

# Annual Report 2010

NLB  InterFinanz

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# JOINT STATEMENT

JOINT LETTER OF THE CHAIRMAN AND  
OF THE MANAGING DIRECTOR

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



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

The business year 2010 has been in many respects mirroring the happenings in 2009. Like 2009, 2010 was a year dedicated mostly to portfolio management, further strengthening of the provision base and centralization of NLB InterFinanz's (NLBI) operation and decision making process, on the level of its 100% shareholder, Nova Ljubljanska banka d.d. (NLB).

As a consequence of the continuous challenging situation of NLBI's markets of operation, but also due to the stressed capital adequacy situation of NLB, the new transaction generation was further slowed down, in accordance with NLB's group wide policy. A more aggressive business acquisition policy of NLBI is thus put on hold until its parent bank solves its capital adequacy issues and until it defines its strategy and expansion appetites towards operation in transition economies and emerging markets.

### ANNUAL RESULTS

Considering that there was limited new business generation NLBI still posted solid results with operational profit (after tax) exceeding CHF 8.4 million and net profit being with CHF 2.4 million slightly above last year's.

In line with the stringent requirements of the Bank of Slovenia, Slovenia's governing banking authority, NLBI has, also according to centralized instruction of its parent bank, created additional provisions of CHF 6.5 million thus increasing the total amount of provisions figure to CHF 83.6 million (representing the 15% coverage of the total portfolio), with a balance sheet size of CHF 607.9 million.

The decrease in generation of new assets has of course resulted in decreased operating income, but also in worsening of the NPA ratio and profitability ratios.

### MARKETS AND POSITIONING

Being a trade finance company and the front runner of NLB Group in different markets, NLBI carefully manages geographical diversification of its portfolio, while simultaneously diversifying its products in the existing markets as well as scouting for the markets of tomorrow.

As mentioned earlier, the efforts of the NLBI team in 2010 were directed primarily into consolidating its position in the current markets of operation and intensive work with its creditor

base, which is located in countries which are still impacted by the current crisis.

### CORPORATE GOVERNANCE

The practice in previous years of Nova Ljubljanska banka to continue to upgrade its corporate governance standards within NLB Group in line with EU regulations and requirements of the Bank of Slovenia, has only been increased, which is reflected by numerous newly adopted corporate governance policies and operating guidelines within NLB InterFinanz AG. These procedures centralize the risk management operation within NLB and also redefine its decision making procedure, bringing in many cases the decision on a concrete transaction to the level of the shareholder.

The NLB 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 in 2010 even increased the additional work load for NLBI in the so called non-profit areas, it does also mean higher transparency and safety of operations both for NLBI and its creditors.

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 performance.

NLBI's Board of Directors (BOD) continues 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, member of the NLB Management Board, responsible for NLB Treasury and International Corporate, the other members being Mr Sergej Garantini, General Manager Financial institutions and Int'l Financing NLB d.d. Ljubljana and Acting Senior Director NLB, Ms Mojca Videmšek Osolnik, Executive Assistant & General Manager NLB d.d. Ljubljana, Mr Thomas Kade, CEO of the OBT AG, Mr Sandro Visini (Partner at a Swiss law firm Wenner & Uhlmann) and Mr Alexander Swoboda, Professor of International Economics Emeritus at The Graduate Institute of International and Development Studies.

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

NLBI employs (as of April 2011) 20 people 9 of those in its headquarters in Zurich. NLBI keeps its branch office in Ljubljana (Slovenia) and has subsidiary companies and representative offices in Kiev (Ukraine), Prague (Czech Republic), Gorizia (Italy), Belgrade (Serbia) and Frankfurt (Germany). The prime objectives of this network are acquisition and representation services, as they essentially oversee all NLBI's interests in a particular region.

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

As a consequence of intensifying corporate governance procedures, NLBI continues to develop its management information system (MIS), its core IT platform, that enables efficient on-line risk and portfolio management and further streamlines reporting functions.

#### **FUNDING AND LIQUIDITY**

As in previous years, NLBI's continuous stable

financial performance is resulting in a steady number of international banks extending supplementary short- and long-term financing facilities to the company.

