

# Ålandsbanken Interim report Interim Report for the period January - September 2010

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Bank of Åland Plc STOCK EXCHANGE RELEASE 1.11.2010 09.00 hrs Interim Report for the period January - September 2010 The report period in brief Ålandsbanken Sverige AB was consolidated for the first time on March 31, 2009, which means that the company's balance sheet was included in the Bank of Åland Group, while its earnings for Q1 2009 were not. During Q2 2009, the Bank of Åland Group recognised EUR 23.1 M in negative goodwill as income. Consolidated earnings and financial ratios for 2010 are thus not comparable to the corresponding data for 2009. -Consolidated net operating profit excluding negative goodwill decreased to 0.2 million euros (January-September 2009: EUR 7.8 M). -Net interest income decreased by 6 per cent to EUR 27.8 M (29.4) -Commission income increased by 32 per cent to EUR 29.7 M (22.5) -Total income increased by 12 per cent to EUR 72.0 M (64.1) -Expenses rose by 23 per cent to EUR 66.5 M (54.2) -Impairment losses on loans amounted to EUR 5.5 M (2.4) -Lending volume increased by 5 per cent to EUR 2,547 M (September 2009: 2,437) - Deposits increased by 4 per cent to EUR 2,459 M (September 2009: 2,375) -Managed assets increased by 37 per cent to EUR 3,853 M (September 2009: 2,811) -The total capital ratio in compliance with Basel 2 amounted to 12.5 per cent (12.9) -Compared to the second quarter of 2009, consolidated net operating profit (excluding negative goodwill) amounted to EUR 2.1 M (April-June 2009: -1.2) -The Group's operational earnings in 2010, excluding non-recurring income, are expected to be substantially lower than in 2009. One of the reasons for this is that the Bank of Åland recognised an impairment loss of EUR 5.0 M when a corporate customer in Finland was declared bankrupt. The Group's operational earnings for the last quarter of 2010 is projected to be at the same level as in the first two quarters of the year. 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 The consolidated earnings of the Bank of Åland Group during the first nine months of 2010 were slightly positive, despite the fact that the Bank of Åland recognised a loan impairment loss of EUR 5.0 M during the period because a corporate customer in Finland was declared bankrupt. The Group's managed assets continued to show very good growth, climbing to EUR 3.9 billion. Lending and deposit volume increased moderately. Net interest income fell due to low market interest rates and a continued squeeze on margins, but the trend reversed during the second and third quarters of 2010. Crosskey Banking Solutions Ab Ltd's operations expanded during the period, contributing to higher "Other operating income". During the period, the operations of Ålandsbanken Sverige AB were loss-making. Third quarter earnings were weighed down by a dependence on commission income in Swedish operations. During January-September 2010, the consolidated net operating profit of the Bank of Åland Group ' excluding negative goodwill ' decreased to EUR 0.2 M (Jan-Sep 2009: 7.8). During the second quarter of 2009, the Group recognised negative goodwill of EUR 23.1 M as income, due to its purchase of Kaupthing Bank Sverige AB. Income excluding negative goodwill increased by 12 per cent to EUR 72.0 M (64.1), while expenses rose by 23 per cent to EUR 66.5 M (54.2). Return on equity after taxes (ROE) decreased to -1.7 (36.5) per cent, and earnings per share to EUR -0.22 (2.35). The loss at Ålandsbanken Sverige AB during the report period totalled EUR 11.1 M. The subsidiary group Ålandsbanken Sverige AB was consolidated in the Bank of Åland Group for the first time on March 31, 2009. This meant that the company was included in the statement of financial position, while earnings for 2009 did not include effects generated in Ålandsbanken Sverige AB during the first quarter of 2009. This affects comparability between the periods. The allocation between the Group's Finnish and Swedish business areas can be found in the

