BANK OF ÅLAND

Say yes to a richer life

Annual Report 2008

Financial calendar

The Bank of Åland will publish the following Interim Reports during the 2009 financial year.

• January–March Interim Report	May 11, 2009
• January–June Interim Report	August 24, 2009
• January-September Interim Report	October 26, 2009

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 more than 27,000 inhabitants. Its official language is Swedish.

This translation of the Swedish-language Annual Report uses the international currency codes for the European Central Bank euro (EUR) and the Swedish krona (SEK). At year-end 2008, the middle rate for EUR 1 was USD 1.4708.

The Annual Report and all Interim Reports will be published on the Internet: www.alandsbanken.fi

They can also be ordered from: info@alandsbanken.fi or Secretariat, Bank of Åland Plc, Box 3, AX-22101 Mariehamn, Åland, Finland

"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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"The Bank of Åland's strategy has proved to be completely correct: We are and will remain careful with both our customers' and our shareholders' assets."

Bank of Åland in a nutshell

- The Bank of Åland (Ålandsbanken) was founded in 1919 as Ålands aktiebank and has been listed on the Stockholm Stock Exchange since 1942.

- The Bank of Åland has 19 offices in the Åland Islands and eight offices on the Finnish mainland: in Helsinki (3), Espoo, Parainen, Tampere, Turku and Vaasa. The Head Office is located in Mariehamn, Åland.

- The Bank of Åland is a relationship bank with a focus on Premium Banking and Private Banking.

- The Bank of Åland generates value for individual customers and their companies by building, deepening and maintaining long-term personal customer relationships. The Bank of Åland wants to help people and companies achieve a richer life.

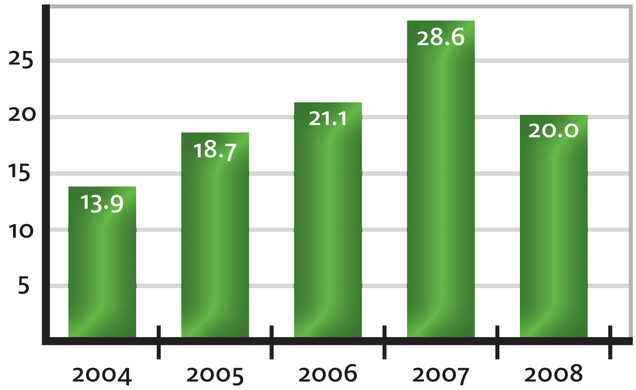
- The Bank of Åland Group includes not only the Bank of Åland Plc (Ålandsbanken Abp) but also its subsidiaries Ålandsbanken Asset Management Ab, Ålandsbanken Equities Ab, Ålandsbanken Fondbolag Ab, Crosskey Banking Solutions Ab Ltd och Ab Compass Card Oy Ltd.

- Over the years, the Bank of Åland has been an innovative pioneer in the financial sector, for example by offering Finland's first equity index bonds (1996) and its first deposit accounts tied to the prime rate (2000). It was the first to apply modern portfolio theory in asset management for individual customers (2000).

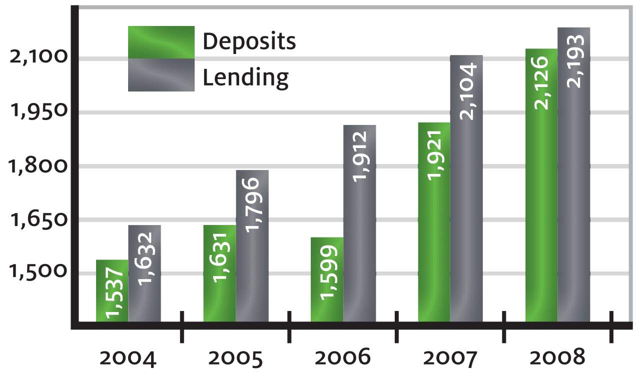
- The Bank of Åland is the only bank in Finland that has an Environmental Account.

- The Bank of Åland's Premium Banking is a unique concept that combines financial and advisory services with security- and lifestyle-related services and benefits.

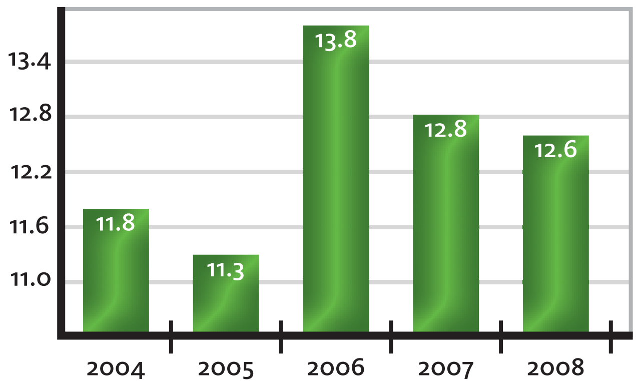
Net operating profit, EUR M



Deposits and lending, EUR M



Risk-based capital ratio, %[1]



[1] In 2004 – 2005 in compliance with Basel 1,
in 2006 – 2008 in compliance with Basel 2 regulations.

The year 2008 in brief

- This past year brought major challenges as a consequence of the international financial crisis. The Bank of Åland Group experienced a positive trend in traditional banking operations but was affected by reduced income from capital market operations due to the decrease in activity and in managed assets. Information technology (IT) operations were adversely affected by a labour dispute and internal restructuring measures. The Bank of Åland thus reported a net operating profit of EUR 20.0 M in 2008.

- In February, the Top Women equity index bond attracted world-wide media attention.

- In February, the Bank of Åland distributed EUR 82,000 in grants to long-term environmental promotion projects. This donation was generated from the Bank's Environmental Accounts.

- On March 1, Peter Wiklöf succeeded Peter Grönlund as the Managing Director of Bank of Åland Abp.

- In April, Carita Weiss was appointed the new Managing Director of the Bank of Åland's subsidiary Crosskey Banking Solutions Ab Ltd.

- For the second straight year, the Ålandsbanken Euro Bond mutual fund was named the best Nordic fund in its category and won the prestigious Lipper Fund Award Nordic for 2008.

- The subsidiary Ålandsbanken Equities Ab was established early in December and will mainly engage in stock brokerage and perform company analyses.

- On December 22, the Bank of Åland signed a letter of intent with Kaupthing Sverige AB and Kaupthing Bank h.f. of Iceland concerning acquisition of portions of the Swedish banking company Kaupthing Sverige AB.

Bank of Åland Group (EUR M)	**2008**	**2007**	**2006**	**2005**	**2004**
Income statement in brief					
Net interest income	42.1	39.3	32.7	31.4	30.0
Other income	32.4	36.3	29.3	20.9	18.2
Expenses	-52.1	-46.0	-40.9	-33.2	-33.7
Loan losses	-2.3	-1.0	0.0	-0.3	-0.7
Net operating profit	20.0	28.6	21.1	18.7	13.9
Selected balance sheet items, December 31					
Lending	2,193	2,104	1,912	1,796	1,632
Deposits, including bonds issued	2,126	1,921	1,599	1,631	1,537
Equity capital	139	135	122	113	108
Total assets	2,770	2,592	2,189	2,170	1,995
Financial ratios					
Return on equity after taxes, %	10.7	16.4	13.3	12.5	9.9
Equity capital per share, EUR	11.87	11.54	10.68	10.32	9.81
Earnings per share after taxes, EUR	1.22	1.75	1.29	1.24	0.96
Risk-based capital ratio, % [1]	12.6	12.8	13.8	11.3	11.8
Number of employees (total hours worked, recalculated as full-time equivalents)	487	470	437	411	392

[1] In 2004 – 2005 in compliance with Basel 1, in 2006 – 2008 in compliance with Basel 2 regulations






Foreword by the Managing Director of the Bank of Åland

Our strategy has once again been put to the test

When this foreword is published, many analyses of the latest financial crisis will already have been written.

I will thus be brief on that point. When I began as Managing Director last spring, I thought that my own analysis of the market situation was a bit pessimistic.

Yet my analysis turned out to be optimistic.

We can say that the Bank of Åland's strategy has once again been put to the test. This strategy has also proved to be completely correct: We are and will remain careful with both our customers' and our shareholders' assets.

Thanks to our caution, despite the turbulent market situation the Bank of Åland reported a net operating profit of EUR 20 M – the fourth best earnings in the Bank's history.

In 2008 the Bank moved closer to our objective: To be a bank with strong investment know-how that offers its customers a long-term personal relationship.

We strengthened our position as a bank for investors, among other things by expanding our range of Private Banking services, establishing the subsidiary Ålandsbanken Equities and signing a preliminary agreement to acquire portions of Kaupthing Bank Sverige in Sweden.

If we choose a longer perspective and look at the Bank of Åland's 90-year-old operations, we can note that caution and close relationships with our customers form the foundation on which we are growing stronger.

Let me clarify what the word "strong" means to us at the Bank. In discussions with our customers, they usually focus on three phrases when they want to describe us.

We are perceived as an honest partner that plays with open cards. We are viewed as clear; our customers understand how the Bank works. We are described as a secure bank.

This is a flattering description. We set high standards for ourselves. I see this description as a guiding principle in our day-to-day work to deserve our customers' trust. A reserve of trust is good to have in our back-pack during our continued expansion in both familiar and new markets.

Our customers' trust is rooted in the dedication shown by the Bank's employees. Every day during my 17 years so far at the Bank of Åland, I have been impressed by the dedication I encounter among my fellow employees.

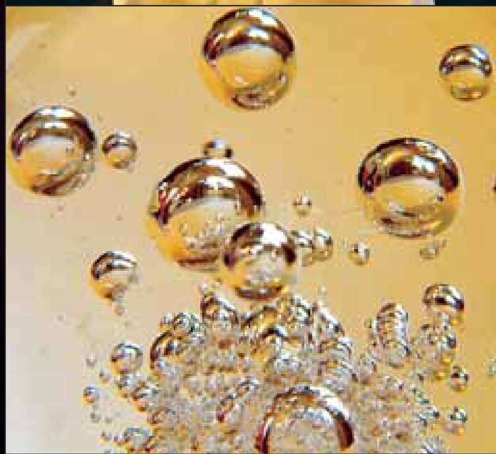
That dedication inspires me. It inspires our customers. Dedication is what has enabled the Bank to get ahead for 90 years.

It is also thanks to this dedication that, despite tough times, we can look forward to the next 90 years with confidence.

Peter Wiklöf
Managing Director


RÉSERVÉE
Premium


Premium




Premium

Premium Banking – a powerful draw

The overall package that Premium Banking offers to customers has turned out to be a long-term trump card for the Bank of Åland.

On the Finnish mainland, the year began with tough competition for home mortgage loans and deposits. But soon both new and existing customers wanted to discuss their overall financial situation.

"When Finland raised its maximum deposit guarantee, this was a reason for many new customers to listen to what we offer. Our good reputation and the Premium Banking concept brought us new customers," explains Pekka Nuutinen, head of the Premium Banking Mainland Division.

As the financial crisis unfolded, Premium Banking experienced a genuine upswing.

"During the spring, customers were still focusing on the margin. But then there was a change and our discussions began to centre on the customer's overall financial situation – a change that benefits everyone. Holistic thinking is something that gives the customer both greater security and more favourable terms," Mr Nuutinen says.

Systematic effort

He is also pleased that there was continued interest in the various lifestyle-related services in the Premium package.

"The Concierge Service, for example, has become a real favourite among many of our customers."

The vision of expanding Premium from a service package to a holistic concept became a reality during 2008. Bank staff members worked systematically to explain the concept. Among other things, the Bank has organised various events with Premium and financial investments as their theme.

"We have worked systematically and today customers realise that we are the only bank in Finland that offers such a holistic concept," Mr Nuutinen observes.

This work has had consequences for the Bank's mainland office premises. During the year, most Bank of Åland offices received a thorough face-lift.

"Our customers' visits are increasing all the time. In a way, our offices are the heart of our operations and now we are well prepared for the next several years," Mr Nuutinen says.

A new meeting place during the year was the Didrichsen Art Museum in Helsinki, with which the Bank of Åland has begun collaboration.

"During the autumn we organised private showings of the works of artist Rafael Wardi, and those evenings were very popular. Generally speaking, our customer evenings are important occasions for us to meet our customers and deepen our relationship," Mr Nuutinen concludes.

Optimism and caution in Åland

The wheels of the Åland economy were well-oiled during most of 2008. Employment was good in the island province. Tourism, the construction industry and the service sector performed well. In short, the Bank of Åland's customers had reason to be pleased.

"Of course the autumn was dominated by the financial crisis. But Åland was spared from the worst repercussions. There is a deeply rooted optimism in Åland, but at the same time we should be humble and carefully keep track of how the international picture is changing. We should balance optimism with caution," says Dan-Erik Woivalin, head of the Premium Banking Åland Division.

Premium gaining ground

During the year, efforts to raise awareness of the Premium Banking concept in Åland continued.

"We can be very pleased that a sizeable number of customers have seen the advantages of the concept and embraced it," Mr Woivalin says.

He notes that customer relationships have expanded, for example as a result of the Bank's own construction advisor and the Home Buyers' Academy that the Bank organises in collaboration with Ålands Ömsesidiga Försäkringsbolag, a locally based mutual insurance company.

"Our course evenings are appreciated and gaining in popularity. We help our customers to keep their construction projects within realistic limits. Meanwhile they get tips on everything from building permits to interior decorating."

Speaking of construction, it is worth mentioning the Bank of Åland's own big construction project. The entire first floor of the Head Office has been renovated and is now reserved for customers.

"The strategy has been that our customers should be able to arrange everything on the first floor and not need to search through different floors and corridors. Now we have much better conditions for cultivating customer relationships."

Close collaboration with shipping companies

The Bank of Åland's shipping industry strategy also held its own in a highly challenging market situation. The Bank focused on cautious lending and stuck to its ambition of targeting small and medium-sized shipping companies, where the Bank can maintain a close dialogue with management.

"We have regular follow-ups of the market situation and the revenue side with our Åland and Swedish customers. It's all about control and caution," Mr Woivalin says.


ÅLANDSBANKEN
Private Banking

Private Banking concept growing successfully

Both in Åland and on the Finnish mainland, the renewed Private Banking concept was warmly received. More and more customers want to discuss personal financial issues in depth.

Mikael Mörn, Department Manager of Private Banking Åland noted two clear trends during the year. First, the Bank was able to welcome more new customers who became interested in its renewed Private Banking concept.

“Our customers have traditionally had a good grasp of equity investments in particular. But the breadth of our Private Banking concept awakens curiosity, which is nice,” Mr Mörn says.

He saw a second trend when the autumn’s finance crisis hit. “We noticed, or more correctly, we were reminded of how well-informed our customers are. When share prices plunged, they saw the big picture and were not gripped by panic. Instead they were interested in long-term planning,” Mr Mörn says.

Information for everyone

Meanwhile the Private Banking team acted quickly when the situation seemed at its gloomiest during the autumn.

“We wanted to take the bull by the horns. So we put an advertisement in the newspaper and invited everyone to an open information meeting. That gave us an opportunity to explain about the global situation and what was causing the financial crisis we were facing. We were also able to answer all the questions that came up,” Mr Mörn says.

At the same time, he is convinced of the strength of personal meetings. “A valuable dialogue arises between two people. That is relationship banking in practice.”

Active contact on the mainland

In Helsinki, Private Banking Investment Director Merja Simberg notes that the launching of the Private Banking concept was a matter of strengthening the Bank’s traditional way of working.

“Of course we are following the principles we have always had at the Bank of Åland. The launch gave us the opportunity to carry out an exercise in clarification, since we could think through the concept in its entirety and refine the details,” Ms Simberg explains.

The biggest project of the year was a customer event for more than 800 guests at Finlandia Hall in Helsinki. It attracted great interest. The same trend was apparent in all the cities where the Bank of Åland has offices.

“It was a very strong signal. From Vaasa to Helsinki, we saw that there was a thirst for knowledge about financial investment solutions and advice about wealth management. Afterward, this trend dominated all our work during the year,” Ms Simberg says.

She adds that the time is ripe for the Bank of Åland’s Private Banking concept.

“For many years, the concept of Private Banking was perceived as something genuinely exclusive. Now more and more Finns are beginning to realise that they want a partner that they can discuss financial matters with in depth and get comprehensive solutions from.”

High-scoring effort

When asset prices plunged during the autumn, it was time for the acid test.

Private Banking staff members were well prepared. Throughout the year, they had been working intensively to keep customers informed.

“We decided that active contact should enjoy top priority. Our customers shouldn’t sit alone and be worried. We should very much be there for them. And my perception is that our customers valued that work,” Ms Simberg says.

As a kind of score for the year’s work, the Bank of Åland’s Private Banking operations were ranked by Euromoney magazine as the best at relationships in Finland.

“Of course it’s gratifying to receive a measurable score. It also shows that we must continue working with our relationship banking strategy,” Ms Simberg concludes.


50.36
48.10
43.88
41.91
40.03
38.23
36.52
34.88


NORDIC VALUE
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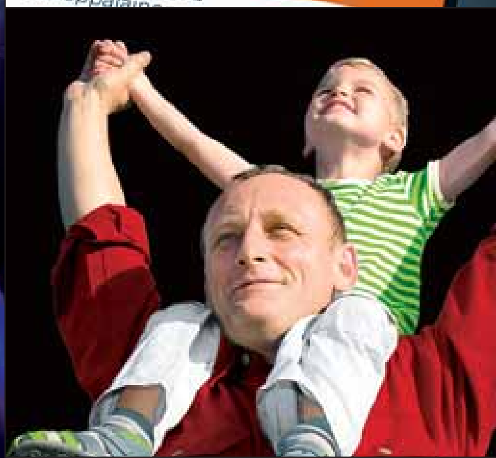
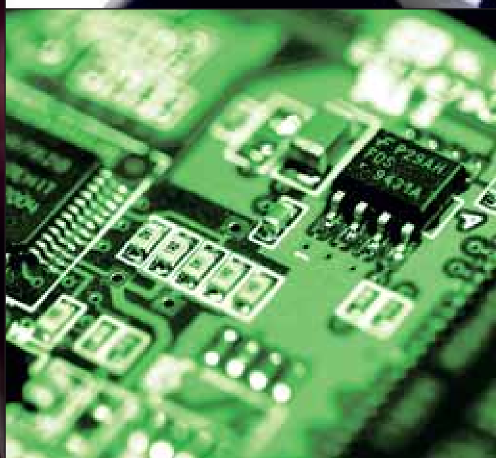
MULTI MANAGER
EMERGING MARKETS
Kehittyvien markkinoiden osakerahasto
EUROPE VALUE




The Bank of Åland's subsidiaries

Where speed and long-term perspective meet

During 2008 the Group's subsidiaries proved two things: That they can quickly adapt to a changed market situation. And that a long-term strategy is the best defence against turbulence.

Customers trust the Bank's mutual fund company

Although 2008 was a tough year, Managing Director Tom Pettersson at Ålandsbanken Fondbolag Ab is optimistic. "Our perception is that customers strongly trust us. So there is no reason to change our strategy."

When Mr Pettersson describes the financial investment climate during 2008, his summary is concise.

"In retrospect, all financial investments other than government bonds were wrong investments. In stock markets, 2008 was one of the worst years in history."

In addition, stock markets were temporarily the only functioning markets where many investors were forced to sell off assets, driving down share prices to an extreme degree. "So 2008 can be described as a lost year for equity investors," Mr Pettersson notes.

Meanwhile, throughout 2008 the Bank of Åland had greatly underweighted equity investments in its mixed funds, a step that limited their downturn.

Regular mutual fund saving attractive

One interesting detail is that the number of unit holders in the Bank of Åland's mutual funds (unit trusts) decreased noticeably less than in the Finnish mutual fund market as a whole.

"That indicates that our customers have confidence in our long-term way of working," Mr Pettersson says. He continues:

"We have also gained many new customers, who have chosen to begin regular savings in the form of mutual funds. They intend to take advantage of today's weak market situation in the long term. Through regular mutual fund saving, they can do this with a very limited risk to their invested assets."

Towards better times?

In Tom Pettersson's assessment, 2009 may be a good year for investors in fixed income and equity funds. In a situation where the fixed income market is slowly normalising, he expects fixed income funds to provide a competitive return again.

"At present we are also seeing certain indications that a turnaround in stock markets may occur during 2009. Stock markets are normally ahead of the turnaround in the general economic situation."

To Mr Pettersson and his team, a long-term approach is and will remain a badge of honour.

"That is certainly true. Thanks to long-term thinking, we are comfortable with the management strategies of our funds, so there is no risk that we will venture into quick adventures with our customers' money."

Asset Management steered clear of worst shoals

"Our portfolios consist of simple, easy-to-understand instruments that we can explain with paper and pen," is how Stefan Törnqvist, Managing Director of Ålandsbanken Asset Management, explains his company's strategy for softening the market downturn.

According to Mr Törnqvist, it was still almost impossible to preserve asset value during 2008, since the stock market was weak and the fixed income market even worse. "But I can honestly say that we tried."

Easy victories

In both upturns and downturns, Mr Törnqvist prefers simplicity. His team focuses on caution and selectivity when a portfolio is being built up.

"That is why we managed to avoid the worst shoals, like Lehman Brothers, the Bernard Madoff scandal, bankrupt hedge funds and so on. It is gratifying that today experts are calling for keep-it-simple strategies like ours."

Ready for the next upturn

Meanwhile Ålandsbanken Asset Management is gearing up for the next economic boom. Last autumn, four new employees were hired. Before that, the most recent recruitments were in 2005.

"It's because we have financial manoeuvring room to invest in expansion. More employees will be hired during 2009, so that we will be ready for the next economic expansion."

Mr Törnqvist also looks forward to a dash of optimism. "There is only one stock market downturn in history that has never come to an end, and that is the current one."

