



# Annual Report 2008





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## JOINT STATEMENT

JOINT LETTER OF THE CHAIRMAN AND  
OF THE MANAGING DIRECTOR

- ANNUAL RESULTS
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- CORPORATE GOVERNANCE
- STAFF, NETWORK AND IT
- FUNDING AND LIQUIDITY
- STRATEGY AND OUTLOOK

## JOINT LETTER OF THE CHAIRMAN AND OF THE MANAGING DIRECTOR

2008 was a highly challenging year with the global financial crisis deepening from month to month. Nevertheless the year will be marked as a benchmark year for NLB InterFinanz (NLBI), with continuous growth in assets and record profit. Such results were achieved even in the eve of a tightening of the financial crisis in the last quarter of the year.

NLBI's team has focused in 2008 apart from business generation also on further strengthening of corporate governance procedures and procedural integration with our parent bank Nova Ljubljanska banka d.d., Ljubljana (NLB), growth of provisions, product and geographical diversification. The past year thus marked also the seventh consecutive year in a series of the most successful years for the company both in terms of operating profit as well as net profit.

### ANNUAL RESULTS

In 2008, NLBI has once again set several record benchmarks: the total income increased to CHF 69.1 million, resulting in the record operating income of CHF 24.6 million and record net profit in the amount of CHF 14.3 million, which again indicates excellent operating performance in spite of significant build-up of provisions in the total amount of CHF 7 million. The total amount of provisions figure thus increased to CHF 63.9, with a balance sheet size of CHF 870.1 million.

Improved results mirror both increased spreads for the emerging markets as well as take into account increased refinancing expenses which came as a result of credit squeeze on the world financial markets.

The increase of provisions mirrors our implementation of the stringent NLB provisioning standards, which consequently reflect also the requirements of the Bank of Slovenia, Slovenia's governing banking authority.

### MARKETS AND POSITIONING

NLBI continues to diversify its portfolio, while maintaining its core specialization in the countries of the former Yugoslavia. Being a forfailing company and the front runner of NLB Group in different markets, NLB InterFinanz is constantly expanding to other markets, while simultaneously diversifying its products in the existing

markets as well as scouting for the markets of tomorrow.

NLBI's team of specialists managed to further develop its geographical markets in 2008 and thus in line with our strategy, managed to expand the company's geographical diversification with the aim to further mitigate single country related risks.

### CORPORATE GOVERNANCE

Nova Ljubljanska banka is continuously upgrading its corporate governance standards in line with EU regulations and requirements of the Bank of Slovenia, which is again reflected by adopted (implemented) corporate governance policies and operating guidelines. The Group risk monitoring and management, common standards for provisioning policy and stringent reporting requirements exhibit that NLB Group is functioning as a single entity. While this represents additional work load for NLBI in the so called non-profit areas, it does also mean higher transparency and safety of operations.

In addition to the governance measures imposed by the parent bank, NLBI remains also a member of a self-regulating anti-money laundering body in Switzerland, which together with the external auditors, internal audit of NLB and regular ongoing inspection of Bank of Slovenia, continue to monitor NLBI's conduct.

NLB InterFinanz's Board of Directors (BOD) conti-

ness to be chaired by Mr Claude Deroose, member of the NLB Management Board, formerly of KBC Belgium, who is responsible for the risk management of NLB and its Group, and co-chaired by Mr David Benedek, another NLB appointed member of NLBI's Board of Directors heading NLB's Treasury Division, the other members being Mr Thomas Kade, CEO of OBT AG, Mr Sandro Visini (Partner at Hürlimann Urech & Uhlmann) and Mr Alexander Swoboda, Professor of International Economics at The Graduate Institute of International and Development Studies, Geneva.

### **STAFF, NETWORK AND IT**

NLBI employs (as of March 2009) 26 people, 9 of those in Zurich and 3 in its Ljubljana branch. In addition to that, NLBI has companies and representative offices in Kiev (Ukraine), Prague (Czech Republic), Gorizia (Italy), Belgrade (Serbia) and Frankfurt (Germany), the prime objective of which is acquisition and representation services, as they essentially oversee all NLBI's interest in a particular region.

As far as the further development of its network is concerned, NLBI continues to put emphasis on core business units in line with its strategy and strategic interests of NLB d.d.

As a consequence of intensifying corporate governance procedure and due to the growth of business volumes, NLBI also continues to develop its management information system (MIS) to enable efficient risk and portfolio management and to further streamline reporting functions.

