

Interim report for the period January - September 2005

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The report period in brief

- . Consolidated net operating profit rose by 27 per cent and amounted to 13.5 million euros (Jan-Sep 2004: EUR 10.6 M)
- . Net interest income rose by 5.6 per cent to EUR 23.0 M (21.8)
- . Commission income rose by 28.7 per cent to EUR 11.3 M (8.8)
- . Expenses climbed by 2.0 per cent to EUR 25.1 M (24.6)
- . Return on equity after taxes (ROE) was 12.3 (10.5) per cent
- . Lending volume amounted to EUR 1,689 M (Sep 2004: 1,510)
- . Deposit accounts totalled EUR 1,194 M (Sep 2004: 1,090)
- . Total mutual fund capital under management rose by 72 per cent to EUR 269.3 M (156.5)
- . The total capital ratio was 11.5 per cent (12.2)
- . Earnings per share after taxes amounted to EUR 0.91 (0.76)
- . The Bank has applied the IFRS reporting and valuation principles

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 the IFRS standards approved by the European Union. Comparative figures and financial ratios 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, which affects comparability to some extent.

Earnings

During the first nine months of 2005, consolidated net operating profit amounted to EUR 13.5 M (10.6). This was an improvement of 27.2 per cent compared to the corresponding period of 2004.

The main reasons for the improvement in earnings during the report period were increased commission income from mutual funds (unit trusts) and asset management and improved net interest income. Changed accounting principles concerning capitalisation of the costs of computer software produced for own use lowered expenses and affect comparability.

Net interest income

Despite the continued narrowing of customer margins, larger total deposit and lending volumes led to an increase in net interest income by 5.6 per cent to EUR 23.0 M (21.8).

Other income

Commission income rose by a full 28.7 per cent to EUR 11.3 M (8.8). Income from asset management and from providing investment products rose the most. Net income from securities trading for the Bank's own account showed an income of EUR 0.2 M (0.6). In keeping with IFRS valuation principles, this item included a change of EUR -0.5 M (0.0) in the value of derivative instruments.

Net income from dealing in the foreign exchange market amounted to EUR 0.7 M (0.6).

Other operating income totalled EUR 2.9 M, compared to EUR 3.4 M in the corresponding period last year, of which EUR 1.0 M consisted of nonrecurring revenue. The divestment of the Bank's shareholding in the Åland-based food processing company Chips Abp during the first quarter yielded a capital gain of EUR 1.2 M.

Total income rose by 7.8 per cent to EUR 38.6 M (35.8).

Expenses

Staff costs rose by 5.2 per cent to EUR 14.7 M (14.0). Other administrative expenses (office costs, marketing, telecommunications and computer costs) climbed by 21.8 per cent to EUR 6.5 M (5.3). Production for own use amounted to EUR 1.3 M (0.0) and was related to expenses for computer software, which in accordance with IFRS must be capitalised. Depreciation/amortisation was unchanged at EUR 2.6 M, and other operating expenses were unchanged at EUR 2.7 M.

Total expenses including planned depreciation/amortisation rose by EUR 0.5 M or 2.0 per cent to EUR 25.1 M (24.6).

Impairment loss on loans and other receivables

Loan losses amounted to EUR 0.3 M (0.4) during the report period.

Deposits

Deposits from the public, including bonds issued and certificates of deposit, rose during the 12 months to September 30, 2005 by 7.8 per cent to EUR 1,507 M (1,398). Deposit accounts rose by 9.5 per cent to EUR 1,194 M (1,090). During the first nine months of 2005, deposits decreased by EUR 29 M or 1.9 per cent. During the same period, the Group floated bond issues with a nominal value of EUR 42.1 M.

Lending

During the 12 months to September 30, 2005, the volume of lending to the public increased by 11.8 per cent to EUR 1,689 M (1,510). Most of the increase went towards residential financing. During the first nine months of 2005, total lending rose by EUR 57 M or 3.5 per cent. Private households accounted for 69.2 (68.8) per cent of the Group's total lending.

Personnel

At the end of September 2005, the number of employees in the Group - recalculated as full-time equivalents - was 403. 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 September, the Group's capital adequacy according to the Credit Institutions Act was 11.5 (12.2) per cent. The core capital ratio was 7.1 (8.1) per cent. To strengthen the capital base in the form of supplementary capital, risk debenture loans totalling EUR 14.8 M were issued during the report period. Profit during the report period is not included in the capital base. The capital base amounted to EUR 130.4 M.

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. Crosskey currently works with three banks: Tapiola Bank, Den Norske Bank and the Bank of Åland. During the report period, Crosskey Banking Solutions AB and the Finnish consumer co-operative organisation SOK signed a contract to renew the S Group's financial services account system. The contract did not affect earnings during the report period, however.