While NLBI experienced a few line cancellations in 2010, mostly due to the changed business strategies of the respective refinancers following the financial crisis, it has nevertheless also closed several new transactions in the form of loans, money market deposits, Schuldschein and a certificate of deposit. This is a reflection of the creditor's trust in the company's performance and management and demonstrates the company's prudent management of its liabilities. NLBI's successful collaboration with its refinancers is also based on NLBI's parent bank, NLB, i.e. its strong partnership ties with numerous financial institutions across Europe.

NLB also today remains the single largest provider of funds to NLBI as roughly 40 % of NLBI's refinancing is acquired from more than twenty unconnected financial institutions in Switzerland and abroad.

#### **STRATEGY AND OUTLOOK**

Like in 2010, NLBI's strategy in the upcoming period is above all to continue to manage the challenges associated with the world financial crisis and to maintain an ample liquidity base. The management is paying a close attention to the general economic conditions in key world market economies, as well as situation in its emerging markets. Thus it shall continue to focus in the upcoming period on maintaining the performance and the quality of the portfolio, with all other objectives being secondary in importance.

While NLBI's profit generation capability remains, thru its knowhow, network, dedicated team of professionals and its brand on the markets of its operation, unimpaired, such business development is conditional on finalization of various (equity ratios related) processes within NLB, and awaits their positive completion and NLB's decision to move forward.

In 2011, NLBI is entering into its 22nd year of its operation, a period within which it has increased its own funds from CHF 5 million to CHF 131 million and has continuously had positive results in every single year of its operation.

This clearly demonstrates both the dedication and expertise of NLB InterFinanz's management and team of experts, as well as highly committed support from the company's Board of Directors and, especially, from its 100% 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

A handwritten signature in blue ink, consisting of a large, stylized 'C' and 'D' followed by a horizontal line and a small flourish.

Claude Deroose  
President of the Board of Directors



Gorazd Jančar

A handwritten signature in blue ink, featuring a large, stylized 'G' and 'J' followed by a horizontal line and a small flourish.

Gorazd Jančar  
Managing Director

## 2011: GLOBAL REBALANCING OR WORSENING IMBALANCES?

- AN UNBALANCED AND FRAGILE RECOVERY
- POLICY CHALLENGES



## 2011: GLOBAL REBALANCING OR WORSENING IMBALANCES?

The IMF's just issued April 2011 World Economic Outlook and Global Financial Stability Report represent, broadly speaking, the consensus view about the near and medium-term path of the world economy and financial system. According to the IMF, recovery has taken hold as world output, after falling in 2009 by 0.5 % in purchasing power parity terms (and by 2.1% at market exchange rates, the more relevant measure from a business cycle perspective), grew by 5% in 2010 and is projected to grow by 4.4 and 4.5% respectively in 2011 and 2012. As Table 1 below shows, however, the recovery is an uneven one. Growth in the emerging market and developing countries, after falling sharply in 2009, has recovered rapidly in 2010 and is projected to remain solid in 2011 and 2012 (especially in China and India). Recovery in the advanced economies, in contrast, has been more anemic, growth is likely to stay modest over the near term and unemployment is forecast to fall only slowly.

**Table 1**  
**World Economy: Growth Rates**  
 (Year on year % change in output)

	2006	2007	2008	2009	2010	2011*	2012*
<b>World Output (PPP weights)</b>	5.1	5.2	2.8	-.05	5.0	4.4	4.5
<b>World Output (At Market Exc. Rates)</b>	3.9	3.8	1.6	-2.1	3.9	3.5	3.7
<b>Advanced Economies (PPP weights)</b>	3.0	2.7	0.2	-3.4	3.0	2.4	2.6
<b>Emerging and Developing Economies (PPP weights)</b>	7.9	8.3	6.0	2.7	7.3	6.5	6.5

\*Projections

Source: IMF, World Economic Outlook, various issues.

In addition to it being uneven, the world economy's recovery is subject to important downside risks. Among them, the Eurozone "peripheral" countries' sovereign debt overhang, the scale of the fiscal consolidation required in the United States and Japan, financial fragility, and overheating in the emerging markets loom large. There is thus much uncertainty about the near and medium-term outlook. Will 2011 be the year in which the world economy begins to rebalance, the recovery from recession is consolidated and financial stability is re-established? Or, on the contrary, does a period of faltering growth, renewed financial turmoil, increasing trade imbalances and currency wars lie ahead?

