

Ålandsbanken Interim report Interim report for january-september 2008

27.10.2008

Bank of Åland Plc STOCK EXCHANGE RELEASE 27.10.2008 15.00 hrs The report period in brief Consolidated net operating profit decreased by 20 per cent to 16.3 million euros (January - September 2007: EUR 20.5 M) Net interest income increased by 9 per cent to EUR 31.4 M (28.8) Commission income decreased by 8 per cent to EUR 14.0 M (15.2) Total income decreased by 1 per cent to EUR 54.0 M (54.4) Expenses increased by 13 per cent to EUR 37.5 M (33.2) Loan losses amounted to EUR 0.5 M (0.9) Lending volume increased by 6 per cent to EUR 2,168 M (September 2007: 2,048) Deposits increased by 14 per cent to EUR 2,074 M (September 2007: 1,817) Mutual fund capital under management decreased by 28 per cent to EUR 284 M (406) Return on equity after taxes (ROE) was 11.8 (16.1) per cent The expense/income ratio deteriorated to 70 (62) per cent The total capital ratio in compliance with Basel 2 amounted to 12.2 (12.4) per cent Earnings per share after taxes amounted to EUR 0.99 (1.26) EARNINGS AND PROFITABILITY This Interim Report has been prepared in compliance with the International Financial Reporting Standards (IFRSs) that have been adopted by the European Union, as well as with International Accounting Standard (IAS) 34, "Interim Financial Reporting". Earnings summary for the report period During January-September 2008, the consolidated net operating profit of the Bank of Åland Group decreased by 20 per cent to EUR 16.3 M (20.5). During the report period, the Group's net interest income showed positive growth, while commission income and net income from securities trading were down compared to the same period last year. Income decreased by 1 per cent to EUR 54.0 M (54.4), while expenses increased by 13 per cent to EUR 37.5 M (33.2). Return on equity after taxes (ROE) fell to 11.8 (16.1) per cent, and earnings per share to EUR 0.99 (1.26). Net interest income Due to higher interest rates and larger volume of both deposits and lending, consolidated net interest income rose by 9 per cent to EUR 31.4 M (28.8) during the report period. Lending volume increased by 6 per cent to EUR 2,168 M (2,048), and deposit volume increased by 14 per cent to EUR 2,074 M (1,817). Other income Commission income fell by 8 per cent to EUR 14.0 M (15.2). Income on securities brokerage rose, while decreased managed assets meant lower income on mutual fund and asset management. Net income from securities trading for the Bank's own account was EUR 0.2 M (2.1). This low income was partly due to an impairment loss of EUR 0.6 M on option receivables from Lehman Brothers, which is equivalent to 90 per cent of the receivables. Net income from dealing in the foreign exchange market improved to EUR 0.7 M (0.6). Net income from financial assets available for sale was EUR 0.1 M (0.9), and net income from investment properties was EUR 0.1 M (0.6). Other operating income increased to EUR 8.9 M (7.6) as a consequence of higher income from the sale and development of information technology (IT) systems. The Group's total income decreased by 1 per cent to EUR 54.0 M (54.4). Expenses Staff costs rose by 9 per cent to EUR 21.0 M (19.3). The increase was due to employee recruitment and salary hikes as provided by collective agreements. Changes in the Bank's pension fund, Ålandsbanken Abp:s Pensionsstiftelse, according to the corridor approach affected staff costs in the amount of EUR 0.1 M (0.2). Other administrative expenses (office, marketing, communications and IT) increased to EUR 7.9 M (6.4). This was mainly because of higher external IT expenses at Crosskey. Production for own use totalled EUR 0.3 M (0.3) and was related to expenses for computer software, which in accordance with IFRSs must be capitalised. Depreciation/amortisation increased to EUR 4.4 M (3.6). Other operating expenses increased to EUR 4.5 M (4.2), as a consequence of rising property rents for the Group. The Group's total expenses rose by 13 per cent to EUR 37.5 M (33.2). Impairment losses on loans and other commitments Loan losses amounted to EUR 0.5 M (0.9). Third quarter of 2008 Compared to the third quarter of 2007, the Group's net operating profit fell by 7 per cent to EUR 4.5 M (Q III 2007: 4.9).

