

Ålandsbanken Quarterly report Interim report for the period January - June 2007

23.07.2007

Bank of Åland Plc STOCK EXCHANGE RELEASE 23.07.2007 09.00 hrs Interim report for the period January - June 2007 The report period in brief -Consolidated net operating profit rose by 42 per cent to 15.6 million euros (Jan ' Jun 2006: EUR 11.0) -Net interest income increased by 19 per cent to EUR 18.9 M (15.9) -Commission income increased by 14 per cent to EUR 10.6 M (9.3) -Expenses increased by 14 per cent to EUR 22.1 M (19.4) -Loan losses were EUR 0.4 M (recovery of 0.1) -Lending volume increased by 11 per cent to EUR 1,996 M (Jun 2006: 1,797) -Deposits increased by 13 per cent to EUR 1,726 M (Jun 2006: 1,531) -Mutual fund capital under management rose by 42 percent to EUR 425 M (300) -Return on equity after taxes (ROE) was 18.6 per cent (14.7) -The expense/income ratio improved to 59 (64) per cent -The total capital ratio in compliance with Basel 2 amounted to 12.7 per cent -Earnings per share after taxes amounted to EUR 0.95 (0.71) EARNINGS AND PROFITABILITY This Interim Report has been prepared in compliance with the International Financial Reporting Standards (IFRSs) approved by the European Union, as well with International Accounting Standard (IAS) 34, "Interim Financial Reporting". Earnings summary for the first half During the first half of 2007, consolidated net operating profit rose by 42 per cent to EUR 15.6 M (11.0). The main factors behind the increase in profit were a continued rise in net interest income thanks to higher interest rates, improved income from information technology (IT) operations and higher commission income from mutual fund and asset management. Income increased by 25 per cent to EUR 37.8 M (30.1), while expenses rose by 14 per cent to EUR 22.1 M (19.4). Return on equity after taxes (ROE) increased to 18.6 (14.7) per cent, and earnings per share after taxes increased to EUR 0.95 (0.71). Net interest income During the report period, net interest income improved by 19 per cent to EUR 18.9 M (15.9). Rising interest rates improved net interest income on deposits, while smaller customer lending margins were offset to some extent by higher volume. Lending volume increased by 11 per cent to EUR 1,996 M (1,797). Other income Commission income rose by 14 per cent to EUR 10.6 M (9.3). This increase largely consisted of higher income on mutual fund and asset management and securities brokerage. Net income from securities trading for the Bank's own account was EUR 2.1 M (0.8). Net income from dealing in the foreign exchange market amounted to EUR 0.5 M (0.5). Net income from financial assets available for sale was EUR 0.8 M (0.2). Net income from investment properties increased to EUR 0.6 M (0.0). Other operating income also increased, to EUR 5.3 M (4.3), due to rising income from the sale and development of computer systems. The Group's total income rose by 25 per cent to EUR 37.8 M (30.1). Expenses Staff costs increased by 17 per cent to EUR 12.7 M (10.9), mostly due to efforts under way in the Group's IT operations. This cost was also affected by the allocation of EUR 0.3 M to the Group's Personnel Fund during the first half of 2007, while higher fair value of assets in the Bank's pension fund, Ålandsbanken Abp:s Pensionsstiftelse, reduced staff costs by EUR 0.2 M (0.7). Other administrative expenses (office, marketing, telecommunications and IT) decreased to EUR 4.3 M (4.5) due to lower IT expenses. Production for own use totalled 0.2 M (0.2) and was related to expenses for computer software, which in accordance with IFRS must be capitalised. Depreciation/amortisation increased to EUR 2.4 M (2.0). Other operating expenses amounted to EUR 2.9 M (2.3). The largest increases in expenses were attributable to rents and property expenses. The Group's total expenses rose by 14 per cent to EUR 22.1 M (19.4). Expense/income ratio The expense/income ratio decreased during the report period to 59 per cent, compared to 64 per cent during the first half of 2006. During the full year 2006, the expense/income ratio was 66 per cent. Impairment loss on loans and other commitments Loan losses amounted to EUR 0.4 M (recovery of 0.1). Second quarter of 2007 Compared to the second quarter of 2006, the Group's net operating

