia. Other pension benefits are handled through the Bank’s pension fund, Ålandsbanken Abs Pensionsstiftelse r.s. Actuarial pension liabilities are fully covered.

### *Provisions*

Transfers to or from reserves have been reported in the financial statements as changes in the reserves.

# Notes to the financial statements (Amounts in FIM 000)

The contents of these notes follow regulation numbers 106.1 and 106.2 of the Financial Supervision Authority. Consolidated figures are provided if they differ significantly from the figures for the parent Bank.

## Numbering

<b>1–8</b>	Notes to the income statement
<b>9–31</b>	Notes to the balance sheet
<b>32</b>	Note concerning income taxes
<b>33–38</b>	Notes concerning assets pledged, contingent liabilities and derivative contracts
<b>39</b>	Note concerning staff and members of administrative and supervisory bodies
<b>40–41</b>	Other notes
<b>42–46</b>	Notes concerning the consolidated financial statements

## 1. Interest income and interest expenses

<i>Interest income:</i>	<b>1998</b>	<b>1997</b>
Credit institutions	16,168	18,851
Public and public sector entities	204,289	156,276
Debt securities	44,174	36,315
Other interest income	<u>419</u>	<u>9,796</u>
	265,049	221,238
<i>Interest expenses:</i>		
Credit institutions and central banks	1,503	4,878
Public and public sector entities	60,356	49,605
Debt securities issued to the public	70,268	41,079
Subordinated liabilities	0	1,390
Capital loan	5,421	4,444
Other interest expenses	<u>2,281</u>	<u>4,780</u>
	139,829	106,176
<b>GROUP</b>		
<i>Interest income:</i>		
Credit institutions	16,168	18,851
Public and public sector entities	204,289	156,276
Debt securities	44,174	36,315
Net leasing income	447	424
Other interest income	<u>419</u>	<u>9,796</u>
	265,497	221,663
<i>Interest expenses:</i>		
Credit institutions and central banks	1,503	4,878
Public and public sector entities	60,356	49,605
Debt securities issued to the public	70,165	41,079
Subordinated liabilities	0	1,390
Capital loan	5,421	4,444
Other interest expenses	<u>2,281</u>	<u>4,780</u>
	139,726	106,176

## 2. Net leasing income

	<b>1998</b>	<b>1997</b>
Rental income	1,505	1,174
Planned depreciation	-1,057	-749
Additional depreciation and loan losses	0	-34
Net capital gains and losses from the sale of leasing assets	<u>137</u>	<u>282</u>
	585	673

### 3. Net income from securities transactions

	<b>1998</b>	<b>1997</b>
Debt securities	1,318	58
Shares and participations	<u>9,495</u>	<u>2,905</u>
	10,812	2,963

### 4. Other operating income and expenses

	<b>1998</b>	<b>1997</b>
<i>Other operating income</i>		
Rental and dividend income from real estate and real estate corporations	3,508	4,252
Capital gains from the sale of real estate and shares and participations in real estate corporations	4,638	1,258
Other income from normal operations	<u>3,295</u>	<u>2,660</u>
	11,441	8,170
<i>Other operating expenses</i>		
Rental expenses	4,843	3,288
Expenses for real estate and real estate corporations	3,960	4,064
Other expenses from normal operations	<u>8,819</u>	<u>7,416</u>
	17,621	14,768

