Aarhus Lokalbank

BYENS BANK

Annual Report 2010

Contents

Annual Report 2010 is a translation of the original report in the Danish language (Årsrapport 2010). In case of discrepancies, the Danish version prevails.

Aarhus Lokalbank Aktieselskab
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Misguided implemented growth strategy, very unsatisfactory performance.

Year 2010 will go down in the Bank's history as an annus horribilis. A year when the Bank recorded a loss before tax of DKK 233 million.

The growth strategy in the years 2006-2008, when the bank quadrupled it's lending from approx. DKK 1 billion to approx. DKK 4 billion, primarily through the significant expansion within the property sector, has proven to be wrong.
As a consequence of the bad results and a necessary and strong desire to move the focus to an increase in solvency and profitability Chief Executive Officer Per Hermansen left the Bank on November 25, 2010.

New strategy.

Following Per Hermansen's resignation Deputy Executive Director Carsten Stenulm was appointed acting Chief Executive Officer, with the clear objective to analyze the Bank's credit exposures and, not least, assess the Bank's capital structure.

The analysis confirmed that the Bank's loan exposure in the real estate and agriculture sectors and some single exposures were too large for the Bank's size and capital structure.

Following the desire to reduce the Bank's real estate and agricultural exposures, the Bank has found it necessary to choose a more conservative assessment of the collateral. Specifically, this means that the Bank now assesses the value of the collateral provided by realization within a shorter time period instead of a normal longer-term perspective. The revised time frame in relation to the assessment of the collateral is the main explanation for further impairments, from the third to the fourth quarter of DKK 133 million to a total of DKK 255 million and resulted in a pretax loss of DKK 233 million and an equity of only DKK 136 million, necessitating a strengthening of the Bank's capital structure. The Board has therefore decided to strengthen the capital base by converting a substantial part of the State hybrid capital for equity, and subsequent offering the subordinated capital base to convert into share capital or hybrid capital.

The content of the capital plan.

The capital plan is planned for 2 phases:

1. An exercise of the right to convert 80 per cent, of the State hybrid capital into share capital. A possibility, which the Bank acquired in connection with the approval of hybrid capital at the Bank Package 2.

2A. Subsequent offer holders of the subordinated capital issued by the Bank in 2008 to convert this into share capital and hybrid capital.

2B. Subsequent offer owners of a subordinated loan issued in 2007 a conversion to hybrid capital.

The Bank's long-term survival is dependent on the capital plan being implemented in its entirety. If this fails, and thus the Bank does not obtain the necessary strengthening of the capital base, the capital structure will eventually again come under pressure at maturity of existing subordinated debt.

A prerequisite for the capital plan is the approval by the FSA and exemption to exceed the limits in § 129, section 2-5 in the Financial Business Act relating to recognition of subordinated debt.

The Bank has received the necessary approvals and exemptions and is obviously happy that the authorities are supporting the Bank's capital plan.

Concluding comments

Of course it is with great regret that the Board finds it necessary to implement the upcoming capital plan.
We encourage the owners of the subordinated loan capital to assist in the implementation of the capital plan, to create once again a foundation for our 102-year-old bank.

After a turbulent year with great public attention, a highly unsatisfactory result, change of management and employee redundancies the Board will like to thank the good, loyal shareholders and customers for their great patience.

Special thanks should be directed to the plight of employees who have made a fantastic effort.
Employees have shown a great teamwork in spite of adverse publicity, poor performance and parting with close colleagues.

Bank management is looking forward to again focus entirely on running the Bank and strengthening the core business for the benefit of shareholders, customers and employees.

Management review.

In 2010 Aarhus Lokalbank recorded a loss before tax of DKK 233 million compared to a profit before tax of DKK 1.8 million in 2009.
The result was affected by exceptional high impairments due to a failed growth strategy implemented in the years 2006 – 2008, very significant economic challenges for the Bank's agricultural customers, and changed action plans for reducing certain exposures.

The result is highly unsatisfactory.

The reason for the result

The Bank’s loans and other receivables fall by 9.6% to DKK 3,736 million. The guarantees fall by 30.3% to DKK 817 million. Deposits increase by 50.3% to DKK 3,569 million, of which a deposit product with state guarantee represents approx. DKK 241 million.
The major reason for the very satisfactory deposit increase is a significant inflow of private high net worth customers.

The Bank’s securities and foreign currency holdings have resulted in a positive market value adjustment of DKK 2 million, which is considered acceptable.

Impairments

Based on a very unsatisfactory result in the third quarter a new strategy was launched. Chief Executive Officer Per Hermansen left the Bank and an analysis of the Bank's loan exposure was initiated in light of the new strategy.

The analysis showed a need for further impairment charges of DKK 133 million - due to the changed strategy - mainly within the real estate and agriculture sectors. Impairments on private customers are at a continued low level.

There are during the year recorded losses of approx. DKK 26 million. In total losses is included DKK 25 million as a result of distressed banks.

Income statement

The Bank's net interest and fee income amounts to DKK 139.3 million, representing a decrease of 9.5%. The decrease is mainly due to a reduction in the Bank's fee income, as a result of the initiated change in the balance-sheet composition.

Cost

Staff and administration costs increase by 8.5%, equivalent to DKK 7.8 million. The increase is primarily due to severance payments and wages to terminated employees set aside this year.

That aside, an increase of 3.0% has been recorded, equivalent to DKK 2.8 million.

The number of employees is reduced from 99 to 84.

Depreciation and amortization of tangible assets is DKK 3.4 million compared to DKK 7.8 million in 2009. A major reason for this decrease is that in 2009 an extraordinary provision was made on the Bank’s new property in Langaa at DKK 4.6 million.

Payment for the state guarantee scheme is recognized under "other operating expenses" at DKK 14.3 million and DKK 10.7 million, which is recognized under "loan impairment charges."

Balance sheet

The balance sheet stands at DKK 6.4 billion (2009 DKK 5.4 billion.) Total loans and guarantees have decreased by DKK 750.1 million, equivalent to 14.1%.
In the last quarter there has been a reduction in the Bank’s loans and guarantees to finance real estate by converting to real mortgage loans. This trend will intensify in 2011 in connection with the revised strategy.

Equity

The Bank's equity has fallen by DKK 205 million due to its negative result. Shareholders' equity stands at year end at DKK 136 million.

Dividends

In light of the highly unsatisfactory result no dividend is declared for 2010.

The Aarhus Lokalbank share

Price movements in the Bank's share through 2010 led to a negative return of 47.8%. The price has fallen from 66.7 to 34.8. The Bank has at year-end 2010 7.058 shareholders. The intrinsic value of an Aarhus Lokalbank share may be calculated at 38.7, based upon the equity at year-end 2010.

The Bank's total market value at year-end 2010 is calculated at DKK 132.6 million.

The Bank's solvency and individual solvency requirement

The solvency ratio as of December 31, 2010 is calculated at 7.0% (2009: 20.4%) to the statutory requirement of 8%. The Bank's individual solvency requirement is calculated at 10.6% as of December 31, 2010. With respect to solvency requirement the shortfall is thus at 3.6%. As a consequence the Bank has been given a temporary exemption from the authorities to exceed the limits in § 129, section 2-5 of the Financial Business Act relating to recognition of subordinated debt, so that the Bank's solvency ratio thus can be calculated at 13%, and therefore the Bank meets the capital requirements relative to the Bank's individual solvency requirement.

The Bank has initiated a capital plan, which should allow the Bank to continuing operation and restoring profitability.

The Bank has exercised the right to convert 80% of the state hybrid capital, equivalent to approx. DKK 147 million, into share capital. The conversion rate is determined by one of the Association for Chartered Accountants appointed assessor on the basis of the guidelines outlined in the agreements with the State.

Under the agreements with the State the assessor's report on the conversion price shall be provided within 3 weeks from publication of the Stock Exchange Announcement No. 1-2011 of January 31, 2011. The contractual basis for conversion with the State is included as a part of the Bank's by-laws, which is available on our website.

Developments in the individual solvency requirement:

2010	2009	2008	2007	2006
10.6	11.8	7.9	7.8	8.2

At the calculation of the Bank's capital adequacy the standard method for calculating credit and market risks is used. 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 284.4%. 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 1.227%, and the 10%-requirement is met by a surplus of 284.4%, corresponding to DKK 1,923 million.
Up until the signing of the annual report the bankruptcy of Amagerbanken has not affected the bank's liquidity significantly.

The State guarantee scheme and State guarantee for loan issues

In October 2008 the State issued a two-year guarantee for all deposits and unsecured claims against Danish financial institutions (Bank Package I), which ceased on September 30, 2010.

The annual report shows a total expense of DKK 25 million related to Bank Package I.

In replacement of the State guarantee scheme the Bank received approval for an individual State guarantee and raised in this connection a number of 3-year loans totaling DKK 1.6 billion with State guarantee.

The Bank has no significant maturities of loans in 2011 and 2012. Redemption of State guaranteed loans in 2013 is contemplated to be made through reduction in the Bank's loan portfolio.

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

Because of 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 now assesses the value of the collateral from a possible sale within a shorter time period instead of a normal longer-term perspective. This has been instrumental in further impairment charges totaling DKK 133 million, bringing the total impairment charges to a total of DKK 255 million.

Outlook for 2011

Aarhus Lokalbank has previously announced the Bank's prospective earnings expectations, indicating the budget for next year's earnings, and expectations for the key business areas. Based on the economic and financial crisis, with substantially increased uncertainty about the macroeconomic development regionally, nationally and globally, increasing risk of movement in prices of commodities, real estate, securities and other assets, and their derived uncertainties in a number of the Bank's business areas, including real estate finance and agriculture, management has decided in the future to publish expectations for core earnings before adjustments and impairments. The Bank's profit expectations for 2011 expressed as basic earnings, i.e. before value adjustments and impairments are around DKK 30 million. In this amount are recognized losses of approx. DKK 6 million from the planned conversion of subordinated loan capital to share capital or hybrid capital. An expected payment to the Deposit Guarantee Fund as a result of the bankruptcy of Amagerbanken is not included.

Change in strategy

The Bank's new strategy to reduce the loan portfolio and strengthen capital adequacy and solvency, provides the Bank with a good foundation for the future. The Bank expects to reduce its lending activity in general and specifically in the real estate and agricultural sectors, thereby minimizing the risk, but impairments are still expected in those sectors based on the prices of farmland, properties and the sectors low profitability. The Bank has not planned significant investments in

2011 and there will be a focus on cost control and stabilization of the operation.

Impact on earnings

Earnings expectations for 2011 are based on several assumptions and many of the essential conditions are beyond the Bank's control or influence.
The expectations for 2011 represent the Management's and Board's best estimate. The expectations include estimates and statements that are subject to considerable uncertainty.

Actual results may differ from earnings expectations for 2011, since anticipated events frequently do not occur as expected and the variation may be material.
Aarhus Lokalbank's future performances, as specified, are expected to be impacted by several external factors which will mean that any forecast or projection will be subject to great uncertainty.

Group structure

The Bank owns the entire share capital of Center Finansiering A/S, Handelsselskabet af 1 / 1 1973 Hadsten 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.

List of stock exchange announcements in 2010.

