



Annual Report 2006.

NLB  Montenegrobanka

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General Manager's Statement



For NLB Montenegro Bank the year 2006 was significant, since it was the year of consolidation and overall stabilization, after the demanding job of merger of Montenegro Bank and Euromarket Bank. This process, which was complex and difficult by its very nature, produced, as we expected, an increased activity, aimed at finding an adequate response and satisfying an increased demand and requirements of our old and new clients.

The banking sector and the market recorded during the previous year a growth that exceeded all predictions, and NLB Montenegro Bank accomplished remarkable results in that process. After the consolidation, the Bank returned to the market as a reliable and secure participant, which has by far exceeded the projected plans both with the corporate clients and the private individuals, and achieved a good result.

In its operation, NLB Montenegro Bank works on establishment of a long-term cooperation with its clients, endeavoring to become their long-term chosen partner, who will recognize their needs and be an incentive of their continual development. Our intentions are to develop and grow gradually, on basis of a support and growth of our clients, and following them on their road of success.

A handwritten signature in black ink, appearing to be 'Črtomir Mesarič'.

Črtomir Mesarič
General Manager

Management bodies

General Meeting of Shareholders

General Meeting of Shareholders consists of the Bank's shareholders or their representatives.

The Bank's shareholders have the voting privilege subject to their number of shares with the managing right.

Management Board

Management Board, as a body managing the Bank, is nominated by the General Meeting of Shareholders.

The Management Board of the Bank has 7 (seven) members, as follows:

Mr Matej Narat, President (Member of the Management of NLB d.d.)

Božo Štor, Deputy President (President of the Management of Koroška bank d.d.)

Mr Andrej Hazabent, member (Member of the Management of NLB d.d.)

Milan Marinič, member (Director of the Center and the Assistant Manager of NLB d.d.)

Gregor Kastelic, member (Representative of EBRD)

Dejan Bajić, member (President of the Management Board of Lovćen osiguranje ad Podgorica)

Črtomir Mesarič, member (General Manager of NLB Montenegrobanka ad Podgorica), by the law.

Permanent bodies of the Management Board are the Credit Risk Management Committee and the Supervisory Committee.

Credit Risk Management Committee

Andrej Hazabent, President

Božo Štor, member

Črtomir Mesarič, member

Supervisory Committee

Milan Marinič, President

Božo Štor, member

Dejan Bajić, member

Bank Management

General Manager of the Bank is the CEO of the Bank and is responsible for his work and for operation of the Bank to the Board of Directors of the Bank.

Črtomir Mesarič, General Manager since 1st March 2006

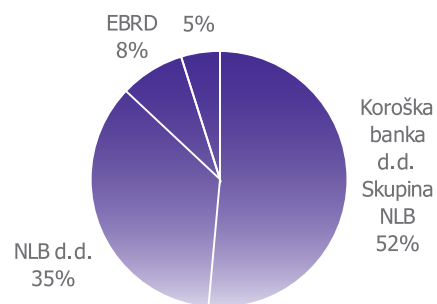
Darko Radunović, Deputy General Manager

Janko Gedrih performed the function of the General Manager in the period from 1st January 2006 till 1st March 2006.

Table 1.
Ten biggest shareholders of NLB
Montenegrobanka as at
Decembar 31, 2006

	Number of shares	Share in %
1. Koroška banka d.d. Skupina NLB	630.838	51,48%
2. Nova Ljubljanska banka d.d.	434.812	35,49%
3. European Bank for Reconstruction and Development	97.810	7,98%
4. Floričić Kristijan	9.471	0,77%
5. HTP "Budvanska rivijera" a.d. Budva	8.024	0,65%
6. Holding kompanija "Obod" Cetinje	5.243	0,43%
7. Kombinat aluminijuma Podgorica	3.395	0,28%
8. "Gornji Ibar" a.d. Rožaje	2.722	0,22%
9. Jeličić - Purko Miroslav	2.227	0,18%
10. Monte Adria broker - diler	2.149	0,18%
Total ten shareholders	1.196.691	97,66%
Others	28.624	2,34%
Total	1.225.315	100,00%

Picture 1.
NLB Montenegrobanka's
shareholders as at
Decembar 31, 2006



Iznam zašto.

Strategy



Strategy

A vision of NLB Montenegrobanka is to become a leading bank in the creation of financial - banking standards in Montenegro, with an emphasis on the increase of operation efficiency and profitability

Corporate Banking

Attainment of a higher level of efficiency and more diversified offer of banking products.

Expansion of business cooperation with the existing and establishing of cooperation with new clients, with special emphasis on small and medium-size enterprises.

Growth of non-interest incomes (revenues from fees and commissions).

Establishment of cooperation with large state systems that are still not privatized and transformed and with local autonomies in Montenegro.

Increase of investment in the most significant branches of Montenegrin economy in accordance with the strategy of its development: tourism, agriculture, trade, construction industry, wood-processing industry, processing industry, food and beverage production industry, maritime affairs and shipbuilding, fishing.

Increase of participation in strategic projects supported by the republic agencies and the local autonomy agencies: traffic infrastructure, water resources management, etc.

Retail Banking

Maintenance of market share in loans at the level exceeding 20%.

