

INTERIM REPORT

for the period January – June 2004

The report period in brief

- Consolidated net operating profit rose by 14.3 per cent to 8.8 million euros (Jan-Jun 2003: EUR 7.7 M)
- Net income from financial operations declined by 1.8 per cent to EUR 14.5 M
- Other income increased by 20.6 per cent to EUR 10.7 M (8.9)
- Expenses advanced by less than 6 per cent to EUR 17.2 M (16.2)
- For future expenses (including loan losses), EUR 1.0 M has been set aside, thereby lowering the earnings forecast somewhat
- Lending volume rose by 15.6 per cent to EUR 1,473 M (Jun 2003: 1,275)
- Deposit accounts increased by 1.7 per cent to EUR 1,104 M (Jun 2003: 1,085)
- Return on equity after taxes (ROE) was 12.6 per cent (11.9)
- The total capital ratio amounted to 11.6 (11.7) per cent
- Earnings per share after taxes amounted to EUR 0.57 (0.54)

Bank of Åland mutual fund ratings improving

During the first half of 2004, the Bank of Åland's mutual funds (unit trusts) have repeatedly attracted positive comments in the media and by the various mutual fund rating companies. In May, Finland's leading business weekly *Talouselämä* presented a comparison of the success of Finnish mutual fund companies, as measured by the mutual fund rating company Eufex. Ålandsbanken Fondbolag placed second in this comparison and was rated the best of the mutual fund companies that offer a broad selection of funds (the winner in the comparison managed only one fund). In a comparison of investment funds by the Finnish financial magazine *Arvopaperi* in June, the Ålandsbanken Corporate Bond and Ålandsbanken Euro Bond funds made the list of the best mutual funds in Finland. According to the international mutual fund rating company Morningstar, Ålandsbanken Nordic Value has been among the best Nordic equities funds since its inception. During the spring, the European balanced fund Ålandsbanken Europe Active Portfolio fund continuously improved its rating as a consequence of good growth compared to other comparable funds. The Bank of Åland's allocation model for this fund's equity and fixed-income holdings, respectively, thus proved successful. On June 30, 2004, the European balanced fund Ålandsbanken Europe Value completed its first full three-year return history and thus qualified for a Morningstar rating. The fund received a full five stars.

The Bank of Åland Plc (Ålandsbanken Abp) is a successful commercial bank with more than 80 years of experience in its home market, the autonomous Swedish-speaking Finnish province of Åland. The establishment of additional offices in Helsinki, Espoo, Tampere, Turku, Parainen and Vaasa has strengthened our position in Finland as a reliable and innovative financial market player. Ålandsbanken Fondbolag Ab and Ålandsbanken Asset Management Ab are part of the Bank of Åland Group. For further information, see the Annual Report for 2003 on the Bank's web site.

THE GROUP

Earnings

During the first half of 2004, consolidated net operating profit amounted to EUR 8.8 M (7.7). This was an increase of EUR 1.1 M or 14.3 per cent compared to the corresponding year-earlier period.

Net income from financial operations

Despite larger total volume, narrowing customer margins due to tough competition caused a slight decline in net income from financial operations to EUR 14.5 M (14.8).

Other income

Commission income amounted to EUR 6.2 M (4.7), up EUR 1.5 M or 30.6 per cent. This increase derived mainly from securities brokerage and other capital market products. Other operating income totalled EUR 3.2 M (2.5). This included EUR 2.5 M (2.0) in income from the systems sales business area. Other income rose by EUR 1.8 M or 20.6 per cent to EUR 10.7 M (8.9). This included nonrecurring income of EUR 1.0 M.

Total income – net income from financial operations and other income – amounted to EUR 25.2 M (23.7).

Expenses

Staff costs rose by EUR 0.3 M or 3.8 per cent to EUR 9.0 M (8.7). One element of this item was a refund of EUR 1.6 M in surplus contributions to Ålandsbanken Abps pensionsstiftelse, the Bank's pension fund, including tax compensation.

Other administrative expenses (office costs, marketing, telecommunications and computer costs) rose by EUR 0.6 M to EUR 4.5 M (3.9). Depreciation/amortisation was EUR 0.2 M lower than the year before and amounted to EUR 1.0 M (1.2), while other operating expenses rose slightly to EUR 1.9 M (1.8).

Total expenses including planned depreciation fell by EUR 0.6 M or 3.4 per cent to EUR 15.7 M (16.2). Excluding nonrecurring items, expenses rose by EUR 1.0 M or 5.8 per cent to EUR 17.2 M (16.2).

Loan losses

Net loan losses amounted to EUR 0.6 M (recovery of EUR -0.02).

