

INTERIM REPORT

for the period January – March 2005

The report period in brief

- In this report, the Bank has applied the IFRS reporting and valuation principles
- Consolidated net operating profit amounted to 4.7 million euros (Jan-Mar 2004: EUR 4.8 M)
- Net income from financial operations rose by 2.9 per cent to EUR 7.6 M (7.4)
- Commission income increased by 12.1 per cent to EUR 3.5 M (3.1)
- Expenses rose by 6.3 per cent to EUR 8.5 M (8.0)
- Return on equity after taxes (ROE) was 13.8 per cent
- Lending volume amounted to EUR 1,588 M
- Deposit accounts totalled EUR 1,198 M
- The total capital ratio amounted to 11.5 per cent (11,4)
- Earnings per share after taxes amounted to EUR 0.33 (0.31)

Investments in Bank of Åland mutual funds rose by more than 40 per cent in the first quarter

Investments in the Bank of Åland's mutual funds rose substantially more than the average in Finnish mutual funds during the first three months of 2005. While the managed capital of Finnish mutual funds rose by about 16.5 per cent, the increase in the Bank of Åland's mutual funds was about 42 per cent. This growth is fairly evenly apportioned among institutional investors, asset management customers and individual investors.

The number of unit holders also rose substantially during the first three months of the year. The increase was about 16 per cent in the Bank of Åland's mutual funds, while the number of unit holders in Finnish mutual funds rose by about 7 per cent.

THE GROUP

In preparing this Interim Report, the Bank of Åland has applied the accounting and valuation principles prescribed by International Financial Reporting Standards (IFRS). The Group's Annual Report for 2005 will be prepared according to IFRS. Comparative figures for last year have been recalculated according to the above-mentioned standards. However, in accordance with IFRS 1, the Bank has taken advantage of the opportunity to present the comparative figures related to financial instruments according to previously applied accounting principles.

Earnings

During the first quarter, consolidated net interest income amounted to EUR 4.7 M (4.8). This was a slight decrease compared to the corresponding year-earlier period. Adjusted for nonrecurring items and excluding the effects of the accounting and valuation principles prescribed by IFRS, profit during the report period was at the same level as in the corresponding period of the preceding year. The full-year profit in 2004, stated according to the above-mentioned IFRS standards, amounted to EUR 13.9 M (compared to EUR 15.4 M according to the previous applied accounting principles).

Income from actual banking operations developed comparatively favourably, despite keen competition. New capital adequacy rules (Basel 2) and accounting principles (IFRS) require investments in systems and staff resources, which led to higher expenses.

Net interest income

Despite the continued narrowing of customer margins, larger total volume led to an increase in net interest income by EUR 0.2 M or 2.9 per cent to EUR 7.6 M (7.4).

Other income

Commission income, EUR 3.5 M (3.1), represented an increase of EUR 0.4 M or 12.1 per cent. Income from asset management increased the most. Net income from securities trading for the Bank's own account amounted to EUR -0.2 M (0.0). In keeping with IFRS valuation principles, this item included a change in the value of derivative instruments of EUR -0.3 M. Net income from dealing in the foreign exchange market amounted to the year-earlier level, that is, EUR 0.2 M (0.2). The divestment of the Bank's shareholding in the Åland-based food processing company Chips Abp yielded a capital gain of EUR 1.2 M. Other operating income totalled EUR 1.1 M, compared to EUR 2.0 M in the corresponding period last year of which EUR 1.0 M consisted of nonrecurring revenue.

Total income rose by EUR 0.6 M or 4.7 per cent to EUR 13.2 M (12.6).

Expenses

Staff costs rose by EUR 0.4 M to EUR 4.9 M (4.5). In accordance with IFRS, staff costs included the change in the difference between the market value of assets and pension liability in Ålandsbanken Abps pensionsstiftelse, the Bank's pension fund. This difference reduced staff costs for the report period by EUR 0.2 M (increased staff costs by EUR 0.2 M during the corresponding period last year).

Other administrative expenses (office costs, marketing, telecommunications and computer costs) rose by EUR 0.3 M to EUR 1.9 M (1.6). Depreciation/amortisation was unchanged at EUR 0.9 M (0.9), while other operating expenses decreased somewhat to EUR 0.9 M.

Total expenses included planned depreciation/amortisation rose by EUR 0.5 M or 6.3 per cent to EUR 8.5 M (8.0).

Loan losses

Net loan losses amounted to EUR -0.02 M (recovery).

