

ANNUAL
REPORT
2006



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JOINT STATEMENT

JOINT LETTER OF CHAIRMAN AND OF THE MANAGING DIRECTOR

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- STAFF, IT AND NETWORK
- FUNDING
- STRATEGY AND OUTLOOK

JOINT LETTER OF THE CHAIRMAN AND OF THE MANAGING DIRECTOR

It is our pleasure to report that 2006 was another successful year for NLB InterFinanz (NLBI), with strong growth in assets and record profit. Such results were achieved in the environment of further consolidation of emerging markets countries, which was reflected in increased stability and general improvement of economic conditions in our target geographical areas.

NLBI achieved another important milestone in its operational history, by obtaining Moody's first time Issuer credit rating of A3, which is one notch below NLB d.d.'s rating. Such rating confirmed above all the company's stable performance, good position in the forfaiting market in South-Eastern and Central & Eastern Europe, good risk management capabilities and overall satisfactory financial profile and strong support from its shareholder.

NLBI's team has focused in 2006 apart from business generation also on further strengthening of corporate governance procedures, disinvestments, growth of provisions, product and geographical diversification and procedural integration with our parent bank Nova Ljubljanska banka d.d., Ljubljana (NLB). The past year thus marked also the fifth 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

As mentioned above, NLBI has once again set several record benchmarks in 2006: the total income increased to CHF 38.3 million, resulting in the record operating income of CHF 16.2 million and record net profit in the amount of CHF 10.0 million, which again indicates excellent operating performance in spite of strong build-up of provisions in the total amount of CHF 7.9 million. The total amount of provisions figure thus increased to CHF 44.8 million, with a balance sheet size of CHF 576.8 million.

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 forfaiting company and the front runner of NLB Group in different markets, NLB InterFinanz is currently

expanding to other emerging markets, while constantly monitoring the performance of the existing markets as well as scouting for the markets of tomorrow.

As elaborated every year, a stable year for emerging markets means in principle a challenging year for the forfaiting community as this is often synonymous with falling margins, decreasing transaction volumes and increased competition from our western counterparts. Nevertheless, NLBI's team of specialists managed to develop several new geographical markets in 2006 and thus in line with our strategy, managed to expand our geographical diversification with the aim to further mitigate single country related risks, as well as to continue building transaction volumes.

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, 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 inspection of Bank of Slovenia, continue to monitor NLBI's performance.

STAFF, IT AND NETWORK

NLBI employs (as of March 2007) 21 people, 9 of those in Zurich and 3 in its Ljubljana branch. In line with the above mentioned geographical expansion strategy, NLBI opened a representative office in Ukraine in January 2007, which will serve as business generation vehicle in developing Ukrainian economy. In addition to that, NLBI has companies and representative offices in Prague (Czech Republic), Gorizia (Italy), Belgrade (Serbia) and Frankfurt (Germany), which exclusively execute acquisition and representation services, as they essentially oversee all NLBI's interest in a particular region.

As already announced in the previous year, NLBI sold its leasing subsidiary in Macedonia, NLB Lizing (previously LBIS d.o.o.e.l., Skopje) to NLB d.d., which is consolidating its leasing operations on the Group level.

As far as the further development of its network is concerned, NLBI will continue to put emphasis on core business units in line with its strategy and strategic interests of NLB d.d. Such strategy foresees further expansion in several Eastern European markets, where NLBI's management sees significant business potentials.

In accordance with the growth of business volumes, NLBI also continues to develop its management information system (MIS) to enable effi-

cient risk and portfolio management and to further streamline reporting functions.

FUNDING

NLB remains by far the single largest provider of funds to NLBI, however the company continues to expand its refinancing base as today it acquires over 56% of its refinancing from other financial institutions. NLBI's continuous stable financial performance, supported by Moody's A3 Issuer Rating and accompanied by the fact that it is a wholly owned subsidiary of NLB, has resulted in a number of international banks extending supplementary financing facilities to the company.

NLBI also successfully closed its first syndicated facility in January 2007 and issued a loan certificate, which enabled the company to further diversify its liability structure.

STRATEGY AND OUTLOOK

As in previous years, NLBI's strategy is to further increase its forfaiting and trade finance portfolio, while maintaining its commercial banking activities which serve partly as business products diversification and partly to complement the needs and business activity of Nova Ljubljanska banka.

