

REPORT ON 2004 OPERATIONS

for the period January – December 2004

THE REPORT PERIOD IN BRIEF

- Consolidated net operating profit rose by 1.4 per cent to 15.4 million euros (EUR 15.2 M in 2003)
- Total income amounted to an unchanged EUR 49.4 M (49.4)
- Expenses excluding nonrecurring items rose by EUR 1.8 M to EUR 35.1 M (33.3)
- Loan losses were EUR 0.7 M (-0.1)
- Lending volume rose by 17.8 per cent to EUR 1,631 M (1,385)
- Deposits rose by 9.9 per cent to EUR 1,537 M (1,398)
- Mutual fund assets under management rose by 38 per cent to EUR 163 M (117)
- Return on equity after taxes (ROE) was 10.8 per cent (11.4)
- The total capital ratio amounted to 11.4 per cent (11.4)
- Earnings per share after taxes amounted to EUR 0.99 (1.02)
- The Board of Directors proposes a dividend of EUR 1.00 per share

IMPORTANT EVENTS DURING THE REPORT PERIOD

New subsidiary: Crosskey Banking Solutions Ab Ltd

The banking software sales and development business area was turned into a limited liability company in order to achieve greater efficiency and focus and lay the groundwork for continued growth.

Human resources programme

To achieve full business benefits from its long-term relationship banking strategy, the Bank has built up a many-faceted human resources programme.

Long-term financial targets

The Board of Directors of the Bank of Åland has adopted long-term financial targets for the Group. (see page 10)

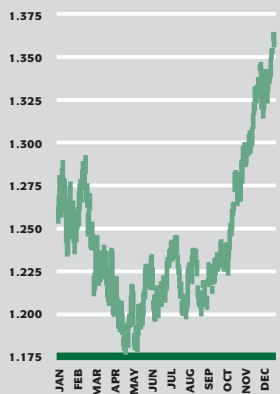
Top marks

According to *Euromoney* magazine's worldwide survey of the Private Banking units at banks, the Bank of Åland placed first in Finland for asset management, discretion and customer relationships.

The Annual General Meeting will be held at 3 p.m. on Thursday, March 17, 2005 at the Hotel Arkipelag in Mariehamn, Åland, Finland.

BANK OF ÅLAND

EUR/USD exchange rates, 2004



COMMENTS BY THE MANAGING DIRECTOR AND THE EXECUTIVE TEAM

The Bank of Åland turned 85 years old in 2004. No other bank in Finland has succeeded in preserving its autonomy for such a long time, without undergoing major changes of ownership or being drawn into mergers. The shareholders and employees of the Bank have always defended its independence and identity in both difficult and successful years. At the same time, our history bears witness to a strong sense of trust among our customers for the work that the Bank of Åland performs.

CHANGES

Continuity is not incompatible with renewal. In 2004, many changes took place in the Bank. On July 1, we began fully applying the Helsinki Stock Exchange's recommendation on rules for corporate governance. For Finnish banks, this recommendation will become a regulation in the near future. The Bank of Åland endeavours to achieve maximum transparency in its operations, within the existing regulations. One innovation during 2004 was that we organised information meetings for the Bank's shareholders in conjunction with the publication of our Interim Reports, thereby giving shareholders an opportunity to meet the Bank's executives in an informal setting.

The undersigned assumed the position of Managing Director on March 1, 2004. The Annual Meeting completed the modernisation of the Bank's oversight structure by abolishing the Supervisory Board. I would like to express our deep gratitude to all of those who have served on the Bank of Åland's Supervisory Board over the years.

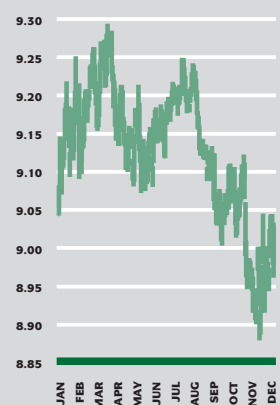
OUR EMPLOYEES

Customers' perceptions of their meetings with our employees are crucial to the credibility and success of our relationship banking strategy. This is why honing the skills and attitudes of our employees is a task close to our heart. During 2004, we approved far-reaching investments in our staff, among other things through a new programme that includes instruction, leadership training, trainee activities and an incentive system.

OUR CUSTOMERS

Customers form the basis of all our operations. This is why we are strongly customer-focused and we invest extensively in building, developing and deepening our customer relationships. This relationship-building effort, supported by such innovative products as our Premium concept, enabled us to attract many new customers during the year.

EUR/SEK exchange rates, 2004



Interest rates

- 12-mo EURIBOR
- 3-mo EURIBOR
- ECB key rate



EARNINGS

In 2004 our earnings were satisfactory, given a market situation with extremely squeezed margins and persistently low interest rates, which adversely impacted our net income from financial operations – a vital component of the Bank's earnings. During many years, the Bank's earnings have been affected by major nonrecurring items, and this was also true in 2004. For a number of years, the Bank has pursued a policy of disbursing more in dividends than its actual earnings from banking operations have covered. We cannot continue to do so.

The Bank of Åland's total capital ratio is good, but to ensure the resources needed to grow with our customers and welcome new ones, we need to build up additional capital. It is a matter of having the capacity to provide lending for the future projects of individual and corporate customers, as well as to develop the operations of the Bank in other ways. The requirements established by the new Basel 2 capital adequacy rules and the International Financial Reporting Standards (IFRS) will also necessitate investments in systems and staff resources. In short, the Bank of Åland must continue to grow in order to further strengthen its capacity to implement the investments demanded by public authorities and by our customers. The Bank's Board of Directors has therefore adopted a clear financial strategy that implies a focus on strongly improved profitability over the next few years – an ambition to keep the dividend at its current euro level and meanwhile expand our capital base. We will adhere to our relationship banking strategy, increase our pace and aim for higher profitability.

