BANK OF ÅLAND
Say yes to a richer life

Annual report 2007

The Bank of Åland works to help people in Finland to achieve a richer life. We are proud of our background and our contributions to the development of the Åland community.

We are a personalised, knowledgeable and creative relationship bank that generates value for private individuals and their companies by building long-term, personal customer relationships.

How we work

- We are forward-looking and always seek creative solutions.
- We delegate responsibility and authority.
- Our operations are governed by clear objectives and hands-on leadership.

Our core values

- We communicate directly and honestly.
- We treat each other with respect.
- We aim at profitability in everything we do.

We believe in the strength of good relationships

Contents

Group highlights, Bank of Åland Plc

BANK OF ÅLAND GROUP	2007	2006
EUR M		
INCOME STATEMENT IN BRIEF		
Net interest income	39.3	32.7
Other income	36.3	29.3
Expenses	-46.0	-40.9
Loan losses	-1.0	0.0
Net operating profit	28.6	21.1
SELECTED BALANCE SHEET ITEMS, DECEMBER 31		
Lending	2,104	1,912
Deposits, including bonds issued	1,891	1,599
Equity capital	135	122
Total assets	2,592	2,189
FINANCIAL RATIOS		
Return on equity after taxes, %	16.4	13.3
Equity capital per share, EUR	11.54	10.68
Earnings per share after taxes, EUR	1.75	1.29
Risk-based capital ratio, %	12.8	13.8
Number of employees (total hours worked, recalculated as full-time equivalents)	470	437

FINANCIAL INFORMATION ON THE BANK OF ÅLAND

The Bank of Åland will publish the following Interim Reports during the 2008 financial year.
– The January–March Interim Report will appear on Monday, April 28, 2008
– The January–June Interim Report will appear on Monday, August 25, 2008
– The January–September Interim Report will appear on Monday, October 27, 2008

These Interim Reports will be published on the Internet: www.alandsbanken.fi
They can also be ordered from: info@alandsbanken.fi or
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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 27,000 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 2007, the middle rate for EUR 1 was USD 1.3705.

"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), and K means thousand(s). Finnish-language place names are sometimes followed in parentheses by the corresponding Swedish-language place name.

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Report on 2007 operations

Foreword by The Managing Director

DURING 2007 OUR OPERATING ENVIRONMENT WAS CHARACTERISED BY RISING INTEREST RATES IN THE EURO ZONE AND BY THE "SUB-PRIME" MORTGAGE CRISIS

Euro interest rates (3-month Euribor) rose all year, and at the end of 2007 they were nearly one percentage point higher than on January 1. Meanwhile, US dollar interest rates were stable for the first half of the year. Then came a brief upward surge, after which US interest rates began to fall rapidly as a consequence of the financial crisis that emerged in the American home mortgage market. Another result of this interest rate trend was that the dollar weakened against the euro and other currencies.

The above-mentioned financial market crisis turned out to be significantly deeper than people initially thought. At this writing, losses to financial institutions are estimated at more than USD 100 billion. Finnish credit institutions largely appear to have escaped losses.

One consequence of the crisis was that market liquidity vanished and credit institutions found it hard to refinance their obligations in the market. Central banks in Europe and the US were forced to pump in large sums to keep the markets from collapsing. This will hopefully lead to higher lending margins.

As a result of the crisis, we decided to become even more open in our information to shareholders and the market: In our Interim Report for January-September 2007 we published our most important holdings of securities. This was necessary in order to show that the Bank of Åland was not affected by the crisis.

In this report on our operations, for the first time we are presenting an extensive examination of the Bank's internal capital adequacy assessment process. This examination shows that we have a sound capital base, which is extremely important considering current events and for the future. The Bank of Åland is a small bank and we need to have the financial strength that a robust capital base provides.

The Bank of Åland Group's earnings developed very favourably. Consolidated net operating profit reached EUR 28.6 M, the best ever. The entire Group contributed to these good earnings through solid efforts all round, while we also benefited from higher interest rates.

Bank of Åland shareholders also enjoyed a rising share price. Series A shares reached their highest level on October 9 (EUR 38.35), and Series B shares peaked on December 28 (EUR 28.90).

During 2007 very large efforts were required in order to adapt the Bank to the many regulations that are constantly being added. Particularly noteworthy are the above-mentioned internal capital adequacy assessment, the Basel 2 regulations, the Markets in Financial Instruments Directive (MiFID) which went into effect on November 1 and the Single European Payment Area (SEPA). The Bank's risk management is described in detail in a separate chapter.

In addition, the Finnish Financial Supervision Authority has issued various standards that affect the division of labour between the Executive Team and the Board of Directors. One consequence is a significant increase in the work of the Board, with individual Board members facing ever increasing demands.

The Bank's management is experiencing a generational shift early in 2008. In March 2007, I announced to the Annual Meeting that I intended to retire during the autumn of 2007. The autumn was long, and I left the Bank of Åland on February 29, 2008, having served the Bank for more than 30 years. Executive Team members Lars Donner and Jan Tallqvist are also leaving the Bank during the spring of 2008.

On December 21, 2007, the Bank's Board of Directors appointed Peter Wiklöf the new Managing Director. He has worked in the Group for more than 15 years, performing various assignments, most recently as Managing Director of our subsidiary Crosskey Banking Solutions Ab. I wish Peter Wiklöf good luck and success in his job and in life.

I would also like to thank all customers, employees, colleagues and business partners as well as the shareholders and the Board for all the years I have had the pleasure of working together with you. You are the ones who made my job interesting and challenging, and who have filled it with satisfaction and substance.

Peter Grönlund

Successful ship finance exports

"THERE IS A CLEAR NEED FOR A SMALL NICHE PLAYER AMONG THE MAJOR NORDIC SHIPPING BANKS," SAYS DAN-ERIK WOIVALIN, HEAD OF THE ÅLAND DIVISION, REFERRING TO THE JOINT SUCCESSES OF THE BANK AND THE ALANDIA INSURANCE COMPANIES IN THE SWEDISH SHIPPING MARKET.

While 2007 was largely dominated by the global financial market crisis, the crisis served as an opportunity for the Bank of Åland, among others.

"The crisis provided business opportunities for liquid niche banks," Mr Woivalin says.

Transparency required

The Bank of Åland has stuck to its traditionally cautious approach, not compromising on its careful risk assessment. This is why the Bank has focused on small and medium-sized shipping companies whose operations are more transparent.

"If we are going to provide financing, the management of the shipping company has to be very familiar with the practical and operational work on board each one of its vessels," Mr Woivalin notes.

Well prepared for major projects

During 2007 the Bank of Åland nevertheless developed the capability to participate in major financing projects. In such cases it acts as a partner in a syndicate.

"One possibility is that, together with one or more shipping banks, we form a syndicate to jointly support a major project. During 2007 we developed these contacts, so that we can act quickly when the opportunity arises," Mr Woivalin says.

Focusing on safe financial investments

"THE BANK OF ÅLAND IS PERCEIVED AS A SAFE ALTERNATIVE. THIS WAS ALSO TRUE IN 2007, WHEN THE SUB-PRIME CRISIS RAVAGED THE WORLD'S CAPITAL MARKETS," SAYS STEFAN TÖRNQVIST, MANAGING DIRECTOR OF ÅLANDSBANKEN ASSET MANAGEMENT.

The figures convey a clear message. Ålandsbanken Asset Management had its best year ever in 2007. "During the year we were able to help many new customers, and we saw a big surge in our portfolio volume. Our successful concept was to concentrate on market opportunities," Mr Törnqvist says.

A sustainable strategy

At the same time, he notes, the strategy that Ålandsbanken Asset Management established in 2000 was and still is successful. "Our motto is and remains, 'Ride the upswings and try to preserve capital in the downswings.' When we follow this rule, we get satisfied customers. And satisfied customers recommend us to new customers."

To customers, this motto means their portfolio should perform well even though the market may fluctuate up and down in the short term, as during 2007.

"We have an experienced team that makes sure each customer has a portfolio suitable to his or her risk tolerance," Mr Törnqvist says.

Capital guarantee for eleven years

Asset Management has also worked with the Bank of Åland's equity index bonds, a strategic investment product for the Group.

"For many customers, the shaky stock market has served as a useful reminder of the importance of the capital guarantee," says Ola Sundberg, product manager for equity index bonds at the Bank.

The Bank of Åland has offered equity index bonds for eleven years, reporting record-high volume in 2007. One reason for this record is the Bank's long experience of structured products, which persuaded Tapiola Bank to offer them to its customers as well.

Well-oiled machinery

The process surrounding equity index bonds has been fine-tuned over the years. Today the development process occurs on an interactive basis within the Group.

"Sometimes our branch offices let us know what kinds of investment themes awaken an interest among our customers. We have smooth collaboration with Asset Management, which participates in the entire process before each bond issue: Choice of the investment theme, product structure, option procurement and employee training sessions," Mr Sundberg explains.

At all times, the Group has been able to quickly plan and present new equity index bonds. "The timetables are extremely tight, but a small and efficient organisation can cope with the challenge," Stefan Törnqvist notes.

Premium banking surprises customers

PREMIUM IS A SERVICE THAT MAKES CUSTOMERS SEND IN ENTHUSIASTIC THANK-YOU LETTERS. "OF COURSE WE'RE PLEASED. PREMIUM IS STILL A UNIQUE CONCEPT AMONG FINNISH BANKS," SAYS GENERAL MANAGER ANNE-MARIA SALONIUS.

The Premium banking package includes both financial and lifestyle-related services. The latter services are the main ones that surprise customers. One concrete example is when Premium's Concierge Service is able to arrange hard-to-find event tickets for customers.

"During 2007, for example, we arranged tickets to the Eurovision Song Contest and a Metallica concert. Being able to provide our customers with such treats is of course only a small part of our service, but it's an important part," says Ms Salonius.

International service

The Concierge Service has surprised many people. Wherever in the world a customer is, he or she can turn to the Concierge Service to get help with bookings, sightseeing tips and much more.

"Premium is a service that most people don't expect from a bank. But it has been useful to many of our customers. That is probably the reason why so many of them send in thank-you letters after having used the Concierge Service," Ms Salonius says.

Premium attractive in Åland

In Åland, too, more and more customers are discovering the advantages of Premium banking, according to Department Manager Birgitta Dahlén.

"We are seeing a clear upturn in the number of Premium customers in Åland. Here they enjoy an appealing mix of local and international services."

Premium's StopService and flexible business hours are examples of services that have been very helpful to many customers.

Ms Dahlén also notes that the social events to which the Bank has invited its Premium customers have attracted large numbers of people. "Last year's high points were probably the play *Maja from the Stormy Island*, our literary evening and our mutual fund investors' forum."

Customers have decided

During 2007 Premium also became part of the Bank of Åland's Private Banking concept – a natural development, according to Ms Salonius.

"It is becoming more common for our customers to choose the full package, which is undoubtedly because they are increasingly deciding that the Bank of Åland should be their long-term banking partner."

Experience has become Crosskey's trump card

CROSSKEY BANKING SOLUTIONS, A SUBSIDIARY OF THE BANK OF ÅLAND, IS GOING FROM STRENGTH TO STRENGTH. DURING 2007 THE S-BANK ADOPTED CROSSKEY'S TECHNICAL PLATFORM, WHILE TAPIOLA BANK CHOSE TO BUY A LARGE PART OF CROSSKEY'S CAPITAL MARKET SYSTEM.

"There is no doubt that our strategy is right and that Crosskey is a market player to reckon with," says Managing Director Peter Wiklöf.

The launch of S-Bank, owned by Finnish retailing cooperative SOK, was the year's big challenge for Crosskey. With 1,500 "supermarket" branches, S-bank has the largest network of banking offices in Finland.

"S-Bank was a major project. But at the same time, we should remember that today Crosskey's experts have unique competency and experience. All processes have been fine-tuned, and roles have been clarified. As long as the time frame is realistic, Crosskey delivers what we have promised," Mr Wiklöf maintains.

Major harmonisation efforts

Concurrent with its customer projects, Crosskey is working to refine its technical platform, a task that has included major efforts at harmonisation with systems elsewhere around Europe.

Crosskey's banking system is now one of the first in Europe to be adapted for the Single European Payment Area (SEPA). Other major harmonisation projects are Basel 2 and the Markets in Financial Instruments Directive (MiFID).

Company attracting experts

Meanwhile Crosskey's staff continues to grow. At this writing the company has about 150 employees, which represents an increase of 80 employees during a three-year period.

"Of course we are pleased that Crosskey is such an attractive workplace that we are drawing highly capable people from Åland, the Finnish mainland and Sweden," Mr Wiklöf says. He continues:

"Certainly one reason why we are considered an exciting employer is that we deliver a broad range of solutions: everything from Internet, debit, credit and capital market services to advanced communication solutions and hosting."

Private Banking now reaches more customers

IN 1982 THE BANK OF ÅLAND LAUNCHED ITS PRIVATE BANKING CONCEPT IN HELSINKI. NOW THIS EXPERTISE IS SPREADING FROM THE BULEVARDI OFFICE TO THE BANK OF ÅLAND'S OTHER OFFICES.

"Obviously we should convey to others our 25 years of experience and the high level of service that Private Banking stands for," says Investment Director Merja Simberg.

During the past year the Private Banking concept has been expanded, and today it also includes asset management and the Bank's Premium service. In this way, customers receive the most comprehensive service possible.

A careful analysis

As for asset management, the Bank has primarily refined the process surrounding its initial assessment of each customer's wishes and needs.

"This assessment is systematic but not overly strenuous for the customer. Instead it serves as an excellent starting point so we can become better acquainted, then jointly make good investment decisions," Ms Simberg explains.

Adding the Bank of Åland's Premium service to the Private Banking concept was an obvious choice from the beginning. "Since its launch in 2003, the Premium service has grown steadily among the same category of customers who feel that they need Private Banking. It was like putting together two matching Lego pieces."

Relationship banking is the base

In Åland a slightly more open version of the Private Banking concept has been placed in service. Given the Bank's large market share in Åland, it is clear that customer needs are more highly varied. Department Manager Mikael Mörn describes the concept as three layers on top of each other.

"Our long-term customer relationships are the base we stand on. Then we build advisory services and asset management on top of that. If, for example, a customer also feels that he or she wants to add Premium service, that is easily done," Mr Mörn explains.

He foresees a steady increase in demand for structured advisory services in Åland and believes that the Bank of Åland has a clear competitive advantage.

"In a prosperous community like Åland, there is a growing need for financial advisory services. The Bank of Åland is a large market player, but we have close relationships with our customers and can offer them high accessibility."

Exciting growth

Merja Simberg notes that there are two reasons why the Private Banking service faces an excellent future. "The first is the Bank of Åland's employees. Everyone who works with asset management and development of Premium banking has long experience, and they work closely with each other. The second reason is our customers: They demand high standards, while remaining personally involved. This combination guarantees exciting growth."

Rapid expansion at Veranta

THE VERANTA ESTATE AGENCY COMPANY IS AIMING HIGH. DURING 2008 IT IS OPENING OFFICES IN ALL LOCATION ON THE FINNISH MAINLAND WHERE THE BANK OF ÅLAND HAS OFFICES.

Since the autumn of 2007, Ålandsbanken Veranta Ab has provided service to the Bank's customers who want to buy or sell residential property in the Helsinki region. This has worked out very well.

"Veranta handles high-quality properties, and its customer segment is identical with the Bank's. Our customers receive genuinely comprehensive service," says Head of Division Pekka Nuutinen.

Conveniently close

The company's expansion in the capital region is already under way. During the spring of 2008 Veranta is also establishing a presence near the Bank's offices in Tampere and Turku. This autumn, it will be the turn of Vaasa.

"Having Veranta close to each Bank office makes things convenient for both the customer and ourselves," Mr Nuutinen says.

In his view, by acquiring a majority stake in Veranta, the Bank of Åland killed two birds with one stone.

"The Basel 2 regulations require higher standards in the process of appraising a property, and now that part has been taken care of. Meanwhile the acquisition provides the Bank with another source of income."

The Bank's EU harmonisation:

Big steps forward on a long road

WHAT IS NEEDED IN ORDER TO CARRY OUT THE BANK OF ÅLAND'S HARMONISATION WITH EUROPEAN UNION REGULATIONS? ANSWER: PATIENCE, EXPERTISE AND A SENSE OF PRIORITIES .

The European Union has been enacting a number of banking directives, probably more than ever before. The harmonisation of the banking system with each directive requires extensive time and resources.

"The European credit and finance market is undergoing some really major changes," says Head of Division Lars Donner.

Preserving flexibility

Put simply, such directives as Basel 2, MiFID and SEPA disregard the size of a bank. The challenge is to set priorities and to implement the portions of these regulations that are relevant to the Bank of Åland.

"To enable the Bank of Åland to preserve its flexibility – one of our most important competitive advantages – we follow the proportionality principle. Every action that we perform must be adapted to our size," Mr Donner notes.

New methods benefit the Bank

At the beginning of 2007, the Bank adopted the Basel 2 "standardised approach" in assessing the Bank of Åland Group's capital adequacy. This new assessment method benefits the Bank of Åland.

"Among other things, this is because of the Bank's comparatively large share of residential mortgage lending and because such financial collateral as equities and bonds affects capital adequacy in a positive direction," explains Department Manager Bernt-Johan Jansson.

He is also pleased with the Bank's progress in the task of implementing internal rating-based (IRB) models for lending to private individuals and companies.

"We are continuing to fine-tune our internal risk models. There is a long way still to go, but fortunately we have dedicated employees, and our know-how on these issues is continuously increasing."

High ambitions

Those who familiarise themselves with what is concealed behind the Basel, MiFID and SEPA concepts come to a simple conclusion: Hidden behind these complex regulations is the ambition to increase the transparency of the banking system, improve banks' risk management and enhance customer service.

"It is a strong motivating factor to keep on working, when we know that in time both our customers and shareholders will see concrete advantages," says Deputy Managing Director Edgar Vickström, who has also assumed overall responsibility for the Bank's risk reporting.

Report of the Directors

Report of the Directors

Earnings summary for the report period

Strong growth in traditional banking operations, combined with continued success in asset management and mutual fund operations, are the reasons behind the Bank of Åland Group's best-ever earnings.

During January-December 2007, consolidated net operating profit of the Bank of Åland Group rose by 36 per cent to EUR 28.6 M (21.1). This positive earnings trend was due to sharply improved net interest income and higher income from mutual fund and asset management. Also affecting the year's earnings were capital gains and increases in the value of financial assets as well as repayment from the Security Fund of the Commercial Banks.

Income increased by 22 per cent to EUR 75.4 M (61.6), while expenses increased by 13 per cent to EUR 46.0 M (40.9). Return on equity after taxes (ROE) rose to 16.4 (13.3) per cent, and earnings per share after taxes increased to EUR 1.75 (1.29).

Net interest income

During the report period, consolidated net interest income increased by 20 per cent to EUR 39.3 M (32.7). Higher interest rates and larger volume of both deposits and lending improved net interest income, even though the lending margin continued its negative trend during 2007. Lending volume increased by 10 per cent to EUR 2,104 M (1,912), and deposit volume increased by 18 per cent to EUR 1,891 M (1,599).

Other income

Commission income rose by 10 per cent to EUR 20.3 M (18.4). Income on mutual fund and asset management as well as securities brokerage increased due to higher trading volume and larger managed assets.

Net income from securities trading for the Bank's own account was EUR 3.3 M (1.2). Net income from dealing in the foreign exchange market was unchanged at EUR 1.0 M (1.0). Net income from financial assets available for sale was EUR 1.1 M (0.3), and net income from investment properties rose to EUR 0.6 M (0.2).

Other operating income also increased, to EUR 11.9 M (9.4), due to rising income from the sale and development of information technology (IT) systems. In addition, other operating income improved due to a repayment of EUR 1.4 M from the Security Fund of the Commercial Banks.

The Group's total income rose by 22 percent to EUR 75.4 M (61.6)

Expenses

Staff costs rose by 16 per cent to EUR 26.2 M (22.5), due to employee recruitment and salary increases as well as spending on proficiency-enhancement programmes in the Group. Changes in the fair value of assets in the Bank's pension fund, Ålandsbanken Abp:s Pensionsstiftelse, reduced staff costs by EUR 0.4 M (0.2). During the report period, the Group allocated EUR 0.2 M for distribution to the Bank of Åland Personnel Fund (0.0).

Other administrative expenses (office, marketing, communications and IT) increased to EUR 10.3 M (9.4). Production for own use totalled EUR 1.0 M (0.5) and was related to expenses for computer software, which in accordance with IFRSs must be capitalised. Depreciation/amortisation increased to EUR 4.9 M (4.0). Other operating expenses amounted to EUR 5.6 M (5.4).

The Group's total expenses rose by 13 per cent to EUR 46.0 M (40.9).

Impairment losses on loans and other commitments

Loan losses amounted to EUR 1.0 M (0.0).

Earnings structure

Bank of Åland Group	2007	2006
EUR M		
Banking operations	21.7	17.1
IT operations	2.9	4.2
Other (treasury, portfolio management)	3.9	-0.3
Net operating profit	28.6	21.1

Balance sheet total and off-balance sheet obligations

At the end of 2007, the Group's balance sheet total amounted to EUR 2,592 M (2,189). During the report period, the Group issued bond loans to the public in a nominal amount of EUR 69 M.

Off-balance sheet obligations decreased to EUR 168 M (170).

Personnel

Hours worked in the Group, recalculated to full-time equivalent positions, totalled 470 during 2007 (437). This represented an increase of 33 positions compared to the preceding year.

	2007	2006
Bank of Åland Plc	308	295
Ab Compass Card Oy Ltd	4	0
Crosskey Banking Solutions Ab Ltd	130	117
Ålandsbanken Asset Management Ab	13	13
Ålandsbanken Fondbolag Ab	8	7
Ålandsbanken Kapitalmarknadstjänster Ab, until September 30, 2007	5	5
Ålandsbanken Veranta Ab	2	0
Total number of employees:	470	437

Profit margin

Profit margin calculated as net operating profit minus standard tax as a percentage of total income. The profit margin of the Bank of Åland Group rose to 27.3 per cent from 24.5 per cent.

Expense/income ratio

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

Bank of Åland Group	2007	2006
including loan losses	0.62	0.66
excluding loan losses	0.61	0.66

Capital adequacy

The Group is reporting capital adequacy in accordance with Pillar 1 in the Basel 2 regulations. According to Pillar 1 of Basel 2, the Group's total capital ratio at the end of December 2007 was 12.8 per cent. The capital requirement for credit risks is being calculated according to the standardised approach, and the capital requirement for operational risks is being calculated according to the basic indicator approach in the Basel 2 regulations. Risk management under Pillar 2 will be reported in the Annual Report for 2007.

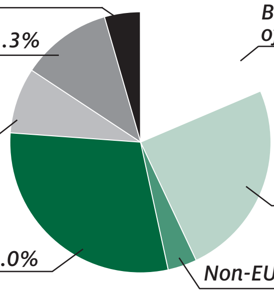
Bank of Åland Group	Dec 31, 2007	Dec 31, 2006
Capital base, EUR M		
Core capital	103.3	88.3
Supplementary capital	51.3	53.4
Total capital base	154.6	141.7
Capital requirement for credit risks	88.5	74.9
Capital requirement for operational risks	8.0	7.3
Total capital requirement	96.5	82.2
Total capital ratio, %	12.8	13.8
Core capital ratio, %	8.6	8.6

The main reasons for the difference between the capital base and recognised equity capital are that subordinated liabilities may be counted in the capital base and that the proposed dividend may not be included in the capital base.

Deposits

Deposits from the public, including bonds and certificates of deposit issued, continued to increase during the 12 months to December 31, 2007 by 18 per cent to EUR 1,891 M (1,599). Deposit accounts increased by 22 per cent to EUR 1,532 M (1,259). Bonds and certificates of deposits issued to the public rose by 6 per cent to EUR 359 M (340). The increase in deposits exceeded the increase in lending by EUR 100 M and contributed to a much-improved balance sheet structure. The sharp increase in deposits shows that the market has great confidence in the Bank in troubled times.