Deposits

Deposits from the public, including bonds issued and certificates of deposit, rose during the 12 months to June 30, 2004 by 1.4 per cent to EUR 1,373 M (1,355). Deposit accounts rose by 1.7 per cent to EUR 1,104 M (1,085). During the year, the Bank floated bond issues with a nominal value of EUR 35.1 M.

Lending

During the 12 months to June 30, 2004, the Bank's volume of lending to the public increased by 15.6 per cent to EUR 1,473 M (1,275). Most of the increase went towards residential financing. Private households accounted for 68.4 (68.2) per cent of the Bank's total lending.

Nonperforming receivables

Total nonperforming receivables and other zero-interest receivables amounted to EUR 2.2 M (2.4), or 0.1 per cent of loans and guarantees outstanding.

Personnel

At the end of June 2004, the number of employees – recalculated as full-time equivalents – was 386. This was an increase of 14 positions, compared to the same date in 2003.

Capital adequacy

Capital adequacy rules require that the capital base in the form of equity capital and reserves total at least 8 per cent of risk-weighted receivables and contingent liabilities. At the end of June, the Group's capital adequacy according to the Credit Institutions Act was 11.6 (11.7) per cent. The core capital ratio was 8.7 (9.5) per cent. Profit during the report period is not included in core capital. The capital base amounted to EUR 114.8 M (107.1).

Ålandsbanken Fondbolag Ab

Ålandsbanken Fondbolag Ab is a wholly-owned subsidiary of the Bank of Åland Plc (Ålandsbanken Abp). The mutual funds (unit trusts) that the company manages are registered in Finland and comply with the Act on Mutual Funds. On June 30, 2004, the number of unit holders totalled 5,991 (Dec 31, 2003: 5,337), which represented an increase of 12 per cent. The total assets under management amounted to EUR 152.9 M (Dec. 31, 2003: 117.4), an increase of 20 per cent.

Ålandsbanken Asset Management Ab

Ålandsbanken Asset Management Ab is a subsidiary of the Bank of Åland Plc. During the first half of 2004, the company received several institutional asset management mandates. This is a concrete indication that Ålandsbanken Asset Management Ab is perceived as a credible asset manager among institutional investors as well. In terms of earnings, the company's basic asset management operations also exceeded expectations, while its proportion of extraordinary income was approximately as expected.

Restructuring of the Bank's IT operations into a separate company

The Board has decided to restructure the Bank's information technology (IT) operations into a separate company and, for this purpose, to form a wholly-owned subsidiary of the Bank to be known as ÅAB Data Ab. Formation of this company is expected to be completed during 2004.

Anders Ingves, the Bank's Deputy Managing Director, has been appointed Chairman of the Board of ÅAB Data Ab. Peter Grönlund, Managing Director, and Dan-Erik Woivalin, Department Manager, Legal Affairs, have been appointed Board members.

Refund of surplus contributions

At year-end 2003, the probable market value of the assets in Ålandsbanken Abps pensionsstiftelse, the Bank's pension fund, exceeded its actuarial liability by about EUR 4 M. The Bank received permission from the Finnish Financial Supervision Authority to refund EUR 1.6 M in surplus contributions including compensation for corporation tax. This refund was carried out during the second quarter of 2004.

Forecast for the year

Net income from financial operations and other income items are being squeezed by tough competition. Earnings comparisons between the first and second half of 2004, as well as comparisons with the second half of 2003, are affected by a number of nonrecurring items. However, due to loss provisions of about EUR 1.0 M (including provisions of EUR 0.6 M for loan losses), earnings for the full year 2004 may be somewhat lower than for 2003.

Mariehamn, August 17, 2004

The Board of Directors

Statement of opinion

We have conducted a review of the Interim Report of the Bank of Åland Plc (Ålandsbanken Abp) for the period January 1 – June 30, 2004. This review included an analytical examination of the balance sheet and income statement items in the Interim Report. Such a review is significantly more limited in scope than a statutory audit. Nothing has emerged that indicates that the Interim Report does not fulfil the regulations in force.

Mariehamn, August 17, 2004

Leif Hermans
Authorised Public Accountant

Rabbe Nevalainen
Authorised Public Accountant

Marja Tikka
Authorised Public Accountant

FINANCIAL RATIOS ETC

Bank of Åland Group	Jan-Jun 2004	Jan-Jun 2003	Full year 2003
Net operating profit per share, EUR ¹	0.57	0.54	1.02
Market price per share, end of period, EUR			
Series A	19.00	17.15	18.65
Series B	17.60	17.30	19.10
Equity capital per share, EUR ²	8.78	8.75	9.22
Return on equity after taxes, % (ROE) ³	12.6	11.9	11.4
Total lending volume, EUR M	1,473	1,275	1,385
Total deposits from the public, EUR M	1,373	1,355	1,398
Equity capital, EUR M	96.2	95.7	100.9
Balance sheet total, EUR M	1,834	1,846	1,851
Income/expense ratio			
Including loan losses	1.5	1.5	1.4
excluding loan losses	1.6	1.5	1.4
Total capital ratio, %	11.6	11.7	11.4