### **AN UNBALANCED AND FRAGILE RECOVERY**

The pace of recovery is uneven not only as between advanced and emerging market economies but also within the two groups of countries. This is particularly true of the advanced economies with prospects for a reduction of unemployment still weak in the United States, with the public debt overhang weighing on growth in both Japan and several Euro Area countries, with in contrast seemingly solid growth prospects for Germany and a number of other countries.

Growth prospects are also varied among the countries of immediate interest to NLBInterFinanz as indicated by the IMF World Economic Outlook projections reported in Table 2. It shows that

Slovenia, Croatia and the Ukraine were particularly hard hit by the crisis. Slovenia and especially Croatia are expected to recover relatively slowly from the trough and return only gradually to their medium-run potential growth rates (of which the 2016 projection is an indication). In contrast, Serbia is projected to recover more rapidly and to reach substantial output growth by 2012 already. Note that the projected 2011 and 2012 growth rates are not particularly high given the depth of the preceding recession.

The uneven pace of the global recovery would not be as serious a reason to worry about its soli-

dity were it not for the fact that it is only one of the several “imbalances” plaguing the world economy. Some of these imbalances find their origin within national states. These so-called “internal imbalances” include excessive public debt and fiscal deficits, deficient private saving and excessive private borrowing, or various distortions, often policy induced, that make for inappropriate structures of demand or supply (for instance, in the housing market in the United States and many other countries). Such internal imbalances often spill over into “external imbalances” such as an “excessive” current account

**Table 2**  
**Selected Countries: Growth Rates**  
 (Annual % change in real GDP)

	2006	2007	2008	2009	2010	2011*	2012*	2016*
<b>Slovenia</b>	5.9	6.9	3.7	-8.1	1.2	2.0	2.4	1.9
<b>Croatia</b>	4.7	5.5	2.4	-5.8	-1.4	1.3	1.8	3.0
<b>Macedonia</b>	5.0	6.1	5.0	-0.9	0.7	3.0	3.7	4.0
<b>Serbia</b>	5.2	6.9	5.5	-3.1	1.8	3.0	5.0	5.0
<b>Ukraine</b>	7.4	7.9	1.9	-14.8	4.2	4.5	4.9	4.0

\*Projections

Source: IMF, World Economic Outlook April 2011

deficit which is by definition equal to the difference between national saving and investment or, if you prefer, between national income and spending by residents. At that external level, global current account imbalances have for years occupied center stage in international economic debate—be it within the G-20, the G-7, the IMF, the OECD, or within the academic community. The large United States current account deficit and its counterpart in surplus countries—mainly Germany and Japan in the eighties, these two countries again but principally China in the first decade of this century—is the main case in point.

Sustained current account deficits or surpluses are not a bad thing in and of themselves. In fact they are a good thing when, absent externalities, they reflect economic decisions unfettered by distortions and man-made impediments to trade

in goods or assets. The capital account flows that are the counterpart of such current account deficits or surpluses allow the preferences of lenders and borrowers to be reconciled, capital to flow from where it is abundant to where it is scarce, portfolios to be better diversified, and shocks to be insured against. The worry about contemporary current account imbalances is, on the one hand, that they reflect something wrong elsewhere in the economy and, on the other hand, that their unwinding may occur in disorderly fashion. Specifically, they reflect “excessively” low national saving in the United States, with very low household saving and a government budget deficit forecast to stay at over 10% of GDP; and a high saving rate combined with weak spending on domestic production in the surplus countries, most notably in China. This is a threat to the recovery to the extent that markets

deem a continuation of this pattern of international goods and capital flows unsustainable and that governments cannot agree on the proper way to resolve them.

The disagreement is fundamentally about the sharing or division of the burden of adjustment between surplus and deficit countries. The United States, where recovery is anemic, would like to continue with an expansionary monetary and fiscal policy leaving it to the surplus countries to take the initiative of the adjustment by increasing their spending (including on U.S. exports) relative to their output and by letting their currencies (in particular the Renminbi) appreciate relative to the U.S. Dollar. Some surplus countries, in contrast, feel threatened by inflation rather than deflation and would like to see the deficit countries take the initiative to reduce their monetary expansion. Countries like Brazil see the U.S. Federal Reserve quantitative easing programs as a competitive depreciation policy that not only gains market share abroad at the expense of Brazilian and other emerging market countries but also threatens to create asset bubbles in their countries and worldwide. Other less open economies, China foremost among them, resist the nominal appreciation of their currencies but, partly as a result of their intervention in the foreign exchange market, see their international reserves increase beyond the level which they themselves feel appropriate. In addition they see their inflation rates rising sharply, bringing about the real appreciation of their currencies which they tried to resist by fixing the nominal exchange rate.

