

# Ålandsbanken Financial Statement Release Year-end report for the period January - December 2008

27.02.2009

Bank of Åland Plc STOCK EXCHANGE RELEASE 27.02.2009 14.30 hrs Year-end report for the period January - December 2008 The report period in brief -Consolidated net operating profit decreased by 30 per cent to 20.0 million euros (January - December 2007: EUR 28.6 M) -Net interest income increased by 7 per cent to EUR 42.1 M (39.3) -Commission income fell by 8 per cent to EUR 18.6 M (20.3) -Total income decreased by 2 per cent to EUR 74.2 M (75.4) -Expenses rose by 13 per cent to EUR 52.1 M (46.0) -Impairment losses amounted to EUR 2.3 M (1.0) -Lending volume increased by 4 per cent to EUR 2,193 M (December 2007: 2,104) -Deposits increased by 11 per cent to SEK 2,126 M (December 2007: 1,921) -Mutual fund assets under management decreased by 38 per cent to EUR 236 M (377) -Return on equity after taxes (ROE) was 10.7 (16.4) per cent -The expense/income ratio amounted to 73 (62) per cent -The total capital ratio in compliance with Basel 2 amounted to 12.6 (12.8) per cent -Earnings per share after taxes amounted to EUR 1.22 (1.75) -The Board of Directors proposes a dividend of EUR 0.50 (1.00) per share -Consolidated earnings in 2009 are expected to be better than during 2008 EARNINGS AND PROFITABILITY This Year-end 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 This past year brought major challenges as a consequence of the international financial crisis. The Bank of Åland Group experienced a positive trend in traditional banking operations but was affected by reduced income from capital market operations due to the decrease in activity and managed assets. Information technology (IT) operations were adversely affected by a labour dispute and internal restructuring measures. During January-December 2008, the consolidated net operating profit of the Bank of Åland Group decreased by 30 per cent to EUR 20.0 M (28.6). Net operating profit decreased as a result of lower income from capital market products and securities trading for the Bank's own account as well as higher operating expenses. In addition, 2007 earnings were affected by capital gains and increases in the value of financial assets, as well as a repayment from the Security Fund of the Commercial Banks. Income decreased by 2 per cent to EUR 74.2 M (75.4), while expenses increased by 13 per cent to EUR 52.1 M (46.0). Return on equity after taxes (ROE) fell to 10.7 (16.4) per cent and earnings per share to EUR 1.22 (1.75). Net interest income During 2008, consolidated net interest income rose by 7 per cent to EUR 42.1 M (39.3). Higher interest rates and larger volume for both deposits and lending improved net interest income. Lending volume increased by 4 per cent to EUR 2,193 M (2,104). Deposit volume increased by 11 per cent to EUR 2,126 M (1,921). Other income Commission income fell by 8 per cent to EUR 18.6 M (20.3). Income on mutual fund and other asset management decreased due to smaller trading volume and lower managed assets, while securities brokerage commissions increased. Net income from securities trading for the Bank's own account was EUR 2.4 M (3.3). Net income from dealing in the foreign exchange market was unchanged at EUR 1.0 M (1.0). Net income from financial assets available for sale was EUR -0.1 M (1.1), and net income from investment properties decreased to EUR 0.1 M (0.6). Other operating income increased to EUR 12.4 M (11.9) as a consequence of rising income from the sale and development of IT systems. During 2007, other operating income improved because of a repayment of EUR 1.4 M from the Security Fund of the Commercial Banks. The Group's total income fell by 2 per cent to EUR 74.2 M (75.4). Expenses Staff costs rose by 8 per cent to EUR 28.3 M (26.2) due to employee recruitment and salary hikes as provided by collective agreements. Changes in the net assets of the Bank's pension fund, Ålandsbanken Abp:s Pensionsstiftelse, using the corridor approach affected staff costs in the amount of EUR 0.2 M (0.4). Other administrative expenses (office,

marketing, communications and IT) increased to EUR 11.0 M (10.3). Production for own use totalled EUR 0.5 M (1.0) and was related to expenses for computer software, which in accordance with IFRSs must be capitalised. Depreciation/amortisation increased to EUR 5.9 M (4.9). Other operating expenses amounted to EUR 7.4 M (5.6), due to higher expenses for outside services and discontinuation of capitalised IT projects. The Group's total expenses rose by 13 per cent to SEK 52.1 M (46.0). Impairment losses on loans and other commitments Impairment losses on loans amounted to EUR 2.3 M (1.0). Of these, EUR 1.3 M are targeted individual loss impairments and EUR 1.0 M a group impairment loss targeted to the shipping industry. Of the targeted individual impairment losses, EUR 0.4 M were final actual loan losses.