----- | Core capital ratio, % | 8.1 | 8.0 | 8.6 | -----

----- Deposits Deposits from the public, including bonds and certificates of deposit issued, increased during the 12 months to September 30, 2008 by 14 per cent to EUR 2,074 M (1,817). Deposit accounts increased by 20 per cent to EUR 1,695 M (1,415). Bonds and certificates of deposit issued to the public fell by 6 per cent to EUR 379 M (402). During the third quarter, the Bank chose to reduce its counterparty risks by decreasing its deposits in other banks, and by concentrating them mainly in Nordic counterparties. Since liquidity was and is very good, the Bank has not chosen to match all price competition in the market. One consequence of this is that deposits from institutional investors declined by about EUR 50 M. Traditional deposits from the public increased by about EUR 15 M during the third quarter. Lending The volume of lending to the public increased during the 12 months to September 30, 2008 by 6 per cent to SEK 2,168 M (2,048). Lending to households increased by 3 per cent to EUR 1,467 M (1,421). Households accounted for 68 (69) per cent of the Group's total lending. Lending to the service sector rose by 14 per cent to EUR 619 M (543), while lending to the production sector rose by 3 per cent to EUR 58 M (57). Ab Compass Card Oy Ltd Ab Compass Card Oy Ltd is a subsidiary of the Bank of Åland Plc. The mission of the company is to issue credit and debit cards to private and institutional customers. The company currently has 6 employees and offices in Mariehamn and Helsinki. Crosskey Banking Solutions Ab Ltd Crosskey Banking Solutions Ab Ltd is a wholly-owned subsidiary of the Bank of Åland Plc. 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 services. Among Crosskey's current customers are DnB NOR, S-Bank, Tapiola Bank, the Bank of Åland, eQ Bank and EGET. Crosskey currently has 155 employees and offices in Mariehamn, Turku, Helsinki and Stockholm. Ålandsbanken Asset Management Ab Ålandsbanken Asset Management Ab is a subsidiary of the Bank of Åland Plc. The company offers asset management services to institutions and private individuals. The company also manages all of the Bank of Åland's mutual funds. The year 2008 has been dominated by the global financial market crisis, and it has been challenging to maintain portfolio values. However, due to the company's conservative investment strategy, disruptions in the investment environment primarily represented opportunities for buyers to take advantage of bargains in the markets. Despite the market situation, the company maintained the same level of profitability as the year before. The company currently has about 350 customers and EUR 800 M in managed assets. Ålandsbanken Fondbolag Ab Ålandsbanken Fondbolag Ab is a wholly-owned subsidiary of the Bank of Åland Plc. The company's strategy is to ensure that the mutual funds (unit trusts) that it manages are competitive and tailored to the financial investment needs of Bank of Åland customers. On September 30, 2008, assets under management totalled EUR 284 M (406 on September 30, 2007), down 28 per cent. The decrease was due to both a downturn in valuations, especially in equity mutual fund investments, and customer redemptions of units, as a consequence of the generally uncertain market situation. The number of unit holders was 14,079 (14,261 on September 30, 2007), a decrease of 1 per cent. Important events after the close of the report period In the Bank's assessment, given the prevailing market situation it is very difficult to achieve profitability in estate agency. During October, the Bank decided to discontinue its involvement in this business. Outlook for 2008 The recent times have been characterized by a high degree of turbulence in the international banking system. The Bank of Åland has not directly been affected by this, although it is becoming increasingly clear that the bank crisis will lead to a downturn in the global business cycle. Profitability in deposits and the capital market is expected to decrease, while on the other hand lending margins are trending higher. The extreme situation on the financial markets has had an adverse effect throughout the banking industry. Based on these factors, and taking into account that 2007 earnings included large nonrecurring items, the Group's operating income is expected to be lower than in 2007. It should again be emphasized that at present there is great uncertainty in the global financial system. Hence, the outlook for the future is fraught with greater uncertainty than normal. In a long-term perspective, however, business opportunities for a cautious bank that is close to its customers may even improve

in this market situation. The Group's assessment of the outlook for 2008 is based on its assumptions about future developments in the fixed income and financial markets. General interest rates, the demand for lending, the current trend of the capital and financial markets, the competitive situation and the business cycles are factors that the Group cannot influence. Mariehamn, October 27, 2008

