



**2006**  
**Annual Report**

**BANK OF ÅLAND**

# WE BELIEVE IN THE STRENGTH OF GOOD RELATIONSHIPS

The Bank of Åland works to help people in Finland achieve a richer life. We are proud of our background and our contributions to the development of the Åland community.

We are a personalised, knowledgeable and creative relationship bank that generates value for private individuals and their companies by building long-term, personal customer relationships.

## HOW WE WORK

- We are forward-looking and always seek creative solutions.
  - We delegate responsibility and authority.
- Our operations are governed by clear objectives and hands-on leadership.

## OUR CORE VALUES

- We communicate directly and honestly.
  - We treat each other with respect.
- We aim at profitability in everything we do.

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# BANK OF ÅLAND PLC

(GROUP HIGHLIGHTS)

EUR M	2006	2005
<b>INCOME STATEMENT IN BRIEF</b>		
Net interest income	32.7	31.4
Other income	29.3	20.9
Expenses	-40.9	-33.2
Loan losses	0.0	-0.3
<b>Net operating profit</b>	<b>21.1</b>	<b>18.7</b>

<b>SELECTED BALANCE SHEET ITEMS, DECEMBER 31</b>		
Lending	1,912	1,796
Deposits, including bonds issued	1,599	1,631
Equity capital	122	113
Total assets	2,189	2,170

<b>FINANCIAL RATIOS ETC</b>		
Return on equity after taxes, %	13.3	12.3
Equity capital per share, EUR	10.86	10.32
Earnings per share after taxes, EUR	1.29	1.24
Risk-based capital ratio, %	11.4	11.3

Number of employees	437	411
(total hours worked recalculated as full-time equivalents)		

## FINANCIAL INFORMATION ON THE BANK OF ÅLAND

The Bank of Åland will publish the following Interim Reports during the 2007 financial year.

- The January–March Interim Report will appear on Monday, April 23, 2007
- The January–June Interim Report will appear on Monday, July 23, 2007
- The January–September Interim Report will appear on Monday, October 22, 2007

These Interim Reports will be published on the Internet: [www.alandsbanken.fi](http://www.alandsbanken.fi)

They can also be ordered from: [info@alandsbanken.fi](mailto:info@alandsbanken.fi) or

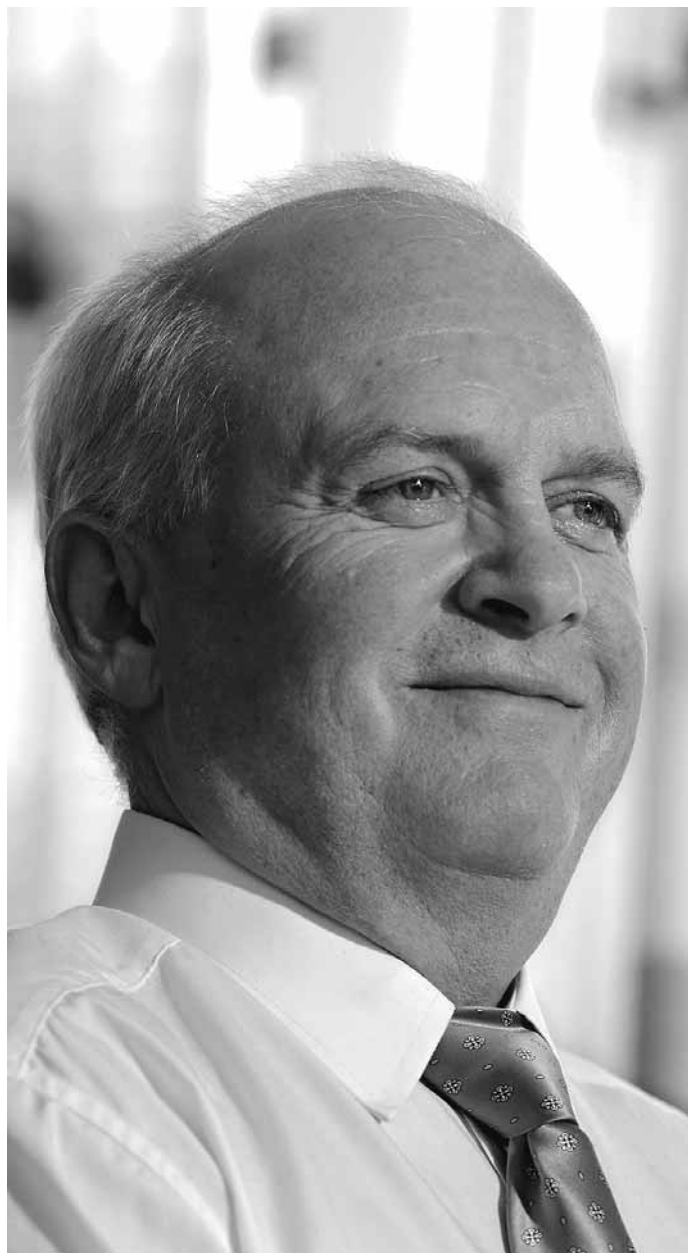
Secretariat, Bank of Åland Plc, P.O. Box 3, AX-22101 Mariehamn, Åland, Finland

The Head Office of the Bank of Åland is in Mariehamn, capital of the autonomous Finnish province of Åland. Located in the Baltic Sea midway between Sweden and Finland, the 6,400-island Åland archipelago has about 27,000 inhabitants. Its official language is Swedish.

This translation of the Swedish-language Annual Report uses the international currency code for European Central Bank euro (EUR). At year-end 2006, the middle rate for EUR 1 was USD 1.3170.

"The Bank" refers to the Bank of Åland Plc (Ålandsbanken Abp), Parent Company of the Bank of Åland Group. Amounts have generally been rounded off to millions or thousands, but percentage figures, totals, ratios etc. are calculated on the exact amounts. The abbreviation M refers to million(s), and K means thousand(s). Finnish-language place names are sometimes followed in parentheses by the corresponding Swedish-language place name.

# AN INTENSIVE, SUCCESSFUL YEAR



The financial service industry is continuing to change at a rapid pace. During 2006, there were additional mergers in the financial service and insurance industry. Having fewer but larger market players affects operating conditions in the whole industry.

The new market players are equipped with greater financial strength, which will find expression in continued stiff price competition. This trend obviously implies that the Bank of Åland will continuously review its operations and continue to expand in the niches where we foresee success.

## **New partnerships**

During 2006, we initiated a partnership with the insurance companies that are based in Åland. Together we will create services and products that will suit our whole customer base in the future. We have also initiated a payment card partnership with Tapiola Bank by establishing the jointly owned company Ab Compass Card Oy Ltd, with the Bank of Åland as majority owner.

In the next several years, the new Single European Payment Area (SEPA) standard will result in major changes in the card and

payment business. We foresee great potential in both developing our own card products and selling services to other card issuers.

### **Sounder pricing**

During the year, we worked intensively to implement the new regulatory requirements entailed by both SEPA and the Basel 2 revised international capital framework.

The calculations made on the basis of the new capital adequacy requirements established by Basel 2 indicate that the equity capital of the Bank of Åland amply covers our needs for the next several years. The introduction of Basel 2 is costly and has required a lot of resources. But we foresee that this work will eventually lead to sounder pricing of credits, since risk classification becomes clear. How we will proceed is described in the "Risk structure and risk management" section of this Annual Report.

### **Cross-border competition**

The financial service sector will also come under new demands when the Markets in Financial Instruments Directive (MiFID) becomes law on November 1, 2007. The purpose of MiFID is to harmonise financial service legislation in the European Union, thereby creating cross-border competition on equal terms. This means that banks and other securities companies should be able to buy and sell securities as well as offer investment advice throughout the EU.

### **Robbery left its mark**

In August, the Head Office of the Bank of Åland in Mariehamn suffered a serious armed robbery. This incident brought out a lot of emotions and many thoughts. The Bank has always endeavoured to organise its handling of cash according to the security regulations that are in effect, as it did this time, but it is difficult to protect yourself against individuals who are prepared to resort to any methods at all to get their hands on cash.

We breathed a sigh of relief that no employee was physically harmed. But the incident left a deep impression on many people. We have been forced to re-think security issues, both in terms of physical security and a long-term strategic perspective.

### **Our flexible organisation**

Our ambition is to adapt our organisation in such a way that all employees will be able to fulfil our common objectives in the best conceivable way. One example is our capital market operations, which account for an increasingly important share of Group income. These operations used to be part of our Investment Banking Division, but from the beginning of 2007, capital market operations are part of our mainland and Åland customer relations organisations. When these operations are brought closer to the customer, this facilitates relationship building.

During 2006, Bank employees participated in various training courses related to "clarity, development and results". The aim has been to give all employees a clear picture of what the objectives

of the entire Group are and, above all, how the efforts of each individual contribute to our results.

### **A growing customer category**

Major challenges lie ahead of us both in the short and long term. From a short-term perspective, the changes mentioned above are the main ones, but from a longer perspective, changes in the age structure of our society will create new demands on our range of both products and services.

Seniors are an expanding category of customers who grew up during an era of robust growth and increased prosperity. These customers have a growing need for expanded investment advisory services, to take one example. We have already begun taking steps to meet the needs of this customer category. Among other things, we have analysed how our offices should be designed in the future to provide the best service, and we will also study the need for special Internet services.

I would like to express my sincere gratitude to all employees, customers, shareholders and business partners who made 2006 a very successful year.



Peter Grönlund

Managing Director

peter.gronlund@alandsbanken.fi

# A YEAR OF BUILDING IN ÅLAND



*From the left Birgitta Dahlén, Dan-Erik Woivalin, Kenneth Mörn and Pontus Blomster.*

In Åland, 2006 was a year of building. In different ways.

"Homes are being built like never before in Åland and there we obviously have a key role. At the Bank of Åland, in turn, 2006 was a year of intensive relationship-building," explains Head of Division Dan-Erik Woivalin.

The flourishing economy in Åland means that stiff competition will continue.

"But we find it encouraging that we retained both market share and volume. In addition, our profitability greatly improved, thanks to the work performed by our capable advisors," Mr Woivalin says.

## **Home buyers receive good advice**

The building of good customer relationships during the year was connected together with customers' own building.

"For years we have known that our customers' construction projects are a source of both thoughts and concerns. So last winter, it was natural for us to start a Home Buyers' School, where experts lecture on everything related to houses and homes," explains Department Manager Birgitta Dahlén. "At the same time, the Bank is hosting an informal meeting place, where people in the same situation have a chance to discuss and give each other tips."

Since the Home Buyers' School began, every lecture has been fully booked. "Of course we had high expectations about the school, but we could never have dreamt that it would generate this kind of enthusiasm. Now the school is expanding continuously, thanks to tips and ideas from participants," Ms Dahlén says.

The concept was so successful that the Bank of Åland, together with the insurance company Ålands Ömsesidiga, hired a building

advisor, who guides the Bank's customers in the right direction.

"Everybody gains from this. The customer gets help, for example in comparing contractors' cost estimates, and gets advice related to construction. This gives the customer a better chance of staying within budget, which also benefits the Bank. From an insurance standpoint it is reassuring that customers build correctly and minimise the risk of damages," Ms Dahlén explains.

## **Strong entrepreneurial spirit**

On the corporate side, the pace has been at least as fast. "It is no exaggeration that Åland companies are brimming with expansion and ideas. This is true of both traditional enterprises and information technology companies. We live in a situation where there are many attractive projects that need financing and legal advice," says Department Manager Kenneth Mörn.

Meanwhile Åland-based maritime businesses have a strong wind in their sails. During 2006, the Bank of Åland's shipping strategy for the Swedish market was formulated. The target group is small and medium-sized shipping companies in which management is, to a great extent, directly involved in the company's operational activities.

"When it comes to shipping credits, the bank's home market is thus both Åland and Sweden. During 2006 this involved sizeable volume. Meanwhile we have been very thorough with risk assessments," Mr Woivalin notes.

## **A classic celebrates its 10<sup>th</sup> anniversary**

Hand in hand with the strong economy, the need for financial investment advice and attractive investment products is also

growing. The equity index bond, a classic product in the Bank of Åland's range, celebrated its 10<sup>th</sup> anniversary during 2006. According to Mr Woivalin, equity index bonds are continuing to grow in popularity and the Bank of Åland achieved record volume during the year.

"The upturn for equity index bonds is probably because of two factors. First, our customers are becoming more and more knowledgeable about financial investments, and this leads to greater interest in investments other than equities and mutual funds. Second, we at the Bank are continuously getting better at explaining what an equity index bond is all about – why it is a safe, attractive financial investment."

### **The Bank is building, too**

During the year, investment banking operations in Åland were placed in organisational terms under the Åland Customer Relations Division. This is creating even stronger ties between customers and the Bank's financial investment advisors.

"Our customer will also notice this in concrete terms, now that we are going to renovate the Head Office. We are concentrating all investment banking functions there. In other words, customers will receive both traditional banking service and investment banking services in one place. This is one of the cornerstones of our major expansion of Åland-based investment banking operations," Mr Woivalin says.

## **OUR CLEAR PRESENCE HAS BORNE FRUIT**

Despite stiff competition on the Finnish mainland, Head of Division Pekka Nuutinen reported a year of positive earnings growth. This was a consequence of the Bank's attractive financial investment products and ever-clearer market presence.

"We are not visible everywhere. But we are present where our target group is interested in listening," Mr Nuutinen says.

The Bank of Åland brand is performing well on the mainland. The Bank has chosen to be sparing in its market communication. Instead the guiding principle has been "quality before quantity".

### **Friends tip off friends**

Among other things, during 2006 the Bank of Åland has concentrated ambitiously on various kinds of specialised trade shows, ranging from golf shows to financial investment shows.

"We notice that our clear presence has borne fruit. Our customers like to visit our stand and chat a while. They often bring along a friend that they would like to persuade to become a customer. Without a doubt, that is the best rating a bank can get," Mr Nuutinen says.

### **Focusing on the brain**

Another example is the Bank of Åland's partnership with the Neurology Foundation, initiated during 2006. Among other things, the Bank will manage the Brain Fund, which will support the Brain Foundation of Finland. The foundation is being established during the international Brain Awareness Week in March 2007.

"It is an exciting thought that we can help support research about brain well-being, activation and care. This is a subject that



*From the left Anne-Maria Salenius, Maria Bernas-Hilli, Merja Simberg and Pekka Nuutinen.*

will become increasingly topical, for example as the population of Finland lives longer. But an active brain is beneficial both to young and old," Mr Nuutinen says.

The Bank has also started a long-term partnership with the John Nurminen Foundation for a cleaner Baltic Sea.

#### **Premium has established itself**

Among the Bank of Åland's other projects, during 2006 Premium banking raised its profile further. One new dimension is an emphasis on financial investment services. Meanwhile lifestyle services have expanded. According to General Manager Anne-Maria Salonius, the service has entered a new phase.

"Our customers have realised that we are actually the only bank in Finland that offers a service like this. Premium banking promises an ambitious focus on quality, whether it concerns lifestyle services or investment advisory services."

#### **Active business owners and families**

According to Mr Nuutinen, the fundamental concept of a relationship bank is also increasingly beginning to apply to the companies and company owners that the Bank of Åland works with.

"Many of our corporate customers also own their company. Obviously they appreciate comprehensive solutions for their company and their private finances. These, in turn, lead to long-term relationships, which we know are beneficial to customers."

As for the Bank of Åland's corporate services on the mainland, 2006 was as intensive as in Åland. There was great demand for both financing and financial investment solutions. Among other things, real estate purchases increased sharply in the Helsinki region and in other major cities.

"Another sign of the good economy is that our corporate customers are increasingly interested in such investments as mutual funds and equity index loans," Mr Nuutinen says.

The Private Banking unit has also noticed that its family-oriented concept is attracting more and more people. "This may be partly due to our expanded collaboration with business partners that deliver specialised services. But the main reason is probably simpler: More and more families realise that life is so much easier when they have a reliable 'family bank'," says General Manager Maria Bernas-Hilli.

#### **Equity index loans rank high**

The Bank of Åland's equity index bond loans have also received a lot of attention recently. The Bank celebrated its first 10 years of equity index loans during the autumn of 2006. Shortly thereafter, this investment product was featured in the international magazine *Euromoney*'s annual ranking of equity index loans. According to Investor Director Merja Simberg, "The 10<sup>th</sup> anniversary coincided perfectly with our newly initiated work with the John Nurminen Foundation: We launched the Win-Win equity index loan, and part of the subscription commission went towards the Foundation's work to save the Baltic Sea. Together with the bonus from the Environmental Account, the Foundation received a total of about EUR 100,000 during the year."

In the *Euromoney* ranking of equity index loans and other "structured products", the Bank of Åland ranked in second place. "That is certainly encouraging. Our ranking shows that we have the right development strategy for equity index loans and other financial investment products."



# BIG CHANGES ARE HAPPENING BEHIND THE SCENES



*From the left Bengt Mattsson, Lars Donner and Bernt-Johan Jansson.*

Terms like Basel 2 and IRB are probably incomprehensible to an outsider. But concealed behind these words are both advanced and interesting ways of analysing the risks that a bank takes every day.

“For a small bank like the Bank of Åland, they also provide attractive business opportunities,” says Head of Division Lars Donner.

During 2006, the Bank of Åland’s Risk Control and Lending Support departments, together with the subsidiary Crosskey Banking Solutions, developed systems and procedures enabling Basel 2 to go into effect as planned.

“At the beginning of 2007, we are launching the so-called standardised credit risk management approach, which is required by both the authorities and the Bank’s own Basel 2 project plan,” Mr Donner says.

## **Challenge throughout Europe**

Today the task of risk management is one of the genuinely large challenges facing European banks. The Bank of Åland’s project has required extensive resources, but Mr Donner still regards the Bank as being among the fortunate. “We can be very pleased with two things: We have a dedicated and smooth organisation, and we have Crosskey’s technical expertise close at hand. These two factors have played a crucial role in our work.”

The big challenge during 2007 is to plan more extensive credit management models. “This will involve so-called Internal Ratings-Based or IRB approaches for how to manage the risks associated with lending to companies and private individuals. Our models are

ready to be tested early in 2007, but they will still require a lot of work during the year,” Mr Donner notes.

## **New digital borrowing process**

Much of the Basel 2 project concerns development work that an ordinary bank customer hardly notices. But the project also provides major opportunities.

“When we learn more about our customers, thanks to Basel 2, it is natural for us to turn things around and ask ourselves whether this doesn’t also provide business development opportunities. To us, Basel 2 is much more than regulatory requirements; it also means attractive business opportunities,” Mr Donner observes.

One innovation that customers can already take advantage of the result of a project that the Lending Support Department also worked with during 2006, the Direct Loan service.

“Now customers in our Internet Office can apply for, be granted and pick up a loan completely digitally. It can’t get much easier than that,” Mr Donner says.

# RELATIONSHIP BANKING IS GAINING NEW GROUND



From the left Tove Erikslund, Kimmo Autio, Edgar Vickström and Tuula-Riitta Nyström.

A new subsidiary for payment cards, a more active human resource policy and further refinements in relationship banking. The Business and Human Resources Development Division had a busy year in 2006.

New winds are blowing in the payment card industry. New regulations coming from the EU are standing established structures on their heads – and opening up opportunities for market players like the Bank of Åland.

“At the beginning of the year, we put together a dedicated team whose only task was to study what opportunities the new rules concerning credit and payment cards offer,” explains Deputy Managing Director Edgar Vickström, who heads the Business and Human Resources Development Division.

The conclusion was so encouraging that the Bank decided to form a new subsidiary, Compass Card, together with Tapiola Bank.

“Given the new conditions, a small and new market player like Compass Card has good potential to act quickly and create innovative solutions,” says Kimmo Autio, Managing Director of the new company.

## Fresh approaches in the Executive Team

The Group’s growing workforce and increasingly broad competency requirements naturally pose new challenges to its human resource strategy. A concrete beginning of this process was the appointment of Tove Erikslund as the new head of Human Resources. At the same time, she became the first woman to join the Management Team of the Bank, an addition that Mr Vickström warmly welcomes: “Tove Erikslund’s drive and fresh approach have inspired the entire Executive Team.”

For her own part, Ms Erikslund notes that the Human Resource Department is in the process of evolving into an internal consulting organisation that provides back-up to the whole Group. “A growing organisation like the Bank of Åland requires clear structures and common guidelines,” she says.

Parallel with this work, the whole Bank has been involved in the TUR project. TUR stands for *tydlighet, utveckling, resultat* (clarity,

development and results). “One of the cornerstones of TUR is coaching and hands-on leadership. When executives take a more active part and gain insights into day-to-day life in the organisation, obviously it leads to greater understanding. This, in turn, elevates the internal dialogue to a new level,” Mr Vickström says.

The TUR project manager is Tuula-Riitta Nyström, who was also appointed the new head of the Treasury Department during 2006. She describes TUR as an expression of the working method that is most successful at the Bank of Åland.

“It is both important and fun for a project like this to be headed by a person with concrete business responsibility. It promises that the project will be firmly rooted in our day-to-day work,” Ms Nyström notes.

## “Internet bank of the future”

Just after 2006 began, newsstands displayed the new issue of the Swedish trade magazine *InternetWorld*. Under the heading “They are creating the Internet bank of the future” the magazine analysed the Bank of Åland’s digital strategy. The conclusion was simple: Nordic banks have a lot to learn from the Bank of Åland. Why? Contrary to other banks, the Bank of Åland developed its Internet Office on the basis of customers’ needs and not the Bank’s internal processes.

“It stimulates us when our work gets this kind of attention. Clearly the ideas surrounding relationship banking, which we regard today as self-evident, are a new way of thinking in the industry as a whole,” Mr Vickström says.

## The customer is the expert

At the same time, Mr Vickström points out, relationship banking has not become locked into the digital world. On the contrary. “We are gaining new ground. During 2006 we took major steps to more clearly tie together the Internet Office with the other bank offices. Our customers will be able to begin a transaction in one place and complete it in another, if they so wish. The guiding principle is, and remains, the needs and wishes of the customer. She is the real expert on everyday life.”

# THE BANK'S SUBSIDIARIES ARE GROWING STEADILY



*From the left Tom Pettersson, Mikael Mörn, Peter Wiklöf and Stefan Törnqvist.*

## WE HAVE DEMONSTRATED WHAT CROSSKEY CAN DO

With new customers and several tight timetables, during 2006 Crosskey Banking Solutions Ab took the step from newcomer to experienced IT supplier.

"We have demonstrated that the Crosskey team is up to the task. We have been able to show what we can do," says Managing Director Peter Wiklöf.

On November 1, Crosskey celebrated its second anniversary. The first two years were full of activity, and developments will continue along the same lines. According to Mr Wiklöf, his young organisation has handled all challenges skilfully.

"After launching Tapiola Bank, we asked ourselves if we could mobilise the same passion for a new, equally large project. We had hardly had time to ask the question when we started working with the S Group's banking project," he explains.

### **Growth should benefit the customer**

Crosskey's work for the S Group followed the timetable during 2006 and at the same time, the customer relationship strengthened.

"We are very aware that a growth organisation runs the risk of not seeing the needs of customers. But we have succeeded well in meeting that challenge. A customer should never suffer because a supplier is growing at a rapid pace. The customer should only need to count the benefits."

### **It is all about people**

Looking at all the projects that filled Crosskey's second year, the rapid pace of growth is understandable: For example, the company opened a branch office in Stockholm, planned a new payment card system and established a SWIFT service bureau.

"In addition, we completed the development of e-billing systems for our customers and worked on preparations for two EU directives, SEPA and Basel 2," Mr Wiklöf says.

He also has a clear vision for the coming year. "Concepts like 'IT' and 'banking technology' are meaningless in themselves. All the time, every day, it is all about the people who create technology and about the people who will use technology. We must become even better at getting that message out."

# ACTIVE CUSTOMERS SPUR US ON

The number of unit holders in the Bank of Åland's mutual funds (unit trusts) grew significantly faster in 2006 than the Finnish average, according to Tom Pettersson, Managing Director of Ålandsbanken Fondbolag Ab.

"Our customers are active people who are interested in new funds. They spur us to offer more alternatives."

During 2006 it became clear that the Bank of Åland's four new Multi Manager Funds had become a success story. For example, the Multi Manager Emerging Markets Fund received top marks from the Eufex fund rating company, and there was heavy customer interest.

"Our customers clearly like the Multi Manager concept, which means that the funds, in turn, invest in successful international funds," Mr Pettersson notes.

He sees that the reason for the heavy interest lies with customer convenience. In the Multi Manager concept, the funds do the selection job and the customer does not need to actively track all the markets and funds.

"The number of mutual funds in the market is growing rapidly, making it increasingly hard for our customers to make the right choices. Viewed from that perspective, the Multi Manager concept is timed just right," Mr Pettersson says.

## **New absolute return fund**

After this warm reception, it was natural for the mutual fund company to take the next step in December and launch the Multi Manager Absolute Fund, which targets absolute return.

Mr Pettersson describes the Absolute Fund as a very long-term product that is highly suitable in all market situations thanks to its multi strategy. "Absolute is also an excellent choice for customers who want to safeguard their profits after several years of strong upturns in the stock market."

## **Partnerships provide economies of scale**

During 2006, the Bank's mutual fund company also identified a new business area: Management of mutual funds for external business partners. In December, Ålandsbanken Fondbolag launched the special investment fund UBGlobe for United Bankers Securities AB.

"There will probably be more partnerships during 2007. This is an outstanding way to create economies of scale, given the expertise and the systems we have built up in our organisation," Mr Pettersson says.