Total deposits, Dec. 31, 2007



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

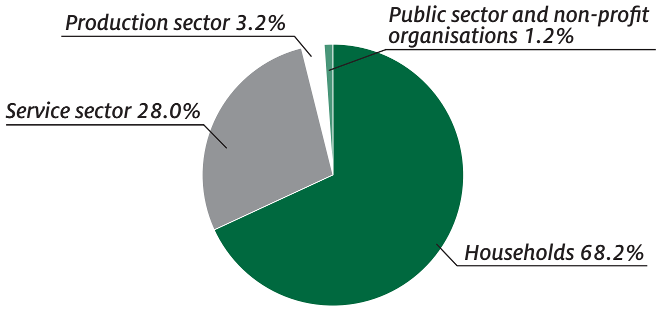
Bank of Åland Group	Dec 31, 2007	Dec 31, 2006
EUR M		
Deposit accounts from the public and public sector entities		
Demand deposit accounts	153	180
Current accounts	213	199
Savings and Environmental Accounts	84	99
Prime Accounts	566	445
Time deposits	449	268
Total deposit accounts in euros	1,465	1,191
Deposit accounts in other currencies	67	67
Total deposit accounts	**1,532**	**1,259**
Bonds and subordinated debentures *	196	180
Certificates of deposit issued to the public *	163	160
Bonds and certificates of deposit	**359**	**340**
Total deposits	**1,891**	**1,599**

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

Lending

The volume of lending to the public during the 12 months to December 31, 2007 rose by 10 per cent to EUR 2,104 M (1,912). Lending to households increased by 6 per cent to EUR 1,434 M (1,347). Households accounted for 68 (71) per cent of the Group's total lending. Lending to the service sector rose by 23 per cent to EUR 589 M (477), while lending to the production sector decreased by 8 per cent to EUR 55 M (60).

Lending to the public by sector



LENDING TO THE PUBLIC AND PUBLIC SECTOR ENTITIES BY PURPOSE

Bank of Åland Group	Dec 31, 2007	Dec 31, 2006
EUR M		
BUSINESS AND PROFESSIONAL ACTIVITIES		
Service sector		
Shipping	97	60
Hotels, restaurants, tourist cottages etc.	12	12
Wholesale and retail trade	57	47
Housing corporations	56	54
Real estate operations	113	96
Finansiell verksamhet	169	126
Other service business	86	83
	589	477
Production sector		
Agriculture, forestry and fishing	20	20
Food processing etc	6	7
Construction	20	22
Other industry and crafts	10	11
	55	60
HOUSEHOLDS		
Home loans	1,113	1,063
Studies	13	14
Other purposes	308	271
	1,434	1,347
PUBLIC SECTOR AND NON-PROFIT ORGANISATIONS	25	27
TOTAL LENDING	**2,104**	**1,912**

Changes in Group structure

In order to further strengthen the Bank of Åland's position in the capital market segment in Åland, Ålandsbanken Kapitalmarknadstjänster Ab has been merged with the Bank of Åland Plc. This merger was completed on October 1, 2007.

During 2007, the Bank of Åland Plc acquired 84 per cent of the estate agency company Veranta Helsinki Oy. The new name of the company is Ålandsbanken Veranta Ab.

New Managing Director

On December 21, 2007, the Board of Directors of the Bank of Åland Plc selected Peter Wiklöf, Master of Laws, age 41, as the Bank's new Managing Director. He assumed his new position on March 1, 2008. Mr Wiklöf succeeded Peter Grönlund, who has retired.

Important events after the close of the financial year

No important events have occurred after the close of the financial year.

Proposed distribution of profit

The Board of Directors proposes that the Annual General Meeting approve a dividend of EUR 1.00 per share, which is equivalent to a total amount of EUR 11.5 M. This is consistent with the Bank's finance policy, in which the dividend as a percentage of consolidated earnings is determined in such a way that over time, it is in line with the standard for other Nordic banks. The purpose is to ensure that retained earnings will be sufficient to allow continued growth in the Group's operations, which requires an increase in equity capital at about the same pace as the growth in business operations. The Group's capital adequacy is expected to fall somewhat during the next few years but remain good. This is a source of strength in an uncertain market climate.

Outlook for 2008

The Group's financial planning assumes unchanged interest rates compared to 2007, a continued positive trend in business volume – especially in asset management operations – and good growth in the Group's IT operations. The cost level in the Group is expected to rise moderately. Competition in the banking market is expected to remain tough and to be affected by international financial market instability. Based on these factors, and taking into account that 2007 earnings included large nonrecurring items, the Group's operating income is expected to be somewhat lower than in 2007.

It should be added that at present, there is great uncertainty in the global financial system, especially with regard to the international banking system. The Bank of Åland is not directly affected by this, but if the situation should further deteriorate, the Bank may be affected indirectly, for example via a general worsening in the economic situation. The outlook for 2008 is thus beset by greater uncertainty than normally.

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

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, and core capital shall amount to at least 7 per cent of risk-weighted volume.

– 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 in 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 Group's Annual Report for 2007 has been prepared in compliance with the International Financial Reporting Standards (IFRSs) approved by the European Union.

FIVE-YEAR GROUP SUMMARY

Bank of Åland Group	2003 FAS	2004 IFRS	2005 IFRS	2006 IFRS	2007 IFRS	% change, 06 – 07
EUR M unless otherwise stated						
Net interest income	29.6	30.0	31.4	32.7	39.3	20.5
Other income	19.8	18.3	20.6	28.9	36.1	24.7
Other expenses (including depreciation/amortisation)	34.4	33.7	33.2	40.9	46.0	12.6
Loan losses	-0.1	0.7	0.3	0.0	1.0	
Andel av intresseföretagens resultat	0.1	0.0	0.2	0.3	0.2	-28.8
Net operating profit	**15.2**	**13.9**	**18.7**	**21.1**	**28.6**	**35.9**
Equity capital	100.9	107.8	113.3	122.2	135.0	10.5
Total assets	1,851.5	1,995.3	2,170.4	2,188.6	2,592.0	18.4
Contingent liabilities	113.6	110.1	145.0	170.4	167.8	-1.6
Return on equity after taxes (ROE), % [1]	11.4	9.9	12.3	13.3	16.4	
Return on total assets, % [2]	0.6	0.5	0.7	0.7	0.9	
Equity/assets ratio, % [3]	5.5	5.4	5.4	5.6	5.2	
Expense/income ratio including loan losses [4]	0.70	0.70	0.64	0.66	0.61	
Expense/income ratio excluding loan losses [5]	0.69	0.71	0.64	0.66	0.62	
Risk-based capital ratio, % [6]	11.4	11.8	11.3	13.8	12.8	

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

6 2003 – 2005 in compliance with Basel 1, 2006 – 2007 in compliance with Basel 2 regulations.

The Bank's corporate governance

GENERAL

The Helsinki Stock Exchange's recommendation concerning corporate governance in publicly listed companies went into effect in 2004 and was adopted by the Bank's Board of Directors the same year. 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.

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

Göran Lindholm, born 1955, Chairman
Master of Laws
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. He is also a Deputy Member of the Åland Delegation.

Leif Nordlund, born 1959, Deputy Chairman
Master of Laws
Board member since 2003

Leif Nordlund, Board member, was appointed Managing Director of Redarnas Ömsesidiga Försäkringsbolag, parent company of the Alandia Group of insurance companies, and Managing Director of its subsidiaries Försäkrings AB Alandia and Försäkrings AB Liv-Alandia in 2006. During the years 2001–2006, Mr Nordlund served as Director and Department Manager of Alandia Marine, the marine insurance unit of the Alandia Group. He 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 all companies in the Alandia Group. Mr Nordlund is also a member of the Ocean Hull Committee of the International Union of Marine Insurers.

Sven-Harry Boman, born 1944
Master of Economic Sciences
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, Ålands Investerings Ab and Andelslaget Ålands Grönsakslager and is a Board member of Goodtech MR 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 a Board member 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
Associate Professor
Director of AICIS
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 was in charge of the Masters programme in Strategy, Organisation and Leadership as well as International Marketing and Management at Copenhagen Business School, Denmark; served as Project Leader, Executive MBA, Norwegian School of Management; and was Dean of the international MBA study programme in Oslo at the same institution from 1999 to 2002. Her research work has resulted in a number of publications in the fields of strategic development, business development and organisational 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 she was named Teacher of the Year, first at the University of Lund, and later at all Master's programmes in business administration in Sweden. In 1994 she received the same award at Copenhagen Business School.

Today Professor Karlsson is Director of the Åland International Institute of Comparative Island Studies (AICIS), a business-sponsored and internationally oriented research institute. A complete curriculum vitae (in Swedish) is available on the Bank's web site, www.alandsbanken.fi.

Teppo Taberman, born 1944
Master of Science in Economics
Board member since July 1, 2007

Teppo Taberman, Board member, has worked since 1995 as a financial advisor and professional Board member.

Mr Taberman has a background as Executive Vice President of Kansallis-Osake-Pankki (KOP) from 1984 to 1994 and in a similar capacity at Bank of Helsinki from 1972 to 1984. He has also served as systems manager at Bank of Helsinki and as a salesman at Oy International Business Machines Ab. Mr Taberman is a Board member of Lemminkäinen Oyj, Ingman Foods Oy Ab, Rettig Oy Ab, Ray & Berndtson Oy, Larox Oyj and SKS-Group Oy.

Anders Wiklöf, born 1946
Commercial Counsellor
Board member since 2006

Anders Wiklöf, Board member, has been active as a business owner since 1969. He has been Chairman of Wiklöf Holding Ab since 1987. Since 1991 he has been a member of the Supervisory Board of the insurance company Ålands Ömsesidiga Försäkringsbolag, including 1998–2002 as Chairman and since 2003 as Vice Chairman.

Mr Wiklöf was a member of the Supervisory Board of the Bank of Åland in 1983–2003, including 2001–2003 as Chairman.

Mr Wiklöf is a member of the Council of the Åland Foundation for the Future of the Baltic Sea (Baltic Sea Foundation).

Tom Palmberg, born 1940
Master of Social Sciences,
Chartered Director (IOD, London)
Board member from 2003 until June 30, 2007. Mr Palmberg resigned after having reached the retirement age for the Bank's Board members.

Tom Palmberg, Board member, performs advisory work on corporate governance through his own company CV Board Oy Ab (established in 1988), He is Chairman of the Board of Eira Sjukhus och Läkarstation Ab, Chairman of the Advisory Board of Intervalor AB, Helsinki and a Board member of Halva Oy Ab.

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 1980–1981, as Head of the Corporate Division in

1976–1979 and as Head of Branch Administration and the Planning Division in 1972–1975.

Mr Palmberg has served as Chairman of Hallitusammattilaiset ry (Finnish Board Professionals) since its establishment in 2001. He has also been a Board member of the Brussels-based European Confederation of Directors Associations (ecoDa) since 2006.

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 2007, a total of EUR 112,910 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. Taking into account that Anders Wiklöf, member of the Board, personally and via his companies owns more than 10 per cent of all of the Bank's shares or total voting power, Mr Wiklöf is not to be regarded as independent in relation to major shareholders either.

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

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 2007 the Board of Directors met 14 times. Average attendance by members at Board meetings was 94.9 per cent.

The Board's committees and working groups

In order to more effectively prepare the items of business that the Board of Directors is responsible for, the Board has established an Audit Committee and a Nomination Committee.

Audit Committee

Rules of procedure

The Audit Committee shall assist the Board in handling its monitoring tasks concerning internal control systems and risk management, reporting, the audit process and compliance with laws and regulations.

Composition

Appointed as members of the Audit Committee were Board members Sven-Harry Boman, Leif Nordlund and Tom Palmberg (until June 30, 2007)/Teppo Taberman (from July 1, 2007). All members are independent of the Bank. Mr Boman is Chairman of the Audit Committee.

Nomination Committee

Rules of procedure

The main task of the Committee is to make effective preparations before each Annual General Meeting concerning the election of members of the Bank's Board of Directors and their remuneration.

Composition

Appointed as members of the Nomination Committee were Göran Lindholm, Chairman of the Board, and Leif Nordlund and Anders Wiklöf, Board members, plus Jesper Blomsterlund, who represents the ownership group around Rafael Mattsson. Mr Nordlund is Chairman of the Nomination Committee.

MANAGING DIRECTOR

General

The Managing Director is appointed by the Bank's Board of Directors. In 2004, Peter Grönlund, Master of Business Administration, born 1948, assumed the post of Managing Director of the Bank. He stepped down on February 29, 2008.

At its meeting on December 21, 2007, the Bank's Board of Directors appointed Peter Wiklöf, Master of Laws, born 1966, as the new Managing Director of the Bank. Mr Wiklöf has been an employee of the Bank since 1992 and his most recent position has been as Managing Director of the Bank of Åland's subsidiary Crosskey Banking Solutions Ab Ltd. He is assuming his new position on March 1, 2008. For a more detailed presentation, see below.

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

Peter Grönlund has held various positions at the Bank of Åland since 1973.

He served as Head of the Investment Banking Division in 2004–2006, 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 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, Ålandsbanken Abps Pensionsstiftelse, Crosskey Banking Solutions Ab, Ab Compass Card Oy Ltd, Air Åland Ab, Chipsters Ab and Chipsters Food Ab, as well as a Board member of Chips Ab.

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 22,000 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 of other remuneration

In accordance with his employment contract, the Managing Director has been granted severance pay equivalent to six (6) months of salary.

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 Division 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 and Member of the Executive Team from 2004 until February 29, 2008
Master of Business Administration
Managing Director from 2004 until February 29, 2008

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

Peter Wiklöf, born 1966
Chairman and Member of the Executive Team since March 1, 2008
Master of Laws
Managing Director since March 1, 2008

Peter Wiklöf has held various positions at the Bank of Åland since 1992. In 1992–1995 he worked as a lawyer and Department Manager at the Bank's Customer Advisory Service. During 1995–1999 Mr Wiklöf also served as an Assistant and later as the regular Assistant to Division

Management in the Bank's Branch Office Division. In 2000–2004 he was the Bank's head of business development, a position he held until 2004 when he was appointed Managing Director of the Bank's subsidiary ÅAB Data Ab, later renamed Crosskey Banking Solutions Ab Ltd. Mr Wiklöf also served as superintendent of the criminal investigation department at the Åland Police Authority in 1991–1992.

Peter Wiklöf is a Board member of P24 Media Ab and S-Crosskey Ab

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, Ab Compass Card Oy Ltd and Åland Investerings Ab, as well as Chairman of the Board of the Åland Chamber of Commerce.

Lars Donner, born 1948
Bachelor of Arts
Member of the Executive Team
from 2003 until February 29, 2008

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.

Tove Erikslund, born 1967
Master of Business Administration
Member of the Executive Team
since 2006

Since 2006, Tove Erikslund has been Head of Human Resources for the Group and Human Resource Department Manager. During 2000–2005 she worked as a project manager at the Business Development Department and during 1995–2000 at the Åland Tourism Board.

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. From 1998 to 2007, Mr Nuutinen worked as General Manager of the Corporate Unit in Helsinki. During 1996–1997, he worked as head of funding in the same unit.

From 1985 to 1996 Pekka Nuutinen worked in various positions at Kansallis-Osake-Pankki (KOP), including management positions during the period 1988–1996. Mr Nuutinen is a Board member of Ålandsbanken Asset Management Ab and Ålandsbanken Veranta Ab.

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.

Mr Tallqvist is a Board member of Ålandsbanken Asset Management Ab 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 972,361 during 2007. The members of the Executive Team enjoy free automobile benefits and generally applied employee benefits in the Bank.

The credit committee and credit committee II of the Executive Team

The Executive Team has appointed two credit committees, which are entrusted with acting as decision-making bodies on certain specified credit matters: The Executive Team's credit committee and credit committee II.

The Executive Team's credit committee makes decisions on all credit matters that exceed the limit of credit committee II (EUR 1.7 M). If the Executive Team's credit committee is prevented from meeting, the credit matter is transferred to the Executive 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.

Credit committee II handles credit matters that exceed the authority of an individual decision-maker. It also grants credits to individuals who have personal limits for granting credits, Heads of Division, Department Managers, Branch Office Directors and Regional Managers.

Meetings

During 2007, the Executive Team met 26 times.

INCENTIVE SYSTEM

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

The Managing Director and the members of the Executive Team are not included in incentive systems in the Bank other than the Personnel Fund (see below).

Personnel Fund

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. The Personnel Fund was established in January 2005 and encompasses all employees who belong to the operative entirety of the Group, including the Managing Director and the Executive Team.

The basis for calculating the profit bonus is adopted yearly by the Bank's Board of Directors, but any profit bonus that is payable to personnel, including other incentive systems in the Group, may not exceed three per cent of the Group's net operating profit for each respective accounting period.

The calculation basis for 2007 was 20 per cent of the amount in excess of a predetermined target budget, which resulted in an allocation of EUR 248,500 to the Personnel Fund. The calculation basis for 2008 is the same as for 2007.

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 81,223 including value-added tax (VAT) were paid. The Auditors were also consulted on matters concerning IAS/IFRS, Basel 2 IRB, operational risk management as well as VAT and other taxes. As fees for these services, EUR 134,618 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.

Risk management in brief

The Bank of Åland Group's ambition is to pursue its operations with reasonable and carefully considered risks. The profitability of the Group depends on the ability of the organisation to identify, manage and price risks. The purpose of risk management is to reduce the probability of unforeseen losses and/or threats to the reputation of the Group as well as to contribute to higher profitability and increased shareholder value. The Group is exposed to credit risk, liquidity risk, market risk and operational risk. Its business also carries operational risks.

Business risk is a function of the Bank's focus and structure and of the environment and market the Group operates in. Business risk is managed in conjunction with strategic planning.

Risk management includes all activities for identifying, measuring, reporting and controlling risks. The cornerstone of risk management is the Bank of Åland's policy documents, 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 managing risks associated with its own operations.

The Board of Directors has overall responsibility for ensuring that the Group's risk management is sufficient and for establishing systems and regulations for monitoring and limiting the Group's risk exposure. The Managing Director oversees and supervises business operations in accordance with the Board's instructions, is responsible for day-to-day administration and for ensuring that the members of the Board receive sufficient information regularly about the regulations and the risk control systems that affect the Group and its administration and operations at all times.

The Risk Control Department is responsible for overseeing credit risks and operational risks. Treasury-related risks are monitored and followed up by the Middle Office Department. Each department is independent of risk-taking and risk management. Risk management is audited by the Internal Auditing Department, which evaluates both the sufficiency of risk management and compliance with rules.

According to the revised capital adequacy regulations known as Basel 2, financial institutions should have a process for assessing the need for capital to cover all principal quantitative and qualitative risks in their operations.

The Basel 2 regulations are based on three "pillars". In Pillar 1, the minimum capital adequacy for credit risk, market risk and operational risk Pillar 2 includes the requirements for each institution's internal capital adequacy assessment process (ICAAP) where the calculation of capital concerns such risk categories and sub-areas not included in Pillar 2. Pillar 3 concerns each institution's obligation to disclose sufficient information about its business risks and their management to enable the market – represented by borrowers, depositors, investors and shareholders – to make soundly based, rational decisions.

According to Pillar 2, the Group must assess capital adequacy and capital evaluation in proportion to the material risks to which it is exposed in its business and due to major changes in its surroundings. Capital adequacy must be assessed in a broader perspective than merely meeting the capital requirements for credit risks, market risks and operational risks embodied by Pillar 1.

Method used for Pillar 1

The Group uses simple methods to assess capital adequacy within Pillar 1 – for credit risks, the standardised approach; for operational risks, the basic indicator approach. The rules for exemption of small trading book positions are being applied, which means that no capital is calculated for the trading book.

Method used for Pillar 2

The Group's operations are neither extensive nor complex, and they take place mainly in Finland. At present, the Group uses no economic capital model or any other quantitative model. Based on these criteria, the Group regards its operations as classified according to the Finnish Financial Supervision Authority's definition of small institutions.

Method used for Pillar 3

The Group discloses capital adequacy information about its risks and their management in the Annual Report. This information is aimed at providing the market with a true and fair picture of the Group's risks and risk control and is verified by the Group's external auditors.

For more detailed information on the Group's risk and capital management, evaluation of capital requirements and capital adequacy information, see "Risk management" on page 41 in the consolidated financial statements.

Facts on Bank of Åland shares

Share capital

The share capital of the Bank of Åland is EUR 23,282,837.26. 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 6,355,212 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

	Share capital, EUR	Number of Series A shares	Number of Series B shares
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
2006	22 657 579.81	5,180,910	6,045,411
2007	23,282,837.26	5,180,910	6,355,212

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 fell due for payment in its entirety on April 2, 2007.

	Issued	Conversions recorded in Finnish Trade Registry, Dec 31, 2007	Redeemed	Remaining
Loan amount in EUR:	16,818,792.65	15,762,572.47	1,056,220.18	0.00
Number of loan certificates:	10,000	9,372	628	0
Equivalent number of Series B shares	1,095,546	1,025,838	69,708	0

During the period January 1, 2007 to December 31, 2007, the remaining 628 loan certificates, equivalent to EUR 1,056,220.18 or 69,708 Series B shares, were redeemed. The remaining principal amount of the capital loan was repaid on April 2, 2007.

Conversion terms

The conversion price per share was EUR 15.13929. Each loan certificate with a nominal value of EUR 1,681.88 could thus be converted into 111 Series B shares. The right of conversion for the loan began on April 2, 1998 and ended on January 31, 2007. The remaining loan certificates were redeemed on April 2, 2007.

Trading in the Bank's shares

During 2007, the volume of trading in the Bank's Series A shares on the Helsinki Stock Exchange was EUR 23.6 M. Their average price was EUR 30.70. The highest quotation per share was EUR 38.35, the lowest EUR 24.31. Trading in Series B shares totalled EUR 14.7 M at an average price of EUR 25.96. The highest quotation was EUR 28.90, the lowest EUR 23.90.

On December 31, 2007, the number of registered shareholders was 9,034. There were also 197,923 shares registered in the names of nominees.

