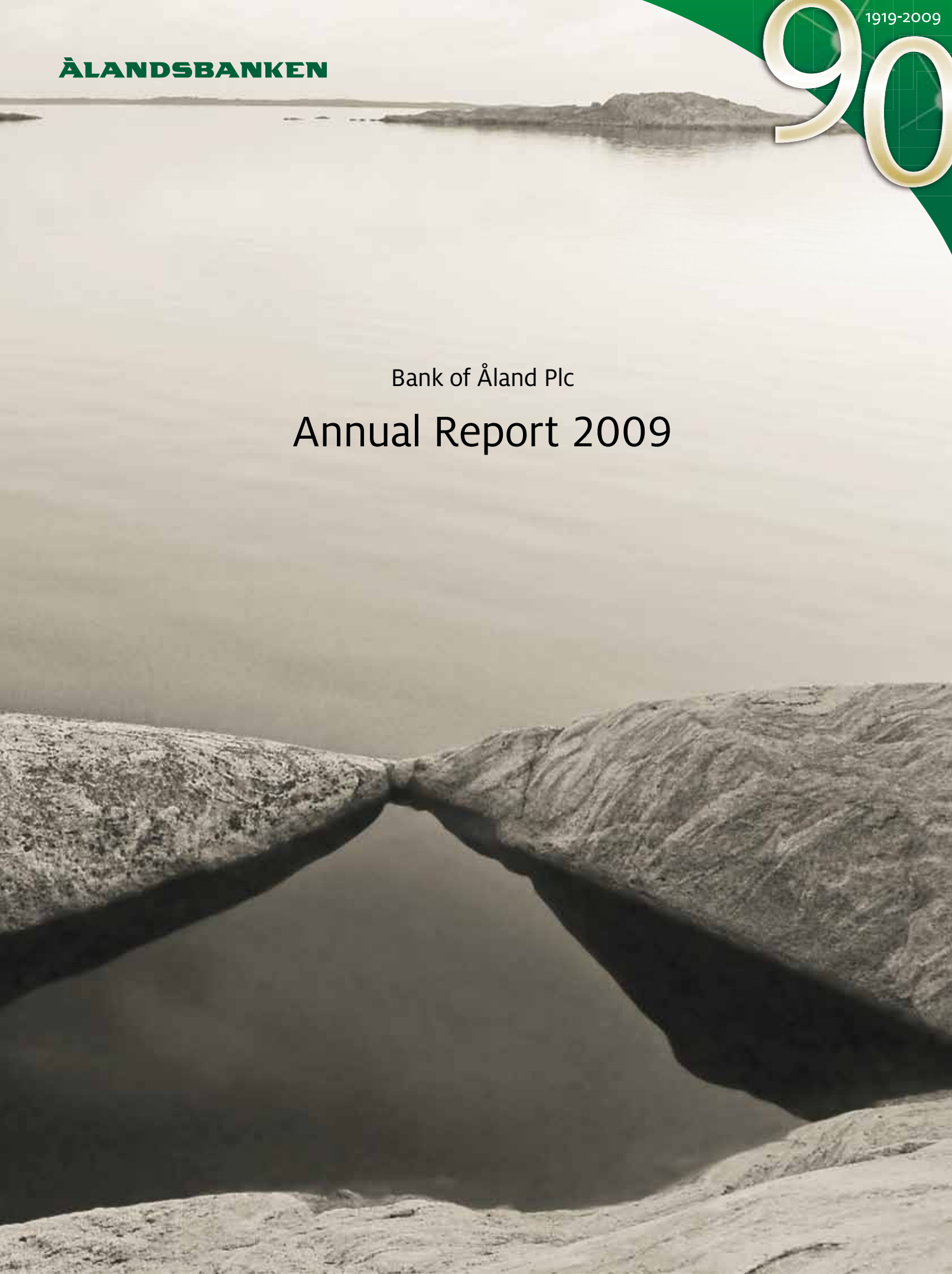
ÅLANDSBANKEN

1919-2009

90

Bank of Åland Plc

Annual Report 2009



The year 2009 in brief

• During 2009, the Bank of Åland Plc bought portions of Swedish-based Kaupthing Bank Sverige AB, now Ålandsbanken Sverige AB (encompassing Kaupthing Bank Sverige AB, Kaupthing Fonder AB and Alpha Management Company S.A.).

• The year was characterised by the Group's investment in the Swedish market, increased focus on private banking services, instability in financial markets and low market interest rates. The consolidated net operating profit of the Bank of Åland Group increased by 52.1 per cent to EUR 30.5 M (20.0 in 2008).

• During the year, the Group recognised EUR 23.1 M in negative goodwill as income due to its purchase of portions of Kaupthing Bank Sverige AB.

• In traditional banking operations, net interest income was adversely affected by low market interest rates, while the Group's strategic focus on private banking meant increased income from mutual funds, stock brokerage and asset management. Information technology (IT) operations performed favourably during the year, which increased "Other operating income".

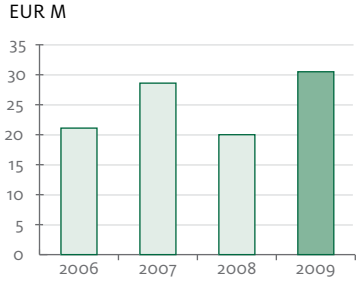
• In *Euromoney* magazine's annual survey of wealth managers, the Bank of Åland ranked first in terms of customer relationships in Finland. In addition, the Bank of Åland was selected as the second best Finnish market player in private banking. The Bank also ranked high in the inherited wealth and business services category and the discretion and safety category.

• In February, the Bank of Åland distributed EUR 76,000 in grants to long-term environmental promotion projects. This donation was generated from the Bank's Environmental Accounts.

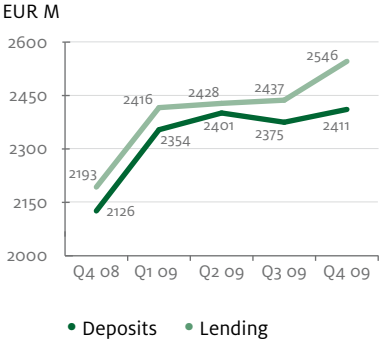
• The Bank of Åland's customers are the most loyal in Finland, according to a survey commissioned by the Finnish Direct Marketing Association and Avaus Consulting. The Bank took first place in customer loyalty, ahead of other players in the financial service sector, but also ahead of many other well-known major companies.

• During 2009, the Bank of Åland celebrated its 90th anniversary.

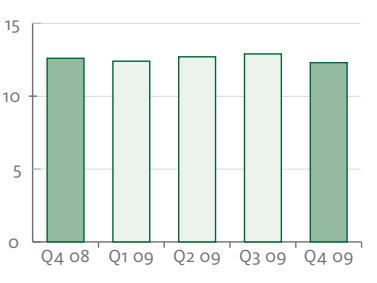
Net operating profit



Deposits and lending



Risk-based capital ratio, %



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Financial calendar

The Bank of Åland will publish the following Interim Reports during the 2010 financial year.

- January–March Interim Report May 3, 2010
- January–June Interim Report August 2, 2010
- January-September Interim Report November 1, 2010

The Annual Report and all Interim Reports will be published on the Internet: www.alandsbanken.fi

They can also be ordered from: info@alandsbanken.fi or Secretariat, Bank of Åland Plc, 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 nearly 28,000 inhabitants. Its official language is Swedish.

This translation of the Swedish-language Annual Report uses the international currency codes for the European Central Bank euro (EUR) and the Swedish krona (SEK). At year-end 2009, the middle rate for EUR 1 was USD 1.4406.

"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 and company names are sometimes followed in parentheses by the corresponding Swedish-language name.

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Cover photo – Erkki Santamala, photographer
Translation: Victor Kayfetz, SCAN EDIT, Oakland, CA

About the Bank of Åland

• The Bank of Åland (Ålandsbanken) was founded in 1919 as Ålands Aktiebank and has been listed on the Helsinki Stock Exchange (now Nasdaq OMX Helsinki Oy) since 1942.

• The Head Office is located in Mariehamn, Åland. The Bank of Åland has a total of 17 offices in the Åland Islands and eight offices on the Finnish mainland: in Helsinki (3), Espoo, Parainen, Tampere, Turku and Vaasa. The subsidiary Ålandsbanken Sverige AB has three offices in Sweden: Stockholm, Gothenburg and Malmö.

• The Group has 772 employees, of whom 355 work for the Parent Company.

• The Bank of Åland Group includes six subsidiaries whose operations are connected in various ways with banking. They are Ålandsbanken Sverige AB, Ålandsbanken Asset Management Ab, Ålandsbanken Equities Ab, Ålandsbanken Fondbolag Ab, Crosskey Banking Solutions Ab Ltd and Ab Compass Card Oy Ltd. Some of these have their own subsidiaries. See the organisational chart on page 103.

• The focus of the Bank of Åland is on enhancing its role as a bank for investors, while offering good financing know-how. Its most important operational areas are Private Banking and Premium Banking.

• By being a relationship bank, the Bank of Åland generates value for individual customers and their companies by building, deepening and maintaining long-term personal customer relationships. The Bank of Åland wants to help people and companies achieve a richer life.

• Over the years, the Bank of Åland has been an innovative pioneer in the financial sector, for example by offering Finland's first equity index bonds (1996) and its first deposit accounts tied to the prime rate (2000). It was the first to apply modern portfolio theory in asset management for individual customers (2000).

• The Bank of Åland's Premium Banking (2004) is a unique concept that combines financial and advisory services with security- and lifestyle-related services and benefits.

• The Bank of Åland is the only bank in Finland that has an Environmental Account.

Bank of Åland Group	2009	2008	2007	2006	2005
EUR M					
Income					
Net interest income	39.1	42.1	39.3	32.7	31.4
Other income	48.3	32.4	36.3	29.3	20.9
Expenses	-77.2	-52.1	-46.0	-40.9	-33.2
Loan losses	-2.9	-2.3	-1.0	0.0	-0.3
Negative goodwill	23.1	0.0	0.0	0.0	0.0
Net operating profit	30.5	20.0	28.6	21.1	18.7
Selected items from the statement of financial position					
Lending	2,546	2,193	2,104	1,912	1,796
Deposits, including bonds issued	2,411	2,126	1,921	1,599	1,631
Equity capital	162	139	135	122	113
Total assets	3,379	2,770	2,592	2,189	2,170
Financial ratios					
Return on equity after taxes, %	17.8	10.7	16.4	13.3	12.5
Equity capital per share, EUR	13.97	11.87	11.54	10.68	10.32
Earnings per share after taxes, EUR	2.27	1.22	1.75	1.29	1.24
Risk-based capital ratio, % [1]	12.3	12.6	12.8	13.8	11.3
Number of employees (recalculated as full-time equivalents)	641	487	470	437	411

1 In 2005, in compliance with Basel 1. In 2006–2009 in compliance with Basel 2 regulations.

Group structure

Operating area	Company	Sales	Total assets	Stake, %	Offices	Employees	Founded
Banking operations	Bank of Åland Plc	EUR 99.1 M	EUR 2,849.9 M	100	25	355	1919
	Ålandsbanken Sverige AB	EUR 21.0 M	EUR 545.8 M	100	3	193	Acquired in 2009
Asset management	Ålandsbanken Asset Management Ab	EUR 7.3 M	EUR 5.1 M	70	1	20	2000
Fund management	Ålandsbanken Fondbolag Ab	EUR 3.1 M	EUR 1.7 M	100	1	7	1998
	Ålandsbanken Fonder AB	EUR 2.9 M	EUR 1.5 M	100	1	4	Acquired in 2009
	Alpha Management Company S.A.	EUR 1.6 M	EUR 1.2 M	100	1	0	Acquired in 2009
Stock brokerage	Ålandsbanken Equities Ab	EUR 0.1 M	EUR 0.2 M	74	1	3	2008
Equities research	Ålandsbanken Equities Research Ab	EUR 0.1 M	EUR 0.1 M	74	1	5	2009
IT	Crosskey Banking Solutions Ab Ltd	EUR 25.6 M	EUR 10.6 M	100	4	178	2004
	S-Crosskey Ab	EUR 2.9 M	EUR 0.4 M	60	1	1	2005
Issuance of credit and debit cards	Ab Compass Card Oy Ltd	EUR 0.0 M	EUR 2.5 M	66	1	6	2006

A historic year

In 2009 we faced both challenges and opportunities. The formation of Ålandsbanken Sverige AB through the acquisition of portions of Kaupthing Bank Sverige AB was undoubtedly the biggest opportunity. The Bank has never before made an acquisition on this scale, and it has affected all areas of our organisation. During the year, we have worked hard to lay the groundwork for our operations in Sweden.

Photographer: Daniel Eriksson

Opportunities in Sweden

Our acquisition in Sweden brought us a new market, new business opportunities, new customers, new products and many highly capable new employees. The acquisition is naturally also generating costs, and before all the pieces have fallen into place and the organisation is completely integrated and optimised, it is weighing down our earnings.

As a consequence of the transaction, we were able to recognise EUR 23.1 M in negative goodwill in our financial statements. Because of this "start your own business" grant, we are reporting our best earnings ever, EUR 30.5 M, with a sales increase of 20 per cent.

Challenging interest rate situation

One major challenge during the year was – and still is – low interest rates, which have greatly affected the earnings from our traditional operations. The Group's net interest income in 2009 was 7 percent lower than in 2008, despite clearly higher volume. This was offset to some extent by a 75 per cent increase in commission income on securities trading. During the fourth quarter, for the first time we experienced a situation where commission income was larger than net interest income.

Turbulent stock market year

Virtually all asset classes were affected by the extremely weak market situation. Until March, the stock markets in both Finland and Sweden moved in a strongly negative direction. After that, they climbed sharply for the rest of the year. By the end of 2009, stock markets had risen by 38 per cent in Finland and 45 per cent in Sweden, but trading volume was low, which affected brokerage commission income.

Impact of the financial crisis

Aside from the repercussions of interest rates and low activity in stock markets, we have coped well with the impact of the financial crisis. Yet it is too early to declare an end to the crisis, because here in the Nordic countries its overall repercussions will probably become clear only during 2010 and 2011. In its balance sheet, the Group has made industry-specific collective provisions sheet totalling EUR 2.5 M for future needs. Meanwhile we are working to review our operations on all fronts to ensure that we are as well equipped as possible, according to the old

Åland saying: Tie up your boat for a storm, but hope for sunshine.

We are building a bank for investors

The Bank of Åland's journey from being a bank for financing that has investment know-how to being a bank for investors that has financing know-how has been under way for a long time, ever since we established the first office of our own in Helsinki in 1982 and offered asset management services. During 2009 the pace accelerated greatly, and in some areas one can say that we have already reached our goal, while in other sectors we have a way to go. Many large building blocks were put in place during the year.

One important building block is Ålandsbanken Sverige, our Swedish bank, whose main operation is private banking. Another is Ålandsbanken Equities in Finland, which began equities analysis and stock brokerage operations and was well received. In Helsinki, our Aleksanderinkatu (Alexandersgatan) office has been reorganised into a centre of expertise in private banking. Low interest rates and the resulting squeeze on our net interest income have given us further evidence that it is strategically correct for us to build more legs to stand on.

New regulations on the way

In the aftermath of the financial crisis, we can now begin to discern the ambitions of public authorities. Through new rule systems, the authorities aim at tightening many regulations concerning both the capital adequacy of banks and their access to liquidity. It is still too early to foresee the full consequences of these tightening measures, but it is quite clear that all banks that lend money will face stricter requirements. These changes also indicate that our strategic focus on asset management and private banking makes good sense.

Heavy investment phase

In a short period, the Bank of Åland has made many investments in new operations and new markets. One can say that we are in a heavy investment phase, and we have deliberately chosen to use the recession to expand our reach. As a result, the Bank's operational profitability is more strained than it would need to be during this recession, but we are counting on our investments to pay off and we expect to see a positive impact relatively soon.

Results already visible

Our efforts in private banking have already begun to show results. Our revenue from capital market operations and the quantity of managed assets have increased more than we had dared to hope. New customers have come into our operations, and existing customers have chosen to use our new services to an ever-greater extent. For example, the assets we manage have increased from EUR 741 M to EUR 3,101 M. We are looking forward to a stabilisation of the market and to seeing our stock market activities take off in earnest. During 2009 our mutual fund assets under management in Finland also rose by 58 percent to EUR 372 M, and the growth of the Bank of Åland mutual funds was almost twice as large as the average in the Finnish market.

Our other major concept, Premium Banking, is also among the year's successes. Sales increased greatly, and the number of customers rose by 47 per cent. We exceeded the targets that we had established for our 90th anniversary year by a wide margin.

Satisfied customers – our success factor

One of the most important of all factors behind this success is the loyalty of our customers.

Several independent surveys have shown that we top the lists in terms of satisfied customers, that our customers gladly recommend us to their friends and that they appreciate our personal service. This is a building block that we have to take very good care of. Meanwhile all of our employees have reason to stand up straight and feel proud of their contributions. It is with great pleasure that I extend my thanks to all our employees for this historic year.

We are and will remain a simple, stable, customer-oriented bank. Our development process will also make us a stronger and more exciting bank. Today we have a considerably broader range of services and more legs to stand on than we had a year ago. We are now an even better bank for investors, with very good financing know-how.

Peter Wiklöf
Managing Director

"We are and will remain a simple, stable, customer-oriented bank. Our development process will also make us a stronger and more exciting bank.

90 years of experience

1919


Prenumerera på „Åland" för 192

20 mark för helt år.

ÅLANDS AKTIEBANK

egen bank. Tel. 202.

1919 The Bank of Åland was founded

Mariehamn was a small town when Ålands Aktiebank (the Åland Banking Corporation) opened its doors on December 15, 1919. Two female cashiers, an office manager and a banking executive worked there. Banking operations started off well.

1921 Wider horizons

The first step toward the Finnish mainland was taken when the private banking firm of W. von Bonsdorff & Co in Helsinki was appointed as the agent of Ålands Aktiebank. This was one of the few positive news items that year, when all Nordic banks were being squeezed by problems in the shipping business, which were also reflected in society at large.

1929 A sound bank

Just before the stock market crash of 1929 and subsequent global depression, the Banking Supervision Authority declared that Ålands Aktiebank had the best liquidity of all banks in Finland, with no debts to the Bank of Finland.

1934 Its own building

Ålands Aktiebank inaugurated its own bank building on September 1, 1934. The building is still the heart of the Bank of Åland's Head Office.

1939 The Second World War

Finnish troops arrived in Åland and fortified the island. The offices of Ålands Aktiebank were protected with sandbags in case of bombings; promissory notes were copied and hidden. The Bank did its part by making a large donation to the defence effort.

1942 Market listing

At the height of the war, Ålands Aktiebank gained a listing on the Helsinki Stock Exchange. Like other banks, it performed fairly well during the war years.

1959 Ferry traffic begins

The biggest change in the entire economic history of Åland occurred when passenger vessel traffic began. The first tourists who sailed on the vessel S/S Viking in 1959 hardly realised the historic value of that moment. Since its founding in 1919, the Bank had been involved in the maritime shipping sector.

1969 New financing methods

The 1960s were a period of major social change. Ålands Aktiebank felt its responsibility to follow economic developments and started using new financing methods through two subsidiaries, Ålands Factoring Ab and Ålands Leasing Ab.

1971 Computers arrive

The computer age began in Åland in 1971 when Ålands Aktiebank helped establish Ålands Datacentral Ab, which provided computer services both to the Bank and to outside customers. The centre's mighty IBM represented the cutting edge of computer technology at the time.

1973 Strike, oil crisis, new construction

Despite a banking strike and the oil crisis of the spring of 1973, Ålands Aktiebank began an extension of its head office, which was completed in 1975 and is called the Copper Building.

1977 Debit cards and ATMs

In 1977 the Bank was the first in Finland to install terminals in all its major offices, where customers could view information about their account transactions in real time. The first debit cards and cash dispensers (ATMs) quickly followed.

Photos above: The Bank's introductory advertisement in the "Åland" newspaper, December 1919. The new Head Office, 1934. Banking operations in the 1940s. Computerisation began in 1971. The Bank of Åland office on Bulevardi (Bulevarden), Helsinki. The Ålandsbanken Sverige office at Stureplan, Stockholm.

2009

1982 Helsinki office

The Bank of Åland opened a Helsinki office, the first of its own on the Finnish mainland. It was the first bank in Finland to offer asset management services to its customers.

1987 Black Monday

The New York Stock Exchange experienced its largest single-day price drop ever, the precursor of a long, exhausting recession.

1992 No government aid in the crisis

Mainland Finnish banks collapsed, and the surviving banks closed numerous offices. The Bank of Åland weathered the crisis with its honour intact, thanks to controlled tightening – on its own and without government aid.

1994 Decision to expand

The Bank saw opportunities in the wake of the banking crisis. It opened seven new offices on the Finnish mainland during the 1990s.

1996 First with equity index bonds

The Bank of Åland began to focus on investment products. It issued Finland's first equity index bond, and began its Environmental Accounts. In 1998 the Bank launched its first in-house mutual funds and established Ålandsbanken Fondbolag Ab, with operations in Mariehamn.

1999 Internet banking

The Bank introduced its Internet office, allowing online bill payments and monitoring of account transactions.

2000 Record earnings and Asset Management

The Bank of Åland's net operating profit in 2000 was the best so far in its history, and the subsidiary Ålandsbanken Asset Management Ab was established.

2004 Premium Banking and IT

To improve customer contact, the Premium Banking service was launched, combining many-faceted banking services with lifestyle benefits.

The Bank of Åland started an information technology (IT) venture by establishing Crosskey Banking Solutions Ab. This subsidiary develops, sells and implements systems solutions in the financial sector. In 2005, it opened a branch office in Sweden.

2006 Compass Card

The subsidiary Ab Compass Card Oy Ltd was established in 2006, supplying the Bank with new international debit cards.

2007 Private Banking

To further strengthen its position as a bank for investors, the Bank of Åland began offering its private banking service at all offices.

2008 Global financial crisis

The global financial crisis began.

Ålandsbanken Equities Ab was founded. It is a subsidiary that provides stock brokerage and equities analysis services.

2009 Establishing a presence in Sweden

TDespite global economic worries, the Bank of Åland continued its tradition of building for the future during tough times, by establishing a presence in the Swedish market. It did so by acquiring portions of Kaupthing Bank Sverige AB, which changed its name to Ålandsbanken Sverige AB. This bank now has offices in Stockholm, Gothenburg and Malmö.

A unique story of survival

Darwin's theory of evolution also applies to the banking industry. The weak are eliminated while the hardy and persistent – with a pinch of good luck – survive.

The Bank of Åland's story of survival is unparalleled in Finland. Over the years, the Bank has resisted all attempts at conquest and weathered a world war, stock market crashes and bank crises.

The people of Åland are a hardy breed. The early 20th century was chaotic, and the Great Powers drew new lines across the map of Europe. To ensure that Åland would not vanish from the awareness of the rest of world, a determined delegation of Åland residents marched to Great Power meetings and demanded their rights.

The same persistent landowners and sea captains became tired of seeing Åland capital, i.e. their own assets, flowing out of their archipelago. They established their own bank.

The beginning of banking operations

When the Bank of Åland began its operations on December 15, 1919, it was neither the first nor the only bank in the islands. On the contrary, it had to struggle amid keen competition right from the start. Competitors tried to take over the Bank of Åland as early as the 1920s, and this was not the last time.

In 1928 there was a crop failure, and in 1929 the international depression began with the New York stock market crash. The shipping industry performed poorly, but the Bank's finances were solid. Having set aside reserves, it prepared to construct "our own modern banking building" – which still forms the core of the Bank's Head Office.

The years preceding the Second World War were a period of prosperity both in Åland and elsewhere in the world. Maritime shipping was profitable, Gustaf Erikson's large sailing vessels travelled all the way to Australia and the Bank had a good business relationship with the famous ship owner. People began to have the time and money for leisure pursuits. Such legendary Åland entertainment establishments as the Societetshuset and Miramar restaurants opened their doors, and people sunned themselves on the golden sandy beach at Möckelö havsbad. Sally Salminen's book Katrina attracted visitors to exotic Åland. Thanks to an improved road system, tourists could explore the islands more easily than before. The situation was bright for everyone.

Reaching a crossroads

Then came the World War. Åland as well as Ålands Aktiebank managed comparatively well. After the war, the Åland economy stood at a crossroads. The alternatives were either to remain a picturesque nature reserve where time stood still, or to modernise. Åland and Ålands Aktiebank chose the latter – to develop the community and the Bank.

The symbol of development was Thorvald "Thusse" Eriksson, who began his career at the Bank on January 1, 1954. Appointing a man who was barely thirty years old as the Managing Director of the Bank was a bold move and a rather big risk. The choice proved to be the right one. With Eriksson at the helm, it became a modern bank.

Businesses expanded, and the first ferry traffic between Åland and Sweden began in 1959. The 1960s were a period of social changes and large population movements throughout the Nordic countries. Ålands Aktiebank assumed its share of responsibility for the economic development of Åland and started business projects to ensure that people would stay on the islands. The Bank grew, and the number of employees rose from 40 to 90. In 1963 Carl Carlson, the last of the Bank's twelve founders, passed away. He stepped down from the Bank's Supervisory Board only a year before his death and had thus devoted 42 years of his life to the Bank.

The first big step outside Åland

In 1980 Ålands Aktiebank changed its name to Ålandsbanken (the Bank of Åland), declaring that it wished to develop and expand its operations and that this would occur outside Åland. The growth of securities trading and the intensive expansion of the money market pointed towards the Finnish capital region. The Bank of Åland thus opened the first office of its own in Helsinki (Helsingfors) in 1982. This office, located today on Bulevardi (Bulevarden), was successful from the very start. The Bank of Åland was the first bank in Finland to offer its customers private banking services. The future

> *"In various ways, the Bank has built for the future during tough times and has been able to stand well equipped when better economic times have dawned.*

In 1968 a mobile office brought the Bank closer to its customers. Today the Internet Office does the same.

looked promising. In 1986, Thorvald Eriksson retired and handed over management of the Bank of Åland to his successor, Folke Husell.

Expansion in the wake of banking crisis

Early in the 1990s, one Finnish bank after another was hit by a banking sector crisis. Many collapsed, and those that survived shut down offices ruthlessly. Free banking services began to cost money, and bank employees were laid off. The Bank of Åland stayed calm and chose a different tactic. It closed no offices, but changed its opening hours. Instead of lay-offs, employees were given an opportunity to work shorter hours, switch to half-time or retire early. Through carefully calibrated measures, the Bank of Åland was able to navigate through the crisis years with its reputation intact – without any outside help or government aid.

When the Bank of Åland celebrated its 75th anniversary in 1994, then-Managing Director Folke Husell noted:

"We have gone through a difficult but instructive period. We are now approaching a new period when the room for new initiatives is increasing. Accordingly, the Bank will be trying its wings in new markets."

The merger of the Finnish banks Unitas and Kansallis-Osake-Pankki in 1995 gave further confirmation to the Bank of Åland's earlier decision to strengthen its position on the Finnish mainland. Aside from its Helsinki office and the Turku (Åbo) office, which had opened in 1992, late in 1995 the Bank of Åland also opened offices in Parainen (Pargas), Tampere (Tammerfors) and Vaasa (Vasa). The Espoo-Tapiola (Esbo-Hagalund) office opened in 1997, the Munkkiniemi (Munksnäs) office in Helsinki in 1998, and the Aleksanderinkatu (Alexandersgatan) office in Helsinki opened in 1999.

Developing investment products

In the mid-1990s the Bank began to focus on various investment products, of which equity index bonds were the most popular. These bonds were targeted to the general public and were a completely new product that the Bank of Åland was the first to launch in Finland. Now the general public had more financial flexibility, and there was a growing demand for savings and investment products, especially for pension plans and mutual fund savings. This led, among other things, to the establishment in 1998 of the mutual fund company Ålandsbanken Fondbolag Ab in Mariehamn and Ålandsbanken Asset Management Ab in Helsinki in 2000.

Deepening customer relationships

In the late 1990s the Bank of Åland began a new era as a relationship bank, with a strategy of deepening its customer relationships – both via personal contacts and over the Internet. In 2003, the Bank of Åland won the CERS Award of the Swedish School of Economics and Business Administration in Helsinki, a concrete acknowledgement of the Bank's success in relationship marketing.

This positive trend has continued during the new millennium, and the Bank has had the wind in its sails. The Bank of Åland has launched new products, continuously cultivated its contacts and established subsidiaries.

The Bank again set a precedent by launching Premium Banking – a service based on individualised advisory services on personal finance, combined with lifestyle services. In the wake of the burst dot-com bubble, to the surprise of many observers the Bank established the IT company Crosskey Banking Solutions Ab, but this turned out to be a successful venture. Last but not least, in 2009 the Bank of Åland took a big step west, a move planned for many years, by acquiring portions of Kaupthing Bank Sverige AB and thereby founding the Swedish subsidiary Ålandsbanken Sverige AB, with offices in Stockholm, Gothenburg and Malmö.

Looking back over the 90-year lifetime of the Bank, tough times have alternated with good times. All these periods have in common that the Bank tackled challenges in an aggressive way. In various ways, the Bank has built for the future during tough times and has been able to stand well equipped when better economic times have dawned.

The Bank of Åland's role in society

Because a company of the Bank of Åland's size affects its surroundings in many ways, the Group has fundamental values that govern how we should carry out our operations in a responsible way. The Group has responsibilities to our customers, our shareholders and the society we work in, as well as to the environment that we all depend on. The task of improving how we take responsibility and of identifying our key areas is an ongoing process.

Interacting with our surroundings

Our core values are to communicate in a straight and honest fashion, treat everyone with respect and aim for profitability in everything we do.

Our policy and ambition are to prevent all forms of money laundering and financial transactions connected to terrorism. All business transactions must comply with ethical guidelines, rules and laws. Employees are responsible for ensuring that customers are aware of and understand the implications of the decisions they make.

The Bank of Åland participates in society and public discourse through representation on boards of directors and in interest organisations, industry councils and other bodies linked to business operations and training, but it also contributes to cultural life and sports through the funding of stipends and through sponsorships.

At Christmas 2009, the Save the Children Foundation in Åland and on the Finnish mainland as well as the Children's Day Foundation in Sweden received donations from the Bank of Åland Group. They were made in the name of our employees and our customers and were equivalent to the amounts previously spent on Christmas presents for employees and customers.

Focusing on the environment

At the Bank of Åland, environmental work is a high-priority strategic area based on the holistic view that there is a harmony between economic development and environmental protection. The Bank aims for the least possible adverse environmental impact in all its operations.

During the year, the emphasis of day-to-day environmental work was on reducing consumption of materials and energy. This was achieved by providing training and information to employees, investing in computer equipment with built-in energy-saving functions and switching to low-energy light bulbs and LED lighting. When offices are renovated, special emphasis is placed on minimising energy use in Bank premises, for example by installing sensor-controlled lighting. There are clear indications that energy consumption at the Bank's Head Office has decreased substantially since its renovation. During the year, the Bank of Åland bought "green electricity" for all power consumption at the Head Office.

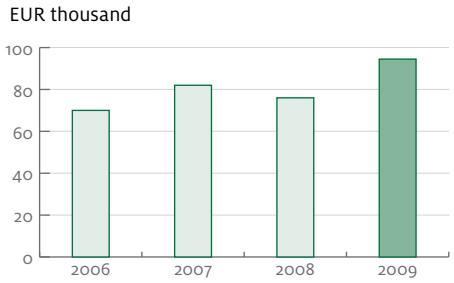
Another energy-saving measure during 2009 was the decision to move Crosskey Sweden's server facility to the country's "greenest" computer rooms. The facility employs outdoor air, or "free cooling", to keep temperatures down and thereby reduce energy consumption. Meanwhile Crosskey has begun the virtualisation of its servers, which means utilising their capacity to a higher degree than has been possible until now. The virtualisation of 30 servers in Sweden during 2009 was equivalent to eliminating the carbon dioxide emissions from 45 cars.