table entitled "Earnings, operations in Finland and Sweden" on page 10. Net interest income During the report period, consolidated net interest income increased by 6 per cent to EUR 27.8 M (29.4). Ålandsbanken Sverige AB had net interest income of EUR 3.8 M. Rising margins and higher lending volume had a positive impact, while shrinking deposit margins and higher refinancing costs depressed the Group's net interest income. The Group reclassified valuations from "Net interest income" to "Net income from securities transactions and foreign exchange dealing" to ensure comparability between periods. This reclassification amounted to EUR 0.6 M in the first quarter and EUR 1.0 M in the second quarter. The reclassification had no impact on earnings and thus did not affect earnings per share. Lending volume rose by 5 per cent to EUR 2,547 M (2,428). Deposit volume increased by 4 per cent to EUR 2,459 M (2,375). Other income Commission income rose by 32 per cent to EUR 29.7 M (22.5). Income from securities transactions as well as mutual fund and asset management continued to increase sharply due to the Group's focus on private banking and the good stock market trend. Commission income at Ålandsbanken Sverige AB amounted to EUR 11.5 M. Net income from securities trading for the Bank's own account was EUR 0.6 M (2.9). Net income from dealing in the foreign exchange market improved to EUR 2.6 M (1.5). Net income from financial assets available for sale was EUR 1.3 M (0.3), and net income from investment properties increased to EUR 1.6 M (0.2). Other operating income increased to EUR 13.3 M (10.4) as a consequence of higher income from the sale and development of information technology (IT) systems. The Group's total income, excluding negative goodwill, increased by 12 percent to EUR 72.0 M (64.1). Expenses Staff costs rose by 24 per cent to EUR 38.8 M (31.2) as a consequence of employee recruitments at Crosskey Banking Solutions Ab Ltd plus salary hikes as provided by collective agreements. Changes in the Bank's pension fund, Ålandsbanken Abp:s Pensionsstiftelse, according to the corridor approach reduced staff costs by EUR 0.3 M (0.1). Other administrative expenses (office, marketing, communications and IT) increased to EUR 13.5 M (11.7). Production for own use totalled EUR 2.9 M (1.1) and was related to expenses for computer software, which in accordance with IFRSs must be capitalised. Depreciation/amortisation increased to EUR 5.2 M (4.8). Other operating expenses amounted to EUR 11.9 M (7.6), of which EUR 5.4 M arose at Ålandsbanken Sverige AB. The Group's total expenses rose by 23 per cent to EUR 66.5 M (54.2). Impairment losses on loans and other commitments Impairment losses on loans rose to EUR 5.5 M (2.4). The increase was due to an impairment loss of EUR 5.0 M targeted to a corporate customer in Finland. All impairment losses were individually targeted. The Group's impairment losses during the year amounted to 0.21 per cent of its loan portfolio, which is below average for the Finnish commercial banking industry. THIRD QUARTER OF 2010 Compared to the third quarter of 2009, the Group's net operating profit (excluding negative goodwill) declined to EUR -4.1 M (Q3 2009: 2.7). Income Total income (excluding negative goodwill) increased by 7 per cent to EUR 23.1 M (21.6). Net interest income decreased by 8 per cent to EUR 9.4 M (10.2) due to low interest rates and higher refinancing expenses. Commission income amounted to EUR 9.1 M (9.4). Commission income on mutual funds and asset management improved during the period, while commission income from securities trading, lending and payment intermediation decreased. Net income from securities transactions and foreign exchange dealing increased to EUR 0.5 M (0.4). Other operating income increased to EUR 4.3 M (3.1) as a consequence of higher income from IT operations. Expenses Total expenses increased by 14 per cent to EUR 21.8 M (18.9). During the quarter, staff costs amounted to EUR 12.3 M (11.3). Other administrative expenses increased to EUR 4.8 M (4.2) during the third quarter, primarily because of higher external computer expenses. Due to increased property rents, other operating expenses rose to EUR 3.8 M (2.5). Deposits Deposits from the public, including bonds and certificates of deposit issued, increased by 4 per cent to EUR 2,459 M (2,375), of which EUR 375 M (274) consisted of deposits at Ålandsbanken Sverige AB. Deposit accounts rose by 2 per cent to EUR 2,030 M (1,999). Bonds and certificates of deposit issued to the public increased by 14 per cent to EUR 429 M (376). Lending The volume of lending to the public increased by 5 per cent and amounted to EUR 2,547 M (2,437). The volume of lending at Ålandsbanken Sverige AB was EUR 206 M (133). Lending to households increased by 5 per cent to EUR 1,742 M (1,654). Households accounted for 68