February 23, 2010	Annual Report 2009
February 24, 2010	Notice of Annual General Meeting
March 10, 2010	Bond issuances
March 15, 2010	Minutes from the General Meeting
March 22, 2010	Notice of Extraordinary General Meeting
April 7, 2010	Minutes from the Extraordinary General Meeting
April 16, 2010	Redemption of subordinated capital
May 5, 2010	Bond issuance
May 5, 2010	Annex - Bond issuance
May 7, 2010	Quarterly Report - Q1-2010
May 10, 2010	Board composition
May 18, 2010	Insider trading
June 2, 2010	Bond issuance - EUR 50 mill.
June 2, 2010	Annex - Bond issuance - EUR 50 mill.
June 25, 2010	Bond issuance - EUR 25 mill.
June 25, 2010	Annex - Bond issuance - EUR 25 mill.
June 29, 2010	Bond issuance - EUR 50 mill.
June 29, 2010	Annex - Bond issuance - EUR 50 mill.
July 12, 2010	Senior loan - USD 44.981.677
August 10, 2010	Interim Report 2010
September 1, 2010	IT cooperation between Bankdata and Jyske Bank
September 3, 2010	Coupon
September 28, 2010	Core capital and solvency requirement
October 29, 2010	Coupon
October 29, 2010	Change in the Board of Directors
November 9, 2010	Quarterly Report - Q3-2010
November 25, 2010	Chief Executive Officer Per Hermansen resigns
November 30, 2010	Change in the Board of Directors
December 1, 2010	Coupon
December 6, 2010	Supplementary information to Consolidated Financial Statement
December 17, 2010	Examination of purchase of own shares
December 23, 2010	Financial Calendar 2011

Accounting policies

The annual report is prepared in accordance with the same accounting policies as last year.
On changes in accounting estimates, see note 2

Social Responsibility

The Bank's policies are described on the website http://alm.aarhuslokalbank.dk/files/104/csr_2011.pdf

Audit Committee

In accordance with the FSA's (Danish Financial Supervisory Authorities) Order on Audit Committee Aarhus Lokalbank has established an audit committee consisting of the Bank's chairman, vice chairman and an independent member. As chairman of the Audit Committee, the Board has appointed Knud Erik Rasmussen, certified public accountant, Aarhus.

Knud Erik Rasmussen, State Authorised Public Accountant, is a former partner in KPMG – State Authorised Public Accountants. The Board's assessment is that Knud Erik Rasmussen is independent of the Bank and that he has accounting and auditing experience and thus meets the requirements under Order No. 1389 of December 22, 2008 on the audit committee of companies and groups that are subject to supervision by the FSA.

The Audit Committee monitors among other things the financial reporting process, the statutory audit of annual reports and the effectiveness of the Bank's control and risk management systems. The Audit Committee shall also monitor and control the independence of the elected auditors.

Terms of Reference of the Audit Committee can be found on the Bank's website www.aarhuslokalbank.dk.

Financial Calendar

February 21, 2011	Annual result for 2010
March 19, 2011	Annual General Meeting
May 13, 2011	Quarterly report for Q1 2011
August 16, 2011	Interim Report 2011
November 15, 2011	Quarterly report for Q1-Q3 2011

General Assembly

The Bank's General Meeting will be held in the Scandinavian Congress Center, Aarhus on Saturday, March 19, 2011 at 03:00 pm.

Board decisions

Announcement No.1-2011, January 31, 2011 / Downgrade, conversion notice and subsequent capital plan.
Announcement No.2-2011, February 7, 2011 / New Chief Executive Officer Vagn Thorsager.

Information for listed companies

According to the Order on financial reports for credit institutions § 133a provides the following:

The Bank's share capital amounts to DKK 38,0 million as of December 31, 2010, consisting of 3,800,000 shares of nom. DKK 10,00.
The Bank has only one class of shares and the entire share capital, and thus all shares, is listed on NASDAQ OMX Copenhagen. There are no restrictions in the tradability of the shares.

Rasmus Juhl Rasmussen, Lystrup has announced that he owns more than 5% of the Bank's share capital.

In connection with the conversion of the state hybrid capital into shares, the Bank's voting restrictions will be lifted, see § 11 of the Bylaws of the Bank. Therefore, there is assigned one vote per share.

Only shareholders registered in the Bank's shareholder register can cast their votes at the general meeting. Shareholders who have acquired shares by transfer can exercise their voting rights on such shares at general meetings, when the shares have been registered in their name in the shareholder register or the shareholders have notified their purchases to VP Securities A/S.

The shareholder elected members of the board of directors are elected by the committee of representatives.

Regarding the amendment of the Bank's statutes, the following prevails:
Decision to amend the statutes or to dissolve the company is only valid if 2 / 3 of the share capital are represented at the general meeting, and the proposal is adopted by at least 3 / 4 of votes as well as of the voting capital represented at the general meeting.
Is 2 / 3 of the share capital not represented at the general meeting, but the proposal is adopted by 3 / 4 of both the votes as well as the voting capital represented at the general meeting, the board of directors shall convene within 14 days a new general meeting, at which the proposal can be adopted with 3 / 4 of the votes without regard to the size of the share capital represented.

The board of directors is authorized to increase the share capital by nom. DKK 32 million in one or more emissions. This authorization is valid until March 1, 2015.

The board of directors has the following powers regarding the acquisition of own shares:

At the Bank's annual general meeting held on March 13, 2010 the board of directors was authorized - until the next ordinary general meeting – and within the existing legislation to let the Bank acquire own shares of a nominal value up to 10% of the Bank's share capital and at the prevailing market price + / - 15%.

Significant events occurring after the reporting period, see Order of financial statements § 131, section 1 no. 5

After the reporting period, the state-owned Financial Stability Company has taken over Amagerbanken following its bankruptcy.

Aarhus Lokalbank has no exposure to Amagerbanken in the form of credit facilities, bonds or shares in Amagerbanken.

However the Bank is liable, like the other Danish banks for the loss the Deposit Guarantee Fund will face in connection with Amagerbanken's bankruptcy. Aarhus Lokalbank's recently calculated share of the sector's guarantee to the Guarantee Fund for Depositors stands at 0.3%.

As part of the conversion of the State's hybrid capital to share capital, as well as implementing the other elements of the capital plan, the Board will propose amendments to its bylaws at the General Assembly on March 19, 2011.

The Bank has, with effect from March 1, 2011, employed Vagn Thorsager as Chief Executive Officer, as per Stock Exchange Announcement no. 2-2011 of February 7, 2011.

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.

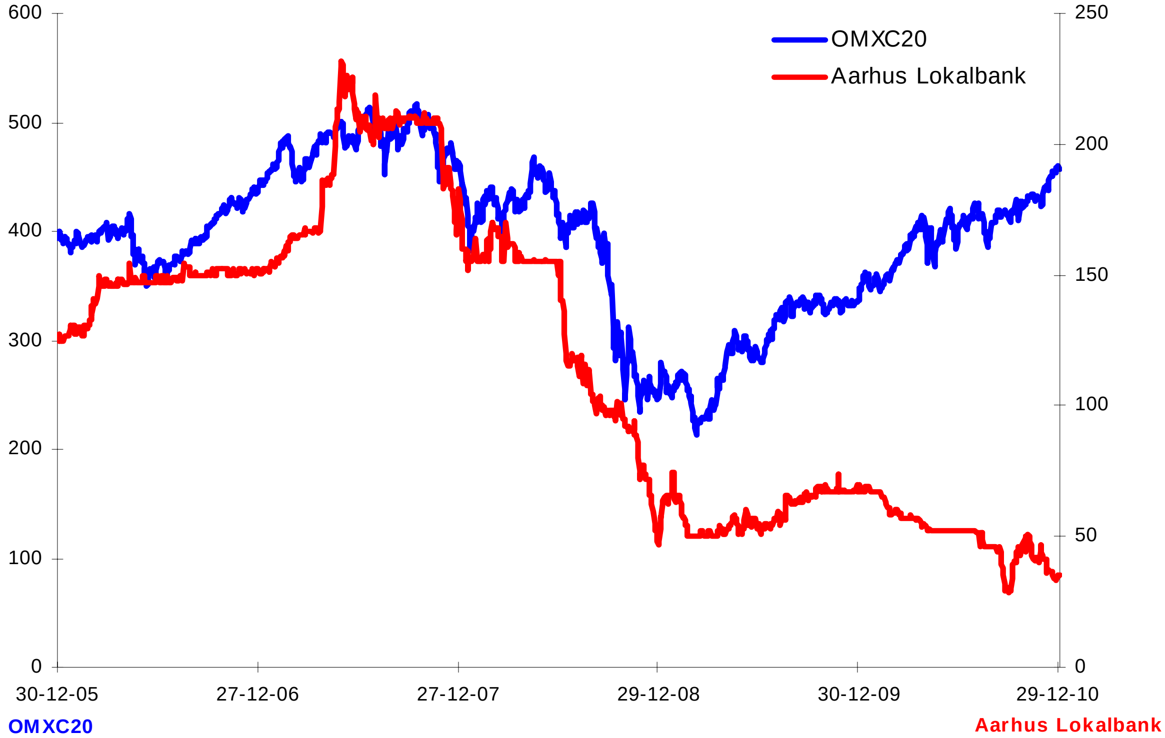
The recommendations are divided into 9 main sections:

- 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.

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:

2006	2007	2008	2009	2010
20.4 %	20.3 %	-72.2 %	36.8 %	-47.8 %

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 2010:

Shareholder groups:	Number of shareholders:	Number of shares:*
1 – 100 shares	3.898	119.140
101 – 500 shares	1.978	454.802
501 – 1.000 shares	582	415.502
1.001 – 5.000 shares	547	980.779
5.001 – 10.000 shares	23	154.068
Over 10.000 shares	30	1.364.848
	7.058	**3.489.139**

* 16,979 shares are ultimo 2010 not registered and consequently not included in the above statement. In addition, the bank owns 293,882 own shares at the end of 2010, which is not included in the above statement.

Business 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, Garanti Invest A/S.

Other partners:

Finansrådet, Lokal Pengeinstitutter, Finanssektorens Uddannelsescenter, Bankdata, Pengeinstitutternes Udviklingssamarbejde, Forvaltningsinstituttet for Lokale Pengeinstitutter (a trust company representing local financial institutions), Bankpension, Totalkredit, PFA Pension, Privatsikring, MasterCard, Danske Invest, Gudme Raaschou Invest, Sydinvest, Investin og LD Invest.

Board of Directors, Committee of Representatives and Executive Management

Board of Directors:

Rasmus Juhl Rasmussen, Landowner, Lystrup – Chairman.
Born in 1946.
Elected to the Board in 1992.
Directorships in other Danish companies:
Biofiber-Damino A/S, Livlande Holding A/S, Biodan A/S and Center Finansiering A/S.

Knud Erik Rasmussen, State Authorised Public Accountant, Højbjerg – Deputy Chairman.
Born in 1953
Elected to the Board in 2008.
Directorships in other Danish companies:
Hamimmo A/S, Hamimmo Boliginvest A/S, Kenobi Invest A/S, Sifekon Invest A/S and Gemina Holding A/S.

Jørn Sørensen, Master Builder, Hadsten.
Born in 1945.
Elected to the Board in 2000.
Directorships in other Danish companies:
MMT Holding A/S, JS Ejendomme Hadsten A/S, Mågevejens murer- og tømrerforretning af 1982 A/S, Th. Pedersen A/S, Center Finansiering A/S.

Esben Hammer, Bookseller, Hadsten
Born in 1950.
Elected to the Board in 2004.