I would like to express my sincere gratitude to the shareholders, my fellow employees and all our customers, who contributed to a successful 2004.



PETER GRÖNLUND

Managing Director

EXTERNAL FACTORS

During 2004, the world economy grew at a good pace. Meanwhile companies were able to begin reaping the fruits of earlier cost cutbacks, combined with rising demand. In spite of this, financial markets were characterised by uncertainty during the first three quarters of the year. The situation in Iraq remained unstable. Meanwhile disruptions in oil production elsewhere in the world as well contributed to a sharp rise in oil prices until the autumn. The Federal Reserve – the US central bank – began its interest rate hiking cycle during the spring, while in China the authorities signalled that it was time to slow the rapid growth of the Chinese economy. These factors combined to create uncertainty about future economic trends.

In the euro zone, which includes Finland, exports in particular made a manifestly positive contribution to growth. However, private consumption remained listless due to a weak labour market and a slowing pace of wage and salary increases.

The money and bond markets

The European Central Bank (ECB) kept its key interest rate unchanged at 2.0 percent throughout the year, even though inflation and money supply growth exceeded the Bank's official thresholds during much of the year. The ECB did not want to interrupt the gradual economic recovery prematurely. Meanwhile the rise in inflation could largely be ascribed to temporary factors such as oil prices. During the autumn, the sharp decline in the US dollar contributed to a further cooling in growth prospects. At year-end, the yield on 10-year German government bonds again fell below the 4.0 per cent level and thus stood at a lower level than at the beginning of 2004.

The foreign exchange market

The Swedish krona remained comparatively stable and the euro traded at an average of around SEK 9.16. The krona exchange rate strengthened for a while during the autumn, when there were increased expectations that the Riksbank – Sweden's central bank – would raise interest rates, at the same time as more and more observers were postponing the probable date of a rate hike by the ECB. The growth- and inflation-dampening effects of the krona appreciation, combined with continued uncertainty in the labour market, nevertheless led to a new cooling of rate hike expectations late in 2004, and the krona rose to a level of SEK 9.02 per euro by year-end.

The stock market

The Helsinki Stock Exchange performed more strongly than its counterparts abroad. In December the HEX Portfolio Index stood 17 per cent higher than at the beginning of 2004. Due to the abolition of the avoik fiscal system, which eliminates double taxation

of dividends, many exchange-listed companies chose to pay extra large dividends during 2004. Counting dividends, the value of the HEX Portfolio Index rose a full 24 per cent. At the sectoral level, the energy industry was among the strongest sectors with an upturn of 66 per cent. During the autumn, commodity-oriented metal companies delivered earnings that far surpassed market expectations. The stock market rally was broad, with the banking and financial services sector also noting share price increases exceeding 20 per cent. The forest product sector was subdued but stable. Difficulties in raising paper prices in Europe, along with the weak dollar exchange rate, contributed to this trend. The telecom and electronics sector was one of the few that experienced reversals. Finnish-based telecom giant Nokia was forced to issue profit warnings on several occasions during the first half of 2004. During the autumn, its share price rose by 30 per cent above the year's lowest quotation in August, but this did not suffice to give Nokia a price increase for the full year.

The Finnish banking industry

During 2004 the Finnish banking industry was stable. No major changes or mergers took place during the year. However, there was a clear tendency for the industry to make an effort to adapt its costs to stiff competition and low margins.

Savings

Regular savings rose in Finland during the year, according to a survey published by the Finnish Bankers' Association in November. More than 70 per cent of respondents stated that they saved regularly or sporadically, and only 28 per cent replied that they had no extra assets left for savings. Most people who save have their money in bank accounts. Of the survey respondents, 27 per cent had funds in savings and investments accounts and 26 per cent in current accounts. Mutual fund savings also rose. Retirement savings declined somewhat due to the uncertainty that prevailed for many years concerning taxation of voluntary retirement savings. According to the survey, three fourths of those with retirement savings intend to continue saving. Euro-denominated deposit accounts in Finnish financial institutions rose by 4.4 per cent in the twelve months from November 2003 to November 2004.

Residential mortgages and consumer lending

According to the interview survey, 56 per cent of respondents had loans. In the spring of 2004, the corresponding figure was 51 per cent. Those with housing loans rose from 28 per cent in the spring to 31 per cent in October. Consumer lending also showed a similar growth trend.

The total volume of residential mortgage loans in Finland grew by 15.1 per cent during the 12 months to November 2004. The average interest rate on new mortgage loans fell during the same period from 3.32 per cent to 3.12 per cent, while the 12-month market interest rate fell from 2.41 to 2.30 per cent.

Payments

The Internet services of Finnish banks are becoming increasingly popular and, according to the survey, they are used by 62 per cent of respondents. Of Finland's population, 60 per cent already handle their payments regularly via the Net, five per cent pay their bills at the bank and one per cent pay cash at the bank. Other techniques used are ATM cash dispensers, direct debiting, payment services and telephone. Bank-issued debit cards are becoming an increasingly common means of payments for daily purchases, with 43 per cent of respondents stating that they use their debit card for daily purchases.