THE TEN LARGEST SHAREHOLDERS, DECEMBER 31, 2007

	Shareholder	Series A shares	Series B shares	Total	% of shares	% of votes
1	Alandia-Bolagen (insurance group)	733,886	325,145	1,059,031	9.18	13.64
2	Aktia Sparbank Abp (savings bank)	35,000	877,100	912,100	7.91	1.43
3	Ålands Ömsesidiga Försäkringsbolag (insurance group)	612,331	111,960	724,291	6.28	11.24
4	Wiklöf Anders	579,189	90,408	669,597	5.80	10.62
5	Veritas bolagen (insurance group)	177,734	250,026	427,760	3.71	3.46
6	Mattsson Rafael	274,606	15,638	290,244	2.52	5.01
7	Caelum Oy (investment company)	65,340	156,800	222,140	1.93	1.33
8	Palkkiyhtymä Oy (shipping company)	60,000	76,000	136,000	1.18	1.16
9	Invest.bolaget Torggatan 14 Ab (investment company)	92,348	34,974	127,322	1.10	1.71
10	Järsö Invest Ab	92,348	34,974	127,322	1.10	1.71
	The Board of Directors	233,474	91,377	324,851	2.82	4.33

SHAREHOLDERS BY SIZE OF HOLDING

Number of shares	Number of shareholders	Total number of shares held	Average holding
1 – 100	3,873	176,943	46
101 – 1,000	3,984	1,406,836	353
1,001 – 10,000	1,082	2,693,499	2,489
10,001 –	95	7,258,844	76,409
Of which, shares registered in name of nominee		197,923	

SHAREHOLDERS BY CATEGORY

Category	Number of shares	% of shares
Private individuals	5,062,798	43.9
Corporations	2,198,611	19.1
Financial institutions and insurance companie	2,791,616	24.2
Government organisations	475,652	4.1
Non-profit organisations	587,645	5.1
Foreign investors	221,877	1.9
Shares registered in name of nominee	197,923	1.7

BANK OF ÅLAND SHARE DATA

	2003 FAS	2004 IFRS	2005 IFRS	2006 IFRS	2007 IFRS
Number of shares, M [1]	10.94	10.98	10.99	11.25	11.54
Average number of shares, M	10.56	10.98	10.99	11.25	11.54
Earnings per share before dilution, EUR [2]	1.02	0.96	1.24	1.29	1.75
Earnings per share after dilution, EUR [3]	1.00	0.94	1.21	1.29	1.75
Dividend payout ratio [4]	72.2	79.1	58.8	53.2	40.3
Equity capital per share before dilution, EUR [5]	9.22	9.81	10.32	10.68	11.54
Market price per share, balance sheet date, EUR					
Series A	18.65	19.62	24.00	26.50	37.00
Series B	19.10	19.04	24.00	24.50	27.80
Price/earnings ratio [6]					
Series A	18.3	20.4	19.4	20.5	21.1
Series B	18.7	19.8	19.4	19.0	15.9
Effective dividend yield, % [7]					
Series A	5.4	5.1	4.2	3.8	2.7
Series B	5.2	5.3	4.2	4.1	3.6
Market capitalisation, EUR M	206.7	212.1	263.7	285.4	368.4

IFRS

1 Number of shares on balance sheet date

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

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

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

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

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

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
2002	Series A	665	12.8	17.50 – 16.02	16.40
2002	Series B	501	10.2	17.40 – 15.50	16.21
2003	Series A	271	5.2	21.00 – 15.50	18.37
2003	Series B	505	8.8	20.00 – 14.20	17.33
2004	Series A	320	6.2	21.00 – 17.70	18.91
2004	Series B	375	6.5	19.70 – 17.25	18.35
2005	Series A	90	1.7	24.50 – 19.50	21.76
2005	Series B	449	7.7	24.10 – 18.50	20.19
2006	Series A	137	2.6	30.00 – 20.41	27.55
2006	Series B	337	5.6	27.00 – 22.50	24.31
2007	Series A	807	15.6	38.35 – 24.31	30.70
2007	Series B	543	8.5	28.90 – 23.90	25.96

Consolidated balance sheet

(EUR K)

ASSETS	Note	Dec 31, 2007		Dec 31, 2006	
Cash			39,461		65,288
Debt securities eligible for refinancing with central banks	2				
Treasury bills		73,759		44,296	
Other		58,462	132,220	12,790	57,086
Claims on credit institutions	3				
Repayable on demand		4,107		1,355	
Other		148,784	152,891	59,062	60,416
Claims on the public and public sector entities	4, 5		2,103,825		1,912,164
Debt securities	2		49,894		49
Shares and participations	6		3,222		4,161
Shares and participations in associated companies	6		1,576		1,632
Derivative instruments	7		34,045		26,618
Intangible assets	8, 10				
Miscellaneous intangible assets		4,234		3,748	
Goodwill		1,405	5,639	881	4,629
Tangible assets	9, 10				
Investment properties		2,694		2,819	
Properties for own use		16,241		14,961	
Other tangible assets		7,143	26,078	4,796	22,577
Other assets	11		20,628		16,750
Accrued income and prepayments	12		21,276		16,360
Deferred tax assets	13		1,281		885
TOTAL ASSETS			2,592,037		2,188,616

Consolidated balance sheet

(EUR K)

LIABILITIES	Note	Dec 31, 2007			Dec 31, 2006		
Liabilities to credit institutions							
Repayable on demand			3,096			1,587	
Other			50,025	53,121		60,061	61,649
Liabilities to the public and public sector entities							
Deposits							
Repayable on demand		1,069,737			978,827		
Other		462,088	1,531,825		279,681	1,258,508	
Other liabilities			1,822	1,533,647		2,501	1,261,009
Debt securities issued to the public	14						
Bonds			519,997			382,314	
Other			219,044	739,041		238,647	620,962
Derivative instruments				2,969			2,558
Other liabilities	15			39,347			35,068
Accrued expenses and prepaid income	16			20,677			12,219
Subordinated liabilities	17						
Capital loan			0			5,435	
Other			52,231	52,231		54,906	60,341
Deferred tax liabilities	13			16,037			12,642
Total liabilities				2,457,071			2,066,448
Share capital	25		23,283			22,658	
Share issue			0			301	
Share premium account			33,272			29,207	
Reserve fund			25,129			25,129	
Fair value reserve	26		356			418	
Retained earnings			51,092			42,405	
Shareholders' interest in equity capital				133,133			120,118
Minority interest in capital				1,834			2,051
Total equity capital				134,966			122,168
TOTAL LIABILITIES AND EQUITY CAPITAL				2,592,037			2,188,616
OFF-BALANCE SHEET OBLIGATIONS	49						
Obligations to a third party on behalf of customers							
Guarantees and pledges			25,185	25,185		16,196	16,196
Irrevocable commitments given on behalf of customers				142,609			154,246
				167,793			170,442

Consolidated income statement

(EUR K)

	Note	Jan 1–Dec 31, 2007			Jan 1–Dec 31, 2006		
Interest income	27			110,739			74,518
Interest expenses	28			-71,402			-41,863
NET INTEREST INCOME				39,337			32,655
Income from equity investments	29			29			19
Commision income	30			20,282			18,422
Commission expenses	31			-2,026			-1,695
Net income from securities transactions and foreign exchange dealing	32						
Net income from securities transactions			3,256			1,230	
Net income from foreign exchange dealing			964	4,220		1,024	2,254
Net income from financial assets available for sale	33			1,056			305
Net income from investment properties	34			642			244
Other operating income	35			11,865			9,382
Administrative expenses							
Staff costs							
Wages and salaries		21,847			18,524		
Pensions		2,835			2,921		
Other social security costs		1,541	26,222		1,094	22,539	
Other administrative expenses	36		10,294			9,368	
Production for own use			-993	-35,524		-463	-31,444
Depreciation/amortisation and impairment losses on tangible and intangible assets				-4,897			-3,979
Other operating expenses	37			-5,602			-5,441
Loan and guarantee losses	38			-993			35
Share of profit/loss in companies consolidated according to the equity method				245			344
NET OPERATING PROFIT				28,633			21,099
Income taxes	39						
Tax for the year and prior years			4,583			4,709	
Change in deferred tax liabilities/assets			3,015	-7,598		726	-5,435
PROFIT FOR THE YEAR				21,035			15,664
Parent Company shareholders' interest in profit for the year				20,223			14,696
Minority interest in profit for the year				812			969
				21,035			15,664
Earnings per share	41						
Earnings per share before dilution, EUR				1.75			1.29
Earnings per share after dilution, EUR				1.75			1.29

Cash flow statement

(EUR M)

Bank of Åland Group	Jan 1–Dec 31, 2007	Jan 1–Dec 31, 2006
OPERATING ACTIVITIES		
Net operating profit	28,633	21,099
Adjustment for net operating profit items not affecting cash flow		
Loan losses	922	35
Unrealised changes in value	-2,343	-382
Depreciation/amortisation and impairment losses	4,897	3,979
Effect of pension fund	-437	-191
Accrued surpluses/deficits on debt securities and bonds issued	3,586	3,039
Gains from investing activities	-1,121	-1,086
Income taxes paid	-6,016	-4,982
Changes in assets and liabilities in operating activities		
Debt securities eligible for refinancing with central banks	-64,991	-9,142
Claims on credit institutions	-1,420	40,636
Claims on the public and public sector entities	-193,547	-118,794
Other asset items	-12,752	-21,845
Liabilities to credit institutions	1,472	-1,164
Liabilities to the public and public sector entities	272,550	-41,750
Debt securities issued	32,781	8,770
Other liability items	-9,834	18,255
	52,379	-103,522
INVESTING ACTIVITIES		
Equities	1,427	487
Investments in associated companies and subsidiaries	-940	-16
Tangible assets	-6,609	-1,436
Intangible assets	-2,219	-1,083
	-8,341	-2,048
FINANCING ACTIVITIES		
Dividend paid to shareholders	-11,536	-11,010
Dividend paid to minority interests	-760	-481
Minority share in subsidiaries	-269	683
Change in long-term borrowings from banks	96,991	19,798
Change in subordinated debentures	-3,735	9,419
	80,692	18,410
CASH AND CASH EQUIVALENTS		
Cash and cash equivalents on January 1	130,246	217,407
Cash flow from operating activities	52,379	-103,522
Cash flow from investing activities	-8,341	-2,048
Cash flow from financing activities	80,692	18,410
Cash and cash equivalents on December 31	254,975	130,246
Specification of cash and cash equivalents		
Cash	39,461	65,288
Claims on credit institutions	146,098	55,042
Debt securities	69,416	9,916
	254,975	130,246

"Cash and cash equivalents" 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. "Operating activities" included interest received of EUR 106,903,000 (2006: 73,157,000), interest paid of EUR 67,825,000 (42,018,000) and dividend income received of EUR 29,000 (19,000).

Changes in equity capital

(EUR K)

Bank of Åland Group	Share capital	Share issue	Share premium account	Reserve fund	Fair value reserve	Retained earnings	Total before minority interest	Minority interest	Total
Equity capital, December 31, 2005	**22,174**	**0**	**26,063**	**25,129**	**371**	**38,719**	**112,456**	**879**	**113,335**
Financial assets available for sale:									
Change in fair value					216		216		216
Transferred to income statement					-169		-169		-169
Profit for the year						14,696	14,696	969	15,664
Total recognised income and expenses during the year					**47**	**14,696**	**14,743**	**969**	**15,711**
Dividend to shareholders						-11,010	-11,010	-481	-11,490
Conversion of capital loan	484	301	3,144				3,929		3,929
Change in minority interest in equity capital							,	683	683
Equity capital, December 31, 2006	**22,658**	**301**	**29,207**	**25,129**	**418**	**42,405**	**120,118**	**2,051**	**122,168**
Financial assets available for sale:									
Change in fair value					101		101		101
Transferred to income statement					-163		-163		-163
Profit for the year						20,223	20,223	812	21,035
Total recognised income and expenses during the year					**-62**	**20,223**	**20,162**	**812**	**20,974**
Dividend to shareholders						-11,536	-11,536	-760	-12,296
Conversion of capital loan	625	-301	4,065				4,389		4,389
Change in minority interest in equity capital							,	-269	-269
Equity capital, December 31, 2007	**23,283**	**0**	**33,272**	**25,129**	**356**	**51,092**	**133,133**	**1,834**	**134,966**

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 shares of the Bank of Åland Plc are traded on the OMX Nordic Exchange Helsinki.

The consolidated financial statements for the financial year ending on December 31, 2007 was approved by the Board of Directors on February 29, 2008 and will be submitted to the 2008 Annual General Meeting for adoption.

BASIS FOR PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of the Bank of Åland Group have been prepared in compliance with the International Financial Reporting Standards (IFRSs) that have been adopted by the European Union. 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.

New accounting norms and standards in effect starting in 2007:

IAS 1, amendments
Amended as a consequence of IFRS 7, requiring the Group to provide disclosures that explain its capital management objectives and processes.
The Group is applying IAS 1 starting in 2007.

IFRS 7, “Financial Instruments: Disclosures”
A new standard containing disclosure requirements for all risks arising as a result of financial instruments and applying to all companies that possess financial instruments. The Group is applying IFRS 7 starting in 2007.

IFRIC 9, “Reassessment of Embedded Derivatives”
This interpretation clarifies certain aspects of the treatment of embedded derivatives in compliance with IAS 39. The Group already meets the criteria according to IFRIC 9.

IFRIC 10, “Interim Financing Reporting and Impairment”
This interpretation is the result of a contradiction between the standard on interim reports, IAS 34, and the one on impairments, IAS 36. IFRIC 10 clarifies that an impairment loss recognised in an interim report may not be reversed in a later interim or full year financial report. The Group is applying IFRIC 10 starting in 2007.

The Group is not affected by amendments to the following:

IFRIC 7, “Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies”
IFRIC 8, “Scope of IFRS 2 Share-based Payment”

New accounting norms and standards that did not enter into force in 2007 but may be applied in advance:

IAS 1, “Presentation of Financial Statements”
The standard has been revised in order to provide better information for analysis and comparison of companies. The Group will present its financial statements in compliance with the revised IAS 1 no later than for the financial period that begins on January 1, 2009.

IFRS 8, “Operating Segments”
The standard requires that a company provide financial and descriptive disclosures about its operating segments. IFRS 8 replaces IAS 14, “Segment Reporting”. The Group will present its financial statements in compliance with the revised IFRS 8 no later than for the financial period that begins on January 1, 2009.

IIAS 23, “Borrowing Costs”
The revised standard removes the option of immediately recognising all borrowing costs as an expense and requires accrual of borrowing costs for acquisition, construction or production of a capitalised asset.

IFRIC 14, “The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”
This interpretation clarifies the limit on asset value in case of a pension plan surplus, as well as how minimum pension plan funding requirements affect this value. The Group already meets the criteria stated in IFRIC 14.

The Group is not affected by amendments to the following:

IFRIC 11, “IFRS 2 – Group and Treasury Share Transactions”
IFRIC 12, “Service Concession Arrangement”
IFRIC 13, “Customer Loyalty Programmes”

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 in the equity capital of subsidiaries and profit for the year is shown as separate items in the consolidated income statement and balance sheet.

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.

The most essential effects of estimates and judgements are the following:

Fair value of financial assets
If the fair value of financial assets cannot be obtained from active market quotations, they are calculated with the help of various assessment techniques, including mathematical models. When using assessment techniques, market quotations are used to the greatest possible extent, but in case this is not possible, estimates are required in order to obtain fair value.

Goodwill impairment loss
Goodwill is tested annually for impairment by calculating whether the carrying amount is below the recoverable value. Impairment testing is performed by discounting expected future cash flows in cash-generating units. Expected future cash flows are based on various estimates and assessments about economic condition, future business volume, the market situation and margins. A change in the estimate of future cash flows, as a consequence of an economic downturn, new competitors or a price squeeze may lead to a future goodwill impairment loss.

Impairment losses on loans and customer receivables
On every balance sheet date, the Group assesses whether there is objective evidence for impairment losses on individual or groups of loans and customer receivables. An assessment by the Executive Team is required, especially in order to estimate amounts and timing of expected future cash flows that determine impairment loss amounts. The estimate is based on assessment of numerous factors, and the actual outcome may diverge from the impairment loss that is recognised.

Concerning group impairment loss for those concentrations that do not have impairment losses according to individual assessment, estimates and judgements are made concerning industry risk, geographic risk and other factors affecting cash flow.

Actuarial calculations of pension obligations

Future pension liability is calculated using actuarial models. As a basis for the calculation, there are estimates of the discount rate (euro swap rate with maturity equivalent to the expected life of the pension liability), pay increase (expected future increase for pensions), inflation, employee turnover and expected return on assets (based on the Bank pension fund's financial investment plan). All assumptions are shown in Note 47.

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. Intra-Group transactions occur at market prices. The Bank of Åland Group does not report geographic segments as secondary segments, since all operations occur in Finland.

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 has 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. Certain investment properties have limited transfer rights, since they have Finnish government-subsidised loans, and this is reflected in their value.

Other tangible assets

Other tangible assets consist of machinery and equipment, vehicles and art collections. Other tangible assets are carried in the balance sheet at cost minus depreciation and impairment losses.

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
Renovations in rented premises	4–10 years
Machinery and equipment	3–10 years
Computer systems developed in-house (amortisation)	3–5 years
External computer systems	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 of the need.

FINANCIAL INSTRUMENTS

Determination of fair value

The fair value of financial instruments that are traded in an active market, for example financial assets and financial liabilities held for trading as well as financial assets available for sale, is based on market price quotations.

The fair value of financial instruments that are not traded in an active market is calculated with the help of various assessment techniques. When using assessment techniques, market quotations are used to the greatest possible extent. The assessment techniques used are analysis of discounted cash flows, assessment with reference to financial instruments that are essentially similar and assessment with reference to recently completed transactions in the same financial instruments.

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)
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".

Day one profits, that is, profits that arise from immediate value assessment of new contracts and that are thus not due to fluctuations in interest rates or creditworthiness, are included in the fair value option and are thus recognised as revenue through the fair value option.

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. All loans and customer receivables are tested for impairment losses. On the balance sheet date, the Bank assesses whether there is objective evidence that an individual or group of loans and customer receivables has an impairment loss. Loans and customer receivables have an impairment loss only if objective evidence shows that one or more events have occurred that have an impact on future cash flows for the financial asset, if these can be reliably estimated. Objective evidence that one or more events have occurred that affects estimated future cash flows may, for example, be:
- significant financial difficulty of the debtor,
- the borrower has been granted a concession due to the borrower's financial difficulty and that the lender would not otherwise consider,
- a breach of contract, such as a default or delinquency in interest or principal payments, or
- that it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

Impairment losses are recognised in the income statement under the item "Impairment loss on loans and other commitments".

Investments held to maturity
Investments held to maturity are interest-bearing financial assets and are recognised at accrued cost using the effective interest rate method. Impairment of an investment is recognised after individual examination.

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 accrued cost.

Financial guarantees
Financial guarantees are recognised in the balance sheet at the beginning of the contract and carried with the corresponding deferred income. Guarantees are then varied at an amount defined on the basis of IAS 37, after subtracting revenue accrual from the original cost, whichever is larger.

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. Actuarial gains and losses are recognised in accordance with the corridor method in IAS 19.92-93. A portion of actuarial gain and loss is recognised if the net cumulative unrecognised actuarial gains and losses exceed the greater of either 10 per cent of the present value of the defined benefit obligation or 10 per cent of the fair value of plan assets. The recognised portion of actuarial gain or loss is the excess determined as above, divided by the expected average remaining working lives of the employees participating in the plan. The Bank of Åland pension fund has been closed to new members since June 30, 1991.

After the end of the employment period, there are no pension obligations. All pension benefits to closely related persons are based on customary employment conditions.

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).

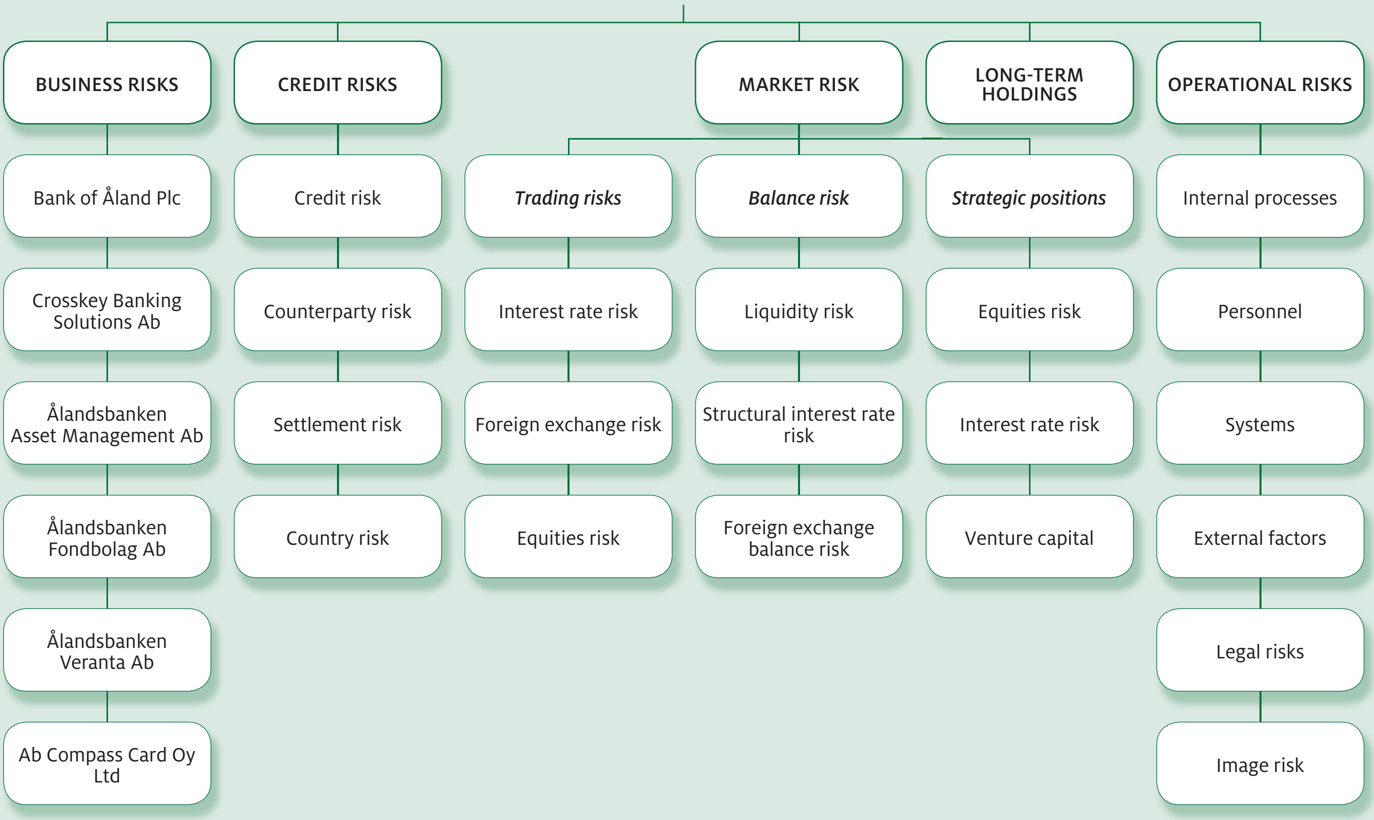
CAPITAL BASE

According to the Finnish Financial Supervision Authority's interpretation of the effects of IFRSs 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.

Risk management

Risk is defined as the possibility of negative divergence from an expected financial outcome. The risks in the Bank of Åland Group's operations are divided into five main categories: business risks, credit risks, market risks, long-term holdings and operational risks.

RISK STRUCTURE



The Group's ambition is to pursue its operations with reasonable and carefully considered risks. The profitability of the Group is dependent on the ability of the organisation to identify, manage and price risks. The purpose of risk management is to reduce the probability of unforeseen losses and/or threats to the reputation of the Group as well as to contribute to higher profitability and increased shareholder value. The Group is exposed to credit risk, liquidity risk and market risk. Its activities also carry operational risks.

Business risk is a function of the Group's focus and structure and of the environment and market the Group operates in. Business risk is managed in conjunction with strategic planning.

Risk organisation

Board of Directors
The Board of Directors has overall responsibility for ensuring that the Group's risk management is sufficient and for establishing systems and regulations for monitoring and limiting the Group's risk exposure.

The Audit Committee
The Audit Committee assists the Board of Directors in handling its responsibilities for monitoring internal systems, risk management and reporting.

Managing Director and Executive Team
The Managing Director oversees and supervises business operations in accordance with the Board's instructions, is responsible for day-to-day administration and for ensuring that the members of the Board receive sufficient information regularly about the regulations and the risk control systems that affect the Group and its administration at all times.

The Executive Team serves as an advisory group to the Managing Director and deals with all essential Bank-wide issues.

Asset-Liability Committee (ALCO)
ALCO deals with issues related to funding at a strategic level and safeguards the Group's strategic access to credit facilities.

Risk control
The Risk Control Department is responsible for overseeing the Group's risk-taking and risk management (with the exception of treasury-related risks, which are administered by the Middle Office Department). The tasks of the Department include providing the Board of Directors and Managing Director

with information about risk-taking and about the effect of major risk impact on earnings and the capital base. The Risk Control unit is independent of risk-taking and risk management.

Treasury

The Treasury unit is responsible for assets and liabilities as well as their financial structure. Treasury is responsible for funding and liquidity risk.

Middle Office

Treasury-related risks are monitored and followed up by the Middle Office Department in the Risk Management and Central Staff Units Division. The Middle Office Department serves as an independent monitoring unit for the Treasury unit. The Middle Office Department is independent of risk-taking and risk management.

Internal Auditing

Risk management is audited by the Internal Auditing Department, which evaluates risk management both in terms of sufficiency and compliance. Internal Auditing communicates its findings to the Executive Team and reports to the Audit Committee of the Board.

Units

Each unit has primary responsibility for identifying and managing risks associated with its own operations.

Risk measurement and systems

Risk management includes all activities for identifying, measuring, reporting and controlling risks. The cornerstone of risk management is the Bank of Åland's policy documents, internal instructions, limit systems and processes aimed at ensuring that its operations are pursued in a safe, efficient manner.

Risk follow-up and monitoring are performed primarily on the basis of limits established by the Board of Directors. These limits reflect business strategy and external factors as well as an acceptable risk level. Information from operations is used in order to analyse, monitor and identify risks.

As part of risk management, the Group uses derivatives to manage certain exposures to interest rate risk, foreign exchange risk, pricing risk and credit risk. Before contracts are signed, the Group performs an evaluation of the counterparty and limits. The effectiveness of derivatives is evaluated regularly by the Middle Office Department.

The Group actively uses collateral as a way of reducing credit risk (see below for further details).