### **FUNDING AND LIQUIDITY**

NLBI's continuous stable financial performance, supported by Moody's A3 Issuer Rating (which was reevaluated in November 2008, with changed outlook to "Negative" as a consequence of the fact that NLBI is a wholly owned subsidiary of NLB, whose rating outlook was also changed), has resulted that a number of international banks continue to extend supplementary long- and short-term financing facilities to the company.

NLBI has in 2008 maintained its refinancing position and continued improving its maturity profile. Several bilateral long-term transactions were also executed during the year, the largest one with KfW for projects in the former republics of Yugoslavia.

NLBI remains by far the single largest provider of funds to NLB, which although short term in nature, can be viewed as long term funds as well.

The company, however, continues to expand its refinancing base as it acquires around 60% of its refinancing from more than 20 unconnected financial institutions.

While prudently maintaining a large cash position in the last quarter of 2008, NLBI will continue to expand its refinancer base in 2009. This is another demonstration of the company's prudent management of its liabilities as well as a reflection of the creditors' trust in the company's performance and management. NLBI's successful cooperation with its refinancers is also based on the stable performance of NLB as well as its strong partnership ties with numerous financial institution around Europe.

### **STRATEGY AND OUTLOOK**

As it was the case already in 2008, NLBI's strategy in the upcoming period is above all to continue to manage increased risks associated with the world financial crisis and to maintain an ample liquidity base. The management is paying a close attention to the general worsening of the overall economic conditions as it continues to focus in the upcoming period on maintaining the performance and the quality of the portfolio, with all other objectives being secondary in importance.

The diversification of both of the liability side of the balance sheet as well as the asset side, will be further enhanced, thus making sure, that NLBI will be maintaining both its creditor base as well as client portfolio in the near and long-term future. This should further reinforce the structu-

re and the vitality of NLBI's balance sheet and portfolio.

In 2009, NLBI is entering into its 20th anniversary operation, a period within which it has increased its own funds from CHF 5 million to CHF 120 million and has had positive results in every single year of its operation.

This clearly demonstrates both the dedication and expertise of NLB InterFinanz's management and staff, as well as highly committed support from the company's Board of Directors and its shareholder and parent bank Nova Ljubljanska banka.

As always, the Management and the Board of Directors wish to thank our customers, partners and staff for their continuing support, enthusiasm and contribution to the development of the company.



Claude Deroose



Gorazd Jančar

A blue ink signature of Claude Deroose, consisting of a large, stylized 'C' and 'D' followed by a horizontal line.

Claude Deroose  
President of the Board of Directors

Gorazd Jančar  
Managing Director

A blue ink signature of Gorazd Jančar, featuring a highly stylized and cursive script.

# THE WORLD ECONOMY IN RECESSION

- WHY THE FORECASTS WENT WRONG
- A DEEP AND PROLONGED RECESSION
- A GLOBAL RECESSION
- OUTLOOK AND SOME IMPLICATIONS FOR NLBI



## THE WORLD ECONOMY IN RECESSION

Last year's annual report suggested that 2008 would be the year of all dangers. They have now materialized and a major recession has hit the world economy. This report begins by raising three questions about that recession: first, why did forecasts for growth and recovery in the world economy remain relatively optimistic until mid-2008; second, how deep and prolonged a recession will the world economy experience; third, how global will the recession be and why? The answer is that the recession will be deeper, longer and more global than most observers initially estimated. Some implications for the Central and Eastern European region, the area of most interest to NLBI, are taken up next, before concluding on the prospects for recovery. A caveat is in order at the outset: any prediction as to the length and depth of the recession or of the timing and shape of recovery is fraught with so much uncertainty in present circumstances as to constitute at best a guesstimate or informed hunch subject to a large variance.

### WHY THE FORECASTS WENT WRONG

By the end of the first quarter of 2008, many analysts were forecasting a substantial slowdown of the United States economy; of the few who deemed a recession possible or probable, most thought the slowdown would be of relatively short duration and be followed by a rapid recovery, a v- rather than u-shaped recession. Moreover, the majority of analysts thought the slowdown or recession would not be global as the resilience of other parts of the world economy, notably of the BRIC group of countries (Brazil, Russia, India, China), would cushion world economic activity from faltering growth in the United States and a few other advanced economies.