SOURCES: FINNISH BANKERS' ASSOCIATION AND BANK OF FINLAND

The Mainland Division

Growth in the Bank of Åland's Mainland Division was stable during 2004. The number of active customers rose by two per cent. Business volume (deposits plus lending) increased by 16 per cent and totalled EUR 1,993 M. During the year, operations focused on continued customer acquisition within the framework of the Bank's relationship banking strategy. The introduction of the Premium concept was a major success on the Finnish mainland and helped us gain many new satisfied customers. The Mainland Division accounted for 63 per cent of the Bank's deposits, 74 per cent of its lending volume and 38 per cent of operating earnings at the Bank's units. The number of employees totalled 108 (112). Operations took place in the same locations as earlier and no new branch offices were opened during the year. The mainland offices report directly to the Managing Director.

Private Banking

The Private Banking unit, located in Helsinki, works to build up long-lasting customer relationships with individuals and companies with growth potential. During the year, there was a special emphasis on deepening existing customer relationships. One positive outcome of this work, among others, is that customers with multiple banking relationships have increasingly chosen to concentrate their business with us.

The unit showed a stable, positive trend. Our network of business partners also gave us increased business volume. The demand for investment products continued to increase, as did deposits and lending. It was an especially successful year for our Corporate

Advisory Service, which offers comprehensive services to small and medium-sized companies as well as to private individuals closely affiliated with them.

It was gratifying that the Private Banking unit maintained its position in the Helsinki region and was recognised as one of Finland's leading players in its market (Euromoney, January 2005).

Investment Banking Division

Investment advisory services and investment products are of growing importance to the Bank's earnings. The Bank's ambition is to strengthen its position in the investment segment and increase its earnings from non-risk-bearing products. The Division was reorganised during the year to create a greater focus on providing back-up to the sales organisation in stock brokerage operations and investment advisory services. As a result, the Bank's liquidity management and foreign payment departments were spun off from the Investment Banking Division, and administration was transferred to the Business and Human Resources Development Division. The launch of Personal Financial Planning, which began during 2003, continued during the year. An evaluation of this product was made during 2004 and development work will continue during 2005.

The year was successful and income from customer stock brokerage and trading for the Bank's own account rose by 64 per cent.

During the year, the Bank issued seven stock index-linked loans totalling EUR 50 M. In order to strengthen the Bank's capital base, it issued two debenture loans totalling EUR 20 M.

These products were launched in collaboration with both the Bank's subsidiary Ålandsbanken Asset Management Ab and outside suppliers.

Liquidity Management, Foreign Exchange Dealing and International Operations

This department is responsible for managing the Bank's liquid assets, balance and interest rate risks, its foreign exchange dealing as well as its international payments and correspondent bank contacts.

The Bank tries to avoid interest rate positions and is currently working to introduce a new system for monitoring balance and interest rate risks. The introduction of IFRS, which makes special demands on calculation and market appraisal of various hedging instruments, is very time-consuming for the department.

The Åland market

We continued to be the market-leading bank in the Åland Islands.

The Business Centre unit was created to serve companies and large private investors. It combines know-how in asset management, legal matters and financing. This collaboration within the new unit gives us an even better opportunity to create comprehensive solutions for customers, which in turn leads to increased business volume. Among other things, the invested assets managed by the Business Centre rose by nearly 70 per cent during the year. Shipping credits, which are traditionally of major importance to the Bank, rose by 22 per cent.

Financing of home purchases by private individuals was lively throughout the year, and the influx of new customers was gratifyingly high. Low interest rates improved the financial situation of customers, who often used their extra funds for supplementary principal payments. In spite of this, the volume of home mortgage loans rose by 13 per cent. In all, the Bank's business volume in Åland rose by 11 per cent.

Premium

The introduction of the Premium package was the biggest innovation for individual customers. The Bank developed this service in order to offer customers economic security combined with greater enjoyment of life. The service includes travel insurance, emergency cash and account blocking services along with travel offers, international concierge services and offers of additional banking services. During 2004, 2,653 customers chose to begin using this service.

Personalisation

Our strategy of adapting offers and communication to the needs and interests of customers permeates our work, both via digital channels and in our direct contacts with customers. To further refine personalisation, we perform regular follow-ups. We have also improved the personalisation task by deducing customers' needs from their behaviour, which in turn has enabled us to develop and create new customer processes.

Human resources programme

To achieve full business benefits from its long-term relationship banking strategy, the Bank has built up a many-faceted human resources programme. Its three cornerstones are staffing and leadership strategies, the Relationship Academy and a human resource development programme.

During the spring, the Bank updated its staffing and leadership strategies.

Health profile

The Bank's employees underwent a health profile examination, which will be repeated in 2006. The examination showed that Bank of Åland employees are active and take good care of their health.

Gender equality plan

A new gender equality plan was drafted during the autumn. During preparatory work, a survey of the gender equality situation in the Bank was conducted. A concrete action plan for the period 2005 – 2007 was developed in order to further improve equality between men and women at the Bank of Åland.

Personnel fund

In December the Board of Directors established a personnel fund and approved the introduction of local, target-oriented bonus programmes for employees. The purpose is to increase motivation to achieve the Bank's target of improving its income/expense ratio in the medium term to 2.

The disbursement to the personnel fund will be determined by the extent to which the Bank exceeds a yearly income/expense ratio target and surpasses the unweighted earnings index of a defined group of Nordic banks. The maximum disbursement to the personnel fund and to local target-focused programmes is 3 per cent of the Bank of Åland's earnings.

The Relationship Academy

On September 15, the Relationship Academy began operation. Its objective is to help employees become even more professional relationship builders by knowing how, wanting, daring and having energy to perform their assignments. The Academy endeavours to introduce a solutions-oriented working method, focusing on the customer's overall financial situation. The Academy consists of seven departments.