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										Total deposits from the public, EUR M										2,110										1,817																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																	
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Income and prepayments	24	23	21							
Deferred tax assets	1	1	1							
----- TOTAL ASSETS 2,728 2,569 2,592 -----										

----- LIABILITIES -----										
----- Liabilities to credit institutions 63 124 53 -----										
----- Liabilities to the public and public										1,417
1,534			sector entities						Debt	
securities issued to the public 671 737 739 -----										
----- Derivative instruments 4 30 3 -----										
Other liabilities 62 43 39 ----- Accrued										
expenses and prepaid income 28 24 21 -----										
--- Subordinated liabilities 54 52 52 -----										
Deferred tax liabilities 16 13 16 -----										
TOTAL LIABILITIES 2,594 2,440 2,457 -----										
----- EQUITY CAPITAL AND MINORITY										
INTEREST ----- Share capital 23 23 23										
----- Share premium account 33 33 33 --										
----- Reserve fund 25 25 25 -----										
----- Fair value reserve 0 0 0 -----										
----- Retain ed earnings 51 31 51 -----										
----- Shareholders' interest in equity 133 15 133 capital -----										
----- Minority interest in capital 1 2 2 -----										
----- TOTAL EQUITY CAPITAL 134 129 135 -----										

TOTAL LIABILITIES AND EQUITY CAPITAL 2,728 2,569 2,592 -----										

----- SUMMARY INCOME STATEMENT -----										
----- Bank of Åland Group Jan-Sep Jan-Sep Jan-Dec -----										
----- EUR M 2008 2007 2007 -----										
----- ----- Net										
interest income 31.4 28.8 39.3 -----										
Income from equity instruments 0.0 0.0 0.0 -----										
----- Commission income 14.0 15.2 20.3 -----										
----- Commission expenses -1.6 -1.5 -2.0 -----										
---- Net income from securities transactions 1.0 2.7 4.2 and foreign exchange dealing ---										
----- Net income from financial assets 0.1 0.9										
1.1			available for sale						Net income	
from investment properties 0.1 0.6 0.6 -----										
- Other operating income 8.9 7.6 11.9 -----										
- Total income 54.0 54.4 75.4 -----										
----- Staff costs -21.0 -19.3 -26.2 -----										
----- Other administrative expenses -7.9 -6.4 -10.3										
----- Production for own use 0.3 0.3 1.0 -										
----- Depreciation/amortisation -4.4 -3.6										
-4.9	----- Other operating expenses -4.5									
-4.2	-5.6	----- Total expenses -37.5 -33.2								
-46.0	-----									
----- Impairment losses on loans and other -0.5 -0.9 -1.0 commitments										
----- Share of profit/loss in associated 0.3										

[illegible]

[illegible]

----- | Dividend to | | | | | -11. | -11. | -1.0 | -12.6 | | shareholders | |
| | | | 6 | 6 | | | ----- | Equity | 23.3 | 0.0 | 33.3 |
25.1 | 0.4 | 50.9 | 133. | 1.3 | 134.4 | | capital. Sep | | | | | 1 | | | | 30, 2008 | | | | | | | -----
----- | 1 Dividend payment for Series A shares EUR 5.2 M and
for Series B shares EUR | | 6.3 M. | ----- NOTES