# WE HAVE THE TOOLS FOR EXPANSION

The strong economy in Åland has created a great need for discretionary asset management.

"Our customers need specially adapted advisory and management models, and we will supply them with these," explains Mikael Mörn, Managing Director of Ålandsbanken Kapitalmarknads-tjänster Ab.

Ever since Mr Mörn took over the Managing Director position at the beginning of 2006, he has seen the wheels rolling at high speed. "It has been an exciting period. The market is performing well, and since we are a young company we are in a very expansive phase ourselves. The conditions could not be better."

## **Åland models**

Managing customers' assets obviously involves a heavy responsibility, but Mr Mörn and his colleagues are comfortable with

this since the strategy for the Åland market is clearly formulated: To systematically develop models for both advisory services and management which are tailor-made for Åland.

"It is important to bear in mind that our home market is special, since many Åland fortunes are based on direct shareholdings. With our models, we are creating even better tools to help both current and future customers."

## **Can serve and manage**

The question is naturally how big the Åland market for discretionary asset management is.

"In Åland we have always been good at earning our living. But we have perhaps been even better at managing our assets. This is why I view the future with very great optimism," Mr Mörn notes.

# SUCCESS IS BASED ON A LONG-TERM PERSPECTIVE

With a new profit record and a steady stream of new customers, Managing Director Stefan Törnqvist has reason to be pleased with Ålandsbanken Asset Management Ab.

“It is all about a long-term perspective and about analysing the customer’s needs thoroughly, so that we are on the right track from the beginning,” Mr Törnqvist says.

When he provides a quick analysis of 2006, it sounds simple: “The stock market climbed, which was good for customers and for us. We received a sizeable addition to our portfolio volume and succeeded in improving our earlier profit record from 2005.”

## **Simplicity generates more customers**

Yet behind this success is still the strategy that Ålandsbanken Asset Management has used ever since it was founded in 2000, a thorough analysis of the customer’s needs, then remaining faithful to a fundamental concept: “Our simple motto is ‘Ride

the upswings and preserve capital in the downswings.’ It works, and it gives us satisfied customers, who in turn recommend us to others,” Mr Törnqvist explains.

## **Collaboration that yields results**

He is also pleased with the collaboration that exists in the Group. For example, the Mainland Customer Relations Department has chosen to use the management concept that Asset Management developed as the basis for all financial investment advisory services on the mainland.

Other good examples of smooth collaboration are the Bank of Åland’s equity index loans and mutual funds.

“In both cases, the Group has been able to quickly plan and present new products. Here we are talking about timetables that are extremely tight, but a small organisation where everyone knows his own role can cope with this challenge,” Mr Törnqvist says.

# REPORT OF THE DIRECTORS



*The Board of Directors includes (from the left) Agneta Karlsson, Anders Wiklöf, Sven-Harry Boman, Leif Nordlund, Tom Palmberg and Göran Lindholm. Missing from the photo is Kent Janér.*

## OPERATING RESULTS AND PROFITABILITY

### Summary of 2006 results

The Bank of Åland Group had a successful year in 2006, with strong performance in its asset management and information technology (IT) operations. The Group's earnings were its best ever. Consolidated net operating profit rose by 13 per cent to EUR 21.1 M (18.7). Income rose by 18 per cent to EUR 61.6 M (52.0), while expenses rose to EUR 40.9 M (33.2). Return on equity after taxes (ROE) rose to 13.3 (12.5) per cent, and earnings per share after taxes rose to EUR 1.29 (1.24).

### Income

Net interest income amounted to EUR 32.7 M (31.4). Increased lending volume as well as higher interest rates contributed to the improvement, while continued pressure on margins had an offsetting effect.

Commission income rose by 14 per cent to EUR 18.4 M (16.1).

Most of the increase in income came from asset management and from providing capital market products.

Net income from securities trading for the Bank's own account was EUR 1.2 M (0.6). Net income from dealing in the foreign exchange market amounted to EUR 1.0 M (0.9).

Net income from financial assets available for sale was EUR 0.3 M (1.1). Comparability is affected by a capital gain of EUR 1.2 M from the divestment of the Bank's holding in the Åland-based food processing company Chips Abp during 2005. Net income from investment properties amounted to EUR 0.2 M, which arose from divestment of properties.

Other operating income rose by 167 per cent to EUR 9.4 M, compared to EUR 3.5 M the preceding year. The increase mainly came from higher revenue in the Group's IT operations.

Total income rose by 18 per cent to EUR 61.6 M (52.0).

### Expenses

Staff costs rose by 27 per cent to EUR 22.5 M (17.8). Most of the increase was due to new recruitments at Crosskey Banking Solutions Ab Ltd. Changes in pension liabilities and fair value in the Bank's pension fund, Ålandsbanken Abps Pensionsstiftelse, reduced staff costs by EUR 0.2 M (2.4).

Other administrative expenses (office costs, marketing, telecommunications and computer costs) rose to EUR 9.4 M (8.5). Production for own use amounted to EUR 0.5 M (1.1) and was related to expenses for computer software, which in accordance with IFRS must be capitalised. Depreciation/amortisation rose to EUR 4.0 M (3.9).

Other operating expenses amounted to EUR 5.4 M (4.2).

Total expenses, including planned depreciation/amortisation, rose by 23 per cent to EUR 40.9 M (33.2).

### Impairment loss on loans and other commitments

Net impairment losses on loans and other commitments amounted to EUR 0.0 M (0.3)

### Balance sheet total

The balance sheet total rose to EUR 2,189 M (2,170).

### Human resources

Hours worked in the Group, recalculated to full-time equivalent positions, totalled 437 during 2006 (411). This represented an increase of 26 positions, compared to 2005.

	2006	2005
Bank of Ålandsbanken Plc	295	298
Crosskey Banking Solutions Ab Ltd	117	93
Ålandsbanken Asset Management Ab	13	12
Ålandsbanken Fondbolag Ab	7	5
Ålandsbanken Kapitalmarknadstjänster Ab	5	3
<b>Total number of employees:</b>	<b>437</b>	<b>411</b>

### Profit margin

Profit margin calculated as net operating profit minus standard tax as a percentage of total income. The profit margin of the Bank of Åland Group fell to 24.5 per cent from 25.5 per cent.

### Expense/income ratio

Efficiency measured as expenses divided by income, including and excluding loan losses, respectively:

Bank of Åland Group	2006	2005
including loan losses	0.66	0.64
excluding loan losses	0.66	0.64

### 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 2006, the Group's capital adequacy according to the Credit Institutions Act was 11.4 (11.3) per cent. To strengthen the capital base in the form of supplementary capital, risk debenture loans totalling EUR 11.4 M were issued during the year.

Bank of Åland Group	Dec 31, 2006	Dec 31, 2005
EUR K unless otherwise stated		
Core capital	91,596	83,783
Of which unrealised gains on investment properties and financial assets and liabilities carried via the income statement	2,426	1,759
Supplementary capital	55,081	51,346
Of which unrealised gains due to the fair value reserve and recognition of unrealised gains directly in equity capital upon transition to IFRS	9,283	9,454
Capital requirement for market risks	9	5
<b>Total capital base</b>	<b>146,677</b>	<b>135,129</b>
Risk-weighted receivables, investments and off-balance sheet obligations	1,289,492	1,192,697
<b>Total capital ratio, %</b>	<b>11.37</b>	<b>11.33</b>
Core capital as a percentage of risk-weighted volume	7.10	7.02
Recognised equity capital	122,168	113,336
Difference between capital base and recognised equity capital	24,509	21,794

The main reasons for the difference between the capital base and recognised equity capital are that subordinated liabilities may be counted in the capital base and that the proposed dividend may not be included in the capital base.

### Standardised approach, Basel 2

Starting on January 1, 2007, the Bank is switching to calculating the capital requirement for credit risks according to the rules for the standardised approach in the Basel 2 regulations. According to preliminary calculations, the total capital ratio will rise by about two percentage points when the capital requirement for credit risk is calculated according to the standardised approach in Pillar 1.

The Interim Reports during 2007 will report the total capital ratio in compliance with Basel 2 under Pillar 1. Risk management under Pillar 2 will be reported in conjunction with the Annual Report for 2007.

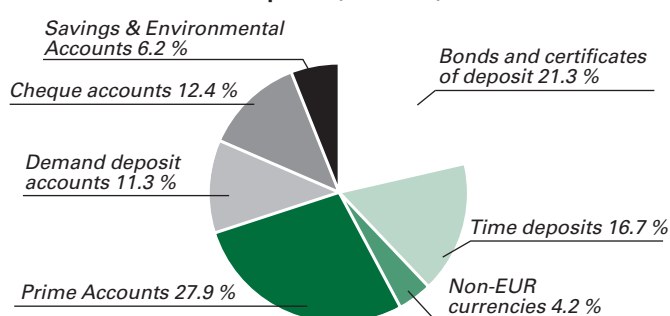
### Deposits

During 2006, deposits from the public including bonds issued and certificates of deposit decreased by 2.0 per cent to EUR 1,599 M (1,631). Deposit accounts decreased by 3.2 per cent to EUR 1,259 M (1,300). Time deposits as a share of total deposit accounts rose to 21 (18) per cent. Bonds and certificates of deposit issued to the public rose by 2.7 per cent to EUR 340 M (331).

### Earnings structure

Bank of Åland Group	2006	2005
EUR M		
Banking operations	17.1	15.2
IT operations	4.2	1.6
Other (treasury, portfolio management)	-0.3	1.7
Net operating profit	21.1	18.7

### Total deposits, Dec. 31, 2006



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

(EUR M)	Dec. 31, 2006	Dec. 31, 2005	% change
<b>Deposit accounts from the public and public sector entities</b>			
Demand deposit accounts	180	187	-3.3 %
Current accounts	199	197	1.0 %
Environmental and Savings Accounts	99	109	-9.3 %
Prime Accounts	445	494	-9.8 %
Time deposits	268	228	17.3 %
Total deposit accounts in euros	1,191	1,214	-1.9 %
Deposit accounts in other currencies	67	85	-20.8 %
<b>Total deposit accounts</b>	<b>1,259</b>	<b>1,300</b>	<b>-3.2 %</b>
Bonds and subordinated debentures *	180	174	3.9 %
Certificates of deposit issued to the public *	160	157	1.5 %
<b>Bonds and certificates of deposit</b>	<b>340</b>	<b>331</b>	<b>2.7 %</b>
<b>Total deposits</b>	<b>1,599</b>	<b>1,631</b>	<b>-2.0 %</b>

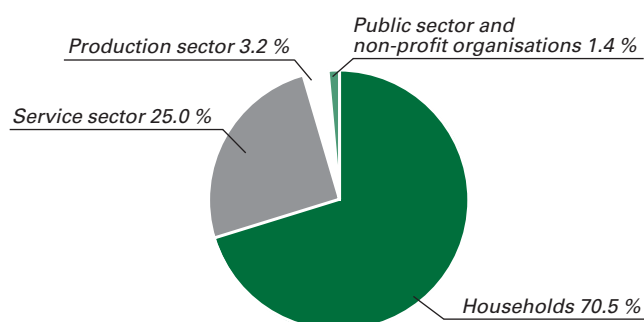
\* This item does not include debt securities subscribed by credit institutions



## Lending

During 2006, the volume of lending to the public rose by 6.5 per cent to EUR 1,912 M (1,796). Most of the increase went towards residential financing. Lending to private households rose by 9.0 per cent to EUR 1,347 M (1,236). Private households accounted for 70.5 (68.8) per cent of the Group's total lending. Lending for business and professional activities rose by 0.9 per cent to EUR 538 M (533). Lending to the public sector and non-profit organisations decreased somewhat.

## Lending to the public by sector, Dec. 31, 2006



## LENDING TO THE PUBLIC AND PUBLIC SECTOR ENTITIES

(EUR M)	DEC. 31, 2006	DEC. 31, 2005	% change
Overdraft facilities utilised	69	75	-8.0 %
Loans	1,832	1,712	7.0 %
Loans disbursed from Åland government funds	3	3	-15.0 %
Lending in non-EUR currencies	9	6	47.6 %
<b>TOTAL LENDING</b>	<b>1,912</b>	<b>1,796</b>	<b>6.5 %</b>

## LENDING TO THE PUBLIC AND PUBLIC SECTOR ENTITIES BY PURPOSE

(EUR M)	DEC. 31, 2006	DEC. 31, 2005	% change
<b>BUSINESS AND PROFESSIONAL ACTIVITIES</b>			
<i>Service sector</i>			
Shipping	60	60	
Hotels, restaurants, tourist cottages etc.	12	11	
Wholesale and retail trade	47	46	
Housing corporations	54	40	
Real estate operations	96	95	
Financial operations	126	137	
Other service business	83	78	
	477	467	2.3 %
<i>Production sector</i>			
Agriculture, forestry and fishing	20	21	
Food processing etc.	7	9	
Construction	22	27	
Other industry and crafts	11	9	
	60	66	-8.9 %
<b>HOUSEHOLDS</b>			
Home loans	1,063	977	
Studies	14	13	
Other purposes	271	246	
	1,347	1,236	9.0 %
<b>NON-PROFIT ORGANISATIONS</b>			
	27	28	-0.9 %
<b>TOTAL LENDING</b>	<b>1,912</b>	<b>1,796</b>	<b>6.5 %</b>

### Changes in Group structure

During 2006, the Bank of Åland Plc established the subsidiary Ab Compass Card Oy Ltd, of which it holds 66 per cent ownership. The company's field of operations is the issuance of credit and debit cards to individual and institutional customers.

### Proposed distribution of profit

The Board of Directors proposes that the Annual General Meeting approve a dividend of EUR 1.00 per share, which is equivalent to a total amount of EUR 11.5 M.

### Outlook for 2007

The potential for an earnings improvement during 2007 is considered good. The Group's assessment of the outlook for 2007 is based on its assumptions about future developments in the fixed-income and financial markets. The Group predicts continued tough competition in the market with regard to lending margins, a continued positive trend in the mutual fund and capital markets as well as growth in the Group's IT operations. The cost level in the Group is expected to rise moderately. 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.

### IFRS

The Group's Annual Report for 2006 has been prepared in compliance with the International Financial Reporting Standards (IFRSs) approved by the European Union.

### Important events after the close of the financial year

No important events have occurred after the close of the financial year.

### Long-term financial targets

The Board of Directors of the Bank of Åland has adopted the following long-term financial targets for the Group:

- The Bank of Åland endeavours to earn a return on equity that will exceed the unweighted average of a defined group of Nordic banks.
- The total capital ratio shall amount to at least 10 per cent, and core capital shall amount to at least 7 per cent of risk-weighted volume.
- In a medium-term perspective, the Bank's income/expense ratio shall continuously improve to 2 (expense/income ratio 0.5).
- The Bank of Åland endeavours to pursue a dividend policy in which an increasing percentage of after-tax profit is retained in the Bank, in order to safeguard its sound business development. This is expected to result in a dividend that approaches the industry standard for Nordic banks as a percentage of earnings. It implies a dividend which, in a medium-term perspective, on average will remain at today's level in euro terms.

### FIVE-YEAR GROUP SUMMARY

(EUR M unless otherwise stated)	2002 FAS	2003 FAS	2004 IFRS	2005 IFRS	2006 IFRS	% change, 05-06
Net interest income	31.5	29.6	30.0	31.4	32.7	4.1 %
Other income	16.7	19.9	18.2	20.9	29.3	40.4 %
Other expenses (including depreciation/amortisation)	33.2	34.4	33.7	33.2	40.9	22.9 %
Loan losses	0.7	-0.1	0.7	0.3	0.0	-111.9 %
<b>Net operating profit</b>	<b>14.2</b>	<b>15.2</b>	<b>13.9</b>	<b>18.7</b>	<b>21.1</b>	<b>13.0 %</b>
Equity capital	87.5	100.9	107.8	113.3	122.2	7.8 %
Total assets	1,812.6	1,851.5	1,995.3	2,170.4	2,188.6	0.8 %
Contingent liabilities	92.7	113.6	110.1	145.0	170.4	17.5 %
Return on equity after taxes (ROE), % <sup>1</sup>	11.5	11.4	9.9	12.3	13.3	
Return on total assets, % <sup>2</sup>	0.6	0.6	0.5	0.7	0.7	
Equity/assets ratio, % <sup>3</sup>	4.8	5.5	5.4	5.4	5.6	
Expense/income ratio including loan losses <sup>4</sup>	0.71	0.69	0.71	0.64	0.66	
Expense/income ratio excluding loan losses <sup>5</sup>	0.69	0.70	0.70	0.64	0.66	
Risk-based capital ratio, %	11.0	11.4	11.8	11.3	11.4	

#### FAS

$$1 \frac{\text{Net operating profit minus standard tax}}{\text{Average equity capital}} \times 100$$

$$2 \frac{\text{Net operating profit minus standard tax}}{\text{Average total assets}} \times 100$$

$$3 \frac{\text{Equity capital}}{\text{Total assets}} \times 100$$

$$4 \frac{\text{Expenses including loan losses}}{\text{Net interest income + other income}}$$

$$5 \frac{\text{Expenses excluding loan losses}}{\text{Net interest income + other income}}$$

#### IFRS

$$1 \frac{\text{Net operating profit minus tax}}{\text{Average equity capital}} \times 100$$

$$2 \frac{\text{Net operating profit minus tax}}{\text{Average total assets}} \times 100$$

$$3 \frac{\text{Equity capital}}{\text{Total assets}} \times 100$$

$$4 \frac{\text{Expenses including loan losses}}{\text{Net interest income + other income}}$$

$$5 \frac{\text{Expenses excluding loan losses}}{\text{Net interest income + other income}}$$

# THE BANK'S CORPORATE GOVERNANCE

## GENERAL

The Helsinki Stock Exchange has issued a recommendation concerning corporate governance in publicly listed companies. The purpose of the recommendation is to harmonise the practices of these companies' operations, improve transparency, harmonise the information given to investors and shareholders and facilitate the disclosure of company information. This recommendation entered into effect on July 1, 2004.

The Bank's Board of Directors adopted this recommendation on January 2, 2004.

## THE BOARD OF DIRECTORS

### General

The Board of Directors is elected by the Annual General Meeting for a term covering the period between the Bank's Annual General Meetings. The retirement age of Board members is 67.

The Board has adopted a company charter in keeping with the recommendation for corporate governance in listed companies. This Group-wide company charter provides internal guidelines for the work of the Board and the Executive Team.

### The company charter

The Board of Directors is responsible for ensuring that management of the Bank's and the Group's administration and operations occurs in compliance with legislation, the Articles of Association and other rules that encompass the Bank.

The Board is thus responsible for ensuring that the Bank is appropriately organised and carries out its operations in a profitable manner. In addition, the Board is responsible for the Bank's overall policy and strategy issues and its objectives, as well as for ensuring that the Bank's risk control systems are sufficient.

The Board deals with and makes decisions on matters of great economic or business importance to the Bank or the Group, or from the standpoint of principles. The responsibilities of the Board also include appointing and, if necessary, dismissing the Managing Director, the Deputy Managing Director and other members of the Executive Team, as well as deciding their salary benefits and other terms of employment.

### The composition of the Board

The Bank's Board of Directors includes three members who hold employment or executive positions with major shareholders and four members with experience from such fields as banking, capital markets, business administration and management. The composition of the Board of Directors is as follows:

**Göran Lindholm**, born 1955, Chairman

Master of Laws

Board member since 2003

Göran Lindholm, Chairman of the Board, has served since 1999 as Managing Director of the mutual insurance company Ålands Ömsesidiga Försäkringsbolag. Before being appointed Managing Director, he served from 1987 to 1999 as head of the claims department at the same insurance company.

During 1983–1987, Mr Lindholm served as Administrative Director of the Åland Government and during 1979-1980 he held positions in its law drafting committee. During 1981-1983, Mr Lindholm served as a committee secretary and civil servant at the Åland Parliament.

From 1999 to 2003, Göran Lindholm was a member of the Bank of Åland's Supervisory Board.

Mr Lindholm is a Board member of Chips Abp. He is also a Deputy Member of the Åland Delegation.

**Leif Nordlund**, born 1959, Deputy Chairman

Master of Laws

Board member since 2003

Leif Nordlund, Board member, was appointed Managing Director of Redarnas Ömsesidiga Försäkringsbolag, parent company of the Alandia Group of insurance companies, and Managing Director of its subsidiaries Försäkrings AB Alandia and Försäkrings AB Liv-Alandia from September 1, 2006. During the years 2001-2006, Mr Nordlund served as Director and Department Manager of Alandia Marine, the marine insurance unit of the Alandia Group. He previously worked as a legal counsel at the Alandia Group in 1999-2001, Skuld AB in 1990-1999 and Cool Carriers AB in 1987-1990.

During 2002–2003, Leif Nordlund was a member of the Bank of Åland's Supervisory Board.

He is a Board member of all companies in the Alandia Group, and of the Swedish Association of Marine Underwriters. Mr Nordlund is also a member of the Ocean Hull Committee of the International Union of Marine Insurers.

**Sven-Harry Boman**, born 1944

Master of Economic Sciences

Board member since 2003

Sven-Harry Boman, Board member, has served since 2004 as a consultant, Board member and auditor (Certified Public Accountant, CGR).

Mr Boman worked at the Chips Group until his retirement in 2004. By then he had served as Managing Director from 1992 to 2004 and as Deputy Managing Director from 1986 to 1992. Mr Boman has also served as Operations Manager of the Fish Division, Managing Director of Ab Chips Food Oy and Director of the Food business area in the same group.

Mr Boman also has experience from working in various positions at the Bank of Åland Plc. From 1969 to 1986, he served as an internal auditor, as Department Manager of the Controller Department and the central Accounting Department, as well as head of the Accounting Division. In 1979 he was selected as a deputy member of the Bank's then-Board of Management and was appointed in 1982 as a regular member of this Board.

Sven-Harry Boman is Chairman of Ab Plasto Oy Ltd, Ålands Investerings Ab and Andelslaget Ålands Grönsakslager and is a Board member of Åland Utvecklings Ab, Ålands Centralandelslag and Ålands Tidnings-Tryckeri Ab.

**Kent Janér**, born 1961

Master of Business Administration

Board member since 2003

Kent Janér, Board member, has served since 1996 as manager of the Nektar national mutual fund at Nektar Asset Management AB, Sweden, where he is also Managing Director.

Mr Janér has also been a partner at Brummer & Partners Kapitalförvaltning AB since 1998.

During 1989-1996, Mr Janér served as Deputy Managing Director and head of fixed-income trading at JP Bank, Sweden. In 1986-1988 he worked as a bond trader and Vice President at Citicorp Scrimgeour Vickers in London and during 1984-1986 as a bond trader at Svenska Handelsbanken, Sweden.

Kent Janér is a Board member of Brummer & Partners Kapitalförvaltning AB and Zenit Asset Management AB, Sweden. He is also a member of the Scientific Advisory Board of the Stockholm Institute for Financial Research.

**Agneta Karlsson**, born 1954

Doctor of Economics

Board member since 2003

Agneta Karlsson, Board member, has had an extensive academic career focusing on business administration. Over the years, she has held several prominent academic appointments. For example, she was in charge of the Masters programme in Strategy, Organisation and Leadership at Copenhagen Business School, Denmark; served as Project Leader, Executive MBA, Norwegian School of Management; and was Dean of the international MBA study programme in Oslo at the same institution from 1999 to 2002.

Dr Karlsson's research work has resulted in a number of publications in the fields of strategic development, business

development and organisational leadership. She has also been a member of various committees and boards and has served as an advisor, consultant and lecturer for major corporations in Sweden, Norway and Denmark.

In 1988 she was named Teacher of the Year, first at the University of Lund, and later at all Master's programmes in business administration in Sweden. In 1994 she received the same award at Copenhagen Business School.

A complete curriculum vitae (in Swedish) is available on the Bank's web site, [www.alandsbanken.fi](http://www.alandsbanken.fi).

**Tom Palmberg**, born 1940

Master of Social Sciences, Chartered Director (IOD, London)

Board member since 2003

Tom Palmberg, Board member, performs advisory work on corporate governance through his own company CV Board Oy Ab (established in 1988). He is a Board member of Myllykoski Oyj, Eiran Sairaala ja Lääkäriasema Oy and Halva Oy Ab. Mr Palmberg also serves as a local advisor to the private equity company Charterhouse Capital Partners LLP, London.

During 1994-1996 Mr Palmberg served as a partner at Investment Banking Partners AB, Stockholm, and during 1991-1996 as Managing Partner of Scandinavian Financial Research Ltd. At Scandinavian Bank Group plc, London, he served as CEO – Banking and Group Director in 1987-1988, as Deputy Managing Director of the International Department in 1986 and of Finland and PR in 1985. He also served as Executive Director in 1984 and Head of the Finnish Department in 1982. At Union Bank of Finland, Mr Palmberg served as a member of Senior Management of UBF International in 1980-1981, as Head of the Corporate Division in 1976-1979 and as Head of Branch Administration and the Planning Division in 1972-1975.

Mr Palmberg has served as Chairman of Hallitusammattilaiset ry (Finnish Board Professionals) since its establishment in 2001. He has also been a Board member of the Brussels-based European Confederation of Directors Associations (ecoDa) since 2006.

**Anders Wiklöf**, born 1946

Commercial Counsellor

Board member since 2006

Anders Wiklöf, Board member, has been Chairman of Wiklöf Holding Ab since 1987. Since 1991 he has been a member of the Supervisory Board of the insurance company Ålands Ömsesidiga Försäkringsbolag, including 1998-2002 as Chairman and since 2003 as Vice Chairman.