Ensuring a supply of leadership talent

To safeguard the Bank's long-term need for leadership talent, a long-term human resource development programme was designed. This programme includes trainee activities, and in August the Bank recruited two trainees for one year, out of more than 60 outside applicants. During their year of employment, they will undertake advanced tasks in a number of areas at the Bank.

The 10 openings in the newly established leadership programme attracted applications from 55 of the Bank's employees. During a two-year period, those who were accepted in the programme will undergo specialised academic training, participate in the Bank's management work during certain periods and undergo professional development in collaboration with their mentors.

New units

Digital Business Development and the Department of Concept and Business Development were combined into the Business Development Department.

Administrative departments from several divisions were combined into a new unit – Business Support. This step created a more efficient organization that is responsible for the Bank's back office functions and products.

New subsidiary: Crosskey Banking Solutions Ab Ltd

The banking software systems sales and development business area was turned into a limited liability company in order to achieve greater efficiency and focus and lay the groundwork for continued growth.

The name of the company is Crosskey Banking Solutions Ab Ltd and it is a wholly owned subsidiary of the Bank of Åland.

The mission of Crosskey is to develop, sell and maintain banking systems – either as whole systems or in modules – to small and medium-sized banks in Europe, as well as sell operational and support contracts for its deliveries.

Those staff members who worked at the Bank of Åland with systems development, operation and maintenance were all transferred to Crosskey, which has a total of 95 employees.

General Manager Peter Wiklöf was appointed as the first Managing Director of the company in August.

The Bank's systems development business was transferred to the new company late in 2004. Crosskey currently works with three banks: Tapiola Bank, Den norske Bank and Ålandsbanken.

The systems sales business area increased its operating income by 13 per cent to SEK 3.0 M (2.7).

Inspired by the Bank of Åland's old logotype – a compass rose with crossed keys – we created a modern logotype. This, in turn, inspired

the name of the company, which is usable in an international marketplace.



CROSSKEY
BANKING SOLUTIONS

EARNINGS AND PROFITABILITY

EARNINGS

In 2004, the consolidated net operating profit of the Bank of Åland Group amounted to EUR 15.4 M (15.2). This was an increase of EUR 0.2 M compared to the year before.

Return on equity before taxes, measured as net operating profit divided by average equity capital and reserves, was 14.3 per cent (15.0). The Bank thus yielded a return on shareholders' equity at a level that stood about 11 percentage points (11) above five-year Finnish bond yields. The income/expense ratio amounted to 1.45 (1.44). Earnings per share after taxes reached EUR 0.99 (1.02).

Net income from financial operations

Net income from financial operations totalled EUR 29.5 M (29.6). Despite strong growth in lending volume and a favourable trend in deposit accounts, narrowing customer margins led to nearly unchanged net income from financial operations, compared to the previous year.

Other income

Dividend income amounted to EUR 0.5 M (1.2). In 2003, this income included EUR 0.5 M in dividend income of a nonrecurring nature. Commission income rose by 19.9 per cent to EUR 12.4 M (10.3). The favourable trend in commission income was primarily due to increased income from stock brokerage and from capital market and investment products.

Reported net income from the Bank's own securities trading totalled EUR 0.5 M (1.9).

Other operating income amounted to EUR 5.6 M (5.6), which was the same as the previous year's figure. This included EUR 4.0 M (4.5) in income from sales of banking computer systems and other income from the Bank's systems sales business area. Total income – net income from financial operations and other income – amounted to EUR 49.4 M (49.4). This included EUR 1.9 M (2.4) in income of a nonrecurring nature.

Expenses

New staff recruitments and salary adjustments raised staff costs by EUR 2.5 M to EUR 19.0 M (17.7). Also included in the item "Staff costs" was a negative item related to a refund of EUR 1.6 M in surplus contributions to Ålandsbankens Abps pensionsstiftelse, the Bank's pension fund, including tax compensation. During 2003, this item included a provision of about EUR 1 M as a consequence of the dismissal of the Bank's then-Managing Director. Other administrative expenses (office costs, marketing, telecommunications and computer costs) rose by EUR 0.5 M to EUR 8.7 M (8.2). Depreciation/amortisation was EUR 0.2 M lower than the year before and amounted to EUR 2.1 M (2.3), while other operating expenses were unchanged, amounting to EUR 3.9 M.

Total expenses, including planned depreciation, fell by EUR 1.1 M to EUR 33.3 M (34.4). Excluding nonrecurring items in 2003 and 2004, total expenses rose by EUR 1.8 M to EUR 35.1 M (33.3).

Loan losses

Net loan losses amounted to EUR 0.7 M (2003: recovery of EUR -0.1 M). Reported net loan losses as a percentage of the Bank's receivables and contingent liabilities amounted to 0.04 per cent.

Net operating profit

Altogether, net operating profit amounted to EUR 15.4 M (15.2).

EARNINGS STRUCTURE	2004	2003
Contribution from operations		
– branch offices	21.6	21.2
– systems sales ¹	3.0	2.7
– investment banking sector, incl. portfolio management	4.8	6.7
Head office expenses	-14.0	-15.4
NET OPERATING PROFIT	15.4	15.2

¹ Including EUR 1.0 M in nonrecurring items affecting comparability in 2004.

DEPOSITS

During 2004, the Bank's total deposits, including bonds and certificates of deposit issued to the public and public sector entities, rose by EUR 139 M or 9.9 per cent, amounting to EUR 1,537 M.

