

BANK OF ÅLAND

YEAR-END REPORT For the period January – December 2006

The best earnings in the history of the Bank of Åland Group

“Continued strong growth in asset management and IT operations, together with stable performance in traditional banking operations, laid the groundwork for the best earnings in the history of the Bank of Åland Group. A pleasing performance, especially considering that at the same time the Group has invested in both employees and technology in order to keep up with challenges posed by continued growth and regulatory requirements.”

Peter Grönlund, Managing Director

The year in brief

- Consolidated net operating profit rose by 13 per cent to 21.1 million euros (2005: EUR 18.7 M)
- Net interest income increased by 4 per cent to EUR 32.7 M (31.4)
- Commission income increased by 14 per cent to EUR 18.4 M (16.1)
- Other operating income climbed 167 per cent to EUR 9.4 M (3.5)
- Lending volume increased by 6 per cent to EUR 1,912 M (1,796)
- Deposits decreased by 2 per cent to EUR 1,599 M (1,631)
- Mutual fund capital under management rose by 32 percent to EUR 355 M (269)
- Return on equity after taxes (ROE) was 13.3 per cent (12.5)
- The total capital ratio amounted to 11.4 per cent (11.3)
- Earnings per share after taxes amounted to EUR 1.29 (1.24)
- The Board of Directors proposes a dividend of EUR 1.00 (1.00) per share

The Bank of Åland Plc (Ålandsbanken Abp) is a successful, modern Finnish commercial bank that is participating actively in the development of future financial services. Aside from the autonomous Swedish-speaking Åland Islands, the Bank has offices in the Finnish mainland cities of Helsinki, Espoo, Turku, Parainen, Tampere and Vaasa. Ab Compass Card Oy Ltd, Crosskey Banking Solutions Ab Ltd, Ålandsbanken Asset Management Ab, Ålandsbanken Fondbolag Ab and Ålandsbanken Kapitalmarknadstjänster Ab are part of the Bank of Åland Group.

EARNINGS AND PROFITABILITY

This Year-end Report has been reported according to the International Financial Reporting Standards (IFRSs) approved by the European Union, as well as in compliance with IAS 34, "Interim Financial Reporting".

Summary of 2006 results

The Bank of Åland Group had a successful year in 2006, with strong performance in its asset management and information technology (IT) operations. The Group's earnings were its best ever. Consolidated net operating profit rose by 13¹ per cent to EUR 21.1 M (18.7). Income rose by 18 per cent to EUR 61.6 M (52.0), while expenses rose to EUR 40.9 M (33.2). Return on equity after taxes (ROE) rose to 13.3 (12.5) per cent, and earnings per share after taxes rose to EUR 1.29 (1.24).

Income

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

Commission income rose by 14 per cent to EUR 18.4 M (16.1). Most of the increase in income came from asset management and from providing capital market products.

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

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

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

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

Expenses

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

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

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

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

Impairment loss on loans and other commitments

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

Earnings structure

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

¹ All percentages are calculated on the basis of exact values.

Balance sheet total

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

Personnel

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

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

Profit margin

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

Expense/income ratio

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

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

Capital adequacy

Capital adequacy rules require that the capital base in the form of equity capital and reserves total at least 8 per cent of risk-weighted receivables and contingent liabilities. At the end of 2006, the Group's capital adequacy according to the Credit Institutions Act was 11.4 (11.3) per cent. To strengthen the capital base in the form of supplementary capital, risk debenture loans totalling EUR 11.4 M were issued during the year.

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

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

Standardised approach, Basel II

According to preliminary calculations, the total capital ratio will rise by about two percentage points when the capital requirement for credit risk is calculated according to the standardised approach in Pillar 1.

Cash flow statement

Bank of Åland Group EUR M	Jan-Dec 2006	Jan-Dec 2005
Cash and cash equivalents, January 1	217.4	252.2
Cash flow from operating activities		
Net operating profit	21.1	18.7
Adjustment for net operating profit items not affecting cash flow	6.5	6.7
Gains from investing activities	-1.1	-3.5
Income taxes paid	-5.0	-3.5
Changes in assets and liabilities in operating activities	<u>-125.0</u>	<u>-188.6</u>
	-103.5	-170.2
Cash flow from investing activities	-2.0	0.5
Cash flow from financing activities	<u>18.4</u>	<u>134.9</u>
Cash and cash equivalents, December 31	130.2	217.4

Deposits

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

Lending

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

Changes in Group structure

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

Important events after the close of the financial year

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

Proposed distribution of profit

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

Outlook for 2007

The potential for an earnings improvement during 2007 is considered good. The Group's assessment of the outlook for 2007 is based on its assumptions about future developments in the fixed-income and financial markets. The Group predicts continued tough competition in the market with regard to lending margins, a continued positive trend in the mutual fund and capital markets as well as growth in the Group's IT operations. The cost level in the Group is expected to rise moderately. General interest rates, the demand for lending, the trend of the capital and financial markets and the competitive situation are factors that the Group cannot influence.

