



2005  
Annual Report

**BANK OF ÅLAND**



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# BANK OF ÅLAND PLC

(GROUP HIGHLIGHTS)

EUR M **2005** **2004**

## INCOME STATEMENT IN BRIEF

Net interest income	31.4	30.0
Other income	20.9	18.2
Expenses	-33.2	-33.7
Loan losses	<u>-0.3</u>	<u>-0.7</u>
Net operating profit	18.7	13.9

## SELECTED BALANCE SHEET ITEMS, DECEMBER 31

Lending	1 796.3	1 632.1
Deposits, including bonds issued	1 630.6	1 537.2
Equity capital	113.3	107.8
Total assets	2 170.4	1 995.3

## FINANCIAL RATIOS ETC

Return on equity after taxes, %	12.5	9.9
Equity capital per share, EUR	10.32	9.81
Earnings per share after taxes, EUR	1.24	0.96
Risk-based capital ratio, %	11.3	11.8
Number of employees (total hours worked recalculated as full-time equivalents)	411	392

## FINANCIAL INFORMATION ON THE BANK OF ÅLAND

The Bank of Åland will publish the following Interim Reports during the 2006 financial year.

- The January – March Interim Report will appear on Monday, April 24, 2006
- The January – June Interim Report will appear on Monday, July 24, 2006
- The January – September Interim Report will appear on Monday, October 23, 2006

These Interim Reports will be published on the Internet: [www.alandsbanken.fi](http://www.alandsbanken.fi)

They can also be ordered from:

Secretariat, Bank of Åland Plc, P.O. Box 3, AX-22101 Mariehamn, Åland, Finland.

The Head Office of the Bank of Åland is in Mariehamn, capital of the autonomous Finnish province of Åland. Located in the Baltic Sea midway between Sweden and Finland, the 6,400-island Åland archipelago has about 26,000 inhabitants. Its official language is Swedish.

This translation of the Swedish-language Annual Report uses the international currency code for European Central Bank euro (EUR). At year-end 2005, the middle rate for EUR 1 was USD 1.1797.

"The Bank" refers to the Bank of Åland Plc (Ålandsbanken Abp), Parent Company of the Bank of Åland Group. Amounts have generally been rounded off to millions or thousands, but percentage figures, totals, ratios etc. are calculated on the exact amounts. The abbreviation M refers to million(s); K means thousand(s). Finnish-language place names are sometimes followed in parentheses by the corresponding Swedish-language place name.



*The Executive Team consists of (from the left) Edgar Vickström, Lars Donner, Dan-Erik Woivalin, Peter Grönlund, Pekka Nuutinen and Jan Tallqvist*

## COMMENTS BY THE MANAGING DIRECTOR AND THE EXECUTIVE TEAM

During 2005, the Finnish financial market was characterised by continued low interest rates, stiff competition and structural changes. Stiff competition squeezed margins on both deposits and lending. As a result, net interest income grew more weakly than expected, despite continued rapid growth in lending. The willingness of banks to grant long-term residential mortgage loans at low margins will impact their earnings over a long period. Since traditional bank deposits meanwhile face increasingly intensive competition from new savings products in the form of insurance-based savings, mutual fund (unit trust) savings and similar products, which are also offered by market players independent of banks, the banks are increasingly compelled to form alliances with suppliers of such products in order to offer their customers all financial services in an integrated way under one roof. This trend has already led to major structural changes in financial and insurance markets in Finland and throughout Europe.

The Bank of Åland Group of companies is active in this process. Within the Group, this renewal is mainly under way through the subsidiaries Ålandsbanken Fondbolag Ab, Ålandsbanken Asset Management Ab and Ålandsbanken Kapitalmarknadstjänster Ab, which provide the Group with numerous financial investment services. The subsidiary Crosskey Banking Solutions Ab Ltd

(Crosskey) supplies information technology (IT) solutions for the Group and external customers. Within the Group, we have a clearly explicit policy of functioning as a platform for entrepreneurial operations throughout the financial service sector.

### CUSTOMERS

We always focus on relationships with customers. Our vision is to be a personalised, knowledgeable and creative relationship bank. We generate value for individual customers and their companies by building, deepening and nurturing personal customer relationships. The fulfilment of this ambition gave us many satisfied customers during the year. Especially pleasing was that the number of mutual fund unit holders rose by nearly 50 per cent.

### EMPLOYEES

The role of our employees is crucial in our efforts to build relationship banking. During 2005 the Group continued the large-scale human resource development project known as the Relationship Academy. The project included training courses, leadership studies and trainee activities. In order to create an incentive system for all employees, during 2005 we established a personnel fund in compliance with Finland's Act on Personnel Funds. In addition, various units in the Group have individual incentive systems.

During the year, the Group carried out an extensive reorganisation of its operations, which was completed in its entirety without new recruitments.

On August 31, Deputy Managing Director Anders Ingves left the Bank to become Managing Director of the passenger cruise ship company Birka Line Abp. We thank Anders for his solid efforts to develop our Group.

## **EARNINGS**

The Bank of Åland Group achieved its established targets, and the trend of earnings was positive during the year. The main reasons for the improvement in earnings were increased commission income from mutual funds and asset management, improved net interest income as well as reduced pension liabilities due to changed legislation. Changed accounting principles concerning capitalisation of the costs of computer software produced for the Group's own use lowered expenses and affected comparability.

The profitability of the Group improved in a very satisfactory way, even adjusted for nonrecurring items and items affecting comparability.

For the first time, the Group is now reporting its results in compliance with International Financial Reporting Standards (IFRS). The task of switching to the new reporting standards was extensive. The valuation principles under the new rules make comparisons with prior years difficult, however.

The Group's total capital ratio is good. An analysis carried out on the basis of the new Basel 2 international capital adequacy requirements indicates that the Group will be able to maintain good capital adequacy even in case of continued stable growth. Consolidated earnings in 2005 were not significantly affected by the contract signed in September for delivery of an IT solution to the S Group, Finland's main consumer co-operative organisation.

The Bank of Åland Group is working to implement the profitability project and financial strategy adopted by the Board of Directors in 2004. Its targets are that earnings shall increase yearly, that the income/expense ratio in the medium term shall reach 2 (expense/income ratio 0.5) and that the dividend shall be EUR 1 per share in the medium term.

To be successful in today's financial service world, we need knowledgeable, well-trained employees, satisfied customers and a stable ownership structure. We have all of this, and I would therefore like to express my sincere gratitude to all those who helped us to achieve a successful 2005.



Peter Grönlund  
Managing Director

## **OPERATIONS**

### **Organisation**

During 2005 Crosskey operated for the first time as an independent subsidiary.

In addition, the Group implemented changes aimed at creating a more focused organisation and emphasising the cultivation of customer contacts. As one important element of these changes, responsibility was allocated between a Mainland and an Åland Division, which are separate profit centres in charge of customer relations in their respective markets. Subsidiaries and departments that work with asset management are being concentrated in the Investment Banking Division.

Internal support for the Group's sales organisations has been gathered in the Business and Human Resources Development Division, which thus spans financial control and accounting, product development and administrative support, marketing, human resource development as well as treasury functions and international banking contacts.

The Risk Management and Central Staff Units Division has a monitoring function and follows up all types of risk- and security-related work in the Group.

### **Åland Customer Relations Division**

The Bank remained the corporate, private and investment market leader in the Åland Islands. This was confirmed by a market survey conducted by the TNS Gallup organisation during 2005. Customers give the Bank of Åland very high marks, especially for its knowledgeable employees, service-mindedness, problem-solving ability and emphasis on the best interests of customers. During the year, the Division carried out a major effort to market itself among companies and to sell capital market products.

Lending rose somewhat during 2005. Deposit accounts increased by 15.2 per cent. The expansion of the Group's mutual fund range and new equity index bond loans increased sales of financial investment products. Overall income from capital market products climbed by 5.0 per cent.

The Åland Customer Relations Division accounted for 40 per cent of the Bank's deposit account portfolio and 24 per cent of its lending portfolio at year-end 2005.

The Bank unveiled several successful innovations during 2005. In the autumn, it organised the first "Home Buyers' Academy", where future home buyers received comprehensive information about buying or building homes. Another much-appreciated innovation was the Bank's series of financial investment seminars, held during the spring and autumn.

As part of an organisational change on September 1, 2005, Dan-Erik Woivalin was appointed Head of the Åland Customer Relations Division. The number of employees totalled 87.

### **Mainland Customer Relations Division**

The Mainland Division's financial results were satisfactory during 2005. Lending to households (residential and consumer loans) showed a stable increase during the year. Stiff competition squeezed margins for residential mortgage financing. As a result, net interest income rose by 5.4 per cent even though lending volume rose by 13.4 per cent.

Customer interest in various financial investment products – mutual funds, equity-index bonds and other securities – rose more than during previous years. Contributing reasons for this were more favourable share price performance, a large product range and more active sales work. As a consequence of increased financial investment activity, commission and other income rose by 7 per cent.

The Mainland Customer Relations Division accounted for 60 per cent of the Bank's deposit account portfolio and 76 per cent of its lending portfolio at year-end 2005.

The Premium concept celebrated new successes. During 2005, the Bank organised many successful customer gatherings where the main theme was the Internet bank and/or Premium banking as well as financial investments (the Bank's products such as mutual funds and equity-index bonds).

The number of employees totalled 111. Operations took place during 2005 in the same cities as previously. The new organisation includes a divisional management for all mainland operations, with Pekka Nuutinen as Head of Division. After the reorganisation, the mainland offices report directly to the Head of Division.

### **Investment Banking Division**

During 2005 the Investment Banking Division showed a very good earnings performance, due to sharp growth in Ålandsbanken Fondbolag mutual funds. Total assets managed by this subsidiary amounted to EUR 269 M (162), an increase of 66 per cent. Also pleasing was a 46 per cent increase in the number of mutual fund unit holders. Late in the year, four new Bank of Åland mutual funds were also started, bringing the total number to 10. All funds are managed by Ålandsbanken Asset Management.

The Bank issued the first equity-index bond loan to the Finnish general public in 1996. This type of bond is a very popular savings product, and during 2005 the Bank issued seven new equity-index loans with a total value of EUR 35 M.

Asset management operations, which are conducted mainly by Ålandsbanken Asset Management and Ålandsbanken Kapitalmarknadstjänster (Allcap), were very successful, with continued stable growth in managed assets. Allcap was acquired by the Group during the spring. During the autumn, the company was granted its asset management licence.

The Equities Department of the Bank is responsible for brokerage, trading and analysis.

The Head of the Investment Banking Division is Peter Grönlund, the Bank of Åland's Managing Director.

### **Business and Human Resources Development Division**

The task of the Division is to support business units in the short and long term in order to generate value for the Bank's customers and achieve the business targets that have been established. During 2005, dialogue both with the sales organisation and IT supplier Crosskey was clarified and common management models were developed.

In order to increase understanding about the role of each unit in the Bank's long-term earnings improvement, the Financial Control Department developed a new financial monitoring and forecasting model. During 2005, all external financial reporting was adapted to IFRS standards. The Business Development Department devised a segmentation model that takes into account both to how great an extent a customer has chosen to concentrate his/her business with the Bank and the customer's life situation. For the time being, the model is being applied only to digital services. The Internet Office received very positive publicity in the Swedish trade magazine *InternetWorld*, which described the Bank of Åland's Internet Office as the most customer-friendly in the Nordic countries. Together with the Marketing Department, completely new web pages were developed for the Bank.

The Personnel and Training Department recruited numerous new employees in 2005, mainly for Crosskey. The Relationship Academy, an internal training unit, carried out large-scale training programmes, especially in the fields of leadership and "employee-ship". For many years, the Group has regularly conducted interviews with its employees. Their responses in 2005 provided a positive overall picture. Especially pleasing were the Group's scores in the areas of information, dedication, job satisfaction and room for fresh thinking. During 2005 a completely new system for international payments went into service. Preparatory work took place for future Target 2 solutions.

The Head of the Business and Human Resources Development Division is Edgar Vickström, Deputy Managing Director of the Bank.

### **Risk Management and Central Staff Units Division**

The adaptation of the Bank's procedures to Basel 2 regulations is an important element of the Division's work. These regulations are divided into modules: Pillars I, II and III. During 2005, the Risk Control Department was engaged in developing models for managing credit risks under Pillar I. The Basel 2 regulations enter into force on January 1, 2007, and the Group's standardised credit risk management method must be ready to go into effect on the same date.

Concurrently, the task of devising more advanced credit risk management models began. An internal ratings-based (IRB) model is being developed. According to plans, it will be ready to go into operation on a trial basis during 2007. This model requires extensive input from the units that handle the lending process in the Bank.

The Bank's operational risk policy document was adopted by the Board of Directors in May. During the year, the Bank began the task of describing the most important processes and identifying risks in compliance with the Finnish Financial Supervision Authority's operational risk standard. This standard requires a formalised incident reporting procedure. Development work is under way and should be completed early in 2006.

The Basel 2 regulations assume that risks not handled under Pillar I (capital requirements) are handled under Pillar II (supervisory oversight). The risks that the authorities ask banks to focus on include business risks, interest rate risks, liquidity risks and concentration risks. Pillar II examination should result in an estimate of the Bank's need for equity capital in relation to its plans and lead to a forward-looking process that describes the Bank's capital procurement. An initial version of the Bank's work with the Pillar II process should be completed in mid-2006. Pillar III (market discipline) – the methods and results that the Bank has arrived at during the Pillar I and II stages – will be communicated to customers, shareholders, public authorities and other stakeholders mainly via the Interim Reports and Annual Reports. The Head of the Risk Management and Central Staff Units Division is Lars Donner.

### **Crosskey Banking Solutions completes its first year**

The transformation of the Bank of Åland's strategic business area for banking software systems and sales into a limited liability company, known as Crosskey, turned out to have been a successful venture in its very first year. This company's long-term goal of recruiting one new customer per year was achieved in September when the Finnish consumer co-operative organisation SOK (part of the S Group) chose Crosskey as the supplier of a new account system. The agreement included an option for SOK to later expand the functionality of the system to handle additional financial services. After a decision on February 16, 2006 to start S Bank, SOK chose to exercise this option.

Customers demand efficient, stable processes. To meet these demands, Crosskey has worked systematically to qualify for certification according to ISO 9000 (quality), ISO 20000 (IT) and ISO 27000 (information security) management standards. During the autumn, Crosskey's processes achieved certifiable levels.

Crosskey's banking systems receive high marks for their customer friendliness. One key to the company's success is that its systems development is always user-controlled. During 2005, Crosskey

together with existing customers created User Groups in which guidelines for future systems development are being established in each area. Through these user groups, Crosskey can ensure that user wishes are met and that it always has access to people with both industry and technical knowledge to pursue continued systems development. We are convinced that cross-border service offerings will increase, in turn increasing the need for secure transfers, payments and services. In December 2005, Crosskey decided to establish a SWIFT service bureau for intermediation of foreign payments. Crosskey can thus offer cost-effective services to all Finnish companies with SWIFT traffic.

The Managing Director of Crosskey is Peter Wiklöf. At the beginning of 2005, Crosskey had 90 employees. To meet the needs generated by continued growth, during the year 20 new employees were recruited.

### **The environment**

Environmental thinking is an important part of the Bank of Åland Group's daily work. Our ambition is to achieve a sustainable society by ensuring that every environmental activity is a step towards sustainable development. We do this by, among other things, continuously monitoring our consumption of such important resources as electricity, water and paper. The materials used in our operations must be manufactured in such a way as to have the smallest possible environmental impact. Used products are dealt with in an environmentally sensible way. Since April 2000, the Bank's Head Office has used "green" electricity. One innovation in 2005 was that food wastes from the staff canteen are being composted. Employees and business contacts are urged to share our goal of creating a sustainable society. In this way, we will spread our example like rings on water.

The Bank of Åland distributes a bonus yearly from the Bank's Environmental Account system. This money supports important projects in the environmental field.

### **A richer life**

The Bank of Åland, the oldest independent bank in Finland, celebrated its 85th anniversary in 2004. We chose to celebrate this milestone by publishing a book in time for the Annual General Meeting in March 2005, entitled *Ett rikare liv* (A Richer Life). In this book, authors Jan Helin, Leena Lehtolainen, Leo Löthman, Sanna Tahvanainen and Tomas Tranströmer have, in their individual ways, interpreted the Bank of Åland's soul. As the history of a listed company, the book is probably unique both because it is a literary product and because it looks ahead towards the Bank's centenary.

# REPORT OF THE DIRECTORS



*The Board of Directors includes (from the left) Agneta Karlsson, Sven-Harry Boman, Göran Lindholm, Kent Janér and Leif Nordlund. Missing from the photo is Tom Palmberg.*

## OPERATING RESULTS AND PROFITABILITY

### **Earnings**

During 2005, consolidated net operating profit amounted to EUR 18.7 M (13.9). This was an increase of 34.5 per cent compared to the year before. Return on equity after taxes was 12.5 (9.9) per cent.

### **Net interest income**

Net interest income amounted to EUR 31.4 M (30.0). Despite the continued narrowing of customer margins, larger total deposit and lending volumes led to an increase in net interest income by 4.5 per cent.

### **Other income**

Commission income rose by 25.7 per cent to EUR 16.1 M (12.8). Income from asset management and from providing capital market products rose the most.

Net income from securities trading for the Bank's own account was EUR 0.7 M (0.3). For the first time, the Group is applying the IFRS fair value option. Income in 2005 amounted to EUR -0.1 M. The effect on retained earnings in the opening balance on January

1, 2005 was EUR 2.0 M. Net income from dealing in the foreign exchange market amounted to EUR 0.9 M (0.9).

Net income from financial assets available for sale was EUR 1.1 M (0.2). 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 0.3 M, of which EUR 0.2 M came from divestment of properties.

Other operating income totalled EUR 3.5 M, compared to EUR 4.4 M in 2004, with EUR 1.0 M consisting of nonrecurring revenue.

Total income rose by 7.8 per cent to EUR 52.0 M (48.3).

### **Expenses**

Staff costs declined by 3.0 per cent to EUR 17.8 M (18.4). Reduced pension liability after changes in legislation and increased fair value of assets in Ålandsbanken Abp:s Pensionsstiftelse, the Bank's pension fund, decreased staff costs by EUR 2.4 M (-1.1).

Other administrative expenses (office costs, marketing,



communications and computer costs) rose to EUR 8.5 M (7.3). Production for own use amounted to EUR 1.1 M (0.0) and was related to expenses for computer software which, in accordance with IFRS, must be capitalised. Depreciation/amortisation rose to EUR 3.9 M (3.6).

Other operating expenses amounted to EUR 4.2 M (4.4). In accordance with the standard of the Finnish Financial Supervision Authority, the Bank's expense for the Deposit Guarantee Fund, EUR 0.6 M, was reported under "Other operating expenses" instead of a reduction in interest income as previously.

Total expenses, including planned depreciation/amortisation, declined by EUR 0.5 M or 1.3 per cent to EUR 33.2 M (33.7).

#### Impairment loss on loans and other receivables

Net impairment loss on loans and other receivables amounted to EUR 0.3 M (0.7).

#### Balance sheet total

The balance sheet total rose by 8.7 per cent to EUR 2,170 M (1,995).

#### Personnel

Hours worked in the Group, recalculated as full-time position equivalents, totalled 411 during 2005 (392). This represented an increase of 19 positions, compared to 2004.

#### 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 2005, the Group's capital adequacy according to the Credit Institutions Act was 11.3 (11.8) per cent. To strengthen the capital base in the form of supplementary capital, risk debenture loans totalling EUR 14.8 M were issued during the year.

<b>BANK OF ÅLAND GROUP, EUR M UNLESS OTHERWISE STATED</b>	<b>DEC. 31, 2005</b>	<b>DEC. 31, 2004</b>
Core capital	83,783	82,804
Of which unrealised gains on investment properties and financial assets carried via the income statement	1,759	0
Supplementary capital	51,346	42,043
Of which unrealised gains due to the fair value fund and reporting of unrealised gains directly in equity upon transition to IFRS	9,454	9,009
Capital requirement for market risks	5	3
Total capital base	135,129	124,846
Risk-weighted receivables, investments and off-balance sheet obligations	1,192,697	1,062,444
<b>TOTAL CAPITAL RATIO, %</b>	<b>11.33</b>	<b>11.75</b>
Core capital as a percentage of risk-weighted volume	7.02	7.79
Recognised equity capital	113,336	107,769
Difference between capital base and recognised equity capital	21,794	17,077

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.

	<b>2005</b>	<b>2004</b>
Bank of Åland Plc	298	293
Crosskey Banking Solutions Ab Ltd	93	86
Ålandsbanken Asset Management Ab	12	9
Ålandsbanken Fondbolag Ab	5	4
Ålandsbanken Kapitalmarknadstjänster Ab	3	0
Total number of employees	411	392

#### Profit margin

Profit margin is calculated as net operating profit minus standard tax, as a percentage of total income. The profit margin of the Bank of Åland Group rose from 20.6 per cent in 2004 to 25.5 per cent in 2005.

#### Expense/income ratio

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

<b>BANK OF ÅLAND GROUP</b>	<b>2005</b>	<b>2004</b>
including loan losses	0.64	0.71
excluding loan losses	0.64	0.70

### Earnings structure

EUR M	2005	2004
Banking operations	23.3	20.6
Capital market operations	3.9	1.7
IT operations	1.6	3.0
Treasury and portfolio management	4.7	4.1
Eliminations	-0.7	-3.7
Head Office expenses	-14.1	-11.8
Net operating profit	18.7	13.9

### Deposits

Deposits from the public, including bonds and certificates of deposit issued, rose during 2005 by 6.2 per cent to EUR 1,631 M (January 1, 2005: 1,535). Deposit accounts rose by 4.4 per cent to EUR 1,300 M (1,244). Bonds and certificates of deposit issued to the public rose by 13.9 per cent to EUR 331 M (291). The introduction of the fair value option affected deposit accounts by EUR 0.3 M (-0.2) and bonds by EUR 0.7 M (1.3).

### Lending

During 2005, the volume of lending to the public increased by 9.9 per cent to EUR 1,796 M (January 1, 2005: 1,634). Most of the increase went towards residential financing. Lending to private households rose by 12.6 per cent to EUR 1,236 M (1,098). Private households accounted for 68.8 (67.2) per cent of the Group's total lending. Lending for business and professional activities rose by 4.9 per cent to EUR 533 M (508). Lending to the public sector and non-profit organisations was unchanged at EUR 28 M. The introduction of the fair value option according to IFRS affected lending by EUR -1.1 M (2.3).

### Outlook for 2006

The goal is earnings in 2006 that are better than in the previous years.

### Long-term financial targets

The Board of Directors of the Bank of Åland has adopted the following long-term financial targets for the Group:

- The Bank of Åland endeavours to earn a return on equity that will exceed the unweighted average of a defined group of Nordic banks.
- The total capital ratio shall amount to at least 10 per cent.
- In a medium-term perspective, the Bank's income/expense ratio shall continuously improve to 2 (expense/income ratio 0.5).
- The Bank of Åland endeavours to pursue a dividend policy in

which an increasing percentage of after-tax profit is retained by the Bank, in order to safeguard its sound business development. This is expected to result in a dividend that approaches the industry standard for Nordic banks as a percentage of earnings. It implies a dividend which, in a medium-term perspective, on average will remain at today's level in euro terms.

### IFRS

The Annual Report of the Bank of Åland Group for 2005 has been prepared in compliance with the IFRS standards approved by the European Union. Comparative figures and financial ratios for prior years have been recalculated according to the above-mentioned standards. However, in accordance with IFRS 1, the Group has taken advantage of the opportunity to present comparative figures related to financial instruments according to previously applied accounting principles, which affects comparability to some extent.

### Important events after the close of the financial period

In September 2005, the Finnish consumer co-operative organisation SOK and Crosskey signed an agreement to renew SOK's account system. The agreement included an option for SOK to expand the functionality of the system later to handle additional financial services. Due to its decision to start S Bank, SOK has chosen to exercise this option.