Faster growth of deposits against loans, in order to harmonize ratio of its own resources and placements.

Increase of regular clients' basis from 42 to 55 thousand clients.

Strategic goals of the Bank in the forthcoming period:

Substantial increase of the balance amount, the loan and the deposit portfolio.

Intensification of all kinds of control mechanisms.

The Bank as a »financial bridge« between the economies of Montenegro, Slovenia and the economies of the countries where NLB Group is present.

Focusing on certain operation segments (segmentation of clients, card and e-banking, ATMs, extensive range of loans and deposits, capital placement in investment funds in the country and abroad, development of banking-guarantee products and services etc).

Strengthening of its own sources of funds (deposits of non-banking sector); elaboration of possibilities to diversify sources (focusing on regional sources).

Personnel restructuring, education and training of employees.

Financial report

Financial results of the Bank in 2006 may be estimated as good, since there were registered positive variations from the planned figures, and a significant growth in all operation segments compared with the last year (considering the two banks collectively, before the merger).

The year 2006 was completed with the result of 1,2 mil EUR. The result of the Bank from the regular operation amounted to 1,9 mil EUR.

Although the year 2006 was characterized by an extraordinary market competition, and the Bank faced a demanding merger process that required organizational, personnel, information-technological and business synchronization of the two systems, there was achieved a good financial result of 1,2 mil EUR, that is, 1,9 mil EUR from regular operation.

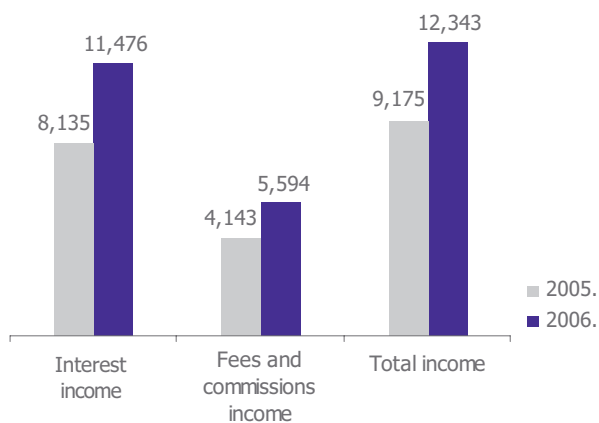
Income Statement

The cost that, in addition to regular operation, burdened the Bank's results was the amount of over 1 mil EUR redundancy payment to the employees who accepted an offer for termination of work relation by mutual agreement. On the other side, by sale of a part of assets, there was recorded an extraordinary income of 316 thousand EUR, as well as 165 thousand EUR as the income from the previous period.

Table 2.
Key profit and loss account items
(in thousand EUR)

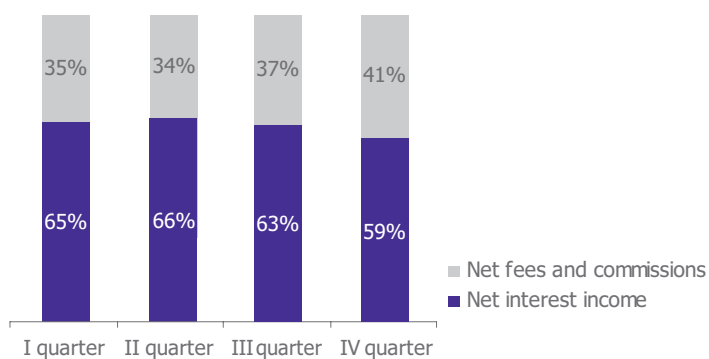
Others	2006.	plan 2006.	real/plan
Net interest income	7.791	7.026	111%
Net fees and commissions	4.552	3.967	115%
Total net income	12.343	10.993	112%
Total costs	7.526	7.947	95%
Net provisions	2.865	1.592	180%
Profit before extraordinary expenses and tax	1.952	1.454	134%
Extraordinary income/expenses (net)	-763	-1.277	60%
Net profit for the period	1.189	177	672%

Picture 2.
Review of the operating income
2005/2006 (in thousand EUR)



The realized **net operative income** in 2006, in the amount of 12,3 mil EUR, was by 35% higher than the one realized in 2005 (collectively for both banks, before the merger). The structure was unchanged; 64% net operative income resulted from interest and 36% from commissions and fees.

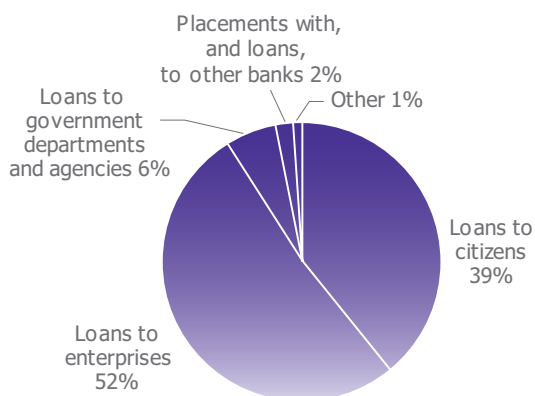
Picture 3.
Quarterly review of the operating
income structure in 2006



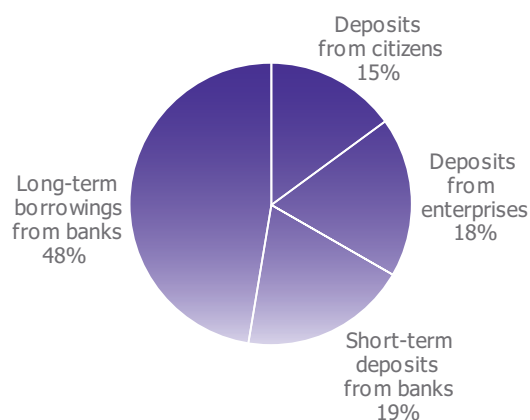
During the year 2006, the share of the net non-interest income in the income structure was increased from 35% in I quarter to 41% in IV quarter.