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.

Ab Compass Card Oy Ltd

Ab Compass Card Oy Ltd is a subsidiary of the Bank of Åland Plc (Ålandsbanken Abp). The mission of the company is to issue credit and debit cards to private and institutional customers. The company is in the start-up phase and is expected to be in full operation by late 2007.

Crosskey Banking Solutions Ab Ltd

Crosskey Banking Solutions Ab Ltd is a wholly-owned subsidiary of the bank of Åland Plc. The mission of the company is to develop, sell and maintain banking computer systems – either as whole systems or in modules – to small and medium-sized banks in Europe, as well as sell operational services. Among Crosskey's current customers are Tapiola Bank, DnB NOR, S-Bank, the Bank of Åland, eQ Bank and EGET. Crosskey currently has 132 employees and offices in Mariehamn, Turku, Helsinki and Stockholm.

Ålandsbanken Asset Management Ab

Ålandsbanken Asset Management Ab is a subsidiary of the Bank of Åland Plc. The company offers discretionary and consultative asset management services to institutions and private individuals. The company also manages all of the Bank of Åland's mutual funds. The company currently has about 300 customers and EUR 700 M in managed assets. The company has strong growth in the form of new customers.

Ålandsbanken Fondbolag Ab

Ålandsbanken Fondbolag Ab is a wholly-owned subsidiary of the Bank of Åland Plc. The mutual funds (unit trusts) that the company manages are registered in Finland and comply with the Act on Mutual Funds. At year-end 2006, the total assets under management amounted to EUR 355 M (269), an increase of EUR 86 M or 32 per cent since one year earlier. The number of unit holders rose by 32 per cent to 12,508 (9,443) during 2006.

Ålandsbanken Kapitalmarknadstjänster Ab

Ålandsbanken Kapitalmarknadstjänster Ab (Allcap Ab) is a subsidiary of the Bank of Åland Plc. The company provides discretionary asset management as well as consulting services related to securities and financing. The value of discretionarily managed mandates totalled EUR 125 M at year-end, an increase of 39 per cent. The company has more than 200 customers, with an aggregate portfolio value of EUR 460 M.

Annual General Meeting and financial information in 2007

The Annual General Meeting will be held on March 22, 2007.

The Annual Report will be published in the official Swedish version on March 13, 2007 and in Finnish and English soon afterward.

Interim reports during 2007

January-March 2007	April 23, 2007
January-June 2007	July 23, 2007
January-September 2007	October 22, 2007

The figures in this Year-end Report are unaudited.

Mariehamn, February 26, 2007

THE BOARD OF DIRECTORS

FINANCIAL RATIOS ETC

Bank of Åland Group	Jan-Dec 2006	Jan-Dec 2005
Earnings per share before dilution, EUR ¹	1.29	1.24
Earnings per share after dilution, EUR ²	1.29	1.21
Market price per share, year-end, EUR		
Series A	26.50	24.00
Series B	24.50	24.00
Equity capital per share, EUR ³	10.86	10.32
Return on equity after taxes, % (ROE) ⁴	13.3	12.5
Return on total assets (ROA), % ⁵	0.7	0.7
Equity/assets ratio, % ⁶	5.58	5.22
Total lending volume, EUR M	1,912	1,796
Total deposits from the public, EUR M	1,599	1,631
Equity capital, EUR M,	122	113
Balance sheet total, EUR M	2,189	2,170
Expense/income ratio		
Including loan losses	0.66	0.64
Excluding loan losses	0.66	0.64

¹ Profit for the year before dilution / Average number of shares

² Profit for the year after dilution / Average number of shares + shares outstanding

