



HRVATSKA POŠTANSKA BANKA d.d.

Finance division

**UNAUDITED UNCONSOLIDATED FINANCIAL STATEMENTS
FOR PERIOD FROM 01.01. TO 31.12.2011**

Zagreb, February 2011

REPORT FOR THE PERIOD FROM 01.01. – 31.12.2011

According to unaudited figures, HPB's 2011 net income amounted to HRK 87,7 million, representing an 72,6 percent increase compared to 2010. Total operating income increased by 10,4 percent and to HRK 217,3 million. Due to further consolidation and portfolio cleansing, 62,2 percent of operating profit (HRK 135,1 million) was provisioned for impairment losses and other commitments, thereby resulting in income before tax differences of HRK 82,2 million.

Bank's assets have increased by HRK 1,6 billion to HRK 16,5 billion (11,2 percent) compared to 2010 year-end. As a result of significant growth of assets, HPB's market share measured by its share in total assets of Croatian banking sector, has risen from 3,72 to 4,03 percent.

Assets growth in 2011 was mainly attributed to growth of more profitable assets – loans to customers and securities investments, and less due to liquid assets – cash equivalents and deposits with the CNB. This was possible due to a significant growth of deposit base during 2011.

Gross loan portfolio increased by 9 percent and amounts to HRK 10,6 billion at 2011 year-end. Considerable loan portfolio growth has been realized in the retail segment (+11,4 percent), resulting from broadened offer of credit products and improved loan approval conditions, as well as from new approach to sales and distributive channels. Housing loans have had especially high growth, increasing by 47,6 percent compared to 2010 year-end. Gross loans to companies have risen by 12,6 percent and amount to HRK 5,9 billion.

Deposits amount to HRK 12,7 billion, having increased by HRK 1,6 billion or 15,4 percent during 2011. Within the deposits' structure, retail deposits growth rate equaled 20,6 percent.

Aforementioned growth of loans and deposits resulted in 25 percent increase of net interest income, which amounted to HRK 467 million. Meanwhile, gross interest income increased by moderate 5 percent, in line with lower average interest rates on retail and corporate loans, as well as due to suspension of interest rate on obligatory reserve with the CNB.

Net fee and commission income decreased by 9 percent compared to last year, due to higher commission expenses for payment transactions, and simultaneously lower fee income that the Bank charges to its clients.

Income from trading activities amounted to HRK 19,5 million, representing a decrease of 41,9 percent compared to 2010, mainly as a result of negative movements in capital markets.

Endeavouring to be an even more accessible to its clients, the Bank expanded its ATM and subsidiaries network, by opening new outlets in Bjelovar, Karlovac, Koprivnica and Imotski. This resulted in higher level of general and administrative expenses compared to last year. Higher

expenses were also influenced by further improvements in automatization of business process, as well as by higher deposit insurance expenses in line with savings growth. Despite this, cost efficiency indicator (C/I) was improved second year in a row, equalling 70 percent as per 2011 year-end, whereby 2 percentage points related to expenses originating from previous years.

Bank's capital adequacy ratio equals 14,2 percent at 2011 year-end, representing a decrease of 2,6 percentage points compared to last year, mainly resulting from expiry of period when a hybrid instrument amounting to HRK 200 million could have been included in regulatory capital calculations.

INCOME STATEMENT FOR THE PERIOD FROM 01.01.-31.12.2011

	2011 in HRK	2010 in HRK
Interest income	867.596.414	823.010.856
Interest expense	400.226.299	448.687.553
Net interest income	467.370.115	374.323.304
Fee and commission income	570.603.421	578.701.645
Fee and commission charges	390.047.463	380.247.163
Net fee and commission income	180.555.958	198.454.482
Profit / loss from investments in subsidiaries, associated companies and joint venture	-	-
Profit / loss from trading activities	19.483.755	33.515.373
Profit / loss from embedded derivatives	-	-
Profit / loss from assets at fair value through profit or loss – non actively traded	-	-
Profit / loss from trading with available for sale financial assets	861.645	3.397.755
Profit / loss from trading with held to maturity financial assets	-	-
Profit / loss from hedge transactions	-	-
Income from investment in subsidiaries, associated companies and joint ventures	-	-
Income from other equity investments	4.333.263	4.559.665
Profit / loss from exchange rate differences	10.489.390	8.795.824
Other income	34.475.054	42.826.094
Other expense	53.076.775	41.896.854
General and administrative expense and depreciation	447.188.984	427.132.290
Net operating income before provisions and impairment losses	217.303.421	196.843.352
Provisions and impairment losses	135.107.604	140.288.325
PROFIT / LOSS BEFORE TAX	82.195.816	56.555.027
INCOME TAX EXPENSE/(CREDIT)	(5.540.001)	5.718.763
PROFIT / LOSS FOR THE YEAR	87.735.817	50.836.264

