

BANK OF ÅLAND

INTERIM REPORT for the period January – June 2006

The report period in brief

- Consolidated net operating profit climbed 18.1 per cent to 11.0 million euros (Jan–Jun 2005: EUR 9.3 M)
- Net interest income rose by 1.5 per cent to EUR 15.9 M (15.6)
- Commission income rose by 17.2 per cent to EUR 9.3 M (7.9)
- Expenses rose by 10.3 per cent to EUR 19.4 M (17.6)
- Loan losses (reversal) totalled EUR 0.1 M (0.0)
- Lending volume rose by 8.7 per cent to EUR 1,797 M (Jun 2005: 1,654)
- Deposit accounts declined by 1.0 per cent to EUR 1,207 M (Jun 2005: 1,219)
- Mutual fund capital under management rose by 13.8 per cent to EUR 300 M (263)
- Return on equity after taxes (ROE) was 14.7 per cent (13.4)
- The total capital ratio amounted to 11.3 per cent (11.7)
- Earnings per share after taxes amounted to EUR 0.71 (0.63)

Crosskey Banking Solutions Ab Ltd will open new branch office in Sweden

During the autumn, Crosskey will open a branch office in Stockholm. "We are seeing strong demand for Crosskey's services and are thus seeking to further strengthen our resources. By placing our new branch office in Stockholm, we will have good opportunities to work with our existing customers in Finland while gaining a natural bridgehead for potential new customers in Sweden," says Peter Wiklöf, Managing Director of Crosskey Banking Solutions.

Carita Weiss, 35, has been appointed Managing Director of Crosskey's branch office in Sweden. Ms Weiss has 12 years of experience in the banking and financial services market in Sweden.

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. Ålandsbanken Fondbolag Ab, Ålandsbanken Asset Management Ab, Crosskey Banking Solutions Ab Ltd and Allcap Ab are part of the Bank of Åland Group.

EARNINGS AND PROFITABILITY

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

Earnings

During the first half of 2006, consolidated net operating profit amounted to EUR 11.0 M (9.3). This was an increase of 18.1 per cent¹ compared to the corresponding period of 2005. Return on equity after taxes (ROE) was 14.7 per cent (13.4).

The main reasons for the positive trend of earnings were increased commission income from asset management and from providing investment products, as well as increased revenue from computer systems sales and development (Crosskey Banking Solutions Ab Ltd).

Net interest income

Net interest income amounted to EUR 15.9 M (15.6). As a result of higher interest rates as well as larger lending volume, net interest income rose by 1.5 per cent despite the continued narrowing of customer margins.

Other income

Commission income rose by 17.2 per cent to EUR 9.3 M (7.9). Income from asset management and from providing investment products rose the most.

Net income from securities trading for the Bank's own account was EUR 0.8 M (0.1). Net income from dealing in the foreign exchange market amounted to EUR 0.5 M (0.5).

Net income from financial assets available for sale was EUR 0.2 M (1.5). The divestment of the Bank's shareholding in the Åland-based food processing company Chips Abp during the first quarter of 2005 yielded a capital gain of EUR 1.2 M. Net income from investment properties amounted to EUR 0.0 M (0.2).

Other operating income totalled EUR 4.3 M (1.8), due to increased revenue from the sale and development of computer systems.

Total income rose by 12.7 per cent to EUR 30.1 M (26.7).

Expenses

Staff costs rose by 6.1 per cent to EUR 10.9 M (10.3) as a consequence of new recruitments, mainly at Crosskey Banking Solutions Ab Ltd. Changes in pension liabilities and the fair value of assets in Ålandsbanken Abp:s Pensionsstiftelse, the Bank's pension fund, reduced staff costs by EUR 0.7 M (0.0).

Other administrative expenses (office costs, marketing, telecommunications and computer costs) amounted to EUR 4.5 M (4.4). Production for own use amounted to EUR 0.2 M (0.9) and was related to expenses for computer software, which in accordance with IFRS must be capitalised. Depreciation/amortisation rose to EUR 2.0 M (1.7).

Other operating expenses amounted to EUR 2.3 M (2.1).

Total expenses, including planned depreciation/amortisation, rose to EUR 19.4 M (17.6).