Among purchased materials, the Bank seeks products that are easy to recycle and as clean as possible in all respects, taking into account the entire chain from manufacture to recycling. The lunch food served at the Head Office is made from scratch on site, and the Bank buys locally produced ingredients as far as possible.

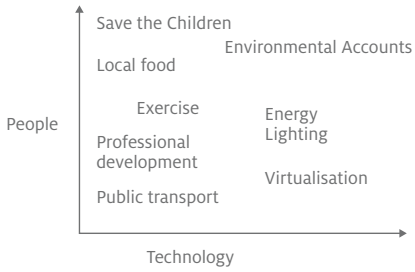
Employees who use public transport to

"During the year, the emphasis of day-to-day environmental work was on reducing consumption of materials and energy.

Donations from the Environmental Account



Social commitments



During 2009, the Bank of Åland's social commitments had two dimensions: people and technology.

travel between their home and work received a subsidy for these expenses from the Bank. During 2009 the people who took advantage of this subsidy saved about 100 tonnes of carbon dioxide compared to driving their cars. With the help of better planning, transport and haulage to the various Bank offices has been cut by more than half, yielding gains in environmental terms but also in purely economic terms.

In 1997 the Bank of Åland created an Environmental Account, which generates 0.2 per cent of deposited funds per year for donations to projects that improve the environment or conserve nature. To date, EUR 700,000 has been distributed from the Environmental Account.

Our employees

For the past year or so, the Group has used a compensation system that includes a connection between performance and pay. Salaries are determined on the basis of the difficulty of the work and the employee's proficiency and job performance. The Bank applies the principle of equal pay for equal work regardless of gender. Career development discussions take place yearly with each employee, in the form of a structured dialogue that is the same for everyone. Employees and their immediate supervisors are jointly responsible for their professional development. In-service training can be carried out in many different ways. The growth of the Group has helped create a natural rotation, also enabling employees to improve their proficiency.

The 2009 employee survey showed good figures, and the Group has reason to be pleased at a trend towards higher motivation and corporate pride. The task of improving workplace well-being and efficiency is being performed within a broadened concept called "long-term health." The Group wants a balance between working life and leisure time, and it does not encourage over-ambitious work efforts, bearing in mind the well-being of its employees.

The Group's objective with regard to management positions at different levels within its operations are that they should be as evenly allocated as possible between men and women and that it should be possible for everyone to combine family life with a management role. Leadership should be clear and present and should include coaching that enables employees to achieve their full potential.

Loyal customers provide their stamp of approval

During 2009, the Bank of Åland received various forms of recognition for its ability to live up to customers' expectations of their bank.

The Bank of Åland's customers are the most loyal in Finland, according to a survey conducted by TNS Gallup and commissioned by the Finnish Direct Marketing Association and Avaus Consulting. The survey, Customer Index 2009, examines what companies have the most loyal customers in Finland and what factors affect loyalty. The Bank of Åland won a clear first place when pitted against Finnish banks and other companies. A total of 53 well-known Finnish companies took part in the survey.

In *Euromoney* magazine's annual survey of asset managers, the Bank of Åland ranked first in terms of customer relationships in Finland. The Bank was also ranked the second best domestic market player in private banking and performed well in the categories inherited wealth and specialised services for business, as well as in the discretion and safety category.

Private Banking

The Bank's concept for investors offers discretionary or advisory portfolio management to private individuals and institutions. Our objective is to generate returns throughout the economic cycle, and we offer a broad range of mutual funds, both in-house and external. The equity model portfolio, stock brokerage and analysis of listed companies are part of these services, along with fixed income investments and equity index bonds. Customer confidence is vital in working with investors.

Investing in 2009

Until mid-March, 2009 was dominated by the effects of the financial crisis. Virtually all asset classes suffered from an extremely weak market situation. After bottoming out in March, world stock markets have been in an upward trend. In Finland the trend has been positive but more moderate than in Sweden. This is partly a consequence of Nokia's great importance to the Finnish stock market. Nokia rose moderately during 2009.

In Sweden, the market trend was very positive due to the weak Swedish krona and the global recovery, which benefited the cyclical companies that play a key role in the Swedish stock market. Economic and financial market stabilisation also benefited Swedish banks, which are also important to the Swedish stock market, contributing to strong growth.

The Nasdaq OMX Stockholm stock exchange ended the year 45 per cent higher than at the beginning (OMXS30 Index), while the increase on the Nasdaq OMX Helsinki exchange was a bit less, at 38 per cent (OMXH25 Index). Despite sharp price upturns in the Finnish and Swedish stock markets, trading volume was still relatively modest.

Fixed income markets have gradually normalised since the spring of 2009 and have stabilised at present. The world economy is now in a recovery phase.

"Recommendations from satisfied customers have been very helpful in recruiting new customers.

Sweden – a new area on the Bank of Åland map

ESTABLISHING A MARKET PRESENCE

The biggest project of the year in Private Banking was entering the Swedish market. By acquiring portions of Kaupthing Bank Sverige AB, the Bank of Åland laid a solid foundation to build on in Sweden as well. Establishing a presence there was the single factor that has had the biggest impact on the operations of the Group as a whole during 2009. The actual purchase occurred on March 27, and the change of names to Ålandsbanken Sverige AB and Ålandsbanken Fonder AB was announced in late April. The Ålandsbanken (Bank of Åland) brand was launched in Sweden in May, and efforts to bring all operations in Sweden under the common Ålandsbanken ceiling continued all year.

This integration task affected virtually all functions in the Group as a whole, and efforts to shape the structure will continue during 2010 as well.

In Sweden, the Bank of Åland offers comprehensive solutions to selected customer categories.

Entrepreneurs with "owner-managed" capital, owners of private fortunes and institutional customers in need of asset management, share trading and analysis are the Bank's target groups.

POSITIVE RESPONSE FROM SWEDISH CUSTOMERS

Operations in Sweden had a successful year during 2009, with a large influx of new customers and higher managed volume. During the year, the emphasis was on offering individually tailored, comprehensive solutions to business

Photographer: Daniel Eriksson

owners and entrepreneurs, with asset management, tax advisory services and various financing solutions as important elements.

MUTUAL FUND AND INVESTMENT OPERATIONS IN SWEDEN

A majority of mutual funds showed very strong growth in 2009, both in absolute terms and compared to indices and other mutual funds.

During the year, sizeable sums flowed into our equity mutual funds and our discretionary mandates, but out of our money market fund. After the acquisition, managed assets increased by 35 per cent.

During 2009 a number of highly qualified institutional advisors were recruited to the Bank. The collective experience of our Asset Management staff in Sweden is substantial.

The Swedish mutual fund company Ålandsbanken Fonder AB provided a significant addition to the Group's fund operations. The number of mutual funds in the Group thereby doubled from 11 to 22. There is now a varied and balanced selection of funds available to customers both in Finland and Sweden.

Fund operations in Sweden also include the subsidiary Alpha Management Company A.S., which manages hedge funds with market neutral strategies and various risk levels – a more diversified alternative to traditional investments in equities and bonds.

Ålandsbanken Equities Sverige provides institutional stock brokerage and analysis. The team includes about 20 brokers and analysts. Equities focuses on analysis of both large and small Swedish companies. Together with Ålandsbanken Equities Ab in Finland, which follows small and medium-sized Finnish companies, they can offer research on about 130 companies to Nordic customers. Despite a turbulent spring, including the change of ownership, Equities Sverige was ranked in sixth place by Swedish institutional customers.

Improved position in Finland

STRONG ASSET GROWTH IN ÅLAND

There was a very positive trend in the number of discretionary management mandates, which increased by 36 per cent. Meanwhile assets under discretionary management rose by 96 per cent. There is also a large number of customer mandates under consultative management.

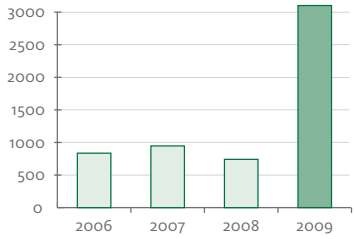
In Åland, Private Banking's model portfolio performed extremely well, gaining 73 per cent during 2009. The stock market upturn in both Helsinki and Stockholm was significantly smaller during the same period. Behind the strong performance of the model portfolio was a

ÅLANDSBANKEN ASSET MANAGEMENT AB

This subsidiary, which was established in 2000, manages the investments of Private Banking customers in compliance with individual agreements with each customer, and with an emphasis on maintaining a long-term view and balanced risk-taking. The same strategies apply to the management of the Bank of Åland's mutual funds, which are also handled by Asset Management.

Managed assets

Bank of Åland Group, EUR M



successful sectoral allocation, good stock picking and an early overweighting of equities. Even though the financial market crisis was the biggest since the 1930s, during a short period the model portfolio was able to regain the entire loss that resulted from the stock market downturn.

Investments in direct ownership still dominate the Åland market, ahead of such investments as mutual funds. This is illustrated by Åland customers' preference for direct equity investments, bonds, equity index bonds and deposits. However, especially among younger customers and those who save regularly, there is a visible shift towards mutual fund savings.

"Investors are seeking transparent, easy-to-understand investment products that are provided by a reliable market player. This has benefited the Bank of Åland.

SATISFIED CUSTOMERS PROVIDE SUPPORT ON THE FINNISH MAINLAND

The number of Private Banking customers climbed 139 per cent. Managed assets more than tripled, thank to both new customers and market growth. Euromoney magazine gave the Bank a good rating in its annual survey of asset managers. Together with recommendations from satisfied customers, this was very helpful in recruiting new customers. Another contributing factor is the new centre of expertise organised at the Aleksanderinkatu office in Helsinki. Substantial specialist knowledge in asset management for Private Banking customers is now gathered in one place, and customers can handle their whole family's banking transactions there.

ANALYSING COMPANIES

The subsidiary Ålandsbanken Equities Ab began its operations in March. The company has two areas of business, one in analysis and one in stock brokerage. Ålandsbanken Equities Research Ab, which provides analysis, expanded its coverage to about 60 companies during the year. The second business area, stock brokerage, is aimed at various types of financial institutions, mutual funds and investment companies. The operations of Ålandsbanken Equities Ab were well-received in the market.

GOOD CUSTOMER PORTFOLIO GROWTH

Ålandsbanken Asset Management Ab noted a sharp upturn after March, when both the stock market and the bond market rallied. The company succeeded in picking the right time to shift from extremely defensive to extremely aggressive customer portfolios. After that, customer portfolios rose about twice as fast as benchmark indices. Asset Management's portfolios thus performed very strongly during 2009 both in absolute terms and compared to market indices. The increase in the value of fixed income portfolios and fixed income funds was especially large. Managed assets increased by a total of 61 per cent. The subsidiary showed very good earnings due to the increase in portfolio values and the large number of new customers. Both factors justified recruitment of new staff, and the number of employees thus increased to 20 during the year.

ÅLANDSBANKEN EQUITIES AB AND EQUITIES RESEARCH AB

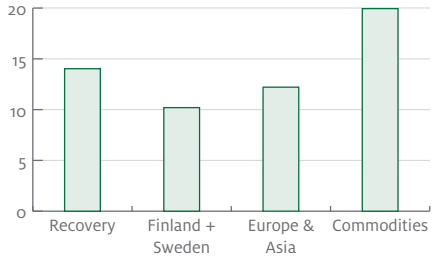
The subsidiary Ålandsbanken Equities, which was established late in 2008, began its operations in March 2009. The company provides stock brokerage and offers first-class stock trading services in the Nordic market. Its target group is various types of financial institutions, mutual funds and investment companies. The company also has a subsidiary, Ålandsbanken Equities Research, which offers analysis and has Finland's broadest range of research on small and medium-sized companies.

ÅLANDSBANKEN FONDBOLAG AB

The subsidiary Ålandsbanken Fondbolag manages the Group's eleven Finnish-registered mutual funds. Its strategy is to ensure that its funds are competitive and adapted to the investment needs of Bank of Åland customers. Portfolio management for the mutual funds is provided by Ålandsbanken Asset Management, which has the foremost experts in each respective area. The portfolio managers make independent investment decisions within the framework of a common, overall strategy. All decisions are based on systematic market analyses, long experience and proficiency.

Equity index bonds

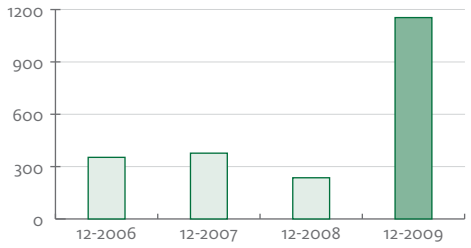
Finland, EUR M



Sales of equity index bonds during 2009.

Mutual fund assets under management

Bank of Åland Group, EUR M



STRONG GROWTH IN MUTUAL FUND OPERATIONS DURING 2009

Mutual fund (unit trust) assets under management rose by 58 per cent to EUR 372 M (from EUR 236 M on December 31, 2008). The trend in 2009 followed the market situation as a whole. The number of unit holders increased during the year by 21 per cent to 17,086.

There was a strong increase in the assets and the number of unit holders in the Bank of Åland's mutual funds. Asset growth was almost twice as high as the average for the Finnish mutual fund market.

This trend is explained by a much faster increase in equity fund investments after the market rebound in the spring of 2009 than after the previous turnaround in 2003. Investors were thus able to benefit from strong growth at an early stage. This was probably due in part to increased activity among investors, but it is also a result of good work by the Bank's investment advisors. The recovery in the fixed income market benefited the return on fixed income funds. Given generally low interest rates during 2009, fixed income funds thus offered a very competitive return and had a sizeable influx of capital. During the year, Ålandsbanken Fondbolag noted that investors are seeking transparent, easy-to-understand investment products that are provided by a reliable market player. This has benefited the Bank of Åland.

During 2009 many of the Bank of Åland's mutual funds received top rankings in comparisons made by the independent mutual fund rating companies Morningstar and Eufex.

EQUITY INDEX BONDS

During 2009 there were four equity index bond issues. These bonds have in common that the principal is guaranteed by the Bank of Åland and the investment period is relatively long. The Recovery equity index bond was based on the theme of the recovery in the world economy, and the timing of the investment was perfect. The subscription period coincided with the period of the lowest share prices on most of the world's stock exchanges.

Of the year's four equity index bond issues the last two, Commodities Fixed Income and Commodities Growth, attracted the most and largest investments. Subscriptions for these issues totalled EUR 19.9 M. The volume of equity index bond issues during 2009 totalled EUR 56.4 M. This was an increase of 81 per cent.

"There was a stronger increase in the assets and the number of unit holders in Bank of Åland's mutual funds than the average for the Finnish market.

Premium Banking

Premium Banking is a many-facetted, comprehensive package that provides personal banking, investment and financial services. Customers also receive legal advice, travel-related services and offers, as well as other benefits aimed at together giving customers a richer life.

Systematic efforts to recruit full-service customers to Premium Banking continue during 2009 and yielded good results, both in terms of the number of customers and how they perceive the Bank's services.

Increased number of customers

During the year, the Premium Banking service made a major breakthrough. The number of customers with the Premium service package rose by 47 per cent. The big increase came about due to intensive personal sales work at the various Bank offices. The performance of the Tampere office was especially outstanding. Sales work focused on presenting the benefits of being a full-service Premium Banking customer, and this yielded excellent results. Both in its day-to-day work and at various customer events, the Bank highlighted its broad savings and investment product range.

Keen competition

Keen competition for deposits continued, but the Bank managed to keep its total volume of deposits nearly unchanged (-1 per cent).

The demand for loans was less than normal at the beginning of 2009 but rose during the autumn. Here, too, the competition is keen but the banking industry as a whole managed to raise its margins after the summer. At the Bank of Åland, lending volume increased by 12 per cent. Despite the volume increase for lending, net interest income in Finland fell by 15 per cent compared to 2008 due to the exceptional interest rates in the wake of the financial crisis.

The Bank's market share in Åland was unchanged, and the local market was affected to a lesser extent by the repercussions of the financial crisis than on the Finnish mainland and in Sweden

Mutual fund savings

Monthly savings in mutual funds increased both on the mainland and in Åland as a result of active sales.

This form of long-term savings is regarded as attractive under the prevailing stock market and interest rate conditions. The number of regular mutual fund savers rose by 20 per cent during the year. The Environmental Account, from which the Bank donates a sum equivalent to 0.2 per cent of deposited funds yearly to measures that improve the environment and conserve nature, also grew from EUR 40 M to EUR 53.4 M, an increase of 33 per cent.

In the Swedish market, the Premium Banking concept has not yet been launched.

Compass Card

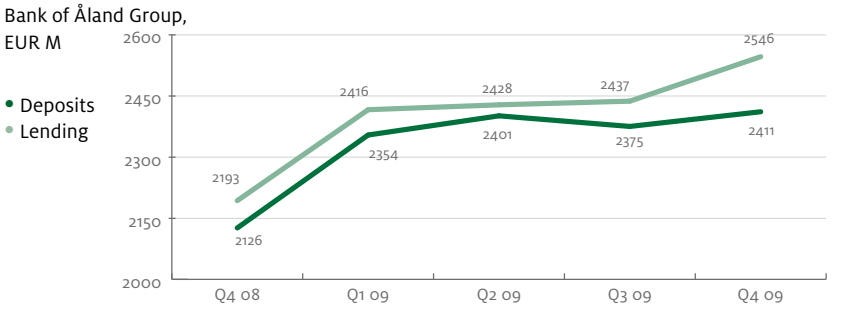
Ab Compass Card Oy Ltd is one of the Bank's newest subsidiaries and is entrusted with developing and offering debit and credit card services. Its shares are owned 66 per cent by the Bank of Åland and 34 per cent by Tapiola Bank.

During 2009 the company concentrated on helping its supplier and other business partners in the development and establishment of the new debit and credit card system. The supplier is the Bank of Åland's subsidiary Crosskey Banking Solutions Ab Ltd.

Compass Card has also signed an agreement with the credit card service company Luottakunta (Kreditlaget) related to card transaction processing and authorisation as well as other added-value services.

The company's actual business operations will

Deposits and lending



Via their personal advisor, Premium Banking customers can utilise a broad array of services, from day-to-day banking transactions to expert help. Premium Banking also includes many services that make their life easier and more enjoyable.

begin in 2010, and it thus showed a loss of EUR 0.5 M in 2009.

Refurbishing the office network

The Group isnpected its office network and carried out both major and minor renovations. Customer areas at the Head Office in Mariehamn underwent a total renovation that was completed early in the spring of 2009. The Strandnäs office in Mariehamn also underwent a major face-lift and re-opened in time for Christmas. In central Helsinki, the functions of the Bank's offices were reorganised according to its business model, with the Aleksanderinkatu office serving exclusively as a Private Banking office and the Bulevardi office handling Premium Banking services.

In Åland, the Gottby office closed due to reduced customer need for a physical office and the proximity of other Bank of Åland offices.

New system for calculating capital adequacy for credit risks

Basel 2 is the name of the set of international rules for capital adequacy, aimed at ensuring financial stability in the banking system.

During 2009, a large-scale project related to Basel 2's Internal Ratings Based (IRB) approach was completed, allowing an application to be submitted to the Finnish Financial Supervision Authority early in 2010. As a result of the Basel 2 IRB project, the Bank of Åland will use the same calculation methods and achieve the same level of risk management as the major Nordic banks. Final approval will mean that the Bank of Åland will cease to apply the standardised approach established by the Finnish Financial Supervision Authority for calculating the capital requirement for the credit portfolio. In the future, capital tied up by lending will be calculated to a considerably greater extent on the basis of the customer's own circumstances. This work is expected to lead to improved capital adequacy. In its lending activities, this will enable the Bank of Åland to take its relationship banking to the next stage and provide more customer-specific offers.

All employees involved with lending have been trained in the Bank's models that support and improve risk management of financing both for private individuals and businesses. The Bank of Åland's Risk Management and Lending Support departments – together with the subsidiary Crosskey Banking Solutions – completed the systems, processes and documentation needed to allow the application to be submitted. The project advanced quickly, thanks to experienced employees in lending and Crosskey's technical expertise.

"Sales work focused on presenting the benefits of being a full-service Premium Banking customer, and thus yielded excellent results.

IT operations

During 2009, Crosskey in Sweden moved to new centrally located premises in Stockholm. Photographer: David Lundberg.

Crosskey Banking Solutions Ab Ltd is a wholly owned subsidiary that delivers IT solutions for financial market players. Aside from the Bank of Åland, it has a number of banks on the Finnish mainland as its customers.

New business

Crosskey's results for 2009 were very good, with a sales increase of more than 20 per cent compared to 2008. Net operating profit, EUR 4.2 M, was the best since the company was established in 2004. The year was characterised by growth and development projects. For Crosskey, the financial crisis meant higher order bookings, since some customers chose to invest in development despite the weaker economic situation. Crosskey was able to meet the increased demand for delivery capacity because the financial crisis helped ensure the availability of highly proficient employees to recruit.

Stronger localisation of operations

The integration of the banking computer system at the Swedish subsidiary bank Ålandsbanken Sverige AB was a large, capacity-demanding project during the year. Crosskey has grown in Sweden, and it moved into new premises at the World Trade Center office building in Stockholm.

The number of employees also increased on the Finnish mainland. With its newly opened office in Helsinki, Crosskey wants to move closer to its customers and strengthen its market position. The company grew from 162 to a total of 178 employees during 2009 and anticipates further expansion.

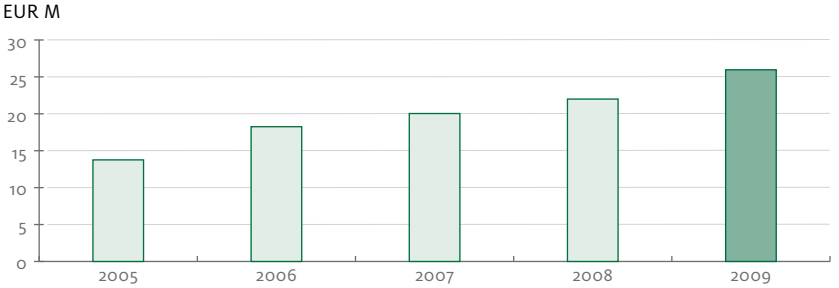
Product development

There was an intensive focus on product development and processes. As a result of this, a new debit and credit card system and a new product for long-term savings (LTS) will be launched during 2010. As part of work on next-generation banking computer systems, development is under way on a completely new application to streamline customer processes via a new portal.

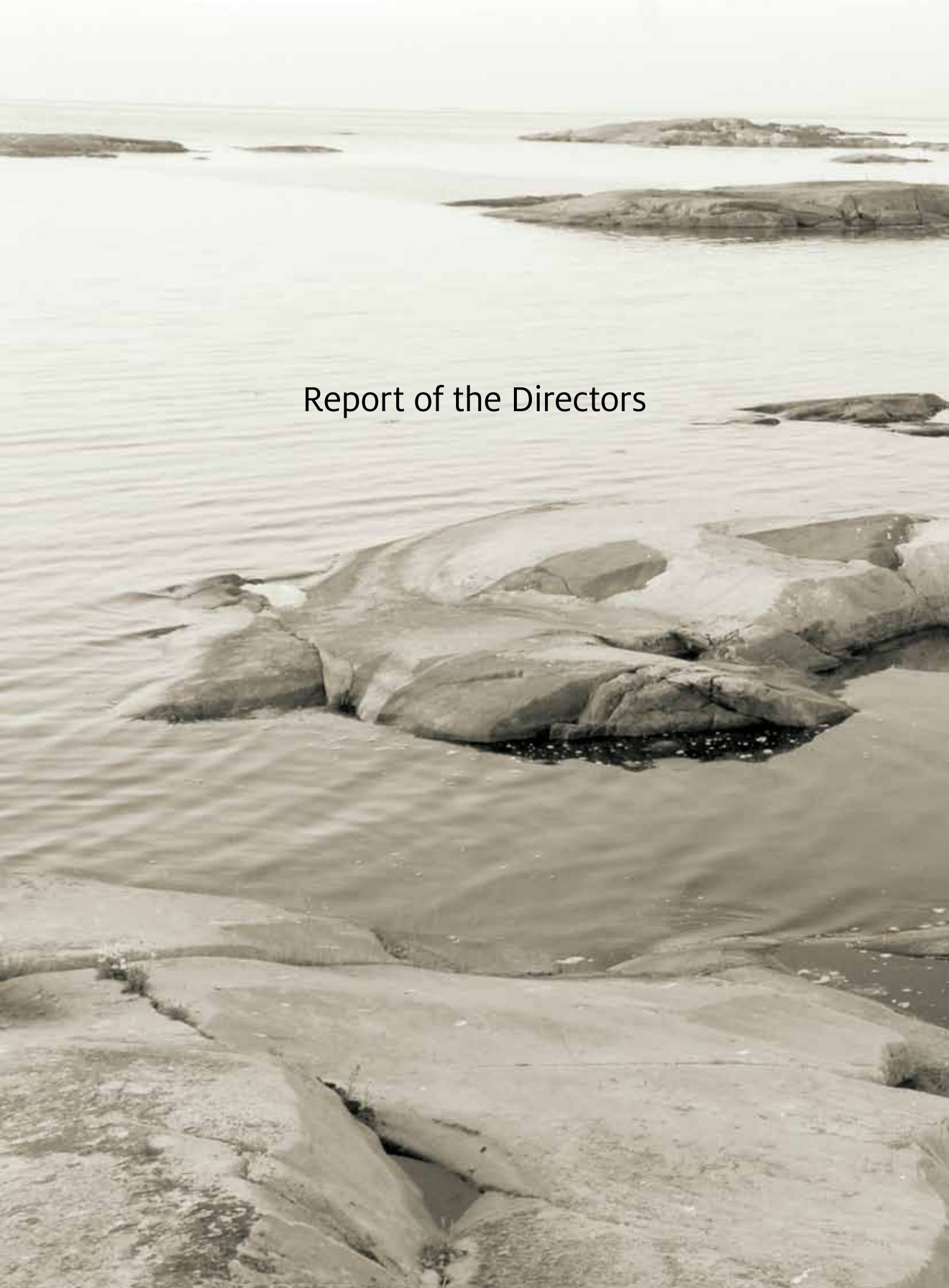
Award-winning concepts

Crosskey was pleased that several of its client companies received awards in the 2009 survey of Finland's most loyal customers, an indication that Crosskey's IT solutions are capable of supporting banks with a strong customer focus. The "supermarket bank" S-Bank won the Best Information and Communications Technology (ICT) Project of the Year award for the implementation of its banking computer system, in which Crosskey was the main supplier. These awards confirm the quality of Crosskey's products and, together with a stronger presence on the Finnish mainland and in Sweden, they give the company a good platform for new business and new customers.

Sales



Photographer: Erkki Santamala



Report of the Directors

Report of the Directors

Earnings summary for the report period

The year was characterised by the Group's investment in the Swedish market, increased focus on private banking services, instability in financial markets and low market interest rates. During January-December 2009, the consolidated net operating profit of the Bank of Åland Group increased by 52 per cent to EUR 30.5 M (2008: 20.0). During the year, the Group recognised EUR 23.1 M in negative goodwill as income, due to its purchase of Kaupthing Bank Sverige AB in Sweden. Acquired net assets amounted to EUR 57.2 M and acquisition-related cost totalled EUR 34.1 M. In traditional banking operations, net interest income was adversely affected by low market interest rates, while the Group's strategic focus on private banking meant increased income from mutual funds, stock brokerage and asset management. Information technology (IT) operations performed favourably during the year, which increased "Other operating income". The task of integration with Ålandsbanken Sverige AB, related to both processes and computer systems, was intensive and led to increased expenses for the Group.

Ålandsbanken Sverige AB (encompassing Ålandsbanken Sverige AB, Ålandsbanken Fonder AB and Alpha Management Company S.A.) was consolidated in the Bank of Åland Group in such a way that its balance sheet on December 31, 2009 and its earnings during the period April 1 – December 31, 2009 have been included in the consolidated financial statements. This affects comparability with 2008.

Income (excluding negative goodwill) increased by 17 per cent to EUR 87.2 M (74.2), while expenses rose by 48 per cent to EUR 77.2 M (52.1). Return on equity after taxes (ROE) increased to 17.8 (10.7) per cent, and earnings per share to EUR 2.27 (1.22).

Net interest income

During 2009, consolidated net interest income fell by 7 per cent to EUR 39.1 M (42.1). Ålandsbanken Sverige AB had net interest income of EUR 3.5 M. Despite increasing lending volume, low interest rates depressed net interest income during the year. Margins on lending showed a rising trend during 2009, while the prevailing market situation led to depressed deposit margins. Lending volume rose by 16 per cent to EUR 2,546 M (2,193). Deposit volume increased by 13 per cent to EUR 2,411 M (2,126).

Other income

Commission income rose by 75 per cent to EUR 32.5 M (18.6). The Group's focus on private banking and the good market trend increased income from securities, mutual fund and asset management commissions. Commission income at Ålandsbanken Sverige AB amounted to EUR 11.9 M.

Net income from securities trading for the Bank's own account was EUR 2.2 M (2.4). Valuation and realisation of value increases in interest rate hedging derivatives (the Bank of Åland does not apply hedge accounting) resulted in a positive nonrecurring effect of EUR 2.4 M. Net income from dealing in the foreign exchange market improved to EUR 1.8 M (1.0). Net income from financial assets available for sale was EUR 0.5 M (-0.1), and net income from investment properties increased to 0.2 M (0.1). Other operating income increased to EUR 15.4 M (12.4) as a consequence of higher income from the sale and development of IT systems.

During 2009, the Bank of Åland Plc bought portions of Kaupthing Bank Sverige AB in Sweden, now Ålandsbanken Sverige AB (encompassing Kaupthing Bank Sverige AB, Kaupthing Fonder AB and Alpha Management Company S.A.). The acquisition analysis shows that the net assets acquired after restructuring expenses amounted to EUR 57.2 M and the cost of the shares, including the purchase price and acquisition-related expenses, amounted to EUR 34.1 M. Negative goodwill of EUR 23.1 M was recognised as income in the Bank of Åland Group during the second quarter. For detailed information about the acquisition analysis, see the notes to the consolidated financial statements, Note 55.

The Group's total income (excluding negative goodwill) increased by 17 percent to EUR 87.2 M (74.2).

Expenses

Staff costs rose by 57 per cent to EUR 44.6 M (28.3) as a consequence of the acquisition of Ålandsbanken Sverige AB, employee recruitments at Crosskey Banking Solutions Ab Ltd plus salary hikes as provided by collective agreements. Staff costs at Ålandsbanken Sverige AB amounted to EUR 13.8 M. Changes in the Bank's

pension fund, Ålandsbanken Abp:s Pensionsstiftelse, according to the corridor approach affected staff costs in the amount of EUR 0.1 M (0.2).

Other administrative expenses (office, marketing, communications and IT) increased to EUR 16.7 M (11.0). Production for own use totalled EUR 1.9 M (0.5) and was related to expenses for computer software, which in accordance with IFRSs must be capitalised. Depreciation/amortisation increased to EUR 6.4 M (5.9). Other operating expenses amounted to EUR 11.4 M (7.4), of which EUR 3.6 M arose at Ålandsbanken Sverige AB. The Group's total expenses rose by 48 per cent to EUR 77.2 M (52.1).

Impairment losses on loans and other commitments

Impairment losses on loans amounted to EUR 2.9 M (2.3). Of these, EUR 1.4 M were individually targeted impairment losses and EUR 1.5 M was a group impairment loss targeted to the real estate industry. Of the targeted individual impairment losses, EUR 1.2 M consisted of final actual loan losses.

Balance sheet total and off-balance sheet obligations

At the end of 2009, the Group's balance sheet total was EUR 3,379 M (2,770). During the year, the Group issued debenture loans 1/2009 and 2/2009 totalling EUR 34 M. With the permission of the Finnish Financial Supervision Authority and in compliance with the terms of the loan, the Group carried out an early redemption of debenture loan 2/2004, which it had issued on June 4, 2004. Off-balance sheet obligations rose to EUR 306 M (165).