Gert Lopdrup Pedersen, Landowner, Nr. Galten
Born in 1959.
Elected to the Board in 2006.

Jørgen Balle, Director, Aarhus
Born in 1964
Elected to the Board in 2008.
Directorships in other Danish companies:
Frode Laursen A/S, Bach Salicath Danmark A/S, Danske lager og fragtterminaler A/S, Thorkil Andersen Holding A/S, Weston – Parken A/S, Handelsselskabet af 22. juni 2003 A/S, Easton A/S, Møbeltransport Danmark A/S, Reloc A/S, Scan Transport Danmark A/S, Easton II A/S og Handelsselskabet af 18. januar 2011 A/S.

Per Enevoldsen, Deputy Branch Director, Mårslet
Born in 1952.
Elected to the Board in 2005 by the employees.

Hans Peder Hansen, Deputy Branch Director, Hadsten
Born in 1964.
Elected to the Board in 2010 by the employees.

Camilla Hartmann Lund, Account Manager, Randers
Born in 1971.
Elected to the Board in 2010 by the employees.

Committee of Representatives

Rasmus Juhl Rasmussen, Landowner, Lystrup - Chairman
Jørgen Balle, Director, Aarhus – Deputy Chairman
Henrik Amsinck, IT-director, Brabrand
Anders Balle, CFO, Hadsten
Erik Bredholt, Landowner, Skødstrup
Hans Jørgen Broge, Forest Owner, Laurbjerg
Morten Christensen, Director, Viby
Sten Ejsing, MSc, Engineering, Højbjerg
Carsten Gadeberg, Director, Hadsten
Esben Hammer, Bookseller, Hadsten
John Kragh, Haulage Contractor, Langå
Steffen Juel Kromann, Senior Partner, Egå
Carsten Laursen, Contractor, Langå
Hakon Lyngaae, Manufacturer, Hadsten
Gitte Rørbæk-Løcke, Chemist, Hadsten
Anne Qvist Nielsen Sagild, Architect, Aarhus
Gert L. Pedersen, Landowner, Nr. Galten
Lars Persson, Pharmacist, Hadsten
Hans Petersen, Editorial director, Mårslet
Knud Erik Rasmussen, State Authorised Public Accountant, Højbjerg
Jan Rasmussen, Master Carpenter, Hadsten
Jesper Rokkjær, Lawyer, Aarhus
Jørn Sørensen, Master Builder, Hadsten

Audit Committee

Knud Erik Rasmussen, State Auth. Public accountant, Højbjerg - Chairman
Rasmus Juhl Rasmussen, Landowner, Skaarupgaard
Jørn Sørensen, Master Builder, Hadsten

Executive Management

Carsten Stenulm, Acting Chief Executive Officer, Brabrand
Born in 1960
Appointed Acting CEO in 2010.

Directorships in other Danish companies:
Handelsselskabet af 1/1 1973 Hadsten A/S
and Centerfinansiering A/S.

Statement by the Board of Directors and the Executive Management

The Board of Directors and the Executive Management have today reviewed and approved the annual report for 2010 of Aarhus Lokalbank Aktieselskab.

The annual report has been prepared in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for annual reports of listed financial institutions.

In our opinion the financial statements give a true picture of the bank's assets, liabilities and financial position as of December 31, 2010 and the result of the Bank's operations and cash flows for the fiscal year 2010.

Furthermore, in our opinion Management's view includes a fair view of developments in the Bank's activities and finances as well as an accurate description of the most significant risks and elements of uncertainty, which may affect the Bank.

The annual report will be submitted to the general meeting for approval.

Aarhus, February 21, 2011

Management Board:

Carsten Stenulm
Acting Chief Executive Officer

Board of Directors:

Rasmus Juhl Rasmussen Chairman	**Knud Erik Rasmussen** Deputy Chairman	**Jørn Sørensen**
Jørgen Balle	**Esben Hammer**	**Gert Lopdrup Pedersen**
Per Enevoldsen	**Camilla Hartmann Lund**	**Hans Peder Hansen**

Independent auditors’ report

To the shareholders of Aarhus Lokalbank Aktieselskab

We have audited the annual report of Aarhus Lokalbank Aktieselskab for the financial year January 1 - December 31, 2010, page 13-43. The annual report includes 5 years in figures, financial ratios, income statement, balance sheet, statement of capital, liquidity and own shares, cash flow statement, accounting policies and notes. The annual report is prepared in accordance with the Danish Financial Business Act and in accordance with additional disclosure requirements for annual reports of listed financial institutions.

In relation to the audit we have read the management review prepared in accordance with the Danish Financial Business Act and additional disclosure requirements for listed financial institutions and have delivered an opinion.

Management’s responsibility for the Annual report

Management is responsible for preparing and presenting a fair annual report in accordance with the Danish Financial Business Act and in accordance with additional Danish disclosure requirements for annual reports of listed financial institutions. This responsibility includes: planning, 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; selecting and using appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Management is furthermore responsible for preparing a review that includes a fair statement in accordance with Danish disclosure requirements for listed financial institutions.

Auditors’ responsibility and basis of opinion

Our responsibility is to express an opinion on the annual report based on our audit. We have performed our audit in accordance with Danish Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit with a view to obtain reasonable assurance whether the annual report is free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual report. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement in the annual report, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bank's preparation and fair presentation of the annual report in order to plan audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the annual report.

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

Our audit did not result in any reservations.

Conclusion

In our opinion, the annual report gives a true and fair view of the Bank's financial position as of December 31, 2010 as well as of the results of its operations for the fiscal year January 1 - December 31, 2010 in accordance with the Danish Financial Business Act and in accordance with additional Danish disclosure requirements for annual reports of listed financial institutions.

Additional information regarding conditions in the annual report

We refer to Note 1 "Capital and Risk Management” on page 24, statement of capital, which shows:

- The Bank's fulfillment of the individual capital requirement up to the conversion of government hybrid capital is based on an exemption from FSA.
- Further impairment charges on loans and guarantees may jeopardize the Bank's continued operation (going concern) or require additional capital.
- That if the capital plan is not fully implemented, there is significant risk that the Bank may become distressed.

We agree with the Bank's management information given on capital structure and assumptions for a going concern.

Opinion on Management Review

In accordance with the Danish Financial Business Act we have read the Management Review. We have not instigated additional actions besides the audit of the annual report. Consequently, we believe that the information in the management review is consistent with the annual report.

Aarhus, February 21, 2011

KPMG
Statsautoriseret Revisionspartnerselskab

Jakob Nyborg State Authorised Public Accountant	Henrik Pungvig Jensen State Authorised Public Accountant

Five years in figures

DKK 1,000	2010	2009	2008	2007	2006
Summery result					
Interest income	275,783	278,379	305,837	208,072	105,726
Interest expense	166,221	164,988	204,670	128,179	46,222
Net interest income	**109,562**	**113,391**	**101,167**	**79,893**	**59,504**
Dividend on shares etc.	1,690	1,962	3,669	2,227	1,719
Fee and commission income	28,039	38,528	38,378	38,645	31,876
Net income from interest and fees	**139,291**	**153,881**	**143,214**	**120,765**	**93,099**
Other operating income	30	0	0	63	177
Staff and administrative expenses	98,869	91,120	87,779	75,280	62,360
Other operating expenses	2,684	39	65	0	49
Amortization and depreciation on tangible and intangible assets	3,427	3,222	2,753	2,136	3,855
Core earings before adjustments and impairments	**34,341**	**59,500**	**52,617**	**43,412**	**27,012**
Extraordinary costs*)	0	4,570	8,006	0	0
Payment to the State guarantee scheme	14,339	18,314	5,487	0	0
Market value adjustment	2,008	6,618	-11,746	3,841	20,348
Loan impairment charges etc.	254,755	41,446	30,866	-1,397	-5,036
Net result on equity investment in affiliates	-717	10	8	0	-182
Profit before tax	**-233,462**	**1,798**	**-3,480**	**48,650**	**52,214**
Tax	-32,545	1,536	-1,173	11,838	11,563
Profit for the year	**-200,917**	**262**	**-2,307**	**36,812**	**40,651**
Summary balance sheet					
Assets					
Cash at hand and due from financial institutions	1,652,192	245,342	722,962	477,243	237,040
Loans and advances	3,736,052	4,131,448	3,712,604	3,571,376	2,048,600
Bonds, shares etc.	783,093	843,706	261,413	344,603	409,898
Tangible and intangible assets	49,631	51,810	59,034	50,814	42,219
Other assets	141,751	114,416	32,312	34,673	22,279
Total assets	**6,362,719**	**5,386,722**	**4,788,325**	**4,478,709**	**2,760,036**
Liabilities					
Due to financial institutions	143,374	699,860	1,527,917	1,591,623	1,033,725
Deposits and other debt	3,568,601	2,373,548	1,981,886	1,802,899	1,143,774
Issued bonds at current rate	1,587,595	1,207,216	435,771	360,981	100,000
Other liabilities etc.	335,128	136,507	82,017	55,099	41,895
Subordinated debt	592,434	628,933	451,661	340,000	190,000
Equity	135,587	340,658	309,073	328,107	250,642
Total liabilities	**6,362,719**	**5,386,722**	**4,788,325**	**4,478,709**	**2,760,036**
Contingent liabililities					
Guarantees	816,691	1,171,420	2,259,648	2,287,518	1,436,709
Other liabilities	7,044	5,756	3,881	3,793	2,738
Total contingent liabilities	**823,735**	**1,177,176**	**2,263,529**	**2,291,311**	**1,439,447**

*) 2008: One time expenses for the jubilee and relocation of headoffice etc.
2009: Depreciation of new property in Langaa.

Financial ratios

Procent		2010	2009	2008	2007	2006
Solvency and capital						
Solvency ratio, A)		7.0	20.4	13.0	12.1	10.9
Core capital ratio		3.4	11.9	6.5	6.7	7.9
Earnings						
Return on equity before tax		-98.0	0.6	-1.1	16.8	22.7
Return on equity after tax		-84.4	0.1	-0.7	12.7	17.7
Earnings/cost ratio, B)	DKK	0.38	1.01	0.97	1.64	1.85
Market risk						
Interest rate risk, C)		-28.7	-5.0	-3.7	-0.8	1.2
Currency position		2.5	4.1	9.1	20.5	31.5
Currency risk		1.5	0.1	0.2	0.2	0.1
Liquidity						
Loans and advances including impairments on loans to deposits		113.3	176.6	189.6	199.2	181.0
Excess liquidity to statutory requirement		284.4	123.8	130.3	30.5	49.5
Credit risk						
Sum of large exposures to capital base, D)		469.6	79.7	199.5	188.0	213.9
Share of receivables with reduced interest rate		2.4	0.4	0.1	0.0	0.0
Accumulated impairment rate		6.3	1.4	0.8	0.3	0.6
Impairment per cent for the year		5.5	0.7	0.5	0.0	-0.1
Growth in lending for the year		-9.6	11.3	4.0	74.3	88.5
Loans and advances/equity		27.6	12.1	12.0	10.9	8.2
Equity yields						
Earnings per share *	DKK	-528.7	0.7	-7.7	133.9	162.6
Net asset value per share *	DKK	387	960	1,121	1,138	1,019
Dividend per share *	DKK	0	0	0	12	12
Share price / earnings per share *		-0.7	865.1	-62.4	13.7	10.2
Share price / book value per share *		0.90	0.70	0.43	1.61	1.62

Comments:

A) The FSA has, by letter dated January 28, 2011 extended Aarhus Lokalbank a temporary exemption to exceed the limits in FIL § 129, paragraph 2-5 regarding recognition of hybrid capital in the capital adequacy statement until March 1, 2011.
The exemption is not included in the above ratios.