We end up in the paradoxical situation where each side feels the other is engaging in currency wars: the U.S. feels that China, among others, is manipulating its currency to maintain an unfair competitive advantage while some surplus countries feel the United States are deliberately using monetary expansion to depreciate (undervalue) the U.S. dollar and thus gain export share in world markets. How to resolve this conflict is one of the major challenges for international policy coordination. But it is not the only major policy challenge on the way to recovery from the "great

recession." The latter has left in its trail a worrisome legacy of distortions and fragilities, particularly in the financial field.

The crisis should have been an opportunity to redress the financial imbalances that had contributed to its onset and spread. Judging from the outcome, the opportunity was not seized. The household sector in several countries remains highly indebted. It is true that the balance sheet of firms in a number of advanced countries is much sounder today than it was three or four years ago. Their reduced indebtedness, however, has in many cases been matched by an increased indebtedness of the state. The failure to clean up the financial, particularly the banking, sector is perhaps the greatest source of fragility of both the international and national banking systems. True, a few unviable banks have been closed, others rescued or merged and to some extent recapitalized; more generally, the banks' capital-asset ratios are on the rise and due to rise further under Basel III and reinforced national regulatory norms. That said, the banking system and more generally the financial system has become addicted to wholesale short-term, low-interest rate funding, often from central banks or other official sources. Partly as a result, the moral hazard engendered by the handling of the crisis has, if anything increased rather than diminished. The policy challenges that arise from these macroeconomic imbalances and financial fragilities are daunting.

#### **POLICY CHALLENGES**

At a macroeconomic level, the challenges confronting national economic policies are well known. Much of the recovery has been supported by expansionary fiscal and monetary policies. In advanced economies and on the monetary front, quantitative easing and the purchase of assets that do not traditionally figure on the balance sheet of central banks (e.g. securities issued by the private or semi-public sectors or long-dated government securities) have sought to sustain liquidity, to lower long-term interest rates and to support the extension of

credit to both the household and corporate sectors. Whatever the past effectiveness of these policies, there is little they can do to stimulate the recovery further. Similarly, on the fiscal front, the crisis has not only worsened government deficits and raised the level of sovereign debt cyclically but also revealed and made more acute the structural nature of government deficits, not only in the periphery of the Euro Area but also in the United States and Japan. Put simply, the macroeconomic challenge is fiscal consolidation and a gradual withdrawal of monetary ease lest inflation (expected and actual) start rising—while not aborting a still weak recovery. This would be difficult enough were the financial system on a sound footing and global imbalances on the mend. They are not.

At the level of the financial system, the challenge is to deal with the many fragilities that are in part the legacy of the crisis: excessive leverage of households, in the United States in particular; and, prominently, the sensitivity of the banking system to a rise in funding costs and the withdrawal of official support of various types. The fact that the prospect of an increase of interest rates by 25 basis points by the summer and by 50 basis points by year end should generate such controversy is disturbing to say the least. How can recovery and world growth hinge on such a modest rise in policy rates? The answer must be that there is still so much leverage and such fragility in the financial system, so much uncertainty as to future growth and the expected profitability of investment, that the specter of renewed financial turmoil and collapse looms large in the psyche of the public and of policy makers.

What needs to be done is fairly clear and has been outlined in several reports, notably in the latest IMF World Economic Outlook and Global Financial Stability Report. It requires a modicum of international cooperation to deal with global imbalances; decisive steps to increase the capital buffer of banking systems and make them countercyclical; increasing the transparency of markets and transactions; and dealing with the too big to

fail problem and the attending competitive distortions and moral hazard issues. Some progress has been made but implementation of good intentions has been spotty. And the mishandling of the crises within the Euro Area is not a good omen; neither is the weakening of regulatory and supervisory proposals as a result of intense lobbying by the banking and financial industry, whether in Europe or the United States. So, expect further currency, financial, and ultimately economic volatility. This is the context in which NLBI will have to operate in the coming year(s). It is not entirely negative as some resumption of growth in its region of operation is expected, as Table 2 indicated, and with it an improvement in the quality of its credit portfolio. But continued high volatility among the three main currencies in which it operates, the Euro, Swiss franc and U.S. dollar, means that hedging exchange rate risks remains of the essence. Similarly, uncertainty about the course of interest rates and risk premia lends particular importance to continued efforts at stabilizing funding costs and to extending the maturity structure of the financing of our operations.

