

# Ålandsbanken Interim report Interim Report for the period January - June 2008

25.08.2008

Bank of Åland Plc INTERIM REPORT 25.08.2008 09.00 hrs Interim Report for the period January - June 2008 The report period in brief Consolidated net operating profit decreased by 24 per cent to 11.8 million euros (January - June 2007: EUR 15.6 M) Net interest income increased by 11 per cent to EUR 20.9 M (18.9) Commission income decreased by 4 per cent to EUR 10.2 M (10.6) Total income decreased by 2 per cent to EUR 37.1 M (37.8) Expenses increased by 15 per cent to EUR 25.3 M (22.1) Loan losses amounted to EUR 0.2 M (0.4) Lending volume increased by 7 per cent to EUR 2,127 M (June 2007: 1,956) Deposits increased by 24 per cent to EUR 2,110 M (June 2007: 1,695) Mutual fund capital under management decreased by 25 per cent to EUR 318 M (425) Return on equity after taxes (ROE) was 13.0 (18.6) per cent The expense/income ratio deteriorated to 68 (59) per cent The total capital ratio in compliance with Basel 2 amounted to 12.1 (12.7)per cent Earnings per share after taxes amounted to EUR 0.71 (0.95) 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-June 2008, the consolidated net operating profit of the Bank of Åland Group decreased by 24 per cent to EUR 11.8 M (15.6). During the report period, the Group's net interest income showed positive growth, while earnings were adversely affected by lower commission income and higher operating expenses. Income decreased by 2 per cent to EUR 37.1 M (37.8), while expenses increased by 15 per cent to EUR 25.3 M (22.1). Return on equity after taxes (ROE) fell to 13.0 (18.6) per cent, and earnings per share to EUR 0.71 (0.95). Net interest income Due to higher interest rates and larger volume of both deposits and lending, consolidated net interest income rose by 11 per cent to EUR 20.9 M (18.9) during the report period. Margins on deposits decreased compared to the year-earlier period, while margins on lending were stable. Lending volume increased by 7 per cent to EUR 2,127 M (1,996), and deposit volume increased by 24 per cent to EUR 2,110 M (1,695). Other income Commission income fell by 4 per cent to EUR 10.2 M (10.6). 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 0.5 M (2.1). Net income from dealing in the foreign exchange market was unchanged at EUR 0.5 M (0.5). Net income from financial assets available for sale was EUR 0.1 M (0.8), and net income from investment properties was EUR 0.2 M (0.6). Other operating income increased to EUR 5.7 M (5.3), however, as a consequence of higher income from the sale and development of information technology (IT) systems. The Group's total income decreased by 2 per cent to EUR 37.1 M (37.8). Expenses Staff costs rose by 12 per cent to EUR 14.2 M (12.7), 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 5.5 M (4.3). This was mainly because of higher IT expenses due to increased customer volume at Crosskey. Production for own use totalled EUR -0.2 M (-0.2) and was related to expenses for computer software, which in accordance with IFRSs must be capitalised. Depreciation/amortisation increased to EUR 2.8 M (2.4). Other operating expenses amounted to EUR 3.0 M (2.9). The Group's total expenses rose by 15 per cent to EUR 25.3 M (22.1). Impairment losses on loans and other commitments Loan losses amounted to EUR 0.2 M (0.4). Second quarter of 2008 Compared to the second quarter of 2007, the Group's net operating profit fell by 18 per cent to EUR 6.1 M (Q II 2007: 7.5). Income Total income decreased by 2 per cent to EUR 19.0 M (19.3). Higher

deposit and lending volume and higher interest rates resulted in an increase in net interest income of 11 per cent to EUR 10.7 M (9.7). Commission income deteriorated slightly, amounting to EUR 5.1 M (5.2). The decrease consisted of lower commissions on mutual funds and asset management. However, commissions on securities brokerage rose somewhat. Net income from securities trading and foreign exchange operations fell to EUR 0.4 M (1.7). Other operating income increased to EUR 3.1 M (2.5) as a consequence of higher income from IT operations. Expenses Total expenses during the quarter increased by 9 per cent to EUR 12.8 M (11.7). During the quarter, staff costs amounted to EUR 7.1 M (6.7). The number of employees in the Group increased, and salary hikes were implemented as provided by collective agreements. Other administrative expenses increased to EUR 2.9 M (2.4) during the second quarter, primarily caused by higher computer expenses. Due to increased property expenses and rents, other operating expenses rose to EUR 1.6 M (1.5). Balance sheet total and off-balance sheet obligations At the end of the report period, the Group's balance sheet total was EUR 2,768 M (2,432). During the period, the Group issued bond loans to the public in the nominal amount of EUR 16 M. Off-balance sheet obligations decreased to EUR 176 M (191). Personnel Hours worked in the Group, recalculated to full-time equivalent positions, totalled 499 (451) during January-June 2008. This represented an increase of 48 positions compared to the year-earlier period. -----

-----	Bank of Åland Group   Jun 30   Jun 30   -----
-----	2008   2007   -----

-----	Bank of Åland Plc   328   300   ----
-----	Ab Compass Card Oy Ltd   6   3   -----

