

# Interim Report

For the period January – September 2008

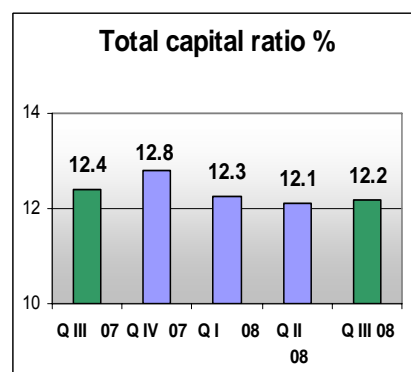
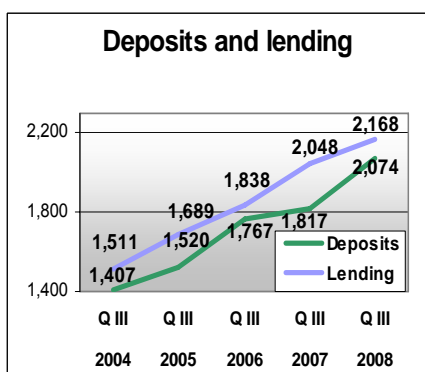
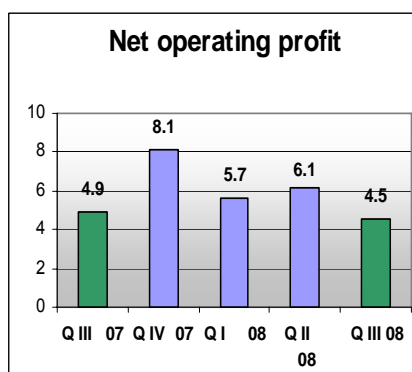
October 27, 2008

## The report period in brief

- Consolidated net operating profit decreased by 20 per cent to 16.3 million euros (January – September 2007: EUR 20.5 M)
- Net interest income increased by 9 per cent to EUR 31.4 M (28.8)
- Commission income decreased by 8 per cent to EUR 14.0 M (15.2)
- Total income decreased by 1 per cent to EUR 54.0 M (54.4)
- Expenses increased by 13 per cent to EUR 37.5 M (33.2)
- Loan losses amounted to EUR 0.5 M (0.9)
- Lending volume increased by 6 per cent to EUR 2,168 M (September 2007: 2,048)
- Deposits increased by 14 per cent to EUR 2,074 M (September 2007: 1,817)
- Mutual fund capital under management decreased by 28 per cent to EUR 284 M (406)
- Return on equity after taxes (ROE) was 11.8 (16.1) per cent
- The expense/income ratio deteriorated to 70 (62) per cent
- The total capital ratio in compliance with Basel 2 amounted to 12.2 (12.4) per cent
- Earnings per share after taxes amounted to EUR 0.99 (1.26)

” During the first three weeks of October, the Bank of Åland has received approximately 800 new private customers. This very fact reflects a high level of customer confidence towards the Bank of Åland, as well as a growing demand for a stable and cautious bank.”

Peter Wiklöf, Managing Director



## BANK OF ÅLAND

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 Veranta Ab are part of the Bank of Åland Group.

## EARNINGS AND PROFITABILITY

This Interim Report has been prepared in compliance with the International Financial Reporting Standards (IFRSs) that have been adopted by the European Union, as well as with International Accounting Standard (IAS) 34, "Interim Financial Reporting".

### Earnings summary for the report period

During January–September 2008, the consolidated net operating profit of the Bank of Åland Group decreased by 20<sup>1</sup> per cent to EUR 16.3 M (20.5). During the report period, the Group's net interest income showed positive growth, while commission income and net income from securities trading were down compared to the same period last year.

Income decreased by 1 per cent to EUR 54.0 M (54.4), while expenses increased by 13 per cent to EUR 37.5 M (33.2). Return on equity after taxes (ROE) fell to 11.8 (16.1) per cent, and earnings per share to EUR 0.99 (1.26).

### Net interest income

Due to higher interest rates and larger volume of both deposits and lending, consolidated net interest income rose by 9 per cent to EUR 31.4 M (28.8) during the report period. Lending volume increased by 6 per cent to EUR 2,168 M (2,048), and deposit volume increased by 14 per cent to EUR 2,074 M (1,817).

### Other income

Commission income fell by 8 per cent to EUR 14.0 M (15.2). Income on securities brokerage rose, while decreased managed assets meant lower income on mutual fund and asset management.

Net income from securities trading for the Bank's own account was EUR 0.2 M (2.1). This low income was partly due to an impairment loss of EUR 0.6 M on option receivables from Lehman Brothers, which is equivalent to 90 per cent of the receivables. Net income from dealing in the foreign exchange market improved to EUR 0.7 M (0.6). Net income from financial assets available for sale was EUR 0.1 M (0.9), and net income from investment properties was EUR 0.1 M (0.6).