### 5. Loan and guarantee losses

	<b>1998</b>		<b>1997</b>	
	Loan losses gross	Deductions	Loan losses gross	Deductions
Claims on the public and public sector entities	3,021	3,320	4,395	3,064
Guarantees and other off-balance sheet items	<u>625</u>	<u>1,667</u>	<u>212</u>	<u>932</u>
	3,646	4,987	4,607	3,996
Write-downs on securities held as financial fixed assets	2,484	0	562	0
Actual loan losses	7,647		23,277	
Actual loan losses for which specific loan loss provisions were previously made	-7,208		-22,690	
Recoveries on actual loan losses from prior years	-3,155		-612	
Specific loan loss provisions	3,207		4,021	
Reversals of previous specific loan loss provisions	<u>-1,832</u>		<u>-3,385</u>	
Loan and guarantee losses in the accounts	-1,341		611	
<b>GROUP</b>				
Claims on the public and public sector entities	3,021	3,320	4,395	3,064
Leasing assets	0	137	33	282
Guarantees and other off-balance sheet items	<u>625</u>	<u>1,667</u>	<u>212</u>	<u>932</u>
	3,646	5,124	4,640	4,278
Write-downs on securities held as financial fixed assets	2,484		562	
Actual loan losses	7,647		23,310	
Actual loan losses for which specific loan loss provisions were previously made	-7,208		-22,972	
Recoveries on actual loan losses from prior years	-3,292		-612	
Specific loan loss provisions	3,207		4,021	
Reversals of previous specific loan loss provisions	<u>-1,832</u>		<u>-3,385</u>	
Loan and guarantee losses in the accounts	-1,478		362	

## 6. Extraordinary items

Extraordinary income consisted of capital gain on sale of shares held as fixed assets. Extraordinary expenses consisted of an additional levy related to stamp duty. The Bank appealed this additional levy.

## 7. Appropriations

	1998	1997
Decrease in depreciation difference	-1,040	0
Increase in loan loss reserve	6,840	15,000
Decrease in transitional reserve	<u>0</u>	<u>-685</u>
	5,800	14,315

## 8. Income and personnel by field of operation and geographic market

	1998	1997
Banking operations	195,391	171,583
Mutual fund (unit trust) operations	220	0
The above figures are stated without eliminating intra-Group transactions. All income arose in Finland.		
<i>Staff, recalculated to average full-time equivalents during the year, by field of operations:</i>		
Banking operations	297	257
Mutual fund operations	1	0

## 9. Claims usable as collateral at central bank

	1998	1997
Bonds issued by the Finnish government	668,408	647,127
Bank of Finland certificates of deposit	<u>0</u>	<u>149,813</u>
	668,408	796,940

## 10. Claims on credit institutions

The balance sheet item, FIM 340,878,000, does not include claims on central banks.

## 11. Claims on the public and public sector entities by sectors and specified loan loss provisions

A breakdown of the balance sheet item "Claims on the public and public sector entities" according to the official sectoral classification of Statistics Finland:		
Enterprises	1,645,603	1,243,667
Financial institutions and insurance institutions	20,136	15,373
General government	43,031	51,500
Non-profit institutions	307,574	259,383
Households	2,636,613	1,702,881
Foreign	<u>116,786</u>	<u>122,318</u>
Total	4,769,744	3,395,122
Specific loan loss provisions on January 1		
New provisions made during the year	3,207	4,021
Provisions reversed during the year	-1,832	-3,385
Actual loan losses during the year, for which specific loan loss provisions were previously made	<u>-7,208</u>	<u>-22,690</u>
Specific loan loss provisions on December 31	13,590	19,423

## 12. Nonperforming claims and other zero-interest receivables

	1998	1997
Nonperforming claims	10,900	11,108
Other zero-interest receivables	<u>500</u>	<u>500</u>
	11,400	11,608

### 13. Book value of property serving as collateral for an unpaid claim and property acquired for the reorganisation of clients' business operations

	<b>1998</b>	<b>1997</b>
Real estate and shares and participations in real estate corporations	6,823	10,848
Other shares and participations	<u>5,616</u>	<u>5,616</u>
	12,439	16,464
<b>GROUP</b>		
Real estate and shares and participations in real estate corporations	6,823	10,848
Other shares and participations	<u>7,999</u>	<u>6,598</u>
	14,822	17,446

### 14. Subordinated liabilities

	<b>1998</b>	<b>1997</b>
Claims on the public and public sector entities	2,400	500

### 15. Leasing assets

	<b>1998</b>	<b>1997</b>
Machinery and equipment	3,886	2,716
Fixed assets and buildings	<u>0</u>	<u>20</u>
	3,886	2,736