B) Earnings include net income from interest and fees, market value adjustment, other ordinary income and results from investments in affiliated companies. Costs include expenses for staff and administration, other ordinary expenses and losses / impairments on loans.

C) The increased interest rate risk at year-end 2010 compared to 2009 is primarily due to increased customer deposits from DKK 2,374 million to DKK 3,569 million in addition to an increased portion of the deposits having a longer maturity, see note 19.

D) The FSA has, by letter dated February 15, 2011, extended Aarhus Lokalbank a temporary exemption to exceed the 25% limit for large exposures relative to the capital base.

*) Per share of DKK 100.

The financial ratios have been calculated in accordance with the model from the Danish Financial Supervisory Authority.

Income statement

DKK 1,000	*NOTE*	**2010**	**2009**
Interest income	***4***	275,783	278,379
Interest expense	***5***	166,221	164,988
Net interest income		**109,562**	**113,391**
Dividends from shares, etc.		1,690	1,962
Fee and commission income	***6***	32,257	41,087
Fee and commission expenses		4,218	2,559
Net interest and fee income		**139,291**	**153,881**
Market value adjustments	***7***	2,008	6,618
Other operating income		30	0
Staff and administrative expenses	***8***	98,869	91,120
Amortisation and depreciation on tangible and intangible assets	***17***	3,427	7,792
Other operating expenses	***9***	17,023	18,353
Loan impairment charges	***10***	254,755	41,446
Income from associated undertakings	***16***	-717	10
Profit before tax		**-233,462**	**1,798**
Tax	***11***	-32,545	1,536
Net profit for the year		**-200,917**	**262**

Proposed distribution of profit

Dividend		0	0
Other reserves		-717	10
Retained earnings		-200,200	252
Total amount available for distribution		**-200,917**	**262**

Balance sheet

DKK 1,000	*NOTE*	2010	2009
ASSETS			
Cash at hand and demand deposits with central banks		199,503	111,311
Due from credit institutions and central banks	*12*	1,452,689	134,031
Loans and other receivables at amortised cost	*13*	3,736,052	4,131,448
Bonds at fair value	*14*	607,305	662,193
Bonds at amortised cost	*14*	18,676	35,535
Shares, etc.	*15*	144,927	145,978
Holdings in associated undertakings	*16*	12,184	7,100
Properties	*17*	43,103	43,405
Other tangible assets	*17*	6,528	8,405
Actual tax assets		2,402	1,247
Deferred tax assets	*11*	40,105	7,565
Assets held temporarily		1,043	0
Other assets		98,202	98,504
Total assets		**6,362,719**	**5,386,722**
LIABILITIES AND EQUITY			
Debt:			
Due to credit institutions and central banks	*18*	143,374	699,860
Deposits and other debts	*19*	3,568,601	2,373,548
Issued bonds at amortised cost	*20*	1,587,595	1,207,216
Liabilities assumed temporarily		1,043	0
Other liabilities		333,863	121,378
Deferred income		222	293
Total debt		**5,634,698**	**4,402,295**
Impairments on liabilities:			
Impairment charges on guarantee liabilities:	*21*	0	14,836
Subordinated debt:			
Subordinated debt	*22*	592,434	628,933
Shareholders’ equity:			
Share capital	*23*	38,000	38,000
Share premium account		0	100,776
Other reserves		0	240
Retained earnings		97,587	201,642
Total shareholders’ equity		**135,587**	**340,658**
Total liabilities		**6,362,719**	**5,386,722**

Statement of capital, liquidity and own shares.

DKK 1,000	2010	2009
Change in shareholders' equity		
Share capital as of January 1	**38,000**	**30,000**
New paid-in capital	0	8,000
Share capital as of December 31	**38,000**	**38,000**
Premium on issuance of share capital as of January 1	**100,776**	**67,370**
Increase in premium	0	33,406
Transferred to retained earnings	-100,776	0
Premium on issuance of share capital as of December 31	**0**	**100,776**
Revaluation reserves as of January 1	**0**	**6,750**
Decrease for the year	0	-6,750
Revaluation reserves as of December 31	**0**	**0**
Other reserves as of January 1	240	230
Increase for the year	0	10
Decrease for the year	-717	0
Transferred to retained earnings	477	0
Other reserves as of December 31	**0**	**240**
Retained earnings as of January 1	**201,642**	**204,723**
Profit for the year	-200,200	252
Additions from share premium	100,776	0
Increase from other reserves	-477	0
Sale of treasury shares	6,659	35,128
Purchase of treasury shares	-9,468	-37,302
Dividends paid	0	0
Other addition	-1,345	-1,159
Retained earnings as of December 31	**97,587**	**201,642**
Shareholders equity as of December 31	**135,587**	**340,658**
Proposed dividends	0	0
Capital base		
Shareholders' equity	135,587	340,658
Core capital	**135,587**	**340,658**
- Deferred tax assets	-40,105	-7,565
Core (tier 1) capital, excluding hybrid core capital	**95,482**	**333,093**
Hybrid core capital	93,384	221,300
Core (tier1) capital after deductions incl. hybrid capital	**188,866**	**554,393**
- Sum of statutory deductions - under Section 131 (2,2) of the Danish Financial Businees Act	-41,033	-9,698
Core (tier 1) capital incl. hybrid capital	**147,833**	**544,695**
Subordinated debt	366,668	403,039
- Subordinated debt in excess of core capital, incl. hybrid core capital, after deductions	-310,184	0
Remaining hybrid capital	132,382	4,594
- Sum of statutory deductions - under Section 139 (1,3) of the Danish Financial Business Act	-41,033	-9,698
Capital base	**295,666**	**942,630**

DKK 1,000		**2010**	**2009**
Capital Adequacy Statement:			
The statement complies with the capital requirements of the Danish Financial Business Act. The Bank has used the following methods in the statement as of December 31, 2010			
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		
Risk adjusted items:			
Weighted items with credit and counterparty risk		3,700,111	4,028,528
Weighted items with market risk		284,811	360,100
Weighted items with operational risk		260,400	231,101
- collective impairment charges		-10,164	-8,004
Total risk weighted items		**4,235,158**	**4,611,725**
Capital base		295,666	942,630
Core capital incl. hybrid capital		147,833	549,289
Solvency ratio (FIL § 124): capital base/risk adjusted items, %		7.0	20.4
Core capital incl. hybrid capital/risk adjusted items, %		3.4	11.9
Statutory capital requirement (FIL§ 124)		37,272	37,208
Liquidity			
Total liabilities		6,362,719	5,386,722
Guarantees		816,691	1,171,420
- shareholders' equity		-135,587	-340,658
- subordinated capital, included in the base capital		-282,250	-628,933
Risk adjusted debt and guarantee liabilities		**6,761,573**	**5,588,551**
10% of risk adjusted debt and guarantee liabilities		**676,157**	**558,855**
In compliance with the statutory requirement:			
Cash		6,722	7,928
Deposits with Central Banks		395,781	103,383
Deposits with Credit Institutions		242,161	315,970
Certificates of deposits with Central Banks		1,199,813	0
Tradable bonds and shares		689,692	768,788
Other tradable assets		65,228	54,421
Total liquid assets		**2,599,397**	**1,250,490**
Excess liquidity coverage, %		**284**	**124**
The Bank's holding of own shares:			
Number of own shares		293,882	252,321
Face value		2,939	2,523
Own shares of total share capital, %		7.73	6.64
Purchase and sale of own shares during the fiscal year:			
During regular trading with customers:			
Number of shares bought		185,681	606,440
Number of shares sold		144,120	597,405
Face value of total purchase		1,857	6,064
Face value of total sale		1,441	5,974
Total value of purchase		9,468	37,302
Total value of sale		6,659	35,128
Total purchase to share capital at year-end, %		4.9%	16.0%
Total sale to share capital at year-end, %		3.8%	15.7%

Cash flow statement

DKK 1,000	**2010**	**2009**
Profit before tax	-233,460	1,798
Impairment charges on loans and other receivables	254,755	41,446
Depreciation of tangible and intangible assets	3,427	7,792
Unrealised market value adjustments of equity investments	717	-10
Unrealised market value adjustments of securities	16,414	-3,180
Other items with no effect on liquidity	289	296
Tax paid	-914	-1,250
Total	41,228	46,892
Demand deposits with credit institutions and central banks	-1,188,752	3,620
Loans and advances	126,223	-443,844
Trading portfolio	56,685	-585,580
Deposits	1,195,053	391,662
Debt to credit institutions and central banks	-556,486	-828,057
Issued bonds	380,379	771,445
Other assets and liabilities	207,780	-34,365
Cash flow from operation	**262,110**	**-678,227**
Acquisition of subsidaries	0	-1,331
Acquisition of property, plant and equipment	-1,323	-9,568
Salg of property, plant and equipment	120	0
Cash flow from investing activities	**-1,203**	**-10,899**
Purchase of treasury shares	-9,468	-37,302
Sale of treasury shares	6,659	35,128
Increase of share capital	0	8,000
Share premium	0	33,406
Redemption of subordinated debt	-40,000	0
Increase of subordinated debt	0	175,894
Cash flow from financing activities	**-42,809**	**215,126**
Changes in cash and cash equivalents	**218,098**	**-474,000**
Cash and cash equivalents as of January 1	**234,281**	**708,281**
Cash and cash equivalents as of December 31	**452,379**	**234,281**
Cash and cash equivalents as of December 31		
Cash balance and demand deposits with central banks	199,503	111,311
Amounts due from credit institutions and central banks within 3 months	252,876	122,970
Total cash and cash equivalents as of December 31	**452,379**	**234,281**

The cash flow statement can not 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 for 2010 has been prepared in accordance with the Danish Financial Business Act and the executive order on financial reports of credit institutions issued by the Danish Financial Supervisory Authority on December 16, 2008. Furthermore, the annual report has been prepared in accordance 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 and in accordance with the same accounting policies as last year.

Management has chosen to partially pre-implement the Order of financial statements of January 13, 2011. This applies to the exemption of the requirement for disclosure of “the carrying value of the portion of loans whose terms are renegotiated”, formerly § 93a, section 2, 2. In addition, the information on capital requirement under FIL § 124, section 2 applies.

The subsidiaries are insignificant in relation to the Bank. Thus consolidated statements are not being prepared, see note 33.

On "Accounting Estimates" and changes in "accounting estimates", see Notes 2 and 3 in the annual report.

Recognition and measurement in general

Assets are recognised in the balance sheet when it is probable that future economic advantages will benefit the Bank and the value of the asset can be reliably valued. Liabilities are recognised in the balance sheet when they are probable and can be reliably measured. On initial recognition, assets and liabilities are measured at fair value. Subsequently, assets and liabilities are measured as described for each individual item below.

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

Foreign currency conversion

Transactions in foreign currencies are converted at the exchange rate on the transaction date. Balances in foreign currencies, which have not been settled on the balance sheet day, are converted at the closing rate at year-end.

The income statement

Interests, fees and 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.

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 supplies and marketing expenses etc.

Bonus programme costs, including share-based compensation, are recognised in the income statement for the applicable fiscal year.