Other operating income increased to EUR 8.9 M (7.6) as a consequence of higher income from the sale and development of information technology (IT) systems.

The Group's total income decreased by 1 per cent to EUR 54.0 M (54.4).

### Expenses

Staff costs rose by 9 per cent to EUR 21.0 M (19.3). The increase was due to employee recruitment and salary hikes as provided by collective agreements. 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 7.9 M (6.4). This was mainly because of higher external IT expenses at Crosskey. Production for own use totalled EUR 0.3 M (0.3) and was related to expenses for computer software, which in accordance with IFRSs must be capitalised. Depreciation/amortisation increased to EUR 4.4 M (3.6). Other operating expenses increased to EUR 4.5 M (4.2), as a consequence of rising property rents for the Group.

The Group's total expenses rose by 13 per cent to EUR 37.5 M (33.2).

### Impairment losses on loans and other commitments

Loan losses amounted to EUR 0.5 M (0.9).

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

## Third quarter of 2008

Compared to the third quarter of 2007, the Group's net operating profit fell by 7 per cent to EUR 4.5 M (Q III 2007: 4.9).

### Income

Total income increased by 2 per cent to EUR 16.9 M (16.5). Higher deposit and lending volume and higher interest rates resulted in an increase in net interest income of 6 per cent to EUR 10.5 M (9.9).

Commission income deteriorated, amounting to EUR 3.8 M (4.6), due to lower commissions on mutual funds, asset management and securities brokerage. Net income from securities trading and foreign exchange operations fell to EUR -0.1 M (0.1), as a consequence of an impairment loss of EUR 0.6 M. Other operating income increased to EUR 3.2 M (2.3) thanks to higher income from IT operations.

### Expenses

Total expenses during the quarter increased by 9 per cent to EUR 12.2 M (11.1). During the quarter, staff costs amounted to EUR 6.8 M (6.5). The number of employees in the Group increased, and salary hikes were implemented as provided by collective agreements. Other administrative expenses increased to EUR 2.3 M (2.1) during the third quarter. Due to increased property expenses and rents, other operating expenses rose to EUR 1.5 M (1.4).

## Balance sheet total and off-balance sheet obligations

At the end of the report period, the Group's balance sheet total was EUR 2,728 M (2,569). Off-balance sheet obligations decreased to EUR 165 M (192).

## Personnel

Hours worked in the Group, recalculated to full-time equivalent positions, totalled 503 (460) during January–September 2008. This represented an increase of 43 positions compared to the year-earlier period.

Bank of Åland Group	Sep 30 2008	Sep 30 2007
Bank of Åland Plc	329	306
Ab Compass Card Oy Ltd	6	4
Crosskey Banking Solutions Ab Ltd	139	124
Ålandsbanken Asset Management Ab	14	13
Ålandsbanken Fondbolag Ab	6	8
Ålandsbanken Kapitalmarknadstjänster Ab, until September 30, 2007	0	5
Ålandsbanken Veranta Ab	9	1
Total number of full-time equivalent positions, recalculated from hours worked	503	460

## Expense/income ratio

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

Bank of Åland Group	Sep 30 2008	Sep 30 2007
Including loan losses	0.70	0.62
Excluding loan losses	0.69	0.61

## Capital adequacy

The Group is reporting capital adequacy in accordance with Pillar 1 in the Basel 2 regulations. According to Pillar 1 of Basel 2, the Group's total capital ratio at the end of September 2008 was 12.2 (12.4) per cent. The capital requirement for credit risks has been calculated according to the standardised approach, and the capital requirement for operational risks has been calculated according to the basic indicator approach in the Basel 2 regulations.

## Capital adequacy

Bank of Åland Group	Sep 30 2008	Sep 30 2007	Dec 31 2007
Capital base, EUR M			
Core capital	104.1	95.2	103.3
Supplementary capital	52.6	51.4	51.3
Total capital base	156.7	146.6	154.6
Capital requirement for credit risks	93.3	86.9	88.5
Capital requirement for operational risks	9.3	8.0	8.0
Total capital requirement	102.5	94.9	96.5
Total capital ratio, %	<b>12.2</b>	<b>12.4</b>	<b>12.8</b>
Core capital ratio, %	8.1	8.0	8.6

## Deposits

Deposits from the public, including bonds and certificates of deposit issued, increased during the 12 months to September 30, 2008 by 14 per cent to EUR 2,074 M (1,817). Deposit accounts increased by 20 per cent to EUR 1,695 M (1,415). Bonds and certificates of deposit issued to the public fell by 6 per cent to EUR 379 M (402).

During the third quarter, the Bank chose to reduce its counterparty risks by decreasing its deposits in other banks, and by concentrating them mainly in Nordic counterparties. Since liquidity was and is very good, the Bank has not chosen to match all price competition in the market. One consequence of this is that deposits from institutional investors declined by about EUR 50 M. Traditional deposits from the public increased by about EUR 15 M during the third quarter.