### 16. Debt securities usable as collateral at central bank and other debt securities held

	<b>1998</b>		<b>1997</b>	
	Publicly listed	Other	Publicly listed	Other
Current assets	142,561	1,821	2,415	1,741
Other	<u>526,929</u>	<u>9,931</u>	<u>647,127</u>	<u>249,206</u>
	669,490	11,752	649,542	250,947
Difference between probable sale price and lower book value of debt securities held as current assets	6,191		95	
Difference between book value and lower nominal value of debt securities held as fixed assets	26,929		47,127	
Difference between nominal value and lower book value of debt securities held as fixed assets	35		403	
<i>Debt securities specified by type:</i>				
Certificates of deposit	9,931		249,205	
Bonds with equity warrants	1,169		1,661	
Other bonds	<u>670,142</u>		<u>649,622</u>	
	681,243		900,488	

### 17. Shares and participations

	<b>1998</b>		<b>1997</b>	
	Publicly listed	Other	Publicly listed	Other
Current assets	17,941	32,266	15,983	28,122
Other	<u>0</u>	<u>780</u>	<u>14</u>	<u>1,938</u>
	17,941	33,046	15,997	30,060
<i>Difference between probable sale price and lower book value for publicly listed shares</i>				
Current assets	182		2,481	
Other	<u>0</u>		<u>13</u>	
	182		2,494	

The estimated probable sale price of non-publicly listed shares among current assets exceeded their book value by about FIM 20–30 M.

## 18. Increases and decreases in shares and participations held as fixed financial assets and in tangible assets

	<b>1998</b>	<b>1997</b>
<i>Shares and participations in subsidiaries and associated companies and other shares and participations held as financial fixed assets</i>		
Book value on January 1	36,790	36,191
+ increases during the year	7,487	599
- decreases during the year	-1,509	0
- transfers between balance sheet items	-154	0
- write-downs during the year	-2,484	-232
+ accumulated write-downs on January 1 related to decreases	32	0
- accumulated write-downs on January 1	<u>-23,570</u>	<u>-23,338</u>
Book value on December 31	16,592	13,220
<i>Land, buildings and shares and participations in real estate corporations</i>		
Book value on January 1	117,662	126,352
+ increases during the year	2,918	50
- decreases during the year	-5,007	-8,691
- planned depreciation during the year	-1,042	-1,046
- write-downs during the year	0	-362
- accumulated depreciation on January 1	-29,821	-28,776
- accumulated write-downs on January 1	<u>-1,362</u>	<u>-1,000</u>
Book value on December 31	83,348	86,528
<i>Machinery, equipment and other tangible assets</i>		
Book value on January 1	37,613	31,564
+ increases during the year	10,107	6,698
- decreases during the year	-135	-276
- planned depreciation during the year	-3,863	-2,626
- accumulated depreciation on January 1	<u>-21,765</u>	<u>-19,514</u>
Book value on December 31	21,957	15,847
<b>GROUP</b>		
<i>Shares and participations in subsidiaries and associated companies and other shares and participations held as financial fixed assets</i>		
Book value on January 1	37,772	32,507
+ increases during the year	3,888	5,265
- decreases during the year	-1,509	0
- transfers between balance sheet items	-154	0
- write-downs during the year	-2,484	-232
+ accumulated write-downs on January 1 related to decreases	32	0
- accumulated write-downs on January 1	<u>-23,570</u>	<u>-23,338</u>
Book value on December 31	13,975	14,202

## 19. Real estate holdings and shares and participations in real estate corporations

	<b>1998</b>		<b>1997</b>
	Book value	Tied-up capital	Book value
<i>Land, water and buildings</i>			
In own use	48,063	48,063	47,588
Other	<u>8,149</u>	<u>8,149</u>	<u>6,798</u>
	56,212	56,212	54,386
<i>Shares and participations in real estate corporations</i>			
For accommodation of own premises	6,769	7,196	6,769
Other	<u>20,366</u>	<u>30,169</u>	<u>25,373</u>
	27,135	37,365	32,142

## 20. Other assets

	1998	1997
Cash items in the process of collection	442	2,915
Guarantee claims	336	298
Other	<u>26,911</u>	<u>17,326</u>
	27,689	20,538