Ålandsbanken Asset Management Ab

Ålandsbanken Asset Management Ab is a subsidiary of the Bank of Åland Plc. The company offer asset management services to individuals and organisations. It currently has more than 200 customers.

Ålandsbanken Fondbolag Ab

Ålandsbanken 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 September 30, 2005, the number of unit holders totalled 8,334 (Sep 30, 2004: 6,135), which represented an increase of 36 per cent. The total assets under management amounted to EUR 269.3 M (Sep 30, 2004: 156.5), an increase of 72 per cent.

Ålandsbanken Kapitalmarknadstjänster Ab

Ålandsbanken Kapitalmarknadstjänster Ab (Allcap Ab) is a subsidiary of the Bank of Åland Plc. The company provides discretionary asset management as well as consulting services related to securities and financing. During September, the company was granted its permit to act as an investment firm.

Outlook for the future

Our previous forecast for the year remains unchanged. Full year 2005 earnings are expected to be better than last year's earnings.

Mariehamn, October 24, 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 - September 30, 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 approved by the EU as well as other Finnish rules and regulations concerning Interim Reports and that the Interim Report should not provide accurate and sufficient disclosures about the operating results and financial position of the Bank.

Mariehamn, October 24, 2005

Marja Tikka
Authorised Public Accountant

Leif Hermans
Authorised Public Accountant

Rabbe Nevelainen
Authorised Public Accountant

FINANCIAL RATIOS ETC

Bank of Åland Group Jan-Sep Jan-Sep Full Jan 1
year
2005 2004 2004 2005

Earnings per share, EUR 1 0.91 0.76 0.96
Market price per share, end of period, EUR
Series A 22.40 17.90 19.62

Series B 20.71 17.62 19.04
 Equity capital per share, EUR 2 9.76 9.60 9.93
 Return on equity after taxes, % (ROE) 3 12.31 10.51 9.76
 Total lending volume, EUR M 1,689 1,510 1,632
 Total deposits from the public, EUR M 1,507 1,398 1,536
 Equity capital, EUR M 107 105 109
 Balance sheet total, EUR M 2,052 1,793 1,997
 Income/expense ratio
 Including loan losses 1.53 1.42 1.45
 Excluding loan losses 1.55 1.45 1.46

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 Sep 30 Sep 30 Jan 1
 2005 2004 2005

Capital base, EUR M
 Core capital 81 84 82
 Supplementary capital 50 42 43
 Total capital base 130 126 126
 Risk-weighted volume, EUR M 1,131 1,031 1,062
 Total capital ratio, % 11.7 12.0 11.8
 Core capital as % of risk-weighted volume 7.3 8.3 7.8

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

SUMMARY BALANCE SHEET

Bank of Åland Group Sep 30 Sep 30 Jan 1
 (EUR M) 2005 2004 2005

ASSETS

Liquid assets 51 48 72
 Debt instruments eligible for
 refinancing with central banks 113 61 112
 Claims on credit institutions 109 96 110
 Claims on the public and public sector entities 1,689 1,510 1,632
 Debt instruments 1 7 1
 Shares and participations 4 9 10
 Shares and participations in associated companies 2 0 1
 Shares and participations in Group companies 0 1 0
 Derivative instruments 14 8 10
 Intangible assets 4 2 3
 Tangible assets 24 25 25
 Other assets 29 17 11
 Accrued income and prepaid expenses 12 8 11
 TOTAL ASSETS 2,052 1,793 1,998

LIABILITIES AND EQUITY CAPITAL

Liabilities to credit institutions 74 43 24

Liabilities to the public

and public sector entities 1,198 1,095 1,249

Debt instruments issued to the public 541 435 500

Derivative instruments 15 8 10

Other liabilities 38 28 30

Accrued expenses and prepaid income 15 15 12

Subordinated liabilities 54 54 54

Imputed taxes due 10 10 10

TOTAL LIABILITIES 1,945 1,688 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 10 8 11

Minority interest in capital 1 0 1

TOTAL EQUITY CAPITAL 107 105 109

TOTAL LIABILITIES AND EQUITY CAPITAL 2,052 1,793 1,998

SUMMARY INCOME STATEMENT

Bank of Åland Group Jan-Sep Jan-Sep Full
year

(EUR M) 2005 2004 2004

Net interest income 23.0 21.8 29.4

Income from equity instruments 0.1 0.5 0.5

Commission income 11.3 8.8 12.4

Commission expenses -1.3 -1.0 -1.3

Net income from securities transactions and
foreign exchange dealing 0.8 1.3 1.1

Net income from financial assets available for sale 1.5 0.4 0.2

Net income from investment properties 0.2 0.6 0.6

Other operating income 2.9 3.4 5.0

Total income 38.6 35.8 47.8

Staff costs -14.7 -14.0 -18.4

Other administrative expenses -6.5 -5.3 -7.4

Production for own use 1.3 0.0 0.0

Depreciation/amortisation -2.6 -2.6 -3.6

Other operating expenses -2.7 -2.7 -3.9

Total expenses -25.1 -24.6 -33.3

Loan and guarantee losses -0.3 -0.4 -0.7

Share of profit/loss in associated companies 0.3 -0.1 0.0

Net operating profit 13.5 10.6 13.9

Profit before appropriations and taxes
Income taxes -3.2 -2.0 -3.2
Minority share of profit for the period -0.3 -0.1 -0.2
Profit for the period 10.0 8.4 10.5