Reservation for staff expenses concerning anniversary bonuses is made based upon previous experience and is recognised in the income statement in the year of entitlement.

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.

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, which consists of the current tax and change in deferred tax, is recognised in the income statement for the part pertaining to the result for the year, and directly in shareholders` equity for the part pertaining to items related directly to shareholders’ equity.

Current tax liabilities and receivables are recognised in the balance sheet as tax on taxable income for the year, adjusted for prepaid taxes.

Deferred tax is recognised on all temporary differences between accounting values and tax values of assets and liabilities.

The Bank is taxed jointly with its subsidiaries Centerfinansiering A/S, Hadsten Aktie Invest ApS, Hadsten Aktie Invest II ApS, Hadsten Aktie Invest III ApS and Handelsselskabet af 1/1 1973 Hadsten A/S. The current tax is apportioned between the jointly taxed companies relative to their taxable income.

The balance sheet

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 11 groups consisting of 1 group of public authorities, 1 group of private customers and 9 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. Subsequent appreciation / depreciation of the amortized cost are recognized in the income statement as either interest income or interest expense. 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. Based upon this, Aarhus Lokalbank adjusts the book value of these shares either quarterly, semi-annually or annually, depending on the frequency of new information from the individual sector company. Adjustments are booked on an ongoing basis in the income statement in accordance with the regulation.

Other unlisted securities are recognised at cost or fair value, if lower.

Revaluation of securities is recognized in the income statement under "market value adjustments".

Equity investments in affiliated companies

Shares in the Bank's subsidiaries are recognised under the equity method, which means that the equity investments are recognised at the company's equity value.

As the activities of subsidiaries are insignificant relative to the Bank, consolidated financial statements are not prepared.

Tangible fixed assets

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 shareholders' equity. 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 material 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.

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.

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.

Issued bonds

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

Impairments on liabilities

The impairments comprise mainly of guarantee liabilities and impairments on irrevocable credit commitments and legal proceedings, etc. Impairment on a guarantee or an irrevocable commitment is recognised, if it is probable that the guarantee or credit will be utilized and the amount of the liability can be valued reliably. Impairments are based on management's best estimate of the size of the liabilities.

Other liabilities

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

Equity

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

Proposed dividends are recognized as a liability at the time of adoption at the AGM. The expected dividend payment 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.

Reserve under the equity method includes valuation of investments in affiliates. The reserve is reduced by dividend payments to the parent company and adjusted for other changes in equity in affiliates.
Retained earnings do not include dividends from previous years.

Treasury 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 if there are objective indications that there have been impairments.

Balances in foreign currencies

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
The Bank participated in the state guarantee scheme, which ended on September 30, 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, investing 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.

Additional / corrective information on consolidated accounts of the years 2006, 2007 and 2008 and interim reports for 2007 and 2008
The Bank has in its stock exchange announcement No. 26-2010 of December 6, 2010 published additional / corrective information on consolidated financial statements for the years 2006, 2007 and 2008 and the interim reports for 2007 and 2008. By doing this the Bank complies with FSA's draft to the decision from the Danish Securities Council of December 6, 2010. The corrective and additional information is not important for comparison or for the true image of the Bank. For further description of the conditions reference is made to the Bank's stock exchange announcement No. 26-2010 of December 6, 2010 about additional / corrective information about the consolidated financial statements for the years 2006, 2007 and 2008 and the interim reports for 2007 and 2008.

Notes

Contents

NOTE 1
Capital structure and risk management

Statement of capital
At year-end 2010 Aarhus Lokalbank has changed its strategy towards reduction of loan exposure to the real estate and agricultural sectors together with a reduction of large exposures.
The Bank has in the determination of the impairment need in the 4th quarter, as a consequence of the action plans adopted, brought a more conservative assessment of collateral values. This new estimate means that in the fourth quarter of 2010 further impairments of DKK 133 million are made, primarily related to real estate and agricultural exposures.

After total impairment charges in 2010 of DKK 255 million the Bank’s equity amounts to DKK 136 million as of December 31, 2010, corresponding to a solvency ratio of now 7.0%. Therefore, the Bank has been given a temporary exemption from the FSA to exceed the limits in § 129, section 2-5 of the Financial Business Act relating to recognition of subordinated debt.

Consequently, the Bank has decided to exercise the right to convert 80% of the state hybrid capital, equivalent to approx. DKK 147 million, into equity. If the conversion had been completed as of December 31, 2010, the Bank's equity would have amounted to DKK 278 million and the Bank's solvency ratio would have been approx. 13%.
The Bank also wants to strengthen the capital base by a conversion of a substantial portion of the subordinated debt to hybrid capital and share capital, which is expected to happen following the conversion of the state hybrid capital.
If the capital plan is not fully implemented, and the Bank thereby is not achieving the planned strengthening of the capital base, there is considerable risk that the Bank will default, and according to Bank Package III may be taken over by Financial Stability Company or discharged under the Financial Business Act. The implementation of the capital plan will strengthen the Bank's capital base, but it can not be excluded that the Bank may face difficulties, even if the capital plan is implemented as planned.

The implementation of the capital plan in its entirety involves:

- The Danish government's conversion of approx. DKK 147 million incl. accrued interest, of hybrid core capital to share capital with effect from February 25, 2011
- Replacement of up to DKK 150 million of existing subordinated debt by conversion into share capital or new subordinated debt in the form of hybrid capital.
- Conversion of DKK 75 million subordinated debt into new subordinated debt in the form of hybrid capital.

If the capital plan is fully implemented, and provided at least half of the DKK 150 million existing subordinated notes are converted into share capital, the Bank can absorb a loss of up to approx. DKK 150 million based upon the solvency requirement calculated by the Bank.
If only state hybrid capital of approx. DKK 147 million. incl. accrued interest, is converted the Bank will be able to absorb losses of up to approx. DKK 50 million based upon the solvency requirement calculated by the Bank.
Due to the limited spread after the conversion between the Bank's solvency ratio and the calculated individual solvency requirements further impairment charges on loans and guarantees can threaten its continued existence or require further capital injection.
If the Bank in the future is put in a situation where additional capital is needed, the Bank will, subsequent to its own emergency response plan, act according to the following:

- The Bank must immediately reduce all risks, market wise etc. to reduce capital requirements.
- The Bank must, if possible, withdraw unutilized commitments and stop all new lending in order to reduce capital requirements.
- The Bank must, if possible "sell" larger customer exposures to other banks to reduce capital requirements.

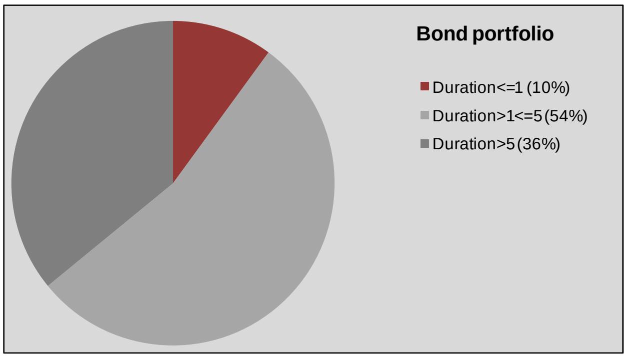
Risk factors
The board of directors has, through written instructions, provided a framework for a.o. credit and market risks. The board has established the broad policies and framework for the risks that are acceptable within the different risk areas. Credit and market risks are

followed closely by continuous monitoring and reporting to the board of directors and executive management.

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 e.g. be changes in economic trends, in the stock market and changes in currency and interest rates.

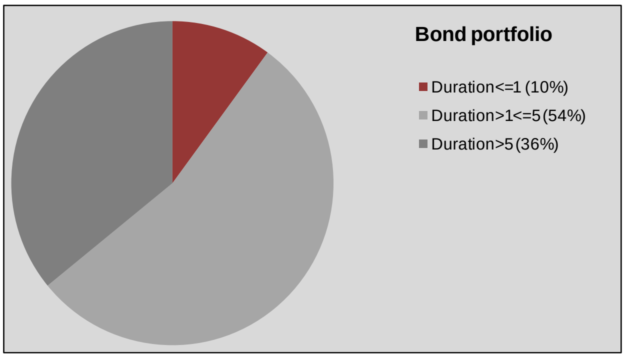
The Bank's participation in customer transactions in the securities and currency markets as well as the Bank's allocation of its own liquidity lead to daily changes in portfolios and to market risks arising from fluctuations in the bond and interest rate markets, as well as changes in share prices and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



The portfolio allocation on types of securities for commercial portfolios as of December 31, 2010.

Interest rate risk

The Bank's positions on the bond and interest rate market, calculated in accordance to the guidelines and deduction factors of the Danish Financial Supervisory Authority, mean that the Bank has an interest rate risk. This risk reflects the loss the Bank will suffer on 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 duration for commercial portfolios as of December 31, 2010.

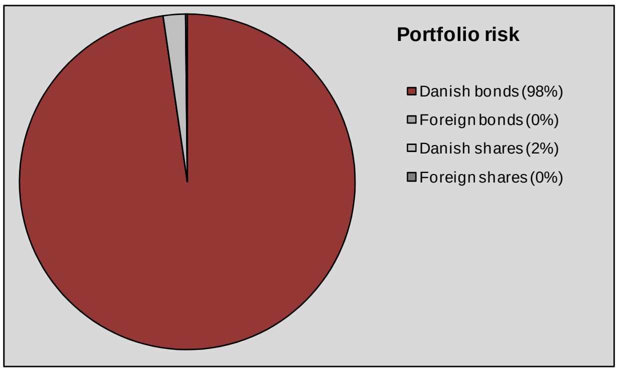
The Bank's total interest rate risk, including items outside the trading portfolio, e.g. mortgages, is as of December 31, 2010 DKK -42,5 million, equivalent to -14,4 % of the Bank's capital base at year-end. The reason for the high interest rate risk at year-end 2010 is primarily because bank deposits have increased from DKK 2,374 million in 2009 to DKK 3,569 million in 2010 and at the same time the maturity for an increased proportion of the deposit base has increased, see note 19. Furthermore, the Bank's large negative result in 2010 has resulted in a significantly lower capital base.

The Bank's portfolio of items outside the trading portfolio consists e.g. of a mortgage portfolio of DKK 7,7 million, which affects the total interest rate risk by DKK 0,8 million.
Other important items outside the trading portfolio are the Bank's liabilities on fixed-rate loans, which negatively affect the Bank's interest rate risk by DKK 31,3 million as well as the Bank's hybrid core capital and subordinated capital contributing negatively to the Bank's interest rate risk by DKK 12,4 million.

If adjustments are made for items outside the trading portfolio, the Bank's total interest rate risk on commercial bonds is DKK 11,0 million as of December 31, 2010, equivalent to 3,3 % of the Bank's capital base at year-end.

Equity risk

The Bank uses 10 % as risk parameters on Danish commercial shareholdings. The amount is included in the Bank's internal assessments of the total market risk. In case of foreign commercial shareholdings, 20% is used as risk parameter. The Bank's total equity risk on commercial portfolios as of December 31, 2010 amounts to DKK 1,0 million, equivalent to 0,3 % of the Bank's capital base at yearend. The amount is included in the Bank's internal assessment of the total market risk.