Deposits

Deposits from the public, including bonds issued and certificates of deposit, rose during the 12 months to March 31, 2005 by 8.6 per cent to EUR 1,522 M (1,402). Deposit accounts rose by 5.7 per cent to EUR 1,198 M (1,133). During the first quarter of 2005, deposits fell by EUR 13.8 M or 0.9 per cent. The Bank floated bond issues with a nominal value of EUR 16.5 M.

Lending

During the 12 months to March 31, 2005, the Bank's volume of lending to the public increased by 13.1 per cent to EUR 1,588 M (1,404). Most of the increase went towards residential financing. During the first quarter of 2005, total lending fell by EUR 43.9 M or 2.7 per cent. Private households accounted for 69.4 (68.5) per cent of the Bank's total lending.

Loans for which interest and/or principal payments have not been settled within 90 days after the payment due date amounted to EUR 2.3 M (2.5).

Personnel

At the end of March 2005, the number of employees – recalculated as full-time equivalents – was 392. This represented an increase of 13 positions, compared to the same date in 2004.

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 March, the Group's capital adequacy according to the Credit Institutions Act was 11.5 (11.4) per cent. The core capital ratio was 7.7 (8.6) per cent. Profit during the report period is not included in core capital. The capital base amounted to EUR 122 M (110).

Ålandsbanken Fondbolag Ab

Ålandsbankens Fondbolag Ab is a wholly-owned subsidiary of the Bank of Åland Plc (Ålandsbanken Abp). The mutual funds (unit trusts) that the company manages are registered in Finland and comply with the Act on Mutual Funds.

On March 31, 2005, the number of unit holders totalled 7,490 (Dec 31, 2004: 6,480), which represented an increase of 16 per cent. The total assets under management amounted to EUR 230.6 M (Dec. 31, 2004: 162.5), an increase of 42 per cent.

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. During the first quarter of 2005, there was a large influx of new assets under management from both customers with direct portfolios and via the Bank of Åland mutual funds.

Crosskey Banking Solutions Ab Ltd

Crosskey Banking Solutions Ab Ltd is a wholly-owned subsidiary of the Bank of Åland. The mission of the company is to develop, sell and maintain banking computer 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, a total of 95 employees. 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 the Bank of Åland.

Allcap Ab

During the quarter, the Bank acquired 75 per cent of the share capital in a newly established Åland company, Allcap Ab. The company provides consulting services related to securities and financing.

Outlook for the future

Our earlier forecast remains unchanged. Full year 2005 earnings will probably improve somewhat compared to earnings in 2004. However, valuation principles according to IFRS related to derivative instruments may lead to greater volatility in reported earnings.

Mariehamn, April 26, 2005

The Board of Directors

Review report

To the shareholders of the Bank of Åland Abp

We have conducted a review of the Interim Report of the Bank of Åland Abp for the period January 1 – March 31, 2005. The Interim Report, which was issued by the Board of Directors and the Managing Director, includes the income statement, balance sheet and certain additional disclosures. After completing our assignment, we are issuing our statement of opinion about the Interim Report.

Our review was conducted in accordance with the recommendations of the Finnish Institute of Authorised Public Accountants concerning reviews. A review is planned and carried out on a sufficient scope to confirm that the Interim Report does not contain essential errors or omissions. A review is mainly limited to interviews with the staff of the Bank and analytical examination measures. We have not conducted a complete audit and will thus not issue an audit report.

On the basis of this review, to our knowledge no circumstances have emerged that would give reason to assume that the Interim Report has not been prepared essentially in accordance with the accounting and valuation principles of the IFRS standards and that the Interim Report should not provide accurate and sufficient disclosures about the operating results and financial position of the Bank.

Mariehamn, April 26, 2005

Leif Hermans
Authorised Public Accountant

Rabbe Nevalainen
Authorised Public Accountant

Marja Tikka
Authorised Public Accountant

FINANCIAL RATIOS ETC

Bank of Åland Group	Jan-Mar 2005	Jan-Mar 2004	Full year 2004	Jan 1 2005
Earnings per share, EUR ¹	0.33	0.31	0.96	
Market price per share, end of period, EUR				
Series A	21.00	17.25	19.62	
Series B	18.60	16.82	19.04	
Equity capital per share, EUR ²	9.17	9.14		9.93
Return on equity after taxes, % (ROE) ³	13.8	13.1	9.8	
Total lending volume, EUR M	1,588	1,404	1,632	
Total deposits from the public, EUR M	1,522	1,402	1,536	
Equity capital, EUR M	101	100		109
Balance sheet total, EUR M	1,986	1,864		1,997
Income/expense ratio				
Including loan losses	1.5	1.6	1.5	
Excluding loan losses	1.5	1.6	1.5	
Total capital ratio, %	11.5	11.4		11.8