The expanded agreement as of February 16, 2006 between S Bank and Crosskey includes a user licence for Crosskey's Basic Banking system and Internet bank. The agreement also includes implementation, adaptation and integration of the banking system into SOK's existing system and specifies that Crosskey will assume overall responsibility for operation of the system.

It is a multi-year agreement and the contract value is more than EUR 2 M per year.

# THE BANK'S CORPORATE GOVERNANCE

## General

The Helsinki Stock Exchange has issued a recommendation concerning corporate governance in publicly listed companies. The purpose of the recommendation is to harmonise the practices of these companies' operations, improve transparency, harmonise the information given to investors and shareholders and facilitate the disclosure of company information. This recommendation entered into effect on July 1, 2004.

The Bank's Board of Directors adopted this recommendation on January 2, 2004.

## THE BOARD OF DIRECTORS

### General

The Board of Directors is elected by the Annual General Meeting for a term covering the period between the Bank's Annual General Meetings. The retirement age of Board members is 67.

The Board has adopted a company charter in keeping with the recommendation for corporate governance in listed companies. This Group-wide company charter provides internal guidelines for the work of the Board and the Executive Team.

### The company charter

The Board of Directors is responsible for ensuring that management of the Bank's and the Group's administration and operations occurs in compliance with legislation, the Articles of Association and other rules that encompass the Bank.

The Board is thus responsible for ensuring that the Bank is appropriately organised and carries out its operations in a profitable manner. In addition, the Board is responsible for the Bank's overall policy and strategy issues and its objectives, as well as for ensuring that the Bank's risk control systems are sufficient.

The Board deals with and makes decisions on matters of great economic or business importance to the Bank or the Group, or from the standpoint of principles. The responsibilities of the Board also include appointing and, if necessary, dismissing the Managing Director, the Deputy Managing Director and other members of the Executive Team, as well as deciding their salary benefits and other terms of employment.

### The composition of the Board

The Bank's Board of Directors includes two members who hold employment or executive positions with major shareholders and four members with experience from such fields as banking, capital markets, business administration and management. The Board of Directors took office on May 9, 2003 with the following composition:

**GÖRAN LINDHOLM**  
*Master of Laws*

born 1955 *Chairman*  
Board member since 2003

Göran Lindholm, Chairman of the Board, has served since 1999 as Managing Director of the mutual insurance company Ålands Ömsesidiga Försäkringsbolag. Before being appointed Managing Director, he served from 1987 to 1999 as head of the claims department at the same insurance company.

During 1983–1987, Mr Lindholm served as Administrative Director of the Åland Government and during 1979–1980 he held positions in its law drafting committee. During 1981–1983, Mr Lindholm served as a committee secretary and civil servant at the Åland Parliament.

From 1999 to 2003, Göran Lindholm was a member of the Bank of Åland's Supervisory Board.

Mr Lindholm is a Board member of Chips Abp and Ålands Ömsesidiga Försäkringsbolag. He is also a Deputy Member of the Åland Delegation.

**LEIF NORDLUND**  
*Master of Laws*

born 1959 *Deputy Chairman*  
Board member since 2003

Leif Nordlund, Board member, has served since 2001 as Director and Department Manager of Alandia Marine, the marine insurance unit of the Alandia Group. In 2004, he was also appointed Deputy Managing Director of the Group's parent company, Redarnas Ömsesidiga Försäkringsbolag and of the subsidiary Försäkringsbolaget Alandia. Mr Nordlund previously worked as a legal counsel at the Alandia Group in 1999–2001, Skuld AB in 1990–1999 and Cool Carriers AB in 1987–1990.

During 2002–2003, Leif Nordlund was a member of the Bank of Åland's Supervisory Board.

He is a Board member of the Swedish Association of Marine Underwriters and a member of the Ocean Hull Committee of the International Union of Marine Insurers.

**SVEN-HARRY BOMAN**  
*Master of Economic Sciences*

born 1944  
Board member since 2003

Sven-Harry Boman, Board member, has served since 2004 as a consultant, Board member and auditor (Certified Public Accountant, CGR).

Mr Boman worked at the Chips Group until his retirement in 2004. By then he had served as Managing Director from 1992 to 2004 and as Deputy Managing Director from 1986 to 1992. Mr Boman has also served as Operations Manager of the Fish Division,

Managing Director of Ab Chips Food Oy and Director of the Food business area in the same group.

Mr Boman also has experience from working in various positions at the Bank of Åland Plc. From 1969 to 1986, he served as an internal auditor, as Department Manager of the Controller Department and the central Accounting Department, as well as head of the Accounting Division. In 1979 he was selected as a deputy member of the Bank's then-Board of Management and was appointed in 1982 as a regular member of this Board.

Sven-Harry Boman is Chairman of Ab Plasto Oy Ltd and Ålands Investerings Ab and is a Board member of Chips Abp, Åland Utvecklings Ab, Ålands Centralandelslag and Ålands Tidnings-Tryckeri Ab.

**KENT JANÉR** born 1961  
*Master of Business Administration* Board member since 2003

Kent Janér, Board member, has served since 1996 as manager of the Nektar national mutual fund at Nektar Asset Management AB, Sweden, where he is also Managing Director.

Mr Janér has also been a partner at Brummer & Partners Kapitalförvaltning AB since 1998.

During 1989–1996, Mr Janér served as Deputy Managing Director and head of fixed-income trading at JP Bank, Sweden. In 1986–1988 he worked as a bond trader and Vice President at Citicorp Scrimgeour Vickers in London and during 1984–1986 as a bond trader at Svenska Handelsbanken, Sweden.

Kent Janér is Chairman of Brummer & Partners Kapitalförvaltning AB and Zenit Asset Management AB, Sweden. He is also a member of the Scientific Advisory Board of the Stockholm Institute for Financial Research.

**AGNETA KARLSSON** born 1954  
*Doctor of Economics* Board member since 2003

Agneta Karlsson, Board member, has had an extensive academic career focusing on business administration. Over the years, she has held several prominent academic appointments. For example, she served as Project Leader, Executive MBA, Norwegian School of Management in 2002–2004 and as Dean of the international MBA study programme in Oslo at the same institution from 1999 to 2002.

Dr Karlsson's research work has resulted in a number of publications in the field of leadership. She has also been a member

of various committees and boards and has served as an advisor, consultant and lecturer for major corporations in Sweden, Norway and Denmark.

In 1988 and 1994 she was named Teacher of the Year at the University of Lund, Sweden, and at Copenhagen Business School, Denmark, respectively.

A complete curriculum vitae is available on the Bank's web site, [www.alandsbanken.fi](http://www.alandsbanken.fi).

**TOM PALMBERG** born 1940  
*Master of Social Sciences* Chartered Director (IOD, London)  
Board member since 2003

Tom Palmberg, Board member, performs advisory work on corporate governance through his own company CV Board Oy Ab (established in 1988). He is a Board member of Oy Elfving Ab, Oy Grönblom Ab, Myllykoski Oyj, Eira Hospital and Halva Oy Ab. Mr Palmberg also serves as a local advisor to the private equity company Charterhouse Capital Partners LLP, London.

During 1994–1996 Mr Palmberg served as a partner at Investment Banking Partners AB, Stockholm, and during 1991–1996 as Managing Partner of Scandinavian Financial Research Ltd. At Scandinavian Bank Group plc, London, he served as CEO - Banking and Group Director in 1987–1988, as Deputy Managing Director of the International Department in 1986 and of Finland and PR in 1985. He also served as Executive Director in 1984 and Head of the Finnish Department in 1982.

At Union Bank of Finland, Mr Palmberg served as a member of Senior Management of UBF International in 1980, as Head of the Corporate Division in 1976 and as Head of Branch Administration and the Planning Division in 1972.

Mr Palmberg has served as Chairman of Hallitusammattilaiset ry (Finnish Board Professionals) since its establishment in 2001.

Serving as *secretary* of the Board is the Bank's Chief Legal Counsel, Dan-Erik Woivalin, Attorney at Law, born 1959.

The members of the Board of Directors have no other individual duties related to the administration of the Bank, aside from temporary assignments that the Board may allot to its members.

#### **Private shareholdings in the Bank**

The private shareholding of the Board members in Bank of Åland Plc can be seen in Note 44 to the Bank's official financial statements in this Annual Report.

### **Fees and other benefits**

The fees of the members of the Board of Directors are fixed by the Annual General Meeting. In 2005, EUR 67,032 in fees was disbursed.

The members of the Board of Directors enjoy generally applied employee benefits in the Bank to a limited extent.

### **The independent position of the members of the Board of Directors in relation to the Bank or major shareholders**

The Bank's Board of the Directors has assessed the independent position of members of the Board in relation to the Bank and major shareholders, taking into account the provisions of the recommendation on corporate governance in listed Finnish companies.

All members of the Board are independent in relation to the Bank.

Taking into account that Göran Lindholm, Chairman of the Board, and Leif Nordlund, member of the Board, represent Ålands Ömsesidiga Försäkringsbolag and the Alandia Group, respectively, that these companies each own at least 10 per cent of all of the Bank's shares or total voting power, and that Mr Lindholm and Mr Nordlund are employees or officers of these respective companies, based on the provisions of the above-mentioned recommendation, Göran Lindholm and Leif Nordlund are not to be regarded as independent in relation to major shareholders.

However, the other members of the Board of Directors are independent in relation to major shareholders.

### **The Board's committees and working groups**

Since the Bank's Board of Directors consists of only six members, the Board has decided that until further notice, all tasks incumbent upon the committees stated in the recommendation on corporate governance in listed Finnish companies shall be handled by the Board as a whole.

### **Assessment of the activities of the Board**

The Board of Directors carries out a yearly internal self-assessment of its activities and its working methods. As part of this assessment, Board members' own work is thoroughly discussed and analysed.

### **Meetings**

During 2005, the Board of Directors met 9 times. Average attendance by members at Board meetings was 94.4 per cent.

## **MANAGING DIRECTOR**

### **General**

The Managing Director is appointed by the Bank's Board of Directors. On March 1, 2004, Peter Grönlund, Master of Business Administration, born 1948, assumed the post of Managing Director of the Bank. This appointment is valid until further notice.

### **Company charter**

The Board of Directors has adopted a Group-wide company charter including internal guidelines for the work of the Managing Director.

The Managing Director is responsible for ensuring that the day-to-day management of the Bank complies with the law, the Articles of Association, internal rules of procedure and the instructions and regulations issued by the Board of Directors. The Managing Director is also responsible for ensuring that the decisions of the Board of Directors and the Executive Team are implemented. In particular, the Managing Director's sphere of responsibility includes overall management as well as oversight and development of the daily operational activities of the Bank. The Managing Director also has overall responsibility for drafting objectives and strategies at the Group level, as well as overseeing and managing the business operations of the Group in accordance with the instructions issued by the Board of Directors.

### **Work experience and other assignments of the Managing Director**

Since 2004 Peter Grönlund, Managing Director, has also been Head of the Investment Banking Division.

Mr Grönlund has experience from working in various positions at the Bank of Åland, where he began his career as early as 1973. Mr Grönlund served as Deputy CEO in 1997–1999, as Head of the International Division in 1992–1999, as Head of International Operations in 1989–1992 and as General Manager and Corporate Banking Officer in the Corporate Division in 1986–1989. In 1987, Mr Grönlund was elected a deputy member of the then-Board of Management, and he served from 1992 to 1999 as a regular member. He also headed the Foreign Exchange, Bond and Money Market Department in 1983–1986. Before this, Mr Grönlund participated in the task of establishing the Bank's Helsinki office, then served during 1981–1983 as its Director. In 1978–1981 Mr Grönlund served as the head of foreign currency lending in the International Department. During 1973–1978 he worked with

corporate analysis and loan preparation, as the Deputy Manager of the Loan Department and as Manager of the Deposits Department. In 1999 Mr Grönlund assumed the post of Åland Manager of Nordea Bank Plc, a position he held until 2004.

Peter Grönlund is a member of the Parliament of Åland, a member of the Supervisory Board of the mutual insurance company Ålands Ömsesidiga Försäkringsbolag, the credit card service company Luottokunta and the retirement insurance company Försäkringsaktiebolaget Pensions-Alandia. Mr Grönlund is also Chairman of Ålandsbanken Fondbolag Ab, Ålandsbanken Asset Management Ab and Ålandsbanken Kapitalmarknadstjänster Ab well as a Board member of Crosskey Banking Solutions Ab, Chips Ab and the Finnish Bankers' Association.

#### **Private shareholding in the Bank**

The private shareholdings of Peter Grönlund, Managing Director of Bank of Åland Plc, can be seen in Note 44 to the Bank's official financial statements in this Annual Report.

#### **Salary and other benefits**

The Board of Directors establishes the salary benefits and other terms of employment of the Managing Director.

The Managing Director receives a salary of EUR 16,000 per month, before taxes. In addition, he enjoys free automobile benefits and generally applied employee benefits in the Bank.

#### **Pension terms**

The Managing Director's retirement age is 62. His pension comprises 60 per cent of pensionable salary according to Employees' Pensions Act rules and the statutes of Ålandsbanken Abps pensionsstiftelse, the Bank's pension fund.

#### **Terms in case of dismissal**

##### *Severance pay*

In case of dismissal, the Managing Director will receive severance pay equivalent to six (6) months of salary.

##### *Terms of any other remuneration*

The Managing Director receives no remuneration other than the above-mentioned severance pay.

### **EXECUTIVE TEAM**

#### **General**

The members of the Bank's Executive Team are appointed by the Board of Directors. Their assignments are valid until further notice.

The composition of the Executive Team may vary depending on the nature of the business at hand. At present, the Executive Team consists of Heads of Divisions and Department Managers who represent a broad range of expertise from the various divisions into which the Bank is internally organised.

#### **Company charter**

The Board of Directors has adopted a Group-wide company charter including internal guidelines for the work of the Executive Team.

The Executive Team is entitled to make its own decisions on such day-to-day administration and in specific matters that the Board of Directors has delegated to it. The Executive Team also serves as an advisory body for the Managing Director.

#### **Composition of the Executive Team:**

**PETER GRÖNLUND** born 1948 *Chairman*  
*Master of Business Administration, Managing Director*  
Member of the Executive Team since 2003

Peter Grönlund's work experience and other assignments can be seen under the heading Managing Director above.

**EDGAR VICKSTRÖM** born 1961  
*Master of Economic Sciences, Deputy Managing Director*  
Member of the Executive Team since 2003

Since 2005 Edgar Vickström, Deputy Managing Director, has been Head of the Business and Human Resources Development Division of the Bank. Mr Vickström was elected in 1994 as a deputy member of the Bank's then-Board of Management and served from 1996 to 2003 as a regular member of this Board.

Mr Vickström also served as Head of the Bank's Åland Division from 2003 to 2005, as head of its Branch Office Division from 1994 to 2003, as Department Manager of the ÅAB Privat customer advisory service in 1990–1992, as head of Internal Auditing in 1988–1990 and as administrative manager of the Arbitrage Department in 1986–1987. He previously served as a development planner in the Development Department in 1986–1987, as a project manager for the central Loan Department in 1986–1987 and the Corporate Development Group in 1985–1986, and as the administrative manager of Ålands Factoring Ab in 1983–1985.

Edgar Vickström is a Board member of Crosskey Banking Solutions Ab Ltd, the Åland Chamber of Commerce and Åland

Utvecklings Ab, Åland Investerings Ab and Air Åland Ab.

**LARS DONNER** born 1948  
*Bachelor of Arts* Member of the Executive Team since 2003

Since 2003 Lars Donner has been Head of the Risk Management and Central Staff Unit Division. Mr Donner served as a regular member of the Bank's then-Board of Management from 1986 to 2003.

Mr Donner also served as Head of the Bank's Loan Division in 1992–2003 and its Corporate Division in 1986–1992. He previously worked with the Bank's corporate analysis and loan preparation in 1976–1986 as well as in the International Department in 1972–1973 and 1974–1975.

Lars Donner is Chairman of Ålands Företagsbyrå Ab.

**PEKKA NUUTINEN** born 1961  
*Bachelor of Business Administration*  
Member of the Executive Team since 2005

Since 2005 Pekka Nuutinen has been head of the Bank's Mainland Division. Since 1998 Mr Nuutinen has also been General Manager of the Corporate Unit in Helsinki. During 1996–1997, he worked as head of funding in the same department.

From 1985 to 1996 Pekka Nuutinen worked in various positions at Kansallis-Osake-Pankki (KOP), including management positions during the period 1988–1996.

**JAN TALLQVIST** born 1947  
*Attorney at Law* Member of the Executive Team since 2003

Since 2003 Jan Tallqvist has been Head of the Private Banking Unit. Mr Tallqvist was appointed in 1994 as a deputy member of the Bank's then-Board of Management and served from 1997 to 2003 as a regular member of this Board.

Mr Tallqvist began in 1976 as a lawyer at Juristkonsult Ab, a company closely related to the Bank. In 1981 he was appointed as a legal counsel at the Bank's office in Helsinki, and in 1983 he assumed the post of Director of the same office. Concurrent with his service as Director of the Helsinki office, during 1995–1999 he served as Assistant General Manager of the Bank's Branch Office Division and in 1999–2003 as Head of the Private Banking Division.

Jan Tallqvist is a Board member of Ålandsbanken Asset Management Ab, the Economic Society of Finland and of the Security Fund of the Commercial Banks and Postal Bank.

**DAN-ERIK WOIVALIN** born 1959  
*Attorney at Law* Member of the Executive Team since 2003

Since 2005 Dan-Erik Woivalin has been Head of the Bank's Åland Division. Since 1994 Mr Woivalin has also been Chief Legal Counsel of the Bank. Mr Woivalin served as an assistant legal counsel at the Bank's Legal Department from 1985 to 1994 and during 1999 as an attorney at the legal firm of Advokatfirman Vinge Kb in Brussels, Belgium.

Mr Woivalin is a Board member of Crosskey Banking Solutions Ab Ltd, Ålands Telefonandelslag and the Åland Nautical Club.

#### **Private shareholdings in the Bank**

The private shareholdings of the members of the Executive Team of Bank of Åland Plc can be seen in Note 44 to the Bank's official financial statements in this Annual Report.

#### **Salary and other benefits**

Salaries paid to the Executive Team (excluding the Managing Director) totalled EUR 612,733 during 2005.

The members of the Executive Team enjoy free automobile benefits and generally applied employee benefits in the Bank.

#### **The credit committee and credit team of the Executive Team**

The Executive Team has appointed a credit committee and a credit team, which are entrusted with acting as decision-making bodies on certain specified credit matters.

The Executive Team's credit committee makes decisions on all credit matters that exceed the credit team's limit (EUR 1.7 M). If the Executive Team's credit committee is prevented from meeting, the credit matter is delegated to the credit team for a decision.

Peter Grönlund, Managing Director, and Lars Donner, Head of Division, plus one other member of the Executive Team form the Executive Team's credit committee. Mr Grönlund serves as the Chairman of the credit committee.

The credit team handles credit matters that exceed the authority of an individual decision-maker. The credit team also grants credits to individuals who have personal limits for granting

credits, Heads of Division, Department Managers, Branch Office Directors and Regional Managers.

Lars Donner, Head of Division, and Dan-Erik Woivalin, Chief Legal Counsel, form the credit team. Mr Donner serves as Chairman of the credit team.

### **Meetings**

During 2005, the Executive Team met 29 times.

### **INCENTIVE SYSTEM**

The Bank's Board of Directors, Managing Director and Executive Team are not currently included in any incentive system in the Bank that would entitle them to compensation beyond their established fees and salaries.

Late in 2004, the Bank's Board of Directors decided to introduce a profit bonus system at the Bank of Åland Group in compliance with Finland's Personnel Fund Act, as part of a long-term incentive system for employees. In this context, the Bank of Åland Group currently includes the Bank of Åland Plc, Ålandsbanken Asset Management Ab, Ålandsbanken Fondbolag Ab, Crosskey Banking Solutions Ab Ltd and Ålandsbanken Kapitalmarknadstjänster Ab. The personnel fund was established in January 2005 and encompasses all employees in the Group, including the Managing Director and the Executive Team.

Profit bonuses that are paid to the personnel fund are distributed among its members according to the member's regular working hours during the financial period. The basis for calculating the profit bonus is adopted yearly by the Bank's Board of Directors. There were two calculation criteria for 2005: a profitability condition and an income/expense ratio target. No distribution to the personnel fund was charged to 2005 earnings.

### **INTERNAL AUDITING**

The Internal Auditing Department consists of two positions and reports directly to the Bank's Board of Directors. The task of the Internal Auditing Department is to independently and objectively evaluate whether internal financial controls are sufficient, which implies that the Bank's organisation and working methods are appropriate and efficient, that its financial information is reliable and that the Bank is in compliance with laws and regulatory requirements.

### **AUDITORS**

The latest Annual General Meeting of Shareholders appointed Rabbe Nevalainen, Certified Public Accountant; Marja Tikka, Certified Public Accountant; and Leif Hermans, Certified Public Accountant as Auditors. During the year, auditing fees of EUR

84,000 including value-added tax (VAT) were paid. The Auditors were also consulted on matters concerning IAS/IFRS, VAT and other taxes. As fees for these services, EUR 58,000 including value-added tax was paid.

### **INSIDER RULES AND ADMINISTRATION**

Those persons at the Bank who are insiders are subject to the Finnish Financial Inspection Authority's disclosure regulations on insiders, the insider rules of the Finnish Association of Securities Dealers and the Bank's internal rules.

In addition, the Bank has accepted the Helsinki Stock Exchange's insider regulations and has introduced a trading restriction rule, by which a Bank insider is not entitled to trade in the Bank's securities during a period of 14 days before the publication of the Bank's annual accounts or Interim Reports.

The Bank is also connected to the so-called SIRE system, which means that insiders' trading in listed securities is public information and that this trading is automatically updated in the Bank's insider register.

The register manager of the Bank and the Bank's Internal Auditing Department regularly monitor the information that insiders have disclosed to the Bank's insider register.



# FIVE-YEAR GROUP SUMMARY

(EUR M UNLESS OTHERWISE STATED)

	2001 FAS	2002 FAS	2003 FAS	2004 IFRS	2005 IFRS	% CHANGE, 04 – 05
Net interest income	33.4	31.5	29.6	30.0	31.4	4.5
Other income	15.2	16.7	19.9	18.2	20.9	14.5
Other expenses (including depreciation/ amortisation)	31.2	33.2	34.4	33.7	33.2	-1.3
Loan losses	0.1	0.7	-0.1	0.7	0.3	-55.1
<b>NET OPERATING PROFIT</b>	<b>17.4</b>	<b>14.2</b>	<b>15.2</b>	<b>13.9</b>	<b>18.7</b>	<b>34.5</b>
Equity capital	87.4	87.5	100.9	107.8	113.3	5.2
Total assets	1,685.9	1,812.6	1,851.5	1,995.3	2,170.4	8.7
Contingent liabilities	86.7	92.7	113.6	110.1	145.0	31.7
Return on equity after taxes (ROE), % <sup>1</sup>	14.6	11.5	11.4	9.9	12.5	
Return on total assets, % <sup>2</sup>	0.8	0.6	0.6	0.5	0.7	
Equity/assets ratio, % <sup>3</sup>	5.2	4.8	5.5	5.4	5.2	
Expense/income ratio including loan losses <sup>4</sup>	0.64	0.71	0.69	0.71	0.64	
Expense/income ratio excluding loan losses <sup>5</sup>	0.64	0.69	0.70	0.70	0.64	
Risk-based capital ratio, %	12.5	11.0	11.4	11.8	11.3	

## FAS

$$^1 \frac{\text{Net operating profit minus standard tax}}{\text{Average equity capital}} * 100$$

$$^2 \frac{\text{Net operating profit minus standard tax}}{\text{Average total assets}} * 100$$

$$^3 \frac{\text{Equity capital}}{\text{Total assets}} * 100$$

$$^4 \frac{\text{Expenses including loan losses}}{\text{Net interest income + other income}}$$

$$^5 \frac{\text{Expenses excluding loan losses}}{\text{Net interest income + other income}}$$

## IFRS

$$^1 \frac{\text{Net operating profit minus tax}}{\text{Average equity capital}} * 100$$

$$^2 \frac{\text{Net operating profit minus tax}}{\text{Average total assets}} * 100$$

$$^3 \frac{\text{Equity capital}}{\text{Total assets}} * 100$$

$$^4 \frac{\text{Expenses including loan losses}}{\text{Net interest income + other income}}$$

$$^5 \frac{\text{Expenses excluding loan losses}}{\text{Net interest income + other income}}$$

# DEPOSITS

Deposits from the public, including bonds and certificates of deposit, rose during 2005 by 6.2 per cent to EUR 1,631 M (Jan. 1, 2005: 1,535). Deposit accounts rose by 4.4 per cent to EUR 1,300 M (1,244). Bonds and certificates of deposit issued to the public

rose by 13.9 per cent to EUR 331 M (291). The introduction of the fair value option in the opening balance affected deposit accounts by EUR 0.3 M (-0.2) and bonds by EUR 0.7 M (1.3).