Currency risk

The Bank uses 5% as risk parameter on currency positions calculated according to a notional "currency indicator 1". EUR positions are however adjusted to 1 % due to the modest historical fluctuation band. As of December 31, 2010, the amount comes to DKK 0.2 million, equivalent to 0.1 % of the Bank's capital base at year-end. The amount is included in the Bank's internal assessment of the total market risk.

Derivative financial instruments

The Bank uses 10 % as a risk parameter on 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 used as risk parameter. The Bank's total risk on derivative financial instruments as of December 31, 2010 amounts to DKK 0.1 million, equivalent to 0.0 % of the Bank's capital base at year-end. The amount is included in the Bank's internal assessment of the total market risk.

Risk assessment

The framework of the Bank's overall market risk on commercial items was fixed at 5 % of the Bank's capital base in 2010, equivalent of DKK 14,8 million at year-end including the exchange rate adjustment of commercial positions within the trading portfolio. Bonds with a maturity of up to 2 years are in terms of risk not included in the framework, which is why DKK 0.9 million can be deducted from the interest rate risk within the trading portfolio.

Assessed accordingly, as of December 31, 2010 the total market risk is calculated at DKK 10,3 million, equivalent to 3.5 % of the Bank's capital base.

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 of the 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 an objective for the Bank's liquidity both in the long and short term 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 assessments. Redemption of state guaranteed loans in 2013 is planned to be financed through the reduction of the Bank's loan portfolio, and there may be risks involved with that.

The Bank's objective is to have excess liquidity, which is 100 % above the minimum statutory requirement.

The Bank's objective is that the available liquidity will be sufficient to cover the coming month's known liquidity requirement.

The Bank's objective is that the Bank's loan portfolio should be funded by the sum of equity, supplementary capital, deposits, long term debt 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 procedures in place.

Counterparty risk – Derivative financial instruments

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

The exposure value fixing 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.

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.

Credit 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 starts with the concept of the Bank that among other things emphasizes our ability to identify and support our customers' needs for financial services.

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 for projects, which we assess as 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 which ensures that we do not become vulnerable to individual industries or customers. At the same time, we do 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 lending 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 impairments on all commitments in excess of DKK 100,000. The impairments are made based upon 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.

At the same time an exposure is written off in full or in part, the equivalent amount is 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, impairments equal to the full risk are recognised.

The Bank conducts regular monitoring of the debts written off.

At the preparation of the annual report the Bank has assumed that the loan exposures are reduced in a controlled pace. A worsening and / or forced liquidation of the loan exposures will involve further write-downs and impairments.

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 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.

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, in which an amount is measured based upon a calculation of the average of the core income from 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

Changes in accounting estimates

In the fourth quarter of 2010 Management has reassessed its estimates in accordance with the revised strategy to reduce the loan exposure to the real estate and agricultural sectors and large exposures. In this connection new action plans have been adopted.

The Bank has, on the basis of the adopted action plans, brought a more conservative assessment of collateral values. This more cautious assessment has meant further impairments of DKK 133 million, primarily related to the real estate and agricultural sectors, and reduction of large exposures.

There will also continue to be a significant risk to the Bank's loan and guarantee portfolios to the real estate and agricultural sectors.

NOTE 3

Accounting estimates

Measurements

In preparation of the annual report the management is required to make certain estimates and assessments of future conditions that have significant impact on the carrying value of certain assets and liabilities. The areas where there are critical estimates and assessments with a significant impact on the annual report are:

• Impairments on loans and receivables, etc.
• Securities
• Deferred tax asset
• Capital Plan - continued operation

Impairments on loans and receivables, etc. are made to take into account impairments, which occurred after initial recognition. Impairments are made as a combination of individual and collective impairments 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. A worsening of the exposures will lead to further impairments.

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.

Deferred tax assets 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 December 31, 2010, the Bank has assessed that a deferred tax asset of DKK 40 million will be realized within a period of 5 years.

Capital Plan - continued operation

Following the total impairments charges in 2010 of DKK 255 million the Bank's equity stands at DKK 136 million as of December 31, 2010, equivalent to a solvency ratio of 7.0% as of December 31, 2010.

Therefore the Bank has decided to exercise the right to convert 80% of the State hybrid capital, equivalent to approx. DKK 147 million to equity. If the conversion had been completed as of December 31, 2010, the Bank's equity would have amounted to DKK 278 million. That would have increased the solvency ratio to approx. 13%, which should be seen in comparison to the Bank's individual solvency requirement.

The Bank also wants to seek the capital base strengthened by a conversion of a substantial portion of the subordinated debt to hybrid capital and equity, which is expected to occur following the conversion of the State hybrid capital.

The total capital plan should enable the Bank to continuing operation and restoring profitability.

The overall capital plan and the necessary changes to the Bank's by-laws to implement the plan will be presented for approval at the ordinary general meeting on March 19, 2011.

Uncertainty about the capital plan as a whole leads to uncertainty about the Bank's future capital structure and the risks involved.

DKK 1,000	**2010**	**2009**
NOTE 4		
Interest income:		
Due from credit institutions and central banks	7,914	8,496
Loans and other receivables	239,304	231,881
Bonds	23,339	28,263
Other interest income	5,226	9,739
Total	**275,783**	**278,379**
The bank has no interest income from real sale and repurchase transactions		
NOTE 5		
Interest expense:		
Credit institutions and central banks	5,681	28,190
Deposits and other liabilities	69,256	68,657
Issued bonds	52,628	43,653
Subordinated debt	37,490	24,048
Other interest expenses	1,166	440
Total	**166,221**	**164,988**
The bank has no interest expense to real sale and repurchase transactions		
NOTE 6		
Income from charges and commission:		
Trading in securities and deposit	7,760	8,809
Payment services	1,633	1,340
Loan fees	1,249	1,368
Guarantee comission	14,211	22,990
Other fees and commissions	7,404	6,580
Total	**32,257**	**41,087**
NOTE 7		
Value adjustment of:		
Bonds	-5,206	2,916
Shares etc.	4,105	-1,460
Foreign currency	-790	5,047
Currency, interest, share, commodity and other contracts as well as derivative financial instruments	-35	98
Revaluatioin of debt	3,934	17
Total	**2,008**	**6,618**
NOTE 8		
Staff costs and administrative expenses:		
Remuneration for the Board of Directors, Executive Management and Committee of Representatives:		
Executive Management *)	5,290	1,880
Board of Directors	660	660
Audit committee	120	90
Committee of Representatives	28	28
Total	**6,098**	**2,658**
Staff costs:		
Salaries	45,637	43,051
Pensions	5,032	5,057
Social security costs	5,002	4,365
Total	**55,671**	**52,473**
Other administrative expenses	37,100	35,989
Total staff costs and administrative expenses	**98,869**	**91,120**

*) 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 2010 only half of the Executive Management's salary can be deducted, equivalent to DKK 2,645.The Executive Management is remunerated with a fixed salary and is not subject to the share-based incentive program mentioned below.

**) Terms of remuneration of executive management, board of directors, audit committee and committee of representatives are disclosed in note 34.

In 2009 the Bank closed the incentive scheme with senior employees. The Bank has in connection with the settlement of the incentive scheme in 2009 bought back the companies owned by the senior employee group for DKK 1.3 million, which is estimated to be at market terms.

DKK 1,000	**2010**	**2009**
Sharebased compensation 'The staff and administration expenses include a share-based incentive program for employees as described below.		
The share-based compensation is an equity scheme, which has been booked directly in the equity.	590	590

Sharebased incentive program

The share-based incentive program for employees consist of share options granted. The share options will expire April 1, 2011.

The market value is measured after a dividend-adjusted Black-Scholes model with the following assumptions at the grant date of April 1, 2008. Share price of 155, volatility of 20.0%, risk-free interest rate of 3.7%, yield of 1.2%, average maturity of 3 years. Each employees has been awarded a maximum of 1.500 stock options. Each stock option gives the right to purchase one share of nominally DKK 10. The program will lapse without compensation for the individual employee should the option not be utilized. The market value at the grant date amounted to DKK 1.77 million based on 75,000 shares and a share price of DKK 155.

	2010	2009
Number of employees:		
Average number of employees during the financial year converted into full-time employees	92	96
Audit fee:		
Total fee to the audit companies appointed by the general meeting to perform the statutory audit, including VAT	1,164	1,435
of this, services other than audit	707	944
The bank has no internal audit department		

NOTE 9

Other operating expenses:	2010	2009
Guarantee commission to the State guarantee scheme	14,339	18,314
Compensation for advisor responsibilities	2,618	0
Other operating expenses	66	39
Total	**17,023**	**18,353**

NOTE 10

Impairment charges on loans and other receivables:	2010	2009
Loans	244,150	24,014
Bond investment "with hold to maturity"	-51	5,520
The Private Contingency Association	10,656	11,912
Total	**254,755**	**41,446**
Impairment charges during the year	254,249	54,455
Reversal of impairment charges recognised in previous financial years	-7,345	-10,412
Finally lost, no individual impairment charges made	11,125	30
Received, on claims previously written off	-160	-406
Income interest on impaired debt	-3,114	-2,221
Total	**254,755**	**41,446**

DKK 1,000	2010	2009
NOTE 11		
Tax:		
Tax on profit for the year	-56,545	1,536
Tax on changes in shareholders' equity	0	1,433
Depreciation of tax asset *)	24,000	0
Total	**-32,545**	**2,969**
Tax on profit for the year:		
Deferred tax	-56,548	1,533
Depreciation of tax asset *)	24,000	0
Subsequent adjustments of tax from previous years	3	3
Total	**-32,545**	**1,536**
Effective tax rate (%):		
Corporate tax rate	25.0%	25.0%
Non-taxable income / expenditure etc.	-0.8%	60.3%
Depreciation of tax asset *)	-10.3%	0.0%
Adjustments of tax calculated for previous years	0.0%	0.1%
Total	**13.9%**	**85.4%**
Deferred tax assets and liabilities are as follows:		
Tangible assets	-1,429	-743
Securities	1,566	1,133
Other assets and liabilities	1,438	-50
Deficit carries forward	-65,680	-7,905
Depreciation of tax asset *)	24,000	0
Total	**-40,105**	**-7,565**

*) Under the accounting rules, the Bank has not activated all deferred taxes, including the tax value of loss carry forwards, but only the part expected to be utilized within 5 years. The unrecognized tax asset amounts to DKK 24 million at a tax rate on 25%.

