



**BANK OF ÅLAND**

**ANNUAL REPORT  
2001**

[www.alandsbanken.fi](http://www.alandsbanken.fi)

*The Bank of Åland launched three share index loans during 2001. As early as 1996, the Bank was the first to launch share index loans to private individuals in Finland. Its first share index loan fell due for payment in December 2001 with good earnings (+ 57.7 %). The Bank of Åland is the Finnish market leader in share index loans..*

*Cover photography by Andy Horner.*

BANK OF ÅLAND PLC

**ANNUAL REPORT**  
**2001**

# BANK OF ÅLAND PLC

## GROUP HIGHLIGHTS

EUR M	2001	2000
<b>INCOME STATEMENT IN BRIEF</b>		
Net income from financial operations	33.4	32.1
Other income	15.2	17.5
Expenses	-31.2	-27.9
Loan losses	<u>-0.1</u>	<u>-0.6</u>
Net operating profit	17.4	21.0
<b>SELECTED BALANCE SHEET ITEMS, DEC. 31</b>		
Lending	1,109.4	1,053.1
Deposits, incl. bonds issued	1,332.3	1,331.5
Equity capital	87.4	81.3
Total assets	1,685.9	1,597.0
<b>FINANCIAL RATIOS</b>		
Return on equity, %	14.6	19.1
Equity capital per share, EUR	8.71	8.33
Earnings per share after taxes, EUR	1.23	1.50
Risk-based capital ratio, %	12.5	12.6
Number of offices	28	28
Average number of employees (total hours worked recalculated as full-time equivalents)	361	345

### FINANCIAL INFORMATION ON THE BANK OF ÅLAND

The Bank of Åland will publish the following Interim Reports during the 2002 financial year:

The January–March 2002 Interim Report will appear on Friday, April 26

The January–June 2002 Interim Report will appear on Friday, August 16

The January–September 2002 Interim Report will appear on Friday, October 25

These interim reports will be published on the Internet: [www.alandsbanken.fi](http://www.alandsbanken.fi)

They can also be ordered from: Secretariat, Bank of Åland Plc, P.O. Box 3, FIN-22101 Mariehamn, Åland, Finland

*The Head Office of the Bank of Åland is in Mariehamn, capital of the autonomous Finnish province of Åland. Located in the Baltic Sea midway between Sweden and Finland, the 6,400-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 European Central Bank euros (EUR), Finnish marks (FIM), U.S. dollars (USD), Swedish kronor (SEK) and Japanese yen (JPY). At year-end 2001, the middle rate for EUR 1 was USD 0.8813.*

*"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); K means thousand(s). Finnish-language place names are sometimes followed in parentheses by the corresponding Swedish-language place name.*



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# CHIEF EXECUTIVE OFFICER'S COMMENTS



FOLKE HUSELL

## External factors

The nine-year long US economic expansion ended during 2001. The world's economic engine was hit by recession. US unemployment, which since 1992 had fallen steadily from nearly 8 per cent to below 4 per cent, began to climb steeply. By year-end, unemployment was approaching 6 per cent. The Federal Reserve fought the economic slowdown with a series of aggressive interest rate cuts. During the year, the US cen-

tral bank lowered its key federal funds rate eleven times, from 6.5 per cent to 1.75 per cent. Meanwhile, vigorous fiscal policy measures stimulated the economy. Great uncertainty remained, however. The question was whether these unusually vigorous measures would be sufficient, or whether the United States and thus the whole world would be forced to experience an economic hard landing. On various occasions during the autumn, optimists saw the light at the end of the tunnel,

but they were soon disappointed again. Early in 2002, however, a number of leading indicators have once again provided hope that the American economy is poised for a recovery.

Europe also felt the effects of the downturn. Gross domestic product (GDP) growth in the twelve-country Economic and Monetary Union (EMU) was significantly slower than the year before. Confidence indicators – both in industry and among households – steadily deteriorated during the year. The downturn in unemployment, which had continued for some years, came to a halt. The European Central Bank also resorted to the interest rate weapon. It cut its key refi rate in four steps, from 4.75 per cent to 3.25 per cent. Inflation, which climbed initially, fell towards year-end to the ECB target of 2 per cent. As a result, real interest rates ended up at low levels.

The Japanese economy, which had already been plagued by major difficulties, showed no signs of recuperation during 2001. Japan's industrial output fell, as did the country's GDP. Deflation was prevalent. The continued rise in unemployment obviously worried wage and salary earners, causing a decline in consumer confidence. The traditionally high savings ratio of Japanese households is thus unlikely to fall in the foreseeable future. The lack of economic stimulus in the form of sharply increased domestic consumption means that it will take even longer for the economy to recover.

Finland's GDP growth fell during 2001, approaching a zero per cent rate during the autumn. This occurred after GDP had grown by an annual average of 4.8 per cent over the preceding five years. Industrial output showed negative growth during the autumn months, due to a sharp downturn in the important telecom sector. Inflation fell to a 1.5 per cent annual level. Despite weaker international economic conditions, the domestic employment situation remained stable. Unemployment rose only marginally.

### **Stock markets**

The prices of many information technology (IT) and other technology shares did not bounce back appreciably after their dramatic slide during 2000. Late in the autumn of 2001, in any case, we witnessed a rally. Prices of some equities surged, though most growth shares still have a long way left before reaching their previous peaks. Shares in some traditional industries were also re-evaluated, rising amidst heavy buying to levels that many analysts felt were hard to defend.

Most of the world's stock exchanges fell during 2001 – led by the pacesetter Dow Jones and Nasdaq indexes, which fell by 7.1 and 21.0 per cent, respectively. In Helsinki, the HEX All-Share Index fell by 32.8 per cent and the HEX Portfolio Index by 22.7 per cent.

Price declines the year before and the very uncertain economic situation in the world dampened buying enthusiasm on stock exchanges worldwide. Many investors were very cautious about making new investments. Most specialised securities brokers and asset managers thus experienced a very difficult year, with sharply reduced revenues as well as very weak earnings and, in some cases, sizeable losses. In many instances, companies repaired their cost structure by means of sharp cost cutbacks and even mass dismissals.

### **The banking industry**

The uncertain world economic situation made the Finns more interested in saving. They were especially eager to boost their bank savings. The demand for home mortgages was nevertheless good, since the service sector performed decently. Except for IT companies and parts of the financial sector, the service sector was not affected by such difficulties that layoffs were common. Households therefore dared to take advantage of low interest rates and buy mortgage-financed homes.

During 2001, the mortgage loan portfolio of the Finnish banking system thus rose by about 11.5 per cent.

Revenues of Finnish banks for securities brokerage and asset management services were adversely affected by the uncertain economic situation and a wait-and-see attitude among customers. Practically all fee-based operations therefore showed sharply lower profitability than the year before.

Unlike the revenues of specialised securities brokers and asset managers, the financial service income of Finnish banks is not especially sensitive to temporary cyclical fluctuations. Although the banks also have extensive securities brokerage and asset management operations, the economic downturn thus did not impact the earnings of the banks as dramatically as it affected investment banking firms.

Generally speaking, the 2001 banking year was therefore a relatively good year, although it could not match the year before.

### **The Bank of Åland**

The home mortgage portfolio of the Bank of Åland rose by 11.9 per cent during the year. Deposits increased by 3.5 per cent.

During 2001, the work of the Bank was largely characterised by the same positive activities as the year before. The Bank of Åland focused on business growth on the Finnish mainland, systems development and the creation of new customer-tailored products and service concepts. Most work proceeded as planned.

It is no exaggeration to say that today the Bank stands very well equipped for continued expansion in the household

market on the mainland. We have the products. We have the service concepts. We have a well-developed office network. We have a very competitive Internet bank. We have capable, service-minded employees. We have good computerised sales support. We have the requisite capital base. We have cost-effectiveness. We have a good reputation and a strong brand name. We have a clear target group. We have enthusiasm. In addition, we have competitive prices.

The Bank also has smoothly functioning customer and Internet brokerage services, a well-established Private Banking unit, its own mutual funds (unit trusts) and a growing asset management unit.

What we need today is even more customers and larger business volume. In this respect, we are well on our way.

The Bank of Åland expanded in step with the market during 2001. Growth would have been larger if general economic uncertainty had not made customers less inclined to try new things. Across the board – from equity investments to switching banks – great caution was apparent among customers. An interesting but natural reaction occurred in the market when the Bank of Åland offered risk-limited products, for example its share index loans. Customer enthusiasm and mobility then increased significantly.

In other words, the market situation was not especially favourable during 2001 for banks wishing to break into or grow rapidly in the Finnish market. In addition, the competition in the Finnish bank market was tough on all fronts – from technology to services and pricing.

The Bank of Åland has very competitive pricing. Switching banks and becoming a Bank of Åland customer can be a lucrative decision. For example on June 30, 2001, the average margin between lending and deposit interest rates in the Finnish banking system as a whole was 40 per cent higher than at the Bank of Åland.

Preparations for the January 2002 introduction of euro banknotes and coins also required a great deal of resources during 2001. Major efforts went into this single project. In itself, the actual exchanging of Finnish mark banknotes and coins for euro ones is a historically large operation. Beyond this, it has involved many changes in computer systems and cash supply procedures in general. Everything has gone smoothly, however.

### **Problem loans**

Net loan losses decreased to EUR 0.1 M (0.6) in 2001. The year's loan losses were again mainly attributable to provisions for old company loans in Åland, not losses due to the Bank's expansion on the Finnish mainland. One reason why net loan

losses were small was that the Bank was able to reverse some loan loss provisions that had been made earlier.

At year-end, total nonperforming loans and other zero-interest receivables amounted to EUR 2.6 M, or 0.2 per cent of loans and guarantees outstanding.

### **Earnings and trend of earnings**

In 2001, the Bank of Åland Group's consolidated net operating profit was EUR 17.4 M (21.0).

Generally speaking, the expenses of the Bank rose during the year. Meanwhile, the Bank was adversely affected by the same decrease in revenues as other market players in the securities brokerage and asset management business. Although we did not achieve the budgeted growth in deposit and lending volume, we managed to report the second-best earnings in the Bank of Åland's history.

The increases in expenses during 2001 could not be explained by specific investments. For this reason, during the year the Bank reviewed its cost structure and also took the initiative to certain staff reductions, which will have an impact on earnings only during 2002, however.

In 2002 the Bank intends to grow. The Bank of Åland's arsenal of products, service concepts and IT support should provide good potential to accomplish this.

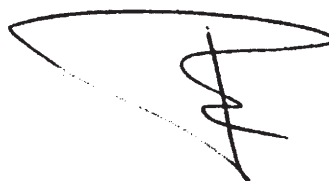
### **Gratitude**

In closing, I would like to express my warm gratitude to all our customers and shareholders for the good partnership and confidence you showed us during this past year.

Likewise, I wish to thank all my fellow employees at the Bank for your fine contributions and for the sacrifices you have made to achieve the tough goals we have established.

The Bank of Åland is well positioned in the change process that the entire financial services sector is going through. We have done an outstanding job of keeping pace with our competitors. In many ways, we are at the absolute forefront today in developing new concepts, new technology and, above all, new and even better service. Without a doubt, we can face the future with optimism and confidence.