Impairment loss on loans and other commitments

Net loan losses amounted to EUR 0.1 M (reversal).

Personnel

Hours worked in the Group, recalculated to full-time equivalent positions, totalled 434 (406) in the first half of 2006. This represented an increase of 28 positions compared to the same period last year. Most of the increase was due to new recruitments at Crosskey Banking Solutions Ab Ltd.

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

Expense/income ratio

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

Bank of Åland Group	Jun 30 2006	Jun 30 2005	Dec 31 2005
including loan losses	0.64	0.65	0.64
excluding loan losses	0.64	0.65	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 March, the Group's capital adequacy according to the Credit Institutions Act was 11.3 per cent (11.7).

Bank of Åland Group	Jun 30 2006	Jun 30 2005	Dec 31 2005
Capital base, EUR M			
Core capital	85.3	81.0	83.8
Supplementary capital	51.6	48.4	51.3
Total capital base	136.9	129.4	135.1
Risk-weighted volume, EUR M	1,221.0	1,109.1	1,192.7
Total capital ratio, %	11.3	11.7	11.3
Core capital as a percentage of risk-weighted volume	7.0	7.3	7.0

Profit for the report period is not included in the capital base.

Cash flow statement

Bank of Åland Group	Jan-Jun 2006	Jan-Jun 2005
Liquid assets, January 1	217.4	252.2
Cash flow from operating activities		
Net operating profit	11.0	9.3
Adjustment for net operating profit items not affecting cash flow	1.9	4.6
Profits/losses from investing activities	-0.2	-3.4
Income taxes paid	-2.5	-1.8
Change in assets and liabilities in operating activities	<u>-99.2</u>	<u>-85.8</u>
Cash flow from investing activities	-1.3	3.2
Cash flow from financing activities	<u>-7.1</u>	<u>1.9</u>
Liquid assets, June 30	120.0	180.1

Deposits

Deposits from the public, including bonds issued and certificates of deposit, rose during the 12 months to June 30, 2006 by 3.0 per cent to EUR 1,531 M (1,578). Deposit accounts decreased by 1.0 per cent to EUR 1,207 M (1,219). Bonds and certificates of deposit issued to the public decreased by 9.7 per cent to EUR 324 M (359). During the report period, the Group floated bond issues with a nominal value of EUR 24.5 M.

Lending

The volume of lending to the public increased by 8.7 per cent to EUR 1,797 M (1,654) during the 12 months to June 30, 2006. Most of the increase went towards residential financing. Lending to private

households rose by 10.9 per cent to EUR 1,267 M (1,143). Private households accounted for 70.5 (69.0) per cent of the Group's total lending.

Crosskey Banking Solutions Ab Ltd

Crosskey Banking Solutions Ab Ltd is a wholly-owned subsidiary of the Bank of Åland Plc (Ålandsbanken Abp). The mission of the company is to develop, sell and maintain banking computer systems – either as whole systems or in modules – to small and medium-sized banks in Europe, as well as sell operational and support contracts for its deliveries. Crosskey currently works with four banks: Tapiola Bank, DnB NOR, S-Bank and the Bank of Åland. Crosskey currently has about 115 employees and offices in Mariehamn, Turku and Helsinki. During the report period, Crosskey decided to open a branch office in Sweden in the autumn.

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 currently has about 300 customers and EUR 600 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. On June 30, 2006, the total assets under management amounted to EUR 300 M (Dec. 31, 2005: 269), an increase of EUR 31 M or 11 per cent during the report period. The number of unit holders totalled 11,348 (Dec 31, 2005: 9,443). This represented an increase of 1,905 or 20 per cent during the report period.

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 company currently has more than 200 customers, with an aggregate portfolio value of EUR 400 M.

Forecast for 2006

Full-year earnings in 2006 are expected to be better than in 2005.

Mariehamn, July 24, 2006

THE BOARD OF DIRECTORS

Review report

To the shareholders of the Bank of Åland Abp

We have conducted a review of the Interim Report of the Bank of Åland Abp for the period January 1 – June 30, 2006.

The Interim Report, which was issued by the Board of Directors and the Managing Director, includes a condensed income statement, balance sheet, cash flow statement, changes in equity capital and certain additional disclosures. After completing our assignment, we are issuing our statement of opinion about the Interim Report.