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 Group. Credit risk applies to receivables from private individuals, companies, institutions and public sector entities. The receivables consist mainly of loans, overdraft facilities and guarantees granted by the Bank. Counterparty risk and settlement risk belong to the same risk category. Overall credit risk management is regulated by the Bank's internal credit policy. Credit risk management assumes that every customer with a loan has a customer relationship manager, who follows up the loan and the customer during the loan period to ensure that the loan and its conditions are being handled as agreed.

The Bank's credit risks are followed up and analysed by the Risk Control Department in the Risk Management and Central Staff Units Division. Nonperforming loan commitments are reported monthly to the Managing Director and the Executive Team. Large customer commitments are reported quarterly, both internally and to the Financial Supervision Authority. The Risk Control Department regularly follows up risks in securities custodial accounts that serve as collateral for loans. Aside from following up the value of such accounts in relation to the loan amount, Risk Control also follows up risk concentrations in pledged securities.

Credit management assumes that lending decisions will be based on sufficient knowledge about the customer. The customer relationship manager has a personal decision limit, within which he/she takes responsibility for granting a loan. 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 in the Risk Control Department. Follow-up inspections of credit documentation are performed on a test basis by the Risk Control Department.

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 loans to private individuals are granted to customers residing in one of the five regions of Finland 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 financial position of corporate customers is also followed up with the help of the Rating Alpha system from the credit rating company Suomen Asiakastieto Oy.

The loan portfolio includes certain receivables from customers domiciled abroad. There are no commitments located in crisis-affected parts of the world.

Risk classification of companies

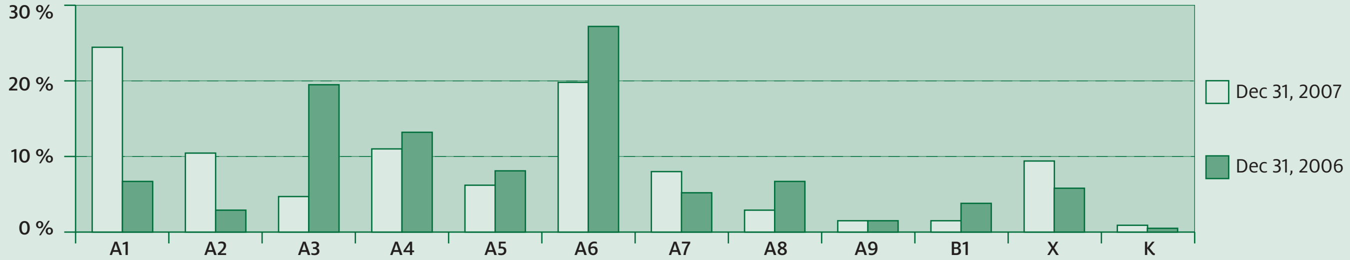
Corporate customers have previously been classified on the basis of balance sheet analysis and/or other relevant information into 10 risk categories, from A1 to B1. A1 signifies an outstanding company and B1 a company with severe payment difficulties. Corporate customers with unsettled claims are listed in an 11th category, class K. The risk classification of companies is based on the Rating Alpha system from Suomen Asiakastieto Oy, while the number of risk categories and the allocation into risk categories has been adapted to the Bank.

During 2007, Asiakastieto refined its statistical classification models and calibrated its point limits in order to better match Basel 2 requirements. There is thus a major difference in the allocation of corporate customers in the best categories.

RISK CLASSIFICATION OF COMPANIES

Total own commitments	Dec 31, 2007			Dec 31, 2006		
Category	**Number**		**% of total**	**Number**		**% of total**
A1	146	178.2	25	48	39.2	7
A2	158	74.9	10	28	17.0	3
A3	67	32.8	5	166	116.8	19
A4	343	76.5	11	151	78.7	13
A5	146	44.0	6	294	47.7	8
A6	361	143.4	20	538	165.0	27
A7	201	56.9	8	88	31.7	5
A8	45	21.0	3	163	40.0	7
A9	70	11.6	2	42	7.8	1
B1	51	9.4	1	103	22.0	4
X	564	66.9	9	470	33.1	5
K	23	6.4	1	14	3.5	1
Total		722.0	100		602.5	100

RISK CLASSIFICATION – ALLOCATION IN %



Lending to the public by risk categories

As one step in improving its follow-up of credit risks, the Bank is developing internal statistical models for assessing the risk of insolvency. On the basis of these preliminary models, the loan portfolio has been allocated among the following risk categories:

Dec 31, 2007, EUR M	A		B		C		Insolvent		Unclassified		Total	
	Cap.	**%**	**Cap.**	**%**	**Cap.**	**%**	**Cap.**	**%**	**Cap.**	**%**	**Cap.**	**%**
Large companies	140.9	38.5	189.3	51.8	32.3	8.8	0.0	0.0	3.2	0.9	365.7	17.0
Small and medium-sized companies	76.7	25.5	161.4	53.6	36.1	12.0	3.8	1.3	22.9	7.6	300.9	14.0
Home mortgage loans to private individuals	1,132.1	89.8	100.2	7.9	26.7	2.1	1.6	0.1		0.0	1,260.6	58.6
Consumer loans	176.4	79.1	34.0	15.3	11.9	5.3	0.7	0.3		0.0	223.1	10.4
	1,526.1	71.0	484.9	22.5	107.0	5.0	6.1	0.3	26.1	1.2	2,150.3	100.00

The loans in the table include both balance sheet and off-balance sheet items (according to loan equivalent)

The new models permit the Bank to better analyse and follow up risks in lending to the public. As a basis for classification, the Bank uses internal data and with regard to companies also the Alpha Rating risk classification system of Suomen Asiakastieto Oy. Risk category A refers to loans with a very low insolvency risk, risk B refers to loans with a low insolvency risk and risk category C refers to loans with a greater insolvency risk. The “Insolvent” category refers not only to loans that have not been settled for more than 90 days, but also other commitments deemed to be insolvent. The “Unclassified” category refers to corporate customers that Suomen Asiakastieto Oy does not classify, among them foundations and non-profit associations, and for which the Bank has not developed statistical risk models.

Counterparty risks

Counterparty risk is defined as the risk that the counterparty in a transaction will become insolvent before the final settlement of cash flows in the transaction. The Group works only with serious counterparties deemed capable of fulfilling their obligations to the Group. The banks and other financial institutions that the Group works with must have a high creditworthiness in order to support the Group’s continued long-term growth and minimise credit risk.

Exposure to different counterparties is restricted by limit regulations established by the Board of Directors. The Bank’s Managing Director approves limits for individual counterparties.

Credit risk concentrations

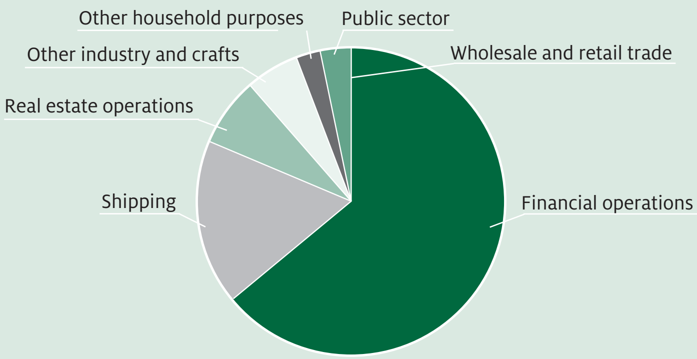
Customer concentration

A customer entity refers to customers (physical or legal persons) that form a group or otherwise share substantial economic interests with each other. Such a customer entity is generally involved when, as a consequence of economic difficulties for one customer in the customer entity, other or all customers belonging to the customer entity also encounter payment difficulties. An excessive concentration of exposures to one single customer or group of customers with mutual ties may lead to a high loan loss risk.

The table below shows customers/customer entities (including institutions) with commitments of more than EUR 8 M, which in principle constitutes 5 per cent of the Group's capital base. Also shown below is the allocation of these customers by economic sector. Loan guarantees and accrued interest have not been taken into account.

COMMITMENTS > EUR 8 M, DECEMBER 31, 2007

		Percentage of capital base		Economic sector	Commitments
Total commitments > EUR 8 M	441.5			Financial operations	286.3
Number	27			Shipping	78.9
Maximum	62.2	40.2		Real estate operations	31.2
Minimum	8.1	5.2		Other industry and crafts	23.0
Median	10.1	6.5		Other household purposes	10.9
Top quartile	23.0	14.9		Public sector	10.8
Bottom quartile	9.6	6.2		Wholesale and retail trade	0.4
					441.5



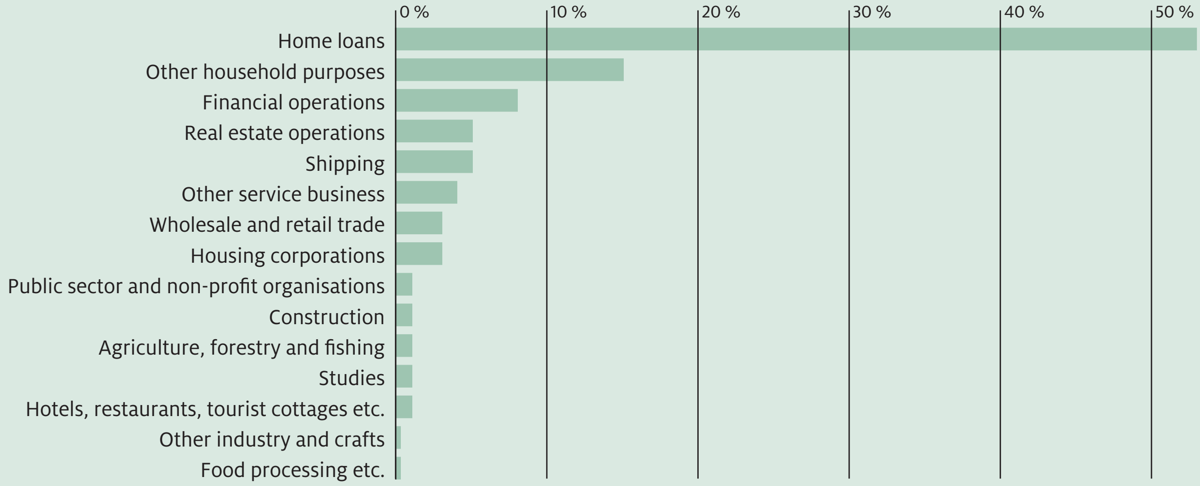
The maximum figure, EUR 62.2 M, consisted of exposures to a financial institution that is not encompassed by the Financial Supervision Authority's limit of 25 per cent of the capital base.

Large exposures are defined as customers/entities whose total exposure is 10 per cent or more of the Bank's capital base. According to the Financial Supervision Authority's guidelines, exposures to a single customer/customer entity at the Bank may not exceed 25 per cent (institutions exempted) of the Bank's capital base. In addition, those exposures that are over 10 per cent may not comprise more than 800 per cent of the capital base. The Risk Control Department follows up large exposures and reports on compliance with the rules quarterly to the Board of Directors and the Managing Director as well as the Financial Supervision Authority. If limits are exceeded, this is reported immediately.

EUR M	Dec 31, 2007	Dec 31, 2006
Large exposures – number	6	5
Large exposures – total	135.7	95.2
Capital base – Bank of Åland	146.8	141.1
Large exposures as percentage of 800% of capital base	11.6	8.4
Large exposures as percentage of total loan portfolio	6.4	5.0

The amounts are shown as gross amounts, i.e. collateral has not been subtracted. Exposures to institutions are not included in the amounts.

The chart below shows the allocation of the entire loan portfolio by purpose.



Collateral

In principle, the Bank's exposures should be covered by collateral. Acceptable collateral and loan-to-value (LTV) ratios are specified in the Bank's internal instructions. As a main rule, a loan may not exceed 70 per cent of the market or nominal value of residential property, 90 per cent in the case of bonds, 60 per cent for equities and 90 per cent of deposits and guarantees from other Finnish credit institutions. The appraisal rules for residential property used as collateral were changed during 2007. According to the new rules, market value must be established by a deed of purchase or by an appraiser who is independent of the credit decision.

Overdue and impaired receivables

A receivable is regarded as overdue if contractual payment does not occur on the specified date. Loans and trade receivables are recognised in the balance sheet at the commencement of the contract at cost and subsequently at amortised cost. All loans and trade receivables are tested for impairment. On the balance sheet date, the Bank assesses whether there is objective evidence that an individual or group of loans and trade receivables has an impairment loss. Loans and trade receivables have an impairment loss only if objective evidence shows that one or more events have occurred that have an adverse impact on future cash flows for the financial asset, if these can be reliably estimated.

Impairment losses are recognised in the income statement under the item "Impairment loss on loans and other commitments". For more information, see "Loans and trade receivables" in the accounting principles.

IMPAIRMENT LOSSES ON LOANS AND TRADE RECEIVABLES

Bank of Åland Group, EUR K	Dec 31, 2007		Dec 31, 2006	
	Individual	Group	Individual	Group
Balance, January 1	-1,058	0	-1,094	0
New and increased impairment losses	1,022		14	
Reversals of impairment losses	-38		-73	
Established depreciation/reversal	6		23	
Recognised in the income statement	-993		35	
Final depreciation/reversal	-45		1	
Balance, December 31	-2,096	0	-1,058	0

The Group performed impairment testing for group impairment losses, but no need for impairment losses was considered to exist on December 31, 2007.

GENERAL INFORMATION ON CREDIT RISK AND DILUTION RISK ON DECEMBER 31, 2007

Bank of Åland Group, EUR M	Remaining maturity					Total
	0–3 mo	3–12 mo	1–5 yrs	5–10 yrs	–10 yrs	
Business and professional activities	87	84	224	139	110	644
Of which overdue receivables	2	2	6	2	1	13
Of which impaired receivables	1	0	1	0	0	2
Households	52	63	287	220	812	1,434
Of which overdue receivables	3	1	11	5	22	42
Of which impaired receivables	0	0	0	0	0	1
Public sector	1	0	6	4	14	25
Of which overdue receivables	0	0	0	0	0	0
Of which impaired receivables	0	0	0	0	0	0
Total amount	140	147	517	364	937	2,104
Of which overdue receivables	6	3	17	6	23	55
Of which impaired receivables	1	0	1	0	0	2

The table shows the Group's total loan portfolio and overdue and impaired receivables on December 31, 2007.
A receivable is regarded as overdue if contractual payment does not occur on the specified date and as impaired if an impairment loss on the receivable has been recognised.

IMPAIRED AND OVERDUE LOANS BY PURPOSE, DECEMBER 31, 2007

Bank of Åland Group, EUR M	Business		Households		Total
	Overdue	Impaired	Overdue	Impaired	
Not overdue	0.0	0.7	0.0	0.0	0.7
< 29 days	7.8	0.0	31.4	0.0	39.2
30 – 59 days	2.6	0.0	6.3	0.0	8.9
60 – 89 days	0.1	0.1	1.7	0.0	1.9
> 90 days	3.1	0.8	3.1	0.5	7.6
	13.7	1.6	42.5	0.5	58.2

The table shows impaired and overdue loans by purpose, allocated by the number of days that the loan was overdue.

Market risk

Market risk is the risk of losses in the Group's operations due to changes in interest rates as well as currency exchange rates and market prices of shares.

Treasury-related market risks (such as liquidity, funding, interest rate and foreign exchange risks), mandates and limits are monitored and followed up by the Middle Office Department in the Risk Management and Central Staff Units Division. The Middle Office Department serves as an independent, active monitoring department for the Treasury unit. The Bank of Åland's Asset and Liability Committee (ALCO) consists of the Executive Team and the Group Treasurer. ALCO deals with funding issues at a strategic level and safeguards strategic access to credit facilities.

The Bank's other market risks that are not treasury-related are dealt with by the Equities Department, which administers the trading portfolio. Oversight of these risks is performed by the Risk Control Department.

Share price risk

The positions in the trading book consist of positions in equities and derivatives on an intraday basis as well as some longer positions. Risk Control monitors the limits on the trading book and the changes in longer-term holdings in strategic portfolios. Decisions on positions in strategic portfolios are made by the Executive Team or the Board of Directors. The Risk Control Department oversees the day-to-day positions in the trading book and reports equities portfolio trends monthly.

Exchange rate risk

Foreign exchange positions in the balance sheet are restricted by limits established by the Board of Directors. The sum of exposure to all currencies, recalculated into euros, may amount to a maximum of EUR 1 M when the books are closed. All balance sheet items in foreign currencies are restated in euros according to the European Central Bank's official middle rate quotation. The recognised accumulated outcome of this restatement totalled EUR 7,000 (loss) for the full year 2007 (-23,000). This shows that the Bank easily fulfils its ambition to minimise exposure in foreign currencies, in order thereby to maintain a low exchange rate risk exposure.

Interest rate risk

Interest rate risk refers to the effect of changes in interest rates on both net interest income (income risk) and the present value (present value risk) of interest rate-sensitive items. Both effects are calculated on the basis of gap analyses and measure various aspects of structural interest rate risk.

The Bank's internal method for estimating interest rate risk is based on standardised schedules for income risk and present value risk, i.e. on the estimates reported to the authorities. In the schedule of maturity intervals used in estimating both income risk and present value risk, items are placed according to remaining maturity, according to the period when changes in interest rates will have an effect on them. Theoretically, the maturity for sight deposits is overnight, i.e. one day. In practice, it takes a much longer period for interest rate changes to have an impact. The maturity of sight deposits in reporting to the authorities is 10.5 months, which comprises an average figure for the banking sector. The Bank's estimate, based on long-term statistics on the time it takes to carry out interest rate adjustments on the Bank's own sight deposits, coincides with the Financial Supervision Authority's assumptions.

Stress tests are carried out for income risk and for present value risk. The basic calculation of income risk evaluates how a one percentage point change affects net interest income. These stress tests are aimed at estimating the effects of major changes in interest rates. These effects are obtained by multiplying the basic calculation result by the desired interest rate change. Non-parallel changes in the interest rate curve need not be taken into account in calculating income risk, either in the basic calculation or in stress tests. This is because income risk is calculated with a one-year horizon and all exposures thus lie within the short-term market interest rate interval..

INTEREST RATE REFIXING PERIODS BETWEEN ASSETS AND LIABILITIES (INCLUDING DERIVATIVES)

Dec 31, 2007	Maturity interval														
	< 1 mo	1 – 3 mo	3 – 6 mo	6 – 9 mo	9 – 12 mo	1 – 2 yrs	2 – 3 yrs	3 – 4 yrs	4 – 5 yrs	5 – 7 yrs	7 – 10 yrs	10 – 15 yrs	> 15 yrs	Non-interest-bearing	Total
ASSETS															
Claims on credit institutions and central banks	184.6														184.6
Claims on the public	761.4	471.3	327.6	174.5	234.2	26.0	22.9	34.5	13.9	5.3	32.3	2.5			2,106.4
Debt securities	47.9	48.1	58.7	32.2											186.9
Shares and participations														9.1	9.1
Tangible and intangible assets														18.3	18.3
Other assets														74.5	74.5
Total assets	**993.9**	**519.5**	**386.3**	**206.7**	**234.2**	**26.0**	**22.9**	**34.5**	**13.9**	**5.3**	**32.3**	**2.5**		**101.9**	**2,579.8**
LIABILITIES															
Liabilities to credit institutions	3.6	19.3		30.0											52.9
Deposits from the public	1,311.1	138.6	51.2	14.5	14.1	5.8	0.4	0.1	0.1						1,535.9
Debt securities	271.1	147.2	150.6	12.0	6.7	55.1	33.2	46.2							722.3
Subordinated liabilities	10.0		42.3												52.3
Other liabilities	1.8													83.1	85.0
Equity capital and reserves														131.4	131.4
Total liabilities and equity capital	**1,597.6**	**305.1**	**244.1**	**56.6**	**20.8**	**61.0**	**33.6**	**46.3**	**0.1**					**214.5**	**2,579.8**
Derivative contracts	12.0	96.0	-70.7	-9.2	-40.5	33.5	19.7	12.6	-13.6	-5.0	-31.2	-3.5			
Difference between assets and liabilities	**-591.8**	**310.4**	**71.6**	**140.9**	**172.8**	**-1.5**	**9.0**	**0.8**	**0.1**	**0.3**	**1.1**	**-1.0**		**-112.6**	

Income risk

All assets and liabilities in the balance sheet are placed according to their remaining maturity or interest rate refixing date in maturity intervals, in which the difference ("gap") between assets and liabilities is calculated. Based on these gaps, the Bank calculates the sensitivity of net interest income to changes in interest rates during a 12- month period. For income risk (0 – 12 months), the Board of Directors has established a limit for maximum permitted change in the event of a 1 percentage point change in the interest rate curve.

SENSITIVITY ANALYSIS

Maturity interval	Midpoint of interval	Weighting, year	Interest rate change in basis points	Weight factor	Gap, EUR M	Change in net interest income, EUR M/year
0 – 1 month	0.5 month	0.96	200	1.92	-190.5	-3.7
1 –3 months	2 months	0.83	200	1.67	310.4	5.2
3 –6 months	4.5 months	0.62	200	1.24	71.6	0.9
6 –9 months	7.5 months	0.37	200	0.74	140.9	1.0
9 –12 months	9 months	0.12	200	0.24	-238.5	-0.6
						2.9

Present value risk

Interest rate-sensitive assets and liabilities are placed in corresponding fashion in maturity intervals in order to calculate the present value of gaps. Gaps in all intervals, even exceeding 20 years, are included in the calculation, with the present value of each gap being calculated by multiplying by a “duration factor”. The sum of these weighted gaps is the change in the present value of the balance sheet. According to Basel 2, the change in present value may not exceed 20 per cent of equity capital.

SENSITIVITY ANALYSIS

Time until interest rate refixing	Average time until interest rate refixing	Modified duration (years)	Interest rate change in basis points	Modified duration x interest rate change	Gap, EUR M	Change in value, EUR M
0 – 1 month	0.5 month	0.04	200	0.08	-180.4	0.1
1 – 3 months	2 months	0.16	200	0.32	310.4	-1.0
3 – 6 months	4.5 months	0.36	200	0.72	71.6	-0.5
6 – 9 months	7.5 months	0.60	200	1.20	140.9	-1.7
9 – 12 months	9 months	0.71	200	1.42	-238.5	3.4
1 – 2 years	1.5 years	1.38	200	2.76	-1.5	0.0
2 – 3 years	2.5 years	2.25	200	4.50	9.0	-0.4
3 – 4 years	3.5 years	3.07	200	6.14	0.8	-0.0
4 – 5 years	4.5 years	3.85	200	7.70	0.1	-0.0
5 – 7 years	6 years	5.08	200	10.16	0.3	-0.0
7 – 10 years	8.5 years	6.63	200	13.26	1.1	-0.1
10 – 15 years	12.5 years	8.92	200	17.84	-1.0	0.2
15 – 20 years	17.5 years	11.21	200	22.42	0.0	0.0
Over 20 years	22.5 years	13.01	200	26.02	0.0	0.0
					112.6	-0.1

Liquidity risk

Liquidity risk is the risk that the Bank cannot fulfil its payment obligations on the due date without a substantial increase in the cost of obtaining funds for payment. Liquidity risk may also consist of difficulty in selling an asset at a market price in the second-hand market on the desired date. Liquidity risk is measured with the help of maturity analyses and due date reports. The maturity analyses show how imbalances in cash flows for deposit and lending items are allocated by due date. A liquidity reserve is funds that can be used to safeguard the ability to pay in the short term. The Bank’s ambition is to minimise liquidity risk by maintaining a liquidity reserve and spreading the risks among different instruments and different maturities. According to the Group’s financial policy, the liquidity reserve must amount to at least 10 per cent of total assets and it must consist of liquid assets that can be divested within three (3) banking days.

The Board of Directors establishes the size and structure of the liquidity reserve. The Board also establishes norms and mandates for structural funding risk. Liquidity risks are managed and reported by the Treasury unit. The Middle Office Department monitors the mandates established by the Board for liquidity risks.