(68) per cent of the Group's total lending volume. Lending to companies rose by 2 per cent to EUR 778 M (759). Balance sheet total and off-balance sheet obligations At the end of the report period, the Group's balance sheet total was EUR 3,492 M (3,321). During the period, the Group issued debenture loans 1/2010 and 2/2010 in the amount of EUR 29 M. Off-balance sheet obligations rose to EUR 342 M (340). ASsets under management The Group's managed assets rose to EUR 3,853 M (2,811) during the report period. Management of mutual fund units rose by 29 per cent to EUR 923 M (716), while assets under discretionary management increased by 43 per cent to EUR 1,521 M (1,074). Personnel Hours worked in the Group during the third quarter, recalculated to full-time equivalent positions, totalled 666 (678) positions, which represented a decrease by 12 positions compared to the preceding year. ---

	Bank of Åland Group	Jul-Sep 2010	Jul-Sep 2009
	Bank of Åland Plc	301	312
	Ab Compass Card Oy Ltd	5	5
	Crosskey Banking Solutions Ab Ltd	192	160
	Ålandsbanken Asset	25	19
	Ålandsbanken Fondbolag Ab	7	6
	Ålandsbanken Equities Ab	9	7
	Ålandsbanken Sverige Ab	127	169
	Total number of full-time equivalent positions, recalculated from hours worked	666	678

--- Expense/income ratio Efficiency measured as expenses divided by income, including and excluding loan losses, respectively: ---

	Bank of Åland Group	Sep 30, 2010	Sep 30, 2009
	Exkluding negative goodwill	1.00	0.88
	Including loan losses	0.92	0.84

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 September 2010 was 12.5 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 will be reported in the Annual Report for 2009. 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 in 2011. An application requesting approval for the use of Basel 2's IRB approach for calculating the capital adequacy requirement for credit risk was submitted to the Finnish Financial Supervision Authority during the report period. Our assessment, according to the current regulations, is that this will substantially improve the Bank of Åland's capital adequacy. Capital adequacy ---

	Bank of Åland Group	Sep 30, 2010	Sep 30, 2009	Dec 31, 2009
	Capital base, EUR M	123.8	127.2*	129.3
	Supplementary capital	79.1	73.0	72.4
	Total capital base	202.9	200.2	201.7
	Capital requirement for credit risks	111.6	108.3	113.9
	Capital requirement for operational risks	1.9	14.9	2.2
	Capital requirement for market risks	16.7	0.9	14.9
	Total capital requirement	130.1	124.1	130.9
	Total capital ratio, %	12.5	12.9	12.3
	Core capital ratio, %	7.6	8.2	7.9

