Aarhus Lokalbank

BYENS BANK

Annual Report 2011

Contents

This document has been prepared in a Danish language and an English language version. In the event of discrepancies, the Danish version shall prevail.

Company information

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Introduction

New capital plan carried through. Anticipated unsatisfactory result, but the action plan was followed.

2011 was a year of continued financial slowdown and additional aggravation of the financial climate in general.

The Bank has maintained its new strategy regarding slimming down the balance sheet and reducing risks.

New capital plan

In the first months of 2011, Aarhus Lokalbank carried through a comprehensive capital plan, which included:

1. Conversion of 80% of the state hybrid core capital to share capital.
2. Conversion of the capital base to equity capital and hybrid core capital.
3. Conversion of subordinated loan to hybrid core capital.

The capital plan implied a boost of the equity capital by DKK 240m.

Launched action plans

The Bank initiated measures for credit management by establishing a special task force and by redefining the Bank's credit policies containing, inter alia, a more conservative assessment of the value of collateral security. Internal procedures have been boosted and the number of employees has been reduced. Also, the Bank's central functions have been transferred to the departments in Aarhus and Hadsten, and the lease in Toldboden has been vacated, which implies significant savings on the annual rent as from 2012.

A targeted effort to reduce the Bank's lending with special focus on risky loans has been realised, but the aggravated market conditions have complicated this effort. However, without great losses and write downs.

Handling of the various balance sheet items has resulted in fewer weighted assets, which together with a well-implemented capital plan has had a favourable influence on the Bank's solvency ratio.

Result for the year

Aarhus Lokalbank presents a negative result of DKK 155m before tax.

Concluding comments

The Board of Directors would like to thank the Bank's many good and loyal shareholders and customers for their support.

Also, we thank our employees, who have performed a fantastic job under – at times – very difficult terms.

Merger

On 25 January 2012, Aarhus Lokalbank and Vestjysk Bank published plans to merge with Vestjysk Bank, whereby Vestjysk Bank will be the surviving bank.

The reason for this historic decision is explained in the section "Expectations and future prospects" in the management review.

The Bank's management looks forward to the merger with Vestjysk Bank, which after the completion of its capital plan will emerge as a stronger regional bank. The hardship of the present presents additional challenges, especially for small banks, and therefore a merger of the two banks is believed to be beneficial to shareholders, customers and employees.

We hope that the Bank's shareholders will support the Board of Directors' decision and contribute in a positive manner to complete the merger.

Management review

Aarhus Lokalbank presents a negative result of DKK 155m before tax compared to a negative result in 2010 of DKK 233m before tax.

The 2011 result is still influenced by the unusually high write downs as a result of the failed growth strategy in the years 2006-2008, and the clean-up process initiated in 2010 combined with the weak financial market conditions.

The management sees the unsatisfactory result as expected based on the clean-up process and the weak financial development both nationally and internationally. As for specific uncertainties and preconditions reference is made to note 2.

The reason for the result

The Bank has throughout the year followed the action plans with specific focus on the reduction of the balance sheet and risks, and in relation thereto a reduction of the costs.

As a result the Bank's loans and guarantees fall from DKK 4,560m to DKK 3,644m corresponding to a decrease of 20.1 pct.

Deposits fall by 31.5 pct. to DKK 2,445m of which a deposit product with state guarantee represents approx. DKK 259m.

The fall in deposits is a planned consequence of the fall in loans and guarantees, and thus forms part of the effort to reduce the Bank's balance sheet.

The Bank's securities and currency reserves have resulted in a loss of DKK 4.8m, which is a result of the volatile markets due to the escalating debt crisis in Southern Europe.

Impairment charges

Impairment charges on loans etc. of DKK 146m are very unsatisfying, but are a consequence of the changed valuation principles of the Bank in relation to the collateral security and the market price decrease on assets as a result of the weak financial market conditions.

Impairment charges predominantly concern the Bank's business customers, whereas the risk is unchanged for private customers.

Over the year a loss of approx. DKK 79m has been realised.

Loans on which interest accrual has been stopped constitute DKK 277m corresponding to 6.9% of the Bank's total loans and guarantees before impairment charges.

Income statement

The Bank's interest and fee income constitutes DKK 93.3m, which is a fall of 30.9%. This development is mainly due to the completed balance sheet reduction including falling income on loans, significant increases in interest on deposits etc., and not least the extraordinary interest costs (gross DKK 23.4m) which the Bank defrayed in connection with the completion of the capital plan in the spring of 2011.

Costs

Costs fall by 11.2% corresponding to DKK 11.1m. The fall is mainly a result of a reduction in salary costs as a result of a reduction of the number of employees and falling costs on ads, commercials, training, etc.

The number of employees has been reduced from 92 to 77.

Depreciation and amortisation of tangible assets is DKK 4.2m against DKK 3.4m in 2010. The increase is due to the Bank in the spring of 2011 moving from its main office in rented premises at Toldkammeret in Aarhus in order to unite the central functions of the Bank in its own building in Havnegade, also in Aarhus. In this respect, the Bank wrote off the previously capitalized furnishing costs.

The Guarantee Fund for Depositors and Investors

The sector must anticipate losses in connection with Amagerbank and Fjordbank Mors passing to the Danish Financial Stability Company and the liquidation of Max Bank following bank bailout package IV.
Aarhus Lokalbank's share of the sector's guarantee for the Guarantee Fund for Depositors and Investors constitutes 0.3% corresponding to DKK 5.8m.

Balance sheet

The balance sheet stands at DKK 4.5bn (2010, DKK 6.4bn). The balance sheet reduction is part of the action plans.

The total loans fall by DKK 678.4m to DKK 3,058m corresponding to 18.2%.

The total deposits fall by DKK 1,123.7m to DKK 2,445m corresponding to 31.5 %.

The Bank's holding of securities have been brought down to DKK 507m (2010, DKK 783m) as a result of reduction of the risks.

Equity

Equity amounts to DKK 218.2m against DKK 135.6m at year end 2010. An increase of 60.9% which is due to the changed capital structure, whereby the Bank, inter alia, has converted 80% of the state hybrid core capital into share capital, in total DKK 147.2m, and converted DKK 102.2m existing capital certificates in the form of subordinated loan capital to share capital.

Capital structure
At year-end 2011 the holding of own shares amounted to 337.064 shares equivalent to 2.08% of the share capital.

Dividend
In light of the highly unsatisfactory result, no dividend is declared for 2011.

The Aarhus Lokalbank share
Price movements on the Bank's share through 2011 led to a negative return of 86.4%. The price has fallen from 34.8 to 4.8. The Bank has 6,898 shareholders. The intrinsic value of an Aarhus Lokalbank share may, based on the equity at year-end 2011, be calculated at 13.8.
The Bank’s total market value at year-end 2011 is DKK 77.0m. The market value is measured according to the intrinsic value made up to 0.35 at year-end 2011.

The Bank’s solvency and individual solvency requirements
The solvency ratio is 15.4% (2010: 7.0% and 15.1% after completion of the capital plan) compared to the statutory requirement of 8%. The Bank’s individual solvency requirement is calculated at 11.4%. The solvency requirement is thus in covered in excess with 4.0% points.

Development in the solvency requirement:

2011	2010	2009	2008	2007
11,4	10,6	11,8	7,9	7,8

In computing the Bank’s capital adequacy the standard method for calculating credit and market risk is applied. For operational risk the basic indicator method is used. According to the terms of capital adequacy regulation, the Bank must make public detailed information on risks, capital structure, capital adequacy and risk management etc. This information appears on our website www.aarhuslokalbank.dk.

The Bank’s liquidity
The statutory liquidity requirement has been exceeded by 169.9%.
The Bank's management has set a minimum liquidity ratio at twice the statutory requirement with respect to both the 15%-requirement and the 10% requirement stated in section 152 of the Danish Financial Business Act.

The 15% requirement is met by a surplus of 847%.
The 10% requirement is met by a surplus of 169.9%.

The Bank’s liquidity reserves can thus be made up to DKK 765m.

Transactions with related parties
There have been no transactions between Aarhus Lokalbank and its related parties in addition to regular payments and customary banking transactions.

Valuation of collateral
Due to the decision to reduce the Bank’s exposure to the real estate and agricultural sectors, the Bank has chosen a more conservative assessment of the collateral. Specifically this means that the Bank assesses the value of the collateral from a possible sale within a shorter time period, instead of the usual long-term perspective.
This has caused further impairment charges of a total of DKK 146m.

Prospects and expectations
Aarhus Lokalbank plans to merge with Vestjysk Bank whereby Vestjysk Bank will be the surviving company.

The merger must be approved at Aarhus Lokalbank’s anual general meeting on 28 March 2012 and at Vestjysk Bank’s annual general meeting on 29 March 2012.

The Board of Directors of both banks unanimously recommend that the general meetings approve the merger.

Should the merger, contrary to the Board of Directors’ recommendation and expectation not be approved, the budget for 2012 shows basic earnings before value adjustments and depreciations of DKK 50 to 60m. The expectations for the basic earnings are based on the precondition that the present weak and uncertain financial conditions continue in 2012.
As for uncertainties in measuring the Bank’s loans and collateral, reference is made to note 2.

The division of the Bank’s loans between branches and the above mentioned financial conditions make continued negative results inevitable, even though the Bank in 2011 has nominally reduced its loan exposure in relation to the real estate and agricultural sectors.

Continued negative operational results will require new capital in order to ensure continued operation. The Board of Directors finds it unlikely that it will be possible to attract new capital and thereby securing the Bank as a going concern.

Year-end 2011 the Bank’s solvency ratio is 15.4 compared to a solvency requirement of 11.4, corresponding to a solvency margin of 4.0. The Bank’s solvency situation is, however, vulnerable, as a continued negative operating result in 2012 may have severe solvency consequences due to maturity dependant down weighting of existing base capital and any subsequent reduced possibilities of recognition of hybrid and base capital.

In relation to the Bank's possibilities of withstanding losses, considering the statutory capital requirements, continued negative operating results, combined with the above down-weighting of base capital, will imply that negative operating results in the amount of DKK 50 - 60m will require injection of new capital.

The above capital risks, combined with regulatory requirements and the fact that the Bank’s equity capital minus a tax asset of DKK 40m only amounts to DKK 180m makes it increasingly challenging to operate a small bank such as Aarhus Lokalbank. This is the background for the Board of Directors’ recommendation for a merger with Vestjysk Bank, since the merger agreement both provides the shareholders with a fair price and ensures the Bank’s customers the continued use of a professional bank.

Group structure
The Bank owns the entire share capital of Center Finansiering A/S, Handelsselskabet af 1/1 1973 A/S, Hadsten Aktie Invest ApS, Hadsten Aktie Invest II ApS and Hadsten Aktie Invest III ApS. Consolidated financial statements have not been prepared because of the subsidiaries' insignificant size and activity.

Accounting policies
The annual report has been prepared using the same accounting policies as last year. For 2011 requirements have been implemented to the presentation of total income. This change does not affect recognition and measurement.

Social responsibility
The Bank's policies are described on the website: http://alm.aarhuslokalbank.dk/files/104/csr_2012.pdf)

Audit committee
The audit committee of Aarhus Lokalbank consists of the Bank's chairman and vice chairman and two members of the board of directors. As chairman of the audit committee, the board of directors has appointed Flemming Johannsen, Aarhus.
State-authorised public accountant Flemming Johannsen is a former partner with KPMG and former internal chief auditor with EBH Bank A/S.

It is the board's assessment that Flemming Johannsen is independent of the Bank and that he has accounting and auditing experience and thus meets the requirements under Order No.690 of 23 June 2010 on the audit committee of companies and groups that are subject to supervision by the Danish Financial Supervisory Authority.

The audit committee monitors, inter alia, the financial reporting process, the statutory audit of annual reports and the effectiveness of the Bank's monitoring and risk management systems. The audit committee must also monitor and check the independence of the elected auditors.

This information appears on the Bank's website www.aarhuslokalbank.dk.

General meeting
The Bank's annual general meeting will be held in the Scandinavian Congress Center, Aarhus, Wednesday 28 March 2012 at 7 pm.

Resolutions by the board of directors
Announcement No. 1-2012, 25 January 2012/Merger plan with Vestjysk Bank.

Significant events occurring after the reporting period, cf. section 131(1)5 of the Order on the presentation of financial statements
After the end of the accounting period, Aarhus Lokalbank and Vestjysk Bank have published plans to merge and carry through a capital plan that will strengthen the surviving bank's business basis and secure the long-term funding and capital structure.

Vestjysk Bank and Aarhus Lokalbank plan to merge with Vestjysk Bank being the surviving company and with a conversion ratio of 4:1, corresponding to 4 shares in Aarhus Lokalbank for 1 new share in Vestjysk Bank.

The merger must be adopted at the bank's annual general meeting on 28 March 2012.

Capital plan
In relation to the merger a strengthening of the capital base of Vestjysk Bank is planned.

It is also part of the capital plan that Vestjysk Bank, being the surviving bank, obtains a 3-year extension of the banks' individual state guarantees.

Management and employees
The chairman of the board of directors of Aarhus Lokalbank, Carsten Andersen, will be nominated for election as chairman of the board of directors of the surviving bank.

The executive board will upon completion of the merger consist of chief executive officer Frank Kristensen, Vestjysk Bank and bank manager Vagn Thorsager, Aarhus Lokalbank.

A stronger regional bank with increased business basis
After the merger and completion of the capital plan, Vestjysk Bank will stand as a stronger regional bank with increased liquidity and capital base.

With 23 departments in Jutland and Funen, Vestjysk Bank will after the merger have a total business span of DKK 47bn divided into DKK 17.4bn on deposits, DKK 24.8bn on loans and DKK 4.8bn on guarantees. The aim for the surviving bank is base earnings of DKK 550-600m in 2012.

Information for listed companies

According to section 133a of Order on financial reporting for credit institutions etc. the following is stated:

The Bank's share capital amounts to DKK 162.0m as of 31 December 2011 divided into 16,203,655 shares of each DKK 10.

The Bank has only one class of shares and the entire share capital, and thus all shares, is listed on NASDAQ OMX Copenhagen. No restrictions apply to the transferability of the shares.

The Danish State represented by the Ministry of Finance and master builder Jørn Sørensen, Hadsten, have notified that they own more than 5% of the Bank's share capital.

The shareholders that are recorded in the Bank's register of shareholders are entitled to vote at the general meeting. Shareholders, who have acquired shares by transfer may vote on the shares in question once the shares are registered in their names in the register of shareholders, or the shareholder has filed its acquisition to the Danish Securities Centre. One share carries one vote.

The members of the board of directors elected by the shareholders are elected in general meeting for one year at a time. Re-election may take place.

Regarding amendment of the Bank's statutes the following applies:
Decision to amend the statutes or to dissolve the company is only valid if adopted by 2/3 of the share capital represented at the general meeting as well as the votes cast.

The board of directors is authorised to increase the share capital by DKK 100m, nominal value, in one or more emissions. This authorisation is valid until 19 March 2016.

The board of directors has the following powers regarding the acquisition of own shares:
The Bank's annual general meeting held on 21 March 2011 authorised the board of directors – until the next annual general meeting – within the existing legislation – to let the bank acquire own shares of a nominal value up to of 10% of the Bank's share capital and at the prevailing market price +/- 15%.

Cooperation partners

Ownership interests:
DLR Kredit A/S, Nets Denmark A/S, Multidata A/S, Bankernes Kontantservice A/S, Letpension A/S, VP SECURITIES A/S, PRAS A/S, B.I. Holding A/S, Spar Invest Holding A/S, ValueInvest Asset Management S.A. Luxembourg and Garanti Invest A/S.