Mr Wiklöf was a member of the Supervisory Board of the Bank of Åland in 1983-2003, including 2001-2003 as Chairman.

Mr Wiklöf has been active as a business owner since 1969. He is a member of the Council of the Åland Foundation for the Future of the Baltic Sea (Baltic Sea Foundation).

Serving as secretary of the Board is the Bank's Chief Legal Counsel, Dan-Erik Woivalin, Attorney at Law, born 1959.

The members of the Board of Directors have no other individual duties related to the administration of the Bank, aside from temporary assignments that the Board may allot to its members.

#### **Private shareholdings in the Bank**

The private shareholding of the Board members in Bank of Åland Plc can be seen in Note 40 to the Bank's official financial statements in this Annual Report.

#### **Fees and other benefits**

The fees of the members of the Board of Directors are fixed by the Annual General Meeting. In 2006, EUR 74,538 in fees was disbursed.

The members of the Board of Directors enjoy generally applied employee benefits in the Bank to a limited extent.

#### **The independent position of the members of the Board of Directors in relation to the Bank or major shareholders**

The Bank's Board of the Directors has assessed the independent position of members of the Board in relation to the Bank and major shareholders, taking into account the provisions of the recommendation on corporate governance in listed Finnish companies.

All members of the Board are independent in relation to the Bank.

Taking into account that Göran Lindholm, Chairman of the Board, and Leif Nordlund, member of the Board, represent Ålands Ömsesidiga Försäkringsbolag and the Alandia Group, respectively, that these companies each own at least 10 per cent of all of the Bank's shares or total voting power, and that Mr Lindholm and Mr Nordlund are employees or officers of these respective companies, based on the provisions of the above-mentioned recommendation, Göran Lindholm and Leif Nordlund are not to be regarded as independent in relation to major shareholders. Taking into account that Anders Wiklöf, member of the Board, personally and via his companies owns more than 10 per cent of all of the Bank's shares or total voting power, Mr Wiklöf is not to be regarded as independent in relation to major shareholders either.

However, the other members of the Board of Directors are independent in relation to major shareholders.

#### **Assessment of the activities of the Board**

The Board of Directors carries out a yearly internal self-assessment of its activities and its working methods. As part of this assessment, Board members' own work is thoroughly discussed and analysed.

#### **Meetings**

During 2006 the Board of Directors met 12 times. Average attendance by members at Board meetings was 91.25 per cent.

#### **The Board's committees and working groups**

In order to more effectively prepare the items of business that the Board of Directors is responsible for, on December 1, 2006, the Board decided to establish an Audit Committee and a Nomination Committee.

#### **Audit Committee**

##### *Rules of procedure*

The Audit Committee shall assist the Board in handling its monitoring tasks concerning internal control systems and risk management, reporting, the audit process and compliance with laws and regulations.

##### *Composition*

Appointed as members of the Audit Committee were Board members Sven-Harry Boman, Leif Nordlund and Tom Palmberg. All members are independent of the Bank. Mr Boman is Chairman of the Audit Committee.

#### **Nomination Committee**

##### *Rules of procedure*

The main task of the Committee is to make effective preparations before each Annual General Meeting concerning the election of members of the Bank's Board of Directors and their remuneration.

##### *Composition*

Appointed as members of the Nomination Committee were Göran Lindholm, Chairman of the Board, and Leif Nordlund and Anders Wiklöf, Board members, plus Jesper Blomsterlund, who represents the ownership group around Rafael Mattsson. Mr Nordlund is Chairman of the Nomination Committee.

## **MANAGING DIRECTOR**

#### **General**

The Managing Director is appointed by the Bank's Board of Directors. On March 1, 2004, Peter Grönlund, Master of Business Administration, born 1948, assumed the post of Managing Director of the Bank. This appointment is valid until further notice.

#### **Company charter**

The Board of Directors has adopted a Group-wide company charter including internal guidelines for the work of the Managing Director.

The Managing Director is responsible for ensuring that the day-to-day management of the Bank complies with the law, the Articles of Association, internal rules of procedure and the instructions and regulations issued by the Board of Directors. The Managing Director is also responsible for ensuring that the decisions of the Board of

Directors and the Executive Team are implemented. In particular, the Managing Director's sphere of responsibility includes overall management as well as oversight and development of the daily operational activities of the Bank.

The Managing Director also has overall responsibility for drafting objectives and strategies at the Group level, as well as overseeing and managing the business operations of the Group in accordance with the instructions issued by the Board of Directors.

#### **Work experience and other assignments of the Managing Director**

Peter Grönlund has experience from working in various positions at the Bank of Åland, where he began his career as early as 1973. He served as Head of the Investment Banking Division in 2004-2006, as Deputy CEO in 1997-1999, as Head of the International Division in 1992-1999, as Head of International Operations in 1989-1992 and as General Manager and Corporate Banking Officer in the Corporate Division in 1986-1989. In 1987, Mr Grönlund was elected a deputy member of the then-Board of Management, and he served from 1992 to 1999 as a regular member. He also headed the Foreign Exchange, Bond and Money Market Department in 1983-1986. Before this, Mr Grönlund participated in the task of establishing the Bank's Helsinki office, then served during 1981-1983 as its Director. In 1978-1981 Mr Grönlund served as the head of foreign currency lending in the International Department. During 1973-1978 he worked with corporate analysis and loan preparation, as the Deputy Manager of the Loan Department and as Manager of the Deposits Department.

In 1999 Mr Grönlund assumed the post of Åland Manager of Nordea Bank Plc, a position he held until 2004.

Peter Grönlund is a member of the Parliament of Åland, a member of the Supervisory Board of the mutual insurance company Ålands Ömsesidiga Försäkringsbolag, the credit card service company Luottokunta and the retirement insurance company Försäkringsaktiebolaget Pensions-Alandia. Mr Grönlund is also Chairman of Ålandsbanken Fondbolag Ab, Ålandsbanken Asset Management Ab, Ålandsbanken Kapitalmarknadstjänster Ab, Crosskey Banking Solutions Ab and Ab Compass Card Oy Ltd as well as a Board member of Chips Ab.

#### **Private shareholding in the Bank**

The private shareholdings of Peter Grönlund, Managing Director of Bank of Åland Plc, can be seen in Note 40 to the Bank's official financial statements in this Annual Report.

#### **Salary and other benefits**

The Board of Directors establishes the salary benefits and other terms of employment of the Managing Director.

The Managing Director receives a salary of EUR 16,000 per month, before taxes. In addition, he enjoys free automobile benefits and generally applied employee benefits in the Bank.

#### **Pension terms**

The Managing Director's retirement age is 62. His pension comprises 60 per cent of pensionable salary according to Employees' Pensions Act rules and the statutes of Ålandsbanken Abps pensionsstiftelse, the Bank's pension fund.

#### **Terms in case of dismissal**

##### **Severance pay**

In case of dismissal, the Managing Director will receive severance pay equivalent to six (6) months of salary.

##### **Terms of any other remuneration**

The Managing Director receives no remuneration other than the above-mentioned severance pay.

### **EXECUTIVE TEAM**

#### **General**

The members of the Bank's Executive Team are appointed by the Board of Directors. Their assignments are valid until further notice. The composition of the Executive Team may vary depending on the nature of the business at hand. At present, the Executive Team consists of Heads of Divisions and Department Managers who represent a broad range of expertise from the various divisions into which the Bank is internally organised.

#### **Company charter**

The Board of Directors has adopted a Group-wide company charter including internal guidelines for the work of the Executive Team. The Executive Team is entitled to make its own decisions on such day-to-day administration and in specific matters that the Board of Directors has delegated to it. The Executive Team also serves as an advisory body for the Managing Director.

#### **Composition of the Executive Team:**

**Peter Grönlund**, born 1948, Chairman  
Master of Business Administration, Managing Director  
Member of the Executive Team since 2003

Peter Grönlund's work experience and other assignments can be seen under the heading Managing Director above.

**Edgar Vickström**, born 1961  
Master of Economic Sciences, Deputy Managing Director  
Member of the Executive Team since 2003

Since 2005 Edgar Vickström, Deputy Managing Director, has been Head of the Business and Human Resources Development Division of the Bank. Mr Vickström was elected in 1994 as a deputy member of the Bank's then-Board of Management and served from 1996 to

2003 as a regular member of this Board.

Mr Vickström also served as Head of the Bank's Åland Division from 2003 to 2005, as head of its Branch Office Division from 1994 to 2003, as Department Manager of the ÅAB Privat customer advisory service in 1990-1992, as head of Internal Auditing in 1988-1990 and as administrative manager of the Arbitrage Department in 1986-1987. He previously served as a development planner in the Development Department in 1986-1987, as a project manager for the central Loan Department in 1986-1987 and the Corporate Development Group in 1985-1986, and as the administrative manager of Ålands Factoring Ab in 1983-1985.

Edgar Vickström is a Board member of Crosskey Banking Solutions Ab Ltd, Ab Compass Card Oy Ltd, Åland Utvecklings Ab, Åland Investeringar Ab and Air Åland Ab as well as Chairman of the Board of the Åland Chamber of Commerce.

**Lars Donner**, born 1948

Bachelor of Arts

Member of the Executive Team since 2003

Since 2003 Lars Donner has been Head of the Risk Management and Central Staff Unit Division. Mr Donner served as a regular member of the Bank's then-Board of Management from 1986 to 2003.

Mr Donner also served as Head of the Bank's Loan Division in 1992-2003 and its Corporate Division in 1986-1992. He previously worked with the Bank's corporate analysis and loan preparation in 1976-1986 as well as in the International Department in 1972-1973 and 1974-1975.

Lars Donner is Chairman of Ålands Företagsbyrå Ab.

**Tove Erikslund**, born 1967

Master of Business Administration

Member of the Executive Team since 2005

Since 2006, Tove Erikslund has been Head of Human Resources for the Group and Human Resource Department Manager. During 2000-2005 she worked as a project manager at the Business Development Department.

**Pekka Nuutinen**, born 1961

Bachelor of Business Administration

Member of the Executive Team since 2005

Since 2005 Pekka Nuutinen has been Head of the Bank's Mainland Division. Since 1998 Mr Nuutinen has also been General Manager of the Corporate Unit in Helsinki. During 1996-1997, he worked as head of funding in the same department.

From 1985 to 1996 Pekka Nuutinen worked in various positions at Kansallis-Osake-Pankki (KOP), including management positions during the period 1988-1996.

Mr Nuutinen is a Board member of Ålandsbanken Asset Management Ab.

**Jan Tallqvist**, born 1947

Attorney at Law

Member of the Executive Team since 2003

Since 2003 Jan Tallqvist has been Head of the Private Banking Unit. Mr Tallqvist was appointed in 1994 as a deputy member of the Bank's then-Board of Management and served from 1997 to 2003 as a regular member of this Board.

Mr Tallqvist began in 1976 as a lawyer at Juristkonsult Ab, a company closely related to the Bank. In 1981 he was appointed as a legal counsel at the Bank's office in Helsinki, and in 1983 he assumed the post of Director of the same office. Concurrent with his service as Director of the Helsinki office, during 1995-1999 he served as Assistant General Manager of the Bank's Branch Office Division and in 1999-2003 as Head of the Private Banking Division.

Mr Tallqvist is a Board member of Ålandsbanken Asset Management Ab and of the Security Fund of the Commercial Banks and Postal Bank.

**Dan-Erik Woivalin**, born 1959

Attorney at Law

Member of the Executive Team since 2003

Since 2005 Dan-Erik Woivalin has been Head of the Bank's Åland Division. Since 1994 Mr Woivalin has also been Chief Legal Counsel of the Bank. Mr Woivalin served as an assistant legal counsel at the Bank's Legal Department from 1985 to 1994 and during 1999 as an attorney at the legal firm of Advokatfirman Vinge KB in Brussels, Belgium.

Mr Woivalin is a Board member of Crosskey Banking Solutions Ab Ltd, Ålands Telefonandelslag and the Åland Nautical Club.

#### **Private shareholdings in the Bank**

The private shareholdings of the members of the Executive Team of Bank of Åland Plc can be seen in Note 40 to the Bank's official financial statements in this Annual Report.

#### **Salary and other benefits**

Salaries paid to the Executive Team (excluding the Managing Director) totalled EUR 727,406 during 2006.

The members of the Executive Team enjoy free automobile benefits and generally applied employee benefits in the Bank.

#### **The credit committee and credit committee II of the Executive Team**

The Executive Team has appointed two credit committees, which are entrusted with acting as decision-making bodies on certain specified credit matters: The Executive Team's credit committee and credit committee II.

The Executive Team's credit committee makes decisions on all credit matters that exceed the limit of credit committee II

(EUR 1.7 M). If the Executive Team's credit committee is prevented from meeting, the credit matter is transferred to the Executive Team for a decision.

Peter Grönlund, Managing Director, and Lars Donner, Head of Division, plus one other member of the Executive Team form the Executive Team's credit committee. Mr Grönlund serves as the Chairman.

Credit committee II handles credit matters that exceed the authority of an individual decision-maker. It also grants credits to individuals who have personal limits for granting credits, Heads of Division, Department Managers, Branch Office Directors and Regional Managers.

### **Meetings**

During 2006, the Executive Team met 22 times.

### **INCENTIVE SYSTEM**

The members of the Bank's Board of Directors are not included in any incentive system in the Bank that would entitle them to compensation beyond their established fees and salaries.

The Managing Director and the members of the Executive Team are not included in incentive systems in the Bank other than the Personnel Fund (see below).

### **Personnel Fund**

Late in 2004, the Bank's Board of Directors decided to introduce a profit bonus system at the Bank of Åland Group in compliance with Finland's Personnel Fund Act, as part of a long-term incentive system. The Personnel Fund was established in January 2005 and encompasses all employees who belong to the operative entirety of the Group, including the Managing Director and the Executive Team.

The basis for calculating the profit bonus is adopted yearly by the Bank's Board of Directors. For 2005 and 2006, respectively, there were two calculation criteria: a profitability condition and an income/expense ratio target. The Personnel Fund received an allocation of EUR 100,000 for 2005, which was charged to 2006 earnings.

Any profit bonus that is payable to personnel for 2006, including other incentive programmes in the Group, may not exceed three per cent of the Group's net operating profit for 2006.

### **INTERNAL AUDITING**

The Internal Auditing Department consists of two positions and reports directly to the Bank's Board of Directors. The task of the Internal Auditing Department is to independently and objectively evaluate whether internal financial controls are sufficient, which implies that the Bank's organisation and working methods are appropriate and efficient, that its financial information is reliable and that the Bank is in compliance with laws and regulatory requirements.

### **AUDITORS**

The latest Annual General Meeting of Shareholders appointed Rabbe Nevalainen, Certified Public Accountant; Marja Tikka, Certified Public Accountant; and Leif Hermans, Certified Public Accountant as Auditors. During the year, auditing fees of EUR 99,285 including value-added tax (VAT) were paid. The Auditors were also consulted on matters concerning IAS/IFRS, VAT and other taxes. As fees for these services, EUR 41,410 including value-added tax was paid.

### **INSIDER RULES AND ADMINISTRATION**

Those persons at the Bank who are insiders are subject to the Finnish Financial Inspection Authority's disclosure regulations on insiders, the insider rules of the Finnish Association of Securities Dealers and the Bank's internal rules. In addition, the Bank has accepted the Helsinki Stock Exchange's insider regulations and has introduced a trading restriction rule, by which a Bank insider is not entitled to trade in the Bank's securities during a period of 14 days before the publication of the Bank's annual accounts or Interim Reports.

The Bank is also connected to the so-called SIRE system, which means that insiders' trading in listed securities is public information and that this trading is automatically updated in the Bank's insider register.

The register manager of the Bank and the Bank's Internal Auditing Department regularly monitor the information that insiders have disclosed to the Bank's insider register.



# RISK STRUCTURE AND RISK MANAGEMENT

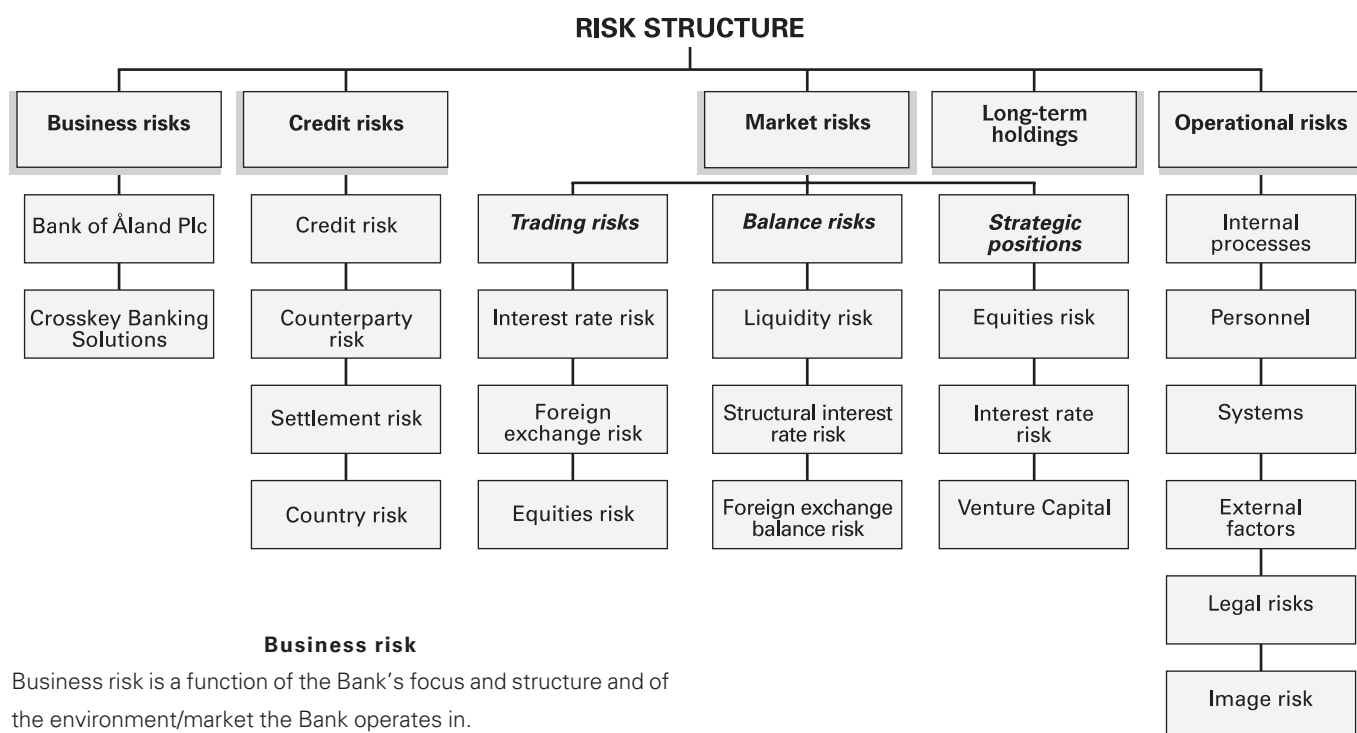
The Bank's ambition is to pursue its operations with reasonable and carefully considered risks. The profitability of the Group depends on the ability of the organisation to identify, manage and price risks. The purpose of risk management is to reduce the probability of unforeseen losses or threats to the reputation of the Group as well as to contribute to higher profitability and increased shareholder value. Good risk management helps ensure that the Bank utilises its equity efficiently, that capital allocation in the Group occurs with an eye to business risks, that products are priced with an eye to risks, that the Group is professionally managed according to sound and cautious business principles and that the Group maintains the confidence of shareholders, customers, counterparties, employees and public authorities.

Risk management includes all activities related to the structure of operations aimed at identifying, measuring, reporting and controlling risks. The cornerstone of risk management is the Bank's internal instructions, limit systems and processes aimed at ensuring that its operations are pursued in a safe, efficient manner.

The Board of Directors has overall responsibility for ensuring that the Group's risk management is sufficient and for establishing systems and regulations for monitoring and limiting the Bank's risk exposure. The Managing Director is responsible for the day-to-day administration of the Group. Each unit has primary responsibility for identifying and managing risks associated with its own operations. Oversight of the Group's risk-taking and risk management is administered by the Risk Control Department, whose task is also to ensure that the Board, the Managing Director and the Executive Team receive information about risks and on the impact of major risks on the Group's earnings and capital base. The Risk Control unit is independent of risk-taking and risk management.

## Risk structure

Risk is defined as the probability of negative divergence from an expected financial outcome. The risks in the Bank of Åland Group's operations are divided into five main categories: business risks, credit risks, market risks, long-term holdings and operational risks.



Bank, but also such commitments as guarantees and letters of credit. Credit risk also includes the counterparty risk that arises when the Bank deposits funds with other institutions. Settlement risk and country risk belong to the same category of risks.

Credit risk management is based on formal credit and limit decisions. The customer relationship manager has a personal

decision limit, within which he/she takes responsibility for the decision. If a larger decision-making capacity is needed, the case is referred to credit committee II. Credit matters involving more than a certain predefined amount are dealt with by the Executive Team or its credit committee. Large loans are pre-screened by credit control officers. Follow-up inspections of credit documentation occur on a test basis. Nonperforming loan commitments are reported monthly to the Executive Team. Large customer commitments are reported both internally and to the Financial Supervision Authority. The Risk Control Department also carries out a monthly follow-up of risks in pledged securities custodial accounts. Aside from its earlier follow-up of the value of such accounts, during 2006 Risk Control also began to follow up risk concentrations in pledged securities.

Credit management assumes that lending decisions will be based on sufficient knowledge about the customer. The creditworthiness of private individuals is judged on the basis of the disposable income of the borrower and the collateral offered. A majority of the Bank's loans to private individuals are granted to customers residing in one of the five regions where the Bank operates, with homes as collateral.

In the case of corporate loans, all customers have a contact person at the Bank. This person is familiar with the customer's operations and the loan collateral and risks. The financial position of corporate customers is also followed up with the help of the Rating Alfa system from the credit rating company Suomen Asiakastieto Oy.

The loan portfolio includes relatively small receivables from customers domiciled abroad, and no commitments are located in crisis-affected parts of the world.

The Treasury unit invests the Bank's surplus liquidity as deposits in other banks. For this type of risks, the Board of Directors establishes counterparty limits. Monitoring of these limits occurs continuously.

### **Market risk**

Market risk is the risk of losses in the Bank's operations due to changes in interest rates as well as currency exchange rates and market prices of shares. Market risk is divided into three categories:

#### **A. Trading risks**

Trading risks are connected to interest-bearing securities, foreign exchange positions and shares/securities that are held for speculative purposes and that are evaluated daily.

#### **Interest rate risk**

For trading in long-term bonds and interest rate futures, there is a nominal limit and a loss limit at which the position is to be unwound (stop-loss limit).

#### **Foreign exchange risk**

In foreign exchange dealing, there is a limit on the total volume of the foreign exchange position, and there are limits on individual

currencies as well as a stop-loss limit. Open positions both during the day and overnight are subject to limits.

#### **Equities risk**

The brokerage portfolio has a limit on overall volume, limits for individual securities and a stop-loss limit for individual securities. The trading portfolio has an overall limit as well as limits for individual securities. Only long derivative positions may be used overnight. Intraday refers to short-term derivative positions permitted within the framework of predetermined limits.

#### **B. Balance risks**

Balance risks refer to risks that are connected to the Bank's liquidity and to the interest rate refixing structure of the balance, i.e. the sensitivity of the balance to changes in the fixed-income market. The former risk is called liquidity risk and the latter is called structural interest rate risk. Also part of this category is foreign exchange balance risk, i.e. the sensitivity of the balance to changes in currency exchange rates.

#### **Liquidity risk**

Liquidity risk is measured with the help of maturity analyses and liquidity budgets. Maturity analyses show how the Bank's deposit and lending positions are allocated by maturity (due dates). Liquidity budgets show the Bank's preparedness for payments in case of any market disruptions.

#### **Structural interest rate risk**

At the Bank of Åland, structural interest rate risk is measured with the help of gap analysis. Gap analysis places interest rate-sensitive assets and liabilities in time gaps according to interest refixing dates. With the help of these gaps, the Bank calculates the sensitivity of its net interest items to changes during a 12-month period.

For the structural interest rate risk (0-12 months), there is a limit established by the Board of Directors stating the maximum permitted change in net interest items in case of a 1 percentage point shift in the yield curve.

#### **Foreign exchange balance risk**

Foreign exchange positions in the balance are subject to limits established by the Board of Directors.

#### **C. Strategic positions**

Strategic positions contain positions taken by the Board of Directors in shares of interesting companies, in mutual funds and in interest-bearing instruments.

Venture capital investments are limited. The Board of Directors decides on the holdings in this portfolio.

#### **Long-term holdings**

This category of risks includes such long-term holdings as the Bank's real estate portfolio and other non-current assets.

The Bank's real estate holdings are small. Most of the properties are used in its own operations. The risks attributable to the decline in market value of these holdings or deterioration in return on assets are thus small. The Board of Directors decides on purchases and divestments. The Executive Team/Heads of Divisions decide on acquisition and divestments of other non-current assets.

### Operational risks

Operational risks are defined as the risk of losses and of damage to the Bank's reputation due to faulty or erroneous procedures, processes, behaviour or unexpected events in the Bank's surroundings.

