

INTERIM REPORT

for the period January – September 2004

The report period in brief

- Consolidated net operating profit rose by 3.5 per cent to 12.5 million euros (Jan-Sep 2003: EUR 12.1 M)
- Net income from financial operations declined by 1.3 per cent to EUR 21.9 M (22.2)
- Other income increased by 9.8 per cent to EUR 15.1 M (13.7)
- Expenses rose by 5.5 per cent to EUR 25.5 M (24.2)
- The Group increased its reserve for possible loan losses by EUR 0.6 M
- Lending volume rose by 15.3 per cent to EUR 1,510 M (Sep 2003: 1,309)
- Deposit accounts increased by 2.3 per cent to EUR 1,091 M (Sep 2003: 1,067)
- Return on equity after taxes (ROE) was 11.8 per cent (12.3)
- The total capital ratio amounted to 11.8 (11.5) per cent
- During the report period, debenture loans totalling EUR 20.0 M were issued
- Earnings per share after taxes amounted to EUR 0.81 (0.82)

Bank of Åland mutual fund ratings improving

So far during 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, as mentioned in previous Interim Reports. This trend continued during the third quarter. The mutual fund guide of Finnish financial magazine *Arvopaperi*, *Sijoitusrahasto-opas*, which appeared in September, presented an extensive comparison of all Finnish mutual fund companies, as measured by the mutual fund rating company Eufex's rating of these companies' funds. 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 of the comparison managed only one fund).

Ålandsbanken Fondbolag offers a competitive basic selection of mutual funds to the Bank of Åland's customers. This strategy has proved sound. Its success is the result of co-operation with skilled fund managers. The Bank of Åland's management model for equity and fixed-income investments has also been successful.

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 2003 Annual Report and the earlier Interim Reports on the Bank's web site.

THE GROUP

Earnings

During the first nine months of 2004, consolidated net operating profit amounted to EUR 12.5 M (12.1). This was an increase of EUR 0.4 M or 3.5 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 21.9 M (22.2).

Other income

Commission income amounted to EUR 8.8 M (7.3), up EUR 1.5 M or 21.3 per cent. This increase derived mainly from securities brokerage and other capital market products. Other operating income totalled EUR 4.5 M (3.5). This included EUR 3.2 M (2.7) in income from the systems sales business area, of which EUR 1.0 M was nonrecurring income. In all, other income rose by EUR 1.3 M or 9.8 per cent to EUR 15.1 M (13.7). Total income – net income from financial operations and other income – amounted to EUR 37.0 M (35.9).

Expenses

New staff recruitments and salary adjustments in compliance with collective agreements raised staff costs by EUR 0.7 M to EUR 13.9 M (13.2). Also included in the item “Staff costs” was a negative item related to 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 0.7 M to EUR 6.3 M (5.6). Depreciation/amortisation was EUR 0.2 M lower than the year before and amounted to EUR 1.5 M (1.7), while other operating expenses rose slightly to EUR 2.8 M (2.7). Total expenses including planned depreciation fell by EUR 0.3 M or 1.1 per cent to EUR 23.9 M (24.2). Excluding nonrecurring items, expenses rose by EUR 1.3 M or 5.5 per cent to EUR 25.5 M (24.2).

Loan losses

Net loan losses amounted to EUR 0.4 M (recovery of EUR -0.01).

Deposits

Deposits from the public, including bonds issued and certificates of deposit, rose during the 12 months to September 30, 2004 by 5.0 per cent to EUR 1,399 M (1,333). Deposit accounts rose by 2.3 per cent to EUR 1,091 M (1,067). During the year, the Bank floated bond issues with a nominal value of EUR 48.0 M.

Lending

During the 12 months to September 30, 2004, the Bank’s volume of lending to the public increased by 15.3 per cent to EUR 1,510 M (1,309). Most of the increase went towards residential financing. Private households accounted for 68.8 (68.6) per cent of the Bank’s total lending.

Nonperforming receivables

Total nonperforming receivables and other zero-interest receivables amounted to EUR 2.8 M (2.1), or 0.2 per cent of loans and guarantees outstanding.

Personnel

At the end of September 2004, the number of employees – recalculated as full-time equivalents – was 390. This represented an increase of 15 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 September, the Group’s capital adequacy according to the Credit Institutions Act was 11.8 (11.5) per cent. To strengthen the capital base in the form of supplementary capital, risk debenture loans totalling EUR 20 M were issued during the report period. The core capital ratio was 8.6 (9.3) per cent. Profit during the report period is not included in core capital. The capital base amounted to EUR 120.9 M (107.2).

Corporate Governance

On January 2, 2004, the Bank's Board of Directors adopted the recommendations of the Helsinki Stock Exchange for the administrative and corporate governance system of listed Finnish companies.

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 September 30, 2004, the number of unit holders totalled 6,135 (Dec 31, 2003: 5,337), which represented an increase of 15 per cent. The total assets under management amounted to EUR 156.5 M (Dec. 31, 2003: 117.4), an increase of 33 per cent.