## Lending

The volume of lending to the public increased during the 12 months to September 30, 2008 by 6 per cent to SEK 2,168 M (2,048). Lending to households increased by 3 per cent to EUR 1,467 M (1,421). Households accounted for 68 (69) per cent of the Group's total lending. Lending to the service sector rose by 14 per cent to EUR 619 M (543), while lending to the production sector rose by 3 per cent to EUR 58 M (57).

## Ab Compass Card Oy Ltd

Ab Compass Card Oy Ltd is a subsidiary of the Bank of Åland Plc. The mission of the company is to issue credit and debit cards to private and institutional customers. The company currently has 6 employees and offices in Mariehamn and Helsinki.

## 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 DnB NOR, S-Bank, Tapiola Bank, the Bank of Åland, eQ Bank and EGET. Crosskey currently has 155 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 asset management services to institutions and private individuals. The company also manages all of the Bank of Åland's mutual funds. The year 2008 has been dominated by the global financial market crisis, and it has been challenging to maintain portfolio values. However, due to the company's conservative investment strategy, disruptions in the investment environment primarily represented opportunities for buyers to take advantage of bargains in the markets. Despite the market situation, the company maintained the same level of profitability as the year before. The company currently has about 350 customers and EUR 800 M in managed assets.

## Ålandsbanken Fondbolag Ab

Ålandsbanken Fondbolag Ab is a wholly-owned subsidiary of the Bank of Åland Plc. The company's strategy is to ensure that the mutual funds (unit trusts) that it manages are competitive and tailored to the financial investment needs of Bank of Åland customers. On September 30, 2008, assets under management totalled

EUR 284 M (406 on September 30, 2007), down 28 per cent. The decrease was due to both a downturn in valuations, especially in equity mutual fund investments, and customer redemptions of units, as a consequence of the generally uncertain market situation. The number of unit holders was 14,079 (14,261 on September 30, 2007), a decrease of 1 per cent.

## **Important events after the close of the report period**

In the Bank's assessment, given the prevailing market situation it is very difficult to achieve profitability in estate agency. During October, the Bank decided to discontinue its involvement in this business.

## **Outlook for 2008**

The recent times have been characterized by a high degree of turbulence in the international banking system. The Bank of Åland has not directly been affected by this, although it is becoming increasingly clear that the bank crisis will lead to a downturn in the global business cycle. Profitability in deposits and the capital market is expected to decrease, while on the other hand lending margins are trending higher. The extreme situation on the financial markets has had an adverse effect throughout the banking industry. Based on these factors, and taking into account that 2007 earnings included large nonrecurring items, the Group's operating income is expected to be lower than in 2007.

It should again be emphasized that at present there is great uncertainty in the global financial system. Hence, the outlook for the future is fraught with greater uncertainty than normal. In a long-term perspective, however, business opportunities for a cautious bank that is close to its customers may even improve in this market situation.

The Group's assessment of the outlook for 2008 is based on its assumptions about future developments in the fixed income and financial markets. General interest rates, the demand for lending, the current trend of the capital and financial markets, the competitive situation and the business cycles are factors that the Group cannot influence.

Mariehamn, October 27, 2008

THE BOARD OF DIRECTORS

## FINANCIAL RATIOS ETC

Bank of Åland Group	Jan-Sep 2008	Jan-Sep 2007	Jan-Dec 2007
Earnings per share before dilution, EUR <sup>1</sup>	0.99	1.26	1.75
Earnings per share after dilution, EUR <sup>2</sup>	0.99	1.26	1.75
Market price per share, end of period. EUR			
Series A	28.25	33.00	37.00
Series B	21.75	26.53	27.80
Equity capital per share, EUR <sup>3</sup>	11.53	11.05	11.54
Return on equity after taxes, % (ROE) <sup>4</sup>	11.8	16.1	16.4
Return on total assets, % (ROA) <sup>5</sup>	0.7	0.9	0.9
Equity/assets ratio, % <sup>6</sup>	4.9	5.0	5.2
Total lending volume, EUR M	2,168	2,048	2,104
Total deposits from the public, EUR M	2,110	1,817	1,921
Equity capital, EUR M	134	129	135
Balance sheet total, EUR M	2,728	2,569	2,592
Expense/income ratio			
Including loan losses	0.70	0.62	0.62
Excluding loan losses	0.69	0.61	0.61

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

<sup>2</sup> Profit for the period after dilution / Average number of shares + shares outstanding

<sup>3</sup> Equity capital – minority share of capital / Number of shares on balance sheet date