Operational risk management is an independent element of risk management. Risks attributable to operations or essentially attributable to operations must be identified, assessed and measured in order to be limited and monitored. The objective is to ensure that operational risks are identified, the management of operational risks is organised in a way that is satisfactory in relation to the nature and scope of the operations, the probability of unforeseen losses or threats to the Bank's reputation are minimised and that the Board of Directors and management are informed of the operational risks that exist.

It is the task of every unit to manage the operational risks that are associated with their own work. Units document the significant operational risks in their processes, products and projects. During risk documentation, they assess the probability of and the consequences of a loss event. Continuity planning is one element of risk management.

Incident reporting is part of the Group's overall management of operational risks. The Risk Control Department analyses and compiles incidents and in turn reports them to the affected bodies as well as to the Financial Supervision Authority.

The Bank's Internal Auditing Department monitors compliance by units with internal and external rules and instructions related to operational risks, providing qualitative assessments in report form to the Board.

### CAPITAL ADEQUACY

Today's regulations presuppose that the Bank's capital adequacy – its capital base as a percentage of risk-weighted assets – amounts to at least 8 per cent. However, the Board of Director's policy is that the Bank of Åland should have a risk-weighted total capital ratio of at least 10 per cent.

#### Monitoring of capital adequacy

The Financial Control Department monitors the Bank's risk-weighted total capital ratio and reports it regularly to the Executive Team and the Board of Directors. The Department also provides forecasts of changes in the ratio.

### Allocation of the capital base

On December 31, 2006, the allocation of the capital base by different types of risks (provided that the entire capital base is allocated proportionally) was

– credit risks	95.4 %
– counterparty risks	1.7 %
– other	2.9 %
Total	100.0 %

### New capital adequacy rules

Starting on January 1, 2007, the Bank is switching to calculating capital adequacy for credit risks according to the standardised approach in the Basel 2 rule system. These rules better reflect actual business risk than the current rules and will benefit residential mortgage lending.

Both for private individuals and for companies, the Bank has developed internal credit risk management methods in accordance with the Basel 2 rule system. These methods are going into internal use from January 1, 2007. The efforts being made to develop risk management will lay the groundwork for the Bank to switch to an internal rating-based approach in calculating capital adequacy. Preparations for adjustment to the new rules are under way in the Bank. This work is being co-ordinated by the Risk Control Department.

Starting on January 1, 2007, banks must maintain sufficient equity capital in relation to their existing operational risks. Banks may choose between three different calculation methods: the basic indicator approach, the standardised approach or the internal ratings-based approach. The Board of Directors has decided that capital adequacy for operational risks will be calculated according to the basic indicator approach. The capital requirement for operational risks according to the basic indicator approach amount to 15 per cent of net income from financial operations and other income, based on the average of these income sources during the previous three years.

The Basel 2 rule system presupposes that the risks not managed under Pillar 1 will be managed under Pillar 2. Among the risks that the authorities ask banks to focus on are business risks, interest rate risks, liquidity risks and concentration risks. Pillar 2 management will result in an estimate of the Bank's need for equity capital in relation to the Bank's plans, as well as a forward-looking process that describes the Bank's capital supply. The management of risks under Pillar 2 will be reported in conjunction with the 2007 financial statements. In the interim reports during 2007, the Bank will report capital adequacy according to Basel 2 under Pillar 1.

# FACTS ON BANK OF ÅLAND SHARES

## Share capital

The share capital of the Bank of Åland is EUR 22,164,049.83. The maximum share capital according to the Articles of Association is EUR 32,292,081.88. The carrying amount equivalent of a share is EUR 2.02.

The shares are divided into 5,180,910 Series A and 6,045,411 Series B shares. Each Series A share represents twenty (20) votes at shareholders' meetings and each Series B share one (1) vote. Series B shares enjoy priority over Series A shares for dividends of up to six (6) per cent of their previous nominal value.

### Changes in share capital, reported in EUR

	Share capital, EUR	Number of Series A shares	Number of Series B shares
2002	20,318,016.45	5,180,910	4,886,210
2003	22,086,413.60	5,180,910	5,762,411
2004	22,164,049.83	5,180,910	5,800,878
2005	22,173,906.98	5,180,910	5,805,762
2006	22,657,579.81	5,180,910	6,045,411

## Convertible capital loan

During the spring of 1997, the Bank of Åland issued a convertible capital loan of FIM 100 M to the public. The capital loan pays annual interest of six (6) per cent and falls due for payment in its entirety on April 2, 2007.

	Issued	Conversions recorded in Finnish Trade Registry, Dec 31, 2006	Remaining
Loan amount in EUR:	16,818,792.65	11,068,447.44	5,750,345.21
Number of loan certificates:	10,000	6,581	3,419
Equivalent number of Series B shares	1,095,546	716,037	379,509

During the period December 1, 2006 to January 31, 2007, an additional 2,791 loan certificates, equivalent to EUR 4,694,125.03 or 309,801 Series B shares, were converted. The remaining principal amount of the capital loan is EUR 1,056,220.18.

## Conversion terms

The conversion price per share was EUR 15.13929. Each loan certificate with a nominal value of EUR 1,681.88 may thus be converted into 111 Series B shares. The right of conversion for the loan began on April 2, 1998 and ended on January 31, 2007.

## Trading in the Bank's shares

During 2006, the volume of trading in the Bank's Series A shares on the Helsinki Stock Exchange was EUR 3.8 M. Their average price was EUR 27.55. The highest quotation per share was EUR 30.00, the lowest EUR 20.41. Trading in Series B shares totalled EUR 8.2 M at an average price of EUR 24.31. The highest quotation was EUR 27.00, the lowest EUR 22.50.

On December 31, 2006, the number of registered shareholders was 9,075. There were also 124,223 shares registered in the names of nominees.

## THE TEN LARGEST SHAREHOLDERS, DECEMBER 31, 2006

	Shareholder	Series A shares	Series B shares	Total	% of shares	% of votes
1	Alandia-Bolagen (insurance group)	733,886	325,145	1,059,031	9.4	13.7
2	Aktia Sparbank Abp (savings bank)	105,000	877,100	982,100	8.8	2.7
3	Ålands Ömsesidiga Försäkringsbolag (insurance company)	612,331	111,960	724,291	6.5	11.3
4	Wiklöf Anders	579,089	90,358	669,447	6.0	10.6
5	Mattsson Rafael	422,406	15,638	438,044	3.9	7.7
6	Veritas bolagen (insurance group)	277,734	153,900	431,634	3.8	5.2
7	Caelum Oy (investment company)	65,340	156,800	222,140	2.0	1.3
8	Lisitsin Pavel	192,983	2,984	195,967	1.8	3.5
9	Svenska Litteratursällskapet i Finland (literary society)	167,000	0	167,000	1.5	3.1
10	Palkkiyhtymä Oy (shipping company)	60,000	76,000	136,000	1.2	1.2
	The Board of Directors	233,474	91,377	324,851	2.9	4.3

## SHAREHOLDERS BY SIZE OF HOLDING

Number of shares	Number of shareholders	Total number of shares held	Average holding
1 – 100	3,865	178,288	46
101 – 1,000	4,052	1,418,922	350
1,001 – 10,000	1,071	2,671,421	2,494
10,001 –	87	6,957,690	79,973
Of which, shares registered in name of nominee		124,223	

## SHAREHOLDERS BY CATEGORY

Category	Number of shares	% of shares
Private individuals	5,088,568	45.3
Corporations	1,720,225	15.3
Financial institutions and insurance companies	2,741,633	24.4
Government organisations	528,709	4.7
Non-profit organisations	514,225	4.6
Foreign investors	508,738	4.5
Shares registered in name of nominee	124,223	1.1

## BANK OF ÅLAND (GROUP) SHARE DATA

	2002 FAS	2003 FAS	2004 IFRS	2005 IFRS	2006 IFRS
Number of shares, M <sup>1</sup>	10.07	10.94	10.98	10.99	11.25
Average number of shares, M	10.07	10.56	10.98	10.99	11.25
Earnings per share before dilution, EUR <sup>2</sup>	1.00	1.02	0.96	1.24	1.29
Earnings per share after dilution, EUR <sup>3</sup>	0.97	1.00	0.94	1.21	1.29
Dividend payout ratio <sup>4</sup>	71.6	72.2	79.1	58.8	53.2
Equity capital per share before dilution, EUR <sup>5</sup>	8.69	9.22	9.81	10.32	10.86
Market price per share, balance sheet date, EUR					
Series A	17.10	18.65	19.62	24.00	26.50
Series B	16.30	19.10	19.04	24.00	24.50
Price/earnings ratio <sup>6</sup>					
Series A	17.1	18.3	20.4	19.4	20.5
Series B	16.3	18.7	19.8	19.4	19.0
Effective dividend yield, % <sup>7</sup>					
Series A	5.8	5.4	5.1	4.2	3.8
Series B	6.1	5.2	5.3	4.2	4.1
Market capitalisation, EUR M	168.2	206.7	212.1	263.7	285.4

IFRS

3  $\frac{\text{Profit for the year} + \text{interest on capital loan}}{\text{Average number of shares} + \text{shares outstanding}}$

5  $\frac{\text{Equity capital}}{\text{Number of shares on balance sheet date}}$

1 Number of shares on balance sheet date

6  $\frac{\text{Share price on balance sheet date}}{\text{Earnings per share}}$

2  $\frac{\text{Profit for the year}}{\text{Average number of shares}}$

4  $\frac{\text{Dividend for the year}}{\text{Net operating profit}} \times 100$

7  $\frac{\text{Dividend}}{\text{Share price on balance sheet date}}$

**BANK OF ÅLAND SHARES TRADED, HELSINKI STOCK EXCHANGE**

<b>Year</b>	<b>Thousands of shares</b>		<b>Volume as % of shares</b>	<b>Price paid, EUR: Highest/Lowest</b>	<b>Average price, EUR</b>
<b>2002</b>	Series A	665	12.8	17.50 -16.02	16.40
<b>2002</b>	Series B	501	10.2	17.40 -15.50	16.21
<b>2003</b>	Series A	271	5.2	21.00 -15.50	18.37
<b>2003</b>	Series B	505	8.8	20.00 -14.20	17.33
<b>2004</b>	Series A	320	6.2	21.00 -17.70	18.91
<b>2004</b>	Series B	375	6.5	19.70 -17.25	18.35
<b>2005</b>	Series A	90	1.7	24.50 -19.50	21.76
<b>2005</b>	Series B	449	7.7	24.10 -18.50	20.19
<b>2006</b>	Series A	137	2.6	30.00 -20.41	27.55
<b>2006</b>	Series B	337	5.6	27.00 -22.50	24.31

# CONSOLIDATED BALANCE SHEET

(EUR K)

ASSETS	Note	Dec 31, 2006		Dec 31, 2005	
Cash			65,288		77,605
Debt securities eligible for refinancing with central banks	2				
<i>Treasury bills</i>			44,296		58,599
<i>Other</i>			<u>12,790</u>	57,086	<u>37,223</u>
Claims on credit institutions	3				
<i>Repayable on demand</i>			1,355		1,018
<i>Other</i>			<u>59,062</u>	60,416	<u>127,159</u>
Claims on the public and public sector entities	4			1,912,164	1,796,282
Debt securities	2			49	29
Shares and participations	5			4,161	4,536
Shares and participations in associated companies	5			1,632	1,528
Derivative instruments	6			26,618	14,708
Intangible assets	7, 9				
<i>Miscellaneous intangible assets</i>			3,748		3,138
<i>Group goodwill</i>			<u>881</u>	4,629	<u>927</u>
Tangible assets	8, 9				
<i>Investment properties</i>			2,819		2,946
<i>Properties for own use</i>			14,961		15,695
<i>Other tangible assets</i>			<u>4,796</u>	22,577	<u>5,206</u>
Other assets	10			16,750	8,626
Accrued income and prepayments	11			16,360	14,322
Deferred tax assets	12			<u>885</u>	<u>842</u>
<b>TOTAL ASSETS</b>			2,188,616		2,170,389

# CONSOLIDATED BALANCE SHEET

(EUR K)

LIABILITIES	Note	Dec 31, 2006		Dec 31, 2005	
Liabilities to credit institutions					
<i>Repayable on demand</i>		1,587		2,880	
<i>Other</i>		<u>60,061</u>	61,649	<u>69,933</u>	72,812
Liabilities to the public and public sector entities					
<i>Deposits</i>					
<i>Repayable on demand</i>		978,827		1,054,247	
<i>Other</i>		<u>279,681</u>	1,258,508	<u>245,319</u>	1,299,566
<i>Other liabilities</i>		<u>2,501</u>	1,261,009	<u>3,350</u>	1,302,916
Debt securities issued to the public					
	13				
<i>Bonds</i>		358,787		328,520	
<i>Other</i>		<u>238,647</u>	597,434	<u>229,787</u>	558,308
Derivative instruments					
			26,085		15,335
Other liabilities					
	14		35,068		29,705
Accrued expenses and prepaid income					
	15		12,219		11,285
Subordinated liabilities					
	16				
<i>Capital loan</i>		5,435		9,313	
<i>Other</i>		<u>54,906</u>	60,341	<u>45,523</u>	54,836
Deferred tax liabilities					
	12		<u>12,642</u>		<u>11,856</u>
Total liabilities			2,066,448	2,057,054	
Share capital					
	21		22,658		22,174
Share issue					
			301		0
Share premium account					
			29,207		26,063
Reserve fund					
			25,129		25,129
Fair value reserve					
	22		418		371
Retained earnings					
			27,709		25,141
Profit for the year					
			14,696		13,578
Minority interest in capital					
			<u>2,051</u>		<u>879</u>
Total equity capital			122,168	113,336	
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>			<b>2,188,616</b>	<b>2,170,389</b>	
<b>OFF-BALANCE SHEET OBLIGATIONS</b>					
	45				
Obligations to a third party on behalf of customers					
<i>Guarantees and pledges</i>		<u>16,196</u>	16,196	<u>13,014</u>	13,014
Irrevocable commitments given on behalf of customers					
			<u>154,246</u>		<u>132,110</u>
			170,442		145,124



# CONSOLIDATED INCOME STATEMENT

(EUR K)

	Note	Dec 31, 2006		Dec 31, 2005	
Interest income	23		74,518		61,009
Interest expenses	24		<u>-41,863</u>		<u>-29,651</u>
<b>NET INTEREST INCOME</b>			32,655		31,358
Income from equity investments	26		19		83
Commission income	27		18,422		16,137
Commission expenses	28		-1,695		-1,959
Net income from securities transactions and foreign exchange dealing	29				
<i>Net income from securities transactions</i>			1,230		625
<i>Net income from foreign exchange dealing</i>			<u>1,024</u>	2,254	<u>898</u>
Net income from financial assets available for sale	30		305		1,073
Net income from investment properties	31		244		277
Other operating income	32		9,382		3,516
Administrative expenses					
<i>Staff costs</i>					
<i>Wages and salaries</i>			18,524		16,706
<i>Pensions</i>			2,921		-102
<i>Other social security costs</i>			<u>1,094</u>	22,539	<u>1,191</u>
<i>Other administrative expenses</i>	33		9,368		8,450
<i>Production for own use</i>			<u>-463</u>	-31,444	<u>-1,130</u>
Depreciation/amortisation and impairment losses on tangible and intangible assets			-3,979		-3,906
Other operating expenses	34		-5,441		-4,219
Loan and guarantee losses	35		35		-295
Share of profit/loss in companies consolidated according to the equity method			<u>344</u>		<u>202</u>
<b>NET OPERATING PROFIT</b>			21,099		18,676
Income taxes	36				
<i>Tax for the year and prior years</i>			4,709		4,392
<i>Change in deferred tax liabilities/assets</i>			<u>726</u>	-5,435	<u>254</u>
Minority share of profit for the year			<u>-969</u>		<u>-452</u>
<b>PROFIT FOR THE YEAR</b>			14,696		13,578

# CASH FLOW STATEMENT

(EUR M)

BANK OF ÅLAND GROUP	JAN 1-DEC 31, 2006	JAN 1-DEC 31, 2005
<b>OPERATING ACTIVITIES</b>		
Net operating profit	21,099	18,676
Adjustment for net operating profit items not affecting cash flow		
<i>Loan losses</i>	35	203
<i>Unrealised changes in value</i>	-382	2,348
<i>Depreciation/amortisation and impairment losses</i>	3,979	3,906
<i>Effect of pension fund</i>	-191	-2,384
<i>Accrued surpluses/deficits on debt securities and bonds issued</i>	3,039	2,601
Gains from investing activities	-1,086	-3,455
Income taxes paid	-4,982	-3,525
Changes in assets and liabilities in operating activities		
<i>Debt securities eligible for refinancing with central banks</i>	-9,142	4,063
<i>Claims on credit institutions</i>	40,636	-46,010
<i>Claims on the public and public sector entities</i>	-118,794	-163,630
<i>Other asset items</i>	-21,845	-2,061
<i>Liabilities to credit institutions</i>	-1,164	-775
<i>Liabilities to the public and public sector entities</i>	-41,750	54,128
<i>Debt securities issued</i>	8,770	-37,432
<i>Other liability items</i>	18,255	3,127
	-103,522	-170,221
<b>INVESTING ACTIVITIES</b>		
Equities	487	6,573
Investments in shares of associated companies and subsidiaries	-16	-2,043
Divestments of shares of associated companies and subsidiaries	0	212
Tangible assets	-1,436	-1,549
Intangible assets	-1,083	-2,705
	-2,048	488
<b>FINANCING ACTIVITIES</b>		
Dividend paid to shareholders	-11,010	-10,986
Dividend paid to minority interests	-481	-226
Minority share in subsidiaries	683	0
Change in long-term borrowings from banks	19,798	145,119
Change in subordinated debentures	9,419	1,003
	18,410	134,911
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents on January 1	217,407	252,230
Cash flow from operating activities	-103,522	-170,221
Cash flow from investing activities	-2,048	488
Cash flow from financing activities	18,410	134,911
Cash and cash equivalents on December 31	130,246	217,407
Specification of liquid assets		
<i>Cash</i>	65,288	77,605
<i>Claims on credit institutions</i>	55,042	82,166
<i>Debt securities</i>	9,916	57,636
	130,246	217,407

"Cash and cash equivalents" refers to cash, cheque account with the Bank of Finland, claims payable on demand from credit institutions as well as other claims on credit institutions and debt securities with an original remaining maturity of less than three months. "Investing activities" refers to payments related to tangible and intangible assets as well as holdings of shares and participations aside from shares intended for trading. "Financing activities" refers to items among equity capital and liabilities that finance operating activities. The analysis was prepared according to the indirect method. "Operating activities" included interest received of EUR 73,157,000 (2005: 60,338,000), interest paid of EUR 42,018,000 (31,703,000) and dividend income received of EUR 19,000 (83,000).

# CHANGES IN EQUITY CAPITAL

(EUR K)

Bank of Åland Group	Share capital	Share issue	Share premium account	Reserve fund	Fair value reserve	Retained earnings	Minority interest	Total
<b>Equity capital, January 1, 2005</b>	<b>22,164</b>	<b>0</b>	<b>25,999</b>	<b>25,129</b>	<b>1,147</b>	<b>36,127</b>	<b>532</b>	<b>111,099</b>
Financial assets available for sale:								
Change in fair value					177			177
Transferred to income statement					-953			-953
Profit for the year						13,578		13,578
<b>Total recognised income and expenses during the year</b>					<b>-776</b>	<b>13,578</b>		<b>12,802</b>
Dividend to shareholders						-10,986		-10,986
Conversion of capital loan	10		64					74
Change in minority interest in equity capital							347	347
<b>Equity capital, December 31, 2005</b>	<b>22,174</b>	<b>0</b>	<b>26,063</b>	<b>25,129</b>	<b>371</b>	<b>38,719</b>	<b>879</b>	<b>113,336</b>
Financial assets available for sale:								
Change in fair value					216			216
Transferred to income statement					-169			-169
Profit for the year						14,696		14,696
<b>Total recognised income and expenses during the year</b>					<b>47</b>	<b>14,696</b>		<b>14,743</b>
Dividend to shareholders						-11,010		-11,010
Conversion of capital loan	484	301	3,144					3,929
Change in minority interest in equity capital							1,171	1,171
<b>Equity capital, December 31, 2006</b>	<b>22,658</b>	<b>301</b>	<b>29,207</b>	<b>25,129</b>	<b>418</b>	<b>42,405</b>	<b>2,051</b>	<b>122,168</b>

# ACCOUNTING PRINCIPLES FOR THE BANK OF ÅLAND GROUP

## 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 3

AX-22100 Mariehamn, Åland, Finland

The Bank of Åland Plc is listed on the Helsinki Stock Exchange.

The consolidated financial statements for the financial year ending on December 31, 2006 were approved by the Board of Directors on February 26, 2007 and will be submitted to the 2007 Annual General Meeting for adoption.

## BASIS FOR PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of the Bank of Åland Group have been prepared in compliance with the International Financial Reporting Standards (IFRSs) that have been adopted by the European Union. The consolidated financial statements are presented in thousands of euro (EUR K) unless otherwise stated. The consolidated financial statements have been prepared according to original cost, if not otherwise stated in the accounting principles.

New accounting norms and standards in effect starting in 2006:

IAS 19, "Employee benefits"

Amendment of alternatives concerning recognition of actuarial gains and losses for post-employment defined benefit plans. In brief, the amendment means that actuarial gains and losses may be recognised directly in equity. The Group has not changed its principle as a consequence of the amendments in IAS 19.

IAS 39, fair value option

This option implies that, in order to provide more relevant information in the annual accounts, it is possible under certain circumstances to define financial instruments at the beginning of a contract in such a way that they are always carried in the financial statements at fair value through the income statement ("fair value through profit or loss"). This is possible in order to avoid fluctuations in income that would otherwise arise due to different accrual and valuation principles concerning assets and liabilities administered as a group, based on a documented risk management or financial investment policy. The Bank of Åland Group took advantage of the fair value option in IAS 39 beginning in the 2005 financial statements.

IAS 39, financial guarantees

According to the new rules, financial guarantees shall be recognised as a financial instrument, in compliance with IAS 39. The Bank of Åland Group has applied the amendment to IAS 39.

IFRIC 4, "Determining whether an arrangement contains a lease"

The Group has no arrangements affected by IFRIC 4.

The Group is not affected by amendments to the following:

IAS 21, "The Effects of Changes in Foreign Exchange Rates"

IAS 39, Cash flow hedging of highly probable forecast transactions

IFRS 6, "Exploration for and Evaluation of Mineral Resources"

IFRIC 5, "Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"

IFRIC 6, "Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment"

New accounting norms and standards that did not enter into force in 2006 but could be applied in advance:

IFRS 7, "Financial Instruments: Disclosures"

A new standard that deals with disclosure requirements for all risks arising through financial instruments. The standard is applicable to all companies that possess financial instruments.

The Group has decided to apply IFRS 7 starting in 2007.

#### IFRS 8, "Operating Segments"

Requires that a company provide financial and descriptive disclosures about its operating segments. IFRS 8 replaces IAS 14, "Segment Reporting". The Group is affected by IFRS 8 but has not decided when it will begin applying this standard.

#### IFRIC 10, "Interim Financial Reporting and Impairment"

This interpretation is the result of a contradiction between the standard on interim reports, IAS 34, and the one on impairments, IAS 36. IFRIC 10 clarifies that an impairment loss recognised in an interim report may not be reversed in a later interim or full year financial report. The Group is applying IFRIC 10 starting in 2007.

#### IFRIC 9, "Reassessment of Embedded Derivatives"

This interpretation clarifies certain aspects of the treatment of embedded derivatives in compliance with IAS 39. The Group already meets the criteria according to IFRIC 9.

The Group is not affected by amendments to the following:

IFRIC 7, "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"

IFRIC 8, "Scope of IFRS 2 Share-based Payment"

IFRIC 11, "Share-based Payment – Group and Treasury Share Transactions"

IFRIC 12, "Service Concession Arrangements"

The financial statements of the Bank of Åland have been drawn up in accordance with the Finnish Credit Institutions Act, the Ministry of Finance ordinance on annual accounts and consolidated annual accounts of financial institutions and securities companies and the regulations of the Financial Supervision Authority.

## PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the Parent Company, the Bank of Åland Plc, and all subsidiaries over which the Parent Company has direct or indirect control. The consolidation of subsidiaries occurs from the acquisition date to the divestment date. Subsidiaries acquired before January 1, 2004 are recognised according to the consolidation and accounting principles originally applied, in keeping with the exemption in IFRS 1. Subsidiaries acquired after January 1, 2004 are consolidated in compliance with IFRS 3, "Business Combinations".

The consolidated financial statements include those subsidiaries in which the company directly or indirectly owns 50 per cent of the voting power, or which it otherwise controls. In elimination, the purchase method of accounting has been used. In the consolidated financial statements, all intra-Group transactions, receivables, liabilities and profits have been eliminated.

The consolidated financial statements include those associated companies in which the Bank of Åland Group owns 20-50 per cent of the shares or otherwise has significance influence. When consolidating associated companies, the equity method of accounting has been used.

Real estate and housing companies have been consolidated according to the proportionate consolidation method of accounting.

All intra-Group receivables, liabilities and transactions including dividends and intra-Group profits have been eliminated in the consolidated financial statements.

Minority interest is shown separately in consolidated equity capital.

## 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 and current events and measures, the actual outcome may diverge from these estimates.