¹ Net operating profit minus imputed taxes / Average number of shares, adjusted for new issue

² Equity capital and reserves minus imputed tax / Number of shares on balance sheet date, adjusted for new issue

³ Net operating profit minus imputed tax / Average equity capital

CAPITAL ADEQUACY

Bank of Åland Group	Jan-Jun 2004	Jan-Jun 2003	Full year 2003
Capital base, EUR M			
Core capital	86.7	86.7	86.5
Supplementary capital	28.2	20.3	20.3
Total capital base	114.8	107.0	106.8
Risk-weighted volume, EUR M	993.0	917.3	932.7
Total capital ratio, %	11.6	11.7	11.4
Core capital as % of risk-weighted volume	8.7	9.5	9.3

Profit during the report period is not included in the capital base

INCOME STATEMENT BY QUARTER

(EUR M)	Q 2 2004	Q 1 2003	Q 4 2003	Q 3 2003	Q 2 2003
Net income from financial operations	7.1	7.4	7.4	7.4	7.4
Income from equity investments	0.4	0.1	0.2	0.3	0.4
Commission income	3.1	3.1	3.0	2.5	2.5
Net income from securities transactions and foreign exchange dealing	0.6	0.2	0.7	1.0	0.4
Other operating income	1.0	2.2	2.1	1.0	1.8
Total income	12.2	13.0	13.5	12.2	12.6
Commission expenses	-0.4	-0.3	-0.3	-0.3	-0.3
Staff costs	-3.2	-4.3	-5.7	-4.5	-4.5
Other administrative expenses	-2.5	-2.0	-2.6	-1.7	-2.1
Depreciation/amortisation	-0.5	-0.5	-0.6	-0.5	-0.6
Other operating expenses	-1.0	-1.0	-1.1	-0.9	-0.9
Total expenses	-7.6	-8.1	-10.3	-7.9	-8.4
Loan and guarantee losses	-0.6	0.0	0.1	0.0	0.0
Share of operating results of companies consolidated according to equity method	-0.3	0.1	-0.2	0.1	0.1
Net operating profit	3.8	5.0	3.1	4.4	4.2

SUMMARY INCOME STATEMENT

(EUR M)	Bank of Åland Group			Bank of Åland Plc		
	Jan-Jun	Jan-Jun	Full year	Jan-Jun	Jan-Jun	Full year
	2004	2003	2003	2004	2003	2003
Net income from financial operations	14.5	14.8	29.6	14.3	14.6	29.4
Income from equity investments	0.5	0.7	1.2	1.5	2.0	2.5
Commission income	6.2	4.7	10.3	4.8	4.0	8.5
Net income from securities transactions and foreign exchange dealing	0.9	0.9	2.7	0.9	0.9	2.6
Other operating income	3.2	2.5	5.6	3.2	2.5	5.6
Total income	25.2	23.7	49.4	24.7	24.1	48.6
Commission expenses	-0.7	-0.6	-1.3	-0.6	-0.5	-1.1
Staff costs	-7.5	-8.7	-18.9	-7.1	-8.4	-18.2
Other administrative expenses	-4.5	-3.9	-8.2	-4.3	-3.8	-7.9
Depreciation/amortisation	-1.0	-1.2	-2.3	-1.0	-1.2	-2.3
Other operating expenses	-1.9	-1.8	-3.9	-1.9	-1.8	-3.8
Total expenses	-15.7	-16.2	-34.4	-14.9	-15.7	-33.3
Loan and guarantee losses	-0.6	0.0	0.1	-0.6	0.0	0.1
Share of operating results of companies consolidated according to equity method	-0.2	0.2	0.1			
Net operating profit	8.8	7.7	15.2	9.2	8.4	15.5
Appropriations	-2.6	-2.2	-4.4	-2.7	-2.4	-4.5
Income taxes						
Minority share of profit for the period	-0.1	0.0	-0.1			
Profit for the period	6.0	5.4	10.6	6.5	6.0	11.0