TO THE CONSOLIDATED INTERIM REPORT 1. CORPORATE INFORMATION The Bank of Åland Plc (Ålandsbanken Abp) is a Finnish public company, organised in compliance with Finnish legislation and with its Head Office in Mariehamn. The Bank of Åland Plc is a commercial bank with a total of 25 offices. Through its subsidiary Crosskey Banking Solutions Ab Ltd. the Bank of Åland Group is also a supplier of modern banking computer systems for small and medium-sized banks. The Head Office has the following address: Bank of Åland Plc Nygatan 2 AX-22100 Mariehamn, Åland, Finland The Bank of Åland Plc is listed on the Nasdaq OMX Helsinki Oy. This Interim Report for the financial period January 1-September 30, 2008 was approved by the Board of Directors on October 27, 2008. 2. BASIS FOR PREPARATION AND ESSENTIAL ACCOUNTING PRINCIPLES Basis for preparation The Interim Report for the period January 1-September 30, 2008 has been prepared in compliance with the International Financial Reporting Standards (IFRSs) that have been adopted by the European Union, as well as with International Accounting Standard (IAS) 34. "Interim Financial Reporting". The Interim Report does not contain all information and notes required in annual financial statements and should be read together with the consolidated financial statements for the year ending December 31, 2007. Essential accounting principles The essential accounting principles used in preparing the Interim Report are the same as the essential accounting principles used in preparing the financial statements for the year ending December 31, 2007, except for the introduction of new standards and interpretations, which are described below. The introduction of new standards and interpretations has not materially affected the Group's results or financial position. An addition to the accounting policies has been made in the third quarter as an amendment to IAS 39 and IFRS 7 has been published in October, but will be effective from 1 July 2008. The impact from this amendment is that financial assets can, in certain circumstances, be reclassified out of the fair value through profit or loss category if the assets are no longer held for the purpose of selling or repurchasing in the near term. Ålandsbanken has not made any reclassifications as a result of this amendment in the third quarter. New accounting standards and interpretations in effect starting in 2008: IAS 1, "Presentation of Financial Statements" The standard has been revised in order to provide better information for analysis and comparison of companies. The Group will present its financial statements in compliance with the revised IAS 1 no later than for the financial period that begins on January 1, 2009. IFRS 8, "Operating Segments" The standard requires that a company provide financial and descriptive disclosures about its operating segments. IFRS replaces IAS 14, "Segment Reporting". The Group will present its financial statements in compliance with IFRS 8 no later than for the financial period that begins on January 1, 2009. IFRIC 14, "The Limit on a Defined Benefit Asset. Minimum Funding Requirements and their Interaction" This interpretation clarifies the limit on asset value in case of a pension plan surplus, as well as how minimum pension plan funding requirements affect this value. The Group is applying IFRIC 14 beginning on January 1, 2008. The Group is not affected by amendments to the following: IAS 23, "Borrowing Costs" IFRIC 12, "Service Concession Arrangement" IFRIC 13, "Customer Loyalty Programmes" 3. ESTIMATES AND JUDGEMENTS Preparation of financial statements in compliance with IFRSs requires the company's Executive Team to make estimates and judgements that affect the recognised amounts of assets and liabilities, income and expenses as well as disclosures about commitments. Although these estimates are based on the best knowledge of the Executive Team on current events and measures, the actual outcome may diverge from these estimates. 4. SEGMENT REPORT The Bank of Åland Group reports the various business segments as primary segments. A business segment is a group of departments and companies that supply products or services that have risks and returns that diverge from other business segments. Intra-Group transactions occur at market prices. The Bank of Åland Group does not report geographic segments as secondary segments, since all operations occur in

Finland. ----- Bank of Åland Jan-Sep 2008									
Group ----- EUR M Banking Informat									
Other	Eliminations	Total		operations	ion		technology		operations
-----		-----		-----		-----		-----	
-----	External income	41.2	8.3	4.5	0.0	54.0		-----	
-----	Internal income	-0.3	7.5	0.0	-7.2	0.0		-----	
-----	Total income	40.8	15.8	4.5	-7.2	54.0		-----	
-----	Costs including	-27.1	-14.3	-3.3	7.2	-37.5	depreciation etc.		
-----		-----		-----		-----		-----	
-----	Loan losses		0.0		-----		-----		-----
-----	Share of profit in	0.0	0.0		associated		companies		
	-----		-----		-----		-----		-----
	-----		-----		-----		-----		-----
16.3	profit			-----		-----		-----	
-----	A ssets	2,171.6	9.7	547.7	-1.0	2,728.0		-----	
-----	Liabilities	-2,367.5	-5.1	-221.9	0.8	-2,593.6		-----	
-----	Equity capital		134.4		-----		-----		-----
-----		-----		-----		-----		-----	
----- Bank									
of Åland Jan-Sep 2007 Group ----- EUR M									
Banking Informat Other Eliminations Total operations ion technology									
operations ----- -----									
----- External income 42.5 7.3 4.5 54.4 -----									