Deposit accounts rose by EUR 111 M or 9.8 per cent and amounted to EUR 1,245 M.

Bonds issued to the public rose by EUR 18 M or 12.8 per cent. During the year, seven share index loans were issued and were subscribed at a nominal value of EUR 50 M. During the year, share index loans with a nominal amount of EUR 51 M fell due and were repaid. In order to strengthen the Bank's capital base, two risk debenture loans were issued. They were subscribed at a nominal value totalling EUR 20 M.

Within the framework of the Bank's bond programme, two bond loans totalling EUR 115 M were also floated via external issuing agents. These loans were targeted mainly to institutional investors.

LENDING

The Bank's total lending volume rose by EUR 246 M or 17.8 per cent, amounting to EUR 1,631 M on December 31, 2004. As in prior years, the increase was mainly attributable to private households and service sector businesses. Private households accounted for 67.1 per cent of the Bank's total loans outstanding, while business and professional activities accounted for 31.1 per cent. The corresponding figures in 2003 were 68.1 per cent and 31.0 per cent, respectively.

NONPERFORMING RECEIVABLES

Total nonperforming receivables and other zero-interest receivables amounted to EUR 2.0 M (1.4), or 0.1 per cent of loans and guarantees outstanding.

IMPUTED TAXES DUE

Imputed taxes due have been calculated according to a tax rate of 26 per cent, compared to the earlier 29 per cent. This reduced taxes by EUR 0.7 M.

APPROPRIATIONS

The Bank's accumulated appropriations in the form of voluntary reserves amounted to EUR 22.7 M (22.7).

BALANCE SHEET TOTAL

The balance sheet total rose by 7.1 per cent to EUR 1,984 M (1,851).

PERSONNEL

At the end of 2004, the number of employees in the Group – recalculated as full-time equivalents – was 392. This represented an increase of 17 positions, compared to yearend 2003.

	ÅLAND	MAINLAND	TOTAL
Ålandbanken Abp	185	108	293
Crosskey Banking Solution Ab Ltd	82	4	86
Ålandsbanken Asset Management Ab	0	9	9
Ålandsbanken Fondbolag Ab	4	0	4
TOTAL	271	121	392

CAPITAL ADEQUACY

Capital adequacy rules require that the capital base in the form of equity capital and reserves total at least 8 per cent of risk-weighted receivables and contingent liabilities. At the end of December, the Group's capital adequacy according to the Credit Institutions Act was 11.4 (11.4) per cent. The core capital ratio was 8.2 (9.3) per cent. The capital base amounted to EUR 120.0 M (106.8).

ÅLANDSBANKEN ASSET MANAGEMENT AB

Ålandsbanken Asset Management Ab is a subsidiary of the Bank of Åland Plc. The company offers a comprehensive range of asset management services. The company's task is to manage its customers' finances in their entirety, i.e. in partnership with the Bank to create comprehensive solutions consisting of portfolio management, insurance alternatives, financing arrangements and banking services. Aside from direct equity and bond investments, the company's portfolio management uses share index loans as well as mutual funds.

The company's expertise is sufficiently broad to cover any kind of macroeconomic situation, enabling us to pursue the customer's interests in the securities market both when share prices are rising and falling. Our managed portfolio volume continued to grow during 2004, as a consequence of successful investment decisions and numerous new asset management mandates.

ÅLANDSBANKEN FONDBOLAG AB

Ålandsbanken Fondbolag Ab is a wholly-owned subsidiary of the Bank of Åland Plc. The mutual funds (unit trusts) that the company manages are registered in Finland and comply with the Act on Mutual Funds. The strategy of Ålandsbanken Fondbolag Ab is that its mutual funds shall be competitive and adapted to the investment needs of Bank of Åland customers. In 2004, most of the mutual funds had clearly better returns than their comparative indexes. On several occasions during 2004, the Bank of Åland's mutual funds were mentioned in the trade press and other media as being among Finland's most successful mutual funds, as part of their comparisons of mutual funds and fund companies. During the financial year, the company managed the following mutual funds:

Placeringsfonden Ålandsbanken Corporate Bond

– a bond fund that invests in euro-denominated corporate bonds

Placeringsfonden Ålandsbanken Euro Bond

– a medium-term bond fund with euro-denominated investments

Placeringsfonden Ålandsbanken Europe Active Portfolio

– a European balanced fund with active allocation between fixed income and equities investments

Placeringsfonden Ålandsbanken Europe Value

– a European equities fund with a value-oriented investment strategy

Placeringsfonden Ålandsbanken Global Value

– an international equities fund with a value-oriented investment strategy

Placeringsfonden Ålandsbanken Nordic Value

– a Nordic equities fund with an active, value-oriented investment strategy

New investment fund – Ålandsbanken Cash Manager

On December 31, 2004, a new investment fund, Placeringsfonden Ålandsbanken Cash Manager, began its operations. Ålandsbanken Cash Manager is a short-term bond fund that invests in euro-denominated assets. The fund is intended to offer an alternative to investors who desire a better interest return than on traditional savings accounts, at the lowest possible risk.

Mutual fund investment operations

The portfolio management of the mutual funds managed by the company are handled under an agreement by Ålandsbanken Asset Management Ab.

Growth of the funds

On December 31, 2004, the number of unit holders totalled 6,480 (5,337 on Dec. 31, 2003), which represented an increase of about 21 per cent from one year earlier. Total assets under management amounted to EUR 162.5 M (117.4), an increase of EUR 45.1 M or about 38 per cent from the preceding year.