To illustrate the evolution of forecasts as the year progressed, consider the IMF's World Economic Outlook forecasts for year-on-year growth rates of the world economy and of a number of sub-groups in Table 1. For the moment, ignore the Central and East European (CEE) and Community of Independent States (CIS) groups. At the time of the April 2008 meeting of its International Monetary and Financial Committee, the IMF still projected positive though weak growth for the United States and the advanced country group as a whole; world

economic growth was expected to weaken as a result, but still to reach 3.8% thanks to the strong (6.6%) projected growth performance of emerging market and developing economies. By October 2008 forecasts become more pessimistic, with expected growth for 2009 faltering to 0.5% in the advanced economies as a whole and to close to zero for the United States; but growth in the emerging and developing economies is still forecast to reach a relatively robust 6.1%. As 2008 comes to a close, interim forecasts (not reported here) become increasingly gloomy. By the end of January 2009, the gloom is complete with the U.S. and the advanced economies forecast to be in serious recession on average for the year and the developing world slowing down to what, from the point of view of the BRIC group of countries, amounts to a crawl. Every statistic released since that last forecast suggest that the slump in 2009 will be significantly worse and more widespread than foreseen then.

**Table 1: IMF World Economic Outlook Growth Forecasts for 2009**

Forecast date		April 08	Oct. 08	Jan. 09
Projection for 2009	World	3.8	3.0	0.5
	U.S.	0.6	0.1	-1.6
	Advanced	1.3	0.5	-2.0
	Emerging	6.6	6.1	3.3
	CEE	4.3	3.4	-0.4
	CIS	6.5		-0.4

<sup>1</sup> It should be said that the IMF became gradually more pessimistic than the consensus forecast as the year progressed.

Why did forecasters take so long to acknowledge the gravity of the slump and its global character? Part of the explanation lies in the tendency to extrapolate from, or to use models that rely on, the average experience of the past – specifically in the case of the United States, on postwar business cycle experience, with cycles lasting on average ten and a half months and becoming increasingly shallow. The implicit assumption was that the financial turmoil represented an additional shock to the economy and not a more fundamental change in the structure of the economy or of its sensitivity and response to shocks. That assumption has proved wrong. We do not know with any precision how the response of the economy to shocks has changed, nor how long the restructuring of the financial sector will take and what its shape will be. In the face of so much uncertainty, the dispersion of possible futures increases dramatically and gauging the future path of output becomes as much conjecture as forecast.

More concretely, two factors have contributed to the failure to recognize the depth of the recession early on: an underestimate of the impact of the financial crisis on the real economy and a misplaced belief in de-coupling.

## A DEEP AND PROLONGED RECESSION

A number of negative feedback mechanisms explain why the recession will be deep and prolonged. In a nutshell, the slowdown in economic activity (which is part and parcel of a “normal” business cycle) was reinforced and partly triggered by the financial crisis; in turn, the slowdown in the “real” economy worsens and prolongs the financial crisis; and so on in an exceedingly difficult to break vicious circle that accounts for the depth and persistence of the recession.

Reconstructing the financial system is an essential prerequisite to a recovery of economic activity, both because of the system’s role in channeling saving into investment and because a resumption of investment and of “normal” consumption

is dependent on a minimum of financial stability and of confidence in the preservation of wealth. Such a reconstruction, however, will take time since the financial system, be it the core banking system or the so-called “shadow banking system”, needs to shrink to a less overblown size and to undergo a massive de-leveraging in the process. In many countries (the United States and the United Kingdom to start with), household debt to income ratios (and in some sectors corporate debt to equity ratios) have grown to unsustainable levels. A long-run increase in saving rates in these countries is highly desirable but amounts to a fall in aggregate demand in the short run. And, as the real economy contracts, defaults and delinquencies rise, balance sheets deteriorate and asset prices fall, credit shrinks and economic activity contracts further.

Three additional factors contribute to the depth and length of today’s slump. First, until confidence in the financial system is restored or at least stops eroding, asset prices will not stop falling and start recovering - and spending on consumption and investment will not rebound. As the IMF’s Chief Economist Olivier Blanchard has argued in a recent commentary published in the *Economist*, the extraordinary uncertainty surrounding the path of the world’s economies and of policy responses to the crisis is itself one of the main causes of that crisis. This uncertainty will not be dispelled before commercial property and house prices begin to stabilize, banks are recapitalized, financial firms’ profits begin to recover, and the effects of policy stimulus begin to be felt.