NOTE 12		
Due from credit institutions and central banks:		
Term deposits with central banks	1,199,813	0
Deposits with credit institutions	252,876	134,031
Total	**1,452,689**	**134,031**
By maturity:		
Demand deposits	242,161	122,970
Up to 3 months	1,199,813	0
Over 5 years	10,715	11,061
Total	**1,452,689**	**134,031**
NOTE 13		
Loans and other receivables at amortized cost:		
Loans and other receivables at amortized cost before depreciation	4,043,236	4,191,677
- Impairment charges at year-end excl. impairments on guarantee liabilities - see note 28	-307,184	-60,229
Total	**3,736,052**	**4,131,448**
By maturity:		
On demand	1,981,114	2,267,722
Up to 3 months	150,108	365,395
Over 3 months to 1 year	1,035,915	568,504
Over 1 year to 5 years	322,264	473,808
Over 5 years	246,651	456,019
Total	**3,736,052**	**4,131,448**

DKK 1,000	**2010**	**2009**
NOTE 14		
Bonds:		
Bonds at fair value	607,305	662,193
Bonds at amortized cost (Hold to maturity) *)	18,676	35,536
The difference between bonds measured at amortized cost and fair value	-6,506	-4,761
Total	**619,475**	**692,968**
Mortgage bonds	490,295	692,093
Goverment bonds	0	18
Other bonds	129,180	857
Total	**619,475**	**692,968**
*) Bonds at amortized cost was reclassified from bonds at fair value in financial year 2008.'		
NOTE 15		
Shares, etc.:		
Shares/unit trust certificates listed on the Copenhagen Stock Exchange	21,412	25,214
Unlisted shares stated at fair value	123,515	120,764
Total	**144,927**	**145,978**
NOTE 16		
Investment in group enterprises (subsidiaries):		
Book value - start of year	7,100	1,241
Cost value - start of year	12,661	1,011
Addition	0	11,650
Total cost value	12,661	12,661
Appreciation and depreciation start of year	240	230
The year's adjustment	-717	10
Appreciation and depreciation at year-end	-477	240
Value adjustment of investments	0	-5,801
Book value - end of year	**12,184**	**7,100**
NOTE 17		
Tangible assets:		
Domicile properties:		
Revalued amount start of year	43,405	51,022
Additions, including improvements	85	6,279
Depreciation	-387	-326
Value adjustments, which are recognized in the income statement	0	-4,570
Value adjustments, which are recognized directly in shareholders' equity	0	-9,000
Revaluation at year-end	**43,103**	**43,405**
Equipment		
Book value - start of year	8,405	8,012
Cost value - start of year	20,666	17,377
Additions	1,238	3,289
Disposals	-1,201	0
Cost value at year-end	**20,703**	**20,666**
Depreciations start of year	-12,261	-9,365
Depreciations	-3,070	-2,896
Reversal of depreciations	1,156	0
Depreciations at year-end	-14,175	-12,261
Total	**6,528**	**8,405**

DKK 1,000	2010	2009

NOTE 18

Due to credit institutions and central banks:		
Due to credit institutions	143,374	699,860
By maturity:		
On demand	103,374	118,596
Up to 3 months	0	288,253
Over 3 months to 1 year	0	253,011
Over 1 year to 5 years	40,000	40,000
Total	**143,374**	**699,860**

The Bank has an unutilized credit facility of DKK 203 million at Danmarks Nationalbank approved on the basis of excess statutory solvency maturing on February 28, 2011.

NOTE 19

Deposits and other debts:		
On demand	963,393	1,308,578
At notice	852,240	333,822
Time deposits	1,357,387	462,389
Special deposits	395,581	268,759
Total	**3,568,601**	**2,373,548**
By maturity:		
On demand *)	818,417	1,317,615
Up to 3 months	388,885	477,539
Over 3 months to 1 year	931,763	338,519
Over 1 year to 5 years **)	1,101,831	41,724
Over 5 years	327,705	198,151
Total	**3,568,601**	**2,373,548**

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

**) In 2010 DKK 241 million concerns stateguaranteed bonds issued as bonds under Bank Package II.

NOTE 20

Issued bonds at amortised cost: **By maturity:**		
Over 1 year to 5 years	1,587,595	1,207,216
Total	**1,587,595**	**1,207,216**

NOTE 21

Impairment charges on guarantee liabilities:		
Danish Act on Financial Stability (Bank Package I)	0	14,836
Total	**0**	**14,836**

DKK 1,000	**2010**	**2009**

NOTE 22

Subordinated debt:

Nominal DKK 75 million. Supplementary capital raised June 23, 2006.
Interest rates until November 1, 2011: CIBOR 3 + 1.10% p.a.
Interest rates from November 2, 2011: CIBOR 3 + 2.60% p.a.
Expiry date: November 1, 2014

Nominal DKK 75 million. Supplementary capital raised May 1, 2007.
Interest rates until May 1, 2012: CIBOR 3 + 1.10% p.a.
Interest rates from May 2, 2012: CIBOR 3 + 2.60% p.a.
Expiry date: May 1, 2015

Nominal DKK 75 million. Supplementary capital raised June 19, 2007.
Interest rates until December 3, 2012: CIBOR 6 + 1.10% p.a.
Interest rates from December 4, 2012: CIBOR 6 + 2.60% p.a.
Expiry date: December 3, 2015

Nominal DKK 150 million. Supplementary capital raised May 15, 2008 at a price of 90.
Interest rates until May 22, 2013: 4.00% p.a.
Interest rates from May 23, 2013: CIBOR 3 + 3.00% p.a.
Expiry date: May 22, 2016

In calculation of the Bank's core capital after deduction, DKK 188 million subordinated debt is included.

Hybrid core capital:

Nominal DKK 50 million. Supplementary capital raised December 1, 2005.
Interest rates: 5.44%
Interest rates from May 1, 2016: CIBOR 3 + 2.82%.
Expiry date: infinite

Nominal DKK 150.2 million. Supplementary capital raised December 23, 2009.
Interest rates: 10.92% + conversion option of 0.5%.
Interest rates from December 23, 2014: 11.2%.
Expiry date: infinite (Issuer conversion option).

Nominal DKK 27.6 million. Supplementary capital raised December 23, 2009.
Interest rates: 10.92% + conversion option of 0.5%.
Interest rates from December 23, 2014: 11.2%.
Expiry date: infinite (Mandatory conversion and issuer conversion option).

In calculation of the Bank's core capital after deduction, DKK 93 million hybrid core capital is included.

Cost paid during the financial year:

	2010	2009
Establisment costs	199	1,856
Deferred establishment costs	-63	-1,856
Interest expenses	37,490	24,048
Total	**37,626**	**24,048**

NOTE 23

Share capital:	shares	shares
The share capital consist of share of each DKK 10	3,800,000	3,800,000

Shareholders who have reported holding more than 5% of the share capital:
Rasmus Juhl Rasmussen, Lystrup

DKK 1,000	2010	2009
NOTE 24		
Contingent liabilities:		
Guarantees:		
Financial guarantees	259,490	486,959
Guarantees against losses for mortgage loans	372,490	337,203
Land registration and conversion guarantees	134,844	264,682
Other guarantees	49,867	82,576
Total guarantees:	**816,691**	**1,171,420**
Other liabilities:		
Other liabilities	7,044	5,756
Total other liabilities	**7,044**	**5,756**

Aarhus Lokalbank participated in Bank Package I, which expired on September 30, 2010. The guarantee was a 2-year scheme and available to financial institutions that had registered for the scheme. The scheme included a commitment fee and a guarantee liability. The Bank's share of the total guarantee commission for 2010 is calculated at DKK 14.3 million, which is expensed under other operating expenses. Furthermore, the Bank is participating in a total guarantee of DKK 20 billion, of which our share amounts to DKK 57 million as of January 1, 2010. According to statements from the Financial Stability Company, the guarantee has been reduced to DKK25.5 million during 2010. In 2008 and 2009 the Bank made impairments of DKK 14.8 million of the guarantee amount. During 2010, the remainder of the guarantee of DKK 10.7 million was impaired, and at year-end 2010, the entire guarantee has been expensed. Consequently, the Bank will have no additional costs associated with Bank Package I.

The Bank participates in IT- cooperation with other banks via the IT-center Bankdata. A withdrawal from Bankdata will cause payment of approx. DKK 64 million due to a 5-year termination notice.

The Bank has a rent obligation until April 1, 2013 totaling DKK 4.7 million concerning Nordhavnsgade 1 in Aarhus.

NOTE 25

Lawsuits etc.

The bank is not part in lawsuits that are deemed to cause significant losses and thus a signifikant change in the annual report.

DKK 1,000	2010		2009	
NOTE 26				
Derivative financial instruments:	Nominal value	Net market value	Nominal value	Net market value
Maturity up to and including 3 months:				
Foreign-exchange contracts:				
Forward contracts, purchase	619,416	15,313	527,704	13,211
Forward contracts, sale	1,101,661	-161,111	1,841,682	-26,304
Open spot transactions, purchase	0	0	1,551	3
Open spot transactions, sale	11,222	52	166	0
Swaps	36,482	0	63,635	0
Options purchased	0	0	48,051	538
Options sold	0	0	-48,051	-508
Interest-rate contracts:				
Forward contracts, purchase	0	0	4	-1
Forward contracts, sale	0	0	4	1
Total		**-145,746**		**-13,060**

DKK 1,000	2010		2009	
	Nominal value	Net market value	Nominal value	Net market value
Maturity over 3 months to 1 year:				
Foreign-exchange contracts:				
Forward contracts, purchase	32,071	484	24,640	24
Forward contracts, sale	31,994	-443	24,691	11
Swaps	115,194	0	0	0
Interest-rate contracts:				
Swaps	41,983	0	0	0
Total		**41**		**35**
Maturity over 1 year through 5 years:				
Foreign-exchange contracts:				
Swaps	328,694	-11,836	203,955	0
Options purchased	5,976	170	0	0
Options sold	5,976	-178	0	0
Interest-rate contracts:				
Swaps	376,664	-3,796	41,910	0
Total		**-15,640**		**0**
Maturity over 5 years:				
Interest-rate contracts:				
Swaps	117,880	0	114,494	0
Total		**0**		**0**

Open spot transactions:	2010			
	Nominal value	Positive market value	Negative value	Net market value
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		**111**	**108**	**3**

Open spot transactions:	2009			
	Nominal value	Positive market value	Negative market value	Net market value
Interest-rate contracts:				
Open spot transactions, purchase	25,125	21	17	4
Open spot transactions, sale	25,111	27	14	13
Equity contracts:				
Open spot transactions, purchase	9,173	73	41	32
Open spot transactions, sale	9,296	66	81	-15
Total		**187**	**153**	**34**

NOTE 27

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 a financial liability can be settled at, 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	**2010**		**2009**	
	Amortized cost	Net marketvalue	Amortized cost	Net marketvalue
Bonds at amortised cost	18,676	12,170	35,535	30,774
Subordinated debt	592,434	555,048	628,933	619,384

NOTE 28

Impairments:

Cause for individuel impairments

DKK 1,000	2010			2009		
	Exposure before impairment	Impairment	Collateral	Exposure before impairment	Impairment	Collateral
Severe economic problems	1,117,712	209,072	768,061	162,987	17,937	126,997
Breach of contract	55,107	10,430	31,459	2,162	943	3,103
Easing of terms	54,581	19,103	12,275	3,864	1,183	720
Bankruptcy, suspension of payment etc.	124,428	58,415	61,065	98,168	32,162	52,983
Total	**1,351,828**	**297,020**	**872,860**	**267,181**	**52,225**	**183,803**

At the preparation of the annual report the Bank has assumed that the loan exposures are reduced in a controlled pace. A worsening of and / or forced liquidation of the loan exposures will involve further write-downs and impairments. In assessing the trend from 2009 to 2010, see note 2. Collateral is assessed not counting personal guarantees and shares in unlisted companies.