-----	Crosskey Banking Solutions Ab Ltd   137   122   -----
-----	Ålandsbanken Asset Management Ab   14   12   -----

-----	Ålandsbanken Fondbolag Ab   6   8   -----
-----	Ålandsbanken Kapitalmarknadstjänster Ab,

until   0   5     September 30, 2007       -----	Ålandsbanken Veranta Ab   8   0   -----	Total
--	---	-------

number of full-time equivalent positions,   499   451     recalculated from hours worked       -----	Expense/income ratio Efficiency measured as
--	---

expenses divided by income, including and excluding loan losses, respectively: -----	Jun 30   Jun 30   -----
-----	Bank of Åland Group   2008   2007   -----

-----	Including loan losses   0.68   0.59
-----	Excluding loan losses   0.68   0.58   -----

-----	Capital adequacy The Group is reporting capital
-------	---

adequacy in accordance with Pillar 1 in the Basel 2 regulations. According to Pillar 1 of Basel 2, the Group's total capital ratio at the end of June 2008 was 12.1 per cent. The capital requirement for credit risks has been calculated according to the standardised approach, and the capital requirement for operational risks has been calculated according to the basic indicator approach in the Basel 2 regulations. -----

-----	Capital adequacy       -----
-----	Bank of Åland Group   Jun 30   Jun 30   Dec 31   ---
-----	2008   2007   2007   -----

-----	-----	
----	Capital base, EUR M         -----	Core

capital   104.0   92.7   103.3   -----	
Supplementary capital   50.0   51.7   51.3   -----	

Total capital base   154.0   144.4   154.6   -----	Capital requirement for credit risks
--	--------------------------------------

-----	Capital requirement
92.6   83.2   88.5   -----	for operational risks   9.3   8.0   8.0   -----

-----	Total capital requirement   101.9   91.1   96.5   -----
-------	---

Total capital ratio, % | 12.1 | 12.7 | 12.8 | ----- |

Core capital ratio, % | 8.2 | 8.1 | 8.6 | -----

Deposits Deposits from the public, including bonds and certificates of deposit issued, increased during the 12 months to June 30, 2008 by 24 per cent to EUR 2,110 M (1,695). Deposit accounts increased by 25 per cent to EUR 1,720 M (1,379). Bonds and certificates of deposit issued to the public increased by 23 per cent to EUR 390 M (316). Lending The volume of lending to the public increased during the 12 months to June 30, 2008 by 7 per cent to SEK 2,127 M (1,996). Lending to households increased by 4 per cent to EUR 1,453 M (1,399). Households accounted for 68 (70) per cent of the Group's total lending. Lending to the service sector rose by 16 per cent to EUR 593 M (510), while lending to the production sector fell by 7 per cent to EUR 57 M (61).

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 is in the start-up phase and is expected to begin its operations during 2009. 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 began in the shadow of the global financial market crisis. The influx of new customers slowed significantly, and it was 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 900 M in managed assets. Assets of private individuals available for financial investment continue to grow. When the trend towards putting these assets under management also increases, the company will enjoy good future prospects.

Ålandsbanken Fondbolag Ab Ålandsbanken Fondbolag Ab is a wholly-owned subsidiary of the Bank of Åland Plc. All the mutual funds (unit trusts) that the company manages are registered in Finland. On June 30, 2008, the total number of unit holders was 14,236 (14,232 on June 30, 2007). Assets under management totalled EUR 318 M (425), a decrease of 25 per cent.

Ålandsbanken Veranta Ab Ålandsbanken Veranta Ab is a subsidiary of the Bank of Åland Plc. Its operations include estate agency, appraisal and consulting business. The company currently has 10 employees and offices in Helsinki, Espoo and Tampere.

Changes in Group structure On June 30, 2008 the Bank of Åland Plc subscribed for shares issued by Ålandsbanken Veranta Ab. As a result of payment the Bank of Åland's ownership stake is rising to 92.9 per cent.

Important events after the close of the report period No important events have occurred after the close of the report period.

Outlook for 2008 The Group's financial planning assumes unchanged interest rates, a continued positive trend in business volume at low margins, especially on deposits, stable earnings in asset management operations and good growth in the Group's IT operations. Income from IT operations during the rest of the year is expected to be substantially better than during the first half. The cost level in the Group is expected to rise, due to increased regulatory requirements as well as investments in new skills. Competition in the banking market is expected to remain tough and to be affected by international financial market instability. However, the Bank is not expected to be affected by significant loan losses during 2008. Based on the se 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 be added that at present there is great uncertainty in the global financial system. The Bank of Åland is not directly affected by this, but if the situation should deteriorate

further the Bank may be affected indirectly, for example in case of a generally poorer economic situation. The outlook the future is thus fraught with greater uncertainty than normal. 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 trend of the capital and financial markets and the competitive situation are factors that the Group cannot influence. Financial information in 2008 The Interim Report for the period January 1-September 30, 2008 will be published on October 27, 2008 3.00 p.m. Finnish time. Mariehamn, August 25, 2008 THE BOARD OF DIRECTORS ----- | FINANCIAL RATIOS