## 21. Accrued income and prepayments (under assets)

	1998	1997
Interest	60,402	75,251
Other	<u>33,829</u>	<u>9,490</u>
	94,231	84,741

## 22. Difference between the nominal value and the book value of liabilities

	1998	1997
<i>Debt securities issued to the public</i>		
Difference between nominal value and lower book value	16,575	14,712
Difference between book value and lower nominal value	8,711	0

## 23. Debt securities issued to the public

	1998	1997
Certificates of deposit	2,236,559	1,487,398
Bonds	180,110	17,866
Other	<u>0</u>	<u>21,247</u>
	2,416,669	1,526,511

## 24. Other liabilities

	1998	1997
Cash items in the process of collection	45,459	42,285
Other	<u>36,953</u>	<u>18,129</u>
	82,412	60,414

## 25. Accrued expenses and deferred income (under liabilities)

	1998	1997
Interest	23,583	17,651
Other	<u>19,909</u>	<u>11,785</u>
	43,492	29,436

## 26. Changes in equity capital

	1998	1997
<i>Share capital</i>		
January 1	80,000	80,000
Conversion of capital loan	<u>162</u>	<u>0</u>
December 31	80,162	80,000
<i>Reserve fund and revaluation reserve</i>		
January 1	171,424	171,424
December 31	171,424	171,424
<i>Share premium reserve</i>		
January 1	0	0
Conversion of capital loan	<u>1,458</u>	<u>0</u>
December 31	1,458	0
<i>Capital loan</i>		
January 1	100,000	100,000
Conversion	<u>-1,620</u>	<u>0</u>
December 31	98,380	100,000

<i>Unrestricted equity</i>	<b>1998</b>	<b>1997</b>
January 1	42,693	43,717
Dividend distribution	-42,000	-40,000
Profit for the year	<u>43,430</u>	<u>38,976</u>
December 31	44,123	42,693
<b>GROUP</b>		
<i>Unrestricted equity</i>		
January 1	94,666	80,716
Dividend distribution	-42,000	-40,000
Elimination of intra-Group transactions	0	3,110
Profit for the year	<u>50,588</u>	<u>50,840</u>
December 31	103,254	94,666

## 27. Non-distributable items in unrestricted equity

Of unrestricted equity in the consolidated balance sheet, FIM 55,166,000 is non-distributable. The distributable equity in the Group is thus FIM 48,088,000 and in the Parent Company FIM 44,123,000.

## 28. Share, equity warrant and convertible loan issues approved during the financial year

The Annual General Meeting approved the issue of equity warrants targeted to personnel. The terms of these are explained in the Annual Report under "Facts on Bank of Åland shares". There are no currently valid authorisations by the General Meeting regarding rights issues, the issuance of equity warrants and convertible bonds.

## 29. Capital loan

<i>Convertible capital loan:</i>	<b>1998</b>	<b>1997</b>
Amount outstanding	98,380	100,000

The interest rate on the loan is 6 per cent and the maturity date is April 2, 2007. The lenders are not entitled to demand early repayment. The Annual Report explains the terms for conversion to shares. During the period January 1–31, 1999, holders of loan certificates applied for conversion of FIM 11,520,000 of the capital loan, which entitles them to 115,200 shares. The interest on the capital loan was reported as an expense to the extent that holders of loan certificates did not apply for conversion. In other words, interest was paid on FIM 86,860,000.

## 30. Maturity breakdown of claims and liabilities

<i>Claims:</i>	<b>Total</b>	<b>-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>5- years</b>
Debt securities usable as collateral at central bank	668,408	149,792	0	291,342	227,274
Credit institutions	340,878	340,878	0	0	0
The public and public sector entities	4,769,744	587,052	630,530	1,771,083	1,781,079
Other debt securities	<u>12,835</u>	<u>12,835</u>	<u>0</u>	<u>0</u>	<u>0</u>
	5,791,865	1,090,557	630,530	2,062,425	2,008,353
<i>Liabilities:</i>					
Credit institutions and central banks	29,561	29,561	0	0	0
The public and public sector entities	3,362,650	3,293,743	19,934	22,650	26,323
Debt securities issued to the public	<u>2,416,669</u>	<u>1,726,516</u>	<u>523,753</u>	<u>166,400</u>	<u>0</u>
	5,808,880	5,049,820	543,687	189,050	26,323

The Bank has no claims on the public and public sector entities that are payable on demand. Deposits other than time deposits are classified in the shortest maturity category.

