

**LIBRA BANK S.A.**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
DECEMBER 31, 2010**

**PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS  
TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT**

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To the Shareholders of  
Libra Bank S.A.  
Bucharest, Romania

## INDEPENDENT AUDITOR'S REPORT

- 1 We have audited the accompanying financial statements of Libra Bank S.A., ("the Bank") which comprise the statement of financial position as at 31 December 2010, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

- 2 Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

- 3 Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 financial statements.

Member of

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

*Opinion*

6 In our opinion, the financial statements give a true and fair view of the financial position of Libra Bank S.A. as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

7 Without qualifying our opinion we draw attention to Note 2.12 that discusses the fact that the Bank has an accumulated deficit of RON 78,631,348 thousand as of 31 December 2010. Additionally as discussed in Note 27 the Bank has short-term liquidity gaps. These conditions may cast doubts about the Bank's ability to continue as a going concern. The ability of the Bank to continue as a going concern depends on its ability to generate sufficient future cash flows and earnings as well as on continuing financial support of its shareholders and creditors. Management's plans concerning these matters are also described in Note 2.12, including financial support from the shareholders in the foreseeable future. The accompanying financial statements do not include any adjustment resulting from this uncertainty. Our opinion is not qualified in this matter.

*Deloitte Audit SRL*

Deloitte Audit S.R.L.  
Bucharest, Romania  
31 May 2011

**LIBRA BANK S.A.**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**  
(all amounts are expressed in RON, unless otherwise specified)

	<u>Note</u>	<u>Year ended December 31, 2010</u>	<u>Year ended December 31, 2009</u>
Interest income	4	80,079,136	99,890,437
Interest expense	4	<u>(20,990,497)</u>	<u>(48,989,136)</u>
<b>Net interest income</b>		<b><u>50,088,639</u></b>	<b><u>50,901,301</u></b>
Fee and commission income		10,704,610	10,741,853
Fee and commission expense		<u>(875,367)</u>	<u>(525,398)</u>
<b>Net fee and commission income</b>		<b><u>9,829,243</u></b>	<b><u>10,216,455</u></b>
Other operating income	5	6,653,519	7,837,085
<b>Total operating income</b>		<b><u>75,571,401</u></b>	<b><u>68,954,841</u></b>
Operating expenses	6	(47,964,546)	(52,655,937)
Impairment losses and provisions	7	<u>(20,268,944)</u>	<u>(32,611,429)</u>
<b>Total operating expenses</b>		<b><u>(68,233,490)</u></b>	<b><u>(85,267,366)</u></b>
<b>Profit/ (Loss) before income tax</b>		<b><u>7,337,911</u></b>	<b><u>(16,312,525)</u></b>
Income tax (expense)/ credit	3	<u>2,749,261</u>	<u>(535,001)</u>
<b>Net Profit/ (Loss)</b>		<b><u>10,087,172</u></b>	<b><u>(16,847,526)</u></b>
<b>Other comprehensive income</b>			
Change in fair value of available for sale financial assets		<u>737,635</u>	<u>-</u>
<b>Total comprehensive income</b>		<b><u>10,824,807</u></b>	<b><u>(16,847,526)</u></b>

These financial statements were approved by the management on May 31, 2011.

  
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**Eugen Goga**  
Vice President

  
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**Doina Andrei**  
Head of Finance Division

**LIBRA BANK S.A.**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2010**

(all amounts are expressed in RON, unless otherwise specified)

	<u>Note</u>	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
<b>Assets</b>			
Cash and balances with banks	8	81,861,120	42,011,961
Balance due from National Bank of Romania	9	85,024,789	114,921,559
Loans and advances to customers	10	370,982,699	414,189,109
Other assets	11	8,921,885	9,639,879
Investment securities	12	25,003,884	22,950,367
Fixed tangible and intangible assets	13	<u>14,647,800</u>	<u>19,116,351</u>
<b>Total assets</b>		<b><u>586,442,177</u></b>	<b><u>622,829,226</u></b>
<b>Liabilities</b>			
Due to banks	14	-	12,744,272
Other borrowings	15	-	1,581,362
Customer deposits and savings accounts	16	462,905,421	492,425,006
Deferred tax liability	3	-	2,781,511
Other liabilities	17	<u>2,287,314</u>	<u>2,872,439</u>
<b>Total liabilities</b>		<b><u>465,192,735</u></b>	<b><u>512,404,590</u></b>
<b>Shareholders' equity</b>			
Share capital	18	197,549,200	197,549,200
Accumulated deficit and reserves	19	<u>(76,299,758)</u>	<u>(87,124,565)</u>
<b>Total shareholders' equity</b>		<b><u>121,249,442</u></b>	<b><u>110,424,635</u></b>
<b>Total liabilities and shareholders' equity</b>		<b><u>586,442,177</u></b>	<b><u>622,829,226</u></b>

These financial statements were approved by the management on May 31, 2011.

  
**Eugen Goga**  
Vice President




  
**Doina Andrei**  
Head of Finance Division

**LIBRA BANK S.A.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**  
(all amounts are expressed in RON, unless otherwise specified)

	<u>Note</u>	<u>Year ended December 31, 2010</u>	<u>Year ended December 31, 2009</u>
<b>Cash flows from operating activities</b>			
Profit/ (Loss) before taxation		7,337,911	(16,312,525)
<i>Adjustments for:</i>			
Amortization and depreciation		6,734,079	8,355,159
Impairment provisions for loan losses and other assets		20,310,694	32,995,049
Provisions for investments		(41,750)	(383,619)
Dividends income		(524,872)	(495,506)
Loss/ (gain) on disposal of fixed assets		1,438,476	(238,467)
<b>Operating profit before changing in operating assets and liabilities</b>		<b><u>35,254,538</u></b>	<b><u>24,397,025</u></b>
Decrease in balances with the National Bank of Romania		29,896,771	45,316,952
Increase/ (decrease) in other assets		5,910,698	(1,225,099)
(Increase)/ decrease in other liabilities		(585,125)	173,049
Increase in customer accounts		(29,519,585)	(94,985,356)
Increase in loans and advances to customers, net of write-offs		23,604,086	3,093,976
Increase/ (decrease) in deposits from other banks		<u>(12,744,272)</u>	<u>8,939,809</u>
Income tax paid		(32,250)	(496,830)
<b>Net cash (used in)/ generated by operating activities</b>		<b><u>51,784,862</u></b>	<b><u>(14,786,474)</u></b>
<b>Cash flows from investing activities</b>			
Purchase of tangible and intangible assets		(3,704,005)	(3,580,571)
Purchase of securities available for sale		(3,877,369)	(12,746,254)
Dividends received		<u>524,872</u>	<u>495,506</u>
<b>Net cash used in investing activities</b>		<b><u>(7,056,502)</u></b>	<b><u>(15,831,319)</u></b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		-	21,654,704
Repayment of other borrowings		<u>(1,581,362)</u>	<u>(4,392,467)</u>
<b>Net cash provided by/ (used in) financing activities</b>		<b><u>(1,581,362)</u></b>	<b><u>17,262,237</u></b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>43,146,998</b>	<b>(13,355,556)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>8</b>	<b><u>42,011,961</u></b>	<b><u>55,367,517</u></b>
<b>Cash and cash equivalents, end of year</b>	<b>8</b>	<b><u>85,158,959</u></b>	<b><u>42,011,961</u></b>

Interests received by the Bank during the year ended 31 December 2010 and 31 December 2009 amounted to RON 63,409,839 and RON 78,939,078, respectively. Interests paid by the Bank during the year ended 31 December 2010 and 31 December 2009 amounted to RON 23,337,092 and RON 44,038,870, respectively.

These financial statements were approved by the management on May 31, 2011.

  
**Eugen Goga**  
Vice President

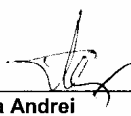
  
**Doina Andrei**  
Head of Finance Division

**LIBRA BANK S.A.**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**  
(all amounts are expressed in RON, unless otherwise specified)

	Share capital	Legal reserve	General Risk reserve	Fair value reserve	Retained earnings	Total
<b>Balance as at 1 January 2009</b>	<b>175,894,496</b>	<b>934,492</b>	<b>659,463</b>	-	<b>(71,870,994)</b>	<b>105,617,457</b>
Issue of share capital	21,654,704	-	-	-	-	21,654,704
Comprehensive result	-	-	-	-	(16,847,526)	(16,847,526)
<b>Balance as at 31 December 2009</b>	<b>197,549,200</b>	<b>934,492</b>	<b>659,463</b>	-	<b>(88,718,520)</b>	<b>110,424,635</b>
Issue of share capital	-	-	-	-	-	-
<b>Total comprehensive income for the period</b>	-	-	-	-	-	-
Profit for the year	-	-	-	-	10,087,172	10,087,172
<b>Other comprehensive income for the period</b>						
Change in fair value of available for sale financial assets	-	-	-	737,635	-	737,635
<b>Total comprehensive income for the period</b>	-	-	-	737,635	10,087,172	10,824,807
<b>Balance as at 31 December 2010</b>	<b>197,549,200</b>	<b>934,492</b>	<b>659,463</b>	<b>737,635</b>	<b>(78,631,348)</b>	<b>121,249,442</b>

These financial statements were approved by the management on May 31, 2011.

  
**Eugen Goga**  
Vice President

  
**Doina Andrei**  
Head of Finance Division

**LIBRA BANK S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**  
**(all amounts are expressed in thousand of Moldavian Lei, unless otherwise specified)**

**1 GENERAL OVERVIEW**

Libra Bank SA ("the Bank") was incorporated in Romania in 1996 and is licensed by the National Bank of Romania to conduct all commercial banking activities. The Bank is principally engaged in retail banking operations in Romania through its head office and 25 branches located in main cities of Romania.