Mariehamn, January 2002



*Folke Husell*



# REPORT OF THE DIRECTORS

BOARD OF MANAGEMENT/BOARD OF DIRECTORS



*From the left: FOLKE HUSELL, Chairman, born 1945, member since 1982; EDGAR VICKSTRÖM, Vice Chairman, born 1961, member since 1996; JAN TALLQVIST, born 1947, member since 1997; LARS DONNER, born 1948, member since 1986; ANDERS INGVES, born 1958, member since 1999.*

## OPERATING RESULTS AND PROFITABILITY

### **Net income from financial operations**

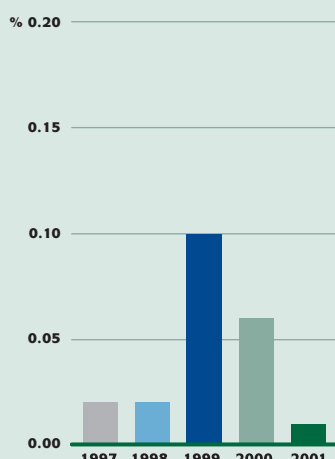
During 2001, consolidated income from financial operations rose by 4.3 per cent to EUR 33.4 M. The improvement was due to growth in deposit and lending volume.

### **Other income**

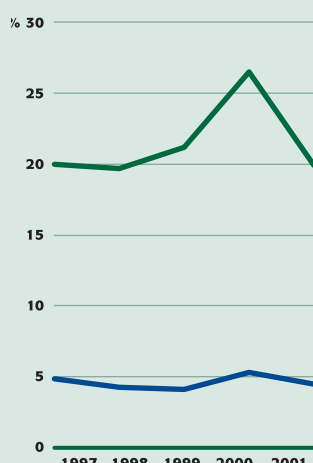
Dividend income amounted to EUR 0.6 M. Commission income fell by 14.6 per cent to EUR 8.9 M. The decrease was due to

lower income from stock brokerage and other capital market products, caused by decreased demand. Net income from the Bank's own securities trading amounted to EUR 1.1 M, compared to EUR 2.6 M the preceding year. Foreign exchange dealing resulted in a net income somewhat lower than in 2000, totalling EUR 0.9 M. Other operating income amounted to EUR 2.8 M, including nonrecurring income of EUR 0.7 M from the sale of properties.

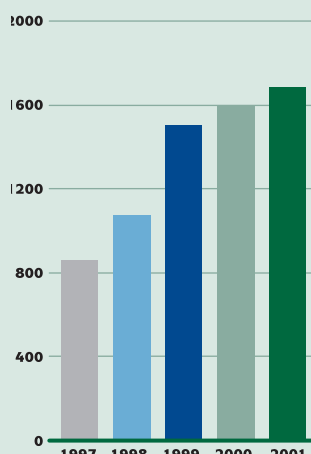
Loan losses as a percentage of receivables and contingent liabilities



Return on equity capital and reserves  
Yield on 5-year Finnish government bond



Total assets (balance sheet total), EUR M



Total income – net income from financial operations and other income – decreased by 2.7 per cent to EUR 47.8 M.

### Expenses

New recruitments and salary adjustments in compliance with collective agreements raised staff costs by 10.6 per cent to EUR 15.5 M. Other administrative expenses (office costs, marketing, telecommunications and computer costs) rose by 24.3 per cent to EUR 8.2 M. As a result of new investments in computer systems for digital banking services, depreciation climbed by 11.3 per cent to EUR 2.8 M. Other operating expenses decreased by 6.2 per cent to EUR 3.5 M.

Total expenses including planned depreciation rose by 11.6 per cent to EUR 31.2 M.

The effect on income from companies consolidated in the Group accounts according to the equity method amounted to EUR 0.8 M, compared to EUR 0.4 M the year before.

### Loan losses

Net loan losses amounted to EUR 0.1 M. Reported net loan losses as a percentage of the Bank's receivables and contingent liabilities amounted to 0.01 per cent.

**Net operating profit** decreased by 17.3 per cent to EUR 17.4 M.

### Appropriations

The Bank increased its voluntary provisions by EUR 2.5 M. After this, accumulated appropriations totalled EUR 23.4 M.

In the consolidated balance sheet, voluntary provisions have been apportioned between equity capital and imputed taxes due.

### The balance sheet

The balance sheet total climbed 6.0 per cent to EUR 1,686 M.

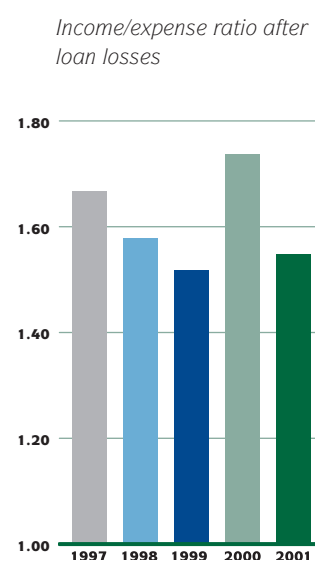
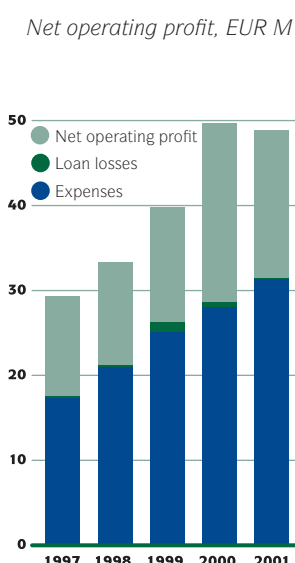
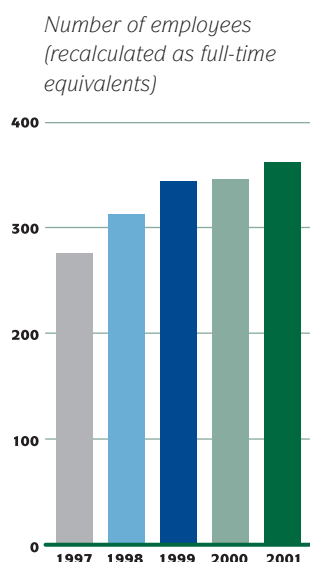
### Personnel

At the close of 2001, the number of employees, recalculated as full-time equivalents, was 361. This represented an increase of 16 positions compared to the close of 2000.

### Return on equity

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

	2001		2000	
	EUR M	Return on equity	EUR M	Return on equity
<i>Net operating profit</i>				
<i>before loan losses</i>	17.5	20.0 %	21.6	27.3 %
<i>Net operating income</i>	17.4	19.9 %	21.0	26.5 %



### 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 30.1 per cent in 2000 to 25.3 per cent in 2001.

### 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.

	2001	2000
Income/expense ratio before loan losses	1.56	1.77
Income/expense ratio after loan losses	1.55	1.74

### Capital adequacy

Capital adequacy rules require that the capital base in the form of shareholders' equity and reserves total at least 8 per cent of risk-weighted receivables and contingent liabilities.

*The Group's capital adequacy according to the Credit Institutions Act:*

	Dec 31, 2001	Dec 31, 2000
<i>Capital base, EUR M</i>		
Core capital	72.4	66.0
Supplementary capital	28.2	33.9
Total capital base	100.5	99.9
Risk-weighted volume, EUR M	804.2	794.3
Total capital ratio, %	12.50	12.57
Core capital as a percentage of risk-weighted volume	9.00	8.31

### The future

The Bank intends to expand further, both by widening its operations in Helsinki and by enhancing its electronic banking services. In the fields of asset management and securities brokerage, the Bank of Åland will refine and adapt its services and products to current demand. Net income from financial operations and other income are expected to reach an acceptable level despite tough competition.

Staff costs and other expenses will increase mainly as a consequence of new recruitments and investments in new technology. Loan losses are projected to remain at a low level. Altogether, this should lead to satisfactory earnings in 2002.

### Insider rules

The Bank's Board of Directors has accepted the Helsinki Stock Exchange's insider regulations and has meanwhile established trading restrictions concerning the Bank's securities, by which an insider is not entitled to trade in the Bank's securities during a period of 14 days before publication of the Bank's annual accounts or Interim Report.

### Risk management

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

In the case of corporate loan risks, all customers have a contact person who is familiar with the customer's operations and developments as well as the loan collateral and risks. The Bank has an internal credit evaluation system, which the Bank 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 with special authorisations. According to the instructions in force, the Board of Management decides all cases that involve commitments larger than a certain amount. The Board's decision-making right is exercised by its Loan Committee. Large customer commitments are reported both internally and to the Financial Supervision Authority. According to the rules in force, a large customer risk refers to a commitment that is at least 10 per cent of the Bank's capital base.

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

The loan portfolio includes very modest receivables from customers domiciled abroad, and no commitments are located in crisis-hit parts of the world. The Bank's real estate holdings entail minor risks.

The Capital Market Division manages risks in the foreign exchange, money, fixed-interest and equity markets. The basic principle is that the Bank shall avoid risk- and position-taking. The Board of Management has established limits for operations in each field. A separate controller department oversees compliance with the established rules.

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

## FIVE-YEAR GROUP SUMMARY

(EUR M UNLESS OTHERWISE STATED)

	1997	1998	1999	2000	2001	% CHANGE 2000–2001
Revenue	46.8	56.5	67.2	96.4	99.5	3.2
Net income from financial operations	19.4	21.2	23.4	32.1	33.4	4.3
Other income	9.7	11.9	16.3	17.5	15.2	-13.0
Other expenses (incl. depreciation)	17.2	20.8	25.0	27.9	31.2	11.6
Loan losses	0.2	0.2	1.2	0.6	0.1	-80.5
<i>Net operating profit</i>	11.7	12.1	13.5	21.0	17.4	-17.3
As % of revenue	25.0	21.4	20.1	21.8	17.4	
Extraordinary items	0.0	-0.4	0.0	0.0	0.0	
Profit before appropriations and taxes	11.7	11.7	13.5	21.0	17.4	-17.3
As % of revenue	25.0	20.8	20.1	21.8	17.4	
Equity capital	58.2	59.9	75.1	81.3	87.4	7.5
Total assets	859.2	1,077.6	1,506.8	1,597.0	1,685.9	5.6
Contingent liabilities	116.5	102.0	82.1	82.7	86.7	4.8
Return on equity, % <sup>1</sup>	14.8	14.8	14.4	19.1	14.6	
Return on total assets, % <sup>2</sup>	1.1	0.9	0.8	1.0	0.8	
Equity/assets ratio, % <sup>3</sup>	6.8	5.6	5.0	5.1	5.2	
Income/expense ratio before loan losses <sup>4</sup>	1.69	1.59	1.59	1.77	1.56	
Income/expense ratio after loan losses <sup>5</sup>	1.67	1.58	1.52	1.74	1.55	
Risk-based capital ratio, %	13.3	11.0	11.3	12.6	12.5	

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

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

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

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

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

# DEPOSITS

During 2001, the Bank's total deposits, including bonds and certificates of deposit issued to the public and public sector entities, rose by EUR 1 M or 0.1 per cent and amounted to EUR 1,332 M.

Deposit accounts rose by EUR 37 M or 3.5 per cent and amounted to EUR 1,097 M. The increase was attributable to accounts with interest rates tied to the ÅAB Prime reference rate and time deposits tied to the Euribor rate.

The amount of bonds increased by EUR 19.7 M or 17.8 per cent, due to the share index loans issued during the year.

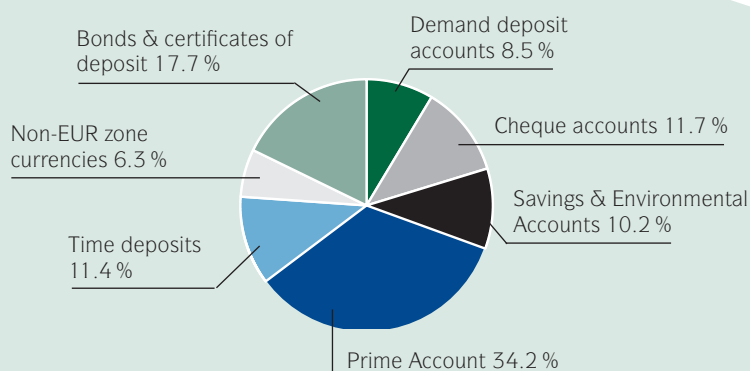
The increase in deposits and bonds reduced the Bank's need to refinance in the certificate of deposit market. As a result, certificates of deposit targeted to the public and the public sector fell by 34.7 per cent to EUR 106 M.