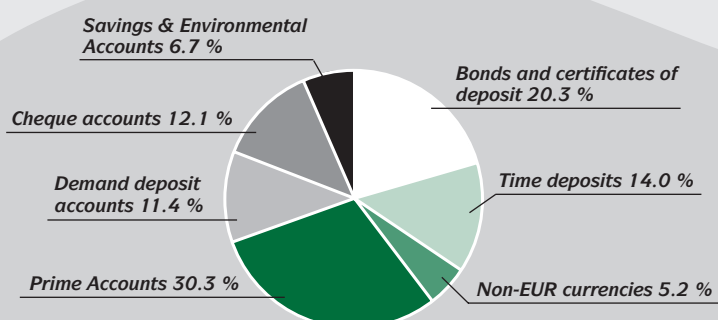
## DEPOSITS FROM THE PUBLIC AND PUBLIC SECTOR ENTITIES, including bonds issued and certificates of deposit

(EUR M)	DEC. 31, 2005	JAN. 1, 2005	% CHANGE
<b>DEPOSITS FROM THE PUBLIC AND PUBLIC SECTOR ENTITIES</b>			
Demand deposit accounts	187	187	-0.4 %
Cheque accounts	197	194	1.2 %
Savings and Environmental Accounts	109	111	-2.1 %
Prime Accounts	494	499	-1.1 %
Time deposits	228	195	16.8 %
<i>Total deposit accounts in EUR</i>	1,214	1,187	2.3 %
Deposit accounts in other currencies	85	57	49.6 %
<b>TOTAL DEPOSIT ACCOUNTS</b>	<b>1,300</b>	<b>1,244</b>	<b>4.4 %</b>
Bonds	174	162	7.3 %
Certificates of deposit from the public	157	129	22.3 %
<b>BONDS AND CERTIFICATES OF DEPOSIT</b>	<b>331</b>	<b>291</b>	<b>13.9 %</b>
<b>TOTAL DEPOSITS</b>	<b>1,631</b>	<b>1,535</b>	<b>6.2 %</b>



Every year, as a bonus, the Bank of Åland donates an amount equal to 0.2 per cent of deposits in Environmental Accounts to nature conservation and environmental projects. The full amount donated since the launch of the accounts totals EUR 414,000.

The number of Environmental Account savers is more than 13,000 today, and during 2005 a total of EUR 68,000 was collected.



◀ Total deposits, Dec. 31, 2005

# LENDING

During 2005, the volume of lending to the public increased by 9.9 per cent to EUR 1,796 M (Jan. 1, 2005: 1,634). Most of the increase went towards residential financing. Lending to private households rose by 12.6 per cent to EUR 1,236 M (1,098). Private households accounted for 68.8 (67.2) per cent of the Group's total

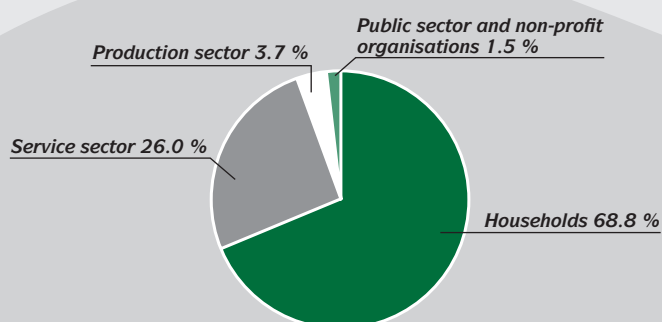
lending. Lending for business and professional activities rose by 4.9 per cent to EUR 533 M (508). Lending to the public sector and non-profit organisations was unchanged at EUR 28 M. The introduction of the fair value option in the opening balance according to IFRS affected lending by EUR -1.1 M (2.3).

## LENDING TO THE PUBLIC AND PUBLIC SECTOR ENTITIES

(EUR M)	DEC. 31, 2005	JAN. 1, 2005	% CHANGE
Overdraft facilities utilised	75	72	4.5 %
Loans	1,712	1,549	10.5 %
Loans disbursed from Åland government funds	3	5	-27.4 %
Lending in non-EUR currencies	6	8	-30.1 %
<b>TOTAL LENDING</b>	<b>1,796</b>	<b>1,634</b>	<b>9.9 %</b>

## LENDING TO THE PUBLIC AND PUBLIC SECTOR ENTITIES, BY SECTOR

(EUR M)	DEC. 31, 2005	JAN. 1, 2005	% CHANGE
<b>BUSINESS AND PROFESSIONAL ACTIVITIES</b>			
<i>Service sector</i>			
Shipping	60	62	
Hotels, restaurants, tourist cottages etc.	11	11	
Wholesale and retail trade	46	47	
Housing corporations	40	33	
Real estate activities	95	87	
Financial activities	137	139	
Other service business	78	77	
	467	457	2.1 %
<i>Production sector</i>			
Agriculture, forestry and fishing	21	20	
Food processing etc	9	11	
Construction	27	12	
Other industry and crafts	9	9	
	66	51	29.1 %
<b>HOUSEHOLDS</b>			
Home loans	977	883	
Studies	13	13	
Other purposes	246	202	
	1,236	1,098	12.6 %
<b>PUBLIC SECTOR AND NON-PROFIT ORGANISATIONS</b>			
	28	28	-0.6 %
<b>TOTAL LENDING</b>	<b>1,796</b>	<b>1,634</b>	<b>9.9 %</b>



◀ Lending to the public by sector, Dec. 31, 2005

# RISK STRUCTURE AND RISK MANAGEMENT

The Bank's ambition is to pursue its operations with small risks. Its focus on the household market and on small and medium-sized companies, as well as the Bank's comparatively modest trading portfolios, is an expression of this ambition.

The Board of Directors has overall responsibility for establishing systems and regulations for limiting and monitoring the Bank's risk exposure. Management and oversight of the Bank's risks is administered by the Risk Control Department, whose task is also to ensure that the Board of Directors, the Managing Director and the Heads of Division receive information about the Bank's risks and that rules and limits are respected.

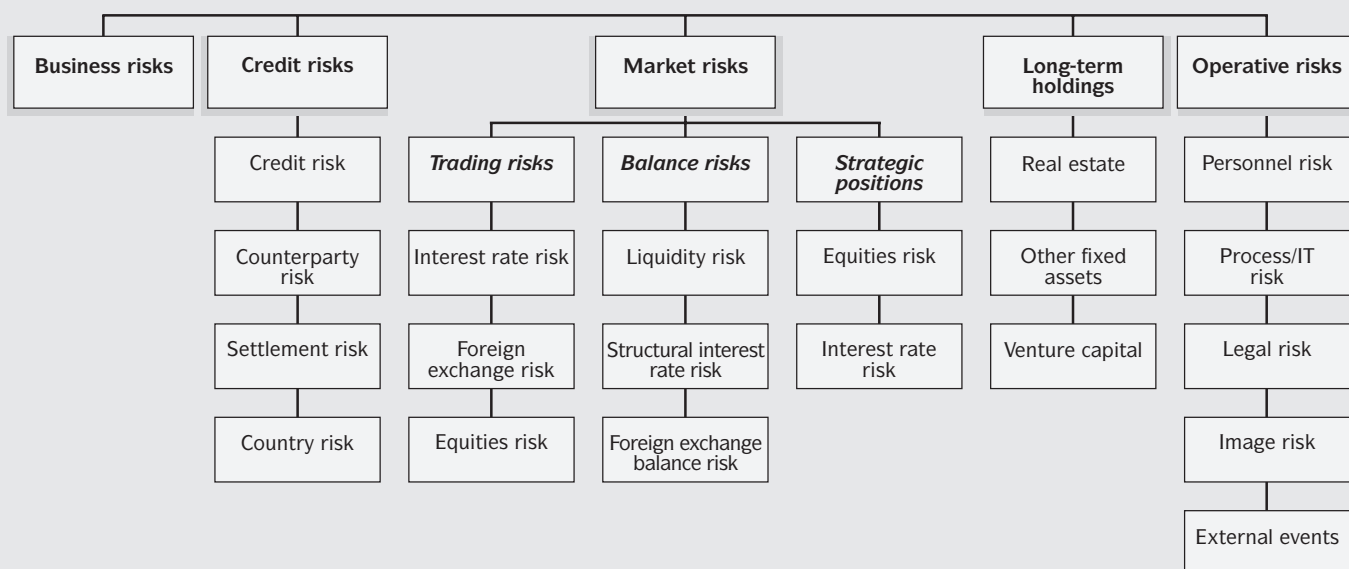
Risk management includes all activities related to the structure

of operations aimed at identifying, measuring, reporting and controlling risks. The cornerstone of risk management is the Bank's internal instructions, limit systems and processes aimed at ensuring that its operations are pursued in a safe, efficient manner. Each unit has primary responsibility for identifying and controlling risks associated with its own operations.

## Risk structure

The risks in the Bank of Åland's operations are divided into five main categories: business risks, credit risks, market risks, long-term holdings and operational risks.

### RISK STRUCTURE



#### Business risk

Business risk is a function of the Bank's focus and structure and of the environment/market the Bank operates in.

#### Credit risk

Credit risk is the risk of losses as a consequence of the inability of a borrower or counterparty to fulfil its obligations towards the Bank. Credit risk applies to receivables from private individuals, companies, banks and public sector institutions. Credit risk also includes the counterparty risk that arises when the Bank deposits funds with other institutions. Settlement risk and country risk belong to the same category of risks.

Credit management assumes that lending decisions will be based on sufficient knowledge about the customer. The creditworthiness of private individuals is judged on the basis of the disposable income of the borrower and the collateral offered. A majority of the Bank's loans to private individuals are granted to customers residing in one of the five regions where the Bank operates, with homes as collateral.

In the case of corporate loans, all customers have a contact person at the Bank. This person is familiar with the customer's operations and the loan collateral and risks. The Bank regularly monitors corporate customers' financial position and the Bank's credit risk. Work is under way in the Bank to evaluate models for more advanced credit risk management in compliance with the Basel 2 rule system.

The loan portfolio includes very modest receivables from customers domiciled abroad, and no commitments are located in crisis-affected parts of the world.

The Treasury unit invests the Bank's surplus liquidity as deposits in other banks. For this type of risks, the Board of Directors establishes counterparty limits. Monitoring of these limits occurs continuously.

Credit management is based on formal credit and limit decisions. The customer relationship manager has a personal decision limit, within which he/she takes responsibility for the decision. If a larger decision-making capacity is needed, the case is referred to

credit committee II. Credit matters involving more than a certain predefined amount are dealt with by the Executive Team or its credit committee. Large loans are pre-screened by credit control officers. Follow-up inspections of credit documentation occur on a test basis. Nonperforming loan commitments are reported monthly to the Executive Team. Large customer commitments are reported both internally and to the Financial Supervision Authority.

### **Market risk**

Market risk is the risk of losses in the Bank's operations due to changes in interest rates as well as currency exchange rates and market prices of shares. Market risk is divided into three categories:

#### **A. Trading risks**

Trading risks are connected to interest-bearing securities, foreign exchange positions and shares/securities that are held for speculative purposes and that are evaluated daily.

##### *Interest rate risk*

For trading in long-term bonds and interest rate futures, there is a nominal limit and a loss limit at which the position is to be unwound (stop-loss limit).

##### *Foreign exchange risk*

In foreign exchange dealing, there is a limit on the total volume of the foreign exchange position, and there are limits on individual currencies as well as a stop-loss limit. Open positions both during the day and overnight are subject to limits.

##### *Equities risk*

The brokerage portfolio has a limit on overall volume, limits for individual securities and a stop-loss limit for individual securities. The trading portfolio has an overall limit as well as limits for individual securities. Only long derivative positions may be used overnight. Intraday refers to short-term derivative positions permitted within the framework of predetermined limits.

#### **B. Balance risks**

Balance risks refer to risks that are connected to the Bank's liquidity and to the interest rate refixing structure of the balance, i.e. the sensitivity of the balance to changes in the fixed-income market. The former risk is called liquidity risk and the latter is called structural interest rate risk. Also part of this category is foreign exchange balance risk, i.e. the sensitivity of the balance to changes in currency exchange rates.

##### *Liquidity risk*

Liquidity risk is measured with the help of maturity analyses and liquidity budgets. Maturity analyses show how the Bank's deposit and lending positions are allocated by maturity (due dates). Liquidity budgets show the Bank's preparedness for payments in case of any market disruptions.

##### *Structural interest rate risk*

At the Bank of Åland, structural interest rate risk is measured with the help of gap analysis. Gap analysis places interest rate-sensitive assets and liabilities in time gaps according to interest refixing dates. With the help of these gaps, the Bank calculates the sensitivity of its net interest items to changes during a 12-month period.

For the structural interest rate risk (0–12 months), there is a limit established by the Board of Directors stating the maximum permitted change in net interest items in case of a 1 percentage point shift in the yield curve.

##### *Foreign exchange balance risk*

Foreign exchange positions in the balance are subject to limits established by the Board of Directors.

##### *Derivative contracts*

Derivative contracts are used to protect positions. Interest rate swaps and interest rate forward contracts are used for the purpose of decreasing/eliminating interest rate risk in underlying balance sheet items, for example equity-index bond loans and fixed-interest products.

#### **C. Strategic positions**

Strategic positions contain positions taken by the Board of Directors in shares of interesting companies, in mutual funds and in interest-bearing instruments.

### **Long-term holdings**

This category of risks includes such long-term holdings as the Bank's real estate portfolio and other non-current assets, as well as venture capital investments.

The Bank's real estate holdings are small. Most of the properties are used in its own operations. The risks attributable to the decline in market value of these holdings or deterioration in return on assets are thus small. The Board of Directors decides on purchases and divestments. The Executive Team/Heads of Divisions decide on acquisition and divestments of other non-current assets.

Venture capital investments are limited. The Board of Directors decides on the holdings in this portfolio.

### **Operational risks**

Operational risks are defined as the risk of losses and of damage to the Bank's reputation due to faulty or erroneous procedures, processes, behaviour or unexpected events in the Bank's surroundings.

Operational risk management is an independent element of risk management. Risks attributable to operations or essentially attributable to operations must be identified, assessed and measured in order to be limited and monitored. Operational risks are reduced by both prevention of damage and by minimisation of losses in the event that a risk materialises. Losses due to operational risks are also reduced through insurance.

It is the task of every unit to manage the operational risks that

are associated with their own work. Units document the significant operational risks in their processes, products and projects. During risk documentation, they assess the probability of and the consequences of a loss event. Based on this assessment, they create a risk map that governs how identified risks are managed.

The Risk Control Department co-ordinates the task of risk documentation and is responsible for reporting major operational risks to the Board of Directors and the Executive Team. For the reporting of incidents, systems support has been developed internally and will go into service in the Group during 2006. Operational incidents that materialise must continuously be reported to the Risk Control Department, which is responsible for ensuring that they are compiled and reported onward to the affected bodies as well as to the Financial Supervision Authority according to the rules in force.

The Bank's Internal Auditing Department monitors compliance by units with internal and external rules and instructions related to operational risks, providing qualitative assessments in report form to the Board. The Internal Auditing Department also reports regularly on expenses that have arisen due to poor procedures, misunderstandings, crime etc.

Crosskey Banking Solutions Ab Ltd (Crosskey) comprises a significant part of the Bank of Åland Group's total operational risk exposures, and it is consequently important that oversight of the subsidiary's operations is handled carefully and continuously. This oversight is exercised by means of recurring reviews by the Risk Control Department and the Internal Auditing Department. The Risk Control Department ensures that risk documentation is established and the Internal Auditing Department examines Crosskey's compliance with existing policies and internal instructions. In addition, external auditors with specialised knowledge in the IT field are used regularly to conduct independent reviews.

The Bank has endeavoured to improve operational risk management, among other things by placing in service systems support for documentation of operational risks and by assigning the Risk Control department to actively assist units in risk documentation. Concurrently with risk documentation, the task of drafting and reviewing continuity plans for prioritised processes has continued. Aside from the Bank of Åland and Crosskey, the task of improving the management of operational risks also encompasses the subsidiaries Ålandsbanken Fondbolag Ab, Ålandsbanken Asset Management Ab and Ålandsbanken Kapitalmarknadstjänster Ab. During 2005, the Bank participated in Pato, an emergency exercise organised for the financial services industry by the Bank of Finland.

## CAPITAL ADEQUACY

Today's regulations presuppose that the Bank's capital adequacy – its capital base as a percentage of risk-weighted assets – amounts

to at least 8 per cent. However, the Board of Director's policy is that the Bank of Åland should have a risk-weighted total capital ratio of at least 10 per cent.

### Monitoring of capital adequacy

The Financial Control Department calculates the Bank's risk-weighted total capital ratio and reports it regularly to the Executive Team and the Board of Directors. The Department also provides forecasts of changes in the ratio.

### Allocation of the capital base

On December 31, 2005, the allocation of the capital base by different types of risks (provided that the entire capital base is allocated proportionally) was

– credit risks .....	94.6 %
– counterparty risks.....	3.0 %
– other .....	2.4 %
<hr/>	
Total .....	100.0 %

### New capital adequacy rules

The Basel Committee on Banking Supervision has submitted principles for new capital adequacy rules. The European Commission is implementing these principles in the EU by means of amendments to the European Parliament and Council directive on the right to start and run operations in credit institutions and the Council directive on capital adequacy requirements for companies in the securities business and credit institutions. The purpose of the rules is to ensure that capital adequacy requirements will better reflect the actual risk in operations. They are intended to enter into force on January 1, 2007.

Preparations for adjustment to the new rules are under way in the Bank. This work is being co-ordinated by the Risk Control Department. The Bank's intention is to manage credit risks according to the standardised approach. The efforts that are under way to improve risk management systems will, however, lay the groundwork that will enable the Bank to switch at the appropriate time to the more advanced risk calculation models in the Basel 2 rule system.

Starting on January 1, 2007, banks must maintain sufficient equity capital in relation to their existing operational risks. Banks may choose between three different calculation methods: the basic indicator approach, the standardised approach or the advanced measurement approach. The Board of Directors has decided that capital adequacy for operational risks will be calculated according to the basic indicator method. The capital requirement for operational risks according to the basic indicator method amount to 15 per cent of net income from financial operations and other income, based on the average of these income sources during the previous three years.

# FACTS ON BANK OF ÅLAND SHARES

## Share capital

The share capital of the Bank of Åland is EUR 22,173,906.98. The maximum share capital according to the Articles of Association is EUR 32,292,081.88. The carrying amount (book value) equivalent of a share is EUR 2.02.

The shares are divided into 5,180,910 Series A and 5,805,762 Series B shares. Each Series A share represents twenty (20) votes at shareholders' meetings and each Series B share one (1) vote. Series B shares enjoy priority over Series A shares for dividends of up to six (6) per cent of their previous nominal value.

### Changes in share capital, reported in EUR

	Share capital, EUR	Number of Series A shares	Number of Series B shares
2001	20,254,392.98	5,180,910	4,854,686
2002	20,318,016.45	5,180,910	4,886,210
2003	22,086,413.60	5,180,910	5,762,411
2004	22,164,049.83	5,180,910	5,800,878
2005	22,173,906.98	5,180,910	5,805,762

## Convertible capital loan

During the spring of 1997, the Bank of Åland issued a convertible capital loan of FIM 100 M to the public. The capital loan pays annual interest of six (6) per cent and falls due for payment in its entirety on April 2, 2007.

	Issued	Conversions recorder in Finnish Trade Registry	Remaining
Loan amount in EUR:	16,818,792.65	7,437,266.01	9,381,526.64
Number of loan certificates:	10,000	4,422	5,578
Equivalent number of Series B shares:	1,095,546	476,388	619,158

During the period July 1, 2005 to January 31, 2006, an additional 207 loan certificates, equivalent to EUR 348,149.16 or 22,977 Series B shares, were converted. The remaining principal amount of the capital loan is EUR 9,033,377.48.

### Conversion terms

The conversion price per share is EUR 15.13929. Each loan certificate with a nominal value of EUR 1,681.88 may thus be converted into 111 Series B shares. The resulting difference of EUR 1.42 is being repaid in cash.

The right of conversion for the loan began on April 2, 1998 and ends when the loan reaches maturity. Conversion may take place each year during the period April 2 – January 31.

## Trading in the Bank's shares

During 2005, the volume of trading in the Bank's Series A shares on the Helsinki Stock Exchange was EUR 2.0 M. Their average price was EUR 21.76. The highest quotation per share was EUR 24.50, the lowest EUR 19.50. Trading in Series B shares totalled EUR 9.1 M at an average price of EUR 20.19. The highest quotation was EUR 24.10, the lowest EUR 18.50.

On December 31, 2005, the number of registered shareholders was 9,013. There were also 112,947 shares registered in the names of nominees.