The Bank's corporate banking activities are deposits taking, cash management and lending. It offers the traditional range of banking services and products associated with foreign trade transactions including payment orders, issuance of letters of credit and guarantees. The Bank offers a comprehensive range of banking services for individuals: current and term deposits, loans, domestic and international money transfers and payment orders.

As Bank's operations do not have significantly different risks and returns and considering the regulatory environment, the nature of its services, the business process, as well as the types of customers for the products and services and the methods used to provide the services are homogenous for all Bank's activities, the Bank operates as a single business segment unit and its activities are exclusively carried out in Romania.

The Bank's registered office is located in Semilunei Street, No. 4-6, Bucharest, Romania.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of these financial statements are set out below.

**2.1 Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations adopted by International Accounting Standards Board ("IASB"). The principal accounting policies applied in the preparation of these financial statements are set out below and have been consistently applied to all periods presented.

The accompanying financial statements are prepared in terms of the purchasing power of the Romanian Lei ("RON") as of December 31, 2010 and are expressed in Romanian Lei ("RON"). The Bank's management assessed the functional currency of the Bank to be RON, which is also the presentation currency of these financial statements.

The underlying accounting records maintained in conformity with Romanian accounting law and National Bank of Romania banking regulations ("statutory accounts") have been restated to reflect the differences between the statutory accounts and IFRSs. Accordingly, some adjustments have been made to the statutory accounts as have been considered necessary to bring the financial statements in line, in all material respects, with IFRSs.

**Basis of measurement**

The financial statements have been prepared based on the historical cost basis except for the available for sale financial assets which are measured at fair value.

**LIBRA BANK S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**  
**(all amounts are expressed in RON, unless otherwise specified)**

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Standards and Interpretations effective in the current period***

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- IFRS 1 (revised) "First-time Adoption of IFRS" (effective for annual periods beginning on or after 1 July 2009),
- IFRS 3 (revised) "Business Combinations" (effective for annual periods beginning on or after 1 July 2009),
- Amendments to IFRS 1 "First-time Adoption of IFRS"- Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010),
- Amendments to IFRS 2 "Share-based Payment" - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010),
- Amendments to IAS 27 "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009),
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" - Eligible hedged items (effective for annual periods beginning on or after 1 July 2009),
- Amendments to various standards and interpretations "Improvements to IFRSs (2009)" resulting from the annual improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010),
- IFRIC 17 "Distributions of Non-Cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009),
- IFRIC 18 "Transfers of Assets from Customers" (effective for transfer of assets from customers received on or after 1 July 2009).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Bank's accounting policies.

***Standards and Interpretations in issue not yet adopted***

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013),

**LIBRA BANK S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**  
**(all amounts are expressed in RON, unless otherwise specified)**

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Standards and Interpretations in issue not yet adopted (continued)***

- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 12 "Disclosures of Involvement with Other Entities" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013),
- IAS 27 (revised in 2011) "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013),
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 "First-time Adoption of IFRS"- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),
- Amendments to IFRS 1 "First-time Adoption of IFRS"- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- Amendments to IFRS 7 "Financial Instruments: Disclosures"- Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- Amendments to IAS 12 "Income Taxes" - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),
- Amendments to IAS 24 "Related Party Disclosures" - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),
- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010),
- Amendments to various standards and interpretations "Improvements to IFRSs (2010)" resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation),
- Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010).

**LIBRA BANK S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**  
**(all amounts are expressed in RON, unless otherwise specified)**

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Standards and Interpretations in issue not yet adopted (continued)***

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The management of the Bank anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Bank, with the exception of IFRS 9, which deals with the classification and measurement of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The Bank is currently in the process of evaluating the potential effect of this standard.

**2.2 Key sources of estimation uncertainty**

The presentation of financial statements in conformity with IFRS requires the management of the Bank to make judgments about estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and future changes in the economic conditions, business strategies, regulatory requirements, accounting rules or/and other factors could result in a change in estimates that could have a material impact on the reported financial position and results of operations. Significant areas of subjective judgment include:

- In connection with the current economic environment, based on currently available information the management has considered all relevant factors which could have effect on valuation and impairment of assets and liabilities in these financial statements, impact on the liquidity, funding of operations of the Bank and other effects these may have on financial statements. All such impacts, if any, have been reflected in these financial statements. There is a high level of uncertainty about future development which could result in material change in market value of securities and increased impairment of assets. The management of the Bank continues to monitor the situation and further possible impact of financial crisis and economic slowdown on its operations.
- Provisioning for incurred credit losses and identified contingencies involve many uncertainties about the outcome of those risks and require the management of the Bank to make many subjective judgments in estimating the loss amounts. The Bank creates provision for impairment of loans and receivables where there is objective evidence that, as a result of past events, the estimated future cash-flows are negatively impacted. These provisions are based on Bank's historical and current experience concerning default rates, recovery rates of loans, or time needed from a loss event to loan default, as well as subjective judgments of the Bank's management about estimated future cash-flows. Considering current economic conditions, the outcome of these estimates could differ from the amounts of impairment provisions recognized as of 31 December 2010 and the difference could be material.
- Income tax rules and regulations have undergone significant changes in recent years and there is little historical precedent or interpretative rulings on a number of complex issues affecting the banking industry. Also, tax authorities have broad powers in interpreting the application of the tax laws and regulations in the course of its examination of taxpayers. Accordingly there is a high level of inherent uncertainty about the ultimate outcome of examinations by the tax authorities.

**LIBRA BANK S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**  
**(all amounts are expressed in RON, unless otherwise specified)**

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 Offsetting**

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

**2.4 Foreign currency translation**

Transactions denominated in foreign currency are recorded at the exchange rate ruling at the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in income statement at the date of settlement using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are expressed in RON at the balance sheet date.

The exchange rates applicable at the end of the periods for major foreign currencies are as follows:

	<u>USD/RON</u>	<u>EURO/RON</u>
December 31, 2010	3.2045	4.2848
December 31, 2009	2.9361	4.2282

Unrealized foreign currency gains/ (losses) arising from the translation of monetary assets and liabilities, and realised gains/ (losses) from dealing transactions in foreign currencies are reported in the income statement in line 'Other operating income'.

**2.5 Interest and similar income and expense**

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Loan origination fees for loans which are probable of being drawn down, are deferred and recognized as an adjustment to the effective yield of the loan and as such adjust the interest income.

When loans become impaired, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Other fees receivable are recognised when earned. Dividend income is recognised when earned.

**2.6 Fees and commission income and expense**

Fees and commission income are comprised mainly of fees receivable from customers for loans and guarantees granted and other services provided by the Bank, together with commissions for foreign and domestic payment transactions.

Fees and commissions are generally recognised on an accrual basis.

**LIBRA BANK S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**  
**(all amounts are expressed in RON, unless otherwise specified)**

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.7 Financial instruments**

Financial assets and financial liabilities recorded on the balance sheet include cash and cash equivalents, marketable securities, loans to customers, trade and other accounts receivable and payable, long-term loans, deposits and investments. The accounting principles for these items are disclosed in the respective accounting policies.

The Bank recognises financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities held by the Bank are categorised into portfolios in accordance with the Bank's intent on the acquisition and pursuant to the Bank's investment strategy. Financial assets are classified as "Assets available for sale" or as "Loans and receivables".

The principal difference among the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements as described below.

Regular way transactions with financial instruments are accounted for at the date when they are transferred (settlement date). Under settlement date accounting, while the underlying asset or liability is not recognised until the settlement date, changes in fair value on the underlying asset or liability are recognised starting from trade date.

When a financial asset or financial liability is recognised initially, the Bank measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

**2.7.1 Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Bank intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank upon initial recognition designates as available for sale; or (c) those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

This portfolio comprises loans provided to customers.

Loans and receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction as well as fees received from customers. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan and as such adjust the interest income.

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans computed at initial recognition. Loan loss allowances are assessed with reference to the credit standing and performance of the borrower and take into account the value of any collateral or third party guarantees.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.7.1 Loans and receivables (continued)**

For the purposes of evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers counter party type and past-due status). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group.

**2.7.2 Assets available for sale**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

This portfolio comprises equity and debt securities. Subsequent to initial recognition, available-for-sale financial assets are re-measured at fair value based on quoted prices or amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect specific circumstances of the issuer.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment.

For available-for-sale assets, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period. Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognized in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Interest earned whilst holding available-for-sale securities is accrued on a daily basis using the effective interest rate method and reported as "Interest income" in the income statement.

Dividends on securities available for sale are recorded as declared and included as a receivable in the balance sheet line "Other assets" and in "Other operating income" in the income statement. Upon payment of the dividend, the receivable is offset against the collected cash.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.8 Cash and cash equivalents**

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of Romania with remaining maturity within 90 days, advances to banks and government securities denominated in lei with remaining maturity within 90 days. For purposes of determining cash flows, the minimum reserve deposit required by the National Bank of Romania is not included as a cash equivalent due to restrictions on its availability.

**2.9 Fixed tangible and intangible assets**

Fixed assets are recorded at their book value that includes the amount for the acquisition, transportation and installation of the object. Each fixed asset with acquisition costs over RON 1,800 and useful life estimated greater than one year is capitalized. Fixed assets with acquisition costs less than RON 1,800 are reclassified as small tools and written off.

Expenses related to fixed assets current repairs and maintenance are considered as expenses of the reporting period. Expenses related to fixed assets capital repairs are considered as capital investments and are applied as cost increase of repaired building only in the event that as a result of capital repairs term of its effective operation, its market value or productivity increased.

Intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Fixed assets depreciation and intangible assets amortization is calculated beginning with the first day of their putting into operation. It is calculated on straight-line basis at the following annual prescribed rates:

Buildings	2%
Equipment, fixtures and fittings	5 - 20%
Vehicles	20%
Others	6.67%-3.34%
Software	33.33%

At the balance sheet date, the Bank reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where the carrying value of premises, equipment, and intangible fixed assets is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount through the statement of profit and loss. At balance sheet date, the Bank also assesses whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset. If the estimated recoverable amount exceeds the carrying value of an asset, a reversal of an impairment loss is recognised in the statement of profit and loss.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.10 Financial guarantee contracts issued and letters of credit**

Financial guarantee contracts and letters of credit issued by the Bank are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value, and the initial fair value is amortized over the life of the financial guarantee. Subsequently they are measured at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable.

**2.11 Income tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

**2.12 Going concern**

The financial statements have been prepared on a going concern basis, which assumes that the Bank will be able to realise its assets and discharge its liabilities in the normal course of business. The Bank has accumulated losses of RON 78,631,348 and RON 88,718,520 as of 31 December 2010 and 31 December 2009, respectively. The Bank's ability to continue as a going concern is dependent on its capacity to generate sufficient future earnings and on continued financial support from its shareholders.

As the loss recorded in 2009 has been covered by the shareholders through share capital increase, the strategy of the Bank is to cover the eventual supplementary losses by similar share capital increases, so that the Bank maintains the regulatory capital adequacy limit. As such, in April 2011 shareholders of the Bank decided to increase the share capital with an amount of RON 4,500,000, by means of issuance of 45,000,000 new shares, with a nominal value of RON 0.1 each.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.12 Going concern (continued)**

Management has addressed the issue of the appropriateness of the preparation of the financial statements under the going concern basis and is satisfied that the Bank will be able to generate sufficient future earnings in the foreseeable future, that it will be able to realize its assets and discharge its liabilities in the normal course of business and that financial support of the shareholders will be available in the foreseeable future.

Management plans to address the situation following the guidelines approved in the Bank's strategy for 2011: increase the recovery capacity of the Bank by building on the competences of the internal in-house recovery department, opening of new branches at the same time continuing the process of centralization of the decision-making in the head-office, creation of new products destined to the historic niche clientele addressed by the Bank. These measures aim at increasing the loan portfolio of the Bank at the same time controlling the associated cost of risk at acceptable levels for the Bank. Bank's 2011 budget shows improved profitability based on these measures.

Also, financial support will be available when needed from Broadhurst Investments Ltd a shareholder as described also in Note 27.

**3 INCOME TAX EXPENSE**

The Bank provides for taxes based on the tax accounts maintained and prepared in accordance with the local tax regulations, which may differ from International Financial Reporting Standards.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain types of income. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Temporary differences as at 31 December 2010 and 2009 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Reconciliation between tax expenses and accounting loss for the years ended 31 December 2010 and 2009 is provided below:

	<b>Year ended at December 31, 2010</b>	<b>Year ended at December 31, 2009</b>
<b>Profit/ (Loss) before taxation</b>	<b>7,337,911</b>	<b>(16,312,525)</b>
Tax rate	16%	16%
Theoretical tax	1,174,066	(2,610,004)
Tax effect of permanent differences	1,168,759	(134,133)
Tax effect of temporary differences	<u>(2,551,140)</u>	<u>(535,001)</u>
	<b><u>(208,315)</u></b>	<b><u>(3,279,138)</u></b>
Utilization of tax losses carried forward	-	-
<b>Current income tax expense</b>	<b>32,350</b>	-
Change in deferred tax liability	<u>(2,781,511)</u>	<u>535,001</u>
<b>Total income tax expense/ (credit)</b>	<b><u>(2,749,261)</u></b>	<b><u>535,001</u></b>

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**3 INCOME TAX EXPENSE (continued)**

Main sources of temporary differences are presented as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
<b>Taxable temporary differences:</b>		
Change in fair value of available for sale financial assets	737,635	-
Impairment losses for loans and advances to customers	31,814,988	17,877,984
Fixed and intangible assets	<u>776,452</u>	<u>(493,539)</u>
	<b><u>33,329,073</u></b>	<b><u>17,384,445</u></b>
Deferred tax liability at 16%	<u>5,332,652</u>	<u>2,781,511</u>
Deferred tax asset at 16%	<u>(6,433,194)</u>	<u>-</u>
<b>Deferred tax liability / deferred tax assets not recognized</b>	<b><u>(1,100,542)</u></b>	<b><u>2,781,511</u></b>

The deferred tax assets are generated by the tax losses available for carry forward.

As of 31 December 2010 and 2009 the Bank has tax losses available for carry forward which expire as follows:

Year of expiration	<u>December 31, 2010</u>	<u>December 31, 2009</u>
2010	-	4,369,092
2011	17,674,420	17,674,420
2013	1,476,168	1,476,168
2014	19,754,900	19,754,900
2015	<u>1,301,973</u>	<u>-</u>
<b>Total tax losses available for carry forward</b>	<b><u>40,207,461</u></b>	<b><u>43,274,580</u></b>

Movement in deferred tax liability during the years ended 31 December 2010 and 2009 is presented as follows:

	<u>2010</u>	<u>2009</u>
<b>Balance as of 1 January</b>	<b><u>2,781,511</u></b>	<b><u>2,246,510</u></b>
Deferred tax (credit)/ charge for the period	(2,781,511)	535,001
<b>Balance as of 31 December</b>	<b><u>-</u></b>	<b><u>2,781,511</u></b>

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**3 INCOME TAX EXPENSE (continued)**

Unrecognized deferred tax asset as of 31 December 2010 and 2009 is presented as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Deductible temporary differences (at 16%)	-	-
Tax losses available for carry forward (at 16%)	<u>6,224,878</u>	<u>6,923,933</u>
	<b><u>6,224,878</u></b>	<b><u>6,923,933</u></b>

The Bank has not recognized deferred tax asset arising from deductible temporary differences and tax losses available for carry forward due to uncertainty with respect to availability of future tax profits against which such deferred tax asset can be utilized.

**4 INTEREST INCOME AND EXPENSE**

	<u>Year ended December 31, 2010</u>	<u>Year ended December 31, 2009</u>
<b>Interest income:</b>		
Loans and advances to banks	3,198,533	8,152,832
Loans and advances to customers	75,346,767	90,489,939
Fixed income trading securities	<u>1,533,836</u>	<u>1,247,666</u>
<b>Total interest income</b>	<b><u>80,079,136</u></b>	<b><u>99,890,437</u></b>
<b>Interest expense:</b>		
Deposits from banks	(894,642)	(936,250)
Customer deposits and current accounts	(20,095,855)	(48,052,886)
Subordinated and other long term borrowings	<u>-</u>	<u>-</u>
<b>Total interest expense</b>	<b><u>(20,990,497)</u></b>	<b><u>(48,989,136)</u></b>
<b>Net interest income</b>	<b><u>59,088,639</u></b>	<b><u>50,901,301</u></b>

**5 OTHER OPERATING INCOME**

	<u>Year ended December 31, 2010</u>	<u>Year ended December 31, 2009</u>
Net foreign exchange gains	4,238,360	5,592,165
Other income	1,287,304	1,428,161
Recovery of assets previously written-off	602,984	321,253
Dividends income	<u>524,872</u>	<u>495,506</u>
<b>Total other operating income</b>	<b><u>6,653,519</u></b>	<b><u>7,837,085</u></b>

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**6 OPERATING EXPENSES**

	<b>Year ended December 31, 2010</b>	<b>Year ended December 31 2009</b>
Personnel expenses	21,271,769	21,333,578
Professional fees, rent and insurance	5,012,217	7,365,739
Repairs, maintenance and utilities	4,462,734	4,601,098
Other taxes	3,278,089	3,514,946
Amortisation and depreciation expenses	6,870,123	8,736,028
Other expenses	7,069,614	7,104,548
<b>Total operating expenses</b>	<b>47,964,546</b>	<b>52,655,937</b>

The Bank had 415 employees as of 31 December 2010 and 360 employees as of 31 December 2009. The average number of employees was 360 and 371 during the year ended 31 December 2010 and 2009, respectively.

All the Bank's employees are included in state pensions system. The Bank does not operate any pension plan or benefits after retirement and, consequently, does not have any obligations related to pensions. In addition, the Bank has no obligation to provide other additional benefits to its employees.

The remuneration paid to the employees during 2010 was amounting to RON , out of which:

	<b>Year ended December 31, 2010</b>		<b>Year ended December 31, 2009</b>	
	<b>No. of employees</b>	<b>Payroll cost</b>	<b>No. of employees</b>	<b>Payroll cost</b>
Operating personnel	360	9,334,594	314	10,307,781
Management personnel	55	6,657,725	46	5,580,031
	<b>415</b>	<b>15,992,319</b>	<b>360</b>	<b>15,887,812</b>

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**7 IMPAIRMENT LOSSES AND PROVISIONS**

	Allowance for investment securities	Provisions for risks and charges	Allowance for loans and advances to customers	Total
<b>Balance at 1 January 2009</b>	<b>448,594</b>	<b>543,414</b>	<b>30,079,960</b>	<b>31,071,968</b>
Additional charge/ (reversal) of provision	(383,619)	(156,129)	33,151,178	32,611,430
Write-offs	-	189	22,274	22,463
<b>Balance at 31 December 2009</b>	<b>64,975</b>	<b>387,474</b>	<b>63,253,412</b>	<b>63,705,861</b>
Additional charge/ (reversal) of provision	(41,750)	708,371	19,602,323	20,268,944
Write-offs	-	2,431	172,093	174,524
<b>Balance at 31 December 2010</b>	<b>23,225</b>	<b>1,098,276</b>	<b>83,027,828</b>	<b>84,149,329</b>

**8 CASH AND BALANCES WITH BANKS**

	December 31, 2010	December 31, 2009
Cash on hand	8,395,394	11,111,365
Cash in ATM	3,255,487	4,281,720
Nostro accounts with banks	1,397,769	2,281,529
Term deposits with banks	68,812,470	24,337,347
<b>Total</b>	<b>81,861,120</b>	<b>42,011,961</b>

As of 31 December 2010 and 2009 term deposits with banks include deposits placed with domestic banks in RON, EUR and USD with remaining maturity up to 1 month.