FORECAST FOR 2005

Net income from financial operations is projected to rise, despite stiff competition. Staff costs and other expenses will increase somewhat. Loan losses are projected to remain at a low level. Overall, during the full year 2005 earnings will probably improve somewhat, compared to earnings in 2004.

LONG-TERM FINANCIAL TARGETS

The Board of Directors of the Bank of Åland has adopted the following long-term financial targets for the Group:

The Bank of Åland endeavours to earn a return on shareholders' equity that will exceed the unweighted average of a defined group of Nordic banks.

The total capital ratio shall amount to at least 10 per cent.

In a medium-term perspective, the Bank's income/expense ratio shall continuously improve to 2.

The Bank of Åland endeavours to pursue a dividend policy in which an increasing percentage of after-tax profit is retained by the Bank, in order to safeguard its sound business development. This is expected to result in a dividend that approaches the industry standard for Nordic banks as a percentage of earnings. It implies a dividend which, in a medium-term perspective, on average will remain at today's level in euro terms.

SHARES IN CHIPS ABP

On the balance sheet date, the Bank of Åland owned 227,505 Series A shares and 13,450 Series B shares in Chips Abp, an Åland-based food processing company. The book value of these shares amounted to EUR 17.80 and 17.98 per share, respectively. If Norwegian-based Orkla ASA completes its public offer to purchase Chips Abp for EUR 22.85 per share, this will give the Bank a capital gain of EUR 1.2 M.

IFRS

In accordance with the International Accounting Standards (IAS) Regulation that was adopted by the European Union in 2002, listed companies in the EU must apply International Financial Reporting Standards (IFRS) beginning in 2005. The Bank of Åland will prepare its Annual Report for 2005 in compliance with IFRS.

The transitional rules contained in IFRS 1 assume that all standards will be applied retroactively. The comparative figures for 2004 will be recalculated according to the new accounting principles, aside from financial instruments, for which the Bank chooses to apply a voluntary exception as provided by IFRS 1.

No later than in conjunction with publication of its Interim Report for the first quarter of 2005, the Bank of Åland will describe the effects of IFRS on the opening balance.

In preparing its Interim Reports during 2005, the Bank will apply the accounting and valuation principles prescribed by IFRS.

IMPORTANT EVENTS AFTER THE CLOSE OF THE FINANCIAL PERIOD

No important events have occurred after the close of the financial period.

PROPOSED DISTRIBUTION OF PROFIT

The Board of Directors proposes that the Annual General Meeting approve a dividend of EUR 1.00 per share, which is equivalent to a total amount of EUR 11.0 M.

The Board of Directors

FINANCIAL RATIOS

Bank of Åland Group

CAPITAL ADEQUACY	Dec 31, 2004	Dec 31, 2003
The Group's capital adequacy according to the Credit Institutions Act:		
Capital base, EUR M		
Core capital	86.6	86.5
Supplementary capital	33.4	20.3
Total capital base	120.0	106.8
Risk-weighted volume, EUR M	1,052.2	932.7
TOTAL CAPITAL RATIO, %	11.4	11.4
Core capital as % of risk-weighted volume	8.2	9.3
NONPERFORMING LOANS		
	Dec 31, 2004	Dec 31, 2003
Nonperforming loans, EUR M	2.0	1.4
Nonperforming loans amounted to 0.1 per cent of total loans and contingent liabilities.		
FINANCIAL RATIOS		
	Dec 31, 2004	Dec 31, 2003
Net operating profit per share, EUR ¹	0.99	1.02
Equity capital per share, EUR ²	9.25	9.22
Return on equity after taxes, % (ROE) ³	10.8	11.4
Income/expense ratio		
– before loan losses	1.48	1.44
– after loan losses	1.45	1.44

¹ $\frac{\text{Net operating profit minus imputed taxes}}{\text{Average number of shares, adjusted for new issue}}$

² $\frac{\text{Equity capital and reserves minus imputed taxes}}{\text{Number of shares on balance sheet date, adjusted for new issue}}$

³ $\frac{\text{Net operating profit minus imputed taxes}}{\text{Average shareholders' equity}}$

INCOME STATEMENT BY QUARTER

Bank of Åland Group

(EUR M)	Q4 2004	Q3 2004	Q2 2004	Q1 2004	Q4 2003
Net income from financial operations	7.6	7.4	7.1	7.4	7.4
Income from equity investments	0.0	0.0	0.4	0.1	0.2
Commission income	3.6	2.6	3.1	3.1	3.0
Net income from securities transactions and foreign exchange dealing	0.1	0.4	0.6	0.2	0.7
Other operating income	1.1	1.3	1.0	2.2	2.1
TOTAL INCOME	12.4	11.7	12.2	13.0	13.5
Commission expenses	-0.4	-0.3	-0.4	-0.3	-0.3
Staff costs	-4.9	-4.8	-3.2	-4.3	-5.7
Other administrative expenses	-2.4	-1.8	-2.5	-2.0	-2.6
Depreciation	-0.6	-0.5	-0.5	-0.5	-0.6
Other operating expenses	-1.1	-0.9	-1.0	-1.0	-1.1
TOTAL EXPENSES	-9.4	-8.2	-7.6	-8.1	-10.3
Loan and guarantee losses	-0.2	0.1	-0.6	0.0	0.1
Share of operating results of companies consolidated according to equity method	0.1	0.1	-0.3	0.1	-0.2
NET OPERATING PROFIT	2.9	3.7	3.8	5.0	3.1