Personnel

Hours worked in the Group, recalculated to full-time equivalent positions, totalled 641 (487) positions, which represented an increase by 154 positions compared to the preceding year. The increase was due to the acquisition of Ålandsbanken Sverige AB as well as continued expansion of Crosskey Banking Solutions Ab Ltd. The number of employees at Ålandsbanken Sverige AB on December 31, 2009 was 197.

Bank of Åland Group	2009	2008
Bank of Åland Plc (Ålandsbanken Abp)	310	318
Ab Compass Card Oy Ltd	5	6
Crosskey Banking Solutions Ab Ltd	159	134
Ålandsbanken Asset Management Ab	18	15
Ålandsbanken Fondbolag Ab	6	6
Ålandsbanken Equities Ab	7	0
Ålandsbanken Sverige AB	136	0
Ålandsbanken Veranta Ab	0	8
Total number of full-time equivalent positions, recalculated from hours worked	641	487

Profit margin

Profit margin is calculated as net operating profit minus standard tax as a percentage of total income. The profit margin of the Bank of Åland Group rose to 19.6 per cent from 19.3 per cent.

Expense/income ratio

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

Bank of Åland Group	2009	2008
Including loan losses	0.72	0.73
Excluding loan losses	0.70	0.70

Capital adequacy

The Group is reporting capital adequacy in accordance with Pillar 1 in the Basel 2 regulations. The Group's total capital ratio at the end of December 2009 was 12.3 per cent. The capital requirement for credit risks has been calculated according to the standardised approach, and the capital requirement for operational risks according to the basic indicator approach in the Basel 2 regulations. Risk management under Pillar 2 is reported under "Risk management" on page 35. The Bank of Åland will endeavour to begin applying an Internal Ratings Based (IRB) approach in compliance with Basel 2 to calculate its capital adequacy requirement for credit risk, starting on January 1, 2011. Our assessment, according to the current regulations, is that this will substantially improve the Bank of Åland's capital adequacy.

Bank of Åland Group	Dec 31, 2009	Dec 31, 2008
EUR M		
Capital base		
Core capital	129.3	112.4
Supplementary capital	72.4	53.4
Total capital base	201.7	165.7
Capital requirement for credit risks	113.9	95.9
Capital requirement for market risks	2.2	0.0
Capital requirement for operational risks	14.9	9.3
Total capital requirement	130.9	105.1
Total capital ratio, %	12.3	12.6
Core capital ratio, %	7.9	8.6

The main reason for the difference between the capital base and recognised equity capital is that subordinated liabilities may be counted in the capital base, while the proposed dividend may not be included.

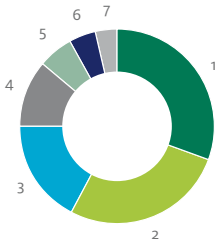
Deposits

Deposits from the public, including bonds and certificates of deposit issued, increased by 13 per cent to EUR 2,411 M (2,126), of which EUR 337 M consisted of deposits at Ålandsbanken Sverige AB. Deposit accounts rose by 16 per cent to EUR 2,039 M (1,757). Bonds and certificates of deposit issued to the public increased by 1 per cent to EUR 372 M (369).

DEPOSITS FROM THE PUBLIC AND PUBLIC SECTOR ENTITIES, INCLUDING BONDS ISSUED AND CERTIFICATES OF DEPOSIT

Bank of Åland Group	Dec 31, 2009	Dec 31, 2008
EUR M		
Deposit accounts from the public and public sector entities		
Demand deposit accounts	385	140
Current accounts	397	301
Environmental and Savings Accounts	89	73
Prime Accounts	763	652
Time deposits	405	592
Total deposit accounts in euros	2,039	1,757
Bonds and subordinated debentures [1]	231	224
Certificates of deposit issued to the public [1]	140	145
Bonds and certificates of deposit	372	369
Total deposits	2,411	2,126

1 This item does not include debt securities subscribed by credit institutions.



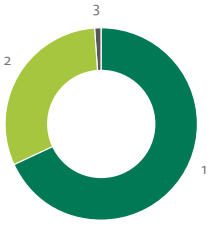
1. Prime Accounts 32%
2. Time deposits 17%
3. Current accounts 16%
4. Demand deposit accounts 16%
5. Bonds and subordinated debentures 10%
6. Certificates of deposit issued to the public 6%
7. Environmental and Savings Accounts 4%

Lending

The volume of lending to the public increased by 16 per cent and amounted to EUR 2,546 M (2,193). The volume of lending at Ålandsbanken Sverige AB was EUR 190 M. Lending to households increased by 15 per cent to EUR 1,734 M (1,508). Households accounted for 68 (69) per cent of the Group's total lending volume. Lending to companies rose by 19 per cent to EUR 787 M (661).

LENDING TO THE PUBLIC AND PUBLIC SECTOR ENTITIES BY PURPOSE

Bank of Åland Group	Dec 31, 2009	Dec 31, 2008
EUR M		
Companies		
Shipping	76	79
Wholesale and retail trade	64	59
Housing operations	72	64
Other real estate operations	154	113
Financial and insurance operations	200	190
Hotel and restaurant operations	16	14
Other service operations	128	79
Agriculture, forestry and fishing	11	7
Construction	27	23
Other industry and crafts	39	31
	787	661
Private individuals		
Home loans	1,144	1,083
Securities and other investments	334	249
Business operations	165	92
Other household purposes	90	84
	1,734	1,508
Public sector and non-profit organisations	25	25
Total lending	2,546	2,193



1. Private individuals 68%
2. Companies 38%
3. Public sector and non-profit organisations 1 %

Changes in Group structure

During 2009, the Bank of Åland Plc bought Kaupthing Bank Sverige AB, now Ålandsbanken Sverige AB (encompassing Kaupthing Bank Sverige AB, Kaupthing Fonder AB and Alpha Management Company S.A.). Ålandsbanken Veranta Ab merged with the Bank of Åland Plc on September 30, 2009. During the year, Bank of Åland Plc sold 8 per cent of the shares in Ålandsbanken Equities Ab. Ålandsbanken Equities Research Ab was founded during the year as a wholly owned subsidiary of Ålandsbanken Equities Ab.

Important events after the close of the report period

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

Corporate Governance Report

The Corporate Governance Report has been updated and published in Swedish and Finnish on the Bank of Åland's website, www.alandsbanken.fi.

Distribution of profit

The Board of Directors proposes that the Annual General Meeting approve a dividend of EUR 0.50 per share plus an anniversary dividend of EUR 0.20 per share, which is equivalent to a total amount of EUR 8.1 M.

Outlook for 2010

Most observers expect a continued gradual recovery in the general economy and in the financial system to continue during 2010, but the economic situation will remain uncertain and there is thus great sensitivity.

Based on this assessment and taking into account that the Group's earnings in 2009 included sizeable non-recurring income attributable to negative goodwill from the acquisition of Kaupthing Bank Sverige AB, earnings in 2010 are expected to be substantially lower than in 2009. The Group's operational earnings, excluding non-recurring income, are expected to be at least at the same level as in 2009.

The Group's assessment of the outlook for 2009 is based on its assumptions about future developments in the fixed income and financial markets. However, general interest rates, the demand for lending, the trend of the capital and financial markets and the competitive situation, as well as the general economic situation are factors that the Group cannot influence.

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. When the financial targets were established, the dividend level was EUR 1.

IFRS

The Group's Annual Report for 2009 has been prepared in compliance with the International Financial Reporting Standards (IFRSs) approved by the European Union.

FIVE-YEAR GROUP SUMMARY

Bank of Åland Group	2005	2006	2007	2008	2009	% change, 08–09
EUR M unless otherwise stated						
Net interest income	31.4	32.7	39.3	42.1	39.1	-7.0
Other income	20.6	28.9	36.1	32.2	48.1	49.5
Other expenses (including depreciation/ amortisation)	33.2	40.9	46.0	52.1	77.2	48.1
Loan losses	0.3	0.0	1.0	2.3	2.9	26.7
Share of income in associated companies	0.2	0.3	0.2	0.2	0.2	26.6
Negative goodwill	0.0	0.0	0.0	0.0	23.1	-
Net operating profit	18.7	21.1	28.6	20.0	30.5	52.3
Equity capital	113.3	122.2	135.0	138.5	162.2	17.1
Total assets	2,170.4	2,188.6	2,592.0	2,769.7	3,379.3	22.0
Contingent liabilities	145.0	170.4	167.8	165.2	306.1	85.3
Return on equity after taxes (ROE), % [1]	12.3	13.3	16.4	10.7	17.8	
Return on total assets, % [2]	0.7	0.7	0.9	0.5	0.9	
Equity/assets ratio, % [3]	5.4	5.6	5.2	5.0	4.8	
Expense/income ratio including loan losses [4]	0.64	0.66	0.61	0.70	0.70	
Expense/income ratio excluding loan losses [5]	0.64	0.66	0.62	0.73	0.72	
Risk-based capital ratio, % [6)]	11.3	13.8	12.8	12.6	12.3	

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

6 In 2005 in compliance with Basel 1, in 2006 – 2009 in compliance with Basel 2 regulations.

Risk management in brief

The Bank of Åland Group'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 and/or threats to the reputation of the Group as well as to contribute to higher profitability and increased shareholder value. The Group is exposed to credit risk, liquidity risk, market risk, operational risk and business risk. Business risk is a function of the Bank's focus and structure and of the environment and market the Group operates in. Business risk is managed in conjunction with strategic planning. Credit risk, which is the Group's most significant risk, encompasses claims on private individuals, companies, institutions and the public sector. These claims consist mainly of loans, credit limits and guarantees granted by banks.

Risk management includes all activities for identifying, measuring, reporting and controlling risks. The cornerstone of risk management is the Bank of Åland's policy documents, which are approved by the Board of Directors, as well as internal instructions, limit systems and processes aimed at ensuring that operations are pursued in a safe, efficient manner.

The Board of Directors has overall responsibility for ensuring that risk management is sufficient and for establishing systems and regulations for monitoring and limiting the Group's risk exposure. The Audit Committee assists the Board in handling these oversight tasks within internal control systems, risk management and reporting. The Managing Director oversees and supervises business operations in accordance with the Board's instructions, is responsible for day-to-day administration and for ensuring that the members of the Board receive sufficient information regularly about the regulations and the risk control systems that affect the Group and its administration and operations at all times. Each unit has primary responsibility for identifying and managing risks associated with its own operations. The risk management departments at the Bank of Åland Plc and Ålandsbanken Sverige AB are responsible for overseeing risk-taking and risk management and for following up mandates and limits. These departments are independent of risk-taking and risk management. Risk management is audited by the Internal Auditing Department, which evaluates both the sufficiency of risk management and compliance with rules.

In addition to the standards of the Finnish Financial Supervision Authority, the foundation of risk management is the European Union's capital adequacy directive, which is based on the Basel Committee's Basel 2 regulations. The Basel 2 regulations are based on three "pillars". In Pillar 1, the minimum capital adequacy for credit risk, market risk and operational risk is calculated. Pillar 2 includes the requirements for each institution's internal capital adequacy assessment process (ICAAP), where the calculation of capital concerns such risk categories and sub-areas not included in Pillar 1. Pillar 3 concerns each institution's obligation to disclose sufficient information about its business risks and their management to enable the market – represented by borrowers, depositors, investors and shareholders – to make soundly based, rational decisions.

According to Pillar 2, in its internal capital evaluation the Group must assess capital adequacy in proportion to the material risks to which it is exposed in its business and in its surroundings. The concept of material risks is defined on the basis of the Group's own assumptions. Capital adequacy must be assessed in a broader perspective than merely meeting the capital requirements for credit risks, market risks and operational risks embodied by Pillar 1, and both quantitative and qualitative risks must be defined and estimated.

Method used for Pillar 1

The Group uses simple methods to assess capital adequacy within Pillar 1. For credit risks the Group uses the standardised approach and for operational risks, the basic indicator approach. The Bank of Åland will endeavour to begin applying an Internal Ratings Based (IRB) approach in compliance with Basel 2 to calculate its capital adequacy requirement for credit risk, starting on January 1, 2011. The rules for exemption of small trading book positions are being applied, which means that capital adequacy requirements for market risks are calculated according to the principles for credit risk.

Method used for Pillar 2

The Group's operations are neither extensive nor complex, and they take place mainly in Finland. During 2009, operations expanded to Sweden. At present, the Group uses no economic capital model or any other quantitative model. Based on these criteria, the Group regards its operations as classified according to the Finnish Financial Supervision Authority's definition of small institutions. As a starting point for assessment of internal capital evaluation, the Group uses the results from Pillar 1. Based on these, it assesses whether the risk profile of the Group's own operations diverge substantially from the basic assumptions in the simpler methods in Pillar 1 and what importance these divergences have for capital adequacy.

Method used for Pillar 3

The Group discloses capital adequacy information about its risks and their management in the Annual Report. This information provides the market with a true and fair picture of the Group's risks and risk control and is verified by the Group's external auditors.

For more detailed information on the Group's risk and capital management, evaluation of capital requirements and capital adequacy information, see "Risk management" in the consolidated financial statements.

Facts on Bank of Åland shares

Share capital

The share capital of the Bank of Åland is EUR 23,282,837.26. 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 6,355,212 Series B shares. Each Series A share represents twenty (20) votes at shareholders' meetings and each Series B share one (1) vote. The Articles of Association stipulate that no representative at the Annual General Meeting may vote for more than one fortieth of the number of votes represented at the Meeting. Series B shares enjoy priority over Series A shares for dividends of up to six (6) per cent of their previous nominal value.

Trading in the Bank's shares

During 2009, the volume of trading in the Bank's Series A shares on the Nasdaq OMX Helsinki (Helsinki Stock Exchange) was EUR 3.9 M. Their average price was EUR 29.91. The highest quotation per share was EUR 33.90, the lowest EUR 22.66. Trading in Series B shares totalled EUR 7.4 M at an average price of EUR 23.43. The highest quotation was EUR 25.80, the lowest EUR 16.50.

On December 31, 2009, the number of registered shareholders was 9,171. There were also 304,700 shares registered in the names of nominees.

Changes in share capital

	Share capital, EUR	Series A shares	Series B shares
2005	22,173,906.98	5,180,910	5,805,762
2006	22,657,579.81	5,180,910	6,045,411
2007	23,282,837.26	5,180,910	6,355,212
2008	23,282,837.26	5,180,910	6,355,212
2009	23,282,837.26	5,180,910	6,355,212

The ten largest shareholders, December 31, 2009

The list below also includes the shareholder's Group companies and shareholder-controlled companies.

	Shareholder	Series A shares	Series B shares	Total	% of shares	% of votes
1	The Aktia Group (savings bank)	113,800	994,363	1,108,163	9.61%	2.97%
2	Alandia-Bolagen (insurance group)	733,886	325,145	1,059,031	9.18%	13.64%
3	Ålands Ömsesidiga Försäkringsbolag (insurance company)	612,331	111,960	724,291	6.28%	11.24%
4	Wiklöf, Anders	581,189	90,408	671,597	5.82%	10.65%
5	Mattsson, Rafael estate	274,606	15,638	290,244	2.52%	5.01%
6	Pensionsförsäkringsaktiebolaget Veritas (pension insurance company)	98,934	132,763	231,697	2.01%	1.92%
7	Caelum Oy (investment company)	65,340	156,800	222,140	1.93%	1.33%
8	Palkkiyhtymä Oy (shipping company)	70,000	86,000	156,000	1.35%	1.35%
9	Kamprad, Ingvar	0	135,000	135,000	1.17%	0.12%
10	Invest.bolag Torggatan 14 ab (investment company)	92,348	34,974	127,322	1.10%	1.71%
10	Järsö Invest Ab	92,348	34,974	127,322	1.10%	1.71%
	The Board of Directors	233,534	91,383	324,917	2.82%	4.33%

Shareholders by size of holding

Number of shares	Number of shareholders	Total number of shares held	Average holding
1 – 100	4,094	182,279	45
101 – 1,000	3,913	1,371,799	351
1,001 – 10,000	1,068	2,612,851	2,446
10,001 –	96	7,369,193	76,762
Of which, shares registered in name of nominee		304,700	

Shareholders by category

Category	Number of shares	% of shares
Private individuals	4,988,689	43.2
Financial institutions and insurance companies	2,756,881	23.9
Corporations	2,218,227	19.2
Non-profit organisations	566,594	4.9
Government organisations	475,712	4.1
Foreign investors	225,319	2.0
Shares registered in name of nominee	304,700	2.6

Bank of Åland shares traded, Helsinki Stock Exchange

Yeat		Thousands of shares	Volume as % of shares	Price paid, EUR: Highest/Lowest	Average price, EUR
2005	A	90	1.7	24.50 – 19.50	21.76
2005	B	449	7.7	24.10 – 18.50	20.19
2006	A	137	2.6	30.00 – 20.41	27.55
2006	B	337	5.6	27.00 – 22.50	24.31
2007	A	807	15.6	38.35 – 24.31	30.70
2007	B	543	8.5	28.90 – 23.90	25.96
2008	A	51	1.0	36.85 – 22.01	28.02
2008	B	164	2.6	28.40 – 16.28	23.44
2009	A	132	2.5	33.90 – 22.66	29.91
2009	B	317	5.0	25.80 – 16.50	23.43

Bank of Åland share data

	2005	2006	2007	2008	2009
Number of shares, M [1]	10.99	11.25	11.54	11.54	11.54
Average number of shares, M	10.99	11.25	11.54	11.54	11.54
Earnings per share before dilution, EUR [2]	1.24	1.29	1.75	1.22	2.27
Earnings per share after dilution, EUR [3]	1.21	1.29	1.75	1.22	2.27
Dividend payout ratio [4]	58.8	53.2	40.3	28.8	26.5
Dividend per share, EUR	1.00	1.00	1.00	0.50	0.70 [8]
Equity capital per share before dilution, EUR[5]	10.32	10.68	11.54	11.87	13.97
Market price per share, balance sheet date, EUR					
Series A	24.00	26.50	37.00	26.60	33.90
Series B	24.00	24.50	27.80	17.24	24.50
Price/earnings ratio [6]					
Series A	19.4	20.5	21.1	21.9	14.9
Series B	19.4	19.0	15.9	14.2	10.8
Effective dividend yield, % [7]					
Series A	4.2	3.8	2.7	1.9	2.1
Series B	4.2	4.1	3.6	2.9	2.9
Market capitalisation, EUR M	263.7	285.4	368.4	247.4	331.3

1 Number of shares on balance sheet date

2 $\frac{\text{Shareholders' interest in profit for the year}}{\text{Average number of shares}}$

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

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

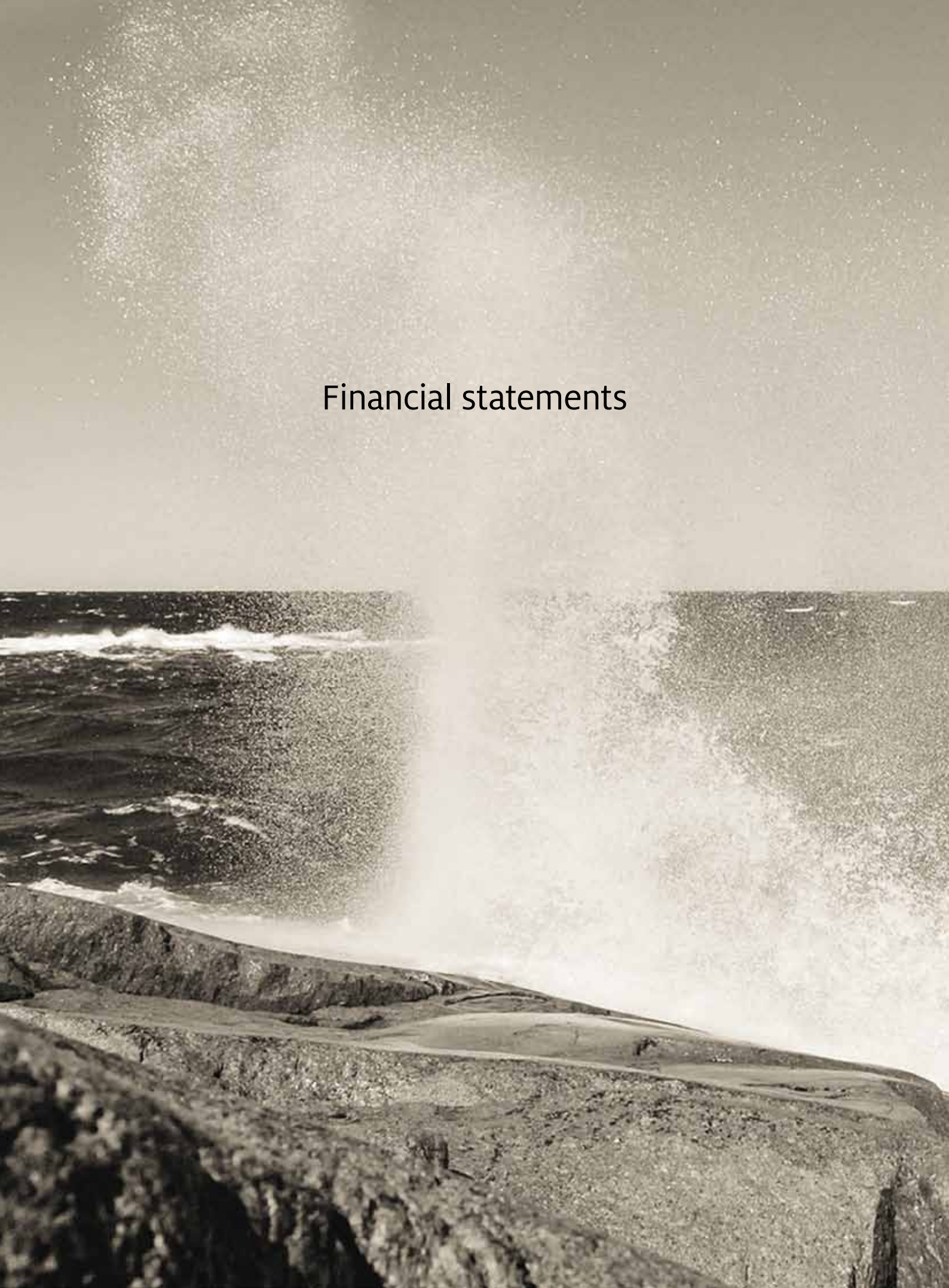
5 $\frac{\text{Equity capital – minority interest in equity}}{\text{Number of shares on balance sheet date}} \times 100$

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

7 $\frac{\text{Dividend}}{\text{Share price on balance sheet date}} \times 100$

8 Proposed by the Board of Directors for approval by the Annual General Meeting

Photographer: Daniel Eriksson



Financial statements

Statement of financial position

(EUR K)

Assets	Note	Dec 31, 2009		Dec 31, 2008	
Cash			33,129		78,995
Debt securities eligible for refinancing with central banks	3				
Treasury bills		32,727		19,895	
Other		153,146	185,873	125,831	145,726
Claims on credit institutions	4				
Repayable on demand		182,829		4,980	
Other		80,691	263,520	118,179	123,159
Claims on the public and public sector entities	5, 6		2,545,800		2,193,210
Debt securities	3		188,243		131,238
Shares and participations	7		23,036		2,843
Shares and participations in associated companies	7		1,489		1,493
Derivative instruments	8		19,645		15,213
Intangible assets	9, 11				
Miscellaneous intangible assets		5,105		3,446	
Goodwill		1,373	6,478	1,373	4,819
Tangible assets	10, 11				
Investment properties		1,942		2,588	
Properties for own use		25,716		22,895	
Other tangible assets		10,122	37,780	10,513	35,997
Other assets	12		49,866		11,053
Accrued income and prepayments	13		22,243		24,717
Deferred tax assets	14		2,207		1,269
TOTAL ASSETS			3,379,308		2,769,731

Statement of financial position

(EUR K)

Liabilities and equity capital		Dec 31, 2009			Dec 31, 2008		
	Note						
LIABILITIES							
Liabilities to credit institutions and central banks							
Central banks			90,000			30,000	
Credit institutions							
Repayable on demand		7,566			2,031		
Other		165,280	172,846	262,846	38,588	40,619	70,619
Liabilities to the public and public sector entities							
Deposits							
Repayable on demand		1,634,595			1,164,734		
Other		404,804	2,039,398		591,952	1,756,687	
Other liabilities			840	2,040,239		1,252	1,757,939
Debt securities issued to the public	15						
Bonds			537,563			498,363	
Other			205,241	742,804		166,711	665,074
Derivative instruments and other liabilities held for trading	8			7,779			5,847
Other liabilities	16			56,715			40,715
Accrued expenses and prepaid income	17			26,745			18,426
Subordinated liabilities	18			58,575			53,228
Deferred tax liabilities	14			21,406			19,387
Total liabilities				3,217,109			2,631,236
EQUITY CAPITAL							
Share capital	27			23,283			23,283
Share premium account				33,272			33,272
Other restricted reserves							
Reserve fund			25,129			25,129	
Fair value reserve	28						
Translation differences		3,689			0		
Fair value measurement		1,847	5,536	30,665	1,669	1,669	26,798
Retained earnings	29			73,980			53,583
Shareholders´interest in equity capital				161,200			136,936
Minority interest in capital				999			1,559
Total equity capital				162,199			138,495
TOTAL LIABILITIES AND EQUITY CAPITAL				3,379,308			2,769,731
OFF-BALANCE SHEET OBLIGATIONS	53						
Obligations to a third party on behalf of customers							
Guarantees and pledges				18,803			16,353
Irrevocable commitments given on behalf of customers				287,311			148,857
				306,114			165,209

Statement of comprehensive income

(EUR K)

	Note	Jan 1–Dec 31, 2009			Jan 1–Dec 31, 2008		
Interest income	30			79,925			136,050
Interest expenses	31			-40,795			-93,970
Net interest income				39,130			42,080
Income from equity investments	32			36			31
Commission income	33			32,463			18,600
Commission expenses	34			-4,433			-2,208
Net income from securities transactions and foreign exchange dealing	35						
Net income from securities transactions			2,162			2,352	
Net income from foreign exchange dealing			1,793	3,955		958	3,310
Net income from financial assets available for sale	36			451			-106
Net income from investment properties	37			226			148
Other operating income	38			15,388			12,390
Administrative expenses							
Staff costs							
Wages and salaries		33,928			23,323		
Pensions		5,879			3,486		
Other social security costs		4,761	44,568		1,536	28,345	
Other administrative expenses	39		16,736			10,965	
Production for own use			-1,944	-59,360		-508	-38,801
Depreciation/amortisation and impairment losses on tangible and intangible assets				-6,365			-5,856
Other operating expenses	40			-11,429			-7,438
Impairment loss on loans and other commitments	41			-2,932			-2,314
Share of profit/loss in companies consolidated according to the equity method				237			187
Negative goodwill				23,134			0
NET OPERATING PROFIT				30,501			20,022
Income taxes	42						
Taxes for the year and prior years			2,731			2,484	
Change in deferred tax liabilities/assets			940	-3,671		2,905	-5,390
PROFIT FOR THE YEAR				26,830			14,632
OTHER COMPREHENSIVE INCOME							
Assets available for sale				240			1,774
Valuation differences				3,689			0
Income tax on other comprehensive income				-62			-461
TOTAL COMPREHENSIVE INCOME FOR THE YEAR				30,696			15,944
Profit for the year attributable to owners of the parent				26,165			14,027
Profit for the year attributable to minority interests				664			604
Total				26,830			14,632
Comprehensive income for the year attributable to owners of the parent				30,040			15,342
Comprehensive income for the year attributable to minority interests				656			602
Total				30,696			15,944
EARNINGS PER SHARE	44						
Earnings per share before dilution, EUR				2.27			1.22
Earnings per share after dilution, EUR				2.27			1.22

Cash flow statement

(EUR K)

Bank of Åland Group	Jan 1–Dec 31, 2009	Jan 1–Dec 31, 2008
OPERATING ACTIVITIES		
Net operating profit	30,501	20,022
Adjustment for net operating profit items not affecting cash flow		
Loan losses	2,969	2,266
Unrealised changes in value	-744	-1,127
Depreciation/amortisation and impairment losses	6,365	5,856
Effect of pension fund	98	-149
Accrued surpluses/deficits on debt securities and bonds issued	2,577	2,930
Negative goodwill	-23,134	0
Gains/losses from investing activities	-477	-219
Income taxes paid	-3,512	-3,202
Changes in assets and liabilities in operating activities		
Debt securities eligible for refinancing with central banks	-40,351	-19,829
Claims on credit institutions	-10,257	6,793
Claims on the public and public sector entities	-133,175	-84,449
Other asset items	-97,959	-15,758
Liabilities to credit institutions	136,510	27,498
Liabilities to the public and public sector entities	70,027	224,226
Debt securities issued	36,913	-41,838
Other liability items	-36,803	1,651
	-60,453	124,671
INVESTING ACTIVITIES		
Equities	1,130	-234
Investments in associated companies and subsidiaries	-34,078	0
Cash and cash equivalents from purchased subsidiary	63,455	0
Divestments of shares in associated companies and subsidiaries	40	0
Tangible assets	-3,679	-14,193
Intangible assets	-2,885	-453
	23,983	-14,881
FINANCING ACTIVITIES		
Dividend paid to shareholders	-5,768	-11,536
Dividend paid to minority interests	-850	-1,005
Minority share in subsidiaries	510	124
Change in long-term borrowings from banks	40,604	-29,880
Change in subordinated debentures	5,347	999
	39,843	-41,298
CASH AND CASH EQUIVALENTS		
Cash and cash equivalents on January 1	323,468	254,975
Cash flow from operating activities	-60,453	124,671
Cash flow from investing activities	23,983	-14,881
Cash flow from financing activities	39,843	-41,298
Exchange rate differences in cash and cash equivalents	4,258	0
Cash and cash equivalents on December 31	331,099	323,468
Specification of cash and cash equivalents		
Cash	33,129	78,995
Claims on credit institutions	253,263	123,159
Debt securities	44,707	121,314
	331,099	323,468

"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 fund operating activities. The analysis was prepared according to the indirect method. "Operating activities" included interest received of EUR 85,075,000 (2008: 132,395,000), interest paid of EUR 49,194,000 (91,665,000) and dividend income received of EUR 36,000 (31,000).

Statement of changes in equity capital

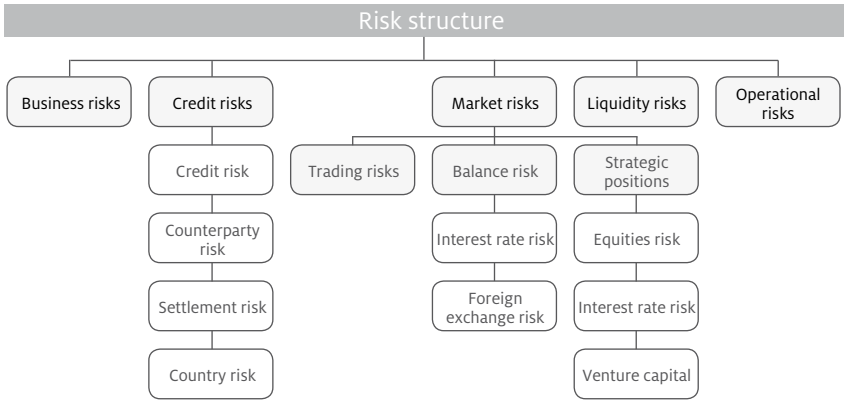
(EUR K)

Bank of Åland Group	Share capital	Share premium account	Reserve fund	Fair value reserve	Translation difference	Retained earnings	Total before minority interest	Minority interest	Total
Equity capital, Dec 31, 2007	23,283,	33,272	25,129	356		51,092	133,133	1,834	134,966
Comprehensive income for the year				1,313		14,027	15,340	605	15,945
Dividend to shareholders						-11,536	-11,536	-1,005	-12,541
Other change in minority interest in equity capital								124	124
Equity capital, Dec 31, 2008	23,283	33,272	25,129	1,669		53,583	136,936	1,559	138,495
Comprehensive income for the year				178	3,689	26,165	30,032	664	30,696
Dividend to shareholders						-5,768	-5,768	-1,750	-7,518
Other change in minority interest in equity capital								526	526
Equity capital, Dec 31, 2009	23,283	33,272	25,129	1,847	3,689	73,980	161,200	999	162,199

Risk management

General

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, liquidity risks and operational risks.