As of 31 December 2010 and 2009 the interest rates on terms deposits with banks were as follows:

Original currency	December 31, 2010	December 31, 2009
RON	3%-4.2%	8%-9.2%
USD	1.45% - 1.5%	0.28% - 0.45%
EUR	0.7%-1.1%	0.3%

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks and investments in money market instruments in amount of RON 3,297,839 as at 31 December 2010 (31 December 2009: nil).

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**9 BALANCE DUE FROM THE NATIONAL BANK OF ROMANIA**

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Current accounts	85,024,789	114,921,559
Term deposits	-	-
<b>Total</b>	<b><u>85,024,789</u></b>	<b><u>114,921,559</u></b>

Current accounts with the National Bank of Romania include balances in RON, USD and EUR and are used for domestic payments and for maintaining minimum mandatory reserves.

The National Bank of Romania requires commercial banks to maintain an amount calculated as a percentage of their funding other than local inter-bank originated for achieving the monetary policy targets. As of 31 December 2010 the required rate for RON and foreign currency compulsory reserves was 15% and 25% respectively (31 December 2009: 15% and 25% respectively). The level of the compulsory deposit reserve is computed once a month and must be maintained, on average, in the form of cash held with the National Bank of Romania.

As of 31 December 2010 and 2009, the interest rates on current accounts balances with the National Bank of Romania were as follows:

<b>Original currency</b>	<u>December 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
RON	1.61%	3.38%
USD	1.02%	1.27%
EUR	0.46%	1.16%

**10 LOANS AND ADVANCES TO CUSTOMERS**

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Loans and advances to customers	454,010,527	477,442,521
Less: Allowance for impairment (Note 7)	<u>(83,027,828)</u>	<u>(63,253,412)</u>
<b>Total</b>	<b><u>370,982,699</u></b>	<b><u>414,189,109</u></b>

**Analysis by industry**

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Individuals	77,379,179	70,578,852
Trade	84,756,094	107,561,003
Wood industry	3,021,513	2,747,813
Financial services	11,367,827	16,858,325
Agriculture and food	16,513,797	2,346,949
Tourism	6,740,152	7,451,846
Others	118,486,719	117,484,880
Health	135,745,246	152,412,853
<b>Total</b>	<b><u>454,010,527</u></b>	<b><u>477,442,521</u></b>

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**10 LOANS AND ADVANCES TO CUSTOMERS (continued)**

As of 31 December 2010 and 2009, the interest rates on loans were as follows:

Original currency	<u>December 31, 2010</u>	<u>December 31, 2009</u>
RON	6.17%-35%	7.75%-35%
EUR	6.25%- 30%	6.16%- 30%
USD	6.5%-14.69%	8.50%-13.75%

As of 31 December 2010 the Bank had significant exposures to Nusco Residential Park SRL of RON 17,169,800, Hidroelectrica S.A of RON 13,500,000, to GNB Imob Group SRL of RON 12,878,612 and to Astra SA of RON 9,488,657, which individually exceeded 10% of the Bank's equity. As of 31 December 2009 the Bank had significant exposures to Hidroelectrica S.A of RON 13,517,691, to Sealynx Automotive Romania SRL of RON 11,175,189, to Astra SA of 11,021,409 RON and to Unirea International Trading 95 SRL of 8,366,653 RON which individually exceeded 10% of the Bank's equity.

As of 31 December 2009 loans and advances to customers include RON 1,581,362 loans extended by the Bank to small and medium size entities from the financing received from the GRF. In accordance with the loan agreement between the Bank and GRF these receivables has been pledged to secure the Bank's obligations under the credit facilities received from GRF (Note 17). As of 31 December 2010 the loans for financing small and medium entities granted from the financing received from GRF have been terminated.

**11 OTHER ASSETS**

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Prepaid expenses	2,328,584	2,204,791
Guarantee deposits for rent	2,034,654	2,295,305
Sundry debtors	5,656,923	5,527,256
Less: allowance for other assets (Note 7)	<u>(1,098,276)</u>	<u>(387,474)</u>
<b>Total other assets</b>	<b><u>8,921,885</u></b>	<b><u>9,639,878</u></b>

**12 INVESTMENT SECURITIES**

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
<b>Available-for-sale financial assets</b>		
State debt securities	22,813,586	20,760,146
Unquoted equity securities	<u>2,190,298</u>	<u>2,190,221</u>
	<b><u>25,003,884</u></b>	<b><u>22,950,367</u></b>

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**12 INVESTMENT SECURITIES (continued)**

As of 31 December 2010 and 2009 debt securities include government bonds. All these bonds are denominated in RON and bear coupon interest rates between 6.3% and 6.17% p.a.

As at 31 December 2010, a fraction of this securities portfolio in amount of RON 2,785,534 (31 December 2009: RON 1,090,357) is pledged in favour of the National Bank of Romania as collateral in transactions with Visa, Mastercard, ACH and Roclear transfer systems.

The maturity analysis of the state bonds is presented below:

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
From 1 month to three months	6,083,373	5,901,075
From 3 month to 1 year	11,121,075	6,493,017
From 1 to 5 years	4,664,391	7,421,307
Over 5 years	944,747	944,747
	<b>22,813,586</b>	<b>20,760,146</b>

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**2 INVESTMENT SECURITIES (continued)**

Details of unquoted equity securities available-for-sale are as follows:

Name of the Company	Activity	Place of incorporation	Ownership interest	Cost	
				31 December 2010	31 December 2009
SOPAS	Leasing and financial services	Romania	9.99%	23,225	23,225
Casa de Compensare Bucuresti	Cleaning and settlement house	Romania	5.42%	370,330	370,330
Transfond SA	Money transfers	Romania	2.56%	280,940	280,940
Biroul de Credit	Bank information services	Romania	0.25%	17,133	17,133
SWIFT	Money transfers	Belgium	1 share	5,845	5,768
Elvira S.A.	Furniture, trade and manufacture	Romania	1.84%	1,516,050	1,516,050
				<b>2,213,523</b>	<b>2,213,446</b>
				<b>(23,225)</b>	<b>(23,225)</b>
				<b>2,190,298</b>	<b>2,190,221</b>

Less: allowance for impairment of investment in SOPAS

**Total unquoted equity securities available-for-sale**

The equity securities available-for-sale are not listed and actively traded in the domestic market and, therefore, their fair value cannot be measured reliably. As such these securities are stated at acquisition cost less impairment losses.

During 2010 and 2009 the Bank has recognized the right to receive dividends from Transfond SA in amount of RON 520,556 (2009: RON 489,876) and from Biroul de Credit in amount of RON 4,316 (2009: RON 5,629) (Note 5).

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13 FIXED TANGIBLE AND INTANGIBLE ASSETS

Property, plant and equipment

Cost	Land and buildings	Office equipment	Vehicles	Fixed assets in progress	Total
At December 31, 2008	<u>8,977,338</u>	<u>10,458,874</u>	<u>1,939,072</u>	<u>2,760,285</u>	<u>24,135,569</u>
Additions	1,709,114	2,532,601	226,103	1,891,319	6,359,137
Disposals	<u>(3,174,078)</u>	<u>(1,078,580)</u>	<u>(737,741)</u>	<u>(4,396,920)</u>	<u>(9,387,319)</u>
At December 31, 2009	<u>7,512,374</u>	<u>11,912,895</u>	<u>1,427,434</u>	<u>254,684</u>	<u>21,107,387</u>
Additions	1,297,119	559,929	363,860	-	2,220,908
Disposals	<u>(1,690,617)</u>	<u>(341,369)</u>	<u>(35,648)</u>	<u>(107,323)</u>	<u>(2,174,958)</u>
At December 31, 2010	<u>7,118,876</u>	<u>12,131,455</u>	<u>1,755,646</u>	<u>147,361</u>	<u>21,153,338</u>

Accumulated depreciation and impairment

At December 31, 2008	<u>(5,837,611)</u>	<u>(5,700,119)</u>	<u>(1,111,362)</u>	-	<u>(12,649,092)</u>
Charge for the year	(1,201,450)	(2,256,167)	(424,757)	-	(3,882,374)
Disposals	<u>3,174,078</u>	<u>720,718</u>	<u>452,258</u>	-	<u>4,347,054</u>
At December 31, 2009	<u>(3,864,983)</u>	<u>(7,235,568)</u>	<u>(1,083,861)</u>	-	<u>(12,184,412)</u>
Charge for the year	(551,111)	(702,828)	(93,339)	-	(1,347,278)
Disposals	<u>1,690,617</u>	<u>318,200</u>	<u>13,665</u>	-	<u>2,022,483</u>
At December 31, 2010	<u>(2,725,477)</u>	<u>(7,620,169)</u>	<u>(1,163,535)</u>	-	<u>(11,509,207)</u>

Net book value

At December 31, 2010	<u>4,393,399</u>	<u>4,511,259</u>	<u>592,111</u>	<u>147,361</u>	<u>9,644,130</u>
At December 31, 2009	<u>3,647,391</u>	<u>4,677,327</u>	<u>343,573</u>	<u>254,684</u>	<u>8,922,975</u>

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**13 FIXED TANGIBLE AND INTANGIBLE ASSETS (continued)**