<sup>4</sup> Net operating profit – taxes / Average equity capital

<sup>5</sup> Net operating profit – taxes / Average balance sheet total

<sup>6</sup> Equity capital / Balance sheet total

## SUMMARY BALANCE SHEET

Bank of Åland Group EUR M	Sep 30 2008	Sep 30 2007	Dec 31 2007
<b>ASSETS</b>			
Cash	84	40	39
Debt securities eligible for refinancing with central banks	131	134	132
Claims on credit institutions	135	181	153
Claims on the public and public sector entities	2,168	2,048	2,104
Debt securities	76	50	50
Shares and participations	3	3	3
Shares and participations in associated companies	2	2	2
Derivative instruments	15	32	34
Intangible assets	5	5	6
Tangible assets	31	26	26
Other assets	52	24	21
Accrued income and prepayments	24	23	21
Deferred tax assets	1	1	1
<b>TOTAL ASSETS</b>	<b>2,728</b>	<b>2,569</b>	<b>2,592</b>
<b>LIABILITIES</b>			
Liabilities to credit institutions	63	124	53
Liabilities to the public and public sector entities	1,696	1,417	1,534
Debt securities issued to the public	671	737	739
Derivative instruments	4	30	3
Other liabilities	62	43	39
Accrued expenses and prepaid income	28	24	21
Subordinated liabilities	54	52	52
Deferred tax liabilities	16	13	16
<b>TOTAL LIABILITIES</b>	<b>2,594</b>	<b>2,440</b>	<b>2,457</b>
<b>EQUITY CAPITAL AND MINORITY INTEREST</b>			
Share capital	23	23	23
Share premium account	33	33	33
Reserve fund	25	25	25
Fair value reserve	0	0	0
Retained earnings	51	31	51
Shareholders' interest in equity capital	133	15	133
Minority interest in capital	1	2	2
<b>TOTAL EQUITY CAPITAL</b>	<b>134</b>	<b>129</b>	<b>135</b>
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>	<b>2,728</b>	<b>2,569</b>	<b>2,592</b>

**SUMMARY INCOME STATEMENT**

Bank of Åland Group EUR M	Jan-Sep 2008	Jan-Sep 2007	Jan-Dec 2007
Net interest income	31.4	28.8	39.3
Income from equity instruments	0.0	0.0	0.0
Commission income	14.0	15.2	20.3
Commission expenses	-1.6	-1.5	-2.0
Net income from securities transactions and foreign exchange dealing	1.0	2.7	4.2
Net income from financial assets available for sale	0.1	0.9	1.1
Net income from investment properties	0.1	0.6	0.6
Other operating income	8.9	7.6	11.9
<b>Total income</b>	<b>54.0</b>	<b>54.4</b>	<b>75.4</b>
Staff costs	-21.0	-19.3	-26.2
Other administrative expenses	-7.9	-6.4	-10.3
Production for own use	0.3	0.3	1.0
Depreciation/amortisation	-4.4	-3.6	-4.9
Other operating expenses	-4.5	-4.2	-5.6
<b>Total expenses</b>	<b>-37.5</b>	<b>-33.2</b>	<b>-46.0</b>
Impairment losses on loans and other commitments	-0.5	-0.9	-1.0
Share of profit/loss in associated companies	0.3	0.3	0.2
<b>Net operating profit</b>	<b>16.3</b>	<b>20.5</b>	<b>28.6</b>
Income taxes	-4.4	-5.4	-7.6
<b>Profit for the period</b>	<b>11.9</b>	<b>15.1</b>	<b>21.0</b>
Shareholders' interest in profit for the period	11.5	14.5	20.2
Minority interest in profit for the period	0.5	0.6	0.8
<b>Total</b>	<b>11.9</b>	<b>15.1</b>	<b>21.0</b>
<b>Earnings per share</b>			
Earnings per share before dilution, EUR <sup>1</sup>	0.99	1.26	1.75
Earnings per share after dilution, EUR <sup>2</sup>	0.99	1.26	1.75

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

<sup>2</sup> Profit for the period / Average number of shares + shares outstanding