## 31. Assets and liabilities in Finnish marks and foreign currencies

<i>Claims:</i>	<b>1998</b>		<b>1997</b>	
	FIM	Foreign currency	FIM	Foreign currency
Debt securities usable as collateral at central banks	668,408	0	647,127	0
Credit institutions and central banks	3,039	337,839	24,149	399,317
The public and public sector entities	4,686,932	82,812	3,273,721	121,402
Other debt securities	12,775	60	253,348	14
Other assets	<u>598,185</u>	<u>16,901</u>	<u>370,838</u>	<u>17,705</u>
	5,969,339	437,611	4,569,182	538,438



	1998		1997	
	FIM	Foreign currency	FIM	Foreign currency
<i>Liabilities:</i>				
Credit institutions and central banks	3,351	26,210	9,950	95,790
The public and public sector entities	2,945,088	417,561	2,506,759	413,821
Debt securities issued to the public	2,416,669	0	1,505,264	21,248
Other liabilities	<u>125,674</u>	<u>230</u>	<u>88,953</u>	<u>898</u>
	5,490,782	444,002	4,110,926	531,757

### 32. Income taxes

	1998	1997
Income taxes on normal operations	20,597	14,712
Income taxes on extraordinary items	<u>-597</u>	<u>0</u>
	20,000	14,712

### 33. Assets pledged as collateral on own behalf or on behalf of others

	1998	1997
<i>Liabilities and other commitments on own behalf for which collateral has been pledged in the form of a mortgage or property lien</i>		
Bonds	387	1,299
Liabilities to the public and public sector entities	687	723
Other commitments	300,400	80,000
<i>Book value of assets pledged for above liabilities and commitments</i>		
Debt securities	320,066	85,637
Shares	400	0
Land and buildings	4,981	4,962

No assets have been pledged as collateral other than on the Bank's own behalf.

### 34. Pension liabilities

	1998	1997
Actuarial liability of Ålandsbanken Abp:s Pensionsstiftelse r.s.	56,006	51,623
Actuarial deficit in the book value of the pension fund	0	3,644

The probable market value of the pension fund's assets exceeded its actuarial liability by FIM 20-30 M. Pension protection arrangements for employees are explained in the accounting principles, page 25.

### 35. Leasing liabilities

	1998	1997
Leasing rentals to be paid the following year	4,675	1,775
Leasing rentals to be paid during subsequent years	4,657	1,479

### 36. Off-balance sheet commitments

	1998	1997
Guarantees	99,436	90,126
Intermediary loan guarantees	2,730	326,255
Unutilised overdraft facilities	303,111	210,424
Lines of credit	<u>200,941</u>	<u>66,051</u>
	606,218	692,856
<i>Contingent liabilities on behalf of Group companies</i>		
Guarantees and liens	2,943	1,875
Irrevocable commitments	3,020	2,420
<i>Contingent liabilities on behalf of associated companies</i>		
Guarantees and liens	0	0
Irrevocable commitments	445	445

### 37. Derivative contracts

	1998		1997	
	For hedging purposes	Other	For hedging purposes	Other
<i>Interest rate derivatives</i>				
Options				
Purchased	280,000	0	230,000	0
Written	0	280,000	0	230,000
Interest rate swaps	135,000	0	135,000	0
<i>Currency derivatives</i>				
Forwards	27,382	49,204	39,893	47,293
Interest rate and currency swap	44,845	1,016	3,523	9,917
<i>Other derivative contracts</i>				
Options				
Purchased	160,191	0	0	0
Written	0	160,191	0	0
	647,418	490,411	408,416	287,210
<i>Equivalent credit values of the contracts</i>				
Interest rate derivative contracts	6,004		6,750	
Currency derivative contracts	1,532		1,811	
	7,536		8,561	

The other derivative contracts are attributable to equity loans issued.