The most essential effects of estimates and judgements are the following:

#### Fair value of financial assets

If the fair value of financial assets cannot be obtained from active market quotations, they are calculated with the help of various assessment techniques, including mathematical models. When using assessment techniques, market quotations are used to the greatest possible extent, but in case this is not possible, estimates are required in order to obtain fair value.

#### Goodwill impairment loss

Goodwill is tested annually for impairment by calculating whether the carrying amount is below the recoverable value. Impairment testing is performed by discounting expected future cash flows in cash-generating units. Expected future cash flows are based on various estimates and assessments about economic condition, future business volume, the market situation and margins. A change in the estimate of future cash flows, as a consequence of an economic downturn, new competitors or a price squeeze may lead to a future goodwill impairment loss.

#### Impairment losses on loans and customer receivables

On every balance sheet date, the Group assesses whether there is objective evidence for impairment losses on individual or groups of loans and customer receivables. An assessment by the Executive Team is required, especially in order to estimate amounts and timing of expected future cash flows that determine impairment loss amounts. The estimate is based on assessment of numerous factors, and the actual outcome may diverge from the impairment loss that is recognised.

Concerning group impairment loss for those concentrations that do not have impairment losses according to individual assessment, estimates and judgements are made concerning industry risk, geographic risk and other factors affecting cash flow.

#### Actuarial calculations of pension obligations

Future pension liability is calculated using actuarial models. As a basis for the calculation, there are estimates of the discount rate (euro swap rate with maturity equivalent to the expected life of the pension liability), pay increase (expected future increase for pensions), inflation, employee turnover and expected return on assets (based on the Bank pension fund's financial investment plan). All assumptions are shown in Note 43.

## SEGMENT REPORTING

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. The Bank of Åland Group does not report geographic segments as secondary segments, since all operations occur in Finland.

## ITEMS IN FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are translated to euro according to the European Central Bank exchange rate on the balance sheet date.

## REVENUE RECOGNITION PRINCIPLES

#### Interest income and expenses

Interest income and expenses on asset and liability items are recognised according to the accrual principle. If a financial asset or group of financial assets has had an impairment loss, the interest income is recognised according to the original interest rate on the amount after the impairment loss.

#### Commission income and expenses

Commission income and expenses are recognised when the service is carried out. For commissions that concern more than one year, only the portion related to the accounting period is recognised.

#### Licence income

Annual licence income for computer systems is recognised as revenue on a straight-line basis during the respective year to which it is attributable.

#### Sales of banking computer systems

Systems sales with significant adaptations are administered as long-term projects. Systems licence income from long-term projects is recognised as revenue based on degree of completion, when this can be reliably determined. The degree of completion is determined separately for each project as the share of expenditures on the balance sheet date compared to the total expenditures for the project. If it is probable that total expenditures will exceed total income for the project, the expected loss is immediately recognised as an expense.

## INTANGIBLE ASSETS

#### Capitalisation of production for own use

If the computer system that is produced will probably generate future income or reduce expenses in excess of expense, the development expenses for the computer system are capitalised. Computer systems developed in-house are capitalised at actual cost. Capitalised development expenses are normally amortised on a straight-line basis over 3-5 years. The amortisation begins when the computer system is ready for use.

Development expenses that are not expected to yield a significant economic benefit are recognised as an expense in the income statement.

Expenses for preliminary studies and research are recognised as an expense in the income statement.

#### Goodwill

Goodwill corresponds to the share of cost that exceeds the net asset value of a company that is purchased. Goodwill is not amortised, but is tested yearly, or more often if a need exists, for impairment by discounting expected future cash flows in cash-generating units. Impairment losses are recognised directly as expenses in the income statement.

## TANGIBLE ASSETS

### Properties for the Group's own use

Properties for the Group's own use consist of direct holdings and indirect holdings via real estate and housing companies.

Properties for the Group's own use are recognised in the balance sheet at cost less depreciation and impairment loss. For its Head Office property, the Bank of Åland Group has chosen to apply the exemption in IFRS 1, by using deemed cost instead of original cost of tangible assets in the transition to IFRS.

### Investment properties

Investment properties are held in order to earn rental income or value appreciation. Investment properties consist of direct holdings as well as indirect holdings via real estate and housing companies.

Investment properties are recognised separately in the balance sheet under tangible assets at cost less depreciation and impairment losses. In the income statement, net income from investment properties is shown on a separate line. The properties have been appraised by a licensed estate agent. Certain investment properties have limited transfer rights, since they have Finnish government-subsidised loans, and this is reflected in their value.

### Other tangible assets

Other tangible assets consist of machinery and equipment, vehicles and art collections. Other tangible assets are carried in the balance sheet at cost minus depreciation and impairment losses.

## IMPAIRMENT LOSS ON TANGIBLE ASSETS

Assets are reviewed yearly to determine if there is any indication of impairment loss. If such an indication arises, the recoverable amount is determined as the higher of the asset's sale price or value in use. An impairment loss is recognised in the income statement if carrying amount exceeds net realisable value. A previously recognised impairment loss is reversed only if a significant change has occurred in the valuation basis for impairment testing. The carrying amount after reversal may not exceed the carrying amount before the impairment loss.

## DEPRECIATION/AMORTISATION

Buildings, technical equipment and machinery and equipment are noted at cost minus depreciation and any impairment loss. Depreciation is based on the expected economic service life of the assets. All depreciation/amortisation is on a straight-line basis.

Buildings	40 years
Technical equipment in buildings	12 years
Machinery and equipment	3-10 years
Computer systems developed in-house (amortisation)	3-5 years
External computer systems (amortisation)	3-5 years
Other tangible assets	3-5 years

Land is not depreciated.

## LEASES

In compliance with IAS 17, leases are classified as finance leases and other leases. A majority of rental contracts consist of finance leases.

Assets leased to other parties under finance leases are recognised at commencement of the lease in the balance sheet as "Claims on the public". This receivable is recognised at an amount equivalent to the net investment in the lease. The interest income provided by the lease is recognised under "Interest income" according to the effective interest method of accounting. The need for recognising impairment losses is assessed on a continuous basis.

Assets leased from other parties under finance leases are recognised at commencement of the lease as "Tangible assets" and the corresponding financial lease liability among "Other liabilities". Assets are recognised at the commencement of the lease at an amount equal to the fair value of the leased asset or a lower present value of minimum lease payments. Planned depreciation is calculated based on useful economic life or a shorter lease period. Interest on a lease liability is recognised under "Interest expenses" according to the effective interest method. Impairment losses are recognised on the basis of individual judgements of the need.

## FINANCIAL INSTRUMENTS

### Determination of fair value

The fair value of a financial instrument is determined either on the basis of price quotations in an active market or with the help of generally accepted valuation methods, taking into account market information related to the items being measured.

The fair value of financial instruments that are not traded in an active market is calculated with the help of various assessment techniques. When using assessment techniques, market quotations are used to the greatest possible extent. The assessment techniques used are analysis of discounted cash flows, assessment with reference to financial instruments that are essentially similar and assessment with reference to recently completed transactions in the same financial instruments.

#### **Classification of financial instruments**

For purposes of valuation, in compliance with IAS 39, financial instruments are classified in the following categories:

##### Financial instruments at fair value

###### *Financial assets and liabilities held for trading*

This group includes all financial assets and liabilities that are held to provide a short-term return. This group also includes all derivative instruments for which hedge accounting is not applied.

Financial assets and liabilities held for trading are recognised in the balance sheet at fair value and changes in fair value are recognised in the income statement.

In accordance with IAS 39, all derivatives will be recognised in the balance sheet at fair value.

###### *Financial assets and liabilities at fair value (the fair value option)*

The Executive Team measures the value of certain groups of derivative instruments and items protected by derivative instruments according to the fair value option. Such groups may include fixed-interest loans, equity index bond loans and deposit accounts as well as interest rate swaps. Fair value is calculated using generally accepted valuation methods, taking into account market information related to the items being measured. This procedure effectively reduces the volatility of income without applying hedge accounting, since the fluctuation in the value of derivative instruments is largely offset by the corresponding fluctuation in the value of the other components in the same group.

Positive fair values of derivative instruments are recognised as assets in the balance sheet in the item "Derivative instruments" and negative fair values in the item "Derivative instruments and other liabilities held for trading". Changes in value are recognised in the income statement in the item "Net income from securities trading".

##### Loans and trade receivables

Financial assets classified as loans and trade receivables are assets created by handing over funds, services or goods directly to the debtor.

Loans and trade receivables are recognised at the commencement of the contract at cost and subsequently at amortised cost. All loans and customer receivables are tested for impairment losses. On the balance sheet date, the Bank assesses whether there is objective evidence that an individual or group of loans and customer receivables has an impairment loss. Loans and customer receivables have an impairment loss only if objective evidence shows that one or more events have occurred that have an impact on future cash flows for the financial asset, if these can be reliably estimated. Objective evidence that one or more events have occurred that affects estimated future cash flows may, for example, be:

- significant financial difficulty of the debtor,
- the borrower has been granted a concession due to the borrower's financial difficulty and that the lender would not otherwise consider,
- a breach of contract, such as a default or delinquency in interest or principal payments, or
- that it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

Impairment losses are recognised in the income statement under the item "Impairment loss on loans and other commitments".

##### Investments held to maturity

Investments held to maturity are interest-bearing financial assets and are recognised at accrued cost using the effective interest rate method. Impairment of an investment is recognised after individual examination.

##### Financial assets available for sale

Financial assets available for sale are assets not included in any of the above categories and that are not derivative instruments.

The assets in this group are initially recognised in the balance sheet at cost and subsequently carried at fair value. The change in fair value is recognised under equity as the "Fair value reserve". When such an asset is sold the change in fair value is derecognised from the reserve in a separate item, "Net income from financial assets available for sale". Impairment is recognised in the income statement.

##### Other financial liabilities

Other financial liabilities are recognised in the balance sheet upon commencement of the contract at cost and subsequently at accrued cost.



## Financial guarantees

Financial guarantees are recognised in the balance sheet at the beginning of the contract and carried with the corresponding deferred income. Guarantees are then varied at an amount defined on the basis of IAS 37, after subtracting revenue accrual from the original cost, whichever is larger.

### Recognition in the balance sheet

Financial instruments are recognised in the balance sheet on the business day that an acquisition contract was signed. Financial instruments are derecognised when they reach maturity or are sold.

## EMPLOYEE BENEFITS

### Pension liabilities

Pension coverage for employees has been arranged partly through the Finnish national pension system and partly via a pension fund (Ålandsbanken Abp:s Pensionsstiftelse, called the A Fund). The purpose of this fund is to provide old age and disability pensions to those who belong to its sphere of operations, as well as family pensions to designated beneficiaries and funeral grants.

According to IAS 19, plans for post-employment benefits are classified as defined contribution or defined benefit plans. Under a defined contribution plan, the employer has no liability after having paid the agreed premiums that are related to an accounting period. Under a defined benefit plan, however, the employer retains a pension liability even after the end of the accounting period.

As for insurance under the Finnish national pension system, the old-age pension is regarded as a defined contribution plan from the standpoint of the employer. If the old-age pension has instead been arranged via a pension fund, the funded portion is regarded as a defined benefit plan and requires actuarial calculations to estimate the size of the liability.

A disability pension is a defined benefit plan, but in this case it is not a matter of a benefit accumulated on the basis of a person's length of service. Based on the last sentence of IAS 19.130, the expected cost is recognised when an event occurs that causes a long-term disability. There is no difference if the employer has taken out insurance or arranged protection through a fund. This means that the employer does not recognise any liability for future disability cases.

To the extent it is a matter of insured benefits, the insurance premiums are recognised as an expense during the year when the work is performed.

For the pension fund, the difference between the pension liability and the fair value of the assets that cover this liability is recognised as a liability or receivable in the balance sheet. Actuarial gains and losses are recognised in accordance with the corridor method in IAS 19.92-93. A portion of actuarial gain and loss is recognised if the net cumulative unrecognised actuarial gains and losses exceeds the greater of either 10 per cent of the present value of the defined benefit obligation or 10 per cent of the fair value of plan assets. The recognised portion of actuarial gain or loss is the excess determined as above, divided by the expected average remaining working lives of the employees participating in the plan. The Bank of Åland pension fund has been closed to new members since June 30, 1991.

After the end of the employment period, there are no pension obligations. All pension benefits to closely related persons are based on customary employment conditions.

## INCOME TAX

Income tax includes current taxes for the Group based on taxable income for the year, together with tax adjustments for prior years plus changes in deferred (imputed) taxes. A deferred tax asset or liability has been established for temporary differences between the value of assets and liabilities for tax purposes and their carrying amount, by using tax rates applicable to future periods. Deferred tax liabilities and tax assets are calculated according to the tax rates expected to apply when the tax materialises (a law has been adopted but has not yet gone into effect).

## CAPITAL BASE

According to the Finnish Financial Supervision Authority's interpretation of the effects of IFRS on the calculation of capital adequacy, surpluses arising from the calculation of pension obligations may not be included in the capital base. The fair value reserve, less tax liabilities, is included in supplementary capital. Equity capital that arose from valuation of real estate according to the exemption rule in IFRS 1 is included in supplementary capital.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(EUR K)

## Numbering

<b>1</b>	Segment report
<b>2-22</b>	Notes to the balance sheet
<b>23-37</b>	Notes to the income statement
<b>38-41</b>	Notes concerning staff, Board of Directors and Executive Team
<b>42-45</b>	Notes concerning assets pledged and contingent liabilities
<b>46-48</b>	Other notes

## 1. Segment report

### 2006

	Banking operations	IT operations	Other	Eliminations	Total
External income	49,352	8,450	3,835	0	61,637
Intra-Group income	831	9,858	0	-10,689	0
<b>Total income</b>	<b>50,183</b>	<b>18,308</b>	<b>3,835</b>	<b>-10,689</b>	<b>61,637</b>
Expenses including depreciation/amortisation	-33,094	-14,076	-4,436	10,689	-40,917
Loan losses	35	0	0	0	35
Share of income in associated companies			344		344
<b>Net operating profit</b>	<b>17,124</b>	<b>4,232</b>	<b>-257</b>	<b>0</b>	<b>21,099</b>
Assets	1,914,581	8,113	267,472	-1,551	2,188,616
Liabilities	1,858,443	5,356	202,808	-160	2,066,448
Equity capital					122,168
Increases in tangible and non-tangible assets	2,749	2,218	107	0	5,074
Depreciation/amortisation	2,794	1,067	118	0	3,979
Interest income from the public and public sector entities					
Financial enterprises	19,693				19,693
Households					
Residential	35,992				35,992
Other	11,148				11,148
Miscellaneous	932				932

### 2005

	Banking operations	IT operations	Other	Eliminations	Total
External income	44,076	3,148	4,785	0	52,009
Intra-Group income	909	10,629	0	-11,538	0
<b>Total income</b>	<b>44,986</b>	<b>13,776</b>	<b>4,785</b>	<b>-11,538</b>	<b>52,009</b>
Expenses including depreciation/amortisation	-29,482	-12,183	-3,113	11,538	-33,240
Loan losses	-295	0	0	0	-295
Share of income in associated companies			202		202
<b>Net operating profit</b>	<b>15,208</b>	<b>1,593</b>	<b>1,874</b>	<b>0</b>	<b>18,676</b>
Assets	1,798,507	5,465	368,304	-1,887	2,170,389
Liabilities	1,861,224	2,709	194,140	-1,020	2,057,054
Equity capital					113,336
Increases in tangible and non-tangible assets	3,537	971	217	0	4,725
Depreciation/amortisation	2,778	1,017	111	0	3,906
Interest income from the public and public sector entities					
Financial enterprises	15,714				15,714
Households					
Residential	28,358				28,358
Other	8,300				8,300
Miscellaneous	822				822

The segment report has been changed to correspond to the prevailing organisation. The "Banking operations" segment now also includes investment banking operations. Crosskey Banking Solutions Ab Ltd and S-Crosskey Ab are reported in "IT operations".

Reported in "Other" are the results of Treasury and portfolio management as well as management and related corporate expenses.

## NOTES TO THE BALANCE SHEET

### 2. Holdings of debt securities

	2006			2005		
	Listed	Other	Total	Listed	Other	Total
<b>Debt securities eligible for refinancing</b>						
Instruments held to maturity						
Treasury bills	14,835	0	14,835	0	0	0
Treasury bonds	11,271	0	11,271	16,853	0	16,853
Instruments available for sale						
Treasury bills	0	29,461	29,461	0	58,586	58,586
Treasury bonds	20	0	20	1,324	0	1,324
Certificates of deposit	0	0	0	0	17,947	17,947
Other debt securities	1,499	0	1,499	1,113	0	1,113
	27,624	29,461	57,086	19,290	76,533	95,822

**Other debt securities**

Treasury bonds	39	0	39	13	0	13
Bonds issued by banks	0	0	0	5	0	5
Other	10	0	10	11	0	11
	49	0	49	29	0	29

**3. Claims on credit institutions**

	2006			2005		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Finnish credit institutions	50	16,615	16,665	2	17,456	17,458
Foreign credit institutions	1,305	42,446	43,751	1,017	109,702	110,719
Total	1,355	59,061	60,416	1,018	127,158	128,177

**4. Claims on the public and public sector entities**

	2006	2005
Financial enterprises	501,093	504,523
Public sector	11,697	12,303
Households	1,337,929	1,234,490
Non-profit organisations, household sector	15,587	15,221
Foreign	45,859	29,745
Total	1,912,164	1,796,282
Of which subordinated claims	309	239
Of which non-interest-bearing claims	309	339
<b>Impairment losses</b>		
Individual impairment losses recognised during the year	107	422
Individual impairment losses reversed during the year	-143	-127
Group impairment losses	0	0
Total impairment losses	-35	295

**5. Shares and participations**

	2006			2005		
	Listed	Other	Total	Listed	Other	Total
Shares and participations						
Available for sale	2,678	1,484	4,161	990	3,546	4,536
Shares and participations in associated companies	0	1,632	1,632	0	1,528	1,528

There are no holdings in other credit institutions.

**6. Derivative instruments**

	2006		2005	
	Fair value		Fair value	
	Positive	Negative	Positive	Negative
Interest rate derivatives				
Interest rate swaps	2,740	2,364	755	1,443
Currency derivatives				
Forward contracts	182	175	56	53
Interest rate and currency swaps	36	19	33	14
Equity derivatives				
Option contracts				
Purchased	23,659	0	13,864	0
Written	0	23,528	0	13,826
	26,618	26,085	14,708	15,336

Nominal value of underlying asset by remaining maturity:

	2006				2005			
	Under 1 yr	1-5 yrs	Over 5 yrs	Total	Under 1 yr	1-5 yrs	Over 5 yrs	Total
Interest rate derivatives								
Interest rate swaps	106,348	211,989	31,817	350,154	90,504	184,371	17,400	292,275
Currency derivatives								
Forward contracts	14,673	0	0	14,673	6,187	639	0	6,826
Interest rate and currency swaps	532	0	0	532	776	0	0	776
Equity derivatives								
Option contracts								
Purchased	36,610	114,798	0	151,408	51,510	95,687	0	147,197
Written	36,610	114,798	0	151,408	51,510	95,687	0	147,197
	194,774	441,585	31,817	668,175	200,486	376,384	17,400	594,271

**7. Intangible assets**

	2006	2005
IT investments	3,553	3,116
Goodwill	881	927
Other	195	22
	4,629	4,064
Of which internally generated IT investments		
Gross carrying amount	1,592	1,130
Accumulated amortisation	-419	-127
	1,173	1,102

## 8. Properties and shares and participations in real estate companies

	2006	2005
<i>Investment properties</i>		
Land and water	453	453
Buildings	2,044	2,087
Shares in real estate companies	321	406
	<u>2,819</u>	<u>2,946</u>
<i>Properties for the Group's own use</i>		
Land and water	2,352	2,352
Buildings	12,610	13,343
	<u>14,961</u>	<u>15,695</u>

## 9. Changes in intangible and tangible assets

	2006					
	Land and buildings for own use	Investment properties	Other tangible assets	Goodwill	Other intangible assets	Total
<b>Historical costs</b>						
Cost on January 1	24,695	3,330	14,082	927	10,797	53,831
Increases during the year	688	0	1,628	0	1,860	4,176
Decreases during the year	-621	-82	-1,930	-45	-156	-2,833
Cost on December 31	<u>24,763</u>	<u>3,248</u>	<u>13,781</u>	<u>881</u>	<u>12,501</u>	<u>55,174</u>
<b>Accumulated depreciation/amortisation</b>						
Acc. depreciation/amortisation/impairment losses on Jan. 1	-9,001	-384	-8,876	0	-7,659	-25,920
Acc. depreciation/amortisation concerning decreases	15	0	1,853	0	64	1,932
Depreciation/amortisation for the year	-815	-11	-1,962	0	-1,158	-3,980
Impairment loss for the year	0	0	0	0	0	0
Acc. depreciation/amortisation/impairment losses on Dec. 31	<u>-9,801</u>	<u>-395</u>	<u>-8,985</u>	<u>0</u>	<u>-8,753</u>	<u>-27,968</u>
<b>Carrying amount on December 31</b>	<b>14,961</b>	<b>2,819</b>	<b>4,796</b>	<b>881</b>	<b>3,748</b>	<b>27,206</b>
	2005					
	Land and buildings for own use	Investment properties	Other tangible assets	Goodwill	Other intangible assets	Total
<b>Historical costs</b>						
Cost on January 1	25,217	3,471	12,448	0	8,720	49,856
Increases during the year	11	24	2,098	927	2,666	5,725
Decreases during the year	-532	-165	-463	0	-590	-1,750
Cost on December 31	<u>24,695</u>	<u>3,330</u>	<u>14,082</u>	<u>927</u>	<u>10,797</u>	<u>53,831</u>
<b>Accumulated depreciation/amortisation</b>						
Acc. depreciation/amortisation/impairment losses on Jan. 1	-8,392	-458	-7,223	0	-6,476	-22,548
Acc. depreciation/amortisation concerning decreases	227	99	399	0	3	729
Depreciation/amortisation for the year	-836	-12	-2,052	0	-1,187	-4,086
Impairment loss for the year	0	-14	0	0	0	-14
Acc. depreciation/amortisation/impairment losses on Dec. 31	<u>-9,001</u>	<u>-384</u>	<u>-8,876</u>	<u>0</u>	<u>-7,659</u>	<u>-25,920</u>
<b>Carrying amount on December 31</b>	<b>15,695</b>	<b>2,946</b>	<b>5,206</b>	<b>927</b>	<b>3,138</b>	<b>27,911</b>

## 10. Other assets

	2006	2005
Cash items in the process of collection	84	83
Other	16,666	8,544
	<u>16,750</u>	<u>8,626</u>

## 11. Accrued income and prepayments

	2006	2005
Interest	8,123	6,762
Other	8,238	7,560
	<u>16,360</u>	<u>14,322</u>

## 12. Deferred tax assets and liabilities

	2006	2005
<b>Deferred tax assets</b>		
<i>Accrual differences</i>	42	229
<i>Other temporary differences</i>	843	612
	<u>885</u>	<u>842</u>
<b>Deferred tax liabilities</b>		
<i>Temporary differences</i>	12,496	11,726
<i>From the fair value fund</i>	146	130
	<u>12,642</u>	<u>11,856</u>

## 13. Debt securities issued to the public

	2006		2005	
	Carrying amount	Nominal amount	Carrying amount	Nominal amount
Certificates of deposit	238,647	241,602	229,787	231,601
Bonds	358,787	368,879	328,520	335,157
Total	<u>597,434</u>	<u>610,481</u>	<u>558,308</u>	<u>566,758</u>

## 14. Other liabilities

	2006	2005
Cash items in the process of collection	16,224	16,570
Other	18,844	13,135
	35,068	29,705

## 15. Accrued expenses and deferred income

	2006	2005
Interest	6,350	6,505
Other	5,870	4,781
	12,219	11,285

## 16. Subordinated liabilities

	2006			2005		
	Carrying amount	Nominal amount	Amount in capital base	Carrying amount	Nominal amount	Amount in capital base
<b>Convertible capital loan:</b>						
Amount outstanding	5,435	5,449	0	9,313	9,381	1,875
The interest rate on the loan is 6 per cent and the maturity date is April 2, 2007. Lenders are not entitled to demand early repayment. Each loan certificate with a nominal value of EUR 1,681.88 entitles the holder to subscribe for 111 Series B shares at a subscription price of EUR 15.13929 per share. During the period December 1, 2006 to January 31, 2007, holders applied for conversion of EUR 4,694,000 of the capital loan, which entitled them to 309,801 shares.						
<b>1999 debenture loan</b>	9,984	9,984	9,984	10,000	10,000	6,000
Interest rate: 3-month EURIBOR + 1.94 %						
Repayment: January 25, 2009						
<b>2003 debenture loan</b>	2,007	2,002	401	2,011	2,002	805
Interest rate: 3.50 %						
Repayment: May 5, 2008						
<b>2004 debenture loan 1</b>	3,358	3,358	3,358	4,477	4,477	4,477
Interest rate: 12-month EURIBOR + 0.25 %						
Repayment: 20 % of nominal amount yearly beginning June 4, 2005						
<b>2004 debenture loan 2</b>	14,389	14,389	14,389	14,424	14,424	14,424
Interest rate: 12-month EURIBOR + 0.50 %, starting June 4, 2009 12-month EURIBOR + 2.00 %						
Repayment: June 4, 2014						
<b>2005 debenture loan 1</b>	4,152	4,152	4,152	5,193	5,193	5,193
Interest rate: 12-month EURIBOR + 0.20 %						
Repayment: 20 % (1,039) of original nominal amount yearly beginning May 17, 2006						
<b>2005 debenture loan 2</b>	9,647	9,647	9,647	9,647	9,647	9,647
Interest rate: 12-month EURIBOR + 0.40 %, starting May 17, 2010 12-month EURIBOR +2.00 %						
Repayment: May 17, 2015.						
<b>2006 debenture loan 1</b>	2,441	2,444	2,441			
Interest rate: 12-month EURIBOR + 0.15 %						
Repayment: 20 % (489) of original nominal amount yearly beginning June 1, 2007						
<b>2006 debenture loan 2</b>	8,927	8,942	8,927			
Interest rate: 12-month EURIBOR + 0.30 %, starting May 17, 2010 12-month EURIBOR +2.00 %						
Repayment: May 17, 2016.						