The share of the net interest income decreased; the interest spread was reduced by 2% in 2006.

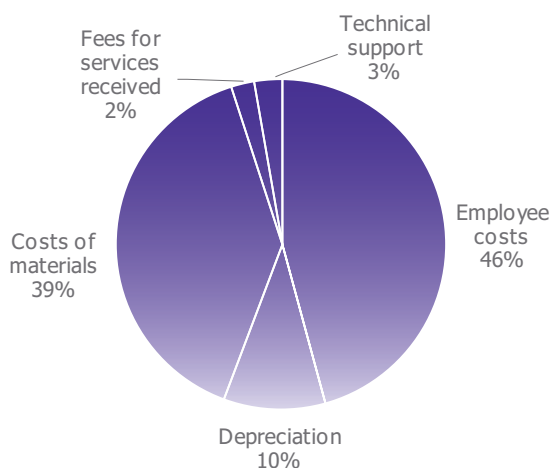
Picture 4.
Structure of the interest income
in 2006



Picture 5.
Structure of the interest
expense in 2006



Picture 6.
Structure of the operating costs
in 2006

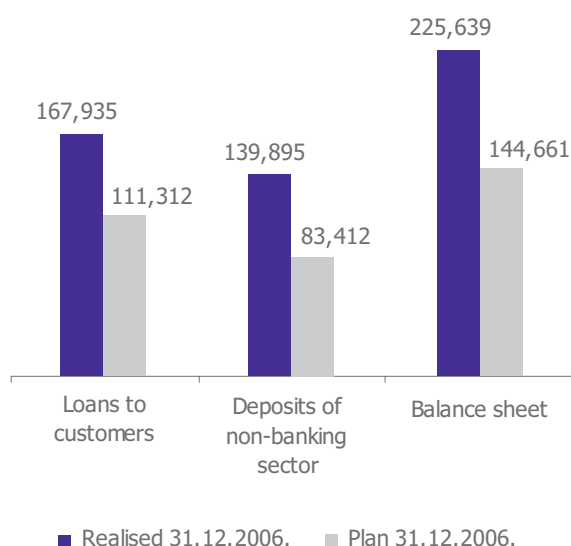


Operating costs amounted to 7,5 mil EUR in 2006 and were by 5% lower than those planned.

It is important to note that the Bank is burdened with significant rental costs (1,3 mil EUR in 2006), primarily for the new business building of the Headquarters, as well as for the business premises of the ramified network of branches and outlets, which entail high maintenance costs, insurance costs, public utility costs and similar.

Balance Sheet

Picture 7.
Review of basic items of the
balance sheet (realization/plan,
in thousand EUR)



As stated by the three key indicators showing the participation of banks in the market, NLB Montenegrobanka ranks second in the banking sector of Montenegro, with the following participation percentages:

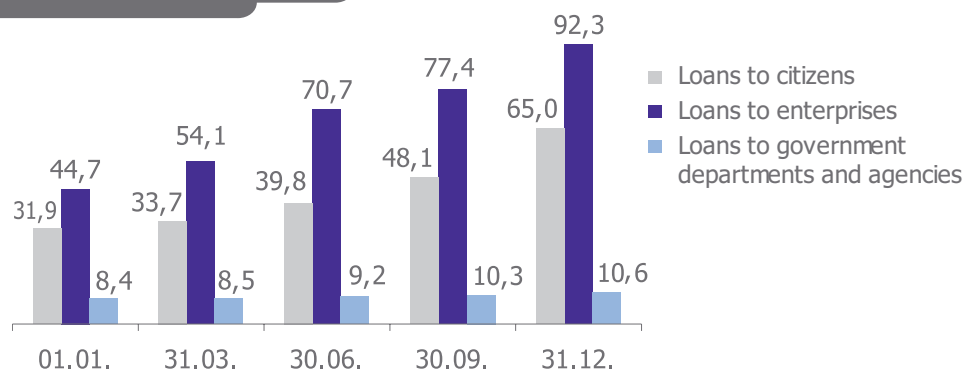
Loans.....	19%
Deposits.....	16%
Balance amount.....	16%

Balance amount of the Bank was increased by 75% in 2006 and on 31st December 2006 amounted to 225, 6 mil EUR (the plan was exceeded by 56%).