For the world economy as a whole, the best scenario is a continuation of the recovery, even if it remains uneven, and a progressive rebalancing of the many imbalances and distortions that were not dealt with in the immediate aftermath of the great recession. The economic and financial system, however, remains very fragile and the return to steadier growth is anything but assured. Let us just hope that a shock, be it a natural disaster, a geopolitical shock, or a financial “accident” does not plunge the world into a renewed crisis.

**Alexander K. Swoboda**  
April 2011

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

# AUDITOR'S STATEMENT



## 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 2010.

### **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 2010 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



Erik Dommach  
Audit expert  
Auditor in charge



Dominique Rey  
Audit Expert

Zurich, 10 March 2011

### 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		31.12.10	31.12.09
		in CHF	in CHF
<b>CURRENT ASSETS</b>			
Cash and bank balances		41'404'858	55'960'049
Balances with affiliated banks	Note 2	10'411'627	6'931'276
Other receivables		8'077	10'698
Loans (portions maturing within 1 year) to	Note 4		
Third parties		197'866'565	208'560'904
Affiliated companies	Note 2	8'222'502	43'301'952
Accrued income and prepaid expenses		13'974'726	18'057'695
<b>TOTAL CURRENT ASSETS</b>		<b>271'888'355</b>	<b>332'822'574</b>
<b>NON-CURRENT ASSETS</b>			
Financial assets	Note 8	87'731	0
Loans (portions maturing after 1 year) to			
Third parties		260'726'360	360'261'790
Affiliated companies	Note 2	18'813'023	30'944'334
Affiliated companies (subordinated)	Note 2	27'502'250	28'665'750
Participations	Note 7	28'639'034	28'639'034
Deposits		60'304	65'428
Tangible fixed assets	Note 5	262'202	361'402
<b>TOTAL NON-CURRENT ASSETS</b>		<b>336'090'904</b>	<b>448'937'738</b>
<b>TOTAL ASSETS</b>		<b>607'979'259</b>	<b>781'760'312</b>

## LIABILITIES AND SHAREHOLDERS' EQUITY

Balance sheet as per	31.12.10	31.12.09
	in CHF	in CHF
<b>CURRENT LIABILITIES</b>		
Loans (portions maturing within 1 year) from		
Third parties	156'621'133	272'612'992
Affiliated companies	Note 2 273'391'969	324'062'170
Accounts payable	268'370	264'317
Accrued liabilities	6'109'570	8'351'021
<b>TOTAL CURRENT LIABILITIES</b>	<b>436'391'042</b>	<b>605'290'500</b>
<b>NON-CURRENT LIABILITIES</b>		
Loans (portions maturing after 1 year) from		
Third parties	33'692'681	51'415'867
Affiliated companies	Note 2 6'252'250	-
Provision for credit risks	Note 9 49'400'407	34'269'006
Provision for country risks	Note 9 33'619'720	42'748'433
Provision for off-balance	Note 9 606'340	863'941
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>123'571'398</b>	<b>129'297'247</b>
<b>TOTAL LIABILITIES</b>	<b>559'962'440</b>	<b>734'587'747</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	21'000'000	21'000'00
Legal reserves	4'423'000	4'263'000
Retained earnings:		
Balance brought forward	20'099'565	20'089'596
Net profit for the year	2'494'254	1'819'968
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>48'016'819</b>	<b>47'172'565</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>607'979'259</b>	<b>781'760'312</b>