profit rose by 62 per cent to EUR 7.5 M (Q II 2006: 4.6). Income Total income increased by 32 per cent to EUR 19.3 M (14.6). A combination of higher interest rates, higher lending volume and lower lending margins increased net interest income by 25 per cent to EUR 9.7 M (7.8). Lending volume increased to EUR 1,996 M (1,797). Commission income improved, amounting to EUR 5.2 M (4.9). The increase consisted of higher commission income on mutual funds and asset management. Net income from securities trading and foreign exchange operations rose to EUR 1.7 M (0.6). Other operating income increased to EUR 2.5 M (2.0) as a consequence of higher income from IT operations. Expenses Total expenses during the quarter increased by 15 per cent to EUR 11.7 M (10.2). During the quarter, staff costs amounted to EUR 6.7 M (5.6). This increase was a consequence of an increased number of Group employees, salary hikes in accordance with collective agreements and lower fair value of assets in the Bank's pension fund, Ålandsbanken Abp:s Pensionsstiftelse, during the quarter. Other administrative expenses decreased to EUR 2.4 M (2.5) during Q II 2007. Due to higher property expenses and rents, other operating expenses increased to EUR 1.5 M (1.2). Balance sheet total and off-balance sheet obligations At the end of the report period, the Group's balance sheet total was EUR 2,432 M (2,066). The increase was a consequence of both higher lending volume and higher deposit volume. During the period, the Group issued bond loans to the public in a nominal amount of EUR 34 M. As a consequence of higher obligations for guarantees and pledges, plus other obligations, off-balance sheet obligations increased to EUR 191 M (169). Personnel Hours worked in the Group, recalculated to full-time equivalent positions, totalled 451 (434) during the first half of 2007. This represented an increase of 17 positions, compared to the year-earlier period. Most of the increase came from new recruitments at Crosskey Banking Solutions Ab Ltd. Capital adequacy For the first time, the Group is reporting capital adequacy in accordance with Pillar 1 in the Basel 2 regulations. Risk management under Pillar 2 will be reported in the Annual Report for 2007. According to Pillar 1 of Basel 2, the Group's total capital ratio at the end of June 2007 was 12.7 per cent. The capital requirement for credit risks is being calculated according to the standardised approach, and the capital requirement for operational risks is being calculated according to the basic indicator approach in the Basel 2 regulations. Deposits Deposits from the public, including bonds and certificates of deposit issued, increased during the 12 months to June 30, 2007 by 13 per cent to EUR 1,726 M (1,531). Deposit accounts increased by 14 per cent to EUR 1,379 M (1,207). Bonds and certificates of deposits issued to the public increased by 7 per cent to EUR 347 M (324). Lending The volume of lending to the public increased during the 12 months to June 30, 2007 by 11 per cent to EUR 1,996 M (1,797). Most of the increase went towards residential financing. Lending to private households increased by 10 per cent to EUR 1,399 M (1,267). Households accounted for 70 (71) per cent of the Group's total lending. Ab Compass Card Oy Ltd Ab Compass Card Oy Ltd is a subsidiary of the Bank of Åland Plc (Ålandsbanken Abp). 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 late in 2007. 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 Tapiola Bank, DnB NOR, S-Bank, the Bank of Åland, eQ Bank and EGET. Crosskey currently has 147 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 discretionary and consultative asset management services to institutions and private individuals. The company also manages all of the Bank of Åland's mutual funds. The company currently has about 350 customers and EUR 900 M in managed assets. The company has strong growth. 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. At the end of the report period, the total number of unit holders was 14,232 (11,348). This represented an increase of 2,884 or 25 per cent. Total assets under management amounted to EUR

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													Net interest income 9.7 9.2 8.6 8.2 7.8													
													Income from equity instruments 0.0 0.0													
0.0 0.0 0.0														Commission income 5.2												
5.4 4.9 4.3 4.9														Commission												
expenses -0.6 -0.5 -0.5 -0.4 -0.4																										
Net income from securities 1.7 0.9 0.8 0.1 0.6													transactions and foreign exchange													
dealing													Net income from financial													
assets 0.3 0.5 0.1 0.0 -0.1													available for sale													
													Net income from investment 0.5 0.1 0.2 0.1 0.0													
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													Other operating income 2.5 2.9 2.8 2.4													
2.0														Total income 19.3 18.5 16.8												
14.6 14.6																										
													Staff costs -6.7 -6.0 -6.5 -5.2 -5.6													
													Other administrative expenses -2.4 -1.9 -3.1 -1.8 -2.5													
													Production for own use 0.1 0.1 0.1 0.1													
0.1														Depreciation/ amortisation -1.1												
-1.3 -1.0 -1.0 -1.0														Other operating												
expenses -1.5 -1.3 -1.9 -1.2 -1.2																										
Total expenses -11.7 -10.4 -12.4 -9.1 -10.2																										
													Loss impairment on													
loans and -0.3 -0.1 -0.1 0.0 0.1													other commitments													
													Share of profit in associated 0.1 0.1 0.1 0.0 0.1													
													companies													
													Net operating profit 7.5 8.1 4.5 5.6													
4.6																										
CHANGES IN EQUITY CAPITAL																										
													Bank of Åland Group													
													EUR M													
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ity capi issu prem rese reser earni inter tal e ium rve ve ngs est																										
acco																										
													Equity capital, 22.2 0.0 26.1 25.1 0.4 38.7 0.9													
113.3 December 31, 2005																										
													Financial assets available for sale:													
													- change in fair -0.1 -0.1													
value													- transferred to													
-0.2 -0.2													income statement													
Profit for the 7.8 0.5 8.3													period													
													Total recognised -0.2 7.8 0.5 8.0													
													income and													
expenses during the period																										
Dividend to -11.0 -0.5 -11.5													shareholders													
													Conversion of 0.2 1.1 1.3													
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0.0 0.0 minority interest in													equity capital													
													Equity capital, 22.3 0.0 27.2 25.1 0.1 35.5 0.9													
111.2 June 30, 2006																										
Financial assets available for													sale:													
													- change in fair 0.3 0.3													
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income statement													Profit for													
the 6.9 0.5 7.4													period													