The diversification of assets, both product and country-wise will be further enhanced, thus making sure, that NLBI will also have a market in the near and long-term future. This will further improve the structure and the vitality of NLBI's portfolio.

NLBI's core geographical focus for the future remains trade related business in South-Eastern Europe and Central and Eastern European countries, where NLBI foresees continuing development of its portfolio. Based on the company's two tier business model, NLBI focuses on individual countries, where significant opportunities exist for forfaiting and trade related products and as the market develops, the company expands its product range to other product areas.

In 2007, NLBI is entering into its 18th year of operation, a period within which it has increased its own funds from CHF 5 million to CHF 75.7 million, paid out twice the dividends than it has share capital and has had positive results in every single year of its operation. This clearly demonstrates both the dedication and expertise of our staff, as well as highly committed support from our shareholder and parent bank Nova Ljubljanska banka.

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



Borut Stanič

A handwritten signature in blue ink, consisting of a large, sweeping initial 'B' followed by several loops and a final flourish.

Borut Stanič
President of the Board of Directors



Gorazd Jančar

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

Gorazd Jančar
Managing Director

AUDITOR'S STATEMENT

AUDITOR'S STATEMENT

REPORT OF THE STATUTORY AUDITORS TO THE GENERAL MEETING OF NLB InterFinanz AG, Zurich

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) of NLB InterFinanz AG for the year ended December 31, 2006.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Guido Andermatt
Auditor in charge



Thomas Fleischer

Zurich, March 2, 2007

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 December		31.12.06	31.12.05
		in CHF	in CHF
CURRENT ASSETS			
Cash and bank balances		3'718'615	4'454'187
Balances with affiliated banks	Note 2	1'957'785	977'128
Short term deposit with affiliated banks	Note 2	12'857'600	1'558'700
Other receivables		1'312	2'011
Loans (portions maturing within 1 year) to	Note 4		
Third parties		164'054'220	179'805'240
Affiliated companies	Note 2	8'532'333	6'245'783
Accrued income and prepaid expenses		14'305'349	11'735'292
TOTAL CURRENT ASSETS		205'427'215	204'778'341
NON-CURRENT ASSETS			
Financial assets	Note 8	20'557'195	12'795'693
Loans (portions maturing after 1 year) to			
Third parties		262'525'057	148'257'526
Affiliated companies	Note 2	57'518'816	52'415'625
Affiliated companies (subordinated)	Note 2	8'250'000	
Participations	Note 7	22'418'045	12'247'124
Deposits		26'830	20'486
Tangible fixed assets	Note 5	106'640	114'800
TOTAL NON-CURRENT ASSETS		371'402'583	225'851'254
TOTAL ASSETS		576'829'798	430'629'595

LIABILITIES AND SHAREHOLDERS' EQUITY

Balance sheet as per 31 December	31.12.06	31.12.05
	in CHF	in CHF
CURRENT LIABILITIES		
Loans (portions maturing within 1 year) from		
Third parties	251'607'380	179'491'689
Affiliated companies	Note 2 217'983'880	167'360'730
Accounts payable	140'821	146'116
Accrued liabilities	7'260'580	4'460'937
TOTAL CURRENT LIABILITIES	476'992'661	351'459'472
NON-CURRENT LIABILITIES		
Loans (portions maturing after 1 year) from		
Third parties	24'108'000	17'145'700
Provision for credit risks	Note 9 8'580'770	5'025'513
Provision for country risks	Note 9 35'709'743	31'372'040
Provision for accrued interest	Note 9 500'000	500'000
TOTAL NON-CURRENT LIABILITIES	68'898'513	54'043'253
TOTAL LIABILITIES	545'891'174	405'502'725
SHAREHOLDERS' EQUITY		
Share capital	5'000'000	5'000'000
Legal reserves	1'441'000	1'045'000
Retained earnings:		
Balance brought forward	14'475'870	9'656'660
Net profit for the year	10'021'754	9'425'210
TOTAL SHAREHOLDERS' EQUITY	30'938'624	25'126'870
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	576'829'798	430'629'595