New collaborative mechanisms around Veranta

On the Finnish mainland, the autumn of 2008 saw an abrupt halt in the property market. The Bank of Åland chose to react quickly and reduce its involvement in the estate agency Veranta.

"Until August 2008, we were seeing a positive earnings trend at Veranta. But when the economy turned, we chose to reduce staffing and restructure operations," explains Pekka Nuutinen, Head of Division.

The solution was that two private companies are now handling day-to-day operations at Veranta. The Bank of Åland's responsibility is limited to overseeing and managing the brand itself.

"This collaborative mechanism means that Veranta now has a small, efficient organisation with good prospects of making it through the recession," Mr Nuutinen says.

Keeping the door open

The Bank of Åland still relies on Veranta for appraisals and other assignments. The Bank also has the alternative of escalating its involvement in the company once the property market turns around.

Crosskey aiming at new customer categories

During 2008 Crosskey Banking Solutions refined both its product range and its organisation.

"We are now equipped for the next several years," says Managing Director Carita Weiss.

Despite the financial crisis, Crosskey noted that to some extent, its customers benefited from the gloomy market situation during the autumn.

"Many bank customers re-assessed their savings. They allocated their assets at more banks, and to some extent they switched banks. For Crosskey, it meant that our customers, which to a great extent are challenger banks, would like to expand their existing services and create new ones," Ms Weiss says.

She also singles out three challenges that dominated the company's work during 2008: The launch of the SEPA payment system, Crosskey's new card strategy and the launching of innovations in its capital market system.

Advantageous for customers

Concealed behind the Single Euro Payment Area (SEPA) is a sophisticated payment system that enables bank customers to make and receive payments in the European Union and European Economic Area on equal terms.

"For Crosskey, the challenge was to ensure that our customers boarded the SEPA train from the start. We succeeded in that, and the solution was also very cost-effective for our customers, because they could share the development costs. This demonstrates in a concrete way the strength of our business model," says Ms Weiss.

During the year, Crosskey also decided to update its strategy related to debit and credit cards. "That market is a very attractive area, so we have changed our original strategy," Ms Weiss says.

New products, new opportunities

The year's third big venture was Crosskey's refinement of its capital market system, which is also a door-opener to new customer categories.

"With our refined capital market system, we have an additional product that is attractive to market players other than banks. Potential customers include mutual fund companies, for example."

In the wake of the year's challenges, Crosskey has also identified a greater need for security solutions. According to Carita Weiss, this will open up new opportunities, since the need for robust security systems is becoming increasingly important in today's digital world.

Crosskey has also managed to implement a thorough reorganisation. Ms Weiss says that as a result of the new organisation, the company is better prepared to take care of existing and new customers.

"We are now equipped for the next several years. And we are focused on several exciting projects that will increase the competitiveness of our customers."

Report of the Directors

Report of the Directors

Earnings summary for the report period

This past year brought major challenges as a consequence of the international financial crisis. The Bank of Åland Group experienced a positive trend in traditional banking operations but was affected by reduced income from capital market operations due to the decrease in activity and managed assets. Information technology (IT) operations were adversely affected by a labour dispute and internal restructuring measures.

During January – December 2008, the consolidated net operating profit of the Bank of Åland Group decreased by 30 per cent to EUR 20.0 M (January-December 2007: 28.6). Net operating profit decreased as a result of lower income from capital market products and securities trading for the Bank's own account as well as higher operating expenses. In addition, 2007 earnings were affected by capital gains and increases in the value of financial assets, as well as a repayment from the Security Fund of the Commercial Banks.

Income decreased by 2 per cent to EUR 74.2 M (75.4), while expenses increased by 13 per cent to EUR 52.1 M (46.0). Return on equity after taxes (ROE) fell to 10.7 (16.4) per cent and earnings per share to EUR 1.22 (1.75).

Net interest income

During 2008, consolidated net interest income rose by 7 per cent to EUR 42.1 M (39.3). Higher interest rates and larger volume for both deposits and lending improved net interest income. Lending volume increased by 4 per cent to EUR 2,193 M (2,104). Deposit volume increased by 11 per cent to EUR 2,126 M (1,921).

Other income

Commission income fell by 8 per cent to EUR 18.6 M (20.3). Income on mutual fund and other asset management decreased due to smaller trading volume and lower managed assets, while securities brokerage commissions increased.

Net income from securities trading for the Bank's own account was EUR 2.4 M (3.3). Net income from dealing in the foreign exchange market was unchanged at EUR 1.0 M (1.0). Net income from financial assets available for sale was EUR -0.1 M (1.1), and net income from investment properties decreased to EUR 0.1 M (0.6).

Other operating income increased to EUR 12.4 M (11.9) as a consequence of rising income from the sale and development of IT systems. During 2007, other operating income improved because of a repayment of EUR 1.4 M from the Security Fund of the Commercial Banks.

The Group's total income fell by 2 per cent to EUR 74.2 M (75.4).

Expenses

Staff costs rose by 8 per cent to EUR 28.3 M (26.2) due to employee recruitment and salary hikes as provided by collective agreements. Changes in the net assets of the Bank's pension fund, Ålandsbanken Abp:s Pensionsstiftelse r.s., using the corridor approach affected staff costs in the amount of EUR 0.2 M (0.4).

Other administrative expenses (office, marketing, communications and IT) increased to EUR 11.0 M (10.3). Production for own use totalled EUR 0.5 M (1.0) and was related to expenses for computer software, which in accordance with IFRSs must be capitalised. Depreciation/amortisation increased to EUR 5.9 M (4.9). Other operating expenses amounted to EUR 7.4 M (5.6), due to higher expenses for outside services and discontinuation of capitalised IT projects.

The Group's total expenses rose by 13 per cent to SEK 52.1 M (46.0).

Impairment losses on loans and other commitments

Impairment losses on loans amounted to EUR 2.3 M (1.0). Of these, EUR 1.3 M are targeted individual loss impairments and EUR 1.0 M a group impairment loss targeted to the shipping industry. Final actual loan losses totalled EUR 0.4 M.

Earnings structure

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

Balance sheet total and off-balance sheet obligations

At the end of 2008, the Group's balance sheet total amounted to EUR 2,770 M (2,592).

Off-balance sheet obligations decreased to EUR 165 M (168).

Personnel

Hours worked in the Group, recalculated to full-time equivalent positions, totalled 487 (470), which represented an increase of 17 positions compared to the preceding year.

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

Profit margin

Profit margin is calculated as net operating profit minus standard tax as a percentage of total income. The profit margin of the Bank of Åland Group fell from 27.3 to 19.3 per cent.

Expense/income ratio

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

Bank of Åland Group	2008	2007
Including loan losses	0.73	0.62
Excluding loan losses	0.70	0.61

Capital adequacy

The Group is reporting capital adequacy in accordance with Pillar 1 in the Basel 2 regulations. The Group's total capital ratio according to Pillar 1 of Basel 2 at the end of December 2008 was 12.6 per cent. The capital requirement for credit risks is being calculated according to the standardisation approach, and the capital requirement for operational risks has been calculated according to the basic indicator approach in the Basel 2 regulations. Risk management under Pillar 2 will be reported in the Annual Report for 2008.

Capital adequacy

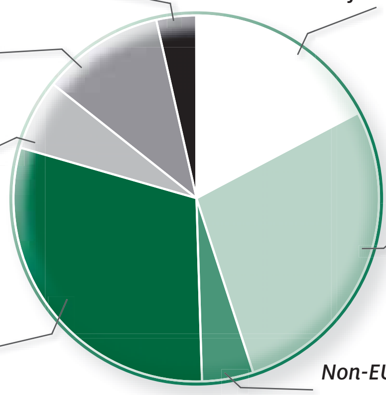
Bank of Åland Group (EUR M)	Dec 31, 2008	Dec 31, 2007
Capital base		
Core capital	112.4	103.3
Supplementary capital	53.4	51.3
Total capital base	165.7	154.6
Capital requirement for credit risks	95.9	88.5
Capital requirement for operational risks	9.3	8.0
Total capital requirement	105.1	96.5
Total capital ratio, %	12.6	12.8
Core capital ratio, %	8.6	8.6

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

Deposits

Deposits from the public, including bonds and certificates of deposit issued, increased by 11 per cent to EUR 2,126 M (1,921). Deposit accounts increased by 15 per cent to EUR 1,757 M (1,532). Bonds and certificates of deposit issued to the public decreased by 5 per cent to EUR 369 M (389).

Total deposits, Dec. 31, 2008



Deposits from the public and public sector entities, including bonds issued and certificates of deposit

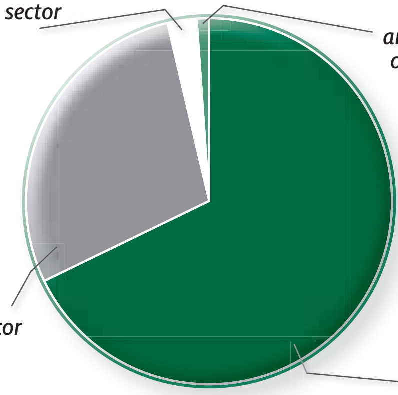
Bank of Åland Group (EUR M)	Dec 31, 2008	Dec 31, 2007
Deposit accounts from the public and public sector entities		
Demand deposit accounts	127	153
Current accounts	233	213
Environmental and Savings Accounts	73	84
Prime Accounts	652	566
Time deposits	578	449
Total deposit accounts in euros	1,661	1,465
Deposit accounts in other currencies	95	67
Total deposit accounts	**1,757**	**1,532**
Bonds and subordinated debentures *	224	226
Certificates of deposit issued to the public *	145	163
Bonds and certificates of deposit	**369**	**389**
Total deposits	**2,126**	**1,921**

* 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, 2008 rose by 4 per cent to EUR 2,193 M (2,104). Lending to households increased by 4 per cent to EUR 1,486 M (1,434). Households accounted for 68 (68) per cent of the Group's total lending. Lending to the service sector rose by 6 per cent to EUR 626 M (589), and lending to the production sector was up by 3 per cent to EUR 57 M (55).

Lending to the public by sector, December 31, 2008



Lending to the public and public sector entities by purpose		
Bank of Åland Group (EUR M)	**Dec 31, 2008**	**Dec 31, 2007**
Business and professional activities		
Service sector		
Shipping	80	97
Hotels, restaurants, tourist cottages etc.	14	12
Wholesale and retail trade	60	57
Housing corporations	64	56
Real estate operations	116	113
Financial operations	190	169
Other service business	102	86
	626	**589**
Production sector		
Agriculture, forestry and fishing	18	20
Food processing etc.	7	6
Construction	23	20
Other industry and crafts	10	10
	57	**55**
Households		
Home loans	1,141	1,113
Studies	13	13
Other purposes	333	308
	1,486	**1,434**
Public sector and non-profit organisations	**24**	**25**
Total lending	**2,193**	**2,104**

Changes in Group structure

During 2008, the Bank of Åland Plc formed the subsidiary Ålandsbanken Equities Ab. The Bank of Åland Plc owns 82 per cent of the shares. The company's operations are stock brokerage and company analysis.

Important events after the close of the report period

The Bank of Åland Plc has signed an agreement to acquire all shares in Kaupthing Bank Sverige (the Swedish unit of Iceland's Kaupthing Bank), Kaupthing Bank Fonder Ab and Alpha Management Company S.A. The acquisition means that the Bank of Åland will take over Kaupthing Bank Sverige, with a preliminary balance sheet of SEK 5 billion. The purchase price amounts to SEK 414 M and is being paid in cash.

As part of this agreement, the Bank of Åland is taking over Kaupthing Bank Sverige's operations in private banking, asset management and institutional equities trading. Most corporate lending operations and certain other assets, including the indirect exposure to Lehman Brothers, will be transferred to the Icelandic parent company, Kaupthing hf. in connection with the closing of the transaction. The Bank of Åland will not be financially affected by any ongoing litigation concerning Kaupthing Bank Sverige. The rescue loan provided to Kaupthing Bank Sverige by the Riksbank, Sweden's central bank, will be repaid in full.

The acquisition is expected to contribute positively to the Bank of Åland's 2009 earnings after restructuring expenses. Its impact on liquidity and capital adequacy is small.

Proposed distribution of profit

The Board of Directors proposes that the Annual General Meeting approve a dividend of EUR 0.50 per share, which is equivalent to a total amount of EUR 5.8 M. The purpose is to ensure that the profits retained are sufficient to enable continued growth in the Group's Finnish operations, while venturing into the Swedish market. The Group's core capital ratio is expected to fall somewhat during the coming year but to remain satisfactory.

The Bank of Åland will endeavour to begin applying an Internal Ratings Based (IRB) approach in compliance with Basel 2 to calculate its capital adequacy requirement for credit risk, starting on January 1, 2011. Our assessment, according to the current regulations, is that this will substantially improve the Bank of Åland's capital adequacy.

Outlook for 2009

Two thousand nine will be very challenging for all financial market players. The Bank of Åland expects its operating earnings to fall due to very low interest rates and continued low activity in capital markets.

The acquisition of Kaupthing Bank Sverige will have a positive nonrecurring effect on Group earnings during the first quarter. Overall, we expect consolidated earnings to be better than in 2008.

It should again be emphasised that great uncertainty prevails in the global financial system. Combined with the acquisition of Kaupthing, this means that the outlook for the future is burdened by greater uncertainty than normal.

The Group's assessment of the outlook for 2009 is based on its assumptions about future developments in the fixed income and financial markets. However, general interest rates, the demand for lending, the trend of the capital and financial markets and the competitive situation, as well as the general economic situation are factors that the Group cannot influence.

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. When the financial targets were established, the dividend level was EUR 1.

IFRS

The Group's Annual Report for 2008 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 (EUR M unless otherwise stated)	2004	2005	2006	2007	2008	% change, 07 – 08
Net interest income	30.0	31.4	32.7	39.3	42.1	7.0
Other income	18.3	20.6	28.9	36.1	32.2	-10.8
Other expenses (including depreciation/amortisation)	33.7	33.2	40.9	46.0	52.1	13.2
Loan losses	0.7	0.3	0.0	1.0	2.3	133.0
Share of income in associated companies	0.0	0.2	0.3	0.2	0.2	-23.7
Net operating profit	**13.9**	**18.7**	**21.1**	**28.6**	**20.0**	**-30.1**
Equity capital	107.8	113.3	122.2	135.0	138.5	2.6
Total assets	1,995.3	2,170.4	2,188.6	2,592.0	2,769.7	6.9
Contingent liabilities	110.1	145.0	170.4	167.8	165.2	-1.5
Return on equity after taxes (ROE), % [1]	9.9	12.3	13.3	16.4	10.7	
Return on total assets, % [2]	0.5	0.7	0.7	0.9	0.5	
Equity/assets ratio, % [3]	5.4	5.4	5.6	5.2	5.0	
Expense/income ratio including loan losses [4]	0.70	0.64	0.66	0.61	0.70	
Expense/income ratio excluding loan losses [5]	0.71	0.64	0.66	0.62	0.73	
Risk-based capital ratio, % [6]	11.8	11.3	13.8	12.8	12.6	

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 In 2004 – 2005 in compliance with Basel 1,
in 2006 – 2008 in compliance with Basel 2 regulations.

Corporate governance in 2008

The Bank's corporate governance in 2008

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. During the financial year, the Bank followed this recommendation in its corporate governance. The recommendation has subsequently been revised, and the new recommendation, the Finnish Corporate Governance Code, entered into force on January 1, 2009. The Bank is following the new Corporate Governance Code during 2009.

The aim of the Code is to harmonise the practices of listed companies, improve the transparency of administrative bodies, management remuneration and incentive policies, 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. A person who has turned 67 years old may not be elected as a Board member. 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. 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, he was a member of the Bank of Åland's Supervisory Board.

Mr Lindholm is a Board member of Ålandsbanken Abp:s Pensionsstiftelse r.s. and a Deputy Member of the Åland Delegation.

Leif Nordlund, born 1959

Deputy Chairman, Master of Laws, Board member since 2003

Leif Nordlund, Board member, has been 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 since 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, Mr 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 deputy Board member of Ålandsbanken Abp:s Pensionsstiftelse r.s. and 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. In addition, Mr Boman 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, Ålands Trädgårdshall Andelslag, Leakomatic Ab, Alandia Communications Systems Ab and Medimar Scandinavia Ab as well as a Board member of Goodtech MR Ab, Ålands Centralandelslag, Ab Chipsters Food Oy, Tidningstryckarna på Åland Ab, and Ålands Tidnings-Tryckeri Ab, Ålandstryckeriet Ab and Ålands Marknadsidé 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 specialised mutual fund and as Managing Director of Nektar Asset Management AB. Mr Janér has also been a partner at Brummer & Partners 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 in London and during 1984–1986 as a bond trader at Svenska Handelsbanken, Sweden.

Kent Janér is a Board member of Brummer & Partners AB, Nektar Asset Management AB and other companies that own shares in B & P companies. He is also a member of the Scientific Advisory Board of the Stockholm Institute for Financial Research.

Agneta Karlsson, born 1954

Doctor of Economics, 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

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1 Göran Lindholm, Chairman
2 Leif Nordlund, Deputy Chairman
3 Sven-Harry Boman, Board member
4 Kent Janér, Board member

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. She is also a Board member of Viking Line Abp, the Åland Chamber of Commerce and the Åland Association for the Promotion of Shipping. In addition, she is a member of the Research Board at Åland University of Applied Sciences and the Advisory Board of the Centre for Shipping Economics and Innovation at Copenhagen Business School.

Teppo Taberman, born 1944

Master of Science in Economics, Board member since 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 Group Oy Ab, Rettig Oy Ab, 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 mutual 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 also Chairman of Wiklöv & Lundqvist Ab and a member of the Council of the Åland Foundation for the Future of the Baltic Sea (Baltic Sea Foundation). In 2008 he was awarded an honorary doctorate at Åbo Akademi University in Turku.

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

During the financial year, Board member Agneta Karlsson carried out certain consulting assignments on behalf of the Bank's Human Resources Department. Other members of the Board of Directors have no other assignments related to the administration of the Bank.

Shareholdings in the Bank

The shareholdings in Bank of Åland Plc of the Board members can be seen in Note 45 to the Bank's official financial statements in this Annual Report. These disclosures are related to private holdings and holdings through organisations in which the Board member has a controlling influence.

Fees and other benefits

The fees of the members of the Board of Directors are fixed by the Annual General Meeting. During 2008, the Chairman of the Board received a monthly fee of EUR 1,250. Other Board members received a monthly fee of EUR 1,000. In addition, a meeting fee of EUR 500 was payable for each Board meeting and meeting of the Board's Audit Committee that was attended. In 2008 a total of EUR 123,720 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 2008 the Board of Directors met 12 times. Average attendance by members at Board meetings was 91.67 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 Teppo Taberman. All members are independent of the Bank. Mr Boman is Chairman of the Audit Committee.

Meetings

During 2008 the Audit Committee met 11 times. Average attendance by members at Committee meetings was 90.91 per cent.

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.

Meetings

During 2008 the Nomination Committee met 2 times. Average attendance by members at Committee meetings was 100 per cent.

Managing Director

General

The Managing Director is appointed by the Bank's Board of Directors.

Peter Wiklöf, Master of Laws, born 1966, became the new Managing Director of the Bank on March 1, 2008. Mr Wiklöf succeeded Peter Grönlund, Master of Business Administration, born 1948, who served as Managing Director during the years 2004-2008.

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.

Mr Grönlund, Managing Director from March 1, 2004 to February 29, 2008, had held various positions at the Bank of Åland since 1973. He retired on March 1, 2008.

1 Agneta Karlsson, Board member
2 Teppo Taberman, Board member
3 Anders Wiklöf, Board member

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 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 Chairman of the Board of Ålandsbanken Asset Management Ab, Ålandsbanken Equities Ab, Ålandsbanken Fondbolag Ab, Ålandsbanken Abp:s Pensionsstiftelse r.s., Crosskey Banking Solutions Ab Ltd and S-Crosskey Ab as well as a Board member of P24 Media Ab.

Shareholdings in the Bank

The shareholdings in Bank of Åland Plc of the Managing Director can be seen in Note 45 to the Bank's official financial statements in this Annual Report. These disclosures are related to private holdings and holdings through organisations in which the Managing Director has a controlling influence.

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 20,000 per month, before taxes. In addition, he enjoys free automobile benefits and generally applied employee benefits in the Bank.

Pension terms

The Managing Director will be granted a pension according to Employees' Pensions Act rules.

Terms of other remuneration

In accordance with his employment contract, the Managing Director is entitled to severance pay equivalent to nine (9) months of salary. The Managing Director will receive no other 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 during 2008 – 2009

Peter Wiklöf, born 1966

Master of Laws, Managing Director since March 1, 2008, Chairman and member of the Executive Team since March 1, 2008

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

Edgar Vickström, born 1961

Master of Economic Sciences, Deputy Managing Director, member of the Executive Team since 2003

Since 2008 Edgar Vickström, Deputy Managing Director, has been Head of the Accounting and Business Support Division of the Bank as well as Chief Financial Officer (CFO).

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 Business and Human Resources Development Division from 2005 to 2008, 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, Ålandsbanken Pensionsstiftelse r.s., Ålands Investerings AB and IFK Mariehamn Ab, as well as Chairman of the Board of Ab Compass Card Oy Ltd and the Åland Chamber of Commerce.

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 of the Bank and during 1995–2000 at the Åland Tourism Board.

Peter Michelsson, born 1961

Master of Economic Sciences, member of the Executive Team since January 22, 2009

Peter Michelsson has been Head of the Private Banking Division of the Bank since January 22, 2009.