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NOTES TO THE CONSOLIDATED INTERIM REPORT 1.

Directors on July 20.

2. BASIS FOR PREPARATION AND ESSENTIAL ACCOUNTING PRINCIPLES

Basis for preparation The Interim Report for the period January 1-June 30, 2007 was prepared in compliance with 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, 2006.

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, 2006, 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. The following new standards and interpretations have been introduced: 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 already meets the criteria stated in IFRIC 14. The Group is not affected by amendments to the following: IFRIC 13, "Customer Loyalty Programmes"

3. ESTIMATES AND JUDGEMENTS

Preparation of financial statements in compliance with IFRS 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. ACQUISITIONS OF COMPANIES During the report period, the Group made the following acquisitions, which are reported in compliance with IFRS 3, "Business Combinations".									
	Name of company	Line of business	Acquisition Date	Proportion of share	Cost, EUR				
	Ålandsbanken Kapitalmarknadstjänster Ab	Asset management	April 12, 2007	30%	792,480				
	Veranta Oy	Estate agency	June 13, 2007	84%	200,000				
1 After this additional acquisition, Ålandsbanken Kapitalmarknadstjänster is a wholly-owned subsidiary.									
2 The cost consists of a capital contribution in the form of a targeted issue of new shares.									
Cost breakdown									
	Ålandsbanken Veranta Oy	Kapitalmarknads- tjänster Ab							
	Cash	Capital contribution to the company	Directly attributable costs						
	EUR	EUR	EUR						
	780,000	0	12,480						
	Net assets acquired								
	EUR	Ålandsbanken Kapitalmarknadstjänster Ab							
	Fair value	Carrying amount	Fair value	Carrying amount					
	Cash	Receivables	Share issue receivables						
	Intangible assets	Tangible assets							
	Liabilities								
	Net assets acquired								
	Goodwill								
Ålandsbanken Kapitalmarknadstjänster Ab has earned a profit of EUR 0.2 M since this acquisition.									
Veranta Oy has earned a profit of EUR 0.0 M since this acquisition.									
The acquisitions did not affect the Group's total income or profit for the report period.									
	Goodwill								
	EUR	2007	2006						
	Gross								
	Impairment (write-down)								
	Opening balance								
	Goodwill recognised during the period								
	Impairment (write-down)								

-----	Renegotiation of purchase agreement (estimated	0	-45, 092	effect on opening balance)	
	-----	Closing balance	1,405,260	881,443	
	-----	5. CASH FLOW STATEMENT	-----		
-----	Bank of Åland Group	Jan-Jun	Jan-Jun		-----
-----	(EUR M)	2007	2006		-----
-----					-----
Cash and cash equivalents		130.2		217.4	
--- Cash flow from operating activities					-----
--- Net operating profit	15.6		11.0		-----
Adjustment for net operating profit	2.4		1.9	items not affecting cash flow	
-----	-----	Gains from investing activities	-0.9		-0.2
-----	-----	Income taxes paid	-2.6		-2.5
-----	-----	Changes in assets and liabilities in	-2.0	12.4	-99.2
-89.1	operating activities				
-----	-----	Cash flow from investing activities		-4.6	
-1.3	-----	Cash flow from financing			
activities	102.0		-7.1		-----
equivalents, June 30	240.1		120.0		-----
					6.

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 sup