³ Equity capital / Number of shares on balance sheet date

⁴ Net operating profit - taxes / Average equity capital

⁵ Net operating profit - taxes / Average balance sheet total

⁶ Equity capital / Total assets

SUMMARY BALANCE SHEET

Bank of Åland Group (EUR M)	Dec.31 2006	Dec.31 2005
ASSETS		
Liquid assets	65	78
Debt securities eligible for refinancing with central banks	57	96
Claims on credit institutions	60	128
Claims on the public and public sector entities	1,912	1,796
Debt securities	0	0
Shares and participations	4	5
Shares and participations in associated companies	2	2
Derivative instruments	27	15
Intangible assets	5	4
Tangible assets	23	24
Other assets	17	9
Accrued income and prepayments	16	14
Deferred tax assets	1	1
TOTAL ASSETS	2,189	2,170
LIABILITIES AND EQUITY CAPITAL		
Liabilities to credit institutions	62	73
Liabilities to the public and public sector entities	1,261	1,303
Debt securities issued to the public	597	558
Derivative instruments	26	15
Other liabilities	35	30
Accrued expenses and prepaid income	12	11
Subordinated liabilities	60	55
Deferred tax liabilities	13	12
TOTAL LIABILITIES	2,066	2,057
EQUITY CAPITAL AND MINORITY INTEREST		
Share capital	23	22
Share issue	0	0
Share premium account	29	26
Reserve fund	25	25
Fair value reserve	0	0
Retained earnings	28	25
Profit for the year	15	14
Minority interest in capital	2	1
TOTAL EQUITY CAPITAL	122	113
TOTAL LIABILITIES AND EQUITY CAPITAL	2,189	2,170

SUMMARY INCOME STATEMENT

Bank of Åland Group (EUR M)	Jan-Dec 2006	Jan-Dec 2005
Net interest income	32.7	31.4
Income from equity instruments	0.0	0.1
Commission income	18.4	16.1
Commission expenses	-1.7	-2.0
Net income from securities transactions and foreign exchange dealing	2.3	1.5
Net income from financial assets available for sale	0.3	1.1
Net income from investment properties	0.2	0.3
Other operating income	9.4	3.5
Total income	61.6	52.0
Staff costs	-22.5	-17.8
Other administrative expense	-9.4	-8.5
Production for own use	0.5	1.1
Depreciation/amortisation	-4.0	-3.9
Other operating expenses	-5.4	-4.2
Total expenses	-40.9	-33.2
Loan and guarantee losses	0.0	-0.3
Share of income in associated companies	0.3	0.2
Net operating profit	21.1	18.7
Income taxes	-5.4	-4.6
Minority share of profit for the year	-1.0	-0.5
Profit for the year	14.7	13.6

INCOME STATEMENT BY QUARTER ¹

Bank of Åland Group (EUR M)	QIV 2006	QIII 2006	Q II 2006	Q I 2006	Q IV 2005
Net interest income	8.6	8.2	7.8	8.1	7.9
Income from equity instruments	0.0	0.0	0.0	0.0	0.0
Commission income	4.9	4.3	4.9	4.4	4.4
Commission expenses	-0.5	-0.4	-0.4	-0.4	-0.6
Net income from securities transactions and foreign exchange dealing	0.8	0.1	0.6	0.7	0.4
Net income from financial assets available for sale	0.1	0.0	-0.1	0.3	-0.4
Net income from investment properties	0.2	0.1	0.0	0.0	0.0
Other operating income	2.8	2.4	2.0	2.3	1.0
Total income	16.8	14.6	14.6	15.5	12.7
Staff costs	-6.5	-5.2	-5.6	-5.3	-3.1
Other administrative expenses	-3.1	-1.8	-2.5	-1.9	-2.1
Production for own use	0.1	0.1	0.1	0.1	-0.2
Depreciation/amortisation	-1.0	-1.0	-1.0	-1.0	-1.3
Other operating expenses	-1.9	-1.2	-1.2	-1.1	-1.1
Total expenses	-12.4	-9.1	-10.2	-9.3	-7.7
Loss impairment on loans and other commitments	-0.1	0.0	0.1	0.0	0.0
Share of income in associated companies	0.1	0.0	0.1	0.1	-0.1
Net operating profit	4.5	5.6	4.6	6.4	4.9

¹ Quarterly figures for 2005 have been adjusted for the effect of the "fair value option" introduced in Q IV 2005.

CHANGES IN EQUITY CAPITAL

Bank of Åland Group	Share capital	Share issue	Share premium account	Legal reserve	Fair value reserve	Retained earnings	Minority interest	Total
EUR M								
Equity capital, December 31, 2004	22.2	0.0	25.5	25.1	0.0	34.5	0.5	107.8
Introduction of IAS 39 incl. fair value option			0.5		1.1	1.6	0.0	3.3
Equity capital, January 1, 2005	22.2	0.0	26.0	25.1	1.1	36.1	0.5	111.1
Dividend to shareholders						-11.0		-11.0
Conversion of capital loan	0.0		0.1					0.1
Change in fair value					-0.8			-0.8
Change in minority interest in equity capital							0.3	0.3
Profit for the year						13.6		13.6
Equity capital, December 31, 2005	22.2	0.0	26.1	25.1	0.4	38.7	0.9	113.3
Dividend to shareholders ¹						-11.0		-11.0
Conversion of capital loan ²	0.5	0.3	3.1					3.9
Change in fair value					0.0			0.0
Change in minority interest in equity capital							1.2	1.2
Profit for the year						14.7		14.7
Equity capital, December 31, 2006	22.7	0.3	29.2	25.1	0.4	42.4	2.1	122.2

¹ Dividend payment for Series A shares EUR 5.2 M and for Series B shares EUR 5.8 M.