The Group's ambition is to pursue its operations with reasonable and carefully considered risks. The profitability of the Group is dependent 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 and/or threats to the reputation of the Group as well as to contribute to higher profitability and increased shareholder value.

THE BUSINESS AREAS AND PRINCIPAL RISK EXPOSURE OF GROUP COMPANIES ARE AS FOLLOWS:

The Bank of Åland Plc (Ålandsbanken Abp) and its Swedish subsidiary Ålandsbanken Sverige AB, whose business areas are banking and securities operations. Their operations are subject to business risk, credit risk, market risk, liquidity risk and operational risk.

Alpha Management Company S.A., whose business area is to be responsible for funds registered in Luxembourg. Its operations are mainly subject to operational risk.

Ab Compass Card Oy Ltd, whose business area is issuance of credit and debit cards. Its operations are mainly subject to business risk, credit risk and operational risk.

Crosskey Banking Solutions Ab Ltd, whose business area is IT. Its operations are mainly subject to business risk and operational risk.

Ålandsbanken Asset Management Ab, whose business area is asset management. Its operations are mainly subject to operational risk.

Ålandsbanken Equities Ab, whose business area is stock brokerage for institutional investors. Its operations are mainly subject to credit risk and operational risk.

Ålandsbanken Equities Research Ab, whose business area is equities analysis. Its operations are mainly subject to operational risk.

Ålandsbanken Fondbolag Ab and Ålandsbanken Fonder AB, whose business area is mutual fund management. Its operations are mainly subject to operational risk.

Risk organisation

BOARD OF DIRECTORS

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 Group's risk exposure.

THE AUDIT COMMITTEE

The Audit Committee assists the Board of Directors in handling its responsibilities for monitoring control internal systems, risk management and reporting.

MANAGING DIRECTOR AND EXECUTIVE TEAM

The Managing Director oversees and supervises business operations in accordance with the Board's instructions, is responsible for day-to-day administration and for ensuring that the members of the Board receive sufficient information regularly about the regulations and the risk control systems that affect the Group, its administration and operations at all times. The Executive Team serves as an advisory group to the Managing Director.

ASSET-LIABILITY COMMITTEE (ALCO)

ALCO deals with issues related to funding at a strategic level and safeguards the Group's strategic access to funding.

RISK OVERSIGHT DEPARTMENTS

The Group Risk & Security Department is responsible for overseeing risk-taking and risk management as well as for follow-up of mandates and limits at the Bank of Åland Abp and its subsidiaries in Finland. The tasks of the Department include providing the Board of Directors and Managing Director with information about risk-taking and about the effect of major risk impact on earnings and the capital base. At Ålandsbanken Sverige AB, the Risk Management unit handles risk-related functions equivalent to those of Group Risk & Security. These two risk oversight departments are independent of risk-taking and risk management.

TREASURY

The Treasury unit is responsible for overall financial structure, as well as for funding and liquidity risk.

INTERNAL AUDITING

Risk management is audited by the Internal Auditing Department, which evaluates risk management both in terms of sufficiency and compliance. Internal Auditing communicates its findings to the Executive Team and reports to the Audit Committee of the Board.

UNITS

Each unit has primary responsibility for identifying and managing risks associated with its own operations.

Risk measurement and systems

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

Risk follow-up and monitoring are performed primarily on the basis of limits. These limits reflect business strategy and external factors as well as risk appetite. Information from operations is used in order to analyse, analyse and control risks. Stress tests comprise part of the risk control function in the Group.

As part of risk management, the Group uses derivatives to manage certain exposures to interest rate risk, foreign exchange risk, pricing risk and credit risk. Before contracts are signed, the Group performs an evaluation of the counterparty and limits. The effectiveness of derivatives is evaluated regularly by the risk oversight departments.

Business risk

Business risk is a function of the Group's focus and structure and of the environment and market the Group operates in. Business risk is defined as:

Strategic risk

- risks in the selected strategy: risk exposure, risk appetite and the quality level of risk management
- risk that the selected strategy is not profitable
- risk of delays in adjusting the strategy to external changes

Microeconomic surroundings risk

- deficient or delayed adjustment of operations to structural changes in the industry as well as the activities of competitors

Risks related to the legal and regulatory environment

Credit risk

Credit risk is the risk of losses as a consequence of the inability of a counterparty to fulfil its obligations towards the Group and the risk that the collateral provided for this exposure will not cover the Group's claim. Credit risk also includes country risk and settlement risk. Settlement risk is the risk that the settlement of a securities transaction does not occur in the form of payment upon delivery. All legal entities and physical persons that the Group is exposed to are regarded as counterparties, and exposure refers to the sum of claims and investments including off-balance sheet obligations.

The credit risk at the Bank of Åland Plc and Ålandsbanken Sverige AB includes receivables from private individuals, companies, institutions and public sector entities. The receivables consist mainly of loans, overdraft facilities and guarantees granted by the respective bank. Overall credit risk management is regulated by the Group's credit policy. The level of credit risks is established in the credit risk policy and in the operating strategies, financial policy and credit policy of Group companies.

Credit risk management is based on formal credit or limit decisions. Every decision maker has an established individual limit, and within this framework the decision maker is entitled to handle credit risks. For Treasury-related credit risks, ALCO establishes counterparty limits.

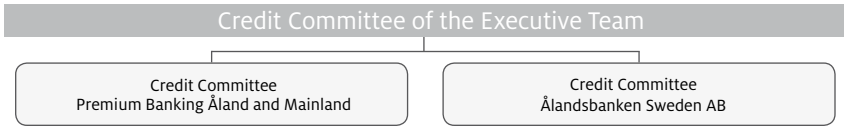
Credit risks are followed up and analysed by the risk oversight departments, which report directly to the Managing Director. Follow-up and analysis of exposures to private individuals at the Bank of Åland Plc are based on internal statistical methods. Other exposures at the Bank of Åland Plc and exposures at Ålandsbanken Sverige AB are followed up and analysed mainly on the basis of external risk classifications.

When using internal statistical methods, exposures are divided into risk categories based on the probability of default and the percentage of loss in case of default. In addition, there is a category for defaulting loans and a category for unclassified loans. The unclassified category includes loans to certain legal corporate mechanisms that have been exempted from internal risk classification methods. Based on internal risk classification, measurement values established by the Board of Directors are reported monthly to the Managing Director and the Executive Team and on a quarterly basis to the Audit Committee and the Board of Directors. The financial position and credit risk of corporate customers are also followed up with the help of the Rating Alpha risk classification system from the credit rating company Suomen Asiakastieto Oy.

Non-performing loan commitments are reported monthly to the Managing Director and the Executive Team. Large customer commitments are reported quarterly, both internally and to the Finnish Financial Supervision Authority or the Swedish Financial Supervisory Authority. The risk oversight departments follow up risks in

securities custodial accounts that serve as collateral for loans. Aside from following up the value of such accounts in relation to the loan amount, these departments follow up risk concentrations in pledged securities.

Decisions on granting a loan, along with measures to be undertaken related to existing loans, must be based on a written loan decision made by an authorised person. A loan decision is made by individual decision makers or bodies that have been authorised to grant loans/unsecured credits within the framework of limits established by the Managing Director. The Credit Committee for Premium Banking Åland & Mainland or the Credit Committee of Ålandsbanken Sverige AB makes decisions on all credit matters that fall outside the limit of an authorised individual. The Credit Committee of the Executive Team make decisions on all credit matters that fall outside the above-mentioned committees. The Managing Director and the Head of Lending at the Bank of Åland Plc, the Managing Director of Ålandsbanken Sverige AB together with the Heads of the Premium Banking Åland and Premium Banking Mainland Divisions form the Credit Committee of the Executive Team.



Large loans that have been granted are screened by credit control officers in the risk oversight departments. Pre-screening includes ensuring that the loan has been approved in an authorised manner and that loan documents have been drawn up in compliance with internal and external rules and requirements. Follow-up inspections of credit documentation are performed on a test basis.

Credit management assumes that lending decisions will be based on sufficient knowledge about the customer. This means that the Bank primarily does business with customers that are active in the regions where the Bank has offices. The creditworthiness of private individuals is assessed on the basis of the disposable income of the borrower and the collateral offered. In Finland, a majority of the loans to private individuals are granted with homes as collateral. In the case of corporate loans, the rule is that all customers have a contact person at the Bank who is familiar with the customer's business and economic sector as well as the risk and collateral related to the loan commitment. In assessments of corporate customers, the Bank uses its internal risk classification models. For those companies that are part of the corporate loan portfolio, this is supplemented with a qualitative risk assessment.

Of total lending in Sweden, most consists of traditional lending in exchange for traditional collateral in the form of mortgages and collateral in tenant-owned cooperative residential units. The remainder is divided between borrowing against structured products and securities in custody accounts.

Decisions by the Bank concerning new loans or limits for companies are based on credit analysis. This credit analysis must provide a sufficiently thorough picture of the loan applicant and the project to be financed. The loan portfolio includes certain receivables from customers domiciled outside Finland and Sweden. There are no commitments located in crisis-affected parts of the world.

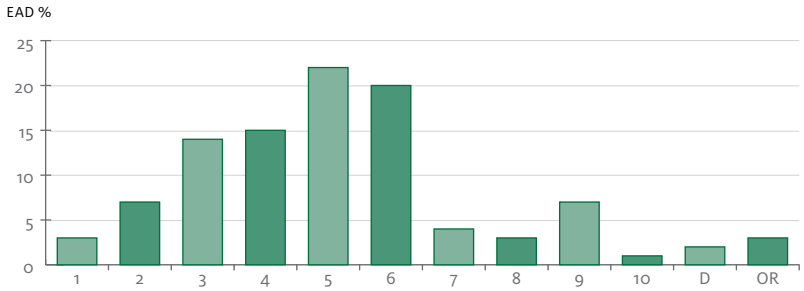
LENDING TO PRIVATE INDIVIDUALS AND COMPANIES BY RISK CATEGORIES, BASED ON THE BANK'S INTERNAL STATISTICAL MODELS

To improve its follow-up of credit risks, the Bank is developing internal statistical models for assessing the probability of default (PD) and the loss given default (LGD). On the basis of these preliminary models, exposures are divided into ten PD categories (1-10), where a low number indicates a low credit risk. Correspondingly, LGD is divided into six categories, where a low LGD number indicates a low loss in case of default. For exposures to households, the Bank is developing its own models for estimating LGD, while for the corporate loan portfolio it uses the numbers prescribed by the Finnish Financial Supervision Authority or the Swedish Financial Supervisory Authority, taking into account certain approved forms of collateral.
In addition to these ten PD categories, there is a category for defaulting loans (D), where loans that have been unsettled for 90 days or longer are placed. There is also a category for unclassified loans (OR), which consists of loans that the Bank's statistic models do not yet include. Examples are certain legal corporate mechanisms and Ålandsbanken Sverige AB's exposures.

The charts show exposures stated in exposure at default (EAD), divided into PD categories for the corporate portfolio and the household portfolio. The line between those companies that are part of the corporate portfolio and those that are part of the household portfolio is drawn on the basis of the Group's exposure to customer entities or the fulfilment of other criteria related to sales, total assets and number of employees.

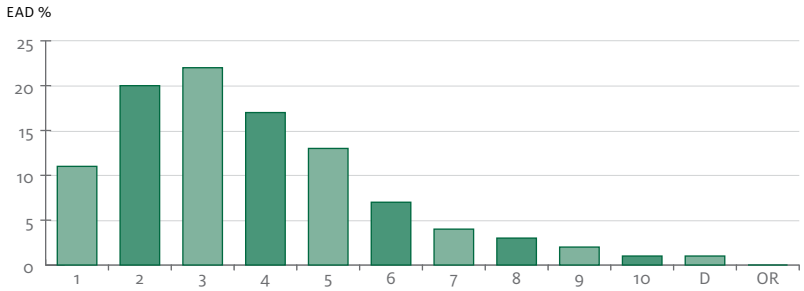
As for the corporate portfolio, a majority of exposures are allocated among PD categories 4 to 6.

Corporate portfolio



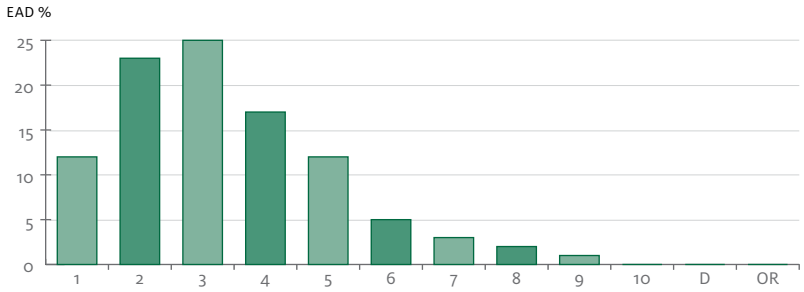
Correspondingly, exposures in the household portfolio are allocated among PD categories 2 to 4, where a clear majority consists of exposures with real estate as collateral.

Household portfolio



As a separate segment in the household portfolio, the chart shows the allocation of household exposures with real estate as collateral, which is the Bank's largest portfolio.

Household portfolio with real estate as collateral



The table below presents EAD for the corporate portfolio and the household portfolio, allocated among a number of different sub-portfolios. For each portfolio, an exposure-weighted average LGD is also stated. Household exposures with real estate as collateral have the lowest average LGD, while the corporate portfolio using prescribed LGD figures has the highest.

The loans in the table include both balance sheet items and off-balance sheet items (according to loan equivalent).

Exposure, average LGD*

Portfolio, EUR M	EAD	LGD
Corporate portfolio	608.9	35%
Small and medium-sized companies	376.8	36%
Household portfolio	1,868.4	10%
Exposures with real estate as collateral	1,419.3	8%
Small and medium-sized companies	179.8	15%
Other household exposures	269.2	15%

* The table does not include Ålandsbanken Sverige AB's exposures

CREDIT RISK CONCENTRATIONS

Risk concentrations sometimes arise when the loan portfolio includes loans to individual counterparties or customer entities, to certain economic sectors, to certain countries or in exchange for certain collateral.

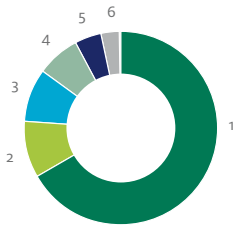
CUSTOMER CONCENTRATION

A customer entity refers to customers (physical persons or legal entities) that form a group or otherwise share substantial economic interests with each other. Substantial economic interests occur when economic difficulties for one customer in the customer entity lead to the likelihood that other or all customers belonging to the customer entity will also encounter payment difficulties. An excessive concentration of exposures to one single customer or group of customers with mutual ties may lead to a high loan loss risk.

The table below shows customers and customer entities (including institutions) with commitments of more than EUR 10 M, which constitutes 5 per cent of the Group's capital base. Also shown below is the allocation of these customers by economic sector.

Commitments of more than EUR 10 M (5% of the Group's capital base)

EUR M		Percentage of capital base	Economic sector	Commitments
Total commitments > EUR 10 M	373.7		Financial operations	239.6
Number	20		Other household purposes	37.1
Maximum	45.3	22	Construction and real estate operations	32.6
Minimum	10.1	5	Public sector	26.4
Median	14.5	7	Shipping	25.2
Top quartile	22.0	11	Other industry and crafts	12.8
Bottom quartile	12.1	6		



1. Financial operations
2. Other household purposes
3. Construction and real estate operations
4. Public sector
5. Shipping
6. Other industry and crafts

LARGE EXPOSURES

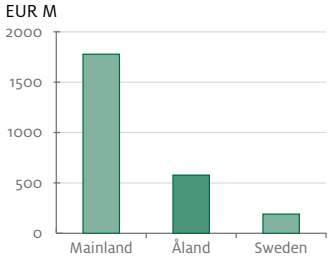
Banks are subject to legal limits on risk concentrations that arise from individual customers or customer entities. Large exposures are defined as customers and customer entities whose total exposure is 10 per cent or more of the Bank's capital base. According to the Financial Supervision Authority's guidelines, exposures to a single customer or customer entity at the Bank may not exceed 25 per cent (institutions exempted) of the Bank's capital base. In addition, exposures over 10 per cent may not comprise more than 800 per cent of the capital base. The risk oversight departments follow up large exposures and report on compliance quarterly to the Board of Directors and the Managing Director as well as the Financial Supervision Authority. If limits are exceeded, this is reported immediately.

Large exposures	Dec 31, 2009
EUR M	
Institutions, companies and private individuals	
Large exposures – number	8
Large exposures – total, gross basis	224.8
Capital base	201.7
Large exposures as percentage of 800% of capital base	13.9%
Large exposures as percentage of total loan portfolio	8.8%

The amounts are shown as gross amounts, i.e. deductible collateral has not been subtracted.

The table to the right shows the allocation of the entire loan portfolio by purpose.

Loan portfolio allocation by region



EUR M	Exposure	%
Finland	2,355.3	93
Mainland	1,777.9	70
Åland	577.4	23
Sweden	190.5	7

Loan portfolio allocation by purpose/industry

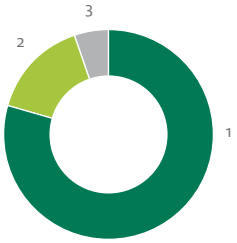
	EUR M
COMPANIES	
Shipping	75.6
Wholesale and retail trade	64.3
Housing operations	71.8
Other real estate operations	154.2
Financial and insurance operations	199.9
Hotel and restaurant operations	15.7
Other service operations	128.1
Agriculture, forestry and fishing	10.7
Construction	27.2
Other industry and crafts	39.4
PRIVATE INDIVIDUALS	
Home loans	1,144.5
Securities and other investments	334.0
Business operations	165.1
Other household purposes	90.5
PUBLIC SECTOR AND NON-PROFIT ORGANISATIONS	24.9
TOTAL LENDING	2,545.8

COUNTERPARTY RISK (INSTITUTIONS)

The Group shall only work together with serious counterparties that are deemed capable of fulfilling their obligations towards the Group. The banks and financial institutions that the Group works with must have good creditworthiness. Exposure to various counterparties is limited by a set of rules established by the Board of Directors. ALCO approves limits in dealing with individual counterparties. The table below shows the Group's institutional exposures allocated on the basis of ratings by the external credit rating agencies Moody's and Standard & Poor's. The compilations only take into account those counterparties for which overall exposure exceeds EUR 1 M.

Counterparty risk by region

The chart shows the Group's exposure to institutions, allocated by region



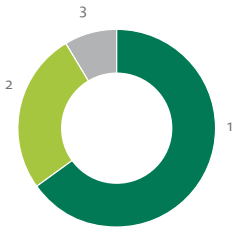
1. Nordic countries
2. Rest of Europe
3. Rest of the world

Counterparty risks (institutions), Moody's / S & P

EUR M	Exposure	%
Aa/AA	104.1	38
A/A	115.7	43
Unrated	50.6	19

The Group's banking operations actively use collateral as a way of reducing credit risk. Acceptable collateral and loan-to-value (LTV) ratios are specified in the Bank's internal instructions. Depending on the market area, a loan may not exceed 70-75 per cent of the market or nominal value of residential property, 90 per cent in the case of bonds, 30-70 per cent for equities and 90 per cent of deposits and guarantees from other Finnish credit institutions. Collateral in the form of residential property is by far the most important form of collateral in the Group's lending, by financial collateral is also widely used. Financial collateral is allocated among equities, bonds and funds as follows at Bank of Åland Plc:

Allocation of financial collateral



1. Equities
2. Bonds
3. Funds

Financial collateral

Type of securities	Market value pledged
Equities	374.6
Bonds	151.5
Funds	48.3
Total	574.4

OVERDUE AND IMPAIRED RECEIVABLES

A receivable is regarded as overdue if contractual payment does not occur on the specified date. Loans and trade receivables are recognised in the balance sheet at the commencement of the contract at cost and subsequently at amortised cost. All loans and trade receivables are tested on a quarterly basis for impairment. At that time, the Group assesses whether there is objective evidence that an individual or group of loans and trade receivables has an impairment loss. Loans and trade receivables have an impairment loss only if objective evidence shows that one or more events have occurred that have an adverse impact on future cash flows for the financial asset, if these can be reliably estimated.

Impairment losses are recognised in the income statement under the item "Impairment loss on loans and other commitments". For more information, see "Loans and trade receivables" in the accounting principles.

Impairment losses on loans and trade receivables	2009		2008	
EUR M	Individual	Group	Individual	Group
BALANCE, JANUARY 1	-3.4	-1.0	-2.1	0.0
Acquired balance	-0.4	0.0		
New and increased impairment losses	0.4	1.5	0.9	1.0
Reversals of impairment losses	-0.1		0.0	
Established impairment loss/reversal	1.1		0.4	
RECOGNISED IN THE INCOME STATEMENT	1.4	1.5	1.3	1.0
Final impairment loss/reversal	-1.5	0.0	0.0	0.0
BALANCE, DECEMBER 31	-3.7	-2.5	-3.4	-1.0

General information on credit risk	Dec 31, 2009					
EUR M	Remaining maturity					
	0–3 mo	3–12 mo	1–5 yrs	5–10 yrs	10 yrs –	Total
Business and professional activities	57.3	158.2	259.1	118.0	197.9	790.6
Of which impaired receivables	0.1	0.4	1.0	1.0	1.9	4.4
Of which overdue receivables	3.7	5.5	2.9	2.2	2.5	16.8
Households	68.9	103.3	399.9	235.9	921.9	1,729.8
Of which impaired receivables	0.5	0.3	0.0	0.2	0.4	1.4
Of which overdue receivables	5.3	15.0	1.9	5.0	17.3	44.6
Public sector	0.2	0.5	4.4	8.3	12.0	25.4
Of which impaired receivables	0.0	0.0	0.0	0.0	0.4	0.4
Of which overdue receivables	1.0	0.7	0.4	0.3	1.9	4.4
Total amount	126.4	262.0	663.5	362.2	1,131.8	2,545.8
Of which impaired receivables	0.7	0.6	1.0	1.1	2.8	6.2
Of which overdue receivables	10.0	21.2	5.2	7.5	21.8	65.8

The table shows the Group's total loan portfolio and overdue and impaired receivables on December 31, 2009. A receivable is defined as overdue if contractual payment does not occur on the specified date and as impaired if an impairment loss on the receivable has been recognised.

Impaired and overdue loans by purpose	Dec 31, 2009						
EUR M	Business		Households		Public sector		
	Overdue	Impaired	Overdue	Impaired	Overdue	Impaired	Total
Not overdue		2.8		0.6			3.5
< 29 days	7.2		30.7	0.1	2.4		40.4
30–59 days	5.0		4.8	0.0	0.3		10.1
60–89 days	0.3		0.7				1.0
> 90 days	4.3	1.6	8.4	0.6	1.7	0.4	17.0
Total	16.8	4.4	44.6	1.4	4.4	0.4	72.0

The table shows impaired and overdue loans by purpose, allocated by the number of days that the loan was overdue.

Market risk

Market risk is the risk of losses due to changes in interest rates as well as currency exchange rates and market prices of shares. The Treasury unit manages and is responsible for such market risks as interest rate and foreign exchange risks. The Equities Department manages and is responsible for the trading portfolio. All market risks, mandates and limits are monitored and followed up by the risk oversight departments.

SHARE PRICE RISK

The positions in the trading book consist of positions in equities and derivatives on an intra-day basis as well as some longer positions. Group Risk & Security monitors the limits on the trading book and the changes in longer-term holdings in strategic portfolios. Decisions on positions in strategic portfolios are made by the Executive Team or the Board of Directors. The risk oversight departments monitor the limits in the trading book and the trend of longer-term holdings in strategic portfolios. Decisions on positions in strategic portfolios are made by the Executive Team or the Board of Directors. The risk oversight departments monitor the day-to-day positions in the trading book and reports equities portfolio trends monthly.

EXCHANGE RATE RISK

Foreign exchange risk refers to the risk that arises from changes in the market value of the Bank's assets and liabilities as well as derivatives due to changes in foreign exchange rates.

The Group's foreign exchange exposure, excluding exposures related to holdings in foreign subsidiaries, arises from the administration of customer flows in foreign currencies. Foreign exchange operations are neither extensive nor concentrated. The Group carries out no foreign exchange trading.

Foreign exchange positions are restricted by limits established by the Board of Directors. All balance sheet items in foreign currencies are restated in euros according to the European Central Bank's official middle rate quotation.

INTEREST RATE RISK

Interest rate risk refers to the effect of changes in interest rates on both net interest income (income risk) and the present value of interest rate-sensitive items (present value risk).

Both these effects are calculated on the basis of gap analyses and measure various aspects of structural interest rate risk.

The Bank's internal method for estimating interest rate risk is based on standardised schedules for income risk and present value risk, i.e. on the estimates reported to the authorities. In the schedule of maturity intervals used in estimating both income risk and present value risk, items are arranged by remaining maturity, according to the period when changes in interest rates will have an effect on them.

Stress tests are carried out for both income risk and for present value risk. The basic calculation of income risk evaluates how a two percentage point (200 basis point) change affects net interest income. The stress tests are aimed at estimating the effects of major changes in interest rates. These effects are obtained by multiplying the basic calculation result by the desired interest rate change. Non-parallel changes in the interest rate curve are not taken into account in calculating income risk, either in the basic calculation or in stress tests. This is because income risk is calculated with a one-year horizon and all exposures thus lie within the short-term market interest rate interval.

In calculating the present value risk, the effect of changes in interest rates on present value is measured over the entire maturity horizon. The basic calculation stipulated by regulatory authorities, which assumes a parallel change in the yield curve of two percentage points (200 basis points), is a stress test. The effects of major changes in interest rates, including non-parallel ones, are calculated by inserting the desired interest rate changes in the various maturity intervals.

Interest rate refixing periods between assets and liabilities (including derivatives), Dec 31, 2009

EUR M	Maturity interval													
	< 1 mo	1–3 mo	3–6 mo	6–9 mo	9–12 mo	1–2 yrs	2–3 yrs	3–4 yrs	4–5 yrs	5–7 yrs	7–10 yrs	10–15 yrs	Non-interest bearing	Total
Assets														
Claims on credit institutions and central banks	285.8													285.8
Claims on the public	1,063.0	905.6	242.4	84.2	113.8	50.7	24.1	27.8	32.5	0.0		1.6		2,545.8
Debt securities	28.1	50.0	21.4	69.4		73.1	71.8	28.2	9.0	23.0				374.1
Shares and participations													24.5	24.5
Tangible and intangible assets													44.3	44.3
Other assets													104.8	104.8
Total assets	1,376.9	955.6	263.8	153.6	113.8	123.8	96.0	56.1	41.5	23.0		1.6	173.6	3,379.3
Liabilities														
Liabilities to credit institutions	24.9	0.6	20.0	40.0	147.3	30.0								262.8
Deposits from the public	1,761.5	118.8	43.0	16.5	58.3	16.2	25.8							2,040.2
Debt securities	89.3	401.6	46.5	32.1	41.4	52.8	27.9	44.2	6.8					742.7
Subordinated liabilities	5.9	18.6						34.0						58.5
Other liabilities													112.9	112.9
Equity capital and reserves													162.2	162.2
Total liabilities and equity capital	1,881.6	539.6	109.5	88.7	247.1	99.1	53.7	78.2	6.8				275.1	3,379.3
Derivative contracts	-15.7	0.6	-6.7	15.7	19.4	7.4	-12.7	22.7	10.9	-24.3	-14.8	-2.4		0.0
Difference between assets and liabilities	-520.4	416.6	147.6	80.6	-113.9	32.1	29.5	0.6	45.6	-1.3	-14.8	-0.8	-101.5	0.0

INCOME RISK

All assets and liabilities in the balance sheet are placed according to their remaining maturity or interest rate refixing date in maturity intervals, in which the difference ("gap") between assets and liabilities is calculated. Based on these gaps, the Bank calculates the sensitivity of net interest income to changes in interest rates during a 12-month period. For income risk (0–12 months), the Board of Directors has established a limit for maximum permitted change.

Sensitivity analysis, income risk

Maturity interval	Midpoint of interval	Weighting, year	Interest rate change in basis points	Weight factor	Gap, EUR M	Change in net interest income, EUR M/year
0–1 month	0.5 month	0.96	200	1.92	-337.3	-6.5
1–3 months	2.0 months	0.83	200	1.67	415.6	6.9
3–6 months	4.5 months	0.62	200	1.24	114.6	1.4
6–9 months	7.5 months	0.37	200	0.74	79.2	0.6
9–12 months	10.5 months	0.12	200	0.24	-113.9	-0.3
Total						2.2

PRESENT VALUE RISK

Interest rate-sensitive assets and liabilities are placed in corresponding fashion in maturity intervals. Gaps in all intervals, even exceeding 20 years, are included in the calculation, with the present value of each gap being calculated by multiplying by a duration factor. The sum of these weighted gaps is the change in the present value of the balance sheet.

Sensitivity analysis

Time until interest rate refixing	Average time until interest rate refixing	Modified duration (years)	Interest rate change in basis points	Modified duration x interest rate change	Gap, EUR M	Change in value, EUR M
0–1 month	0.5 months	0.04	200	0.08	-337.3	0.3
1–3 months	2 months	0.16	200	0.32	415.6	-1.3
3–6 months	4.5 months	0.36	200	0.72	114.6	-0.8
6–9 months	7.5 months	0.60	200	1.20	79.2	-1.0
9–12 months	10.5 months	0.71	200	1.42	-113.9	1.6
1–2 yrs	1.5 yrs	1.38	200	2.76	-13.4	0.4
2–3 yrs	2.5 yrs	2.25	200	4.50	-42.3	1.9
3–4 yrs	3.5 yrs	3.07	200	6.14	-20.8	1.3
4–5 yrs	4.5 yrs	3.85	200	7.70	36.6	-2.8
5–7 yrs	6 yrs	5.08	200	10.16	-1.3	0.1
7–10 yrs	8.5 yrs	6.63	200	13.26	-14.8	2.0
10–15 yrs	12.5 yrs	8.92	200	17.84	-0.8	0.1
15–20 yrs	17.5 yrs	11.21	200	22.42	0.0	0.0
Over 20 yrs	22.5 yrs	13.01	200	26.02	0.0	0.0
Total						1.7

The change in present value amounted to 1.1 per cent of the capital base. According to Basel 2, the change in present value may not exceed 20 per cent of equity capital.

Liquidity risk

Liquidity risk is the risk that the Group cannot fulfil its payment obligations on the due date without a substantial increase in the cost of obtaining funds for payment. Liquidity risk may also consist of difficulty in selling an asset at a market price in the second-hand market on the desired date. Liquidity risk is measured with the help of maturity analyses and due date reports. The maturity analyses show how imbalances in cash flows for deposit and lending items are allocated by due date. A liquidity reserve is funds that can be used to safeguard the ability to pay in the short term. The Group's ambition is to minimise liquidity risk by maintaining a liquidity reserve and spreading the risks among different instruments and different maturities.

The Board of Directors establishes the size and structure of the liquidity reserve. The Board also establishes norms and mandates for structural funding risk. Liquidity risks are managed and reported by the Treasury unit. The risk oversight departments monitor the mandates established by the Board for liquidity risks.

Liquidity reserve on December 31, 2009

EUR M	
Liquidity reserve	407.4
Liquidity reserve requirement	348.0

LIQUIDITY RISK MANAGEMENT

The Group's liquidity risk management is based on guidelines established by the Board of Directors which reflect a conservative approach to liquidity risk.

The Group maintains a liquidity reserve consisting of liquid assets such as holdings in central banks and other banks, assets that are eligible for refinancing with central banks or assets that can be transformed into liquidity. On December 31, 2009, the liquidity reserve amounted to EUR 407.4 M, which was equivalent to 12 per cent of total assets.