¹ Profit for the period / Average number of shares, adjusted for new issue

² Equity capital / Number of shares on balance sheet date, adjusted for new issue

³ Profit for the period / Average equity capital

CAPITAL ADEQUACY

Bank of Åland Group	Mar 31 2005	Mar 31 2004	Jan 1 2005
Capital base, EUR M			
Core capital	81.7	82.9	82.4
Supplementary capital	40.5	27.1	43.2
Total capital base	122.2	110.0	125.6
Risk-weighted volume, EUR M	1,060.4	962.6	1,062.4
Total capital ratio, %	11.5	11.4	11.8
Core capital as % of risk-weighted volume	7.7	8.6	7.8

Profit during the report period is not included in the capital base

SUMMARY BALANCE SHEET

(EUR M)	Bank of Åland Group		
	Mar 31 2005	Mar 31 2004	Jan 1 2005
ASSETS			
Liquid assets	24	79	72
Debt instruments eligible for refinancing with central banks	174	185	112
Claims on credit institutions	119	91	110
Claims on the public and public sector entities	1,588	1,404	1,632
Debt instruments	1	8	1
Shares and participations	5	11	10
Shares and participations in associated companies	0	1	0
Shares and participations in Group companies	0	1	0
Derivative instruments	10	8	10
Intangible assets	3	2	3
Tangible assets	24	24	25
Other assets	25	37	11
Accrued income and prepaid expenses	12	12	11
TOTAL ASSETS	1,986	1,864	1,998
LIABILITIES AND EQUITY CAPITAL			
Liabilities to credit institutions	19	102	24
Liabilities to the public and public sector entities	1,203	1,139	1,249
Debt instruments issued to the public	530	406	500
Derivative instruments	11	8	10
Other liabilities	43	49	30
Accrued expenses and prepaid income	16	14	12
Subordinated liabilities	53	34	54
Imputed taxes due	10	11	10
TOTAL LIABILITIES	1,885	1,763	1,889
EQUITY CAPITAL AND MINORITY INTEREST			
Share capital	22	22	22
Share premium account	26	25	26
Reserve fund	25	25	25
Fair value reserve	0	0	1
Profit brought forward	23	24	24
Profit for the period	4	3	11
Minority interest in capital	0	0	1
TOTAL EQUITY CAPITAL	101	100	109
TOTAL LIABILITIES AND EQUITY CAPITAL	1,986	1,864	1,998
Off-balance sheet commitments			
Guarantees and pledges	12	9	13
Other commitments	123	117	97
	135	126	110

SUMMARY INCOME STATEMENT

(EUR M)	Bank of Åland Group		
	Jan-Mar	Jan-Mar	Full year
	2005	2004	2004
Net interest income	7.6	7.4	29.4
Income from equity instruments	0.0	0.1	0.5
Commission income	3.5	3.1	12.4
Commission expenses	-0.4	-0.3	-1.3
Net income from securities transactions and foreign exchange dealing	0.0	0.3	1.1
Net income from financial assets that can be sold	1.2	0.0	0.2
Net income from managed properties	0.2	0.2	0.6
Other operating income	1.1	2.0	5.0
Total income	13.2	12.6	47.8
Staff costs	-4.9	-4.5	-18.4
Other administrative expenses	-1.9	-1.6	-7.4
Depreciation/amortisation	-0.9	-0.9	-3.6
Other operating expenses	-0.9	-0.9	-3.9
Total expenses	-8.5	-8.0	-33.3
Loan and guarantee losses	0.0	0.0	-0.7
Share of earnings of companies consolidated according to equity method	0.1	0.1	0.0
Net operating profit	4.7	4.8	13.9
Profit before appropriations and taxes	4.7	4.8	13.9
Appropriations			
Income taxes	-1.1	-1.3	-3.2
Minority share of profit for the period	-0.1	0.0	-0.2
Profit for the period	3.6	3.4	10.5