## Deposits from the public and public sector entities, including bonds issued and certificates of deposit

EUR M	DEC. 31, 2001	DEC. 31, 2000	% CHANGE
<i>Deposits from the public and public-sector entities</i>			
Demand deposit accounts	113.6	116.8	-2.7
Cheque accounts	156.1	177.7	-12.1
Savings and Environmental Accounts	135.8	170.6	-20.4
Prime Accounts	455.2	415.1	9.7
Time deposits	<u>152.5</u>	<u>105.0</u>	45.3
Total deposit accounts in EUR zone currencies	1,013.4	985.2	2.9
Deposit accounts in other currencies	<u>83.3</u>	<u>74.1</u>	12.4
<i>Total deposit accounts</i>	1,096.6	1,059.2	3.5
Bonds	129.8	110.1	17.8
Certificates of deposit from the public	<u>105.9</u>	<u>162.1</u>	-34.7
<i>Bonds and certificates of deposit</i>	235.7	272.3	-13.4
<b>TOTAL DEPOSITS</b>	1,332.3	1,331.5	0.1



The Environmental Account (Miljökontot) pays annual interest that is 1.9 percentage points below the Bank of Åland prime rate. However, the maximum interest rate for the Environmental Account is 2.0 per cent. The Bank of Åland donates an amount equivalent to 0.2 per cent of deposits in Environmental Accounts to regional nature conservation and environmental projects. Environmental Account bonuses amounted to EUR 38,000 during 2001.



◀ **Total deposits, Dec. 31, 2001**

# LENDING

The Bank's total lending volume increased by EUR 56 M or 5.3 per cent and amounted to EUR 1,109 M as of December 31, 2001. This increase was attributable to residential financing for private households. Loans outstanding to the service sector, the production sector and the public sector declined during the year.

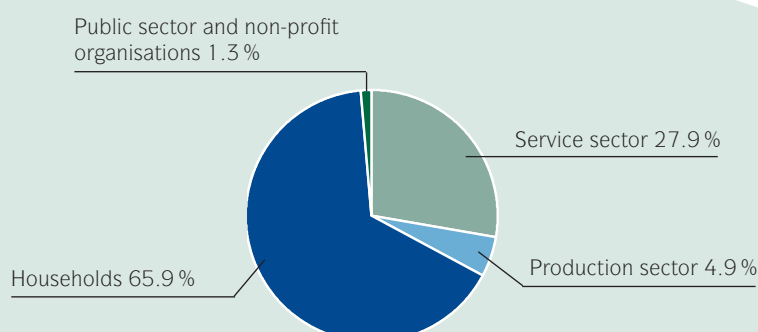
Private households accounted for 65.9 per cent of the Bank's total loans outstanding, while business and professional activities accounted for 32.8 per cent. The corresponding figures in 2000 were 62.4 per cent and 36.3 per cent, respectively.

## Lending to the public and public sector entities

(EUR M)	DEC. 31, 2001	DEC. 31, 2000	% CHANGE
Overdraft facilities utilised	49.1	48.3	1.7
Loans	1,033.0	978.3	5.6
Loans disbursed from Åland government funds	6.4	6.8	-6.5
Lending in foreign currencies	<u>20.9</u>	<u>19.7</u>	6.0
TOTAL LENDING	1,109.4	1,053.1	5.3

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

(EUR M)	DEC. 31, 2001	DEC. 31, 2000	% CHANGE
<b>BUSINESS AND PROFESSIONAL ACTIVITIES</b>			
<i>Service sector</i>			
Shipping	54.4	59.7	
Communications	12.3	11.8	
Hotels, restaurants, tourist cottages etc.	10.1	11.1	
Wholesale and retail trade	35.9	35.7	
Housing corporations	36.8	40.0	
Real estate activities	59.7	55.4	
Financial activities	72.2	73.0	
Other service business	<u>28.0</u>	<u>28.6</u>	
	309.5	315.2	-1.8
<i>Production sector</i>			
Agriculture, forestry and fishing	24.4	29.2	
Food processing etc.	8.3	8.2	
Construction	11.0	12.5	
Other industry and crafts	<u>11.1</u>	<u>16.7</u>	
	54.9	66.6	-17.6
<b>HOUSEHOLDS</b>			
Home loans	592.0	528.9	
Studies	12.0	11.4	
Other purposes (cars, boats, second homes, household appliances etc.)	<u>127.1</u>	<u>116.7</u>	
	731.1	657.0	11.3
<b>PUBLIC SECTOR AND NON-PROFIT ORGANISATIONS</b>			
	13.9	14.3	-2.5
<b>TOTAL LENDING</b>	<b>1,109.4</b>	<b>1,053.1</b>	<b>5.3</b>



◀ Lending to the public, by sector, Dec 31, 2001

# CUSTOMERS ARE HELPING TO SHAPE THE BANK OF TOMORROW

## **PERSONAL FINANCIAL PLANNING WINS OVER THE MARKET**

The Bank of Åland is in the forefront when it comes to developing new banking services and products. Today Personal Financial Planning is the most sophisticated model of its kind in the Nordic countries. The system, which was unveiled to the public for the first time at the Sijoiutus – Invest 2000 Nordic investment forum in Helsinki, underwent extensive refinements during the year and is now in full use at all of the Bank's offices in Finland. During 2001 our customer advisors also received special training on investment matters as part of a joint programme in collaboration with the Finnish Stockbrokers' Association and the Helsinki School of Economics and Business.

The new system also enables us to offer investment advice to private individuals at a more sophisticated level than before. Today, the Bank of Åland gives private individuals the same opportunities as institutional investors to benefit from all available market information as well as academic-level investment strategies.

Our advisory model gives customers and our customer advisors the opportunity to work together in analysing all investment funds and equities on the Helsinki Stock Exchange and, at a selected risk level, invest in an optimal mix of them, alongside other accounts and deposits.

The advisory model also helps customers to lower the risks in their existing portfolios without sacrificing the expected return. Or alternatively, to raise the expected return without increasing risk. The opportunity to optimise the relationship between risk and expected return is of key importance to investors today.

In order to offer its customers maximum freedom of choice and flexibility when selecting investments, the Bank of Åland has also developed a network of collaboration partners. Aside from close ties with its own mutual fund (unit trust) company, the Bank works intimately with such leading mutual fund companies as Alfred Berg, FIM, Fidelity and Evli.

## **"PERSONALISATION" – THE RIGHT INFORMATION TO THE RIGHT CUSTOMER**

The Bank of Åland has long experience of tailor-made solutions for its customers. Our new digital platform also enables us to offer personal solutions via the Internet. Our Internet system is a very powerful tool for adapting information and services to the specific wishes of customers.



*Personal Financial Planning is the most sophisticated investment advisory model in the Nordic countries today.*

The needs, life situation and interests of the customer determine what information is supplied. This personalisation thereby raises the perceived level of service. The customer always receives information of relevance to him and recommendations adapted to his needs in order to improve and simplify his personal financial management.



*In the Bank of Åland's focus groups, customers can actively help influence our services.*

### **FOCUS ON CUSTOMERS**

The Bank of Åland has always had close contact with its customers. To further strengthen this dialogue, during 2001 the Digital Business Development Department began working with focus groups. This method is based on working together with customers and potential customers to analyse the Bank's array of digital services and foresee the need for new forms of service and products.

During their 2001 meetings, the Bank's focus groups discussed the following issues, among others:

- General views on Finnish banks
- A focus on the services of Internet banks
- The Bank of Åland's digital services

The focus groups provided useful insights into the banking habits of Finnish consumers. We also received confirmation that personalised services are appreciated and that our cus-





*Special events enable us to intensify our customer relationships in non-Bank settings.*

tomers want to be actively involved in influencing content and services on the Internet.

Findings from these focus groups are being thoroughly analysed and are incorporated into the feasibility studies for each new project at the Bank. This method is a guarantee that there will be a focus on customers and their needs, and that the Bank will develop Internet services in response to their wishes.

## **PERSONNEL**

The insights and innovative capacity of its employees are a knowledge-based company's best competitive tool. The Bank is continually developing new systems and products. This requires high standards of both recruitment and training.

The Bank's expansion on the Finnish mainland increased the number of employees during 2001. Introductory training is provided in a course of about two weeks at the Bank's Head Office in Mariehamn. The course package includes such topics as systems and product training, business strategies and training in the Bank's unique Personal Financial Planning advisory concept.

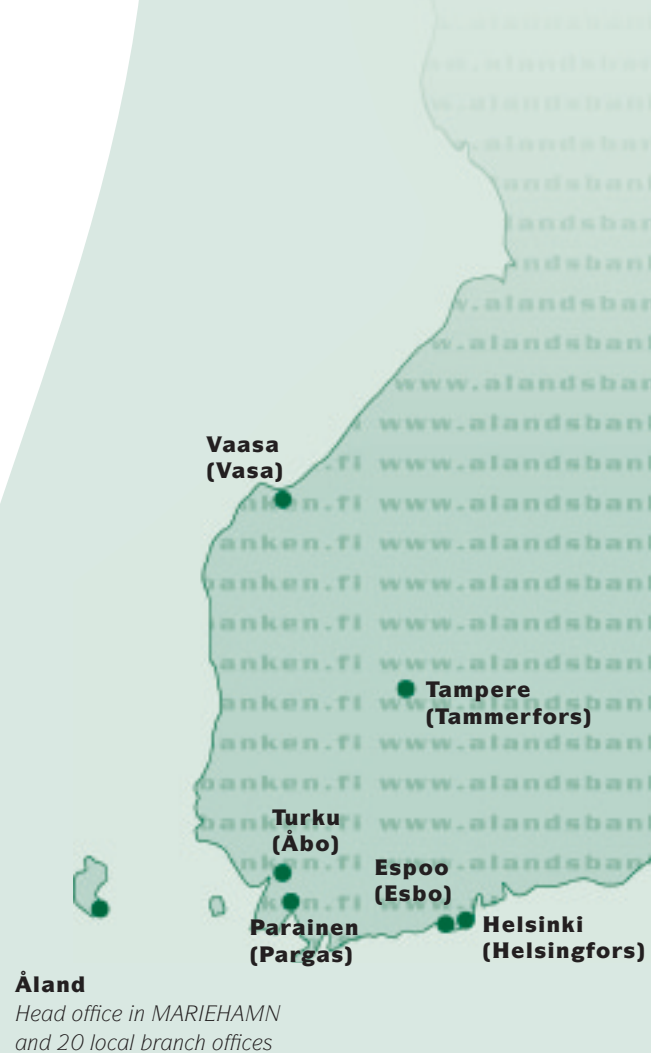
The emphasis in training programmes during 2001 was on investment matters. Twenty-six employees received the Finnish Stockbrokers' Association's Investment Issues Certificate.

The customer advisors at the Bank's mainland offices underwent a course in sales and marketing. Its purpose is to develop systematic sales efforts and increase customer service by means of individually tailored solutions.

New management strategies were developed in the organisation during the year. They include concepts related to leadership, job satisfaction and motivation. These strategies also concern how we want to develop the organisation and our employees from the perspective of skills and expertise.

During the spring of 2001, the Bank followed up its management strategies with a survey of job climate and employee satisfaction. The study showed that employees are very pleased with their workplaces.

## **Bank of Åland offices in Finland**



# FOREIGN EXCHANGE AND CAPITAL MARKETS

## General

Two thousand one was another year of turbulence in the financial markets, especially in the stock market, which was dominated by downturns in share prices due to falling corporate profits.