Structural funding risk refers to uncertainty associated with the funding of long-term lending. Funding risks arise because of the

need for external funding and because of the maturity structure of the debt portfolio. The maturity structure related to deposits and lending as well as the Treasury unit's external funding is allocated in different time intervals (gap analysis).

Gap analysis is also supplemented with scenario tests where the effect on liquidity is stressed and analysed assuming, for example, sharply reduced deposit volume, increased utilisation of credit lines or inability to obtain funding in financial markets. In addition, the Group establishes regular liquidity forecasts, in which approaching maturities of Treasury-related assets and liabilities are followed up on a day-to-day basis. However, the assessment of the situation concerning both liquidity and financing risk is highly dependent on how sights deposits are assessed. Historically (at the Bank of Åland Plc), sight deposits have provided very stable, long-term funding, but in legal terms they are overnight deposits.

Funding risk analysis	Dec 31, 2009						
	Maturity interval						
EUR M	< 1 mo	1–3 mo	3–6 mo	6–12 mo	1-2 yrs	> 2 yrs	Total
ASSETS							
Claims on credit institutions and central banks	285.8						285.8
Claims on the public	293.6	93.9	100.2	209.6	336.4	1,512.1	2,545.8
Skuldebrev	28.1	50.0	21.4	69.4	73.1	132.1	374.1
Shares and participations						24.5	24.5
Tangible and intangible assets						44.2	44.2
Other assets	104.8						104.8
Total assets	712.3	143.9	121.6	279.0	409.5	1,712.9	3,379.3
LIABILITIES							
Liabilities to credit institutions	24.9	0.6	20.0	187.3		30.0	262.8
Liabilities to the public and public sector entities	434.9	129.7	56.8	88.6	16.4	1,313.8	2,040.2
Debt securities	74.4	51.9	131.5	129.1	84.6	271.3	742.8
Subordinated liabilities			5.0		4.9	48.7	58.5
Other liabilities	112.9						112.9
Equity capital and reserves						162.2	162.2
Total liabilities and equity capital	647.1	182.2	213.3	405.0	105.9	1,826.0	3,379.3
Exposure	65.2	-38.2	-91.7	-126.0	303.6	-113.0	
Accumulated exposure	65.2	27.0	-64.7	-190.7	113.0		

The item "Liabilities to the public and public sector entities" included sight deposits in Finnish operations, which amounted to EUR 1,430.3 M on December 31, 2009. In the internal assessment, 10 per cent of sight deposits is assumed to mature within one month, while the rest is assessed as running for an undetermined period. This reasoning is based on historical outcomes, so these deposits are regarded as very stable.

LIQUIDITY RESERVE

During 2009, the Group's liquidity buffer or liquidity reserve averaged EUR 335 M or 12 per cent of total assets.

PREPAREDNESS PLAN FOR LIQUIDITY CRISES

The Group has a preparedness plan that includes a concrete action plan for management of liquidity risks and encompasses strategies for covering a negative cash flow in emergency situations. Liquidity risk management also includes stress tests that evaluate potential effects on liquidity if exceptional but reasonable events should occur. These stress tests are a supplement to normal liquidity management and their purpose is to confirm that the preparedness plan is adequate in case of critical situations.

Operational risk

Operational risks are defined as the probability of losses and damage to the Group's reputation due to faulty or erroneous procedures, processes, behaviour or as a consequence of events in the Group's surroundings. Operational risk management is an independent element of risk management. The objective is to ensure that substantial operational risks are identified, that the management of operational risks is organised in a way that is satisfactory in relation to the nature and the scope of the operations, that the probability of unforeseen losses or threats to the Group's reputation is minimised and that the Board of Directors and management are informed of the operational risks associated with the Group's operations.

The Board of Directors has overall responsibility for operational risk management and must be aware of the most important operational risks in the Group's various operations. The Managing Director is responsible for ensuring that the policy concerning operational risks established by the Board of Directors is implemented in practice. It is the task of every unit to manage the operational risks that are associated with its own operations.

The risk oversight departments ensure that the risks in the Group's products and main processes are evaluated and that these evaluations are updated at least yearly. This evaluation assesses the probability and consequences of a loss event as well as trends and existing risk management. The risk oversight departments analyse risks on the basis of the risk evaluations that have been carried out.

Incident reporting is part of the Group's overall management of operational risks as well as continuity planning. The risk oversight departments analyse and compile incidents and in turn report them to the affected bodies in the Group as well as to the Finnish Financial Supervision Authority or the Swedish Financial Supervi-

sory Authority. The Bank of Åland Plc participated in the FATO 2009 emergency drill, which was a common emergency drill for the entire financial sector in Finland.

The risk oversight departments also administer insurance protection and assist management on insurance issues. At the Group level, insurance policies have been obtained to cover directors and officers, professional liability and crime. In addition to these insurance policies, Group companies have obtained company-specific insurance coverage.

Internal Auditing monitors the compliance of the Group's units with internal and external rules and instructions related to operational risks, and it provides qualitative assessments in report form to the Board of Directors.

During the years 2000–2009, the net cost of operational errors has averaged EUR 0.1 M annually.

Equities not included in the trading book

Equities not included in the trading book are initially accounted for at cost in the balance sheet and are subsequently recognised at fair value. Changes in value are recognised in equity capital under the "fair value reserve". Upon divestment, change in value is transferred from the reserve to the income statement as a separate item, "Net revenue from financial assets available for sale". Impairment losses are recognised in the income statement.

Fair value is derived from quotations in a functioning market. In those cases when market quotations are not available, equities are carried at net worth.

Exposures to equities not included in the trading book

EUR M	Listed companies		Other exposures	
	Cost	Fair value	Cost	Fair value
For profit	0.6	0.6	1.6	0.0
For strategic purposes	0.0	0.0	1.3	1.2
	0.6	0.6	2.8	1.3
Cumulative realised gains or losses during the period		0.0		
Unrealised changes of value recognised in the balance sheet		0.0		

Capital management

The Group's capital management is regulated by the Financial Supervision Authority's capital base and capital adequacy rules (Standard 4.3 a-k) as well as by the Group's long-term financial targets. At the beginning of 2007, the Group switched to calculating capital adequacy for credit risks according to the standardised approach in the Basel 2 regulations. The capital base can be divided into three categories: core capital, supplementary capital and other capital base.

CORE CAPITAL

Core capital is freely and immediately available for covering unforeseen losses. Core capital consists of share capital, reserve fund, share premium reserve, retained earnings and the portion of the year's profit that is not planned as a dividend. The Group's entire core capital is of the unrestricted core capital type, i.e. the Group has full decision-making rights on the use of the funds. The non-amortised cost of intangible assets is subtracted from core capital.

SUPPLEMENTARY CAPITAL

Supplementary capital is not as available for covering losses as core capital and may thus not amount to more than core capital. Supplementary capital can further be divided into upper and lower supplementary capital. Upper supplementary capital is, by its nature, long-term and may thus not be included in its entirety. Upper supplementary capital consists mainly of a reappraisal of real property in conjunction with the transition to International Financial Reporting Standards (IFRSs). Lower supplementary capital includes fixed-term and short-term items and may total no more than half of core capital. The Group's lower supplementary capital consists of subordinated debentures issued to the public. These are specified in the notes to the financial statements.

OTHER CAPITAL BASE

Other capital base may be used only for covering market risk. The Group has no items in this category.

The policy of the Group is to maintain a strong capital base in order to retain the confidence of investors, counterparties and the market, as well as ensure the sound business development of the Group. The Group also notes that it is of great importance to maintain a balance between high return on equity, which is made possible by low equity capital, and the advantages and security that high equity capital represents. In its long-term financial targets, the Group has established that return on equity shall 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. No substantial changes in the Group's targets or capital management processes were made during 2009. During the year, the Group fulfilled all externally stipulated capital adequacy requirements.

Capital base	Dec 31, 2009		Dec 31, 2008	
EUR M	Group	Bank	Group	Bank
CORE CAPITAL				
Share capital	23.3	23.3	23.3	23.3
Reserve fund	25.1	25.1	25.1	25.1
Share premium account	33.3	32.7	33.3	32.7
Reserves minus tax liability	0.0	39.2	0.0	34.8
Retained earnings minus items that may not be included	34.8	0.4	26.4	0.4
Profit for the year minus items that may not be included and proposed dividend	18.3	0.0	7.5	0.1
Minority interest	1.0	0.0	1.6	0.0
Deductions from core capital:				
Intangible assets	-6.5	-7.9	-4.8	-7.1
Total core capital	129.3	112.8	112.4	109.3
SUPPLEMENTARY CAPITAL				
Revaluation reserve			0.0	0.0
Fair value reserve	5.5	1.8	1.7	1.6
Reappraisal of business property in conjunction with transition to IFRSs	8.2	0.0	8.5	0.0
Subordinated debentures	58.6	56.4	43.2	43.2
Total supplementary capital	72.4	58.3	53.4	44.9
Total capital base	201.7	171.1	165.7	154.2

Calculation of capital requirement		
Basel 2, by pillars	Sub-areas for capital allocation	Bank of Åland's capital requirements
PILLAR 1		
Minimum capital	Credit risk	Calculated according to standardised approach
	Foreign exchange risk	Calculated according to standardised approach
	Operational risk	Calculated according to basic indicator approach
	Market risk	The Bank of Åland Plc applies the exemption for small trading books. Ålandsbanken Sverige AB calculates the capital requirement for market risks in the trading book according to the duration-based method
PILLAR 2 Complement to Pillar 1 risks:		
Credit risk	Undervaluation when choosing simpler Pillar 1 method	The risk cannot be quantified
	Residual risk in conjunction with credit risk mitigation	The risk does not arise
	Concentration risk	The supplementary capital requirement in Pillar 2 related to sectoral and customer concentrations is calculated with the help of the Herfindal index, which is recalculated to capital requirements
	Specific risks from securitisation	The risk does not arise
	Settlement risk	Cannot be quantified
Market risk	Structural interest rate risk	The supplementary capital requirement in Pillar 2 has been assessed on the basis of risk measurements and stress tests
	Property risk	Exposure is extremely small
Liquidity risk	Liquidity risk	Managed using liquidity buffer
	Structural financing risk	The supplementary capital requirement in Pillar 2 has been assessed on the basis of risk measurements and stress tests
Operational risk	Undervaluation when choosing simpler Pillar 1 method	Operational risks in Pillar 2 such as risks from processes and systems, personnel, legal and reputation risk are managed using control functions and self-evaluations
Risks outside Pillar 1 :		
	Risks caused by changes in international macroeconomic conditions	The risk is evaluated using macro stress tests to ensure that actual capital is sufficient, i.e. that the risk is covered by the capital buffer
	Business risk: strategic risk, microeconomic risk, risks in regulatory environment	The risk is managed using risk control, i.e. corporate governance and kapitalbuffert
	Insurance risk	The risk does not arise

Basel 2 and capital requirements

CREDIT RISKS

The Bank uses the standardised approach when calculating its capital requirement for credit risks. The Bank of Åland will endeavour to begin applying an Internal Ratings Based (IRB) approach in compliance with Basel 2 to calculate its capital adequacy requirement for credit risk, starting on January 1, 2011. Our assessment, according to the current regulations, is that this will substantially improve the Bank of Åland's capital adequacy. Ålandsbanken Sverige AB and Ab Compass Card Oy Ltd will switch to IRB approaches at a later date.

In the standardised approach, exposures are divided into various exposure categories depending on the counterparty, collateral or receivable. The exposure figures taken into account in the capital requirement calculation are then multiplied by the risk weight established for the respective exposure class. When calculating the capital requirement for credit risk, exposures to a sovereign (national government) and its central bank in the European Economic Area (EEA) shall be assigned a risk weight of 0 per cent. For exposures to other sovereigns, the Bank uses external ratings from the nationally approved rating institutions Moody's, Standard & Poor's and Fitch for calculating the capital requirement. The Bank also uses ratings from these institutions for bonds and share issues that have been provided as collateral for lending.

Finland applies the "sovereign method" for exposures to credit institutions, which means that exposures to credit institutions shall be assigned a risk weight equivalent to one class below the rating given to the national government where the institution is located. However, exposures to banks in the EU automatically carry a 20 per cent risk weight, in compliance with an EU directive. For other exposure classes, the Bank uses risk weights established for the entire exposure class.

The table below shows the Group's balance sheet including off-balance sheet obligations by exposure categories. Exposure at default (EAD) refers to exposure after taking into account loan equivalent factors for off-balance sheet items.

Capital requirements for credit risks by exposure category

EUR M	Gross	EAD	Risk weight	Risk-weighted value	Capital requirement
EXPOSURE CATEGORY					
Sovereigns and central banks	288.6	288.2	0%	0.0	0.0
Regional and local authorities	39.3	33.2	0%	0.0	0.0
Public sector entities	0.2	0.1	20%	0.0	0.0
Multinational development banks	23.1	23.1	0%	0.0	0.0
Institutions	346.8	338.8	19%	65.0	5.2
Companies	669.7	491.4	100%	491.4	39.3
Households	306.5	275.9	75%	206.9	16.6
Exposures with real estate as collateral	1,510.9	1,472.8	35%	515.5	41.2
Exposure to funds	19.4	19.4	100%	19.4	1.6
Unsettled items	14.3	14.2	123%	17.6	1.4
High-risk items	0.0	0.0	150%	0.0	0.0
Other items	156.2	156.2	69%	107.8	8.6
Total	3,375.1	3,113.4	46%	1,423.7	113.9

CREDIT RISK MITIGATION

"Credit risk mitigation" (CRM) in the calculation of capital requirements refers to measures by which the Bank protects itself against credit risks and which lower the capital requirement for credit risk. The collateral taken into account in calculating the capital requirement, aside from homes, consists of guarantees from sovereigns, the Province of Åland, local authorities and institutions, deposits in the Bank itself or other banks as well as financial collateral. The Bank of Åland Plc uses the comprehensive method for financial collateral as a credit risk mitigation technique and Ålandsbanken Sverige AB uses the simplified method. The table below shows, by exposure category, the exposure amounts remaining after credit risk mitigation techniques have been applied with the help of collateral approved by the Finnish Financial Supervision Authority or the Swedish Financial Supervisory Authority and taking loan equivalent factors into account.

Exposure before and after CRM by exposure category

EUR M	Exposure before CRM	Exposure after CRM (EAD)
EXPOSURE CATEGORIES		
Sovereigns and central banks	274.3	288.2
Regional and local authorities	14.0	33.2
Public sector entities	0.2	0.1
Multilateral development banks	23.0	23.1
Institutions	283.1	338.8
Companies	836.0	491.4
Households	437.2	275.9
Exposures with real estate as collateral	1,510.9	1,472.8
Exposures to funds	19.4	19.4
Unsettled items	14.8	14.2
High-risk items	0.0	0.0
Other items	161.1	156.2
Total	3,574.0	3,113.4

The tables show exposures by exposure category and how much is used by each credit risk mitigation technique.

Credit risk mitigation (CRM) techniques

EUR M	Guarantees	Financial collateral (advanced method)	Financial method (simplified method)	Other collateral
EXPOSURE CATEGORY				
Companies	18.4	138.1	1.9	7.9
Households	22.9	74.7	31.8	1.3
Exposures with real estate as collateral	0.0	0.0	0.0	0.0
Unsettled items	0.1	0.4	0.0	0.0

The following financial collateral is approved in calculating capital requirements: shares listed in Sweden and Finland, exchange traded funds (ETFs) and bonds. The shares that are approved must be listed on recognised exchanges in Finland or Sweden. The market value of listed shares used as collateral is tracked on a daily basis. The value of approved bonds used by the Bank is determined weekly on the basis of buying and selling prices in the secondary market. The market value of financial collateral is volatility-adjusted for future changes in market value and for foreign exchange imbalances. In cases where valuations are made less often than daily, the given volatility adjustments are increased, depending on the valuation interval. The Bank uses the volatility adjustments specified by the Finnish Financial Supervision Authority or the Swedish Financial Supervisory Authority. The largest proportion of financial collateral consists of equities, whose market value is exposed to market risk. Bonds used as collateral are also affected by developments in the equities and fixed-income markets, which ultimately affects the capital requirement in this form of credit risk mitigation technique. Ålandsbanken Sverige AB also takes into account structured products (interest-bearing bonds) as collateral for reducing capital requirements.

All financial collateral that is used to reduce the capital requirement is individually approved by a risk oversight department before it is taken into account in the capital requirement calculation and undergoes at least an annual assessment to ensure its acceptability as risk-mitigating collateral, in compliance with the regulations of the Finnish Financial Supervision Authority or the Swedish Financial Supervisory Authority.

MARKET RISKS

In calculating the capital requirement for market risks (position, settlement and counterparty risk) in the trading book, the Bank of Åland Plc applies the exemption for small trading books in the Finnish Financial Supervision Authority's Standard 4.3g, since the trading book is clearly below the threshold values stated in the standard. This means that in Pillar 1, the Bank calculates the capital requirement for its market risks according to the principles for credit risks. Ålandsbanken Sverige AB calculates the capital requirement for market risks in compliance with the regulations of the Swedish Financial Supervisory Authority. For interest rate-related instruments in the trading book, the duration-based method is used.

The Bank's positions in foreign currencies do not reach the required threshold value for capital requirements to be calculated for this type of risk under Pillar 1. The Bank does not trade in commodity contracts.

OPERATIONAL RISK

The Bank uses the basic indicator approach in calculating the capital requirement for operational risk. According to the basic indicator approach, the capital requirement for operational risk is calculated on the basis of the figures in the financial statements adopted for the past three financial years. The annual revenue indicator that the calculation of the capital requirement is based on is calculated in such a way that the adopted income statement items are first summarised at the annual level. The revenue indicator is obtained by weighting the adjusted income statement items with a coefficient of 15 per cent. The capital requirement is calculated as the average of the revenue indicators through division by the number of years that the indicator has been positive.

Internal capital adequacy assessment procedure (ICAAP) and minimum capital base

According to the revised Basel 2 capital adequacy regulations, financial institutions should have a process for assessing their capital requirement and risk control, in order to cover all substantial quantitative and qualitative risks in each institution's operations.

The Basel 2 regulations are based on three pillars. In Pillar 1, the minimum capital requirement for credit risk, market risk and operational risk is calculated. Pillar 2 includes the requirements for each institution's own internal capital adequacy assessment procedure (ICAAP), in which the calculation of capital applies to those risk categories and sub-areas which are not included in Pillar 1. Pillar 3 concerns the obligation of each institution to disclose sufficient information on the risks in its operations and their management that the market – represented by borrowers, depositors, investors and shareholders – can make soundly based and rational decisions.

According to Pillar 2, the Group must assess its capital adequacy and evaluate its capital in proportion to the material risks that the Group is exposed to in its operations, and as a consequence of major changes in market conditions. Capital adequacy must be assessed in a broader perspective than merely fulfilling capital requirements for credit risks, market risks and operational risks within the framework of Pillar 1.

The Group must assess its capital requirement in relation to its overall risk profile, maintain capital sufficient to meets its requirements and establish a strategy for maintaining that level. The Group must evaluate its capital adequacy on the basis of its own carefully considered view of the capital required to cover its material risks and planned risk-taking, as well as internal control and risk management proportional to the nature, scope and complexity of its operations.

The Group should maintain a good risk management capability and internal governance. Risk management capability is a combination of several factors. These include the amount, type and allocation of capital, access to capital and the profitability of operations. Capital serves as a buffer against unexpected losses. To have the desired effect, the buffer should be sufficiently large to be able to keep operations free of disruption. Risk management capability also includes qualitative factors such as internal governance, internal control and risk management, as well as internal capital assessment designed according to the principles established by the Finnish Financial Supervision Authority ot the Swedish Financial Supervisory Authority.

Since the companies covered by the regulations differ from each other, among other things in terms of organisational structure and the nature, scope and complexity of their operations, the practical solutions for capital adequacy analysis, capital assessment and control may vary. The guidelines, principles and methods for each institution's internal capital adequacy assessment should be proportional to the nature and scope of its operations and the special features of its risk profile. This proportionality principle is emphasised, above all, in the methods for assessing risk-related capital requirements.

To make the proportionality principle more concrete, the Finnish Financial Supervision Authority uses the concepts "large institutions" and "small institutions".

METHOD USED FOR PILLAR 1

The Group uses simple methods to assess capital adequacy within Pillar 1. For credit risks, it uses the standardised approach; for operational risks, the basic indicator approach. The rules for exemption of small trading book positions were used in 2009 by Bank of Åland Plc, which means that the Bank calculated the capital requirement for market risks according to the same principles as credit risks.

METHOD USED FOR PILLAR 2

The Group's operations are neither extensive nor complex, and they take place mainly in Finland. During 2009, operations expanded to Sweden. At present, the Group uses no economic capital model or any other quantitative model. Based on these criteria, the Group regards its operations as classified according to the Finnish Financial Supervision Authority's definition of small institutions. As the basis for assessing internal capital evaluation, the Group uses the results from Pillar 1. Based on these, an assessment is made as to whether the risk profile of the Group's own operations diverge substantially from the basic assumptions in the simpler methods in Pillar 1 and what importance these divergences have for capital adequacy.

CAPITAL BUFFER

Capital buffers are regarded as one element of good risk management capability. According to the Group's long-term financial targets, 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.

MAIN RESULTS OF THE ANALYSIS

Assessment of risk exposure, risk control and capital adequacy. In this assessment, the following scale has been used:

- low risk
- reasonable risk
- high risk

Credit risk

Credit risk in the household portfolio (mainly home mortgage lending to private individuals) is expected to remain low during 2010.

Åland accounts for 20 per cent and the Finnish mainland for 80 per cent of the Bank of Åland Plc's lending in the household portfolio. The bulk of mainland lending is allocated to the Helsinki region and the areas in and around the cities of Tampere, Turku and Vaasa. Due to the geographic distribution of its loan portfolio, to date the Bank of Åland has not been significantly affected by rising unemployment.

The Bank of Åland's home mortgage loans have an average loan to value (LTV) ratio of 64 per cent, excluding personal guarantees. Analysis of the portion of the loan portfolio that has residential property as collateral shows that the value established by the Bank averages 13 per cent less than the actual market value of the collateral. The market trend in the regions and residential market segments in which the Bank is active has not been such that there are compelling reasons at the portfolio level to make a downward adjustment in the market value of the collateral.

The Bank of Åland has high stress tolerance in the household portfolio in case a downturn in real estate prices should arise due to further deterioration in the economic situation during 2010 and 2011. The profitability of the household portfolio is affected to a greater extent by rising borrowing costs and the fact that legislation makes it impossible to adjust the lending margin on this basis for private individuals, than by the possibility that the Bank of Åland might suffer defaulting home mortgage loans combined with falling realisable value.

The corporate portfolio

The credit risk in the corporate portfolio of the Bank of Åland Plc is deemed reasonable.

Åland accounts for 37 per cent of the Bank of Åland Plc's lending in the corporate portfolio and the Finnish mainland 63 per cent. In the corporate portfolio, too, the bulk of mainland lending is allocated to companies that operate in the Helsinki region and the areas in and around Tampere, Turku and Vaasa.

The three largest economic sectors for the Bank's corporate lending are financial operations, maritime shipping and miscellaneous real estate operations (mainly real estate improvement). Together, these three sectors account for 55 per cent of lending. To date, the above-described economic situation has affected the real estate sector and shipping the most. By its nature, the real estate sector is late in the economic cycle and strongly connected to the growth situation in the overall economy, which affects future demand for both commercial and residential space. Shipping has been adversely affected both by smaller freight volume and the overcapacity that has arisen due to large-scale acquisition programmes among existing shipping companies and investors that tried to enter this sector during the economic expansion.

The Bank of Åland's loan portfolio in miscellaneous real estate operations is deemed to have good stress tolerance, since a significant proportion of customers have reasonable LTV ratios (average for the portfolio 66 per cent) and positive cash flow. Due to the group impairment loss in the real estate sector that the Bank of Åland recognised, at the portfolio level the Bank of Åland does not risk further loan losses given realisable values that are 50 per cent of the stated market values in the banking system.

The loan portfolio in the maritime shipping sector is also deemed to have good stress tolerance, since it has a reasonable LTV ratio (averaging 60 per cent), is well diversified and does not include loans in the segments so far hardest hit by the financial crisis and the global downturn. Due to its group impairment loss in shipping, in this sector too, the Bank of Åland can manage realisable values that are 50 per cent of recently estimated market values.

Operational risk

Operational risk is deemed reasonable.

The capital requirement for operational risk in the Bank of Åland Group (excluding Ålandsbanken Sverige AB), calculated according to the basic indicator approach, was EUR 10.4 M on December 31, 2009. Including Ålandsbanken Sverige AB, the capital requirement was EUR 14.9 M.

Theoretical annual expected value, calculated in the self-assessment of operational risk, exceeds the capital requirement in the Bank of Åland Group (excluding Ålandsbanken Sverige AB), but insurance protection was not taken into account in the valuation. Taking into account insurance protection and the historical outcome of operational risks, in our assessment the capital reserved for operational risk under Pillar 1 is sufficient.

According to Pillar 1, capital is reserved to cover the losses that arise when an operational risk is realised. Since this risk, by its nature, is dependent on qualitative factors and should be managed by means of quality in processes, products and projects as well as by means of risk control, the Bank has built up its risk management

system to limit and prevent the occurrence of loss in money or reputation. However, its control systems can never be fully comprehensive without becoming an obstacle to normal operations. New risks also arise, both in the company and its surroundings, which have not existed previously and which it has thus not been possible to protect the Group from. Despite preventive measures, a risk may be realised, which the Group's collective database of losses from operational risks also demonstrates.

Liquidity risk and structural funding risk

The risks are deemed reasonable

The Group's liquidity management is based on guidelines established by the Board of Directors which reflect a conservative approach to liquidity risk.

The Group maintains a liquidity reserve consisting of liquid assets such as holdings in central banks and other banks, assets that are eligible for refinancing with central banks or assets that can be transformed into liquidity. The Bank of Åland Plc's self-financing ratio – deposits from the public plus certificates of deposit and bonds issued to the public as a percentage of overall lending to the public – was 90 per cent.

The assessment of the situation with regard to both liquidity and financing risk is highly dependent on how one assesses sight deposits, which historically and even today are a very stable, long-term form of funding, but in legal terms are overnight deposits. The Group has a preparedness plan that includes a concrete action plan for management of liquidity risks and encompasses strategies for covering a negative cash flow in emergency situations.

Interest rate risk

Interest rate risk is deemed reasonable.

Exposure to both income risk and present value risk is below the limits determined by the Board of Directors. During 2009, actual interest rate risk was reduced by means of investments in government bonds and by means of interest rate swaps, which further reduced the previously open position with regard to sight deposits.

Business risk

All sub-areas in this category are deemed reasonable: strategic risk, microeconomic surroundings risk and risks caused by changes in legislation and regulatory practices.

The Group must be well prepared to make adjustments in its strategy in response to macroeconomic and industry-wide changes, as well as the activities of competitors, but also in response to the introduction of extensive changes in regulations.

The ongoing international financial crisis increases as least the indirect risks to all banks, including the Bank of Åland. Since we have very little direct exposure to areas that are perceived as acute today, our risk is deemed reasonable. Further changes in regulations and reporting instructions may possibly lead to relatively larger regulatory requirements for small institutions to fulfil.

The integration of Swedish operations into the Group temporarily means a greater burden of work on key individuals.

Risk management capability

Risk management capability is deemed good.

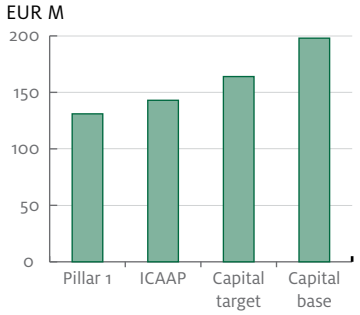
The Group's good risk management capability is based on well-functioning and comprehensive risk control and sufficient equity capital to cover unexpected risks.

Capital buffer

The capital buffer is regarded as sufficient.

The capital buffer is reserved for covering such risks in Pillar 2 that cannot be directly quantified. The buffer, which is calculated as the difference between actual capital and the minimum capital requirement, is sufficient to meet this need. According to the Group's long-term financial targets, the overall capital ratio shall amount to at least 10 per cent and the core capital ratio shall amount to at least 7 per cent of risk-weighted assets.

In the assessment of the Group, based on the results of its ICAAP, the overall capital requirement exceeds the Pillar 1 requirement. The actual capital base exceeds the estimated overall capital requirement.



Pillar 1 shows the estimated capital requirement for credit risks, market risks and operational risks. ICAAP describes the institution's own assessment of the overall capital requirement for all identified risks. The capital target indicates the level that the Board of Directors has established and the capital base describes the capital that may be counted in the capital adequacy analysis.

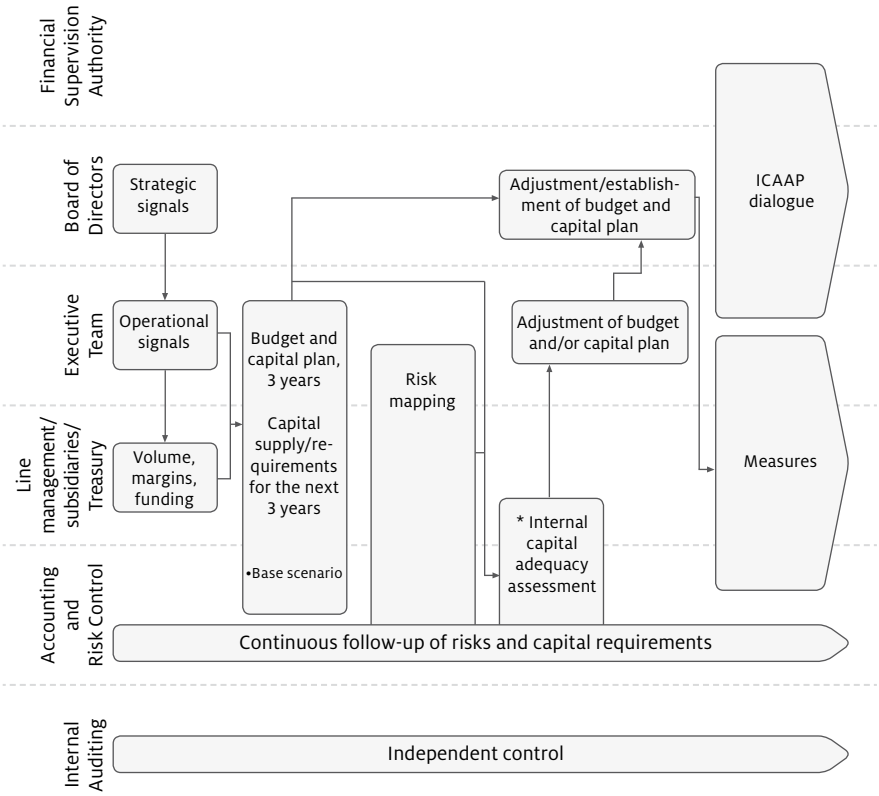
Overall capital requirement	Dec 31, 2009	
EUR M		
Capital requirement according to Basel 2, Pillar 1	130.9	I.e. minimum capital requirement 8%
Supplementary capital requirement according to Basel 2, Pillar 2		
– quantified risks	13.5	Liquidity risk, foreign exchange risk, interest rate risk, credit concentration risk, share price risk in the pension fund
– non-quantified risks	0.0	Business risks: Transaction risks, reputation risk, strategic risk. Capital to cover these risks fits within the framework of the minimum capital position approved by the Board of Directors
Total quantified capital requirement	144.4	
CAPITAL POSITION		
Capital target, "Total capital ratio 10%"	163.6	Minimum capital position approved by the Board of Directors
CAPITAL BASE, DEC 31, 2009		
Core capital	129.3	
Supplementary capital	72.4	
Total capital base	201.7	Total funds that may be counted as part of capital base
TOTAL CAPITAL RATIO, DEC 31, 2009		
Total capital ratio %	12.3	
CAPITAL BUFFER		
Buffer in excess of minimum capital requirement (201.7–130.9)	70.8	Total buffer

ORGANISATION

The Board of Directors establishes the general principles, targets, guidelines and scale of internal capital adequacy assessment, the general requirements for methods of measurement and analysis, the guiding principles of the capital adequacy assessment process and quality assurance principles.