Cooperation partners
Finansrådet, Lokal Pengeinstitutter, Finanssektorens Uddannelsescenter, Bankdata, Pengeinstitutternes Udviklingssamarbejde, Forvaltningsinstituttet for Lokale Pengeinstitutter, Bankpension, Totalkredit, PFA Pension, Privatsikring, MasterCard, Danske Invest, Sydinvest, and LD Invest.

Financial calendar 2012

February 2011	Publication of annual report 2011
22 February 2012	The printed annual report 2011
28 March 2012	Annual general meeting
19 May 2012	Quarterly report for 1st quarter 2012
27 August 2012	Publication of Bank's Interim report 2012
26 November 2012	Quarterly report for 1st – 3rd quarter 2012

List of stock exchange announcements in 2011

31 January 2011	New capital plan
7 February 2011	New executive officer
21 February 2011	Annual report 2010
21 February 2011	Conversion price fixed
21 February 2011	Appendix: Valuation report
24 February 2011	Notice of annual general meeting
25 February 2011	Conversion of state funded capital injected completed
25 February 2011	Main shareholder announcement 1
25 February 2011	Main shareholder announcement 2
28 February 2011	Change in share capital and voting rights
28 February 2011	Solvency calculated
1 March 2011	Coupon
4 March 2011	Nominees for the board of directors
9 March 2011	Publications of prospectus
9 March 2011	Notification from Deutche Bank
10 March 2011	Supplementary information to the annual report 2010
10 March 2011	Specification of information in notification no. 1-2011
10 March 2011	Publication of prospectus - capital certificates
10 March 2011	Publication of prospectus - shares
10 March 2011	Insider trading
18 March 2011	Capital plan
19 March 2011	Process of general meeting
19 March 2011	Capital increase
21 March 2011	Registration of capital increase
21 March 2011	Completion of capital plan
21 March 2011	Transaction with shares
21 March 2011	The Bank's ownership of own shares
21 March 2011	Main shareholders announcement
21 March 2011	Main shareholder announcement
31 March 2011	Change in share capital and voting rights
15 April 2011	New financial calendar
23 May 2011	Quarterly report 1st quarter 2011
1 June 2011	Coupon
27 June 2011	Exposure against Fjordbank Mors
25 August 2011	Interim report 2011
1 September 2011	Coupon
1 November 2011	Coupon
28 November 2011	Quarterly report 1st – 3rd quarter 2011
29 December 2011	Financial calendar 2012

The Bank's stock exchange announcements to NASDAQ OMX Copenhagen can be found at: www.aarhuslokalbank.dk

Corporate Governance

Below is mentioned how Aarhus Lokalbank relates to the Committee on Corporate Governance "Recommendations on Corporate Governance" and The Danish Bankers Association's additional "Recommendations for the members of the association" which concern corporate governance and external audit.

Our position on the recommendations is positive, as the interaction between Aarhus Lokalbank and our stakeholders (employees, customers, shareholders, suppliers and local community) is a prerequisite for Aarhus Lokalbank's continued positive development. As a local bank, we give particularly high priority to personal customer contact and since we are in business to meet the customers' trust and confidence, it is important that in addition to due consideration to the shareholders we also pay attention to the requests and requirements of our other stakeholders.

On the Bank's website – aarhuslokalbank.dk – the Bank's shareholders and other stakeholders can read more about Aarhus Lokalbank's position to the recommendations. We comply with by far the majority of the recommendations, and, for the recommendations with which Aarhus Lokalbank does not comply; we have given a detailed account of the reasons for this in accordance with the "follow or explain" principle stipulated in the recommendations. The Stock Exchange stresses in relation to the "follow or explain" principle that transparency about the companies' affairs is the essential element and that it is up to the individual company to evaluate the extent to which it intends to comply with the recommendations or whether the company finds that this is not expedient or desirable in relation to its business activities.

The recommendations are divided into 9 main sections:

- Shareholders' role and interaction with company management
- Role of stakeholders and their importance to the company and its social responsibility
- Openness and transparency
- The duties and responsibilities of the Board of Directors
- The composition and organization of the Board of
- Directors
- Directors' remuneration
- Financial reporting
- Risk management and internal control
- Audit

The recommendations complement the rules otherwise applicable to listed companies, the provisions of the Danish Companies Act including rules on management as well as provisions on financial activities in the Danish Financial Business Act.

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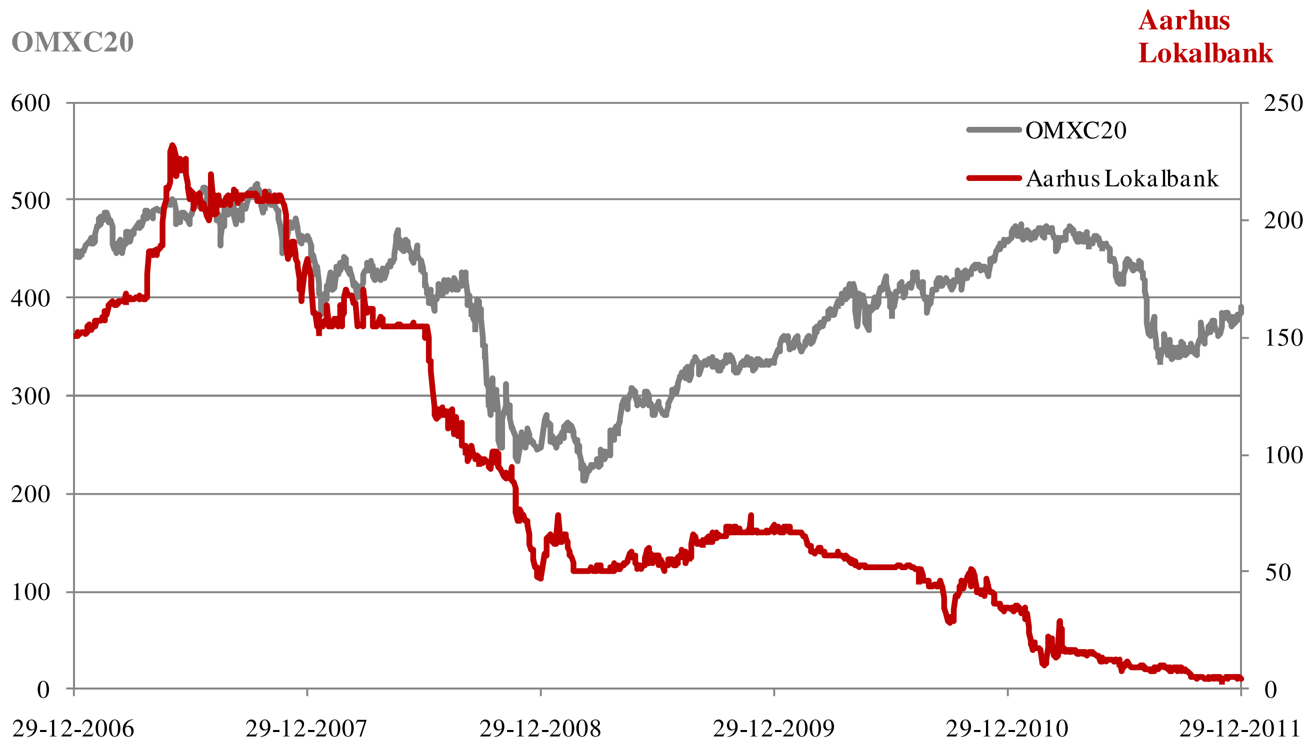
Investor relations

Share price movement - Aarhus Lokalbank:



Source: Reuters.

The above graph shows the actual trend of the Aarhus Lokalbank share from the start of 2006, compared with the development of the OMX C20 share index (the biggest companies quoted in Copenhagen) for the same period.

Yield per year including dividend and bonus shares in Aarhus Lokalbank:

2007	2008	2009	2010	2011
20.3 %	-72.2 %	36.8 %	-47.8 %	-86.4 %

The yield includes the paid dividend. Figures are historical and past returns can't be used as a reliable indicator of future returns.

The composition of Aarhus Lokalbank shareholders

	2011		2010	
Shareholder groups:	**Number of shareholders**	**Number of shares *)**	**Number of shareholders**	**Number of shares*)**
1 – 100 shares	3,688	113,456	3,898	119,140
101 – 500 shares	1,878	435,015	1,978	454,802
501 – 1.000 shares	598	431,917	582	415,502
1.001 – 5.000 shares	591	1,143,457	547	980,779
5.001 – 10.000 shares	61	412,533	23	154,068
Over 10.000 shares	82	13,261,196	30	1,364,848
Unregistered		69,017		16,979
	6,898	**15,866,591**	**7,058**	**3,506,118**

*) In addition the Bank owns 337,064 own shares per year-end 2011 (293,882 per year-end 2010), which are not included in the above statement.

Board of directors, audit committee and executive board

Board of directors

Chairman
CEO Carsten Andersen
Aabenraa.
Born 1945.
Appointed to the board of directors 2011.
Managerial offices in other companies:
Fonden for Banktrelleborg.

Vice chairman
State authorised public accountant Flemming Johannsen
Aarhus.
Born 1951.
Appointed to the board of directors 2011.
Managerial offices in other companies:
Topas A/S, Axel Brøndum Boliger ApS, Axel Brøndum Boliger K/S, HJ ApS, Exkon Invest ApS, Fugldal Holding ApS.

Executive officer Jan Rasmussen
Hadsten.
Born 1956.
Appointed to the board of directors 2011.
Managerial offices in other companies:
Holdingselskabet af 03.09.2009 A/S, Danparcs Søhøjlandet A/S, Jan R Holding ApS, Søhøjlandet Invest ApS, Jan 1 ApS, Komplementarselskabet Søhøjlandet ApS, Ejendomsselskabet Gjern ApS, Tømrermester Jan Rasmussen ApS, Gjern Bakker K/S, Danparcs Golf Resort søhøjlandet P/S.

Master builder Jørn Sørensen
Hadsten.
Born 1945.
Appointed to the board of directors 2000.
Managerial offices in other companies:
MMT Holding A/S, JS Ejendomme Hadsten A/S, Mågevejens murer- og tømrerforretning af 1982 A/S, Center Finansiering A/S, Ejendomsselskabet JS Erhvervsejendomme Hadsten ApS, Ejendomsselskabet JS Boligejendomme Hadsten ApS, K/S Møllerens hus.

Deputy Branch Director Per Enevoldsen
Mårslet.
Born 1952.
Appointed to the board in 2005 by the employees

Customer relations manager Hans Peder Hansen
Hadsten.
Born 1964.
Appointed to the board in 2010 by the employees.

Corporate account manager Camilla Hartmann Lund
Randers.
Born 1971.
Appointed to the board in 2010 by the employees.

Audit committee

Chairman and independant and qualified member.
State authorised public accountant Flemming Johannsen
Aarhus.

Vice chairman
CEO Carsten Andersen
Aabenraa.

Executive officer Jan Rasmussen
Hadsten.

Master builder Jørn Sørensen
Hadsten.

Executive board

CEO Vagn Thorsager
Viborg.
Born 1948.
Appointed CEO in 2011.

Statement by the Board of Directors and the Executive Board

The board of directors and the executive board have today reviewed and approved the annual report for 2011 of Aarhus Lokalbank Aktieselskab.

The annual report has been prepared in accordance with the Danish Financial Business Act, including Order on financial statements for credit institutions and others. The annual report has been prepared in compliance with additional Danish disclosure requirements for annual reports of listed financial institutions.

In our opinion, the annual accounts give a true and fair view of the Bank's assets, liabilities and financial position at 31 December 2011 and of the results of the bank's activities and cash flow in the financial year 1 January – 31 December 2011.

In our opinion, the management report provides a fair view of developments in the Bank's activities and finances as well as a description of the most significant risks and elements of uncertainty, which may affect the bank. Reference is made to note 2, "Accounting estimates and uncertainties", in which uncertainties and preconditions concerning measurement of the Bank's loans and guarantees as well as capital structure and going concern are described.

We recommend that the annual report be approved at the general meeting.

Aarhus, 22 February 2012

The executive board:

Vagn Thorsager
Chief executive officer

The board of directors:

Carsten Andersen
Chairman

Flemming Johannsen
Deputy chairman

Jørn Sørensen
Member of the board of directors

Jan Rasmussen
Member of the board of directors

Per Enevoldsen
Employee representative:

Hans Peder Hansen
Employee representative:

Camilla Hartmann Lund
Employee representative:

Independent auditor's report

To the shareholders of Aarhus Lokalbank A/S

Endorsement of annual report

We have audited the annual report for Aarhus Lokalbank A/S for the financial year 1 January – 31 December 2011, pages 12-58. The annual report includes key figures, income statement, balance sheet, statement of equity capital, capital structure and liquidity, cash flow statement, accounting policies and notes. The annual report is prepared in accordance with the Danish Financial Business Act.

Management's responsibility for the annual report

The management is responsible for the preparation and fair presentation of annual report in accordance with the Danish Financial Business Act. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of an annual report that is free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the annual accounts based on our audit. We conducted our audit in accordance with international auditing standards of audit and additional requirements under Danish auditor legislation. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the annual report is free from material misstatements.

An audit involves performing procedures to obtain audit evidence for the amounts and disclosures in the annual report. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatements in the annual accounts, whether due to fraud or error. In making those risk assessment, the auditors consider internal control relevant to the Bank's preparation and fair presentation of the annual report. The object is to perform an audit that is suitable for the conditions, but not to express a conclusion regarding the efficiency of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit did not result in any qualification.

Conclusion

In our opinion, the annual accounts give a true and fair view of the company's assets, liabilities and financial position at 31 December 2011 and of the results of the company's operations in the financial year 1 January – 31 December 2011 in accordance with the Danish Financial Business Act.

Additional information regarding conditions in the annual report

Reference is made to note 2 "Accounting estimates and uncertainties", page 28, the section on "Loan impairment charges", from which it appears that there are still uncertainties as to measuring the Bank's loans and guarantees.

In addition, reference is made to note 2 "Accounting estimates and uncertainties", page 28, the section on "Capital structure – going concern", from which appears the risks concerning continued deficits, which will require new capital in order to ensure a going concern, if the merger with Vestjysk Bank is not carried through.

We agree with the Bank's description of the risks concerning uncertainties in measuring the Bank's loans and guarantees as well as preconditions for a going concern.

Opinion on management review

We have read the management review in pursuance of the Danish Financial Business Act. We have performed no further procedures in addition to the audit of the annual accounts. On this basis, it is our opinion that the information given in the management review is consistent with the audited annual accounts.

