

# The Bank of Åland's new operating segments and changed accounting principles in interim reports

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The Bank of Åland's new operating segments and changed accounting principles in the Interim Report for January–March 2019, which will be published on April 25, 2019.

### Changed segment reporting

The Bank of Åland is changing its segment reporting, since Asset Management no longer has its own sales organisation aimed at institutional customers, but instead primarily supports Private and Premium Banking with asset management solutions. Looking ahead, asset management will be reported within the Private Banking segment, where its customer base is predominantly found. For the sake of comparability, historical periods have been restated.

The new segments being reported are:

- Private Banking, encompassing Private Banking operations in Åland, on the Finnish mainland and in Sweden, plus asset management (Ålandsbanken Fondbolag Ab, Ålandsbanken Fonder Ab and Ålandsbanken Fonder II Ab).
- Premium Banking, encompassing operations in all customer segments excluding Private Banking in Åland, on the Finnish mainland and in Sweden, plus asset management.
- IT, encompassing the subsidiary Crosskey Banking Solution Ab Ltd including S-Crosskey Ab, which develop and offer information technology (IT) solutions for banking services, card services, securities-related services and digital customer contacts.
- Corporate and Other, encompassing all central corporate units in the Group, including Treasury and the subsidiary Ab Compass Card Oy Ltd, which develop and offer debit and credit card services.

The tables below present restated accumulated quarterly figures for the new operating segments related to 2018. This segment reporting reflects the information that the Group's Executive Team receives.

### Group

#### Jan-Mar 2018

EUR M	Private Banking	Premium Banking	IT	Corporate and Other	Eliminations	Total
Net interest income	6.5	6.4	0.0	1.2	0.0	14.1
Net commission income	11.0	2.9	0.0	0.3	0.0	14.3
Net income from financial items at fair value	0.0		0.0	0.4	0.0	0.4
IT income			7.8	0.0	-3.8	4.0
Other income	0.0	0.0	0.1	0.2	-0.3	0.1
<b>Total income</b>	<b>17.6</b>	<b>9.3</b>	<b>7.9</b>	<b>2.1</b>	<b>-4.0</b>	<b>32.9</b>
Staff costs	-4.5	-1.7	-4.2	-4.8		-15.1
Other expenses	-2.9	-2.2	-3.2	-5.8	3.5	-10.6
Depreciation/amortisation	-0.1	-0.1	-0.7	-1.4	0.5	-1.9

Internal allocation of expenses	-5.6	-4.2		9.8	0.0	0.0
<b>Total expenses</b>	<b>-13.0</b>	<b>-8.2</b>	<b>-8.1</b>	<b>-2.2</b>	<b>4.0</b>	<b>-27.5</b>
Profit before impairment losses	4.5	1.2	-0.3	0.0	-0.1	5.4
Net impairment losses from financial items, net	-0.1	0.0		-0.1		-0.2
<b>Net operating profit</b>	<b>4.5</b>	<b>1.2</b>	<b>-0.3</b>	<b>-0.1</b>	<b>-0.1</b>	<b>5.2</b>
Income taxes	-0.9	-0.2	0.0	0.0	0.0	-1.1
Profit for the period attributable to shareholders in Bank of Åland Plc	3.5	0.9	-0.2	-0.1	-0.1	4.0
<b>Business volume</b>						
Receivables from the public and public sector	1.807	2.206		28	-21	4.020
Deposits from the public and public sector	1.673	1.402		41	-19	3.098
Actively managed assets	5.233	341		0		5.575
Risk exposure amount	705	656	43	207		1.611
Equity capital	86	91	14	44		235
<b>Financial ratios etc.</b>						
Return on equity after taxes, % (ROE)	17.0	4.1	-8.2	-1.2		7.0
Expense/income ratio	0.74	0.88	1.03	1.01		0.84