The Managing Director has overall responsibility for practical implementation, continuous monitoring and control of internal capital adequacy assessment and reporting to the Board of Directors. The CFO is responsible for practical implementation. Independent oversight of the internal capital adequacy assessment process is carried out by the Internal Auditing Department.

THE CAPITAL ADEQUACY ASSESSMENT PROCESS



* Internal capital adequacy assessment
- credit risks
- market risks
- operational risks
- business risks
- liquidity risks
- interest rate risks in banking portfolio
- concentration risks
- worst case scenarios

Table of contents, notes to the consolidated financial statements

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Notes to the consolidated financial statements

(EUR K)

1. Accounting principles

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 28 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 of the Parent Company has the following address:
Bank of Åland Plc
Nygatan 3
AX-22100 Mariehamn, Åland, Finland

A copy of the consolidated financial statements can be obtained from the Head Office or from the website www.alandsbanken.fi.

The shares of the Bank of Åland Plc are traded on the Nasdaq OMX Helsinki Oy (Helsinki Stock Exchange).

The consolidated financial statements for the financial year ending on December 31, 2009 were approved by the Board of Directors on February 19, 2010 and will be submitted to the Annual General Meeting for adoption. The Annual General Meeting has the opportunity to adopt or abstain from adopting the financial statements.

BASIS FOR PREPARATION AND ESSENTIAL ACCOUNTING PRINCIPLES

Basis for preparation

The financial statements for the period January 1-December 31, 2009 has been prepared in compliance with the International Financial Reporting Standards (IFRSs) that have been adopted by the European Union.

Essential accounting principles

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

New accounting standards and norms in effect starting in 2009:

IAS 1, "Presentation of Financial Statements"

The standard has been revised in order to provide better information for analysis and comparison of companies.

The Group is presenting its financial statements in compliance with the revised IAS 1 for the financial period that begins on January 1, 2009.

IFRS 7, "Financial Instruments: Disclosures"

The amendments are based on requiring more disclosures, among other things on how the fair value of financial instruments has been calculated and what information has been used. The Group is presenting its financial statements in compliance with the amended IFRS 7 for the financial period that begins on January 1, 2009.

IFRS 8, "Operating Segments"

The standard requires that a company provide financial and descriptive disclosures about its operating segments. IFRS 8 replaces IAS 14, "Segment Reporting". The Group is presenting its financial statements in compliance with IFRS 8 for the financial period that begins on January 1, 2009.

Improvements to International Financial Reporting Standards (2008)

The standard was published as part of the International Accounting Standards Board's (IASB's) recently introduced process whose purpose is to deal with minor amendments to existing standards, known as the annual improvements project. The Group is presenting its financial statements in compliance with the standard for the financial period that begins on January 1, 2009.

The Group is not currently affected by amendments to the following:

IFRS 2, "Share-based Payments"
IAS 23, "Borrowing Costs"
IAS 32, "Financial Instruments: Presentation" and IAS 1, "Presentation of Financial Statements" – "Puttable Financial Instruments and Obligations Arising on Liquidation"
IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39, "Financial Instruments: Recognition and Measurement" – Embedded Derivatives
IFRIC 13, "Customer Loyalty Programmes"

New accounting norms and standards that will apply starting in 2010:

Improvements to International Financial Reporting Standards (2009)
IFRS 2, "Share-based Payments"
IFRS 3, "Business Combinations"
IAS 27, "Consolidated and Separate Financial Statements"
IAS 39 Financial instrument: Recognition and Measurement" – Eligible Hedged Items
IFRIC 12, "Service Concession Arrangements"
IFRIC 15, "Agreements for the Construction of Real Estate"
IFRIC 16, "Hedges of a Net Investment in a Foreign Operation"
IFRIC 17, "Distributions of Non-cash Assets to Owners"
IFRIC 18, "Transfers of Assets from Customers"

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 Finnish 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 significant influence. When consolidating associated companies, the equity method of accounting has been used. The Group's share of the income in associated companies is shown in the income statement under "Share of profit/loss in companies consolidated according to the equity method".

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 in the equity capital of subsidiaries and minority interest in profit for the year are shown as separate items in the consolidated income statement and balance sheet. Acquisitions of minority shareholdings are recognised according to the "parent approach", which means that the difference between payment and carrying amount of the proportion of net assets that is acquired is recognised as goodwill. Divestments of minority shareholders are also recognised according to the parent approach, which means that the Group's profit/loss from the divestment is recognised in the income statement. The calculation of the Group's profit/loss also includes previously recognised goodwill, which is also regarded as having been divested.

Estimates and judgements

Preparation of financial statements in compliance with IFRSs requires the 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.

FAIR VALUE ASSESSMENT IN BUSINESS COMBINATIONS

Identifiable assets acquired, liabilities taken over and contingent liabilities in an acquisition of a company are recognised at fair value on the acquisition date.

GOODWILL IMPAIRMENT LOSS

Goodwill is tested annually for impairment by calculating whether the carrying amount is above the recoverable value. Impairment testing is performed by discounting expected future cash flows in cash-generating units. Expected future cash flows are based on cash flow estimates. 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 closing day, 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 51.

Operating segments

The Group reports operating segments in compliance with IFRS 8, which means that operating segments reflects the information received by the Executive Team. An operating segment is a group of departments and companies that supply products or services that have risks and returns that diverge from other operating segments. Intra-Group transactions occur at market prices.

Items in foreign currencies

The consolidated financial statements are prepared in euros (EUR), which is the reporting and functional currency of the Parent Company, Bank of Åland Plc. The functional currency of the Group's operations outside Finland may diverge from the Group's reporting and functional currency. The functional currency of an operation is determined on the basis of the economic environment where the operation is carried out. A foreign currency is defined as a currency other than the Group's functional currency.

Transactions in foreign currencies are recognised by Group companies at the functional exchange rate on the transaction date.

Monetary assets and liabilities in foreign currencies are translated at the exchange rate on the closing day. Translation differences from non-monetary items classified as financial assets available for sale and non-current assets are recognised directly in "Other comprehensive income". Non-monetary items that are recognised at fair value are translated according to the exchange rate when fair value was established. Otherwise non-monetary items have been translated at the exchange rate on the transaction date.

TRANSLATION OF OPERATIONS OUTSIDE FINLAND TO THE GROUP'S REPORTING CURRENCY

In the consolidated financial statements, the income statements and cash flow statements of operations outside Finland have been translated to euros according to the average exchange rates for the report period. The translation of balance sheet items to euros is performed using the exchange rates on the balance sheet date. The translation differences that arise are recognised separately in "Other comprehensive income".

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 of 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. Cost includes direct expenses attributable to the acquisition, such as expenses for the use of experts. 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.

OTHER INTANGIBLE ASSETS

Other intangible assets consist of computer systems and renovations in rented premises and are recognised in the balance sheet at cost less amortisation and impairment losses.

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 IFRSs.

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.

OTHER TANGIBLE ASSETS

Other tangible assets consist of machinery and equipment, vehicles and an art collection. Other tangible assets are carried in the balance sheet at cost minus depreciation and impairment losses. Any divestment gains/losses and disposals are recognised in income/expenses.

Impairment loss on tangible and intangible 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. Except for goodwill, 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
Renovation in rented premises	4–10 years
Machinery and equipment	3–10 years
Computer systems developed in-house	3–5 years
External computer systems	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 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.

Provisions

A provision is recognised when the Group has a present obligation as a result of a past event, when it is probable that an outflow of resources in the form of economic benefits will be required to settle the obligation and when a reliable estimate of the amount can be made.

Provisions to the restructuring reserve are recognised in the balance sheet among other accrued expenses when the Group has adopted a detailed formal restructuring plan and the restructuring has either begun or been publicly announced.

Onerous contracts are recognised when the expected economic benefits received from a contract are lower than the unavoidable costs of meeting the obligations of the contract.

Financial instruments

DETERMINATION OF FAIR VALUE

The fair value of financial instruments that are traded in an active market, for example financial assets and financial liabilities held for trading as well as financial assets available for sale, is based on market price quotations.

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 category includes all financial assets and liabilities that are held to provide a short-term return. This category 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 and changes in fair value will be recognised in the income statement under "Net income from securities transactions and foreign exchange dealing".

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 measurement 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". Day one profits, that is, profits that arise from immediate value assessment of new contracts and that are thus not due to fluctuations in interest rates or creditworthiness, are included in the fair value option and are thus recognised as revenue through the fair value option.

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 closing day, 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 loss on an investment is recognised after individual examination.

Financial assets available for sale

The assets in this group are initially recognised in the balance sheet at cost and subsequently carried at fair value. The change in value is recognised in "Other comprehensive income". When such an asset is divested, the change in value is derecognised from the

reserve to the income statement in a separate item, "Net income from financial assets available for sale". Impairment losses are recognised in the income statement.

Cash and cash equivalents

"Cash and cash equivalents" refers to cash and deposits in the Finnish and Swedish central banks that may be used freely. In the cash flow statement, "Cash and cash equivalents" also refers to 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.

Other financial liabilities

Other financial liabilities are recognised in the balance sheet upon commencement of the contract at cost and subsequently at amortised 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 recognised at an amount defined on the basis of IAS 37, or 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 in Finland has been arranged partly through the Finnish national pension system and partly via a pension fund (Ålandsbanken Abp:s Pensionsstiftelse, a so-called A Fund). Pension coverage for employees in Sweden has been arranged through the pension company SPP. The Group's Swedish companies report this as a defined contribution solution, i.e. no liability calculation shall be made according to IRFS regulations. The purpose of Ålandsbanken Abp:s Pensionsstiftelse 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 exceed 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's pension fund, Ålandsbanken Abp:s Pensionsstiftelse r.s., has been closed to new members since June 30, 1991.

After the end of the employment period, there are no further 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 regulations, 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 upper supplementary capital. Equity capital that arose from valuation of real estate according to the exemption rule in IFRS 1 is included in upper supplementary capital.

2. Operating segments	Dec 31, 2009				
EUR M	Finland	Sweden	Crosskey	Eliminations	Total
Deposits, lending and portfolio management	35,294	1,487	21	27	36,829
of which impairment losses, loans	-2,741	-191	0	0	-2,932
Capital market products/services	15,116	9,991	0	0	25,107
Other income	6,997	3,453	25,827	-13,692	22,585
Staff costs	-21,178	-14,415	-10,847	0	-46,439
Other expenses	-17,475	-7,794	-9,840	9,978	-25,131
Depreciation/amortisation	-4,683	-702	-948	748	-5,584
Negative goodwill	23,134	0	0	0	23,134
Net operating profit	37,207	-7,980	4,213	-2,939	30,501
Assets	2,870,222	544,821	10,610	-46,344	3,379,308
Liabilities	2,725,540	490,451	5,785	-4,667	3,217,109
Equity capital	144,682	54,370	4,825	-41,677	162,199
Increases in tangible and non-tangible assets	9,917	790	1,077	-2,754	9,030
Interest income from the public and public sector entities					
Financial enterprises	18,945	2,944	0	0	21,889
Households					0
Residential	30,777	125	0	0	30,902
Other	11,899	315	0	0	12,214
Miscellaneous	547	1,436	0	0	1,983
	62,168	4,820	0	0	66,988

The Bank of Åland Group reports operating segments in compliance with IFRS 8, which means that operating segments reflect the information that the Group's Executive Team receives. The Finland segment includes the Bank of Åland Plc, Ab Compass Card Oy Ltd, Ålandsbanken Asset Management Ab, Ålandsbanken Equities Ab, Ålandsbanken Equities Research Ab, Ålandsbanken Fondbolag Ab and Ålandsbanken Veranta Ab. The Sweden segment includes Ålandsbanken Sverige AB, Ålandsbanken Fonder AB and Alpha Management Company S.A. The Crosskey segment includes Crosskey Banking Solutions Ab and S-Crosskey Ab. In each operating segment, "Other staff costs" are recognised as staff costs while in the external financial statements they are recognised as "Other administrative expenses" and IT depreciation/amortisation is recognised as "Other expenses" while in the external financial statements they are recognised as "Depreciation/amortisation". Disclosures based on geographic location do not diverge substantially from the allocation presented.

	Dec 31, 2008				
EUR M	Finland	Sweden	Crosskey	Eliminations	Total
Deposits, lending and portfolio management	44,306	0	0	-86	44,220
of which impairment losses, loans	-2,314	0	0	0	-2,314
Capital market products/services	11,390	0	0	0	11,390
Other income	5,130	0	21,871	-10,560	16,440
Staff costs	-20,374	0	-9,389	0	-29,763
Other expenses	-16,014	0	-11,044	9,741	-17,317
Depreciation/amortisation	-4,733	0	-733	518	-4,949
Negative goodwill	0	0	0	0	0
Net operating profit	19,703	0	705	-387	20,022
Assets	2,768,858	0	7,920	-7,047	2,769,731
Liabilities	2,628,830	0	4,314	-1,908	2,631,236
Equity capital	140,028	0	3,606	-5,139	138,495
Increases in tangible and non-tangible assets	17,212	0	1,464	-2,003	16,672
Interest income from the public and public sector entities					
Financial enterprises	34,845	0	0	0	34,845
Households					
Residential	59,906	0	0	0	59,906
Other	20,222	0	0	0	20,222
Miscellaneous	1,330	0	0	0	1,330
	116,303	0	0	0	116,303

Notes to the statement of financial position

3. Holdings of debt securities	2009			2008		
	Listed	Other	Total	Listed	Other	Total
Debt securities eligible for refinancing						
Instruments held to maturity						
Treasury bonds	71,918	0	71,918	75,139	0	75,139
Central bank bonds	22,976	0	22,976	0	0	0
Other debt securities	25,187	0	25,187	0	0	0
Instruments available for sale						
Treasury bills	0	0	0	0	19,895	19,895
Treasury bonds	46,917	0	46,917	46,880	0	46,880
Other debt securities	9,124	0	9,124	3,812	0	3,812
Instruments held for trading						
Treasury bills	9,752	0	9,752	0	0	0
	185,873	0	185,873	125,831	19,895	145,726
Other debt securities						
Instruments available for sale						
Certificates of deposit	0	59,865	59,865	0	124,406	124,406
Commercial paper	0	0	0	0	6,539	6,539
Other	0	10	10	284	10	294
Instruments held for trading						
Certificates of deposit	0	9,684	9,684	0	0	0
Other	118,684	0	118,684	0	0	0
	118,684	69,559	188,243	284	130,954	131,238

4. Claims on credit institutions	2009			2008		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Finnish credit institutions	45,510	17,378	62,888	52	20,778	20,830
Foreign credit institutions	137,319	63,313	200,632	4,929	97,400	102,329
	182,829	80,691	263,520	4,980	118,179	123,159

5. Claims on the public and public sector entities	2009	2008
Financial enterprises	720,506	600,895
Public sector	8,954	10,035
Households	1,687,648	1,474,283
Non-profit organisations, household sector	14,543	13,697
Foreign	114,149	94,300
Total	2,545,800	2,193,210
Of which subordinated claims	550	432
Of which non-interest-bearing claims	550	432
Impairment losses		
Individual impairment losses recognised during the year	1,469	1,362
Individual impairment losses reversed during the year	-37	-48
Group impairment losses	1,500	1,000
Total impairment losses	2,932	2,314

"Foreign" refers to lending outside the Group's home market.

6. Impairment losses on loans and trade receivables	2009		2008	
	Individual	Group	Individual	Group
Balance, January 1	3,440	1,000	2,096	0
Acquired balance	417	0	0	0
New and increased impairment losses	450	1,500	939	1,000
Reversals of impairment losses	-122	0	0	0
Actual losses/reversals	1,104	0	376	0
Recognised in income statement	1,432	1,500	1,314	1,000
Direct impairment losses/reversals	-1,543	0	29	0
Balance, December 31	3,745	2,500	3,440	1,000

7. Shares and participations	2009			2008		
	Listed	Other	Total	Listed	Other	Total
Shares and participations						
Held for trading	436	20,788	21,224	0	0	0
Available for sale	249	1,564	1,812	1,167	1,675	2,843
Shares and participations in associated companies	0	1,489	1,489	0	1,493	1,493

There are no holdings in other credit institutions.

8. Derivative instruments	2009		2008	
	Fair value		Fair value	
	Positive	Negative	Positive	Negative
Interest rate derivatives				
Interest rate swaps	5,405	7,117	5,992	4,539
Interest rate options				
Purchased	148	0	0	0
Sold	0	148	0	0
Currency derivatives				
Forward contracts	465	495	1,212	1,308
Interest rate and currency swaps	406	18	460	0
Equity derivatives				
Option contracts				
Purchased	13,221	0	7,548	0
	19,645	7,779	15,213	5,847

The equity derivatives that were purchased hedge option structures that are embedded in bonds issued to the public.

Nominal value of underlying asset by remaining maturity:

	2009				2008			
	Under 1 yr	1–5 yrs	Over 5 yrs	Total	Under 1 yr	1–5 yrs	Over 5 yrr	Total
Interest rate derivatives								
Interest rate swaps	120,224	333,231	58,422	511,876	107,054	319,674	57,113	483,846
Interest rate options								
Purchased	7,657	50,242	634	58,533	0	0	0	0
Sold	7,657	50,242	634	58,533	0	0	0	0
Currency derivatives								
Forward contracts	60,278	20,099	0	80,376	25,752	3,974	0	29,726
Interest rate and currency swaps	4,457	0	0	4,457	2,720	0	0	2,720
Equity derivatives								
Option contracts								
Purchased	37,033	138,061	0	175,094	48,742	97,403	0	146,145
	237,306	591,874	59,690	888,870	184,267	421,056	57,113	662,436

9. Intangible assets	2009	2008
IT investments	5,049	3,024
Ongoing IT investments	49	402
Goodwill	1,373	1,373
Other	7	19
	6,478	4,819
Of which internally generated IT investments		
Gross carrying amount	4,496	2,725
Accumulated amortisation	-1,439	-1,125
	3,058	1,600

10. Properties and shares and participations in real estate companies	2009	2008
Investment properties		
Land and water	441	441
Buildings	1,280	1,914
Shares in real estate companies	222	233
	1,942	2,588
Properties for the Group's own use		
Land and water	2,338	2,340
Buildings	23,378	20,555
	25,716	22,895

11. Changes in intangible and tangible assets	2009					
	Land and buildings for own use	Investment properties	Other tangible assets	Goodwill	Other tangible assets	Total
Historical costs						
Cost on January 1	21,586	2,946	23,800	1,440	10,211	59,983
Deemed cost in compliance with IFRS 1	12,834	0	0	0	0	12,834
Acquired balance	0	0	10,821	0	0	10,821
Increases during the year	3,744	0	1,663	0	3,623	9,030
Decreases during the year	-180	-639	-1,614	0	-354	-2,787
Transfers between items	384	0	0	0	-384	0
Cost on December 31	38,367	2,307	34,670	1,440	13,096	89,880
Accumulated depreciation/amortisation						
Accumulated depreciation/amortisation/ impairment losses on January 1	-11,524	-357	-13,287	-67	-6,766	-32,001
Acquired balance	0	0	-8,029	0	0	-8,029
Accumulated depreciation/amortisation concerning decreases	0	0	773	0	0	773
Depreciation/amortisation for the year	-1,127	-8	-4,005	0	-1,107	-6,246
Impairment loss for the year	0	0	0	0	-119	-119
Accumulated depreciation/amortisation/ impairment losses on December 31	-12,651	-365	-24,548	-67	-7,991	-45,622
Carrying amount on December 31	25,716	1,942	10,122	1,373	5,105	44,257

	2008					
	Land and buildings for own use	Investment properties	Other tangible assets	Goodwill	Other tangible assets	Total
Historical costs						
Cost on January 1	14,228	3,048	17,111	1,405	9,772	45,564
Deemed cost in compliance with IFRS 1	12,834	0	0	0	0	12,834
Increases during the year	6,140	0	7,341	34	3,156	16,672
Decreases during the year	-683	-103	-652	0	-815	-2,253
Transfers between items	1,902	0	0	0	-1,902	0
Cost on December 31	34,419	2,946	23,800	1,440	10,211	72,816
Accumulated depreciation/amortisation						
Accumulated depreciation/amortisation/ impairment losses on January 1	-10,688	-354	-9,967	-0	-5,586	-26,596
Accumulated depreciation/amortisation concerning decreases	201	8	281	-67	28	451
Depreciation/amortisation for the year	-1,038	-10	-3,600	0	-1,207	-5,856
Impairment losses for the year	0	0	0	0	0	0
Accumulated depreciation/amortisation/ impairment losses on December 31	-11,524	-357	-13,287	-67	-6,766	-32,001
Carrying amount on December 31	22,895	2,588	10,513	1,373	3,446	40,815

12. Other assets	2009	2008
Cash items in the process of collection	31	26
Other	49,835	11,027
Total	49,866	11,053

13. Accrued income and prepayments	2009	2008
Interest	10,471	15,601
Taxes	2,050	1,710
Other	9,722	7,407
Total	22,243	24,717

14. Deferred tax assets and liabilities	2009	2008
Deferred tax assets		
Accrual differences	58	32
Other temporary differences	2,149	1,237
	2,207	1,269
Deferred tax liabilities		
Temporary differences	20,757	18,801
From the fair value reserve	649	587
Total	21,406	19,387

Actual losses from prior years including 2009 losses amounted to EUR 69,798,000 which meant a deferred tax asset of EUR 18,147,000. This asset was not reported in the balance sheet.

15. Debt securities issued to the public	2009		2008	
	Carrying amount	Nominal amount	Carrying amount	Nominal amount
Certificates of deposit	205,241	205,760	166,711	168,101
Bonds	537,563	534,973	498,363	501,174
Total	742,804	740,733	665,074	669,275

16. Other liabilities	2009	2008
Cash items in the process of collection	16,113	18,185
Provisions	2,749	0
Other	37,853	22,529
Total	56,715	40,715

17. Accrued expenses and prepaid income	2009	2008
Interest	4,664	12,219
Taxes	448	7
Other	21,633	6,200
Total	26,745	18,426

18. Subordinated debentures	2009			2008		
	Carrying amount	Nominal amount	Amount in capital base	Carrying amount	Nominal amount	Amount in capital base
Debenture loan 1999	0	0	0	10,000	10,000	0
Debenture loan 2/2004	0	0	0	14,414	14,414	14,414
Debenture loan 2/2005	9,306	9,306	9,306	9,347	9,347	9,347
Debenture loan 2/2006	8,352,	8,352	8,352	8,551	8,551	8,551
Debenture loan 1/2009	16,937	16,937	16,937	0	0	0
Debenture loan 2/2009	17,012	17,012	17,012	0	0	0
Other subordinated liabilities	6,968	6,968	6,968	10,916	10,916	10,916
	58,575	58,575	58,575	53,228	53,228	43,228

	Interest rate:	Repayment:
Debenture loan 1999	3-month EURIBOR +1,94%	Repaid January 15, 2009
Debenture loan 2/2004	12-month EURIBOR +0,50%, starting June 4, 2009 12-month EURIBOR +2,00%	June 4, 2014
Debenture loan 2/2005	12-month EURIBOR +0,40%, starting May 17, 2010 12-month EURIBOR +2.00%	May 17, 2015
Debenture loan 2/2006	12-month EURIBOR +0,30%, starting June 1, 2011 12-month EURIBOR +2,00%	June 1, 2016
Debenture loan 1/2009	4% fixed interest, starting January 16, 2014 12-month EURIBOR +2,00%	January 15, 2019
Debenture loan 2/2009	3.15% fixed interest	June 3, 2014

All subordinated liabilities are included in lower supplementary capital. The loans may be repurchased in advance, but this is possible only with the permission of the Finnish Financial Supervision Authority. In case the Bank is dissolved, the loans are subordinate to the Bank's other obligations.

19. Maturity breakdown of claims and liabilities	2009				
	Total	Under 3 mo	3 – 12 mo	1 – 5 yrs	Over 5 yrs
Claims					
Debt securities eligible for refinancing w/central banks	185,873	10,734	4,440	170,700	0
Credit institutions and central banks	285,786	285,786	0	0	0
The public and public sector entities	2,545,800	387,146	309,533	986,327	862,793
Other debt securities	188,243	50,375	109,915	27,953	0
	3,205,702	734,041	423,888	1,184,979	862,793
Liabilities					
Credit institutions and central banks	262,846	25,546	207,300	30,000	0
The public and public sector entities	2,040,239	1,851,845	145,413	42,981	0
Debt instruments issued to the public	742,804	125,570	260,591	356,644	0
Subordinated liabilities	58,575	0	5,408	15,637	37,531
	3,104,464	2,002,960	618,712	445,262	37,531

	2008				
	Total	Under 3 mo	3 – 12 mo	1 – 5 yrs	Over 5 yrs
Claims					
Debt securities eligible for refinancing w/central banks	145,726	11,876	18,361	113,172	2,317
Credit institutions and central banks	123,159	123,159	0	0	0
The public and public sector entities	2,193,210	254,103	214,308	798,900	925,900
Other debt securities	131,238	111,797	9,850	9,590	0
	2,593,334	500,936	242,519	921,662	928,217
Liabilities					
Credit institutions and central banks	70,619	33,800	16,819	20,000	0
The public and public sector entities	1,757,939	1,590,458	165,599	1,882	0
Debt instruments issued to the public	665,074	148,614	179,302	337,158	0
Subordinated liabilities	53,228	10,000	3,244	4,480	35,504
	2,546,861	1,782,873	364,964	363,520	35,504

20. Assets and liabilities in euro and other currencies

	2009			2008		
	Euro	Other currencies	Total	Euro	Other currencies	Total
Claims on credit institutions	58,548	204,973	263,520	51,092	72,068	123,159
Claims on the public and public sector entities	2,329,080	216,720	2,545,800	2,171,388	21,822	2,193,210
Debt securities	243,389	130,727	374,116	274,107	2,857	276,964
Derivative instruments	18,141	1,504	19,645	13,541	1,672	15,213
Other assets including cash	123,758	52,469	176,228	157,284	3,901	161,185
Total	2,772,916	606,392	3,379,308	2,667,411	102,320	2,769,731
Liabilities to credit institutions	135,212	127,635	262,846	69,583	1,036	70,619
Liabilities to the public and public sector entities	1,618,667	421,571	2,040,239	1,662,701	95,239	1,757,939
Debt instruments issued to the public	737,975	4,829	742,804	665,074	0	665,074
Derivative instruments and liabilities held for trading	5,814	1,965,	7,,779	4,539	1,308	5,847
Subordinated liabilities	58,575	0	58,575	53,228	0	53,228
Other liabilities	75,581	29,284	104,866	77,711	818	78,529
	2,631,824	585,285	3,217,109	2,532,836	98,400	2,631,236

21. Assets and liabilities by categories

	2009						
		Financial instruments					
	Loans and trade receivables	held to maturity	held for trading	at fair value	available for saile	Non-financial instruments	Total
Assets							
Cash	33,129	0					33,129
Debt securities eligible for refinancing with central banks	0	120,059	9,752	0	56,062		185,873
Claims on credit institutions	263,520	0	0	0	0		263,520
Claims on the public and public sector entities	2,360,053	0	0	185,747	0		2,545,800
Debt securities	0	0	128,353	0	59,890		188,243
Share and participations	0	0	0	20,149	2,887		23,036
Shares and participations in associated companies	0	0	0	0	1,489		1,489
Derivative instruments	0	0	0	19,645	0		19,645
Intangible assets	0	0	0	0	0	6,478	6,478
Tangible assets	0	0	0	0	0	37,780	37,780
Other assets	0	0	0	0	0	49,866	49,866
Accrued income and prepayments	0	0	0	0	0	22,243	22,243
Deferred tax assets	0	0	0	0	0	2,207	2,207
	2,656,702	120,059	138,105	225,541	120,327	118,574	3,379,308

	2009			
	Financial liabilities at accrued cost	Financial liabilities at fair value	Non-financial liabilities	Total
Liabilities and equity capital				
Liabilities to credit institutions and central banks	262,846	0	0	262,846
Liabilities to the public and public sector entities	2,039,596	642	0	2,040,239
Debt securities issued to the public	571,291	171,513	0	742,804
Derivative instruments and other liabilities held for trading	0	7,779	0	7,779
Other liabilities	0	0	56,715	56,715
Accrued expenses and prepaid income	0	0	26,745	26,745
Subordinated liabilities	58,575	0	0	58,575
Deferred tax liabilities	0	0	21,406	21,406
	2,932,308	179,935	104,866	3,217,109

22. Fair value and carrying amount of assets and liabilities

	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash	33,129	33,129	78,995	78,995
Debt securities eligible for refinancing with central banks				
Available for sale	56,041	56,041	70,587	70,587
Intended to be held to maturity	120,081	124,094	75,139	72,324
Held for trading	9,752	9,752	0	0
Claims on credit institutions	263,520	263,520	123,159	123,159
Claims on the public and public sector entities				
Carried at fair value	185,747	185,747	147,082	147,082
Other	2,360,053	2,362,845	2,046,128	2,042,584
Debt securities	188,243	188,243	131,238	131,238
Shares and participations	23,036	23,036	2,843	2,843
Shares and participations in associated companies	1,489	1,489	1,493	1,493
Shares and participations in Group companies	0	0	0	0
Derivative instruments	19,645	19,645	15,213	15,213
Intangible assets	6,478	6,478	4,961	4,961
Tangible assets				
Investment properties	1,942	3,933	2,588	4,407
Properties for own use	25,716	27,911	22,753	24,674
Other tangible assets	10,122	10,512	10,513	10,911
Other assets	49,866	49,866	11,053	11,053
Accrued income and prepayments	22,243	22,243	24,717	24,717
Deferred tax assets	2,207	2,207	1,269	1,269
	3,379,308	3,396,291	2,769,731	2,767,510
Liabilities and equity capital				
Liabilities to credit institutions and central banks	262,846	262,739	70,619	69,428
Liabilities to the public and public sector entities				
Carried at fair value	642	642	6,504	6,504
Other	2,039,596	2,040,210	1,751,436	1,751,556
Debt instruments issued to the public				
Carried at fair value	171,513	171,513	175,016	175,016
Other	571,291	570,587	490,059	496,577
Derivative instruments	7,779	7,779	5,847	5,847
Other liabilities	56,715	56,715	40,715	40,715
Accrued expenses and prepaid income	26,745	26,745	18,426	18,426
Subordinated liabilities	58,575	58,932	53,228	55,829
Deferred tax liabilities	21,406	21,406	19,387	19,387
	3,217,109	3,217,268	2,631,236	2,639,284

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 capital. The appraisal of real estate was performed 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.

23. Financial assets and liabilities by categories	2009			
	Category 1	Category 2	Category 3	Total
Financial assets				
Cash	0	33,129	0	33,129
Debt securities eligible for refinancing with central banks	189,824	0	0	189,824
Claims on credit institutions	0	263,520	0	263,520
Claims on the public and public sector entities	0	2,548,592	0	2,548,592
Other debt securities	128,378	59,864	0	188,243
Shares and participations	21,472	0	1,564	23,036
Shares and participations in associated companies	0	0	1,489	1,489
Derivative instruments	0	19,645	0	19,645
	339,675	2,924,750	3,053	3,267,478
Financial liabilities				
Liabilities to credit institutions and central banks	0	262,739	0	262,739
Liabilities to the public and public sector entities	0	2,040,852	0	2,040,852
Debt securities issued to the public	0	742,100	0	742,100
Derivative instruments	0	7,779	0	7,779
Subordinated liabilities	0	58,932	0	58,932
	0	3,112,402	0	3,112,402

Category 1	Appraised according to market quotations in an active market for identical assets/liabilities.
Category 2	Appraised on the basis of indirect or direct prices not included in Category 1.
Category 3	Appraised without observable market data.