**INCOME STATEMENT BY QUARTER**

Bank of Åland Group EUR M	Q III 2008	Q II 2008	Q I 2008	Q IV 2007	Q III 2007
Net interest income	10.5	10.7	10.1	10.5	9.9
Income from equity instruments	0.0	0.0	0.0	0.0	0.0
Commission income	3.8	5.1	5.1	5.1	4.6
Commission expenses	-0.5	-0.6	-0.5	-0.5	-0.5
Net income from securities transactions and foreign exchange dealing	-0.1	0.4	0.7	1.5	0.1
Net income from financial assets available for sale	0.0	0.1	0.0	0.2	0.0
Net income from investment properties	0.0	0.1	0.1	0.1	0.0
Other operating income	3.2	3.1	2.6	4.2	2.3
<b>Total income</b>	<b>16.9</b>	<b>19.0</b>	<b>18.1</b>	<b>21.0</b>	<b>16.5</b>
Staff costs	-6.8	-7.1	-7.1	-7.0	-6.5
Other administrative expenses	-2.3	-2.9	-2.7	-3.9	-2.1
Production for own use	0.1	0.1	0.2	0.7	0.1
Depreciation/amortisation	-1.6	-1.3	-1.5	-1.3	-1.3
Other operating expenses	-1.5	-1.6	-1.4	-1.4	-1.4
<b>Total expenses</b>	<b>-12.2</b>	<b>-12.8</b>	<b>-12.5</b>	<b>-12.8</b>	<b>-11.1</b>
Impairment losses on loans and other commitments	-0.2	-0.2	0.0	-0.1	-0.6
Share of profit/loss in associated companies	0.0	0.1	0.1	0.0	0.0
<b>Net operating profit</b>	<b>4.5</b>	<b>6.1</b>	<b>5.7</b>	<b>8.1</b>	<b>4.9</b>

**CASH FLOW STATEMENT**

Bank of Åland Group EUR M	Jan-Sep 2008	Jan-Sep 2007
Cash flow from operating activities		
Net operating profit	16.3	20.5
Adjustment for net operating profit items not affecting cash flow	7.3	5.6
Gains/losses from investing activities	-0.3	-1.0
Income taxes paid	-2.4	-3.6
Changes in assets and liabilities in operating activities	36.7	61.2
	57.6	82.7
Cash flow from investing activities	-8.9	-6.5
Cash flow from financing activities	-39.4	92.2
Change in cash and cash equivalents	<b>9.3</b>	<b>168.4</b>
Cash and cash equivalents, January 1	255.0	130.2
Cash and cash equivalents, September 30	264.2	298.6

## CHANGES IN EQUITY CAPITAL

Bank of Åland Group	Share capital	Share issue	Share premium account	Reserve fund	Fair value reserve	Retained earnings	Total before minority interest	Minority interest	Total
EUR M									
<b>Equity capital. Dec 31, 2006</b>	<b>22.7</b>	<b>0.3</b>	<b>29.2</b>	<b>25.1</b>	<b>0.4</b>	<b>42.4</b>	<b>120.1</b>	<b>2.1</b>	<b>122.2</b>
Financial assets available for sale:									
-changes in fair value					0.1		0.1		0.1
-transferred to income statement					-0.2		-0.2		-0.2
Profit for the period						14.5	14.5	0.6	15.1
<b>Total recognised income and expenses during the period</b>					<b>0.1</b>	<b>14.5</b>	<b>14.6</b>	<b>0.6</b>	<b>15.3</b>
Dividend to shareholders <sup>1</sup>						-11.5	-11.5	-1.0	-12.6
Conversion of capital loan	0.6	-0.3	4.1				4.4		4.4
Other change in minority share of equity capital								0.0	0.0
<b>Equity capital. Sep 30, 2007</b>	<b>23.3</b>	<b>0.0</b>	<b>33.3</b>	<b>25.1</b>	<b>0.4</b>	<b>45.4</b>	<b>127.4</b>	<b>1.6</b>	<b>129.1</b>
Financial assets available for sale:									
-changes in fair value					0,0		0.0		0.0
-transferred to income statement					0,0		0.0		0.0
Profit for the period						5.7	5.7	0.2	5.9
<b>Total recognised income and expenses during the period</b>					<b>0.0</b>	<b>5.7</b>	<b>5.7</b>	<b>0.2</b>	<b>5.9</b>
<b>Equity capital. Dec 31, 2007</b>	<b>23.3</b>	<b>0.0</b>	<b>33.3</b>	<b>25.1</b>	<b>0.4</b>	<b>51.1</b>	<b>133.1</b>	<b>1.8</b>	<b>135.0</b>
Financial assets available for sale:									
-changes in fair value					-0.3		-0.3		-0.3
-transferred to income statement					0.3		0.3		0.3
Profit for the period						11.5	11.5	0.5	11.9
<b>Total recognised income and expenses during the period</b>					<b>0.1</b>	<b>11.5</b>	<b>11.5</b>	<b>0.5</b>	<b>12.0</b>
Dividend to shareholders						-11.6	-11.6	-1.0	-12.6
<b>Equity capital. Sep 30, 2008</b>	<b>23.3</b>	<b>0.0</b>	<b>33.3</b>	<b>25.1</b>	<b>0.4</b>	<b>50.9</b>	<b>133.1</b>	<b>1.3</b>	<b>134.4</b>

<sup>1</sup> Dividend payment for Series A shares EUR 5.2 M and for Series B shares EUR 6.3 M.