<b>Group</b>	<b>Jan-Jun, 2018</b>					
EUR M	<b>Private Banking</b>	<b>Premium Banking</b>	<b>IT</b>	<b>Corporate and Other</b>	<b>Eliminations</b>	<b>Total</b>
Net interest income	12.8	13.0	0.0	2.1	0.0	27.9
Net commission income	21.0	5.9	0.0	0.6	0.1	27.7
Net income from financial items at fair value	0.0		0.0	1.4	-0.1	1.3
IT income			16.3	0.0	-8.1	8.1
Other income	0.0	0.1	0.2	0.5	-0.5	0.3
<b>Total income</b>	<b>33.9</b>	<b>19.0</b>	<b>16.4</b>	<b>4.6</b>	<b>-8.6</b>	<b>65.4</b>
Staff costs	-8.1	-3.3	-8.5	-9.7	0.0	-29.5
Other expenses	-4.6	-3.0	-5.9	-11.6	7.2	-17.9
Depreciation/amortisation	-0.1	-0.2	-1.5	-2.7	0.9	-3.7
Internal allocation of expenses	-11.2	-8.6	0.0	19.7	0.0	0.0
<b>Total expenses</b>	<b>-24.0</b>	<b>-15.1</b>	<b>-15.9</b>	<b>-4.3</b>	<b>8.1</b>	<b>-51.1</b>
Profit before impairment losses	10.0	3.9	0.5	0.4	-0.5	14.3
Net impairment losses from financial items, net	-0.1	-0.4		-0.2	0.0	-0.7
<b>Net operating profit</b>	<b>9.9</b>	<b>3.6</b>	<b>0.5</b>	<b>0.1</b>	<b>-0.5</b>	<b>13.6</b>
Income taxes	-2.0	-0.7	-0.1	-0.1	0.0	-2.9
<b>Profit for the period attributable to shareholders in Bank of Åland Plc</b>	<b>7.9</b>	<b>2.8</b>	<b>0.5</b>	<b>0.0</b>	<b>-0.5</b>	<b>10.6</b>
<b>Business volume</b>						
Receivables from the public and public sector	1.700	2.256		27	-21	3.963
Deposits from the public and public sector	1.630	1.436		46	-16	3.095
Actively managed assets	5.287	363		1		5.650
Risk exposure amount	690	645	43	197		1.575
Equity capital	89	91	14	35		229
<b>Financial ratios etc.</b>						
Return on equity after taxes, % (ROE)	18.5	6.4	7.6	0.1		9.3
Expense/income ratio	0.71	0.79	0.97	0.92		0.78

Group	Jan-Sep, 2018					
	Private Banking	Premium Banking	IT	Corporate and Other	Eliminations	Total
EUR M						
Net interest income	18.8	19.8	0.0	2.7	0.0	41.2
Net commission income	30.1	9.1	0.0	1.1	0.2	40.4
Net income from financial items at fair value	0.1	0.0	0.0	1.3	-0.1	1.3
IT income			23.7	0.0	-11.8	12.0
Other income	0.0	0.1	0.4	0.8	-0.7	0.6
<b>Total income</b>	<b>49.0</b>	<b>29.0</b>	<b>24.0</b>	<b>5.9</b>	<b>-12.4</b>	<b>95.4</b>
Staff costs	-11.6	-4.9	-11.7	-14.6	0.0	-42.8
Other expenses	-6.2	-3.8	-8.5	-16.8	10.4	-24.9
Depreciation/amortisation	-0.2	-0.3	-2.3	-4.1	1.3	-5.5
Internal allocation of expenses	-16.5	-12.7	0.0	29.1	0.0	0.0
<b>Total expenses</b>	<b>-34.5</b>	<b>-21.7</b>	<b>-22.5</b>	<b>-6.3</b>	<b>11.7</b>	<b>-73.2</b>
<b>Profit before impairment losses</b>	<b>14.5</b>	<b>7.3</b>	<b>1.5</b>	<b>-0.4</b>	<b>-0.7</b>	<b>22.2</b>
Net impairment losses from financial items, net	0.0	-0.4		-0.5	0.0	-0.9
<b>Net operating profit</b>	<b>14.5</b>	<b>6.8</b>	<b>1.5</b>	<b>-0.9</b>	<b>-0.7</b>	<b>21.3</b>
Income taxes	-3.0	-1.4	-0.3	0.1		-4.5
<b>Profit for the period attributable to shareholders in Bank of Åland Plc</b>	<b>11.6</b>	<b>5.4</b>	<b>1.2</b>	<b>-0.8</b>	<b>-0.7</b>	<b>16.7</b>
<b>Business volume</b>						
Receivables from the public and public sector	1.713	2.260		25	-20	3.978
Deposits from the public and public sector	1.610	1.449		46	-19	3.085
Actively managed assets	5.478	371		1		5.849
Risk exposure amount	671	650	43	201		1.565
Equity capital	84	90	14	49		237
<b>Financial ratios etc.</b>						
Return on equity after taxes, % (ROE)	18.1	8.0	13.0	-2.5		9.6
Expense/income ratio	0.70	0.75	0.94	1.07		0.77