All subordinated liabilities are included in lower supplementary capital. However, the total amount in the capital base is limited to half of core capital, which means that a small portion of total subordinated debts is not included in the capital base. The loans may be repurchased before maturity, but this is possible only with the permission of the Financial Supervision Authority. In case the Bank is dissolved, the loans are subordinate to the Bank's other obligations.

## 17. Maturity breakdown of claims and liabilities

	2006					
	Total	Under 3 mo	3 - 12 mo	1 - 5 yrs	5-10 yrs	Over 10 yrs
<b>Claims</b>						
Debt securities eligible for refinancing w/central banks	57,086	34,457	19,963	2,167	500	0
Credit institutions and central banks	60,416	60,416	0	0	0	0
The public and public sector entities	1,912,164	144,702	262,896	683,764	798,392	22,410
Other debt securities	49	49	0	0	0	0
	2,029,715	239,623	282,859	685,931	798,892	22,410
<b>Liabilities</b>						
Credit institutions and central banks	61,649	44,830	0	16,819	0	0
The public and public sector entities	1,261,009	1,185,951	57,857	15,965	1,228	9
Debt instruments issued to the public	597,434	218,372	286,476	92,585	0	0
Subordinated liabilities	60,341	0	5,435	21,907	32,998	0
	1,980,433	1,449,153	349,769	147,276	34,226	9

**2005**

	Total	Under 3 mo	3 - 12 mo	1 - 5 yrs	5-10 yrs	Over 10 yrs
<b>Claims</b>						
Debt securities eligible for refinancing w/central banks	95,822	76,532	16,977	2,313	0	0
Credit institutions and central banks	128,177	123,177	5,000	0	0	0
The public and public sector entities	1,796,282	148,687	228,195	707,999	692,227	19,175
Other debt securities	29	29	0	0	0	0
	<u>2,020,311</u>	<u>348,425</u>	<u>250,172</u>	<u>710,311</u>	<u>692,227</u>	<u>19,175</u>
<b>Liabilities</b>						
Credit institutions and central banks	72,812	72,812	0	0	0	0
The public and public sector entities	1,302,916	1,245,332	44,014	11,502	2,036	32
Debt instruments issued to the public	558,308	244,435	239,776	74,097	0	0
Subordinated liabilities	54,836	0	2,157	28,663	24,016	0
	<u>1,988,672</u>	<u>1,562,579</u>	<u>285,947</u>	<u>114,262</u>	<u>26,052</u>	<u>32</u>

**18. Assets and liabilities in euro and other currencies**

	2006			2005		
	Euro	Other currencies	Total	Euro	Other currencies	Total
Claims on credit institutions	5,276	55,141	60,416	48,780	79,397	128,177
Claims on the public and public sector entities	1,903,307	8,857	1,912,164	1,790,757	5,525	1,796,282
Debt securities	57,135	0	57,135	95,852	0	95,852
Derivative instruments	26,400	218	26,618	14,619	89	14,708
Other assets including cash	128,558	3,725	132,283	130,871	4,500	135,371
Total	<u>2,120,675</u>	<u>67,941</u>	<u>2,188,616</u>	<u>2,080,878</u>	<u>89,512</u>	<u>2,170,389</u>
Liabilities to credit institutions	60,489	1,159	61,649	69,435	3,377	72,813
Liabilities to the public and public sector entities	1,193,629	67,380	1,261,009	1,217,707	85,209	1,302,916
Debt instruments issued to the public	597,434	0	597,434	558,308	0	558,308
Derivative instruments and liabilities held for trading	25,891	194	26,085	15,269	67	15,335
Subordinated debentures	60,341	0	60,341	54,836	0	54,836
Other liabilities	58,223	1,707	59,930	51,895	952	52,847
Total	<u>1,996,007</u>	<u>70,440</u>	<u>2,066,448</u>	<u>1,967,449</u>	<u>89,605</u>	<u>2,057,054</u>

**19. Fair value and carrying amount of assets and liabilities**

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Cash	65,288	65,288	77,605	77,605
Debt securities eligible for refinancing with central banks				
<i>Available for sale</i>	30,980	30,980	78,969	78,969
<i>Intended to be held to maturity</i>	26,106	26,574	16,853	17,044
Claims on credit institutions	60,416	60,416	128,177	128,177
Claims on the public and public sector entities				
<i>Carried at fair value</i>	151,159	151,159	132,839	132,839
<i>Other</i>	1,761,005	1,758,856	1,663,443	1,660,627
Lease assets	0	0	0	0
Debt securities available for sale	49	49	29	29
Shares and participations available for sale	4,161	4,161	4,536	4,536
Shares and participations in associated companies	1,632	1,632	1,528	1,528
Shares and participations in Group companies	0	0	0	0
Derivative instruments	26,618	26,618	14,708	14,708
Intangible assets	4,629	4,629	4,064	4,064
Tangible assets	22,577	28,001	23,847	28,545
Other assets	16,750	16,750	8,626	8,626
Accrued income and prepayments	16,360	16,360	14,322	14,322
Deferred tax assets	885	885	841	841
	<u>2,188,616</u>	<u>2,192,358</u>	<u>2,170,389</u>	<u>2,172,462</u>
<b>Liabilities</b>				
Liabilities to credit institutions	61,649	61,876	72,812	72,658
Liabilities to the public and public sector entities				
<i>Carried at fair value</i>	24,422	24,422	27,366	27,366
<i>Other</i>	1,236,587	1,238,105	1,275,550	1,275,504
Debt instruments issued to the public				
<i>Carried at fair value</i>	147,563	147,563	124,099	124,099
<i>Other</i>	449,871	449,579	434,209	434,648
Derivative instruments	26,085	26,085	15,335	15,335
Other liabilities	35,068	35,068	29,705	29,705
Accrued expenses and prepaid income	12,219	12,219	11,285	11,285
Subordinated liabilities	60,341	64,309	54,836	55,411
Deferred tax liabilities	12,642	12,642	11,856	11,856
	<u>2,066,447</u>	<u>2,071,870</u>	<u>2,057,054</u>	<u>2,057,867</u>

The fair value of assets and liabilities repayable on demand is equivalent to their nominal value. The fair value of fixed-period assets and liabilities corresponds to the present value of future cash flows. For listed shares, the last closing price has been used. The fair value of unlisted shares has been calculated by estimating their percentage of equity. The appraisal of real estate was performed by a licensed estate agent.

## 20. Fair value option

	2006			2005		
	Opening bal. Jan 1, 2006	Change for the year	Closing bal. Dec. 31, 2006	Opening bal. Jan 1, 2005	Change for the year	Closing bal. Dec. 31, 2005
<b>Balance sheet</b>						
Lending to the public	1,240	-2,876	-1,636	2,308	-1,068	1,240
Derivative instruments	755	1,986	2,740	1,195	-440	755
Liabilities to the public	31	157	188	-255	286	31
Debt securities issued to the public	2,032	2,295	4,326	1,323	708	2,032
Derivative instruments	-1,443	-921	-2,364	-1,826	383	-1,443
Profit brought forward	1,935	751	2,686	2,033	-98	1,935
Deferred tax liabilities	680	69	748	714	-34	680
<b>Income statement</b>						
Net income from securities trading			640		-132	
Change in deferred tax liabilities			110		34	
Taxes			-277		0	
Profit for the year			474		-98	

## 21. Share capital

The share capital of the Bank of Åland is EUR 22,657,579.81. The maximum share capital according to the Articles of Association is EUR 32,292,081.88. The carrying amount equivalent of a share is EUR 2.02. The shares are divided into 5,180,910 Series A and 6,045,411 Series B shares. Each Series A share represents twenty (20) votes at shareholders' meetings and each Series B share one (1) vote.

Series B shares enjoy priority over Series A shares for dividends of up to six (6) per cent of their previous nominal value.

Changes in share capital	Share capital	Series A	Series B
2002	EUR 20,318,016.45	5,180,910	4,886,210
2003	EUR 22,086,413.60	5,180,910	5,762,411
2004	EUR 22,164,049.83	5,180,910	5,800,878
2005	EUR 22,173,906.98	5,180,910	5,805,762
2006	EUR 22,657,579.81	5,180,910	6,045,411

### Convertible capital loan

During the spring of 1997, the Bank issued a convertible capital loan of FIM 100 M to the public.

The capital loan pays annual interest of six (6) per cent and falls due for payment in its entirety on April 2, 2007.

	Issued	Conversions recorded* Dec 31, 2006	Remaining
Nominal loan amount in EUR	16,818,792.65	11,068,447.44	5,750,345.21
Number of loan certificates	10,000	6,581	3,419
Equivalent number of Series B shares	1,095,546	716,037	379,509

During the period December 1, 2006 to January 31, 2007, an additional 2,791 loan certificates, equivalent to EUR 4,694,125.03 or 309,801 Series B shares, were converted. The remaining principal amount of the capital loan is EUR 9,033,377.48.

### Conversion terms and conditions

The conversion price was EUR 15.13929 per share. Each loan certificate with a nominal value of EUR 1,681.88 could thus be converted into 111 B shares. The difference that arose, EUR 1.42, was repaid in cash. The conversion entitlement for the loan began on April 2, 1998 and ended on January 31, 2007.

\* In the Finnish Trade Register.

The ten largest shareholders, December 31, 2006	Series A shares	Series B shares	Total number of shares	% of shares	% of votes
1 Alandia-Bolagen	733,886	325,145	1,059,031	9.40 %	13.70 %
2 Aktia Sparbank Abp	105,000	877,100	982,100	8.80 %	2.70 %
3 Ålands Ömsesidiga Försäkringsbolag	612,331	111,960	724,291	6.50 %	11.30 %
4 Wiklöf Anders	579,089	90,358	669,447	6.00 %	10.60 %
5 Mattsson Rafael	422,406	15,638	438,044	3.90 %	7.70 %
6 Veritas bolagen	277,734	153,900	431,634	3.80 %	5.20 %
7 Caelum Oy	65,340	156,800	222,140	2.00 %	1.30 %
8 Lisitsin Pavel	192,983	2,984	195,967	1.80 %	3.50 %
9 Svenska litteratursällskapet i Finland	167,000	0	167,000	1.50 %	3.10 %
10 Palkkiyhymä Oy	60,000	76,000	136,000	1.20 %	1.20 %

## 22. Fair value fund

	2006			2005		
	Positive figures	Negative figures	Total	Positive figures	Negative figures	Total
Debt securities	2	-2	0	15	-28	-13
Shares	746	-181	564	590	-76	514
Total	747	-183	564	605	-104	501
Deferred tax liability			-147			-130
Fair value fund			418			371

## NOTES TO THE INCOME STATEMENT

### 23. Interest income

	2006	2005
Credit institutions and central banks	4,382	4,035
Public and public sector entities	67,765	53,194
Debt securities	2,332	3,744
Derivative instruments	39	36
Other	1	0
<b>Total</b>	<b>74,518</b>	<b>61,009</b>

No interest income was received from Group companies.

### 24. Interest expenses

	2006	2005
Credit institutions	1,930	970
Public and public sector entities	21,700	15,160
Debt instruments issued to the public	16,092	11,297
Derivative instruments	51	257
Subordinated liabilities	1,847	1,413
Capital loan	226	553
Other interest expenses	17	1
<b>Total</b>	<b>41,863</b>	<b>29,651</b>

Interest paid to Group companies was 144 (2005: 45).

### 25. Net lease income

	2006	2005
Rental income	108	224
Planned depreciation	-83	-189
Net capital gains and losses from the sale of lease assets	7	16
<b>Total</b>	<b>32</b>	<b>50</b>

According to a decision of the Executive Team, no new leases will be signed.

Since these operations are small in scale and will be discontinued, no settlement in accordance with IAS 17.47 has been carried out.

### 26. Income from equity instruments

	2006	2005
Financial assets available for sale	19	43
Group companies	0	0
Associated companies	0	40
<b>Total</b>	<b>19</b>	<b>83</b>

### 27. Commission income

	2006	2005
Deposit commissions	874	916
Lending commissions	2,569	2,832
Payment intermediation commissions	2,382	2,158
Mutual fund unit commissions	4,242	3,249
Management commissions	2,144	1,790
Securities commissions	4,917	3,796
Insurance commissions	187	209
Legal services	407	376
Guarantee commissions	151	136
Other commissions	548	674
<b>Total</b>	<b>18,422</b>	<b>16,137</b>

### 28. Commission expenses

	2006	2005
Service charges paid	344	365
Other	1,351	1,595
	<b>1,695</b>	<b>1,959</b>

### 29. Net income from securities trading and foreign exchange operations

	2006			2005		
	Net capital gains and losses	Net changes in fair value	Total	Net capital gains and losses	Net changes in fair value	Total
Debt securities	0	0	0	6	0	6
Shares and participations	615	0	615	756	0	756
Fair value option	0	-425	-425	0	-74	-74
Derivative instruments	-25	1,065	1,040	-5	-58	-63
Securities trading	590	640	1,230	757	-132	625
Foreign exchange operations	1,015	9	1,024	914	-16	898
	<b>1,605</b>	<b>649</b>	<b>2,254</b>	<b>1,671</b>	<b>-148</b>	<b>1,523</b>



### 30. Net income from financial assets available for sale

	2006	2005
Capital gains	573	1,578
Impairment losses	-268	-505
Total	305	1,073

### 31. Net income from investment properties

	2006	2005
Rental income	161	183
Rental expenses	-63	-62
Depreciation	-3	-18
Capital gains/losses	153	246
Other expenses	-31	-72
	217	277

### 32. Other operating income

	2006	2005
Rental income on properties	155	140
Capital gains on properties	602	9
Other property income	2	19
Computer income	8,452	3,138
Other income	171	210
	9,382	3,516

### 33. Other administrative expenses

	2006	2005
Staff costs	752	659
Office costs	711	611
Computer costs	3,838	3,607
Communication	1,470	1,482
Marketing	2,237	1,768
Other	359	324
	9,368	8,450

### 34. Other operating expenses

	2006	2005
Rental expenses	1,650	1,263
Other property expenses	704	628
Fee to security fund	630	611
Miscellaneous expenses	2,457	1,717
	5,441	4,219

### 35. Impairment losses on loans and other commitments

	2006	2005
Individual impairment losses	107	422
Group impairment losses	0	0
Reversals	-143	-127
	-35	295

Carrying amount of impaired receivables according to original interest amounted to EUR 10,000.

### 36. Taxes

	2006	2005
Taxes for the year	4,714	4,392
Taxes from prior years	-5	-1
Changes in deferred tax assets	-44	-649
Changes in deferred tax liabilities	770	903
Taxes in income statement	5,435	4,646
Effective tax rate, %	26	25
The tax rate in Finland in 2005 and 2006 was 26%.		
Net operating profit	21,099	18,676
Tax-exempt income	-5	-282
Non-deductible expenses	233	51
Net profit from associated companies	-403	-202
Taxable profit	20,924	18,243
Tax, 26%	5,440	4,743
Taxes from prior years	-5	-1
Elimination items	0	-96
Taxes in income statement	5,435	4,646

### 37. Earnings per share

	2006	2005
<b>Earnings per share before dilution, EUR</b>		
Profit for the year	14,695,678	13,577,972
Average number of shares	11,403,422 = 1.29	10,986,280 = 1.24
<b>Earnings per share after dilution, EUR</b>		
Profit for the year + interest on capital loan	14,821,997	13,986,860
Average number of shares + shares outstanding	11,473,130 = 1.29	11,605,438 = 1.21

## NOTES CONCERNING STAFF, BOARD OF DIRECTORS AND EXECUTIVE TEAM

### 38. Number of employees

	2006		2005	
	Average employees	Change	Average employees	Change
Permanent full-time employees	376	+23	353	+24
Permanent part-time employees	100	+12	88	-7
	476	+35	441	+17

### 39. Salaries/fees paid to Board and Executive Team

	2006	2005
Members of the Board of Directors	87	72
Managing Directors	635	525
Deputy Managing Directors	272	276
Other members of the Executive Team	613	408

The amount includes the value of fringe benefits.

There are no pension obligations to the members of the Board of Directors. The pension benefits of the Managing Directors and Deputy Managing Directors are based on customary terms of employment.

### 40. Private shareholdings of the Board of Directors and the Executive Team in the Bank of Åland Plc

	2006			% of shares	% of votes
	Series A shares	Series B shares	Total number of shares		
<b>Board of Directors</b>					
<i>Lindholm, Göran</i>	1,861	1,309	3,170	0.03 %	0.04 %
<i>Boman, Sven-Harry</i>	55	524	579	0.01 %	0.00 %
<i>Janér, Kent</i>	-	-	-	0.00 %	0.00 %
<i>Karlsson, Agneta</i>	40	28	68	0.00 %	0.00 %
<i>Nordlund, Leif</i>	12	12	24	0.00 %	0.00 %
<i>Palmberg, Tom</i>	-	-	-	0.00 %	0.00 %
<i>Wiklöf, Anders</i>	231,506	89,504	321,010	2.85 %	4.30 %
Total	233,474	91,377	324,851	2.89 %	4.34 %
<b>Executive Team</b>					
<i>Grönlund, Peter</i>	-	-	-	0.00 %	0.00 %
<i>Donner, Lars</i>	747	-	747	0.01 %	0.01 %
<i>Erikslund, Tove</i>	-	-	-	0.00 %	0.00 %
<i>Nuutinen, Pekka</i>	-	-	-	0.00 %	0.00 %
<i>Tallqvist, Jan</i>	-	-	-	0.00 %	0.00 %
<i>Vickström, Edgar</i>	-	-	-	0.00 %	0.00 %
<i>Woivalin, Dan-Erik</i>	-	-	-	0.00 %	0.00 %
Total	747	0	747	0.01 %	0.01 %

### 41. Financial transactions with related parties

	2006	
	Board and Executive Team	Related companies
<b>Loans</b>		
Loans outstanding, January 1, 2006	2,332	9,598
Taken out during the year	187	400
Principal paid during the year	-289	-413
Loans outstanding, December 31, 2006	2,230	9,585
Interest income	71	162
Commission income	0	0
<b>Deposit accounts</b>		
Deposit accounts, January 1, 2006	713	3,473
Deposit accounts, December 31, 2006	824	3,439
Interest expenses	13	44
Other commissions and fees	0	9

"Board and Executive Team" includes individuals on the Board of Directors of Bank of Åland Plc as well as their respective spouse and minor children. "Related companies" refers to companies in which individuals on the Bank's Board of Directors or Executive Team hold a significant percentage of the votes or can exercise significant influence. Members of the Board of Directors and the Executive Team may be granted a personal loan in a maximum amount of EUR 170,000 with accepted collateral at the base rate or an employee loan without collateral in a maximum amount of EUR 40,000 after normal assessment of creditworthiness.

Members of the Executive Team may be granted a supplementary loan in a maximum amount of EUR 130,000 with residential property as collateral at the base rate plus a margin of 0.5 per cent.

## NOTES CONCERNING ASSETS PLEDGED AND CONTINGENT LIABILITIES

### 42. Collateral provided and received

	<b>2006</b>	<b>2005</b>
Carrying amount of assets pledged for the Group's own account	46,104	56,792
Commitments for which property has been pledged	29,322	20,210

The commitments consist mainly of an unutilised limit with the Bank of Finland. There are no pledged assets that may be divested unless the party pledging them has neglected its commitments.

### 43. Pension liabilities in Ålandsbanken Abps Pensionsstiftelse

	<b>2006</b>	<b>2005</b>
Present value of pension liabilities	14,123	13,692
Fair value of plan assets	-18,475	-17,668
Status	-4,352	-3,996
Unrealised actuarial gains	-1,245	-1,410
Liabilities recognised in the balance sheet	-5,597	-5,406
Current service costs	211	223
Interest expenses	582	684
Past service costs	153	-2,222
Expected return on plan assets	-1,137	-1,069
Recognised in income statement	-191	-2,384
<b>Opening balance</b>	<b>-5,406</b>	<b>-3,022</b>
Expenses (+)/income (-) in the income statement	-191	-2,384
<b>Closing balance</b>	<b>-5,597</b>	<b>-5,406</b>
<b>Assumptions</b>		
Discount rate	4.20 %	4.25 %
Expected return on assets	6.50 %	6.50 %
Increase in salaries	3.50 %	3.50 %
Pension index increase	2.10 %	2.10 %
Inflation	2.00 %	2.00 %
Staff turnover	0.00 %	0.00 %
	<b>2006</b>	<b>2005</b>
<b>Asset classes as a percentage of total plan assets</b>		
Equity instruments	22.80 %	29.63 %
Financial market instruments	45.20 %	11.07 %
Properties	18.30 %	19.04 %
Cash and other short-term assets	13.70 %	40.26 %
	100.00 %	100.00 %
<b>Reconciliation of present value of pension liabilities</b>		
Opening balance	13,692	13,662
Current service costs	211	223
Interest expenses	582	684
Benefits paid	-555	-413
Actuarial gains/losses	40	1,758
Closing balance	153	-2,222
	14,123	13,692
<b>Reconciliation of fair value of plan assets</b>		
Opening balance	17,688	16,641
Expected return on plan assets	1,137	1,069
Benefits paid	-555	-413
Actuarial gains/losses	205	391
Closing balance	18,475	17,688
<b>Specification of the fund's holdings in Bank of Åland Plc</b>		
Shares in Bank of Åland Plc	26	981
Equity index bonds	333	1,021
Corporate bonds	499	0
Mutual fund holdings	108	0
Bank deposits	2,398	7,096
Total	3,365	9,098

An estimate of the present value of pension liabilities as well as fair value of plan assets was carried out on December 31, 2006 by Silta Oy, a payroll service company.

#### Amounts for the financial year in question and the four preceding financial years

	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002*</b>
Present value of pension liabilities	14,123	13,692	13,662	12,639	12,205
Fair value of plan assets	-18,475	-17,688	-16,641	-16,810	-15,130
Status	-4,352	-3,996	-2,979	-4,171	-2,925

\* IFRS standards have been applied since January 1, 2004, with a restated closing balance for 2003. Figures for 2002 are based on the pension fund's own estimate and are thus not comparable.

### 44. Lease liabilities and rental obligations

	<b>2006</b>	<b>2005</b>
Lease payments and rental obligations due		
<i>Within 1 year</i>	1,496	1,565
<i>More than 1 and less than 5 years</i>	338	1,018
<i>More than 5 years</i>	0	0
	1,834	2,583
Carrying amount		
<i>Machinery and equipment</i>	1,134	2,131

The Group has financial leases on cars, computers and IT equipment. Certain leases include an option to buy the asset. When leases are renewed, new negotiations take place. The most essential leases are related to computers. There are no variable fees or index clauses for these agreements. The agreements imply that the Group may redeem the machinery or continue to rent the machinery at a pre-determined price when the actual rental period expires. The agreement also entitles the lessee to return the machinery. The financed amount of the largest agreement amounted to EUR 770,000 excluding value-added tax. Rental obligations were equivalent to the rental expenses that would arise upon termination of all rental agreements.

#### 45. Off-balance sheet commitments

	2006	2005
Guarantees	16,196	13,014
Unutilised overdraft limits	76,287	70,181
Lines of credit	77,960	61,929
	<u>170,442</u>	<u>145,124</u>

There are no commitments on behalf of Group companies. The lines of credit do not include fixed-interest loans with a set interest rate.

### OTHER NOTES

#### 46. Managed funds

	2006	2005
Mutual fund (unit trust) management	355,203	268,971
Discretionary asset management	451,307	346,951
Other asset management	29,698	33,900
	<u>836,208</u>	<u>649,823</u>

#### 47. Changes in Group structure

During 2006, the Bank of Åland Plc established the subsidiary Ab Compass Card Oy Ltd, with a 66 per cent shareholding. The company's field of operations is issuing credit and debit cards to individual and institutional customers.

