

# 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).

Income Total income increased by 2 per cent to EUR 16.9 M (16.5). Higher deposit and lending volume and higher interest rates resulted in an increase in net interest income of 6 per cent to EUR 10.5 M (9.9). Commission income deteriorated, amounting to EUR 3.8 M (4.6), due to lower commissions on mutual funds, asset management and securities brokerage. Net income from securities trading and foreign exchange operations fell to EUR -0.1 M (0.1), as a consequence of an impairment loss of EUR 0.6 M. Other operating income increased to EUR 3.2 M (2.3) thanks to higher income from IT operations. Expenses Total expenses during the quarter increased by 9 per cent to EUR 12.2 M (11.1). During the quarter, staff costs amounted to EUR 6.8 M (6.5). The number of employees in the Group increased, and salary hikes were implemented as provided by collective agreements. Other administrative expenses increased to EUR 2.3 M (2.1) during the third quarter. Due to increased property expenses and rents, other operating expenses rose to EUR 1.5 M (1.4). Balance sheet total and off-balance sheet obligations At the end of the report period, the Group's balance sheet total was EUR 2,728 M (2,569). Off-balance sheet obligations decreased to EUR 165 M (192). Personnel Hours worked in the Group, recalculated to full-time equivalent positions, totalled 503 (460) during January-September 2008. This represented an increase of 43 positions compared to the year-earlier period. ----

	Bank of Åland Group		Sep 30	Sep 30	-----
	2008		2007		-----
Bank of Åland Plc	329	306			-----
Ab Compass Card Oy Ltd	6	4			-----
Crosskey Banking Solutions Ab Ltd	139	124			-----
Ålandsbanken Asset Management Ab	14	13			-----
Ålandsbanken Fondbolag Ab	6	8			-----
Ålandsbanken Kapitalmarknadstjänster Ab, until September 30, 2007	0	5			-----
Ålandsbanken Veranta Ab	9	1			-----
Total number of full-time equivalent positions, recalculated from hours worked	503	460			-----
Expense/income ratio Efficiency measured as expenses divided by income, including and excluding loan losses, respectively:			Sep 30	Sep 30	-----
			Bank of Åland Group	2008	2007
					-----
Including loan losses	0.70	0.62			-----
Excluding loan losses	0.69	0.61			-----
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 September 2008 was 12.2 (12.4) 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	Sep 30	Sep 30
				Dec 31	-----
				2008	2007
					-----
Capital base, EUR M					-----
Core capital	104.1	95.2	103.3		-----
Supplementary capital	52.6	51.4	51.3		-----
Total capital base	156.7	146.6	154.6		-----
Capital requirement for credit risks	93.3	86.9	88.5		-----
Capital requirement for operational risks	9.3	8.0	8.0		-----
Total capital requirement	102.5	94.9	96.5		-----
Total capital ratio, %	12.2	12.4	12.8		-----

----- | 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

THE BOARD OF DIRECTORS	FINANCIAL RATIOS ETC			Bank of Åland Group		
	Jan-Sep	Jan-Sep	Jan-Dec	2008	2007	2007
Earnings per share before dilution, EUR 1	0.99	1.26	1.75			
Earnings per share after dilution, EUR 2	0.99	1.26	1.75			
Market price per share, end of period, EUR						
Series A	28.25	33.00	37.00			
Series B	21.75	26.53	27.80			
Equity capital per share, EUR 3	11.53	11.05	11.54			
Return on equity after taxes, % (ROE) 4	11.8	16.1	16.4			
Return on total assets, % (ROA) 5	0.7	0.9	0.9			
Equity/assets ratio, % 6	4.9	5.0	5.2			
Total lending volume, EUR M	2,168	2,048	2,104			
Total deposits from the public, EUR M	2,110	1,817	1,921			
Equity capital, EUR M	134	129	135			
Balance sheet total, EUR M	2,728	2,569	2,592			
Expense/income ratio						
Including loan losses	0.70	0.62	0.62			
Excluding loan losses	0.69	0.61	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			Sep 30	Sep 30	Dec 31
	EUR M			2008	2007	2007
ASSETS						
Cash	84	40	39			
Debt securities eligible for refinancing with central banks	131	134	132			
Claims on credit institutions	135	181	153			
Claims on the public and public sector	2,168	2,048	2,104			
Debt securities	76	50	50			
Shares and participations	3	3	3			
Shares and participations in associated companies	2	2	2			
Derivative instruments	15	32	34			
Intangible assets	5	5	6			
Tangible assets	31	26	26			
Other assets	52	24	21			
Accrued						