LIQUIDITY RESERVE ON DECEMBER 31, 2007, EUR M

Liquidity reserve	**288.0**
Liquidity reserve requirement	**257.9**

Structural funding risk refers to uncertainty associated with the funding of long-term lending. The Group is exposed to funding risks in its day-to-day operations. Funding risks arise because of the need for external funding and because of the maturity structure of the debt portfolio. The maturity structure related to deposits and lending as well as the Treasury unit’s external funding are allocated in different time intervals (gap analysis). The norm for funding within the Bank is that the Treasury unit’s centralised external funding shall match the balance between customer deposits and lending. As a result, the norm for the maturity structure is that the exposure shall be zero in all time intervals (gaps). The risk mandate allows the deviation from the norm during the first year to amount to 10 per cent of the total assets in a single gap. The deviation may not exceed the liquidity reserve.

FUNDING RISK ANALYSIS

December 31, 2007	Maturity interval						
	< 1 mo	**1 – 3 mo**	**3 – 6 mo**	**6 – 12 mo**	**1 – 2 yrs**	**> 2 yrs**	**Total**
ASSETS							
Claims on credit institutions and central banks	184.5						184.5
Claims on the public	121.5	47.3	83.9	136.0	212.0	1,505.7	2,106.4
Debt securities	46.7	30.7	49.9	1.0	15.0	43.6	186.9
Shares and participations						9.1	9.1
Tangible and intangible assets						18.4	18.4
Other assets	74.5						74.5
Total assets	**427.3**	**78.0**	**133.9**	**137.0**	**227.0**	**1,576.8**	**2,579.8**
LIABILITIES							
Liabilities to credit institutions	3.6	2.5			16.8	30.0	52.9
Deposits from the public	326.1	155.8	52.5	28.7	5.9	967.0	1,535.9
Other liabilities	0.0	0.0	0.0	0.0	0.3	1.4	1.8
Debt securities	136.1	32.2	50.6	18.1	155.8	329.5	722.3
Subordinated liabilities			2.0		12.2	38.1	52.3
Other liabilities	83.1						83.1
Equity capital and reserves						131.4	131.4
Total liabilities and equity capital	**549.0**	**190.5**	**105.0**	**46.9**	**191.0**	**1,497.4**	**2,579.8**
Exposure	-121.7	-112.5	28.8	90.1	36.0	79.4	
Accumulated exposure	-121.7	-234.3	-205.5	-115.4	-79.4	0.0	

The item “Liabilities to the public and public sector entities” included the Bank’s sight deposits, which amounted to EUR 966.4 M on December 31, 2007. In the internal assessment, 10 per cent of sight deposits are assumed to mature within one month, while the rest is assessed as running for an undetermined period. This reasoning is based on historical outcomes, so these deposits are regarded as very stable. The Group has a preparedness plan that includes a concrete action plan for management of liquidity risks and encompasses strategies for covering a negative cash flow in emergency situations.

Operational risk

Operational risks are defined as the probability of losses and of damage to the Group’s reputation due to faulty or erroneous procedures, processes, behaviour or as a consequence of events in the Group’s surroundings.

Operational risk management is an independent element of risk management. Substantial risks attributable to operations are identified, assessed and measured in order to be limited and monitored. The objective is to ensure that operational risks are identified, the management of operational risks is organised in a way that is satisfactory in relation to the nature and the scope of the operations, the probability of unforeseen losses or threats to the Bank’s reputation is minimised and that the Board of Directors and management are informed of the operational risks associated with the Group’s business.

Incident reporting is part of the Group’s overall management of operational risks as well as continuity planning. The Risk Control Department analyses and compiles incidents and in turn reports them to the affected bodies in the Group as well as to the Financial Supervision Authority. The Risk Control Department also administers the Group’s insurance protection and assists management on insurance issues.

The Board of Directors has overall responsibility for operational risk management and must be aware of the most important operational risks in the Group’s various businesses. The Managing Director and the Executive Team are responsible for ensuring that the policy concerning operational risks established by the Board of Directors is implemented in practice. It is the task of every unit to manage the operational risks that are associated with its own work.

The Risk Control Department ensures that the risks in the Group’s main processes are mapped and that these risk maps are updated at least yearly. This risk mapping assesses the probability and consequences of a loss event as well as trends and existing risk management. The Risk Control Department analyses risks on the basis of the risk maps that have been produced.

Internal Auditing monitors the compliance of the Group’s units with the internal and external rules and instructions related to operational risks, and it provides qualitative assessments in report form to the Board of Directors.

During the years 2000 – 2007, the net cost of operational errors has averaged EUR 0.1 M annually.

Equities not included in the trading book

Shares not included in the trading book are initially accounted for at cost in the balance sheet and are subsequently recognised at fair value. Changes in value are recognised in equity capital under the “fair value reserve”. Upon divestment, change in value is transferred from the reserve to the income statement as a separate item, “Net revenue from financial assets available for sale”. Impairment losses are recognised in the income statement.

Fair value is derived from quotations in a functioning market. In those cases when market quotations are not available, equities are carried at net worth.

EXPOSURES TO EQUITIES NOT INCLUDED IN THE TRADING BOOK

Bank of Åland Group, EUR M	Listed companies		Other exposures	
	Cost	Fair value	Cost	Fair value
For profit	1.5	1.8	1.6	0.2
For strategic purposes	0.0	0.0	1.1	1.3
	1.5	1.8	2.7	1.4
Cumulative realised gains or losses during the period		0.5		
Unrealised changes of value recognised in the balance sheet		0.5		

The Group has no hidden reappraisal gains that have not been recognised in the balance sheet or income statement.

Capital management

The Group's capital management is regulated by the Financial Supervision Authority's capital base and capital adequacy rules (Standard 4.3 a-k) as well as by the Group's long-term financial targets. At the beginning of 2007, the Group switched to calculating capital adequacy for credit risks according to the standardised approach in the Basel 2 regulations.

The capital base can be divided into three categories: core capital, supplementary capital and other capital base.

Core capital

Core capital is freely and immediately available for covering unforeseen losses. Core capital consists of share capital, reserve fund, share premium reserve, retained earnings and the portion of the year's profit that is not planned as a dividend. The Group's entire core capital is of the unrestricted core capital type, i.e. the Group has full decision-making rights on the use of the funds. The non-amortised cost of intangible assets is subtracted from core capital.

Supplementary capital

Supplementary capital is not as available for covering losses as core capital and may thus not amount to more than core capital. Supplementary capital can further be divided into upper and lower supplementary capital. Upper supplementary capital is, by its nature, long-term and may thus not be included in its entirety. Upper supplementary capital consists mainly of a reappraisal of real property in conjunction with the transition to International Financial Reporting Standards (IFRSs). Lower supplementary capital includes fixed-term and short-term items and may total no more than half of core capital. The Group's lower supplementary capital consists of subordinated debentures issued to the public. These are specified in the notes to the financial statements.

Other capital base

Other capital base may be used only for covering market risk. The Group has no items in this category.

The policy of the Group is to maintain a strong capital base in order to retain the confidence of investors, counterparties and the market, as well as ensure the sound business development of the Group. The Group also notes that it is of great importance to maintain a balance between high return on equity, which is made possible by low equity capital, and the advantages and security that high equity capital represents. In its long-term financial targets, the Group has established that return on equity shall exceed the unweighted average of a defined group of Nordic banks, the total capital ratio shall amount to at least 10 per cent and core capital shall amount to at least 7 per cent of risk-weighted volume. No substantial changes in the Group's targets or capital management processes were made during 2007. During this period, the Group fulfilled all externally stipulated capital adequacy requirements.

CAPITAL BASE

EUR K	Dec 31, 2007		Dec 31, 2006	
	Group	Bank	Group	Bank
Core capital				
Share capital	23,283	23,283	22,658	22,658
Share issue account	0	0	301	301
Reserve fund	25,129	25,129	25,129	25,129
Share premium account	33,272	32,736	29,207	28,671
Reserves minus tax liability	0	27,808	0	19,459
Retained earnings minus items that may not be included	17,862	554	11,297	159
Profit for the year minus items that may not be included and proposed dividend	7,576	-81	2,243	395
Minority interest	1,834	0	2,051	0
Deductions from core capital	0	0	0	0
Intangible assets	-5,639	-5,490	-4,629	-3,230
Total core capital	103,317	103,939	88,255	93,542
Supplementary capital				
Revaluation reserve	0	227	0	326
Fair value reserve	356	367	418	416
Reappraisal of business property in conjunction with transition to IFRSs	8,659	0	8,865	0
Subordinated debentures	42,293	42,293	44,128	46,771
Total supplementary capital	51,308	42,888	53,411	47,513
Total capital base	**154,625**	**146,826**	**141,666**	**141,055**

CALCULATION OF CAPITAL REQUIREMENT

Basel 2, by pillars	Sub-areas for capital allocation	Bank of Åland's capital requirements
Pillar 1		
Minimum capital	Credit risk	Calculated according to standardised approach
	Foreign exchange risk	Calculated according to standardised approach
	Operational risk	Calculated according to basic indicator approach
Pillar 2 *Complement to Pillar 1 risks:*		
Credit risk	Undervaluation when choosing simpler Pillar 1 method	This risk cannot be quantified
	Residual risk in conjunction with credit risk mitigation	This risk does not arise
	Concentration risk	The capital requirement cannot be explicitly quantified but is covered by the capital buffer
	Specific risks from securitisation	This risk does not arise
Market risk	Structural interest rate risk	Exposure is so little that no capital requirement exists
	Liquidity risk	Managed using risk control
	Property risk	Exposure is extremely small
	Settlement risk	Cannot be quantified
Operational risk	Undervaluation when choosing simpler Pillar 1 method	Cannot be quantified. Operational risks in Pillar 2 such as risks from processes and systems, personnel, legal and reputation risk are managed using control functions
Risks outside Pillar 1:		
	Risks caused by changes in international macro-economic conditions	The risk is evaluated using macro stress tests to ensure that actual capital is sufficient, i.e. that the risk is covered by the capital buffer
	Business risk: strategic risk, microeconomic risk, risks in regulatory environment	The risk is managed using risk control, i.e. corporate governance
	Insurance risk	This risk does not arise

Basel 2 and capital requirements

Credit risks

The Bank uses the standardised approach when calculating its capital requirement for credit risks. The Bank is currently developing more advanced models for calculating the capital requirement and will later switch to more advanced internal ratings-based (IRB) methods for credit risks.

In the standardised approach, exposures are divided into various exposure categories depending on the counterparty, collateral or receivable. The exposure figures taken into account in the capital requirement calculation are then multiplied by the risk weight established for the respective exposure class. When calculating the capital requirement for credit risk, exposures to a sovereign (national government) and its central bank in the European Economic Area (EEA) shall be assigned a risk weight of 0 per cent. For exposures to other sovereigns, the Bank uses external ratings from the nationally approved rating institutions Moody's, Standard & Poor's and Fitch for calculating the capital requirement. The Bank also uses ratings from these institutions for bonds and share issues that have been provided as collateral for lending.

Finland applies the "sovereign method" for exposures to credit institutions, which means that exposures to credit institutions shall be assigned a risk weight equivalent to one class below the rating given to the national government where the institution is located. However, exposures to banks in the EU automatically carry a 20 per cent risk weight, in compliance with an EU directive. For other exposure classes, the Bank uses risk weights established for the entire exposure class.

The capital requirement for credit risks in the entire balance sheet and off-balance sheet items are allocated as follows:

Asset class, EUR K	**Dec 31, 2007**	**Dec 31, 2006**
Sovereigns and central banks	0	0
Regional and local authorities	0	0
Public sector entities	3	3
Multinational development banks	0	0
Institutions	4,164	1,721
Companies	28,315	21,174
Households	15,096	13,856
Exposures with homes as collateral	36,609	34,671
Unsettled items	431	75
High-risk items	19	21
Other items	3,887	3,422
Total	88,525	74,942

Credit risk mitigation

"Credit risk mitigation" (CRM) in calculation of capital requirements refers to measures by which the Bank protects itself against credit risks and which lower the capital requirement for credit risk. The collateral taken into account in calculating the capital requirement, aside from homes, consists of guarantees from sovereigns, the Province of Åland, local authorities and institutions, deposits in the Bank itself or other banks as well as financial collateral. The Bank uses the comprehensive method for financial collateral as a credit risk mitigation technique. In the table below, "exposure after CRM" refers to the exposure amounts remaining after credit risk mitigation techniques have been applied with the help of collateral approved by the Financial Supervision Authority.

December 31, 2007, EUR M	**Gross exposure**	**Exposure after CRM**
Sovereigns	0.0	15.3
Regional authorities	15.7	32.0
Parishes	0.2	0.2
Development banks	0.0	0.1
Institutions	0.0	6.9
Homes	1,346.9	1,346.9
Households	386.3	292.0
Companies	522.4	396.2
Overdue etc.	6.4	6.0

The great majority of guarantees are concentrated in the exposure classes "Sovereigns and central banks" and "Regional and local authorities". The value of a guarantee is the amount that falls due for payment according to contractual terms. The credit risk in this collateral is regarded as insignificant. Nor does the Bank believe that there is any significant credit risk in the guarantees that are issued by institutions. The Bank has no market risk in this type of collateral.

The following financial collateral is approved in calculating capital requirements: shares listed in Sweden and Finland, exchange traded funds (ETFs) and bonds. The shares that are approved must be listed on recognised exchanges in Finland or Sweden.

The market value of listed shares used as collateral is tracked on a daily basis. The value of approved bonds used by the Bank is determined weekly on the basis of buying and selling prices in the secondary market. The market value of financial collateral is volatility-adjusted for future changes in market value and for foreign exchange imbalances. In cases where valuations are made less often than daily, the given volatility adjustments are increased, depending on the valuation interval. The Bank uses the volatility adjustments specified by the Financial Supervision Authority. The largest proportion of financial collateral consists of equities, whose market value is exposed to market risk. Bonds used as collateral are also affected by developments in the equities and fixed-income markets, which ultimately affects the capital requirement in this form of credit risk mitigation technique.

All financial collateral that is used to reduce the capital requirement is individually approved by the Risk Control Department before it is taken into account in the capital requirement calculation and undergoes at least an annual assessment to ensure its acceptability as risk-mitigating collateral, in compliance with the regulations of the Financial Supervision Authority.

The table below shows the total exposure value for each exposure class covered by acceptable collateral.

December 31, 2007, EUR M	Financial collateral	Guarantees
Households	69.5	24.9
Companies	112.6	13.6
Overdue etc.	0.3	0.1

Market risks

In calculating the capital requirement for market risks (position, settlement and counterparty risk) in the trading book, the Bank applies the exemption for small trading books in the Financial Supervision Authority's Standard 4.3g, since the trading book is clearly below the threshold values stated in the standard. This means that in Pillar 1, the Bank calculates the capital requirement for its market risks according to the principles for credit risks.

The Bank's positions in foreign currencies do not reach the required threshold value for capital requirements to be calculated for this type of risk under Pillar 1. The Bank does not trade in commodity contracts.

Operational risk

The Bank uses the basic indicator approach in calculating the capital requirement for operational risk. According to the basic indicator approach, the capital requirement for operational risk is calculated on the basis of the figures in the financial statements adopted for the past three financial years. The annual revenue indicator that the calculation of the capital requirement is based on is calculated in such a way that the adopted income statement items are first summarised at the annual level. The revenue indicator is obtained by weighting the adjusted income statement items with a coefficient of 15 per cent. The capital requirement is calculated as the average of the revenue indicators through division by the number of years that the indicator has been positive.

Internal capital adequacy assessment procedure (ICAAP) and minimum capital base

According to the revised Basel 2 capital adequacy regulations, financial institutions should have a process for assessing their capital requirement and risk control, in order to cover all substantial quantitative and qualitative risks in each institution's operations.

The Basel 2 regulations are based on three Pillars. In Pillar 1, the minimum capital requirement for credit risk, market risk and operational risk is calculated. Pillar 2 includes the requirements for each institution's own internal capital adequacy assessment procedure (ICAAP), in which the calculation of capital applies to those risk categories and sub-areas which are not included in Pillar 1. Pillar 3 concerns the obligation of each institution to disclose sufficient information on the risks in its operations and their management that the market – represented by borrowers, depositors, investors and shareholders – can make soundly based and rational decisions.

According to Principle 1 of Pillar 2, the Group must assess its capital adequacy and evaluate its capital in proportion to the material risks that the Group is exposed to in its operations, and as a consequence of major changes in market conditions. Capital adequacy must be assessed in a broader perspective than merely fulfilling capital requirements for credit risks, market risks and operational risks within the framework of Pillar 1.

The Group must assess its capital requirement in relation to its overall risk profile, maintain capital sufficient to meets its requirements and establish a strategy for maintaining that level. The Group must evaluate its capital adequacy on the basis of its own carefully considered view of the capital required to cover its material risks and planned risk-taking, as well as internal control and risk management proportional to the nature, scope and complexity of its operations.

The Group should maintain a good risk management capability and internal governance. Risk management capability is a combination of several factors. These include the amount, type and allocation of capital, access to capital and the profitability of operations. Capital serves as a buffer against unexpected losses. To have the desired effect, the buffer should be sufficiently large to be able to keep operations free of disruption. Risk management capability also includes qualitative factors such as internal governance, internal control and risk management, as well as internal capital assessment designed according to the principles established by the Financial Supervision Authority.

Since the companies covered by the regulations differ from each other, among other things in terms of organisational structure and the nature, scope and complexity of their operations, the practical solutions for capital adequacy analysis, capital assessment and control may vary. The guidelines, principles and methods for each institution's internal capital adequacy assessment should be proportional to the nature and scope of its operations and the special features of its risk profile. This proportionality principle is emphasised, above all, in the methods for assessing risk-related capital requirements. To make the proportionality principle more concrete, the Financial Supervision Authority uses the concepts "large institutions" and "small institutions".

Method used for Pillar 1

The Group uses simple methods to assess capital adequacy within Pillar 1 – for credit risks, the standardised approach; for operational risks, the basic indicator approach. The rules for exemption of small trading book positions are being applied, which means that no capital is calculated for the trading book.

Method used for Pillar 2

The Group's operations are neither extensive nor complex, and they take place mainly in Finland. At present, the Group uses no economic capital model or any other quantitative model. Based on these criteria, the Group regards its operations as classified according to the Financial Supervision Authority's definition of small institutions.

Capital buffer

Capital buffers are regarded as one element of good risk management capability. According to the Group's long-term financial targets, the total capital ratio shall amount to at least 10 per cent, and core capital shall amount to at least 7 per cent of risk-weighted volume.

Main results of the analysis

Assessment of risk exposure, risk control and capital adequacy. In this assessment, the following scale has been used:

- low risk
- reasonable risk
- high risk

Credit risk

Credit risk in lending to private individuals has been assessed as low, since the quality of the loan portfolio is good and loan losses are small. In addition, lending is protected by collateral and the risk premium off individual customers and companies has been taken into account in the interest margin.
Based on the following factors, however, the credit risk in lending to companies has been assessed as reasonable:

- the realisable value of companies' collateral is more uncertain than the value of the homes that comprise the collateral for lending to private individuals
- lending to companies is more concentrated than residential mortgage loans, which have a wider dispersion
- risk classification of companies is more volatile than that of private individuals, whose payment capacity actually only changes in case of an economic slowdown, where the quality of the entire loan portfolio weakens

Operational risk

The risk is assessed as reasonable.
According to Pillar 1, capital is reserved to cover the losses that arise when operational risk is realised. Since this risk, by its nature, is qualitative and should be managed by means of risk control, the Bank has built up its risk management system to limit and prevent the occurrence of loss in money or reputation. However, the control system can never be fully comprehensive without becoming an obstacle to normal operations. It is also always possible that new phenomena will arise, both in the company and its surroundings, which have not existed previously and which it has thus not been possible to protect the Group from. Despite preventive measures, a risk may be realised, which the Group's collective database of losses from operational risks also demonstrates. In particular, the operations of the subsidiary Crosskey Banking Solutions are regarded as vulnerable to reputation risk.

Liquidity risk and structural funding risk

The risk is assessed as reasonable.
The Bank's ambition is to minimise liquidity risk by maintaining a liquidity reserve and spreading its risks among different instruments and maturity periods. This liquidity reserve shall amount to at least 10 per cent of total assets and it shall consist of liquid assets that can be divested within three banking days. The Bank measures structural funding risk with the help of maturity analyses and due date reports. These maturity analyses show how imbalances in cash flows in deposit and lending items are allocated by due dates. Cash flow imbalances in deposit and lending items may not exceed 5 per cent of total assets in a given gap. The divergence may not exceed the liquidity reserve.

Interest rate risk

Interest rate risk is assessed as reasonable.
Exposure to both income risk and present value risk is far below the limits established internally by the Board of Directors.

Business risk

All sub-areas in this category are assessed as reasonable: strategic risk, microeconomic surroundings risk and risks caused by changes in legislation and regulatory practices. The Group must be well prepared to make adjustments in its strategy in response to macroeconomic and industry-wide changes, as well as the activities of competitors, but also in response to the introduction of extensive changes in regulations.

Risk management capability

Risk management capability is assessed as good.
The Bank's good risk management capability is based on well-functioning and comprehensive risk control, profit-generating risk exposure and sufficient equity capital to cover unexpected risks.

Capital buffer

The capital buffer is regarded as sufficient.
The capital buffer is reserved for covering such risks in Pillar 2 that cannot be directly quantified. The buffer, which is calculated as the difference between actual capital and the minimum capital requirement, is sufficient to meet this need. According to the Group's long-term financial targets, the overall capital ratio shall amount to at least 10 per cent and the core capital ratio shall amount to at least 7 per cent of risk-weighted assets.

Summation of capital requirement

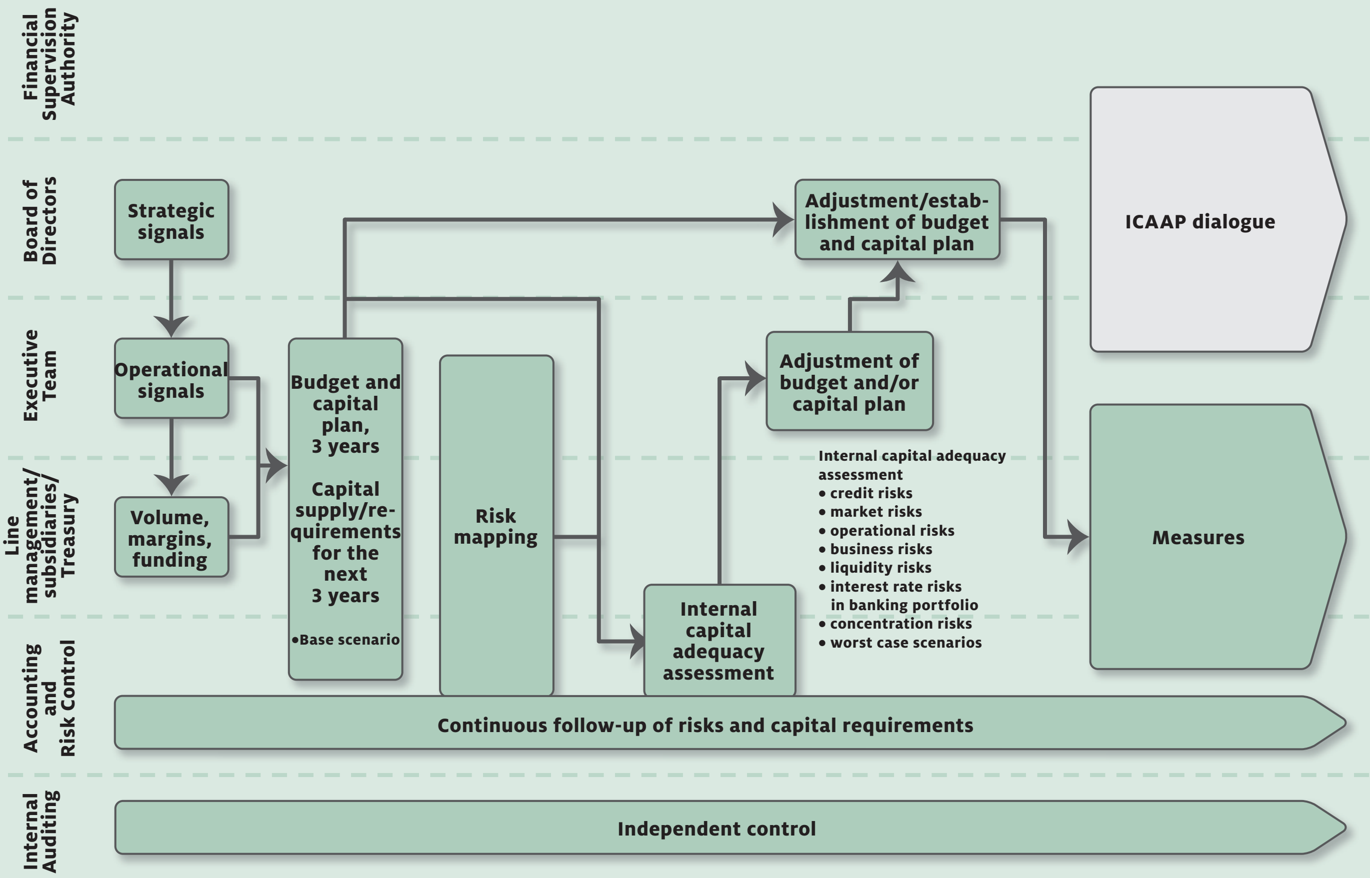
December 31, 2007, EUR M	Capital requirement 8%	Capital target 10%	
Capital requirement according to Basel 2, Pillar 1	96.5	120.6	
Capital requirement according to Basel 2, Pillar 2	5.0		Needs-tested capital requirement according to ICAAP for coverage of Crosskey's business risk
Total capital requirement	101.5	120.6	
Capital base (EUR M), December 31, 2007			
Core capital	103.3		
Supplementary capital	51.3		
Total capital base	154.6		
Total capital ratio, %	12.8		

Organisation

The Board of Directors establishes the general principles, targets, guidelines and scale of internal capital adequacy assessment, the general requirements for methods of measurement and analysis, the guiding principles of the capital adequacy assessment process and quality assurance principles.