Mr Michelsson served as Managing Director of Oy Regent Ab (consultancy) from 2007 and from 2005 to 2007 as Head of Private Banking at Kaupthing Bank Finland. During 2004–2005 he served as Head of Equity Sales, Capital Markets at the same bank. Mr Michelsson also worked as an institutional broker at D. Carnegie Finland during the period 1994–2004, as a product manager at Helsinki Media/Startel in 1992–1994, as sales manager at Oy Infodec Ab in 1988–1992 and as sales manager at Oy Regent Ab from 1985 to 1988.

Mr Michelsson is a Board member of Ålandsbanken Asset Management Ab.

Pekka Nuutinen, born 1961

Bachelor of Business Administration, member of the Executive Team since 2005

Since 2008 Pekka Nuutinen has been Head of the Premium Banking Mainland Division.

Mr Nuutinen has also served as the Head of the Bank's Mainland Division from 2005 to 2008, as General Manager of the Bank's Corporate Unit in Helsinki in 1998–2007 and as head of funding in the same unit in 1996–1997. From 1985 to 1996 he 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.

Johnny Rosenholm, born 1971

Master of Economic Sciences, member of the Executive Team since 2008.

1 Peter Wiklöf, Managing Director
2 Edgar Vickström, Deputy Managing Director, Head of the Accounting and Business Support Division
3 Tove Erikslund, Human Resource Department Manager
4 Peter Michelsson, Head of the Private Banking Division


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Johnny Rosenholm has been Head of Lending at the Bank since May 2008.

Mr Rosenholm worked as Head of Business Control at the Bank between 2006 and 2008. He also served as Financial Controller at Viking Line Abp during 1998–2006 and as internal controller at Ålands Penningsautomatförening during 1997–1998.

Since 2006 Mr Rosenholm has been a Board member of Åland Island Games 2009 Ab Ltd.

Tom Westerén, born 1971

Master of Arts, Master of Business Administration, member of the Executive Team since January 5, 2009

Tom Westerén has been the Bank's Communications and Marketing Director and Head of the Communications Division since January 2009. He has overall responsibility for the Internet, Contact Centre and Marketing Departments.

Mr Westerén worked most recently at the Euro RSCG BNL communications agency, where he served as Group Director during 2006–2008, as Director of Corporate Communications in 2003–2006 and as a communications consultant in 2002–2003. Mr Westerén also worked as Information Manager at Oy LM Ericsson Ab in 1998–2000 and as an information officer at the same company in 1997 – 1998.

Dan-Erik Woivalin, born 1959

Attorney at Law, member of the Executive Team since 2003

Since 2008 Dan-Erik Woivalin has been Head of the Premium Banking Åland Division.

Mr Woivalin also served as Head of the Bank's Åland Division in 2005–2008. 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 Chairman of the Board of Ålands Företagsbyrå Ab and a Board member of Crosskey Banking Solutions Ab Ltd, Ålands Telefonandelslag and the Åland Nautical Club.

Members of the Executive Team who resigned during the 2008 financial year

The following members of the Executive Team retired during the 2008 financial year.

Peter Grönlund, born 1948

Master of Business Administration

Chairman and member of the Executive Team from 2004 until February 29, 2008

Managing Director from 2004 until February 29, 2008

Lars Donner, born 1948

Bachelor of Arts

Member of the Executive Team from 2003 until February 29, 2008

Before retiring, Mr Donner had been Head of the Risk Management and Central Staff Unit Division since 2003.

Jan Tallqvist, born 1947

Attorney at Law

Member of the Executive Team from 2003 until February 29, 2008

Before retiring, Mr Tallqvist had served as Head of the Private Banking Unit since 2003.

Shareholdings in the Bank

The shareholdings in Bank of Åland Plc of the members of the Executive Team can be seen in Note 45 to the Bank's official financial statements in this Annual Report. These disclosures are related to private holdings and holdings through organisations in which the Executive Team member has a controlling influence.

Salary and other benefits

The Board of Directors sets the salary benefits and other terms of employment of Executive Team members. Salaries paid to the Executive Team (excluding the Managing Director) totalled EUR 884,204 during 2008. The members of the Executive Team enjoy generally applied employee benefits in the Bank.

The Executive Team's Credit Committee

With effect from March 1, 2008 the Board of Directors appointed the Executive Team's Credit Committee and entrusted it until further notice to be the decision making body on certain specified credit matters.

The Executive Team's Credit Committee makes decisions on all credit matters that exceed the authority of an individual decision-maker. It also grants credits to Heads of Division, Department Managers, Branch Office Directors and Regional Managers.

Head of Lending Johnny Rosenholm, Managing Director Peter Wiklöf, Head of Division Dan-Erik Woivalin and Head of Division Pekka Nuutinen form the Executive Team's Credit Committee. Johnny Rosenholm serves as Chairman and Dan-Erik Woivalin as the Committee's Secretary. Edgar Vickström is a deputy for all members of the Executive Team's Credit Committee.

Meetings

During 2008, 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

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 2008 was 20 per cent of the amount in excess of a predetermined target budget. No allocation was made to the Personnel Fund for 2008. The calculation basis for 2009 is the same as for 2008, but the Board may decide on the basis of its own judgement whether to include non-recurring items in calculating the distribution to the Personnel Fund.

Internal Auditing

The Internal Auditing Department consists of three positions and reports directly to the Bank's Board of Directors. The purpose of its internal auditing operations is to objectively provide the Board of Directors and the Executive Team with independent assessments of operational business and management processes, Group risk management, corporate governance and financial controls as well as the Bank's compliance with laws and regulatory requirements.

Auditors

The latest Annual General Meeting of Shareholders appointed the following Auditors: Ernst & Young Ab, Certified Public Accountants (CGR), with Terhi Mäkinen, Certified Public Accountant (CGR) as Auditor in Charge; Marja Tikka, Certified Public Accountant (CGR); and Leif Hermans, Certified Public Accountant (CGR). During the year, auditing fees of EUR 111,835 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 79,918 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 standard and rules 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 automatically updated in the Bank's insider register. An insider's securities holdings are public information. 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.


1 Pekka Nuutinen, Head of the Premium Banking Mainland Division
2 Johnny Rosenholm, Head of Lending
3 Tom Westerén, Communications and Marketing Director
4 Dan-Erik Woivalin, Head of the Premium Banking Åland Division






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, operational risk and business risk. 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.

The Board of Directors has overall responsibility for ensuring that 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. Each unit has primary responsibility for identifying and managing risks associated with its own operations.

The Group Risk & Security Department is responsible for overseeing risk-taking and risk management and for following up mandates and limits. The 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.

The foundation of risk management is the European Union's capital adequacy directive, which is based on the Basel Committee's Basel 2 regulations. The Basel 2 regulations are based on three "pillars". In Pillar 1, the minimum capital adequacy for credit risk, market risk and operational risk is calculated. 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 1. 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, in its internal capital evaluation the Group must assess capital adequacy in proportion to the material risks to which it is exposed in its business and due to major changes in its surroundings. The concept of material risks is defined on the basis of the Group's own assumptions. 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, and both quantitative and qualitative risks must be defined and estimated.

Method used for Pillar 1

The Group uses simple methods to assess capital adequacy within Pillar 1.

For credit risks the Group uses the standardised approach and for operational risks, the basic indicator approach. The rules for exemption of small trading book positions are being applied, which means that capital adequacy requirements for market risks are calculated according to the principles for credit risk.

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. As a starting point for assessment of internal capital evaluation, the Group uses the results from Pillar 1. Based on these, it assesses whether the risk profile of the Group's own operations diverge substantially from the basic assumptions in the simpler methods in Pillar 1 and what importance these divergences have for capital adequacy.

Method used for Pillar 3

The Group discloses capital adequacy information about its risks and their management in the Annual Report. This information provides 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" 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. The Articles of Association stipulate that no representative at the Annual General Meeting may vote for more than one fortieth of the number of votes represented at the Meeting. Series B shares enjoy priority over Series A shares for dividends of up to six (6) per cent of their previous nominal value.

Trading in the Bank's shares

During 2008, the volume of trading in the Bank's Series A shares on the Helsinki Stock Exchange was EUR 1.4 M. Their average price was EUR 28.02. The highest quotation per share was EUR 36.85, the lowest EUR 22.01. Trading in Series B shares totalled EUR 3.9 M at an average price of EUR 23.44. The highest quotation was EUR 28.40, the lowest EUR 16.28.

On December 31, 2008, the number of registered shareholders was 9,056. There were also 258,750 shares registered in the names of nominees.

Changes in share capital

	Share capital, EUR	Number of Series A shares	Number of Series B shares
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
2008	23,282,837.26	5,180,910	6,355,212

The ten largest shareholders, December 31, 2008

The list below also includes the shareholder's Group companies and shareholder-controlled companies

	Shareholder	Series A shares	Series B shares	Total	% of shares	% of votes
1	The Aktia Group (savings bank)	113,800	994,363	1,108,163	9.61	2.97
2	Alandia-Bolagen (insurance group)	733,886	325,145	1,059,031	9.18	13.64
3	Ålands Ömsesidiga Försäkringsbolag (insurance company)	612,331	111,960	724,291	6.28	11.24
4	Wiklöf, Anders	581,189	90,408	671,597	5.82	10.65
5	Mattsson, Rafael	274,606	15,638	290,244	2.52	5.01
6	Pensionsförsäkringsaktiebolaget Veritas (pension insurance company)	98,934	132,763	231,697	2.01	1.92
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	Kamprad, Ingvar	0	132,000	132,000	1.14	0.12
10	Investmentbolaget 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	233,534	91,383	324,917	2.82	4.33

Shareholders by size of holding

Number of shares	Number of shareholders	Total number of shares held	Average holding
1 – 100	3,968	179,533	45
101 – 1,000	3,920	1,375,660	351
1,001 – 10,000	1,072	2,644,613	2,467
10,001 –	96	7,336,316	76,420
Of which, shares registered in name of nominee		258,750	

Shareholders by category

Category	Number of shares	% of shares
Private individuals	5,015,155	43.5
Financial institutions and insurance companies	2,791,501	24.2
Corporations	2,196,027	19.0
Non-profit organisations	575,609	5.0
Government organisations	475,632	4.1
Foreign investors	223,448	1.9
Shares registered in name of nominee	258,750	2.2

Bank of Åland shares traded, Helsinki Stock Exchange

Year	Thousands of shares		Volume as % of shares	Price paid, EUR: Highest/Lowest	Average price, EUR
2004	A	320	6.2	21.00 – 17.70	18.91
2004	B	375	6.5	19.70 – 17.25	18.35
2005	A	90	1.7	24.50 – 19.50	21.76
2005	B	449	7.7	24.10 – 18.50	20.19
2006	A	137	2.6	30.00 – 20.41	27.55
2006	B	337	5.6	27.00 – 22.50	24.31
2007	A	807	15.6	38.35 – 24.31	30.70
2007	B	543	8.5	28.90 – 23.90	25.96
2008	A	51	1.0	36.85 – 22.01	28.02
2008	B	164	2.6	28.40 – 16.28	23.44

Bank of Åland share data

	2004	2005	2006	2007	2008
Number of shares, M [1]	10.98	10.99	11.25	11.54	11.54
Average number of shares, M	10.98	10.99	11.25	11.54	11.54
Earnings per share before dilution, EUR [2]	0.96	1.24	1.29	1.75	1.22
Earnings per share after dilution, EUR[3]	0.94	1.21	1.29	1.75	1.22
Dividend payout ratio [4]	79.1	58.8	53.2	40.3	28.8
Dividend per share, EUR	1.00	1.00	1.00	1.00	0.50 [8]
Equity capital per share before dilution, EUR [5]	9.81	10.32	10.68	11.54	11.87
Market price per share, balance sheet date, EUR					
Series A	19.62	24.00	26.50	37.00	26.60
Series B	19.04	24.00	24.50	27.80	17.24
Price/earnings ratio [6]					
Series A	20.4	19.4	20.5	21.1	21.9
Series B	19.8	19.4	19.0	15.9	14.2
Effective dividend yield, % [7]					
Series A	5.1	4.2	3.8	2.7	1.9
Series B	5.3	4.2	4.1	3.6	2.9
Market capitalisation, EUR M	212.1	263.7	285.4	368.4	247.4

1 Number of shares on balance sheet date

2 $\dfrac{\text{Shareholders' interest in profit for the year}}{\text{Average number of shares}}$

3 $\dfrac{\text{Profit for the year}}{\text{Average number of shares + shares outstanding}}$

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

5 $\dfrac{\text{Equity capital – minority interest in equity}}{\text{Number of shares on balance sheet date}}$

6 $\dfrac{\text{Share price on balance sheet date}}{\text{Earnings per share before dilution}}$

7 $\dfrac{\text{Dividend}}{\text{Share price on balance sheet date}} \times 100$

8 Proposed by the Board of Directors for approval by the Annual General Meeting

Financial statements

Consolidated balance sheet

(EUR K)

ASSETS	Note	Dec 31, 2008		Dec 31, 2007	
Cash			78,995		39,461
Debt securities eligible for refinancing with central banks	2				
Treasury bills		19,895		73,759	
Other		125,831	145,726	58,462	132,220
Claims on credit institutions	3				
Repayable on demand		4,980		4,107	
Other		118,179	123,159	148,784	152,891
Claims on the public and public sector entities	4, 5		2,193,210		2,103,825
Debt securities	2		131,238		49,894
Shares and participations	6		2,843		3,222
Shares and participations in associated companies	6		1,493		1,576
Derivative instruments	7		15,213		34,045
Intangible assets	8, 10				
Miscellaneous intangible assets		3,446		4,234	
Goodwill		1,373	4,819	1,405	5,639
Tangible assets	9, 10				
Investment properties		2,588		2,694	
Properties for own use		22,895		16,241	
Other tangible assets		10,513	35,997	7,143	26,078
Other assets	11		11,053		20,628
Accrued income and prepayments	12		24,717		21,276
Deferred tax assets	13		1,269		1,281
TOTAL ASSETS			2,769,731		2,592,037

Consolidated balance sheet

(EUR K)

LIABILITIES	Note	Dec 31, 2008			Dec 31, 2007		
Liabilities to credit institutions and central banks							
Central banks			30,000			0	
Credit institutions							
Repayable on demand			2,031			3,096	
Other			38,588	70,619		50,025	53,121
Liabilities to the public and public sector entities							
Deposits							
Repayable on demand		1,164,734			1,069,737		
Other		591,952	1,756,687		462,088	1,531,825	
Other liabilities			1,252	1,757,939		1,822	1,533,647
Debt securities issued to the public	14						
Bonds			498,363			519,997	
Other			166,711	665,074		219,044	739,041
Derivative instruments and other liabilities held for trading				5,847			2,969
Other liabilities	15			40,715			39,347
Accrued expenses and prepaid income	16			18,426			20,677
Subordinated liabilities	17			53,228			52,231
Deferred tax liabilities	13			19,387			16,037
Total liabilities				2,631,236			2,457,071
Share capital	25		23,283			23,283	
Share premium account			33,272			33,272	
Reserve fund			25,129			25,129	
Fair value reserve	26		1,669			356	
Retained earnings	27		53,583			51,092	
Shareholders' interest in equity capital				136,936			133,133
Minority interest in capital				1,559			1,834
Total equity capital				138,495			134,966
TOTAL LIABILITIES AND EQUITY CAPITAL				2,769,731			2,592,037
OFF-BALANCE SHEET OBLIGATIONS	50						
Obligations to a third party on behalf of customers							
Guarantees and pledges			16,353	16,353		25,185	25,185
Irrevocable commitments given on behalf of customers				148,857			142,609
				165,209			167,793

Consolidated income statement

(EUR K)

	Note	Jan 1–Dec 31, 2008			Jan 1–Dec 31, 2007		
Interest income	28			136,050			110,739
Interest expenses	29			-93,970			-71,402
NET INTEREST INCOME				42,080			39,337
Income from equity investments	30			31			29
Commission income	31			18,600			20,282
Commission expenses	32			-2,208			-2,026
Net income from securities transactions and foreign exchange dealing	33						
Net income from securities transactions			2,352			3,256	
Net income from foreign exchange dealing			958	3,310		964	4,220
Net income from financial assets available for sale	34			-106			1,056
Net income from investment properties	35			148			642
Other operating income	36			12,390			11,865
Administrative expenses							
Staff costs							
Wages and salaries		23,323			21,847		
Pensions		3,486			2,835		
Other social security costs		1,536	28,345		1,541	26,222	
Other administrative expenses	37		10,965			10,294	
Production for own use			-508	-38,801		-993	-35,524
Depreciation/amortisation and impairment losses on tangible and intangible assets				-5,856			-4,897
Other operating expenses	38			-7,438			-5,602
Impairment loss on loans and other commitments	39			-2,314			-993
Share of profit/loss in companies consolidated according to the equity method				187			245
NET OPERATING PROFIT				20,022			28,633
Income taxes	40						
Tax for the year and prior years			2,484			4,583	
Change in deferred tax liabilities/assets			2,905	-5,390		3,015	-7,598
PROFIT FOR THE YEAR				14,632			21,035
Parent Company shareholders' interest in profit for the year				14,027			20,223
Minority interest in profit for the year				605			812
				14,632			21,035
Earnings per share	42						
Earnings per share before dilution, EUR				1.22			1.75
Earnings per share after dilution, EUR				1.22			1.75

Cash flow statement

(EUR M)

Bank of Åland Group	Jan 1–Dec 31, 2008	Jan 1–Dec 31, 2007
OPERATING ACTIVITIES		
Net operating profit	20,022	28,633
Adjustment for net operating profit items not affecting cash flow		
Loan losses	2,266	922
Unrealised changes in value	-1,127	-2,343
Depreciation/amortisation and impairment losses	5,856	4,897
Effect of pension fund	-149	-437
Accrued surpluses/deficits on debt securities and bonds issued	2,930	3,586
Gains from investing activities	-219	-1,121
Income taxes paid	-3,202	-6,016
Changes in assets and liabilities in operating activities		
Debt securities eligible for refinancing with central banks	-19,829	-64,991
Claims on credit institutions	6,793	-1,420
Claims on the public and public sector entities	-84,449	-193,547
Other asset items	-15,758	-12,752
Liabilities to credit institutions	27,498	1,472
Liabilities to the public and public sector entities	224,226	272,550
Debt securities issued	-41,838	32,781
Other liability items	1,651	-9,834
	124,671	52,379
INVESTING ACTIVITIES		
Equities	-234	1,427
Investments in associated companies and subsidiaries	0	-940
Tangible assets	-14,193	-6,609
Intangible assets	-453	-2,219
	-14,881	-8,341
FINANCING ACTIVITIES		
Dividend paid to shareholders	-11,536	-11,536
Dividend paid to minority interests	-1,005	-760
Minority share in subsidiaries	124	-269
Change in long-term borrowings from banks	-29,880	96,991
Change in subordinated debentures	999	-3,735
	-41,298	80,692
CASH AND CASH EQUIVALENTS		
Cash and cash equivalents on January 1	254,975	130,246
Cash flow from operating activities	124,671	52,379
Cash flow from investing activities	-14,881	-8,341
Cash flow from financing activities	-41,298	80,692
Cash and cash equivalents on December 31	323,468	254,975
Specification of cash and cash equivalents		
Cash	78,995	39,461
Claims on credit institutions	123,159	146,098
Debt securities	121,314	69,416
	323,468	254,975

“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 132,395,000 (2007: 106,903,000), interest paid of EUR 91,665,000 (67,825,000) and dividend income received of EUR 31,000 (29,000).

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, 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
Other 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**
Financial assets available for sale:									
Change in fair value					1,309		1,309		1,309
Transferred to income statement					4		4		4
Profit for the year						14,027	14,027	605	14,632
Total recognised income and expenses during the year					**1,313**	**14,027**	**15,340**	**605**	**15,945**
Dividend to shareholders						-11,536	-11,536	-1,005	-12,541
Other change in minority interest in equity capital							0	124	124
Equity capital, December 31, 2008	**23,283**	**0**	**33,272**	**25,129**	**1,669**	**53,583**	**136,936**	**1,559**	**138,495**

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 Nasdaq OMX Nordic Exchange Helsinki.

The consolidated financial statements for the financial year ending on December 31, 2008 were approved by the Board of Directors on February 27, 2009 and will be submitted to the 2008 Annual General Meeting for adoption. The Annual General Meeting has the opportunity to adopt or abstain from adopting the financial statements.

BASIS FOR PREPARATION AND ESSENTIAL ACCOUNTING PRINCIPLES

Basis for preparation

The financial statements for the period January 1 – December 31, 2008 has been prepared in compliance with the International Financial Reporting Standards (IFRSs) that have been adopted by the European Union.

Essential accounting principles

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 millions of euros (EUR M) 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 2008:

IAS 39 / IFRS 7
The amendments mean that under particular circumstances, financial assets may be reclassified out of the “fair value through profit or loss” category if the assets are no longer being held for the purpose of sale or repurchase in the near future. The Bank of Åland has not carried out any reclassifications as a result of the amendments.

IFRIC 14, “The Limit on a Defined Benefit Asset. Minimum Funding Requirements and their Interaction”
This interpretation clarifies the limit on asset value in case of a pension plan surplus, as well as how minimum pension plan funding requirements affect this value. At present, this change has no substantial effect on earnings. The Group is applying IFRIC 14 beginning on January 1, 2008.

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

IFRIC 11, “Group and Treasury Share Transactions”
IFRIC 12, “Service Concession Arrangement”

New accounting standards and interpretations in effect starting in 2009:

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

IAS 27, “Consolidated and Separate Financial Statements”
Among other things, the amendment means that profit or loss attributable to minority shareholders shall always be separately presented, even if this means that the minority holding is negative; that transactions with minority shareholders are always presented in equity capital; and that in cases where a parent company loses its controlling influence, any remaining holding shall be re-measured to fair value. The amendment will affect the recognition of future transactions. The standard enters into force on July 1, 2009. The standard has not yet been approved by the EU.