BANK OF ÅLAND

SUMMARY INCOME STATEMENT

(EUR M)	Bank of Åland Group			Bank of Åland Plc		
	2004	2003	%	2004	2003	%
	Jan 1– Dec 31	Jan 1– Dec 31		Jan 1– Dec 31	Jan 1– Dec 31	
Net income from financial operations	29.5	29.6	-0.3	29.2	29.4	-0.5
Income from equity investments	0.5	1.2	-56.0	1.5	2.5	-41.3
Commission income	12.4	10.3	19.9	10.0	8.5	16.8
Net income from securities transactions and foreign exchange dealing	1.4	2.7	-47.3	1.5	2.6	-44.7
Other operating income	5.6	5.6	0.0	5.6	5.6	0.1
TOTAL INCOME	49.4	49.4	0.0	47.7	48.6	-1.9
Commission expenses	-1.3	-1.3	6.1	-1.1	-1.1	6.8
Staff costs	-17.2	-18.9	-8.8	-15.6	-18.2	-14.2
Other administrative expenses	-8.7	-8.2	6.1	-9.1	-7.9	14.8
Depreciation	-2.1	-2.3	-6.7	-2.1	-2.3	-7.3
Other operating expenses	-3.9	-3.9	2.4	-3.8	-3.8	1.7
TOTAL EXPENSES	-33.3	-34.4	-3.3	-31.8	-33.3	-4.3
Loan and guarantee losses	-0.7	0.1		-0.7	0.1	
Write-downs and reversals of write-downs on securities held as financial fixed assets	0.0	0.0		0.3	0.0	
Share of operating results of companies consolidated according to equity method	-0.1	0.1				
NET OPERATING PROFIT	15.4	15.2	1.4	15.5	15.5	0.4
Appropriations				0.0	0.0	
Income taxes	-4.1	-4.4	-7.9	-4.6	-4.5	1.8
Minority share of profit for the period	-0.2	-0.1				
PROFIT FOR THE PERIOD	11.1	10.6	4.7	11.0	11.0	-0.2

DEPOSITS FROM THE PUBLIC AND PUBLIC SECTOR ENTITIES

including bonds issued and certificates of deposit

(EUR M)	Dec 31,2004	Dec 31,2003	% Change
DEPOSITS FROM THE PUBLIC AND PUBLIC SECTOR ENTITIES			
Demand deposit accounts	187.3	141.1	32.8
Current accounts	195.3	165.9	17.7
Savings and Environmental Accounts	111.5	112.3	-0.7
Prime Accounts	499.1	477.8	4.5
Time deposits	<u>195.1</u>	<u>165.3</u>	<u>18.0</u>
Deposit accounts in EUR	1,188.3	1,062.4	11.8
Deposit accounts in other currencies	<u>57.0</u>	<u>71.8</u>	<u>-20.6</u>
TOTAL DEPOSIT ACCOUNTS	1,245.2	1,134.2	9.8
Bonds	163.3	144.8	12.8
Cerificates of deposit from the public	<u>128.7</u>	<u>119.4</u>	<u>7.7</u>
BONDS AND CERTIFICATES OF DEPOSIT	291.9	264.2	10.5
TOTAL DEPOSITS	1,537.2	1,398.3	9.9

LENDING TO THE PUBLIC AND PUBLIC SECTOR ENTITIES, BY SECTOR

(EUR M)	Dec 31,2004	Dec 31,2003	% Change
BUSINESS AND PROFESSIONAL ACTIVITIES			
<i>Service sector</i>			
Shipping	62.1	51.1	
Communications	12.5	11.9	
Hotels, restaurants, tourist cottages etc.	11.0	11.5	
Wholesale and retail trade	47.4	40.8	
Housing corporations	33.0	30.1	
Real estate activities	87.3	70.9	
Financial activities	139.4	113.2	
Other service business	<u>64.6</u>	<u>39.8</u>	
	457.3	369.3	23.8
<i>Production sector</i>			
Agriculture, forestry and fishing	19.5	20.2	
Food processing etc	10.7	13.1	
Construction	11.8	9.9	
Other industry and crafts	<u>9.2</u>	<u>7.3</u>	
	51.2	50.5	1.4
HOUSEHOLDS			
Home loans	880.5	772.4	
Studies	13.2	12.9	
Other purposes	<u>201.7</u>	<u>157.7</u>	
	1,095.3	943.0	16.2
PUBLIC SECTOR AND NON-PROFIT ORGANISATIONS	27.7	22.5	23.0
TOTAL LENDING	1,631.6	1,385.3	17.8