Our review was conducted in accordance with the recommendations of the Finnish Institute of Authorised Public Accountants concerning reviews. A review is planned and carried out on a sufficient scope to confirm that the Interim Report does not contain essential errors or omissions. A review is mainly limited to interviews with the staff of the Bank and analytical examination measures. We have not conducted a complete audit and will thus not issue an audit report.

On the basis of this review, to our knowledge no circumstances have emerged that would give reason to assume that the Interim Report has not been prepared essentially in accordance with the accounting and valuation principles of the IFRS standards approved by the EU as well as other Finnish rules and regulations concerning Interim Reports and that the Interim Report should not provide accurate and sufficient disclosures about the operating results and financial position of the Bank.

Mariehamn, July 24, 2006

Marja Tikka
Authorised Public Accountant

Leif Hermans
Authorised Public Accountant

Rabbe Nevelainen
Authorised Public Accountant

FINANCIAL RATIOS ETC

Bank of Åland Group	Jan-June 2006	Jan-June 2005	Jan-Dec 2005
Earnings per share before dilution, EUR ¹	0.71	0.63	1.24
Earnings per share after dilution, EUR ²	0.68	0.62	1.21
Market price per share, end of period, EUR			
Series A	24.00	19.60	24.00
Series B	23.60	18.61	24.00
Equity capital per share, EUR ³	10.04	9.67	10.32
Return on equity after taxes, % (ROE) ⁴	14.7	13.4	12.5
Return on total assets (ROA), % ⁵	0.8	0.7	0.7
Equity/assets ratio, % ⁶	5.38	5.26	5.22
Total lending volume, EUR M	1,797	1,654	1,796
Total deposits from the public, EUR M	1,531	1,578	1,631
Equity capital, EUR M,	111	106	113
Balance sheet total, EUR M	2,066	2,020	2,170
Expense/income ratio			
Including loan losses	0.64	0.65	0.64
Excluding loan losses	0.64	0.65	0.64

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

² Profit for the period 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 Profit for the period / Balance sheet total

SUMMARY BALANCE SHEET

Bank of Åland Group (EUR M)	Jun 30 2006	Jun 30 2005	Dec 31 2005
ASSETS			
Liquid assets	30	37	78
Debt instruments eligible for refinancing with central banks	61	142	96
Claims on credit institutions	90	119	128
Claims on the public and public sector entities	1,797	1,654	1,796
Debt instruments	2	1	0
Shares and participations	4	4	5
Shares and participations in associated companies	2	2	2
Derivative instruments	18	12	15
Intangible assets	4	4	4
Tangible assets	23	24	24
Other assets	18	11	9
Accrued income and prepaid expenses	15	10	14
Imputed taxes	1	1	0
TOTAL ASSETS	2,066	2,020	2,170
LIABILITIES AND EQUITY CAPITAL			
Liabilities to credit institutions	70	26	73
Liabilities to the public and public sector entities	1,210	1,223	1,303
Debt instruments issued to the public	537	543	558
Derivative instruments	18	14	15
Other liabilities	35	31	30
Accrued expenses and prepaid income	15	14	11
Subordinated liabilities	58	52	55
Imputed taxes due	12	11	12
TOTAL LIABILITIES	1,955	1,914	2,057
EQUITY CAPITAL AND MINORITY INTEREST			
Share capital	22	22	22
Share premium account	27	26	26
Reserve fund	25	25	25
Fair value reserve	0	0	0
Profit brought forward	28	25	25
Profit for the period	8	7	14
Minority interest in capital	1	1	1
TOTAL EQUITY CAPITAL	111	106	113
TOTAL LIABILITIES AND EQUITY CAPITAL	2,066	2,020	2,170