### 38. Accounts receivable and accounts payable due to assets sold and purchased on behalf of clients

	1998
Accounts receivable	18,383
Accounts payable	18,658

### 39. Figures on staff and members of administrative and supervisory bodies

	1998	1997
Average number of full-time employees during year	255	215
Change from previous year	+ 40	+ 2
Average number of part-time employees during year	65	66
Change from previous year	-1	-7
<i>Salaries and fees paid to</i>		
Members of the Supervisory Board	224	228
Members and deputy members of the Board of Management and Managing Directors	4,717	4,545

The note includes the value of fringe benefits as well as pensions and other social security expenses. Salaries paid are not dependent on the Bank's financial performance.

Loans to members of administrative and supervisory bodies as well as to companies they control:

	1998	1997
Members of the Supervisory Board	212,781	174,517
Members of the Board of Management	3,418	4,379
Auditors	6	6

Guarantees and other off-balance sheet obligations on behalf of members of administrative and supervisory bodies and of companies which they control:

	1998	1997
Members of the Supervisory Board	9,539	34,076

Pension commitments diverging from customary terms of employment have not been made to members of the Supervisory Board or the Board of Management. The management's shareholdings in the Bank are explained in the Annual Report under "Facts on Bank of Åland shares".

### 40. Shares held as financial fixed assets

	1998	1997
<i>Shares and participations held as financial fixed assets</i>		
Number of companies	13	17
Total book value	780	1,952

The note does not include Group and associated companies or real estate corporations.

## 41. Asset management

The Bank of Åland provides the following asset management services, among others:

- property deed and mortgage services
- estate inventory and administration services
- securities custody and brokerage
- portfolio management
- intermediation of customers' funds as loans to other customers

Amounted of off-balance sheet intermediated loans	<b>1998</b>	<b>1997</b>
	2,730	326,255

## 42. Changes in the structure of the Group

During 1998, the wholly-owned subsidiary Ålandsbanken Fondbolag Ab was established. This company is included in the consolidated financial statements and does not affect the potential for comparing the 1998 consolidated accounts with those of 1997.

## 43. Subsidiaries included in the consolidated financial statements

<b>Company</b>	<b>Registered office</b>	<b>Ownership</b>
Byggfast Ab	Mariehamn	100%
Ålandsbanken Fondbolag Ab	Mariehamn	100%

## 44. Subsidiaries excluded from the consolidated financial statements

The number of subsidiaries excluded from the consolidated financial statements is 17, with an aggregate balance sheet total of FIM 85 M according to the most recently available accounts. These companies consist of 8 housing and real estate corporations with an aggregate balance sheet total of FIM 17 M and 9 other companies with an aggregate balance sheet total of FIM 68 M.

Among the subsidiaries excluded from the consolidated financial statements is Aland Venture SA, with its registered office in Luxembourg, in which the Bank owns 50.8 per cent. During prior years, the company showed negligible earnings, but late in 1998 a nonrecurring capital gain arose. Since the company was excluded from the consolidated financial statements during prior years and since it will probably be discontinued, inclusion was deemed unwarranted. Inclusion of this company in the consolidated financial statements would have a positive effect of about FIM 6 million on the Group's unrestricted equity capital.

Inclusion of the other subsidiaries would have an insignificant impact on the Group's unrestricted equity capital.

## 45. Associated companies excluded from the consolidated financial statements

The number of associated companies excluded from the consolidated financial statements is 13, with an aggregate balance sheet total of FIM 55 M according to the most recently available accounts. These companies consist of 10 housing and real estate corporations with an aggregate balance sheet total of FIM 51 M and 3 other companies with an aggregate balance sheet total of FIM 4 M.

## 46. Imputed taxes due

Imputed taxes due, FIM 21,454,000, is based on provisions in the accounts of the parent Bank.