## PROFIT AND LOSS STATEMENT FOR THE YEAR

Income Statement	2010	2009
	in CHF	in CHF
<b>INCOME</b>		
Commissions Income	1'884'182	2'724'131
Dividends received	2'140'684	4'165'545
Interest income	30'345'105	38'529'700
<b>TOTAL INCOME</b>	<b>34'369'972</b>	<b>45'419'377</b>
<b>EXPENSE</b>		
Interest expense, bank commission and charges	-17'764'456	-21'790'725
Interest derivatives held for trading (net)	0	-15'230
Commissions expense	-1'441'154	-2'327'520
Salaries, social security and other personnel costs	-3'858'665	-3'374'850
Office space	-219'660	-281'529
Depreciations on tangible fixed assets	-108'759	-125'688
Other administration expenses	-559'100	-750'811
Lawyers' fees, bookkeeping, audit costs and Directors' fees	-1'403'595	-434'063
Traveling, representation expenses	-527'899	-587'455
<b>TOTAL EXPENSE</b>	<b>-25'883'287</b>	<b>-29'687'870</b>
<b>OPERATING RESULT FOR THE YEAR</b>	<b>8'486'685</b>	<b>15'731'506</b>
Change in provision	-5'745'087	-13'907'450
Foreign exchange loss/gain (net)	Note 10 121'599	-3'249
Unrealised loss from derivatives	0	14'225
Extraordinary income	226'824	0
Unrealised loss on financial assets	-3'632	0
Debtors loss	-457'328	0
Gain/loss from sale of participations and fixed assets	0	1'337
<b>PROFIT BEFORE TAX</b>	<b>2'629'061</b>	<b>1'836'368</b>
Tax expense	-134'807	-16'400
<b>NET PROFIT FOR THE YEAR</b>	<b>2'494'254</b>	<b>1'819'968</b>

## NOTES TO THE FINANCIAL STATEMENTS 2010

### 1. Ownership and activities

The company is 100% owned by Nova Ljubljanska banka d.d., Ljubljana, Slovenia. Its business specialization 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 262'202 (2009: CHF 361'402), with a fire insurance value of CHF 560'000 (2009: CHF 620'000).

### 6. Pledged assets

No assets were pledged at 31 December 2010 or at 31 Dezember 2009.

### 7. Participations

<b>Company, Domicile, Business</b>	<b>2010 Authorized Capital Interest in %</b>	<b>2009 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 854'061'000 26,72%

### 8. Financial Assets

Values of financial assets are stated at amortized cost. The carrying value as at 31 December 2010 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

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 forfeiting 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 2010, the Company had outstanding risk participations totalling CHF 5'047'173 (2009: CHF 9'373'087).

## **12. Rounding differences**

As figures are shown in whole numbers it might have rounding differences.

## **13. Further information (according to Art. 663b OR)**

There is no further information to mention according to article 663b of Swiss Code of Obligation.

Proposal of the Board of Directors for appropriation of retained earnings

	<b>31.12.10</b>	<b>31.12.09</b>
Balance brought forward	20'099'565	20'089'596
Net profit for the year	2'494'254	1'819'968
<b>RETAINED EARNINGS</b>	<b>22'593'819</b>	<b>21'909'564</b>
Dividends	2'270'000	1'650'000
Allocation to legal reserve	227'000	160'000
<b>TO BE CARRIED FORWARD</b>	<b>20'096'819</b>	<b>20'099'564</b>

BOARD OF DIRECTORS AND  
MANAGEMENT



## BOARD OF DIRECTORS

Mr Claude Deroose, Chairman of the Board (until May 2011)  
NLB d.d. Ljubljana (Member of the Management Board)

Mr David Benedek, Chairman of the Board (since May 2011)  
NLB d.d. Ljubljana (Member of the Management Board)

Ms Mojca Osolnik Videmšek, Vice-Chairman of the Board  
NLB d.d. Ljubljana (Executive Assistant & General Manager, Group Management)

Mr Sergej Garantini, Member  
NLB d.d. Ljubljana (General Manager, Financial Institutions and International Financing)

Mr Thomas Kade, Member  
OBT AG, Zürich (CEO)

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

Mr Alexander K. Swoboda, Member  
Graduate Institute of International Studies (Professor of International Economics Emetritus),  
Advisor Swiss National Bank

## 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, General Manager

**Subsidiaries:**  
**NLB InterFinanz Praha s.r.o.**  
Mr Štefan Lončnar, General Manager

**NLB InterFinanz d.o.o. Beograd**  
Ms Aleša Korenčič, General Manager

## NETWORK DIRECTORY

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