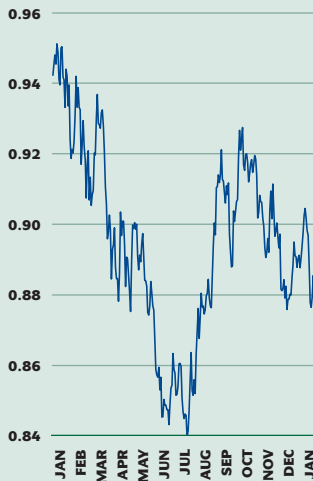
## The foreign exchange market

The euro began the year with a falling trend. At the beginning of 2001, the EUR/USD exchange rate stood at 0.94. By June 30, the euro had weakened to USD 0.84. After that, there was a growing realisation that the downturn in the American economy would be deeper and lengthier than the market had previously anticipated. This benefited the euro exchange rate, since the economic fluctuations in the European Union were smaller. The euro recovered, and by the end of the summer the exchange rate was 0.92. However, the terrorist attacks against the United States in September contributed to some extent to heavier new demand for the dollar. The American dollar has traditionally functioned as a refuge in periods of instability. By year-end, the euro had weakened again to USD 0.89.

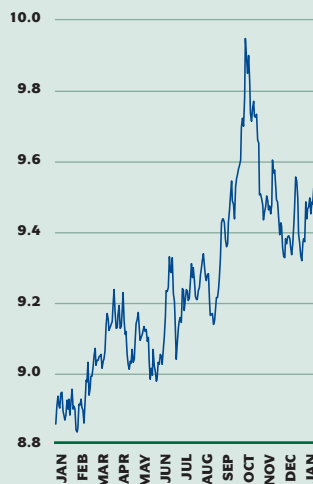
The Swedish krona continued to weaken during the first half of 2001. At the beginning of the year, it stood at SEK 8.06 to the euro, then weakened to SEK 9.45 per euro by September. A number of factors contributed to the krona downturn. Lower profits by export companies, foreigners' divestments of shareholdings in Swedish companies and a continued trend towards international diversification in the portfolios of Swedish institutional investors were among the explanations. It is thus possible to draw the conclusion that to a large extent, the exchange rate of the krona during 2001 was governed by the stock market. The Swedish krona, a small independent currency, was also given a higher risk premium due to the general instability that characterised the market in 2001. On September 21, financial market instability was calmed after the US Federal Reserve carried out a large new interest rate cut. This development benefited the krona exchange rate, which had recovered to SEK 9.32 per euro by year-end. Higher expectations that Sweden will join the Economic and Monetary Union (EMU) common currency zone continued to strengthen the krona early in 2002.

The Japanese yen weakened during most of 2001. After starting the year at levels of around JPY 115 per American dollar, it ended the year at around JPY 130 per USD – a weakening of about 13 per cent. A continued sluggish economy, a shaky banking system and uncertainty about the implementation of necessary economic reforms were factors that lowered investor interest in the Japanese market and the yen.

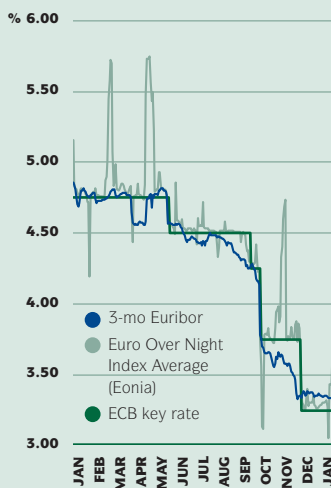
EUR/USD exchange rates, 2001



EUR/SEK exchange rates, 2001



Money market



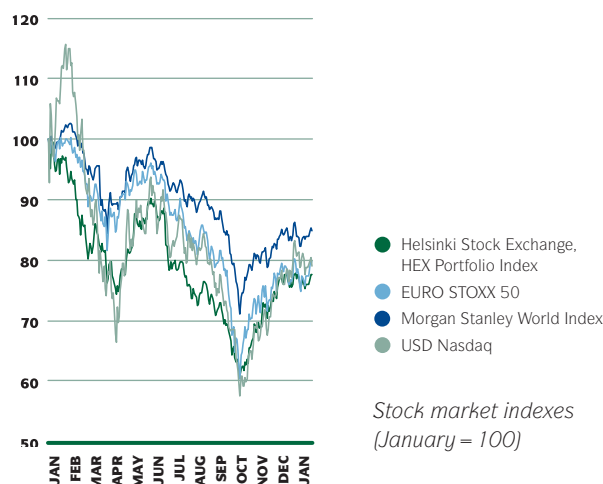
## The money and bond markets

The US Federal Reserve began a major wave of interest rate cuts early in January 2001, once it was clear that after several years of steady growth, the American economy had entered a slowdown phase. During 2001, the federal funds rate was cut eleven times, from 6.5 per cent to 1.75 per cent. After the September 11 terrorist attacks, the Fed lowered its key rate quickly in three rounds from 3 per cent to 1.75 per cent to reduce the economic damage from the attacks. The European Central Bank (ECB) also lowered its key rate during the year in order to support economic recovery. These cuts occurred in four rounds, from 4.75 per cent to 3.25 per cent.

Low interest rates in Japan mean that the Japanese central bank has little room to cut its rates further. However, the Bank of Japan reverted in practice to a zero interest rate in March, after having raised its key rate to 0.25 per cent in August 2000.

## The stock market

The 2001 stock market year began with sliding share prices. Economic indicators steadily deteriorated, as did the market's profit expectations. Late in March, prices reached a temporary low. Share prices climbed until late May, when the market predicted that the American economy was poised for a recovery. During this period, the HEX Portfolio Index climbed by 21 per cent. However, expectations of recovery proved premature and stock markets again turned downward. This downturn was at its deepest in the weeks following the terrorist attacks against the US. However, synchronised interest rate-cutting by the Fed-



eral Reserve, the ECB and others created hope that the economy would bounce back. Until September 21, the HEX Portfolio Index had lost 39.2 per cent of its initial value in 2001. Late in the year there was rising optimism, and stock markets began a broad upturn, in which both growth industries and traditionally cyclical industries rallied. However, this year-end recovery was not sufficient. The Helsinki Stock Exchange reported another year of negative returns. According to the HEX Portfolio Index, the downturn for the full year was 23 per cent.

In March, the Bank of Åland's bond programme was approved. Within the limits of this programme, the Bank issued three share index loans during 2001. Sales of the three share index loans – Nordic, Best Market and Euro Tech – totalled EUR 32.5 M.

# FACTS ON BANK OF ÅLAND SHARES

## Share capital

The share capital of the Bank of Åland is EUR 20,254,392.98. The maximum share capital according to the Articles of Association is EUR 32,292,081.88. The book value equivalent of a share is EUR 2.02.

The shares are divided into 5,180,910 Series A and 4,854,686 Series B shares. 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 their previous nominal value.

### Changes in share capital, reported in EUR

	Share capital, EUR	Series A shares	Series B shares
1997	13,455,034.12	4,320,000	3,680,000
1998	13,482,280.56	4,320,000	3,696,200
1999	19,691,909.32	5,180,910	4,575,988
2000	19,698,854.14	5,180,910	4,579,429
2001	20,254,392.98	5,180,910	4,854,686

## 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 Registry	Remaining
Loan amount in EUR:	16,818,792.65	6,485,326.44	10,333,466.21
Number of loan certificates:	10,000	3,856	6,144
Equivalent number of Series B shares	1,095,546	413,562	681,984

By January 31, 2002, an additional 284 loan certificates, equivalent to EUR 477,653.71 or 31,524 Series B shares, had been converted. The remaining principal amount of the capital loan is EUR 9,855,812.50.



### Conversion terms

The conversion price per share is EUR 15.13929. Each loan certificate with a nominal value of EUR 1,681.88 may thus be converted into 111 Series B shares. The resulting difference of EUR 1.42 is being repaid in cash.

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. By converting the loan certificates remaining on December 31, 2001, the number of Series B shares in the Bank may rise by 681,984, equivalent to an increase of EUR 1,376,417.70 in share capital.

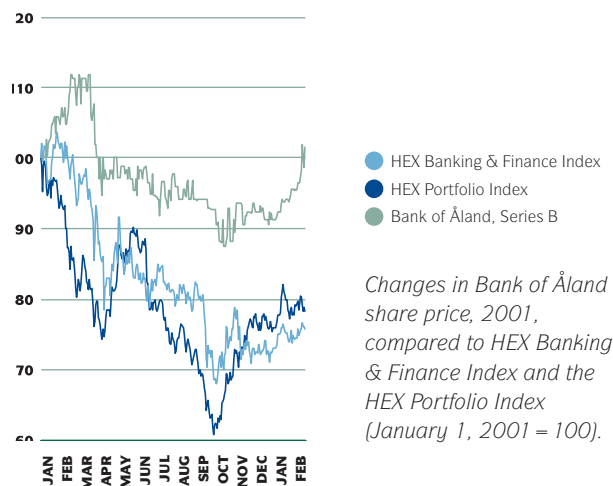
### Warrants

In 1998, the Bank of Åland issued 1,000,000 warrants to Bank employees.

#### Terms of share subscription

Each warrant entitles the holder to subscribe for one (1) Series B share. The warrants are divided into four series, with a maximum of 250,000 warrants in each series. The share subscription period for Series I began on April 1, 2000 and for Series II on April 1, 2001. It begins 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 – January 31 and the subscription period ends for all warrant certificates on December 30, 2003. The subscription price per share is:

Series I	EUR 15.05	
Series II	EUR 14.89	
Series III	EUR 15.73	(to be lowered by dividends per share paid during 2002)
Series IV	EUR 16.57	(to be lowered by the sum of dividends per share paid during 2002–2003)



*Changes in Bank of Åland share price, 2001, compared to HEX Banking & Finance Index and the HEX Portfolio Index (January 1, 2001 = 100).*

Of all Series I warrants, 310 had been used for subscriptions to Series B shares as of December 31, 2001.

### Trading in the Bank's shares

During 2001, the volume of trading in the Bank's Series A shares on the Helsinki Stock Exchange was EUR 1.3 M. Their average price was EUR 16.87. The highest quotation per share was EUR 20, the lowest EUR 15. Trading in Series B shares totalled EUR 5.0 M at an average price of EUR 16.67. The highest quotation was EUR 19.10, the lowest EUR 14.86.

On December 31, 2001, the number of registered shareholders was 8,965. There were also 107,521 shares registered in the names of trustees. Of the Bank of Åland's shares, 13,816 have not yet been exchanged from certificates to the book-entry share account system.