#### 48. Subsidiaries and associated companies

2006		
Subsidiaries	Registered office	Ownership
The following subsidiaries were consolidated according to the purchase method of accounting as of December 31, 2006:		
Ab Compass Card Oy Ltd	Mariehamn	66 %
Crosskey Banking Solutions Ab Ltd	Mariehamn	100 %
Ålandsbanken Asset Management Ab	Helsinki	70 %
Ålandsbanken Fondbolag Ab	Mariehamn	100 %
Ålandsbanken Kapitalmarknadstjänster Ab	Mariehamn	70 %

#### Housing and real estate companies

The following housing and real estate companies were consolidated according to the purchase method as of December 31, 2006:

Properties for the Group's own use	Registered office	Ownership
FAB Gottby Center	Jomala	53 %

Investment properties	Registered office	Ownership
FAB Strandgatan 20	Mariehamn	100 %

The following associated companies were consolidated as of December 31, 2006:

	Registered office	Ownership
Ålands Företagsbyrå Ab	Mariehamn	22 %
Ålands Fastighetskonsult Ab	Mariehamn	20 %
Ålands Investerings Ab	Mariehamn	36 %

	2006	2005
Combined financial information about these associated companies:		
Assets	4,908	4,295
Liabilities	1,198	797
Sales	3,670	2,588
Profit for the year	594	350

#### Housing and real estate companies

The following housing and real estate companies were consolidated according to the proportional method of accounting as of December 31, 2006:

Properties for the Group's own use	Registered office	Ownership
FAB Västernäs City	Mariehamn	50 %
FAB Nymars	Sottunga	30 %
FAB Godby Center	Godby	11 %

Investment properties	Registered office	Ownership
FAB Strömsby	Vårdö	24 %
FAB Sittkoffska gården	Mariehamn	22 %
FAB Horsklint	Kökar	20 %
FAB Wigells	Mariehamn	78 %
BAB Bastuvägen	Mariehamn	20 %
FAB Norrskog	Saltvik	34 %
FAB Ribacken	Saltvik	31 %
BAB Knappelstenen	Mariehamn	15 %
BAB Sittkoff	Mariehamn	14 %
BAB Fiskartorpet	Mariehamn	11 %
BAB Västerhöjden	Mariehamn	11 %
BAB Grantorpsvägen	Mariehamn	8 %

# RISK MANAGEMENT

## STRATEGY IN USING FINANCIAL INSTRUMENTS

The business operations of the Bank of Åland Group are exposed to such financial risks as credit risk, interest rate risk, share price risk, foreign exchange risk and liquidity risk. The ambition of the Group is to pursue its operations with small risks. The Bank of Åland Group's Treasury unit and Risk Control Department centrally administer and monitor these financial risks in compliance with pre-established risk limits.

### Credit risk

Credit risk refers to the risk that a counterparty cannot pay amounts that have fallen due in full on the due date.

The objective of lending operations is to protect the good reputation of the Bank, achieve reasonable profitability and avoid loan losses. Safeguarding this objective requires a comprehensive credit management process throughout the life of a loan. Credit management assumes that lending decisions will be based on sufficient knowledge about the customer. The Bank of Åland Group has criteria concerning customer categories based on the Group's perception of risks, margins and ability to deliver competitive services in its various markets.

The customers that the Bank of Åland Group primarily does business with should be active in the regions where the Group currently has offices. Loans are issued to customers that can provide collateral for their commitments to the extent desired by the Group and are regarded as able to repay the loan.

At regular intervals, the Group estimates the loan loss risk for each individual customer. Closer monitoring begins immediately when unsettled receivables arise.

The Bank of Åland Group's lending consists largely of loans to private households, as the table below indicates.

Lending by purpose, December 31, 2006, EUR M

<i>Service sector</i>	477
<i>Production sector</i>	60
Total, business and professional activities	537
Households	1,347
Public sector and non-profit organisations	27
<b>Total lending</b>	<b>1,912</b>

The Treasury unit invests the Bank's surplus liquidity as deposit accounts in other banks. For this type of risks, the Board of Directors sets counterparty limits. Limit monitoring occurs continuously. The counterparty risk associated with the Treasury unit's investments is insignificant and the lending portfolio is of good quality. To reduce the risk of loan losses, the Group has signed ISDA agreements with counterparties. Credit exposure to national governments and credit institutions on December 31, 2006 totalled EUR 174.5 M.

### Market risk

Market risk arises through open positions in interest rates, currencies and equity-related products, which are all exposed to general and specific market movements.

#### *Interest rate risk*

Interest rate risk refers to the fact that the value of a financial instrument may vary due to changes in interest rates. The Bank of Åland Group's interest rate risks occur because the interest refixing periods for assets and liabilities including derivatives do not coincide. The Group's fixed-interest assets consist primarily of loans. The interest rate risk in these is mainly eliminated, either through funding by fixed-interest borrowings or by using derivative instruments.

Interest refixing periods for the Bank of Åland Group's interest-bearing assets and liabilities, December 31, 2006 (EUR M)

	< 3 mo	3-6 mo	6-12 mo	1-5 yrs	> 5 yrs	Total
Assets	1,043.6	382.0	583.3	207.4	27.0	2,243.3
Liabilities	979.9	435.9	485.0	212.8	27.3	2,140.8
Difference between assets and liabilities	63.7	-53.9	98.4	-5.4	-0.3	102.5

Shows the Bank's interest rate-related assets and liabilities, including derivatives, according to the interest refixing date as of December 31, 2006.

The Bank of Åland Group's interest rate risks come mainly from fluctuations in cash flow, since most interest-bearing assets and liabilities are tied to variable interest rates. The Group endeavours to offset this risk by matching financial assets and liabilities.

Cash flow risk, December 31, 2006, EUR M

	Assets	Liabilities
Variable interest rate	1,762	1,574
Fixed interest rate	161	148

Variable interest rate refers to items with an original interest refixing period of no more than one year. Fixed interest rate refers to items with an original interest refixing period of longer than one year.

Interest rate risk, measured as the effect on fair value of an increase in market interest rates of one percentage point, amounted to SEK 0.3 M on December 31, 2006.

#### *Foreign exchange risk*

Foreign exchange risk refers to possible variations in the value of assets, liabilities and derivatives due to changes in exchange rates. The foreign exchange risks of the Bank of Åland Group are restricted by limits set by the Executive Team. Daily monitoring of the limits is provided by the trading controller. The largest foreign exchange positions were EEK, totalling EUR 238,000; DKK, 99,000; GBP, -47,000; CAD, -27,000; and SGD, 25,000.

#### *Equities risk*

Equities risk refers to possible variations in the value of a financial instrument due to changes in the market prices of shares. The Bank of Åland Group manages equities risks through rules that limit trading for its own account and daily monitoring by the trading controller. A general market price movement of no more than 10 per cent (upward or downward) would mean a change of value of EUR 0.1 M.

#### **Liquidity risk**

Liquidity risk arises because the due dates of assets and liabilities do not coincide. The Bank of Åland Group carries out active liquidity planning and management in order to avoid liquidity risks. There is continuous follow-up of the Group's liquidity situation, and borrowings are planned in such a way that excessively large short-term funding requirements do not arise. The Group has unutilised limits with other banks that can be utilised to manage liquidity.

Liquidity simulation shows the Bank's preparedness for any market disruptions such as a sudden decrease in the Bank's deposits. On December 31, 2006, the Bank had a payment preparedness sufficient to cover a sudden decrease in the Bank's spot deposits and certificates of deposits issued by 12 per cent. Payment preparedness (liquid assets) amounted to EUR 151.8 M. Liquid assets are defined in this context somewhat differently than in the cash flow statement.

#### **Operational risks**

Operational risks are defined as the risk of losses and of damage to the Bank's reputation due to faulty or erroneous procedures, processes, behaviour or unexpected events in the Bank of Åland Group's surroundings.

Operational risk management is an independent element of risk management. Risks attributable to operations or largely to operations must be identified, assessed and measured in order to be limited and monitored. Operational risks are reduced by damage prevention and by minimisation of losses in the event a risk materialises. Losses due to operational risks are also reduced through insurance.

It is the task of every unit to manage the operational risks that are associated with its own work. Units document the significant operational risks in their processes, products and projects. During risk documentation, they assess the probability of and the consequences of a loss event. Based on this assessment, they create a risk map that governs how identified risks are managed.

The Risk Control Department co-ordinates the task of risk documentation and is responsible for reporting major operational risks to the Board of Directors and the Executive Team. For the reporting of incidents, systems support has been developed internally and went into service in the Group during 2006. Operational incidents that materialise must continuously be reported to the Risk Control Department, which is responsible for ensuring that they are compiled and reported onward to the affected bodies as well as to the Financial Supervision Authority according to the rules in force.

# PARENT COMPANY BALANCE SHEET

(EUR K)

ASSETS	Note	Dec 31, 2006		Dec 31, 2005	
Cash			65,288		77,605
Debt securities eligible for refinancing with central banks	1				
<i>Treasury bills</i>			44,296		58,599
<i>Other</i>			<u>12,790</u>	57,086	<u>37,223</u>
Claims on credit institutions	2				
<i>Repayable on demand</i>			1,497		1,241
<i>Other</i>			<u>59,061</u>	60,558	<u>127,158</u>
Claims on the public and public sector entities	3			1,913,769	1,794,783
Lease assets	4			43	259
Debt securities	1			1,351	605
Shares and participations	5			3,289	3,669
Shares and participations in associated companies	5			1,005	1,005
Shares and participations in Group companies	5			6,524	5,188
Derivative instruments	6			26,618	14,708
Intangible assets	7, 9			3,230	3,073
Tangible assets	8, 9				
<i>Investment properties as well as shares and participations in investment properties</i>			2,745		2,841
<i>Other properties as well as shares and participations in real estate companies</i>			7,195		7,948
<i>Other tangible assets</i>			<u>2,158</u>	12,099	<u>2,193</u>
Other assets	10			14,553	7,532
Accrued income and prepaid expenses	11			12,818	9,272
Deferred tax assets	12			<u>0</u>	<u>184</u>
<b>TOTAL ASSETS</b>			2,178,231		2,155,086

# PARENT COMPANY BALANCE SHEET

(EUR K)

LIABILITIES AND EQUITY CAPITAL	Note	Dec 31, 2006		Dec 31, 2005		
Liabilities to credit institutions						
<i>Repayable on demand</i>			1,525		2,867	
<i>Other</i>		<u>60,061</u>	61,586	<u>69,933</u>		72,799
Liabilities to the public and public sector entities						
<i>Deposits</i>						
<i>Repayable on demand</i>		982,105		1,055,685		
<i>Other</i>		<u>279,869</u>	1,261,974	<u>245,350</u>	1,301,035	
<i>Other liabilities</i>		<u>2,500</u>	1,264,475	<u>3,348</u>		1,304,383
Debt securities issued to the public						
	13					
<i>Bonds</i>			363,120		330,427	
<i>Other</i>		<u>242,997</u>	606,117	<u>231,887</u>		562,314
Other liabilities	14		33,438			27,012
Accrued expenses and prepaid income	15		9,956			10,170
Derivative instruments	6		26,217			15,374
Subordinated liabilities						
	16					
<i>Capital loan</i>			5,449		9,381	
<i>Other</i>		<u>54,959</u>	60,408	<u>45,751</u>		55,133
Deferred tax liabilities	12		<u>146</u>			<u>130</u>
Total liabilities			2,062,344			2,047,315
Difference between recorded and planned depreciation						
			146			126
Reserves						
			<u>26,150</u>			<u>22,950</u>
Total accumulated appropriations						
			26,296			23,076
Share capital						
	21		22,658			22,174
Share issue						
			301			0
Share premium account						
			28,671			25,527
Revaluation reserve						
			326			326
Reserve fund						
			25,129			25,129
Fair value reserve						
	22		416			371
Retained earnings						
			159			-259
Profit for the year						
			<u>11,931</u>			<u>11,428</u>
Total equity capital						
			89,591			84,695
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>			2,178,231			2,155,086
<b>OFF-BALANCE SHEET OBLIGATIONS</b>						
	45					
Obligations to a third party on behalf of customers						
<i>Guarantees and pledges</i>			<u>16,196</u>	16,196	<u>13,014</u>	13,014
Irrevocable commitments in favour of a customer						
			<u>154,246</u>			<u>132,110</u>
			170,442			145,124



# PARENT COMPANY INCOME STATEMENT

(EUR K)

	Note	Dec 31, 2006		Dec 31, 2005	
Interest income	25		74,470		60,974
Net leasing income	26		32		50
Interest expenses	27		<u>-42,248</u>		<u>-29,715</u>
<b>NET INTEREST INCOME</b>			32,253		31,309
Income from equity investment	28				
<i>In Group companies</i>			4,440		1,541
<i>In associated companies</i>			241		241
<i>In other companies</i>			<u>19</u>	4,699	<u>43</u>
Commission income	29		11,946		11,696
Commission expenses	30		-1,617		-1,560
Net income from securities transactions and foreign exchange dealing	31				
<i>Net income from securities transactions</i>			1,655		677
<i>Net income from foreign exchange dealing</i>			<u>1,024</u>	2,680	<u>898</u>
Net income from financial assets available for sale	32		261		1,140
Other operating income	33		2,151		1,736
Administrative expenses					
<i>Staff costs</i>					
<i>Wages, salaries and other remuneration</i>		12,171		11,774	
<i>Pensions</i>		2,008		1,442	
<i>Other social security costs</i>		<u>741</u>	14,920	<u>928</u>	14,144
<i>Other administrative expenses</i>	34		<u>13,380</u>	-28,300	<u>12,718</u>
Depreciation/amortisation and impairment losses on tangible and intangible assets			-1,457		-1,223
Other operating expenses	35		-4,950		-4,159
Loan and guarantee losses	36		<u>35</u>		<u>-310</u>
<b>NET OPERATING PROFIT</b>			17,701		15,166
Appropriations			-3,220		-406
Income taxes	37		-2,366		-3,361
Change in deferred tax assets			<u>-184</u>		<u>29</u>
<b>PROFIT FOR THE YEAR</b>			11,931		11,428

# PARENT COMPANY ACCOUNTING PRINCIPLES

The financial statements of the Bank of Åland Plc have been drawn up in accordance with the Finnish Credit Institutions Act, the Ministry of Finance ordinance on annual accounts and consolidated annual accounts of financial institutions and securities companies and the regulations of the Financial Supervision Authority. The Bank's financial statements have been prepared in compliance with Finnish accounting standards (FAS).

## ITEMS IN FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are translated to euro according to the European Central Bank exchange rate on the balance sheet date.

## REVENUE RECOGNITION PRINCIPLES

### Interest income and expenses

Interest income and expenses on asset and liability items are recognised according to the accrual principle. If a financial asset or group of financial assets has had an impairment loss, the interest income is recognised according to the original interest rate on the amount after impairment loss.

### Commission income and expenses

Commission income and expenses are recognised when the service is performed. For commissions that concern more than one year, only the portion related to the accounting period is recognised.

## DEPRECIATION/AMORTISATION

Buildings, technical equipment and machinery and equipment are noted at cost minus depreciation and any impairment losses. Depreciation/amortisation is based on the expected economic service life of the assets. All depreciation/amortisation is on a straight-line basis.

Buildings	40 years
Technical equipment in buildings	12 years
Machinery and equipment	3-10 years
Computer systems (amortisation)	3-5 years
Other tangible assets	3-5 years

Land is not depreciated.

## FINANCIAL INSTRUMENTS

For purposes of valuation, financial instruments are classified in the following categories:

### Financial assets and liabilities held for trading

This group includes all financial assets and liabilities that are held to provide a short-term return. The group also includes all derivative instruments for which hedge accounting is not applied. Financial assets and liabilities held for trading are recognised in the balance sheet at fair value and changes in fair value are recognised in the income statement. All derivative instruments are recognised in the balance sheet at fair value.

Positive fair values of derivative instruments are recognised as assets in the balance sheet in the item "Derivative instruments" and negative fair values in the item "Derivative instruments and other liabilities held for trading". Changes in value are recognised in the income statement in the item "Net income from securities trading".

### Loans and trade receivables

Financial assets classified as loans and trade receivables are assets created by handing over funds, services or goods directly to the debtor.

Loans and trade receivables are recognised at the commencement of the contract at cost and subsequently at amortised cost. Impairment loss on loans and receivables is recognised as needed on the basis of a customer-specific evaluation as well as an overall assessment of the lending portfolio.

#### Investments held to maturity

Investments held to maturity are interest-bearing financial assets and are recognised at amortised cost using the effective interest rate method of accounting. Impairment loss of an investment is recognised after individual examination.

#### Financial assets available for sale

Financial assets available for sale are assets not included in any of the above categories and that are not derivative instruments.

The assets in this group are initially recognised in the balance sheet at cost and subsequently carried at fair value. The change in fair value is recognised under equity as the "Fair value reserve". When such an asset is sold the change in fair value is derecognised from the reserve in a separate item, "Net income from financial assets available for sale". Impairment losses are recognised in the income statement.

#### Other financial liabilities

Other financial liabilities are recognised in the balance sheet upon commencement of the contract at cost and subsequently at amortised cost.

## PENSION ARRANGEMENTS

The legally mandated pension coverage for employees has been arranged through the retirement insurance company Pensions-Alandia. Other pension benefits are handled through the Bank's pension fund, Ålandsbanken Abps Pensionsstiftelse. Pension liabilities are fully covered.

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

(EUR K)

## Numbering

<b>1-24</b>	Notes to the balance sheet
<b>25-37</b>	Notes to the income statement
<b>38-41</b>	Notes concerning staff, Board of Directors and Executive Team
<b>42-45</b>	Notes concerning assets pledged and contingent liabilities
<b>46-48</b>	Other notes

## NOTES TO THE BALANCE SHEET

### 1. Holdings of debt securities

	2006			2005		
	Listed	Other	Total	Listed	Other	Total
<i>Debt securities eligible for refinancing</i>						
Instruments held to maturity						
Treasury bills	14,835	0	14,835	0	0	0
Treasury bonds	11,271	0	11,271	16,853	0	16,853
Instruments available for sale						
Treasury bills	0	29,461	29,461	0	58,586	58,586
Treasury bonds	20	0	20	1,324	0	1,324
Certificates of deposit	0	0	0	0	17,947	17,947
Other debt securities	1,499	0	1,499	1,113	0	1,113
	<u>27,624</u>	<u>29,461</u>	<u>57,086</u>	<u>19,290</u>	<u>76,533</u>	<u>95,822</u>
<i>Other debt securities</i>						
Treasury bonds	39	0	39	13	0	13
Bonds issued by banks	0	0	0	5	0	5
Other	1,312	0	1,312	587	0	587
	<u>1,351</u>	<u>0</u>	<u>1,351</u>	<u>605</u>	<u>0</u>	<u>605</u>

### 2. Claims on credit institutions

	2006			2005		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Finnish credit institutions	0	16,615	16,615	2	17,456	17,458
Foreign credit institutions	1,497	42,446	43,943	1,239	109,702	110,941
Total	<u>1,497</u>	<u>59,061</u>	<u>60,558</u>	<u>1,241</u>	<u>127,158</u>	<u>128,399</u>

### 3. Claims on the public and public sector entities

	2006		2005	
Financial enterprises		501,050		504,264
Public sector		11,697		12,303
Households		1,339,577		1,233,250
Non-profit organisations, household sector		15,587		15,221
Foreign		45,859		29,745
Total		<u>1,913,769</u>		<u>1,794,783</u>
Of which subordinated claims		309		239
Of which non-interest-bearing claims		309		339
<b>Impairment losses</b>				
Individual impairment losses recognised during the year		107		422
Individual impairment losses reversed during the year		-143		-112
Group impairment losses		0		0
Total impairment losses		<u>-35</u>		<u>310</u>

### 4. Lease assets rented out

	2006		2005	
Machinery and equipment		43		249
Other assets		0		11
Total		<u>43</u>		<u>259</u>

For more information, see Note 26.

## 5. Shares and participations

	2006			2005		
	Listed	Other	Total	Listed	Other	Total
Shares and participations						
Available for sale	1,805	1,484	3,289	123	3,546	3,669
Shares and participations in associated companies	0	1,005	1,005	0	1,005	1,005
Shares and participations in Group companies	0	6,524	6,524	0	5,188	5,188

There are no holdings in other credit institutions.

## 6. Derivative instruments

	2006		2005	
	Fair value		Fair value	
	Positive	Negative	Positive	Negative
Interest rate derivatives				
Interest rate swaps	2,740	2,364	755	1,443
Currency derivatives				
Forward contracts	182	175	56	53
Interest rate and currency swaps	36	19	33	14
Equity derivatives				
Option contracts				
Purchased	23,659	0	13,864	0
Written	0	23,659	0	13,864
	26,618	26,217	14,708	15,374

Nominal value of underlying asset by remaining maturity:

	2006				2005			
	Under 1 yr	1-5 yrs	Over 5 yrs	Total	Under 1 yr	1-5 yrs	Over 5 yrs	Total
Interest rate derivatives								
Interest rate swaps	106,348	211,989	31,817	350,154	90,504	184,371	17,400	292,275
Currency derivatives								
Forward contracts	14,673	0	0	14,673	6,187	639	0	6,826
Interest rate and currency swaps	532	0	0	532	776	0	0	776
Equity derivatives								
Option contracts								
Purchased	36,610	114,798	0	151,408	51,510	95,687	0	147,197
Written	36,610	114,798	0	151,408	51,510	95,687	0	147,197
	194,774	441,585	31,817	668,175	200,486	376,384	17,400	594,271

## 7. Intangible assets

	2006	2005
IT investments	2,301	1,986
Goodwill	0	0
Other	929	1,087
	3,230	3,073

## 8. Properties and shares and participations in real estate companies

	2006	2005
Investment properties		
Land and water	58	58
Buildings	246	257
Shares in real estate companies	2,440	2,525
	2,745	2,841
Properties for the Group's own use		
Land and water	174	174
Buildings	6,534	6,689
Shares in real estate companies	487	1,086
	7,195	7,948

## 9. Changes in intangible and tangible assets

	2006					
	Land and buildings for own use	Investment properties	Other tangible assets	Goodwill	Other intangible assets	Total
<b>Historical costs</b>						
Cost on January 1	13,029	3,225	6,405	0	6,901	29,559
Increases during the year	7	0	477	0	1,097	1,581
Decreases during the year	-598	-84	-209	0	-54	-945
Cost on December 31	12,438	3,141	6,673	0	7,945	30,196
<b>Accumulated depreciation/amortisation</b>						
Acc. depreciation/amortisation/impairment losses on Jan. 1	-5,080	-384	-4,212	0	-3,828	-13,505
Acc. depreciation/amortisation concerning decreases	0	0	135	0	15	150
Depreciation/amortisation for the year	-162	-11	-438	0	-901	-1,512
Impairment loss for the year	0	0	0	0	0	0
Acc. depreciation/amortisation/impairment losses on Dec. 31	-5,243	-395	-4,515	0	-4,715	-14,867
<b>Carrying amount on December 31</b>	7,195	2,745	2,158	0	3,230	15,329

**2005**

	Land and buildings for own use	Investment properties	Other tangible assets	Goodwill	Other intangible assets	Total
<b>Historical costs</b>						
Cost on January 1	13,550	3,390	6,131	0	4,881	27,952
Increases during the year	11	0	437	0	2,609	3,057
Decreases during the year	-532	-165	-163	0	-590	-1,450
Cost on December 31	13,029	3,225	6,405	0	6,901	29,560
<b>Accumulated depreciation/amortisation</b>						
Acc. depreciation/amortisation/impairment losses on Jan. 1	-5,135	-458	-3,839	0	-3,249	-12,682
Acc. depreciation/amortisation concerning decreases	227	99	108	0	3	438
Depreciation/amortisation for the year	-172	-12	-481	0	-583	-1,247
Impairment loss for the year	0	-14	0	0	0	-14
Acc. depreciation/amortisation/impairment losses on Dec. 31	-5,080	-384	-4,212	0	-3,828	-13,505
<b>Carrying amount on December 31</b>	<b>7,948</b>	<b>2,841</b>	<b>2,193</b>	<b>0</b>	<b>3,073</b>	<b>16,055</b>

**10. Other assets**

	2006	2005
Cash items in the process of collection	84	83
Other	14,469	7,450
	14,553	7,532

**11. Accrued income and prepayments**

	2006	2005
Interest	8,135	6,762
Other	4,683	2,510
	12,818	9,272

**12. Deferred tax assets and liabilities**

	2006	2005
Deferred tax assets		
Accrued differences	0	0
Other temporary differences	0	184
	0	184
Deferred tax liabilities		
Temporary differences	0	0
From the fair value fund	146	130
	146	130

**13. Debt securities issued to the public**

	2006		2005	
	Carrying amount	Nominal amount	Carrying amount	Nominal amount
Certificates of deposit	242,997	245,985	231,887	233,710
Bonds	363,120	370,058	330,427	335,337
Total	606,117	616,043	562,314	569,047

**14. Other liabilities**

	2006	2005
Cash items in the process of collection	16,224	16,570
Other	17,215	10,442
	33,438	27,012

**15. Accrued expenses and deferred income**

	2006	2005
Interest	6,350	6,508
Other	3,606	3,662
	9,956	10,170

**16. Subordinated liabilities**

See Note 16 to the consolidated financial statements.