# Proposed distribution of profit

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The Board of Management proposes that the Bank's profit for the year, FIM 43,429,922.88, and its profit brought forward from prior years, FIM 693,359.10, totalling FIM 44,123,281.98, be distributed as follows:

- |    |  |  |
|----|--|--|
| 1. | For Series A and Series B shares outstanding as of December 31, 1998, a dividend of 52.5 per cent of the share capital, which is FIM 80,162,000.00                                   | FIM 42,085,050.00                            |
| 2. | For Series B shares subscribed through conversion of the capital loan during the period January 1–31, 1999, a dividend of 52.5 per cent of the share capital, which is FIM 1,152,000 | FIM 604,800.00                               |
| 3. | To remain in the accounts as undistributed earnings  | <u>FIM 1,433,431.98</u><br>FIM 44,123,281.98 |

Mariehamn, February 23, 1999

*Folke Husell*

*Peter Grönlund*

*Lars Donner*

*Lennart Haglund*

*Jan Tallqvist*

*Edgar Vickström*

## Statement of the Supervisory Board

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The financial statements and consolidated financial statements for 1998 were drawn up in accordance with the principles established by the Supervisory Board, which confirms these statements for presentation to the Shareholders' Meeting and approves the proposal of the Board of Management for the distribution of profit.

Mariehamn, February 23, 1999

*Sture Carlson*

*Göran Bengtz*

*Kjell Clemes*

*Johan Dahlman*

*Johan Eklund*

*Leif Granlid*

*Ben Lundqvist*

*Bjarne Olofsson*

*Roger Rundberg*

*Anders Wiklöf*

Trygve Eriksson was absent from the Supervisory Board meeting of February 23, 1999.

According to the Articles of Association, the term of office of a member of the Supervisory Board is three years. At the Annual General Meeting of shareholders on March 20, 1998, Göran Bengtz, Leif Granlid and Anders Wiklöf, who were due to retire as members, were re-elected.

Sture Carlson was elected Chairman of the Supervisory Board and Johan Dahlman was elected Vice Chairman.

Due to retire at the Annual General Meeting on March 18, 1999 are Sture Carlson, Trygve Eriksson, Ben Lundqvist and Bjarne Olofsson.

# Auditors' report

## TO THE SHAREHOLDERS OF THE BANK OF ÅLAND PLC

We have examined the accounts, financial statements and administration of the Bank of Åland Plc for the accounting period January 1–December 31, 1998. The financial statements, which were submitted by the Board of Management and the Managing Director, comprise the Report of the Directors and the consolidated and Parent Company income statements and balance sheets as well as the notes to the financial statements. Having completed this examination, we herewith submit our statement of opinion on the financial statements and administration.

Our examination was conducted according to generally accepted auditing standards. In doing so, we examined the accounts, the accounting principles applied and the contents as well as the presentation of the financial statements to a sufficient extent to conclude that the financial statements do not contain significant errors or omissions. In examining the administration, we have studied whether the members of the Supervisory Board and Board of Management as well as the Managing Director have handled the administration of the Bank's affairs in compliance with the provisions of the legislation in force.

In our view, the financial statements, which show a profit of FIM 43,429,922.88 for the Parent Company, were prepared in accordance with the Accounting Act and other legal provisions and regulations as to how financial statements shall be prepared. The financial statements provide accurate and sufficient information on the results of Group and Parent Company operations and on their financial position, in the manner intended by the Accounting Act. The financial statements, including the consolidated financial statements, may be adopted and the members of the Parent Company's Supervisory Board and Board of Managers as well as the Managing Director may be discharged from liability for the accounting period examined by us. The proposal of the Board of Management for the distribution of the unrestricted equity stated in the balance sheet is in compliance with the provisions of the Companies Act.

We have seen the interim reports that were published during the accounting period. In our opinion, the interim reports were prepared in accordance with the regulations in force.

Mariehamn, February 23, 1999

*Leif Hermans*

CERTIFIED PUBLIC ACCOUNTANT

*Per-Olof Johansson*

CERTIFIED PUBLIC ACCOUNTANT

*Marja Tikka*

CERTIFIED PUBLIC ACCOUNTANT

# Organisation from January 1, 1999

BANK OF ÅLAND PLC



# Executives and managers

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## BOARD OF MANAGEMENT/BOARD OF DIRECTORS

Folke Husell, Chief Executive Officer, Chairman  
Peter Grönlund, Vice Chairman  
Lars Donner  
Lennart Haglund  
Jan Tallqvist  
Edgar Vickström