IFRS 3, “Business Combinations”
Revised standard for reporting acquisitions of companies. The Group will apply new norms in future accounting periods. The standard enters into force on July 1, 2009. The standard has not yet been approved by the EU.

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

The Group is not currently affected by amendments to the following:
IAS 1, "Presentation of Financial Statements"
IAS 23, "Borrowing Costs"
IAS 32, "Financial Instruments: Presentation"
IAS 39, "Financial Instruments: Recognition and Measurement"
IFRS 1, "First-time Adoption of International Financial Reporting Standards"
IFRS 2, "Share-based Payments"
IFRIC 13, "Customer Loyalty Programmes"
IFRIC 15, "Agreements for the Construction of Real Estate"
IFRIC 16, "Hedges of a Net Investment in a Foreign Operation"

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 Supervisory 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 IFRSs requires the company's Executive Team to make estimates and judgements that affect the recognised amounts of assets and liabilities, income and expenses as well 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 above 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. 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 48.

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, until further notice, 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 IFRSs.

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.

Other tangible assets

Other tangible assets consist of machinery and equipment, vehicles and an art collection. 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
Renovation 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, a so-called 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's pension fund, Ålandsbanken Abp:s Pensionsstiftelse r.s., 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

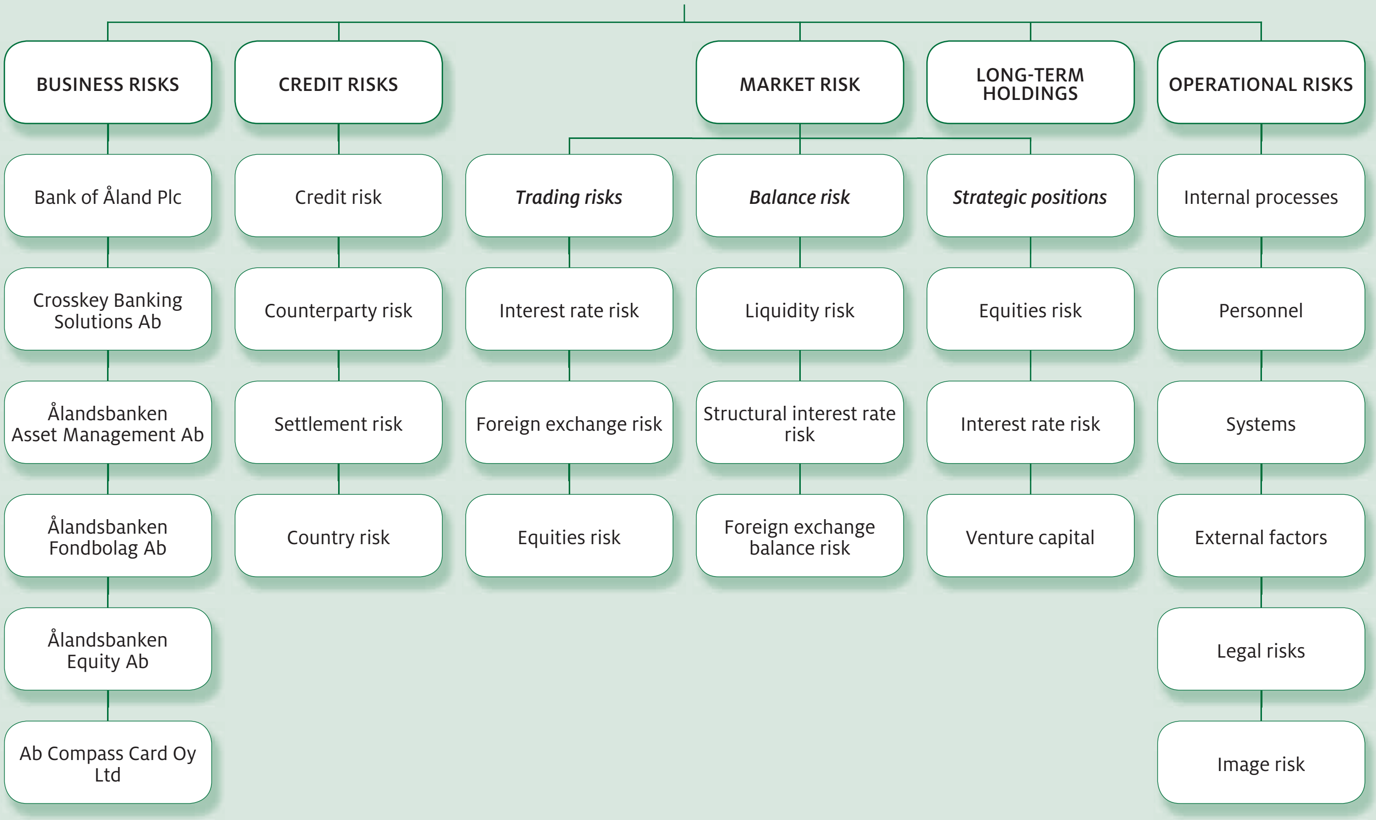
According to the Finnish Financial Supervision Authority's interpretation of the effects of IFRSs on the calculation of capital adequacy, surpluses arising from the calculation of pension obligations may not be included in the capital base. The fair value reserve, less tax liabilities, is included in 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

General

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.

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 control 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 Group-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.

Group Risk and Security

The Group Risk & Security Department is responsible for overseeing the Group's risk-taking and risk management as well as for follow-up of mandates and limits. 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. Group Risk & Security 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.

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, analyse and control 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 Group Risk & Security Department.

Business risk

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 defined as:

Strategic risk

– risks in the selected strategy: risk exposure, risk appetite and the quality level of risk management
– risk that the selected strategy is not profitable
– risk of delays in adjusting the strategy to external changes

Microeconomic surroundings risk

– deficient or delayed adjustment of operations to structural changes in the industry as well as the activities of competitors

Risks related to the legal and regulatory environment

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 and the risk that the collateral provided for this exposure will not cover the Group's claim. Credit risk also includes country risk and settlement risk. All legal entities and physical persons that the Group is exposed to are regarded as counterparties, and exposure refers to the sum of claims and investments including off-balance sheet obligations.

The Bank's credit risk includes receivables from private individuals, companies, institutions and public sector entities. The receivables consist mainly of loans, overdraft facilities and guarantees granted by the Bank. Overall credit risk management is regulated by the Bank's credit risk policy and credit policy. The level of credit risks is established in the operating strategy, financial policy and credit policy of Group companies.

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. Credit risks are followed up and analysed by the Group Risk & Security Department, which reports directly to the Managing Director. Follow-up and analysis of credit risks in the Bank are based on the Bank's internal statistical methods. For this follow-up, loans outstanding are divided into three portfolios: private individuals, small and medium-sized companies and large companies. In each portfolio, loans are divided into categories that indicate the probability of default and in categories that indicate the percentage of loss in case of default. In addition, there is a category for defaulting loans and a category for unclassified loans. The unclassified category includes loans to certain legal corporate mechanisms that have been exempted from internal risk classification methods. Based on internal risk classification, measurement values established by the Board of Directors are reported monthly to the Managing Director and the Executive Team and on a quarterly basis to the Audit Committee and the Board of Directors. The financial position and credit risk of corporate customers is also followed up with the help of the Rating Alpha risk classification system from the credit rating company Suomen Asiakastieto Oy.

Non-performing 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 Group Risk & Security 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, Group Risk & Security follows up risk concentrations in pledged securities.

Decisions on granting a loan, along with measures to be undertaken related to existing loans by the Bank, must be based on a written loan decision made by an authorised person. A loan decision is made by individual decision makers or bodies that have been authorised to grant loans/unsecured credits within the framework of limits established by the Managing Director. The Credit Committee of the Executive Team makes decisions on all credit matters that fall outside the limit of an authorised individual. The Head of Lending, Managing Director and Heads of the Premium Banking Åland and Premium Banking Mainland Divisions form the Credit Committee of the Executive Team. Large loans that have been granted are screened by credit control officers in the Group Risk & Security Department. Pre-screening includes ensuring that the loan has been approved in an authorised manner and that loan documents have been drawn up in compliance with internal and external rules and requirements. Follow-up inspections of credit documentation are performed on a test basis.

Credit management assumes that lending decisions will be based on sufficient knowledge about the customer. The creditworthiness of private individuals is judged on the basis of the disposable income of the borrower and the collateral offered. A majority of the 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. Decisions by the Bank concerning new loans or limits for companies are based on credit analysis. This credit analysis must provide a sufficiently thorough picture of the loan applicant and the project to be financed.

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

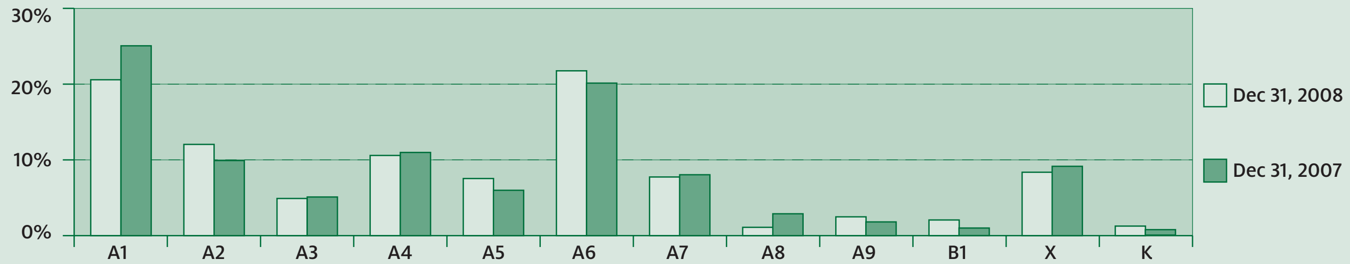
Risk classification of companies

Corporate customers are classified on the basis of analysis of their financial statements 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. The X category consists of corporate customers that Asiakastieto Oy does not classify, among them foreign-based companies. 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.

RISK CLASSIFICATION OF COMPANIES

Total own commitments, EUR M	Dec 31, 2008			Dec 31, 2007		
Category	**Number**	**Exposure**	**% of total**	**Number**	**Exposure**	**% of total**
A1	268	153.5	20	146	178.2	25
A2	170	90.7	12	158	74.9	10
A3	80	36.3	5	67	32.8	5
A4	348	79.2	11	343	76.5	11
A5	182	56.6	8	146	44.0	6
A6	514	162.8	22	361	143.4	20
A7	292	59	8	201	56.9	8
A8	46	7.2	1	45	21.0	3
A9	85	18.8	3	70	11.6	2
B1	79	15.3	2	51	9.4	1
X	165	61	8	564	66.9	9
K	27	9.5	1	23	6.4	1
Total		749.9	100		722.0	100

RISK CLASSIFICATION – ALLOCATION IN %



Lending to private individuals and companies by risk categories, based on the Bank's internal statistical models

To improve its follow-up of credit risks, the Bank is developing internal statistical models for assessing the risk of default and the percentage of loss. On the basis of these preliminary models, the loan portfolio has been allocated among the following risk categories:

Dec 31, 2008, EUR M	A		B		C		Defaulting		Unclassified		Total	
	Cap	%	Cap	%	Cap	%	Cap	%	Cap	%	Cap	%
Large companies	160.9	28.9	249.7	44.8	123.4	22.2	11.2	2.0	11.7	2.1	556.9	25.5
Small and medium-sized companies	32.1	26.9	47.9	40.2	35.1	29.4	2.5	2.1	1.7	1.4	119.3	5.5
Private individuals	1,285.5	85.1	123.7	8.2	90.4	6.0	10.1	0.7	0.0	0.0	1,509.7	69.1
	1,478.5	67.6	421.3	19.3	248.9	11.4	23.8	1.1	13.4	0.6	2,185.9	100.0

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

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 default risk, risk B refers to loans with a low default risk and risk category C refers to loans with a greater default risk. The "Defaulted" category refers not only to loans that have not been settled for more than 90 days, but also other commitments deemed to be in default. The "Unclassified" category includes loans to certain legal corporate mechanisms exempted from internal risk classification methods.

Counterparty risks

Counterparty risk is defined as the risk that the counterparty in a transaction will default before the final settlement of cash flows in the transaction. The Group shall work 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

Risk concentrations sometimes arise when the loan portfolio includes loans to individual counterparties or customer entities, to certain economic sectors, to certain countries or in exchange for certain collateral.

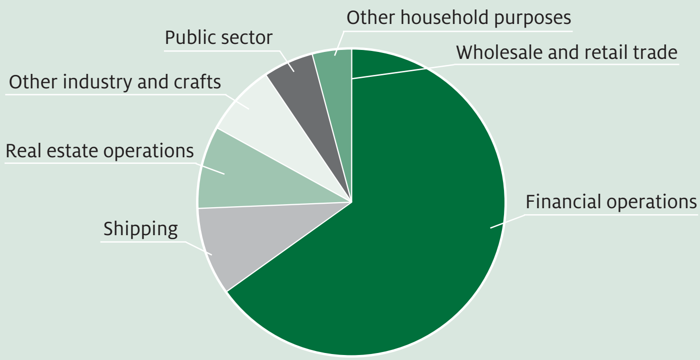
Customer concentration

A customer entity refers to customers (physical persons or legal entities) 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.

COMMITMENTS > EUR 8 M, DECEMBER 31, 2008

		% of capital base		Economic sector	Commitments
Total commitments > EUR 8 M	509.2			Financial operations	332.7
Number	30			Shipping	45.7
Maximum	35.7	21.5		Real estate operations	43.8
Minimum	8.2	4.9		Other industry and crafts	39.2
Median	14.1	8.5		Public sector	25.9
Top quartile	25.1	15.1		Other household purposes	21.6
Bottom quartile	9.3	5.6		Wholesale and retail trade	0.3
					509.2



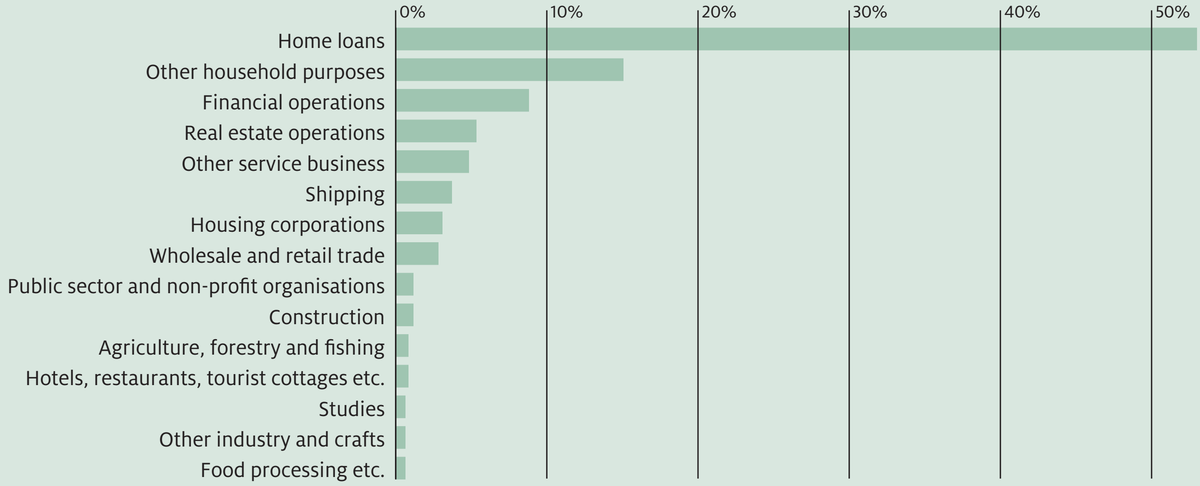
The Bank is subject to legal limits on risk concentrations that arise from individual customers or customer entities. Large exposures are defined as customers and customer entities whose total exposure is 10 per cent or more of the Bank's capital base. According to the Financial Supervision Authority's guidelines, exposures to a single customer or 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 Group Risk & Security 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.

LARGE EXPOSURES

EUR M	Dec 31, 2008	Dec 31, 2007
Large exposures – number	3	6
Large exposures – total, gross basis	77.2	140.2
Capital base – Bank of Åland Group	165.7	154.6
Large exposures as percentage of 800% of capital base	5.8	11.3
Large exposures as percentage of total Group loan portfolio	3.5	6.7

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

The Bank actively uses collateral as a way of reducing credit risk. 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.

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, 2008**		**Dec 31, 2007**	
	Individual	Group	Individual	Group
Balance, January 1	-2,096	0	-1,058	0
New and increased impairment losses	939	1,000	1,022	0
Reversals of impairment losses	0	0	-38	0
Established impairment loss/reversal	376	0	9	0
Recognised in the income statement	1,314	1,000	993	0
Final impairment loss/reversal	29	0	45	0
Balance, December 31	-3,440	-1,000	-2,096	0

GENERAL INFORMATION ON CREDIT RISK AND DILUTION RISK

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	51.5	92.7	239. 7	112.7	190.5	687.1
Of which impaired receivables	0.3	0.1	0.9	0.3	1.7	3.3
Of which overdue receivables	6.8	6.9	11.4	3.1	5.4	33.6
Households	31.4	48.7	316.3	206.8	883.2	1,486.4
Of which impaired receivables	0.1	0.0	0.1	0.0	0.4	0.6
Of which overdue receivables	2.7	4.5	11.2	4.8	21.9	45.1
Public sector	0.0	0.2	5.4	4.2	14.0	23.8
Of which impaired receivables	0.0	0.0	0.0	0.0	0.0	0.0
Of which overdue receivables	0.0	0.0	0.0	0.0	0.0	0.0
Total amount	82.9	141.6	561.4	323.7	1,087.7	2,197.3
Of which impaired receivables	0.4	0.1	1.0	0.3	2.1	4.0
Of which overdue receivables	9.5	11.4	22.6	7.9	27.3	78.7

The table shows the Group's total loan portfolio and overdue and impaired receivables on December 31, 2008. 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

Bank of Åland Group, EUR M	Business		Households		Public sector		Total
	Overdue	Impaired	Overdue	Impaired	Overdue	Impaired	
Not overdue	0.0	1.8	0.0	0.1	0.0	0.0	1.9
< 29 days	17.7	0.0	27.9	0.0	0.0	0.0	45.6
30 – 59 days	5.4	0.0	6.6	0.0	0.0	0.0	12.1
60 – 89 days	4.2	0.0	2.5	0.1	0.0	0.0	6.7
> 90 days	6.3	1.5	8.2	0.5	0.0	0.0	16.6
	33.7	3.4	45.2	0.6	0.0	0.0	82.9

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 Group Risk & Security Department. 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 Group Risk & Security 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. Group Risk & Security 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 Group Risk & Security 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 -13,000 (loss) for the full year 2008 (-7,000). 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. The 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.

In calculating the present value risk, the effect of changes in interest rates on present value is measured over the entire maturity horizon. The basic calculation stipulated by regulatory authorities, which assumes a parallel change in the yield curve of 200 basis points, is a stress test. The effects of major changes in interest rates, including non-parallel ones, are calculated by inserting the desired interest rate changes in the various maturity intervals.

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

Dec 31, 2008	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	168.3	25.1													193.4
Claims on the public	872.4	656.6	269.6	113.6	154.6	23.7	34.9	22.5		28.1	11.1	2.5			2,189.7
Debt securities	91.7	36.0	28.2		9.6	4.2	41.4	45.6	22.5	1.8					281.0
Shares and participations														9.0	9.0
Tangible and intangible assets														25.9	25.9
Other assets														50.5	50.5
Total assets	**1,132.4**	**717.7**	**297.8**	**113.6**	**164.1**	**27.9**	**76.3**	**68.1**	**22.5**	**29.9**	**11.1**	**2.5**		**85.4**	**2,749.4**
LIABILITIES															
Liabilities to credit institutions	33.7		16.8		20.0										70.5
Deposits from the public	1,422.3	178.8	90.0	33.1	33.2	0.4	0.1	0.1							1,758.0
Debt securities	67.4	307.0	132.3	7.8	39.1	41.4	60.2	8.4							663.7
Subordinated liabilities	10.0	6.6	37.7												54.3
Other liabilities	1.2													65.1	66.3
Equity capital and reserves														136.6	136.6
Total liabilities and equity capital	**1,534.7**	**492.4**	**276.8**	**40.9**	**92.3**	**41.8**	**60.3**	**8.6**						**201.7**	**2,749.4**
Derivative contracts	18.2	-75.8	-60.1	20.5	-16.6	49.7	61.2	44.9	-27.8	-11.9	-2.4				
Difference between assets and liabilities	**-384.1**	**149.5**	**-39.1**	**93.2**	**55.2**	**35.8**	**77.2**	**104.5**	**-5.3**	**18.1**	**8.7**	**2.5**		**-116.3**	

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.

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	15.9	0.3
1 –3 months	2.0 months	0.83	200	1.67	149.6	2.5
3 –6 months	4.5 months	0.62	200	1.24	-39.1	-0.5
6 –9 months	7.5 months	0.37	200	0.74	93.2	0.7
9 –12 months	10.5 months	0.12	200	0.24	-344.7	-0.8
						2.2

Spot deposits (excluding deposits tied to the Bank of Åland Prime rate) have been placed in the 9 –12 month maturity interval.

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.

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	15.9	0.0
1 – 3 months	2 months	0.16	200	0.32	149.6	-0.5
3 – 6 months	4.5 months	0.36	200	0.72	-39.1	0.3
6 – 9 months	7.5 months	0.60	200	1.20	93.2	-1.1
9 – 12 months	10.5 months	0.71	200	1.42	-406.1	5.8
1 – 2 years	1.5 years	1.38	200	2.76	10.8	-0.3
2 – 3 years	2.5 years	2.25	200	4.50	47.2	-2.1
3 – 4 years	3.5 years	3.07	200	6.14	104.5	-6.4
4 – 5 years	4.5 years	3.85	200	7.70	-5.3	0.4
5 – 7 years	6 years	5.08	200	10.16	18.1	-1.8
7 – 10 years	8.5 years	6.63	200	13.26	8.7	-1.2
10 – 15 years	12.5 years	8.92	200	17.84	2.5	-0.4
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
						-7.4

Spot deposits (excluding deposits tied to the Bank of Åland Prime rate) have been placed in the 9–12 month maturity interval.