Second, the build-up of major disequilibria is not confined to household or corporate sectors within economies but extends to current (and their mirror capital) account imbalances and to national balance sheets. Liquidity has dried up not only for financial and industrial firms but also for a number of countries. This leads to further uncertainty as to the ability of financial systems, notably in Eastern and Central Europe and in the former CIS, to withstand the “sudden stops” in

capital flows that previously sustained strong growth, but also large current account deficits, construction booms (bubbles) and government spending.

So far, however, the largest international imbalance, the current account deficit of the United States, has not resulted in the brutal and disruptive re-adjustment of major exchange rates that many observers had feared. In a way, the dollar is so much at the heart of the international monetary and financial system and crucial to its functioning that everybody has an interest in its stability.

## A GLOBAL RECESSION

The global nature of the slump is the third factor that contributes to its depth and length. Until the third quarter of 2008, many analysts still counted on the rest of the world, Asia in particular, "de-coupling" from the U.S. recession and thus cushioning its impact. Business cycles among the United States, Europe, and the emerging market and developing countries seemed to have become less synchronized than in the past, and the extraordinary vigor of growth in the BRIC countries led to the belief that the recession in the U.S. would be shallow and brief.

That belief was flawed from the outset, partly because it relies on too narrow a view of the international "transmission" of business cycles. In that view, the main source of business cycle synchronization across countries is the trade channel: a fall in output in one country results in a fall in its demand for imports and a matching fall in the rest of the world's exports and hence income and production. According to the holders of the de-coupling hypothesis, two factors have lessened the importance of this transmission channel. First, the economic weight of the United States has declined steadily over the years. Second, the rest of the world is now less dependent on the U.S. market; moreover, structural improvements as well as the accumulation of large foreign exchange reserves enables many

important emerging market countries to pursue more autonomous policies and to insulate their economies and growth better from external shocks, notably fluctuations in capital flows.

The de-coupling hypothesis, however, ignores a number of implications of increasing global economic integration for the spreading of business cycles across national boundaries. With close economic integration, it is useful to think in terms of a common world business cycle from which national cycles may diverge for various reasons. It is not difficult to see why economies would tend to experience common patterns of cyclical behavior. Cheap and efficient transmission of information will help generate similar expectations as to the profitability of investment across countries, create a common investment climate and hence similar movements in actual investment. Moreover, shocks to technology, productivity and tastes are likely to affect particular goods and industries the world over rather than specific countries. As a result, national business cycles may exhibit varying temporal patterns, but it will be because of the differing shares of specific industries (e.g. automobiles, chemicals, oil related, or whatever) in specific countries' output rather than because of "de-coupling" due to differences in national structural and macroeconomic policies. Integrated capital and financial markets, coordinated expectations and a common investment climate will result in strong co-movements in interest rates, asset prices and aggregate demand across economies. There will thus be a substantial common component in business cycles across countries and it will be difficult to de-couple economies from the common trend through country specific policies.

<sup>2</sup> That decline, however, is overstated by the use of purchasing power parity rather than market exchange rate weights when calculating the U.S. contribution to growth in the world.

<sup>3</sup> A rationale for the existence of a world business cycle independent of the exchange-rate regime, and some rough empirical testing, was developed in the early nineteen eighties in my "Exchange Rate Regimes and U.S.-European Policy Interdependence," IMF Staff Papers, Vol. 30, No. 1 (March 1983), pp. 75-102.

In our integrated world economy, busts as well as booms tend to be global and so do trends in leveraging and de-leveraging.

## **OUTLOOK AND SOME IMPLICATIONS FOR NLBI**

The outlook for 2009 is bleak and the risks attached to the IMF growth forecasts in Table 1 are to the downside. From NLBI's perspective, the dismal prospects for growth and employment in the CEE, CIS and Russian economies are particularly worrisome. A sharp drop in capital flows to the region would, and to some extent already does, set the stage not only for a further worsening of the macroeconomic outlook but also for a financial crisis. One problem is that many if not most CEE banks are owned by large Western European (notably Austrian, German, Swedish, Italian, and French) financial institutions. Austrian banks are heavily exposed to Eastern European risks, Swedish banks to the Baltic countries. A retrenchment of lending by Western financial institutions to the region could, and to some extent already has resulted in a sharp fall in credit flows, notably in trade financing. The resulting fall in the volume of international trade is likely to have further negative feedback effects on output and employment. Another problem is the heavy currency mismatch in household balance sheets that has resulted from the practice of foreign currency (particularly EUR and CHF) financing of mortgages. The unwinding of this carry trade promises to be quite painful as local currencies depreciate. Careful collateralization, as has been the practice of NLBI over the years, should, however, serve it well in this difficult environment. At the same time, the efforts of international financial intermediaries and of national governments to support trade related financing should help create new opportunities for NLBI.