**Intangible assets**

<u>Cost</u>	<u>Intangible assets</u>	<u>Intangible assets in progress</u>	<u>Total</u>
<b>At December 31, 2008</b>	<b><u>15,022,792</u></b>	<b><u>1,299,885</u></b>	<b><u>16,322,677</u></b>
Transfers	-	-	-
Additions	2,218,180	2,023,232	4,241,412
Disposals	-	(2,218,180)	(2,218,180)
<b>At December 31, 2009</b>	<b><u>17,240,972</u></b>	<b><u>1,104,937</u></b>	<b><u>18,345,909</u></b>
Transfers	-	-	-
Additions	1,282,371	200,726	1,483,097
Disposals	(42,451)	(1,282,354)	(1,324,805)
<b>At December 31, 2010</b>	<b><u>18,480,892</u></b>	<b><u>23,309</u></b>	<b><u>18,504,201</u></b>
<b>Accumulated depreciation</b>			
<b>At January 1, 2009</b>	<b><u>(3,679,748)</u></b>	<b><u>-</u></b>	<b><u>(3,679,748)</u></b>
Charge for the year	(4,472,785)	-	(4,472,785)
<b>At January 1, 2010</b>	<b><u>(8,152,533)</u></b>	<b><u>-</u></b>	<b><u>(8,152,533)</u></b>
Charge for the year	(5,386,801)	-	(5,386,801)
Disposals	38,803	-	38,803
<b>At December 31, 2010</b>	<b><u>(13,500,531)</u></b>	<b><u>-</u></b>	<b><u>(13,500,531)</u></b>
<b>Net book value</b>			
<b>At December 31, 2010</b>	<b><u>4,980,361</u></b>	<b><u>23,309</u></b>	<b><u>5,003,670</u></b>
<b>At December 31, 2009</b>	<b><u>9,088,439</u></b>	<b><u>1,104,937</u></b>	<b><u>10,193,376</u></b>

**Total fixed tangible and intangible assets**

**Net book value**

<b>As at December 31, 2010</b>	<b><u>14,647,800</u></b>
<b>As at December 31, 2009</b>	<b><u>19,116,351</u></b>

Fixed assets include the building in ownership of the Bank located at 50 Cpt. Av. Alexandru Serbanescu street, Bucharest, which as at 31 December 2009 has been pledged to secure the Bank's obligations under the credit facility received from GRF (Note 15). As at 31 December 2010 the respective credit facility agreement is terminated. The carrying value of the building amounts to 809,960 RON and RON 834,930 of 31 December 2010 and 2009, respectively.

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**14 DUE TO BANKS**

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Borrowings under repo transactions	-	12,744,272
Term deposits from banks	-	-
<b>Total</b>	<b>-</b>	<b>12,744,272</b>

As of 31 December 2010 the Bank has not entered into any repo agreements with the National Bank of Romania compared with 31 December 2009, when the bank borrowed 12,744,272 RON by repo agreements. The borrowings under these repo agreements bore 8% p.a. interest rate and have maturity up to 1 month. To secure its obligations under the repo agreements the Bank pledged government bonds with the carrying value of 12,735,781 RON.

**15 OTHER BORROWINGS**

At 31 December 2010 and 31 December 2009 other borrowings are presented as follows:

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
<b>Other long term borrowings</b>		
Loan from GRF	-	1,581,362
<b>Total</b>	<b>-</b>	<b>1,581,362</b>

On 29 March 2006 the Bank entered into a credit agreement with the German-Romanian Fund (GRF), under which it obtained EUR 1,500,000 credit facility for the purpose of extending loans to micro, small and medium-sized enterprises in Romania. As of 31 December 2006 the Bank drew down EUR 1,000,000 from the funds available under the loan agreement, and additional EUR 500,000 were drawn down during the year ended 31 December 2007. The loan bore a floating interest rate of 3M EURIBOR plus 2.75% p.a., the interests were payable quarterly. The repayment of the loan was to be made in four instalments, each amounting to 25% of the initial loan amount, on 30 June 2009, 30 September 2009, 30 December 2009 and 30 March 2010. The Bank's obligations under this loan agreement have been secured by the pledge over its property (Note 13) and by the lien over the receivables from the entities, to which the sub-loans were extended from the funds obtained under the credit agreement (Note 10).

**16 CUSTOMER DEPOSITS AND SAVINGS ACCOUNTS**

	<b>2010</b>			<b>2009</b>		
	<b>RON</b>	<b>Foreign Currencies</b>	<b>Total</b>	<b>RON</b>	<b>Foreign Currencies</b>	<b>Total</b>
Payable on demand	108,933,300	16,359,407	125,292,707	75,097,920	22,693,895	97,791,815
Term deposits	<u>214,691,071</u>	<u>122,921,643</u>	<u>337,612,714</u>	<u>252,381,799</u>	<u>142,251,392</u>	<u>394,633,191</u>
<b>Total</b>	<b><u>323,624,371</u></b>	<b><u>139,281,050</u></b>	<b><u>462,905,421</u></b>	<b><u>327,479,719</u></b>	<b><u>164,945,287</u></b>	<b><u>492,425,006</u></b>

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**16 CUSTOMER DEPOSITS AND SAVINGS ACCOUNTS (continued)**

As of 31 December 2010 and 2009, the interest rates on term deposits were as follows:

Original currency	<u>December 31, 2010</u>	<u>December 31, 2009</u>
RON	5.0%-8.0%	2.0%-15.5%
EUR	2.5%-3.0%	1.75%-7.50%
USD	0.5%-2.5%	1.5%-5.5%

As of 31 December 2010 and 2009, the interest payable on current accounts balances were 0.1% p.a. on current accounts in RON and 0.02%-0.1% p.a. on current accounts in foreign currency.

The Bank had significant balances held by the entities – members of Broadhurst Group NCH, the ultimate shareholder, on current accounts and term deposits amounting to RON 91,067,970 and RON 88,618,124 as of 31 December 2010 and 2009, respectively, which exceeds 10% of the Bank's equity.

**17 OTHER LIABILITIES**

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Social security, payroll and other taxes payable	838,926	625,118
Other creditors	<u>1,448,388</u>	<u>2,247,321</u>
<b>Total</b>	<b><u>2,287,314</u></b>	<b><u>2,872,439</u></b>

**18 SHARE CAPITAL**

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
<b>Share capital at nominal value</b>	<b><u>154,000,000</u></b>	<b><u>154,000,000</u></b>
Effect of hyperinflation adjustments from prior periods	<u>43,549,200</u>	<u>43,549,200</u>
<b>Total share capital</b>	<b><u>197,549,200</u></b>	<b><u>197,549,200</u></b>

During the year ended 31 December 2009, the shareholders increased the share capital of the Bank by RON 21,654,704. No further increases of share capital have been operated in 2010.

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**18 SHARE CAPITAL (continued)**

The shareholders structure as of 31 December 2010 and 2009 is as follows:

Shareholder	December 31, 2010		December 31, 2009	
	No. of shares	%	No. of shares	%
Romarta SA	509,071,124	33.06%	509,071,124	33.06%
Broadhurst Investments Ltd	485,000,000	31.49%	485,000,000	31.49%
Electroaparataj SA	110,800,000	7.19%	110,800,000	7.19%
Metex Big SA	166,299,900	10.8%	166,299,900	10.8%
Valm Poprietati	121,238,835	7.87%	121,238,835	7.87%
Bil Investitii SA	90,592,945	5.88%	90,592,945	5.88%
Sapte Spice SA	15,926,287	1.03%	15,926,287	1.03%
Vel Pitar SA	38,074,590	2.47%	38,074,590	2.47%
Other with less than 5%	2,996,319	0.20%	2,996,319	0.20%
<b>TOTAL</b>	<b>1,540,000,000</b>	<b>100%</b>	<b>1,540,000,000</b>	<b>100%</b>

**19 OTHER RESERVES**

Other reserves consist of legal reserves and general risk reserve established in accordance with Romanian legislation as follows:

The legal reserve is established in accordance with Romanian law at a maximum 20% of profit before tax (as calculated under Romanian Accounting Standards for banks) until the reserve reaches 100% of the share capital. Once the reserve has reached 100% of the share capital, additional allocation can be made at a maximum 10% of the profit before tax until the reserve reaches 200% of the share capital. Thereafter, additional allocations can be made from the net profit. The reserve cannot be distributed to the shareholders.

The general risk reserve is established in accordance with Romanian law and is equal to a minimum 1% of risk bearing assets. This reserve cannot be distributed to the shareholders. Any release of this reserve is transferred to the profit and loss account.