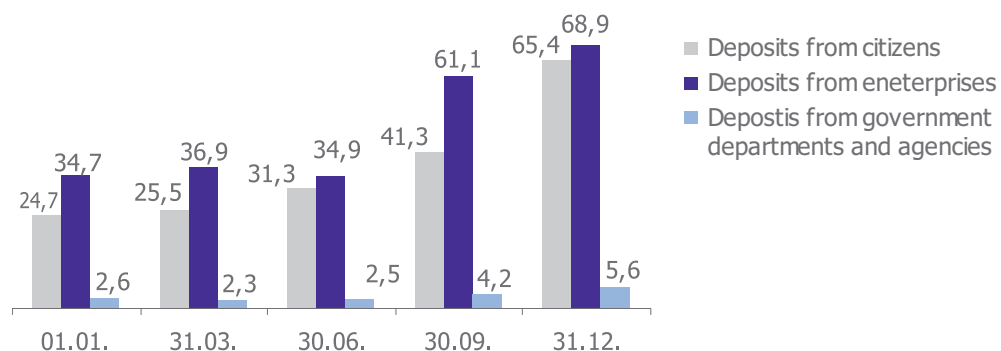
As a result of an exceptional demand for loans, which characterized the market of Montenegro, the highest growth was recorded in the **Loans to non-banking sector** – 97%, with the plan exceeded by 51% in this operation segment. Loan portfolio of the Bank, as of 31st December, reached the amount of 167,9 mil EUR.

As for liabilities, **deposits of non-banking sector** were growing faster than the loans; the realized growth in 2006 – 126% (the plan was exceeded by 68%). Reaching the amount of deposits of 139,9 mil EUR, the coefficient of coverage of loans with deposits was increased from 73%, on 1st January, to 83%, on 31st December 2006.

Picture 8.
Loans to customers
(in million EUR)



Picture 9.
Deposits of non-banking sector
(in million EUR)



Operating indicators	2006.
ROA a.t.	0.73%
ROE a.t.	5.74%
CIR	69.89%
Capital adequacy	17.69%
Coverage of portfolio by provisions	3.87%

Business Analysis

Znam zašto.



Retail Banking

The year 2006 was marked with the merger of the two banks - differently profiled in the retail banking segment. The final goal of achieving synergic effect of the merger of two clients bases, offers, networks of branches and personnel potentials is evident in the realized growth rates and realization of business plans.

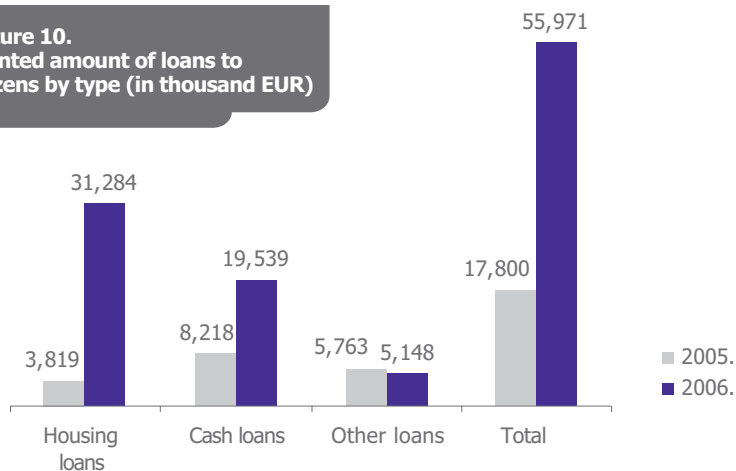
On long-term basis, the Bank counts on the business network segment (retail banking and SME), as an increasingly growing part of its operation; in this connection a Long-term Development Strategy has been adopted and its implementation has already started.

The basic development goals in 2006 were:

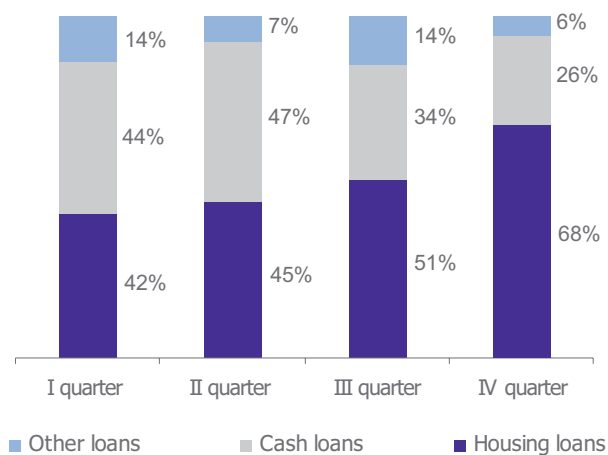
- Stabilization of services and applicative support,
- Opening of new offices, redesigning of the existing ones and approaching the NLB standards,
- Redesigning of the existing banking services, development of new services, promotion of advanced sale channels,
- Strategic shifting from transaction to sale approach and personal method in contact with clients,
- Synchronization of assets and liabilities, with focus on its own sources - as a basis for offer of loan products,
- Enhancement of the Bank's image and promotion of the new bank (after the merger), as well as the new approach to clients.

Taking the advantage of being a member of NLB Group (consulting, trainings, visits of experts), the Bank has to a great extent managed to achieve the set goals, using the experience and products of the parent bank in the developed market, successfully adjusting them to the clients and the environment in Montenegro.