## The ten largest shareholders, December 31, 2001

SHAREHOLDER	SERIES A SHARES	SERIES B SHARES	TOTAL NUMBER OF SHARES	% OF SHARES	% OF VOTES
1. Alandia-bolagen (insurance group)	733,886	364,045	1,097,931	10.9	13.9
– Redarnas Ömsesidiga försäkringsbolag (marine insurance)	408,282	177,735	586,017	5.8	7.7
– Försäkrings Ab Pensions Alandia (pension insurance)	129,960	83,040	213,000	2.1	2.5
– Försäkringsaktiebolaget Alandia (property insurance)	127,548	43,032	170,580	1.7	2.4
– Försäkringsaktiebolaget Liv-Alandia (life insurance)	68,096	60,238	128,334	1.3	1.3
2. Ålands Ömsesidiga Försäkringsbolag (insurance company)	552,331	111,960	664,291	6.3	10.3
3. Caelum Oy (investment company)	265,440	362,628	628,068	6.3	5.2
4. Chips Abp (food processing company)	456,577	–	456,577	4.5	8.4
5. Mattsson Rafael/Ab Rafael	359,306	15,638	374,944	3.7	6.6
– Mattsson Rafael	180,912	542	181,454	1.8	3.3
– Ab Rafael	178,394	15,096	193,490	1.9	3.3
6. Wiklöf Anders	231,506	89,504	321,010	3.2	4.4
7. Ålandsbankens Pensionstiftelse r.s. (The Bank's pension fund)	190,295	80	190,375	1.9	3.5
8. Nacawi Ab (investment company)	60,000	76,267	136,267	1.4	1.2
9. Veritas-Bolagen (insurance group)	66,360	53,900	120,260	1.2	1.3
– Pensionsförsäkringsaktiebolaget Veritas (pension insurance)	37,560	34,700	72,260	0.7	0.7
– Livförsäkringsaktiebolaget Veritas (life insurance)	28,800	19,200	48,000	0.5	0.6
10. Palkkiyhtymä Oy (investment company)	60,000	40,000	100,000	1.0	1.1

## Shareholders by size of holding

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	TOTAL NUMBERS OF SHARES HELD	AVERAGE HOLDING
1 – 100	3,757	173,025	46
101 – 1,000	4,103	1,407,507	343
1,001 – 10,000	1,018	2,478,389	2,435
10,001 –	87	5,855,338	67,303
Shares registered in name of trustee		107,521	
Share certificates not yet exchanged		13,816	

## Shareholders by category

CATEGORY	NUMBER OF SHARES	% OF SHARES
Private individuals	4,737,709	47.2
Corporations	2,192,748	21.8
Insurance companies	1,928,721	19.2
Banks	15,876	0.1
Other financial institutions	4,200	0.1
Government organisations	492,442	4.9
Non-profit organisations	296,480	3.0
Foreign investors	246,083	2.5
Shares registered in name of trustee	107,521	1.1
Share certificates not yet exchanged	13,816	0.1

## Shareholdings in Bank of Åland by members of the Board of Management and the Supervisory Board

	SERIES A SHARES	SERIES B SHARES	% OF SHARES	% OF VOTES
Board of Management	18,601	32,349	0.5%	0.4%
Supervisory Board	251,520	97,312	3.4%	4.7%

Members of the Board of Management also owned 53,675 warrants, which may be used to subscribe for an equal number of Series B shares. Warrant holdings by members of the Board of Management entitle them to a maximum theoretical holding of 0.53 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/ LOWEST	AVERAGE PRICE
1997	A	349	8.1	16.90 – 13.31	14.70
1997	B	1,044	28.4	17.70 – 12.75	14.46
1998	A	70	1.6	18.70 – 15.71	17.41
1998	B	642	17.4	17.85 – 14.70	16.39
1999	A	422	8.3	18.95 – 15.14	15.44
1999	B	622	13.9	17.20 – 15.05	15.86
2000	A	319	6.2	18.00 – 15.30	16.88
2000	B	556	12.1	18.00 – 15.00	16.10
2001	A	80	1.5	20.00 – 15.00	16.87
2001	B	297	6.3	19.10 – 14.86	16.67

## Bank of Åland (Group) share data

	1997	1998	1999	2000	2001	% CHANGE 2000–2001
Number of shares, M	8.00	8.02	9.76	9.76	10.04	
Average number of shares, M, adjusted for issues	8.98	9.00	9.54	9.76	10.04	
Number of shares at year-end, M, adjusted for issues	8.98	9.00	9.76	9.76	10.04	
Earnings per share, EUR <sup>1</sup>	0.94	0.97	1.02	1.50	1.23 <sup>9</sup>	–18.2
Dividend per share, EUR <sup>2</sup>						
Series A	0.883	0.883	0.883	1.009	1.00	
Series B	0.883	0.883	0.883	1.009	1.00	
Dividend per share, EUR, adjusted for issues						
Series A	0.786	0.786	0.883	1.009	1.00	–0.9
Series B	0.786	0.786	0.883	1.009	1.00	–0.9
Dividend payout ratio <sup>3</sup>	60.4	59.3	63.8	48.3	57.8	
Equity capital and reserves per share, EUR <sup>4</sup>	6.48	6.66	7.69	8.33	8.71 <sup>9</sup>	4.5
Market price per share, EUR <sup>5</sup>						
Series A	19.01	18.50	15.60	18.00	15.90	
Series B	19.51	17.36	15.80	17.00	15.69	
Market price, adjusted for issues, EUR <sup>5</sup>						
Series A	16.90	16.45	15.60	18.00	15.90	–11.7
Series B	17.40	15.74	15.80	17.00	15.69	–7.7
Price/earnings ratio, Series A <sup>6</sup>	18.0	17.2	15.3	12.0	13.0	
Price/earnings ratio, Series B <sup>6</sup>	18.5	16.1	15.5	11.3	12.8	
Effective dividend yield, % <sup>7</sup>						
Series A	4.6	4.8	5.7	5.6	6.3	
Series B	4.5	5.1	5.6	5.9	6.4	
Yield incl. tax compensation according to avoir fiscal, % <sup>8</sup>						
Series A	6.5	6.6	7.9	7.9	8.9	
Series B	6.3	7.1	7.8	8.4	9.0	
Market capitalisation, EUR M <sup>5</sup>	153.9	144.1	153.1	171.1	158.5	–7.3

<sup>1</sup>  $\frac{\text{Net operating income} - \text{standard tax}}{\text{Average number of shares, adjusted for new issues}}$

<sup>2</sup> The Board of Management's proposal to the Annual General Meeting.

<sup>3</sup>  $\frac{\text{Dividend for the year}}{\text{Net operating profit}} \times 100$

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

<sup>5</sup> At year-end.

<sup>6</sup>  $\frac{\text{Year-end share price, adjusted for new issues}}{\text{Earnings per share}}$

<sup>7</sup>  $\frac{\text{Dividend, adjusted for new issues}}{\text{Year-end share price, adjusted for new issues}}$

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

<sup>9</sup> If all warrants and subscription rights to which the convertible capital loan is entitled are exercised, earnings per share are EUR 1.18 and the ratio "equity capital 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). During 2001, it managed the following mutual funds (unit trusts):

*Placeringsfonden Ålandsbanken Euro Bond* – a medium-term bond fund with euro-denominated investments in Europe. Ålandsbanken Asset Management Ab serves as the portfolio manager of the fund.

*Placeringsfonden Ålandsbanken Europe Active Portfolio* – a flexible European balanced fund. The Bank of Åland Plc serves as the portfolio manager of the fund.

*Placeringsfonden Ålandsbanken Europe Value* – a European equities fund with a value-oriented investment strategy. UBS Asset Management Ltd serves as the portfolio manager of the fund. Ålandsbanken Europe Value began its operations on June 1, 2001.

*Placeringsfonden Ålandsbanken Global Blue Chip* – an international equities fund. The name of the fund was changed

on January 7, 2002. The new name is Ålandsbanken Global Value. Starting on January 7, 2002, UBS Asset Management Ltd serves as the portfolio manager of the fund (previously managed by the Bank of Åland Plc).

*Placeringsfonden Ålandsbanken Share Index Loan* – a unique share index loan fund. The Bank of Åland Plc serves as the portfolio manager of the fund.

All the mutual funds that the company manages are registered in Finland and comply with the Act on Mutual Funds. The investment strategies of the funds are adapted to the needs of different Bank of Åland customer categories.

All the mutual funds are marketed by the Bank of Åland Plc. Investments in the funds can also be made via Skandia Life's unit-link insurance plans as well as Avec unit-linked insurance plans, which are offered by the Veritas and Alandia-bolagen insurance companies.

## Figures on the mutual funds

PLACERINGSFONDEN ÅLANDSBANKEN	EURO BOND	EUROPE ACTIVE PORTFOLIO	EUROPE VALUE	GLOBAL BLUE CHIP	SHARE INDEX LOAN
Number of unit holders	244	1,726	349	1,948	251
Size of mutual fund, EUR	19,980,545	14,112,816	15,611,040	8,716,746	3,321,378
Unit price, Dec. 28, 2001, EUR					
Series B units	18.98	17.15	18.45	14.57	15.84
Series A units	18.23	16.05	18.45	13.64	15.84
Change in value, 2001(B unit), %	5.21	-16.18	-7.75 *	-23.76	-7.48

\* Since the start on June 1, 2001

The number of unit holders on December 31, 2001 was 4,518 and total assets under management were EUR 61,742,525.

# ÅLANDSBANKEN ASSET MANAGEMENT AB

Ålandsbanken Asset Management Ab is a subsidiary of Ålandsbanken Plc. The company offers customers a comprehensive range of asset management services and has the capacity to manage its customers' finances in their entirety. Ålandsbanken Asset Management Ab creates comprehensive solutions consisting of portfolio management, insurance alternatives, financing arrangements and banking services. Aside from direct equity and fixed-income investments, portfolio management also uses share index loans as well as mutual funds. Mutual fund portfolios are one of the company's strengths. In their portfolios, customers may hold investments in five mutual fund companies' funds, have them reported as a whole and impartially handled and evaluated by their contact person.

The Board of Directors consists of Folke Husell, Chairman, and

members Jan Tallqvist, Irmeli Tanner, Bengt Lundberg and Stefan Törnqvist. The company recruited a new employee in 2001. The stock market was divided during the year. Technology-related shares performed poorly while traditional industries held their own in terms of share prices. Bonds performed very well, since bond yields fell due to the global recession. Thanks to the company's value-oriented investment philosophy, in its domestic portfolio Ålandsbanken Asset Management Ab succeeded in achieving a return of 16.9 per cent for the calendar year.

Ålandsbanken Asset Management Ab has achieved profitability and will pay a dividend for the calendar year 2001. Customers appreciate our work, and the customer base is experiencing stable growth. We will therefore continue to expand and recruit new specialists during 2002.

# CONSOLIDATED INCOME STATEMENT

(EUR K)

	JAN 1 – DEC 31, 2001		JAN 1 – DEC 31, 2000	
Interest income		84,646		78,976
Interest expenses		<u>-51,221</u>		<u>-46,915</u>
<b>NET INCOME FROM FINANCIAL OPERATIONS</b>		33,425		32,061
Income from equity investments		648		932
Commission income		8,945		10,474
Commission expenses		-1,173		-1,076
Net income from securities transactions and foreign exchange dealing				
<i>Net income from securities transactions</i>		1,091		2,619
<i>Net income from foreign exchange dealing</i>		<u>898</u>	1,988	<u>1,183</u>
Other operating income		2,839		1,891
Administrative expenses				
<i>Staff costs</i>				
<i>Wages and salaries</i>		12,947		11,615
<i>Pensions</i>		1,661		1,469
<i>Other social security costs</i>		<u>900</u>	15,509	<u>932</u>
<i>Other administrative expenses</i>		<u>8,205</u>	-23,714	<u>6,599</u>
Depreciation and write-downs of tangible and intangible assets		-2,772		-2,490
Other operating expenses		-3,499		-3,730
Loan and guarantee losses		-124		-638
Share of operating results of companies consolidated according to the equity method		<u>790</u>		<u>378</u>
<b>NET OPERATING PROFIT</b>		17,353		20,988
<b>PROFIT BEFORE APPROPRIATIONS AND TAXES</b>		17,353		20,988
Income taxes				
<i>Taxes for the year and previous years</i>		4,022		4,237
<i>Change in imputed tax due</i>		<u>725</u>	-4,747	<u>1,973</u>
Minority share of profit for the year		<u>-68</u>		<u>16</u>
<b>PROFIT FOR THE YEAR</b>		12,539		14,795



# CONSOLIDATED BALANCE SHEET

(EUR K)