Earnings structure	
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-----   Bank of Åland Group   2008   2007   -----	
-----   EUR M     -----	
-----	-----
-----   Banking operations   13.9   21.7   -----	-----
-----   IT operations   0.7   2.9   -----	-----
-----   Other (treasury, portfolio management)   5.4   3.9   -----	-----
-----   Net operating profit   20.0   28.6   -----	-----

Fourth quarter of 2008 Consolidated net operating profit fell by 55 per cent compared to the corresponding quarter of 2007, amounting to SEK 3.7 M (8.1). Income Total income decreased by 4 per cent to EUR 20.3 M (21.0). Higher interest rates combined with larger lending volume improved net interest income by 2 per cent to EUR 10.7 M (10.5). This improvement was hampered by lower lending margins than in the year-earlier period. Commission income deteriorated due to lower capital under management in mutual funds and asset management, amounting to EUR 4.6 M (5.1). Net income from securities trading and foreign exchange operations rose to EUR 2.4 M (1.5) due to valuation of interest rate hedged derivatives (the Bank of Åland Group does not apply hedge accounting). Other operating income fell by 18 per cent to EUR 3.4 M (4.2). Repayment of the Bank of Åland's portion of the Security Fund of the Commercial Banks increased other operating income during 2007 by EUR 1.4 M. Expenses Total expenses during the quarter rose by 14 per cent to EUR 14.6 M (12.8). During the quarter, staff costs amounted to EUR 7.4 M (7.0). The increase was due to the higher number of Group employees and salary hikes, while changes in pension liabilities employing the corridor approach and fair value of assets in the Bank's pension fund, Ålandsbanken Abp:s Pensionsstiftelse, reduced staff costs by EUR 0.1 M (0.2) during the quarter. Other administrative expenses decreased to EUR 3.1 M (3.9) in the fourth quarter. Production for own use declined to EUR 0.2 M (0.7). Depreciation/amortisation increased to EUR 1.5 M. Other operating expenses rose to EUR 2.9 M (1.4). Impairment losses during the quarter were EUR 1.9 M (0.1), of which EUR 1 M was a group impairment loss targeted to loans in the shipping industry. Balance sheet total and off-balance sheet obligations At the end of 2008, the Group's balance sheet total amounted to EUR 2,770 M (2,592). Off-balance sheet obligations decreased to EUR 165 M (168). Personnel Hours worked in the Group, recalculated to full-time equivalent positions, totalled 487 (470), which represented an increase of 17 positions compared to the preceding year.

Bank of Åland Group   2008   2007   -----		Bank of Åland Plc   318   308   -----		Ab Compass Card Oy Ltd   6   4   -----		Crosskey Banking Solutions Ab Ltd   134   130   -----		Ålandsbanken Asset Management Ab   15   13   -----		Ålandsbanken Fondbolag Ab   6   8   -----		Ålandsbanken Kapitalmarknadstjänster Ab, until   0   5     September 30, 2007     -----		Ålandsbanken Veranta Ab   8   2   -----	
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----- | Total number of full-time equivalent positions, | 487 | 470 | | recalculated from hours worked | | | -----

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

Group	2008	2007		
	0.73	0.62		Including loan losses
	0.70	0.61		Excluding loan losses
				Capital adequacy
				The Group is reporting capital adequacy in accordance with Pillar 1 in the Basel 2 regulations. The Group's total capital ratio at the end of December 2008 was 12.6 per cent. The capital requirement for credit risks is being calculated according to the standardisation approach, and the capital requirement for operational risks has been calculated according to the basic indicator approach in the Basel 2 regulations. Risk management under Pillar 2 will be reported in the Annual Report for 2008.
				Capital adequacy
				Bank of Åland Group
				Dec 31
				Dec 31
				2008
				2007
				Capital base, EUR M
				Core capital
	112.4	103.3		
				Supplementary capital
	53.4	51.3		
				Total capital base
	165.7	154.6		
				Capital requirement for credit risks
	95.9	88.5		
				Capital requirement for operational risks
	9.3	8.0		
				Total capital requirement
	105.1	96.5		
				Total capital ratio, %
	12.6	12.8		
				Core capital ratio, %
	8.6	8.6		

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.