DKK 1,000	2010	2009
Impairments on loans and other receivables, etc.:		
Individual impairments on loans:		
Impairment charges on loans at start of year	52,225	40,721
Impairment charges during the year	254,174	32,842
Reversal of impairment charges from previous fiscal years	-9,379	-10,412
Finally lost earlier individually impaired	0	-10,926
Individual impairment charges on loans at year-end	**297,020**	**52,225**
The total amount of loans with individual impairment charges as of December 31, 2010: DKK 1,352 million.		
Collective impairments on loans:		
Impairment charges at start of year	8,004	3,824
Impairment charges during the year	2,160	4,180
Collective impairment charges on loans at year-end	**10,164**	**8,004**
The total amount of loans with collective impairment charges as of December 31, 2010: DKK 3,201 million.		
Total impairment charges on loans:	**307,184**	**60,229**
Impairments on other receivables:		
Impairments on other receivables at start of year	22,985	5,553
Impairment charges during the year on bonds with "hold to maturity"	-51	5,520
Impairment charges on guarantee liabilities (The Private Contingency)	10,656	11,912
Losss during the year on guarantee liabilities (The Private Contingency	-25,492	0
Impairment charges on other receivables at year-end	**8,098**	**22,985**
Impairment charges on loans and other receivables at year-end	**315,282**	**83,214**
Accumulated impairments in percent of loans and guarantees at year-end	6.3%	1.4%
No loan impairments have been made on credit institutions at year-end		
Loans with discontinued interest accrual at year-end	116,805	19,703

NOTE 29

DKK 1,000	2010	Pct.	2009	Pct.
Loans and guarantees by industry:				
Public authorities	**18,595**	**0.4**	**20,157**	**0.4**
Industry:				
Agriculture, hunting, forestry and fishery	598,076	13.1	660,477	12.5
Manufacturing and raw material extraction	174,299	3.8	149,025	2.8
Energy supply	2,145	0.0	0	0.0
Construction and civil engineering works	104,958	2.3	189,813	3.6
Trade	184,981	4.1	230,337	4.3
Transportation, hotel business and restaurant	30,163	0.7	42,805	0.8
Information and communication	19,368	0.4	3,310	0.1
Financing and insurance	488,403	10.7	572,007	10.8
Real estate investment	1,557,473	34.2	1,934,994	36.5
Other industries	444,682	9.9	431,385	8.0
Total industry	**3,604,548**	**79.2**	**4,214,153**	**79.4**
Private customers	**929,600**	**20.4**	**1,068,558**	**20.2**
Total	**4,552,743**	**100.0**	**5,302,868**	**100.0**

DKK 1,000	2010	2009

NOTE 30

Credit risk

Total credit exposure on balance sheet and off-balance sheet items:

	2010	2009
Cash at hand and demand deposits with central banks	199,503	111,311
Due from credit institutions and central banks	1,452,689	134,031
Loans and other receivables at amortised cost	3,736,052	4,131,448
Bonds at fair value	607,305	662,193
Bonds at amortised cost	18,676	35,535
Shares, etc.	144,927	145,978
Holdings in affiliated companies	12,184	7,100
Other assets	98,202	98,504
Total	**6,269,538**	**5,326,100**
Off-balance sheet items:		
Guarantees	816,691	1,171,420
Loan commitments	645,591	736,229
Total	**1,462,282**	**1,907,649**

*) Unutilized credit commitments on accounts and credit agreements.

DKK 1,000	2010	2009
Total credit exposure (loans, guarantees and loan commitments) by industry:		
Public authorities	**30,832**	**36,354**
Industry:		
Agriculture, hunting, forestry and fishery	683,382	746,837
Manufacturing and raw material extraction	202,597	185,748
Energy supply	9,079	1,650
Construction and civil engineering works	134,921	231,219
Trade	274,456	324,324
Transportation, hotel business and restaurant	43,285	53,286
Information and communication	23,305	8,847
Financing and insurance	512,616	611,651
Real estate investment	1,654,631	2,061,640
Other industries	491,853	496,838
Total industry	**4,030,125**	**4,722,040**
Private customers	**1,137,377**	**1,280,703**
Total	**5,198,334**	**6,039,097**

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. Requirement for collateral increases 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 remaining agricultural portfolio is not currently estimated to contain unusual risks in relation to the sector’s current prospect and trends. The Bank has made total impairments of DKK 80 million on the agricultural exposures totaling DKK 598 million, see industry statistics note 29, representing an impairment of about 12%.

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 impairments are assessed. The vast majority of German property exposures are estimated to be generally in good standing and satisfactory support through collateral. 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.

Description of collateral

Aarhus Lokalbank wants to provide credit to healthy businesses and private customers, where the loans and credits to the extent possible are supported by collateral. Collateral is usually provided in the form of lien on real assets, bank deposits, securities and guarantees etc. The Bank regularly monitors the value of the collateral. The most commonly used collateral is lien on real estate and securities.

The credit quality of the loan portfolio that is neither past due or impaired

The Bank's IT-system can not provide an estimate of the book value of the credit exposures that would have been past due or impaired had the current terms and conditions not been renegotiated. Due to the Bank’s policies and procedures on the credit area it is assessed that there is no significant specific risks associated with renegotiating the terms and conditions of loans. The policies and procedures in place ensure an ongoing monitoring of the credit quality of the loan portfolio and related collateral. This will ensure an immediate follow-up on exposures at risk and that the procedures for approval of overdrafts will always be based on an actual and thorough assessment of each case.

DKK 1,000	2010	2009
Past due		
Arrears on loans without impairments amounted to DKK 38,980 compared to DKK 30,007 in 2009. The age distribution is as follows:		
0-90 days	35,347	25,128
More than 90 days	3,633	4,879
Total	**38,980**	**30,007**

The Bank's IT-system can not assign collateral to specific loans as collateral is received as security for the individual customer's total exposure with the Bank.

NOTE 31

Market risk, including sensitivity

Methods, incl. objectives and policies for market risk, can be found in the section "Policies and risk management". Below the interest rate, currency and equity risks are outlined.

	2010	2009
Interest rate risk:		
Interest rate risk on currencies with the highest risk:		
DKK	-50,286	-25,092
EUR	7,997	-2,074
CHF	-72	-209
Other	-9	-9
Total interest rate risk on debt instruments etc.	**-42,370**	**-27,384**
Interest rate risk as a percentage of core capital after deductions	**-28.7**	**-5.0**

The increased interest rate risk at year-end 2010 compared to 2009 is primarily due to increased customer deposits from DKK 2,374 million to DKK 3,569 million in addition to an increased portion of the deposits having a longer maturity, see note 19. Additionally, the Bank’s large loss in 2010 resulted in a significantly lower core capital incl. hybrid capital after deductions.

	2010	2009
Currency risk:		
Currency indicator 1	3,709	22,345
Currencu indicator 1 as a percentage of core capital after deduction	2.5%	4,1%
Currency indicator 2	2,272	567
Currencu indicator 2 as a percentage of core capital after deduction	1,5.%	0,1%

The currency indicator 1 is the sum of the largest numerical of assets (long position) or net debt. Indicator 1 shows a measure of the overall currency risk. Currency indicator 2 is based on statistical method where the historical data are quantified by the Dansih authorities and reflect the total risk of loss.

	2010	2009
Equity risk:		
Danish shares	932	1,986
Foreign shares	71	13
Equity risk as a percentage of core capital after deduction	**0.5**	**0.4**

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

1.000 kr.		2010	2009

NOTE 32

Related parties:

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

Transactions with related parties have been completed at regular market terms. Remuneration for the Executive management, Board of Directors and Committee of Representatives are stated in Note 34. Balances with affiliated companies are stated in Note 33.

Executive Management and Board of Directors:

The size of loans, collateral and guarantees established for the following:

	Interest rates 2010	2010	2009
Loan etc.:			
Executive Managemet	Cibor 3 + 3% p.a.	980	1,250
Board of Directors	Cibor 3 / Libor 3 + 2,5% - 3% p.a.	41,138	39,122
Colleteral:			
Executive Managemet		250	1,250
Board of Directors		15,824	13,117

All exposures are granted at market conditions.

Management's holdings of Aarhus Lokalbank shares:

	2010	2009
Board of Directors	Number:	Number:
Per Enevoldsen	3,021	3,021
Esben Hammer	6,152	6,152
Gert L. Pedersen	58,263	58,263
Rasmus Juhl Rasmussen	238,649	238,649
Jørn Sørensen	145,281	145,281
Jørgen Balle	3,143	2,379
Knud Erik Rasmussen	31,498	31,498
Hans Peder Hansen	469	469
Camilla Hartmann Lund	298	298
Executive Management		
Carsten Stenulm	2,779	2,779
Total	**489,553**	**488,789**

NOTE 33

Group structure:

The Bank is the parent company for the following wholly-owned subsidaries.

	Share capital	Result 2010	Equity 31.12.2010
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**

Handelsselskabet af 1/1-1973 Hadsten ApS, which is owned 100% by Hadsten Aktie Invest ApS, is indirectly a 100% owned subsidiary. Due to the modest size of the subsidiaries compared to the Bank no consolidated statements have been prepared. The shares / capital in the subsidiaries are valued at equity value in the annual report. On group basis the solvency retio has been calculated at 7.0%

1.000 kr.	**2010**	**2009**
Balances with affiliated companies:		
Deposits		
Hadsten Aktie Invest ApS	1,390	-1,618
Hadsten Aktie Invest II ApS	2,647	0
Hadsten Aktie Invest III ApS	1,910	0
Center Finansiering A/S	735	1,268
Handelsselskabet af 1/1-1973 Hadsten A/S	2,967	2,942
Total	**9,649**	**2,592**

NOTE 34

Payroll and remuneration

Board of Directors

Aarhus Lokalbank has nine board menbers.

The Board is elected by the Committee of Representatives for one year.

Employee representatives are elected for 4 years.

Board remuneration:

Chairman	DKK 150,000 a year.
Deputy Chairman	DKK 90,000 a year.
Other members	DKK 60,000 a year.

Audit Committee

Committee remuneration:

Chairman	DKK 60,000 a year.
Deputy Chairman	DKK 30,000 a year.
Other members	DKK 30,000 a year.

Committee of Representatives

Aarhus Lokalbank has 23 menbers of Committee of Representatives.

Representative remuneration is DKK 1,200 a year.

Executive Management

Per Hermansen, resigned November 25, 2010

Current terms:

Salary	DKK 1,650,000 a year.
Supplementary pension	11 % of salary.
Other terms	Company car, home office, life insurance, accident and health insurance, telephone and newspaper.
Term of notice	18 months.
Severance	Were made pursuant to contractual terms.

Carsten Stenulm

Current terms:	
Salary	DKK 1,235,000 a year.
Supplementary pension	13 % of salary.
Other terms	Company car, home office, life insurance, accident and health insurance, telephone and newspaper.
Term of notice	6 months.
Retirement benefit plan	No agreements have been made in connection with ordinary retirement.

Note 35

Post balance sheet events

Following Amagerbanken's bankruptcy as of February 6, 2011 it is expected that the Bank's guarantee commitment to the Guarantee Fund for Depositors and Investors will become effective. The obligation is recognized when the amount can be calculated sufficiently reliable.

The Bank's latest calculated share of the sector's guarantee liability towards the Guarantee Fund for Depositors and Investors is 0.3%.

Note 36

Hedging

DKK 1.000	2010	2009
Hedging		
The Bank has in connection with the issuance of state-guaranteed bonds in 2010 made hedging arrangement 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 changes in fair values of fixed rate foreign currency assets and liabilities. Changes in fair value of the hedged 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:		
Deposits		
Amortized / nominal value	252,496	0
Book value	240,660	0
Book value decrease	-11,836	0
Issued bonds		
Amortized / nominal value	372,720	0
Book value	368,967	0
Book value decrease	-3,753	0
Hedged financial instruments		
Swaps		
Nominal value	625,216	0
Book value	-15,632	0

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