Group	Jan-Dec, 2018					
	Private Banking	Premium Banking	IT	Corporate and Other	Eliminations	Total
EUR M						
Net interest income	24.6	26.4	-0.1	3.6	0.0	54.5
Net commission income	40.1	12.3	-0.1	1.6	0.2	54.3
Net income from financial items at fair value	0.1	0.0	0.0	1.6	-0.1	1.5
IT income			32.5		-16.1	16.4
Other income	0.2	0.2	0.5	1.5	-1.4	1.0
<b>Total income</b>	<b>64.9</b>	<b>39.0</b>	<b>32.8</b>	<b>8.3</b>	<b>-17.3</b>	<b>127.6</b>
Staff costs	-15.3	-6.5	-16.1	-19.1	0.0	-57.1
Other expenses	-8.4	-4.7	-11.7	-23.1	14.4	-33.4
Depreciation/amortisation	-0.3	-0.4	-3.1	-5.4	1.8	-7.3
Internal allocation of expenses	-22.0	-17.1	0.0	39.1	0.0	0.0
<b>Total expenses</b>	<b>-46.0</b>	<b>-28.7</b>	<b>-30.9</b>	<b>-8.4</b>	<b>16.2</b>	<b>-97.8</b>
<b>Profit before impairment losses</b>	<b>18.9</b>	<b>10.2</b>	<b>1.9</b>	<b>-0.2</b>	<b>-1.1</b>	<b>29.8</b>
Net impairment losses from financial items, net	0.1	-0.4		-0.6	0.0	-0.8
<b>Net operating profit</b>	<b>19.1</b>	<b>9.9</b>	<b>1.9</b>	<b>-0.7</b>	<b>-1.1</b>	<b>29.0</b>
Income taxes	-3.9	-2.0	-0.4	0.2		-6.1

<b>Profit for the period attributable to shareholders in Bank of Åland Plc</b>	<b>15.2</b>	<b>7.8</b>	<b>1.6</b>	<b>-0.5</b>	<b>-1.1</b>	<b>22.9</b>
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#### Business volume

Receivables from the public and public sector	1.739	2.280		25	-22	4.022
Deposits from the public and public sector	1.730	1.551		45	-22	3.304
Actively managed assets	4.851	325		1		5.177
Risk exposure amount	670	645	43	220		1.578
Equity capital	82	91	14	55		242

#### Financial ratios etc.

Return on equity after taxes, % (ROE)	18.0	8.7	12.2	-1.1		9.8
Expense/income ratio	0.71	0.74	0.94	1.02		0.77

### Reporting of the stability fee

In accordance with the prevailing regulator-based reporting interpretations, and in line with other Finnish banks, starting in 2019 the Bank of Åland has chosen to recognise the entire annual cost of the stability fee in the first quarter, when responsibility for the fee arises, instead of a straight-line accrual of this cost over the four quarters of the year. The Bank of Åland's earnings will thus show greater seasonal variations, with weaker first quarter earnings. On an annual basis, the change will have no impact on the Bank of Åland's profitability or return on equity after taxes (ROE).

The Bank of Åland has not yet received the final amount for 2019. The estimated amount totals EUR 2.3 M and is recognised under "Other expenses". For the sake of comparability, historical periods have been restated.

The table below presents the effects for 2018, restated using the new accounting principle for the stability fee.