**NOTES TO THE CONSOLIDATED INTERIM REPORT****1. CORPORATE INFORMATION**

The Bank of Åland Plc (Ålandsbanken Abp) is a Finnish public company, organised in compliance with Finnish legislation and with its Head Office in Mariehamn. The Bank of Åland Plc is a commercial bank with a total of 25 offices. Through its subsidiary Crosskey Banking Solutions Ab Ltd. the Bank of Åland Group is also a supplier of modern banking computer systems for small and medium-sized banks.

The Head Office has the following address:

Bank of Åland Plc  
Nygatan 2  
AX-22100 Mariehamn, Åland, Finland

The Bank of Åland Plc is listed on the Nasdaq OMX Helsinki Oy.

This Interim Report for the financial period January 1–September 30, 2008 was approved by the Board of Directors on October 27, 2008.

**2. BASIS FOR PREPARATION AND ESSENTIAL ACCOUNTING PRINCIPLES****Basis for preparation**

The Interim Report for the period January 1–September 30, 2008 has been prepared in compliance with the International Financial Reporting Standards (IFRSs) that have been adopted by the European Union, as well as with International Accounting Standard (IAS) 34. “Interim Financial Reporting”.

The Interim Report does not contain all information and notes required in annual financial statements and should be read together with the consolidated financial statements for the year ending December 31, 2007.

**Essential accounting principles**

The essential accounting principles used in preparing the Interim Report are the same as the essential accounting principles used in preparing the financial statements for the year ending December 31, 2007, except for the introduction of new standards and interpretations, which are described below. The introduction of new standards and interpretations has not materially affected the Group’s results or financial position.

An addition to the accounting policies has been made in the third quarter as an amendment to IAS 39 and IFRS 7 has been published in October, but will be effective from 1 July 2008. The impact from this amendment is that financial assets can, in certain circumstances, be reclassified out of the fair value through profit or loss category if the assets are no longer held for the purpose of selling or repurchasing in the near term. Ålandsbanken has not made any reclassifications as a result of this amendment in the third quarter.

*New accounting standards and interpretations in effect starting in 2008:***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 will present its financial statements in compliance with the revised IAS 1 no later than 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 replaces IAS 14, “Segment Reporting”. The Group will present its financial statements in compliance with IFRS 8 no later than for the financial period that begins on January 1, 2009.

**IFRIC 14, “The Limit on a Defined Benefit Asset. Minimum Funding Requirements and their Interaction”**

This interpretation clarifies the limit on asset value in case of a pension plan surplus, as well as how minimum pension plan funding requirements affect this value. The Group is applying IFRIC 14 beginning on January 1, 2008.

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

IAS 23, “Borrowing Costs”

# **BANK OF ÅLAND**

IFRIC 12, "Service Concession Arrangement"  
IFRIC 13, "Customer Loyalty Programmes"

Interim Report, January–September 2008

### 3. ESTIMATES AND JUDGEMENTS

Preparation of financial statements in compliance with IFRSs requirements the company's Executive Team to make estimates and judgements that affect the recognised amounts of assets and liabilities, income and expenses as well as disclosures about commitments. Although these estimates are based on the best knowledge of the Executive Team on current events and measures, the actual outcome may diverge from these estimates.

### 4. SEGMENT REPORT

The Bank of Åland Group reports the various business segments as primary segments. A business segment is a group of departments and companies that supply products or services that have risks and returns that diverge from other business segments. Intra-Group transactions occur at market prices. The Bank of Åland Group does not report geographic segments as secondary segments, since all operations occur in Finland.

Bank of Åland Group		Jan-Sep 2008			
EUR M	Banking operations	Information technology operations	Other	Eliminations	Total
External income	41.2	8.3	4.5	0.0	54.0
Internal income	-0.3	7.5	0.0	-7.2	0.0
<b>Total income</b>	<b>40.8</b>	<b>15.8</b>	<b>4.5</b>	<b>-7.2</b>	<b>54.0</b>
Costs including depreciation etc.	-27.1	-14.3	-3.3	7.2	-37.5
Loan losses				0.0	
Share of profit in associated companies		0.0		0.0	
<b>Net operating profit</b>	<b>13.3</b>	<b>1.6</b>	<b>1.5</b>	<b>0.0</b>	<b>16.3</b>
Assets	2,171.6	9.7	547.7	-1.0	2,728.0
Liabilities	-2,367.5	-5.1	-221.9	0.8	-2,593.6
Equity capital					134.4

Bank of Åland Group		Jan-Sep 2007			
EUR M	Banking operations	Information technology operations	Other	Eliminations	Total
External income	42.5	7.3	4.5		54.4
Internal income	0.6	7.3		-7.9	0.0
<b>Total income</b>	<b>43.1</b>	<b>14.6</b>	<b>4.5</b>	<b>-7.9</b>	<b>54.4</b>
Costs including depreciation etc.	-26.4	-11.5	-3.2	7.9	-33.2
Loan losses	-0.9				-0.9
Share of profit in associated companies			0.3		0.3
<b>Net operating profit</b>	<b>15.8</b>	<b>3.1</b>	<b>1.6</b>	<b>0.0</b>	<b>20.5</b>
Assets	2,050.4	9.4	510.1	-0.6	2,569.3
Liabilities	-2,154.1	-4.8	-281.8	0.7	-2,440.2
Equity capital					129.1