## THE TEN LARGEST SHAREHOLDERS, DECEMBER 31, 2005

	SHAREHOLDER	SERIES A SHARES	SERIES B SHARES	TOTAL	% OF SHARES	% OF VOTES
1	Alandia-Bolagen (insurance group)	733,886	325,145	1,059,031	9.6 %	13.7 %
2	Aktia Sparbank Abp (savings bank)	105,000	877,100	982,100	8.9 %	2.7 %
3	Ålands Ömsesidiga Försäkringsbolag (insurance company)	612,331	111,960	724,291	6.6 %	11.3 %
4	Wiklöf Anders	579,089	90,358	669,447	6.1 %	10.7 %
5	Mattsson Rafael	422,406	15,638	438,044	4.0 %	7.7 %
6	Veritas bolagen (insurance group)	277,734	153,900	431,634	3.9 %	5.2 %
7	Caelum Oy (investment company)	65,340	156,800	222,140	2.0 %	1.3 %
8	Svenska litteratursällskapet i Finland (literary society)	167,000	0	167,000	1.5 %	3.1 %
9	Palkkiyhtymä Oy (shipping company)	60,000	76,000	136,000	1.2 %	1.2 %
10	Baltic Petroleum Oy	101,770	0	101,770	0.9 %	1.9 %
	The Board of Directors	1,968	1,873	3,859	0.0 %	0.0 %

## SHAREHOLDERS BY SIZE OF HOLDING

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	TOTAL NUMBER OF SHARES HELD	AVERAGE HOLDING
1 – 100	3,840	176,949	46
101 – 1,000	4,032	1,406,782	349
1,001 – 10,000	1,053	2,572,283	2,443
10,001 –	88	6,830,658	77,621
Of which, shares registered in name of nominee		112,947	

## SHAREHOLDERS BY CATEGORY

CATEGORY	NUMBER OF SHARES	% OF SHARES
Private individuals	4,923,421	44.8
Corporations	1,738,053	15.8
Financial institutions and insurance companies	2,722,548	24.8
Government organisations	569,224	5.2
Non-profit organisations	540,274	4.9
Foreign investors	380,205	3.5
Shares registered in name of nominee	112,947	1.0

## BANK OF ÅLAND (GROUP) SHARE DATA

	2001 FAS	2002 FAS	2003 FAS	2004 IFRS	2005 IFRS
Number of shares, M <sup>1</sup>	10.04	10.07	10.94	10.98	10.99
Average number of shares, M	10.04	10.07	10.56	10.98	10.99
Earnings per share before dilution, EUR <sup>2</sup>	1.23	1.00	1.02	0.96	1.24
Earnings per share after dilution, EUR <sup>3</sup>	1.18	0.97	1.00	0.94	1.21
Dividend payout ratio <sup>4</sup>	57.8	71.6	72.2	79.1	58.8
Equity capital per share before dilution, EUR <sup>5</sup>	8.71	8.69	9.22	9.81	10.32
Market price per share, balance sheet date, EUR					
Series A	15.90	17.10	18.65	19.62	24.00
Series B	15.69	16.30	19.10	19.04	24.00
Price/earnings ratio <sup>6</sup>					
Series A	13.0	17.1	18.3	21.8	19.4
Series B	12.8	16.3	18.7	21.2	19.4
Effective dividend yield, % <sup>7</sup>					
Series A	6.3	5.8	5.4	5.1	4.2
Series B	6.4	6.1	5.2	5.3	4.2
Market capitalisation, EUR M	158.5	168.2	206.7	212.1	268.9

### IFRS

$$3 \frac{\text{Profit for the year} + \text{interest on subordinated loan}}{\text{Average number of shares} + \text{shares outstanding}}$$

$$5 \frac{\text{Equity capital}}{\text{Number of shares on balance sheet date}}$$

1 Number of shares on balance sheet date

$$6 \frac{\text{Share price on balance sheet date}}{\text{Earnings per share}}$$

$$2 \frac{\text{Profit for the year}}{\text{Average number of shares}}$$

$$4 \frac{\text{Dividend for the year}}{\text{Net operating profit}} \times 100$$

$$7 \frac{\text{Dividend}}{\text{Share price on balance sheet date}}$$



### BANK OF ÅLAND SHARES TRADED, HELSINKI STOCK EXCHANGE

YEAR	THOUSANDS OF SHARES		VOLUME AS % OF SHARES	PRICE PAID, EUR: HIGHEST/ LOWEST	AVERAGE PRICE, EUR
2001	A	80	1.5	20.00 – 15.00	16.87
2001	B	297	6.3	19.10 – 14.86	16.67
2002	A	665	12.8	17.50 – 16.02	16.40
2002	B	501	10.2	17.40 – 15.50	16.21
2003	A	271	5.2	21.00 – 15.50	18.37
2003	B	505	8.8	20.00 – 14.20	17.33
2004	A	320	6.2	21.00 – 17.70	18.91
2004	B	375	6.5	19.70 – 17.25	18.35
2005	A	90	1.7	24.50 – 19.50	21.76
2005	B	449	7.7	24.10 – 18.50	20.19

# CONSOLIDATED BALANCE SHEET

(EUR K)

ASSETS	NOTE	DEC 31, 2005		DEC 31, 2004	
Cash			77,605		72,065
Debt securities eligible for refinancing with central banks	2				
<i>Treasury bills</i>			58,599		19,794
<i>Other</i>			<u>37,223</u>	95,822	<u>92,402</u>
Claims on credit institutions	3				
<i>Repayable on demand</i>			1,018		3,435
<i>Other</i>			<u>127,159</u>	128,177	<u>106,792</u>
Claims on the public and public sector entities	4			1,796,282	1,632,101
Debt securities	2			29	1,769
Shares and participations	6			4,536	8,764
Shares and participations in associated companies	6			1,528	527
Derivative instruments	7			14,708	8,300
Intangible assets	8,11				
<i>Miscellaneous intangible assets</i>			3,138		2,245
<i>Group goodwill</i>			<u>927</u>	4,064	<u>0</u>
Tangible assets	9,10,11				
<i>Investment properties</i>			2,946		3,013
<i>Properties for own use</i>			15,695		16,825
<i>Other tangible assets</i>			<u>5,206</u>	23,847	<u>5,224</u>
Other assets	12			8,626	10,673
Accrued income and prepayments	13			14,322	11,360
Deferred tax assets	14			<u>842</u>	<u>38</u>
<b>TOTAL ASSETS</b>			2,170,389		1,995,326

# CONSOLIDATED BALANCE SHEET

(EUR K)

LIABILITIES	NOTE	DEC 31, 2005		DEC 31, 2004	
Liabilities to credit institutions					
<i>Repayable on demand</i>		2,880		1,454	
<i>Other</i>		<u>69,933</u>	72,812	<u>22,134</u>	23,588
Liabilities to the public and public sector entities					
<i>Deposits</i>					
<i>Repayable on demand</i>		1,054,247		1,038,989	
<i>Other</i>		<u>245,319</u>	1,299,566	<u>205,210</u>	1,244,199
<i>Other liabilities</i>		<u>3,350</u>	1,302,916	<u>4,620</u>	1,248,819
Debt instruments issued to the public					
	15				
<i>Bonds</i>		328,520		224,542	
<i>Other</i>		<u>229,787</u>	558,308	<u>275,506</u>	500,048
Derivative instruments	7		15,335		8,300
Other liabilities	16		29,705		30,479
Accrued expenses and prepaid income	17		11,285		12,399
Subordinated liabilities					
	18				
<i>Capital loan</i>		9,313		9,456	
<i>Other</i>		<u>45,523</u>	54,836	<u>44,524</u>	53,980
Deferred tax liabilities	14		<u>11,856</u>		<u>9,945</u>
Total liabilities			2,057,054		1,887,557
Share capital					
	23		22,174		22,164
Share premium account			26,063		25,463
Reserve fund			25,129		25,129
Fair value reserve			371		0
Retained earnings			25,141		23,975
Profit for the year			13,578		10,506
Minority interest in capital			<u>879</u>		<u>532</u>
Total equity capital			113,336		107,769
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>			2,170,389		1,995,326
<b>OFF-BALANCE SHEET OBLIGATIONS</b>					
Obligations to a third party on behalf of customers					
<i>Guarantees and pledges</i>		<u>12,895</u>	12,895	<u>13,342</u>	13,342
Irrevocable commitments given on behalf of customers			<u>132,110</u>		<u>96,730</u>
			145,005		110,072

# CONSOLIDATED INCOME STATEMENT

(EUR K)

	NOTE	JAN 1 – DEC 31, 2005		JAN 1 – DEC 31, 2004	
Interest income	26		61,009		54,305
Interest expenses	27		<u>-29,651</u>		<u>-24,306</u>
<b>NET INTEREST INCOME</b>			31,358		29,999
Income from equity investments	29		83		538
Commission income	30		16,137		12,837
Commission expenses	31		-1,959		-1,455
Net income from securities transactions and foreign exchange dealing	32				
<i>Net income from securities transactions</i>			625		287
<i>Net income from foreign exchange dealing</i>			<u>898</u>	1,523	<u>880</u>
Net income from financial assets available for sale	33		1,073		247
Net income from investment properties	34		277		562
Other operating income	35		3,516		4,366
Administrative expenses					
<i>Staff costs</i>					
<i>Wages and salaries</i>			16,706		15,492
<i>Pensions</i>			-102		1,737
<i>Other social security costs</i>			<u>1,191</u>	17,795	<u>1,124</u>
<i>Other administrative expense</i>	36		8,450		7,283
<i>Production for own use</i>			<u>-1,130</u>	-25,116	<u>0</u>
Depreciation/amortisation and impairment losses on tangible and intangible assets			-3,906		-3,634
Other operating expenses	37		-4,219		-4,405
Loan and guarantee losses	38		-295		-654
Share of profit/loss in companies consolidated according to the equity method			<u>202</u>		<u>-48</u>
<b>NET OPERATING PROFIT</b>			18,676		13,883
<b>PROFIT BEFORE APPROPRIATIONS AND TAXES</b>			18,676		13,883
Income taxes	39				
<i>Taxes for the year and prior years</i>			4,392		4,762
<i>Change in deferred tax liabilities/assets</i>			<u>254</u>	-4,646	<u>-1,581</u>
Minority share of profit for the year			<u>-452</u>		<u>-195</u>
<b>PROFIT FOR THE YEAR</b>			13,578		10,506

# CASH FLOW STATEMENT

(EUR K)

<b>BANK OF ÅLAND GROUP</b>	<b>JAN 1-DEC 31, 2005</b>	<b>JAN 1-DEC 31, 2004</b>
<b>OPERATING ACTIVITIES</b>		
Net operating profit	18,676	13,883
Adjustment for net operating profit items not affecting cash flow		
<i>Loan losses</i>	203	478
<i>Unrealised changes in value</i>	2,348	1,554
<i>Depreciation/amortisation and impairment losses</i>	3,906	3,634
<i>Effect of pension fund</i>	-2,384	22
<i>Accrued surpluses/deficits on debt securities and bonds issued</i>	2,601	2,663
Profits from investing activities	-3,455	-727
Income taxes paid	-3,525	-5,010
Changes in assets and liabilities in operating activities		
<i>Debt securities eligible for refinancing with central banks</i>	4,063	51,807
<i>Claims on credit institutions</i>	-46,010	7,918
<i>Claims on the public and public sector entities</i>	-163,630	-226,275
<i>Other asset items</i>	-2,061	11,787
<i>Liabilities to credit institutions</i>	-775	-4,533
<i>Liabilities to the public and public sector entities</i>	54,128	109,730
<i>Debt securities issued</i>	-37,432	-50,727
<i>Other liability items</i>	3,127	6,494
	-170,221	-77,305
<b>INVESTING ACTIVITIES</b>		
Equities	6,573	-4,100
Investments in shares of associated companies and subsidiaries	-2,043	0
Divestments of shares of associated companies and subsidiaries	212	197
Tangible assets	-1,549	-2,125
Intangible assets	-2,705	-1,748
	488	-7,776
<b>FINANCING ACTIVITIES</b>		
Dividend paid to shareholders	-10,986	-10,960
Dividend paid to minority interests	-226	-130
New share issue	0	210
Change in long-term borrowings from banks	145,119	49,893
Change in subordinated debentures	1,003	20,021
	134,911	59,034
<b>LIQUID ASSETS</b>		
Liquid assets on January 1	252,230	278,276
Cash flow from operating activities	-170,221	-77,305
Cash flow from investing activities	488	-7,776
Cash flow from financing activities	134,911	59,034
Liquid assets on December 31	217,407	252,230
Specification of liquid assets		
<i>Cash and cash equivalents</i>	77,605	72,065
<i>Claims on credit institutions</i>	82,166	110,227
<i>Debt securities</i>	57,636	69,938
	217,407	252,230

"Liquid assets" refers to cash, cheque account with the Bank of Finland, claims payable on demand from credit institutions as well as other claims on credit institutions and debt securities with an original remaining maturity of less than three months. "Investing activities" refers to payments related to tangible and intangible assets as well as holdings of shares and participations aside from shares intended for trading. "Financing activities" refers to items among equity capital and liabilities that finance operating activities. The analysis was prepared according to the indirect method.

# CHANGES IN EQUITY CAPITAL

(EUR K)

BANK OF ÅLAND GROUP	SHARE CAPITAL	SHARE PREMIUM ACCOUNT	RESERVE FUND	FAIR VALUE RESERVE	RETAINED EARNINGS	MINORITY INTEREST	TOTAL
<b>Equity capital, Jan 1, 2004</b>	<b>22,086</b>	<b>24,966</b>	<b>25,129</b>	<b>0</b>	<b>34,935</b>	<b>389</b>	<b>107,506</b>
Dividend to shareholders					-10,960		-10,960
Conversion of capital loan	49	316					365
Subscription by exercising warrants	29	181					210
Change in minority interest in equity capital						143	143
Profit for the year					10,506		10,506
<b>Equity capital, Dec 31, 2004</b>	<b>22,164</b>	<b>25,463</b>	<b>25,129</b>	<b>0</b>	<b>34,481</b>	<b>532</b>	<b>107,769</b>
Introduction of IAS 39 incl. fair value option <sup>1</sup>		536		1,147	1,646		3,329
<b>Equity capital, Jan 1, 2005</b>	<b>22,164</b>	<b>25,999</b>	<b>25,129</b>	<b>1,147</b>	<b>36,127</b>	<b>532</b>	<b>111,099</b>
Dividend to shareholders					-10,986		-10,986
Conversion of capital loan	10	64					74
Change in fair value				-776			-776
Change in minority interest in equity capital						347	347
Profit for the year					13,578		13,578
<b>Equity capital, Dec 31, 2005</b>	<b>22,174</b>	<b>26,063</b>	<b>25,129</b>	<b>371</b>	<b>38,719</b>	<b>880</b>	<b>113,336</b>

<sup>1</sup> The fair value option influences earlier published effects of the transition to IFRS.

# ACCOUNTING PRINCIPLES FOR THE BANK OF ÅLAND GROUP

## 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 3  
AX-22100 Mariehamn, Åland, Finland

The Bank of Åland Plc is listed on the Helsinki Stock Exchange.

## BASIS FOR PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

For the first time, the financial statements of the Bank of Åland Group have been prepared in compliance with the International Financial Reporting Standards (IFRS) that have been adopted by the European Union. The financial statements of the Bank of Åland Group for 2004 were drawn up in accordance with Finnish accounting standards (FAS). The consolidated financial statements are presented in thousands of euro (EUR K) unless otherwise stated. The consolidated financial statements have been prepared according to original cost, if not otherwise stated in the accounting principles.

The Bank of Åland Group placed the IFRS standards in use during 2005 by applying IFRS 1, "First-time Adoption of International Financial Reporting Standards". The Bank of Åland Group's transition date was January 1, 2004, but in such a way that an exception was made for IAS 32, "Financial Instruments: Disclosure and Presentation", and IAS 39, "Financial Instruments: Recognition and Measurement", which went into use starting on January 1, 2005.

Comparative figures for 2004 have been recalculated in such a way that they follow IFRS standards, with the exception of financial instruments (IAS 32 and IAS 39). The Bank of Åland Group has taken advantage of the voluntary exemptions provided by IFRS 1 and has not recalculated the comparative figures for financial instruments. A summary of the most important effects of the transition to IFRS is found in Note 40 to the consolidated financial statements.

On August 18, 2005, the International Accounting Standards Board (IASB) published IFRS 7, "Financial Instruments: Disclosures". IFRS 7 is a new standard that deals with the disclosure requirements for all risks concerning financial instruments (with few exceptions). The standard applies to the Bank of Åland Group and will provide information that increases understanding of how financial instruments affect the company's exposure to financial risk. The Bank of Åland Group will apply this standard in the financial year that begins on January 1, 2007.

The financial statements of the Bank of Åland have been drawn up in accordance with the Finnish Credit Institutions Act, the Ministry of Finance ordinance on annual accounts and consolidated annual accounts of financial institutions and securities companies and the regulations of the Financial Supervision Authority.

## PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the Parent Company, the Bank of Åland Plc, and all subsidiaries over which the Parent Company has direct or indirect control. The consolidation of subsidiaries occurs from the acquisition date to the divestment date. Subsidiaries acquired before January 1, 2004 are recognised according to the consolidation and accounting principles originally applied, in keeping with the exemption in IFRS 1. Subsidiaries acquired after January 1, 2004 are consolidated in compliance with IFRS 3, "Business Combinations".

The consolidated financial statements include those subsidiaries in which the company directly or indirectly owns 50 per cent of the voting power, or which it otherwise controls. In elimination, the purchase method of accounting has been used. In the consolidated financial statements, all intra-Group transactions, receivables, liabilities and profits have been eliminated.

The consolidated financial statements include those associated companies in which the Bank of Åland Group owns 20-50 per cent of the shares or otherwise has significance influence. When consolidating associated companies, the equity method of accounting has been used.

Real estate and housing companies have been consolidated according to the proportionate consolidation method of accounting.

All intra-Group receivables, liabilities and transactions including dividends and intra-Group profits have been eliminated in the consolidated financial statements.

Minority interest is shown separately in consolidated equity capital.

## ESTIMATES AND JUDGEMENTS

Preparation of financial statements in compliance with IFRS 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 as disclosures about commitments. Although these estimates are based on the best knowledge of the Executive Team and current events and measures, the actual outcome may diverge from these estimates.

## SEGMENT REPORTING

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. The Bank of Åland Group does not report geographic segments as secondary segments, since all operations occur in Finland.

## ITEMS IN FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are translated to euro according to the European Central Bank exchange rate on the balance sheet date.

## REVENUE RECOGNITION PRINCIPLES

### Interest income and expenses

Interest income and expenses on asset and liability items are recognised according to the accrual principle. If a financial asset or group of financial assets have had an impairment loss, the interest income is recognised according to the original interest rate on the amount after the impairment loss.

### Commission income and expenses

Commission income and expenses are recognised when the service is carried out. For commissions that concern more than one year, only the portion related to the accounting period is recognised.

### Licence income

Annual licence income for computer systems is recognised as revenue on a straight-line basis during the respective year to which it is attributable.

### Sales of banking computer systems

Systems sales with significant adaptations are administered as long-term projects. Systems licence income from long-term projects is recognised as revenue based on degree of completion, when this can be reliably determined. The degree of completion is determined separately for each project as the share of expenditures on the balance sheet date compared to the total expenditures for the project. If it is probable that total expenditures will exceed total income for the project, the expected loss is immediately recognised as an expense.

## INTANGIBLE ASSETS

### Capitalisation of production for own use

If the computer system that is produced will probably generate future income or reduce expenses in excess of expense, the development expenses for the computer system are capitalised. Computer systems developed in-house are capitalised at actual cost. Capitalised development expenses are normally amortised on a straight-line basis over 3–5 years. The amortisation begins when the computer system is ready for use. Development expenses that are not expected to yield a significant economic benefit are recognised as an expense in the income statement. Expenses for preliminary studies and research are recognised as an expense in the income statement.

### Goodwill

Goodwill corresponds to the share of cost that exceeds the net asset value of a company that is purchased. Goodwill is not amortised, but is tested yearly, or more often if a need exists, for impairment by discounting expected future cash flows in cash-generating units. Impairment losses are recognised directly as expenses in the income statement.

## TANGIBLE ASSETS

### Properties for the Group's own use

Properties for the Group's own use consist of direct holdings and indirect holdings via real estate and housing companies.

Properties for the Group's own use are recognised in the balance sheet at cost less depreciation and impairment loss. For its Head Office property, the Bank of Åland Group has chosen to apply the exemption in IFRS 1, by using deemed cost instead of original cost of tangible assets in the transition to IFRS.

### Investment properties

Investment properties are held in order to earn rental income or value appreciation. Investment properties consist of direct holdings as well as indirect holdings via real estate and housing companies.

Investment properties are recognised separately in the balance sheet under tangible assets at cost less depreciation and impairment losses. In the income statement, net income from investment properties is shown on a separate line. The properties have been appraised by a licensed estate agent.



## IMPAIRMENT LOSS ON TANGIBLE ASSETS

Assets are reviewed yearly to determine if there is any indication of impairment loss. If such an indication arises, the recoverable amount is determined as the higher of the asset's sale price or value in use. An impairment loss is recognised in the income statement if carrying amount exceeds net realisable value. A previously recognised impairment loss is reversed only if a significant change has occurred in the valuation basis for impairment testing. The carrying amount after reversal may not exceed the carrying amount before the impairment loss.

## DEPRECIATION/AMORTISATION

Buildings, technical equipment and machinery and equipment are noted at cost minus depreciation and any impairment loss. Depreciation is based on the expected economic service life of the assets. All depreciation/amortisation is on a straight-line basis.

Buildings	40 years
Technical equipment in buildings	12 years
Machinery and equipment	3–10 years
Computer systems developed in-house (amortisation)	3–5 years
Other tangible assets	3–5 years

Land is not depreciated.

## LEASES

In compliance with IAS 17, leases are classified as finance leases and other leases. A majority of rental contracts consist of finance leases.

Assets leased to other parties under finance leases are recognised at commencement of the lease in the balance sheet as "Claims on the public". This receivable is recognised at an amount equivalent to the net investment in the lease. The interest income provided by the lease is recognised under "Interest income" according to the effective interest method of accounting. The need for recognising impairment losses is assessed on a continuous basis.

Assets leased from other parties under finance leases are recognised at commencement of the lease as "Tangible assets" and the corresponding financial lease liability among "Other liabilities". Assets are recognised at the commencement of the lease at an amount equal to the fair value of the leased asset or a lower present value of minimum lease payments. Planned depreciation is calculated based on useful economic life or a shorter lease period. Interest on a lease liability is recognised under "Interest expenses" according to the effective interest method. Impairment losses are recognised on the basis of individual judgements.

## FINANCIAL INSTRUMENTS

### Determination of fair value

The fair value of a financial instrument is determined either on the basis of price quotations in an active market or with the help of generally accepted valuation methods, taking into account market information related to the items being measured.

### Classification of financial instruments

For purposes of valuation, in compliance with IAS 39, financial instruments are classified in the following categories:

#### *Financial instruments at fair value*

##### **FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING**

This group includes all financial assets and liabilities that are held to provide a short-term return. This group also includes all derivative instruments for which hedge accounting is not applied.

Financial assets and liabilities held for trading are recognised in the balance sheet at fair value and changes in fair value are recognised in the income statement.

In accordance with IAS 39, all derivatives will be recognised in the balance sheet at fair value.

##### **FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE (THE FAIR VALUE OPTION)**

During 2005 the International Accounting Standards Board (IASB) amended the provisions of IAS 39 concerning the "fair value option". This option implies that, in order to provide more relevant information in the annual accounts, it is possible under certain circumstances to define financial instruments at the beginning of a contract in such a way that they are always carried in the financial statements at fair value via the income statement ("fair value through profit or loss"). This is possible in order to avoid fluctuations in income that would otherwise arise due to different accrual and valuation principles concerning assets and liabilities administered as a group, based on a documented risk management or investment policy. The EU approved this amendment in 2005.

The Executive Team measures the value of certain groups of derivative instruments and items protected by derivative instruments according to the fair value option. Such groups may include fixed-interest loans, equity-index bond loans and deposit accounts as well as interest rate swaps. Fair value is calculated using generally accepted valuation methods, taking into account market information related to the items being measured. This procedure effectively reduces the volatility of income without applying hedge accounting, since the fluctuation in the value of derivative instruments is largely offset by the corresponding fluctuation in the value of the other components in the same group.

Positive fair values of derivative instruments are recognised as assets in the balance sheet in the item "Derivative instruments" and negative fair values in the item "Derivative instruments and other liabilities held for trading". Changes in value are recognised in the income statement in the item "Net income from securities trading".

#### *Loans and trade receivables*

Financial assets classified as loans and trade receivables are assets created by handing over funds, services or goods directly to the debtor.

Loans and trade receivables are recognised at the commencement of the contract at cost and subsequently at amortised cost. Impairment loss on loans and receivables is recognised as needed, on the basis of a customer-specific evaluation as well as an overall assessment of the lending portfolio.

#### *Investments held to maturity*

Investments held to maturity are interest-bearing financial assets and are recognised at amortised cost using the effective interest rate method.

#### *Financial assets available for sale*

Financial assets available for sale are assets not included in any of the above categories and that are not derivative instruments.

The assets in this group are initially recognised in the balance sheet at cost and subsequently carried at fair value. The change in fair value is recognised under equity as the "Fair value reserve". When such an asset is sold the change in fair value is derecognised from the reserve in a separate item, "Net income from financial assets available for sale". Impairment is recognised in the income statement.

#### *Other financial liabilities*

Other financial liabilities are recognised in the balance sheet upon commencement of the contract at cost and subsequently at amortised cost.

### **Recognition in the balance sheet**

Financial instruments are recognised in the balance sheet on the business day that an acquisition contract was signed. Financial instruments are derecognised when they reach maturity or are sold.

## **EMPLOYEE BENEFITS**

### **Pension liabilities**

Pension coverage for employees has been arranged partly through the Finnish national pension system and partly via a pension fund (Ålandsbanken Abp:s Pensionsstiftelse, called the A Fund). The purpose of this fund is to provide old age and disability pensions to those who belong to its sphere of operations, as well as family pensions to designated beneficiaries and funeral grants.