Aarhus, 22 February 2012

KPMG
Statsautoriseret Revisionspartnerselskab

Jakob Nyborg
State authorised public accountant

Henrik Pungvig Jensen
State authorised public accountant

Main figures

DKK	201	201	200	200	200
Summary result					
Interest income	239.05	275.78	278.37	305.83	208.07
Interest expense	168.35	166.22	164.98	204.67	128.17
Net interest income etc.	**70.70**	**109.56**	**113.39**	**101.16**	**79.89**
Dividend on shares etc.	1.94	1.69	1.962	3.669	2.227
Fee and commission income (net)	23.62	28.03	38.52	38.37	38.64
Net income from interest and fees	**96.28**	**139.29**	**153.88**	**143.21**	**120.76**
Other operating income	60	30	0	0	6
Staff and administrative expenses	87.80	98.86	95.69	95.78	75.28
Amortization and depreciation on tangible assets	4.19	3.42	3.222	2.753	2.136
Other operating expenses	9.06	17.02	18.35	5.552	0
-Expenses for the depositor guarantee fund	5.788	0	0	0	0
-Expenses for bank bailout package 1	1	14.339	18.314	5.487	0
Core earnings	**-**	**20.00**	**36.61**	**39.12**	**43.41**
Market value adjustments	-	2.00	6.618	-	3.841
Loan impairment charges, etc.	145.65	254.75	41.44	30.86	-
Net result on equity investment in affiliates	-	-	10	8	0
Profit before tax	**-**	**-**	**1.798**	**-3.480**	**48.65**
Tax	51	-	1.536	-1.173	11.83
Profit for the year	**-**	**-**	**26**	**-2.307**	**36.81**
Summary balance sheet					
Assets					
Cash at hand and due from financial institutions	749.04	1.652.192	245.34	722.96	477.24
Loans and advances	3.057.674	3.736.052	4.131.448	3.712.604	3.571.376
Bonds, shares etc.	510.69	783.09	843.70	261.41	344.60
Tangible assets	46.46	49.63	51.81	59.03	50.81
Other assets	106.80	141.75	114.41	32.31	34.67
Total assets	**4.470.687**	**6.362.719**	**5.386.722**	**4.788.325**	**4.478.709**
Liabilities					
Due to financial institutions	33.22	143.37	699.86	1.527.917	1.591.623
Deposits and other debt	2.444.885	3.568.601	2.373.548	1.981.886	1.802.899
Issued bonds at current rate	1.326.864	1.587.595	1.207.216	435.77	360.98
Other liabilities etc.	90.81	335.12	136.50	82.01	55.09
Subordinated debt	356.72	592.43	628.93	451.66	340.00
Equity	218.17	135.58	340.65	309.07	328.10
Total liabilities	**4.470.687**	**6.362.719**	**5.386.722**	**4.788.325**	**4.478.709**
Contingent liabilities					
Guarantees	586.28	816.69	1.171.420	2.259.648	2.287.518
Other liabilitites	3.53	7.044	5.756	3.881	3.79
Total contingent liabilities	**589.82**	**823.73**	**1.177.176**	**2.263.529**	**2.291.311**

Financial ratios

Percentage		2011	2010	2009	2008	2007
Solvency and capital						
Solvency ratio		15,4	7,0	20,4	13,0	12,1
Core capital ratio		8,2	3,4	11,9	6,5	6,7
Earnings						
Return on equity before tax [1)]		-87,8	-98,0	0,6	-1,1	16,8
Return on equity after tax [1)]		-88,1	-84,4	0,1	-0,7	12,7
Earnings/cost ratio [2)]	DKK	0,37	0,38	1,01	0,97	1,64
Market risk						
Interest rate risk		-7,5	-28,7	-5,0	-3,7	-0,8
Currency position		1,4	2,5	4,1	9,1	20,5
Currency risk		0,0	1,5	0,1	0,2	0,2
Liquidity						
Loans and advances including impairments on deposits		140,4	113,3	176,6	189,6	199,2
Excess liquidity to statutory requirements		169,9	284,4	123,8	130,3	30,5
Credit risk						
Sum of large exposures to capital base		171,3	469,6	79,7	199,5	188,0
Share of receivables with reduced interest rate		6,9	2,4	0,4	0,1	0,0
Accumulated impairment rate		9,3	6,3	1,4	0,8	0,3
Impairment percentage for the year		3,6	5,5	0,7	0,5	0,0
Growth in lending for the year		-18,2	-9,6	11,3	4,0	74,3
Loans and advances/equity		14,0	27,6	12,1	12,0	10,9
Equity yields						
Earnings per share [3)]	DKK	-192,2	-528,7	0,7	-7,7	133,9
Net asset value per share [3)]	DKK	138	387	960	1.121	1.138
Dividend per share [3)]	DKK	0	0	0	0	12
Share price / earnings per share [3)]		-0,2	-0,7	865,1	-62,4	13,7
Share price / book value per share [3)]		0,35	0,90	0,70	0,43	1,61

Comments

1) Result before or after tax / average equity capital
2) Earnings include net income from interest and fees, market value adjustment, other ordinary income and results from investments in affiliated companies. Costs include expenses expenses for staff and administration, other ordinary expenses, losses and impairments on tangible assets and losses/impairments on debtors.
3) Per share of DKK 100

The key figures have been prepared in compliance with the model of the Danish Financial Supervisory Authority.

Income statement

DKK 1,000	NOTE	2011	2010
Interest income	3	239.059	275.783
Interest expense	4	168.354	166.221
Net interest income		**70.705**	**109.562**
Dividends from shares etc.		1.946	1.690
Fee and commission income	5	26.821	32.257
Fee and commission expenses		3.192	4.218
Net interest and fee income		**96.280**	**139.291**
Market value adjustments	6	-4.839	2.008
Other operating income		60	30
Staff and administrative expenses	7	87.803	98.869
Amortisation and depreciation on tangible assets	16	4.198	3.427
Other operating expenses	8	9.062	17.023
Loan impairment charges	9	145.655	254.755
Income from associated undertakings	15	-30	-717
Profit before tax		**-155.247**	**-233.462**
Tax	10	510	-32.545
Net profit for the year		**-155.757**	**-200.917**

Total income

DKK 1,000	2011	2010
Net profit of the year	-155.757	-200.917
Other profit	0	0
Total profit	**-155.757**	**-200.917**

Proposed distribution of profit

DKK 1,000	2011	2010
Dividend	0	0
Other reserves	-30	-717
Retained earnings	-155.727	-200.200
Total amount distributed	**-155.757**	**-200.917**

Balance sheet

DKK 1,000	NOTE	2011	2010
ASSETS			
Cash at hand and demand deposits with central banks		129.549	199.503
Due form credit institutions and central banks	**11**	619.497	1.452.689
Loans and other receivables at amortized cost	**12**	3.057.674	3.736.052
Bonds at fair value	**13**	417.701	607.305
Bonds at amortized cost	**13**	9.312	18.676
Shares etc.	**14**	71.531	144.927
Holdings in associated undertakings	**15**	12.154	12.184
Property (headquarters property)	**16**	42.764	43.103
Other tangible assets	**16**	3.698	6.528
Actual tax assets		0	2.402
Deferred tax assets	**10**	40.105	40.105
Assets held temporarily		883	1.043
Other assets	**17**	65.819	98.202
Total assets		**4.470.687**	**6.362.719**
LIABILITIES			
Debt:			
Due to credit institutions and central banks	**18**	33.220	143.374
Deposits and other debts	**19**	2.444.885	3.568.601
Issued bonds at amortized cost	**20**	1.326.864	1.587.595
Liabilities assumed temporarily		1.043	1.043
Other liabilities	**21**	88.552	333.863
Deferred income		982	222
Total debt		**3.895.546**	**5.634.698**
Impairment on liabilities:			
Impairment charges on guarantee liabilities		240	0
Total impairment on liabilities	**22**	**240**	**0**
Subordinated debt:			
Subordinated debt		196.487	366.419
Hybrid core capital		160.240	226.015
Total subordinated debt:	**23**	**356.727**	**592.434**
Equity:			
Share capital	**24**	162.037	38.000
Retained earnings		56.137	97.587
Total shareholders' equity		**218.174**	**135.587**
Total liabilities		**4.470.687**	**6.362.719**
Contingent liability etc.	**25**		

Equity

DKK 1,000	2011				
	Share capital	Premium on emission	Other reserves	Retained earnings	Equity total
Equity as of 31 December 2010	**38.000**	**0**	**0**	**97.587**	**135.587**
Profit for the year	0	0	-30	-155.727	-155.757
Other income	0	0	0	0	0
Capital injection by emission	124.037	114.349	0	0	238.386
Sharebased payments itemized directly on equity	0	0	0	149	149
Acquisition and sale of own shares	0	0	0	-191	-191
Transferred to retained earnings	0	-114.349	30	114.319	0
Equity as of 31 December 2011	**162.037**	**0**	**0**	**56.137**	**218.174**

DKK 1,000	2010				
	Share capital	Premium on emission	Other reserves	Retained earnings	Equity total
Equity as of 31 December 2009	**38.000**	**100.776**	**240**	**201.642**	**340.658**
Profit of the year	0	0	-717	-200.200	-200.917
Other income	0	0	0	0	0
Sharebased payments itemized directly on equity	0	0	0	590	590
Acquisition and sale of own shares	0	0	0	-2.809	-2.809
Tax effect of associated companies' sale of the bank's shares	0	0	0	-1.935	-1.935
Retained earnings	0	-100.776	477	100.299	0
Equity as of 31 December 2010	**38.000**	**0**	**0**	**97.587**	**135.587**

Capital and liquidity

DKK 1,000	2011	2010
Capital base		
Shareholders' equity	218.174	135.587
Core capital	**218.174**	**135.587**
- Deferred tax assets	-40.105	-40.105
Core capital after primary deductions	**178.069**	**95.482**
Hybrid core capital	95.883	93.384
Core capital incl. hybrid core capital after primary deductions	**273.952**	**188.866**
- Sum of capital shares under statutory order section 28(1)13	-361	-41.033
Core capital including hybrid core capital after deductions	**273.591**	**147.833**
Subordinated debt	177.737	366.668
- Subordinated debt in excess of core capital, incl. hybrid core capital after deductions	0	-310.184
Remaining hybrid capital	64.357	132.382
- Sum of capital shares under statutory order section 28(1)13	-361	-41.033
Capital base	**515.324**	**295.666**

Capital adequacy statement:

The statement is prepared pursuant to the Financial Supervisory Authority's order on capital requirements.

The bank has applied the following methods in the statement as of 31 December 2011:

Credit risk excl. the trading portfolio	Standard method
Counterparty risk	Market value method
Credit risk reducing method - financial securities	Extended method
Market risk	Standard method
Operational risk	Basic indicator method

	2011	2010
Risk adjusted items:		
Weighted items with credit and counterparty risk	2.857.433	3.700.111
Weighted items with market risk	234.722	284.811
Weighted items with operational risk	270.810	260.400
- collective impairment charges	-10.423	-10.164
Total risk weighted items	**3.352.542**	**4.235.158**
Capital base	515.324	295.666
Core capital incl. hybrid capital	273.591	147.833
Solvency ratio (FiL s 124) – capital base/risk adjusted items, %	15,4	7,0
Core capital incl. hybrid capital/risk adjusted items, %	8,2	3,4
Minimum statutory requirement (FiL s 124)	37.171	37.272

DKK 1,000	2011	2010
Liquidi-		
Total liabilities	4.470.687	6.362.719
Guarantees	586.288	816.691
- Shareholders' equity	-218.174	-135.587
- subordinated capital, included in the base capital	-337.977	-282.250
Risk adjusted debt and guarantee liabilities	**4.500.824**	**6.761.573**
10% of risk adjusted debt and guarantee liabilities	**450.082**	**676.157**
In compliance with the statutory requirement:		
Cash	7.488	6.722
Deposits with central banks	122.061	395.781
Deposits with credit institutions	59.788	242.161
Certificates of deposits with the Danish National Bank	549.968	1.199.813
Tradable bonds and shares	451.587	689.692
Other tradable assets	23.728	65.228
Total liquid assets	**1.214.620**	**2.599.397**
Excess liquidity coverage, %	**170**	**284**
The Bank's holding of own shares		
Number of own shares	337.064	293.882
Face value	3.371	2.939
Own shares of total share capital, %	2,08	7,73
Purchase and sale of own shares during the financial year:		
In connection with the Bank's ordinary trade with customers the following purchases and sales of own shares have been made:		
Number of shares bought	726.057	185.681
Number of shares sold	682.875	144.120
Face value of total purchase	72.606	1.857
Face value of total sale	68.288	1.441
Total value of purchase	10.368	9.468
Total value of sale	10.177	6.659
Total purchase to share capital at year-end, %	4,5%	4,9%
Total sale to share capital at year-end, %	4,2%	3,8%

Cash flow statement

DKK 1,000	2011	2010
Profit before tax	-155.247	-233.460
Impairment charges on loans and other receivables	145.655	254.755
Depreciation of tangible assets	4.198	3.427
Unrealised market value adjustments of equity investments	30	717
Unrealised market value adjustments of securities	13.123	16.414
Other items with no effect on liquidity	-85	289
Net tax paid	1.825	-914
Total	9.499	41.228
Changes in demand deposits with credit institutions and central banks	1.190.591	-1.188.752
Changes in loans and advances	542.285	126.223
Changes in trading portfolio	263.104	56.685
Changes in deposits	-1.123.716	1.195.053
Changes in debt to credit institutions and central banks	-110.154	-556.486
Changes in issued bonds	-260.731	380.379
Changes in other assets and liabilities	-212.037	207.780
Cash flow from operation	**298.841**	**262.110**
Acquisition of property, plant and equipment	-1.149	-1.323
Sale of property, plant and equipment	347	120
Cash flow from investment activities	**-802**	**-1.203**
Cash flow from financing activities:		
Purchase of own shares	-10.368	-9.468
Sale of own shares	10.177	6.659
Increase of share capital	124.037	0
Share premium	114.349	0
Redemption of subordinated debt	-323.789	-40.000
Increase of subordinated debt	75.000	0
Cash flow from financing activities	**-10.594**	**-42.809**
Changes in cash and cash equivalents	**287.445**	**218.098**
Cash and cash equivalents as of 1 January	**452.379**	**234.281**
Cash and cash equivalents as of 31 December	**739.824**	**452.379**
Cash and cash equivalents as of 31 December		
Cash balance and demand deposits with central banks	129.549	199.503
Amounts due from credit institutions and central banks within 3 months	610.275	252.876
Total cash and cash equivalents as of 31 December	**739.824**	**452.379**

The cash flow statement cannot be directly extracted from this report and the statement is modified in accordance with the specific accounting format for financial institutions.

Accounting policies

The annual report 2011 has been prepared in accordance with the Danish Financial Business Act and the executive order on financial reports of credit institutions issued by the Financial Supervisory Authority. The annual report has been prepared in compliance with additional Danish disclosure requirements for annual reports of listed financial institutions.
The annual report has been prepared in DKK rounded to the nearest DKK 1,000.

The annual report has been prepared using the same accounting policies as last year. For 2011 requirements have been implemented to the presentation of total income. This change does not affect recognition and measurement.

Consolidated financial statements have not been prepared because of the subsidiaries' insignificant size and activity, see note 34.

General principles for recognition and measurement
Assets are recognised in the balance sheet when it is likely that future economic benefits will accrue to the company, and the value of the asset can be measured reliably. Liabilities are recognised in the balance sheet when they are probable and can be reliably measured. When first recognising an item, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

The purchase and sale of financial instruments are recognised on the trade date.

Foreign currency translation
Foreign currency transactions are translated at the exchange rate at the transaction date. Balances in foreign currencies, which have not been settled on the balance sheet date, are translated at the closing rate at year-end.

Income statement

Interest, fees, commissions, etc.
Interest income and expenses together with commissions are accrued within the financial year. Fee and commission income, which forms an integral part of a loan's yield is accrued over the expected term of the loan and is recognised as interest income. Other fees and commissions etc. are recognised at maturity and are booked under fee and commission income.

Dividends
Dividends are recognised at the time of distribution.

Market value adjustments
Market value adjustments include all value adjustments of assets and liabilities, which are measured at cost.

Other operating income
Other ordinary income consists of profit from operation of the Bank's property together with profit from sale of assets.

Staff and administration costs
Staff and administration costs consist of salaries, IT-operation, office costs and marketing expenses etc.
Bonus programme costs, including share-based compensation, are recognised in the income statement for the applicable fiscal year.

Pension plans
The Bank has entered into defined contribution plans with all employees. The Bank pays fixed contributions to an independent pension fund and the Bank is not obliged to make further contributions.

Loan impairment charges
This includes impairment charges on loans and losses and reservations for guarantees. In addition, it includes impairment charges on outstanding amounts from credit institutions and impairment charges concerning Bank Bailout Package I.

Result of equity investments in affiliated companies.
The result of equity investments equals the accounting result after tax in the Bank's subsidiaries.