Picture 10.
Granted amount of loans to
citizens by type (in thousand EUR)



Picture 11.
Structure of granted amount of
loans to citizens



Loans

Loan activity at the level of the banking system realized exceptionally high growth rates in 2006. The Bank managed to attain approximately the same growth rates as the market did, on a substantial loan basis (almost 30% of the market share at the beginning of 2006), thus keeping the position of one of the leading banks in the retail banking segment.

With 56 mil EUR, granted as loans, the Bank increased its selling activity by 215%, compared with the year 2005 (collective figure for both banks, before the merger).

In the loans structure, the prevailing share is in the housing loans, where the Bank appeared with a renewed offer and a noteworthy media campaign.

The cash loan segment has been enriched with new products: **cash loan, quick cash loan, mortgage loan**. The offer also included **loan for preparation of tourist season**, which focused on the seaside municipalities, with a possibility of seasonal repayment.

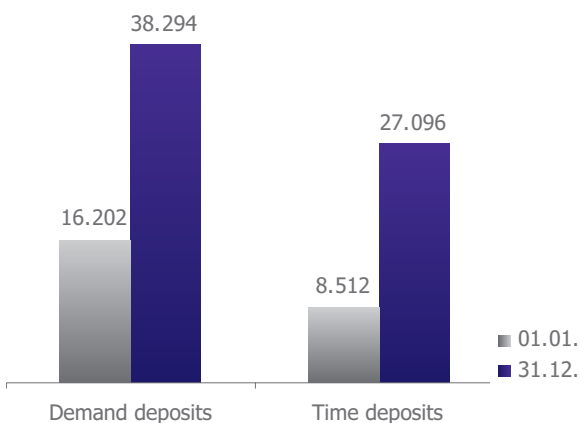
In accordance with the segmenting of the offer of deposit products, the part of the loan products also included the formulating of specialized products - such as **Silver loan** with special advantages. With consumer loans the innovation of the offer with a strong corporate clients basis has resulted with the high growth rates – possibility of interest subvention, tied loans, express loans etc. The products have been suited to the requirements of corporate clients, and aimed at the increase of the sale volume, with the loan support to the end consumers provided by advanced models of loans.

Deposits

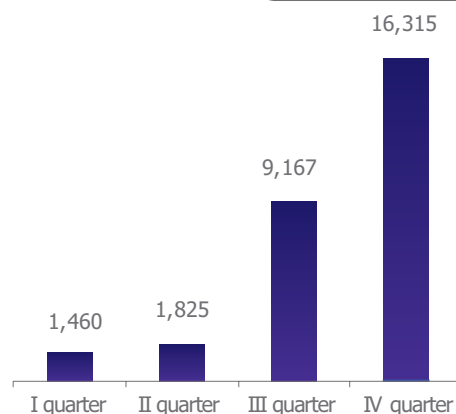
In the year 2006, unlike the previous years, a great significance was given to the increase of personal deposits of individuals. Along with a favorable economic background for this segment of the offer, the Bank has managed, by the image of a stable institution, good quality service, and by an offer of other products (additional values and special benefits) to double increase sight deposits and to increase time deposits of individuals even up to three times. In the segment of sight deposits there was promoted a new option of package offer and a segmentation of the offer by age structure and by the requirements of clients:

- **Classic account** (current account for mass market – package of VISA card and electronic banking),
- **Silver account** (transaction account for the retired, including a combination of insurance policy, VISA Electron card and special advantages in the loan offer segment),
- **Golden account** (for wealthier clients, and the service implies a personal banker, VISA Gold card and a package of products for the client and his close family).

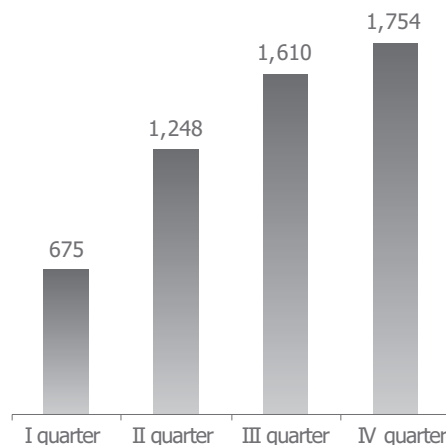
In the course of the next year, the Bank will complete segmentation of an offer with **Student** and **The first account**, offering packages of services and products to teenage population. A strategy elaborated in this way in the part of sight accounts had a direct impact on the number of opened transaction accounts (including the above listed products), which record an increase trend from quarter to quarter and the Bank's positioning as the leader by the number of clients in most locations where it has opened its branches.