The "Banking operations" segment includes banking and investment operations carried out at 25 bank offices plus the subsidiaries Ab Compass Card Oy Ltd, Ålandsbanken Asset Management Ab, Ålandsbanken Fondbolag Ab, Ålandsbanken Kapitalmarknadstjänster Ab (until Sep 30. 2007) and Ålandsbanken Veranta Ab. Reported in "IT operations" are Crosskey Banking Solutions Ab Ltd and S-Crosskey Ab, which supply modern banking computer systems to small and medium-sized banks. Reported in "Other" are the results of Treasury and portfolio management as well as the Group's management and related corporate expenses.

## 5. INCOME TAXES

Bank of Åland Group EUR K	Sep 30 2008	Sep 30 2007
Taxes for the report period and earlier report periods	4,417	5,653
Change in deferred tax assets/liabilities	-19	-283
<b>Income taxes</b>	<b>4,399</b>	<b>5,370</b>

## 6. DIVIDEND

Bank of Åland Group EUR	2007	2006
Final dividend for 2007: EUR 1.00 per share	11,536,122	
Final dividend for 2006: EUR 1.00 per share		11,536,122

The dividend for 2007 was adopted by the Annual General Meeting on April 10, 2008. The record date was April 15 and the payment date was April 22.

## 7. DEPOSITS FROM THE PUBLIC AND PUBLIC SECTOR

### Including bonds and certificates of deposit issued

Bank of Åland Group EUR M	Sep 30 2008	Sep 30 2007	Dec 31 2007
<b>Deposit accounts from the public and public sector</b>			
Demand deposit accounts	142	151	153
Cheque accounts	236	212	213
Environmental and Savings Accounts	74	87	84
Prime Accounts	535	487	566
Time deposits	621	412	449
<i>Total deposit accounts in euros</i>	<i>1,607</i>	<i>1,349</i>	<i>1,465</i>
Deposit accounts in other currencies	88	67	67
<b>Total deposit accounts</b>	<b>1,695</b>	<b>1,415</b>	<b>1,532</b>
Bonds and subordinated debentures *	214	208	226
Certificates of deposit issued to the public *	166	194	163
<b>Total bonds and certificates of deposit</b>	<b>379</b>	<b>402</b>	<b>389</b>
<b>Total deposits</b>	<b>2,074</b>	<b>1,817</b>	<b>1,921</b>

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

## 8. LENDING TO THE PUBLIC AND PUBLIC SECTOR BY PURPOSE

Bank of Åland Group	Sep 30	Sep 30	Dec 31
EUR M	2008	2007	2007
<b>BUSINESS AND PROFESSIONAL ACTIVITIES</b>			
<i>Service sector</i>			
Shipping	84	77	97
Hotels, restaurants, tourist cottages etc.	14	12	12
Wholesale and retail trade	61	57	57
Housing corporations	65	52	56
Real estate operations	116	107	113
Financial operations	182	154	169
Other service business	97	85	86
	<b>619</b>	<b>543</b>	<b>589</b>
<i>Production sector</i>			
Agriculture, forestry and fishing	18	20	20
Food processing etc.	7	6	6
Construction	23	21	20
Other industry and crafts	11	11	10
	<b>58</b>	<b>57</b>	<b>55</b>
<b>HOUSEHOLDS</b>			
Home loans	1,128	1,103	1,113
Studies	13	13	13
Other household purposes	327	305	308
	<b>1,467</b>	<b>1,421</b>	<b>1,434</b>
<b>PUBLIC SECTOR AND NON-PROFIT ORGANISATIONS</b>			
	<b>24</b>	<b>26</b>	<b>25</b>
<b>TOTAL LENDING</b>			
	<b>2,168</b>	<b>2,048</b>	<b>2,104</b>

## 9. OFF-BALANCE SHEET COMMITMENTS

Bank of Åland Group	Sep 30	Sep 30	Dec 31
EUR M	2008	2007	2007
Guarantees and pledges	17	31	25
Other commitments	148	161	143
	<b>165</b>	<b>192</b>	<b>168</b>

## 10. DERIVATIVE CONTRACTS

Bank of Åland Group EUR M	Sep 30, 2008		Sep 30, 2007	
	For hedging purpose	Other	For hedging purposes	Other
<i>Value of underlying property</i>				
Interest rate derivatives				
Interest rate swap contracts	422	7	332	9
Currency derivatives				
Forward contracts	32	22	15	6
Interest rate and currency swap contracts	0	0	0	0
Equity derivatives				
Option contracts				
Purchased	163	0	167	0
	617	29	504	15
Equivalent credit values of the contracts				
Interest rate derivatives	6		6	
Currency derivatives	2		0	
Equity derivatives	23		39	
	31		46	

The Group does not apply hedge accounting to derivative contracts.