Looking beyond 2009, is there anything one can say about the timing and shape of the recovery from the current slump? Trying to give a precise answer would be presumptuous. Still, very tenta-

tively given the prevailing uncertainty (in the Knightian sense of the term) and venturing where angels fear to tread, I do not see any significant recovery until the beginning of 2010 – and then probably only a timid one. A first question about the recovery is where it will start. There is reason to believe that it will be in the United States, if only because the U.S. remains the most important economy in the world, the lynchpin of the international system, the focus on which expectations are coordinated and hence the setter of the macroeconomic and investment climate of the world economy. A second question is whether the policies undertaken to mitigate the slump will lead to a bout of strong inflation as the recovery proceeds. There are two reasons to fear such an outcome. On the one hand it may prove difficult to undo in timely fashion the large expansion in central bank balance sheets that has resulted from their liquidity provision operations; on the other hand, the deterioration in public finances resulting from the fiscal stimulus measures may lead to inflationary finance. As long as credible plans for fiscal consolidation in the medium run are put in place, however, such fears may be overdone. After all, large and sustained inflations are always associated with a major and sustained breakdown in public finances. For the most important economies in the world such a breakdown is unlikely. That should not be taken to minimize the difficulties inherent in the delicate balancing of restrictive monetary policy and of fiscal consolidation that will be needed to avoid a re-kindling of inflation or a slippage back into recession as the world economy starts to grow again.

**Alexander K. Swoboda**

March 2, 2009

**Alexander K. Swoboda**  
Member of the Board of Directors  
Professor of International Economics,  
Graduate Institute of International Studies (HEI), Geneva

# AUDITOR'S STATEMENT

## REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING ON THE FINANCIAL STATEMENTS 2008

### REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

As statutory auditor, we have audited the accompanying financial statements of NLB InterFinanz AG, which comprise the balance sheet, income statement and notes, for the year ended 31 December 2008.

#### **Board of Directors' Responsibility**

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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 the internal control system relevant to the entity's preparation 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 system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the financial statements for the year ended 31 December 2008 comply with Swiss law and the company's articles of incorporation.

### REPORT ON OTHER LEGAL REQUIREMENTS

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

**PricewaterhouseCoopers AG**



Martin Schmidt  
Audit expert  
Auditor in charge



Matthias Werner

Zurich, 12 February 2009

Enclosures:

- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of the available earnings

# BALANCE SHEET / PROFIT & LOSS ACCOUNT / NOTES

- ASSETS
- LIABILITIES AND SHAREHOLDERS' EQUITY
- PROFIT AND LOSS STATEMENT FOR THE YEAR
- NOTES TO THE FINANCIAL STATEMENTS



## ASSETS

Balance sheet as per		31.12.08	31.12.07
		in CHF	in CHF
<b>CURRENT ASSETS</b>			
Cash and bank balances		48'443'731	61'780'677
Balances with affiliated banks	Note 2	13'512'014	12'248'827
Short term deposit with affiliated banks	Note 2	-	6'340'001
Other receivables		167'681	116'874
Loans (portions maturing within 1 year) to	Note 4		
Third parties		213'762'088	165'211'836
Affiliated companies	Note 2	53'969'728	9'995'390
Accrued income and prepaid expenses		22'932'856	20'884'759
<b>TOTAL CURRENT ASSETS</b>		<b>352'788'098</b>	<b>276'578'364</b>
<b>NON-CURRENT ASSETS</b>			
Financial assets	Note 8	0	11'867'623
Loans (portions maturing after 1 year) to			
Third parties		415'135'681	430'655'735
Affiliated companies	Note 2	44'390'923	56'939'625
Affiliated companies (subordinated)	Note 2	28'647'750	21'250'000
Participations	Note 7	28'639'034	28'639'034
Deposits		60'223	26'891
Tangible fixed assets	Note 5	451'301	500'200
<b>TOTAL NON-CURRENT ASSETS</b>		<b>517'324'912</b>	<b>549'879'109</b>
<b>TOTAL ASSETS</b>		<b>870'113'010</b>	<b>826'457'473</b>