Ålandsbanken Asset Management Ab

Ålandsbanken Asset Management Ab is a subsidiary of the Bank of Åland Plc. During 2004, the company has 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.

Imputed taxes due

Imputed taxes due have been calculated according to a tax rate of 26 per cent, compared to the earlier 29 per cent. This reduced taxes by EUR 0.7 M.

Forecast for the year

Our earlier forecast remains unchanged. Full-year 2004 earnings may be somewhat lower than 2003 earnings.

Mariehamn, October 19, 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 – September 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, October 19, 2004

Leif Hermans
Authorised Public Accountant

Rabbe Nevalainen
Authorised Public Accountant

Marja Tikka
Authorised Public Accountant

FINANCIAL RATIOS ETC

Bank of Åland Group	Jan-Sep 2004	Jan-Sep 2003	Full year 2003
Net operating profit per share, EUR ¹	0.81	0.82	1.02
Market price per share, end of period, EUR			
Series A	17.90	18.70	18.65
Series B	17.62	18.30	19.10
Equity capital per share, EUR ²	9.08	9.04	9.22
Return on equity after taxes, % (ROE) ³	11.8	12.3	11.4
Total lending volume, EUR M	1,510	1,309	1,385
Total deposits from the public, EUR M	1,399	1,333	1,398
Equity capital, EUR M	99	99	101
Balance sheet total, EUR M	1,781	1,866	1,851
Income/expense ratio			
Including loan losses	1.5	1.5	1.4
Excluding loan losses	1.5	1.5	1.4
Total capital ratio, %	11.8	11.5	11.4

¹ Net operating profit minus imputed tax / 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-Sep 2004	Jan-Sep 2003	Full year 2003
Capital base, EUR M			
Core capital	87.4	86.9	86.5
Supplementary capital	33.4	20.3	20.3
Total capital base	120.9	107.2	106.8
Risk-weighted volume, EUR M	1,020.9	931.4	932.7
Total capital ratio, %	11.8	11.5	11.4
Core capital as % of risk-weighted volume	8.6	9.3	9.3

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

INCOME STATEMENT BY QUARTER

(EUR M)	Q 3 2004	Q 2 2004	Q 1 2004	Q 4 2003	Q 3 2003
Net income from financial operations	7.4	7.1	7.4	7.4	7.4
Income from equity investments	0.0	0.4	0.1	0.2	0.3
Commission income	2.6	3.1	3.1	3.0	2.5
Net income from securities transactions and foreign exchange dealing	0.4	0.6	0.2	0.7	1.0
Other operating income	1.3	1.0	2.2	2.1	1.0
Total income	11.7	12.2	13.0	13.5	12.2
Commission expenses	-0.3	-0.4	-0.3	-0.3	-0.3
Staff costs	-4.8	-3.2	-4.3	-5.7	-4.5
Other administrative expenses	-1.8	-2.5	-2.0	-2.6	-1.7
Depreciation/amortisation	-0.5	-0.5	-0.5	-0.6	-0.5
Other operating expenses	-0.9	-1.0	-1.0	-1.1	-0.9
Total expenses	-8.2	-7.6	-8.1	-10.3	-7.9
Loan and guarantee losses	0.1	-0.6	0.0	0.1	0.0
Share of operating results of companies consolidated according to equity method	0.1	-0.3	0.1	-0.2	0.1
Net operating profit	3.7	3.8	5.0	3.1	4.4

SUMMARY INCOME STATEMENT

(EUR M)	Bank of Åland Group			Bank of Åland Plc		
	Jan-Sep	Jan-Sep	Full year	Jan-Sep	Jan-Sep	Full year
	2004	2003	2003	2004	2003	2003
Net income from financial operations	21.9	22.2	29.6	21.7	22.0	29.4
Income from equity investments	0.5	1.0	1.2	1.5	2.4	2.5
Commission income	8.8	7.3	10.3	7.0	6.1	8.5
Net income from securities transactions and foreign exchange dealing	1.3	2.0	2.7	1.3	1.9	2.6
Other operating income	4.5	3.5	5.6	4.5	3.5	5.6
Total income	37.0	35.9	49.4	35.9	35.9	48.6
Commission expenses	-1.0	-0.9	-1.3	-0.8	-0.8	-1.1
Staff costs	-12.3	-13.2	-18.9	-11.7	-12.7	-18.2
Other administrative expenses	-6.3	-5.6	-8.2	-6.0	-5.4	-7.9
Depreciation/amortisation	-1.5	-1.7	-2.3	-1.5	-1.7	-2.3
Other operating expenses	-2.8	-2.7	-3.9	-2.7	-2.7	-3.8
Total expenses	-23.9	-24.2	-34.4	-22.8	-23.3	-33.3
Loan and guarantee losses	-0.4	0.0	0.1	-0.4	0.0	0.1
Share of operating results of companies consolidated according to equity method	-0.1	0.3	0.1			
Net operating profit	12.5	12.1	15.2	12.6	12.6	15.5
Appropriations						
Income taxes	-3.1	-3.5	-4.4	-3.7	-3.6	-4.5
Minority share of profit for the period	-0.1	-0.1	-0.1			
Profit for the period	9.3	8.6	10.6	9.0	8.9	11.0