INCOME STATEMENT BY QUARTER

Bank of Åland Group Q III Q II Q I Q IV Q III
(EUR M) 2005 2005 2005 2004 2004

Net interest income 7.7 7.8 7.6 7.6 7.4
Income from equity instruments 0.0 0.1 0.0 0.0 0.0
Commission income 3.7 4.2 3.5 3.6 2.6
Commission expenses -0.5 -0.5 -0.4 -0.4 -0.3
Net income from securities
transactions and
foreign exchange dealing 0.8 0.0 0.0 0.3 0.4
Net income from financial
assets available for sale 0.0 0.3 1.2 -0.2 0.1
Net income from
investment properties 0.0 0.0 0.2 0.0 0.4
Other operating income 0.9 1.0 1.1 1.1 0.9
Total income 12.6 12.8 13.2 12.0 11.4

Staff costs -4.5 -5.4 -4.9 -4.4 -5.1
Other administrative expenses -2.1 -2.5 -1.9 -2.1 -1.4
Production for own use 0.4 0.9 0.0 0.0 0.0
Depreciation/amortisation -0.9 -0.8 -0.9 -1.0 -0.9
Other operating expenses -0.8 -0.9 -0.9 -1.2 -0.8
Total expenses -7.8 -8.8 -8.5 -8.6 -8.3

Loss impairment on
loans and other commitments -0.3 0.0 0.0 -0.2 0.1
Share of profit/loss in
associated companies 0.1 0.1 0.1 0.1 0.1
Net operating profit 4.7 4.1 4.7 3.2 3.3

LENDING TO THE PUBLIC AND PUBLIC SECTOR ENTITIES BY PURPOSE

Bank of Åland Group Sep 30 Sep 30 Dec 31
(EUR M) 2005 2004 2004

BUSINESS AND PROFESSIONAL ACTIVITIES

Service sector
Shipping 75 51 62
Hotels, restaurants, tourist cottages etc 12 11 11
Wholesale and retail trade 46 41 47
Housing corporations 39 29 33
Real estate operations 90 76 87
Financial operations 99 116 139
Other service business 76 66 65

436 390 457

Production sector

Agriculture, forestry and fishing 21 21 20

Food processing etc 9 11 11

Construction 16 11 12

Other industry and crafts 9 10 9

55 53 51

HOUSEHOLDS

Home loans 946 846 880

Studies 13 13 13

Other purposes 211 180 202

1,170 1,039 1,095

PUBLIC SECTOR AND NON-PROFIT ORGANISATIONS 27 27 28

Total lending 1,689 1,510 1,632

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

Bank of Åland Group Sep 30 Sep 30 Dec 31

(EUR M) 2005 2004 2004

Deposit accounts from the public and public sector entities

Demand deposit accounts 171 153 187

Current accounts 186 182 194

Savings and Environmental Accounts 106 105 111

Prime Accounts 474 439 499

Time deposits 181 159 195

Total deposit accounts in euros 1,118 1,038 1,187

Deposit accounts in other currencies 76 52 57

Total deposit accounts 1,194 1,090 1,244

Bonds 190 176 163

Certificates of deposit issued to the public 123 132 129

Bonds and certificates of deposit 313 308 292

Total deposits 1,507 1,398 1,536

DERIVATIVE CONTRACTS

Bank of Åland Group Sep 30, Sep 30,
2005 2004

For Other For Other

hedging hedging

(EUR M) purposes purposes

Value of underlying property

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	311.4	3.9	318.4	4.5
Currency derivatives				
Forward contracts	1.5	1.7	1.1	1.4
Interest rate and				
currency swap contracts	0.0	0.6	0.1	0.0
Equity derivatives				
Option contracts				
Purchased	161.6	0.7	118.2	0.7
Written	0.0	161.6	0.0	118.2
	489.5	183.4	452.8	139.8
Equivalent credit values of the contracts				
Interest rate derivatives	2.4	2.6		
Currency derivatives	0.1	0.1		
Equity derivatives	24.8	16.7		
	27.3	19.4		

OFF-BALANCE SHEET COMMITMENTS

Bank of Åland Group Sep 30 Sep 30 Dec 31
(EUR M) 2005 2004 2004

Guarantees and pledges	13	9	13
Other commitments	141	117	97
	154	126	110