## LIABILITIES AND SHAREHOLDERS' EQUITY

Balance sheet as per	31.12.08	31.12.07
	in CHF	in CHF
<b>CURRENT LIABILITIES</b>		
Loans (portions maturing within 1 year) from		
Third parties	228'700'018	256'333'777
Affiliated companies	Note 2 331'425'340	268'141'834
Accounts payable	281'176	144'473
Accrued liabilities	12'639'825	13'172'583
<b>TOTAL CURRENT LIABILITIES</b>	<b>573'046'359</b>	<b>537'792'667</b>
<b>NON-CURRENT LIABILITIES</b>		
Loans (portions maturing after 1 year) from		
Third parties	176'240'125	194'822'602
Provision for credit risks	Note 9 10'534'488	10'221'735
Provision for country risks	Note 9 52'284'519	46'233'778
Provision for off-balance	Note 9 1'154'923	0
Provision for accrued interest	Note 9 0	500'000
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>240'214'055</b>	<b>251'778'115</b>
<b>TOTAL LIABILITIES</b>	<b>813'260'414</b>	<b>789'570'781</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	21'000'000	5'000'000
Legal reserves	2'500'000	2'116'000
Retained earnings:		
Balance brought forward	18'986'691	16'822'624
Net profit for the year	14'365'905	12'948'067
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>56'852'596</b>	<b>36'886'691</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>870'113'010</b>	<b>826'457'472</b>

## PROFIT AND LOSS STATEMENT FOR THE YEAR

Income Statement	2008	2007
	in CHF	in CHF
<b>INCOME</b>		
Commissions Income	2'536'254	3'126'126
Dividends received	4'033'691	3'861'157
Interest income	62'609'724	50'778'195
<b>TOTAL INCOME</b>	<b>69'179'669</b>	<b>57'765'479</b>
<b>EXPENSE</b>		
Interest expense, bank commission and charges	-35'637'449	-27'474'598
Interest derivatives held for trading (net)	-14'365	0
Commissions expense	-2'091'820	-3'439'388
Salaries, social security and other personnel costs	-3'998'140	-3'509'824
Office space	-234'592	-189'618
Depreciations on tangible fixed assets	-118'943	-235'392
Other administration expenses	-847'233	-592'100
Lawyers' fees, bookkeeping, audit costs and Directors' fees	-1'058'600	-665'283
Traveling, representation expenses	-564'105	-924'291
<b>TOTAL EXPENSE</b>	<b>-44'565'247</b>	<b>-37'030'493</b>
<b>OPERATING RESULT FOR THE YEAR</b>	<b>24'614'422</b>	<b>20'734'986</b>
Change in provision	-9'643'543	-12'165'000
Foreign exchange loss/gain (net)	Note 10 185'474	-76'613
Unrealised loss from derivatives	-2'221	-13'024
Debtors loss	-194'544	-
Gain from sale financial assets	631'226	632'709
Gain/loss from sale of participations and fixed assets	5'736	4'541'252
<b>PROFIT BEFORE TAX</b>	<b>15'596'549</b>	<b>13'654'309</b>
Tax expense	-1'230'644	-706'242
<b>NET PROFIT FOR THE YEAR</b>	<b>14'365'905</b>	<b>12'948'067</b>

## NOTES TO THE FINANCIAL STATEMENTS 2008

### 1. Ownership and activities

The company is 100% owned by Nova Ljubljanska banka d.d., Ljubljana, Slovenia. Its business specialisation is the provision of direct or indirect trade financing.

### 2. Affiliated companies

The term 'affiliated companies', as used in these financial statements, is including Nova Ljubljanska banka d.d. and its directly or indirectly majority owned subsidiary companies.

### 3. Basis of preparation

The financial statements have been prepared in accordance with the accounting principles of the Swiss Code of Obligations. Such principles include completeness, clarity and materiality, prudence, going concern, consistency and prohibition of netting of assets and liabilities as well as income and expense.

### 4. Loans

The position 'Loans (maturing within 1 year)' includes short-term loans, short-term portions of long-term loans and liquid forfaiting transactions with maturity longer than one year, which can be disposed on short notice in the secondary forfaiting market.