ASSETS	DEC 31, 2001		DEC 31, 2000	
Liquid assets		40,352		16,503
Debt securities eligible for refinancing with central banks				
<i>Treasury bills</i>		131,645		82,432
<i>Other</i>		<u>84,309</u>	215,954	<u>132,206</u>
Claims on credit institutions				
<i>Repayable on demand</i>		1,311		1,970
<i>Other</i>		<u>233,617</u>	234,928	<u>208,560</u>
Claims on the public and public sector entities		1,109,353		1,053,115
Leasing assets		1,011		1,191
Debt securities		26,219		30,543
Shares and participations		15,171		16,772
Shares and participations in the Group's associated companies		5		5
Shares and participations in Group companies		2,201		1,411
Intangible assets		4,898		4,546
Tangible assets				
<i>Real estate as well as shares and participations     in real estate corporations</i>		12,306		13,263
<i>Other tangible assets</i>		<u>2,664</u>	14,970	<u>3,279</u>
Other assets		9,237		15,551
Accrued income and prepayments		<u>11,570</u>		<u>15,630</u>
TOTAL ASSETS		1,685,869		1,596,976

# CONSOLIDATED BALANCE SHEET

(EUR K)

LIABILITIES AND EQUITY CAPITAL	DEC 31, 2001		DEC 31, 2000	
<b>Liabilities</b>				
Liabilities to credit institutions				
<i>Repayable on demand</i>		12,485		169
<i>Other</i>		<u>83,639</u>	96,124	<u>83,152</u>
				83,321
Liabilities to the public and public sector entities				
<i>Deposits</i>				
<i>Repayable on demand</i>	903,075		934,719	
<i>Other</i>	<u>193,453</u>	1,096,528	<u>124,275</u>	1,058,994
<i>Other liabilities</i>		<u>6,313</u>	1,102,841	<u>6,842</u>
				1,065,836
Debt securities issued to the public				
<i>Bonds</i>		97,293		73,146
<i>Other</i>		<u>221,862</u>	319,155	<u>206,865</u>
				280,011
Other liabilities			28,514	33,004
Accrued expenses and deferred income			11,903	10,220
Subordinated liabilities			22,489	22,489
Imputed taxes due			6,772	6,047
Minority share of capital			356	243
<b>Equity capital</b>				
Share capital		20,254		19,699
Share premium account		13,332		9,721
Revaluation reserve		350		852
Reserve fund		25,129		25,129
Capital loan		10,333		14,499
Profit brought forward		15,779		11,109
Profit for the year		<u>12,539</u>		<u>14,795</u>
TOTAL LIABILITIES AND EQUITY CAPITAL		1,685,869		1,596,976
<b>OFF-BALANCE SHEET</b>				
<b>COMMITMENTS</b>				
Commitments given to a third party on behalf of customers				
<i>Guarantees and pledges</i>		<u>10,244</u>	10,244	<u>11,517</u>
				11,517
Irrevocable commitments given in favour of customers			<u>76,414</u>	<u>71,137</u>
			86,658	82,653

# PARENT COMPANY INCOME STATEMENT

(EUR K)

	JAN 1 – DEC 31, 2001		JAN 1 – DEC 31, 2000	
Interest income		84,595		78,877
Net leasing income		159		172
Interest expenses		<u>-51,324</u>		<u>-46,971</u>
<b>NET INCOME FROM FINANCIAL OPERATIONS</b>		33,430		32,077
Income from equity investments				
<i>In the Group's associated companies</i>		112		92
<i>In other companies</i>		<u>536</u>	648	<u>841</u>
Commission income		8,019		9,993
Commission expenses		-1,142		-1,076
Net income from securities transactions and foreign exchange dealing				
<i>Net income from securities transactions</i>		1,077		2,619
<i>Net income from foreign exchange dealing</i>		<u>898</u>	1,975	<u>1,183</u>
Other operating income		2,824		1,928
Administrative expenses				
<i>Staff costs</i>				
<i>Wages and salaries</i>		12,532		11,392
<i>Pensions</i>		1,588		1,431
<i>Other social security costs</i>		<u>879</u>	14,999	<u>920</u>
<i>Other administrative expenses</i>		<u>7,929</u>	-22,929	<u>6,469</u>
Depreciation and write-downs on tangible and intangible assets		-2,739		-2,461
Other operating expenses		-3,330		-3,674
Loan and guarantee losses		-235		-968
Write-downs and reversals of write-downs on securities held as financial fixed assets		<u>0</u>		<u>258</u>
<b>NET OPERATING PROFIT</b>		16,521		20,600
<b>PROFIT BEFORE APPROPRIATIONS AND TAXES</b>		16,521		20,600
Appropriations		-2,500		-6,300
Income taxes		<u>-3,944</u>		<u>-4,237</u>
<b>PROFIT FOR THE YEAR</b>		10,077		10,063

# PARENT COMPANY BALANCE SHEET

(EUR K)

ASSETS	DEC 31, 2001	DEC. 31, 2000
Liquid assets	40,352	16,503
Debt securities eligible for refinancing with central banks	215,619	214,639
Claims on credit institutions		
<i>Repayable on demand</i>	1,311	1,970
<i>Other</i>	<u>233,616</u>	<u>208,560</u>
Claims on the public and public sector entities	1,109,353	1,053,115
Leasing assets	1,011	1,191
Debt securities	25,539	30,543
Shares and participations	14,907	16,522
Shares and participations in the Group's associated companies	5	5
Shares and participations in Group companies	2,305	2,351
Intangible assets	4,881	4,511
Tangible assets		
<i>Real estate as well as shares and participations     in real estate corporations</i>	12,306	13,263
<i>Other tangible assets</i>	<u>2,623</u>	<u>3,229</u>
Other assets	9,112	15,639
Accrued income and prepayments	<u>11,524</u>	<u>15,585</u>
TOTAL ASSETS	1,684,464	1,597,625

# PARENT COMPANY BALANCE SHEET

(EUR K)

LIABILITIES AND EQUITY CAPITAL	DEC 31, 2001		DEC 31, 2000	
<b>Liabilities</b>				
Liabilities to credit institutions				
<i>Repayable on demand</i>		12,485		169
<i>Others</i>		<u>83,639</u>	96,124	<u>83,152</u>
Liabilities to the public and public sector entities				
<i>Deposits</i>				
<i>Repayable on demand</i>	903,184		934,962	
<i>Other</i>	<u>193,453</u>	1,096,637	<u>124,275</u>	1,059,237
<i>Other liabilities</i>		<u>6,313</u>	1,102,950	<u>6,842</u>
Debt securities issued to the public				
<i>Bonds</i>		96,958		73,146
<i>Other</i>		<u>222,532</u>	319,491	<u>208,185</u>
Other liabilities		28,482		32,970
Accrued expenses and deferred income		11,742		10,197
Subordinated liabilities		22,489		22,489
<b>Accumulated appropriations</b>				
Difference between recorded and planned depreciation		250		250
Reserves		23,100		20,600
<b>Equity capital</b>				
Share capital		20,254		19,699
Share premium account		13,332		9,721
Revaluation reserve		350		852
Reserve fund		25,129		25,129
Capital loan		10,333		14,499
Profit brought forward		361		425
Profit for the year		<u>10,077</u>		<u>10,063</u>
TOTAL LIABILITIES AND EQUITY CAPITAL		1,684,464		1,597,625
<b>OFF-BALANCE SHEET</b>				
<b>COMMITMENTS</b>				
Commitments given to a third party on behalf of customers				
<i>Guarantees and pledges</i>		<u>10,244</u>	10,244	<u>11,517</u>
Irrevocable commitments given in favour of a customer		<u>76,414</u>		<u>71,137</u>
		86,658		82,653

# 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, Ålandsbanken Fondbolag Ab, Ålandsbanken Asset Management Ab, the Byggbast Group, and Klintens Trä 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 Byggbast Group and Klintens Trä have 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 these companies reflects any changes in their equity capital. The consolidated income statement reports the Bank's share in these companies' earnings. The accounts of Ålandsbanken Fondbolag Ab and Ålandsbanken Asset Management 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 lease assets. Additional depreciation on lease assets and capital gains/losses on the sale of lease 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 euro (EUR) at the European Central Bank'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 accrued over the maturity of the debt security as an interest expense or interest income.

## Other staff-related costs

Aside from normal social security contributions, the item "Other staff-related costs" in the income statement also includes the estimated cost of future social insurance fees related to the equity options that have been issued to employees.

## 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 intangible assets are depreciated/amortised on a straight-line basis over 3–10 years. Land and revaluations are not depreciated. Depreciation on lease 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 that have been recovered are reported as reductions in the year's loan losses.

### **Write-downs and reversals of write-downs on 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 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. If such a write-down proves unfounded, it is recovered 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. During 2001, no extraordinary items arose.

### **Pension arrangements**

The legally mandated pension coverage for employees has been arranged through the retirement insurance company Försäkringsaktiebolaget Pensions-Alandia. Other pension benefits are hand-



led through the Bank's pension fund, Ålandsbanken Abp:s Pensionsstiftelse. Pension liabilities are fully covered.

### **Provisions**

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

### **Derivative contracts**

Income and expenses on interest rate-related derivative contracts intended for hedging purposes are included in the income statement under interest income and expenses. Income and expenses on interest-related derivative contracts not intended for hedging purposes are included under securities transactions in the income statement. Income and expenses on currency-related derivative contracts are included under foreign exchange dealing, except that the difference between the forward and spot exchange rate is included under interest income and expenses. Income and expenses on equity-related derivative contracts are included under securities transactions in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

(EUR K)

The contents of these notes follow regulations 106.1 and 106.2 of the Financial Supervision Authority. Notes for which there is nothing to report have been omitted. Since the figures for the parent Bank and the Group do not differ significantly from each other, these notes provide figures only for the parent Bank, unless otherwise stated.

## Numbering

<b>1–8</b>	Notes to the income statement
<b>9–32</b>	Notes to the balance sheet
<b>33</b>	Note concerning income taxes
<b>34–39</b>	Notes concerning assets pledged, contingent liabilities and derivative contracts
<b>40</b>	Note concerning staff and members of administrative and supervisory bodies
<b>41–42</b>	Other notes
<b>43–47</b>	Notes concerning the consolidated financial statements

## 1. Interest income and interest expenses

<i>Interest income:</i>	<b>2001</b>	<b>2000</b>
Credit institutions and central banks	11,712	10,839
Public and public sector entities	61,172	56,509
Debt securities	11,488	11,426
Other interest income	<u>223</u>	<u>102</u>
	84,595	78,877

<i>Interest expenses:</i>		
Credit institutions and central banks	3,977	3,738
Public and public sector entities	31,555	24,871
Debt securities issued to the public	13,778	16,534
Subordinated liabilities	1,305	970
Capital loan	619	682
Other interest expenses	<u>88</u>	<u>176</u>
	51,324	46,971

## 2. Net leasing income

	<b>2001</b>	<b>2000</b>
Rental income	390	422
Planned depreciation	-341	-322
Net capital gains and losses from the sale of lease assets	<u>110</u>	<u>72</u>
	159	172

## 3. Net income from securities transactions

	<b>2001</b>	<b>2000</b>
Debt securities	-52	200
Shares and participations	<u>1,129</u>	<u>2,419</u>
	1,077	2,619

## 4. Total amount of current-asset securities bought and sold

<i>Debt securities</i>	<b>2001</b>	<b>2000</b>
Bought	3,425	932,057
Sold	3,462	932,444
<i>Shares</i>		
Bought	445,389	97,022
Sold	448,268	96,226



## 5. Other operating income and expenses

	2001	2000
<i>Other operating income</i>		
Rental and dividend income from real estate and real estate corporations	522	540
Capital gains from the sale of real estate and shares and participations in real estate corporations	780	55
Other income from normal operations	<u>1,521</u>	<u>1,332</u>
	2,824	1,928
<i>Other operating expenses</i>		
Rental expenses	1,048	1,018
Expenses for real estate and real estate corporations	907	768
Capital losses from the sale of real estate and shares and participations in real estate corporations	2	37
Other expenses from normal operations	<u>1,373</u>	<u>1,852</u>
	3,330	3,674

## 6. Loan and guarantee losses

	2001		2000	
	Loan losses gross	Deductions	Loan losses gross	Deductions
Claims on the public and public sector entities	1,025	804	1,160	191
Guarantees and other off-balance sheet items	<u>16</u>	<u>2</u>	<u>1</u>	<u>2</u>
	1,041	806	1,161	193
Write-downs on securities held as financial fixed assets	0	0	0	258
Actual loan losses	411		96	
Actual loan losses for which specific loan loss provisions were previously made	-385		-75	
Recoveries on actual loan losses from prior years	-124		-108	
Specific loan loss provisions	1,015		1,141	
Reversals of previous specific loan loss provisions	<u>-682</u>		<u>-85</u>	
Loan and guarantee losses in the accounts	235		968	

## 7. Appropriations

	2001	2000
Decrease in difference between recorded and planned depreciation	0	0
Increase in loan loss reserve	<u>2,500</u>	<u>6,300</u>
	2,500	6,300

## 8. Income and staff by field of operation and market

	2001	2000
Banking operations	47,846	48,293
Mutual fund (unit trust) operations	797	736
Securities company operations	477	131

All income arose in Finland.