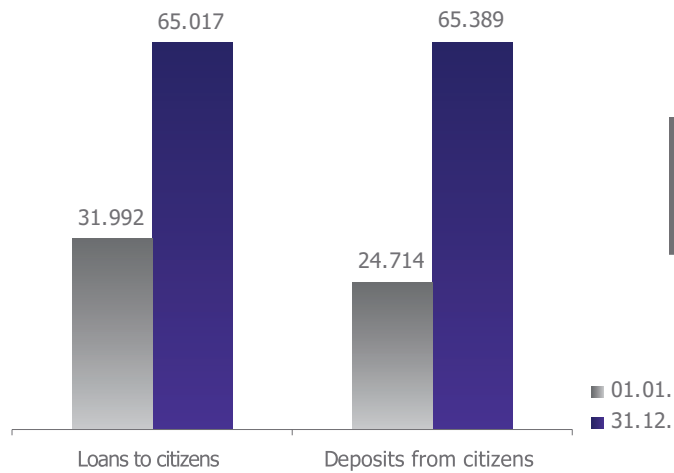
Picture 12.
Time deposits of citizens
(in thousand EUR)



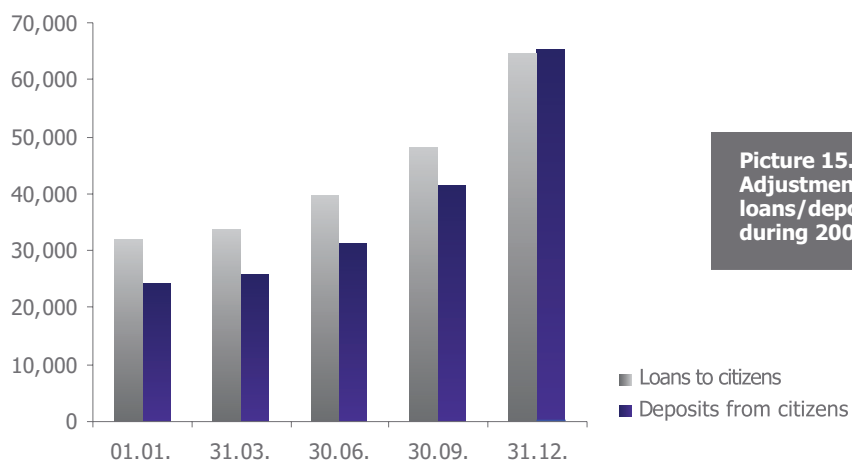
Picture 13.
Opened accounts of citizens
in 2006.



Picture 13.
Deposits of citizens (outstanding,
in thousand EUR)



Picture 14.
Loans and deposits of citizens
(outstanding, in thousand EUR)



Picture 15.
Adjustment of relation
loans/deposits of citizens
during 2006.

Advanced sale channels

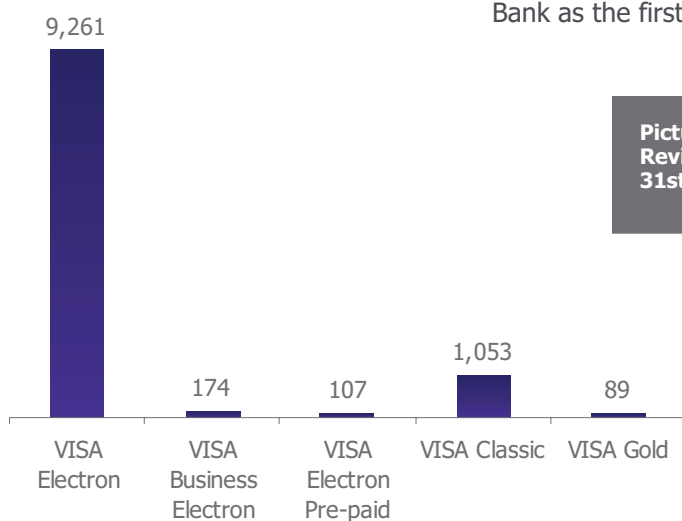
In the year 2006 the Bank completed a number of strategic projects and created preconditions for further development of electronic card operations, both in the card issuing and the card acquiring segment. A new applicative support has been introduced for this operation segment, which provides a good quality and stability of service to the end users at a substantially higher level. The Bank has become a Principal member of VISA Int. and started a project of integration into the MasterCard Europay system.

The clients basis has been considerably increased in the debit cards segment, insofar as this product is a standard part of the offer of transaction accounts (1 account – 1 card), while a significant emphasis has been laid on credit cards and business program, as an important segment of the offer.

The network was supplemented with new ATMs - from 7 to 15, so that every office avails of an ATM, while the network of POS terminals was by the end of the year expanded to cover almost 600 locations, with an ambition for a manifold increase.

Electronic banking has remained an important segment of the offer, and the Bank, next to being an absolute leader in the market, has been recognized as an innovator in the distribution channels. The staff structure in this segment has been greatly improved in order to further enhance its operation, quality of service to the end users and evolving of new projects. Nearly 30% of overall completed transactions of payment operations have been performed through this channel, that is, almost 240 mil EUR.

The Bank redesigned its offer in this segment in all channels (telebanking, Internet and mobile banking) and presented the services **Montenet Plus** and **Montenet Light**, as the two levels of utilization of these services. In this year the **Electronic Banking for Foreign Payment Operations** has also been presented, as an absolute novelty in the market. Accompanied by a campaign, the service has been launched for operation very successfully, which has additionally positioned the Bank as the first choice of big corporate clients.



Picture 16.
Review of active cards as of
31st December 2006.