**Deposits** Deposits from the public, including bonds and certificates of deposit issued, increased by 11 per cent to EUR 2,126 M (1,921). Deposit accounts increased by 15 per cent to EUR 1,757 M (1,532). Bonds and certificates of deposit issued to the public decreased by 5 per cent to EUR 369 M (389). Lending The volume of lending to the public rose by 4 per cent to EUR 2,193 M (2,104). Lending to households increased by 4 per cent to EUR 1,486 M (1,434). Households accounted for 68 (68) per cent of the Group's total lending. Lending to the service sector rose by 6 per cent to EUR 626 M (589), and lending to the production sector was up by 3 per cent to EUR 57 M (55).

**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 has 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 and Ålands Penningautomatförening. Crosskey has 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. Due to the market situation, the company's earnings were well below those of 2007, but despite the market situation it maintained a satisfactory level of profitability. The company currently has about 350 customers and EUR 700 M in managed assets.

**Ålandsbanken Equities Ab** Ålandsbanken Equities Ab is a subsidiary of the Bank of Åland Plc. The company was established on December 15, 2008. It will offer stock brokerage and analysis to institutions and private individuals both externally and internally. The company is starting its operations during the first quarter of 2009.

**Ålandsbanken Fondbolag Ab** Ålandsbanken Fondbolag Ab is a wholly-owned subsidiary of the Bank of Åland Plc. At the end of 2008, total mutual fund (unit trust) assets under management amounted to EUR 236 M (377), a decrease of 38 per cent. The decrease in fund assets was caused by a downturn in valuations, especially in equity mutual funds,

due to the extremely weak market situation during 2008, as well as redemptions of mutual fund units. The number of unit holders was 14,093 (14,542), a decrease of 3 per cent. The trend of the company's mutual fund assets largely corresponded to the overall Finnish mutual fund market, while the number of unit holders decreased less than in the market as a whole. Changes in Group structure During 2008, the Bank of Åland Plc formed the subsidiary Ålandsbanken Equities Ab. The Bank of Åland owns 82 per cent of the shares. The company's operations are stock brokerage and company analysis. After the close of the report period, the Bank of Åland Plc sold all its shares in the real estate company FAB Strandgatan 20. Important events after the close of the report period The Bank of Åland Plc has signed an agreement to acquire Kaupthing Bank Sverige, the Swedish unit of Iceland's Kaupthing Bank, with a balance sheet of SEK 5 billion. The purchase price amounts to SEK 414 M and is being paid in cash. As part of this agreement, the Bank of Åland is taking over Kaupthing Bank Sverige's operations in private banking, asset management and institutional equities trading. Most corporate lending operations and certain other assets, including the indirect exposure to Lehman Brothers, will be transferred to the Icelandic parent company, Kaupthing hf in connection with the closing of the transaction. The Bank of Åland will not be financially affected by any ongoing litigation concerning Kaupthing Bank Sverige. The rescue loan provided to Kaupthing Bank Sverige by the Riksbank, Sweden's central bank, will be repaid in full. The acquisition is expected to contribute positively to the Bank of Åland's 2009 earnings after restructuring expenses. Its impact on liquidity and capital adequacy is small. Proposed distribution of profit The Board of Directors proposes that the Annual General Meeting approve a dividend of EUR 0.50 per share, which is equivalent to a total amount of EUR 5.8 M. The purpose is to ensure that the profits retained are sufficient to enable continued growth in the Group's Finnish operations, while venturing into the Swedish market. The Group's core capital ratio is expected to fall somewhat during the coming year but to remain satisfactory. The Bank of Åland will endeavour to begin applying an Internal Ratings Based (IRB) approach in compliance with Basel 2 to calculate its capital adequacy requirement for credit risk, starting on January 1, 2011. Our assessment, according to the current regulations, is that this will substantially improve the Bank of Åland's capital adequacy. Outlook for 2009 Two thousand nine will be very challenging for all financial market players. The Bank of Åland expects its operating earnings to fall due to very low interest rates and continued low activity in capital markets. The acquisition of Kaupthing Bank Sverige will have a positive nonrecurring effect on Groups earnings during the first quarter. Overall, we expect consolidated earnings to be better than in 2008. It should again be emphasised that great uncertainty prevails in the global financial system. Combined with the acquisition of Kaupthing, this means that the outlook for the future is burdened by greater uncertainty than normal. The Group's assessment of the outlook for 2009 is based on its assumptions about future developments in the fixed income and financial markets. However, general interest rates, the demand for lending, the trend of the capital and financial markets and the competitive situation, as well as the general economic situation are factors that the Group cannot influence. Annual General Meeting and financial information in 2009 The Annual General Meeting will be held in Mariehamn, Åland, Finland on Thursday, March 26, 2009. The Annual Report will be published in its official Swedish version on March 16, 2009, and in Finnish and English soon afterward. Interim reports will be published as follows during 2009. January-March 2009 Monday, May 11, 2009 January-June 2009 Monday, August 24, 2009 January-September 2009 Monday, October 26, 2009 The figures in this Year-end Report are unaudited. Mariehamn, February 27, 2009