----- \* Includes profit for the period minus estimated dividend paid to shareholders. BANK OF ÅLAND PLC (ÅLANDSBA NKEN ABP) The Bank of Åland is a bank with strong customer relationships and personal service. The Bank has strong financial investment expertise and at the same time can offer good financing services. The commercial bank was founded in 1919 and has been listed on the Nasdaq OMX Helsinki Oy (Helsinki Stock Exchange) since 1942. The Bank of Åland's Head Office is in Mariehamn. The Bank has 17 offices in the Åland Islands and eight offices elsewhere in Finland. Its subsidiary Ålandsbanken Sverige AB has three offices in Sweden. A total of 10 subsidiaries, whose operations are connected in various ways to banking, belong to the Bank of Åland Group. Read more at [www.alandsbanken.fi](http://www.alandsbanken.fi). AB COMPASS CARD OY LTD Ab Compass Card Oy Ltd is a subsidiary of the Bank of Åland Plc. The company will issue credit and debit cards to private and institutional customers. Compass Card was founded in 2007 and has offices in Helsinki and Mariehamn. CROSSKEY BANKING SOLUTIONS AB LTD Crosskey Banking Solutions Ab Ltd is a wholly-owned subsidiary of the Bank of Åland Plc. The company develops, delivers and manages banking computer systems to financial market players, offering comprehensive solutions and efficient banking processes. Crosskey includes the subsidiary S-Crosskey Ab. Crosskey was founded in 2004 and has offices in Mariehamn, Helsinki, Turku and Stockholm. Read more at [www.crosskey.fi](http://www.crosskey.fi). 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. It manages the assets of the Bank of Åland's mutual funds registered in Finland. Asset Management was founded in 2000 and has an office in Helsinki. ÅLANDSBANKEN EQUITIES AB Ålandsbanken Equities Ab is a wholly-owned subsidiary of the Bank of Åland Plc. The company offers equity analysis and stock brokerage services to institutional investors. It includes the wholly owned subsidiary Ålandsbanken Equities Research Ab. Equities was founded in 2008 and has an office in Helsinki. ÅLANDSBANKEN FONDBOLAG AB Ålandsbanken Fondbolag Ab is a wholly owned subsidiary of the Bank of Åland Plc. The company carries out mutual fund (unit trust) operations and manages eleven mutual funds registered in Finland. Ålandsbanken Fondbolag was founded in 1998 and has an office in Mariehamn. ÅLANDSBANKEN SVERIGE AB Ålandsbanken Sverige AB is a wholly owned subsidiary of the Bank of Åland Plc. The company has operations in private banking, asset management, stock brokerage and institutional equities trading. Ålandsbanken Fonder AB and Alpha Management Company S.A. are wholly-owned subsidiaries of the company. Ålandsbanken Sverige was founded in 2009 and has offices in Stockholm, Gothenburg and Malmö, Sweden. Read more at [www.alandsbanken.se](http://www.alandsbanken.se). CHANGES IN GROUP STRUCTURE On May 31, 2010, the Bank of Åland Plc acquired the minority interest in Ålandsbanken Equities Ab. After this transaction, the Bank owns 100 per cent of Ålandsbanken Equities Ab. A process has been initiated to merge Ålandsbanken Equities Ab with the Bank of Åland Plc, and this merger is expected to be completed during 2010. Important events after the close of the report period No important events have occurred after the close of the report period. Outlook for 2010 Most observers expect a continued gradual recovery in the general economy and in the financial system during 2010, but the economic situation will remain uncertain and there is thus great sensitivity. The trend towards rising interest rates is expected to start benefiting net interest income in traditional banking operations. The fourth quarter of the year traditionally has higher commission income than the third quarter, and this is expected to have a favourable impact on earnings. The effect of cost-cutting measures in the Group's business operations in Sweden is projected to be significantly larger than the previously announced EUR 1.5 M. The reduction in expenses is expected to achieve its full impact from the beginning of 2011. A good influx of customers and increased customer activity in the Group's Swedish business operations are expected to result in rising commission income. Combined with lower expenses, this means that earnings in Sweden are expected to be significantly better than during the second and third quarter of 2010. Due to these and other factors, the Group expects its net operating profit during the last quarter of 2010 to be at about the same level as its first and second quarter earnings. The Group's assessment of the outlook for 2010 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. 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. One of the reasons for this is that the Bank of Åland recognised an impairment loss of EUR 5.0 M when a corporate customer in Finland was declared bankrupt. The Group's operational earnings for the last quarter of 2010 is projected to be at the same level as in the first two quarters of the year. FINANCIAL INFORMATION. The Year-end Report for the period January 1-December 31, 2010 will be published on Monday, February 21, 2011. Mariehamn, October 29, 2010 THE BOARD OF DIRECTORS -----

	Financial ratios etc .		
	Bank of Åland Group	Jan-Sep 2009	Full year 2010   2009
Earnings per share before dilution, EUR 1	-0.22	2.35	2.27
Earnings per share after dilution, EUR 2	-0.22	2.35	2.27
Market price per share at end of period, EUR	28.50	30.70	33.90
Series A shares	19.29	24.50	24.50
Series B shares	13.35	14.08	13.97
Equity capital per share, EUR 3	-1.7	36.5	17.8
Return on equity after taxes, % (ROE) 4	-0.1	1.8	0.9
Return on total assets, % (ROA)	5	4.5	4.9
Equity/assets ratio, % 6	4.8	4.5	4.9
Total lending volume, EUR M	2,547	2,437	2,546
Total deposits from the public, EUR M	2,459	2,375	2,411
Equity capital, EUR M	156	164	162
Balance sheet total, EUR M	3,492	3,321	3,379
Expense/income ratio	1.00	0.88	0.92
Including loan losses	0.92	0.84	0.88
Excluding loan losses			

----- | 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 ' minority interest in 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 / Balance sheet total | -----

Summary statement of financial position			
	Bank of Åland Group	Sep 30, 2010	Sep 30, 2009   Dec 31, 2009
	EUR M		
Assets	Cash	42	46   33
Debt securities eligible for refinancing with central banks	Debt securities	178	193   186
Claims on credit institutions	Claims on the public and public sector entities	274	274   264
Debt securities	Shares and participations	271	198   188
Shares and participations in associated companies	Derivative instruments	4	24   23
Intangible assets	Tangible assets	1	1   1
		35	18   20
		10	6   6
		36	38   38