According to IAS 19, plans for post-employment benefits are classified as defined contribution or defined benefit plans. Under a defined contribution plan, the employer has no liability after having paid the agreed premiums that are related to an accounting period. Under a defined benefit plan, however, the employer retains a pension liability even after the end of the accounting period. As for insurance under the Finnish national pension system, the old-age pension is regarded as a defined contribution plan from the standpoint of the employer. If the old-age pension has instead been arranged via a pension fund, the funded portion is regarded as a defined benefit plan and requires actuarial calculations to estimate the size of the liability.

A disability pension is a defined benefit plan, but in this case it is not a matter of a benefit accumulated on the basis of a person's length of service. Based on the last sentence of IAS 19.130, the expected cost is recognised when an event occurs that causes a long-term disability. There is no difference if the employer has taken out insurance or arranged protection through a fund. This means that the employer does not recognise any liability for future disability cases.

To the extent it is a matter of insured benefits, the insurance premiums are recognised as an expense during the year when the work is performed.

For the pension fund, the difference between the pension liability and the fair value of the assets that cover this liability is recognised as a liability or receivable in the balance sheet. The change in the difference as well as actuarial gains and losses are recognised as a pension expense or adjustment to a pension expense in the income statement. The Bank of Åland pension fund has been closed since June 30, 1991.

## **INCOME TAX**

Income tax includes current taxes for the Group based on taxable income for the year, together with tax adjustments for prior years plus changes in deferred (imputed) taxes. A deferred tax asset or liability has been established for temporary differences between the value of assets and liabilities for tax purposes and their carrying amount, by using tax rates applicable to future periods. Deferred tax liabilities and tax assets are calculated according to the tax rates expected to apply when the tax materialises (a law has been adopted but has not yet gone into effect).

## **CAPITAL BASE**

According to the Finnish Financial Supervision Authority's interpretation of the effects of IFRS on the calculation of capital adequacy, surpluses arising from the calculation of pension obligations may not be included in the capital base. The fair value reserve, less tax liabilities, is included in supplementary capital. Equity capital that arose from valuation of real estate according to the exemption rule in IFRS 1 is included in supplementary capital.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(EUR K)

## Numbering

<b>1</b>	Segment report
<b>2–25</b>	Notes to the balance sheet
<b>26–41</b>	Notes to the income statement
<b>42–45</b>	Notes concerning staff, Board of Directors and Executive Team
<b>46–49</b>	Notes concerning assets pledged and contingent liabilities
<b>50–52</b>	Other notes

## 1. SEGMENT REPORT

### 2005

	BANKING OPERATIONS	CAPITAL MARKET OPERATIONS	IT OPERATIONS	TREASURY AND PORTFOLIO MANAGEMENT	OTHER	ELIMINATIONS	TOTAL
External income	35,993	7,707	3,148	5,200	-39	0	52,009
Intra-Group income	1,056	-762	10,628	1,407	1,651	-13,980	0
<b>Total income</b>	<b>37,049</b>	<b>6,945</b>	<b>13,776</b>	<b>6,607</b>	<b>1,612</b>	<b>-13,980</b>	<b>52,009</b>
Expenses including depreciation/amortisation	-13,463	-3,010	-12,183	-2,124	-15,716	13,256	-33,240
Loan losses	-295	0	0	0	0	0	-295
Share of income in associated companies				202			202
<b>Net operating profit</b>	<b>23,291</b>	<b>3,935</b>	<b>1,593</b>	<b>4,685</b>	<b>-14,104</b>	<b>-724</b>	<b>18,676</b>
Assets	1,847,112	22,554	5,465	101,452	204,600	-10,794	2,170,389
Liabilities	1,603,939	299,600	2,709	167,568	4,555	-21,318	2,057,053
<b>Equity capital</b>							113,336

### 2004

	BANKING OPERATIONS	CAPITAL MARKET OPERATIONS	IT OPERATIONS	TREASURY AND PORTFOLIO MANAGEMENT	OTHER	ELIMINATIONS	TOTAL
External income	33,954	5,260	4,755	4,294	-3	0	48,260
Intra-Group income	882	-621	6,229	685	0	-7,175	0
<b>Total income</b>	<b>34,836</b>	<b>4,639</b>	<b>10,984</b>	<b>4,979</b>	<b>-3</b>	<b>-7,175</b>	<b>48,260</b>
Expenses including depreciation/amortisation	-13,536	-2,906	-7,979	-874	-11,846	3,466	-33,675
Loan losses	-654	0	0	0	0	0	-654
Share of income in associated companies				-48			-48
<b>Net operating profit</b>	<b>20,646</b>	<b>1,733</b>	<b>3,005</b>	<b>4,057</b>	<b>-11,849</b>	<b>-3,709</b>	<b>13,883</b>
Assets	1,682,310	123,382	619	123,382	70,112	-4,479	1,995,326
Liabilities	1,390,409	393,156	0	93,156	11,865	-1,029	1,887,557
<b>Equity capital</b>							107,769

## NOTES TO THE BALANCE SHEET

### 2. HOLDINGS OF DEBT SECURITIES

#### 2005

#### 2004

	LISTED	OTHER	TOTAL	LISTED	OTHER	TOTAL
<i>Debt securities eligible for refinancing</i>						
Instruments held to maturity						
<i>Treasury bonds</i>	16,853	0	16,853	18,963	0	18,963
Instruments available for sale						
<i>Treasury bills</i>	0	58,586	58,586	0	90,331	90,331
<i>Treasury bonds</i>	1,324	0	1,324	902	0	902
<i>Certificates of deposit</i>	0	17,947	17,947	0	0	0
<i>Other debt securities</i>	1,113	0	1,113	1,999	0	1,999
	19,290	76,533	95,822	21,865	90,331	112,196
<i>Other debt securities</i>						
<i>Treasury bonds</i>	13	0	13	39	0	39
<i>Bonds issued by banks</i>	5	0	5	5	0	5
<i>Other</i>	11	0	11	1,725	0	1,725
	29	0	29	1,769	0	1,769

### 3. CLAIMS ON CREDIT INSTITUTIONS

#### 2005

#### 2004

	REPAYABLE ON DEMAND	OTHER	TOTAL	REPAYABLE ON DEMAND	OTHER	TOTAL
Finnish credit institutions	2	17,456	17,458	3	11,086	11,089
Foreign credit institutions	1,017	109,702	110,719	3,432	95,706	99,138
Total	1,018	127,158	128,177	3,435	106,792	110,227

#### 4. CLAIMS ON THE PUBLIC AND PUBLIC SECTOR ENTITIES

	2005	2004
Financial enterprises	504,523	470,893
Public sector	12,303	11,974
Households	1,234,490	1,099,095
Non-profit organisations, household sector	15,221	15,725
Foreign	29,745	34,414
Total	<u>1,796,282</u>	<u>1,632,101</u>
Of which subordinated claims	239	256
Of which non-interest-bearing claims	339	30
<b>Impairment losses</b>		
Individual impairment losses recognised during the year	422	852
Individual impairment losses reversed during the year	<u>127</u>	<u>198</u>
Total impairment losses	295	654

#### 5. LEASE ASSETS RENTED OUT

	2005	2004
Machinery and equipment	249	470
Other assets	<u>11</u>	<u>17</u>
Total	259	487

For more information see Note 28.

#### 6. SHARES AND PARTICIPATIONS

	2005			2004		
	LISTED	OTHER	TOTAL	LISTED	OTHER	TOTAL
Shares and participations						
<i>Available for sale</i>	990	3,546	4,536	5,422	3,342	8,764
Shares and participations in associated companies	0	1,528	1,528	0	527	527

There are no holdings in other credit institutions.

#### 7. DERIVATIVE INSTRUMENTS

	2005		2004	
	FAIR VALUE POSITIVE	NEGATIVE	FAIR VALUE POSITIVE	NEGATIVE
Interest rate derivatives				
<i>Interest rate swaps</i>	755	1,443	0	0
Currency derivatives				
<i>Forward contracts</i>	56	53	0	0
<i>Interest rate and currency swaps</i>	33	14	0	0
Equity derivatives				
<i>Option contracts</i>				
<i>Purchased</i>	13,864	0	8,300	0
<i>Written</i>	<u>0</u>	<u>13,826</u>	<u>0</u>	<u>8,300</u>
	14,708	15,335	8,300	8,300

Nominal value of underlying asset by remaining maturity:

	2005				2004			
	UNDER 1 YR	1-5 YRS	OVER 5 YRS	TOTAL	UNDER 1 YR	1-5 YRS	OVER 5 YRS	TOTAL
Interest rate derivatives								
<i>Interest rate swaps</i>	90,504	184,371	17,400	292,275	138,521	176,616	18,886	334,023
Currency derivatives								
<i>Forward contracts</i>	6,187	639	0	6,826	5,384	554	0	5,938
<i>Interest rate and currency swaps</i>	776	0	0	776	180	0	0	180
Equity derivatives								
<i>Option contracts</i>								
<i>Purchased</i>	51,510	95,687	0	147,197	20,666	105,122		125,788
<i>Written</i>	<u>51,510</u>	<u>95,687</u>	<u>0</u>	<u>147,197</u>	<u>20,666</u>	<u>105,122</u>		<u>125,788</u>
	200,486	376,384	17,400	594,271	185,417	387,414	18,886	591,717

#### 8. INTANGIBLE ASSETS

	2005	2004
IT expenses	3,116	2,223
Goodwill	927	0
Other	<u>22</u>	<u>22</u>
	4,065	2,245

#### 9. PROPERTIES AND SHARES AND PARTICIPATIONS IN REAL ESTATE COMPANIES

	2005	2004
<i>Investment properties</i>		
Land and water	453	453
Buildings	2,087	2,140
Shares in real estate companies	<u>406</u>	<u>420</u>
	2,946	3,013
<i>Properties for the Group's own use</i>		
Land and water	2,352	2,419
Buildings	<u>13,343</u>	<u>14,406</u>
	15,695	16,825

## 10. FAIR VALUE AS DEEMED COST OF TANGIBLE ASSETS

	CARRYING AMOUNT Dec 31, 2003	APPRAISAL JAN 1, 2004	ADJUSTMENT OF VALUE
Parcel	129	1,815	1,686
Building	5,931	11,885	5,954
Total	6,060	13,700	7,640

The Group has used fair value as deemed cost instead of original cost of the Head Office in compliance with IFRS 1 upon transition to IFRS.

## 11. CHANGES IN INTANGIBLE AND TANGIBLE ASSETS

	2005					
	LAND AND BUILDINGS FOR OWN USE	INVESTMENT PROPERTIES	OTHER TANGIBLE ASSETS	GOODWILL	OTHER INTANGIBLE ASSETS	TOTAL
<b>Historical costs</b>						
Cost on January 1.	25,217	3,471	12,448	0	8,720	49,856
Increases during the year	11	24	2,098	927	2,666	5,725
Decreases during the year	-532	-165	-463	0	-590	-1,750
Cost on December 31.	24,695	3,330	14,082	927	10,797	53,831
<b>Accumulated depreciation/amortisation</b>						
Acc. depreciation/amortisation/impairment losses on Jan. 1.	-8,392	-458	-7,223	0	-6,476	-22,548
Acc. depreciation/amortisation concerning decreases	227	99	399	0	3	729
Depreciation/amortisation for the year	-836	-12	-2,052	0	-1,187	-4,086
Impairment loss for the year	0	-14	0	0	0	-14
Acc. depreciation/amortisation/impairment losses on Dec. 31	-9,001	-384	-8,876	0	-7,659	-25,920
<b>Carrying amount on December 31</b>	<b>15,695</b>	<b>2,946</b>	<b>5,206</b>	<b>927</b>	<b>3,138</b>	<b>27,911</b>

	2004					
	LAND AND BUILDINGS FOR OWN USE	INVESTMENT PROPERTIES	OTHER TANGIBLE ASSETS	GOODWILL	OTHER INTANGIBLE ASSETS	TOTAL
<b>Historical costs</b>						
Cost on January 1.	25,339	4,345	10,025	0	7,503	47,213
Increases during the year	453	97	3,204	0	1,515	5,268
Decreases during the year	-575	-971	-782	0	-298	-2,625
Cost on December 31.	25,217	3,471	12,448	0	8,720	49,856
<b>Accumulated depreciation/amortisation</b>						
Acc. depreciation/amortisation/impairment losses on Jan. 1.	-8,082	-1,204	-6,095	0	-5,772	-21,154
Acc. depreciation/amortisation concerning decreases	220	777	626	0	260	1,882
Depreciation/amortisation for the year	-530	-18	-1,754	0	-963	-3,264
Impairment loss for the year	0	-13	0	0	0	-13
Acc. depreciation/amortisation/impairment losses on Dec. 31	-8,392	-458	-7,223	0	-6,476	-22,548
<b>Carrying amount on December 31</b>	<b>16,825</b>	<b>3,013</b>	<b>5,224</b>	<b>0</b>	<b>2,245</b>	<b>27,308</b>

## 12. OTHER ASSETS

	2005	2004
Cash items in the process of collection	83	43
Other	8,544	10,630
	8,626	10,673

## 13. ACCRUED INCOME AND PREPAYMENTS

	2005	2004
Interest	6,762	6,091
Other	7,560	5,269
	14,322	11,360

## 14. DEFERRED TAX ASSETS AND LIABILITIES

	2005	2004
Deferred tax assets		
Accrual differences	229	0
Other temporary differences	612	38
	842	38
Deferred tax liabilities		
Temporary differences	11,726	9,945
From the fair value fund	130	0
	11,856	9,945

## 15. DEBT INSTRUMENTS ISSUED TO THE PUBLIC

	2005		2004	
	CARRYING AMOUNT	NOMINAL AMOUNT	CARRYING AMOUNT	NOMINAL VALUE
Certificates of deposit	229,787	231,601	275,506	278,557
Bonds	328,520	335,157	224,542	229,195
Total	558,308	566,758	500,048	507,752

## 16. OTHER LIABILITIES

	2005	2004
Cash items in the process of collection	16,570	13,857
Other	13,135	16,621
	<u>29,705</u>	<u>30,479</u>

## 17. ACCRUED EXPENSES AND DEFERRED INCOME

	2005	2004
Interest	6,505	8,557
Other	4,781	3,842
	<u>11,285</u>	<u>12,399</u>

## 18. SUBORDINATED LIABILITIES

	2005			2004		
	CARRYING AMOUNT	NOMINAL AMOUNT	AMOUNT IN CAPITAL BASE	CARRYING AMOUNT	NOMINAL AMOUNT	AMOUNT IN CAPITAL BASE
<b>Convertible capital loan:</b>						
Amount outstanding	9,313	9,381	1,875	9,456	9,456	3,782
The interest rate on the loan is 6 per cent and the maturity date is April 2, 2007. Lenders are not entitled to demand early repayment. Each loan certificate with a nominal value of EUR 1,681.88 entitles the holder to subscribe for 111 Series B shares at a subscription price of EUR 15.13929 per share. During the period July 1, 2005 to January 31, 2006, holders applied for conversion of EUR 348,000 of the capital loan, which entitled them to 22,977 shares.						
<b>1999 debenture loan</b>	10,000	10,000	6,000	10,000	10,000	8,000
Interest rate: 3-month EURIBOR + 1.94%						
Repayment: January 15, 2009						
<b>2000 debenture loan</b>	0	0	0	12,489	12,489	0
Interest rate: 5.25%						
The loan has fallen due for repayment.						
<b>2003 debenture loan</b>	2,011	2,002	805	2,014	2,002	1,209
Interest rate: 3.50%						
Repayment: May 5, 2008						
<b>2004 debenture loan 1</b>	4,477	4,477	4,477	5,597	5,597	5,597
Interest rate: 12-month EURIBOR + 0.25%						
Repayment: 20% (1,120) of nominal amount yearly beginning June 4, 2005.						
<b>2004 debenture loan 2</b>	14,424	14,424	14,424	14,424	14,424	14,424
Interest rate: 12-month EURIBOR + 0.50%, starting June 4, 2009						
12-month EURIBOR + 2.00%						
Repayment: June 4, 2014						
<b>2005 debenture loan 1</b>	5,193	5,193	5,193	0	0	0
Interest rate: 12-month EURIBOR + 0.20%						
Repayment: 20% (1,039) of original nominal amount yearly beginning May 17, 2006						
<b>2005 debenture loan 2</b>	9,647	9,647	9,647	0	0	0
Interest rate: 12-month EURIBOR + 0.40%, starting May 17, 2010						
12-month EURIBOR + 2.00%						
Repayment: May 17, 2015						

All subordinated liabilities are included in lower supplementary capital. The loans may be repurchased before maturity, but this is possible only with the permission of the Financial Supervision Authority. In case the Bank is dissolved, the loans are subordinate to the Bank's other obligations.

## 19. MATURITY BREAKDOWN OF CLAIMS AND LIABILITIES

	2005					
	TOTAL	UNDER 3 MO	3-12 MO	1-5 YRS	5-10 YRS	OVER 10 YRS
<i>Claims</i>						
Debt securities eligible for refinancing w/central banks	95,822	76,532	16,977	2,313	0	0
Credit institutions and central banks	128,177	123,177	5,000	0	0	0
The public and public sector entities	1,796,282	148,687	228,195	707,999	692,227	19,175
Other debt securities	29	29	0	0	0	0
	<u>2,020,310</u>	<u>348,425</u>	<u>250,172</u>	<u>710,311</u>	<u>692,227</u>	<u>19,175</u>
<i>Liabilities</i>						
Credit institutions and central banks	72,812	72,812	0	0	0	0
The public and public sector entities	1,302,916	1,245,332	44,014	11,502	2,036	32
Debt instruments issued to the public	558,308	244,435	239,776	74,097	0	0
Subordinated liabilities	54,836	0	2,157	28,663	24,016	0
	<u>1,988,872</u>	<u>1,562,579</u>	<u>285,947</u>	<u>114,262</u>	<u>26,052</u>	<u>32</u>

## 20. ASSETS AND LIABILITIES IN EURO AND OTHER CURRENCIES

	2005			2004		
	EURO	OTHER CURRENCIES	TOTAL	EURO	OTHER CURRENCIES	TOTAL
Claims on credit institutions	48,780	79,397	128,177	62,281	47,946	110,227
Claims on the public and public sector entities	1,790,757	5,525	1,796,282	1,624,212	7,889	1,632,101
Debt securities	95,852	0	95,852	113,964	0	113,964
Derivative instruments	14,619	89	14,708	8,300	0	8,300
Other assets including cash	130,871	4,500	135,371	127,177	3,556	130,733
Total	2,080,878	89,512	2,170,389	1,935,935	59,391	1,995,326
Liabilities to credit institutions	69,435	3,377	72,813	21,727	1,861	23,588
Liabilities to the public and public sector entities	1,217,707	85,209	1,302,916	1,191,844	56,975	1,248,819
Debt instruments issued to the public	558,308	0	558,308	500,048	0	500,048
Derivative instruments and liabilities held for trading	15,269	67	15,335	8,300	0	8,300
Subordinated debentures	54,836	0	54,836	53,980	0	53,980
Other liabilities	51,895	952	52,847	52,527	295	52,822
Total	1,967,449	89,605	2,057,054	1,828,426	59,131	1,887,557

## 21. FAIR VALUE AND CARRYING AMOUNT OF ASSETS AND LIABILITIES

	2005	
	CARRYING AMOUNT	FAIR VALUE
<b>Assets</b>		
Cash	77,605	77,605
Debt securities eligible for refinancing with central banks		
<i>Available for sale</i>	78,969	78,969
<i>Intended to be held to maturity</i>	16,853	17,044
Claims on credit institutions	128,177	128,177
Claims on the public and public sector entities		
<i>Carried at fair value</i>	132,839	132,839
<i>Other</i>	1,663,443	1,660,627
Lease assets	0	0
Debt securities available for sale	29	29
Shares and participations available for sale	4,536	4,536
Shares and participations in associated companies	1,528	1,528
Shares and participations in Group companies	0	0
Derivative instruments	14,708	14,708
Intangible assets	4,064	4,064
Tangible assets	23,847	28,545
Other assets	8,626	8,626
Accrued income and prepayments	14,322	14,322
Deferred tax assets	841	841
	2,170,389	2,172,462
<b>Liabilities</b>		
Liabilities to credit institutions	72,812	72,658
Liabilities to the public and public sector entities		
<i>Carried at fair value</i>	27,366	27,366
<i>Other</i>	1,275,550	1,275,504
Debt instruments issued to the public		
<i>Carried at fair value</i>	124,099	124,099
<i>Other</i>	434,209	434,648
Derivative instruments	15,335	15,335
Other liabilities	29,705	29,705
Accrued expenses and prepaid income	11,285	11,285
Subordinated liabilities	54,836	55,411
Deferred tax liabilities	11,856	11,856
	2,057,054	2,057,867

The fair value of assets and liabilities repayable on demand is equivalent to their nominal value. The fair value of fixed-period assets and liabilities corresponds to the present value of future cash flows. For listed shares, the last closing price has been used. The fair value of unlisted shares has been calculated by estimating their percentage of equity. The appraisal of real estate was performed by a licensed estate agent.

## 22. FAIR VALUE OPTION

	OPENING BAL. DEC 31, 2004	ADJUSTMENT JAN 1, 2005	CHANGE FOR THE YEAR	CLOSING BAL. DEC. 31, 2005
<b>Balance sheet</b>				
Lending to the public	0	2,308	-1,068	1,240
Derivative instruments	0	1,195	-440	755
Liabilities to the public	0	-255	286	31
Debt instruments issued to the public	0	1,323	708	2,032
Derivative instruments	0	-1,826	383	-1,443
Profit brought forward	0	2,033	-98	1,935
Deferred tax liabilities	0	714	-34	680
<b>Income statement</b>				
Net income from securities trading			-132	
Change in deferred tax liabilities			34	
Profit for the year			-98	

## 23. SHARE CAPITAL

The share capital of the Bank of Åland is EUR 22,173,906.98. The maximum share capital according to the Articles of Association is EUR 32,292,081.88. The carrying amount equivalent of a share is EUR 2.02. The shares are divided into 5,180,910 Series A and 5,805,762 Series B shares. Each Series A share represents twenty (20) votes at shareholders' meetings and each Series B share one (1) vote. Series B shares enjoy priority over Series A shares for dividends of up to six (6) per cent of their previous nominal value.

CHANGES IN SHARE CAPITAL REPORTED IN EURO AND NUMBER OF SHARES OF EACH SERIES	SHARE CAPITAL	SERIES A	SERIES B
2001	EUR 20,254,392,98	5,180,910	4,854,686
2002	EUR 20,318,016,45	5,180,910	4,886,210
2003	EUR 22,086,413,60	5,180,910	5,762,411
2004	EUR 22,164,049,83	5,180,910	5,800,878
2005	EUR 22,173,906,98	5,180,910	5,805,762

### Convertible capital loan

During the spring of 1997, the Bank issued a convertible capital loan of FIM 100 M to the public.

The capital loan pays annual interest of six (6) per cent and falls due for payment in its entirety on April 2, 2007.

	ISSUED	CONVERSION	REMAINING
Nominal loan amount in EUR	16,818,792,65	7,437,266,01	9,381,526,64
Number of loan certificates	10,000	4,422	5,578
Equivalent number of Series B shares	1,095,546	476,388	619,158

During the period July 1, 2005 to January 31, 2006, an additional 207 loan certificates, equivalent to EUR 348,149.16 or 22,977 Series B shares, were converted.

The remaining principal amount of the capital loan is EUR 9,033,377.48.