SUMMARY BALANCE SHEET

(EUR M)	Bank of Åland Group			Bank of Åland Plc		
	Sep 30 2004	Sep 30 2003	Dec 31 2003	Sep 30 2004	Sep 30 2003	Dec 31 2003
ASSETS						
Liquid assets	48	95	40	48	96	40
Debt securities eligible for refinancing with central banks	61	195	263	61	195	263
Claims on credit institutions	96	171	77	96	171	77
Claims on the public and public sector entities	1,510	1,309	1,405	1,510	1,309	1,405
Lease assets	1	1	1	1	1	1
Debt securities	7	38	8	7	38	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	3	3	3	3	3	3
Tangible assets	14	14	14	14	14	14
Other assets	22	11	15	22	11	15
Accrued income and prepaid expenses	8	9	8	8	9	8
	1,781	1,866	1,851	1,781	1,865	1,851
LIABILITIES AND EQUITY CAPITAL						
<i>Liabilities</i>						
Liabilities to credit institutions and central banks	43	96	93	43	96	93
Liabilities to the public and public sector entities	1,096	1,073	1,140	1,096	1,073	1,140
Debt securities issued to the public	435	506	433	436	506	433
Other liabilities	33	33	30	33	33	30
Accrued expenses and prepaid income	15	19	14	15	19	14
Subordinated liabilities	45	25	25	45	25	25
Imputed taxes due	6	7	7			
Minority share of capital	0	0	0			
<i>Accumulated appropriations</i>						
Reserves				23	23	23
<i>Equity capital</i>						
Share capital	22	22	22	22	22	22
Share premium account	25	25	25	25	25	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	9	9	11	9	9	11
	1,781	1,866	1,851	1,781	1,865	1,851
Off-balance sheet commitments						
Guarantees and pledges	13	10	10	13	10	10
Other commitments	113	101	104	113	111	104
	127	111	114	127	121	114

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

(EJR: M)	Sep 30 2004	Sep 30 2003	Dec 31 2003
BUSINESS AND PROFESSIONAL ACTIVITIES			
<i>Service sector</i>			
Shipping	51.4	52.8	51.1
Transport and communications	13.1	13.0	11.9
Hotels, restaurants, tourist cottages etc.	11.0	11.3	11.5
Wholesale and retail trade	41.0	40.3	40.8
Housing corporations	29.2	28.2	30.1
Real estate operations	75.5	65.0	70.9
Financial operations	115.8	89.8	113.2
Other service business	52.8	35.1	39.8
	389.9	335.5	369.3
<i>Production sector</i>			
Agriculture, forestry and fishing	20.9	22.4	20.2
Food processing etc	11.0	10.7	13.1
Construction	11.2	9.0	9.9
Other industry and crafts	10.3	11.6	7.3
	53.5	53.7	50.5
HOUSEHOLDS			
Home loans	846.3	741.8	772.4
Studies	13.0	12.7	12.9
Other purposes	179.9	143.4	157.7
	1,039.2	897.9	943.0
PUBLIC SECTOR AND NON-PROFIT ORGANISATIONS			
	27.1	22.1	22.5
Total lending	1,509.7	1,309.2	1,385.3

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

(EUR M)	September 30 2004	September 30 2003	December 31 2003
Deposit accounts from the public and public sector entities			
Demand deposit accounts	152.9	132.8	141.1
Current accounts	182.8	159.3	165.9
Savings and Environmental Accounts	105.0	110.0	112.3
Prime Accounts	439.3	447.8	477.8
Time deposits	158.8	146.2	165.3
<i>Deposit accounts in euros</i>	1,038.9	996.2	1,062.4
Deposit accounts in other currencies	52.1	70.8	71.8
Total deposit accounts	1,091.0	1,067.0	1,134.2
Bonds	175.7	141.3	144.8
Certificates of deposit issued to the public	132.8	124.5	119.4
Bonds and certificates of deposit	308.5	265.9	264.2
Total deposits	1,399.4	1,332.9	1,398.4

DERIVATIVE CONTRACTS

(EUR M)	Sep 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	318.4	4.5	241.3	4.6
Currency derivatives				
Forward contracts	1.1	1.4	2.3	2.7
Interest rate and currency swap contracts	0.1	0.0	0.2	0.0
Equity derivatives				
Option contracts				
Purchased	118.2	0.7	112.3	0.7
Written	0.0	118.2	0.0	112.3
	452.8	139.8	371.1	135.2
Equivalent credit values of the contracts				
Interest rate derivatives	2.6		4.7	
Currency derivatives	0.1		0.1	
Equity derivatives	16.7		15.3	
	19.4		20.2	