Tax
Tax for the year consisting of the actual tax for the year and changes in deferred taxes is recognised in the income statement with the part that is related to the annual result and directly in the equity with the part related to items charged directly to the equity.

The company is jointly taxed with the subsidiary, Centerfinansiering A/S. The current Danish company tax is distributed between the jointly taxed companies in proportion to the taxable income.

The balance sheet

Cash and time deposits with central banks
Cash and time deposits include the Bank's holding of domestic and foreign notes and coins, and time deposits with central banks.

Due from credit institutions and central banks
Deposits with credit institutions and central banks include deposits with other credit institutions and time deposits with central banks.

Loans and other receivables
Loans are initially recognised at fair value and are subsequently valued at amortised cost, including fees and commissions, which are an integral part of the yield and which are recognised as interest income during the term of the loan.

If objective evidence of impairment of a loan/advance exists, and the effect of the event or events on the expected cash flow from the loan is reliably measurable, an individual impairment charge is calculated. The impairment charge equals the difference between the accounting amount (before impairment) and the present value of the most likely future payments on the loan. The Bank reviews all exposures in excess of DKK 100,000.

Loans and advances without objective evidence of impairment are included in an assessment of collective impairment at portfolio level.

Collective impairment is calculated for portfolios of loans and advances with similar credit risk characteristics. The Bank is operating with 12 groups consisting of 1 group of public authorities, 1 group of private customers and 10 groups of corporate customers, as corporate customers are subdivided into groups according to industry.

The collective assessment is performed using a segmentation model developed by the Association of Local Banks in Denmark which is also responsible for ongoing maintenance and development. The segmentation model establishes the correlation in the individual groups between recognised losses and a number of significant explanatory macroeconomic variables using a linear regression analysis Included in the explanatory macroeconomic variables is unemployment, housing prices, interest rates, number of bankruptcies/foreclosures etc.

The macroeconomic segmentation model employs a starting point calculated on information on losses for the whole of the financial sector. The Bank has assessed that the estimates from the model correspond to its own conditions.

The model's estimate forms the background for the calculation of the collective impairments.

Impairments on loans are booked in an impairment charge account, which is offset under loans and advances.

Mortgages are recognised like loans and other receivables.

Securities

Bonds, shares and financial instruments listed on the NASDAQ OMX Copenhagen or foreign exchanges, are measured at fair value in accordance with the closing price on the balance sheet day.

Bonds acquired to yield a return until maturity (hold to maturity), are measured at amortized cost. If there is objective indication that the bond can not be redeemed at the fixed redemption price at maturity, the bond will be assessed according to the regulation for loans. Any impairment is recognized under impairment on loans and receivables, etc

Aarhus Lokalbank has in cooperation with other financial institutions acquired shares in a number of sector companies. The objective of these sector companies is to support financial institutions in business areas such as mortgage finance, payment services, IT, investment schemes etc. Aarhus Lokalbank has no plans to sell these shares as it views its participation in these sector companies a necessary element in the operation of a local financial institution. The shares are therefore viewed as being outside the trading portfolio.

In a number of the sector companies, shares are distributed in such a way that the financial institutions ownership shares reflect the individual financial institution's business volume with each sector company. Distribution is typically conducted based upon the sector company's equity value.

For sector shares the fair value is based on the valuation made by Local Financial Institutions, which the Bank's management has reviewed and found appropriate.

Other unlisted securities are recognised at cost, including by applying assessment methods and estimates, which the Bank's management actively evaluate.

Value adjustments on listed and unlisted securities are on a current basis recognised in the income statement under "Market value adjustments".

Equity investments in affiliated companies

Capital shares in subsidiaries are recognised in the balance sheet as the proportionate share of the company's net worth for accounting purposes.
Consolidated financial statements have not been prepared because of the subsidiaries' insignificant size and activity.

Land and buildings

Upon initial recognition, domicile properties are measured at revalued amount. Revaluation is performed so often, that significant discrepancies with regard to the fair value are avoided. The value of the Bank's properties is calculated by discounting the expected operating profit of the properties from an estimated market rent and return requirements. Increases in the revaluation of domicile properties are recognised directly in other income. Decreases in value are recognised in the income statement, unless these are reversals of previous revaluations.
Straight line depreciation of domicile properties is performed, based upon the expected residual value of the properties over an estimated useful life in excess of 50 years.

Other tangible assets

Covers IT equipment, inventory and vehicles, which are recognised at cost less depreciation.

Straight line depreciation is calculated over the useful life of the assets. The following depreciation profiles have been employed:

- IT equipment 3 years
- Inventory 3-5 years
- Vehicles 5 years

A straight line depreciation of leasehold improvement expenses is recognised over 5 years.

Actual and deferred tax assets

Actual tax obligations and tax owing must be entered on the balance sheet as tax of the annual taxable income, adjusted for tax of previous years' taxable income as well as for tax paid on account.

Deferred tax is recognised of all temporary differences between the carrying value and the tax base of assets and liabilities.

Deferred tax assets, including the tax value of deferrable losses are recognised at the value expected within a short number of years.

Assets held temporarily

Assets held temporarily include assets acquired as a result of settlement of customer commitments, where the intention is to liquidate assets as soon as possible Repossessed assets are carried at fair value at acquisition and subsequently measured at expected realizable value.

Other assets

Other assets include interest receivables and commissions as well as positive market value of derivative financial instruments.

Debt to credit institutions and central banks

Payables are measured at amortized cost.

Deposits and other liabilities

Deposits and other liabilities include debts to individuals and businesses that are not credit institutions. Deposits and other liabilities are initially measured at fair value and subsequent measurement is made at amortized cost.

Issued bonds

Measured at amortized cost. There is a set off in holdings of own treasury bonds.

Temporary liabilities

Assets held temporarily include assets acquired as a result of settlement of customer commitments, where the intention is to liquidate assets as soon as possible Repossessed assets are carried at fair value at acquisition and subsequently measured at expected realizable value.

Other liabilities

Other liabilities include interest due, a negative market value of financial instruments and accrued employee benefits.

Provisions

Provisions include mainly guarantee obligations and provisions for losses on irrevocable advance commitments, legal procedures etc. A provision is recognised regarding a guarantee or an irrevocable advance commitment if it is deemed likely that the guarantee or the advance commitment will be effected and the size of the commitments can be reliably calculated. Provisions are based on the management's assessment of the size of the commitment.

Subordinated debt

Subordinated debt is liabilities in the form of subordinated debt and hybrid capital, which at initial measurement is recognized at fair value and subsequently at amortized cost.

Equity

Share capital is classified as equity when there is no obligation to transfer cash or other assets.

Proposed dividend is recognised as a liability at the time of adoption at the general meeting. Dividend expected to be paid for the year is shown as a separate item under equity.

Revaluation reserves relate to revaluation of tangible assets, net of deferred tax on the appreciation. The reserve is dissolved when the assets are sold or deleted.

Premium upon emission shows the additional price the Bank has obtained by issuing shares compared to the face value.

Reserve under the equity method includes valuation of investments in affiliated companies. The reserve is reduced by dividend payments to the parent company and adjusted for other changes in equity in affiliated companies.

Retained earnings do not include dividends from previous years.

Own shares

Amounts paid and received for the purchase and sale of treasury shares are recognized directly in shareholders' equity.

Guarantees

Issued guarantees are stated in the note "contingent liabilities". The guarantees will be continuously reviewed and evaluated to identify whether there are objective indications that there have been impairments.

Balances in foreign currency

Foreign currency receivables and debts are converted according to the Danish National Bank's official currency rates at year-end. Income and expenses in foreign currencies are converted according to the exchange rate at the time of transaction.

Derivative financial instruments

Forward transactions and other financial instruments are measured at fair value. Derivative financial instruments are recognised as other assets or liabilities. Changes to the fair value of derivative financial instruments are recognised in the income statement together with changes in the value of the hedged asset or liability. Other changes are recognised in the income statement as financial items.

Hedging

For certain fixed rate assets and liabilities the fair value is hedged using derivative financial instruments as part of the risk control. The change in fair value of derivatives that are designated and qualify as hedging instruments of the fair value of a recognized asset or liability are recognized in the income statement together with changes in fair value of the hedged asset or liability that are related to the risk being covered.

For derivative financial instruments not qualifying for hedge accounting, the changes in fair value are continuously being recognized in the income statement.

State guarantee / Bank Bailout Package I

The Bank participated in the state guarantee scheme, which ended on 30 September 2010. Guarantee commission is recognized in the income statement during the guarantee period and is booked under other operating expenses. The Bank's commitment to cover possible losses under the scheme is recognized as impairment when it is probable and can be valued reliably. Such amounts are recognized in the income statement under impairments on loans and receivables, etc.

Cash flow statement

The cash flow statement for the Bank is established under the indirect method based on net profit before tax and shows the Bank's cash flow from operating, investment and financing activities and net change in cash.

Cash and cash equivalents consist of cash and demand deposits with central banks and receivables from credit institutions and central banks with original maturities of less than three months.

Notes to the accounts

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Notes to the accounts

NOTE 1
Risk management

Risks factors

The Bank's Board of Directors has by way of written instructions provided a framework for e.g. market risks. The board of directors has laid down overall policies and frameworks for risks acceptable within the various risk areas. Market risks are followed closely by continuous monitoring and reporting to the Board of Directors and the Executive Board.

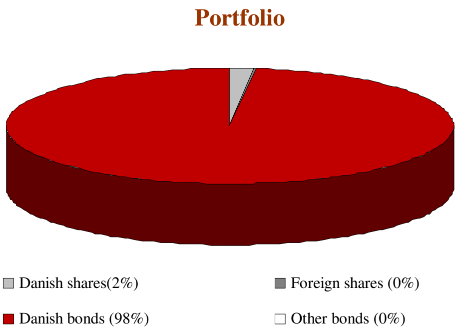
According to the capital adequacy rules, Danish banks are under an obligation to disclose certain risk information (Column III – information). The annual report contains the information required. The Bank has decided to publish all such information in a risk report available at the Bank's website: http://alm.aarhuslokalbank.dk/files/45/risikorapportering_2011.pdf)

Market risk

Market risk is defined as the risk of the value of the Bank's assets and liabilities being affected by the market conditions. This could for instance be changes in economic trends, in the stock market and changes in currency and interest rates.

It is the Bank's policy to keep market risks at a low level. This is controlled by the established policies and framework within each type of risk. Market risks arise and are primarily hedged by the Finance Department.

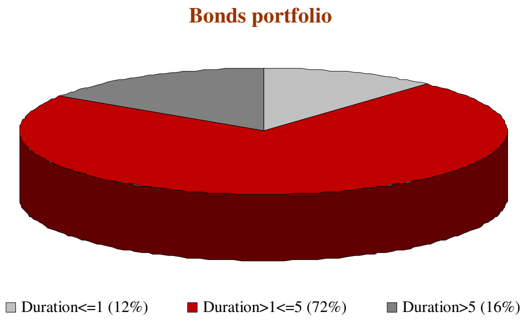
The Bank's participation in customer transactions in the securities and currency markets as well as the Bank's allocation of its own liquidity lead to daily changes in portfolios and to market risks arising from fluctuations in the bond and interest rate markets, as well as changes in share prices and exchange rates.



The portfolio allocation on types of securities for commercial portfolios as of 31 December 2011.

Interest rate risk

The Bank's positions on the bond and interest rate market, calculated in accordance with the guidelines and deduction factors of the Danish Financial Supervisory Authority, mean that the Bank has an interest rate risk. The risk reflects the loss that the Bank would suffer in connection with a general interest rate increase of one percentage point. The interest rate risk depends on the duration of the position; a longer duration implies a greater risk.



The portfolio allocation by maturity for commercial portfolios as of 31 December 2011.

The Bank's total interest rate risk, including items outside the trading portfolio, e.g. mortgages, is as of 31 December 2011, DKK -20.6 million, equivalent to -7.5 % of the Bank's core capital at year end 2011. As a result of the negative interest risk, in this case a general increase in interest rates would generate proceeds. The lower interest risk at year-end 2011 is primarily due to reduced customer deposits from DKK 3,569 million in 2010 to DKK 2,445 million in 2011. Moreover, the Bank's capital injection in 2011 has resulted in the core capital less deductions has been increased from DKK 148 million at year-end 2010 to DKK 279 million at year-end 2011.

The Bank's portfolio of items outside the trading portfolio consists of e.g. the mortgage portfolio of DKK 6.1 million, which affects the total interest rate risk by DKK 0.7 million.

Other important items outside the trading portfolio are e.g. the Bank's liabilities on fixed-rate loans, which results in an interest rate risk for the Bank's of DKK -7.9 million.

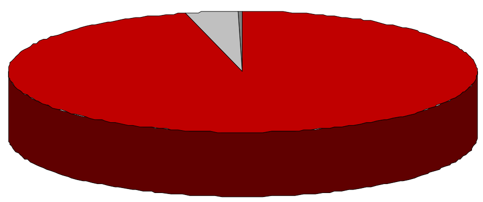
If adjustments are made for items outside the trading portfolio, the Bank's total interest rate risk on commercial bonds as of 31 December 2011 is DKK 5.3 million corresponding to 0.3 % of the Bank's core capital less deductions at year-end 2011.

Equity risk

The Bank's equity exposure in percentage of the core capital after deductions constitutes DKK 26.1 at year-end 2011. The equity exposure is measured as the Bank's share portfolio (commercial Danish and foreign shares, sector shares and other securities) as a percentage of the Bank's core capital after deduction.

As regards the Bank's internal statement and management of the equity risk, sector shares and other securities are not regarded as a part of the Bank's share exposure. In the internal statement, the Bank's equity exposure is measured at 2.9% of the Bank's core capital after deductions.
As regards the Bank's internal assessment of the equity risk, the Bank uses 10% as risk parameter (plausible change in value) on Danish commercial shareholdings. As regards foreign commercial shareholdings, the Bank applies a risk parameter (plausible change in value) of 20%. The Bank's total equity risk on commercial portfolios as of 31 December 2011, amounts to DKK 0.8 million, equivalent to 0.3 % of the Bank's core capital less deductions at year-end 2011. The amount is included in the Bank's internal assessment of the total market risk.

Portfolio risk



Currency risk

The Bank applies a risk parameter of 5% on currency positions calculated according to a notional ”currency indicator 1” (as defined in note 32). EUR positions, however are adjusted to 1% due to the modest historical fluctuation band. As at 31 December 2011, the amount comes to DKK 0.2 million, equivalent to 0.0 % of the Bank's core capital less deductions at year-end 2011. The amount is included in the Bank's internal assessment of the total market risk.

Derivative financial instruments

The Bank applies a risk parameter of 10% for derivate financial instruments such as swaps, forwards, futures and options. Assessing the Bank's own positions in forward exchange transactions in OECD currencies, 5% is applied as risk parameter. The Bank's total risk on derivative financial instruments as of 31 December 2011 amounts to DKK 0.0 million, equivalent to 0.0% of the Bank's core capital after deductions at year-end 2011. The amount is included in the Bank's internal assessment of the total market risk.

Risk assessment of market risks

The framework of the Bank's overall market risk on commercial items was set at 5% of the Bank's core capital after deductions, equivalent to DKK 14.0 million at year-end 2011. Bonds with a maturity of up to 2 years are in terms of risk not included in the above-mentioned framework, which is why DKK 0.6 million can be deducted from the interest rate risk within the trading portfolio.

Assessed accordingly, as of 31 December 20011, the overall market risk is calculated at DKK 5.6 million, equivalent to 2.0% of the Bank's core capital after deductions at year-end 2011 and is therefore within the fixed framework.