The Managing Director has overall responsibility for practical implementation, continuous monitoring and control of internal capital adequacy assessment and reporting to the Board of Directors. The Divisional Manager of the Risk Management and Central Staff Units Division is responsible for practical implementation. Independent oversight of the internal capital adequacy assessment process is carried out by the Internal Auditing Department.

THE CAPITAL ADEQUACY ASSESSMENT PROCESS IN THE BANK OF ÅLAND GROUP



Notes to the consolidated financial statements

(EUR K)

Numbering

1. Segment report

2007

	Banking operations	IT operations	Other	Eliminations	Total
External income	57,367	9,787	8,251	0	75,405
Intra-Group income	871	10,073	0	-10,944	0
Total income	**58,238**	**19,860**	**8,251**	**-10,944**	**75,405**
Expenses including depreciation/amortisation	-35,499	-16,919	-4,549	10,944	-46,023
Loan losses	-993	0	0	0	-993
Share of income in associated companies	0	0	245	0	245
Net operating profit	**21,745**	**2,941**	**3,947**	**0**	**28,633**
Depreciation/amortisation	3,428	1,342	128	0	4,898
Assets	2,107,278	14,466	471,096	-803	2,592,037
Liabilities	-2,272,688	-17,557	-171,991	5,166	-2,457,071
Equity capital					134,966
Increases in tangible and non-tangible assets	7,689	1,613	341	0	9,643
Interest income from the public and public sector entities					
Financial enterprises	28,701				28,701
Households					
Residential	51,747				51,747
Other	16,991				16,991
Miscellaneous	1,169				1,169
	98,608				98,608

2006

	Banking operations	IT operations	Other	Eliminations	Total
External income	49,352	8,450	3,835	0	61,637
Intra-Group income	831	9,858	0	-10,689	0
Total income	**50,183**	**18,308**	**3,835**	**-10,689**	**61,637**
Expenses including depreciation/amortisation	-33,094	-14,076	-4,436	10,689	-40,917
Loan losses	35	0	0	0	35
Share of income in associated companies	0	0	344	0	344
Net operating profit	**17,124**	**4,232**	**-257**	**0**	**21,099**
Depreciation/amortisation	2,794	1,067	118	0	3,979
Assets	1,914,581	8,113	267,472	-1,551	2,188,616
Liabilities	1,858,443	5,356	202,808	-160	2,066,448
Equity capital					122,168
Increases in tangible and non-tangible assets	1,928	2,141	107	0	4,176
Interest income from the public and public sector entities					
Financial enterprises	19,693				19,693
Households					
Residential	35,992				35,992
Other	11,148				11,148
Miscellaneous	932				932

The ”Banking operations” segment also includes investment banking operations. Crosskey Banking Solutions Ab Ltd and S-Crosskey Ab are reported in ”IT operations”. Reported in ”Other” are the results of Treasury and portfolio management as well as management and related corporate expenses.

2. Holdings of debt securities

	2007			2006		
	Listed	Other	Total	Listed	Other	Total
Debt securities eligible for refinancing						
Instruments held to maturity						
Treasury bills	49,066	0	49,066	14,835	0	14,835
Treasury bonds	9,882	0	9,882	11,271	0	11,271
Other debt securities	1,000	0	1,000	0	0	0
Instruments available for sale						
Treasury bills	0	24,693	24,693	0	29,461	29,461
Treasury bonds	46,592	0	46,592	20	0	20
Other debt securities	988	0	988	1,499	0	1,499
	107,528	24,693	132,220	27,624	29,461	57,086
Other debt securities						
Treasury bonds	63	0	63	39	0	39
Certificates of deposit	0	49,821	49,821	0	0	0
Other		10	10	10	0	10
	64	49,831	49,894	49	0	49

3. Claims on credit institutions

	2007			2006		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Finnish credit institutions	16	71,986	72,002	50	16,615	16,665
Foreign credit institutions	4,091	76,798	80,889	1,305	42,446	43,751
Total	4,107	148,784	152,891	1,355	59,061	60,416

4. Claims on the public and public sector entities

	2007	2006
Financial enterprises	583,396	501,093
Public sector	10,796	11,697
Households	1,428,167	1,337,929
Non-profit organisations, household sector	14,347	15,587
Foreign	67,118	45,859
Total	2,103,825	1,912,164
Of which subordinated claims	420	309
Of which non-interest-bearing claims	420	309
Impairment losses		
Individual impairment losses recognised during the year	1,102	107
Individual impairment losses reversed during the year	-109	-143
Group impairment losses	0	0
Total impairment losses	993	-35

5. Impairment losses on loans and trade receivables

	2007		2006	
	Individual	Group	Individual	Group
Balance, January 1	-1,058	0	-1,094	0
New and increased impairment losses	1,022		14	
Reversals of impairment losses	-38		-73	
Actual losses/reversals	9		23	
Recognised in income statement	-993		35	
Direct write-offs/reversals	-45		1	
Balance, December 31	-2,096	0	-1,058	0

6. Shares and participations

	2007			2006		
	Listed	Other	Total	Listed	Other	Total
Shares and participations						
Available for sale	1,775	1,447	3,222	2,678	1,484	4,161
Shares and participations in associated companies	0	1,576	1,576	0	1,632	1,632

There are no holdings in other credit institutions.

7. Derivative instruments

	2007		2006	
	Fair value		Fair value	
	Positive	Negative	Positive	Negative
Interest rate derivatives				
Interest rate swaps	4,287	2,751	2,740	2,364
Currency derivatives				
Forward contracts	237	218	182	175
Interest rate and currency swaps	48	0	36	19
Equity derivatives				
Option contracts				
Purchased	29,474	0	23,659	0
	34,045	2,969	26,618	2,558

The equity derivatives that were purchased protect option structures embedded in bonds issued to the public.

Nominal value of underlying asset by remaining maturity:

	2007				2006			
	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	69,209	246,525	45,760	361,494	106,348	211,989	31,817	350,154
Currency derivatives								
Forward contracts	26,535	0	0	26,535	14,673	0	0	14,673
Interest rate and currency swaps	161	0	0	161	532	0	0	532
Equity derivatives								
Option contracts								
Purchased	21,875	161,909	0	183,784	36,610	114,798	0	151,408
	117,779	408,434	45,760	571,974	158,163	326,787	31,817	516,767

8. Intangible assets

	2007	2006
IT investments	3,950	3,553
Ongoing IT investments	201	0
Goodwill	1,405	881
Other	83	195
	5,639	4,629
Of which internally generated IT investments		
Gross carrying amount	2,417	1,592
Accumulated amortisation	-753	-419
	1,664	1,173

9. Properties and shares and participations in real estate companies

	2007	2006
Investment properties		
Land and water	441	453
Buildings	1,928	2,044
Shares in real estate companies	325	321
	2,694	2,819
Properties for the Group's own use		
Land and water	2,351	2,352
Buildings	13,890	12,610
	16,241	14,961

10. Changes in intangible and tangible assets

2007	Land and buildings for own use	Investment properties	Other tangible assets	Goodwill	Other intangible assets	Total
Historical costs						
Cost on January 1	24,763	3,214	13,781	881	12,501	55,140
Increases during the year	2,204	37	5,111	524	1,767	9,643
Decreases during the year	-38	-203	-1,781	0	-4,292	-6,314
Cost on December 31	26,929	3,048	17,111	1,405	9,976	58,469
Accumulated depreciation/amortisation						
Acc. depreciation/amortisation/impairment losses on Jan. 1	-9,801	-395	-8,985	0	-8,753	-27,934
Acc. depreciation/amortisation concerning decreases	0	52	1,781	0	4,170	6,003
Depreciation/amortisation for the year	-887	-11	-2,763	0	-1,159	-4,820
Impairment loss for the year	0	0	0	0	0	0
Acc. depreciation/amortisation/impairment losses on Dec. 31	-10,688	-354	-9,967	0	-5,742	-26,751
Carrying amount on December 31	**16,241**	**2,694**	**7,143**	**1,405**	**4,234**	**31,718**

2006	Land and buildings for own use	Investment properties	Other tangible assets	Goodwill	Other intangible assets	Total
Historical costs						
Cost on January 1	24,695	3,330	14,082	927	10,797	53,831
Increases during the year	688	0	1,628	0	1,860	4,176
Decreases during the year	-621	-116	-1,930	-45	-156	-2,833
Cost on December 31	24,763	3,214	13,781	881	12,501	55,174
Accumulated depreciation/amortisation						
Acc. depreciation/amortisation/impairment losses on Jan. 1	-9,001	-384	-8,876	0	-7,659	-25,920
Acc. depreciation/amortisation concerning decreases	15	0	1,853	0	64	1,932
Depreciation/amortisation for the year	-815	-11	-1,962	0	-1,158	-3,980
Impairment loss for the year	0	0	0	0	0	0
Acc. depreciation/amortisation/impairment losses on Dec. 31	-9,801	-395	-8,985	0	-8,753	-27,934
Carrying amount on December 31	**14,961**	**2,819**	**4,796**	**881**	**3,748**	**27,206**

11. Other assets

	2007	2006
Cash items in the process of collection	52	84
Other	20,576	16,666
	20,628	16,750

12. Accrued income and prepayments

	2007	2006
Interest	11,959	8,123
Other	9,317	8,238
	21,276	16,360

13. Deferred tax assets and liabilities

	2007	2006
Deferred tax assets		
Accrual differences	41	42
Other temporary differences	1,240	843
	1,281	885
Deferred tax liabilities		
Temporary differences	15,908	12,496
From the fair value reserve	129	146
	16,037	12,642

14. Debt securities issued to the public

	2007		2006	
	Carrying amount	Nominal amount	Carrying amount	Nominal amount
Certificates of deposit	219,044	222,254	238,647	241,602
Bonds	519,997	506,711	358,787	368,879
Total	739,041	728,965	597,434	610,481

15. Other liabilities

	2007	2006
Cash items in the process of collection	16,891	16,224
Other	22,457	18,844
	39,347	35,068

16. Accrued expenses and deferred income

	2007	2006
Interest	9,927	6,350
Other	10,751	5,870
	20,677	12,219

17. Subordinated liabilities

	2007			2006		
	Carrying amount	Nominal amount	Amount in capital base	Carrying amount	Nominal amount	Amount in capital base
Convertible capital loan:						
Amount outstanding	0	0	0	5 435	5 449	0
The loan has fallen due.						
1999 debenture loan	10,000	10,000	2,000	9,984	9,984	9,984
Interest rate: 3-month EURIBOR + 1.94%						
Repayment: January 25, 2009						
2003 debenture loan	1,938	1,937	0	2,007	2,002	401
Interest rate: 3.50%						
Repayment: May 5, 2008						
2004 debenture loan 1	2,229	2,229	2,229	3,358	3,358	3,358
Interest rate: 12-month EURIBOR + 0.25%						
Repayment: 20% of nominal amount yearly beginning June 4, 2005						
2004 debenture loan 2	14,412	14,412	14,412	14,389	14,389	14,389
Interest rate: 12-month EURIBOR + 0.50%, starting June 4, 2009 12-month EURIBOR + 2.00%						
Repayment: June 4, 2014						
2005 debenture loan 1	3,111	3,111	3,111	4,152	4,152	4,152
Interest rate: 12-month EURIBOR + 0.20%						
Repayment: 20% (1,039) of original nominal amount yearly beginning May 17, 2006						
2005 debenture loan 2	9,647	9,647	9,647	9,647	9,647	9,647
Interest rate: 12-month EURIBOR + 0.40%, starting May 17, 2010 12-month EURIBOR +2.00%						
Repayment: May 17, 2015						
2006 debenture loan 1	1,952	1,952	1,952	2,441	2,444	2,441
Interest rate: 12-month EURIBOR + 0.15%						
Repayment: 20% (489) of original nominal amount yearly beginning June 1, 2007						
2006 debenture loan 2	8,942	8,942	8,942	8,927	8,942	8,927
Interest rate: 12-month EURIBOR + 0.30%, starting May 17, 2010 12-month EURIBOR +2.00%						
Repayment: June 1, 2016						

All subordinated liabilities are included in lower supplementary capital. However, the total amount in the capital base is limited to half of core capital, which means that a small portion of total subordinated debts is not included in the capital base. 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.

18. Maturity breakdown of claims and liabilities

2007

	Total	Under 3 mo	3–12 mo	1–5yrs	5–10 yrs	Over 10 yrs
Claims						
Debt securities eligible for refinancing w/central banks	132,220	22,781	50,299	58,638	503	0
Credit institutions and central banks	152,891	152,891	0	0	0	0
The public and public sector entities	2,103,825	166,274	219,869	768,493	920,226	28,963
Other debt securities	49,894	49,894	0	0	0	0
	2,438,830	391,839	270,168	827,131	920,728	28,963
Liabilities						
Credit institutions and central banks	53,121	23,121	0	30,000	0	0
The public and public sector entities	1,533,647	1,445,821	79,596	7,725	505	0
Debt securities issued to the public	739,041	185,306	69,328	484,407	0	0
Subordinated liabilities	52,231	0	4,161	15,152	32,918	0
	2,378,040	1,654,248	153,086	537,284	33,423	0

2006

	Total	Under 3 mo	3–12 mo	1–5yrs	5–10 yrs	Over 10 yrs
Claims						
Debt securities eligible for refinancing w/central banks	57,086	34,457	19,963	2,167	500	0
Credit institutions and central banks	60,416	60,416	0	0	0	0
The public and public sector entities	1,912,164	144,702	262,896	683,764	798,392	22,410
Other debt securities	49	49	0	0	0	0
	2,029,715	239,623	282,859	685,931	798,892	22,410
Liabilities						
Credit institutions and central banks	61,649	44,830	0	16,819	0	0
The public and public sector entities	1,261,009	1,185,951	57,857	15,965	1,228	9
Debt securities issued to the public	597,434	178,372	116,593	302,468	0	0
Subordinated liabilities	60,341	0	5,435	21,907	32,998	0
	1,980,433	1,409,153	179,886	357,159	34,226	9

19. Assets and liabilities in euro and other currencies

	2007			2006		
	Euro	Other currencies	Total	Euro	Other currencies	Total
Claims on credit institutions	103,853	49,038	152,891	5,276	55,141	60,416
Claims on the public and public sector entities	2,086,974	16,850	2,103,825	1,903,307	8,857	1,912,164
Debt securities	182,114	0	182,114	57,135	0	57,135
Derivative instruments	33,761	285	34,046	26,400	218	26,618
Other assets including cash	113,323	5,838	119,162	128,558	3,725	132,283
Total	2,520,025	72,012	2,592,037	2,120,675	67,941	2,188,616
Liabilities to credit institutions	51,696	1,425	53,121	60,489	1,159	61,649
Liabilities to the public and public sector entities	1,466,571	67,076	1,533,647	1,193,629	67,380	1,261,009
Debt securities issued to the public	739,041	0	739,041	597,434	0	597,434
Derivative instruments and liabilities held for trading	2,751	218	2,969	25,891	194	26,085
Subordinated debentures	52,231	0	52,231	60,341	0	60,341
Other liabilities	73,563	2,499	76,062	58,223	1,707	59,930
Total	2,385,853	71,218	2,457,071	1,996,007	70,440	2,066,448

20. Categories of financial instruments

	2007					
		Financial instruments				
	Loans and trade receivables	held to maturity	at fair value	available for sale	Non-financial instruments	Total
Assets						
Cash	39,461	0	0	0	0	39,461
Debt securities eligible for refinancing in central banks	0	59,927	0	72,293	0	132,220
Claims on credit institutions	152,891	0	0	0	0	152,891
Claims on the public and public sector entities	1,952,038	0	151,786	0	0	2,103,824
Debt securities	0	0	0	49,894	0	49,894
Share and participations	0	0	0	3,222	0	3,222
Shares and participations in associated companies	0	0	0	1,576	0	1,576
Derivative instruments	0	0	34,045	0	0	34,045
Intangible assets	0	0	0	0	5,639	5,639
Tangible assets	0	0	0	0	26,078	26,078
Other assets	0	0	0	0	20,628	20,628
Accrued income and prepayments	0	0	0	0	21,276	21,276
Deferred tax assets	0	0	0	0	1,281	1,281
Total	2,144,390	59,927	185,831	126,985	74,902	2,592,037

	2007			
	Financial liabilities at accrued cost	Financial liabilities at fair value	Non-financial liabilities	Total
Liabilities				
Liabilities to credit institutions and central banks	53,121	0	0	53,121
Liabilities to the public and public sector entities	1,508,937	24,710	0	1,533,647
Debt securities issued to the public	564,166	174,875	0	739,041
Derivative instruments and other liabilities held for trading	0	2,969	0	2,969
Other liabilities	0	0	39,347	39,347
Accrued expenses and prepaid income	0	0	20,677	20,677
Subordinated debentures	52,231	0	0	52,231
Deferred tax liabilities	0	0	16,037	16,037
Total	2,178,455	202,554	76,061	2,457,071

21. Fair value and carrying amount of assets and liabilities

	2007		2006	
	Carrying amount	Fair value amount	Carrying amount	Fair value amount
Assets				
Cash	39,461	39,461	65,288	65,288
Debt securities eligible for refinancing with central banks				
Available for sale	72,273	72,273	30,980	30,980
Intended to be held to maturity	59,947	59,939	26,106	26,574
Claims on credit institutions	152,891	152,891	60,416	60,416
Claims on the public and public sector entities				
Carried at fair value	151,786	151,786	151,159	151,159
Other	1,952,038	1,947,692	1,761,005	1,758,856
Lease assets	0	0	0	0
Debt securities available for sale	49,894	49,894	49	49
Shares and participations available for sale	3,222	3,222	4,161	4,161
Shares and participations in associated companies	1,576	1,576	1,632	1,632
Shares and participations in Group companies	0	0	0	0
Derivative instruments	34,045	34,045	26,618	26,618
Intangible assets	5,639	5,639	4,629	4,629
Tangible assets				
Investment properties	2,694	5,904	2,819	6,010
Properties for own use	16,241	19,053	14,961	16,805
Other tangible assets	7,143	7,544	4,796	5,186
Other assets	20,628	20,628	16,750	16,750
Accrued income and prepayments	21,276	21,276	16,360	16,360
Deferred tax assets	1,281	1,281	885	885
	2,592,037	2,594,105	2,188,616	2,192,358

	2007		2006	
Liabilities				
Liabilities to credit institutions	53,121	53,339	61,649	61,876
Liabilities to the public and public sector entities				
Carried at fair value	24,710	24,710	24,422	24,422
Other	1,508,937	1,509,085	1,236,587	1,238,105
Debt securities issued to the public				
Carried at fair value	174,875	174,875	147,563	147,563
Other	564,166	568,468	449,871	449,579
Derivative instruments	2,969	2,969	26,085	26,085
Other liabilities	39,347	39,347	35,068	35,068
Accrued expenses and prepaid income	20,677	20,677	12,219	12,219
Subordinated liabilities	52,231	52,658	60,341	64,309
Deferred tax liabilities	16,037	16,037	12,642	12,642
	2,457,071	2,462,165	2,066,448	2,071,870

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 coresponds 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 capital. The appraisal of real estate was performed by a licensed estate agent. Certain investment properties have limited transfer rights, since they have Finnish government-subsidised loans, and this is reflected in their value.

22. Loans and trade receivables at fair value

	2007	2006
Nominal value	154,387	151,159
Change in fair value	-2,663	-1,697
Change in credit risk	62	60
Total	151,786	149,523

Loans and trade receivables carried at fair value on December 31, 2007 were EUR 2,601,000 higher than the nominal amount at maturity. On December 31, 2007, changes in credit risk had affected the accumulated value of change in fair value by EUR 123,000. The change in credit risk is calculated on the basis of an assumption about credit losses adopted by the Executive Team in conjunction with its budget work.

23. Financial liabilities at fair value

	2007	2006
Liabilities to the public and public sector entities		
Carried at fair value		
Nominal value	24,830	24,423
Change in fair value	-115	-198
Change in credit risk	-5	10
	24,710	24,234
Other	1,508,937	1,237
Debt securities issued to the public		
Carried at fair value		
Nominal value	181,425	147,563
Change in fair value	-6,732	-4,474
Change in credit risk	181	148
	174,875	143,237
Other	564,166	449,871

Financial liabilities carried at fair value on December 31, 2007 were EUR 6,650,000 higher than the nominal amount at maturity. On December 31, 2007, changes in credit risk had affected the accumulated value of change in fair value by EUR 334,000. The change in credit risk is calculated on the basis of comparable items in 2006 and 2007.

24. Fair value option

	2007			2006		
	Opening bal Jan 1, 2007	**Change for the year**	**Closing bal Dec 31, 2007**	**Opening bal Jan 1, 2007**	**Change for the year**	**Closing bal Dec 31, 2007**
Balance sheet						
Lending to the public	-1,636	-965	-2,601	1,240	-2,876	-1,636
Derivative instruments	2,740	1,546	4,286	755	1,986	2,740
Liabilities to the public	188	-89	99	31	157	188
Debt securities issued to the public	4,326	2,224	6,550	2,032	2,295	4,326
Derivative instruments	-2,364	-387	-2,751	-1,443	-921	-2,364
Profit brought forward	2,686	1,725	4,410	1,935	751	2,686
Deferred tax liabilities	748	305	1,053	680	69	748
Income statement						
Net income from securities trading		2,331			640	
Change in deferred tax liabilities		-305			110	
Taxes		-301			-277	
Profit for the year		1,725			474	

The lending portion of groups originally classified as carried at fair value in the fair value option may be repaid in advance, and then the other components in the fair value option remain. The interest rate risk that arises is covered by new interest rate swaps that are carried at fair value in the trading portfolio and are thus not included in the fair value option portfolio.

25. Share capital

The share capital of the Bank of Åland is EUR 23,282,837.26. 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 6,355,212 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	Share capital	Series A	Series B
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
2006	22,657,579.81	5,180,910	6,045,411
2007	23,282,837.26	5,180,910	6,355,212

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 fell due for payment in its entirety on April 2, 2007.

	Issued	Conversions recorded* Dec 31, 2007	Redeemed	Remaining
Nominal loan amount in EUR:	16,818,792.65	15,762,572.47	1,056,220.18	0.00
Number of loan certificates	10,000	9,372	628	0
Equivalent number of Series B shares	1,095,546	1,025,838	69,708	0

The remaining amount of the capital loan was repaid on April 2, 2007.

Conversion terms and conditions
The conversion price was EUR 15.13929 per share. Each loan certificate with a nominal value of EUR 1,681.88 could thus be converted into 111 B shares. The difference that arose, EUR 1.42, was repaid in cash. The conversion entitlement for the loan began on April 2, 1998 and ended on January 31, 2007. The remaining loan certificates were redeemed on April 2, 2007.

* In the Finnish Trade Register.