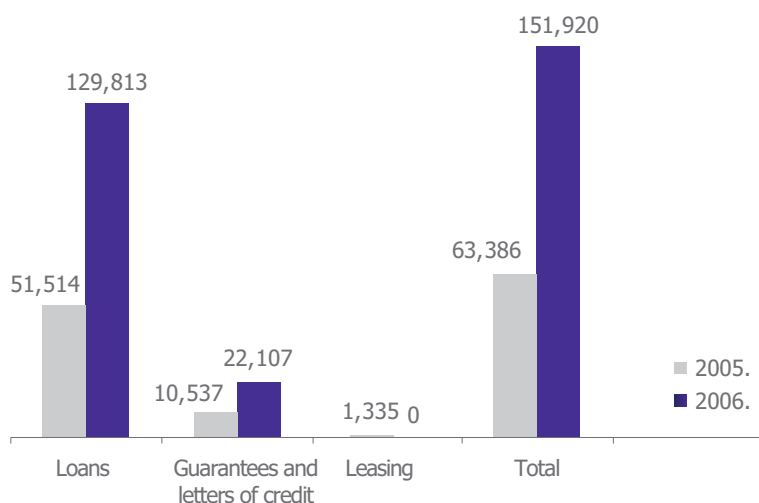
Corporate Banking

The result achieved in the corporate banking segment was very good - both on the level of the Bank and on the level of the entire banking sector.

An adequate response was given to a very strong competition and a condition was created, along with a good reorganization of operation and a dispersion of responsibility, to repeat a good result in 2007, providing even better performance of the Bank.

At the beginning of 2006, a new organization chart was introduced at the Bank; the Corporate Banking Department has also undergone an organizational transformation. A new team was formed - the Department has been renewed with younger staff and strengthened with some new members of the staff.

During the year 2006, a significant expansion of loan – guarantee activity was evident. The amount of loans granted to economy was increased by 152%, compared with the year 2005. In the same period the growth of issued guarantees was 103%, while the amount of opened letters of credit was by three times bigger than in the year 2005. In 2006, the Bank stopped granting financial leasing, which was undertaken by a newly formed leasing company within the group NLB Leasing.



Picture 17.
Review of loans and guarantee
activity with legal persons
(in thousand EUR)

In the year 2006 the following loans were granted:

- 245 long-term loans in the amount of 86,4 million EUR,
- 432 short-term loans in the amount of 36,9 million EUR,
- 66 credit lines in the amount of 6,5 million EUR.

It can be stated that the intensified competition had a positive influence on the operation of NLB Montenegrobanka and its attitude towards economy. During 2006, the product range of the Bank was additionally enlarged. The loan for project financing, which supplemented an already wide range of the products of NLB Montenegrobanka, proved to be the most popular product. With its support, many important investments at the seaside and in Podgorica were financed, and it was well applied in other parts of Montenegro too. In addition to this product, in 2006, the Bank started preparation for introduction of „Overdraft“ loan, which is expected to be launched in the first half of 2007. This will enhance the Bank's competitiveness, and from the aspect of the clients, it will result with a better performance for themselves. Besides the stated products, during 2006 the Bank also granted all other forms of loans (loans for liquidity, loans for current assets, investment loans, loans for purchase of equipment...).

The basic task in 2007 is to prepare and qualify the branches for corporate banking operations. Therefore, the plan for 2007 is to intensify development of the branches and facilitate their independence.

Also, the plan includes employment of young, creative people who would contribute with their enthusiasm and efforts to additional upgrading of image and increasing of efficiency of the branches.

Human Resources Management

Care for the employees is one of the key factors in creation of a good image of the Bank.

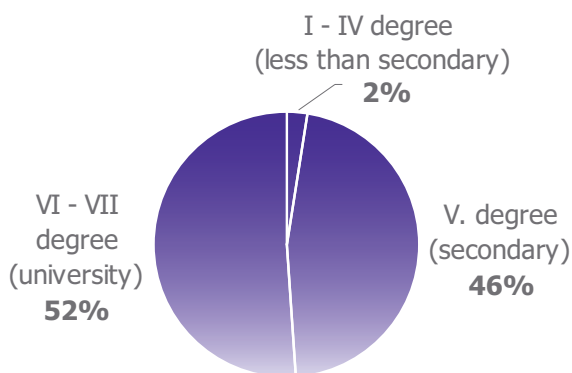
Priorities in the domain of human resources management are:

- development and training of the employees,
- stimulation of the work of the employees,
- care for the employees,
- reaching an optimal number of the employees and
- new modern organization.

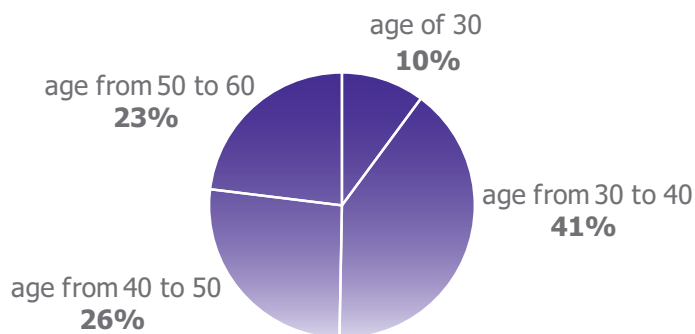
Basic data on the employees as of 31st December 2006:

- 242 employees,
- 69 % of the employees are women,
- Most of the employees are of the age between 30 and 40 (41%),
- 51% of the employees have more than secondary school education.