**20 RECONCILIATION OF STATUTORY PROFIT, SHARE CAPITAL AND RESERVES WITH IFRS BALANCES**

Year 2010

	Net loss	Reserves	Share capital
Balance per statutory financial statements	<b>(8,499,214)</b>	<b>(57,580,417)</b>	<b>154,000,000</b>
Share capital restatement for hyperinflation effect	-	(43,549,200)	43,549,200
Impairment allowance for loans and advances	13,937,004	17,877,984	-
Deferred taxation	2,781,511	(2,781,511)	-
Fixed and intangible assets	1,867,871	(1,091,421)	-
Change in fair value of the available for sale financial assets	-	737,635	-
<b>IFRS balance</b>	<b>10,087,172</b>	<b>(86,386,930)</b>	<b>197,549,200</b>

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**20 RECONCILIATION OF STATUTORY PROFIT, SHARE CAPITAL AND RESERVES WITH IFRS BALANCES (continued)**

Year 2009

	Net loss	Reserves	Share capital
<b>Balance per statutory financial statements</b>	<b><u>(19,732,828)</u></b>	<b><u>(38,445,470)</u></b>	<b><u>154,000,000</u></b>
Share capital restatement for hyperinflation effect	-	(43,549,200)	43,549,200
Impairment allowance for loans and advances	3,957,065	13,920,919	-
Deferred taxation	(826,609)	(2,246,510)	-
Fixed and intangible assets	(238,467)	194,609	-
Other	(6,687)	(151,386)	-
<b>IFRS balance</b>	<b><u>(16,847,526)</u></b>	<b><u>(70,277,038)</u></b>	<b><u>197,549,200</u></b>

**21 COMMITMENTS AND CONTINGENCIES**

**Commitments under rent contracts**

Future commitments related to rental contracts are as follows:

	December 31, 2010	December 31, 2009
Amounts to be paid:		
in one year	3,980,216	4,501,793
between 2 and 5 years	<u>8,365,435</u>	<u>7,585,877</u>
<b>Total</b>	<b><u>12,345,651</u></b>	<b><u>12,087,670</u></b>

**Letters of guarantee**

The aggregate amounts of outstanding letters of guarantee as at December 31, 2010 and December 31, 2009 are as follows:

	December 31, 2010	December 31, 2009
<b>Letters of guarantee in RON</b>		
secured by cash	2,014,414	787,241
secured by mortgage	160,540	1,121,827
secured by other instruments	419,525	200,000
secured by pledge on assets	<u>224,083</u>	<u>-</u>
<b>Total</b>	<b><u>2,818,562</u></b>	<b><u>2,109,068</u></b>
<b>Letters of guarantee in foreign currency</b>		
secured by pledge on assets	16,755	690,888
secured by mortgage	294,621	1,440,621
secured by cash	<u>25,914</u>	<u>932,117</u>
<b>Total</b>	<b><u>337,310</u></b>	<b><u>3,063,626</u></b>
<b>Total letters of guarantee</b>	<b><u>3,155,872</u></b>	<b><u>5,172,694</u></b>

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**21 COMMITMENTS AND CONTINGENCIES (continued)**

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
<b>Letters of credit in foreign currency</b>		
secured by other instruments	169,582	505,320
<b>Total</b>	<u>169,582</u>	<u>505,320</u>
<b>Undrawn loan commitments</b>	<u>51,615,335</u>	<u>35,597,124</u>

As at 31 December 2010 and 31 December 2009, the Bank has a financing commitment from Broadhurst Investments Limited in amount of USD 50,000,000 with a maturity date on 2 October 2011 (31 December 2009 : maturity date on 2 October 2010).

For both, letters of guarantee and letters of credit issued in RON and secured by mortgage, the following arrangement was in place: the Bank granted credit line facilities to its customers, secured by mortgage, and subsequently it issued such letters of guarantee and letters of credit within the limits initially approved for the credit lines.

**22 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. Where available, fair value is based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing techniques as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the calculated fair market estimates cannot be realized in a current sale of the financial instrument.

**(a) Cash and balances with the central bank**

The carrying values of cash and balances with the central bank are generally deemed to approximate their fair value.

**(c) Due from banks**

Amounts due from banks include balances on Nostro accounts and short term deposits with maturity up to one month. The estimated fair value of amounts due from banks approximates their carrying amounts.

**(d) Loans and advances to customers**

The fair value of variable yield loans that regularly reprice, with no significant change in credit risk, generally approximates their carrying value. Loans at fixed interest rates represent only a fraction of the total carrying value of loan portfolio. The management of the Bank reviewed the interest rates on fixed rate loans at the balance sheet date and concluded that such interest rates do not significantly differ from the interest rates on the similar type loans bearing variable interest rates. As such the management concluded that the fair value of total loans and advances to customers approximates the carrying values as at the balance sheet date. Allowances are not taken into consideration when calculating fair values.

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**22 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**

**(e) Amounts due to banks, borrowings and customers deposits**

Amounts due to banks include short term deposits with maturity up to one month. The estimated fair value of amounts due from banks approximates their carrying amounts.

The fair value of deposits payable on demand represents the carrying value of amounts payable on demand as at the balance sheet date. The fair value of term deposits at variable interest rates approximates their carrying values as at the balance sheet date. Deposits at fixed interest rates have maturities up to one year and shorter, and, hence, their fair value approximates the carrying value as at the balance sheet date.

Upon the classification of the fair value of the financial instruments, the fair value hierarchy is used to reflect the significance of the data input used to make the respective valuations.

The fair value hierarchy comprises the following three levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- inputs, other than quoted prices, included within level 1, that are observable for the assets or liabilities, either directly (that is as prices), or indirectly (that is derived from prices) (level 2). The Bank assigns its state securities to this category.
- inputs for assets or liabilities that are not based on observable market data (unobservable inputs) (level 3).

The classification of the fair value of the financial assets of the Bank per the three levels is presented as follows:

<b>31 December 2010</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
State debt securities available for sale (available for sale)	-	22,813,586	-	22,813,586
Unquoted equity securities (available for sale)			2,190,298	2,190,298
<b>Total</b>	<b>-</b>	<b>22,813,586</b>	<b>2,190,298</b>	<b>25,003,884</b>
<b>31 December 2009</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
State debt securities available for sale (available for sale)	-	20,760,146	-	20,760,146
Unquoted equity securities (available for sale)			2,190,221	2,190,221
<b>Total</b>	<b>-</b>	<b>20,760,146</b>	<b>2,190,221</b>	<b>22,950,367</b>

During the year ended 31 December 2009 the Bank did not have any significant changes in the carrying value of the unquoted equity securities. There have been no sales of such investments or new acquisitions.

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**23 FINANCIAL RISK MANAGEMENT**

The following is a summary of the nature of activities and management policies with respect to financial risks management.

**Credit risk**

The Bank takes on exposure to credit risk with respect to all credit facilities and loans granted, which is the risk that counterparty will be unable to pay the amounts in full when they fall due. The Bank's objective regarding the credit risk management is to improve and to maintain the loan portfolio quality by monitoring the loan exposures to retail customers and individuals, corporate customers and professionals.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Bank's strategy regarding the credit risk management includes in particular:

- Limiting and decreasing the concentration risk: achieved through monitoring of particular categories of customers, monitoring of exposures to individual debtors and groups of connected debtors, monitoring of exposures to geographical segments, monitoring of exposures to economic sectors, monitoring of exposures to specific lending products and risk diversification;
- Increasing the quality of collaterals;
- Limiting the credit risk per types of collaterals accepted;
- Credit risk control: through loans preapproval process and subsequent credit control procedures;
- Ensuring the adequate management of the credit risk by preparation and analysis of specific reports;
- Developing and maintaining the internal process of warning and recovering of outstanding receivables.
- Regular monitoring of loans including monitoring of debt service and financial performance of the borrowers.

**Collaterals received from customers**

As part of its credit risk management policy the Bank calls for adequate collateral on approving loans to customers. In accordance with the internal regulations the Bank accepts as collaterals the following types of assets:

- Real estate mortgage and production facilities;
- Merchandise stock and equipment;
- Securities;
- Cash collaterals and deposits;
- Liens over receivables;
- Insurance policies;
- Financial guarantees.

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**23 FINANCIAL RISK MANAGEMENT (continued)**

With respect to the above mentioned types of collaterals the Bank's policy is that the ratios of the collaterals values to the loans approved shall be as follows:

- Real estate mortgages: between 120% and 130%; (exception from this rule: credits to professionals customers that can have a coverage degree of minimum 100%);
- Production facilities: minimum 140%; exception from this rule: credits to professionals customers that can have a coverage degree of minimum 120%);
- Merchandise stock and equipment: minimum 120%;
- Cash collaterals, deposits, securities and financial guarantees: 100%.

Credit monitoring and quality of loans

For internal credit risk policies the loan portfolio is split into a number of categories depending on different criteria. The quality of loans is presented below based on ratings determined by taking into consideration of the quantitative and qualitative criteria set (debt service, financial performance of the customers, soft factors, including quality of management, competitive position, etc). One of the main criteria is the debt service of the client and its financial situation. The worst rating of the loan is applicable for the classification of the whole exposure towards the client.

Category	31 December 2010		31 December 2009	
	Gross exposure	% of total	Gross exposure	% of total
Standard	86,152,412	19%	124,214,030	27%
Watch	125,778,565	28%	134,079,919	28%
Substandard	74,955,143	17%	86,722,439	18%
Doubtful	17,640,567	4%	20,614,079	4%
Loss	149,483,841	33%	111,812,054	23%
<b>loan portfolio</b>	<b>454,010,527</b>	<b>100%</b>	<b>477,442,521</b>	<b>100%</b>

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**23 FINANCIAL RISK MANAGEMENT (continued)**

For the purpose of credit risk management the loan portfolio is further split depending on the type of the customers (retail, corporate and professional). The credit control procedures and credit risk monitoring is arranged organizationally and functionally around these categories. As of 31 December 2010 and 2009, the quality of loan portfolio per types of customers is presented as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
<b>Corporate customers</b>		
Gross exposure	197,088,024	214,815,068
Less: Impairment allowance	<u>(22,031,090)</u>	<u>(14,595,360)</u>
<b>Net exposure</b>	<u><b>175,056,935</b></u>	<u><b>200,219,708</b></u>
<b>Retail and individuals</b>		
Gross exposure	50,171,059	63,801,147
Impairment allowance	<u>(47,999,481)</u>	<u>(41,708,926)</u>
<b>Net exposure</b>	<u><b>2,171,579</b></u>	<u><b>22,092,221</b></u>
<b>Professionals</b>		
Gross exposure	176,323,025	179,287,804
Less: Impairment allowance	<u>(12,997,258)</u>	<u>(6,949,125)</u>
<b>Net exposure</b>	<u><b>163,325,767</b></u>	<u><b>172,338,679</b></u>
<b>Total loan portfolio</b>		
Gross exposure	423,582,108	457,904,019
Other receivables	30,428,418	19,538,502
Less: Impairment allowance (Note 7)	<u>(83,027,828)</u>	<u>(63,253,412)</u>
<b>Net exposure</b>	<u><b>370,982,699</b></u>	<u><b>414,189,109</b></u>

Impairment of financial assets

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due from the customers.