The change in present value amounted to 4.5 per cent of the capital base. According to Basel 2, the change in present value may not exceed 20 per cent of equity capital.

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 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 Group Risk & Security Department monitors the mandates established by the Board for liquidity risks.

LIQUIDITY RESERVE ON DECEMBER 31, 2008, EUR M

Liquidity reserve	**352.6**
Liquidity reserve requirement	**274.1**

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

Dec 31, 2008	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	168.3	25.1	0.0	0.0	0.0	0.0	193.4
Claims on the public	204.7	45.9	73.1	141.2	251.0	1,473.8	2,189.7
Debt securities	91.7	36.0	28.2	0.0	13.8	111.3	281.0
Shares and participations	0.0	0.0	0.0	0.0	0.0	9.0	9.0
Tangible and intangible assets	0.0	0.0	0.0	0.0	0.0	25.9	25.9
Other assets	50.5	0.0	0.0	0.0	0.0	0.0	50.5
Total assets	**515.2**	**107.0**	**101.3**	**141.2**	**264.8**	**1,620.0**	**2,749.4**
LIABILITIES							
Liabilities to credit institutions	33.7	0.0	16.8	0.0	20.0	0.0	70.5
Deposits from the public	373.0	178.8	90.0	66.3	0.4	1,049.5	1,758.0
Other liabilities	0.0	0.0	0.0	0.0	0.2	1.0	1.2
Debt securities	57.4	89.9	32.3	147.0	205.5	131.6	663.7
Subordinated liabilities	0.0	10.0	0.0	1.1	2.1	41.1	54.3
Other liabilities	65.1	0.0	0.0	0.0	0.0	0.0	65.1
Equity capital and reserves	0.0	0.0	0.0	0.0	0.0	136.6	136.6
Total liabilities and equity capital	**529.2**	**278.7**	**139.1**	**214.4**	**228.1**	**1,359.8**	**2,749.4**
Exposure	-14.0	-171.7	-37.8	-73.3	36.6	260.2	
Accumulated exposure	-14.0	-185.7	-223.5	-296.7	-260.2	0.0	

The item “Liabilities to the public and public sector entities” included the Bank’s sight deposits, which amounted to EUR 1,166 M on December 31, 2008. In the internal assessment, 10 per cent of sight deposits is 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.

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 operations.

The Group Risk & Security 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 Group Risk & Security Department analyses risks on the basis of the risk maps that have been produced.

Incident reporting is part of the Group’s overall management of operational risks as well as continuity planning. The Group Risk & Security 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 Department also administers the Group’s insurance protection and assists management on insurance issues.

Internal Auditing monitors the compliance of the Group’s units with 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 –2008, 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	1.6	1.5	1.6	0.0
For strategic purposes	0.0	0.0	1.2	1.3
	1.6	1.5	2.8	1.3
Cumulative realised gains or losses during the period		-0.2		
Unrealised changes of value recognised in the balance sheet		0.1		

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 2008. During this period, the Group fulfilled all externally stipulated capital adequacy requirements.

CAPITAL BASE

EUR M	Dec 31, 2008		Dec 31, 2007	
	Group	Bank	Group	Bank
Core capital				
Share capital	23.3	23.3	23.3	23.3
Reserve fund	25.1	25.1	25.1	25.1
Share premium account	33.3	32.7	33.3	32.7
Reserves minus tax liability	0.0	34.8	0.0	27.8
Retained earnings minus items that may not be included	26.4	0.4	17.9	0.6
Profit for the year minus items that may not be included and proposed dividend	7.5	0.1	7.6	-0.1
Minority interest	1.6	0.0	1.8	0.0
Deductions from core capital				
Intangible assets	-4.8	-7.1	-5.6	-5.5
Total core capital	112.4	109.3	103.3	103.9
Supplementary capital				
Revaluation reserve	0.0	0.0	0.0	0.2
Fair value reserve	1.7	1.6	0.4	0.4
Reappraisal of business property in conjunction with transition to IFRSs	8.5	0.0	8.7	0.0
Subordinated debentures	43.2	43.2	42.3	42.3
Total supplementary capital	53.4	44.9	51.3	42.9
Total capital base	**165.7**	**154.2**	**154.6**	**146.8**

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
	Settlement risk	Cannot be quantified
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
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 macroeconomic 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's target is to begin applying internal ratings-based (IRB) methods for calculating the capital requirement for credit risk starting on January 1, 2011.

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:

EUR M	**Loan equivalent**	**Risk-weighted value**	**Capital requirement 8%**	**Loan equivalent**	**Risk-weighted value**	**Capital requirement 8%**
Exposure category	**Dec 31, 2008**	**Dec 31, 2008**	**Dec 31, 2008**	**Dec 31, 2007**	**Dec 31, 2007**	**Dec 31, 2007**
Sovereigns and central banks	228.5	0.0	0.0	176.8	0.0	0.0
Regional and local authorities	26.9	0.0	0.0	27.1	0.0	0.0
Public sector entities	0.2	0.0	0.0	0.2	0.0	0.0
Multinational development banks	0.2	0.0	0.0	0.1	0.0	0.0
Institutions	284.5	56.9	4.6	261.0	52.2	4.2
Companies	510.9	401.4	32.1	463.6	353.9	28.3
Households	332.9	202.5	16.2	317.9	188.7	15.1
Exposures with homes as collateral	1,325.3	463.8	37.1	1,307.5	457.6	36.6
Unsettled items	14.7	17.8	1.4	4.7	5.4	0.4
High-risk items	0.0	0.0	0.0	0.2	0.2	0.0
Other items	82.1	55.6	4.5	73.1	48.6	3.9
Total	2,806.1	1,198.2	95.9	2,632.1	1,106.7	88.5

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.

Dec 31, 2008, EUR M	**Gross exposure**	**Exposure after CRM**
Sovereigns	0.0	13.8
Regional authorities	15.1	31.9
Parishes	0.3	0.3
Development banks	0.0	0.2
Institutions	0.7	3.6
Homes	1,373.7	1,373.7
Households	396.2	304.3
Companies	567.1	446.5
Overdue	7.9	7.7
Total	2,361.0	2,181.8

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 Group Risk & Security 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.

Dec 31, 2008, EUR M	Financial collateral	Guarantees
Households	67.2	24.6
Companies	111.9	8.8
Overdue etc.	0.1	0.2
Total	179.1	33.6

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 must 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 must 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 must 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 was still assessed as having been low during 2008, despite the economic downturn and rising unemployment.

Based on the following facts, the credit risk in lending to companies was assessed as having been reasonable during 2008:

- 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.
- A group impairment loss of EUR 1 M was recognised for the Bank's shipping loans.

Operational risk

Operational 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 must 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 risks are 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 below the limits determined 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 and sufficient equity capital to cover unexpected risks.

Capital buffer

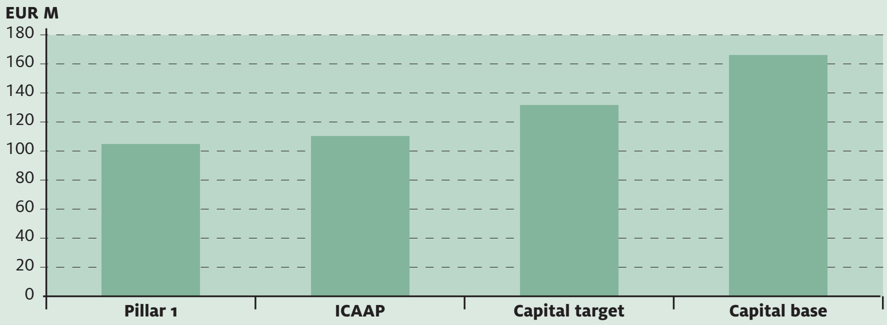
The capital buffer is regarded as sufficient.
The capital buffer is reserved for covering such risks in Pillar 2 that cannot be directly quantified. The buffer, which is calculated as the difference between actual capital and the minimum capital requirement, is sufficient to meet this need. According 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

EUR M	Dec 31, 2008		Dec 31, 2007	
	Capital requirement 8%	Capital target 10%	Capital requirement 8%	Capital target 10%
Capital requirement according to Basel 2, Pillar 1				
For credit risks	95.9	119.8	88.5	110.6
For operational risks	9.3	11.6	8.0	10.0
	105.1	131.4	96.5	120.6
Capital requirement according to Basel 2, Pillar 2, "needs-tested" [1]	5.0		5.0	
Total capital requirement	110.1	131.4	101.5	120.6
Capital base				
Core capital	112.4		103.3	
Supplementary capital	53.4		51.3	
Total capital base	165.7		154.6	
Total capital ratio, %	12.6		12.8	

1 Needs-tested capital requirement according to ICAAP for coverage of Crosskey's business risk.

In the assessment of the Group, based on the results of its ICAAP, the overall capital requirement exceeds the Pillar 1 requirement. The actual capital base exceeds the estimated overall capital requirement.



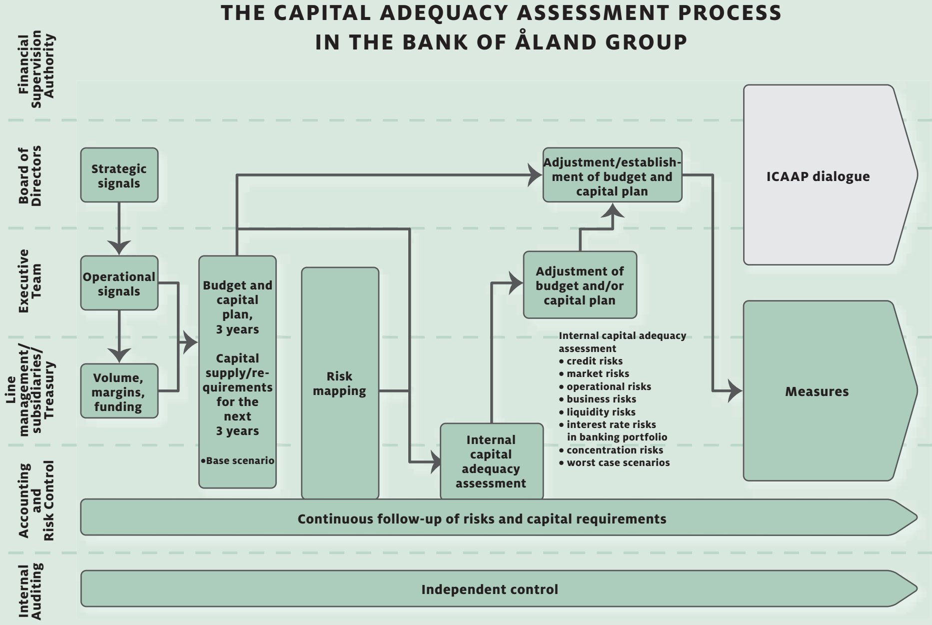
Pillar 1 shows the estimated capital requirement for credit risks, market risks and operational risks. ICAAP describes the institution's own assessment of the overall capital requirement for all identified risks. The capital target indicates the level that the Board of Directors has established and the capital base describes the capital that may be counted in the capital adequacy analysis.

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 CFO 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

2008

	Banking operations	IT operations	Other	Eliminations	Total
External income	51,652	11,852	10,740	0	74,244
Intra-Group income	467	10,074	0	-10,541	-0
Total income	**52,119**	**21,926**	**10,740**	**-10,541**	**74,244**
Expenses including depreciation/amortisation	-35,906	-21,231	-5,499	10,541	-52,095
Loan losses	-2,314	0	0	0	-2,314
Share of income in associated companies	0	0	187	0	187
Net operating profit	**13,899**	**695**	**5,428**	**0**	**20,022**
Depreciation/amortisation	4,270	1,497	89	0	5,856
Assets	2,196,530	8,922	564,887	-607	2,769,731
Liabilities	-2,423,014	-4,062	-204,241	81	-2,631,236
Equity capital					138,495
Increases in tangible and non-tangible assets	4,221	1,497	138	0	5,856
Interest income from the public and public sector entities					
Financial enterprises	34,845				34,845
Households					
Residential	59,906				59,906
Other	20,222				20,222
Miscellaneous	1,330				1,330
	116,303				116,303

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

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

	2008			2007		
	Listed	Other	Total	Listed	Other	Total
Debt securities eligible for refinancing						
Instruments held to maturity						
Treasury bills	0	0	0	49,066	0	49,066
Treasury bonds	75,139	0	75,139	9,882	0	9,882
Other debt securities	0	0	0	1,000	0	1,000
Instruments available for sale						
Treasury bills	0	19,895	19,895	0	24,693	24,693
Treasury bonds	46,880	0	46,880	46,592	0	46,592
Other debt securities	3,812	0	3,812	988	0	988
	125,831	19,895	145,726	107,528	24,693	132,220
Other debt securities						
Treasury bonds	0	0	0	63	0	63
Certificates of deposit	0	124,406	124,406	0	49,821	49,821
Commercial paper	0	6,539	6,539	0	0	0
Other	284	10	294	0	10	10
	284	130,954	131,238	64	49,831	49,894

3. Claims on credit institutions

	2008			2007		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Finnish credit institutions	52	20,778	20,830	16	71,986	72,002
Foreign credit institutions	4,929	97,400	102,329	4,091	76,798	80,889
	4,980	118,179	123,159	4,107	148,784	152,891

4. Claims on the public and public sector entities

	2008	2007
Financial enterprises	600,895	583,396
Public sector	10,035	10,796
Households	1,474,283	1,428,167
Non-profit organisations, household sector	13,697	14,347
Foreign	94,300	67,118
	2,193,210	2,103,825
Of which subordinated claims	432	420
Of which non-interest-bearing claims	432	420
Impairment losses		
Individual impairment losses recognised during the year	1,362	1,102
Individual impairment losses reversed during the year	-48	-109
Group impairment losses	1,000	0
Total impairment losses	2,314	993

5. Impairment losses on loans and trade receivables

	2008		2007	
	Individual	Group	Individual	Group
Balance, January 1	2,096	0	1,058	0
New and increased impairment losses	939	1,000	1,022	
Reversals of impairment losses	0		-38	
Actual losses/reversals	376		9	
Recognised in income statement	1,314	1,000	993	
Direct write-offs/reversals	29	0	45	
Balance, December 31	3,440	1,000	2,096	0

6. Shares and participations

	2008			2007		
	Listed	Other	Total	Listed	Other	Total
Shares and participations						
Available for sale	1,167	1,675	2,843	1,775	1,447	3,222
Shares and participations in associated companies	0	1,493	1,493	0	1,576	1,576

There are no holdings in other credit institutions.

7. Derivative instruments

	2008 Fair value Positive	2008 Fair value Negative	2007 Fair value Positive	2007 Fair value Negative
Interest rate derivatives				
Interest rate swaps	5,992	4,539	4,287	2,751
Currency derivatives				
Forward contracts	1,212	1,308	237	218
Interest rate and currency swaps	460	0	48	0
Equity derivatives				
Option contracts				
Purchased	7,548	0	29,474	0
	15,213	5,847	34,045	2,969

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

Nominal value of underlying asset by remaining maturity:

	2008 Under 1 yr	2008 1–5 yrs	2008 Over 5 yrs	2008 Total	2007 Under 1 yr	2007 1–5 yrs	2007 Over 5 yrs	2007 Total
Interest rate derivatives								
Interest rate swaps	107,054	319,679	57,113	483,846	69,209	246,525	45,760	361,494
Currency derivatives								
Forward contracts	25,752	3,974	0	29,726	26,535	0	0	26,535
Interest rate and currency swaps	2,720	0	0	2,720	161	0	0	161
Equity derivatives								
Option contracts								
Purchased	48,742	97,403	0	146,145	21,875	161,909	0	183,784
	184,267	421,056	57,113	662,436	117,779	408,434	45,760	571,974

8. Intangible assets

	2008	2007
IT investments	3,024	3,950
Ongoing IT investments	402	201
Goodwill	1,373	1,405
Other	19	83
	4,819	5,639
Of which internally generated IT investments		
Gross carrying amount	2,725	2,417
Accumulated amortisation	-1,125	-753
	1,600	1,664

9. Properties and shares and participations in real estate companies

	2008	2007
Investment properties		
Land and water	441	441
Buildings	1,914	1,928
Shares in real estate companies	233	325
	2,588	2,694
Properties for the Group's own use		
Land and water	2,340	2,351
Buildings	20,555	13,890
	22,895	16,241

10. Changes in intangible and tangible assets

2008

	Land and buildings for own use	Investment properties	Other tangible assets	Goodwill	Other intangible assets	Total
Historical costs						
Cost on January 1	27,061	3,048	17,111	1,405	9,772	58,397
Increases during the year	8,090	0	7,341	34	1,207	16,672
Decreases during the year	-731	-103	-652	0	-767	-2,253
Cost on December 31	34,419	2,946	23,800	1,440	10,211	72,816
Accumulated depreciation/amortisation						
Acc. depreciation/amortisation/impairment losses on Jan. 1	-10,688	-354	-9,967	-0	-5,586	-26,596
Acc. depreciation/amortisation concerning decreases	201	8	281	0	28	518
Depreciation/amortisation for the year	-1,038	-10	-3,600	0	-1,207	-5,856
Impairment loss for the year	0	0	0	-67	0	-67
Acc. depreciation/amortisation/impairment losses on Dec. 31	-11,524	-357	-13,287	-67	-6,766	-31,934
Carrying amount on December 31	**22,895**	**2,588**	**10,513**	**1,373**	**3,446**	**40,815**

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**

11. Other assets

	2008	2007
Cash items in the process of collection	26	52
Other	11,027	20,576
	11,053	20,628

12. Accrued income and prepayments

	2008	2007
Interest	15,601	11,959
Other	9,116	9,317
	24,717	21,276

13. Deferred tax assets and liabilities

	2008	2007
Deferred tax assets		
Accrual differences	32	41
Other temporary differences	1,237	1,240
	1,269	1,281
Deferred tax liabilities		
Temporary differences	18,801	15,908
From the fair value reserve	587	129
	19,387	16,037

Actual losses from prior years including 2008 losses amounted to EUR 1,909 M, which meant a deferred tax asset of EUR 496 M. This asset was not reported in the balance sheet. The losses expire in 2017 – 2018.

14. Debt securities issued to the public

	2008		2007	
	Carrying amount	Nominal amount	Carrying amount	Nominal amount
Certificates of deposit	166,711	168,101	219,044	222,254
Bonds	498,363	501,174	519,997	506,711
	665,074	669,275	739,041	728,965

15. Other liabilities

	2008	2007
Cash items in the process of collection	18,185	16,891
Other	22,529	22,457
	40,715	39,348

16. Accrued expenses and deferred income

	2008	2007
Interest	12,219	9,927
Other	6,208	10,751
	18,426	20,677

17. Subordinated liabilities

	2008			2007		
	Carrying amount	Nominal amount	Amount in capital base	Carrying amount	Nominal amount	Amount in capital base
1999 debenture loan	10,000	10,000	0	10,000	10,000	2,000
Interest rate: 3-month EURIBOR + 1.94%						
Repayment: January 15, 2009						
2003 debenture loan	0	0	0	1,938	1,937	0
The loan has been repaid.						
2004 debenture loan 1	1,116	1,116	1,116	2,229	2,229	2,229
Interest rate: 12-month EURIBOR + 0.25%						
Repayment: 20% (1,119) of nominal amount yearly beginning June 4, 2005						
2004 debenture loan 2	14,414	14,414	14,414	14,412	14,412	14,412
Interest rate: 12-month EURIBOR + 0.50%, starting June 4, 2009 12-month EURIBOR + 2.00%						
Repayment: June 4, 2014						
2005 debenture loan 1	2,071	2,071	2,071	3,111	3,111	3,111
Interest rate: 12-month EURIBOR + 0.20%						
Repayment: 20% (1,039) of original nominal amount yearly beginning May 17, 2006						
2005 debenture loan 2	9,347	9,347	9,347	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	1,390	1,390	1,390	1,952	1,952	1,952
Interest rate: 12-month EURIBOR + 0.15%						
Repayment: 20% (489) of original nominal amount yearly beginning June 1, 2007						
2006 debenture loan 2	8,551	8,551	8,551	8,942	8,942	8,942
Interest rate: 12-month EURIBOR + 0.30%, starting May 17, 2010 12-month EURIBOR +2.00%						
Repayment: June 1, 2016						
2008 debenture loan 1	3,148	3,148	3,148	0	0	0
Interest rate: 3-month EURIBOR + 0.15%						
Repayment: 20% (683) of original nominal amount yearly beginning May 14, 2009						
2008 debenture loan 2	3,192	3,192	3,192	0	0	0
Interest rate: 3-month EURIBOR + 0.30%, starting May 14, 2013 12-month EURIBOR +2.00%						
Repayment: May 14, 2018						

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

18. Maturity breakdown of claims and liabilities

2008

	Total	Under 3 mo	3–12 mo	1–5 yrs	Over 5 yrs
Claims					
Debt securities eligible for refinancing w/central banks	145,726	11,876	18,361	113,172	2,317
Credit institutions and central banks	123,159	123,159	0	0	0
The public and public sector entities	2,193,210	254,103	214,308	798,900	925,900
Other debt securities	131,238	111,797	9,850	9,590	0
	2,593,334	500,936	242,519	921,662	928,217
Liabilities					
Credit institutions and central banks	70,619	33,800	16,819	20,000	0
The public and public sector entities	1,757,939	1,590,458	165,599	1,882	0
Debt instruments issued to the public	665,074	148,614	179,302	337,158	0
Subordinated liabilities	53,228	10,000	3,244	4,480	35,504
	2,546,861	1,782,873	364,964	363,520	35,504