SUMMARY INCOME STATEMENT

Bank of Åland Group (EUR M)	Jan-Jun 2006	Jan-Jun 2005	Jan-Dec 2005
Net interest income	15.9	15.6	31.4
Income from equity instruments	0.0	0.1	0.1
Commission income	9.3	7.9	16.1
Commission expenses	-0.8	-0.9	-2.0
Net income from securities transactions and foreign exchange dealing	1.3	0.5	1.5
Net income from financial assets available for sale	0.2	1.5	1.1
Net income from investment properties	0.0	0.2	0.3
Other operating income	4.3	1.8	3.5
Total income	30.1	26.7	52.0
Staff costs	-10.9	-10.3	-17.8
Other administrative expenses	-4.5	-4.4	-8.5
Production for own use	0.2	0.9	1.1
Depreciation/amortisation	-2.0	-1.7	-3.9
Other operating expenses	-2.3	-2.1	-4.2
Total expenses	-19.4	-17.6	-33.2
Loan and guarantee losses	0.1	0.0	-0.3
Share of profit/loss in associated companies	0.2	0.2	0.2
Net operating profit	11.0	9.3	18.7
Profit before appropriations and taxes			
Profit for the period	-2.7	-2.0	-4.6
Minority share of profit for the period	-0.5	-0.3	-0.5
Profit for the period	7.8	6.9	13.6

INCOME STATEMENT BY QUARTER ¹

Bank of Åland Group (EUR M)	Q II 2006	Q I 2006	Q IV 2005	Q III 2005	Q II 2005
Net interest income	7.8	8.1	7.9	7.9	7.9
Income from equity instruments	0.0	0.0	0.0	0.0	0.1
Commission income	4.9	4.4	4.4	3.9	4.3
Commission expenses	-0.4	-0.4	-0.6	-0.5	-0.5
Net income from securities transactions and foreign exchange dealing	0.6	0.7	0.4	0.6	0.4
Net income from financial assets available for sale	-0.1	0.3	-0.4	0.0	0.3
Net income from investment properties	0.0	0.0	0.0	0.0	0.0
Other operating income	2.0	2.3	1.0	0.7	0.9
Total income	14.6	15.5	12.7	12.6	12.8
Staff costs	-5.6	-5.3	-3.1	-4.5	-5.4
Other administrative expenses	-2.5	-1.9	-2.1	-2.0	-2.5
Production for own use	0.1	0.1	-0.2	0.4	0.9
Depreciation/amortisation	-1.0	-1.0	-1.3	-0.9	-0.8
Other operating expenses	-1.2	-1.1	-1.1	-1.0	-1.1
Total expenses	-10.2	-9.3	-7.7	-7.9	-8.9
Loss impairment on loans and other commitments	0.1	0.0	0.0	-0.3	0.0
Share of profit/loss in associated companies	0.1	0.1	-0.1	0.1	0.1
Net operating profit	4.6	6.4	4.9	4.5	4.5

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 premium account	Legal reserve	Fair value reserve	Retained earnings	Minority share	Total
EUR M							
Equity capital, December 31, 2004	22.2	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		3.3
Equity capital, January 1, 2005	22.2	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				-0.9			-0.9
Change in minority share of equity capital						0.1	0.1
Profit for the period					6.9		6.9
Equity capital, June 30, 2005	22.2	26.1	25.1	0.2	32.1	0.6	106.3
Conversion of capital loan	0.0	0.0					0.0
Change in fair value				0.2			0.2
Change in minority share of equity capital						0.3	0.3
Profit for the period					6.6		6.6
Equity capital, December 31, 2005	22.2	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	0.2	1.1					1.3
Change in fair value				-0.2			-0.2
Change in minority share of equity capital						0.0	0.0
Profit for the period					7.8		7.8
Equity capital, June 30, 2006	22.3	27.2	25.1	0.1	35.5	0.9	111.1

¹ The dividend payment for Series A shares was EUR 5.2 M and for Series B shares EUR 5.8 M.

² During the report period, 84,804 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 0.2 M and an increase in the share premium account by EUR 1.1 M.