For the purpose of impairment testing the objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Bank mainly about the following loss events:

- significant financial difficulty of the customer;
- a breach of contract, such as a default or delinquency in interest or principal payments (normally over 90 days overdue);
- adverse changes in the payment status of the customer.

For the purpose of the financial statements disclosure, "Loans that have been impaired" are defined as assets for which an objective evidence of impairment exists as of 31 December 2010 and 2009, and for which an impairment allowance has been established as a result of impairment test.

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**23 FINANCIAL RISK MANAGEMENT (continued)**

The loans disclosed below as "Neither past due nor impaired" are those assets for which no objective evidence of impairment has been identified as of 31 December 2010 and 2009. The loans disclosed below as "Past due but not impaired" are those financial assets for which the principal and interests payments are overdue for less than 90 days and there are no other indicators of objective evidence of default. No provisions have been established for such loans based on the individual assessment of impairment and they have been included into collective assessment of impairment.

The following table details the carrying value of loans that are impaired, not impaired and the ageing of those that are past due but not impaired:

	Neither past due nor impaired	Past due but not impaired loans				Impaired loans	Total
		0-30 days	30-60 days	60-90 days	Over 90 days		
31 December 2010	51,932,936	6,422,606	1,200,306	1,385,573	523,810	392,545,295	454,010,527
31 December 2009	23,580,540	1,248,341	2,452,619	1,989,197	2,677,816	445,524,271	477,442,521

Exposure to credit risk

The following table presents the total exposure to credit risk of financial assets. For financial assets, the total exposure is equal to the carrying amount of those assets before deduction of any allowance for impairment losses or collateral. The value of collateral pledged in the table below represents the estimated fair values of real estate collaterals (for the presentation purposes the amounts of collaterals pledged equal the minimum between the estimated fair value and the gross value of the related loan outstanding).

**As at 31 December 2010:**

	Maximum exposure to credit risk	Allowance	Net exposure after allowance	Collateral Pledged	Net exposure after allowance and collaterals
Due from banks	70,210,239	-	70,210,239	-	70,210,239
Loans and advance to customers	454,010,527	(83,027,829)	370,982,698	304,680,797	31,673,047
Other assets	10,020,161	(1,098,276)	8,921,885	-	8,921,885
Off balance sheet instruments	54,771,207	-	54,771,207	-	54,771,207

**As at 31 December 2009:**

	Maximum exposure to credit risk	Allowance	Net exposure after allowance	Collateral Pledged	Net exposure after allowance and collaterals
Due from banks	26,618,876	-	26,618,876	-	26,618,876
Loans and advance to customers	477,442,521	(63,253,412)	414,189,109	342,513,949	71,675,160
Other assets	10,027,352	(387,474)	9,639,878	-	9,639,878
Off balance sheet instruments	40,769,818	-	40,769,818	-	40,769,818

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**23 FINANCIAL RISK MANAGEMENT (continued)**

**Foreign currency risk**

The bank enters into transactions in both Romanian Lei (RON) and foreign currencies. Hence, exposures to foreign exchange rates fluctuations arise. The Bank is mainly exposed to a risk of exchange rate change for monetary assets and liabilities denominated in USD and EUR, which constitute the most part of its foreign currency denominated assets and liabilities.

In order to manage the foreign currency risk the Bank maintains it's open currency exposure within the following limits as required by the National Bank of Romania:

- Net exposure in single foreign currency – maximum 10% of the total own funds calculated in accordance with the requirements of the National Bank of Romania.
- Net aggregated exposure in foreign currencies – maximum 20% of the total own funds calculated in accordance with the requirement of the National Bank of Romania.

As of 31 December 2010 and 2009, the exposure of the Bank to foreign currency risk is as follows:

Currency	December 31, 2010	December 31, 2009
EUR		
USD	401,701	(599,464)
GBP	258,220	16,959
CHF	254,899	1,188,243
SEK	23,899	64,054
CAD	36,844	-
Other	95,439	20,195
	<u>187,111</u>	<u>60,511</u>
<b>Total aggregated exposure</b>	<b><u>1,258,113</u></b>	<b><u>750,498</u></b>

Foreign currency sensitivity analysis

The following information reflects the Bank's sensitivity to depreciation and appreciation of the domestic currency against EUR, USD, GBP, CHF, NOK and CAD by 5%. 5% is the sensitivity rates which has been used for reporting the foreign currency risk exposure by the Bank for internal risk management purposes and represents the Bank's assessment of the reasonably possible change in foreign exchange rates in future. The sensitivity analysis includes only outstanding foreign currency denominated monetary assets and liabilities and adjusts their translation at the period end for a 5% change in foreign currency rates.

Currency	December 31, 2010		December 31, 2009	
	+5%	-5%	+5%	-5%
EUR	4,688	(4,688)	(7,089)	7,089
USD	4,029	(4,029)	289	(289)
GBP	2,566	(2,566)	12,536	(12,536)
SEK	3,854	(3,854)	7,779	(7,779)
CHF	349	(349)	-	-
CAD	1,486	(1,486)	361	(361)
	<u>16,972</u>	<u>(16,972)</u>	<u>13,876</u>	<u>(13,876)</u>

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**23 FINANCIAL RISK MANAGEMENT (continued)**

**Interest Rate Risk**

Interest rate risk includes interest rate price risk and interest rate cash flow risk. Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rates that apply to the financial instrument. Interest rate cash flow risk is the risk that the interest cost and the associated cash flows will fluctuate over time. Financial instruments of the Bank mainly carry both variable and fixed interest rates. As a result the Bank is exposed to both interest rate cash flow risk and interest rate price risk. Interest rates applicable to various financial assets and liabilities are disclosed in respective notes to these financial statements.

Interest rate risk management is realized by the bank through the following measures:

- Insuring maximum possible correlation of the maturities of fixed interest rate bearing funds attracted with those of the fixed interest rate bearing assets;
- Limitation of the interest rate gap by originating interest rate bearing assets having similar interest rate structure (in terms of maturity, type of interest rates and repricing period) as that of the funds attracted;
- Establishment of interest rate level on bank's assets and liabilities;
- Determination of interest rates characteristics (floating or fixed);
- Analysis of assets and liabilities maturity differences, sensible to interest rate change and maintaining an adequate structure of assets and liabilities;
- Providing interest rate flexibility, periodical change of rates on bank's financial instruments;
- Evaluation of working assets structure and structure of paid liabilities, taking measures oriented to decrease the ratio of working assets to paid liabilities;
- Examination of information on interest rate risk by the committee ALCO and bank's management with further adjustment of bank's policy on attraction and placement of means;
- Projection of perspective interest rate level on the basis of factors which may have influence on its increase or decrease, etc.

Interest rate sensitivity analysis

The sensitivity analysis below have been prepared based on the exposure to changes in interest rates for interest bearing assets and liabilities outstanding as of 31 December 2010 and 2009. For the purpose of the sensitivity analysis the Bank reviewed its portfolios of interest bearing assets and liabilities and extracted those which bear a floating interest rate. Instruments which bear a fixed interest rate have been excluded from the below analysis. The percentages of increase/decrease in interest rates as indicated below are used when reporting sensitivity to change in interest rates for internal reporting purposes of the Bank and represent the Bank's assessment of the reasonably possible change in interest rates.

The balances in the table below represent an effect of increase in interest rates on profit and loss account.

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**23 FINANCIAL RISK MANAGEMENT (continued)**

**Interest Rate Risk (continued)**

	31 December 2010		31 December 2009	
	+1%	-1%	+1%	-1%
Loans and advances to customers	3,851,606	(3,851,606)	3,323,839	(3,323,839)
Customer deposits and savings accounts	(1,239,475)	1,239,475	(862,792)	862,792
Subordinated and other long term borrowings	-	-	(15,814)	15,814
	<b>2,612,131</b>	<b>(2,612,131)</b>	<b>2,445,233</b>	<b>(2,445,233)</b>

**Liquidity risk**

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Bank controls these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period.

In order to monitor and manage the liquidity risk the Bank calculates the following liquidity ratios:

- *Immediate liquidity*: this liquidity indicator is calculated as the ratio of highly liquid assets to total borrowed funds and is used for daily liquidity monitoring by the Bank's management and the Treasury Division. The minimum limit established by the Bank's management for this indicator is 30%.
- *Liquidity indicator depending on maturity bands*: this liquidity indicator is calculated by dividing the assets of the Bank by its liabilities as adjusted by their remaining maturities. This indicator is calculated monthly and is monitored by the Bank's management and the Treasury Division. The minimum limit established by the Bank's management for this indicator is 100%.
- *Resources concentration degree*: this indicator is calculated to measure the dependence of the Bank on a single deponent or a group of related deponents and is calculated as the total funds from single deponents divided by the total borrowed funds. This indicator is calculated regularly and its maximum limit is established by the Bank's management at 50%.
- *Loans to total assets and loans to borrowed funds ratios*: these liquidity indicators are regularly calculated to establish if the strategic directions of the liquidity risk management policies are being followed within the credit policy of the Bank. The maximum limits established by the Bank's management for these indicators are 65%-70% and 70%-75%, respectively.

Maturity analysis of assets and liabilities as at December 31, 2010 and December 31, 2009 is disclosed in Notes 25 and 26. The assets and liabilities remaining maturities are presented therein, as established in contracts concluded by Bank. However, current accounts may have a maturity different from the one given by the contract, thus giving the remaining maturity based on "de facto" reimbursement dates.