The ten largest shareholders, December 31, 2007:

		Series A shares	Series B shares	Total number of shares	Percentage of shares	Percentage of votes
1	Alandia-Bolagen	733,886	325,145	1,059,031	9.18%	13.64%
2	Aktia Sparbank Abp	35,000	877,100	912,100	7.91%	1.43%
3	Ålands Ömsesidiga Försäkringsbolag	612,331	111,960	724,291	6.28%	11.24%
4	Wiklöf Anders	579,189	90,408	669,597	5.80%	10.62%
5	Veritas bolagen	177,734	250,026	427,760	3.71%	3.46%
6	Mattsson Rafael	274,606	15,638	290,244	2.52%	5.01%
7	Caelum Oy	65,340	156,800	222,140	1.93%	1.33%
8	Palkkiyhtymä Oy	60,000	76,000	136,000	1.18%	1.16%
9	Invest.bolaget Torggatan 14 Ab	92,348	34,974	127,322	1.10%	1.71%
10	Järsö Invest Ab	92,348	34,974	127,322	1.10%	1.71%

26. Fair value reserve

	2007			2006		
	Positive figures	Negative figures	Total	Positive figures	Negative figures	Total
Debt securities	22	-46	-24	2	-2	0
Shares	702	-193	510	746	-181	564
Total	725	-239	486	747	-183	564
Deferred tax liability			-129			-147
Fair value reserve			356			418

NOTES TO THE INCOME STATEMENT

27. Interest income

	2007	2006
Credit institutions and central banks	7,336	4,382
Public and public sector entities	98,612	67,765
Debt securities	4,671	2,332
Derivative instruments	109	39
Other	11	1
Total	110,739	74,518

28. Interest expenses

	2007	2006
Credit institutions	3,149	1,930
Public and public sector entities	38,193	21,700
Debt instruments issued to the public	27,457	16,092
Derivative instruments	47	51
Subordinated liabilities	2,532	1,847
Capital loan	24	226
Other interest expenses	1	17
Total	71,402	41,863

29. Income from equity instruments

	2007	2006
Financial assets available for sale	29	19
Group companies	0	0
Associated companies	0	0
Total	29	19

30. Commission income

	2007	2006
Deposit commissions	817	874
Lending commissions	2,653	2,569
Payment intermediation commissions	2,622	2,382
Mutual fund unit commissions	5,123	4,242
Management commissions	2,172	2,144
Securities commissions	5,259	4,917
Share issue commissions	23	0
Insurance commissions	107	187
Legal services	344	407
Guarantee commissions	262	151
Other commissions	898	548
	20,282	18,422

31. Commission expenses

	2007	2006
Service charges paid	376	344
Other	1,650	1,351
	2,026	1,695

32. Net income from securities trading and foreign exchange operation

	2007			2006		
	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	925	0	925	615	0	615
Fair value option	0	1,171	1,171	0	-425	-425
Derivative instruments	0	1,159	1,159	-25	1,065	1,040
Securities trading	925	2,331	3,256	590	640	1,230
Foreign exchange operations	13	952	965	1,015	9	1,024
	938	3,283	4,220	1,605	649	2,254

33. Net income from financial assets available for sale

	2007	2006
Capital gains	1,056	573
Impairment losses	0	-268
Total	1,056	305

34. Net income from investment properties

	2007	2006
Rental income	136	161
Rental expenses	-52	-63
Depreciation	-4	-3
Capital gains/losses	580	153
Other expenses	-18	-5
	642	244

35. Other operating income

	2007	2006
Rental income on properties	127	155
Capital gains on properties	0	602
Other property income	1	2
IT income	9,891	8,452
Other income	1,847	171
	11,865	9,382

36. Other administrative expenses

	2007	2006
Staff costs	976	752
Office costs	817	711
IT costs	3,996	3,838
Communication	1,772	1,470
Marketing	2,291	2,237
Other	441	359
	10,294	9,368

37. Other operating expenses

	2007	2006
Rental expenses	1,938	1,650
Other property expenses	721	704
Fee to security fund	636	630
Miscellaneous expenses	2,307	2,457
	5,602	5,441

38. Impairment losses on loans and other commitments

	2007	2006
Individual impairment losses	1,102	107
Group impairment losses	0	0
Reversals	-109	-143
	993	-35

Carrying amount of impaired receivables according to original interest amounted to EUR 173,000.

39. Taxes

	2007	2006
Taxes for the year	4,583	4,714
Taxes from prior years	0	-5
Changes in deferred tax assets	-396	-44
Changes in deferred tax liabilities	3,411	770
Taxes in income statement	7,598	5,435
Effective tax rate,%	26	26

The tax rate in Finland in 2006 and 2007 was 26 per cent.

	2007	2006
Net operating profit	28,633	21,099
Tax-exempt income	-7	-5
Non-deductible expenses	78	233
Non-deductible losses	777	0
Net profit from associated companies	-245	-403
Taxable profit	29,236	20,924
Tax, 26%	7,601	5,440
Taxes from prior years	-3	-5
Elimination items	0	0
Taxes in income statement	7,598	5,435

40. Income, expenditure, profit and loss

2007

	From interest		From valuations		From selling/ divestment/ contract	Total
	Revenue	Expense	Fair value	Impairment		
Financial assets at fair value						
for trading purposes	0	0	7,428	0	925	8,353
Others (fair value option)	6,933	0	965	0	0	7,898
Investments held to maturity	1,038	0	0	0	0	1,038
Loans and trading receivables	99,142	0	0	-1,019	0	98,122
Financial assets available for sale						
of which in income statement	3,627	0	0	0	1,027	4,654
of which in balance sheet	0	0	0	0	,0	0
Financial liabilities at fair value						
for trading purposes	0	0	-6,226	0	0	-6,226
Others (fair value option)	0	14,003	2,136	0	0	16,138
Financial liabilities at accrued cost	0	57,399	0	0	0	57,399
Total	**110,739**	**71,402**	**4,302**	**-1,019**	**1,953**	**187,377**

41. Earnings per share

	2007	2006
Earnings per share before dilution, EUR		
$\frac{\text{Profit for the year}}{\text{Average number of shares}}$	$\frac{20,223,273}{11,536,122} = 1.75$	$\frac{14,695,678}{11,403,422} = 1.29$
Earnings per share after dilution, EUR		
$\frac{\text{Profit for the year + interest on capital loan}}{\text{Average number of shares + shares outstanding}}$	$\frac{20,223,273}{11,536,122} = 1.75$	$\frac{14,821,997}{11,473,130} = 1.29$

42. Number of employees

	2007		2006	
	Average employees	Change	Average employees	Change
Permanent full-time employees	418	+42	376	+23
Permanent part-time employees	106	+6	100	+12
	524	+48	476	+35

43. Salaries/fees paid to Board and Executive Team

	2007	2006
Members of the Board of Directors	125	87
Managing Directors	753	635
Deputy Managing Directors	325	272
Other members of the Executive Team	809	613

The amount includes the value of fringe benefits. In addition to Board fee, EUR 16,000 was paid to Board member Agneta Karlsson as compensation for consulting assignments for the Group. 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

2007	Series A shares	Series B shares	Total shares	% of shares	% of votes
Board of Directors					
Lindholm Göran	1,861	1,309	3,170	0.03%	0.04%
Boman Sven-Harry	55	524	579	0.01%	0.00%
Janér Kent	–	–	–	0.00%	0.00%
Karlsson Agneta	40	28	68	0.00%	0.00%
Nordlund Leif	12	12	24	0.00%	0.00%
Palmberg Tom	–	–	–	0.00%	0.00%
Taberman Teppo	–	–	–	0.00%	0.00%
Wiklöf Anders	231,506	89,504	321,010	2.78%	4.29%
Total	233,474	91,377	324,851	2.82%	4.33%
Executive Team					
Grönlund Peter	–	–	–	0.00%	0.00%
Donner Lars	747	–	747	0.01%	0.01%
Erikslund Tove	–	–	–	0.00%	0.00%
Nuutinen Pekka	–	–	–	0.00%	0.00%
Tallqvist Jan	–	–	–	0.00%	0.00%
Vickström Edgar	–	–	–	0.00%	0.00%
Woivalin Dan-Erik	–	–	–	0.00%	0.00%
Total	747	–	747	0.01%	0.01%

45. Financial transactions with related parties

	2007		2006	
	Board and Executive Team	Related companies	Board and Executive Team	Related companies
Loans				
Loans outstanding, January 1	2,355	9,854	2,332	9,598
Taken out during the year	588	1,450	187	400
Principal paid during the year	-316	-2,688	-289	-413
Loans outstanding, December 31	2,626	8,617	2,230	9,585
Interest income	98	205	71	162
Deposit accounts				
Deposit accounts, January 1	842	3,659	713	3,473
Deposit accounts, December 31	1,065	5,779	824	3,439
Interest expenses	25	138	13	44
Other commissions and fees	0	9	0	9

“Board and Executive Team” includes individuals on the Board of Directors and Executive Team of Bank of Åland Plc as well as their respective spouse and minor children. “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. Members of the Board of Directors and the Executive Team may be granted a personal loan in a maximum amount of EUR 170,000 with accepted collateral at the base rate or an employee loan without collateral in a maximum amount of EUR 40,000 after normal assessment of creditworthiness. Members of the Executive Team may be granted a supplementary loan in a maximum amount of EUR 130,000 with residential property as collateral at the base rate plus a margin of 0.5 per cent.

46. Collateral provided and received

	2007	2006
Carrying amount of assets pledged for the Group's own account	75,306	46,104
Commitments for which property has been pledged	53,412	29,322

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

	2007	2006
Present value of pension liabilities	14,322	14,123
Fair value of plan assets	-17,823	-18,475
Status	-3,501	-4,352
Unrecognised actuarial gains (+)/losses (-)	-2,533	-1,245
Liabilities recognised in the balance sheet	-6,034	-5,597
Current service costs	158	211
Interest expenses	588	582
Past service costs	0	153
Expected return on plan assets	-1,185	-1,137
Receivable (-)/liability (+) recognised in income statement	-439	-191
Opening balance	**-5,597**	**-5,406**
Expenses (+)/income (-) in the income statement	-437	-191
Repayment of oversubscription		
Closing balance	**-6,034**	**-5,597**
Assumptions		
Discount rate	4.90%	4.20%
Expected return on assets	6.50%	6.50%
Increase in salaries	4.80%	3.50%
Pension index increase	2.10%	2.10%
Inflation	2.00%	2.00%
Staff turnover	0.00%	0.00%
Asset classes as a percentage of total plan assets		
Equity instruments	22.05%	22.80%
Financial market instruments	53.73%	45.20%
Properties	19.19%	18.30%
Cash and other short-term assets	5.04%	13.70%
	100.00%	100.00%
Reconciliation of present value of pension liabilities		
Opening balance	14,123	13,692
Current service costs	158	211
Interest expenses	588	582
Benefits paid	-786	-555
Actuarial gains/losses	239	40
Past service costs	0	153
	14,322	14,123
Reconciliation of fair value of plan assets		
Opening balance	18,475	17,688
Expected return on plan assets	1,183	1,137
Benefits paid	-786	-555
Actuarial gains/losses	-1,049	205
Closing balance	17,823	18,475
Specification of the fund's holdings in Bank of Åland Plc		
Shares in Bank of Åland Plc	36	26
Equity index bonds	356	333
Corporate bonds	500	499
Mutual fund holdings	0	108
Bank deposits	210	2,398
Total	1,102	3,365

An estimate of the present value of pension liabilities as well as fair value of plan assets was carried out on December 31, 2007 by Mikko Kuusela and Irma Arminen of Silta Oy, a payroll service company.

Amounts for the financial year in question and the four preceding financial years

	2007	2006	2005	2004	2003
Present value of pension liabilities	14,322	14,123	13,692	13,662	12,639
Fair value of plan assets	-17,823	-18,475	-17,688	-16,641	-16,810
Status	-3,501	-4,352	-3,996	-2,979	-4,171

* IFRS standards have been applied since January 1, 2004, with a restated closing balance for 2003.

48. Lease liabilities and rental obligations

	2007	2006
Lease payments and rental obligations due		
Within 1 year	2,106	1496
More than 1 and less than 5 years	830	338
More than 5 years	0	0
	2,936	1,834
Carrying amount		
Machinery and equipment	1,946	1,134

The Group has finance leases on cars, computers and IT equipment. Certain leases include an option to buy the asset. When leases are renewed, new negotiations take place. The most essential leases are related to computers. There are no variable fees or index clauses for these agreements. The agreements imply that the Group may redeem the machinery or continue to rent the machinery at a predetermined price when the actual rental period expires. The agreement also entitles the lessee to return the machinery. The financed amount of the largest agreement amounted to EUR 770,000 excluding value-added tax. Rental obligations were equivalent to the rental expenses that would arise upon termination of all rental agreements.

49. Off-balance sheet commitments

	2007	2006
Guarantees	25,185	16,196
Unutilised overdraft limits	83,618	76,287
Lines of credit	58,990	77,960
	167,793	170,442

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

	2007	2006
Mutual fund (unit trust) management	384,800	355,203
Discretionary asset management	520,989	451,307
Other asset management	41,600	29,698
	947,389	836,208

51. Changes in Group structure

During 2007, the Bank of Åland Plc acquired all shares outstanding in Ålandsbanken Kapialmarknadstjänster Ab. As a result of the acquisition, the company became a wholly owned subsidiary. On September 30, 2007, Ålandsbanken Kapitalmarknadstjänster was merged with the Bank of Åland Plc. The Bank of Åland Plc became a co-owner of the estate agency company Veranta Oy Helsinki. The company, whose new name is Ålandsbanken Veranta Ab, is 84 per cent owned by the Bank of Åland Plc.

	Line of business	Acquisition date	Proportion of share capital	Cost, EUR
Ålandsbanken Kapitalmarknadstjänster Ab	Asset management	April 12, 2007	30%	792,480
Veranta Oy Helsinki	Estate agency	June 13, 2007	84%	200,000 [1]

[1] The cost consists of a capital contribution in trhe form of a targeted issue of new shares.

	Ålandsbanken Kapitalmarknadstjänster Ab	Veranta Oy Helsinki
Cost breakdown		
Cash	780,000	0
Capital contribution to the company	0	200,000
Directly attributable costs	12,480	0
	792,480	200,000

	Ålandsbanken Kapitalmarknadstjänster Ab		Veranta Oy Helsinki	
	Fair value	Carrying amount	Fair value	Carrying amount
Net assets acquired				
Cash	334,875	334,875	13	13
Receivables	53,266	53,266	953	953
Share issue receivables	0	0	0	168,000
Intangible assets	0	0	655	655
Tangible assets	6,335	6,335	2,866	2,866
Liabilities	93,541	93,541	4,759	4,759
Net assets acquired	300,935	300,935	167,728	167,728
Goodwill	-491,545	-491,545	-32,272	-32,272

Ålandsbanken Kapitalmarknadstjänster AB earned a profit of EUR 0.5 M after this acquisition.
Veranta Oy earned a profit of EUR -0.1 M after this acquisition.

	2007	2006
Goodwill		
Opening balance	881,443	926,535
Gross	881,443	926,535
Goodwill recognised during the period	523,818	0
Impairment loss	0	0
Renegotiation of purchase agreement (estimated effect on opening balance)	0	-45,092
Closing balance	1,405,260	881,443

In impairment testing, a 20 per cent cost of capital was used. Impairment tests showed that an impairment loss arises in case of an earnings deterioration of about 40 per cent. During 2007, the holding in the investment property FAB Norrskog was sold. The Group's ownership stake amounted to 34 per cent.

52. Subsidiaries and associated companies

2007

Subsidiaries

The following subsidiaries were consolidated according to the purchase method of accounting as of December 31, 2007:

	Registered office	Ownership
Ab Compass Card Oy Ltd	Mariehamn	66%
Crosskey Banking Solutions Ab Ltd	Mariehamn	100%
S-Crosskey Ab	Mariehamn	60%
Ålandsbanken Asset Management Ab	Helsinki	70%
Ålandsbanken Fondbolag Ab	Mariehamn	100%
Ålandsbanken Veranta Ab	Helsinki	84%

Housing and real estate companies

The following housing and real estate companies were consolidated according to the purchase method as of December 31, 2007:

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%

The following associated companies were consolidated as of December 31, 2007:

	Registered office	Ownership
Ålands Företagsbyrå Ab	Mariehamn	22%
Ålands Fastighetskonsult Ab	Mariehamn	20%
Ålands Investerings Ab	Mariehamn	36%

	2007	2006
Combined financial information about these associated companies:		
Assets	4,805	4,908
Liabilities	1,206	1,198
Sales	2,965	2,860
Profit for the year	384	594

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, 2007:

Properties for the Group's own use	Registered office	Ownership
FAB Västernäs City	Mariehamn	50%
FAB Nymars	Sottunga	30%
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	20%
FAB Ribacken	Saltvik	31%
BAB Knappelstenen	Mariehamn	15%
BAB Sittkoff	Mariehamn	14%
BAB Fiskartorpet	Mariehamn	6%
BAB Västerhöjden	Mariehamn	11%
BAB Grantorpsvägen	Mariehamn	8%

Parent Company balance sheet

(EUR K)

ASSETS	Note	Dec 31, 2007		Dec 31, 2006	
Cash			39,460		65,288
Debt securities eligible for refinancing with central banks	1				
Treasury bills		73,759		44,296	
Other		61,374	135,132	12,790	57,086
Claims on credit institutions	2				
Repayable on demand		4,249		1,497	
Other		148,783	153,033	59,061	60,558
Claims on the public and public sector entities	3		2,106,426		1,913,769
Lease assets	4		5		43
Debt securities	1		51,767		1,351
Shares and participations	5		2,373		3,289
Shares and participations in associated companies	5		1,005		1,005
Shares and participations in Group companies	5		5,760		6,524
Derivative instruments	6		34,045		26,618
Intangible assets	7,9		5,490		3,230
Tangible assets	8,9				
Investment properties as well as shares and participations in investment properties		2,583		2,745	
Other properties as well as shares and participations in real estate companies		7,096		7,195	
Other tangible assets		3,148	12,828	2,158	12,099
Other assets	10		13,116		14,553
Accrued income and prepaid expenses	11		19,406		12,818
Deferred tax assets	12		0		0
TOTAL ASSETS			2,579,847		2,178,231

Parent Company balance sheet

(EUR K)

LIABILITIES AND EQUITY CAPITAL	Note	Dec 31, 2007			Dec 31, 2006		
Liabilities to credit institutions							
Repayable on demand			2,971			1,525	
Other			50,010	52,981		60,061	61,586
Liabilities to the public and public sector entities							
Deposits							
Repayable on demand		1,073,735			982,105		
Other		462,187	1,535,922		279,869	1,261,974	
Other liabilities			1,830	1,537,752		2,500	1,264,475
Debt securities issued to the public	13						
Bonds			500,366			363,120	
Other			221,944	722,310		242,997	606,117
Other liabilities	14			36,250			33,438
Accrued expenses and prepaid income	15			14,332			9,956
Derivative instruments	6			32,443			26,217
Subordinated liabilities	16						
Capital loan			0			5,449	
Other			52,326	52,326		54,959	60,408
Deferred tax liabilities	12			129			146
Total liabilities				2,448,523			2,062,344
Difference between recorded and planned depreciation				258			146
Reserves				37,314			26,150
Total accumulated appropriations				37,572			26,296
Share capital	21			23,283			22,658
Share issue				0			301
Share premium account				32,736			28,671
Revaluation reserve				227			326
Reserve fund				25,129			25,129
Fair value reserve	22			367			416
Retained earnings				554			159
Profit for the year				11,455			11,931
Total equity capital				93,752			89,591
TOTAL LIABILITIES AND EQUITY CAPITAL				2,579,847			2,178,231
OFF-BALANCE SHEET OBLIGATIONS	45						
Obligations to a third party on behalf of customers							
Guarantees and pledges			25,185	25,185		16,196	16,196
Irrevocable commitments in favour of a customer				142,909			154,246
				168,093			170,442

Parent Company income statement

(EUR K)

	Note	Jan 1–Dec 31, 2007			Jan 1–Dec 31, 2006		
Interest income	25			110,783			74,470
Net leasing income	26			25			32
Interest expenses	27			-72,133			-42,248
NET INTEREST INCOME				38,674			32,253
Income from equity investment	28						
In Group companies			4,658			4,440	
In associated companies			301			241	
In other companies			29	4,987		19	4,699
Commission income	29			12,424			11,946
Commission expenses	30			-1,821			-1,617
Net income from securities transactions and foreign exchange dealing	31						
Net income from securities transactions			2,085			1,655	
Net income from foreign exchange dealing			964	3,049		1,024	2,680
Net income from financial assets available for sale	32			1,027			261
Other operating income	33			3,837			2,151
Administrative expenses							
Staff costs							
Wages, salaries and other remuneration		14,009			12,171		
Pensions		2,001			2,008		
Other social security costs		837	16,846		741	14,920	
Other administrative expenses	34		12,796	-29,642		13,380	-28,300
Depreciation/amortisation and impairment losses on tangible and intangible assets				-1,609			-1,457
Other operating expenses	35			-4,882			-4,950
Loan and guarantee losses	36			-993			35
NET OPERATING PROFIT				25,052			17,701
Appropriations				-11,276			-3,220
Income taxes	37			-2,321			-2,366
Change in deferred tax assets							-184
PROFIT FOR THE YEAR				11,455			11,931

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 has 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
Renovations in rented premises	4–10 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. Impairment loss of an investment is recognised after individual examination

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.

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

NOTES TO THE BALANCE SHEET

1. Holdings of debt securities

	2007			2006		
	Listed	Other	Total	Listed	Other	Total
Debt securities eligible for refinancing						
Instruments held to maturity						
Treasury bills	49,066	0	49,066	14,835	0	14,835
Treasury bonds	9,882	0	9,882	11,271	0	11,271
Others	1,000	0	1,000	0	0	0
Instruments available for sale						
Treasury bills	0	24,693	24,693	0	29,461	29,461
Treasury bonds	46,592	0	46,592	20	0	20
Other debt securities	3,900	0	3,900	1,499	0	1,499
	110,440	24,693	135,132	27,624	29,461	57,086
Other debt securities						
Treasury bonds	63	0	63	39	0	39
Bonds issued by banks	0	49,621	49,621	0	0	0
Other	2,073	10	2,083	1,312	0	1,312
	2,137	49,631	51,767	1,351	0	1,351

2. Claims on credit institutions

	2007			2006		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Finnish credit institutions	2	71,986	71,987	0	16,615	16,615
Foreign credit institutions	4,248	76,798	81,046	1,497	42,446	43,943
Total	4,249	148,783	153,033	1,497	59,061	60,558

3. Claims on the public and public sector entities

	2007	2006
Financial enterprises	583,396	501,050
Public sector	10,796	11,697
Households	1,430,768	1,339,577
Non-profit organisations, household sector	14,347	15,587
Foreign	67,118	45,859
Total	2,106,426	1,913,769
Of which subordinated claims	420	309
Of which non-interest-bearing claims	420	309
Impairment losses		
Individual impairment losses recognised during the year	1,102	107
Individual impairment losses reversed during the year	-109	-143
Group impairment losses	0	0
Total impairment losses	993	-35

4. Lease assets rented out

	2007	2006
Machinery and equipment	5	43
Other assets	0	0
Total	5	43

For more information, see Note 26.

5. Shares and participations

	2007			2006		
	Listed	Other	Total	Listed	Other	Total
Shares and participations						
Available for sale	926	1,447	2,373	1,805	1,484	3,289
Shares and participations in associated companies	0	1,005	1,005	0	1,005	1,005
Shares and participations in Group companies	0	5,760	5,760	0	6,524	6,524
	926	8,212	9,138	1,805	9,013	10,818

There are no holdings in other credit institutions.