*Staff, recalculated to average full-time equivalents during the year, by field of operations:*

	2001	2000
Banking operations	353	341
Mutual fund operations	3	3
Securities company operations	5	2

## 9. Debt securities eligible for refinancing with central bank

	2001	2000
Treasury bills	131,645	82,432
Bonds issued by the Finnish government	42,345	61,264
Bank certificates of deposit	24,685	49,027
Other bonds	<u>16,944</u>	<u>21,915</u>
	215,619	214,639

## 10. Claims on credit institutions

The balance sheet item "Claims on credit institutions" does not include claims on central banks.

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

<i>Breakdown of the balance sheet item "Claims on the public and public sector entities" according to the official sectoral classification of Statistics Finland:</i>	2001	2000
Enterprises	300,471	311,600
General government	4,773	5,399
Non-profit institutions	45,531	48,898
Households	737,612	669,942
Foreign	<u>20,966</u>	<u>17,275</u>
<i>Total</i>	1,109,353	1,053,115
<i>Specific loan loss provisions on January 1</i>	4,325	3,345
New provisions made during the year	1,015	1,141
Provisions reversed during the year	-682	-85
Actual loan losses during the year, for which specific loan loss provisions were previously made	<u>-385</u>	<u>-75</u>
<i>Specific loan loss provisions on December 31</i>	4,272	4,325

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

	2001	2000
Nonperforming claims	2,529	2,507
Other zero-interest receivables	<u>30</u>	<u>30</u>
	2,559	2,537

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

	2001	2000
Real estate and shares and participations in real estate corporations	589	589
Other shares and participations	<u>93</u>	<u>93</u>
	682	682

## 14. Subordinated claims

	2001	2000
Claims on the public and public sector entities	367	367

## 15. Lease assets

Lease assets consist of machinery and equipment.

## 16. Debt securities eligible for refinancing with central banks and other debt securities held

	2001		2000	
	Publicly listed	Other	Publicly listed	Other
Current assets	242	1,121	1,183	1,445
Other	<u>59,289</u>	<u>180,506</u>	<u>82,057</u>	<u>160,497</u>
	59,531	181,627	83,240	161,942

Difference between probable sale price and lower book value of debt securities held as current assets	1	9
Difference between book value and lower nominal value of debt securities held as fixed assets	361	1,466
Difference between nominal value and lower book value of debt securities held as fixed assets	2,028	4,194
<i>Debt securities specified by type:</i>		
Treasury bills	131,645	82,432
Commercial paper	1,898	7,467
Certificates of deposit	24,685	49,027
Other bond loans	64,975	89,135
Other debt securities	<u>17,954</u>	<u>17,121</u>
	241,157	245,182

## 17. Shares and participations

	2001		2000	
	Publicly listed	Other	Publicly listed	Other
Current assets	10,504	4,275	11,015	5,378
Other	<u>0</u>	<u>128</u>	<u>0</u>	<u>129</u>
	10,504	4,403	11,015	5,507
<i>Difference between probable sale price and lower book value for publicly listed shares</i>				
Current assets	13		24	

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

	2001	2000
<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	7,292	8,056
+ increases during the year	0	922
- decreases during the year	-47	-1,682
- write-downs during the year	0	0
+ accumulated write-downs on January 1 related to decreases	0	258
- accumulated write-downs on January 1	<u>-4,808</u>	<u>-5,069</u>
Book value on December 31	2,437	2,485
<i>Land, buildings and shares and participations in real estate corporations</i>		
Book value on January 1	18,786	18,799
+ increases during the year	10	127
- decreases during the year	-289	-103
- planned depreciation during the year	-213	-217
- write-downs during the year	-84	-37
+ accumulated depreciation on January 1 related to decreases	122	71
- accumulated depreciation on January 1	-5,524	-5,378
- revaluations reversed	<u>-502</u>	<u>0</u>
Book value on December 31	12,306	13,263

<i>Machinery, equipment and other tangible assets</i>	<b>2001</b>	<b>2000</b>
Book value on January 1	8,432	8,650
+ increases during the year	471	488
- decreases during the year	-302	-706
- planned depreciation during the year	-892	-893
+ accumulated depreciation on January 1 related to decreases	116	668
- accumulated depreciation on January 1	<u>-5,203</u>	<u>-4,978</u>
Book value on December 31	2,622	3,229

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

	<b>2001</b>		<b>2000</b>	
	Book value	Tied-up capital	Book value	Tied-up capital
<i>Land, water and buildings</i>				
In own use	7,976	7,976	8,143	8,143
Other	<u>556</u>	<u>556</u>	<u>1,153</u>	<u>1,153</u>
	8,533	8,533	9,296	9,296
<i>Shares and participations in real estate corporations</i>				
For housing own premises	1,113	1,140	1,138	1,167
Other	<u>2,661</u>	<u>3,822</u>	<u>2,828</u>	<u>4,042</u>
	3,774	4,962	3,966	5,209

## 20. Other assets

	<b>2001</b>	<b>2000</b>
Cash items in the process of collection	81	56
Guarantee claims	59	50
Derivative contracts	6,138	7,652
Other	<u>2,834</u>	<u>7,880</u>
	9,112	15,639

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

	<b>2001</b>	<b>2000</b>
Interest	9,119	12,418
Other	<u>2,405</u>	<u>3,167</u>
	11,524	15,585

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

<i>Debt securities issued to the public</i>	<b>2001</b>	<b>2000</b>
Difference between nominal value and lower book value	7,951	8,016
Difference between book value and lower nominal value	445	867

## 23. Debt securities issued to the public

	<b>2001</b>	<b>2000</b>
Certificates of deposit	222,532	208,185
Bonds	<u>96,958</u>	<u>73,146</u>
	319,491	281,331

## 24. Other liabilities

	<b>2001</b>	<b>2000</b>
Cash items in the process of collection	13,487	11,978
Derivative contracts	6,093	7,414
Other	<u>8,902</u>	<u>13,577</u>
	28,482	32,970

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

	<b>2001</b>	<b>2000</b>
Interest	9,281	7,260
Other	<u>2,461</u>	<u>2,937</u>
	11,742	10,197

## 26. Subordinated liabilities

	<b>2001</b>	<b>2000</b>
<i>1999 debenture loan</i>		
Amount of liability	10,000	10,000
Interest rate: 3 month Euribor + 1.94 %		
Maturity date January 15, 2009.		
<i>2000 debenture loan</i>		
Amount of liability	12,489	12,489
Interest rate: 5.25 %		
Maturity date May 20, 2005.		

The loans may be repurchased before maturity, but this is possible only with the permission of the Financial Supervision Authority. In case the Bank is dissolved, the loans are subordinate to the Bank's other obligations.

## 27. Changes in equity capital

<i>Share capital</i>	<b>2001</b>	<b>2000</b>
January 1	19,699	19,692
Conversion of capital loan	555	7
Subscription by exercising warrants	<u>1</u>	<u>0</u>
December 31	20,254	19,699
<i>Reserve fund</i>		
January 1	25,129	25,129
December 31	25,129	25,129
<i>Revaluation reserve</i>		
January 1	852	852
Withdrawal of revaluation	<u>-502</u>	<u>0</u>
December 31	350	852
<i>Share premium account</i>		
January 1	9,721	9,676
Conversion of capital loan	3,608	45
Subscription by exercising warrants	<u>4</u>	<u>0</u>
December 31	13,332	9,721
<i>Capital loan</i>		
January 1	14,499	14,552
Conversion	<u>-4,166</u>	<u>-52</u>
December 31	10,333	14,499
<i>Unrestricted equity</i>		
January 1	10,488	9,043
Dividend distribution	-10,127	-8,618
Profit for the year	<u>10,077</u>	<u>10,063</u>
December 31	10,438	10,488
GROUP		
<i>Unrestricted equity</i>		
January 1	25,904	19,727
Dividend distribution	-10,127	-8,618
Profit for the year	<u>12,539</u>	<u>14,795</u>
December 31	28,317	25,904

## 28. Non-distributable items in unrestricted equity

Of unrestricted equity in the consolidated balance sheet, EUR 16,578,000 is non-distributable. This is the equity capital portion of untaxed reserves in the parent Bank. The distributable equity in the Group is thus EUR 11,793,000 and in the Parent Company EUR 10,438,000.

## 29. Rights, equity warrant and convertible loan issues approved during the financial year

There are no currently valid authorisations by the General Meeting regarding rights issues, the issuance of equity warrants and convertible loans.

## 30. Capital loan

<i>Convertible capital loan:</i>	<b>2001</b>	<b>2000</b>
Amount outstanding	10,333	14,499

The interest rate on the loan is 6 per cent and the maturity date is April 2, 2007. Lenders are not entitled to demand early repayment. The Annual Report explains the terms for conversion to shares. During the period April 2, 2001-January 31, 2002, holders applied for conversion of EUR 478,000 of the capital loan, which entitles them to 31,524 shares.

## 31. Maturity breakdown of claims and liabilities

<i>Claims:</i>	Total	-3 mo	3-12 mo	1-5 yrs	5- yrs
Debt securities eligible for refinancing with central banks	215,619	169,980	11,786	33,853	0
Credit institutions	234,927	234,927	0	0	0
The public and public sector entities	1,109,353	100,139	140,019	393,941	475,254
Other debt securities	<u>25,538</u>	<u>2,459</u>	<u>4,323</u>	<u>18,756</u>	<u>0</u>
	1,585,437	507,505	156,128	446,550	475,254
<i>Liabilities:</i>					
Credit institutions and central banks	96,124	13,170	1,135	65,000	16,819
The public and public sector entities	1,096,637	1,069,505	25,182	1,950	0
Debt securities issued to the public	319,491	144,753	82,112	92,626	0
Subordinated liabilities	<u>22,489</u>	<u>0</u>	<u>0</u>	<u>12,489</u>	<u>10,000</u>
	1,534,741	1,227,428	108,429	172,065	26,819

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.