BALANCE SHEET AS AT DECEMBER 31 2011

	2011 in HRK	2010 in HRK
Cash and deposits with the CNB	2.271.408.293	1.786.998.615
- cash	544.382.874	452.953.492
- deposits held with the CNB	1.727.025.419	1.334.045.123
Deposits with banking institutions	1.201.113.786	1.235.793.653
Treasury bills issued by the Ministry of Finance and the CNB Treasury bills	588.096.451	802.399.557
Securities and other financial instruments held for trading	261.787.198	400.246.708
Securities and other financial instruments available for sale	859.043.473	248.440.247
Securities and other financial assets held to maturity	679.222.029	535.398.412
Securities and other financial instruments at fair value through profit or loss – non actively traded	-	-
Derivative financial instruments	2.973.286	1.252.602
Loans to financial institutions	202.023.806	290.092.148
Loans to customers	9.495.323.438	8.656.327.797
Investment in subsidiaries, associated companies and joint venture	75.540.876	95.540.876
Assets acquired in lieu of uncollectible receivables	104.146.696	114.364.253
Tangible assets (less depreciation)	155.707.400	158.710.362
Interest, fees and other assets	556.684.670	464.699.659
TOTAL ASSETS	16.453.071.402	14.790.264.889
LIABILITIES		
Borrowings from financial institutions	1.237.189.610	1.260.507.325
- short-term borrowings	67.506.084	124.785.770
- long-term borrowings	1.169.683.526	1.135.721.555
Deposits	11.392.902.426	10.293.809.044
- giro and current account deposits	2.552.193.856	2.276.664.978
- savings deposits	1.112.519.140	1.278.167.861
- term deposits	7.728.189.430	6.738.976.205
Other borrowings	-	26.340.450
- short-term borrowings	-	-
- long-term borrowings	-	26.340.450
Financial derivatives and other traded financial liabilities	2.579.617	401.774
Debt securities – issued	-	-
- Short term debt securities	-	-
- Long term debt securities	-	-
Subordinated instruments - issued	-	-
Hybrid instruments	601.638.119	600.642.122
Interest, fees and other liabilities	1.964.303.104	1.418.526.308
TOTAL LIABILITIES	15.198.612.876	13.600.227.023
EQUITY		
Share capital	1.193.901.828	1.193.901.828
Profit /(loss) for the year	87.735.817	50.836.264
Retained earnings (loss)	(12.822.684)	(63.658.948)
Statutory reserves	-	-
Statutory and other capital reserve	1.408.686	5.643.055
Unrealized gain (loss) on financial assets available for sale	(15.765.121)	3.315.667
Hedge transactions reserve	-	-
TOTAL EQUITY	1.254.458.526	1.190.037.866
TOTAL LIABILITIES AND EQUITY	16.453.071.402	14.790.264.889

STATEMENT OF CHANGES IN EQUITY FROM 01.01. – 31.12.2011

Item (in HRK)	Share capital HRK '000	Treasury shares HRK '000	Statutory and other reserves HRK '000	Retained earnings / (loss) HRK '000	Profit / (loss) for the period HRK '000	Unrealised gain/ (loss) on financial assets available for sale HRK '000 kn	Total equity HRK '000
Balance at 1 January 2011	1.194.776.328	(874.500)	5.643.055	(12.822.684)	-	3.315.667	1.190.037.866
Changes in accounting policies and correction of errors	-	-	-	-	-	-	-
Restated balance at 1 January 2011	1.194.776.328	(874.500)	5.643.055	(12.822.684)	-	3.315.667	1.190.037.866
Disposal of financial assets available for sale							
Change in the fair value of financial assets available for sale						(23.850.984)	(23.850.984)
Deferred tax on items directly recognized or transferred from equity and reserves						4.770.196	4.770.196
Other gains / losses recognized directly in equity						-	-
Net gains/losses recognized directly in equity	-	-	-	-	-	(19.080.788)	(19.080.788)
Profit/loss for the year					87.735.817		87.735.817
Total recognized gains/ (losses) for 2011	-	-	-	-	87.735.817	(19.080.788)	68.655.029
Increase / decrease in share capital							-
Purchase / sale of treasury shares							-
Other changes							-
Transfer to reserves			(4.234.369)				(4.234.369)
Dividends paid							-
Profit allocation	-	-	(4.234.369)	-	-	-	(4.234.369)
Balance at 31 December 2011	1.194.776.328	(874.500)	1.408.686	(12.822.684)	87.735.817	(15.765.121)	1.254.458.526