	DKK million
Interest rate risk:	
Commercial bonds	5,3
-Commercial bonds < 2 yrs.	-0,6
Equity risk:	
Commercial Danish and foreign shares	0,8
Currency risk:	
EUR positions 1%, Other positions5%	0,1
Market risk, year-end 2011	**5,6**

Liquidity risk

The liquidity risk is the risk of loss as a result of a disproportionate increase in the Bank's finance costs, or a lack of financing which causes stagnation or a decrease in business volume, or that the Bank's payment obligations cannot be honoured under the Bank's liquidity contingency.

The Bank has adopted a liquidity policy with four objectives both in the very short term (“day”), short term (1 week) and medium term (12 months) and long term (3 years) in order to ensure that the Bank's liquidity is sufficient, not just from a statutory point of view but also based on the Bank's internal risk assessment.

The Bank's objective is to have an excess liquidity that is 100% above the minimum statutory requirement in the very short term, short term and medium term. The excess liquidity objective in the long term is 50%. It is the Bank's objective that the available liquidity will be sufficient to cover the coming month's known liquidity requirements.

The Bank's objective is that the Bank's loan portfolio should be funded by the sum of equity, supplementary capital, deposits and long term debts and commitments with maturities of more than 12 months.

Assessment and monitoring of liquidity is a daily routine, and the executive management and the board of directors receive continuous reports in accordance with the established procedures. In 2011, the Bank has observed the liquidity policy as regards very short term, short term and medium term commitments. The Bank has prepared an action plan for compliance with the liquidity policy as regards long term commitments.

Counterparty risk

The Bank applies the market value method for counterparty risk to calculate the size of the exposure for derivative instruments, which are covered by the definition in the capital adequacy notification, appendix 17.

The fixing of the exposure value under the market value method for counterparty risk is derived from the method below:

1) Contracts are calculated at market value to obtain the actual replacement costs for all contracts with a positive value.
2) To reach a figure for the potential future credit exposure, the nominal value of the contract's principal amount or the underlying values are multiplied by percentage rates fixed by the Danish Financial Supervisory Authority. Swaps based on two variable interest rates in the same currency are exempt from this, in so far as only the actual replacement cost must be calculated.
3) The sum of the actual replacement costs and the potential future credit exposure equals the exposure value.

Notes to the accounts

In connection with the Bank's determination of the adequate capital base, capital equivalent to 8 % of the positive market value of the derivatives is held in reserve.

Creditor risk

The credit risk is defined as the risk of customers' payment obligations to the Bank being assessed as unrecoverable due to certain customers' inability or unwillingness to make timely payments.

Aarhus Lokalbank's credit policy is founded on a target group consisting of private and commercial customers in a sound financial situation. The Bank's risk profile is conservative in its definition of creditworthy customers.

Credit risk management is carried out by means of the stipulated policies and procedures, where the board of directors has implemented frameworks to ensure that the Bank's lending is to customers with financial strength which will generate an adequate profitability for the Bank.

As a natural part of the credit policy, the Bank makes venture capital available to projects deemed sustainable and where the customers possess the necessary competency and which furthermore can help ensure a healthy and positive development in our market areas.

In general, we want diversification in our lending activities which ensures that we do not become vulnerable to individual industries or customers. At the same time, however, we assess the business opportunities in lending to financially strong customers in all customer segments.

The credit policy is managed in accordance with socio-economic trends as well as the Bank's operational development in both the short and long term.

Follow-up and monitoring of all types of exposures are made concurrently by the executive management and the credit department.

Within the corporate customer area, the Bank's primary target group is small and medium-sized companies within selected business segments such as manufacturing, the service industry, trades, real estate financing, agriculture and retail.

Competent advice and confidence-inspiring cooperation are also a natural part of our credit policy, where we want:

- to provide credit to healthy companies and private customers, where loan and credit facilities are, as far as possible, fully collateralized;
- complete insight in the customers financial standing based on a total customer relationship, so that the necessary and qualified basis for decision making can be obtained;
- delegation of loan approval authority to the customer advisor who has knowledge of and cooperates with the customer.

Larger exposures are approved by the executive management and the board of directors.

The Bank conducts a quarterly assessment of the need for individual impairment charges being made for commitments in excess of DKK 100,000. Impairment charges are based on reporting from the customer advisor, subsequent to an assessment of the risk of loss due to changes in the customer's ability and/or willingness to repay.

Collective impairment charges are made using a statistical model developed by the Association of Local Banks in Denmark. The subsequent approval process is made by the Bank after an assessment of its own position.

All impairment charges support the Bank's overall objective that credit risks are identified and covered in a reassuring manner and that the total impairment charges are adequate.

When an exposure is written off in full or in part, the equivalent amount will be removed in full or in part from the impairment charge account.

Exposures have their interest accrual discontinued when it is assessed that accrual of interest will result in further losses.

For exposures where interest accruals have been discontinued, impairment charges equal to the full risk are recognised.

The Bank conducts regular monitoring of the debts written off.

Further information on loans and credit risks is provided in notes 29-31.

Operational risk

The operational risk is the risk that the Bank may fully or partially be forced to accept financial losses as a consequence of inadequate or inexpedient internal procedures, human errors, IT application errors or external influence.

Efforts are made to manage operational risk through policies, procedures and control measures designed to achieve a both secure and functional environment. The operational risk is minimised by ensuring that the execution of activities is organisationally separated from the control of the same.

Notes to the accounts

The Bank has implemented a policy and contingency plan for physical catastrophes and IT downtime. As a main rule, IT downtime leads to a breakdown of operations. If there is a solitary breakdown at a branch, the business can be continued at the other branches. IT operation takes place at Bankdata.

The Bank carefully monitors the instructions and recommendations received from Bankdata. The Bank does not conduct its own development of IT applications.
According to the capital requirement regulation, the Bank is required to measure and recognise an amount for operational risks in the Bank's solvency ratio calculation.

The Bank employs the so-called basis indicator method under which an amount is measured based on the average core income shown in the last three financial statements, which is then added to the risk-weighted assets. The core income is the sum of the net interest income and non-interest related net income.

NOTE 2
Accounting estimates and uncertainties

Measurements
In preparing the annual report, the management is required to make certain estimates and assessments of future conditions that have a significant impact on the carrying value of certain assets and liabilities. The areas in which there are critical estimates and assessments significantly impacting on the annual report are:

- Loan impairment charges, etc.
- Securities.
- Capital plan – continued operation.
- Deferred tax asset.

Loan impairment charges and receivables, etc.
Loan impairment charges and receivables, etc. are made to account for any decrease in value, which occurred after initial recognition. Impairment charges are made as a combination of individual and collective impairment charges and are associated with a number of estimates. The assumptions for the estimates may be incomplete or inaccurate, or unanticipated future events or circumstances may occur.
To make these estimates and assessments are thus difficult, and when they also involve customer relationships, they will be associated with uncertainties, not least in times of recession. It may therefore be necessary to change previous estimates either because of new information, additional experience or after subsequent events. For several exposures, the valuation of the Bank's exposures and collateral values presumes a favourable settlement. Thus, there is a risk that in 2012 a need will arise for further impairment charges, among others, with regard to the Bank's most significant exposures within agriculture and properties. Moreover, the expected tightening of the Danish Financial Supervisory Authority's rules governing loan impairment charges and guarantees may lead to further impairment charges being made in 2012.

Securities
For securities with quoted prices significant estimates are not made. For securities that are valued only slightly based on observable market data, valuation is affected by estimates. This includes sector shares.

Capital plan – continued operation
The Board of Directors of both Aarhus Lokalbank and Vestjysk Bank unanimously recommend that the general meetings approve the merger.
The risk profile of the Bank's loans and the above-mentioned financial conditions make continued negative results inevitable, even though the Bank in 2011 has reduced its nominal loan exposure within the real estate and agricultural sectors.
In relation to the Bank's possibilities of withstanding losses, considering the statutory capital requirements, losses exceeding DKK 50-60 million will require injection of new capital. The Board of Directors finds it unlikely that it will be possible to attract new capital and thereby securing the Bank as a going concern.
The Bank's solvency situation is vulnerable in that continued negative operating results in 2012 could have severe solvency consequences due to maturity-dependant down-weighting of existing subordinated capital and any subsequent reduced possibilities of recognition of hybrid core capital as subordinated loans.
The above capital risk, combined with the future regulatory requirements, makes it increasingly challenging to operate a small bank such as Aarhus Lokalbank. Against this background, the Board of Directors recommend a merger with Vestjysk Bank.
It is the management's assessment that a merger with Vestjysk Bank as well as the implementation of the capital plan described in the management review will reduce the ”going concern” risk for Aarhus Lokalbank significantly; hence, the 2011 annual accounts presume continued operations.

Deferred tax assets
The Bank's deferred tax asset relating to unused tax losses are recognized to the extent it is probable that within a few years fiscal surpluses are achieved, in which the losses can be offset. Defining the amount that can be recognized is based on estimates of future taxable profits. As of 31 December 2011, the Bank has assessed that a deferred tax asset of DKK 40 million could be realized within a few number of years. This estimate is subject to significant insecurities as described in the section on “Loan impairment charges and receivables, etc.” that describes a risk for further losses on loans and receivables, etc. If the bill to limit the allocation of losses for set-off against taxable income is adopted, tax assets in the amount of DKK 40 million will have to be reduced. Any such reduction will have no importance in terms of solvency.

Notes to the accounts

DKK 1,000	2011	2010
NOTE 3		
Interest income:		
Due from credit institutions and central banks	10.009	7.914
Loans and other receivables	218.927	239.304
Bonds	8.361	23.339
Other interest income	1.762	5.226
Total	**239.059**	**275.783**
The Bank has no interest income from real sale and repurchase transactions		
NOTE 4		
Interest expense:		
Credit institutions and central banks	99	5.681
Deposits and other liabilities	75.874	69.256
Issued bonds	63.770	52.628
Subordinated debts	25.357	37.490
Other interest expenses	3.254	1.166
Total	**168.354**	**166.221**
The Bank has no interest income from real sale and repurchase transactions		
NOTE 5		
Income from charges and commission:		
Securities trading and custody account fees	5.854	7.760
Payment services fees	1.338	1.633
Origination fees	1.074	1.249
Guarantee commissions	12.562	14.211
Other fees and commissions	5.993	7.404
Total	**26.821**	**32.257**
NOTE 6		
Value adjustments:		
Bonds	-1.149	-5.206
Shares etc.	-4.748	4.105
Foreign currency	958	-790
Currency, interest, share, commodity and other contracts as well as derivative financial instruments	-24	-35
Other assets	124	3.934
Total	**-4.839**	**2.008**

DKK 1,000	**2011**	**2010**
NOTE 7		
Staff costs and administrative expenses:		
Remuneration pf the Board of Directors, Executive Board and Committee of Representatives: **)		
Executive Board (1 member)*)	2.156	5.290
Board of Directors, fixed remuneration (7 members in 2011, 9 members in 2010)	566	660
Audit committee, fixed remuneration (4 members in 2011, 3 members in 2010)	141	120
Committee of Representatives, fixed remuneration (0 members in 2011, 23 members in 2010)	7	28
Total	**2.870**	**6.098**
Staff costs:		
Salaries	40.426	45.637
Pensions	4.545	5.032
Social security costs	4.945	5.002
Total	**49.916**	**55.671**
Other administrative expenses	35.017	37.100
Total staff costs and administrative expenses	**87.803**	**98.869**

*) With reference to the conditions for participation in Bank Package II, it should be mentioned that in the provisional statement of taxable income for the year 2011, only half of the Executive Board's salary, inclusive of severance pay, can be deducted, equivalent to DKK 2,156,000. The Executive Board is remunerated with a fixed salary, and is not subject to the share-based incentive program mentioned below.

**) The terms for the remuneration of the Excutive Board, the Board of Directors and the Audit Committee are described in note 35.

Remuneration to other material risk takers apart from the Executive Board and the Board of Directors	**2011**	**2010**
Fixed remuneration	2.913	2.834
Total	**2.913**	**2.834**
Total number of employees with influence on the risk profile	4	4

No employee of the Bank receives variable remuneration

DKK 1,000	2011	2010
Share-based payment:		
The staff and administration expenses include a share-based incentive programme for employees.		
The share-based payment is an equity scheme booked directly in the equity	149	590
The incentive programme was introduced in connection with the Bank's 100-years anniversary. The programme consisted of share options allocated at a price of 155. The options expired on 1 April 2011. No employee exercised its rights under the programme prior to expiry. No compensation is granted for non-exercise of the programme.		
Number of employees:		
Average number of employees during the financial year converted into full-time employees.	77	92
Remuneration paid to members of the Board of Directors and the Executive Board		
Executive Board, fixed remuneration***)		
Vagn Thorsager, fixed remuneration	1.758	0
Carsten Stenulm, fixed remuneration	248	124
Per Hermansen, fixed remuneration	2.026	2.044
Board of Directors and Audit Committee, fixed remuneration		
Rasmus Juhl Rasmussen	40	180
Carsten Andersen	140	0
Jørn Sørensen	89	103
Esben Hammer	13	60
Gert Lopdrup Pedersen	13	60
Jørgen Balle	13	60
Knud Erik Rasmussen	33	138
Jan Rasmussen	70	0
Flemming Johannsen	116	0
Per Enevoldsen	60	60
Camilla Hartmann Lund	60	20
Hans Peder Hansen	60	15
Kirsten Majgaard Basse	0	40
Hanne Pedersen	0	45

****) The remuneration paid to the Board of Directors is inclusive of the value of staff benefits, including company car and multimedia etc.

DKK 1,000	2011	2010
Audit fee:		
Statutory audit	469	458
Other declarations with security	37	23
Tax advice	48	47
Other services	2.818	636
Total audit fee	**3.372**	**1.164**
The Bank has no internal audit department.		

NOTE 8

Other operating expenses:		
Guarantee commission concerning Bank Package I	1	14.339
The Deposit Guarantee Fund	5.788	0
Compensation for advisor responsibilities	2.950	2.618
Other operating expenses	323	66
Total other operating expenses	**9.062**	**17.023**

NOTE 9

Loan impairment charges etc.:		
Loans	136.333	244.150
Bonds classified as held-to-maturity	9.322	-51
The Private Contingency Association	0	10.656
Total	**145.655**	**254.755**
Impairment charges during the year	153.135	254.249
Reversal of impairment charges recognized in previous financial years	-21.968	-7.345
The Private Contingency Association	0	10.656
Loss, no individual impairment charges made	24.313	469
Received from claims previously written off	-446	-160
Income interest on claims subject to impairment	-9.379	-3.114
Total	**145.655**	**254.755**

DKK 1,000	2011	2010
NOTE 10		
Tax:		
Current tax	258	0
Tax on profit for the year	-37.251	-56.545
Depreciation on tax asset *)	37.503	24.000
Total	**510**	**-32.545**
Tax on profit for the year:		
Current tax	258	0
Deferred tax	-37.503	-56.548
Change in tax asset *)	37.503	24.000
Adjustments of prior-year tax charges	252	3
Total	**510**	**-32.545**
Effective tax rate (%):		
Corporate tax rate	25,0%	25,0%
Effect of changes tax percentage start of year	0,0%	-0,8%
Non-taxable income/non-deductible expenses	-25,1%	-10,3%
Adjustments of prior-year tax charges	-0,2%	0,0%
Effective tax rate (%)	**-0,3%**	**13,9%**
Deferred tax asset/liabilities: :		
Tangible assets	-2.314	-1.429
Securities	235	1.566
Other assets and liabilities	1.423	1.438
Loss carry-forwards	-100.952	-65.680
Depreciation of tax asset *)	61.503	24.000
Total	**-40.105**	**-40.105**

*) Under the accounting rules, the Bank has not capitalized all deferred taxes, including the tax value of loss carry-forwards, but only the part expected to be utilized within a shorter period of time. The unrecognized tax asset amounts to approx. DKK 101 at a tax rate of 25%.