## 11. MATURITY BREAKDOWN OF CLAIMS AND LIABILITIES

Bank of Åland Group		Sep 30, 2008			
EUR M	< 3 mo	3 - 12 mo	1 - 5 yrs	Over 5 yrs	Total
<b>Claims</b>					
Debt securities eligible for refinancing in central banks	0	24	107	1	131
Credit institutions and central banks	136	0	0	0	136
The public and public sector entities	217	209	772	971	2 169
Other debt securities	80	1	0		81
	433	233	879	972	2 517
<b>Liabilities</b>					
Credit institutions and central banks	46	17			63
The public and public sector entities	1,515	179	2	0	1,697
Debt securities issued to the public	106	101	458		665
Subordinated liabilities		13	5	36	54
	1,667	310	465	37	2,479

No estimates of maturity dates have been made. Spot deposits, for example, are found in the category < 3 months.

Bank of Åland Group		Sep 30, 2007			
EUR M	< 3 mo	3 - 12 mo	1 - 5 yrs	Over 5 yrs	Total
<b>Claims</b>					
Debt securities eligible for refinancing in central banks	123	6	54	0	184
Credit institutions and central banks	181	0	0	0	181
The public and public sector entities	174	196	743	935	2,048
Other debt securities	0	0	0	0	0
	479	202	797	935	2,413
<b>Liabilities</b>					
Credit institutions and central banks	94	0	30	0	124
The public and public sector entities	1,309	95	12	1	1,417
Debt securities issued to the public	456	169	112	0	737
Subordinated liabilities	0	2	17	33	52
	1,859	267	172	34	2,331

## 12. INTEREST RATE REFIXING PERIODS

Bank of Åland Group		Sep 30, 2008				
EUR M	< 3 mo	3-6 mo	6-12 mo	1-5 yrs	> 5 yrs	Total
Assets	1,998	218	368	393	41	3,017
Liabilities	2,236	228	180	249	18	2,911
Difference between assets and liabilities	-238	-10	187	144	23	106

Shows the Bank's interest rate-related assets and liabilities, including derivatives, according to the interest rate refixing date as of September 30, 2008.

Bank of Åland Group		Sep 30, 2007				
EUR M	< 3 mo	3-6 mo	6-12 mo	1-5 yrs	> 5 yrs	Total
Assets	1,827	226	423	262	45	2,783
Liabilities	2,078	136	204	214	43	2,675
Difference between assets and liabilities	-251	90	219	47	2	108

**Review Report, Bank of Åland Plc Interim Report for January 1 – September 30, 2008****To the Board of Directors of the Bank of Åland Plc*****Introduction***

We have reviewed the consolidated summary balance sheet of the Bank of Åland Plc on September 30, 2008, the consolidated summary income statement, the summary statement showing changes in consolidated equity capital and the consolidated summary cash flow statements for the nine-month period ending on the above-mentioned date, as well as the summary of essential accounting principles and other disclosures in the notes. The Board of Directors and the Managing Director and Chief Executive are responsible for preparing the Interim Report and for providing accurate and sufficient information in compliance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) as well as in accordance with the other prevailing laws and regulations in Finland concerning the preparation of interim reports. On the basis of the review we have performed, at the request of the Board we are issuing our statement of opinion on the Interim Report in compliance with the Finnish Securities Markets Act, Chapter 2, Section 5a, Paragraph 7.

***Scope of a review***

This review was conducted in compliance with the standard on review engagements, Standard 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Company". A review consists of making inquiries, primarily of persons chiefly responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially more limited in scope than an audit, which must be conducted in accordance with generally accepted auditing standards and recommendations. It is consequently not possible for us to gain confirmation that we are obtaining information about all those significant circumstances that might be identified in an audit. We are thus not issuing an audit report.

***Statement of opinion***

On the basis of our review, to our knowledge no circumstances have emerged that would give us reason to believe that the Interim Report does not provide accurate and sufficient disclosures about the financial position of the Bank of Åland Group on September 30, 2008 and its operating results and cash flows during the nine-month period ending on that date, in compliance with IFRSs as adopted by the EU and in accordance with the other prevailing laws and regulations in Finland concerning the preparation of interim reports.

Mariehamn/Helsinki, October 27, 2008

Ernst & Young Ab  
Authorised Public AccountantsLeif Hermans  
Authorised Public AccountantMarja Tikka  
Authorised Public AccountantTerhi Mäkinen  
Authorised Public Accountant