Group	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Jan 1-Dec 31, 2018
EUR M					
<b>Reported net operating profit, using straight-line accrued stability fee</b>	<b>7.4</b>	<b>7.5</b>	<b>7.0</b>	<b>7.1</b>	<b>29.0</b>
Adjustment, stability fee	-2.2	0.9	0.6	0.6	0.0
<b>Restated net operating profit</b>	<b>5.2</b>	<b>8.4</b>	<b>7.7</b>	<b>7.7</b>	<b>29.0</b>
Reported taxes, using straight-line accrued stability fee	-1.6	-1.6	-1.5	-1.4	-6.1
Adjustment, stability fee	0.4	-0.2	-0.1	-0.1	0.0
<b>Restated taxes</b>	<b>-1.1</b>	<b>-1.8</b>	<b>-1.6</b>	<b>-1.5</b>	<b>-6.1</b>
Attributable to:					
Reported profit to the shareholders in Bank of Åland Plc, using straight-line accrued stability fee stabilitetsavgift	5.8	5.9	5.6	5.7	22.9
<b>Restated profit to the shareholders in Bank of Åland Plc</b>	<b>4.0</b>	<b>6.6</b>	<b>6.1</b>	<b>6.2</b>	<b>22.9</b>
Reported earnings per share, using straight-line accrued stability fee, EUR	0.38	0.38	0.36	0.37	1.48
<b>Restated earnings per share, EUR</b>	<b>0.26</b>	<b>0.43</b>	<b>0.39</b>	<b>0.40</b>	<b>1.48</b>

### Reporting of foreign exchange commissions

The Bank of Åland is changing its reporting of foreign exchange commissions connected to customers' payments and securities trading. The Bank of Åland has previously reported these under net income from financial items at fair value, but starting in 2019 the Bank will report them as payment intermediation commissions and securities commissions under net commission income. For the sake of comparability, prior years have been restated.

The following table presents restated figures for 2018.

Group	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Jan 1-Dec 31, 2018
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EUR M					
Payment intermediation commissions	0.5	0.5	0.4	0.7	2.1
Securities commissions	0.6	0.3	0.2	0.5	1.6
<b>Total net commission income</b>	<b>1.1</b>	<b>0.8</b>	<b>0.6</b>	<b>1.2</b>	<b>3.7</b>
<b>Net income from financial items at fair value</b>	<b>-1.1</b>	<b>-0.8</b>	<b>-0.6</b>	<b>-1.2</b>	<b>-3.7</b>

### Application of IFRS 16

Starting on January 1, 2019, the Bank of Åland is applying IFRS 16, "Leases". This standard replaces previous IAS 17 standard and related interpretations. IFRS 16 removes the requirement that lessees must distinguish between finance and operational leases and requires lessees to report a "right-of-use" asset and a lease liability for most leases in the balance sheet. In the income statement, rent expenses are replaced by depreciation of the assets and interest expenses for the lease liability.

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

Due to the introduction of IFRS 16, starting on January 1, 2019 tangible assets related to right-of-use increased by EUR 14 M and the risk exposure amount increased by the equivalent amount. The Bank of Åland is applying the modified retrospective approach. No comparative figures have been restated. The most significant identified effect of IFRS 16 is that the Bank of Åland is reporting new assets and liabilities for its operational leases related to banking and office premises. Lease liabilities are initially being calculated upon the transition to the present value of future lease payments discounted using the incremental borrowing rate on the introductory date of January 1, 2019. Right-of-use assets are initially being recognised at an amount equal to the lease liability.

The table below presents the effects on assets and liabilities in conjunction with the transition to IFRS 16.

Group	Dec 31, 2018	Restatement to IFRS 16	Jan 1, 2019
EUR M			
Assets			
Tangible assets	22	14	37
<b>Total effect, assets</b>	<b>22</b>	<b>14</b>	<b>37</b>
Liabilities			
Miscellaneous liabilities	57	14	71
<b>Total effect, liabilities</b>	<b>57</b>	<b>14</b>	<b>71</b>

Reconciliation, disclosure of operating leases according to IAS 17 and recognised lease liability according to IFRS 16

<b>Operating lease obligation on December 31, 2018</b>	<b>7.0</b>
Effect of discounting by the incremental borrowing rate	-0.8
Finance lease liabilities on December 31, 2018	1.5
Utilisation of extension and termination options	8.4
Exemptions:	
- Short-term leases	-0.2
- Low asset-value leases	0.0
<b>Recognised lease liability in opening balance sheet, January 1, 2019</b>	<b>15.9</b>

When transitioning to IFRS 16, the Bank of Åland recognised an additional EUR 14,336 K in right-of-use assets, bringing its lease liability to EUR 15,876 K on January 1, 2019. Lease liabilities are initially being calculated upon the transition to the present value of future lease payments, discounted using the incremental borrowing rate on the introductory date of January 1, 2019. The weighted average rate being used is about 3 per cent.

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