	2011	2010
NOTE 11		
Due from credit institutions and central banks:		
Term deposits with central banks	549.968	1.199.813
Deposits with credit institutions	69.529	252.876
Total	**619.497**	**1.452.689**
By maturity:		
Demand deposits	60.307	242.161
Up to 3 months	549.968	1.199.813
From 1 to 5 years	0	0
Over 5 years	9.222	10.715
Total	**619.497**	**1.452.689**

DKK 1,000	2011	2010
NOTE 12		
Loans and other receivables due at amortized cost:		
Loans and other receivables due at amortized cost	3.431.790	4.043.236
- Impairment charges on loans	-374.116	-307.184
Loans and other receivables at amortized cost	**3.057.674**	**3.736.052**
Loans (by maturity):		
On demand	1.578.108	1.981.114
Up to 3 months	247.720	150.108
Up to 3 months to 1 year	703.764	1.035.915
Over 1 year to 5 years	308.846	322.264
Over 5 years	219.236	246.651
Total	**3.057.674**	**3.736.052**
NOTE 13		
Bonds:		
Bonds at fair value	417.701	607.305
Bonds at amortized cost (held-to-maturity) *)	9.312	18.676
The difference between bonds measured at amortized cost and fair value	-1.579	-6.506
Total	**425.434**	**619.475**
Bonds:		
Mortgage bonds	410.527	490.295
Government bonds	0	0
Other bonds	14.907	129.180
Total	**425.434**	**619.475**

*) Bonds at amortized cost was reclassified from being bonds at fair value in the financial year 2008. If the bonds still had been recorded at fair value, the value would constitute DKK 7,733,000 at year-end 2011 against DKK 12,170,000 at year-end 2010. The profit and loss account would in 2011 have been positively effected by DKK 4,927,000 whereas the result in 2010 would have been adversely effected by DKK 1,745,000.

DKK 1,000	2011	2010
NOTE 14		
Shares etc.:		
Shares/unit trust certificates listed on the Copenhagen Stock Exchange	17.301	21.412
Unlisted shares stated at fair value	54.230	123.515
Total	**71.531**	**144.927**

DKK 1,000	2011	2010
NOTE 15		
Investments in group undertakings (subsidiaries):		
Book value - start of year	12.661	12.661
Addition	0	0
Total book value at year-end	**12.661**	**12.661**
Appreciation and depreciation start of year	-477	240
The year's adjustments	-30	-717
Appreciation and depreciation year-end	**-507**	**-477**
Value adjustment of investments – at 1 January *)	0	-5.801
The year's adjustments *)	0	5.801
Value adjustment of investments – at year-end *)	**0**	**0**
Book value – end of year	**12.154**	**12.184**
Book value - start of year:	**12.184**	**7.100**

*) The value adjustment in 2010 concerns reversal of the elimination of the group undertakings' holdings of Aarhus Lokalbank shares that were sold in 2010.

NOTE 16		
Tangible assets:		
Domicile properties:		
Revalued amount - start of year	43.103	43.405
Additions, including improvements	49	85
Depreciation	-388	-387
Value adjustments recognized in the income statement	0	0
Value adjustments recognized directly in shareholders' equity	0	0
Revaluation at year-end	**42.764**	**43.103**

No external experts have participated in the measurement of the Bank's properties at year- end 2011.

Equipment:		
Book value - start of year	20.703	20.666
Additions	1.100	1.238
Disposals	-5.185	-1.201
Book value – year-end	**16.618**	**20.703**
Depreciation - start of year	-14.175	-12.261
Depreciation	-3.809	-3.070
Reversal of depreciation	5.064	1.156
Depreciation at year-end	**-12.920**	**-14.175**
Book value – year-end	**3.698**	**6.528**
Book value – start of year	**6.528**	**8.405**

DKK 1,000	2011	2010
NOTE 17		
Other assets:		
Positive market value of derivative financial instruments	40.226	68.163
Interest receivable and commissions	11.629	14.536
Other assets	13.964	15.503
Total	**65.819**	**98.202**
NOTE 18		
Due to credit institutions and central banks:		
Due to credit institutions	33.220	143.374
By maturity:		
On demand	33.220	103.374
From 1 year to 5 years	0	40.000
Total	**33.220**	**143.374**
NOTE 19		
Deposits and other debts:		
On demand	689.393	963.393
At notice	576.328	852.240
Time deposits **)	809.629	1.357.387
Special deposits	369.535	395.581
Total deposits	**2.444.885**	**3.568.601**
By maturity:		
On demand *)	706.611	818.417
Up to 3 months	223.276	388.885
Over 3 months to 1 year	344.894	931.763
Over 1 year to 5 years **)	394.446	1.101.831
Over 5 years	775.658	327.705
Total	**2.444.885**	**3.568.601**

*) Special deposits under pay-out are included in the item "on demand", whereas The amount in the specification of the varioustypes of deposits is included in the item "special deposits".

**) Includes as at 31 December 2011 and 31 December state-guaranteed bonds of USD 45 million issued as bonds under Bank Package II.

Notes to the accounts

DKK 1,000	2011	2010

NOTE 20

Issued bonds at amortized cost:		
By maturity:		
From 1 year to 5 years	1.326.864	1.587.595
Total	**1.326.864**	**1.587.595**

NOTE 21

Other liabilities:		
Negative market value of derivative financial instruments	41.205	229.506
Various creditors	18.926	58.768
Interest due and commission	18.925	36.495
Other liabilities	9.496	9.094
Total	**88.552**	**333.863**

NOTE 22

Provisions for losses:		
Provisions for losses on guarantees	240	0
Total	**240**	**0**

DKK 1,000	**2011**	**2010**

NOTE 23

Subordinated debt:

Subordinated debts:

Nominal DKK 75m DKK raised on 23 June 2006.
Interest rate: CIBOR 3 + 2.60%.
Expiry date: 01/11-2014

Nominal DKK 75m raised on 19 June 2007.
Interest rate until 3 December 2012: CIBOR 6 + 1.10% per annum
Interest rate from 4 December 2012: CIBOR 6 + 2.60% per annum
Expiry date: 3 December 2015

Nominal DKK 48m raised on 15 May 2008 at a price of 90.
Interest rate until 22 May 2013: 4.00%.
Interest rate from 23 May 2013: CIBOR 3 + 3.00%.
Expiry date: 22/5-2016

Hybrid core capital:

Nominal DKK 50m raised on 1 December 2005.
Interest rate: 5.44% per annum
Interest rate after 1 May 2016: CIBOR 3 + 2.82% per annum
Expiry date: indefinite

Nominal DKK 35.6m raised on 23 December 2009.
Interest rate: 10.92% per annum + conversion option of 0.5% per annum
Interest rate after 23 December 2014: 11.02% per annum
Expiry date: indefinite

Nominal DKK 75m raised on 21 March 2011
Interest rate: 5% per annum
Expiry date: indefinite

Costs paid during the financial year:	2011	2010
Establishment costs	1.425	199
Deferred establishment costs	0	-63
Interest expenses	25.357	37.490
Total	**26.782**	**37.626**

Notes to the accounts

DKK 1,000	2007	2008	2009	2010	2011
NOTE 24					
Share capital					
Changes during the past 5 years in the share capital:					
Balance 1 January	25.000	30.000	30.000	38.000	38.000
Cash capital increase	2.500	0	8.000	0	124.037
Issue of bonus shares	2.500	0	0	0	0
Balance 31 December	**30.000**	**30.000**	**38.000**	**38.000**	**162.037**
				stk.	stk.
The share capital consists of shares of each DKK 10.				3.800.000	16.203.655

Shareholders holding more than 5% of the share capital:

- The Danish State represented by the Ministry of Finance
- Jørn Sørensen, Hadsten

DKK 1,000	2011	2010
NOTE 25		
Contingent liabilities etc.:		
Guarantees etc.:		
Financial guarantees	118.574	259.490
Guarantees against losses for mortgage loans	383.197	372.490
Land registration and conversion guarantees	57.796	134.844
Other guarantees	26.721	49.867
Total guarantees etc.	**586.288**	**816.691**
Other liabilities:		
Other liabilities	3.536	7.044
Total other liabilities	**3.536**	**7.044**
Total contingent liabilities etc.	**589.824**	**823.735**
As security for clearing etc. the Bank has provided charged bonds towards the Danish Central Bank at a value of	0	0

The Bank participates in IT-cooperation with other banks via the IT center Bankdata. Withdrawal from Bankdata would trigger a payment of DKK 60 million due to the 5-year termination notice.

Aarhus Lokalbank is by law covered by the Deposit Guarantee Fund for Depositors and Investors, and Aarhus Lokalbank is therefore obliged to pay and guarantee its proportionate share of costs in connection with the guarantee scheme (covering up to EUR 100,000 per depositor). Aarhus Lokalbank's share according to the latest statement towards the Deposit Guarantee Fund constitutes 0.3%. Within a financial year, the maximum net deposit chargeable from Aarhus Lokalbank corresponds to 2 per mille of the Bank's deposits, viz. at 31 December 2011 a maximum of DKK 4,890,000.

NOTE 26

Lawsuits etc.

The Bank is not party to any lawsuits that are deemed to result in significant losses and thereby a significant change to the annual report.

DKK 1,000	2011		2010	
NOTE 27				
Derivative financial instruments:				
	Nominal value DKK'000	Net market value DKK'000	Nominal value DKK'000	Net market value DKK'000
Maturity up to 3 months:				
Foreign exchange contracts:				
Forward contracts, purchase	155.969	7.379	619.416	15.313
Forward contracts, sale	359.106	-283	1.101.661	-161.111
Swaps	0	0	36.482	0
Total		**7.096**		**-145.798**
Maturity from 3 months to 1 year:				
Foreign exchange contracts:				
Forward contracts, purchase	0	0	32.071	484
Forward contracts, sale	0	0	31.994	-443
Swaps	77.715	0	115.194	0
Options acquired	21.603	138	0	0
Options issued	21.603	-171	0	0
Interest rate contracts:				
Swaps	0	0	41.983	0
Total		**-33**		**41**
Maturity from over 1 to 5 years:				
Foreign currency contracts:				
Currency swaps	258.446	-6.444	328.694	-11.836
Options acquired	6.116	170	5.976	170
Options issued	6.116	-178	5.976	-178
Interest rate contracts:				
Swaps	382.864	-1.597	376.664	-3.796
Total		**-8.049**		**-15.640**
Maturity over 5 years:				
Interest rate contracts:				
Swaps	110.482	0	117.880	0
Total		**0**		**0**

Notes to the accounts

Open spot transactions:

	Nominal value DKK'000	Positive market value DKK'000	Negative market value DKK'000	Net market value DKK'000
Interest rate contracts:				
Open spot transactions, purchase	625	4	0	4
Open spot transactions, sale	625	0	3	-3
Equity contracts:				
Open spot transactions, purchase	383	21	2	19
Open spot transactions, sale	1.686	8	20	-12
Total year-end 2011	**3.319**	**33**	**25**	**8**
Foreign currency contracts:				
Open spot transactions, sale	11.222	52	0	52
Interest rate contracts:				
Open spot transactions, purchase	6.676	8	1	7
Open spot transactions, sale	12.246	8	-12	-4
Equity contracts:				
Open spot transactions, purchase	1.457	68	27	41
Open spot transactions, sale	1.457	27	-68	-41
Total year-end 2010	**21.836**	**111**	**-52**	**3**

NOTE 28

Fair value of derivatives

Derivatives are measured in the balance sheet at fair value or amortized cost.

Fair value is the amount which a financial asset can be traded at, or the amount at which a financial liability can be settled between unrelated parties. For financial assets and liabilities which are priced in active markets, the fair value is based on observable market prices on the balance sheet date. For derivatives that are not priced in active markets, the fair value assessment is based on generally accepted pricing methodologies.

The vast majority of the Bank's receivables, loans and deposits can not be transferred without the customers' prior consent, and there is no active market for trading of such financial instruments. The information on the fair value is therefore based solely on the facts that changes in market conditions have occurred after the instrument's initial recognition, especially changes in interest rates.

Shares and derivatives are stated in the annual report at fair value so that recognized values correspond to fair values. Bonds acquired in order to yield a return over a period to maturity (hold to maturity) are valued at amortized cost.

For loans, impairments are generally assessed to equal changes in credit quality. The difference in fair values are deemed to be fees and commissions received, incurred costs from lending transactions, and for fixed-rate loans, the interest rate-dependent price adjustment that is calculated by comparing the current market rate to the loans actual interest rate.

The fair value of receivables from credit institutions and central banks are determined by the same method as for loans, noting however that the Bank has not made impairments on receivables from credit institutions and central banks.

For fixed rate financial liabilities in the form of deposits and debts to credit institutions measured at amortized cost the difference to fair values is assessed to be the interest rate-dependent revaluation.

In the following table the financial assets and liabilities are included where there is significant difference between book value and fair value.

DKK 1,000	**2011**		**2010**	
	Amortized cost	Net market value	Amortized cost	Net market value
Bonds at amortized cost	5,682	7,733	18,676	12,170
Subordinated debt	356,727	358,372	592,434	555,048

NOTE 29

Impairment charges

In the table below, the Bank's impairment charges are specified showing the causes for decrease in value of total portfolio level with sector and sub-group specification. Moreover, the Bank's impairments on sector and sub-group level are specified.

DKK 1,000	2011			2010		
	Exposure before impairment	Impairment	Collateral	Exposure before impairment	Impairment	Collateral
Cause for individual impairment chargess						
Severe financial problems	667.004	200.878	334.118	1.117.712	209.072	768.061
Breach of contract	107.575	46.908	42.276	55.107	10.430	31.459
Easing of terms	158.784	54.415	60.340	54.581	19.103	12.275
Bankruptcy, suspension of payments etc.	122.262	61.732	56.568	124.428	58.415	61.065
Total	**1.055.625**	**363.933**	**493.302**	**1.351.828**	**297.020**	**872.860**

In connection with the preparation of the annual report, the Bank has assumed that the loan exposures are reduced at a controlled pace. A worsening of and/or forced liquidation of the loan exposures will involve further write-downs and impairment charges. The above table shows the causes for individual impairment charges. The development from 2010 to 2011 shows an actual reduction in loans and realization of collateral but also reflects a change between the various groups. Thus, the exposure before impairment charges for the group "severe financial problems" is reduced by DKK451 million, whereas there has been a total increase for the groups "breach of contract" and "easing of terms" of DKK 131 million.

The above amount concerns collateral made up in accordance with the principles applied by the Bank in connection with granting / renegotiation, cf. note 31.