THE BOARD OF DIRECTORS	FINANCIAL RATIOS ETC.		Bank of Åland Group	
	Full year	Full year	2008	2007
Earnings per share before dilution, EUR	1.22	1.75		
Earnings per share after dilution, EUR	1.22	1.75		
Year-end market price per share, EUR				
Series A shares	26.60	37.00		



EQUITY CAPITAL AND MINORITY INTEREST	
Share capital	23   23
Share premium account	33   33
Reserve fund	25   25
Fair value reserve	2   0
Retained earnings	54   51
Shareholders' interest in equity capital	137   133
Minority interest in capital	2   2
TOTAL EQUITY CAPITAL	138   135
TOTAL LIABILITIES AND EQUITY CAPITAL	2,770   2,592

SUMMARY INCOME STATEMENT | Bank of Åland Group | Full year | Full year | EUR M | 2008 | 2007

Net interest income	42.1   39.3
Income from equity instruments	0.0   0.0
Commission income	18.6   20.3
Commission expenses	-2.2   -2.0
Net income from securities transactions and dealing	3.3   4.2
Net income from financial assets available for sale	-0.1   1.1
Net income from investment properties	0.1   0.6
Other operating income	12.4   11.9
Total income	74.2   75.4
Staff costs	-28.3   -26.2
Other administrative expenses	-11.0   -10.3
Production for own use	0.5   1.0
Depreciation/amortisation	-5.9   -4.9
Other operating expenses	-7.4   -5.6
Total expenses	-52.1   -46.0
Impairment losses on loans and other commitments	-2.3   -1.0
Share of profit/loss in associated companies	0.2   0.2
Net operating profit	20.0   28.6
Income taxes	-5.4   -7.6
Profit for the year	14.6   21.0
Shareholders' interest in profit for the year	14.0   20.2
Minority interest in profit for the year	0.6   0.8
Total	14.6   21.0
Earnings per share	
Earnings per share before dilution, EUR 1	1.22   1.75
Earnings per share after dilution, EUR 2	1.22   1.75
Profit for the year before dilution / Average number of shares	
Profit for the year after dilution / (Average number of shares + shares outstanding)	

INCOME STATEMENT BY QUARTER | Bank of Åland Group | Q4 | Q3 | Q2 | Q1 | Q4 | EUR M | 2008 | 2008 | 2008 | 2008 | 2007







future. The Bank of Åland has not carried out any reclassifications as a result of the amendments. 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 . At present, this change has no substantial effect on earnings. The Group is applying IFRIC 14 beginning on January 1, 2008. The Group is not currently affected by amendments to the following: IFRIC 11, "Group and Treasury Share Transactions" IFRIC 12, "Service Concession Arrangement" New accounting standards and interpretations in effect starting in 2009: IAS 1, "Presentation of Financial Statements" The standard has been revised in order to provide better information for analysis and comparison of companies. The Group 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. IAS 27, "Consolidated and Separate Financial Statements" Among other things, the amendment means that profit or loss attributable to minority shareholders shall always be separately presented, even if this means that the minority holding is negative; that transactions with minority shareholders are always presented in equity capital; and that in cases where a parent company loses its controlling influence, any remaining holding shall be re-measured to fair value. The amendment will affect the recognition of future transactions. IFRS 8, "Operating Segments" The standard requires that a company provide financial and descriptive disclosures about its operating segments. IFRS 8 replaces IAS 14, "Segment Reporting". The Group will present its financial statements in compliance with IFRS 8 no later than for the financial period that begins on January 1, 2009. The Group is not currently affected by amendments to the following: IAS 23, "Borrowing Costs" IAS 32, "Financial Instruments: Presentation" IFRS 1, "First-time Adoption of International Financial Reporting Standards" IFRS 2, "Share-based Payments" IFRIC 13, "Customer Loyalty Programmes" IFRIC 15, "Agreements for the Construction of Real Estate" IFRIC 16, "Hedges of a Net Investment in a Foreign Operation" 3. ESTIMATES AND JUDGEMENTS Preparation of financial statements in compliance with IFRSs requires the company's Executive Team to make estimates and judgements that affect the recognised amounts of assets and liabilities, income and expenses as well