2007

	Total	Under 3 mo	3–12 mo	1–5 yrs	Over 5 yrs
Claims					
Debt securities eligible for refinancing w/central banks	132,220	22,781	50,299	58,638	503
Credit institutions and central banks	152,891	152,891	0	0	0
The public and public sector entities	2,103,825	166,274	219,869	768,493	949,189
Other debt securities	49,894	49,894	0	0	0
	2,438,830	391,839	270,168	827,131	949,691
Liabilities					
Credit institutions and central banks	53,121	23,121	0	30,000	0
The public and public sector entities	1,533,647	1,445,821	79,596	7,725	505
Debt instruments issued to the public	739,041	185,306	69,328	484,407	0
Subordinated liabilities	52,231	0	4,161	15,152	32,918
	2,378,040	1,654,248	153,086	537,284	33,423

19. Assets and liabilities in euro and other currencies

	2008			2007		
	Euro	Other currencies	Total	Euro	Other currencies	Total
Claims on credit institutions	51,092	72,068	123,159	103,853	49,038	152,891
Claims on the public and public sector entities	2,171,388	21,822	2,193,210	2,086,974	16,850	2,103,825
Debt securities	274,107	2,857	276,964	182,114	0	182,114
Derivative instruments	13,541	1,672	15,213	33,761	285	34,046
Other assets including cash	157,284	3,901	161,185	113,323	5,838	119,162
	2,667,411	102,320	2,769,731	2,520,025	72,012	2,592,037
Liabilities to credit institutions	69,583	1,036	70,619	51,696	1,425	53,121
Liabilities to the public and public sector entities	1,662,701	95,239	1,757,939	1,466,571	67,076	1,533,647
Debt instruments issued to the public	665,074	0	665,074	739,041	0	739,041
Derivative instruments and liabilities held for trading	4,539	1,308	5,847	2,751	218	2,969
Subordinated debentures	53,228	0	53,228	52,231	0	52,231
Other liabilities	77,711	818	78,529	73,563	2,499	76,062
	2,532,836	98,400	2,631,236	2,385,853	71,218	2,457,071

20. Categories of financial instruments

2008	Loans and trade receivables	Financial instruments held to maturity	Financial instruments at fair value	Financial instruments available for sale	Non-financial instruments	Total
Assets						
Cash	78,995	0	0	0	0	78,995
Debt securities eligible for refinancing in central banks	0	75,139	0	70,587	0	145,726
Claims on credit institutions	123,159	0	0	0	0	123,159
Claims on the public and public sector entities	2,046,130	0	147,081	0	0	2,193,210
Debt securities	0	0	0	131,238	0	131,238
Share and participations	0	0	0	2,843	0	2,843
Shares and participations in associated companies	0	0	0	1,493	0	1,493
Derivative instruments	0	0	15,213	0	0	15,213
Intangible assets	0	0	0	0	4,819	4,819
Tangible assets	0	0	0	0	35,997	35,997
Other assets	0	0	0	0	11,053	11,053
Accrued income and prepayments	0	0	0	0	24,717	24,717
Deferred tax assets	0	0	0	0	1,270	1,270
	2,248,284	75,139	162,293	206,161	77,855	2,769,731

2008	Financial liabilities at accrued cost	Financial liabilities at fair value	Non-financial liabilities	Total
Liabilities				
Liabilities to credit institutions and central banks	70,619	0	0	70,619
Liabilities to the public and public sector entities	1,751,490	6,449	0	1,757,939
Debt securities issued to the public	490,059	175,016	0	665,074
Derivative instruments and other liabilities held for trading	0	5,847	0	5,847
Other liabilities	0	0	40,715	40,715
Accrued expenses and prepaid income	0	0	18,426	18,426
Subordinated debentures	53,228	0	0	53,228
Deferred tax liabilities	0	0	19,387	19,387
	2,365,396	187,312	78,528	2,631,236

21. Fair value and carrying amount of assets and liabilities

	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash	78,995	78,995	39,461	39,461
Debt securities eligible for refinancing with central banks				
Available for sale	70,587	19,895	72,273	72,273
Intended to be held to maturity	75,139	123,016	59,947	59,939
Claims on credit institutions	123,159	123,159	152,891	152,891
Claims on the public and public sector entities				
Carried at fair value	147,082	147,082	151,786	151,786
Other	2,046,128	2,042,584	1,952,038	1,947,692
Lease assets	0	0	0	0
Debt securities available for sale	131,238	131,238	49,894	49,894
Shares and participations available for sale	2,843	2,843	3,222	3,222
Shares and participations in associated companies	1,493	1,493	1,576	1,576
Shares and participations in Group companies	0	0	0	0
Derivative instruments	15,213	15,213	34,045	34,045
Intangible assets	4,961	4,961	5,639	5,639
Tangible assets				
Investment properties	2,588	4,407	2,694	5,904
Properties for own use	22,753	24,674	16,241	19,053
Other tangible assets	10,513	10,911	7,143	7,544
Other assets	11,053	11,053	20,628	20,628
Accrued income and prepayments	24,717	24,717	21,276	21,276
Deferred tax assets	1,269	1,269	1,281	1,281
	2,769,731	2,767,510	2,592,037	2,594,105

	2008		2007	
Liabilities				
Liabilities to credit institutions	70,619	69,428	53,121	53,339
Liabilities to the public and public sector entities				
Carried at fair value	6,504	6,504	24,710	24,710
Other	1,751,436	1,751,556	1,508,937	1,509,085
Debt securities issued to the public				
Carried at fair value	175,016	175,016	174,875	174,875
Other	490,059	496,577	564,166	568,468
Derivative instruments	5,847	5,847	2,969	2,969
Other liabilities	40,715	40,715	39,347	39,347
Accrued expenses and prepaid income	18,426	18,426	20,677	20,677
Subordinated liabilities	53,228	55,829	52,231	52,658
Deferred tax liabilities	19,387	19,387	16,037	16,037
	2,631,236	2,639,284	2,457,071	2,462,165

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

	2008	2007
Nominal value	142,479	154,387
Change in fair value	4,317	-2,663
Change in credit risk	285	62
	147,081	151,786

Loans and trade receivables carried at fair value on December 31, 2008 were EUR 4,602,000 higher than the nominal amount at maturity. On December 31, 2008, changes in credit risk had affected the accumulated value of change in fair value by EUR 407,000. The change in credit risk is calculated on the basis of an assumption about credit losses adopted by the Executive Team.

23. Financial liabilities at fair value

	2008	2007
Liabilities to the public and public sector entities		
Carried at fair value		
Nominal value	5,036	24,830
Change in fair value	38	-115
Change in credit risk	-5	-5
	5,069	24,710
Other	1,752,870	1,508,937
Total	1,757,939	1,533,647
Debt securities issued to the public		
Carried at fair value		
Nominal value	176,472	181,425
Change in fair value	-1,633	-6,732
Change in credit risk	176	181
	175,016	174,875
Other	490,059	564,166
Total	665,074	739,041

Financial liabilities carried at fair value on December 31, 2008 were EUR 1,423,000 higher than the nominal amount at maturity. On December 31, 2008, changes in credit risk had affected the accumulated value of change in fair value by EUR 504,000. The change in credit risk is calculated on the basis of comparable items in 2006 – 2008.

24. Fair value option

	2008			2007		
	Opening bal. Jan 1, 2008	**Change for the year**	**Closing bal. Dec 31, 2008**	**Opening bal. Jan 1, 2007**	**Change for the year**	**Closing bal. Dec 31, 2007**
Balance sheet						
Lending to the public	-2,601	7,203	4,602	-1,636	-965	-2,601
Derivative instruments	4,286	1,706	5,992	2,740	1,546	4,286
Liabilities to the public	99	-66	33	188	-89	99
Debt securities issued to the public	6,550	-5,094	1,456	4,326	2,224	6,550
Derivative instruments	-2,751	-1,788	-4,539	-2,364	-387	-2,751
Profit brought forward	4,410	1,451	5,861	2,686	1,725	4,410
Deferred tax liabilities	1,053	531	1,584	748	305	1,053
Income statement						
Net income from securities trading		1,960			2,331	
Change in deferred tax liabilities		-531			-305	
Taxes		21			-301	
Profit for the year		1451			1,725	

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. The Articles of Association stipulate that no representative at the Annual General Meeting may vote for more than one fortieth of the number of votes represented at the Meeting. 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
2004	EUR 22,164,049.83	5,180,910	5,800,878
2005	EUR 22,173,906.98	5,180,910	5,805,762
2006	EUR 22,657,579.81	5,180,910	6,045,411
2007	EUR 23,282,837.26	5,180,910	6,355,212
2008	EUR 23,282,837.26	5,180,910	6,355,212

The ten largest shareholders, December 31, 2007:
The list also includes shareholders' Group companies and shareholder-controlled companies.

		Series A shares	Series B shares	Total number of shares	% of shares	% of votes
1	The Aktia Group	113,800	994,363	1,108,163	9.61	2.97
2	Alandia-bolagen	733,886	325,145	1,059,031	9.18	13.64
3	Ålands Ömsesidiga Försäkringsbolag	612,331	111,960	724,291	6.28	11.24
4	Wiklöf, Anders	581,189	90,408	671,597	5.82	10.65
5	Mattsson, Rafael	274,606	15,638	290,244	2.52	5.01
6	Pensionsförsäkringsaktiebolaget Veritas	98,934	132,763	231,697	2.01	1.92
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	Kamprad, Ingvar	0	132,000	132,000	1.14	0.12
10	Investmentbolaget 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

	2008			2007		
	Positive figures	Negative figures	Total	Positive figures	Negative figures	Total
Debt securities	2,173	-45	2,128	22	-46	-24
Shares	478	-350	128	702	-193	510
	2,651	-395	2,256	725	-239	486
Deferred tax liability			-586			-129
Fair value reserve			1,669			356

27. Retained earnings

	2008	2007
Non-distributable		
Share of accumulated appropriations	34,759	27,897
Share of difference between fair value of assets and pension liabilities in the pension fund	4,575	4,465
	39,335	32,363
Distributable	14,248	18,729
	53,583	51,092

NOTES TO THE INCOME STATEMENT

28. Interest income

	2008	2007
Credit institutions and central banks	8,515	7,336
Public and public sector entities	116,302	98,612
Debt securities	11,100	4,671
Derivative instruments	109	109
Other	24	11
	136,050	110,739

29. Interest expenses

	2008	2007
Credit institutions	3,000	3,149
Public and public sector entities	55,164	38,193
Debt instruments issued to the public	32,765	27,457
Derivative instruments	54	47
Subordinated liabilities	2,939	2,532
Capital loan	0	24
Other interest expenses	48	1
	93,970	71,402

30. Income from equity instruments

	2008	2007
Financial assets available for sale	31	29
Group companies	0	0
Associated companies	0	0
	31	29

31. Commission income

	2008	2007
Deposit commissions	844	817
Lending commissions	2,380	2,653
Payment intermediation commissions	2,665	2,622
Mutual fund unit commissions	3,464	5,123
Management commissions	1,894	2,172
Securities commissions	5,755	5,259
Share issue commissions	0	23
Insurance commissions	96	107
Legal services	342	344
Guarantee commissions	198	262
Other commissions	962	898
	18,600	20,282

32. Commission expenses

	2008	2007
Service charges paid	422	376
Other	1,786	1,650
	2,208	2,026

33. Net income from securities trading and foreign exchange operation

	2008			2007		
	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	1,069	0	1,069	925	0	925
Fair value option	0	2,042	2,042	0	1,171	1,171
Derivative instruments	-2	-758	-760	0	1,159	1,159
Securities trading	1,067	1,284	2,352	925	2,331	3,256
Foreign exchange operations	973	-15	958	952	13	965
	2,041	1,269	3,310	1,877	2,343	4,220

34. Net income from financial assets available for sale

	2008	2007
Capital gains	37	1,056
Impairment losses	-143	0
	-106	1,056

35. Net income from investment properties

	2008	2007
Rental income	175	136
Rental expenses	-52	-52
Depreciation	-3	-4
Capital gains/losses	56	580
Other expenses	-28	-18
	148	642

36. Other operating income

	2008	2007
Rental income on properties	99	127
Capital gains on properties	251	0
Other property income	0	1
IT income	11,256	9,891
Other income	783	1,847
	12,390	11,865

37. Other administrative expenses

	2008	2007
Staff costs	1,260	976
Office costs	951	817
IT costs	4,333	3,996
Communication	1,794	1,772
Marketing	2,280	2,291
Other	346	441
	10,965	10,294

38. Other operating expenses

	2008	2007
Rental expenses	2,350	1,938
Other property expenses	649	721
Fee to security funds	540	636
Miscellaneous expenses	3,899	2,307
	7,438	5,602

39. Impairment losses on loans and other commitments

	2008	2007
Individual impairment losses	1,362	1,102
Group impairment losses	1,000	0
Reversals	-48	-109
	2,314	993

Interest recognised on impaired receivables according to original interest amounted to EUR 76,000.

40. Taxes

	2008	2007
Taxes for the year	2,515	4,583
Taxes from prior years	-31	0
Changes in deferred tax assets	12	-396
Changes in deferred tax liabilities	2,893	3,411
Taxes in income statement	5,390	7,598
Effective tax rate, %	26	26

The tax rate in Finland in 2007 and 2008 was 26 per cent.

	2008	2007
Net operating profit	20,022	28,633
Tax-exempt income	-236	-7
Non-deductible expenses	140	78
Non-deductible losses	1,128	777
Net profit from associated companies	-208	-245
Taxable profit	20,846	29,236
Tax, 26%	5,420	7,601
Taxes from prior years	-31	-3
Taxes in income statement	5,390	7,598

41. Income, expenditure, profit and loss

2008

	From interest		From valuations			
	Revenue	Expense	Fair value	Impairment	From selling/ divestment/ contract	Total
Financial assets at fair value						
for trading purposes	0	0	-18,833	0	1,069	-17,764
Others (fair value option)	6,634	0	7,203	0	0	13,837
Investments held to maturity	2,996	0	0	0	0	2,996
Loans and trading receivables	118,317	0	0	-1,890	0	116,426
Financial assets available for sale						
of which in income statement	8,103	0	0	0	-106	7,998
of which in balance sheet	0	0	0	0	0	0
Financial liabilities at fair value						
for trading purposes	0	0	19,048	0	0	19,048
Others (fair value option)	0	15,636	5,160	0	0	20,796
Financial liabilities at accrued cost	0	78,334	0	0	0	78,334
	136,050	93,970	12,578	-1,890	964	241,671

2007

	From interest		From valuations			
	Revenue	Expense	Fair value	Impairment	From selling/ divestment/ contract	Total
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
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
	110,739	71,402	4,302	-1,019	1,953	187,377

42. Earnings per share

	2008	2007

Earnings per share before dilution, EUR

$$\frac{\text{Profit for the year}}{\text{Average number of shares}} \qquad 2008: \frac{14{,}027{,}190}{11{,}536{,}122} = 1.22 \qquad 2007: \frac{20{,}223{,}273}{11{,}536{,}122} = 1.75$$

Earnings per share after dilution, EUR

$$\frac{\text{Profit for the year + interest on capital loan}}{\text{Average number of shares + shares outstanding}} \qquad 2008: \frac{14{,}027{,}190}{11{,}536{,}122} = 1.22 \qquad 2007: \frac{20{,}223{,}273}{11{,}536{,}122} = 1.75$$

43. Number of employees

	2008		2007	
	Average employees	Change	Average employees	Change
Permanent full-time employees	437	+19	418	+42
Permanent part-time employees	112	+6	106	+6
	549	+25	524	+48

44. Salaries/fees paid to Board and Executive Team

	2008	2007
Members of the Board of Directors	137	125
Managing Directors	918	753
Deputy Managing Directors	329	325
Other members of the Executive Team	698	809

The amount includes the value of fringe benefits. In addition to Board fee, EUR 17,000 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.

45. Private shareholdings of the Board of Directors and the Executive Team in the Bank of Åland Plc

	2008				
	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	72	18	90	0.00	0.00
Taberman, Teppo	–	–	–	0.00	0.00
Wiklöf, Anders	231,506	89,504	321,010	2.78	4.29
Total	233,534	91,383	324,917	2.82	4.33
Executive Team					
Wiklöf, Peter	–	–	–	0.00	0.00
Rosenholm, Johnny	–	–	–	0.00	0.00
Erikslund, Tove	–	–	–	0.00	0.00
Nuutinen, Pekka	–	–	–	0.00	0.00
Vickström, Edgar	–	–	–	0.00	0.00
Woivalin, Dan-Erik	–	–	–	0.00	0.00
Total	–	–	–	0.00	0.00

46. Financial transactions with related parties

	2008		2007	
	Board and Executive Team	Related companies	Board and Executive Team	Related companies
Loans				
Loans outstanding, January 1	2,930	9,617	2,355	9,854
Taken out during the year	175	31	588	1,450
Principal paid during the year	-115	-650	-316	-2,688
Loans outstanding, December 31	2,989	8,998	2,626	8,617
Interest income	148	214	98	205
	0	0		
Deposit accounts				
Deposit accounts, January 1	928	3,443	842	3,659
Deposit accounts, December 31	253	3,159	1,065	5,779
Interest expenses	11	211	25	138
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 250,000 with accepted collateral. The employee interest rate is set by the Executive Team and amounted to 3.8 per cent on December 31, 2008.

47. Collateral provided

	2008		2007	
	Nominal value of debt	Carrying amount of collateral	Nominal value of debt	Carrying amount of collateral
For debts to credit institutions and central banks	30,000	51,772	0	0
For unutilised lmits	23,646	75,802	18,412	75,306
	53,646	127,574	18,412	75,306

The collateral consisted of debt securities. No collateral was provided for the debt or obligations of others.

48. Pension liabilities in Ålandsbanken Abp:s Pensionsstiftelse

	2008	2007
Present value of pension liabilities	12,740	14,322
Fair value of plan assets	-15,473	-17,823
Status	-2,733	-3,501
Unrecognised actuarial gains (+)/losses (-)	-3,450	-2,533
	0	0
Liabilities recognised in the balance sheet	-6,183	-6,034
Current service costs	216	158
Interest expenses	693	588
Past service costs	0	0
Expected return on plan assets	-1,133	-1,183
Recognised net actuarial gain (-) / loss (+)	75	0
Receivable (-)/liability (+) recognised in income statement	-149	-437
Opening balance	**-6,034**	**-5,597**
Expenses (+)/income (-) in the income statement	-149	-437
Repayment of over-subscription		
Closing balance	**-6,183**	**-6,034**
Assumptions		
Discount rate	5.50%	4.90%
Expected return on assets	6.50%	6.50%
Increase in salaries	3.50%	4.80%
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	25.44%	22.05%
Financial market instruments	47.96%	53.73%
Properties	22.82%	19.19%
Cash and other short-term assets	3.78%	5.04%
	100.00%	100.00%
Reconciliation of present value of pension liabilities		
Opening balance	14,322	14,123
Current service costs	216	158
Interest expenses	693	588
Benefits paid	-860	-786
Actuarial gains (-) / losses (+)	-1,631	239
	12,740	14,322
Reconciliation of fair value of plan assets		
Opening balance	17,823	18,475
Expected return on plan assets	1,133	1,183
Benefits paid	-860	-786
Actuarial gains (+) / losses (-)	-2,623	-1,049
Closing balance	15,473	17,823
Specification of the fund's holdings in Bank of Åland Plc		
Shares in Bank of Åland Plc	25	36
Equity index bonds	332	356
Corporate bonds	286	500
Bank deposits	279	210
Total	923	1,102

An estimate of the present value of pension liabilities as well as fair value of plan assets was carried out on December 31, 2008 by Jarkko Pajunen and Markku Kukkala of Silta Oy, a payroll service company.

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

	2008	2007	2006	2005	2004
Present value of pension liabilities	12,740	14,322	14,123	13,692	13,662
Fair value of plan assets	-15,473	-17,823	-18,475	-17,688	-16,641
Status	-2,733	-3,501	-4,352	-3,996	-2,979

* IFRS standards have been applied since January 1, 2004.

49. Lease liabilities and rental obligations

	2008	2007
Lease payments and rental obligations due		
Within 1 year	3,510	2,106
More than 1 and less than 5 years	5,710	830
More than 5 years	5,403	0
	14,624	2,936
Carrying amount		
Machinery and equipment	4,336	1,946

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 excluding value-added tax. Rental obligations were equivalent to the rental expenses that would arise upon termination of all rental agreements.

50. Off-balance sheet commitments

	2008	2007
Guarantees	16,353	25,185
Unutilised overdraft limits	84,104	83,618
Lines of credit	64,753	58,990
	165,209	167,793

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

51. Managed funds

	2008	2007
Mutual fund (unit trust) management	235,700	384,800
Discretionary asset management	433,247	520,989
Other asset management	2,985	41,600
	671,932	947,389

52. Changes in Group structure

On June 30, 2008, the Bank of Åland Plc subscribed for new shares issued by Ålandsbanken Veranta Ab in exchange for payment that increased the Bank of Åland Plc's stake in the company to 92.9 per cent. On February 14, 2009, the Bank of Åland Plc signed an agreement to acquire all shares in Kaupthing Bank Sverige Ab, Kaupthing Bank Fonder Ab and Alpha Management Company S.A. The acquisiton means that the Bank of Åland will take over Kaupthing Bank Sverige, with a preliminary balance sheet of SEK 5 billion. The purchase price amounts to SEK 414 M in cash. Since assets and liabilities will be finally established in conjunction with the closing procedure, where criteria must be met in order to complete the transaction, information will be provided in the interim report for the first quarter of 2009.