Notes to the accounts

Causes for individual impairment charges broken down by sector and industry

DKK 1,000	Severe financial problems	Breach of contract	Easing of terms	Bankruptcy, suspension of payments, etc.	Exposure before impairments by sector Total	Individual impairments by industry
Public authorities	**0**	**0**	**0**	**0**	**0**	**0**
Industry:						
Agriculture, hunting, forestry, fisheries	159.398	80.586	10.866	0	250.850	69.779
Manufacturing and raw material extraction	36.932	2.486	0	0	39.418	4.600
Energy and utilities	0	0	0	0	0	0
Building and construction	27.545	685	0	1.383	29.613	28.776
Trade	12.383	1.049	594	3.869	17.895	11.128
Transport, hotels and restaurants	0	0	0	2.000	2.000	1.000
Information and communication	0	0	0	5.447	5.447	3.160
Finance and insurance	112.664	1.800	45.326	21.305	181.095	108.257
Real estate	244.416	701	55.383	44.669	345.169	68.126
Other industries	15.786	13.852	2.265	14.805	46.708	4.678
Total industry	**609.124**	**101.159**	**114.434**	**93.478**	**918.195**	**299.504**
Private customers	**57.879**	**6.416**	**44.351**	**28.784**	**137.430**	**64.429**
Total	**667.003**	**107.575**	**158.785**	**122.262**	**1.055.625**	**363.933**

DKK 1,000			**2010**			
	Severe financial problems	Breach of contract	Easing of terms	Bankruptcy, suspension of payments, etc	Exposure before impairments by sector Total	Individual impairments by industry
Public authorities	**0**	**0**	**0**	**0**	**0**	**0**
Industry:						
Agriculture, hunting, forestry, fisheries	279.467	2.374	11.137	18.320	311.298	81.426
Manufacturing and raw material extraction	115	4.939	0	0	5.054	906
Energy and utilities	0	0	0	0	0	0
Building and construction	35.000	0	1.763	4.683	41.446	33.644
Trade	13.111	583	0	28.962	42.656	16.860
Transport, hotels and restaurants	0	67	0	2.442	2.509	1.033
Information and communication	0	0	4.005	0	4.005	2.160
Finance and insurance	75.302	32.205	26.844	26.390	160.741	75.749
Real estate	75.302 210.679	7.125	3.984	8.444	230.232	23.604
Other industries	9.579	1.256	0	1.462	12.297	2.872
Total industry	**623.253**	**48.549**	**47.733**	**90.703**	**810.238**	**238.254**
Private customers	**494.459**	**6.558**	**6.848**	**33.725**	**541.590**	**58.766**
Total	**1.117.712**	**55.107**	**54.581**	**124.428**	**1.351.828**	**297.020**

The nature of the Bank's security for loans individually written down is not different from the nature of the Bank's other securities. Further information is available in note 31.

Notes to the accounts

DKK 1,000	**2011**	**2010**
Loan impairment charges, guarantees and other receivables, etc.:		
Individual impairments on loans and guarantees:		
Individual impairment charges – start of year	297.020	52.225
Impairment charges during the year	143.554	252.089
Reversal of impairment charges from previous financial years	-21.968	-7.294
Loss subject to previous impairment charges	-54.673	0
Individual loan impairment charges and guarantees – year-end	**363.933**	**297.020**
The total amount of loans and guarantees with individual impairment charges as of 31 December 2011: DKK 1,056m (DKK 672m as of 31 December 2010).		
Collective loan impairment charges:		
Collective impairment charges -start of year	10.164	8.004
Impairment charges during the year	259	2.160
Collective loan impairment charges – year-end	**10.423**	**10.164**
The total amount of loans and guarantees subject to individual impairment charges as of 31 December 2011: DKK 2,962m. (DKK 3,201m as at 31 December 2010)		
Total impairment charges on loans and guarantees – year-end	**374.356**	**307.184**
Impairments on other receivables etc.:		
Impairments on other receivables etc. – start of year	8.098	22.985
Impairment charges during the year on bonds (held-to-maturity")	9.322	-51
Impairment charges on guarantee liabilities (The Private Contingency)	0	10.656
Loss during the year on guarantee liabilities (The Private Contingency)	0	-25.492
Impairment charges - other receivables etc. – year-end	**17.420**	**8.098**
Impairment charges - loans, guarantees and other receivables etc. – year-end	**391.776**	**315.282**
No impairment charges with regard to credit institutions		
Accumulated impairment charges and guarantee debtors in percentage of loans and guarantees before impairment charges – year-end	9,3%	6,3%
Receivables with discontinued interest accrual – year-end	276.650	116.805
Total impairment charges	146.445	75.460
Receivables with discontinued interest accrual in percentage of loans and guarantees before impairment charges	6,9%	2,4%

Notes to the accounts

NOTE 30

Loans and guarantees by sector and industry

The table below shows information on the Bank's lending by sector and industry.

DKK 1,000	2011		2010	
	DKK'000	%	DKK'000	%
Loans and guarantees by sector and industry :				
Public authorities	**17.388**	**0,5**	**18.595**	**0,4**
Industry:				
Agriculture, hunting, forestry and fisheries	493.513	13,5	598.076	13,1
Manufacturing and raw material extraction	98.396	2,7	174.299	3,8
Energy and utilities	1.305	0,1	2.145	0,0
Building and construction	82.203	2,3	104.958	2,3
Trade	107.450	2,9	184.981	4,1
Transport, hotels and restaurants	34.756	1,0	30.163	0,7
Information and communication	19.406	0,5	19.368	0,4
Finance and insurance	325.394	8,9	488.403	10,7
Real estate	1.284.196	35,2	1.557.473	34,2
Other industries	334.143	9,3	444.682	9,9
Total industry	**2.780.762**	**76,4**	**3.604.548**	**79,2**
Private customers	**845.812**	**23,1**	**929.600**	**20,4**
Total	**3.643.962**	**100,0**	**4.552.743**	**100,0**

As it appears from the table above, there has been a strong decrease in the Bank's total loans and guarantees from 2010 to 2011. This development is the result of a conscious policy; the largest industry segment as at 31 December 2011 "real estate" by 35.2 % and "agriculture, hunting, forestry and fisheries" by 13.5 %. Both these sectors show a significant nominal decrease but a percentage increase due to the general reduction of total loans.

Real estate

The Bank's real estate exposures are fundamentally split between the German and the Danish portfolio, approx. 65% in German properties and approx. 35% in Danish properties. The Bank has a total of 22 German property portfolios of which 12 are partnership (K/S) property portfolios with total loans as at 31 December 2011 of approx. DKK 360m, and approx. DKK 300m as security based on the Bank's security statements, primarily 1st priority security in the properties. The vast majority of the German property exposures are in general assessed to be in good standing with satisfactory hedging through securities. As regards the German part, it is currently assessed that the risk of losses is modest in relation to the Bank's general impairment charges, however, a forced settlement strategy would involve significant risks. The Bank does not regard its role as 1st priority lender on mortgage-like terms, and measures have been taken to replace these loans by German mortgage bank loans.

The Bank's impairment charges as at 31 December 2011 on property exposures totalled approx. DKK 160m that are included in the division of industries statement under the categories "construction", "financing and insurance", "real property" and "private customers". No impairment charges have been made in respect of the German property portfolio.

The Danish part of the property portfolios concerns primarily fully operational properties, however, certain portfolios concern sites for which the development is decisive for the final risk exposure. If the future demand for houses and sites from private customers, developers, etc. continue to fail, the Bank's individual site portfolios may lead to risk of losses in the property segment.

Notes to the accounts

Agriculture, hunting, forestry and fisheries
The Bank’s total loans and guarantees constitute DKK 494m, which is a reduction as compared to 2010 (DKK 104m). The Bank’s agricultural exposures are influenced by the current general low profit level in agriculture and falling land prices. As at 31 December 2011, the Bank’s agricultural exposure – spread on approx. 40 agricultural customer portfolios - constituted 13.5 % of the total loans and guarantees. At year-end 2011, a total amount of DKK 70m had been written down on agricultural exposures. During the year, 3 of the most risky agricultural portfolios have been settled by way of sale of property. The total loss in this regard amounts to approx. DKK 75m that has been written down. As regards the remaining part of the agricultural exposures, it is assessed that there is a current risk of losses in respect of which an amount of DKK 22m has been written down. The other agricultural exposures are assessed to reflect the general challenges and risks currently inherent in this sector.

Other sectors/other trades
As regards other sectors and trades, no special circumstances prevail when it comes to credit quality and guarantees.

The "trade" exposures constitute 2.9 % and reflect a number of retail customers that generate a large span in the credit risks. However, these customers are dependent on customer behaviour with regard to demand and purchase power.

The exposure within "manufacturing and raw material extraction" constitutes 2.7 % reflecting a large spread across the various types of industrial business within which the financial conditions are still found to influence adversely a number of small and medium-sized undertakings amongst the Bank’s customers.

The exposure for "other trades" constitutes 9.3% reflecting a very large spread of customers within e.g. the service industry.

Private customers

Geographically, the Bank’s private loan customers reside in the Eastern part of Jutland around the Aarhus area that in general is characterized by a high educational level, attractive work places and residential areas, where in general no crucial negative consequences of the downturn in 2008 have been observed.

Loans to private customers have been reduced by DKK 84m since 2010, which partly reflects a minor decrease in the demand for loans amongst the Bank’s customers as well as loss of customers.

The Bank’s write-downs on private customers constitute 18% of the total write-downs. The largest credit risks in the Bank’s private customer segment mainly involve risks connected to commercial portfolios with the Bank in cases where a private customer has become risky due to obligations towards a commercial portfolio. Such write-downs constitute approx. DKK 40m of the total write-downs on private customers totalling DKK 64m. With corrections, the write-down percentage constitutes 3% for private customers.

The default percentage on loans arranged by the Bank through Totalkreditlån is still at a modest level.

DKK 1,000	2011	2010

NOTE 31

Credit risk and guarantees

The table below constitutes a number of credit risk information, including the Bank's exposures, guarantees, the credit quality of the loan portfolio and the development in defaults by trade and sub-groups.

Maximum credit exposure (loans, guarantees and credits) by group of industry:

	2011	2010
Public authorities	**17.876**	**30.832**
Industry:		
Agriculture, hunting, forestry and fisheries	552.585	683.382
Manufacturing and raw material extraction	108.952	202.597
Energy and utilities	2.298	9.079
Building and construction	98.413	134.921
Trade	135.989	274.456
Transport, hotels and restaurants	47.773	43.285
Information and communication	23.709	23.305
Finance and insurance	340.723	512.616
Real property	1.350.315	1.654.631
Other industries	389.028	491.853
Total industries	**3.049.785**	**4.030.125**
Private customers	**997.951**	**1.137.377**
Total	**4.065.612**	**5.198.334**

Maximum credit exposure (loans, guarantees and credits) by group of industry:

	Procent	Procent
Public authorities	**0,4**	**0,6**
Industry:		
Agriculture, hunting, forestry and fisheries	13,6	13,1
Manufacturing and raw material extraction	2,7	3,9
Energy and utilities	0,1	0,2
Building and construction	2,4	2,6
Trade	3,3	5,3
Transport, hotels and restaurants	1,2	0,8
Information and communication	0,6	0,4
Finance and insurance	8,4	9,9
Real property	33,2	31,8
Other industries	9,6	9,5
Total industries	**75,1**	**77,5**
Private customers	**24,5**	**21,9**
Total	**100,0**	**100,0**

Notes to the accounts

Credit policy
Reference is made to the credit risk in note 1 - "Statement of capital and risk management". Furthermore the Bank considers credit facilitation and credit lending an integral part of the overall business. Loans and credits are granted on the basis of the client's documented ability to repay, and thus collateral is required to support the risk of failure to repay do to unforeseen reasons. The requirements for provision of collateral increase with the amount of loan and repayment period.

The Bank's lending portfolio consists among other things of a number of large exposures, primarily within the real estate and agriculture sectors. As a consequence of the Bank's strategy to lending specifically within these 2 sectors a forced liquidation strategy may give rise to disputes with the client, the owner group, guarantors, etc. on the shape, speed and scale of the desired exposure reduction. This might give rise to situations where estimates of the real values of collateral are subject to considerable uncertainty until the liquidation is completed.

Agriculture
Some of the Bank's agricultural exposures are influenced by the sector's poor operating performance and great uncertainty about the real value of the assets. The direct sensitivity of the agricultural exposures to currency fluctuations has been significantly reduced in 2011.

The remaining agricultural portfolio is not currently estimated to involve unusual risks in relation to the sector's current prospect and trends. The Bank has made total write-downs of DKK 7m on the agricultural exposures totalling DKK 494m, see the industry statistics note 31, representing write-downs of about 13.5%.

Real estate
The Bank's real estate exposures are fundamentally divided into a German and a Danish portfolio. Currently in the German portfolio only modest risks relative to the Bank's total write-downs are assessed. The vast majority of the German property exposures are in general assessed to be in good standing with satisfactory hedging through securities. Especially it should be mentioned that the Bank's German partnerships (K/S) exposures are not likely to contain significant risks but also here there might be a potential risk with a forced liquidation strategy.

Collateral by type in percentage of the calculated value on selected industries

	2011				
Percentage	**Real estate**	**Agriculture**	**Private customers**	**Other industries**	**Total**
Owner's mortgage deeds	64,0	61,5	42,4	25,7	49,4
Guarantees against losses and securities	32,7	36,2	33,9	44,9	36,9
Operating equipment	0,2	1,6	14,0	19,2	7,9
Securities and cash	3,1	0,7	9,7	10,2	5,8
Collateral year-end 2011	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

	2010				
Percentage	**Real estate**	**Agriculture**	**Private customers**	**Other industries**	**Total**
Owner's mortgage deeds	65,8	69,4	37,9	40,0	54,1
Guarantees against losses and securities	28,7	25,7	33,7	26,5	28,3
Operating equipment	0,1	2,0	11,7	17,0	7,4
Securities and cash	5,4	2,9	16,7	16,5	10,2
Collateral – year-end 2010	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Description of collateral
Aarhus Lokalbank wishes to provide credit to healthy companies and private customers, where loan and credit facilities are, as far as possible, fully collateralized. Collateral is usually provided as a charge against physical assets pant, bank deposits, securities and guarantees, etc. The Bank supervises currently the value of the collateral provided. Most often, securities provided constitute charges against real estate and securities.

The figures disclosed concern collateral made up in accordance with the principles provided by the Bank in connection with granting/renegotiation. In the measurement of exposures (write-downs), the payments are recorded in a number of tables where any security provided is included at the expected time of realization and based on the expected sales value of the security in the current market situation (fair value) less realization costs.

The Bank's guarantees consist of approx. 49% owner's mortgage deeds in real estate, approx. 6% securities and accounts, and approx. 45% other securities.

The assessment of the guarantees is performed by the department responsible according to an established set of principles taking into consideration the current situation. The assessment is conservatively performed taking into consideration the expected realization value of the guarantee in question. It is of great importance to the Bank that the object of the loan facilities a suitable provision of a guarantee. When granting credit to companies, the Bank requires as a point of departure full or partial liability from the group of owners.

The valuation of guarantees is performed as follows:

Owner's mortgage deeds against real estate:

- Owner-occupied homes: 90% of the current cash trading value calculated on the basis of the trading price or Totalkredit A/S' assessment that is no longer than 2 years old or an individual assessment compared to the public valuation.
- Rental properties: 90% of the current cash trading value calculated on the basis of either the trading price, net rent or DLR Kredit A/S' assessment.
- Industry and factory buildings: 90% of the current cash trading value calculated on the basis of the trading price, net rent or DLR Kredit A/S' assessment.
- DLR Kredit A/S' assessment and due consideration to the property's location, maintenance, alternative uses, etc.
- Agricultural properties: 80% of the latest current DLR Kredit assessment or the Bank's own assessment if DLR Kredit's assessment is more than 1 year old." The land price is based on location etc. and is included with beteeb DKK'000 72 and 144 in the valuation.
- German properties: 90% of the trading price before costs or individual assessment based on the actual net rent or external assessment.

Guarantees:

- Guarantees are not recorded at the security value unless the guarantee is backed by way of charges.

Securities:

- Listed Danish shares are valued at 80% of the current market price. Foreign shares at 70%.
- Listed Danish bonds are valued at 90% of the current market price. Foreign bonds at 80%.
- Unlisted shares are usually not valued.

Charges against movable property:

- The various kinds of charges against movable property (cars, trucks, machinery, etc.) are generally valued at 80% of the acquisition price and written down over 5 years, however, taking into consideration the nature and application of the asset.