CASH FLOW STATEMENT FOR THE PERIOD FROM 01.01. – 31.12.2011

	2011 in HRK	2010 in HRK
OPERATING ACTIVITIES		
Cash flow from operating activities before changes in operating assets	272.458.469	258.465.261
Profit / loss before tax	82.195.816	55.737.481
Impairment losses and provisions for liabilities and charges	135.107.604	140.288.325
Amortization and depreciation	67.603.291	68.681.978
Net unrealized gains/losses on financial assets at fair value through profit or loss	3.799.603	1.763.000
Gains/losses arising from sale of property	8.724.986	-
Other gains/ losses	(24.972.832)	(7.518.769)
Net cash inflow / decrease of operating assets	(1.603.668.191)	(854.016.634)
Deposits with the CNB	(392.980.296)	433.209.136
Treasury bills issued by Ministry of Finance and CNB bills	214.303.106	118.689.418
Deposits with banking institutions and loans to financial institutions	122.748.209	(247.291.198)
Loans to customers	(958.690.534)	(1.107.983.933)
Securities and other financial instruments held for trading	134.659.907	(63.478.359)
Securities and other financial instruments available for sale	(591.522.438)	39.416.156
Other operating assets	(132.186.146)	(26.577.854)
Net changes in operating liabilities	1.647.387.719	611.327.180
Demand deposits	275.528.878	176.844.488
Savings and term deposits	823.564.504	392.980.813
Derivative financial liabilities and other liabilities held for trading	2.177.843	(1.148.077)
Other liabilities	546.116.493	42.649.956
Net cash flow from operating activities before tax	316.177.998	15.775.807
Income tax paid/returned	(5.540.001)	5.718.763
Net cash inflow / outflow from operating activities	310.637.997	21.494.570
INVESTMENT ACTIVITIES		
Net cash flow from investing activities	(162.911.724)	(114.813.246)
Disposal/acquisition/ of property and equipment and intangible assets	(43.421.369)	(95.464.052)
Disposal/acquisition of investment in subsidiaries, associated companies and joint ventures	20.000.000	(4.111.200)
Maturity/acquisition of securities and other financial instruments held to maturity	(143.823.617)	(19.797.659)
Dividend receipts	4.333.263	4.559.665
FINANCIAL ACTIVITIES		
Cash flow from financing activities	(48.662.168)	144.319.431
Net increase /decrease in borrowings	(49.658.165)	(505.614.902)
Net increase/decrease in subordinated debt	995.997	149.937.125
Inflow from new capital issue	-	499.997.208
Net increase in cash and cash equivalents	99.064.105	51.000.755
Effect of foreign exchange differences on cash and cash equivalents	(7.634.723)	(486.754)
Net increase/decrease in cash and cash equivalents	91.429.382	51.000.755
Cash and cash equivalents at the beginning of the year	452.953.492	401.952.737
Cash and cash equivalents at the end of the year	544.382.874	452.953.492

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 01.01. – 31.12.2011

1. BALANCE SHEET

CASH AND DEPOSITS WITH THE CNB (in HRK)	31.12.2011.	31.12.2010.
Cash	544.382.874	452.953.492
Deposits with the CNB	1.744.470.120	1.347.520.326
<i>Obligatory reserve</i>	1.246.601.016	1.077.091.981
<i>Giro account with the CNB</i>	497.869.104	270.428.345
<i>Other deposits</i>		
Portfolio based provisions	(17.444.701)	(13.475.203)
TOTAL	2.271.408.293	1.786.998.615

DEPOSITS WITH BANKING INSTITUTIONS (in HRK)	31.12.2011.	31.12.2010.
<i>Deposits with foreign banking institutions</i>	967.108.106	1.080.056.741
<i>Deposits with domestic banking institutions</i>	246.138.142	168.218.312
Portfolio based provisions	(12.132.462)	(11.941.602)
TOTAL	1.201.113.786	1.236.333.451

LOANS TO CUSTOMERS (in HRK)	31.12.2011.	31.12.2010.
Gross		
<i>Loans to financial institutions</i>	204.693.704	293.650.408
<i>Loans to companies</i>	5.948.717.254	4.845.936.209
<i>Retail loans</i>	3.304.383.171	2.675.853.778
<i> therein: housing loans</i>	531.292.540	359.908.909
<i>Other loans</i>	1.174.996.285	1.938.096.458
Total gross loans	10.632.790.414	9.753.536.853
Provisions for impairment losses	(854.632.478)	(729.939.061)
Portfolio based provisions	(80.810.693)	(77.740.997)
TOTAL NET LOANS TO CUSTOMERS	9.697.347.244	8.945.856.795