2008

	Line of business	Acquisition date	% of share capital	Cost, EUR
Ålandsbanken Veranta Ab	Estate agency	June 30, 2008	9	300
Cost breakdown				
Capital contribution to the company			300	

	Fair value	Carrying amount
Net assets acquired		
Cash and bank balances	287	287
Receivables	3	3
Tangible assets	21	21
Liabilities	-46	-46
Net assets acquired	266	266
Goodwill	34	34

2007

	Line of business	Acquisition date	% 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

	2008	2007
Goodwill		
Opening balance	1,405	881
Goodwill recognised during the period	34	524
Impairment loss	-67	0
Closing balance	1,373	1,405

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 17 per cent.

53. Subsidiaries and associated companies

2008

Subsidiaries
The following subsidiaries were consolidated according to the purchase method of accounting as of December 31, 2008:

	Registered office	Ownership
Ab Compass Card Oy Ltd	Mariehamn	66%
Crosskey Banking Solutions Ab Ltd	Mariehamn	100%
Ålandsbanken Asset Management Ab	Helsinki	70%
Ålandsbanken Fondbolag Ab	Mariehamn	100%
Ålandsbanken Veranta Ab	Helsinki	93%
Ålandsbanken Equities Ab	Helsinki	82%

Operations in Ålandsbanken Veranta Ab have ceased.

Housing and real estate companies
The following housing and real estate companies were consolidated according to the purchase method as of December 31, 2008:

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, 2008:

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

	2008	2007
Combined financial information about these associated companies:		
Assets	3,969	4,805
Liabilities	623	1,206
Sales	3,096	2,965
Profit for the year	219	384

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, 2008:

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%
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, 2008		Dec 31, 2007	
Cash			78,995		39,460
Debt securities eligible for refinancing with central banks	1				
Treasury bills		19,895		73,759	
Other		125,831	145,726	61,374	135,132
Claims on credit institutions	2				
Repayable on demand		5,005		4,249	
Other		118,178	123,184	148,783	153,033
Claims on the public and public sector entities	3		2,189,662		2,106,426
Lease assets	4		0		5
Debt securities	1		135,224		51,767
Shares and participations	5		1,982		2,373
Shares and participations in associated companies	5		1,005		1,005
Shares and participations in Group companies	5		5,970		5,760
Derivative instruments	6		15,213		34,045
Intangible assets	7,9		7,085		5,490
Tangible assets	8,9				
Investment properties as well as shares and participations in investment properties		2,478		2,583	
Other properties as well as shares and participations in real estate companies		12,148		7,096	
Other tangible assets		4,200	18,825	3,148	12,828
Other assets	10		8,385		13,116
Accrued income and prepaid expenses	11		18,165		19,406
Deferred tax assets	12		0		0
TOTAL ASSETS			2,749,422		2,579,847

Parent Company balance sheet

(EUR K)

LIABILITIES AND EQUITY CAPITAL	Note	Dec 31, 2008			Dec 31, 2007		
Liabilities to credit institutions							
Central banks			30,000				
Credit institutions							
Repayable on demand			2,031			2,971	
Other			38,453	70,484		50,010	52,981
Liabilities to the public and public sector entities							
Deposits							
Repayable on demand		1,165,951			1,073,735		
Other		591,986	1,757,937		462,187	1,535,922	
Other liabilities			1,260	1,759,197		1,830	1,537,752
Debt securities issued to the public	13						
Bonds			494,858			500,366	
Other			168,917	663,775		221,944	722,310
Other liabilities	14			35,444			36,250
Accrued expenses and prepaid income	15			16,270			14,332
Derivative instruments	6			13,395			32,443
Subordinated liabilities	16			54,282			52,326
Deferred tax liabilities	12			579			129
Total liabilities				2,613,426			2,448,523
Difference between recorded and planned depreciation				258			258
Reserves				46,714			37,314
Total accumulated appropriations				46,972			37,572
Share capital	21			23,283			23,283
Share premium account				32,736			32,736
Revaluation reserve				0			227
Reserve fund				25,129			25,129
Fair value reserve	22			1,649			367
Retained earnings				397			554
Profit for the year				5,830			11,455
Total equity capital				89,024			93,752
TOTAL LIABILITIES AND EQUITY CAPITAL				2,749,422			2,579,847
OFF-BALANCE SHEET OBLIGATIONS	45						
Obligations to a third party on behalf of customers							
Guarantees and pledges			16,353	16,353		25,185	25,185
Irrevocable commitments in favour of a customer				149,108			142,909
				165,460			168,093

Parent Company income statement

(EUR K)

	Note	Jan 1–Dec 31, 2008			Jan 1–Dec 31, 2007		
Interest income	25			136,117			110,783
Net leasing income	26			12			25
Interest expenses	27			-94,822			-72,133
NET INTEREST INCOME				41,307			38,674
Income from equity investments	28						
In Group companies			2,739			4,658	
In associated companies			271			301	
In other companies			31	3,040		29	4,987
Commission income	29			11,554			12,424
Commission expenses	30			-1,987			-1,821
Net income from securities transactions and foreign exchange dealing	31						
Net income from securities transactions			309			2,085	
Net income from foreign exchange dealing			958	1,268		964	3,049
Net income from financial assets available for sale	32			3			1,027
Other operating income	33			1,749			3,837
Administrative expenses							
Staff costs							
Wages, salaries and other remuneration		14,344			14,009		
Pensions		2,170			2,001		
Other social security costs		816	17,330		837	16,846	
Other administrative expenses	34		13,431	30,761		12,796	29,642
Depreciation/amortisation and impairment losses on tangible and intangible assets				-1,895			-1,609
Other operating expenses	35			-5,045			-4,882
Impairment loss on loans and other commitments	36			-2,314			-993
Impairment loss on other financial assets				-500			0
NET OPERATING PROFIT				16,417			25,052
Appropriations				-9,400			-11,276
Income taxes	37			-1,188			-2,321
Change in deferred tax assets							
PROFIT FOR THE YEAR				5,830			11,455

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

1-24	Notes to the balance sheet
25-37	Notes to the income statement
38-41	Notes concerning staff, Board of Directors and Executive Team
42-45	Notes concerning assets pledged and contingent liabilities
46-48	Other notes

NOTES TO THE BALANCE SHEET

1. Holdings of debt securities

	2008			2007		
	Listed	**Other**	**Total**	**Listed**	**Other**	**Total**
Debt securities eligible for refinancing						
Instruments held to maturity						
Treasury bills	0	0	0	49,066	0	49,066
Treasury bonds	75,139	0	75,139	9,882	0	9,882
Others	0	0	0	1,000	0	1,000
Instruments available for sale						
Treasury bills	0	19,895	19,895	0	24,693	24,693
Treasury bonds	46,880	0	46,880	46,592	0	46,592
Other debt securities	3,812	0	3,812	3,900	0	3,900
	125,831	19,895	145,726	110,440	24,693	135,132
Other debt securities						
Treasury bonds	0	0	0	63	0	63
Bonds issued by banks	0	124,406	124,406	0	49,621	49,621
Commercial paper	0	6,539	6,539	0	0	0
Other	4,270	10	4,280	2,073	10	2,083
	4,270	130,954	135,224	2,137	49,631	51,767

2. Claims on credit institutions

	2008			2007		
	Repayable on demand	**Other**	**Total**	**Repayable on demand**	**Other**	**Total**
Finnish credit institutions	0	20,778	20,778	2	71,986	71,987
Foreign credit institutions	5,005	97,400	102,406	4,248	76,798	81,046
Total	5,005	118,178	123,184	4,249	148,783	153,033

3. Claims on the public and public sector entities

	2008	2007
Financial enterprises	600,895	583,396
Public sector	10,035	10,796
Households	1,470,734	1,430,768
Non-profit organisations, household sector	13,697	14,347
Foreign	94,300	67,118
Total	2,189,662	2,106,426
Of which subordinated claims	432	420
Of which non-interest-bearing claims	432	420
Impairment losses		
Individual impairment losses recognised during the year	1,362	1,102
Individual impairment losses reversed during the year	-48	-109
Group impairment losses	1,000	0
Total impairment losses	2,314	993

4. Lease assets rented out

	2008	2007
Machinery and equipment	0	5
Other assets	0	0
Total	0	5

For more information, see Note 26.

5. Shares and participations

	2008			2007		
	Listed	Other	Total	Listed	Other	Total
Shares and participations						
Available for sale	307	1,675	1,982	926	1,447	2,373
Shares and participations in associated companies	0	1,005	1,005	0	1,005	1,005
Shares and participations in Group companies	0	5,970	5,970	0	5,760	5,760
	307	8,650	8,958	926	8,212	9,138

There are no holdings in other credit institutions.

6. Derivative instruments

	2008		2007	
	Fair value		Fair value	
	Positive	Negative	Positive	Negative
Interest rate derivatives				
Interest rate swaps	5,992	4,539	4,287	2,751
Currency derivatives				
Forward contracts	1,212	1,308	237	218
Interest rate and currency swaps	460	0	48	0
Equity derivatives				
Option contracts				
Purchased	7,548	0	29,474	0
Written	0	7,548	0	29,474
	15,213	13,395	34,045	32,443

Nominal value of underlying asset by remaining maturity:

	2008				2007			
	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	107,054	319,679	57,113	483,846	69,209	246,525	45,760	361,494
Currency derivatives								
Forward contracts	25,752	3,974	0	29,726	26,535	0	0	26,535
Interest rate and currency swaps	2,720	0	0	2,720	161	0	0	161
Equity derivatives								
Option contracts								
Purchased	48,742	97,403	0	146,145	21,875	161,909	0	183,784
Written	48,742	97,403	0	146,145	21,875	161,909	0	183,784
	233,009	518,459	57,113	808,581	139,654	570,343	45,760	755,758

7. Intangible assets

	2008	2007
IT investments	779	878
Ongoing IT investments	2,377	1,847
Goodwill	886	1,123
Other	3,043	1,642
	7,085	5,490

8. Properties and shares and participations in real estate companies

	2008	2007
Investment properties		
Land and water	50	50
Buildings	160	174
Shares in real estate companies	2,268	2,360
	2,478	2,583
Properties for the Group's own use		
Land and water	162	173
Buildings	11,499	6,436
Shares in real estate companies	487	487
	12,148	7,096

9. Changes in intangible and tangible assets

	2008					
	Land and buildings for own use	Investment properties	Other tangible assets	Goodwill	Other intangible assets	Total
Historical costs						
Cost on January 1	12,418	2,938	8,124	1,182	10,026	34,688
Increases during the year	5,509	0	1,971	0	2,927	10,407
Decreases during the year	-599	-103	-618	0	0	-1,320
Cost on December 31	17,328	2,835	9,477	1,182	12,953	43,775
Accumulated depreciation/amortisation						
Acc. depreciation/amortisation/impairment losses on Jan. 1	-5,322	-354	-4,976	-59	-5,658	-16,369
Acc. depreciation/amortisation concerning decreases	254	8	138	0	0	400
Depreciation/amortisation for the year	-113	-10	-440	-236	-1,096	-1,895
Impairment loss for the year	0	0	0	0	0	0
Acc. depreciation/amortisation/impairment losses on Dec. 31	-5,180	-357	-5,277	-295	-6,754	-17,864
Carrying amount on December 31	12,148	2,478	4,200	886	6,199	25,911

	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

10. Other assets

	2008	2007
Cash items in the process of collection	26	52
Other	8,359	13,064
	8,385	13,116

11. Accrued income and prepayments

	2008	2007
Interest	15,599	11,959
Other	2,566	7,447
	18,165	19,406

12. Deferred tax assets and liabilities

	2008	2007
Deferred tax liabilities		
Temporary differences	0	0
From the fair value reserve	579	129
	579	129

Accumulated appropriations included a deferred tax liability of EUR 12,213 (2007: 9,769).

13. Debt securities issued to the public

	2008		2007	
	Carrying amount	Nominal amount	Carrying amount	Nominal amount
Certificates of deposit	168,917	170,301	221,944	225,198
Bonds	494,858	504,962	500,366	511,390
Total	663,775	675,263	722,310	736,588

14. Other liabilities

	2008	2007
Cash items in the process of collection	18,185	16,891
Other	17,258	19,359
	35,444	36,250

15. Accrued expenses and deferred income

	2008	2007
Interest	12,219	9,954
Other	4,051	4,379
	16,270	14,332

16. Subordinated liabilities

See Note 17 to the consolidated financial statements.

17. Maturity breakdown of claims and liabilities

	2008				
	Total	–3 mo	3–12 mo	1–5 yrs	Over 5 yrs
Claims					
Debt securities eligible for refinancing w/central banks	145,726	11,876	18,361	113,172	2,317
Credit institutions and central banks	123,184	123,184	0	0	0
The public and public sector entities	2,189,662	250,554	214,308	798,900	925,900
Other debt securities	135,224	115,784	9,850	9,590	0
	2,593,796	501,398	242,519	921,662	928,217
Liabilities					
Credit institutions and central banks	70,484	33,665	16,819	20,000	0
The public and public sector entities	1,759,197	1,591,716	165,599	1,882	0
Debt securities issued to the public	663,775	147,315	179,302	337,158	0
Subordinated liabilities	54,282	10,000	3,330	4,747	36,205
	2,547,738	1,782,696	365,050	363,787	36,205

	2007				
	Total	–3 mo	3–12 mo	1–5 yrs	Over 5 yrs
Claims					
Debt securities eligible for refinancing w/central banks	135,132	25,693	50,299	58,638	503
Credit institutions and central banks	153,033	153,033	0	0	0
The public and public sector entities	2,106,426	168,875	219,869	768,493	949,189
Other debt securities	51,767	51,767	0	0	0
	2,446,358	399,368	270,168	827,131	949,691
Liabilities					
Credit institutions and central banks	52,981	22,981	0	30,000	0
The public and public sector entities	1,537,752	1,449,926	79,596	7,725	505
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
	2,365,369	1,641,482	153,086	537,284	33,518

18. Assets and liabilities in euro and other currencies

	2008			2007		
	Euro	Other currencies	Total	Euro	Other currencies	Total
Claims on credit institutions	51,157	72,026	123,184	104,000	49,033	153,033
Claims on the public and public sector entities	2,167,840	21,822	2,189,662	2,089,576	16,850	2,106,426
Debt instruments	278,093	2,857	280,950	186,899	0	186,899
Derivative instruments	13,541	1,672	15,213	33,761	285	34,046
Other assets including cash	136,553	3,861	140,414	93,646	5,798	99,444
Total	2,647,184	102,238	2,749,422	2,507,881	71,966	2,579,847
Liabilities to credit institutions	69,448	1,036	70,484	51,557	1,425	52,981
Liabilities to the public and public sector entities	1,663,959	95,239	1,759,197	1,470,675	67,076	1,537,752
Debt securities issued to the public	663,775	0	663,775	722,310	0	722,310
Derivative instruments and liabilities held for trading	12,087	1,308	13,395	32,225	218	32,443
Subordinated debentures	54,282	0	54,282	52,326	0	52,326
Other liabilities	51,628	665	52,293	48,299	2,412	50,711
Total	2,515,178	98,248	2,613,426	2,377,392	71,131	2,448,523

19. Fair value and book value of assets and liabilities

	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash	78,995	78,995	39,460	39,460
Debt securities eligible for refinancing with central banks				
Available for sale	70,587	70,587	75,185	75,185
Intended to be held to maturity	75,139	72,324	59,947	59,939
Claims on credit institutions	123,184	123,184	153,033	153,033
Claims on the public and public sector entities				
Carried at fair value	0	0	0	0
Other	2,189,662	2,190,715	2,106,426	2,104,685
Lease assets	0	0	5	5
Debt securities available for sale	135,224	135,224	51,767	51,767
Shares and participations available for sale	1,982	1,982	2,373	2,373
Shares and participations in associated companies	1,005	1,005	1,005	1,005
Shares and participations in Group companies	5,970	5,970	5,760	5,760
Derivative instruments	15,213	15,213	34,045	34,045
Intangible assets	7,085	7,085	5,490	5,490
Tangible assets				
Investment properties	2,478	4,399	2,583	5,794
Properties for own use	12,148	21,755	7,096	16,861
Other tangible assets	4,200	4,598	3,148	3,549
Other assets	8,385	8,385	13,116	13,116
Accrued income and prepaid expenses	18,165	18,165	19,406	19,406
	2,749,422	2,759,586	2,579,847	2,591,474
Liabilities				
Liabilities to credit institutions	70,484	69,293	52,981	53,199
Liabilities to the public and public sector entities				
Carried at fair value	0	0	0	0
Other	1,759,197	1,759,283	1,537,752	1,537,800
Debt instruments issued to the public				
Carried at fair value	0	0	0	0
Other	663,775	668,922	722,310	720,061
Derivative instruments	13,395	13,395	32,443	32,443
Other liabilities	35,444	35,444	36,250	36,250
Accrued expenses and prepaid income	16,270	16,270	14,332	14,332
Subordinated liabilities	54,282	56,882	52,326	52,739
Deferred tax liabilities	579	579	129	129
	2,613,426	2,620,069	2,448,523	2,446,953

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 issuei	Share premium account	Reserve fund	Fair value reserve	Revaluation reserve	Retained earnings	Total
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
Dividend to shareholders							-11,536	-11,536
Conversion of capital loan								0
Property divestment						-227		-227
Reversal of revaluation							-76	-76
Change in fair value					1,282			1,282
Profit for the year							5,830	5,830
December 31, 2008	23,283	0	32,736	25,129	1,649	0	6,227	89,024

21. Share capital

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

22. Fair value reserve

	2008			2007		
	Positive figures	Negative figures	Total	Positive figures	Negative figures	Total
Debt securities	2,146	-45	2,101	22	-46	-24
Shares	478	-350	127	702	-182	521
Total	2,624	-395	2,229	725	-228	497
Deferred tax liability			-579			-129
Fair value reserve			1,649			367

23. Claims on Group companies

	2008	2007
Claims on the public	1,049	0
Other assets	203	382
Accrued income and prepayments	219	5,054
	1,470	5,436

24. Liabilities to Group companies

	2008	2007
Liabilities to the public	1,182	3,967
Debt instruments issued	2,766	2,900
Other liabilities	623	798
Accrued expenses and prepaid income	2	27
	4,573	7,693

NOTES TO THE INCOME STATEMENT

25. Interest income

	2008	2007
Credit institutions and central banks	8,513	7,321
Public and public sector entities	116,417	98,677
Debt securities	11,066	4,665
Derivative instruments	109	109
Other	11	11
Total	136,117	110,783

Interest income received from Group companies was EUR 59 (2007: 0)

26. Net lease income

	2008	2007
Rental income	14	62
Planned depreciation	-2	-37
Net capital gains and losses from the sale of lease assets	0	-0
Total	12	25

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

27. Interest expenses

	2008	2007
Credit institutions	2,995	3,149
Public and public sector entities	55,235	38,262
Debt instruments issued to the public	33,598	28,132
Derivative instruments	53	47
Subordinated liabilities	2,939	2,518
Capital loan	0	24
Other interest expenses	2	1
Total	94,822	72,133

Interest paid to Group companies was EUR 167 (2007: 215).

28. Income from equity instruments

	2008	2007
Financial assets available for sale	31	29
Group companies	2,739	4,658
Associated companies	271	301
Total	3,040	4,987

29. Commission income

	2008	2007
Deposit commissions	844	817
Lending commissions	2,380	2,653
Payment intermediation commissions	2,666	2,622
Mutual fund unit commissions	888	1,268
Management commissions	974	860
Securities commissions	2,529	2,735
Share issue commissions	0	23
Insurance commissions	96	107
Legal services	342	344
Guarantee commissions	198	262
Other commissions	636	731
	11,554	12,424

30. Commission expenses

	2008	2007
Service charges paid	422	376
Other	1,565	1,445
	1,987	1,821

31. Net income from securities trading and foreign exchange operations

	2008			2007		
	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	1,069	0	1,069	925	0	925
Derivative instruments	-2	-758	-760	0	1,159	1,159
Securities trading	1,067	-758	309	925	1,159	2,085
Foreign exchange operations	973	-15	958	952	13	964
	2,041	-773	1,268	1,877	1,172	3,049

32. Net income from financial assets available for sale

	2008	2007
Capital gains	146	1,027
Impairment losses	-143	0
Total	3	1,027

33. Other operating income

	2008	2007
Rental income on properties	336	590
Capital gains on properties	308	580
Other property income	0	1
Other income	1,105	2,667
	1,749	3,837

34. Other administrative expenses

	2008	2007
Staff costs	672	555
Office costs	833	719
Computer costs	8,265	7,812
Communication	1,309	1,298
Marketing	2,081	2,110
Other	272	302
	13,431	12,796

35. Other operating expenses

	2008	2007
Rental expenses	1,535	1,508
Other property expenses	665	756
Fee to security funds	539	636
Miscellaneous expenses	2,306	1,982
	5,045	4,882

36. Impairment losses on loans and other commitments

	2008	2007
Individual impairment losses	1,362	1,102
Group impairment losses	1,000	0
Reversals	-48	-109
	2,314	-993

Carrying amount of interest on impaired receivables according to original interest amounted to EUR 76,000. The impairment losses were aimed in their entirety at "Claims on the public and public sector entities".

37. Taxes

	2008	2007
Taxes for the year	1,188	2,321
Taxes from prior years	0	0
Taxes in income statement	1,188	2,321

NOTES CONCERNING STAFF, BOARD OF DIRECTORS AND EXECUTIVE TEAM

38. Number of employees

	2008		2007	
	Average employees	Change	Average employees	Change
Permanent full-time employees	274	+11	263	+28
Permanent part-time employees	81	+2	79	-4
	355	+13	342	+24

39. Salaries/fees paid to Board and Executive Team

	2008		2007	
Lindholm, Göran	18		18	
Boman, Sven-Harry	19		16	
Janér, Kent	21		15	
Karlsson, Agneta	15		15	
Nordlund, Leif	15		17	
Palmberg, Tom	0		9	
Taberman, Teppo	21		9	
Wiklöf, Anders	15		15	
Members of the Board of Directors		124		113
Managing Director		478		253
Deputy Managing Director		187		164
Other members of the Executive Team		698		809

The amount includes the value of fringe benefits. In addition to Board fee, EUR 17,000 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 and Executive Team in Bank of Åland Plc

See Note 45 to the consolidated financial statements.