24. Loans and trade receivables at fair value	2009	2008
Nominal value	179,180	142,479
Change in fair value	6,208	4,317
Change in credit risk	358	285
Total	185,747	147,081

Loans and trade receivables carried at fair value on December 31, 2009 were EUR 6,566,327 lower than the nominal amount at maturity. On December 31, 2009, changes in credit risk had affected the accumulated value of change in fair value by EUR 765,537. The change in credit risk is calculated on the basis of an assumption about credit losses adopted by the Executive Team in conjunction with its budget work.

25. Financial liabilities at fair value	2009	2008
Liabilities to the public and public sector entities		
Carried at fair value		
Nominal value	622	5,036
Change in fair value	21	38
Change in credit risk	-1	-5
	642	5,069
Other	2,038,756	1,752,870
Total	2,039,398	1,757,939
Debt securities issued to the public		
Carried at fair value		
Nominal value	172,451	176,472
Change in fair value	-1,110	-1,633
Change in credit risk	172	176
	171,513	175,016
Other	571,291	490,059
Total	742,804	665,074

Financial liabilities carried at fair value on December 31, 2009 were EUR 917,088 higher than the nominal amount at maturity. On December 31, 2009, changes in credit risk had affected the accumulated amount of change in fair value by EUR 675,065. The change in credit risk is calculated on the basis of comparable items in 2006 – 2009.

26. Fair value option

	2009				2008		
	Opening bal. Jan 1, 2009	Acquired balance	Change for the year	Closing bal. Dec 31, 2009	Opening bal. Jan 1, 2008	Change for the year	Closing bal. Dec 31, 2008
Balance sheet							
Lending to the public	4,602	1,944	20	6,566	-2,601	7,203	4,602
Derivative instruments	2,976	0	1,307	4,282	-2,542	5,517	2,976
Liabilities to the public	-33	0	54	21	99	-66	-33
Debt securities issued to the public	1,456	0	-518	938	6,551	-5,094	1,456
Derivative instruments	-3,761	-2,950	130	-6,580	4,056	-7,817	-3,761
Profit brought forward	4,220	0	735	4,955	4,410	-190	4,220
Deferred tax liabilities	522	0	115	637	1,053	-531	522
Income statement							
Net income from securities trading			993			-257	
Change in deferred tax liabilities			115			-531	
Taxes			-374			598	
Profit for the year			735			-190	

The lending portion of groups originally classified as carried at fair value in the fair value option may be repaid in advance, and then the other components in the fair value option remain. The interest rate risk that arises is covered by new interest rate swaps that are carried at fair value in the trading portfolio and are thus not included in the fair value option portfolio.

27. Share capital

The share capital of the Bank of Åland is EUR 23,282,837.26. 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 6,355,212 Series B shares. Each Series A share represents twenty (20) votes at shareholders' meetings and each Series B share one (1) vote. The Articles of Association stipulate that no representative at a shareholders' meeting may vote for more than one fortieth of the number of votes represented at the meeting. Series B shares enjoy priority over Series B sharers for dividends of up to six (6) percent of their previous nominal value.

Changes in share capital	Share capital, EUR	Series A shares, number	Series B shares, number
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
2007	23,282,837.26	5,180,910	6,355,212
2008	23,282,837.26	5,180,910	6,355,212
2009	23,282,837.26	5,180,910	6,355,212

The ten largest shareholders, December 31, 2009:
The list also includes shareholders' Group companies and shareholder-controlled companies.

	Shareholders	Series A shares	Series B shares	Total number of shares	% of shares	% of votes
1	The Aktia Group	113,800	994,363	1,108,163	9.61	2.97
2	Alandia-Bolagen	733,886	325,145	1,059,031	9.18	13.64
3	Ålands Ömsesidiga Försäkringsbolag	612,331	111,960	724,291	6.28	11.24
4	Wiklöf, Anders	581,189	90,408	671,597	5.82	10.65
5	Mattsson, Rafael estate	274,606	15,638	290,244	2.52	5.01
6	Pensionsförsäkringsaktiebolaget Veritas	98,934	132,763	231,697	2.01	1.92
7	Caelum Oy	65,340	156,800	222,140	1.93	1.33
8	Palkkiyhtymä Oy	70,000	86,000	156,000	1.35	1.35
9	Kamprad, Ingvar	0	135,000	135,000	1.17	0.12
10	Investmentbolaget Torggatan 14 Ab	92,348	34,974	127,322	1.10	1.71
10	Järsö Invest Ab	92,348	34,974	127,322	1.10	1.71

28. Fair value reserve

	2009			2008		
	Positive figures	Negative figures	Total	Positive figures	Negative figures	Total
Debt securities	2,478	-20	2,458	2,173	-45	2,128
Shares	392	-355	37	478	-350	128
Total	2,870	-375	2495	2,651	-395	2,256
Deferred tax liability			-649			-586
Fair value reserve			1,847			1,669

29. Retained earnings	2009	2008
Non-distributable		
Share of accumulated appropriations	39,199	34,759
Share of difference between fair value of assets and pension liabilities in the pension fund	4,503	4,575
	43,702	39,335
Distributable	30,278	14,248
	73,980	53,583

Notes to the statement of comprehensive income

30. Interest income	2009	2008
Credit institutions and central banks	2,343	8,515
Public and public sector entities	66,989	116,302
Debt securities	8,669	11,100
Derivative instruments	1,708	109
Other interest income	216	24
Total	79,925	136,050

31. Interest expenses	2009	2008
Credit institutions and central banks	2,120	3,000
Public and public sector entities	21,311	55,164
Debt instruments issued to the public	13,852	32,765
Derivative instruments	1,406	54
Subordinated liabilities	1,972	2,939
Other interest expenses	134	48
Total	40,795	93,970

32. Income from equity instruments	2009	2008
Financial assets available for sale	36	31
Group companies	0	0
Associated companies	0	0
Total	36	31

33. Commission income	2009	2008
Deposit commissions	885	844
Lending commissions	3,319	2,380
Payment intermediation commissions	3,701	2,665
Mutual fund unit commissions	5,222	3,464
Management commissions	5,128	1,894
Securities commissions	11,569	5,755
Underwriting commissions	35	0
Insurance commissions	118	96
Legal services	374	342
Guarantee commissions	191	198
Other commissions	1,924	962
Total	32,463	18,600

34. Commission expenses	2009	2008
Service charges paid	956	422
Övrigt	3,477	1,786
Total	4,433	2,208

35. Net income from securities trading and foreign exchange operation

	2009			2008		
	Net capital gains and losses	Net changes in fair value	Total	Net capital gains and losses	Net changes in fair value	Total
Debt securities	-71	-211	-282	0	0	0
Shares and participations	-1,816	2,687	871	1,069	0	1,069
Fair value option	0	-655	-655	0	2,042	2,042
Derivative instruments	3,308	-1,080	2,228	-2	-758	-760
Securities trading	1,422	740	2,162	1,067	1,284	2,352
Foreign exchange operations	3,482	-1,689	1,793	973	-15	958
	4,904	-949	3,955	2,041	1,269	3,310

36. Net income from financial assets available for sale

	2009	2008
Capital gains	458	37
Impairment losses	-7	-143
Total	451	-106

37. Net income from investment properties

	2009	2008
Rental income	99	175
Rental expenses	-52	-52
Depreciation	-38	-3
Capital gains/losses	215	56
Other expenses	2	-28
Total	226	148

38. Other operating income

	2009	2008
Rental income on properties	111	99
Capital gains on properties	48	251
Other property income	10	0
IT income	13,152	11,256
Other income	2,065	783
Total	15,388	12,390

39. Other administrative expenses

	2009	2008
Staff costs	1,709	1,260
Office costs	973	951
IT costs	8,369	4,333
Communication	2,594	1,794
Marketing	2,710	2,280
Miscellaneous	381	346
Total	16,736	10,965

40. Other operating expenses

	2009	2008
Rental expenses	2,650	2,350
Other property expenses	723	649
Fee to security funds	843	540
Miscellaneous expenses	7,212	3,899
Total	11,429	7,438

41. Impairment losses on loans and other commitments

	2009	2008
Individual impairment losses	1,469	1,362
Group impairment losses	1,500	1,000
Reversals	-37	-48
Total	2,932	2,314

Interest recognised on impaired receivables according to original interest amounted to EUR 132,425.

42. Income taxes	2009	2008
Net operating income	30,501	20,022
Tax-exempt income	-25,212	-236
Non-deductible expenses	1,472	140
Non-deductible losses	7,426	1,128
Net profit from associated companies	-,178	-208
Taxable profit	14,008	20,846
Tax, 26%	3,642	5,420
Taxes from prior years	30	-31
Taxes in income statement	3,671	5,390

43. Income, expenditure, profit and loss	2009					
	From interest		From valuations		From selling/ divestment/ contract	
	Revenue	Expense	Fair value	Impairment		Total
Financial assets at fair value						
For trading purposes	2,257	3,142	5,793	0	523	11,714
Others (fair value option)	6,465	0	1,014	0	0	7,479
Investments held to maturity	3,993	0	0	0	0	3,993
Loans and trading receivables	69,344	0	-1,124	-1,564	0	66,656
Financial assets available for sale						
Of which in income statement	5,298	0	0	0	451	5,750
Of which in balance sheet	0	0	0	0	0	0
Financial liabilities at fair value						
For trading purposes	0	0	-7,605	0	0	-7,605
Others (fair value option)	0	5,932	573	0	0	6,504
Financial liabilities at accrued cost	0	35,355	0	0	0	35,355
	87,357	44,429	-1,350	-1,564	974	129,846

	2008					
	From interest		From valuations		From selling/ divestment/ contract	
	Revenue	Expense	Fair value	Impairment		Total
Financial assets at fair value						
For trading purposes	0	0	-18,833	0	1,069	-17,764
Others (fair value option)	6,634	0	7,203	0	0	13,837
Investments held to maturity	2,996	0	0	0	0	2,996
Loans and trading receivables	118,317	0	0	-1,890	0	116,426
Financial assets available for sale						
Of which in income statement	8,103	0	0	0	-106	7,998
Of which in balance sheet	0	0	0	0	0	0
Financial liabilities at fair value						
For trading purposes	0	0	19,048	0	0	19,048
Others (fair value option)	0	15,636	5,160	0	0	20,796
Financial liabilities at accrued cost	0	78,334	0	0	0	78,334
	136,050	93,970	12,578	-1,890	964	241,671

44. Earnings per share	2009		2008	
Earnings per share before dilution, EUR				
Profit for the year / Average number of shares	26,165,464 / 11,536,122	= 2.27	14,027,190 / 11,536,122	= 1.22
Earnings per share after dilution, EUR				
Profit for the year / Average number of shares + shares outstanding	26,165,464 / 11,536,122	= 2.27	14,027,190 / 11,536,122	= 1.22

Notes concerning staff, Board of Directors and Executive Team

45. Number of employees	2009		2008	
	Average employees	Change	Average employees	Change
Permanent full-time employees	640	+203	437	+19
Permanent part-time employees	132	+20	112	+6
	772	+223	549	+25

46. Salaries/fees paid to Board and Executive Team	2009	2008
Members of the Board of Directors	184	137
Managing Directors	1,213	918
Deputy Managing Directors	539	329
Other members of the Executive Team	710	698

The amount includes the value of fringe benefits. In addition to Board fee, EUR 17,000 was paid to Board member Agneta Karlsson as compensation for consulting assignments for the Group. 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.

47. Fees paid to auditors	2009	2008
Auditing fees paid	396	112
Consulting fees paid	352	80
Totalt	748	192

These amounts include value-added tax (VAT).

48. Private holdings of the Board of Directors and the Executive Team in the Bank of Åland Plc					
	2009				
	Series A shares	Series B shares	Total shares	% of shares	% of votes
Board of Directors					
Lindholm, Göran	1,861	1,309	3,170	0.03	0.04
Boman, Sven-Harry	55	524	579	0.01	0.00
Janér, Kent	-	-	-	0.00	0.00
Karlsson, Agneta	40	28	68	0.00	0.00
Nordlund, Leif	72	18	90	0.00	0.00
Taberman, Teppo	-	-	-	0.00	0.00
Wiklöf, Anders	231,506	89,504	321,010	2.78	4.29
Total	233,534	91,383	324,917	2.82	4.33
Executive Team					
Wiklöf, Peter	-	-	-	0.00	0.00
Rosenholm, Johnny	-	-	-	0.00	0.00
Erikslund, Tove	-	-	-	0.00	0.00
Michelsson, Peter	-	-	-	0.00	0.00
Vickström, Edgar	-	-	-	0.00	0.00
Woivalin, Dan-Erik	-	-	-	0.00	0.00
Westerén, Tom	-	-	-	0.00	0.00
Total	-	-	-	0.00	0.00

49. Financial transactions with related parties	2009		2008	
	Board and Executive Team	Related companies	Board and Executive Team	Related companies
Loans				
Loans outstanding, January 1	2,989	8,998	2,930	9,617
Taken out during the year	571	5,399	175	31
Principal paid during the year	-403	-970	-115	-650
Loans outstanding, December 31	3,157	13,427	2,989	8,998
Interest income	125	95	148	214
Deposit accounts				
Deposit accounts, January 1	253	3,159	928	3,443
Deposit accounts, December 31	473	2,821	253	3,159
Interest expenses	5	24	11	211
Other commissions and fees	0	12	0	9

"Board and Executive Team" includes individuals on the Board of Directors and Executive Team of the Bank of Åland Plc as well as their respective spouse and minor children. "Related companies" refers to companies in which individuals on the Board of Directors or Executive Team of the Bank of Åland Plc 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 250,000 with accepted collateral. The employee interest rate is set by the Executive Team and amounted to 1.5 per cent on December 31, 2009. All transactions with related parties have occurred on commercial terms.

Notes concerning assets pledged and contingent liabilities

50. Collateral provided	2009		2008	
	Nominal value of debt	Carrying amount of collateral	Nominal value of debt	Carrying amount of collateral
For debts to credit institutions and central banks	198,113	215,535	30,000	51,772
For other debts	9,750	9,750	0	0
For unutilised limits	38,624	72,765	23,646	75,802
Total	246,487	298,049	53,646	127,574

The collateral consisted of claims on credit institutions, debt securities and other assets. No collateral was provided for the debts or obligations of others.

51. Pension liabilities in Ålandsbanken Abp:s Pensionsstiftelse r.s.

	2009	2008
Present value of pension liabilities	13,074	12,740
Fair value of plan assets	-18,793	-15,473
Status	-5,719	-2,733
Unrecognised actuarial gains (+)/losses (-)	-291	-3,450
Liabilities recognised in the balance sheet	-6,010	-6,183
Current service costs	198	216
Interest expenses	685	693
Past service costs	0	0
Expected return on plan assets	-975	-1,133
Recognised net actuarial gain (-) / loss (+)	190	75
Receivable (-)/liability (+) recognised in income statement	98	-149
Opening balance	-6,183	-6,034
Expenses (+)/income (-) in the income statement	98	-149
Closing balance	-6,085	-6,183
Assumptions		
Discount rate	5.00%	5.50%
Expected return on assets	6.50%	6.50%
Increase in salaries	3.00%	3.50%
Pension index increase	2.10%	2.10%
Inflation	2.00%	2.00%
Staff turnover	0.00%	0.00%
Asset classes as a percentage of total plan assets		
Equity instruments	30.22%	25.44%
Financial market instruments	34.93%	47.96%
Properties	19.09%	22.82%
Cash and other current assets	15.76%	3.78%
	100.00%	100.00%
Reconciliation of present value of pension liabilities		
Opening balance	12,740	14,322
Current service costs	198	216
Interest expenses	685	693
Benefits paid	-867	-860
Actuarial gains (-) / losses (+)	318	-1,631
	13,074	12,740
Reconciliation of fair value of plan assets		
Opening balance	15,473	17,823
Expected return on plan assets	975	1,133
Benefits paid	-867	-860
Actuarial gains (+) / losses (-)	3,287	-2,623
Additional payment	-75	
Closing balance	18,793	15,473
Specification of the fund's holdings in the Bank of Åland Plc		
Bank of Åland Plc shares	33	25
Equity index bonds	244	332
Corporate bonds	269	286
Bank deposits	2,637	279
Total	3,183	923

An estimated additional payment of EUR 75,000 is expected for 2010.
An estimate of the present value of pension liabilities as well as fair value of plan assets was carried out on December 31, 2009 by Mikko Kuusela and Sari Markkula of Silta Ltd, a payroll service company. Ålandsbanken Sverige AB has a defined contribution solution through the insurance company SPP. The Group's Swedish companies report this as a defined contribution solution, i.e. no estimate of liabilities shall be carried out according to IFRS rules.

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

	2009	2008	2007	2006	2005
Present value of pension liabilities	13,074	12,740	14,322	14,123	13,692
Fair value of plan assets	-18,793	-15,473	-17,823	-18,475	-17,688
Status	-5,719	-2,733	-3,501	-4,352	-3,996

IFRS standards have been applied since January 1, 2004.

52. Lease liabilities and rental obligations	2009	2008
Lease payments and rental obligations due		
Within 1 year	6,687	3,510
More than 1 and less than 5 years	5,763	5,710
More than 5 years	4,276	5,403
	16,725	14,624
Carrying amount		
Machinery and equipment	2,242	4,336

The Group has finance 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 predetermined 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 K excluding value-added tax. Rental obligations were equivalent to the rental expenses that would arise upon termination of all rental agreements.

53. Off-balance sheet commitments	2009	2008
Guarantees	18,803	16,353
Unutilised overdraft limits	88,072	84,104
Lines of credit	199,239	64,753
Total	306,114	165,209

The lines of credit do not include fixed-interest loans with a set interest rate.

Other notes

54. Assets managed	2009	2008
Mutual fund (unit trust) management	801,224	235,700
Discretionary asset management	1,210,653	433,247
Other asset management	1,089,459	71,960
Total	3,101,336	740,907

55. Changes in Group structure 2009

Ålandsbanken Veranta Ab redeemed the 7 per cent minority shareholding and then merged with the Bank of Åland Plc on September 30, 2009. During the year, Bank of Åland Plc sold 8 per cent of the shares in Ålandsbanken Equities Ab. Ålandsbanken Equities Research Ab was founded during the year as a wholly owned subsidiary of Ålandsbanken Equities Ab. During 2009, the Bank of Åland Plc bought portions of Kaupthing Bank Sverige AB, now Ålandsbanken Sverige AB (encompassing Kaupthing Bank Sverige AB, Kaupthing Fonder AB and Alpha Management Company S.A.), which are reported in compliance with IFRS 3, "Business Combinations".

	Sector	Date of acquisition	Cost, EUR
Kaupthing Bank Sverige AB	Asset manager	March 27, 2009	
Kaupthing Fonder AB	Mutual fund manager	March 27, 2009	
Alpha Management Company S.A.	Mutual fund manager	March 27, 2009	
Kaupthing Bank Sverige			34,078

ALLOCATION OF COST	Kaupthing Bank Sverige
Cash	35,195
Direct acquisition-related expenses	3,726
Purchase price settlement	-4,842
	34,078

NET ASSETS ACQUIRED	Kaupthing Bank Sverige	
	Fair value	Carrying amount
Claims on credit institutions	84,930	84,930
Claims on the public	208,448	208,863
Shares and participations	24,574	24,574
Other assets	42,193	42,193
Liabilities	302,932	302,950
Net assets acquired	57,212	
Negativ goodwill	23,134	

Ålandsbanken Sverige AB earned income of EUR -8.0 M after being acquired. The negative goodwill that arose was reported as income in the Bank of Åland Group's income statement on the line "Negative goodwill". The Bank of Åland was contacted in 2008 concerning the purchase of Kaupthing Bank Sverige AB. As a result of the situation surrounding the purchase, negative goodwill arose at the Bank of Åland. During Q4 2009 the acquisition analysis established this amount as EUR 23.1 M. If Ålandsbanken Sverige AB had been part of the Bank of Åland Group from January 1, 2009, the Group's earnings would have been EUR 5.1 M lower.

Bank of Åland Group	2009			
	March 31	Utilised	Withdrawn	December 31
RESTRUCTURING RESERVE				
Staff costs	6,180	-4,491	-243	1,446
Rent for premises	2,739	-927	-1,186	626
IT	750	-393	0	357
Total	9,669	-5,812	-1,429	2,428

	2009	2008
GOODWILL		
Opening balance		
Gross	1,373	1,406
Goodwill recognised during the period	0	34
Impairment loss	0	-67
Closing balance	1,373	1,373

In impairment testing, a 20 per cent cost of capital (2008: 20 per cent) was used and future cash flows were assumed to be unchanged compared to 2009. Impairment tests showed that an impairment loss arises when the discount rate is 25 per cent or in case cash flows should deteriorate by 17 per cent.

56. Subsidiaries and associated companies 2009

Subsidiaries

The following subsidiaries were consolidated according to the purchase method of account as of December 31, 2009:

	Registered office	Ownership
Ab Compass Card Oy Ltd	Mariehamn	66%
Crosskey Banking Solutions Ab Ltd	Mariehamn	100%
S-Crosskey Ab	Mariehamn	60%
Ålandsbanken Asset Management Ab	Helsinki	70%
Ålandsbanken Fondbolag Ab	Mariehamn	100%
Ålandsbanken Equities Ab	Helsinki	74%
Ålandsbanken Equities Research Ab	Helsinki	74%
Ålandsbanken Sverige AB	Stockholm	100%
Ålandsbanken Fonder AB	Stockholm	100%
Alpha Management Company S.A.	Luxembourg	100%

Housing and real estate companies

The following housing and real estate companies were consolidated according to the purchase method as of December 31, 2009:

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

The following associated companies were consolidated as of December 31, 2009:

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

	2009	2008
Combined financial information about these associated companies:		
Assets	4,491	3,969
Liabilities	1,180	623
Sales	3,260	3,096
Profit for the year	368	219

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, 2009:

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 Sittkoffska gården	Mariehamn	22%
FAB Horsklint	Kökar	20%
FAB Wigells	Mariehamn	78%
BAB Knappelstenen	Mariehamn	15%
BAB Sittkoff	Mariehamn	14%
BAB Fiskartorpet	Mariehamn	6%
BAB Västerhöjden	Mariehamn	11%
BAB Grantorpsvägen	Mariehamn	8%

Parent Company balance sheet

(EUR K)

Assets	Note	Dec 31, 2009		Dec 31, 2008	
Cash			32,968		78,995
Debt securities eligible for refinancing with central banks	2				
Treasury bills		0		19,895	
Other		153,146	153,146	125,831	145,726
Claims on credit institutions	3				
Repayable on demand		48,033		5,005	
Other		69,555	117,588	118,178	123,184
Claims on the public and public sector entities	4, 5		2,350,528		2,189,662
Debt securities	2		59,874		135,224
Shares and participations	6		1,812		1,982
Shares and participations in associated companies	6		1,005		1,005
Shares and participations in Group companies	6		40,998		5,970
Derivative instruments	7		19,371		15,213
Intangible assets	8, 10		7,865		7,085
Tangible assets	9, 10				
Investment properties as well as shares and participations in investment properties		1,831		2,478	
Other properties as well as shares and participations in real estate companies		15,416		12,148	
Other tangible assets		4,283	21,530	4,200	18,825
Other assets	11		26,352		8,385
Accrued income and prepayments	12		16,814		18,165
TOTAL ASSETS			2,849,853		2,749,422

Parent Company balance sheet

(EUR K)

Liabilities and equity capital		Dec 31, 2009			Dec 31, 2008		
	Note						
LIABILITIES							
Liabilities to credit institutions							
Central banks			90,000			30,000	
Credit institutions							
Repayable on demand		7,570			2,031		
Other		40,571	48,141	138,141	38,453	40,484	70,484
Liabilities to the public and public sector entities							
Deposits							
Repayable on demand		1,430,315			1,165,951		
Other		278,685	1,708,999		591,986	1,757,937	
Other liabilities			848	1,709,847		1,260	1,759,197
Debt securities issued to the public	14						
Bonds			524,011			494,858	
Other			205,941	729,952		168,917	663,775
Other liabilities	15			42,130			35,444
Accrued expenses and prepaid income	16			7,163			16,270
Derivative instruments	7			19,053			13,395
Subordinated liabilities	17			58,515			54,282
Deferred tax liabilities	13			649			579
Total liabilities				2,705,450			2,613,426
ACCUMULATED APPROPRIATIONS							
Difference between recorded and planned depreciation				258			258
Reserves				52,714			46,714
Total accumulated appropriations				52,972			46,972
EQUITY CAPITAL	21						
Share capital	22			23,283			23,283
Share premium account				32,736			32,736
Other restricted reserves							
Reserve fund			25,129			25,129	
Fair value reserve	23		1,847	26,976		1,649	26,778
Retained earnings				379			397
Profit for the year				8,056			5,830
Total equity capital				91,431			89,024
TOTAL LIABILITIES AND EQUITY CAPITAL				2,849,853			2,749,422
OFF-BALANCE SHEET OBLIGATIONS	46						
Obligations to a third party on behalf of customers							
Guarantees				30,099			16,353
Irrevocable commitments given on behalf of customers				168,652			149,108
				198,751			165,460

Parent Company income statement

(EUR K)

		Jan 1–Dec 31, 2009			Jan 1–Dec 31, 2008		
	Note						
Interest income	26			73,585			136,117
Net leasing income	27			18			12
Interest expenses	28			-38,744			-94,822
NET INTEREST INCOME				34,859			41,307
Income from equity investments	29						
In Group companies			6,317			2,739	
In associated companies			241			271	
In other companies			33	6,591		31	3,040
Commission income	30			13,991			11,554
Commission expenses	31			-2,072			-1,987
Net income from securities transactions and foreign exchange dealing	32						
Net income from securities transactions			2,032			309	
Net income from foreign exchange dealing			1,254	3,285		958	1,268
Net income from financial assets available for sale	33			-185			3
Other operating income	34			1,727			1,749
Administrative expenses							
Staff costs							
Wages, salaries and other remuneration		14,588			14,344		
Pensions		2,203			2,170		
Other social security costs		723	17,514		816	17,330	
Other administrative expenses	35		14,662	-32,176		13,431	30,761
Depreciation/amortisation and impairment losses on tangible and intangible assets				-2,418			-1,895
Other operating expenses	36			-6,457			-5,045
Impairment losses on loans and other commitments	37			-2,741			-2,314
Impairment loss on other financial assets				0			-500
NET OPERATING PROFIT				14,406			16,417
Appropriations				-6,000			-9,400
Income taxes	38			-350			-1,188
PROFIT FOR THE YEAR				8,056			5,830

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Notes to the Parent Company financial statements

1. 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 financial statements of the Bank of Åland Plc 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
Renovations in rented premises	4–10 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 category includes all financial assets and liabilities that are held to provide a short-term return. The category 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 category 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 Abp:s Pensionsstiftelse. Pension liabilities are fully covered.

Notes to the balance sheet

2. Holdings of debt securities	2009			2008		
	Listed	Other	Total	Listed	Other	Total
Debt securities eligible for refinancing						
Instruments held to maturity						
Treasury bills	71,918	0	71,918	75,139	0	75,139
Other debt securities	25,187	0	25,187	0	0	0
Instruments available for sale						
Treasury bills	0	0	0	0	19,895	19,895
Treasury bonds	46,917	0	46,917	46,880	0	46,880
Other debt securities	9,124	0	9,124	3,812	0	3,812
	153,146	0	153,146	125,831	19,895	145,726
Other debt securities						
Instruments available for sale						
Certificates of deposit	0	59,865	59,865	0	124,406	124,406
Commercial paper	0	0	0	0	6,539	6,539
Other	0	10	10	4,270	10	4,280
	0	59,875	59,875	4,270	130,954	135,224

3. Claims on credit institutions	2009			2008		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Finnish credit institutions	45,484	14,292	59,776	0	20,778	20,778
Foreign credit institutions	2,549	55,263	57,812	5,005	97,400	102,406
	48,033	69,555	117,588	5,005	118,178	123,184

4. Claims on the public and public sector entities	2009	2008
Financial enterprises	648,931	600,895
Public sector	8,954	10,035
Households	1,579,728	1,470,734
Non-profit organisations, household sector	14,513	13,697
Foreign	98,402	94,300
Total	2,350,528	2,189,662
Of which subordinated claims	690	432
Of which non-interest-bearing claims	550	432
Impairment losses		
Individual impairment losses recognised during the year	1,277	1,362
Individual impairment losses reversed during the year	-37	-48
Group impairment losses	1,500	1,000
Total impairment losses	2,741	2,314

5. Impairment losses on loans and trade receivables	2009		2008	
	Individual	Group	Individual	Group
Balance, January 1	3,440	1,000	2,096	0
New and increased impairment losses	101	1,500	939	1,000
Reversals of impairment losses	0	0	0	0
Actual losses/reversals	1,140	0	376	0
Recognised in income statement	1,241	1,500	1,314	1,000
Direct impairment losses/reversals	-1,579	0	29	0
Balance, December 31	3,101	2,500	3,440	1,000

6. Shares and participations	2009			2008		
	Listed	Other	Total	Listed	Other	Total
Shares and participations						
Available for sale	249	1,564	1,812	307	1,675	1,982
Shares and participations in associated companies	0	1,005	1,005	0	1,005	1,005
Shares and participations in Group companies	0	40,998	40,998	0	5,970	5,970
	249	43,567	43,816	307	8,650	8,958

7. Derivative instruments	2009		2008	
	Fair vaue		Fair value	
	Positive	Negative	Positive	Negative
Interest rate derivatives	5,405	5,814		
Interest rate swaps			5,992	4,539
Currency derivatives				
Forward contracts	339	171	1,212	1,308
Interest rate and currency swaps	406	18	460	0
Equity derivatives				
Option contracts				
Purchased	13,221	0	7,548	0
Written	0	13,050	0	7,548
	19,371	19,053	15,213	13,395

Nominal value of underlying asset by remaining maturity:

	2009				2008			
	Under 1 yr	1–5 yrs	Over 5 yr	Total	Under 1 yr	1–5 yrs	Over 5 yr	Total
Interest rate derivatives								
Interest rate swaps	99,740	311,408	58,422	469,570	107,054	319,679	57,113	483,846
Currency derivatives								
Forward contracts	18,545	741	0	19,286	25,752	3,974	0	29,726
Interest rate and currency swaps	4,457	0	0	4,457	2,720	0	0	2,720
Equity derivatives								
Option contracts								
Purchased	37,033	138,061	0	175,094	48,742	97,403	0	146,145
Written	36,,324	131,535	0	167,859	48,742	97,403	0	146,145
	196,099	581,745	58,422	836,266	233,009	518,459	57,113	808,581

8.Intangible assets	2009	2008
IT investments	1,787	779
Ongoing IT investments	2,424	2,377
Goodwill	650	886
Other	3,005	3,043
Total	7,865	7,085

9. Properties and shares and participations in real estate companies	2009	2008
Investment properties		
Land and water	50	50
Buildings	152	160
Shares in real estate companies	1,630	2,268
Total	1,831	2,478
Properties for the Group's own use		
Land and water	160	162
Buildings	14,768	11,499
Shares in real estate companies	487	487
Total	15,416	12,148

10. Changes in intangible and tangible assets

2009	Land and buildings for own use	Investment properties	Other tangible assets	Goodwill	Other intangible assets	Total
Historical costs						
Cost on January 1	11,854	2,835	9,477	1,182	12,953	38,300
Increases during the year	3,613	0	781	0	2,619	7,013
Decreases during the year	-2	-639	-96	0	-354	-1,090
Cost on December 31	15,465	2,196	10,161	1,182	15,218	44,223
Accumulated depreciation/amortisation						
Accumulated depreciation/amortisation/ impairment losses on Jan. 1	-5,180	-357	-5,277	-295	-6,754	-17,864
Accumulated depreciation/amortisation concerning decreases	0	0	59	0	0	59
Depreciation/amortisation for the year	-265	-8	-660	-236	-1,249	-2,418
Impairment losses for the year	0	0	0	0	0	0
Accumulated depreciation/amortisation/ impairment losses on Dec. 31	-5,445	-365	-5,878	-532	-8,003	-20,223
Revaluations						
Revaluations, January 1	5,474	0	0	0	0	5,474
Decreases during the year	-79	0	0	0	0	-79
Revaluations, December 31	5,395	0	0,	0	0	5,395
Carrying amount on December 31	15,416	1,831	4,283	650	7,215	29,395

2008	Land and buildings for own use	Investment properties	Other tangible assets	Goodwill	Other intangible assets	Total
Historical costs						
Cost on January 1	6,640	2,938	8,124	1,182	10,026	28,909
Increases during the year	5,509	0	1,971	0	2,927	10,407
Decreases during the year	-295	-103	-618	0	0	-1,017
Cost on December 31	11,854	2,835	9,477	1,182	12,953	38,300
Accumulated depreciation/amortisation						
Accumulated depreciation/amortisation/ impairment losses on Jan. 1	-5,322	-354	-4,976	-59	-5,658	-16,369
Accumulated depreciation/amortisation concerning decreases	254	8	138	0	0	400
Depreciation/amortisation for the year	-113	-10	-440	-236	-1,096	-1,895
Impairment losses for the year	0	0	0	0	0	0
Accumulated depreciation/amortisation/ impairment losses on Dec. 31	-5,180	-357	-5,277	-295	-6,754	-17,864
Revaluations						
Revaluations, January 1	5,778	0	0	0	0	5,778
Decreases during the year	-304	0	0	0	0	-304
Revaluations, December 31	5,474	0	0	0	0	5,474
Carrying amount on December 31	12,148	2,478	4,200	886	6,199	25,911

11. Other assets

	2009	2008
Cash items in the process of collection	31	26
Other	26,321	8,359
Total	26,352	8,385

12. Accrued income and prepayments

	2009	2008
Interest	8,917	15,599
Other	7,897	2,566
Total	16,814	18,165

13. Deferred tax assets and liabilities	2009	2008
Deferred tax liabilities		
Temporary differences	0	0
From the fair value reserve	649	579
Total	649	579

Accumulated appropriations included a deferred tax liability of EUR 13,773 K (2008: 12,213,000).