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**24 SOLVENCY RATIOS**

The Bank monitors its capital resources pursuant to the Regulations issued by the National Bank of Romania. The capital adequacy ratios are calculated based on the financial information prepared in accordance with Romanian Accounting Standards. The Bank is required to measure solvency ratios by comparing its own funds to its risk weighted assets including off balance sheet commitments as prescribed by the Regulations. As of 31 December, 2010 and 2009 the Bank has complied with the minimum capital adequacy limit established by the National Bank of Romania at 8%.

**25 RELATED PARTY TRANSACTIONS**

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

The Bank has transactions with the entities – members of Broadhurst Group NCH, the ultimate shareholder, as well as with the key members of the management, which are summarized below:

<b>31 December, 2010</b>	<b>Group Entities</b>	<b>Bank's Management</b>	<b>Total</b>
Loans and advances to customers	1,402,060	84,265	1,486,325
<b>TOTAL ASSETS</b>	<b>1,402,060</b>	<b>84,265</b>	<b>1,486,325</b>
Customer deposits and savings accounts	90,531,622	933,046	91,464,668
<b>TOTAL LIABILITIES</b>	<b>90,531,622</b>	<b>933,046</b>	<b>91,464,668</b>
<b>Income from interest and commission</b>	<b>19,945</b>	<b>8,598</b>	<b>28,543</b>
<b>Expenses from interest and commissions</b>	<b>3,748,163</b>	<b>24,728</b>	<b>3,772,891</b>
<b>31 December, 2009</b>	<b>Group Entities</b>	<b>Bank's Management</b>	<b>Total</b>
Loans and advances to customers	11,223	725,742	736,965
<b>TOTAL ASSETS</b>	<b>11,223</b>	<b>725,742</b>	<b>736,965</b>
Customer deposits and savings accounts	88,618,124	3,043,516	91,661,640
<b>TOTAL LIABILITIES</b>	<b>88,618,124</b>	<b>3,043,516</b>	<b>91,661,640</b>
<b>Income from interest and commission</b>	<b>875,590</b>	<b>18,760</b>	<b>894,350</b>
<b>Expenses from interest and commissions</b>	<b>1,205,217</b>	<b>192,054</b>	<b>1,397,271</b>

All the transactions with related parties during the years 2010 and 2009 have been entered into at market terms.

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**3 ANALYSIS OF MATURITY OF FINANCIAL LIABILITIES BASED ON UNDISCOUNTED CASH FLOWS**

The following tables detail the Bank's remaining contractual maturities for its financial liabilities. This analysis has been drawn up based on the undiscounted cash flows of financial liabilities and the earliest date on which the Bank can be required to settle its liabilities, and includes both interest and principal cash flows.

	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years	Total
<b>31 December 2010</b>						
Due to banks	-	-	-	-	-	-
Customer deposits and savings accounts	284,706,685	127,544,186	43,148,088	10,353,254	41,051	465,803,419
Other liabilities	2,287,314	-	-	-	-	2,287,314
Other borrowings	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>286,994,000</b>	<b>127,544,186</b>	<b>43,148,088</b>	<b>10,353,254</b>	<b>41,051</b>	<b>468,090,734</b>
<b>Off balance sheet commitments</b>	<b>543,245</b>	<b>918,882</b>	<b>1,114,623</b>	<b>567,574</b>	<b>10,548</b>	<b>3,155,872</b>
<b>31 December 2009</b>						
Due to banks	12,744,272	-	-	-	-	12,744,272
Customer deposits and savings accounts	339,840,528	96,687,326	54,628,475	5,265,201	69,158	496,490,688
Other liabilities	2,872,439	-	-	-	-	2,872,439
Other borrowings	-	1,603,419	-	-	-	1,603,419
<b>Total financial liabilities</b>	<b>342,712,967</b>	<b>98,290,745</b>	<b>54,628,475</b>	<b>5,265,201</b>	<b>69,158</b>	<b>500,966,546</b>
<b>Off balance sheet commitments</b>	<b>1,404,511</b>	<b>657,880</b>	<b>2,612,905</b>	<b>497,399</b>	<b>-</b>	<b>5,172,694</b>

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**7 ANALYSIS OF ASSETS AND LIABILITIES BY REMAINING MATURITIES**

	December 31, 2010						
ASSETS	Up to one month	Over 1 month and up to including 3 months	Over 3 months and up to including and 1 year	Over 1 year and up to including 5 years	Over 5 years	Maturity undefined	TOTAL
Cash and balances with banks	81,861,120	-	-	-	-	-	81,861,120
Balance due from National Bank of Romania	85,024,789	-	-	-	-	-	85,024,789
Loans and advances to customers	102,832,722	8,410,876	37,596,306	68,631,205	153,511,590	-	370,982,699
Other assets	2,218,462	864,395	1,425,516	346,616	500	4,066,396	8,921,885
Investments	-	6,083,373	11,121,075	4,664,391	944,747	2,190,298	25,003,884
Fixed assets and intangible assets	-	-	-	-	-	14,647,800	14,647,800
<b>Total assets</b>	<b>271,937,093</b>	<b>15,358,644</b>	<b>50,142,897</b>	<b>73,642,212</b>	<b>154,456,837</b>	<b>20,904,494</b>	<b>586,442,177</b>
<b>Liabilities</b>							
Deposits from banks	-	-	-	-	-	-	-
Customer deposits and savings accounts	283,714,377	126,784,531	42,193,203	10,173,596	39,714	-	462,905,421
Other liabilities	2,287,314	-	-	-	-	-	2,287,314
Deferred tax liability	-	-	-	-	-	-	-
Other borrowings	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>286,001,691</b>	<b>126,784,531</b>	<b>42,193,203</b>	<b>10,173,596</b>	<b>39,714</b>	<b>-</b>	<b>465,192,735</b>
Share capital	-	-	-	-	-	197,549,200	197,549,200
Retained earnings and reserves	-	-	-	-	-	(76,299,758)	(76,299,758)
<b>Total shareholders' equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>121,249,442</b>	<b>121,249,442</b>
<b>Total liabilities and shareholders' equity</b>	<b>285,589,591</b>	<b>126,784,531</b>	<b>42,193,203</b>	<b>10,173,596</b>	<b>39,714</b>	<b>121,249,442</b>	<b>586,442,177</b>
<b>Liquidity risk as at December 31, 2010</b>	<b>(14,064,598)</b>	<b>(111,425,887)</b>	<b>7,949,694</b>	<b>63,468,616</b>	<b>154,417,123</b>	<b>(100,344,948)</b>	<b>-</b>
<b>Cumulative liquidity gap</b>	<b>(14,064,598)</b>	<b>(125,490,485)</b>	<b>(117,540,791)</b>	<b>(54,072,175)</b>	<b>100,344,945</b>	<b>-</b>	<b>-</b>

The short-term refinancing of the Bank is assured by the possibility of refinancing with other banks as well as by the availability of loan facility in amount of USD 50 million concluded with Broadhurst Investments Limited and by adoption of adequate interest policy which would allow for attracting higher volume of resources.

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**7 ANALYSIS OF ASSETS AND LIABILITIES BY REMAINING MATURITIES (continued)**

	December 31, 2009						
ASSETS	Up to one month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Maturity undefined	TOTAL
Cash and balances with banks	42,011,960	-	-	-	-	-	42,011,961
Balance due from National Bank of Romania	114,921,559	-	-	-	-	-	114,921,559
Loans and advances to customers	8,427,498	12,897,103	52,957,828	144,216,945	195,689,734	-	414,189,108
Other assets	1,008,256	-	615,468	2,295,305	-	5,720,850	9,639,879
Investments	-	5,901,075	6,493,017	7,421,307	944,747	2,190,221	22,950,367
Fixed assets and intangible assets	-	-	-	-	-	19,116,352	19,116,352
<b>Total assets</b>	<b>166,369,273</b>	<b>18,798,178</b>	<b>60,066,313</b>	<b>153,933,557</b>	<b>196,634,481</b>	<b>27,027,423</b>	<b>622,829,225</b>
<b>Liabilities</b>							
Deposits from banks	12,744,272	-	-	-	-	-	12,744,272
Customer deposits and savings accounts	338,991,223	95,645,750	52,760,107	4,976,622	51,304	-	492,425,006
Other liabilities	2,872,439	-	-	-	-	-	2,872,439
Deferred tax liability	-	-	-	-	-	2,781,511	2,781,511
Other borrowings	-	1,581,362	-	-	-	-	1,581,362
<b>Total liabilities</b>	<b>354,607,934</b>	<b>97,227,112</b>	<b>52,760,107</b>	<b>4,976,622</b>	<b>51,304</b>	<b>2,781,511</b>	<b>512,404,590</b>
Share capital	-	-	-	-	-	197,549,200	197,549,200
Retained earnings and reserves	-	-	-	-	-	(87,124,565)	(87,124,565)
<b>Total shareholders' equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>110,424,635</b>	<b>110,424,635</b>
<b>Total liabilities and shareholders' equity</b>	<b>354,607,934</b>	<b>97,227,112</b>	<b>52,760,107</b>	<b>4,976,622</b>	<b>51,304</b>	<b>113,206,146</b>	<b>622,829,225</b>
Liquidity risk as at December 31, 2009	(188,238,661)	(78,428,934)	7,306,206	148,956,935	196,583,177	(86,178,725)	-
Cumulative liquidity gap	(188,238,661)	(266,667,595)	(259,361,389)	(110,404,454)	86,178,723	-	-

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**28 SUBSEQUENT EVENTS**

In May 2011, following shareholders' decision to increase share capital taken in April 2011, the Bank has increased its share capital with RON 4,500,000, from issuance of 45,000,000 new shares with a value of 0.1 RON each.

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