THE TEN LARGEST SHAREHOLDERS, DECEMBER 31, 2005:	SERIES A SHARES	SERIES B SHARES	TOTAL NUMBER OF SHARES	% OF SHARES	% OF VOTES
1 Alandia-Bolagen	733,886	325,145	1,059,031	10 %	14 %
2 Aktia Sparbank Abp	105,000	877,100	982,100	9 %	3 %
3 Ålands Ömsesidiga Försäkringsbolag	612,331	111,960	724,291	7 %	11 %
4 Wiklöf Anders	579,089	90,358	669,447	6 %	11 %
5 Mattsson Rafael	422,406	15,638	438,044	4 %	8 %
6 Veritas bolagen	277,734	153,900	431,634	4 %	5 %
7 Caelum Oy	65,340	156,800	222,140	2 %	1 %
8 Svenska litteratursällskapet i Finland	167,000	0	167,000	2 %	3 %
9 Palkkiyhtymä Oy	60,000	76,000	136,000	1 %	1 %
10 Baltic Petroleum Oy	101,770	0	101,770	1 %	2 %

The table shows the ten largest known shareholders of the Bank of Åland Group. "Shareholder" refers to a legal entity or physical person as well as legal entities directly or indirectly owned by them.

## 24. ISSUES OF SECURITIES

There are no authorisations by the General Meeting of shareholders regarding issues of new shares, equity warrants or convertible loans.

## 25. CALCULATION OF CHANGES IN THE EQUITY CAPITAL OF THE BANK OF ÅLAND GROUP WHEN TRANSITIONING TO IFRS

	Jan 1, 2004	Dec 31, 2004
<b>Equity capital, according to previous accounting practices</b>	<b>110,732</b>	<b>111,073</b>
<i>Impact of transition to IFRS</i>		
Minority interest in equity capital	389	532
IAS 19 Employee benefits (pension fund)	2,961	2,236
IAS 32 Capital loan	-9,820	-9,456
IAS 32 Capital loan _ value of conversion rights	0	0
IAS 16/IFRS 1 Head office and effect of previously unconsolidated companies	3,280	3,447
IAS 40 Investment properties: effect of previously unconsolidated companies	-79	-107
IAS 17 Leases: Finance lessee	-31	-56
IAS 27, 28 Previously unconsolidated subsidiaries and associated companies	94	100
<i>Total impact of transition to IFRS</i>	<u>-3,595</u>	<u>-3,836</u>
<b>Equity capital, according to IFRS</b>	<b>107,526</b>	<b>107,769</b>

## NOTES TO THE INCOME STATEMENT

### 26. INTEREST INCOME

	2005	2004
Credit institutions and central banks	4,035	2,138
Public and public sector entities	53,194	48,114
Debt securities	3,744	4,001
Derivative instruments	36	38
Other	0	15
Total	<u>61,009</u>	<u>54,306</u>

### 27. INTEREST EXPENSES

	2005	2004
Credit institutions	970	1,389
Public and public sector entities	15,160	12,790
Debt instruments issued to the public	11,297	8,187
Derivative instruments	257	219
Subordinated liabilities	1,413	1,148
Capital loan	553	572
Other interest expenses	1	2
Total	<u>29,651</u>	<u>24,306</u>



## 28. NET LEASE INCOME

	2005	2004
Rental income	224	288
Planned depreciation	-189	-233
Net capital gains and losses from the sale of lease assets	16	5
Total	50	60

According to a decision of the Executive Team, no new leases will be signed. Since these operations are small in scale and will be discontinued, no settlement in accordance with IAS 17.47 has been carried out.

## 29. INCOME FROM EQUITY INSTRUMENTS

	2005	2004
Financial assets available for sale	43	386
Group companies	0	14
Associated companies	40	138
Total	83	538

## 30. COMMISSION INCOME

	2005	2004
Deposit commissions	916	853
Lending commissions	2,832	2,450
Payment intermediation commissions	2,158	1,997
Mutual fund unit commissions	3,249	1,795
Management commissions	1,790	1,414
Securities commissions	3,796	3,256
Share issue commissions	0	1
Insurance commissions	209	265
Legal services	376	387
Guarantee commissions	136	131
Other commissions	674	288
Total	16,137	12,837

## 31. COMMISSION EXPENSES

	2005	2004
Service charges paid	1,595	1,119
Other	365	336
Total	1,959	1,455

## 32. NET INCOME FROM SECURITIES TRADING AND FOREIGN EXCHANGE OPERATIONS

	2005			2004		
	NET CAPITAL GAINS AND LOSSES	NET CHANGES IN FAIR VALUE	TOTAL	NET CAPITAL GAINS AND LOSSES	NET CHANGES IN FAIR VALUE	TOTAL
Debt securities	6	0	6	0	0	0
Shares and participations	756	0	756	1,323	-1,036	287
Fair value option	0	-132	-132	0	0	0
Derivative instruments	-5	0	-5	0	0	0
Securities trading	757	-132	625	1,323	-1,036	287
Foreign exchange operations	914	-16	898	880	0	880
Total	1,671	-148	1,523	2,203	-1,036	1,167

## 33. NET INCOME FROM FINANCIAL ASSETS AVAILABLE FOR SALE

	2005	2004
Capital gains	1,578	383
Impairment losses	-505	-136
Total	1,073	247

## 34. NET INCOME FROM INVESTMENT PROPERTIES

	2005	2004
Rental income	183	185
Lease expenses	-62	-61
Depreciation	-18	-32
Capital gains/losses	246	568
Other expenses	-72	-99
Total	277	562

## 35. OTHER OPERATING INCOME

	2005	2004
Rental income on properties	140	137
Capital gains on properties	9	9
Other property income	19	27
Computer income	3,138	3,993
Other income	210	200
Total	3,516	4,366

### 36. OTHER ADMINISTRATIVE EXPENSES

	2005		2004
Staff costs	659		756
Office costs	611		503
Computer costs	3,607		2,537
Communication	1,482		1,528
Marketing	1,768		1,716
Other	324		243
	<u>8,450</u>		<u>7,283</u>

### 37. OTHER OPERATING EXPENSES

	2005		2004
Rental expenses	1,263		1,203
Capital losses on properties	0		11
Other property expenses	628		701
Fee to security fund	611		606
Miscellaneous expenses	1,717		1,884
	<u>4,219</u>		<u>4,405</u>

### 38. IMPAIRMENT LOSSES ON LOANS AND OTHER COMMITMENTS

	2005		2004
Individual impairment losses	422		852
Group impairment losses	0		0
Reversals	-127		-198
Total impairment losses on loans	<u>295</u>		<u>654</u>

Carrying amount of interest on impaired receivables according to original interest amounted to EUR 54,000.

### 39. TAXES

	2005		2004
Taxes for the year	4,392		4,702
Taxes from prior years	-1		60
Changes in deferred tax assets	-649		-19
Changes in deferred tax liabilities	903		-374
Effect on deferred tax liabilities and assets from changes in tax rates	0		-1,188
Taxes in income statement	<u>4,646</u>		<u>3,181</u>
Effective tax rate, %	25		23

The income tax rate in Finland during 2005 was 26 per cent and in 2004 it was 29 per cent. The lower effective tax rate in 2005 was due to the inclusion of some tax-exempt income (divestment gains). The low effective tax in 2004 was a consequence of the change in tax rate on deferred tax liabilities.

### 40. CALCULATION OF CHANGES IN EARNINGS, TRANSITION FROM FAS TO IFRS

January 1 – December 31, 2004

<b>Profit for the year according to previous accounting practices (FAS)</b>			<b>11,092</b>
IAS 40 Investment property			-17
IAS 19 Employee benefits (pension fund)			-1,149
IAS 17 Leases			-32
IAS 27, 28 Previously unconsolidated subsidiaries and associated companies			8
IAS 16/IFRS 1 Depreciation on head office and consolidations			-296
IAS 12 Income taxes			900
Total impact of transition to IFRS			<u>-586</u>
<b>Profit for the year, according to IFRS</b>			<b>10,506</b>

### 41. EARNINGS PER SHARE

	2005		2004
<b>Earnings per share before dilution, EUR</b>			
Profit for the year	13,577,972	= 1.24	10,506,099 = 0.96
Average number of shares	10,986,280		10,976,330
<b>Earnings per share after dilution, EUR</b>			
Profit for the year + interest on capital loan	13,986,860	= 1.21	10,912,119 = 0.94
Average number of shares + shares outstanding	11,605,438		11,600,372

## NOTES CONCERNING STAFF, BOARD OF DIRECTORS AND EXECUTIVE TEAM

### 42. NUMBER OF EMPLOYEES

	2005		2004	
	AVERAGE EMPLOYEES	CHANGE	AVERAGE EMPLOYEES	CHANGE
Permanent full-time employees	353	+ 24	329	+ 2
Permanent part-time employees	88	-7	95	+ 5
	<u>441</u>	<u>+ 17</u>	<u>424</u>	<u>+ 7</u>

#### 43. SALARIES/FEES PAID TO BOARD AND EXECUTIVE TEAM

	2005	2004
Members of the Supervisory Board	0	4
Members of the Board of Directors	72	68
Managing Directors	525	361
Deputy Managing Directors	276	231
Other members of the Executive Team	408	471

The amount includes the value of fringe benefits.

There are no pension obligations to the members of the Board of Directors. The pension benefits of the Managing Directors and Deputy Managing Directors are based on customary terms of employment.

#### 44. PRIVATE SHAREHOLDINGS OF THE BOARD OF DIRECTORS AND THE EXECUTIVE TEAM IN THE BANK OF ÅLAND PLC

	2005				
	SERIES A SHARES	SERIES B SHARES	TOTAL SHARES	% OF SHARES	% OF VOTES
<b>Board of Directors</b>					
<i>Lindholm, Göran</i>	1,861	1,309	3,170	0.03%	0.04%
<i>Boman, Sven-Harry</i>	55	524	579	0.01%	0.00%
<i>Janér, Kent</i>	–	–	–	0.00%	0.00%
<i>Karlsson, Agneta</i>	40	28	68	0.00%	0.00%
<i>Nordlund, Leif</i>	12	12	24	0.00%	0.00%
<i>Palmberg, Tom</i>	–	–	–	0.00%	0.00%
Total	1,968	1,873	3,841	0.03%	0.04%
<b>Executive Team</b>					
<i>Grönlund, Peter</i>	–	–	–	0.00%	0.00%
<i>Nuutinen, Pekka</i>	–	–	–	0.00%	0.00%
<i>Donner, Lars</i>	747	–	747	0.01%	0.01%
<i>Tallqvist, Jan</i>	–	–	–	0.00%	0.00%
<i>Vickström, Edgar</i>	–	–	–	0.00%	0.00%
<i>Woivalin, Dan-Erik</i>	–	–	–	0.00%	0.00%
Total	747	–	747	0.01%	0.01%

#### 45. FINANCIAL TRANSACTIONS WITH RELATED PARTIES

	2005	
	BOARD AND EXECUTIVE TEAM	RELATED COMPANIES
<i>Loans</i>		
Loans outstanding, January 1, 2005	318	2,912
Taken out during the year	191	200
Principal paid during the year	-107	-448
Loans outstanding, December 31, 2005	402	2,664
Interest income	12	155
<i>Deposit accounts</i>		
Deposit accounts, January 1, 2005	275	787
Deposit accounts, December 31, 2005	367	2,039
Interest expenses	4	27
Other commissions and fees	0	5

"Related companies" refers to companies in which individuals on the Bank's Board of Directors or Executive Team hold a significant percentage of the votes or can exercise significant influence.

### NOTES CONCERNING ASSETS PLEDGED AND CONTINGENT LIABILITIES

#### 46. COLLATERAL PROVIDED AND RECEIVED

	2005	2004
Carrying amount of assets pledged for the Group's own account	56,792	87,676
Commitments for which property has been pledged	20,210	29,020

The commitments consist mainly of an unutilised limit with the Bank of Finland.

There are no pledged assets that may be divested unless the party pledging them has neglected its commitments.

#### 47. PENSION LIABILITIES IN ÅLANDSBANKEN ABP:S PENSIONSSTIFTELSE

	2005	2004
Present value of pension liabilities	13,692	13,662
Fair value of plan assets	-17,668	-16,641
Status	-3,996	-2,979
Unrealised actuarial gains	-1,410	-43
Liabilities recognised in the balance sheet	-5,406	-3,022
Current service costs	223	201
Interest expenses	684	664
Past service costs	-2,222	
Expected return on plan assets	-1,069	-843
Recognised in income statement	-2,384	22

	2005	2004
<b>Opening balance</b>		
Expenses (+)/income (-) in the income statement	-3,022	-4,171
Repayment of oversubscription	-2,384	22
		1,127
<b>Closing balance</b>	-5,406	-3,022
Return in plan assets, %	10.60%	12.80%
<b>Assumptions</b>		
Discount rate	4.25%	5.00%
Expected return on assets	6.50%	6.50%
Increase in salaries	3.50%	3.50%
Inflation	2.00%	2.00%
Staff turnover	0.00%	0.00%
<b>Direct holdings in Bank of Åland Plc</b>		
Shares in Bank of Åland Plc	981	1,173
Equity-index bonds	1,021	1,571
Bank deposits	7,096	5,265
Total	9,098	8,011

#### 48. LEASE LIABILITIES

	2005	2004
Lease payments due		
<i>Within 1 year</i>	1,246	1,358
<i>More than 1 and less than 5 years</i>	1,018	1,703
<i>More than 5 years</i>	0	0
	<u>2,264</u>	<u>3,061</u>
Carrying amount		
<i>Machinery and equipment</i>	2,131	2,461

The Group has financial leases on cars, computers and IT equipment. Certain leases include an option to buy the asset. When leases are renewed, new negotiations take place.

#### 49. OFF-BALANCE SHEET COMMITMENTS

	2005	2004
Guarantees	13,014	13,342
Unutilised overdraft limits	70,181	57,151
Lines of credit	61,929	39,580
	<u>145,124</u>	<u>110,072</u>

There are no commitments on behalf of Group companies. The lines of credit do not include fixed-interest loans with a set interest rate.

### OTHER NOTES

#### 50. MANAGED FUNDS

	2005	2004
Mutual fund (unit trust) management	268,971	162,500
Discretionary asset management	346,951	248,142
Other asset management	33,900	34,500
	<u>649,823</u>	<u>445,142</u>

#### 51. CHANGES IN GROUP STRUCTURE

During 2005, the subsidiary Ålandsbanken Kapitalmarknadstjänster was acquired. The Bank's shareholding is 70 per cent. The company's field of operations is asset management. It has been consolidated in the Group's financial statements since April 1, 2005.

In addition, the Bank of Åland is one of the founders of Ålands Investering Ab, with a 36 per cent shareholding. The company's field of operations is development and investment activities.

During the year, the wholly owned subsidiaries ÅAB Finans Ab and Ålands Investment Ab were liquidated. This does not affect the possibility of comparing the 2005 financial statements with those of 2004.

#### 52. SUBSIDIARIES AND ASSOCIATED COMPANIES

	2005		
<b>Subsidiaries</b>			
The following subsidiaries were consolidated according to the purchase method of accounting as of December 31, 2005:			
		REGISTERED OFFICE	OWNERSHIP
Crosskey Banking Solutions Ab Ltd		Mariehamn	100 %
Ålandsbanken Asset Management Ab		Helsinki	70 %
Ålandsbanken Fondbolag Ab		Mariehamn	100 %
Ålandsbanken Kapitalmarknadstjänster Ab		Mariehamn	70 %

### Housing and real estate companies

The following housing and real estate companies were consolidated according to the purchase method as of December 31, 2005:

PROPERTIES FOR THE GROUP'S OWN USE	REGISTERED OFFICE	OWNERSHIP
FAB Gottby Center	Jomala	53%
INVESTMENT PROPERTIES	REGISTERED OFFICE	OWNERSHIP
FAB Strandgatan 20	Mariehamn	100%

### Associated companies

The following associated companies were consolidated as of December 31, 2005:

	REGISTERED OFFICE	OWNERSHIP
Ålands Företagsbyrå Ab	Mariehamn	21%
Ålands Fastighetskonsult Ab	Mariehamn	20%
Ålands Investerings Ab	Mariehamn	36%

Combined financial information about these associated companies:

Assets	4,295	1,386
Liabilities	797	600
Sales	2,588	2,278
Profit for the year	350	458

### Housing and real estate companies

The following housing and real estate companies were consolidated according to the proportional method of accounting as of December 31, 2005:

PROPERTIES FOR THE GROUP'S OWN USE	REGISTERED OFFICE	OWNERSHIP
FAB Västernäs City	Mariehamn	50%
FAB Nymars	Sottunga	30%
KOY Eerikinkatu 8	Turku	22%
FAB Godby Center	Godby	11%
INVESTMENT PROPERTIES	REGISTERED OFFICE	OWNERSHIP
FAB Strömsby	Vårdö	24%
FAB Sittkoffska gården	Mariehamn	22%
FAB Horsklint	Kökar	20%
FAB Wigells	Mariehamn	78%
BAB Bastuvägen	Mariehamn	44%
FAB Norrskog	Saltvik	34%
FAB Ribacken	Saltvik	31%
BAB Knappelstenen	Mariehamn	15%
BAB Sittkoff	Mariehamn	14%
BAB Fiskartorpet	Mariehamn	11%
BAB Västerhöjden	Mariehamn	11%
BAB Grantorpsvägen	Mariehamn	8%

# RISK MANAGEMENT

## STRATEGY IN USING FINANCIAL INSTRUMENTS

The business operations of the Bank of Åland Group are exposed to such financial risks as credit risk, share price risk, foreign exchange risk and liquidity risk. The ambition of the Group is to pursue its operations with small risks. The Bank of Åland Group's Treasury unit and Risk Control Department centrally administer and monitor these financial risks in compliance with pre-established risk limits.

### Credit risk

Credit risk refers to the risk that a counterparty cannot pay amounts that have fallen due in full on the due date.

The objective of lending operations is to protect the good reputation of the Bank, achieve reasonable profitability and avoid loan losses. Safeguarding this objective requires a comprehensive credit management process throughout the life of a loan. Credit management assumes that lending decisions will be based on sufficient knowledge about the customer. The Bank of Åland Group has criteria concerning customer categories based on the Group's perception of risks, margins and ability to deliver competitive services in its various markets.

The customers that the Bank of Åland Group primarily does business with should be active in the regions where the Group currently has offices. Loans are issued to customers that can provide collateral for their commitments to the extent desired by the Group and are regarded as able to repay the loan. At regular intervals, the Group estimates the loan loss risk for each individual customer. Closer monitoring begins immediately when unsettled receivables arise. The Bank of Åland Group's lending consists largely of loans to private households, as the table below indicates.

#### LENDING BY PURPOSE, DECEMBER 31, 2005, EUR M

Business and professional activities	
<i>Service sector</i>	467
<i>Production sector</i>	<u>66</u>
Total, business and professional activities	533
Households	1,236
Public sector and non-profit organisations	<u>28</u>
<b>TOTAL LENDING</b>	<b>1,796</b>

The Treasury unit invests the Bank's surplus liquidity as deposit accounts in other banks. For this type of risks, the Board of Directors sets counterparty limits. Limit monitoring occurs continuously. The counterparty risk associated with the Treasury unit's investments is insignificant and the lending portfolio is of good quality. Credit exposure to national governments and credit institutions on December 31, 2005 totalled EUR 95.8 M.

### Market risk

Market risk arises through open positions in interest rates, currencies and equity-related products, which are all exposed to general and specific market movements.

#### Interest rate risk

Interest rate risk refers to the fact that the value of a financial instrument may vary due to changes in interest rates. The Bank of Åland Group's interest rate risks occur because the interest refixing periods for assets and liabilities including derivatives do not coincide. The Group's fixed-interest assets consist primarily of loans. The interest rate risk in these is mainly eliminated, either through funding by fixed-interest borrowings or by using derivative instruments.

#### INTEREST REFIXING PERIODS FOR THE BANK OF ÅLAND GROUP'S INTEREST-BEARING ASSETS AND LIABILITIES, DECEMBER 31, 2005 (EUR M)

	< 3 MO	3-6 MO	6-12 MO	1-5 YRS	> 5 YRS	TOTAL
Assets	574,0	428,9	673,5	185,6	16,0	1 878,0
Liabilities	485,3	598,4	516,3	198,5	15,9	1 814,4
Difference between assets and liabilities	88,7	-169,5	157,2	-12,9	0,1	63,6

Shows the Bank's interest rate-related assets and liabilities, including derivatives, according to the interest refixing date as of December 31, 2005.

The Bank of Åland Group's interest rate risks come mainly from fluctuations in cash flow, since most interest-bearing assets and liabilities are tied to variable interest rates. The Group endeavours to offset this risk by matching financial assets and liabilities.

**CASH FLOW RISK, DECEMBER 31, 2005, EUR M**

	<b>ASSETS</b>	<b>LIABILITIES</b>
Variable interest rate	1,867.7	1,832.0
Fixed interest rate	178.2	159.1

Variable interest rate refers to items with an original interest refixing period of no more than one year. Fixed interest rate refers to items with an original interest refixing period of longer than one year.

Interest rate risk, which is measured as the effect on fair value of a one percentage point increase in market interest rates, amounted to EUR 0.5 M on December 31, 2005.

**Foreign exchange risk**

Foreign exchange risk refers to possible variations in the value of assets, liabilities and derivatives due to changes in exchange rates. The foreign exchange risks of the Bank of Åland Group are restricted by limits set by the Executive Board. Daily monitoring of the limits is provided by the trading controller. For more information, see Note 20, "Assets and liabilities in euro and other currencies."

**Equities risk**

Equities risk refers to possible variations in the value of a financial instrument due to changes in the market prices of shares. The Bank of Åland Group manages equities risks through rules that limit trading for its own account and daily monitoring by the trading controller. A general market price movement of no more than 10 per cent (upward or downward) would mean a change of value of EUR 0.1 M.

**Liquidity risk**

Liquidity risk arises because the due dates of assets and liabilities do not coincide. The Bank of Åland Group carries out active liquidity planning and management in order to avoid liquidity risks. There is continuous follow-up of the Group's liquidity situation, and borrowings are planned in such a way that excessively large short-term funding requirements do not arise. The Group has unutilised limits with other banks that can be utilised to manage liquidity.

Liquidity simulation shows the Bank's preparedness for any market disruptions such as a sudden decrease in the Bank's deposits. On December 31, 2005, the Bank had a payment preparedness sufficient to cover a sudden decrease in the Bank's spot deposits and certificates of deposits issued by 20 per cent. Payment preparedness (liquid assets) amounted to EUR 262.8 M. Liquid assets are defined in this context somewhat differently than in the cash flow statement.

**Operational risks**

Operational risks are defined as the risk of losses and of damage to the Bank's reputation due to faulty or erroneous procedures, processes, behaviour or unexpected events in the Bank of Åland Group's surroundings.

Operational risk management is an independent element of risk management. Risks attributable to operations or largely to operations must be identified, assessed and measured in order to be limited and monitored. Operational risks are reduced by damage prevention and by minimisation of losses in the event a risk materialises. Losses due to operational risks are also reduced through insurance.

It is the task of every unit to manage the operational risks that are associated with its own work. Units document the significant operational risks in their processes, products and projects. During risk documentation, they assess the probability of and the consequences of a loss event. Based on this assessment, they create a risk map that governs how identified risks are managed. The Risk Control Department co-ordinates the task of risk documentation and is responsible for reporting major operational risks to the Board of Directors and the Executive Team. For the reporting of incidents, systems support has been developed internally and will go into service in the Group during 2006. Operational incidents that materialise must continuously be reported to the Risk Control Department, which is responsible for ensuring that they are compiled and reported onward to the affected bodies as well as to the Financial Supervision Authority according to the rules in force.