14. Debt securities issued to the public	2009		2008	
	Carrying amount	Nominal amount	Carrying amount	Nominal amount
Certificates of deposit	205,941	206,460	168,917	170,301
Bonds	524,011	538,328	494,858	504,962
Total	729,952	744,788	663,775	675,263

15. Other liabilities	2009	2008
Cash items in the process of collection	16,113	18,185
Other	26,017	17,258
Total	42,130	35,444

16. Accrued expenses and deferred income	2009	2008
Interest	2,788	12,219
Other	4,375	4,051
Total	7,163	16,270

17. Subordinated debentures

See Note 18 to the consolidated financial statements.

18. Maturity breakdown of claims and liabilities	2009				
	Total	Under 3 mo	3 – 12 mo	1 – 5 yrs	Over 5 yrs
Claims					
Debt securities eligible for refinancing with central banks	153,146	982	4,440	147,724	0
Credit institutions and central banks	139,854	139,854	0	0	0
The public and public sector entities	2,350,528	236,593	285,930	967,422	860,583
Other debt securities	59,874	44,964	14,910	0	0
	2,703,402	422,393,	305,280	1,115,146	860,583
Liabilities					
Credit institutions and central banks	138,141	8,141	100,000	30,000	0
The public and public sector entities	1,709,847	1,571,761	120,876	17,209	0
Debt securities issued to the public	729,952	126,270	260,591	343,091	0
Subordinated liabilities	58,515	0	5,408	15,637	37,471
	2,636,455	1,706,172	486,875	405,937	37,471

	2008				
	Total	Under 3 mo	3 – 12 mo	1 – 5 yrs	Over 5 yrs
Claims					
Debt securities eligible for refinancing with central banks	145,726	11,876	18,361	113,172	2,317
Credit institutions and central banks	123,184	123,184	0	0	0
The public and public sector entities	2,189,662	250,554	214,308	798,900	925,900
Other debt securities	135,224	115,784	9,850	9,590	0
	2,593,796	501,398	242,519	921,662	928,217
Liabilities					
Credit institutions and central banks	70,484	33,665	16,819	20,000	0
The public and public sector entities	1,759,197	1,591,716	165,599	1,882	0
Debt securities issued to the public	663,775	147,315	179,302	337,158	0
Subordinated liabilities	54,282	10,000	3,330	4,747	36,205
	2,547,738	1,782,696	365,050	363,787	36,205

19. Assets and liabilities in euro and other currencies

	2009			2008		
	Euro	Other currencies	Total	Euro	Other currencies	Total
Claims on credit institutions	56,001	61,587	117,588	51,157	72,026	123,184
Claims on the public and public sector entities	2,323,275	27,253	2,350,529	2,167,840	21,822	2,189,662
Debt securities	210,001	3,020	213,021	278,093	2,857	280,950
Derivative instruments	18,141	1,229	19,371	13,541	1,672	15,213
Other assets including cash	142,965	6,381	148,123	136,553	3,861	140,414
	2,750,383	99,470	2,849,853	2,647,184	102,238	2,749,422
Liabilities to credit institutions	135,394	2,747	138,141	69,448	1,036	70,484
Liabilities to the public and public sector entities	1,623,032	86,815	1,709,847	1,663,959	95,239	1,759,197
Debt securities issued to the public	726,045	3,906	729,952	663,775	0	663,775
Derivative instruments and liabilities held for trading	17,941	1,112	19,053	12,087	1,308	13,395
Subordinated liabilities	58,515	0	58,515	54,282	0	54,282
Other liabilities	47,745	2,197	49,942	51,628	665	52,293
	2,608,673	96,777	2,705,450	2,515,178	98,248	2,613,426

20. Fair value and book value of assets and liabilities

	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash	32,968	32,968	78,995	78,995
Debt securities eligible for refinancing with central banks				
Available for sale	56,041	56,041	70,587	70,587
Intended to be held to maturity	97,105	101,057	75,139	72,324
Claims on credit institutions	117,588	117,588	123,184	123,184
Claims on the public and public sector entities				
Carried at fair value	0	0	0	0
Other	2,350,528	2,358,936	2,189,662	2,190,715
Debt securities available for sale	59,875	59,875	135,224	135,224
Shares and participations available for sale	1,812	1,812	1,982	1,982
Shares and participations in associated companies	1,005	1,005	1,005	1,005
Shares and participations in Group companies	40,998	40,998	5,970	5,970
Derivative instruments	19,371	19,371	15,213	15,213
Intangible assets	7,865	7,865	7,085	7,085
Tangible assets				
Investment properties	1,831	3,933	2,478	4,399
Properties for own use	15,416	30,107	12,148	21,755
Other tangible assets	4,283	4,673	4,200	4,598
Other assets	26,352	26,352	8,385	8,385
Accrued income and prepayments	16,813	16,813	18,165	18,165
	2,849,853	2,879,394	2,749,422	2,759,586
Liabilities				
Liabilities to credit institutions	138,141	138,034	70,484	69,293
Liabilities to the public and public sector entities				
Carried at fair value	0	0	0	0
Other	1,709,847	1,710,481	1,759,197	1,759,283
Debt instruments issued to the public				
Carried at fair value	0	0	0	0
Other	729,952	728,310	663,775	668,922
Derivative instruments	19,053	19,053	13,395	13,395
Other liabilities	42,130	42,130	35,444	35,444
Accrued expenses and prepaid income	7,163	7,163	16,270	16,270
Subordinated liabilities	58,516	58,872	54,282	56,882
Deferred tax liabilities	649	649	579	579
	2,705,450	2,704,693	2,613,426	2,620,069

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 capital. The appraisal of real estate was performed by a licensed estate agent.

21. Changes in equity capital

	Share capital	New share issue	Share premium account	Reserve fund	Fair value reserve	Revaluation reserve	Retained earnings	Total
December 31, 2007	23,283	0	32,736	25,129	367	227	12,009	93,752
Dividend to shareholders							-11,536	-11,536
Property divestment						-227		-227
Reversal of revaluation							-76	-76
Change in fair value					1,282			1,282
Profit for the year							5,830	5,830
December 31, 2008	23,283	0	32,736	25,129	1,649	0	6,227	89,024
Dividend to shareholders							-5,768	-5,768
Reversal of revaluation							-79	-79
Change in fair value					197			197
Profit for the year							8,056	8,056
December 31, 2009	23,283	0	32,736	25,129	1,847	0	8,436	91,431

22. Share capital

See Note 27 in the notes to the consolidated financial statements.

23. Fair value reserve	2009			2008		
	Positive figures	Negative figures	Total	Positive figures	Negative figures	Total
Debt securities	2,478	-20	2,458	2,146	-45	2,101
Shares	392	-355	37	478	-350	127
Total	2,870	-375	2,495	2,624	-395	2,229
Deferred tax liability			-649			-579
Fair value reserve			1,847			1,649

24. Claims on Group companies	2009	2008
Claims on the public	140	1,049
Other assets	263	203
Accrued income and prepayments	4,232	219
Total	4,635	1,470

25. Liabilities to Group companies	2009	2008
Liabilities to the public	6,254	1,182
Debt securities issued	700	2,766
Other liabilities	2,137	623
Accrued expenses and prepaid income	47	2
Total	9,137	4,573

Notes to the income statement

26. Interest income	2009	2008
Credit institutions and central banks	2,212	8,513
Public and public sector entities	62,180	116,417
Debt securities	7,395	11,066
Derivative instruments	1,708	109
Other interest income	91	11
Total	73,585	136,117

Interest income received from Group companies was EUR 144,250(2008: 59,100).

27. Net lease income	2009	2008
Rental income	18	14
Planned depreciation	0	-2
Total	18	12

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

28. Interest expenses	2009	2008
Credit institutions and central banks	1,974	2,995
Public and public sector entities	20,047	55,235
Debt instruments issued to the public	14,567	33,598
Derivative instruments	116	53
Subordinated liabilities	1,972	2,939
Other interest expenses	68	2
Total	38,744	94,822

Interest paid to Group companies was EUR 57,068 (2008: 166,800).

29. Income from equity instruments	2009	2008
Financial assets available for sale	33	31
Group companies	2,217	2,739
Group companies, anticipated dividend	4,100	0
Associated companies	241	271
Total	6,591	3,040

30. Commission income	2009	2008
Deposit commissions	882	844
Lending commissions	2,852	2,380
Payment intermediation commissions	3,674	2,666
Mutual fund unit commissions	823	888
Management commissions	1,362	974
Securities commissions	2,838	2,529
Underwriting commissions	35	0
Insurance commissions	118	96
Legal services	374	342
Guarantee commissions	215	198
Other commissions	819	636
Total	13,991	11,554

31. Commission expenses	2009	2008
Service charges paid	423	422
Other commission expenses	1,649	1,565
Total	2,072	1,987

32. Net income from securities trading and foreign exchange operations

	2009			2008		
	Net capital gains and losses	Net changes in fair value	Total	Net capital gains and losses	Net changes in fair value	Total
Shares and participations	523	0	523	1,069	0	1,069
Derivative instruments	3,308	-1,799	1,509	-2	-758	-760
Securities trading	3,831	-1,799	2,032	1,067	-758	309
Foreign exchange operations	1,383	-129	1,254	973	-15	958
	5,214	-1,929	3,285	2,041	-773	1,268

33. Net income from financial assets available for sale

	2009	2008
Capital gains	-178	146
Impairment losses	-7	-143
Total	-185	3

34. Other operating income	2009	2008
Rental income on properties	354	336
Capital gains on properties	264	308
Other property income	10	0
Other income	1,100	1,105
Total	1,727	1,749

35. Other administrative expenses	2009	2008
Staff costs	441	672
Office costs	890	833
Computer costs	9,578	8,265
Communication	1,486	1,309
Marketing	1,848	2,081
Miscellaneous	418	272
Total	14,662	13,431

36. Other operating expenses	2009	2008
Rental expenses	1,536	1,535
Other property expenses	710	665
Fee to security funds	843	539
Miscellaneous expenses	3,368	2,306
Total	6,457	5,045

37. Impairment losses on loans and other commitments

	2009	2008
Individual impairment losses	1,277	1,362
Group impairment losses	1,500	1,000
Reversals	-37	-48
Total	2,741	2,314

Interest recognised on impaired receivables according to original interest amounted to EUR 76 K. The impairment losses were aimed in their entirety at “Claims on the public and public sector entities”.

38. Income taxes	2009	2008
Taxes for the year	350	1,188
Taxes from prior years	0	0
Taxes in the income statement	350	1,188

Notes concerning staff, Board of Directors and Executive Team

39. Number of employees	2009		2008	
	Average employees	Change	Average employees	Change
Permanent full-time employees	273	-1	274	+11
Permanent part-time employees	82	+1	81	+2
	355	0	355	+13

40. Salaries/fees paid to Board and Executive Team	2009	2008
Lindholm, Göran	23	18
Boman, Sven-Harry	23	19
Janér, Kent	18	21
Karlsson, Agneta	18	15
Nordlund, Leif	22	15
Taberman, Teppo	19	21
Wiklöf, Anders	18	15
Members of the Board of Directors	140	124
Managing Director	323	478
Deputy Managing Director	162	187
Other members of the Executive Team	710	698

The amount includes the value of fringe benefits. In addition to Board fee, EUR 17,000 was paid to Board member Agneta Karlsson as compensation for consulting assignments for the Group. There are no pension obligations to the members of the Board of Directors. The pension benefits of the Managing Director and Deputy Managing Director are based on cust0mary terms of employment.

41. Private holdings of the Board of Directors and the Executive Team in the Bank of Åland Plc

See Note 48 to the consolidated financial statements.

42. Financial transactions with related parties

See Note 49 to the consolidated financial statements.

Notes concerning assets pledged and contingent liabilities

43. Collateral provided	2009		2008	
	Nominal value of debt	Carrying amount of collateral	Nominal value of debt	Carrying amount of collateral
For debts to credit institutions and central banks	90,817	98,352	30,000	51,772
For unutilised limits	17,340	51,481	23,646	75,802
Total	108,157	149,833	53,646	127,574

The collateral consisted of debt securities. No collateral was provided for the debts or obligations of others.

44. Pension liabilities in Ålandsbanken Abp:s Pensionsstiftelse r.s.	2009	2008
Pension liabilities in Ålandsbanken Abp:s Pensionsstiftelse r.s.	13,074	12,740
Carrying amount, liability deficit in pension fund	0	0

The probable market value of plan assets in the pension fund exceeds the fund's pension liabilities by EUR 6.2 M.

45. Rental obligations	2009	2008
Rental payments due		
Within 1 year	2,565	1,061
More than 1 and less than 5 years	2,850	2,811
More than 5 years	501	1,056
Total	5,916	4,928

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

46. Off-balance sheet commitments	2009	2008
Guarantees	30,099	16,353
Unutilised overdraft limits	88,432	84,355
Lines of credit	80,220	64,753
Total	198,751	165,460

Other notes

47. Assets managed	2009	2008
Discretionary asset management	194,866	110,865
Other asset management	217,904	68,975
Total	412,770	179,841

48. Changes in Group structure

See Note 55 to the consolidated financial statements.

49. Subsidiaries and associated companies	2009	
Subsidiaries	Registered office	Ownership
Ab Compass Card Oy Ltd	Mariehamn	66%
Crosskey Banking Solutions Ab Ltd	Mariehamn	100%
S-Crosskey Ab	Mariehamn	60%
Ålandsbanken Asset Management Ab	Helsinki	70%
Ålandsbanken Fondbolag Ab	Mariehamn	100%
Ålandsbanken Equities Ab	Helsinki	74%
Ålandsbanken Equities Research Ab	Helsinki	74%
Ålandsbanken Sverige AB	Stockholm	100%
Ålandsbanken Fonder AB	Stockholm	100%
Alpha Management S.A.	Luxembourg	100%
Housing and real estate companies	Registered office	Ownership
FAB Gottby Center	Jomala	53%
Associated companies	Registered office	Ownership
Ålands Företagsbyrå Ab	Mariehamn	22%
Ålands Fastighetskonsult Ab	Mariehamn	20%
Ålands Investerings Ab	Mariehamn	36%

	2009	2008
Combined financial information about these associated companies:		
Assets	4,491	3,969
Liabilities	1,180	623
Sales	3,260	3,096
Profit for the year	368	219
Housing and real estate companies	Registered office	Ownership
FAB Västernäs City	Mariehamn	50%
FAB Nymars	Sottunga	30%
FAB Sittkoffska gården	Mariehamn	22%
FAB Horsklint	Kökar	20%
FAB Wigells	Mariehamn	78%

Proposed allocation of profit

According to the financial statements, distributable profit is EUR 8,435,888.78, of which profit for the financial year is EUR 8,056,398.04. 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 8,435,888.78, be allocated as follows:

1. For Series A and Series B shares outstanding as of December 31, 2009, a dividend of EUR 0.50 per share, totalling	5,768,061.00
2. For Series A and Series B shares outstanding as of December 31, 2009, an anniversary dividend of EUR 0.20 per share, totalling	2,307,224.40
3. To remain in the accounts as retained earnings	360,603.38
	8,435,888.78

Mariehamn, February 19, 2010

Göran Lindholm	Leif Nordlund	Sven-Harry Boman
Kent Janér	Agneta Karlsson	Teppo Taberman
Anders Wiklöf	Peter Wiklöf, Managing Director	

To the Annual General Meeting of the Bank of Åland Plc

Auditors' Report

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of the Bank of Åland Plc for the financial year January 1 – December 31, 2009. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity capital, cash flow statement and notes to the financial statements, as well as the Parent Company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the Report of the Directors and for ensuring that the consolidated financial statements provide true and fair disclosures in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and that the Parent Company financial statements and the Report of the Directors provide true and fair disclosures in accordance with laws and regulations in Finland governing the preparation of the financial statements and Report of the Directors. The Board of Directors is responsible for making appropriate arrangements for oversight of the accounts and financial administration, and the Managing Director shall see to it that the accounts are in compliance with the law and that financial administration has been arranged in a reliable manner.

Responsibility of the Auditor

The Auditor's responsibility is to perform an audit in accordance with generally accepted auditing standards in Finland, and to express an opinion on the Parent Company's financial statements, on the consolidated financial statements and on the Report of the Directors based on this audit. Generally accepted auditing standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements and the Report of the Directors are free from material misstatement and that the members of the Board of Directors of the Parent Company and the Managing Director have complied with the Finnish Companies Act.

An audit involves performing procedures to ensure obtain assurances about the accuracy of the amounts and other disclosures in the financial statements and the Report of the Directors. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In designing the necessary audit procedures, the auditor considers the internal controls that affect the preparation and presentation of the financial statements and the Report of the Directors. An audit also includes evaluating the overall presentation of the financial statements and the Report of the Directors, the principles for preparing the financial statements and the estimates made by management when preparing the financial statements.

The audit was performed in accordance with generally accepted auditing standards in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements provide a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Opinion on the financial statements and the Report of the Directors

In our opinion, the financial statements and the Report of the Directors provide a true and fair view of both the Group's and the Parent Company's financial position and the results of their operations, in compliance with the Finnish laws and regulations in force governing the preparation of financial statements and the Report of the Directors. The disclosures in the Report of the Directors are consistent with the disclosures in the financial statements.

Mariehamn, March 12, 2010

Bengt Nyholm
Certified Public Accountant

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Leif Hermans
Certified Public Accountant

Hermans & Revisorernas Ab
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Åland, Finland

Terhi Mäkinen
Certified Public Accountant

Ernst & Young Ab
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Photographer: Daniel Eriksson

Board of Directors

Göran Lindholm

Managing Director, Ålands Ömsesidiga Försäkringsbolag

Master of Laws
Born 1955

Chairman of the Board since 2003
Board member since 2003

Leif Nordlund

Managing Director, Redarnas Ömsesidiga Försäkringsbolag, Försäkrings Ab Alandia and Försäkrings Ab Liv-Alandia

Master of Laws
Born 1959

Deputy Chairman of the Board since 2003
Board member since 2003

Sven-Harry Boman

Consultant, Board member, Certified Public Accountant (CGR)

Master of Economic Sciences
Born 1944

Board member since 2003

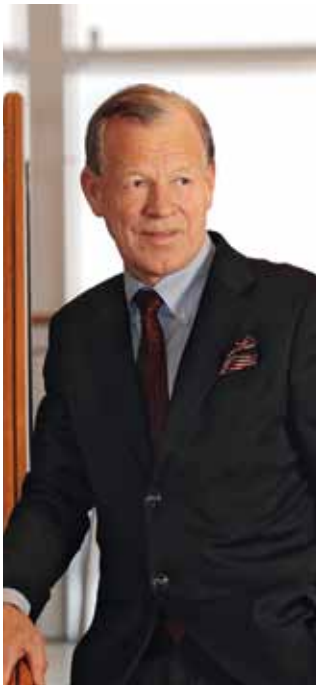
Kent Janér

Managing Director, Nektar Asset Management AB and manager of the Nektar specialised mutual fund, Partner, Brummer & Partners AB

Master of Business Administration
Born 1961

Board member since 2003

Further information in Swedish and Finnish about the members of the Board can be found on the Bank's website www.alandsbanken.fi



Photographer: Daniel Eriksson

Agneta Karlsson

Director of Åland International Institute of Comparative Island Studies (AICIS)

Doctor of Economics, Associate Professor
Born 1954

Board member since 2003

Teppo Taberman

Financial advisor and professional Board member

Master of Science in Economics
Born 1944

Board member since 2007

Anders Wiklöf

Business owner

Commercial Counsellor
Born 1946

Board member since 2006

Further information in Swedish and Finnish about the members of the Board can be found on the Bank's website www.alandsbanken.fi

Executive Team

Peter Wiklöf
Managing Director

Master of Laws
Born 1966

Chairman and member of the Executive Team since 2008

Edgar Vickström
Deputy Managing Director, Head of Accounting & Business Support Division, CFO

Master of Economic Sciences
Born 1961

Member of the Executive Team since 2003

Tove Erikslund
Head of Human Resources and Human Resource Department Manager

Master of Business Administration
Born 1967

Member of the Executive Team since 2006

Peter Michelsson
Head of Private Banking Division

Master of Economic Sciences
Born 1961

Member of the Executive Team since 2009

Further information in Swedish and Finnish about the members of the Executive Team can be found on the Bank's website www.alandsbanken.fi

Photographer: Daniel Eriksson

Pekka Nuutinen

Head of the Premium Banking Mainland Division

Bachelor of Business Administration,
Helsinki Business Polytechnic
Born 1961

Member of the Executive Team since 2005

Resigned December 14, 2009

Anne-Maria Salonius, Attorney at Law, was appointed on December 19, 2009 as the new Head of the Premium Banking Mainland Division and a member of the Executive Team

Johnny Rosenholm

Head of Lending

Master of Economic Sciences
Born 1971

Member of the Executive Team since 2008

Tom Westerén

Communications and Marketing Director

Master of Arts, Master of Business Administration
Born 1971

Member of the Executive Team since 2009

Dan-Erik Woivalin

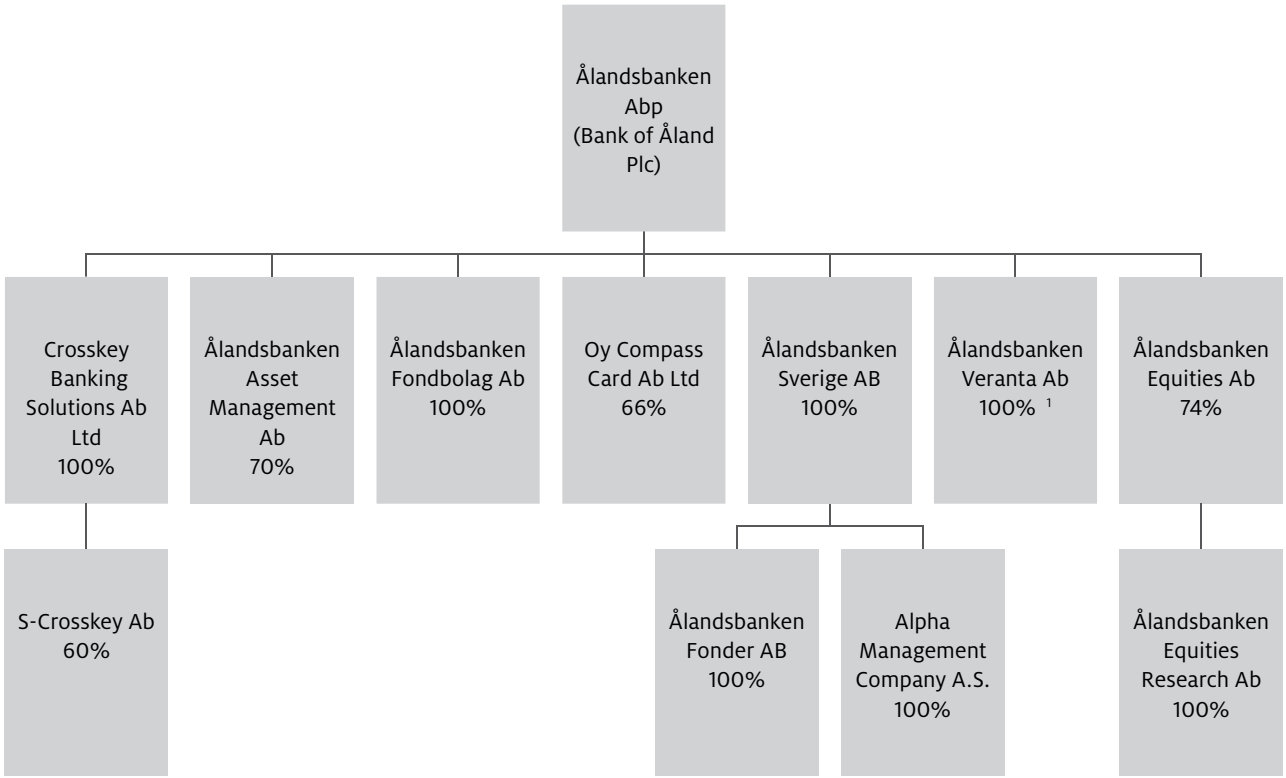
Head of the Premium Banking Åland Division, Chief Legal Counsel

Attorney at Law
Born 1959

Member of the Executive Team since 2003

Further information in Swedish and Finnish about the members of the Executive Team can be found on the Bank's website www.alandsbanken.fi

Legal structure of the Group

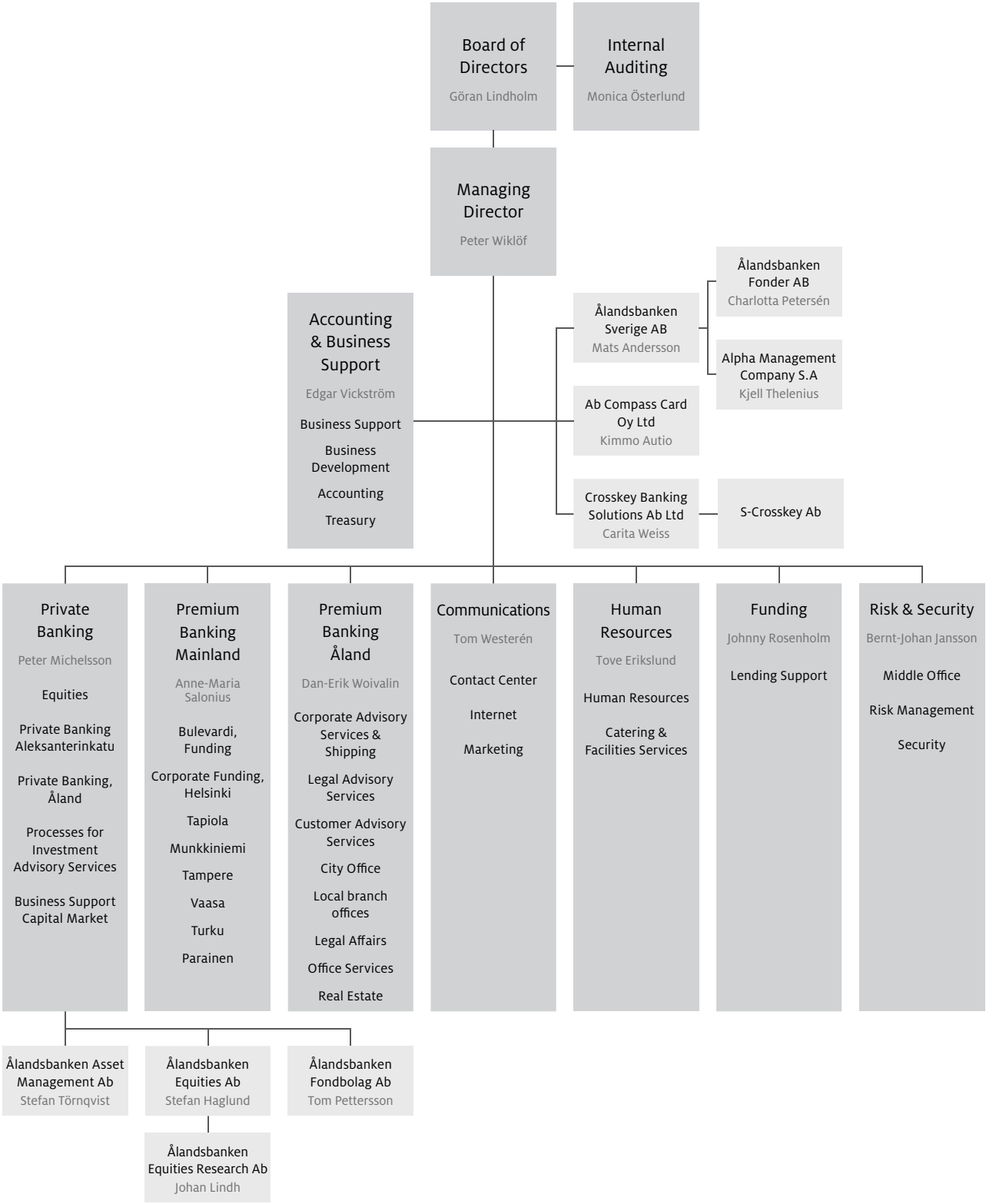


Associated companies consolidated in the Group:
Ålands Investerings Ab, 36%
Ålands Företagsbyrå Ab, 22%
Ålands Fastighetskonsult Ab, 20%
There are also three small real estate companies in which Bank of Åland has more than 50% ownership.

1 Merged with Bank of Åland Plc on September 30, 2009.

Bank of Åland Abp, March 1, 2010

Organisational chart



The Bank of Åland Abp's list of stock exchange releases in 2009
(published in Finnish and Swedish only, except financial reports marked * are also available in English)

Stock exchange releases in 2009

January

January 2, 2009	Bank of Åland Plc lowers prime rate
January 21, 2009	Peter Michelsson appointed as head of Bank of Åland's Private Banking Division

February

February 2, 2009	Preliminary and revised earnings forecast for 2008
February 5, 2009	Bank of Åland continuing to negotiate on acquisition of Kaupthing Sverige
February 10, 2009	Bank of Åland Plc lowers prime rate
February 16, 2009	Bank of Åland has signed purchase agreement on acquisition of Kaupthing Bank Sverige
February 27, 2009	Year-end report for the period January–December 2008*

March

March 2, 2009	Invitation to the Annual General Meeting
March 13, 2009	Bank of Åland Plc lowers prime rate
March 16, 2009	Bank of Åland Plc's Annual Report for 2008 has been published
March 26, 2009	Release on items of business discussed at the Bank of Åland's Annual General Meeting
March 27, 2009	Bank of Åland completes acquisition of Kaupthing Bank Sverige

May

May 4, 2009	Earnings in 2009 expected to be substantially better
May 8, 2009	Bank of Åland Plc lowers prime rate
May 11, 2009	Interim Report, January–March 2009*

August

August 24, 2009	Interim Report, January–June 2009*

October

October 27, 2009	Interim Report, January–September 2009*
October 28, 2009	Annual General Meeting and financial information in 2010

December

December 3, 2009	Bank of Åland to start a branch office in Sweden
December 14, 2009	Executive Team member Pekka Nuutinen resigns at his own request

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