6. Derivative instruments

	2007		2006	
	Fair value		Fair value	
	Positive	Negative	Positive	Negative
Interest rate derivatives				
Interest rate swaps	4,287	-2,751	2,740	-2,364
Currency derivatives				
Forward contracts	237	-218	182	-175
Interest rate and currency swaps	48	0	36	-19
Equity derivatives				
Option contracts				
Purchased	29,474	0	23,659	0
Written	0	-29,474	0	-23,659
	34,045	-32,443	26,618	-26,217

Nominal value of underlying asset by remaining maturity:

	2007				2006			
	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	69,209	246,525	45,760	361,494	106,348	211,989	31,817	350,154
Currency derivatives								
Forward contracts	26,535	0	0	26,535	14,673	0	0	14,673
Interest rate and currency swaps	161	0	0	161	532	0	0	532
Equity derivatives								
Option contracts								
Purchased	21,875	161,909	0	183,784	36,610	114,798	0	151,408
Written	21,875	161,909	0	183,784	36,610	114,798	0	151,408
	139,654	570,343	45,760	755,758	194,774	441,585	31,817	668,175

7. Intangible assets

	2007	2006
IT investments	878	2,301
Ongoing IT investments	1,847	
Goodwill	1,123	0
Other	1,642	929
	5,490	3,230

8. Properties and shares and participations in real estate companies

	2007	2006
Investment properties		
Land and water	50	58
Buildings	174	246
Shares in real estate companies	2,360	2,440
	2,583	2,745
Properties for the Group's own use		
Land and water	173	174
Buildings	6,436	6,534
Shares in real estate companies	487	487
	7,096	7,195

9. Changes in intangible and tangible assets

2007	Land and buildings for own use	Investment properties	Other tangible assets	Goodwill	Other intangible assets	Total
Historical costs						
Cost on January 1	12,438	3,141	6,673	0	7,945	30,196
Increases during the year	85	0	1,458	1,182	2,082	4,807
Decreases during the year	-38	-203	-7	0	0	-248
Cost on December 31	12,485	2,938	8,124	1,182	10,027	34,755
Accumulated depreciation/amortisation						
Acc. depreciation/amortisation/impairment losses on Jan. 1	-5,243	-395	-4,515	0	-4,715	-14,867
Acc. depreciation/amortisation concerning decreases	0	52	8	0	0	60
Depreciation/amortisation for the year	-146	-11	-469	-59	-944	-1,629
Impairment loss for the year	0	0	0	0	0	0
Acc. depreciation/amortisation/impairment losses on Dec. 31	-5,389	-354	-4,976	-59	-5,659	-16,436
Carrying amount on December 31	7,096	2,583	3,148	1,123	4,368	18,319

2006	Land and buildings for own use	Investment properties	Other tangible asset	Goodwill	Other intangible assets	Total
Historical costs						
Cost on January 1	13,029	3,225	6,405	0	6,901	29,559
Increases during the year	7	0	477	0	1,097	1,581
Decreases during the year	-598	-84	-209	0	-54	-945
Cost on December 31	12,438	3,141	6,673	0	7,945	30,196
Accumulated depreciation/amortisation						
Acc. depreciation/amortisation/impairment losses on Jan. 1	-5,080	-384	-4,212	0	-3,828	-13,505
Acc. depreciation/amortisation concerning decreases	0	0	135	0	15	150
Depreciation/amortisation for the year	-162	-11	-438	0	-901	-1,512
Impairment loss for the year	0	0	0	0	0	0
Acc. depreciation/amortisation/impairment losses on Dec. 31	-5,243	-395	-4,515	0	-4,715	-14,867
Carrying amount on December 31	7,195	2,745	2,158	0	3,230	15,329

10. Other assets

	2007	2006
Cash items in the process of collection	52	84
Other	13,064	14,469
	13,116	14,553

11. Accrued income and prepayments

	2007	2006
Interest	11,959	8,135
Other	7,447	4,683
	19,406	12,818

12. Deferred tax assets and liabilities

	2007	2006
Deferred tax liabilities		
Temporary differences	0	0
From the fair value reserve	129	146
	129	146

Accumulated appropriations included a deferred tax liability of EUR 9,769 (6,836).

13. Debt securities issued to the public

	2007		2006	
	Carrying amount	Nominal amount	Carrying amount	Nominal amount
Certificates of deposit	221,944	225,198	242,997	245,985
Bonds	500,366	511,390	363,120	370,058
Total	722,310	736,588	606,117	616,043

14. Other liabilities

	2007	2006
Cash items in the process of collection	16,891	16,224
Other	19,359	17,215
	36,250	33,438

15. Accrued expenses and deferred income

	2007	2006
Interest	9,954	6,350
Other	4,379	3,606
	14,332	9,956

16. Subordinated liabilities

See Note 17 to the consolidated financial statements

17. Maturity breakdown of claims and liabilities

2007	Total	– 3 mo	3 – 12 mo	1 – 5 yrs	5 – 10 yrs	Over 10 yrs
Claims						
Debt securities eligible for refinancing w/central banks	135,132	25,693	50,299	58,638	503	0
Credit institutions and central banks	153,033	153,033	0	0	0	0
The public and public sector entities	2,106,426	168,875	219,869	768,493	920,226	28,963
Other debt securities	51,767	51,767	0	0	0	0
	2,446,358	399,368	270,168	827,131	920,728	28,963
Liabilities						
Credit institutions and central banks	52,981	22,981	0	30,000	0	0
The public and public sector entities	1,537,752	1,449,926	79,596	7,725	505	0
Debt securities issued to the public	722,310	168,575	69,328	484,407		0
Subordinated liabilities	52,326	0	4,161	15,152	33,013	0
	2,365,369	1,641,482	153,086	537,284	33,518	0

	2006					
	Total	– 3 mo	3 – 12 mo	1 – 5 yrs	5 – 10 yrs	Over 10 yrs
Claims						
Debt securities eligible for refinancing w/central banks	57,086	34,457	19,963	2,167	500	0
Credit institutions and central banks	60,558	60,558	0	0	0	0
The public and public sector entities	1,913,769	146,307	262,896	683,764	798,392	22,410
Other debt securities	1,351	1,351	0	0	0	0
	2,032,764	242,672	282,859	685,931	798,892	22,410
Liabilities						
Credit institutions and central banks	61,586	44,768	0	16,819	0	0
The public and public sector entities	1,264,475	1,189,416	57,857	15,965	1,228	9
Debt securities issued to the public	606,117	187,056	116,593	302,468	0	0
Subordinated liabilities	60,408	0	5,449	21,961	32,998	0
	1,992,587	1,421,240	179,899	357,212	34,226	9

18. Assets and liabilities in euro and other currencies

	2007			2006		
	Euro	Other currencies	Total	Euro	Other currencies	Total
Claims on credit institutions	104,000	49,033	153,033	5,465	55,092	60,558
Claims on the public and public sector entities	2,089,576	16,850	2,106,426	1,904,912	8,857	1,913,769
Debt instruments	186,899	0	186,899	58,437	0	58,437
Derivative instruments	33,761	285	34,046	26,400	218	26,618
Other assets including cash	93,646	5,798	99,444	115,181	3,668	118,850
Total	2,507,881	71,966	2,579,847	2,110,395	67,836	2,178,231
Liabilities to credit institutions	51,557	1,425	52,981	60,427	1,159	61,586
Liabilities to the public and public sector entities	1,470,675	67,076	1,537,752	1,197,095	67,380	1,264,475
Debt securities issued to the public	722,310	0	722,310	606,117	0	606,117
Derivative instruments and liabilities held for trading	32,225	218	32,443	26,023	194	26,217
Subordinated debentures	52,326	0	52,326	60,408	0	60,408
Other liabilities	48,299	2,412	50,711	41,884	1,656	43,540
Total	2,377,392	71,131	2,448,523	1,991,954	70,390	2,062,344

19. Fair value and book value of assets and liabilities

	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash	39,460	39,460	65,288	65,288
Debt securities eligible for refinancing with central banks				
Available for sale	75,185	75,185	30,980	30,980
Intended to be held to maturity	59,947	59,939	26,106	26,574
Claims on credit institutions	153,033	153,033	60,558	60,558
Claims on the public and public sector entities				
Carried at fair value	0	0	0	0
Other	2,106,426	2,104,685	1,913,769	1,909,983
Lease assets	5	5	43	43
Debt securities available for sale	51,767	51,767	1,351	1,351
Shares and participations available for sale	2,373	2,373	3,289	3,289
Shares and participations in associated companies	1,005	1,005	1,005	1,005
Shares and participations in Group companies	5,760	5,760	6,524	6,524
Derivative instruments	34,045	34,045	26,618	26,618
Intangible assets	5,490	5,490	3,230	3,230
Tangible assets				
Investment properties	2,583	5,794	2,745	5,936
Properties for own use	7,096	16,861	7,195	16,270
Other tangible assets	3,148	3,549	2,158	2,549
Other assets	13,116	13,116	14,553	14,553
Accrued income and prepaid expenses	19,406	19,406	12,818	12,818
	2,579,847	2,591,474	2,178,231	2,187,569
Liabilities				
Liabilities to credit institutions	52,981	53,199	61,586	61,814
Liabilities to the public and public sector entities				
Carried at fair value	0	0	0	0
Other	1,537,752	1,537,800	1,264,475	1,265,805
Debt instruments issued to the public				
Carried at fair value	0	0	0	0
Other	722,310	720,061	606,117	610,152
Derivative instruments	32,443	32,443	26,217	26,217
Other liabilities	36,250	36,250	33,438	33,438
Accrued expenses and prepaid income	14,332	14,332	9,956	9,956
Subordinated liabilities	52,326	52,739	60,408	64,363
Deferred tax liabilities	129	129	146	146
	2,448,523	2,446,953	2,062,344	2,071,891

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 coresponds 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 proportion of equity capital. The appraisal of real estate was performed by a licensed estate agent.

20. Changes in equity capital

	Share capital	New share issue	Share premium account	Reserve fund	Fair value reserve	Revaluation reserve	Retained earnings	Total
December 31, 2005	22,174		25,527	25,129	371	326	11,169	84,695
Dividend to shareholders							-11,010	-11,010
Conversion of capital loan	484	301	3,144					3,929
Property divestment					45			45
Change in fair value								0
Profit for the year							11,931	11,931
December 31, 2006	22,658	301	28,671	25,129	416	326	12,090	89,591
Dividend to shareholders							-11,536	-11,536
Conversion of capital loan	625	-301	4,065					4,389
Property divestment						-99		-99
Change in fair value					-48			-48
Profit for the year							11,455	11,455
December 31, 2007	23,283	0	32,736	25,129	367	227	12,009	93,752

21. Share capital

See Note 25 in the notes to the consolidated financial statements.

22. Fair value reserve

	2007			2006		
	Positive figures	Negative figures	Total	Positive figures	Negative figures	Total
Debt securities	22	-46	-24	2	-2	0
Shares	702	-182	521	743	-181	562
Total	725	-228	497	745	-183	562
Deferred tax liability			-129			-146
Fair value reserve			367			416

23. Claims on Group companies

	2007	2006
Other assets	382	114
Accrued income and prepayments	5,054	2,910
	5,436	3,024

24. Liabilities to Group companies

	2007	2006
Liabilities to the public	3,967	3,253
Debt securities issued	2,900	4,350
Other liabilities	798	193
Accrued expenses and prepaid income	27	565
	7,693	8,361

NOTES TO THE INCOME STATEMENT

25. Interest income

	2007	2006
Credit institutions and central banks	7,321	4,382
Public and public sector entities	98,677	67,733
Debt securities	4,665	2,316
Derivative instruments	109	39
Other	11	1
Total	110,783	74,470

Inga ränteintäkter har erhållits från koncernföretag.

26. Net lease income

	2007	2006
Rental income	62	108
Planned depreciation	-37	-83
Net capital gains and losses from the sale of lease assets	0	7
Total	25	32

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.

27. Interest expenses

	2007	2006
Credit institutions	3,149	1,930
Public and public sector entities	38,262	21,776
Debt instruments issued to the public	28,132	16,456
Derivative instruments	47	51
Subordinated liabilities	2,518	1,847
Capital loan	24	171
Other interest expenses	1	17
Total	72,133	42,248

Interest paid to Group companies was EUR 215 (2006: 144).

28. Income from equity instruments

	2007	2006
Financial assets available for sale	29	19
Group companies	4,658	4,440
Associated companies	301	241
Total	4,987	4,699

29. Commission income

	2007	2006
Deposit commissions	817	874
Lending commissions	2,653	2,569
Payment intermediation commissions	2,622	2,382
Mutual fund unit commisions	1,268	1,203
Management commisions	860	918
Securities commissions	2,735	2,698
Share issue commissions	23	0
Insurance commissions	107	187
Legal services	344	407
Guarantee commissions	262	151
Other commissions	731	556
	12,424	11,946

30. Commission expenses

	2007	2006
Service charges paid	376	344
Other	1,445	1,273
	1,821	1,617

31. Net income from securities trading and foreign exchange operations

	2007			2006		
	Net capital gains and losses	Net changes in fair value	Total	Net capital gains and losses	Net changes in fair value	Total
Shares and participations	925	0	925	615	0	615
Derivative instruments	0	1,159	1,159	-25	1,065	1,040
Securities trading	925	1,159	2,085	590	1,065	1,655
Foreign exchange operations	952	13	964	1,015	10	1,024
	1,877	1,172	3,049	1,605	1,075	2,680

32. Net income from financial assets available for sale

	2007	2006
Capital gains	1,027	529
Impairment losses	0	-268
Total	1,027	261

33. Other operating income

	2007	2006
Rental income on properties	590	698
Capital gains on properties	580	754
Other property income	1	2
Other income	2,667	696
	3,837	2,151

34. Other administrative expenses

	2007	2006
Staff costs	555	443
Office costs	719	673
Computer costs	7,812	8,799
Communication	1,298	1,181
Marketing	2,110	2,035
Other	302	250
	12,796	13,380

35. Other operating expenses

	2007	2006
Rental expenses	1,508	1,412
Other property expenses	756	762
Fee to security fund	636	619
Miscellaneous expenses	1,982	2,157
	4,882	4,950

36. Impairment losses on loans and other commitments

	2007	2006
Individual impairment losses	1,102	107
Group impairment losses	0	0
Reversals	-109	-143
	-993	-35

Carrying amount of interest on impaired receivables according to original interest amounted to EUR 10,000.

37. Taxes

	2007	2006
Taxes for the year	2,321	2,371
Taxes from prior years	0	-5
Changes in deferred tax assets	0	184
Changes in deferred tax liabilities	0	0
Taxes in income statement	2,321	2,550

NOTES CONCERNING STAFF, BOARD OF DIRECTORS AND EXECUTIVE TEAM

38. Number of employees

	2007		2006	
	Average employees	Change	Average employees	Change
Permanent full-time employees	263	+28	235	-20
Permanent part-time employees	79	-4	83	+11
	342	+24	318	-9

39. Salaries/fees paid to Board and Executive Team

	2007		2006	
Lindholm, Göran	18		12	
Boman, Sven-Harry	16		10	
Janér, Kent	15		10	
Karlsson, Agneta	15		10	
Nordlund, Leif	17		10	
Palmberg, Tom	9		15	
Taberman, Teppo	9		0	
Wiklöf, Anders	15		8	
Members of the Board of Directors		113		75
Managing Director		253		231
Deputy Managing Director		164		167
Other members of the Executive Team		809		613

The amount includes the value of fringe benefits. In addition to Board fee, EUR 16,000 was paid to Board member Agneta Karlsson as compensation for consulting assignments for the Group. There are no pension obligations to the members of the Board of Directors. The pension benefits of the Managing Directors and Deputy Managing Director are based on customary terms of employment.

40. Private shareholdings of the Board of Directors

See Note 44 to the consolidated financial statements.

41. Financial transactions with related parties

See Note 45 to the consolidated financial statements.

NOTES CONCERNING ASSETS PLEDGED AND CONTINGENT LIABILITIES

42. Collateral provided and received

See Note 46 to the consolidated financial statements.

43. Pension liabilities in Ålandsbanken Abps Pensionsstiftelse

	2007	2006
Pension liabilities in Ålandsbanken Abp:s Pensionsstiftelse	14,322	14,123
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 6.0.

44. Lease liabilities and rental obligations

	2007	2006
Lease payments due		
Within 1 year	692	526
More than 1 and less than 5 years	0	0
More than 5 years	0	0
	692	526

Rental obligations were equivalent to the rental expenses that would arise upon termination of all rental agreements.

45. Off-balance sheet commitments

	2007	2006
Guarantees	25,185	16,196
Unutilised overdraft limits	83,918	76,287
Lines of credit	58,990	77,960
	168,093	170,442

OTHER NOTES

46. Assets managed

	2007	2006
Discretionary asset management	134,324	38,178
	134,324	38,178

47. Changes in Group structure

See Note 51 to the consolidated financial statements.

48. Subsidiaries and associated companies

2007

Subsidiaries	Registered office	Ownership
Ab Compass Card Oy Ltd	Mariehamn	66%
Crosskey Banking Solutions Ab	Mariehamn	100%
Ålandsbanken Asset Management Ab	Helsinki	70%
Ålandsbanken Fondbolag Ab	Mariehamn	100%
Ålandsbanken Veranta Ab	Helsinki	84%

Housing and real estate companies	Registered office	Ownership
FAB Gottby Center	Jomala	53%
FAB Strandgatan 20	Mariehamn	100%

Associated companies	Registered office	Ownership
Ålands Företagsbyrå Ab	Mariehamn	22%
Ålands Fastighetskonsult Ab	Mariehamn	20%
Ålands Investerings Ab	Mariehamn	36%

	2007	2006
Combined financial information about these associated companies:		
Assets	4,805	4,908
Liabilities	1,206	1,198
Sales	2,965	2,860
Profit for the year	384	593

Housing and real estate companies	Registered office	Ownership
FAB Västernäs City	Mariehamn	50%
FAB Nymars	Sottunga	30%
FAB Strömsby	Vårdö	24%
FAB Sittkoffska gården	Mariehamn	22%
FAB Horsklint	Kökar	20%
FAB Wigells	Mariehamn	78%
BAB Bastuvägen	Mariehamn	20%
FAB Ribacken	Saltvik	31%

Proposed allocation of profit

According to the financial statements, distributable profit is EUR 12,009,171.76, of which profit for the financial year is EUR 11,454,746.05. No significant changes in the financial position of the Company have occurred since the end of the financial year, and the proposed dividend does not affect the Company's solvency.

The Board of Directors proposes that the distributable profit of the Bank of Åland Plc, EUR 12,009,171.76, be allocated as follows:

1.	For Series A and Series B shares outstanding as of December 31, 2007, a dividend of EUR 1.00 per share, totalling	EUR 11,536,122.00
2.	To remain in the accounts as retained earnings	EUR 473,049.76
		EUR 12,009,171.76

Mariehamn, February 29, 2008

Göran Lindholm *Leif Nordlund* *Sven-Harry Boman*
Kent Janér *Agneta Karlsson* *Teppo Taberman*
Anders Wiklöf *Peter Grönlund, Managing Director*

Auditors' Report

To the shareholders of the Bank of Åland Plc

We have examined the accounts, financial statements, Report of the Directors and administration of the Bank of Åland Plc for the accounting period January 1 – December 31, 2007. In accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), the Board of Directors and the Managing Director have prepared the consolidated financial statements, comprising the consolidated balance sheet, income statement, cash flow statement, changes in equity capital and notes to the financial statements, and in accordance with prevailing regulations in Finland they have prepared the Report of the Directors and the Parent Company's financial statements, comprising the Parent Company's balance sheet, income statement, cash flow 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 of the financial statements and the Report of the Directors as well as the presentation of the financial statements to a sufficient extent to conclude that the financial statements and the Report of the Directors 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 (IFRSs) 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 consolidate financial statements and the Parent Company's financial statements, which for the Parent Company's part show a profit of EUR 11,454,746.05, 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.

Mariehamn, February 29, 2008

Leif Hermans	*Rabbe Nevalainen*	*Marja Tikka*
Certified Public Accountant	*Certified Public Accountant*	*Certified Public Accountant*

Organisation from March 1, 2008

BANK OF ÅLAND PLC

BOARD OF DIRECTORS
Internal Auditing

MANAGING DIRECTOR
Risk Control
Security
Middle Office

ÅLAND CUSTOMER RELATIONS
Legal Advisory Services
Corporate Advisory Services
Customer Advisory Services
Private Banking Åland
Equities
City Office
Local branch offices
Office Services
Real Estate

MAINLAND CUSTOMER RELATIONS
Private Banking
- Funding, Investments, Office
- Corporate Services

Aleksanderinkatu
Western Helsinki
Tapiola
Tampere
Turku and Parainen
Vaasa
Processes for Investment Advisory Services

BUSINESS AND HUMAN RESOURCES DEVELOPMENT
Business Support, International Banking Relationships
International Payments
Business Development
Lending Support
Business Control
Contact Centre
Accounting
Internet
Marketing Department
Human Resources
- Catering

Treasury

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
Teppo Taberman
Anders Wiklöf

MANAGING DIRECTOR
Peter Wiklöf

Executive Team
Peter Wiklöf, Chairman
Tove Erikslund
Pekka Nuutinen
Jan Tallqvist
Edgar Vickström
Dan-Erik Woivalin

ÅLAND CUSTOMER RELATIONS
Dan-Erik Woivalin, Head of Division, Chief Legal Counsel

Internal Legal Affairs, Hanna Ekholm, Acting Department Manager
Equities, Tomas Storgård, Department Manager
Private Banking Åland, Mikael Mörn, Department Manager
Corporate Advisory Services, Kenneth Mörn, Department Manager
Customer Advisory Services, Birgitta Dahlén, Department Manager
City Office, Birgitta Dahlén, Branch Manager
Local Branch Offices, Pontus Blomster, Regional Manager
Godby Office, Jan-Arthur Josefsson, Sales Manager
Real Estate, Leif Andersson, Department Manager
Office Services, Lars-Olof Hellman, Supervisor

MAINLAND CUSTOMER RELATIONS
Pekka Nuutinen, Head of Division, General Manager
Anne-Maria Salonius, Deputy Head of Division, General Manager

Private Banking, Jan Tallqvist, General Manager
Administration, Monica Mickos, General Manager
Corporate Services, Gabriella Sköld, General Manager
Investments, Merja Simberg, Investment Director
Funding, Maria Bernas-Hilli, General Manager
Funding, Kim Wikström, General Manager
Bulevardi (Bulevarden) Office, Peter Wikström, General Manager
Aleksanterinkatu (Alexandersgatan), Anne-Maria Salonius, General Manager
Western Helsinki (Munksnäs), Tuula Lehmuskoski, 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, General Manager
Vaasa (Vasa), Lars Lönnblad, General Manager
Process Manager, Investment Advisory Services, Ola Sundberg

BUSINESS AND HUMAN RESOURCES DEVELOPMENT
Edgar Vickström, Deputy Managing Director, CFO, Head of Division, General Manager

Business Development, Mikael Lönnqvist, Department Manager
Business Support, International Payments, Thomas Nordlund, Department Manager
Lending Support, Bengt Mattsson, Department Manager
Accounting, Tom Bengtsson, Department Manager
Business Control, Johnny Rosenholm, Department Manager
Treasury, Tuula-Riitta Nyström, Department Manager
Internet, Carl-Petter Eriksson, Department Manager
Contact Centre, Nina Granqvist, Department Manager
Marketing, Tiina Björklund, Department Manager
Human Resources, Tove Erikslund, Department Manager
Catering, Annika Lundqvist, Manager

RISK CONTROL
Bernt-Johan Jansson, Department Manager

Middle Office, Michael Hilander, Department Manager
Physical Security
Continuity Planning, Kimmo Valkonen

OPERATIONS REPORTING DIRECTLY TO THE BOARD OF DIRECTORS
Internal Auditing, Monica Österlund, Department Manager

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Crosskey Banking Solutions Ab, Ltd
Peter Wiklöf, Acting Managing Director

Card & Payment Solutions, Barbro M. Andersson, Department Manager
Core & Capital Market Solutions, Harry Lindqvist, Department Manager
Hosting & Security
Internet & Mobile Solutions, Kenneth Påvall, Department Manager
Project & Customer Support, Eva-Lotta Söderqvist, Department Manager
Branch Sweden, Carita Weiss, Managing Director

Ålandsbanken Asset Management Ab
Stefan Törnqvist, Managing Director

Ålandsbanken Fondbolag Ab
Tom Pettersson, Managing Director

Compass Card Ab
Kimmo Autio, Managing Director

Ålands Företagsbyrå Ab
Jan Kangashaka, Managing Director

Ålandsbanken Veranta Ab
Paula Roini, Managing Director

Ålands Fastighetskonsult Ab
Erolf Fellman/Roger Karlsson

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