Notes to the accounts

Company charge:

- Debtors: 80%
- Stock: 40% - 80%
- Operating equipment etc.: 0%

Credit segmentation of loans
The Bank performs credit segmentation for all loan portfolios above DKK 100,000. The object of the credit segmentation is to have a portfolio tool and a method to calculate the solvency degree of the loan portfolio to be used for the computation of the Bank's individual solvency need. The credit segmentation is performed on the basis of a fundamental division into the following 9 credit segments:

Credit segment	Category
1	Excellent
2	Very good
3	Good
4	Above average
5	Average
6	Below average
7	Poor
8	Risky
9	Lost

As regards loan segments below DKK'000 100 that primarily concern private customers, these loans are placed in credit segments based on a statistical model for private customers based on approx. 2 years' historical data collected by the Bank's data central Bankdata.

The credit quality of loan portfolios below DKK'000 100 is categorized as follows:

DKK 1,000	2011	2010
Good	46,3%	68,5%
Average	51,7%	31,1%
Poor	2,0%	0,4%
Total	**100,0%**	**100,0%**

The credit quality of loan portfolios that are neither in default nor written down
The credit segmentation is performed on the basis of the credit segmentation scale described in the following paragraph "credit segmentation of loans".

DKK 1,000		2011			
Credit segment	Category	Public authorities	Commercial	Private	Total
9	Lost	0	0	0	0
8	Risky	0	681	3.085	3.766
7	Poor	0	408.642	10.583	419.225
6	Below average	0	289.311	104.855	394.166
5	Average	0	688.982	161.981	850.963
4	Above average	0	248.382	74.364	322.746
3	Good	0	298.601	72.434	371.035
2	Very good	17.388	115.834	67.809	201.031
1	Excellent	0	1.353	0	1.353
	Separate rating *)	0	5.708	34.650	40.358
Total 2011		**17.388**	**2.057.494**	**529.761**	**2.604.643**

Notes to the accounts

DKK 1,000		2010			
Credit segment	Category	Public authorities	Commercial	Private	Total
9	Lost	0	543	0	543
8	Risky	0	16.277	655	16.932
7	Poor	0	176.878	9.990	186.868
6	Below average	0	247.220	106.426	353.646
5	Average	0	879.805	251.079	1.130.884
4	Above average	0	371.670	136.297	507.967
3	Good	0	426.221	70.640	496.861
2	Very good	18.595	141.568	76.910	237.073
1	Excellent	0	12.167	28.342	40.509
	Separate rating *)	0	6.430	28.933	35.363
Total 2010		**18.595**	**2.278.779**	**709.272**	**3.006.646**

*) Separate rating consists of loan segments below DKK'000 100 that primarily include private customers.

Credit quality of total loans and guarantees

DKK 1,000		2011		2010	
Credit segment	Category	Total loans and guarantees before write-off	Unsecured share of total loans and guarantees*)	Total loans and guarantees before write-off	Unsecured share of total loans and guarantees *)
9	Lost	105.160	54.621	34.283	31.268
8	Risky	632.741	329.437	552.321	311.527
7	Poor	777.708	357.099	918.576	286.902
6	Below average	500.719	184.249	514.815	254.118
5	Average	957.527	270.866	1.301.322	515.170
4	Above average	379.429	117.360	570.024	253.468
3	Good	417.591	120.907	563.397	434.586
2	Very good	201.031	68.838	275.576	243.652
1	Excellent	1.353	0	40.785	52.204
	Separate rating **)	45.059	22.404	88.828	103.591
Total		**4.018.318**	**1.525.781**	**4.859.927**	**2.486.486**
Individual write-offs– year-end		363.933		297.020	
Collective write-offs, year-end		10.423		10.164	
Loans and guarantees – year-end		**3.643.962**		**4.552.743**	

*) Includes unutilized credit commitments.

**) Separate rating consists of loan portfolios below DKK'000 100 – primarily private customers.

The Bank does not in its credit management perform full credit segmentation by type of customer.

Arrears on loans not written off

Arrears on loans that have not been written off constituted at year-end DKK'000 15,540 against DKK'000 38,980 in 2010 categorized as follows according to due date:

DKK 1,000	2011		2010	
	0-90 days	Above 90 days	0-90 days	Above 90 days
Public authorities			**0**	**0**
Industry:				
Agriculture, hunting, forestry and fisheries	188	2.040	2.067	48
Manufacturing and raw material extraction	1.295	12	1.881	478
Energy and utilities	4	0	0	0
Building and construction	670	208	357	71
Trade	599	4	837	21
Transport, hotels and restaurants	641	0	112	34
Information and communication	32	0	11.047	0
Finance and insurance	426	486	2.302	955
Real estate	3.451	35	9.359	56
Other industries	1.313	15	2.275	90
Total industries	**8.619**	**2.800**	**30.237**	**1.753**
Private customers	**3.453**	**668**	**5.110**	**1.880**
Total	**12.072**	**3.468**	**35.347**	**3.633**
Arrears total per year	**15.540**		**38.980**	

NOTE 32

Market risk, including sensitivity

Methods, including objectives and policies applied by the Bank for the internal computation of market risks are described in 1 "risk management. An outline of the interest, currency and share risk is provided below.

Core capital after deduction, applied in the risk key figures below, is made up as the equity capital less capitalized tax assets, less the sum of capital shares, cf. section 28(1)(13) of the Danish BKB, plus statutory share of hybrid core capital.

Interest rate risk:

DKK 1,000	2011	2010
Interest rate risk divided into currencies according to largest risk:		
DKK	-24.966	-50.286
EUR	4.472	7.997
CHF	-6	-72
OTHERS	-7	-9
Interest rate risk on debt instruments etc. total	**-20.507**	**-42.370**
Interest rate risk in percentage of core capital less deduction	**-7,5**	**-28,7**

The interest rate risk expresses the expected losses on interest positions resulting from an increase of 1 percentage point. The interest rate risk key figure is reported to the Financial Supervisory Authority.

Notes to the accounts

The reason for the fall in the interest rate risk at year-end 2011 as compared to 2010 is primarily due to the fact that the Bank has reduced loans from DKK 3,569m to DKK 2,445m. At the same time, subordinated capital has been reduced from DKK 592m in 2010 to DKK 357m. In addition, the Bank's capital additions in 2011 has significantly increased the core capital, including hybrid core capital, after deductions.

The interest rate risk of DKK -21m (DKK -42m in 2010) is an expression of the Bank's losses resulting from a general increase in interest rates of 1%. As a result of the negative interest rate risk, in this case a general increase in the interest rate would not necessarily influence the result and the equity fully as a number of fixed-interest rate assets and obligations are measured at amortized cost. The interest rate risk that as such would influence the result and the equity concerns the Bank's bond portfolio (loss at a general interest rate risk) and amounts to DKK 5m as at 31 December 2011 (DKK 11m as at 31 December 2010).

Currency risk:

DKK 1,000	**2011**	**2010**
Currency indicator 1	3.693	3.709
Currency indicator 1 in percentage of core capital after deductions	1,3%	2,5%
Currency indicator 2	39	2.272
Currency indicator 2 in percentage of core capital after deductions	0,0%	1,5%

The currency risk expresses the risk of losses on the Bank's positions of foreign currencies resulting from exchange rate fluctuations.

Currency indicator 1 is calculated as the largest numerical of positions in currencies in which the Bank has a net receivable or the sum of positions in which the Bank has a net debt. Currency indicator1 shows a target for the total risk of losses. The key figure is reported to the Financial Supervisory Authority. The risk is made up and recorded by currency.

Currency indicator 2 is based on a statistical method where the historical data are made up by the Danish authorities and is an expression of the total risk of losses. If the Bank fails to change the currency positions within the 10 ensuing days, there is a likelihood of 1% that the Bank will suffer a loss exceeding the indicator value. The key figure is reported to the Financial Supervisory Authority.

DKK 1,000	**2011**		**2010**	
	Change in result before tax	Change in equity before tax	Change in result before tax	Change in equity before tax
A change in the rate of 1% in EUR currency positions and 5% in other currency positions	+/- 112	+/- 112	+/- 185	+/- 185

The Bank applies a change of 1% for EUR and 5% for other currencies when computing currency risks. The currency risk was DKK'000 112 as at 31 December 2011 (DKK'000 185 as at 31 December 2010) and expresses the influence on the Bank's result and equity if exchange rates change by 1% for EUR and 5% for other currencies.

Notes to the accounts

Equity risk:

DKK 1,000	2011	2010
Commercial Danish shares	7.490	9.319
Commercial foreign shares	353	354
Sector shares and other securities	63.688	135.254
Equity risk at a percentage of core capital after deductions	**26,1**	**98,0**

The Bank's equity risk is measured as the Bank's portfolio of commercial shares as a percentage of the Bank's core capital after deductions. Sector shares and other securities are not considered as being part of the Bank's equity risk.

The equity risk for commercial Danish shares and foreign shares as well as sector shares and other securities is shown in the table below.

DKK 1,000	2011		2010	
	Change in result before tax	Change in equity before tax	Change in result before tax	Change in equity before tax
An increase in the value of commercial Danish shares of 10%	749	749	932	932
A decrease in the value of commercial Danish shares of 10%	-749	-749	-932	-932
An increase in the value of commercial Danish shares of 20%	71	71	71	71
A decrease in the value of commercial Danish shares of 20%	-71	-71	-71	-71
An increase in the value of sector shares and other securities of 10%	6.369	6.369	13.525	13.525
A decrease in the value of sector shares and other securities of 10%	-6.369	-6.369	-13.525	-13.525

The above information concerning share risk also constitutes a supplement to note 1 in the 2011 annual report.

DKK 1,000		2011	2010

NOTE 33

Related parties
Related parties include the Bank's Board of Directors, Executive Board and Affiliated companies.

Related parties with a controlling influence in the Bank (defined as an ownership share > 20%):
Den Danish State represented by the Ministry of Finance

Transactions with related parties have been completed on market terms.
Remuneration etc. for the Executive Board, the Board of Directors and Committee of Representatives is stated in note 34.
Balances with affiliated companies are stated in note 34.

Executive Board and Board of Directors:
Amount of loans, collateral, guarantees established for the following:

	Interest rates 2011	2011	2010
Loans including unutilized credits:			
Executive Board	(Mastercard)	250	980
Board of directors	Cibor 3 + 3,75-4,25%	5.288	41.138
Guarantees:			
Executive Board		0	250
Board of Directors		580	15.824

All exposures are granted on market terms As regards employee Representatives elected to the Board of Directors, exposures are granted on the ordinary staff terms.

Holdings of Aarhus Lokalbank shares by the management:

	2011	2010
Board of Directors	stk.	stk.
Jørn Sørensen	841.451	145.281
Per Enevoldsen	3.021	3.021
Hans Peder Hansen	469	469
Camilla Hartmann Lund	298	298
Carsten Andersen (appointed 19 March 2011)	100	-
Flemming Johannsen (appointed 19 March 2011)	3.132	-
Jan Rasmussen (appointed 19 March 2011)	757.880	-
Esben Hammer (resigned 19 March 2011)	-	6.152
Rasmus Juhl Rasmussen (resigned 19 March 2011)	-	238.649
Gert L. Pedersen (resigned 19 March 2011)	-	58.263
Knud Erik Rasmussen (resigned 19 March 2011)	-	31.498
Jørgen Balle (resigned 19 March 2011)	-	3.143
Executive Board		
Carsten Stenulm (resigned 28 February 2011)	-	2.779
Vagn Thorsager (Appointed 1 March 2011)	0	-
Total	**1.606.351**	**489.553**

Notes to the accounts

NOTE 34

Group structure
The Bank is the parent company of the following wholly-owned subsidiaries:

DKK 1,000	2011		
	Company capital	Result 2011	Equity 31 December 2011
Center Finansiering A/S	500	-8	850
Hadsten Aktie Invest ApS	205	-4	5.170
Hadsten Aktie Invest II ApS	155	-9	3.729
Hadsten Aktie Invest III ApS	155	-9	2.405
		-30	**12.154**

DKK 1,000	2010		
	Company capital	Result 2010	Equity 31 December 2010
Center Finansiering A/S	500	-394	857
Hadsten Aktie Invest ApS	205	-385	5.174
Hadsten Aktie Invest II ApS	155	-23	3.738
Hadsten Aktie Invest III ApS	155	-23	2.415
		-825	**12.184**

Center Finansiering A/S, Hadsten Aktie Invest II ApS and Hadsten Aktie Invest III ApS are directly wholly-owned by Aarhus Lokalbank Aktieselskab. Hadsten Aktie Invest ApS is indirectly wholly-owned by Aarhus Lokalbank Aktieselskab as 12.5% of the share capital is owned by Hadsten Aktie Invest II ApS

In addition, Handelsselskabet af 1/1-1973 Hadsen ApS, that is wholly-owned by Hadsten Aktie Invest ApS, is indirectly wholly-owned by the Bank.

Due to the modest size of the subsidiaries as compared to the Bank, no consolidated statements have been prepared. The sharesin the subsidiaries are valued at equity in the annual report.

On group basis, the solvency ratio has been stated at 15.4%.

Balances with affiliated companies:

DKK 1,000	2011	2010
Liabilities		
Deposits		
Hadsten Aktie Invest ApS	1.379	1.390
Hadsten Aktie Invest II ApS	2.638	2.647
Hadsten Aktie Invest III ApS	1.901	1.910
Center Finansiering A/S	728	735
Handelsselskabet af 1/1-1973 Hadsten A/S	2.977	2.967
Total liabilities	**9.623**	**9.649**

Notes to the accounts

NOTE 35

Payroll and remuneration, the Board of Directors, Audit Committee and Executive Board

Board of Directors

Aarhus Lokalbank's Board of Directors consists of 7 members.
The Board of Directors is elected by the general meeting for 1 year at a time.
Employee representatives are elected to the Board of Directors for 4 years at a time.

Remuneration:	
The chairman	150.000 DKK per year.
The deputy chairman	90.000 DKK per year.
Other members	60.000 DKK per year.

Audit Committee

Remuneration:	
The chairman	60.000 per year.
The deputy chairman	30.000 per year.
Other members	30.000 per year.

Executive Board

Vagn Thorsager appointed at the beginning of March 2011

Current terms:	
Salary	2.000.0000 per year.
Pension supplement	0% of the salary.
Other benefits	Company car, home office, telephone and newspaper.
Term of notice	12 months
Severance	No severance agreement has been made.

Carsten Stenulm acting as CEO until the end of February 2011

Current terms:	
Salary	1.235.165 kr. årligt.
Pension supplement	13 % af lønnen.
Other benefits	Company car, home office, life, accident and health insurance, tel. and newspaper.
Term of notice	12 months – severance pay 6 months.
Severance	In 2011 an amount of DKK 1.3m has been set aside for a severance obligation tion that at year-end is made up at DKK 2.3m exclusive of holiday pay obligation amounting to DKK 0.5m.

NOTE 36

Note concerning post balance sheet events

No events have occurred after the balance sheet date that significantly may impact on the Bank's result and financial position.

DKK 1,000	2011	2010

NOTE 37

Hedging

The Bank has in connection with the issue of state-guaranteed bond in 2010 made hedging arrangements for two bond issues. One is for accounting purposes booked under deposits. The used hedging instruments consist of interest rate swaps and currency swaps used to protect against change in fair values of fixed rate foreign currency assets and liabilities. Changes in fair value of the hedging instruments attributable to the hedged interest rate and currency risk are regulated in the book value of the hedged item and recognized in the income statement. Changes in fair value of the hedging instruments are also recognized in the income statement.
The following items are covered by hedging.

	2011	2010
Deposits		
Amortized/nominal value	258.447	252.496
Book value	251.987	240.660
Book value decrease	-6.460	-11.836
Issued bonds		
Amortized/nominal value	371.710	372.720
Book value	370.091	368.967
Book value decrease	-1.619	-3.753
Hedged financial instruments		
Swaps		
Nominal value	630.157	625.216
Book value	8.041	15.632

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