SECURITIES AND OTHER FINANCIAL INSTRUMENTS (in HRK)	31.12.2011.	31.12.2010.
<i>Ministry of Finance Treasury Bills</i>	588.096.451	802.399.557
<i>Financial instruments held for trade</i>	261.787.198	400.246.708
<i>Financial instruments available for sale</i>	859.043.473	248.440.247
<i>Financial instruments held until maturity</i>	686.058.577	540.806.477
Portfolio based provisions	(6.836.548)	(5.393.756)
TOTAL	2.388.149.151	1.986.499.233

DEPOSITS (in HRK)	31.12.2011.	31.12.2010.
<i>Deposits from financial institutions</i>	696.390.773	784.335.507
<i>Deposits from companies</i>	1.873.897.750	1.893.246.799
<i>Retail deposits</i>	7.305.713.276	6.452.124.663
<i>Deposits from other clients</i>	1.516.900.628	1.164.102.075
TOTAL	11.392.902.427	10.293.809.044

BORROWINGS (in HRK)	31.12.2011.	31.12.2010.
<i>Borrowings from HBOR</i>	1.066.371.714	1.049.180.742
<i>Borrowings from banks</i>	106.311.812	130.326.583
<i>Borrowings from other banking institutions</i>	64.506.084	81.000.000
<i>Borrowings from foreign banking institutions</i>	-	26.340.450
TOTAL	1.237.189.610	1.286.847.775

INTEREST, FEES AND OTHER LIABILITIES (in HRK)	31.12.2011.	31.12.2010.
<i>Restricted deposits</i>	1.294.101.971	832.133.384
<i>Interest and fees payable</i>	90.164.546	101.382.322
<i>Provisions for off-balance sheet exposures</i>	22.302.855	19.895.303
<i>Other</i>	557.733.732	465.115.299
TOTAL	1.964.303.104	1.418.526.308

2. INCOME STATEMENT

INTEREST INCOME (in HRK)	I. - XII. 2011.	I. - XII. 2010.
<i>Loans</i>	732.568.272	686.634.223
<i>Deposits with banking institutions</i>	13.213.383	17.571.247
<i>Debt securities</i>	121.814.759	118.805.386
TOTAL	867.596.414	823.010.856

INTEREST EXPENSE (in HRK)	I. - XII. 2011.	I. - XII. 2010.
<i>Borrowings</i>	39.311.613	50.506.267
<i>Deposits from customers</i>	299.190.622	338.316.841
<i>Debt instruments</i>	41.619.163	42.170.285
<i>Deposit insurance expenses</i>	20.104.901	17.694.159
TOTAL	400.226.299	448.687.553

FEE AND COMMISSION INCOME (in HRK)	I. - XII. 2011.	I. - XII. 2010.
<i>Commissions from payment transactions</i>	434.729.768	428.189.914
<i>Other</i>	135.873.653	150.511.731
TOTAL	570.603.421	578.701.645

FEE AND COMMISSION EXPENSE (in HRK)	I. - XII. 2011.	I. - XII. 2010.
<i>Commissions on payment transactions</i>	361.992.299	353.580.730
<i>Other</i>	28.055.164	26.666.433
TOTAL	390.047.463	380.247.163

PROFIT / LOSS FROM TRADING ACTIVITIES (in HRK)	I. - XII. 2011.	I. - XII. 2010.
<i>Securities</i>	(17.336.248)	8.434.005
<i>Foreign currencies</i>	36.230.897	25.682.944
<i>Cash (HRK)</i>	116.030	51.171
<i>Derivatives</i>	473.076	(652.746)
TOTAL	19.483.755	33.515.373

GENERAL AND ADMINISTRATIVE EXPENSES AND AMORTIZATION (in HRK)	I. - XII. 2011.	I. - XII. 2010.
<i>General and administrative expenses</i>	379.585.692	358.450.312
<i>Amortization and depreciation</i>	67.603.291	68.681.978
TOTAL	447.188.984	427.132.290

PROVISIONS AND IMPAIRMENT LOSSES (in HRK)	I. - XII. 2011.	I. - XII. 2010.
<i>Impairment losses</i>	123.549.433	138.847.971
<i>Portfolio based provisions for identified losses (RISK GROUP A)</i>	11.558.171	1.440.354
TOTAL	135.107.604	140.288.325

3. ACCOUNTING POLICIES

No changes in the Bank's accounting policies occurred during 2011.

4. Shareholder structure

The Bank's shareholder structure as per December 31 2011 is as follows :

	December 31 2011
	Ownership (%)
Republic of Croatia	51,46%
Croatian Post (HP)	27,49%
Croatian Pension Insurance Institute (HZMO)	20,18%
Other	0,78%
Treasury shares	0,09%
Total	100,00%