# PARENT COMPANY BALANCE SHEET

(EUR K)

ASSETS	NOTE	DEC 31, 2005		DEC 31, 2004	
Liquid assets			77,605		72,065
Debt securities eligible for refinancing with central banks	1				
<i>Treasury bills</i>			58,599		112,196
<i>Other</i>			<u>37,223</u>	95,822	<u>0</u>
Claims on credit institutions	2				
<i>Repayable on demand</i>			1,241		3,657
<i>Other</i>			<u>127,158</u>	128,399	<u>106,792</u>
Claims on the public and public sector entities	3			1,794,783	
Lease assets	4			259	487
Debt securities	1			605	1,526
Shares and participations	5			3,669	7,907
Shares and participations in associated companies	5			1,005	5
Shares and participations in Group companies	5			5,188	4,786
Derivative instruments	6			14,708	8,300
Intangible assets	7,9			3,073	1,632
Tangible assets	8,9				
<i>Investment properties as well as shares and participations in investment properties</i>			2,841		2,932
<i>Other properties as well as shares and participations in real estate companies</i>			7,948		8,415
<i>Other tangible assets</i>			<u>2,193</u>	12,982	<u>2,291</u>
Other assets	10			7,532	10,075
Accrued income and prepaid expenses	11			9,272	7,709
Deferred tax assets	13			<u>184</u>	<u>0</u>
<b>TOTAL ASSETS</b>			2,155,086		1,982,390



# PARENT COMPANY BALANCE SHEET

(EUR K)

LIABILITIES AND EQUITY CAPITAL	NOTE	DEC 31, 2005		DEC 31, 2004	
Liabilities to credit institutions					
<i>Repayable on demand</i>			2,867		1,441
<i>Other</i>		<u>69,933</u>	72,799	<u>22,134</u>	23,575
Liabilities to the public and public sector entities					
<i>Deposits</i>					
<i>Repayable on demand</i>		1,055,685		1,040,030	
<i>Other</i>		<u>245,350</u>	1,301,035	<u>205,208</u>	1,245,238
<i>Other liabilities</i>			<u>3,348</u>	1,304,383	<u>4,620</u>
					1,249,858
Debt instruments issued to the public					
	13				
<i>Bonds</i>			330,427		224,196
<i>Other</i>			<u>231,887</u>	562,314	<u>276,356</u>
					500,552
<i>Other liabilities</i>	14		27,012		27,805
Accrued expenses and prepaid income	15		10,170		11,377
Derivative instruments	6		15,374		8,300
Subordinated liabilities					
	16				
<i>Capital loan</i>			9,381		9,456
<i>Other</i>			<u>45,751</u>	55,133	<u>44,524</u>
					53,980
Deferred tax liabilities	13		<u>130</u>		<u>0</u>
Total liabilities			2,047,315		1,875,447
Difference between recorded and planned depreciation			126		220
Reserves			<u>22,950</u>		<u>22,450</u>
Total accumulated appropriations			23,076		22,670
Share capital			22,174		22,164
Share premium account			25,527		25,463
Revaluation reserve			326		350
Reserve fund			25,129		25,129
Fair value reserve			371		0
Retained earnings			-259		194
Profit for the year			<u>11,428</u>		<u>10,973</u>
Total equity capital	20		84,695		84,273
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>			2,155,086		1,982,390
<b>OFF-BALANCE SHEET OBLIGATIONS</b>					
Obligations to a third party on behalf of customers					
<i>Guarantees and pledges</i>			<u>12,895</u>	12,895	<u>13,342</u>
					13,342
Irrevocable commitments in favour of a customer			<u>132,110</u>		<u>96,730</u>
					110,072

# PARENT COMPANY INCOME STATEMENT

(EUR K)

	NOTE	JAN 1 – DEC 31, 2005		JAN 1 – DEC 31, 2004	
Interest income	25		60,974		54,190
Net leasing income	27		50		60
Interest expenses	26		<u>-29,715</u>		<u>-24,441</u>
<b>NET INTEREST INCOME</b>			31,309		29,810
Income from equity investment	28				
<i>In Group companies</i>			1,541		760
<i>In associated companies</i>			241		339
<i>In other companies</i>			<u>43</u>	1,825	<u>386</u>
Commission income	29		11,696		10,428
Commission expenses	30		-1,560		-1,231
Net income from securities transactions and foreign exchange dealing	31				
<i>Net income from securities transactions</i>			677		282
<i>Net income from foreign exchange dealing</i>			<u>898</u>	1,575	<u>880</u>
Net income from financial assets available for sale	32		1,140		304
Other operating income	33		1,736		5,114
Administrative expenses					
<i>Staff costs</i>					
<i>Wages and salaries</i>			11,774		14,197
<i>Pensions</i>			1,442		369
<i>Other social security costs</i>			<u>928</u>	14,144	<u>1,078</u>
<i>Other administrative expenses</i>	34		<u>12,718</u>	-26,861	<u>9,001</u>
Depreciation/amortisation and impairment losses on tangible and intangible assets			-1,223		-2,113
Other operating expenses	35		-4,159		-4,449
Loan and guarantee losses	36		-310		-659
Impairment losses and reversals of impairment losses on securities held as non-current assets			<u>0</u>		<u>339</u>
<b>NET OPERATING PROFIT</b>			15,166		15,544
<b>PROFIT BEFORE APPROPRIATIONS AND TAXES</b>			15,166		15,544
Appropriations			-406		0
Income taxes	37		-3,361		-4,571
Change in deferred tax assets			<u>29</u>		<u>0</u>
<b>PROFIT FOR THE YEAR</b>			11,428		10,973

# PARENT COMPANY

# ACCOUNTING PRINCIPLES

The financial statements of the Bank of Åland Plc have been drawn up in accordance with the Finnish Credit Institutions Act, the Ministry of Finance ordinance on annual accounts and consolidated annual accounts of financial institutions and securities companies and the regulations of the Financial Supervision Authority. The Bank's financial statements have been prepared in compliance with Finnish accounting standards (FAS).

## ITEMS IN FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are translated to euro according to the European Central Bank exchange rate on the balance sheet date.

## REVENUE RECOGNITION PRINCIPLES

### *Interest income and expenses*

Interest income and expenses on asset and liability items are recognised according to the accrual principle. If a financial asset or group of financial assets have had an impairment loss, the interest income is recognised according to the original interest rate on the amount after impairment loss.

### *Commission income and expenses*

Commission income and expenses are recognised when the service is performed. For commissions that concern more than one year, only the portion related to the accounting period is recognised.

## DEPRECIATION/AMORTISATION

Buildings, technical equipment and machinery and equipment are noted at cost minus depreciation and any impairment losses. Depreciation/amortisation is based on the expected economic service life of the assets. All depreciation/amortisation is on a straight-line basis.

Buildings	40 years
Technical equipment in buildings	12 years
Machinery and equipment	3–10 years
Computer systems (amortisation)	3–5 years
Other tangible assets	3–5 years

Land is not depreciated.

## FINANCIAL INSTRUMENTS

For purposes of valuation, financial instruments are classified in the following categories:

### *Financial assets and liabilities held for trading*

This group includes all financial assets and liabilities that are held to provide a short-term return. The group also includes all derivative instruments for which hedge accounting is not applied. Financial assets and liabilities held for trading are recognised in the balance sheet at fair value and changes in fair value are recognised in the income statement. All derivative instruments are recognised in the balance sheet at fair value.

Positive fair values of derivative instruments are recognised as assets in the balance sheet in the item "Derivative instruments" and negative fair values in the item "Derivative instruments and other liabilities held for trading". Changes in value are recognised in the income statement in the item "Net income from securities trading".

### *Loans and trade receivables*

Financial assets classified as loans and trade receivables are assets created by handing over funds, services or goods directly to the debtor.

Loans and trade receivables are recognised at the commencement of the contract at cost and subsequently at amortised cost. Impairment loss on loans and receivables is recognised as needed on the basis of a customer-specific evaluation as well as an overall assessment of the lending portfolio.

### *Investments held to maturity*

Investments held to maturity are interest-bearing financial assets and are recognised at amortised cost using the effective interest rate method of accounting.

### *Financial assets available for sale*

Financial assets available for sale are assets not included in any of the above categories and that are not derivative instruments.

The assets in this group are initially recognised in the balance sheet at cost and subsequently carried at fair value. The change in fair value is recognised under equity as the "Fair value reserve". When such an asset is sold the change in fair value is derecognised from the reserve in a separate item, "Net income from financial assets available for sale". Impairment losses are recognised in the income statement.

*Other financial liabilities*

Other financial liabilities are recognised in the balance sheet upon commencement of the contract at cost and subsequently at amortised cost.

## **CHANGES IN ACCOUNTING PRINCIPLES**

Derivative instruments are recognised in the balance sheet at fair value, while changes in value are recognised in the income statement. Changes in the fair value of financial instruments are recognised in the fair value reserve when the instrument is a financial asset available for sale. These changes applied starting on January 1, 2005 and amounts recognised in 2004 are thus not comparable. Adjusted amounts have been included in the opening balance as of January 1, 2005.

## **PENSION ARRANGEMENTS**

The legally mandated pension coverage for employees has been arranged through the retirement insurance company Pensions-Alandia. Other pension benefits are handled through the Bank's pension fund, Ålandsbanken Abp:s Pensionsstiftelse. Pension liabilities are fully covered.

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

(EUR K)

## Numbering

<b>1–24</b>	Notes to the balance sheet
<b>25–37</b>	Notes to the income statement
<b>38–41</b>	Notes concerning staff, Board of Directors and Executive Team
<b>42–47</b>	Notes concerning assets pledged and contingent liabilities
<b>48</b>	Other notes

## NOTES TO THE BALANCE SHEET

### 1. HOLDINGS OF DEBT SECURITIES

	2005			2004		
	LISTED	OTHER	TOTAL	LISTED	OTHER	TOTAL
<i>Debt securities eligible for refinancing</i>						
Instruments held to maturity						
Treasury bonds	16,853	0	16,853	18,963	0	18,963
Instruments available for sale						
Treasury bills	0	58,586	58,586	0	90,331	90,331
Treasury bonds	1,324	0	1,324	902	0	902
Certificates of deposit	0	17,947	17,947	0	0	0
Other debt securities	1,113	0	1,113	1,999	0	1,999
	19,290	76,533	95,822	21,865	90,331	112,196
<i>Other debt securities</i>						
Treasury bonds	13	0	13	39	0	39
Bonds issued by banks	5	0	5	5	0	5
Other	587	0	587	1,482	0	1,482
	605	0	605	1,526	0	1,526

### 2. CLAIMS ON THE PUBLIC AND PUBLIC SECTOR ENTITIES

	2005	2004
Financial enterprises	504,264	470,406
Public sector	12,303	11,974
Household	1,233,250	1,099,095
Non-profit organisations, household sector	15,221	15,725
Foreign	29,745	34,414
Total	1,794,783	1,631,614
Of which subordinated claims	239	256
Of which non-interest-bearing claims	339	30
<b>Impairment losses</b>		
Individual impairment losses recognised during the year	422	852
Individual impairment losses reversed during the year	112	192
Total impairment losses	310	659

### 3. CLAIMS ON CREDIT INSTITUTIONS

	2005			2004		
	REPAYABLE ON DEMAND	OTHER	TOTAL	REPAYABLE ON DEMAND	OTHER	TOTAL
Finnish credit institutions	2	17,456	17,458	3	11,086	11,089
Foreign credit institutions	1,239	109,702	110,941	3,654	95,706	99,360
Total	1,241	127,158	128,399	3,657	106,792	110,449

### 4. LEASE ASSETS RENTED OUT

	2005	2004
Machinery and equipment	249	470
Other assets	11	17
Total	259	487

## 5. SHARES AND PARTICIPATIONS

	2005			2004		
	LISTED	OTHER	TOTAL	LISTED	OTHER	TOTAL
Shares and participations						
Available for sale	123	3,546	3,669	4,556	3,351	7,907
Shares and participations in associated companies	0	1,005	1,005	0	5	5
Shares and participations in Group companies	0	5,188	5,188	0	4,786	4,786
There are no holdings in other credit institutions.						

## 6. DERIVATIVE INSTRUMENTS

	2005				2004	
	FAIR VALUE		FAIR VALUE			
	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE		
Interest rate derivatives						
Interest rate swaps		755	1,443	0	0	
Currency derivatives						
Forward contracts		56	53	0	0	
Interest rate and currency swaps		33	14	0	0	
Equity derivatives						
Option contracts						
Purchased		13,864	0	8,300	0	
Written		0	13,864	0	8,300	
		14,708	15,374	8,300	8,300	

Nominal value of underlying asset by remaining maturity:

	2005				2004			
	UNDER 1 YR	1-5 YRS	OVER 5 YRS	TOTAL	UNDER 1 YR	1-5 YRS	OVER 5 YRS	TOTAL
Interest rate derivatives								
Interest rate swaps	90,504	184,371	17,400	292,275	138,521	176,616	18,886	334,023
Currency derivatives								
Forward contracts	6,187	639	0	6,826	5,384	554	0	5,938
Interest rate and currency swaps	776	0	0	776	180	0	0	180
Equity derivatives								
Option contracts								
Purchased	51,510	95,687	0	147,197	20,666	105,122		125,788
Written	51,510	95,687	0	147,197	20,666	105,122		125,788
	200,486	376,384	17,400	594,271	185,417	387,414	18,886	591,717

## 7. INTANGIBLE ASSETS

	2005	2004
IT expenses	1,986	190
Other	1,087	1,443
	3,073	1,632

## 8. PROPERTIES AND SHARES AND PARTICIPATIONS IN REAL ESTATE COMPANIES

	2005	2004
Investment properties		
Land and water	58	58
Buildings	257	335
Shares in real estate companies	2,525	2,539
	2,841	2,932
Properties for the Group's own use		
Land and water	174	241
Buildings	6,689	7,088
Shares in real estate companies	1,086	1,086
	7,948	8,415

## 9. CHANGES IN INTANGIBLE AND TANGIBLE ASSETS

	2005					
	LAND AND BUILDINGS FOR OWN USE	INVESTMENT PROPERTIES	OTHER TANGIBLE ASSETS	GOODWILL	OTHER INTANGIBLE ASSETS	TOTAL
<b>Historical costs</b>						
Cost on January 1.	13,550	3,390	6,131	0	4,881	27,952
Increases during the year	11	0	437	0	2,609	3,057
Decreases during the year	-532	-165	-163	0	-590	-1,450
Cost on December 31.	13,029	3,225	6,405	0	6,901	29,559
<b>Accumulated depreciation/amortisation</b>						
Acc. depreciation/amortisation/impairment losses on Jan. 1.	-5,135	-458	-3,839	0	-3,249	-12,682
Acc. depreciation/amortisation concerning decreases	227	99	108	0	3	438
Depreciation/amortisation for the year	-172	-12	-481	0	-583	-1,247
Impairment loss for the year	0	-14	0	0	0	-14
Acc. depreciation/amortisation/impairment losses on Dec. 31	-5,080	-384	-4,212	0	-3,828	-13,505
<b>Book value on December 31</b>	7,948	2,841	2,193	0	3,073	16,055

**2004**

	LAND AND BUILDINGS FOR OWN USE	INVESTMENT PROPERTIES	OTHER TANGIBLE ASSETS	GOODWILL	OTHER INTANGIBLE ASSETS	TOTAL
<b>Historical costs</b>						
Cost on January 1.	13,851	4,345	8,422	0	12,173	38,791
Increases during the year	14	15	1,066	0	1,683	2,778
Decreases during the year	-315	-971	-3,357	0	-8,974	-13,617
Cost on December 31.	13,550	3,390	6,131	0	4,881	27,952
<b>Accumulated depreciation/amortisation</b>						
Acc. depreciation/amortisation/impairment losses on Jan. 1.	-4,955	-1,204	-6,041	0	-8,832	-21,032
Acc. depreciation/amortisation concerning decreases	0	777	2,751	0	6,873	10,401
Depreciation/amortisation for the year	-180	-18	-550	0	-1,290	-2,037
Impairment loss for the year	0	-13	0	0	0	-13
Acc. depreciation/amortisation/impairment losses on Dec. 31	-5,135	-458	-3,839	0	-3,249	-12,682
<b>Book value on December 31</b>	8,415	2,932	2,291	0	1,632	15,271

**10. OTHER ASSETS**

	<b>2005</b>	<b>2004</b>
Cash items in the process of collection	83	43
Other	7,450	10,033
	<u>7,532</u>	<u>10,075</u>

**11. ACCRUED INCOME AND PREPAYMENTS**

	<b>2005</b>	<b>2004</b>
Interest	6,762	6,092
Other	2,510	1,617
	<u>9,272</u>	<u>7,709</u>

**12. DEFERRED TAX ASSETS AND LIABILITIES**

	<b>2005</b>	<b>2004</b>
Deferred tax assets		
<i>Other temporary differences</i>	184	0
	<u>184</u>	<u>0</u>
Deferred tax liabilities		
<i>From the fair value fund</i>	130	0
	<u>130</u>	<u>0</u>

**13. DEBT INSTRUMENTS ISSUED TO THE PUBLIC**

	<b>2005</b>		<b>2004</b>	
	CARRYING AMOUNT	NOMINAL AMOUNT	CARRYING AMOUNT	NOMINAL AMOUNT
Certificates of deposit	231,887	233,710	276,356	279,407
Bonds	330,427	335,337	224,196	229,395
Total	<u>562,314</u>	<u>569,047</u>	<u>500,553</u>	<u>508,802</u>

**14. OTHER LIABILITIES**

	<b>2005</b>	<b>2004</b>
Cash items in the process of collection	16,570	13,857
Other	10,442	13,948
	<u>27,012</u>	<u>27,805</u>

**15. ACCRUED EXPENSES AND DEFERRED INCOME**

	<b>2005</b>	<b>2004</b>
Interest	6,508	8,559
Other	3,662	2,818
	<u>10,170</u>	<u>11,377</u>

## 16. SUBORDINATED LIABILITIES

	2005			2004		
	CARRYING AMOUNT	NOMINAL AMOUNT	AMOUNT IN CAPITAL BASE	CARRYING AMOUNT	NOMINAL AMOUNT	AMOUNT IN CAPITAL BASE
<b>Convertible capital loan:</b>						
Amount outstanding	9,381	9,381	1,875	9,456	9,456	3,782
The interest rate on the loan is 6 per cent and the maturity date is April 2, 2007. Lenders are not entitled to demand early repayment. Each loan certificate with a nominal value of EUR 1,681.88 entitles the holder to subscribe for 111 Series B shares at a subscription price of EUR 15.13929 per share. During the period July 1, 2005 to January 31, 2006, holders applied for conversion of EUR 348,000 of the capital loan, which entitled them to 22,977 shares.						
<b>1999 debenture loan</b>	10,000	10,000	6,000	10,000	10,000	8,000
Interest rate: 3-month EURIBOR + 1.94%						
Repayment: January 15, 2009						
<b>2000 debenture loan</b>	0	0	0	12,489	12,489	0
Interest rate: 5.25%						
The loan has fallen due for repayment.						
<b>2003 debenture loan</b>	2,011	2,002	805	2,014	2,002	1,209
Interest rate: 3.50%						
Repayment: May 5, 2008						
<b>2004 debenture loan 1</b>	4,477	4,477	4,477	5,597	5,597	5,597
Interest rate: 12-month EURIBOR + 0.25%						
Repayment: 20% (1,120) of nominal amount yearly beginning June 4, 2005						
<b>2004 debenture loan 2</b>	14,424	14,424	14,424	14,424	14,424	14,424
Interest rate: 12-month EURIBOR + 0.50%, starting June 4, 2009						
12-month EURIBOR + 2.00%						
Repayment: June 4, 2014						
<b>2005 debenture loan 1</b>	5,193	5,193	5,193	0	0	0
Interest rate: 12-month EURIBOR + 0.20%						
Repayment: 20% (1,039) of original nominal amount yearly beginning May 17, 2006						
<b>2005 debenture loan 2</b>	9,647	9,647	9,647	0	0	0
Interest rate: 12-month EURIBOR + 0.40%, starting May 17, 2010						
12-month EURIBOR + 2.00%						
Repayment: May 17, 2015						

All subordinated liabilities are included in lower supplementary capital.

The loans may be repurchased before maturity, but this is possible only with the permission of the Financial Supervision Authority.

In case the Bank is dissolved, the loans are subordinate to the Bank's other obligations.

## 17. MATURITY BREAKDOWN OF CLAIMS AND LIABILITIES

	2005					
	TOTAL	UNDER 3 MO	3-12 MO	1-5 YRS	5-10 YRS	OVER 10 YRS
<i>Claims</i>						
Debt securities eligible for refinancing w/central banks	95,822	76,532	16,977	2,313	0	0
Credit institutions and central banks	128,399	123,399	5,000	0	0	0
The public and public sector entities	1,794,783	148,687	228,195	707,999	690,728	19,175
Other debt securities	605	605	0	0	0	0
	2,019,609	349,223	250,172	710,311	690,728	19,175
<i>Liabilities</i>						
Credit institutions and central banks	72,799	72,799	0	0	0	0
The public and public sector entities	1,304,383	1,246,799	44,014	11,502	2,036	32
Debt instruments issued to the public	562,314	248,441	239,776	74,097	0	0
Subordinated liabilities	55,133	0	2,157	28,960	24,016	0
	1,994,629	1,568,039	285,947	114,559	26,052	32

## 18. ASSETS AND LIABILITIES IN EURO AND OTHER CURRENCIES

	2005			2004		
	EURO	OTHER CURRENCIES	TOTAL	EURO	OTHER CURRENCIES	TOTAL
Claims on credit institutions	49,002	79,397	128,399	62,503	47,946	110,449
Claims on the public and public sector entities	1,789,257	5,525	1,794,783	1,623,725	7,889	1,631,614
Debt instruments	96,427	0	96,427	113,779	0	113,779
Derivative instruments	14,619	89	14,708	8,300	0	8,300
Other assets including cash	116,270	4,500	120,769	114,692	3,556	118,248
Total	2,065,575	89,512	2,155,086	1,922,999	59,391	1,982,390
Liabilities to credit institutions	69,422	3,377	72,799	21,714	1,861	23,575
Liabilities to the public and public sector entities	1,219,175	85,209	1,304,383	1,192,883	56,975	1,249,858
Debt instruments issued to the public	562,314	0	562,314	500,552	0	500,552
Derivative instruments and liabilities held for trading	15,307	67	15,374	8,300	0	8,300
Subordinated debentures	55,133	0	55,133	53,980	0	53,980
Other liabilities	36,359	952	37,311	38,887	295	39,182
Total	1,957,710	89,605	2,047,315	1,816,316	59,131	1,875,447



## 19. FAIR VALUE AND CARRYING AMOUNT OF ASSETS AND LIABILITIES

2005

	CARRYING AMOUNT	FAIR VALUE
<b>Assets</b>		
Cash	77,605	77,605
Debt securities eligible for refinancing with central banks		
Available for sale	78,969	78,969
Intended to be held to maturity	16,853	17,044
Claims on credit institutions	128,399	128,399
Claims on the public and public sector entities		
Carried at fair value	0	0
Other	1,794,783	1,793,207
Lease assets	259	259
Debt securities available for sale	605	605
Shares and participations available for sale	3,669	3,669
Shares and participations in associated companies	1,005	1,005
Shares and participations in Group companies	5,188	5,188
Derivative instruments	14,708	14,708
Intangible assets	3,073	3,073
Tangible assets	12,982	25,190
Other assets	7,532	7,532
Accrued income and prepaid expenses	9,272	9,272
Deferred tax assets	184	184
	<u>2,155,086</u>	<u>2,165,910</u>
<b>Liabilities</b>		
Liabilities to credit institutions	72,799	72,645
Liabilities to the public and public sector entities		
Carried at fair value	0	0
Other	1,304,383	1,304,307
Debt instruments issued to the public		
Carried at fair value	0	0
Other	562,314	564,785
Derivative instruments	15,374	15,374
Other liabilities	27,012	27,012
Accrued expenses and prepaid income	10,170	10,170
Subordinated liabilities	55,133	55,639
Deferred tax liabilities	130	130
	<u>2,047,315</u>	<u>2,050,061</u>

The fair value of assets and liabilities repayment on demand is equivalent to their nominal value. The fair value of fixed-period assets and liabilities corresponds to the present value of future cash flows. For listed shares, the last closing price has been used. The appraisal of real estate was performed by a licensed estate agent.