SEGMENT REPORT

Bank of Åland Group (EUR M)	June 30, 2006						Total
	Retail banking operations	Investment banking operations	Information technology operations	Treasury and portfolio management	Group staff units etc.	Eliminations	
External income	18.7	5.6	4.1	1.4	0.4	0.0	30.1
Internal income	0.6	-0.4	4.8	1.9	0.2	-7.1	0.0
Total income	19.3	5.2	8.9	3.3	0.5	-7.1	30.1
Costs incl. depreciation etc.	-7.0	-1.8	-6.9	-0.9	-9.8	7.1	-19.4
Loan losses	0.1						0.1
Share of profit/loss in associated companies				0.2			0.2
Net operating profit	12.3	3.4	2.0	2.6	-9.3	0.0	11.0
Assets	1,853	9	5	74	132	-6	2,066
Liabilities	1,523	144	3	87	204	-7	1,955
Equity capital							111

Bank of Åland Group (EUR M)	June 30, 2005						Total
	Retail banking operations	Investment banking operations	Information technology operations	Treasury and portfolio management	Group staff units etc.	Eliminations	
External income	17.5	4.2	1.6	3.5	0.0	0.0	26.7
Internal income	1.0	-0.9	5.7	0.9	0.2	-6.8	0.0
Total income	18.5	3.3	7.3	4.3	0.2	-6.8	26.7
Costs incl. depreciation etc.	-6.8	-1.4	-6.2	-0.7	-9.3	6.8	-17.6
Loan losses	0.0						0.0
Share of profit/loss in associated companies				0.2			0.2
Net operating profit	11.6	1.9	1.2	3.8	-9.2	0.0	9.3
Assets	1,849	16	3	69	75	8	2,020
Liabilities	1,502	150	2	97	153	9	1,914
Equity capital							106

LENDING TO THE PUBLIC AND PUBLIC SECTOR ENTITIES BY PURPOSE

Bank of Åland Group (EUR M)	Jun 30 2006	Jun 30 2005	Dec 31 2005
BUSINESS AND PROFESSIONAL ACTIVITIES			
<i>Service sector</i>			
Shipping	61	80	60
Hotels, restaurants, tourist cottages etc.	12	13	11
Wholesale and retail trade	45	42	46
Housing corporations	45	34	40
Real estate operations	85	88	95
Financial operations	115	101	137
Other service business	82	72	78
	445	430	467
<i>Production sector</i>			
Agriculture, forestry and fishing	20	20	21
Food processing etc	8	10	9
Construction	23	15	27
Other industry and crafts	9	9	9
	60	53	66
HOUSEHOLDS			
Home loans	1012	923	977
Studies	13	13	13
Other purposes	241	206	246
	1,267	1,143	1,236
PUBLIC SECTOR AND NON-PROFIT ORGANISATIONS			
	26	28	28
TOTAL LENDING	1,797	1,654	1,796

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

Bank of Åland Group (EUR M)	Jun 30 2006	Jun 30 2005	Dec.31 2005
Deposit accounts from the public and public sector entities			
Demand deposit accounts	170	189	187
Current accounts	199	203	197
Savings and Environmental Accounts	101	105	109
Prime Accounts	428	455	494
Time deposits	251	196	228
<i>Total deposit accounts in euros</i>	1,149	1,147	1,214
Deposit accounts in other currencies	58	72	85
Total deposit accounts	1,207	1,219	1,300
Bonds	192	180	174
Certificates of deposit issued to the public	132	179	157
Bonds and certificates of deposit	324	359	331
Total deposits	1,531	1,578	1,631

DERIVATIVE CONTRACTS

Bank of Åland Group (EUR M)	June 30, 2006		June 30, 2005	
	For hedging purposes	Other	For hedging purposes	Other
<i>Value of underlying property</i>				
Interest rate derivatives				
Option contracts				
Purchased	0.0	0.0	15.0	0.0
Written	0.0	0.0	0.0	15.0
Interest rate swap contracts	327.3	7.6	313.5	4.4
Currency derivatives				
Forward contracts	7.9	8.3	1.9	2.0
Interest rate and currency swap contracts	0.5	1.7	0.0	0.5
Equity derivatives				
Option contracts				
Purchased	165.2	0.0	147.8	0.7
Written	0.0	165.2	0.0	147.8
	500.9	182.8	478.1	170.5
Equivalent credit values of the contracts				
Interest rate derivatives	4.1		3.2	
Currency derivatives	0.6		0.1	
Equity derivatives	27.1		21.9	
	31.8		25.2	

OFF-BALANCE SHEET COMMITMENTS

Bank of Åland Group (EUR M)	Jun 30 2006	Jun 30 2005	Dec 31 2005
Guarantees and pledges	15	12	13
Other commitments	153	118	132
	169	130	145