### 5. Tangible fixed assets

The tangible fixed assets comprise office furniture and equipment of CHF 451'301 (2007: CHF 500'200), with a fire insurance value of CHF 619'000 (2007: CHF 660'000).

### 6. Pledged assets

No assets were pledged at 31 December 2008 or at 31 December 2007.

### 7. Participations

<b>Company, Domicile, Business</b>	<b>2008 Authorized Capital Interest in %</b>	<b>2007 Authorized Capital Interest in %</b>
NLB InterFinanz Praha s.r.o., Prague (Czech Republic) Finance Company	CZK 500'000 100%	CZK 500'000 100%
NLB InterFinanz d.o.o., Belgrade (Serbia) Finance Company	EUR 4'274 100%	EUR 4'274 100%
NLB Tutunska Banka A.D., Skopje (Macedonia) Bank	MKD 854'061'000 26.72%	MKD 785'621'000 29.04%

### 8. Financial Assets

Financial Assets were sold in 2008. Values of financial assets were stated at amortized cost. The carrying value as at 31 December 2007 was below the market value of these financial assets.

### 9. Risk management

NLB InterFinanz AG, Zurich established in their 'Risk provisioning guidelines' standards for methodology and practical application of risk provisioning with regard to:

- Credit risk
- Country risk, and
- Liquidity risk

To decrease the interest rate risk the company entered into an interest rate swap for USD 1'450'000. Maturity is at 30 September 2009.

The processes defined regarding risk assessment and risk provisioning are in general compatible with those standards of Nova Ljubljanska banka Group, which reflect the prudence of the requirements of Bank of Slovenia. Nevertheless, criteria with regards to the specific structure and instruments of the forfaiting activity of the Company form a part of the guidelines.

A risk assessment exists of the board of NLB InterFinanz AG. The board made internal arrangements to guarantee a minimal risk for material false statements in the financial statements.

#### **10. Accounting for foreign currencies**

Transactions expressed in foreign currencies are recorded at their CHF equivalents at the time the transaction occurred.

The CHF equivalents of monetary foreign currency assets and liabilities are revalued to the closing rates at the balance sheet date.

#### **11. Contingent liabilities and commitments**

At 31 December 2008, the Company had outstanding risk participations totalling CHF 19'974'799 (2007: CHF 70'881'208).

#### **12. Changes in Accounting Policy**

For the financial year 2008 the depreciation method for fixed assets has been changed from "declining balance depreciation" to "straight line" method. This depreciation method is in line with the group accounting standards.

Proposal of the board of directors for appropriation of retained earnings

	<b>31.12.08</b>	<b>31.12.07</b>
Balance brought forward	18'986'691	16'822'624
Net profit for the year	14'365'905	12'948'067
<b>RETAINED EARNINGS</b>	<b>33'352'596</b>	<b>29'770'691</b>
Dividends	11'500'000	10'400'000
Allocation to legal reserve	1'763'000	384'000
<b>TO BE CARRIED FORWARD</b>	<b>20'089'596</b>	<b>18'986'691</b>



BOARD OF DIRECTORS AND MANAGEMENT

## BOARD OF DIRECTORS

Mr Claude Deroose, Chairman of the Board  
Nova Ljubljanska banka d.d. Ljubljana, (Member of the Management Board)

Mr David Benedek, Vice Chairman of the Board  
Nova Ljubljanska banka d.d. Ljubljana (Deputy Senior Director NLB Group Management Center)

Mr Thomas Kade, Member  
OBT Treuhand, Zürich, (Director and Partner)

Mr Alexander K. Swoboda, Member  
Graduate Institute of International Studies, Geneva (Professor of International Economics)

Dr. Sandro Visini, Member  
Wenner & Uhlmann, Zürich (Partner)

## MANAGEMENT

### NLB InterFinanz AG, Zürich

Mr Gorazd Jančar, Managing Director  
Ms Mateja Krpač, Deputy Managing Director  
Mr Tomaž Lavrič, Deputy Managing Director

### NLB InterFinanz AG, Ljubljana Branch

Mr Valentin Vičič, Director

### Subsidiaries:

**NLB InterFinanz Praha s.r.o.**

Mr Štefan Lončnar, Director

**NLB InterFinanz d.o.o. Beograd**

Mr Borut Müller, Director

## NETWORK DIRECTORY

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