SUMMARY BALANCE SHEET

(EUR M)	Bank of Åland Group			Bank of Åland Plc		
	Jun 30 2004	Jun 30 2003	Dec 31 2003	Jun 30 2004	Jun 30 2003	Dec 31 2003
ASSETS						
Liquid assets	60	62	40	60	62	40
Debt securities eligible for refinancing with central banks	177	205	263	177	205	263
Claims on credit institutions	54	220	77	54	220	77
Claims on the public and public sector entities	1,473	1,275	1,405	1,473	1,275	1,405
Lease assets	1	1	1	1	1	1
Debt securities	8	11	8	7	11	7
Shares and participations	9	17	15	8	16	14
Shares and participations in associated and Group companies	2	2	2	3	3	3
Intangible assets	4	4	3	3	4	3
Tangible assets	14	14	14	14	14	14
Other assets	25	28	15	25	27	15
Accrued income and prepaid expenses	7	7	8	7	7	8
	1,834	1,846	1,851	1,833	1,845	1,851
LIABILITIES AND EQUITY CAPITAL						
<i>Liabilities</i>						
Liabilities to credit institutions and central banks	100	131	93	100	131	93
Liabilities to the public and public sector entities	1,108	1,091	1,140	1,109	1,091	1,140
Debt securities issued to the public	403	447	433	403	448	433
Other liabilities	58	22	30	58	22	30
Accrued expenses and prepaid income	13	18	14	13	18	14
Subordinated liabilities	39	25	25	39	25	25
Imputed taxes due	7	7	7			
Minority share of capital	0	0	0			
<i>Accumulated appropriations</i>						
Reserves				23	23	23
<i>Equity capital</i>	22	21	22	22	21	22
Share capital	0	11	0	0	11	0
Share premium account	25	15	25	25	15	25
Reserve fund	25	25	25	25	25	25
Capital loan	10	10	10	10	10	10
Profit brought forward	17	18	18	0	0	0
Profit for the period	6	5	11	7	6	11
	1,834	1,846	1,851	1,833	1,845	1,851
Off-balance sheet commitments						
Guarantees and pledges	10	10	10	10	10	10
Other commitments	113	107	104	113	107	104
	122	117	114	122	117	114

**LENDING TO THE PUBLIC AND PUBLIC SECTOR ENTITIES,
BY PURPOSE**

(EJR: M)	Jun 30 2004	Jun 30 2003	Dec 31 2003
BUSINESS AND PROFESSIONAL ACTIVITIES			
<i>Service sector</i>			
Shipping	54.3	56.0	51.1
Transport and communications	13.5	13.8	11.9
Hotels, restaurants, tourist cottages etc.	11.6	11.3	11.5
Wholesale and retail trade	39.9	41.0	40.8
Housing corporations	31.3	27.1	30.1
Real estate operations	76.0	66.0	70.9
Financial operations	111.7	85.8	113.2
Other service business	46.2	31.6	39.8
	384.4	332.7	369.3
<i>Production sector</i>			
Agriculture, forestry and fishing	22.0	21.5	20.2
Food processing etc	10.8	10.7	13.1
Construction	11.4	9.0	9.9
Other industry and crafts	10.1	10.7	7.3
	54.2	51.9	50.5
HOUSEHOLDS			
Home loans	821.7	715.5	772.4
Studies	12.9	12.6	12.9
Other purposes	172.5	140.6	157.7
	1,007.1	868.7	943.0
PUBLIC SECTOR AND NON-PROFIT ORGANISATIONS			
	27.3	21.1	22.5
Total lending	1,473.0	1,274.5	1,385.3

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

(EUR M)	June 30 2004	June 30 2003	December 31 2003
Deposit accounts from the public and public sector entities			
Demand deposit accounts	153.2	135.3	141.1
Current accounts	176.5	154.1	165.9
Savings and Environmental Accounts	107.1	109.6	112.3
Prime Accounts	454.2	465.7	477.8
Time deposits	157.6	143.2	165.3
<i>Deposit accounts in euros</i>	1,048.7	1,007.9	1,062.4
Deposit accounts in other currencies	54.8	76.9	71.8
Total deposit accounts	1,103.5	1,084.8	1,134.2
Bonds	162.7	138.0	144.8
Certificates of deposit issued to the public	106.8	131.9	119.4
Bonds and certificates of deposit	269.5	269.9	264.2
Total deposits	1,373.0	1,354.6	1,398.4

DERIVATIVE CONTRACTS

(EUR M)	Jun 30, 2004		Dec 31, 2003	
	For hedging purposes	Other	For hedging purposes	Other
<i>Value of underlying property</i>				
Interest rate derivatives				
Option contracts				
Purchased	15.0	0.0	15.0	0.0
Written	0.0	15.0	0.0	15.0
Interest rate swap contracts	308.1	5.1	241.3	4.6
Currency derivatives				
Forward contracts	1.4	1.9	2.3	2.7
Interest rate and currency swap contracts	0.2	0.0	0.2	0.0
Equity derivatives				
Option contracts	116.3	0.7	112.3	0.7
Purchased	0.0	116.3	0.0	112.3
Written	440.9	138.9	371.1	135.2
Equivalent credit values of the contracts				
Interest rate derivatives	2.9		4.7	
Currency derivatives	0.1		0.1	
Equity derivatives	18.0		15.3	
	21.0		20.2	