## 17. Maturity breakdown of claims and liabilities

2006

	Total	Under 3 mo	3 - 12 mo	1 - 5 yrs	5-10 yrs	Over 10 yrs
<i>Claims</i>						
Debt securities eligible for refinancing w/central banks	57,086	34,457	19,963	2,167	500	0
Credit institutions and central banks	60,558	60,558	0	0	0	0
The public and public sector entities	1,913,769	146,307	262,896	683,764	798,392	22,410
Other debt securities	1,351	1,351	0	0	0	0
	2,032,764	242,672	282,859	685,931	798,892	22,410
<i>Liabilities</i>						
Credit institutions and central banks	61,586	44,768	0	16,819	0	0
The public and public sector entities	1,264,475	1,189,416	57,857	15,965	1,228	9
Debt securities issued to the public	606,117	227,056	286,476	92,585	0	0
Subordinated liabilities	60,408	0	5,449	21,961	32,998	0
	1,992,587	1,461,240	349,782	147,329	34,226	9

2005

	Total	Under 3 mo	3 - 12 mo	1 - 5 yrs	5-10 yrs	Over 10 yrs
<i>Claims</i>						
Debt securities eligible for refinancing w/central banks	95,822	76,532	16,977	2,313	0	0
Credit institutions and central banks	128,399	123,399	5,000	0	0	0
The public and public sector entities	1,794,783	148,687	228,195	707,999	690,728	19,175
Other debt securities	605	605	0	0	0	0
	2,019,609	349,223	250,172	710,311	690,728	19,175
<i>Liabilities</i>						
Credit institutions and central banks	72,799	72,799	0	0	0	0
The public and public sector entities	1,304,383	1,246,799	44,014	11,502	2,036	32
Debt securities issued to the public	562,314	248,441	239,776	74,097	0	0
Subordinated liabilities	55,133	0	2,157	28,960	24,016	0
	1,994,629	1,568,039	285,947	114,559	26,052	32

## 18. Assets and liabilities in euro and other currencies

2006

2005

	2006			2005		
	Euro	Other currencies	Total	Euro	Other currencies	Total
Claims on credit institutions	5,465	55,092	60,558	49,002	79,397	128,399
Claims on the public and public sector entities	1,904,912	8,857	1,913,769	1,789,257	5,525	1,794,783
Debt instruments	58,437	0	58,437	96,427	0	96,427
Derivative instruments	26,400	218	26,618	14,619	89	14,708
Other assets including cash	115,181	3,668	118,850	116,270	4,500	120,769
Total	2,110,395	67,836	2,178,231	2,065,575	89,512	2,155,086
Liabilities to credit institutions	60,427	1,159	61,586	69,422	3,377	72,799
Liabilities to the public and public sector entities	1,197,095	67,380	1,264,475	1,219,175	85,209	1,304,383
Debt securities issued to the public	606,117	0	606,117	562,314	0	562,314
Derivative instruments and liabilities held for trading	26,023	194	26,217	15,307	67	15,374
Subordinated debentures	60,408	0	60,408	55,133	0	55,133
Other liabilities	41,884	1,656	43,540	36,359	952	37,311
Total	1,991,954	70,390	2,062,344	1,957,710	89,605	2,047,315

## 19. Fair value and book value of assets and liabilities

2006

2005

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Cash	65,288	65,288	77,605	77,605
Debt securities eligible for refinancing with central banks				
Available for sale	30,980	30,980	78,969	78,969
Intended to be held to maturity	26,106	26,574	16,853	17,044
Claims on credit institutions	60,558	60,558	128,399	128,399
Claims on the public and public sector entities				
Carried at fair value	0	0	0	0
Other	1,913,769	1,909,983	1,794,783	1,793,207
Lease assets	43	43	259	259
Debt securities available for sale	1,351	1,351	605	605
Shares and participations available for sale	3,289	3,289	3,669	3,669
Shares and participations in associated companies	1,005	1,005	1,005	1,005
Shares and participations in Group companies	6,524	6,524	5,188	5,188
Derivative instruments	26,618	26,618	14,708	14,708
Intangible assets	3,230	3,230	3,073	3,073
Tangible assets	12,099	24,755	12,982	25,190
Other assets	14,553	14,553	7,532	7,532
Accrued income and prepaid expenses	12,818	12,818	9,272	9,272
Deferred tax assets	0	0	184	184
	2,178,231	2,187,569	2,155,086	2,165,910

<b>Liabilities</b>				
Liabilities to credit institutions	61,586	61,814	72,799	72,645
Liabilities to the public and public sector entities				
Carried at fair value	0	0	0	0
Other	1,264,475	1,265,805	1,304,383	1,304,307
Debt instruments issued to the public				
Carried at fair value	0	0	0	0
Other	606,117	610,152	562,314	564,785
Derivative instruments	26,217	26,217	15,374	15,374
Other liabilities	33,438	33,438	27,012	27,012
Accrued expenses and prepaid income	9,956	9,956	10,170	10,170
Subordinated liabilities	60,408	64,363	55,133	55,639
Deferred tax liabilities	146	146	130	130
	<u>2,062,344</u>	<u>2,071,891</u>	<u>2,047,315</u>	<u>2,050,061</u>

The fair value of assets and liabilities repayment on demand is equivalent to their nominal value. The fair value of fixed-period assets and liabilities corresponds to the present value of future cash flows. For listed shares, the last closing price has been used. The fair value of unlisted shares has been calculated by estimating their percentage of equity. The appraisal of real estate was performed by a licensed estate agent.

## 20. Changes in equity capital

	Share capital	New share issue	Share premium account	Reserve fund	Fair value reserve	Revaluation reserve	Retained earnings	Total
January 1, 2005	22,164	0	25,463	25,129	1,147	350	10,727	84,980
Dividend to shareholders							-10,986	-10,986
Conversion of capital loan	10		64					74
Property divestment						-24		-24
Change in fair value					-777			-777
Profit for the year							11,428	11,428
December 31, 2005	22,174		25,527	25,129	371	326	11,169	84,695
Dividend to shareholders							-11,010	-11,010
Conversion of capital loan	484	301	3,144					3,929
Property divestment					45			45
Change in fair value								0
Profit for the year							11,931	11,931
December 31, 2006	22,658	301	28,671	25,129	416	326	12,090	89,591

## 21. Share capital

See Note 21 in the notes to the consolidated financial statements.

## 22. Fair value fund

	2006			2005		
	Positive figures	Negative figures	Total	Positive figures	Negative figures	Total
Debt securities	2	-2	0	15	-27	-12
Shares	743	-181	562	588	-76	513
Total	745	-183	562	603	-102	501
Deferred tax liability			-146			-130
Fair value fund			416			371

## 23. Claims on Group companies

	2006	2005
Other assets	114	115
Accrued income and prepayments	2,910	1,001
	<u>3,024</u>	<u>1,115</u>

## 24. Liabilities to Group companies

	2006	2005
Liabilities to the public	3,253	1,417
Debt instruments issued	4,350	2,264
Other liabilities	193	187
Accrued expenses and prepaid income	565	701
	<u>8,361</u>	<u>4,569</u>

## NOTES TO THE INCOME STATEMENT

## 25. Interest income

	2006	2005
Credit institutions and central banks	4,382	4,035
Public and public sector entities	67,733	53,158
Debt securities	2,316	3,744
Derivative instruments	39	36
Other	1	0
Total	<u>74,471</u>	<u>60,974</u>



## 26. Net lease income

See Note 25 to the consolidated financial statements.

## 27. Interest expenses

	2006	2005
Credit institutions	1,930	970
Public and public sector entities	21,776	15,019
Debt instruments issued to the public	16,456	11,557
Derivative instruments	51	257
Subordinated liabilities	1,847	1,359
Capital loan	171	553
Other interest expenses	17	1
Total	42,248	29,715

## 28. Income from equity instruments

	2006	2005
Financial assets available for sale	19	43
Group companies	4,440	1,541
Associated companies	241	241
Total	4,699	1,825

## 29. Commission income

	2006	2005
Deposit commissions	874	916
Lending commissions	2,569	2,832
Payment intermediation commissions	2,382	2,158
Mutual fund unit commissions	1,203	951
Management commissions	918	1,187
Securities commissions	2,698	2,249
Insurance commissions	187	209
Legal services	407	376
Guarantee commissions	151	136
Other commissions	556	681
Total	11,946	11,696

## 30. Commission expenses

	2006	2005
Service charges paid	344	365
Other	1,273	1,196
Total	1,617	1,560

## 31. Net income from securities trading and foreign exchange operations

	2006			2005		
	Net capital gains and losses	Net changes in fair value	Total	Net capital gains and losses	Net changes in fair value	Total
Debt securities	0	0	0	0	0	0
Shares and participations	615	0	615	739	0	739
Fair value option	0	0	0	0	0	0
Derivative instruments	-25	1,065	1,040	-5	-58	-63
Securities trading	590	1,065	1,655	734	-58	677
Foreign exchange operations	1,015	10	1,024	914	-16	898
Total	1,605	1,075	2,680	1,649	-74	1,575

## 32. Net income from financial assets available for sale

	2006	2005
Capital gains	529	1,645
Impairment losses	-268	-505
Total	261	1,140

## 33. Other operating income

	2006	2005
Rental income on properties	698	760
Capital gains on properties	754	255
Other property income	2	19
Other income	696	701
Total	2,151	1,736

### 34. Other administrative expenses

	2006	2005
Staff costs	443	448
Office costs	673	575
Computer costs	8,799	8,763
Communication	1,181	1,202
Marketing	2,035	1,597
Other	250	133
	<u>13,380</u>	<u>12,718</u>

### 35. Other operating expenses

	2006	2005
Rental expenses	1,412	1,262
Other property expenses	762	664
Fee to security fund	619	611
Miscellaneous expenses	2,157	1,623
	<u>4,950</u>	<u>4,159</u>

### 36. Impairment losses on loans and other commitments

	2006	2005
Individual impairment losses	107	422
Group impairment losses	0	0
Reversals	-143	-112
	<u>-35</u>	<u>310</u>

Carrying amount of interest on impaired receivables according to original interest amounted to EUR 10,000.

### 37. Taxes

	2006	2005
Taxes for the year	2,371	3,362
Taxes from prior years	-5	-1
Changes in deferred tax assets	184	-29
Changes in deferred tax liabilities	0	0
Taxes in income statement	<u>2,550</u>	<u>3,332</u>

## NOTES CONCERNING STAFF, BOARD OF DIRECTORS AND EXECUTIVE TEAM

### 38. Number of employees

	2006		2005	
	Average employees	Change	Average employees	Change
Permanent full-time employees	235	-20	255	-62
Permanent part-time employees	83	+11	72	-22
	<u>318</u>	<u>-9</u>	<u>327</u>	<u>-84</u>

The change in the Parent Company during 2005 was due to the transfer of staff to the subsidiary Crosskey Banking Solutions Ab Ltd.

### 39. Salaries/fees paid to Board and Executive Team

	2006	2005
Members of the Board of Directors	75	67
Managing Directors	231	192
Deputy Managing Directors	167	246
Other members of the Executive Team	613	408

The amount includes the value of fringe benefits.

There are no pension obligations to members of the Board of Directors. The pension benefits of the Managing Directors and Deputy Managing Directors are based on customary terms of employment.

### 40. Private shareholdings of the Board of Directors and the Executive Team in the Bank of Åland Plc

See Note 40 to the consolidated financial statements.

### 41. Financial transactions with related parties

See Note 41 to the consolidated financial statements.

## NOTES CONCERNING ASSETS PLEDGED AND CONTINGENT LIABILITIES

### 42. Collateral provided and received

See Note 42 to the consolidated financial statements.

### 43. Pension liabilities in Ålandsbanken Abps Pensionsstiftelse

	2006	2005
Pension liabilities in Ålandsbanken Abps Pensionsstiftelse	14,123	13,692
Carrying amount, liability deficit in pension fund	0	0

The probable market value of plan assets in the pension fund exceeds pension liabilities by EUR 5.6 M.

### 44. Lease liabilities and rental obligations

	2006	2005
Lease payments due		
Within 1 year	526	324
More than 1 and less than 5 years	0	2
More than 5 years	0	0
	526	326

Rental obligations were equivalent to the rental expenses that would arise upon termination of all rental agreements.

### 45. Off-balance sheet commitments

See Note 45 to the consolidated financial statements.

## OTHER NOTES

### 46. Assets managed

	2006	2005
Discretionary asset management	38,178	31,973

### 47. Changes in Group structure

See Note 47 to the consolidated financial statements.

### 48. Subsidiaries and associated companies

	2006	
Subsidiaries	Registered office	Ownership
Ab Compass Card Oy Ltd	Mariehamn	66 %
Crosskey Banking Solutions Ab Ltd	Mariehamn	100 %
Ålandsbanken Asset Management Ab	Helsinki	70 %
Ålandsbanken Fondbolag Ab	Mariehamn	100 %
Ålandsbanken Kapitalmarknadstjänster Ab	Mariehamn	70 %

	Registered office	Ownership
<b>Housing and real estate companies</b>		
FAB Gottby Center	Jomala	53 %
FAB Strandgatan 20	Mariehamn	100 %

	Registered office	Ownership
<b>Associated companies</b>		
Ålands Företagsbyrå Ab	Mariehamn	22 %
Ålands Fastighetskonsult Ab	Mariehamn	20 %
Ålands Investerings Ab	Mariehamn	36 %

	2006	2005
Combined financial information about these associated companies:		
Assets	4,908	4,295
Liabilities	1,198	797
Sales	3,670	2,588
Profit for the year	593	350

	Registered office	Ownership
<b>Housing and real estate companies</b>		
FAB Västernäs City	Mariehamn	50 %
FAB Nymars	Sottunga	30 %
FAB Strömsby	Vårdö	24 %
FAB Sittkoffska gården	Mariehamn	22 %
FAB Horsklint	Kökar	20 %
FAB Wigells	Mariehamn	78 %
BAB Bastuvägen	Mariehamn	20 %
FAB Norrskog	Saltvik	34 %
FAB Ribacken	Saltvik	31 %

# PROPOSED ALLOCATION OF PROFIT

In the financial statements, distributable profit is EUR 12,090,547.71, of which profit for the financial year is EUR 11,931,349.49. No significant changes in the financial position of the Company have occurred since the end of the financial year, and the proposed dividend does not affect the Company's solvency.

The Board of Directors proposes that the distributable profit of the Bank of Åland Plc, EUR 12,090,547.71, be allocated as follows:

1.	For Series A and Series B shares outstanding as of December 31, 2006, a dividend of EUR 1.00 per share, totalling	EUR 11,226,321.00
2.	For Series B shares subscribed through conversion of the capital loan during the period December 1, 2006–January 31, 2007, a dividend of EUR 1.00 per share, totalling	EUR 309,801.00
3.	To remain in the accounts as retained earnings	EUR 554,425.71
		<hr/> EUR 12,090,547.71

Mariehamn, February 26, 2007

*Göran Lindholm*

*Kent Janér*

*Anders Wiklöf*

*Leif Nordlund*

*Agneta Karlsson*

*Peter Grönlund, Managing Director*

*Sven-Harry Boman*

*Tom Palmberg*

## AUDITORS' REPORT

To the shareholders of the Bank of Åland Plc

We have examined the accounts, financial statements and administration of the Bank of Åland Plc for the accounting period January 1–December 31, 2006. The Board of Directors and the Managing Director have submitted the Report of the Directors and the consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and comprising the consolidated balance sheet, income statement, cash flow statement, changes in equity capital and notes to the financial statements and the Parent Company's financial statements, prepared in accordance with prevailing regulations in Finland and comprising the Parent Company's balance sheet, income statement and notes to the financial statements. Having completed this examination, we herewith submit our statement of opinion on the consolidated financial statements, the Report of the Directors and the Parent Company's financial statements and administration.

Our examination was conducted according to generally accepted auditing standards. In doing so, we examined the accounts, the accounting principles applied and the contents as well as the presentation of the financial statements to a sufficient extent to conclude that the financial statements do not contain significant errors or omissions. In examining the administration, we have studied whether the members of the Parent Company's Board of Directors as well as the Managing Director have handled the administration of the Bank's affairs in compliance with the provisions of the Companies Act and other regulations.

### Consolidated financial statements

The consolidated financial statements, which were prepared in

accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, provide accurate and sufficient information on the results of the Group's operations and on its financial position, in the manner intended by these standards and by the Accounting Act.

### Parent Company financial statements, Report of the Directors and administration

The Parent Company's financial statements were prepared in accordance with the Accounting Act and other legal provisions and regulations as to how financial statements shall be prepared. These financial statements provide accurate and sufficient information on the results of the Parent Company's operations and on its financial position, in the manner intended by the Accounting Act.

The Report of the Directors was prepared in accordance with the Accounting Act and other legal provisions and regulations on how a report of the directors shall be prepared. The Report of the Directors is consistent with the financial statements and provides accurate and sufficient information on the results of the Group's and the Parent Company's operations and on their financial position, in the manner intended by the Accounting Act.

The consolidated financial statements and the Parent Company's financial statements, which for the Parent Company's part show a profit of EUR 11,931,349.49, may be adopted and the members of the Parent Company's Board of Directors as well as the Managing Director may be discharged from liability for the accounting period examined by us. The proposal of the Board of Directors for the allocation of distributable profit is in compliance with the provisions of the Companies Act.

Mariehamn, March 13, 2007

*Leif Hermans*

*Certified Public Accountant*

*Rabbe Nevalainen*

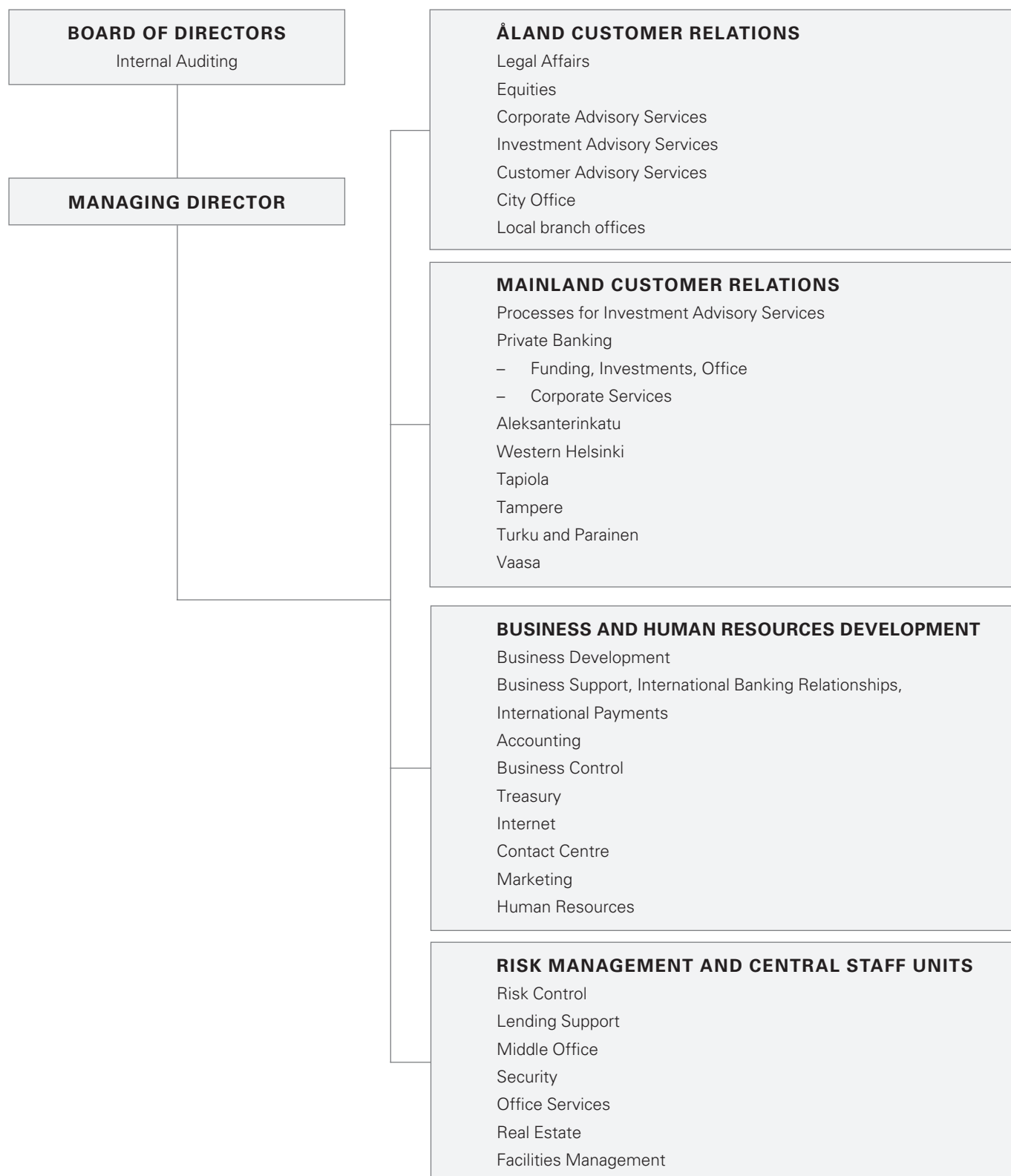
*Certified Public Accountant*

*Marja Tikka*

*Certified Public Accountant*

# ORGANISATION FROM MARCH 1, 2007

## BANK OF ÅLAND PLC



# BOARD OF DIRECTORS, MANAGING DIRECTOR AND SENIOR MANAGERS

## BOARD OF DIRECTORS

Göran Lindholm, Chairman  
Leif Nordlund, Deputy Chairman  
Sven-Harry Boman  
Kent Janér  
Agneta Karlsson  
Tom Palmberg  
Anders Wiklöf

## MANAGING DIRECTOR

Peter Grönlund

### *Executive Team*

Peter Grönlund, Chairman  
Lars Donner  
Tove Erikslund  
Pekka Nuutinen  
Jan Tallqvist  
Edgar Vickström  
Dan-Erik Woivalin

## ÅLAND CUSTOMER RELATIONS

Dan-Erik Woivalin, Head of Division, Chief Legal Counsel  
Lars Donner, Deputy Head of Division, General Manager

*Legal Affairs*, Carina Strand, Department Manager  
*Equities*, Tomas Storgård, Department Manager  
*Corporate Advisory Services*, Kenneth Mörn, Department Manager  
*Investment Advisory Services*, Pontus Blomster, Department Manager  
*Customer Advisory Services*, Birgitta Dahlén, General Manager  
*City Office*, Birgitta Dahlén, Branch Manager  
*Local Branch Offices*, Pontus Blomster, Regional Manager  
*Godby Office*, Jan-Arthur Josefsson, Sales Manager

## MAINLAND CUSTOMER RELATIONS

Pekka Nuutinen, Head of Division, General Manager  
Anne-Maria Salenius, Deputy Head of Division, General Manager

*Private Banking*, Jan Tallqvist, General Manager  
ADMINISTRATION, Monica Mickos, Administrative Manager  
CORPORATE SERVICES, Pekka Nuutinen, General Manager  
INVESTMENTS, Merja Simberg, Investment Director  
FUNDING, Maria Bernas-Hilli, General Manager  
*Bulevardi (Bulevarden) Office*, Kim Wikström, General Manager  
*Aleksanterinkatu (Alexandersgatan)*, Anne-Maria Salenius, General Manager  
*Western Helsinki (Munksnäs)*, Tuula Lehmuskoski, General Manager  
*Espoo-Tapiola (Esbo-Hagalund)*, Marja Latola, General Manager  
*Tampere (Tammerfors)*, Leena Honkasalo-Lehtinen, General Manager  
*Turku (Åbo)*, Beatrice Ramström, General Manager  
*Parainen (Pargas)*, Jan-Peter Pomrén, Branch Director  
*Vaasa (Vasa)*, Lars Lönnblad, General Manager  
*Process Manager, Investment Advisory Services*, Ola Sundberg

## BUSINESS AND HUMAN RESOURCES DEVELOPMENT

Edgar Vickström, Deputy Managing Director, CFO,  
Head of Division, General Manager  
*Business Development*, Mikael Lönnqvist, Department Manager  
*Business Support*, International Payments, Thomas Nordlund, Department Manager  
*Accounting*, Tom Bengtsson, Department Manager  
*Business Control*, Johnny Rosenholm, Department Manager  
*Treasury*, Tuula-Riitta Nyström, Department Manager  
*Internet*, Carl-Petter Eriksson, Department Manager  
*Contact Centre*, Nina Granqvist, Department Manager  
*Marketing*, Tiina Björklund, Marketing Manager  
*Human Resources*, Tove Erikslund, Department Manager

## RISK MANAGEMENT AND CENTRAL STAFF UNITS

Lars Donner, Head of Division, General Manager  
*Risk Control*, Bernt-Johan Jansson, Department Manager  
*Lending Support*, Bengt Mattsson, Department Manager  
*Middle Office*, Michael Hilander, Department Manager  
*Physical Security*, Conny Sjöberg  
*Continuity Planning*, Kimmo Valkonen  
*Real Estate*, Göran Sundblom, Department Manager  
*Office Services*, Lars-Olof Hellman, Supervisor  
*Facilities Management*, Annika Lundqvist, Manager

## OPERATIONS REPORTING DIRECTLY TO THE BOARD OF DIRECTORS

Internal Auditing, Monica Österlund, Department Manager

## COMPANIES IN THE BANK OF ÅLAND GROUP

*Crosskey Banking Solutions Ab Ltd*  
Peter Wiklöf, Managing Director  
*Card & Payment Solutions*, Barbro M. Andersson, Department Manager  
*Core & Capital Market Solutions*, Harry Lindqvist, Department Manager  
*Hosting & Security*, Henrik Granholm, Department Manager  
*Internet & Mobile Solutions*, Kenneth Påvell, Department Manager  
*Project & Customer Support*, Eva-Lotta Söderqvist, Department Manager  
*Branch Sweden*, Carita Weiss, Managing Director  
*Ålandsbanken Asset Management Ab*  
Stefan Törnqvist, Managing Director  
*Ålandsbanken Fondbolag Ab*  
Tom Pettersson, Managing Director  
*Ålandsbanken Kapitalmarknadstjänster Ab*  
Mikael Mörn, Managing Director  
*Ab Compass Card Oy Ltd*  
Kimmo Autio, Managing Director  
*Ålands Företagsbyrå*  
Jan Kangashaka, Managing Director  
*Ålands Fastighetskonsult Ab*  
Erolf Fellman/Roger Karlsson

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