## MANAGING DIRECTOR

Folke Husell

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## PRIVATE DIVISION

Edgar Vickström, General Manager  
Peter Wiklöf, Assistant to Division Management

### *Helsinki (Helsingfors)*

ALEKSANTERINKATU (ALEXANDERSGATAN),  
Anne-Maria Salenius, Branch Director  
WESTERN HELSINKI (VÄSTRA HELSINGFORS),  
Tuula Lehmuskoski, Branch Director  
ESPOO-TAPIOLA (ESBO-HAGALUND),  
Irmeli Tanner, Branch Director

*Tampere (Tammerfors)*, Leena Honkasalo-Lehtinen, Branch Director

*Vaasa (Vasa)*, Lars Lönnblad, Branch Director

*Turku (Åbo)*, Beatrice Ramström, Branch Director

PARAINEN (PARGAS), Jan-Peter Pomrén, Branch Manager

*Branch Offices in Åland*, Kenneth Mörn, Regional Manager

*Customer Advisory Services Mariehamn*, Edgar Vickström

*The Internet Office*, Jan Erik Sundberg, Branch Director

*Administration and Development*, Tom Pettersson, Department Manager

*Marketing*, Björn Tennström, Technical Development Manager

*Marketing*, Tiina Björklund, Department Manager

*Physical Security*, Ulrica Lindström

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## PRIVATE BANKING DIVISION

Jan Tallqvist, General Manager

### *Private Banking*

Maria Bernas-Hilli, Department Manager

Eduard Paulig, Investment Manager

### *Bulevardi (Bulevarden) Office*

Kim Wikström, Branch Director

Monica Mickos, Administrative Manager

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## LOAN DIVISION

Lars Donner, General Manager

### *Corporate Service Units*

ÅLAND, Lars Donner

HELSINKI (HELSINGFORS), Pekka Nuutinen, Finance Director

TURKU (ÅBO), Tony Jäntti, Finance Director

*Administration and Development*, Bengt Mattsson, Department Manager

*Legal Affairs and Corporate Financial Restructuring*, Dan-Erik Woivalin, Department Manager

*Accounting*, Michael Hilander, Department Manager

*Corporate Analysis*, Birgitta Lundén

## CAPITAL MARKET DIVISION

Peter Grönlund, Deputy CEO, General Manager

*International Operations*, Peter Grönlund

*Capital Market and Treasury*, Bengt Lundberg, Director

MONEY AND BOND MARKETS, Tom Signell, Tuula-Riitta Nyström

FOREIGN EXCHANGE, Ulla Berglund, Inger Holmström

BROKERAGE SERVICES, Carl Magnus Gardberg, Yngve

Söderlund

ANALYSIS AND ADMINISTRATION, Danny Lindqvist

*Administration*, Bernt-Johan Jansson, Department Manager  
(from June 1 Thomas Nordlund)

*Product Development and Sales Support, Capital Markets*,  
Lena Laitinen, Department Manager

*EMU Affairs*, Terttu Ahtiainen

*Ålandsbanken Fondbolag Ab*, Niclas Jansson, Managing Director

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## ADMINISTRATIVE DIVISION

Lennart Haglund, General Manager

*Systems*, Eva Wahlberg, Department Manager

*Computers and Networks*, Lars Gottberg, Department Manager

*Information Security*, Ann Lindqvist-Öst

*Support*, Ywonne Sjögren, Supervisor

*Office Services*, Lars-Olof Hellman, Supervisor

*Real Estate*, Göran Sundblom, Department Manager

*Environmental Affairs*, Sven-Åke Löfström

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Operations reporting directly to the managing director

*Internal Auditing*, Hans Karlsson, Auditing Manager

*Personnel*, Gunilla Blomroos, Personnel Manager

*Human Resource Development*, Gerd Haglund

*Management Secretariat*, Barbro Lindström, Secretary

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## ASSOCIATED COMPANIES

*Ålands Fastighetskonsult Ab*

Erolf Fellman/Roger Karlsson

*Ålands Företagsbyrå Ab*

Greta Johansson, Managing Director

# Address list

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*We are very grateful to the Åland Maritime Museum for the loan of pictures.*