Picture 18.
Qualification structure of the employees as of 31st December 2006



Picture 19.
Age structure of the employees as of 31st December 2006



Annual Report 2006

Addition

NLB MONTENEGROBANKA, JOINT STOCK COMPANY,
PODGORICA - NOVA LJUBLJANSKA BANKA GROUP

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2006 AND
INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of NLB Montenegro Banka, Joint Stock Company, Podgorica

We have audited the accompanying financial statements of NLB Montenegrobanka a.d. Podgorica (the "Bank") which comprise the balance sheet as of 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Law on Accounting and Auditing of the Republic of Montenegro and regulations of Central Bank of Montenegro. This responsibility includes: designing implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; 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 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.

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 entity'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.

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

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Not being an official translation, PricewaterhouseCoopers expressly disclaims to any person in respect of anything done in
reliance of the content of this translation



Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of NLB Montenegrobanka a.d. Podgorica as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with Accounting and Auditing Law of Republic of Montenegro and regulations of the Central Bank of Montenegro.

PricewaterhouseCoopers PJ Podgorica

Podgorica, 17. May 2007

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reliance of the content of this translation

NLB MONTENEGROBANKA AD PODGORICA
Financial statements for the year ended 31. December 2006

(All amounts are stated in EUR thousand, unless otherwise stated)

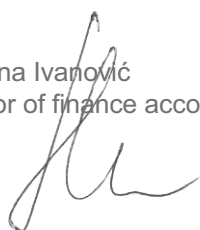
INCOME STATEMENT

	Note	2006	2005 Combined
Interest income	2.4, 3	11,475	8,134
Interest expenses	2.4, 3	(3,684)	(2,284)
Net interest income		7,791	5,850
Expenses on losses arising from balance sheet and off balance sheet items	2.8, 4	(2,865)	(1,421)
Net income		4,926	4,429
Fee and commission income	2.4, 5	5,480	4,196
Fee and commission expenses	2.4, 5	(1,160)	(1,043)
Net fee and commission income		4,320	3,153
Net interest and fee and commission income		9,246	7,582
Operating income	6	842	983
General expenses	7	(8,768)	(9,482)
Net (expenses)/income before extraordinary items		1,320	(917)
Extraordinary income			
Extraordinary expense		(2)	(2)
Not extraordinary expense		(2)	(2)
Net (expenses)/income before extraordinary items		1,318	(919)
Income taxes and contributions	2.13, 8	(129)	25
Net profit/(loss)		1,189	(894)

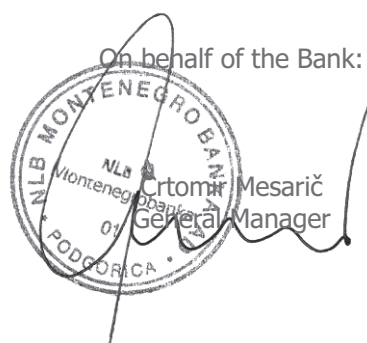
The notes on pages 6 to 35 are an integral part of these financial statements.

17. May 2007

Svetlana Ivanović
 Director of finance accounting



On behalf of the Bank:



Crtomir Mesarić
 General Manager

TRANSLATION OF THE REPORT ORIGINALLY ISSUED IN SERBIAN

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NLB MONTENEGROBANKA AD PODGORICA
Financial statements for the year ended 31. December 2006

(All amounts are stated in EUR thousand, unless otherwise stated)

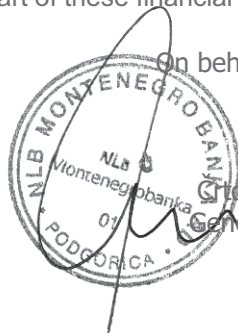
BALANCE SHEET

	Note	2006	2005 Combined
ASSETS			
Cash, cash equivalents and deposits with depositing institutions	2.6, 9	50,911	38,264
Loans and leasing activities	2.7, 10	163,751	81,189
Less: Provision for loan losses	2.8, 16	(5,234)	(2,812)
Net loans	10	158,517	78,377
Investment securities held to maturity	2.10, 11	349	682
Business premises and other fixed assets	2.11, 12	5,029	6,046
Foreclosed assets	2.12, 13	725	282
Investment in shares of other legal entities	2.9, 14	7	7
Other assets	15	10,521	5,550
Less: Provision for potential losses on other assets	2.8, 16	(420)	(150)
Total Assets		225,639	129,058
LIABILITIES			
Liabilities			
Deposits	17	168,648	75,997
Loans and advances	18	30,413	25,796
Liabilities to Government		-	43
Other liabilities	19	4,517	6,503
Provision for potential loan losses for off-balance sheet exposures	2.8, 16	775	614
Total liabilities		204,353	108,953
Equity			
Share capital	20	6,818	11,190
Share premium	20	42	42
Reserves	20	5,670	1,306
Retained earnings	20	8,756	7,567
Total equity		21,286	20,105
Total liabilities		225,639	129,058
Off-balance sheet items	21	100,215	32,530

The notes on pages 6 to 35 are an integral part of these financial statements.

17. May 2007

Svetlana Ivanović
 Director of finance accounting

On behalf of the Bank:

 Tomir Mesarić
 General Manager