INCOME STATEMENT BY QUARTER

(EUR M)	Q 1 2005	Q 4 2004	Q 3 2004	Q 2 2004	Q 1 2004
Net interest income	7.6	7.6	7.4	7.1	7.4
Income from equity instruments	0.0	0.0	0.0	0.4	0.1
Commission income	3.5	3.6	2.6	3.1	3.1
Commission expenses	-0.4	-0.4	-0.3	-0.4	-0.3
Net income from securities transactions and foreign exchange dealing	0.0	0.3	0.4	0.3	0.3
Net income from financial assets that can be sold	1.2	-0.2	0.1	0.3	0.0
Net income from managed properties	0.2	0.0	0.4	0.0	0.2
Other operating income	1.1	1.1	0.9	1.0	2.0
Total income	13.2	12.0	11.4	11.8	12.6
Staff costs	-4.9	-4.4	-5.1	-4.4	-4.5
Other administrative expenses	-1.9	-2.1	-1.4	-2.2	-1.6
Depreciation/amortisation	-0.9	-1.0	-0.9	-0.9	-0.9
Other operating expenses	-0.9	-1.2	-0.8	-0.9	-0.9
Total expenses	-8.5	-8.6	-8.3	-8.4	-8.0
Loss impairment on loans and other commitments	0.0	-0.2	0.1	-0.6	0.0
Share of earnings of companies consolidated according to equity method	0.1	0.1	0.1	-0.3	0.1
Net operating profit	4.7	3.2	3.3	2.5	4.8

LENDING TO THE PUBLIC AND PUBLIC SECTOR ENTITIES, BY PURPOSE

(EUR M)	Mar 31 2005	Mar 31 2004	Dec 31 2004
BUSINESS AND PROFESSIONAL ACTIVITIES			
<i>Service sector</i>			
Shipping	66.5	45.6	62.1
Transport and communications	4.1	12.9	12.5
Hotels, restaurants, tourist cottages etc.	11.6	11.9	11.0
Wholesale and retail trade	41.9	39.9	47.4
Housing corporations	33.8	30.6	33.0
Real estate operations	86.3	74.3	87.3
Financial operations	110.3	109.9	139.4
Other service business	55.3	38.1	64.6
	<u>409.8</u>	<u>363.2</u>	<u>457.3</u>
<i>Production sector</i>			
Agriculture, forestry and fishing	18.6	19.8	19.5
Food processing etc	10.1	10.0	10.7
Construction	12.4	11.3	11.8
Other industry and crafts	8.4	10.4	9.2
	<u>49.5</u>	<u>51.4</u>	<u>51.2</u>
HOUSEHOLDS			
Home loans	890.1	789.5	880.5
Studies	13.3	13.0	13.2
Other purposes	197.8	158.7	201.7
	<u>1,101.1</u>	<u>961.2</u>	<u>1,095.3</u>
PUBLIC SECTOR AND NON-PROFIT ORGANISATIONS			
	27.2	27.7	27.7
Total lending	1,587.7	1,403.5	1,631.6

**DEPOSITS FROM THE PUBLIC AND PUBLIC SECTOR ENTITIES,
including bonds issued and certificates of deposit**

	Mar 31	Mar 31	Dec 31
(EUR M)	2005	2004	2004
Deposit accounts from the public and public sector entities			
Demand deposit accounts	172.9	147.0	187.3
Current accounts	209.1	176.2	194.2
Savings and Environmental Accounts	111.9	108.3	111.5
Prime Accounts	466.7	462.4	499.1
Time deposits	181.8	179.3	195.1
<i>Total deposit accounts in euros</i>	1,142.4	1,073.2	1,187.2
Deposit accounts in other currencies	55.8	60.1	57.0
Total deposit accounts	1,198.2	1,133.2	1,244.2
Bonds	168.3	151.8	163.2
Certificates of deposit issued to the public	155.8	117.0	128.7
Bonds and certificates of deposit	324.1	268.8	291.8
Total deposits	1,522.3	1,402.0	1,536.0

DERIVATIVE CONTRACTS

(EUR M)	Mar 31, 2005		Mar 31, 2004	
	For hedging purposes	Other	For hedging purposes	Other
<i>Value of underlying property</i>				
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	355.0	3.9	255.3	4.0
Currency derivatives				
Forward contracts	2.0	2.4	1.1	1.3
Interest rate and currency swap contracts	0.0	0.3	1.4	1.7
Equity derivatives				
Option contracts				
Purchased	133.0	0.7	121.9	0.7
Written	0.0	133.0	0.0	121.9
	505.0	155.3	394.6	144.6
Equivalent credit values of the contracts				
Interest rate derivatives	2.5		4.9	
Currency derivatives	0.1		0.1	
Equity derivatives	19.1		17.2	
	21.7		22.2	