41. Financial transactions with related parties

See Note 46 to the consolidated financial statements.

NOTES CONCERNING ASSETS PLEDGED AND CONTINGENT LIABILITIES

42. Collateral provided and received

See Note 47 to the consolidated financial statements.

43. Pension liabilities in Ålandsbanken Abp:s Pensionsstiftelse

	2008	2007
Pension liabilities in Ålandsbanken Abp:s Pensionsstiftelse	12,740	14,322
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 6.2 M.

44. Rental obligations

	2008	2007
Rental payments due		
Within 1 year	1,061	692
More than 1 and less than 5 years	2,811	0
More than 5 years	1,056	0
	4,928	692

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

45. Off-balance sheet commitments

	2008	2007
Guarantees	16,353	25,185
Unutilised overdraft limits	84,355	83,918
Lines of credit	64,753	58,990
	165,460	168,093

OTHER NOTES

46. Assets managed

	2008	2007
Discretionary asset management	110,865	134,324
	110,865	134,324

47. Changes in Group structure

See Note 52 to the consolidated financial statements.

48. Subsidiaries and associated companies

2008

Subsidiaries	Registered office	Ownership
Ab Compass Card Oy Ltd	Mariehamn	66%
Crosskey Banking Solutions Ab Ltd	Mariehamn	100%
Ålandsbanken Asset Management Ab	Helsinki	70%
Ålandsbanken Fondbolag Ab	Mariehamn	100%
Ålandsbanken Veranta Ab	Helsinki	93%
Ålandsbanken Equities Ab	Helsinki	82%

Operations in Ålandsbanken Veranta Ab have ceased.

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%

	2008	2007
Combined financial information about these associated companies:		
Assets	3,969	4,805
Liabilities	623	1,206
Sales	3,096	2,965
Profit for the year	219	384

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%
FAB Ribacken	Saltvik	31%

The Bank of Åland Abp's list of stock exchange releases in 2008

(published in Finnish and Swedish only, except financial reports marked * are also available in English)

January

January 23, 2008:	Bank of Åland Plc lowers prime rate
January 31, 2008:	Bank of Åland Plc's 2008 Annual General Meeting

March

March 3, 2008:	Year-end report for the period January – December 2007*
March 10, 2008:	The Annual Report for 2007 has been published by the Bank of Åland Plc*
March 17, 2008:	Invitation to the Annual General Meeting
March 31, 2008:	The Bank of Åland's list of stock exchange release in 2007 has been published

April

April 3, 2008:	New Managing Director of Crosskey Banking Solutions appointed
April 10, 2008:	Release on items of business discussed at the Bank of Åland's Annual General Meeting
April 22, 2008:	Bank of Åland Plc raises prime rate
April 28, 2008:	Interim report, January – March 2008*
April 28, 2008:	Johnny Rosenholm new Head of Lending at Bank of Åland Plc

June

June 24, 2008:	Bank of Åland Plc raises prime rate

August

August 25, 2008:	Interim report for the period January – June 2008*

October

October 27, 2008:	Interim report for the period January – September 2008
October 27, 2008:	Tom Westerén appointed Communications and Marketing Director of the Bank of Åland

November

November 28, 2008:	Bank of Åland Plc lowers prime rate

December

December 1, 2008:	Bank of Åland establishes new company for stock brokerage and company analysis
December 19, 2008:	Bank of Åland Plc interested in the Swedish market
December 22, 2008:	Bank of Åland has signed a letter of intent regarding Kaupthing Sverige
December 22, 2008:	Annual General Meeting and financial information in 2009
December 22, 2008:	Bank of Åland Plc's Board of Directors will not convene an Extraordinary General Meeting to discuss the limitation on voting rights

Proposed allocation of profit

According to the financial statements, distributable profit is EUR 6,226,768.25, of which profit for the financial year is EUR 5,829,840.33. 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 6,226,768.25, be allocated as follows:

1. For Series A and Series B shares outstanding as of December 31, 2008, a dividend of EUR 0.50 per share, totalling

EUR 5,768,061.00

2. To remain in the accounts as retained earnings

EUR 458,707.25

EUR 6,226,768.25

Mariehamn, February 27, 2009

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

To the Annual General Meeting of the Bank of Åland Plc

Auditors' Report

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of the Bank of Åland Plc for the financial year January 1 – December 31, 2008. The financial statements comprise the consolidated balance sheet, income statement, cash flow statement, changes in equity capital and notes to the consolidated financial statements, as well as the Parent Company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the Report of the Directors and for ensuring that the consolidated financial statements provide true and fair disclosures in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and that the Parent Company financial statements and the Report of the Directors provide true and fair disclosures in accordance with laws and regulations in Finland governing the preparation of the financial statements and Report of the Directors. The Board of Directors is responsible for making appropriate arrangements for oversight of the accounts and financial administration, and the Managing Director shall see to it that the accounts are in compliance with the law and that financial administration has been arranged in a reliable manner.

Responsibility of the Auditor

The Auditor's responsibility is to perform an audit in accordance with generally accepted auditing standards in Finland, and to express an opinion on the Parent Company's financial statements, on the consolidated financial statements and on the Report of the Directors based on this audit. Generally accepted auditing standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements and the Report of the Directors are free from material misstatement and that the members of the Board of Directors of the Parent Company and the Managing Director have complied with the Finnish Companies Act and the Finnish Credit Institutions Act.

An audit involves performing procedures to ensure obtain assurances about the accuracy of the amounts and other disclosures in the financial statements and the Report of the Directors. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In designing the necessary audit procedures, the auditor considers the internal controls that affect the preparation and presentation of the financial statements. An audit also includes evaluating the overall presentation of the financial statements and the Report of the Directors, the principles for preparing the financial statements and the estimates made by management when preparing the financial statements.

The audit was performed in accordance with generally accepted auditing standards in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements provide a true and fair view of the financial position, financial performance, and cash flows of the Group in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Opinion on the financial statements and the Report of the Directors

In our opinion, the financial statements and the Report of the Directors provide a true and fair view of both the Group's and the Parent Company's financial position and the results of their operations, in compliance with the Finnish laws and regulations in force governing the preparation of financial statements and the Report of the Directors. The disclosures in the Report of the Directors are consistent with the disclosures in the financial statements.

Mariehamn, March 13, 2009

Ernst & Young Oy
Certified Public Accountants

Leif Hermans	*Marja Tikka*	*Terhi Mäkinen*
Certified Public Accountant	Certified Public Accountant	Certified Public Accountant
Hermans & Revisorernas Ab	Ernst & Young Oy	Ernst & Young Oy
Torggatan 5	Elielinaukio 5 B	Elielinaukio 5 B
AX-22100 Mariehamn, Finland	FI-00100 Helsinki, Finland	FI-00100 Helsinki, Finland

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
Peter Michelsson
Pekka Nuutinen
Johnny Rosenholm
Edgar Vickström
Tom Westerén
Dan-Erik Woivalin

Premium Banking, Åland

Dan-Erik Woivalin, Head of Division, Chief Legal Counsel

Internal Legal Affairs, *Hanna Ekholm*, Department Manager
Corporate Advisory Services & Shipping, *Kenneth Mörn*, Department Manager
Customer Advisory Services, *Birgitta Dahlén*, Department Manager
City Office, *Birgitta Dahlén*, Branch Manager
Local Branch Offices, *Pontus Blomster*, Regional Manager
Real Estate, *Leif Andersson*, Department Manager
Office Services, *Lars-Olof Hellman*, Supervisor

Premium Banking, Mainland

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

Bulevardi (Bulevarden)
- Administration, *Monica Mickos*, General Manager
- Corporate Funding, *Gabriella Sköld*, General Manager
- Funding, *Maria Bernas-Hilli*, General Manager
- Funding, *Kim Wikström*, General Manager
- Bulevardi (Bulevarden) Office, *Peter Wikström*, General Manager

Aleksanderinkatu (Alexandersgatan), *Anne-Maria Salonius*, General Manager
Munkkiniemi (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

Private Banking

Peter Michelsson, Head of Division

Private Banking Investments, *Merja Simberg*, Investment Director
Private Banking Åland, *Mikael Mörn*, Department Manager
Equities, *Tomas Storgård*, Department Manager
Process Manager, Investment Advisory Services, *Ola Sundberg*
Business Support, Capital Markets, *Jens Enholm*, Department Manager

Accounting & Business Support

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
Accounting, *Tom Bengtsson*, Department Manager
Treasury, *Niclas Alm*, Department Manager

Communications

Tom Westerén, Communications and Marketing Director
- Internet, *Carita Josefsson*, Acting Department Manager
- Contact Center, *Nina Granqvist*, Department Manager
- Marketing, *Tiina Björklund*, Department Manager

Human Resources

Tove Erikslund, Department Manager, Head of Human Resources

Catering & Facilities Services, ***Annika Lundqvist***, Supervisor

Funding

Johnny Rosenholm, Head of Lending

Lending Support, ***Bengt Mattsson***, Department Manager

Group Risk & Security

Bernt-Johan Jansson, Department Manager

Risk Management

Security

Middle Office, ***Michael Hilander***, Department Manager

Operations reporting directly to the Board of Directors

Internal Auditing, ***Monica Österlund***, Department Manager

Companies in the Bank of Åland Group

Crosskey Banking Solutions Ab Ltd

Carita Weiss, Managing Director

Banking & System Development, ***Barbro Andersson***, Department Manager

Sales & Marketing, ***Carl-Petter Eriksson***, Department Manager

Architecture Management, ***Tommy Grönlund***, Department Manager

Operation Management, ***Kenneth Påvall***, Department Manager

Project Management, ***Siv Österlund***, Department Manager

Ålandsbanken Asset Management Ab

Stefan Törnqvist, Managing Director

Ålandsbanken Equities Ab

Stefan Haglund, Managing Director

Ålandsbanken Fondbolag Ab

Tom Pettersson, Managing Director

Ab Compass Card Oy Ltd

Kimmo Autio, Managing Director

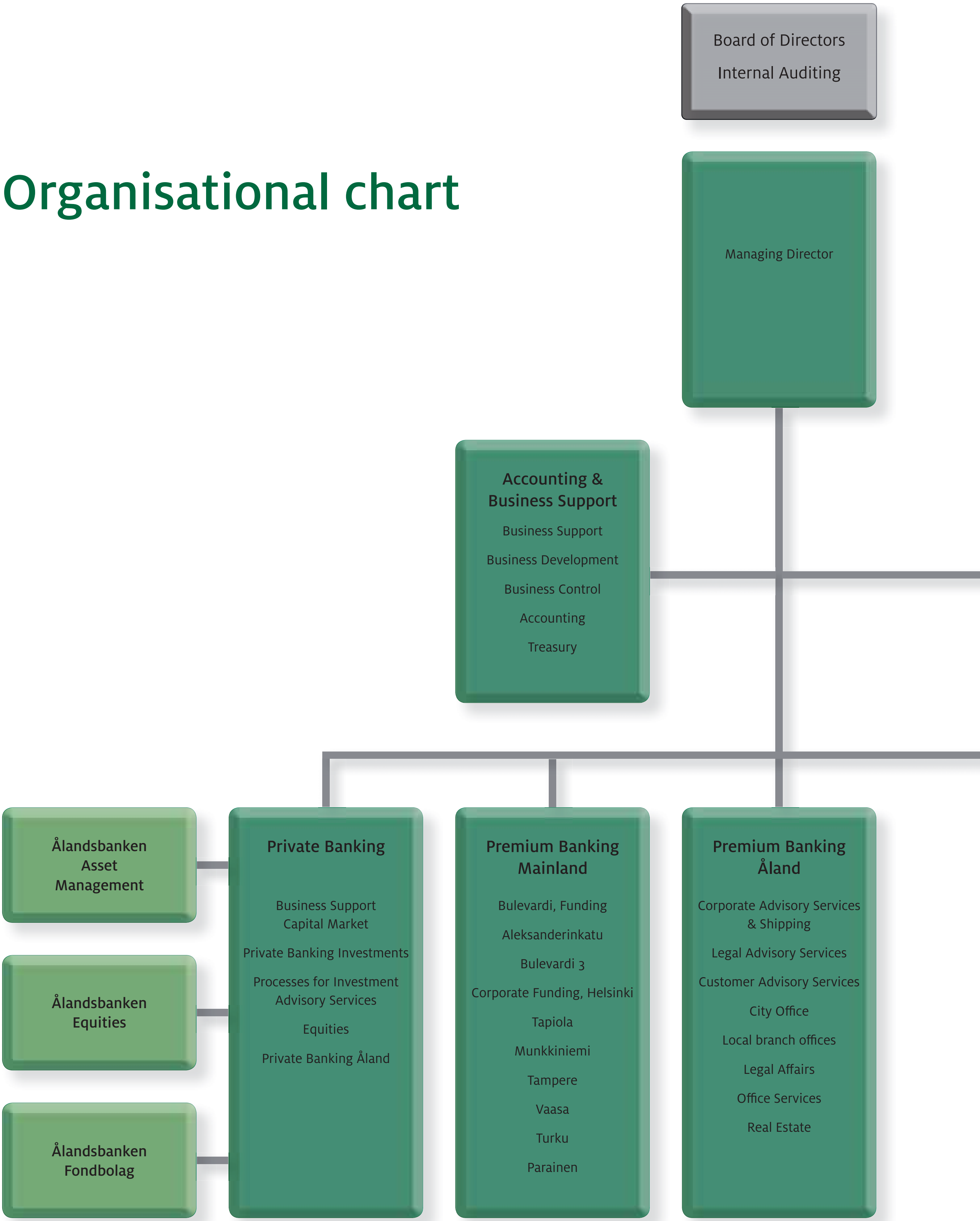
Ålands Företagsbyrå Ab

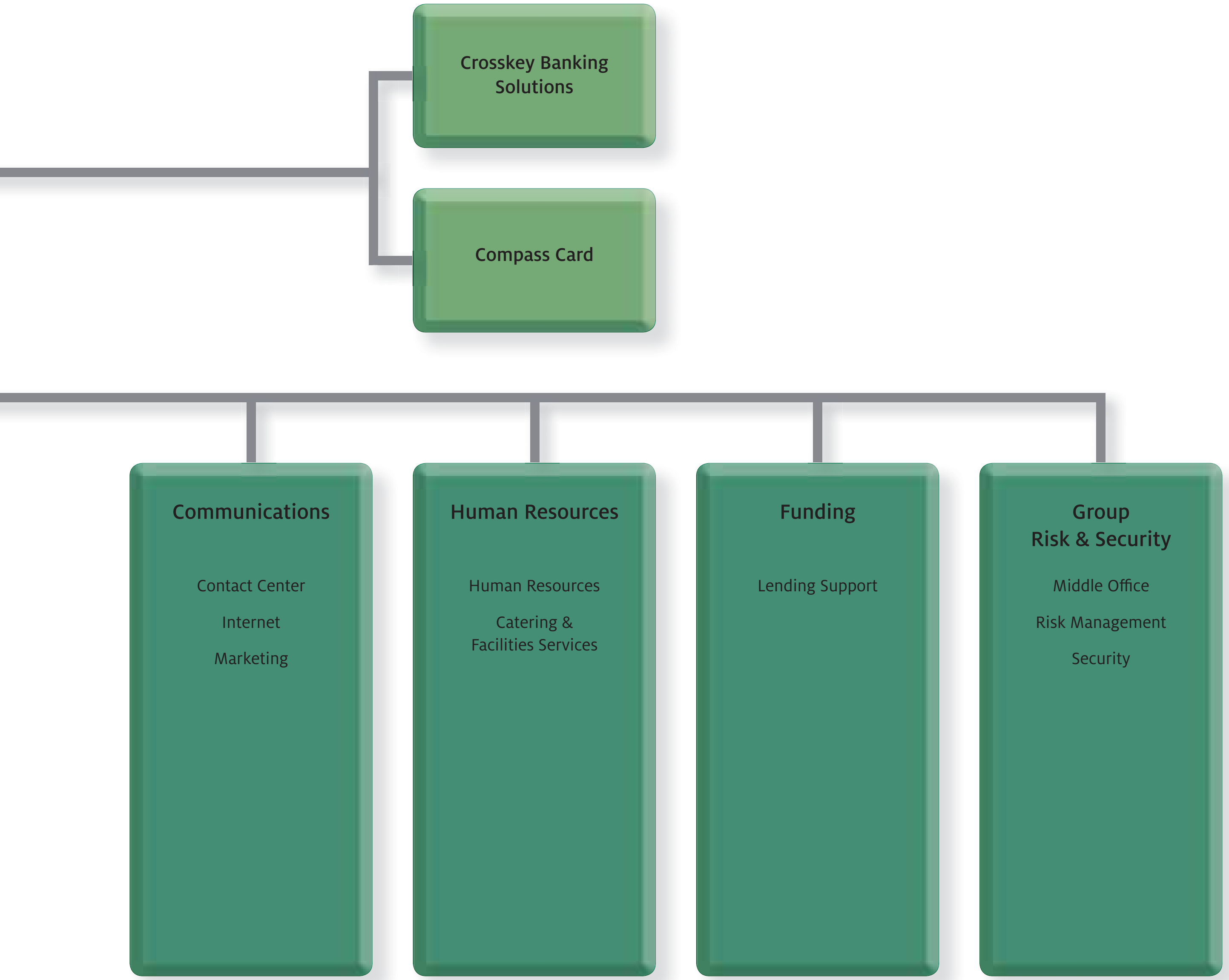
Jan Kangashaka, Managing Director

Ålands Fastighetskonsult Ab

Erolf Fellman / Roger Karlsson

Organisational chart




Crosskey Banking Solutions
Compass Card
Communications
Contact Center
Internet
Marketing
Human Resources
Human Resources
Catering & Facilities Services
Funding
Lending Support
Group Risk & Security
Middle Office
Risk Management
Security

Address list

Bank of Åland Plc
Head Office

Street address:
Nygatan 2
Mariehamn

Postal address:
P.O. Box 3
AX-22101 Mariehamn
FINLAND

Telephone +358 204 29 011
Fax +358 204 291 228
BIC: AABA FI 22
www.alandsbanken.fi
info@alandsbanken.fi

Åland
Corporate Advisory Service
Individual Customer Advisory Service
19 branch offices
Telephone +358 204 29 011
aland@alandsbanken.fi

Helsinki (Helsingfors) Region
Aleksanterinkatu (Alexandersgatan)
46 A, 2nd fl.
FI-00100 HELSINKI
Telephone +358 204 293 400
aleksanterinkatu@alandsbanken.fi

Bulevardi (Bulevarden) 3,
Customer Advisory Services
FI-00120 HELSINKI
Telephone +358 204 293 600
bulevardi@alandsbanken.fi

Bulevardi (Bulevarden) 3,
Corporate Unit
FI-00120 HELSINKI
Telephone +358 204 293 600
yritys.helsinki@alandsbanken.fi

Munkkiniemen puistotie
(Munksnäs allén) 13
FI-00330 HELSINKI
Telephone +358 204 293 900
munkkiniemi@alandsbanken.fi

Espoo-Tapiola (Esbo-Hagalund)
Länsituulentie (Västanvindsvägen) 4
FI-02100 ESPOO
Telephone +358 204 293 500
espoo-tapiola@alandsbanken.fi

Private Banking, Helsinki (Helsingfors)
Bulevardi (Bulevarden) 3, 5th fl.
FI-00120 HELSINKI
Telephone +358 204 293 600
private.banking@alandsbanken.fi

Tampere (Tammerfors)
Hämeenkatu 8
FI-33100 TAMPERE
Telephone +358 204 293 200
tampere@alandsbanken.fi

Turku (Åbo)
Hansakortteli (Hansakvarteret)
Eerikinkatu (Eriksgatan) 17
FI-20100 TURKU
Telephone +358 204 293 100
turku@alandsbanken.fi

Parainen (Pargas)
Kauppiaskatu (Köpmansgatan) 24
FI-21600 PARAINEN
Telephone +358 204 293 150
parainen@alandsbanken.fi

Vaasa (Vasa)
Alatori (Nedre torget) 1 A, 3rd fl.
FI-65100 VAASA
Telephone +358 204 293 300
vaasa@alandsbanken.fi

Subsidiaries

Crosskey Banking Solutions Ab Ltd
Head Office
Elverksgatan 10
AX-22100 Mariehamn
Telephone +358 204 29 022
information@crosskey.fi

Stockhgolm
Sköldungagatan 4
S-114 27 Stockholm
SWEDEN

Turku (Åbo)
Eerikinkatu (Eriksgatan) 17
FI-20100 Turku

Ålandsbanken Fondbolag Ab
P.O. Box 3
AX-22101 Mariehamn
Telephone +358 204 29 088
fond@alandsbanken.fi

Ålandsbanken Asset Management Ab
Bulevardi (Bulevarden) 3, 3rd fl.
FI-00120 HELSINKI
Telephone +358 204 293 700
aam@alandsbanken.fi

Ab Compass Card Oy Ltd
P.O. Box 3
AX-22100 Mariehamn
Telephone +358 204 29 033
compasscard@compasscard.fi

Helsinki (Helsingfors)
P.O. Box 52
FI-00721 Helsinki

Ålandsbanken Equities Ab
Bulevardi (Bulevarden) 3
FI-00120 Helsinki
Telephone +358 204 293 600
equities@alandsbanken.fi

"Our portfolios consist of simple, easy-to-understand instruments that we can explain with paper and pen."

ÅAB MRK 4267

ÅLANDSBANKEN

www.alandsbanken.fi