BANK OF ÅLAND

SUMMARY BALANCE SHEET

(EUR M)	Bank of Åland Group			Bank of Åland Plc		
	Dec 31, 04	Dec 31, 03	%	Dec 31, 04	Dec 31, 03	%
ASSETS						
Liquid assets	72	40	80	72	40	80
Debt securities eligible for refinancing with central banks	112	263	-57	112	263	-57
Claims on credit institutions	110	77	43	110	77	43
Claims on the public and public sector entities	1,632	1,405	16	1,632	1,405	16
Lease assets	0	1	-38	0	1	-38
Debt securities	2	8	-76	2	7	-78
Shares and participations	9	15	-40	8	14	-44
Shares and participations in associated companies and Group Companies	1	2	-52	5	3	74
Intangible assets	4	3	16	2	3	-51
Tangible assets	14	14	-2	14	14	-5
Other assets	19	15	26	18	15	24
Accrued income and prepayments	8	8	5	8	8	-3
	1,984	1,851	7	1,982	1,851	7
LIABILITIES AND EQUITY CAPITAL						
LIABILITIES						
Liabilities to credit institutions and central banks	24	93	-75	24	93	-75
Liabilities to the public and public sector entities	1,249	1,140	10	1,250	1,140	10
Debt securities issued to the public	500	433	16	501	433	16
Other liabilities	36	30	21	36	30	20
Accrued expenses and deferred income	12	14	-10	11	14	-16
Subordinated liabilities	45	25	82	45	25	82
Imputed taxes due	6	7	-10			
Minority share of capital	1	0	37			
ACCUMULATED APPROPRIATIONS						
Reserves				23	23	0
EQUITY CAPITAL						
Share capital	22	22	0	22	22	0
Share premium account	25	25	2	25	25	2
Reserve fund	25	25	0	25	25	0
Capital loan	9	10	-4	9	10	-4
Profit brought forward	17	18	-2	0	0	0
Profit for the period	11	11	5	11	11	0
	1,984	1,851	7	1,982	1,851	7

OFF-BALANCE SHEET COMMITMENTS AND DERIVATIVE CONTRACTS

(EUR M)	Bank of Åland Group			Bank of Åland Plc		
	Dec 31, 04	Dec 31, 03	%	Dec 31, 04	Dec 31, 03	%
OFF-BALANCE SHEET COMMITMENTS						
Guarantees and pledges	13	10	37	13	10	37
Other commitments	97	104	-7	97	104	-7
	110	114	-3	110	114	-3

(EUR M)	Bank of Åland Group			
	Dec 31, 2004		Dec 31, 2003	
	For hedging purposes	Other	For hedging purposes	Other
DERIVATIVE CONTRACTS				
Value of underlying property				
Interest rate derivatives				
Option contracts				
Purchased	15.0	0.0	15.0	0.0
Written	0.0	15.0	0.0	15.0
Interest rate swap contracts	329.5	4.5	241.3	4.6
Currency derivatives				
Forward contracts	2.6	3.3	2.3	2.7
Interest rate and currency swap contracts	0.0	0.2	0.0	0.2
Share derivatives				
Option contracts				
Purchased	125.1	0.7	112.3	0.7
Written	0.0	125.1	0.0	112.3
	472.2	148.8	370.9	135.4
Equivalent credit values of the contracts				
Interest rate derivatives	2.5		4.7	
Currency derivatives	0.1		0.1	
Share derivatives	18.3		15.3	
	20.9		20.2	

ADDRESS LIST

BANK OF ÅLAND PLC

Head Office
Street address:
Nygatan 2, MARIEHAMN, Åland
Postal address:
P.O.Box 3
AX-22101 MARIEHAMN
Åland, FINLAND

Telephone +358 204 29 011
Fax +358 204 291 228

S.W.I.F.T.: AABA FI 22

www.alandsbanken.fi
info@alandsbanken.fi

Åland

Business Center
Individual Customer Advisory services in Åland
20 Branch Offices
Telephone +358 204 29 011
Fax +358 204 291 228
aland@alandsbanken.fi

Private Banking, Helsinki (Helsingfors)

Bulevardi (Bulevarden) 3, 5th fl.
FI-00120 HELSINKI
Telephone +358 204 293 600
Fax +358 204 293 670
private.banking@alandsbanken.fi

Offices in the Helsinki (Helsingfors) Region

Aleksanterinkatu
(Alexandersgatan) 46 A, 2nd fl.
FI-00100 HELSINKI
Telephone +358 204 293 400
Fax +358 204 293 410
aleksanterinkatu@alandsbanken.fi

Tampere (Tammerfors) Office

Hämeenkatu 8
FI-33100 TAMPERE
Telephone +358 204 293 200
Fax +358 204 293 210
tampere@alandsbanken.fi

Bulevardi (Bulevarden) 3
Individual Customer Advisory Services
FI-00120 HELSINKI
Telephone +358 204 293 600
Fax +358 204 293 610
bulevardi@alandsbanken.fi

Vaasa (Vasa) Office

Alatori (Nedre torget) 1 A, 3rd fl.
FI-65100 VAASA
Telephone +358 204 293 300
Fax +358 204 293 310
vaasa@alandsbanken.fi

Bulevardi (Bulevarden) 3
Corporate Advisory Services in Helsinki
FI-00120 HELSINKI
Telephone +358 204 293 600
Fax +358 204 293 660
yriyys.helsinki@alandsbanken.fi

Turku (Åbo) Office

Eerikinkatu (Eriksgatan) 8
FI-20100 TURKU
Telephone +358 204 293 100
Fax +358 204 293 110
turku@alandsbanken.fi

Western Helsinki (Helsingfors)
Munkkiniemen puistotie (Munksnäs allén) 13
FI-00330 HELSINKI
Telephone +358 204 293 900
Fax +358 204 293 910
lansi-helsinki@alandsbanken.fi

Parainen (Pargas) Office

Kauppiaskatu (Köpmansgatan) 24
FI-21600 PARAINEN
Telephone +358 204 293 150
Fax +358 204 293 155
parainen@alandsbanken.fi

Espoo-Tapiola (Esbo-Hagalund)
Länsituulentie (Västanvindsvägen) 4
FI-02100 ESPOO
Telephone +358 204 293 500
Fax +358 204 293 510
espoo-tapiola@alandsbanken.fi

Ålandsbanken Asset Management Ab

Bulevardi (Bulevarden) 3, 4th fl.
FI-00120 HELSINKI
Telephone +358 204 293 700
Fax +358 204 293 710
aam@alandsbanken.fi