## 32. Assets and liabilities in euro zone currencies and other currencies

	2001		2000	
<i>Claims:</i>	Euro zone currencies	Other currencies	Euro zone currencies	Other currencies
Debt securities eligible for refinancing with central banks	215,619	0	214,639	0
Credit institutions and central banks	171,028	63,900	161,504	49,026
The public and public sector entities	1,090,934	18,420	1,034,982	18,133
Other debt securities	25,539	0	30,531	12
Other assets	<u>94,379</u>	<u>4,647</u>	<u>84,458</u>	<u>4,340</u>
	1,597,497	86,966	1,526,114	71,511
<i>Liabilities:</i>				
Credit institutions and central banks	81,975	14,149	81,988	1,333
The public and public sector entities	1,019,688	83,262	992,017	74,062
Debt securities issued to the public	319,491	0	281,331	0
Subordinated liabilities	22,489	0	22,489	0
Other liabilities	<u>40,159</u>	<u>66</u>	<u>43,094</u>	<u>73</u>
	1,483,801	97,477	1,420,918	75,468

## 33. Income taxes

	<b>2001</b>	<b>2000</b>
Income taxes on normal operations	3,944	4,237
Income taxes on extraordinary items	<u>0</u>	<u>0</u>
	3,944	4,237

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

<i>Liabilities and other commitments on own behalf for which collateral has been pledged in the form of a mortgage or property lien</i>	<b>2001</b>	<b>2000</b>
Liabilities to the public and public sector entities	38	84
Other commitments	25,277	30,067
Advance allotment of euro banknotes and coins, of which allocated in turn to others	16,450 2,222	0 0
<i>Book value of assets pledged for above liabilities and commitments</i>		
Debt securities	56,910	34,874
Shares	67	67
Land and buildings	93	662

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

### 35. Pension liabilities

	<b>2001</b>	<b>2000</b>
Actuarial liability of Ålandsbanken Abp:s Pensionsstiftelse r.s.	11,203	10,231
Actuarial deficit in the book value of the pension fund	0	0

The probable market value of the pension fund's assets exceeded its actuarial liability by about EUR 4 M. Pension protection arrangements for employees are explained in the accounting principles, page 29.

### 36. Lease liabilities

	<b>2001</b>	<b>2000</b>
Leasing rentals to be paid the following year	1,420	1,042
Leasing rentals to be paid during subsequent years	1,310	684

### 37. Off-balance sheet commitments

	<b>2001</b>	<b>2000</b>
Guarantees	10,244	11,517
Unutilised overdraft facilities	54,623	53,926
Lines of credit	<u>21,791</u>	<u>17,210</u>
	86,658	82,653

<i>Contingent liabilities on behalf of Group companies</i>		
Guarantees and liens	67	67
Irrevocable commitments	236	348

<i>Contingent liabilities on behalf of associated companies</i>		
Guarantees and liens	0	0
Irrevocable commitments	67	88

### 38. Derivative contracts

VALUE OF UNDERLYING PROPERTY	<b>2001</b>		<b>2000</b>	
	For hedging purposes	Other	For hedging purposes	Other
<i>Interest rate derivatives</i>				
Option contracts				
Purchased	0	0	8,409	0
Written	0	0	0	8,409
Interest rate swap contracts	116,152	17,772	67,478	0
<i>Currency derivatives</i>				
Forward contracts	8,190	8,355	3,190	3,627
Interest rate and currency swap contracts	1,133	317	0	788
<i>Share derivatives</i>				
Option contracts				
Purchased	93,957	5,581	79,478	6,220
Written	<u>4,751</u>	<u>93,957</u>	<u>5,181</u>	<u>79,478</u>
	224,182	125,982	163,736	98,522

#### Equivalent credit values of the contracts

Interest rate derivative contracts	2,722	1,451
Currency derivative contracts	695	657
Share derivatives	<u>15,358</u>	<u>19,944</u>
	18,775	22,052

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

	2001	2000
Accounts receivable	1,246	4,155
Accounts payable	1,647	4,381

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

	2001	2000
Average number of full-time employees during year	299	302
Change from previous year	-3	+23
Average number of part-time employees during year	79	67
Change from previous year	+12	-3

#### Salaries and fees paid to

Members of the Supervisory Board	39	41
Members and deputy members of the Board of Management and Managing Directors	1,006	749

The note includes the value of fringe benefits as well as pensions and other social security expenses. During 2001, an earnings-based bonus programme was established for the Bank's Board of Management. The Bank's earnings did not lead to a bonus payment.

#### Loans to members of administrative and supervisory bodies and to companies which they control:

Members of the Supervisory Board	38,612	37,873
Members of the Board of Management	837	888
Auditors	1	1

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

Members of the Supervisory Board	1,712	1,760
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Pension commitments deviating 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".

### 41. Shares held as financial fixed assets

Shares and participations held as financial fixed assets	2001	2000
Number of companies	11	13
Total book value	128	129

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

### 42. 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

### 43. Changes in Group structure

During 2001, the wood products company Klintens Trä Ab began to be included in the consolidated financial statements, since its impact on the unrestricted equity capital of the Bank of Åland Group could no longer be considered negligible. This does not, however, affect the possibility of comparing the year's accounts with those of the preceding year.



## 44. Subsidiaries included in the consolidated financial statements

COMPANY	REGISTERED OFFICE	OWNERSHIP
Byggfast Ab (group)	Mariehamn	100 %
Klintens Trä Ab	Mariehamn	100 %
Ålandsbanken Fondbolag Ab	Mariehamn	100 %
Ålandsbanken Asset Management Ab	Helsinki	74 %

## 45. Subsidiaries excluded from the consolidated financial statements

The number of subsidiaries excluded from the consolidated financial statements is 10, with an aggregate balance sheet total of EUR 3.9 M according to the most recently available accounts. These companies consist of 5 housing and real estate corporations with an aggregate balance sheet total of EUR 2.4 M and 5 other companies with an aggregate balance sheet total of EUR 1.5 M. Inclusion of these subsidiaries in the consolidated financial statements would have a negligible impact on the Group's unrestricted equity capital.

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

The number of associated companies excluded from the consolidated financial statements is 12, with an aggregate balance sheet total of EUR 9.8 M according to the most recently available accounts. These companies consist of 9 housing and real estate corporations with an aggregate balance sheet total of EUR 8.7 M and 3 other companies with an aggregate balance sheet total of EUR 1.1 M. Inclusion of these companies in the consolidated financial statements would have a negligible impact on the Group's unrestricted equity capital.

## 47. Imputed taxes due

Imputed taxes due, EUR 6,771,000, is based on appropriations in the accounts of the parent Bank.

# PROPOSED DISTRIBUTION OF PROFIT

The Board of Management proposes that the Bank's profit for the year, EUR 10,076,884.81, and its profit brought forward from prior years, EUR 360,626.99, totalling EUR 10,437,511.80, be distributed as follows:

1.	For Series A and Series B shares outstanding as of December 31, 2001, a dividend of EUR 1.00 per share, totalling	EUR 10,035,596.00
2.	For Series B shares subscribed through conversion of the capital loan during the period April 2, 2001 – January 31, 2002, a dividend of EUR 1.00 per share, totalling	EUR 31,524.00
3.	To remain in the accounts as undistributed earnings	<u>EUR 370,391.80</u> EUR 10,437,511.80

Mariehamn, February 14, 2002

*Folke Husell*

*Anders Ingves*

*Edgar Vickström*

*Jan Tallqvist*

*Lars Donner*

## STATEMENT OF THE SUPERVISORY BOARD

The financial statements and consolidated financial statements for 2001 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 14, 2002

*Anders Wiklöf*

*Sture Carlson*

*Trygve Eriksson*

*Roger Rundberg*

*Göran Bengtz*

*Kjell Clemes*

*Göran Lindholm*

*Carita Blomsterlund*

*Johan Eklund*

*Ben Lundqvist*

Johan Dahlman was absent from the Supervisory Board meeting of February 14, 2002.

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 22, 2001, Göran Bengtz and Anders Wiklöf, who were due to retire as members, were re-elected.

Anders Wiklöf was elected Chairman of the Supervisory Board and Sture Carlson was elected Vice Chairman.

Due to retire at the Annual General Meeting on March 14, 2002 are Carita Blomsterlund, Sture Carlson, Trygve Eriksson, Göran Lindholm and Ben Lundqvist.



# 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, 2001. 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 EUR 10,076,884.81 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 Management 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.

Mariehamn, February 14, 2002

*Leif Hermans*

CERTIFIED PUBLIC ACCOUNTANT

*Per-Olof Johansson*

CERTIFIED PUBLIC ACCOUNTANT

*Marja Tikka*

CERTIFIED PUBLIC ACCOUNTANT

# ORGANISATION FROM FEBRUARY 1, 2002

BANK OF ÅLAND PLC



# EXECUTIVES AND MANAGERS

## BOARD OF MANAGEMENT/BOARD OF DIRECTORS

Folke Husell, Chief Executive Officer, Chairman  
Edgar Vickström, Vice Chairman  
Lars Donner  
Anders Ingves  
Jan Tallqvist

## MANAGING DIRECTOR

Folke Husell

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## CUSTOMER RELATIONS

Edgar Vickström, Deputy CEO, Head of Division, General Manager

### MAINLAND BRANCH OFFICES

*Aleksanterinkatu (Alexandersgatan)*, Anne-Marie Salenius,  
Branch Director

*Western Helsinki*, Tuula Lehmukoski, Branch Director

*Espoo-Tapiola (Esbo-Hagalund)*, Peter Wikström,  
Branch Director

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

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

*Parainen (Pargas)*, Jan-Peter Pomrén, Branch Manager

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

*Corporate Advisory Services in Åland*, Edgar Vickström

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

Gunilla Roberts, Deputy Regional Manager

*Individual Customer Advisory Services in Åland*, Birgitta

Dahlén, Department Manager

*Contact Centre*, Taru Kauppinen, Department Manager

*Administration and Processes*

DEPOSITS, Barbro M Andersson, Department Manager

LENDING, Bengt Mattsson, Department Manager

*Personnel*, Gunilla Blomroos, Personnel Manager

HUMAN RESOURCE DEVELOPMENT, Gerd Haglund

---

## PRIVATE BANKING

Jan Tallqvist, Head of Division, General Manager

*Private Banking*, Maria Bernas-Hilli, General Manager

*Corporate Advisory Services in Helsinki*, Pekka Nuutinen,  
Financing Director

*Bulevardi (Bulevarden) 3 Offices*, Kim Wikström, Branch  
Director, Monica Mickos, Administrative Manager

---

## CAPITAL MARKET AND INTERNATIONAL OPERATIONS

Bengt Lundberg, Head of Division, General Manager

*Brokerage Services*, Carl Magnus Gardberg

*Market Analysis*, Danny Lindqvist

*Treasury*, Terttu Ahtiainen, Department Manager

INTERNATIONAL PAYMENTS, Gun-Marie Sandell

*Administration and Processes*, Thomas Nordlund,  
Department Manager

---

## BUSINESS DEVELOPMENT AND IT

Anders Ingves, Head of Division, General Manager

*Business and Concept Development*, Peter Wiklöf,  
General Manager

*Technical Development*, Lennart Haglund, Technical Director

*Digital Business Development*, Jan Erik Sundberg,  
Department Manager

*Systems Development*, Ove Hellman, Acting Department  
Manager

*Technology and Operation*, Kimmo Valkonen, Department  
Manager

*Marketing*, Tiina Björklund, Marketing Manager

---

## RISK MANAGEMENT AND CENTRAL STAFF UNITS

Lars Donner, Head of Division, General Manager

*Legal Affairs*, Dan-Erik Woivalin, Department Manager

*Accounting*, Michael Hilander, Department Manager

*Corporate Analysis*, Birgitta Lundén

*Security*, Ann Lindqvist-Öst, Department Manager

*Office Services*, Lars-Olof Hellman, Supervisor

*Environmental Affairs*, Sven-Åke Lövström

*Real Estate*, Göran Sundblom, Department Manager

*Facilities Management*, Annika Lundqvist, Manager

---

## OPERATIONS REPORTING DIRECTLY

### TO THE BOARD OF MANAGEMENT

*Internal Auditing*, Pontus Soramaki, Auditing Manager

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## SUBSIDIARIES AND ASSOCIATED COMPANIES

*Ålandsbanken Asset Management Ab*

Stefan Törnqvist, Managing Director

*Ålandsbanken Fondbolag Ab*

Tom Pettersson, Managing Director

*Ålands Fastighetskonsult Ab*

Erolf Fellman/Roger Karlsson

*Ålands Företagsbyrå*

Erika Sjölund, Managing Director

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