² During 2006, 239,649 new Series B shares subscribed in exchange for convertible loan certificates were recorded in the Finnish Trade Registry. This was equivalent to an increase in equity capital of EUR 0.5 M and an increase in the share premium account by EUR 2.8 M.

During the period December 1-31, 2006, an additional 19,869 Series B shares were subscribed in exchange for convertible loan certificates. This was equivalent to an increase in recognised equity capital of EUR 0.04 M and an increase in the share premium account by EUR 0.3 M. During the period January 1-31, 2007, 289,932 more Series B shares were subscribed in exchange for convertible loan certificates. This was equivalent to an increase in equity capital of EUR 0.6 M and an increase in the share premium account by EUR 3.8 M.

SEGMENT REPORT

Bank of Åland Group	2006			Eliminations	Total
	Banking operations	Information technology operations	Other		
EUR M					
External income	49.4	8.5	3.8	0.0	61.6
Internal income	0.8	9.9	0.0	-10.7	0.0
Total income	50.2	18.3	3.8	-10.7	61.6
Costs incl. depreciation etc.	-33.1	-14.1	-4.4	10.7	-40.9
Loan losses	0.0	0.0	0.0	0.0	0.0
Share of income in associated companies	0.0	0.0	0.3	0.0	0.3
Net operating profit	17.1	4.2	-0.3	0.0	21.1
Assets	1,915	8	270	-2	2,191
Liabilities	-1,858	-5	-206	0	-2,069
Equity capital					122
Depreciation/amortisation	3	1	0	0	4
Increases in tangible and intangible assets	3	2	0	0	5

Bank of Åland Group	2005			Eliminations	Total
	Banking operations	Information technology operations	Other		
EUR M					
External income	44.1	3.1	4.8	0.0	52.0
Internal income	0.9	10.6	0.0	-11.5	0.0
Total income	45.0	13.8	4.8	-11.5	52.0
Costs incl. depreciation etc.	-29.5	-12.2	-3.1	11.5	-33.2
Loan losses	-0.3	0.0	0.0	0.0	-0.3
Share of income in associated companies	0.0	0.0	0.2	0.0	0.2
Net operating profit	15.2	1.6	1.9	0.0	18.7
Assets	1.799	5	368	-2	2.170
Liabilities	-1.861	-3	-194	1	-2.057
Equity capital					113
Depreciation/amortisation	3	1	0	0	4
Increases in tangible and intangible assets	4	1	0	0	5

LENDING TO THE PUBLIC AND PUBLIC SECTOR ENTITIES BY PURPOSE

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

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

Bank of Åland Group (EUR M)	Dec.31 2006	Dec.31 2005
Deposit accounts from the public and public sector entities		
Demand deposit accounts	180	187
Current accounts	199	197
Environmental and Savings Accounts	99	109
Prime Accounts	445	494
Time deposits	268	228
<i>Total deposit accounts in euros</i>	1,191	1,214
Deposit accounts in other currencies	67	85
Total deposit accounts	1,259	1,300
Bonds and subordinated debentures *	180	174
Certificates of deposit issued to the public *	160	157
Bonds and certificates of deposit	340	331
Total deposits	1,599	1,631

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

DERIVATIVE CONTRACTS

Bank of Åland Group (EUR M)	Dec 31. 2006		Dec 31. 2005	
	For hedging purposes	Other	For hedging purposes	Other
<i>Value of underlying property</i>				
Interest rate derivatives				
Interest rate swap contracts	342	8	288	5
Currency derivatives				
Forward contracts	7	7	3	3
Interest rate and currency swap contracts	0	1	0	1
Equity derivatives				
Option contracts				
Purchased	151	0	147	0
Written	0	151	0	147
	500	168	438	156
Equivalent credit values of the contracts				
Interest rate derivatives	4		2	
Currency derivatives	0		0	
Equity derivatives	35		25	
	40		27	

OFF-BALANCE SHEET COMMITMENTS

Bank of Åland Group EUR M	Dec.31 2006	Dec.31 2005
Guarantees and pledges	16	13
Other commitments	154	132
	170	145