ETC   -----   Bank of Åland Group   Jan-Jun   Jan-Jun   Jan-Dec   -----     2008   2007   2007   -----
-----   Earnings per share before dilution,   0.71   0.95   1.75     EUR 1         -----
-----   Earnings per share after dilution,   0.71   0.95   1.75     EUR 2         -----
-----   Market price per share, end of         period, EUR         -----   Series A   29.50   29.00   37.00   -----   Series B   25.00   25.00   27.80   -----   Equity capital per share, EUR 3   11.18   10.90   11.54   -----   Return on equity after taxes, % (ROE)   13.0   18.6   16.4     4         -----
-----   Return on total assets, % (ROA) 5   0.6   1.0   0.9   -----
-----   Equity/assets ratio, % 6   4.7   5.2   5.2   -----
-----   Total lending volume, EUR M   2,127   1,996   2,104   -----
-----   Total deposits from the public, EUR M   2,110   1,695   1,921   -----
-----   Equity capital, EUR M   130   126   135   -----
-----   Balance sheet total, EUR M   2,768   2,432   2,592   - -----
-----   Expense/income ratio         -----
-----   Including loan losses   0.68   0.59   0.62   -----
-----   Excluding loan losses   0.68   0.58   0.61   -----
-----   1

Profit for the period before dilution / Average number of shares   -----
-----   2 Profit for the period after dilution / Average number of shares + shares     outstanding   -----   3 Equity capital - minority share of capital / Number of shares on balance     sheet date   -----
-----   4 Net operating profit - taxes / Average equity capital   -----
-----   5 Net operating profit - taxes / Average balance sheet total   -----
-----   6 Equity capital / Balance sheet total   -----

----- | SUMMARY BALANCE SHEET | ----- | Bank of Åland Group | Jun 30 | Jun 30 | Dec 31 | ----- | EUR M | 2008 | 2007 | 2007 | ----- | | | | -----

-----   ASSETS         -----
-----   Cash   60   47   39   -----
---   Debt securities eligible for   131   102   132     refinancing with central banks         -----
-----   Claims on credit institutions   202   173   153   -----
-----   Claims on the public and public sector   2,127   1,996   2,104     entities         -----   Debt securities   131   4   50   -----   Shares and participations   3   4   3   -----   Shares and participations in   2   2   2     associated companies         -----
-----   Derivative instruments   22   36   34   -----

-----	Intangible assets	6	5	6	-----	
Tangible assets	29	25	26	-----	Other assets	31
prepayments	24	20	21	-----	Accrued income and	24
assets	1	1	1	-----	Deferred tax	1
-----	TOTAL ASSETS	2,768	2,432	2,592	-----	
-----						
LIABILITIES		-----	Liabilities to credit			
institutions	82	67	53	-----	Liabilities to	82
the public and public	1,722	1,381	1,534		sector entities	
-----	Debt securities issued to the public	683	730	739	-----	
-----	Derivative instruments	4	4	3	-----	
-----	Other liabilities	53	40	39	-----	
-----	Accrued expenses and prepaid income	26	21	21	-----	
-----	Subordinated liabilities	52	52	52	-----	
-----	Deferred tax liabilities	16	13	16	-----	
-----	TOTAL LIABILITIES	2,637	2,307	2,457	-----	
-----						
-----	EQUITY					
CAPITAL AND MINORITY INTEREST		-----				
Share capital	23	23	23	-----	Share	23
premium account	33	33	33	-----	Reserve	33
fund	25	25	25	-----	Fair value reserve	0
1	0			-----	Retained earnings	48
-----	Shareholders' interest in equity	129	124	133		capital
-----	Minority interest in	1	2	2	-----	
-----	TOTAL EQUITY CAPITAL	130	126	135	-----	
-----	TOTAL LIABILITIES AND EQUITY CAPITAL	2,768	2,432	2,592	-----	
-----						
-----	SUMMARY INCOME					
STATEMENT						
-----	Bank of Åland Group	Jan-	Jan-	Jan-		
-----	EUR M	2008				
-----						
-----	Net interest income	20.9	18.9	39.3	-----	
-----	Income from equity instruments	0.0	0.0	0.0	-----	
-----	Commission income	10.2	10.6	20.3	-----	
-----	Commission expenses	-1.1	-1.0	-2.0	-----	
-----	Net income from securities transactions	1.0	2.6	4.2		
and foreign exchange dealing						
-----	Net income from financial assets	0.1	0.8	1.1		
-----	Net income from investment properties	0.2	0.6	0.6	-----	
-----	Other operating income	5.7	5.3	11.9	-----	
-----	Total income	37.1	37.8	75.4	-----	
-----						
Staff costs	-14.2	-12.7	-26.2	-----	Other	-14.2
administrative expenses	-5.5	-4.3	-10.3	-----		-5.5
--	Production for own use	0.2	0.2	1.0	-----	
Depreciation/amortisation	-2.8	-2.4	-4.9	-----		-2.8
----	Other operating expenses	-3.0	-2.9	-5.6	-----	
-----	Total expenses	-25.3	-22.1	-46.0	-----	