PROFIT AND LOSS STATEMENT FOR THE YEAR

Income Statement	2006	2005
	in CHF	in CHF
INCOME		
Commissions Income	4'620'989	2'347'281
Dividends received	1'990'387	1'392'275
Income trading loans third party	0	200'211
Interest income	31'723'177	23'136'446
TOTAL INCOME	38'334'552	27'076'213
EXPENSE		
Interest expense, bank commission and charges	-14'993'627	-8'455'093
Commissions expense	-2'230'161	-1'439'509
Salaries, social security and other personnel costs	-3'218'684	-2'555'954
Office space	-74'770	-75'781
Depreciations on tangible fixed assets	-52'650	-64'183
Other administration expenses	-141'371	-176'160
Lawyers' fees, bookkeeping, audit costs and Directors' fees	-504'847	-459'767
Traveling, representation expenses	-455'860	-477'199
Expense of branch offices	-466'664	-223'212
TOTAL EXPENSE	-22'138'634	-13'926'859
OPERATING RESULT FOR THE YEAR	16'195'918	13'149'354
Change in provision	-7'892'960	-4'044'653
Foreign exchange loss/gain (net) Note 10	-136'211	-25'834
Unrealised loss from forwards	-22'462	0
Gain from sale financial assets	979'367	601'022
Loss from sale participations and fixed assets	-9'867	-177'166
Extraordinary income	1'745'524	832'487
PROFIT BEFORE TAX	10'859'310	10'335'210
Tax expense	-837'556	-910'000
NET PROFIT FOR THE YEAR	10'021'754	9'425'210

NOTES TO THE FINANCIAL STATEMENTS 2006

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 in Zurich of CHF 106'640 (2005: CHF 114'800), with a fire insurance value of CHF 250'000 (2005: CHF 250'000).

6. Pledged assets

No assets were pledged at 31 December 2006 or at 31 December 2005.

7. Participations

Company, Domicile, Business	2006 Authorized Capital Interest in %	2005 Authorized Capital Interest in %
NLB InterFinanz Italia S.r.l., Gorizia (Italy) Finance Company	- -	EUR 40'000 51%
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 and Montenegro) Finance Company	EUR 4'274 100%	USD 5'000 100%
NLB Lizing d.o.o.e.l., Skopje (Macedonia) Finance Company	- -	MKD 9'391'000 100%
NLB Tutunska Banka A.D., Skopje (Macedonia) Finance Company	MKD 693'866'000 30.28%	MKD 693'866'000 23%

NLB Lizing d.o.o.e.l. Skopje was sold to NLB d.d., as the leasing business within NLB Group is being consolidated on the Group level.

The Management decided to reorganize NLB InterFinanz Italia S.r.l., Gorizia (Italy) into NLBI Representative Office Gorizia to achieve cost benefits related to the tax treatment of the representative office.

8. Financial Assets

Values of financial assets are stated at amortized cost. The carrying value as at 31 December 2006 and 31 December 2005 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.

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.

At 31 December 2006, the Company had an open interest rate swap for USD 1'450'000. Maturity is 30 September 2009.

At 31 December 2006, the Company had open forex forward CZK 11'000'000 against CHF 620'312.41. Maturity is 15 January 2007. Unrealised loss is booked as per 31 December 2006.

11. Contingent liabilities and commitments

At 31 December 2006, the Company had outstanding risk participations totalling CHF 46'562'694 (2005: CHF 9'604'010).

Proposal of the board of directors for appropriation of retained earnings

	31.12.06	31.12.05
Balance brought forward	14'475'870	9'656'660
Net profit for the year	10'021'754	9'425'210
RETAINED EARNINGS	24'497'624	19'081'870
Dividends	7'000'000	4'210'000
Allocation to legal reserve	675'000	396'000
TO BE CARRIED FORWARD	16'822'624	14'475'870

BOARD OF DIRECTORS AND MANAGEMENT

BOARD OF DIRECTORS

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

Mr Pierre Van Keirsbilck, Vice Chairman of the Board (until October 2006)
Nova Ljubljanska banka d.d. Ljubljana, (Member of the Management Board)

Mr David Benedek, Vice Chairman of the Board (since October 2006)
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
Hürlimann Urech & 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 Borut Müller, Branch Manager

Subsidiaries:

NLB InterFinanz Praha s.r.o.

Mr Štefan Lončnar, General Manager

NLB InterFinanz d.o.o. Beograd

Mr Igor Lavš, General Manager

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