income and prepayments	24	23	21			
Deferred tax assets	1	1	1			
<b>TOTAL ASSETS</b>	<b>2,728</b>	<b>2,569</b>	<b>2,592</b>			
<b>LIABILITIES</b>						
Liabilities to credit institutions	63	124	53			
Liabilities to the public and public sector entities	1,696	1,417	1,534			
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			
<b>TOTAL LIABILITIES</b>	<b>2,594</b>	<b>2,440</b>	<b>2,457</b>			
<b>EQUITY CAPITAL AND MINORITY INTEREST</b>						
Share capital	23	23	23			
Share premium account	33	33	33			
Reserve fund	25	25	25			
Fair value reserve	0	0	0			
Retained earnings	51	31	51			
Shareholders' interest in equity	133	15	133			
Minority interest in capital	1	2	2			
<b>TOTAL EQUITY CAPITAL</b>	<b>134</b>	<b>129</b>	<b>135</b>			
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>	<b>2,728</b>	<b>2,569</b>	<b>2,592</b>			
<b>SUMMARY INCOME STATEMENT</b>						
Bank of Åland Group	Jan-Sep	Jan-Sep	Jan-Dec			
EUR M	2008	2007	2007			
<b>Net interest income</b>	<b>31.4</b>	<b>28.8</b>	<b>39.3</b>			
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			
Net income from financial assets available for sale	0.1	0.9	1.1			
Net income from investment properties	0.1	0.6	0.6			
Other operating income	8.9	7.6	11.9			
<b>Total income</b>	<b>54.0</b>	<b>54.4</b>	<b>75.4</b>			
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			
<b>Total expenses</b>	<b>-37.5</b>	<b>-33.2</b>	<b>-46.0</b>			
Impairment losses on loans and other commitments	-0.5	-0.9	-1.0			
Share of profit/loss in associated companies	0.3					

0.3   0.2     companies	-----	Net operating profit   16.3   20.5   28.6	-----		-----
	-----	Income taxes   -4.4   -5.4   -7.6	-----		-----
	-----	Profit for the period   11.9   15.1   21.0	-----		-----
	-----		-----		-----
Shareholders' interest in profit for   11.5   14.5   20.2     the period	-----		-----		-----
	-----	Minority interest in profit for the   0.5   0.6   0.8     period	-----		-----
	-----	Total   11.9   15.1   21.0	-----		-----
	-----		-----		-----
Earnings per share	-----	Earnings per share before dilution, EUR   0.99   1.26   1.75     1	-----		-----
	-----	Earnings per share after dilution, EUR   0.99   1.26   1.75     2	-----		-----
	-----	1 Profit for the period before dilution / Average number of shares	-----		-----
	-----	2 Profit for the period / Average number of shares + shares outstanding	-----		-----
	-----	INCOME STATEMENT BY QUARTER	-----		-----
	-----	Bank of Åland Group   Q III   Q II   Q I   Q IV   Q III	-----		-----
	-----	EUR M   2008   2008   2008   2007   2007	-----		-----
	-----		-----		-----
	-----	Net interest income   10.5   10.7   10.1   10.5   9.9	-----		-----
	-----	Income from equity instruments   0.0   0.0   0.0   0.0   0.0	-----		-----
	-----	Commission income   3.8   5.1   5.1   5.1   4.6	-----		-----
	-----	Commission expenses   -0.5   -0.6   -0.5   -0.5   -0.5	-----		-----
	-----	Net income from securities   -0.1   0.4   0.7   1.5   0.1     transactions and foreign           exchange dealing	-----		-----
	-----	Net income from financial assets   0.0   0.1   0.0   0.2   0.0	-----		-----
available for sale	-----	Net income from investment   0.0   0.1   0.1   0.1   0.0     properties	-----		-----
	-----	Other operating income   3.2   3.1   2.6   4.2   2.3	-----		-----
	-----	Total income   16.9   19.0   18.1   21.0   16.5	-----		-----
	-----		-----		-----
	-----	Staff costs	-----		-----
-6.8   -7.1   -7.1   -7.0   -6.5	-----	Other administrative expenses   -2.3   -2.9   -2.7   -3.9   -2.1	-----		-----
	-----	Production f or own use   0.1   0.1   0.2   0.7   0.1	-----		-----
	-----	Depreciation/amortisation   -1.6   -1.3   -1.5   -1.3   -1.3	-----		-----
	-----	Other operating expenses   -1.5   -1.6   -1.4   -1.4   -1.4	-----		-----
	-----	Total expenses   -12.2   -12.8   -12.5   -12.8	-----		-----
-11.1	-----		-----		-----
	-----	Impairment losses on loans and commitments	-----		-----
	-----	-0.2   -0.2   0.0   -0.1   -0.6     other in   0.0   0.1   0.1   0.0   0.0     associated companies	-----		-----
	-----	Net operating profit   4.5   6.1   5.7   8.1   4.9	-----		-----
	-----	CASH FLOW STATEMENT	-----		-----
	-----	Bank of Åland Group   Jan-Sep   Jan-Sep	-----		-----
	-----	EUR M   2008   2007	-----		-----
	-----		-----		-----
	-----	Cash flow from operating activities	-----		-----
	-----	Net operating profit   16.3     20.5	-----		-----
	-----	Adjustment for net operating profit   7.3     5.6       items not affecting cash flow	-----		-----
	-----	Gains/losses from investing   -0.3     -1.0       activities	-----		-----



----- | 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 requirements 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										
-----   Net operating   13.3   1.6   1.5   0.0										
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   -----										
-----										