## 20. CHANGES IN EQUITY CAPITAL

	SHARE CAPITAL	SHARE PREMIUM ACCOUNT	RESERVE FUND	FAIR VALUE RESERVE	REVALUATION RESERVE	CAPITAL LOAN	SHARE OF RETAINED EARNINGS	TOTAL
December 31, 2003	22,086	24,966	25,129	0	350	9,820	11,155	93,506
Reclassification of capital loan						-9,820		-9,820
January 1, 2004	22,086	24,966	25,129	0	350	0	11,155	83,686
Dividend to shareholders							-10,960	-10,960
Conversion of capital loan	49	316						365
Subscription by exercising warrants	29	181						210
Change in minority interest in equity capital								0
Profit for the year							10,973	10,973
December 31, 2004	22,164	25,463	25,129	0	350	0	11,167	84,273
Introduction of financial instruments according to Financial Supervision Authority's regulations.				1,147			-441	707
January 1, 2005	22,164	25,463	25,129	1,147	350	0	10,727	84,980
Dividend to shareholders							-10,986	-10,986
Conversion of capital loan	10	64						74
Property divestment					-24			-24
Change in fair value				-777				-777
Profit for the year							11,428	11,428
December 31, 2005	22,174	25,527	25,129	371	326	0	11,169	84,695

## 21. SHARE CAPITAL

The share capital of the Bank of Åland is EUR 22,173,906.98. The maximum share capital according to the Articles of Association is EUR 32,292,081.88. The book value equivalent of a share is EUR 2.02. The shares are divided into 5,180,910 Series A and 5,805,762 Series B shares. Each Series A share represents twenty (20) votes at shareholders' meetings and each Series B share one (1) vote. Series B shares enjoy priority over Series A shares for dividends of up to six (6) per cent of their previous nominal value.

### The ten largest shareholders, December 31, 2005:

- 1 Alandia-Bolagen
- 2 Aktia Sparbank Abp
- 3 Ålands Ömsesidiga Försäkringsbolag
- 4 Wiklöf Anders
- 5 Mattsson Rafael
- 6 Veritas bolagen
- 7 Caelum Oy
- 8 Svenska litteratursällskapet i Finland
- 9 Palkkiyhtymä Oy
- 10 Baltic Petroleum Oy

The table shows the ten largest known shareholders of the Bank of Åland Group. "Shareholder" refers to a legal entity or physical person as well as legal entities directly or indirectly owned by them.

## 22. ISSUES OF SECURITIES

There are no authorisations by the General Meeting of shareholders regarding issues of new shares, equity warrants and convertible loans.

## 23. CLAIMS ON GROUP COMPANIES

	2005	2004
Other assets	115	21
Accrued income and prepayments	1,001	84
	<u>1,115</u>	<u>106</u>

## 24. LIABILITIES TO GROUP COMPANIES

	2005	2004
Liabilities to the public	1,417	491
Debt instruments issued	2,264	1,050
Other liabilities	187	116
Accrued expenses and prepaid income	701	1
	<u>4,569</u>	<u>1,658</u>

## NOTES TO THE INCOME STATEMENT

### 25. INTEREST INCOME

	2005	2004
Credit institutions and central banks	4,035	2,138
Public and public sector entities	53,158	48,051
Debt securities	3,744	3,948
Derivative instruments	36	38
Other	0	15
Total	<u>60,974</u>	<u>54,190</u>

### 26. INTEREST EXPENSES

	2005	2004
Credit institutions	970	1,389
Public and public sector entities	15,019	12,682
Debt instruments issued to the public	11,557	8,429
Derivative instruments	257	219
Subordinated liabilities	1,359	1,148
Capital loan	553	572
Other interest expenses	1	2
Total	<u>29,715</u>	<u>24,441</u>

### 27. NET LEASE INCOME

	2005	2004
Rental income	224	288
Planned depreciation	-189	-233
Net capital gains and losses from the sale of lease assets	16	5
Total	<u>50</u>	<u>60</u>

According to a decision of the Executive Team, no new leases will be signed.

### 28. INCOME FROM EQUITY INSTRUMENTS

	2005	2004
Financial assets available for sale	43	386
Group companies	1,541	760
Associated companies	241	339
Total	<u>1,825</u>	<u>1,485</u>

## 29. COMMISSION INCOME

	2005	2004
Deposit commissions	916	853
Lending commissions	2,832	2,450
Payment intermediation commissions	2,158	1,997
Mutual fund unit commissions	951	632
Management commissions	1,187	1,058
Securities commissions	2,249	2,366
Share issue commissions	0	1
Insurance commissions	209	265
Legal services	376	387
Guarantee commissions	136	131
Other commissions	681	288
	<u>11,696</u>	<u>10,428</u>

## 30. COMMISSION EXPENSES

	2005	2004
Service charges paid	1,196	894
Other	365	336
	<u>1,560</u>	<u>1,231</u>

## 31. NET INCOME FROM SECURITIES TRADING AND FOREIGN EXCHANGE OPERATIONS

	2005			2004		
	NET CAPITAL GAINS AND LOSSES	NET CHANGES IN FAIR VALUE	TOTAL	NET CAPITAL GAINS AND LOSSES	NET CHANGES IN FAIR VALUE	TOTAL
Debt securities	0	0	0	0	0	0
Shares and participations	739	0	739	1,318	-1,036	282
Derivative instruments	-5	-58	-63	0	0	0
Securities trading	734	-58	677	1,318	-1,036	282
Foreign exchange operations	914	-16	898	880	0	880
	<u>1,649</u>	<u>-74</u>	<u>1,575</u>	<u>2,198</u>	<u>-1,036</u>	<u>1,162</u>

## 32. NET INCOME FROM FINANCIAL ASSETS AVAILABLE FOR SALE

	2005	2004
Capital gains	1,645	440
Impairment losses	-505	-136
Total	<u>1,140</u>	<u>304</u>

## 33. OTHER OPERATING INCOME

	2005	2004
Rental income on properties	760	345
Capital gains on properties	255	577
Other property income	19	27
Computer income	0	3,993
Other income	701	172
	<u>1,736</u>	<u>5,114</u>

## 34. OTHER ADMINISTRATIVE EXPENSES

	2005	2004
Staff costs	448	702
Office costs	575	494
Computer costs	8,763	4,554
Communication	1,202	1,481
Marketing	1,597	1,655
Other	133	115
	<u>12,718</u>	<u>9,001</u>

## 35. OTHER OPERATING EXPENSES

	2005	2004
Rental expenses	1,262	1,216
Capital losses on properties	0	11
Other property expenses	664	788
Fee to security fund	611	606
Miscellaneous expenses	1,623	1,828
	<u>4,159</u>	<u>4,449</u>

## 36. IMPAIRMENT LOSSES ON LOANS AND OTHER COMMITMENTS

	2005	2004
Individual impairment losses	422	852
Group impairment losses	0	0
Reversals	-112	-193
Total impairment losses on loans	<u>310</u>	<u>659</u>

Carrying amount of interest on impaired receivables according to original interest amounted to EUR 54,000.

### 37. TAXES

	2005	2004
Taxes for the year	3,362	4,511
Taxes from prior years	-1	60
Changes in deferred tax assets	-29	0
Changes in deferred tax liabilities	0	0
Effect on deferred tax liabilities and asset from changes in tax rates	0	0
Taxes in income statement	3,332	4,571
Effective tax rate, %	22	29

The income tax rate in Finland during 2005 was 26 per cent and in 2004 it was 29 per cent. The lower effective tax rate in 2005 was due to the inclusion of some tax-exempt income (divestment gains).

## NOTES CONCERNING STAFF, BOARD OF DIRECTORS AND EXECUTIVE TEAM

### 38. NUMBER OF EMPLOYEES

	2005		2004	
	AVERAGE EMPLOYEES	CHANGE	AVERAGE EMPLOYEES	CHANGE
Permanent full-time employees	255	-62	317	0
Permanent part-time employees	72	-22	94	+5
	327	-84	411	+5

The change during 2005 was due to the transfer of staff to the subsidiary Crosskey Banking Solutions Ab Ltd.

### 39. SALARIES/FEES PAID TO BOARD AND EXECUTIVE TEAM

	2005	2004
Members of the Supervisory Board	0	4
Members of the Board of Directors	67	67
Managing Directors	192	183
Deputy Managing Directors	246	231
Other members of the Executive Team	408	471

The amount includes the value of fringe benefits.

There are no pension obligations to members of the Board of Directors. The pension benefits of the Managing Directors and Deputy Managing Directors are based on customary terms of employment.

### 40. PRIVATE SHAREHOLDINGS OF THE BOARD OF DIRECTORS AND THE EXECUTIVE TEAM IN THE BANK OF ÅLAND PLC

	2005				
	SERIES A SHARES	SERIES B SHARES	TOTAL SHARES	% OF SHARES	% OF VOTES
<b>Board of Directors</b>					
<i>Lindholm, Göran</i>	1,861	1,309	3,170	0.03%	0.04%
<i>Boman, Sven-Harry</i>	55	524	579	0.01%	0.00%
<i>Janér, Kent</i>	-	-	-	0.00%	0.00%
<i>Karlsson, Agneta</i>	40	28	68	0.00%	0.00%
<i>Nordlund, Leif</i>	12	12	24	0.00%	0.00%
<i>Palmberg, Tom</i>	-	-	-	0.00%	0.00%
Total	1,968	1,873	3,841	0.03%	0.04%
<b>Executive Team</b>					
<i>Grönlund, Peter</i>	-	-	-	0.00%	0.00%
<i>Nuutinen, Pekka</i>	-	-	-	0.00%	0.00%
<i>Donner, Lars</i>	747	-	747	0.01%	0.01%
<i>Tallqvist, Jan</i>	-	-	-	0.00%	0.00%
<i>Vickström, Edgar</i>	-	-	-	0.00%	0.00%
<i>Woivalin, Dan-Erik</i>	-	-	-	0.00%	0.00%
Total	747	-	747	0.01%	0.01%

### 41. FINANCIAL TRANSACTIONS WITH RELATED PARTIES

	2005	
	BOARD AND EXECUTIVE TEAM	RELATED COMPANIES
<i>Loans</i>		
Loans outstanding, January 1, 2005	318	2,912
Taken out during the year	191	200
Principal paid during the year	-107	-448
Loans outstanding, December 31, 2005	402	2,664
Interest income	12	155
<i>Deposit accounts</i>		
Deposit accounts, January 1, 2005	275	787
Deposit accounts, December 31, 2005	367	2,039
Interest expenses	4	27
Other commissions and fees	0	5

"Related companies" refers to companies in which individuals on the Bank's Board of Directors or Executive Team hold a significant percentage of the votes or can exercise significant influence.

## NOTES CONCERNING ASSETS PLEDGED AND CONTINGENT LIABILITIES

### 42. COLLATERAL PROVIDED AND RECEIVED

	2005	2004
Carrying amount of assets pledged for the Group's own account	56,792	87,676
Commitments for which property has been pledged	20,210	29,020

The commitments consist mainly of an unutilised limit with the Bank of Finland. There are no pledged assets that may be divested unless the party pledging them has neglected its commitments.

### 43. PENSION LIABILITIES

Pension liabilities in Ålandsbanken Abp:s Pensionsstiftelse	13,692	13,662
Carrying amount, liability deficit in pension fund	0	0

The probable market value of plan assets in the pension fund exceeds pension liabilities by EUR 5.4 M.

### 44. LEASE LIABILITIES

	2005	2004
Lease payments due		
Within 1 year	5	1,329
More than 1 and less than 5 years	2	1,680
More than 5 years	0	0
	7	3,009

### 45. OFF-BALANCE SHEET COMMITMENTS

	2005	2004
Guarantees	13,014	13,342
Unutilised overdraft limits	70,181	57,151
Lines of credit	61,929	39,580
	145,124	110,072

There are no commitments on behalf of Group companies. The lines of credit do not include fixed-interest loans with a set interest rate.

### 46. CHANGES IN GROUP STRUCTURE

During 2005, the subsidiary Ålandsbanken Kapitalmarknadstjänster was acquired. The Bank's shareholding is 70 per cent. The company's field of operations is asset management. It has been consolidated in the Group's financial statements since April 1, 2005.

In addition, the Bank of Åland is one of the founders of Ålands Investerings Ab, with a 36 per cent shareholding. The company's field of operations is development and investment activities.

During the year, the wholly owned subsidiaries ÅAB Finans Ab and Ålands Investment Ab were liquidated. This does not affect the possibility of comparing the 2005 financial statements with those of 2004.

### 47. SUBSIDIARIES AND ASSOCIATED COMPANIES

SUBSIDIARIES	REGISTERED OFFICE	OWNERSHIP
Crosskey Banking Solutions Ab Ltd	Mariehamn	100%
Ålandsbanken Asset Management Ab	Helsinki	70%
Ålandsbanken Fondbolag Ab	Mariehamn	100%
Ålandsbanken Kapitalmarknadstjänster Ab	Mariehamn	70%

HOUSING AND REAL ESTATE COMPANIES	REGISTERED OFFICE	OWNERSHIP
FAB Gottby Center	Jomala	50%
FAB Strandgatan 20	Mariehamn	100%

ASSOCIATED COMPANIES	REGISTERED OFFICE	OWNERSHIP
Ålands Företagsbyrå Ab	Mariehamn	21%
Ålands Fastighetskonsult Ab	Mariehamn	20%
Ålands Investerings Ab	Mariehamn	36%

Combined financial information about these associated companies:

Assets	4,295	1,386
Liabilities	797	600
Sales	2,588	2,278
Profit for the year	350	458

HOUSING AND REAL ESTATE COMPANIES	REGISTERED OFFICE	OWNERSHIP
FAB Västernäs City	Mariehamn	50%
FAB Nymars	Sottunga	30%
KOY Eerikinkatu 8	Turku	22%

HOUSING AND REAL ESTATE COMPANIES	REGISTERED OFFICE	OWNERSHIP
FAB Strömsby	Vårdö	24%
FAB Sittkoffska gården	Mariehamn	22%
FAB Horsklint	Kökar	20%
FAB Wigells	Mariehamn	78%
BAB Bastuvägen	Mariehamn	44%
FAB Norrskog	Saltvik	34%
FAB Ribacken	Saltvik	31%

## OTHER NOTES

### 48. ASSETS MANAGED

	2005	2004
Discretionary asset management	31,973	89,324

# PROPOSED ALLOCATION OF PROFIT

The Board of Directors proposes that the distributable profit of the Bank of Åland Plc, EUR 11,168,847.22, be allocated as follows:

	EUR
1. For Series A and Series B shares outstanding as of December 31, 2005, a dividend of EUR 1.00 per share, totalling	10,986,672.00
2. For Series B shares subscribed through conversion of the capital loan during the period July 1, 2005–January 31, 2006, a dividend of EUR 1.00 per share, totalling	22,977.00
3. To remain in the accounts as retained earnings	159,198.22
	<hr/> 11,168,847.22

Mariehamn, February 28, 2006

*Göran Lindholm*

*Leif Nordlund*

*Sven-Harry Boman*

*Kent Janér*

*Agneta Karlsson*

*Tom Palmberg*

*Peter Grönlund, Managing Director*

## AUDITORS' REPORT

TO THE SHAREHOLDERS OF THE BANK OF ÅLAND PLC

We have examined the accounts, financial statements and administration of the Bank of Åland Plc for the accounting period January 1-December 31, 2005. The Board of Directors and the Managing Director have submitted the Report of the Directors and the consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the Parent Company's financial statements prepared in accordance with prevailing regulations in Finland and comprising the Parent Company's balance sheet, income statement and notes to the financial statements. Having completed this examination, we herewith submit our statement of opinion on the consolidated financial statements, the Report of the Directors and the Parent Company's financial statements and administration.

Our examination was conducted according to generally accepted auditing standards. In doing so, we examined the accounts, the accounting principles applied and the contents as well as the presentation of the financial statements to a sufficient extent to conclude that the financial statements do not contain significant errors or omissions. In examining the administration, we have studied whether the members of the Parent Company's Board of Directors as well as the Managing Director have handled the administration of the Bank's affairs in compliance with the provisions of the Companies Act and other regulations.

### Consolidated financial statements

The consolidated financial statements, which were prepared in accordance with International Financial Reporting Standards (IFRS)

Mariehamn, March 6, 2006

*Leif Hermans*

Certified Public Accountant

*Rabbe Nevalainen*

Certified Public Accountant

*Marja Tikka*

Certified Public Accountant

as adopted by the EU, provide accurate and sufficient information on the results of the Group's operations and on its financial position, in the manner intended by these standards and by the Accounting Act.

### Parent Company financial statements, Report of the Directors and administration

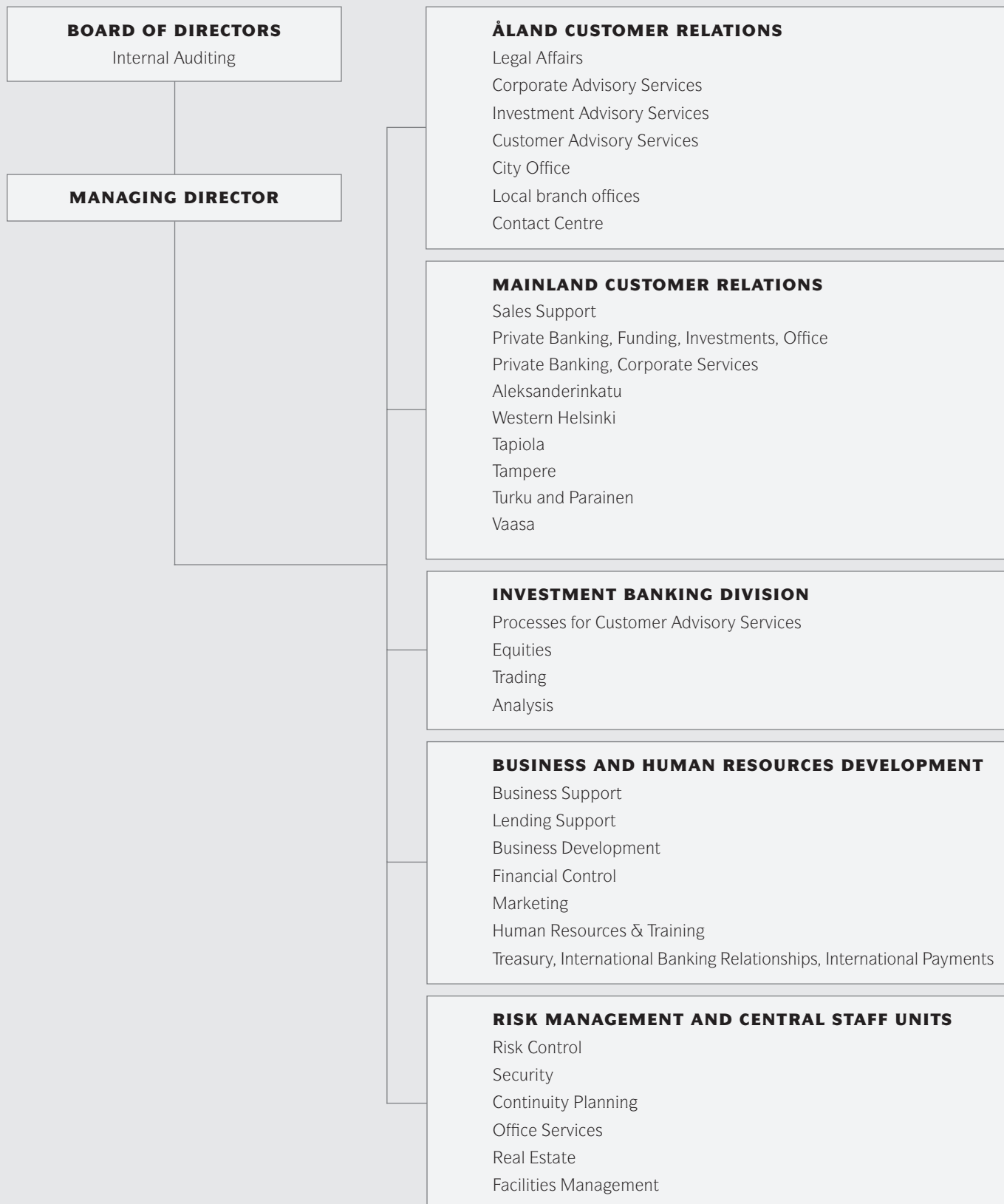
The Parent Company's financial statements were prepared in accordance with the Accounting Act and other legal provisions and regulations as to how financial statements shall be prepared. These financial statements provide accurate and sufficient information on the results of the Parent Company's operations and on its financial position, in the manner intended by the Accounting Act.

The Report of the Directors was prepared in accordance with the Accounting Act and other legal provisions and regulations on how a report of the directors shall be prepared. The Report of the Directors is consistent with the financial statements and provides accurate and sufficient information on the results of the Group's and the Parent Company's operations and on their financial position, in the manner intended by the Accounting Act.

The consolidated financial statements and the Parent Company's financial statements, which for the Parent Company's part show a profit of EUR 11,428,096.02, may be adopted and the members of the Parent Company's Board of Directors as well as the Managing Director may be discharged from liability for the accounting period examined by us. The proposal of the Board of Directors for the allocation of distributable profit is in compliance with the provisions of the Companies Act.

# ORGANISATION FROM MARCH 1, 2006

## BANK OF ÅLAND PLC





# BOARD OF DIRECTORS, MANAGING DIRECTOR AND SENIOR MANAGERS

## BOARD OF DIRECTORS

Göran Lindholm, Chairman  
Leif Nordlund, Deputy Chairman  
Sven-Harry Boman  
Kent Janér  
Agneta Karlsson  
Tom Palmberg

## MANAGING DIRECTOR

Peter Grönlund

### *Executive Team*

Peter Grönlund, Chairman  
Lars Donner  
Pekka Nuutinen  
Jan Tallqvist  
Edgar Vickström  
Dan-Erik Woivalin

## ÅLAND CUSTOMER RELATIONS

Dan-Erik Woivalin, Head of Division, Chief Legal Counsel  
Lars Donner, Deputy Head of Division, General Manager  
*Legal Affairs*, Carina Strand, Acting Department Manager  
*Corporate Advisory Services*, Kenneth Mörn, Department Manager  
*Investment Advisory Services*,  
Pontus Blomster, Department Manager  
*Customer Advisory Services*, Birgitta Dahlén, General Manager  
*City Office*, Birgitta Dahlén, Branch Manager  
*Local Branch Offices*, Pontus Blomster, Regional Manager  
*Godby Office*, Jan-Arthur Josefsson, Sales Manager  
*Contact Centre*, Nina Granqvist, Department Manager

## MAINLAND CUSTOMER RELATIONS

Pekka Nuutinen, Head of Division, General Manager  
Anne-Maria Salenius, Deputy Head of Division, General Manager  
*Sales Support*, Maarit Vesala, Sales Director  
*Private Banking*, Jan Tallqvist, General Manager  
ADMINISTRATION, Monica Mickos, Administrative Manager  
CORPORATE SERVICES, Pekka Nuutinen, General Manager  
INVESTMENTS, Merja Simberg, Investment Director  
FUNDING, Maria Bernas-Hilli, General Manager  
*Bulevardi (Bulevarden) Office*, Kim Wikström, General Manager  
*Aleksanterinkatu (Alexandersgatan)*,  
Anne-Maria Salenius, General Manager  
*Western Helsinki (Munksnäs)*, Tuula Lehmoski, General Manager  
*Espoo-Tapiola (Esbo-Hagalund)*, Marja Latola, General Manager  
*Tampere (Tammerfors)*,  
Leena Honkasalo-Lehtinen, General Manager  
*Turku (Åbo)*, Beatrice Ramström, General Manager  
*Parainen (Pargas)*, Jan-Peter Pomrén, Branch Director  
*Vaasa (Vasa)*, Lars Lönnblad, General Manager

## INVESTMENT BANKING DIVISION

Peter Grönlund, Managing Director, Head of Division  
*Processes For Customer Advisory Services*, Ola Sundberg

*Equities*, Tomas Storgård, Department Manager  
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