



HRVATSKA POŠTANSKA BANKA d.d.

Finance division

**UNAUDITED UNCONSOLIDATED FINANCIAL STATEMENTS
FOR PERIOD FROM 01.01. TO 30.06.2011**

Zagreb, August 2011

REPORT FOR THE PERIOD FROM 01.01. – 30.06.2011

HPB's business operations continue to move along a positive path, resulting in a net profit for the first half of 2011 amounting to HRK 58,2 million.

Loan portfolio increase in conditions of market stagnation, favourable sources of funding and market trends have resulted in net profit for the first half of 2011 higher by 7,8 percent compared to the same period last year.

Total assets of HPB as at June 30 2011 amount to HRK 15,4 billion, representing an increase of 4,5 percent or HRK 657,7 million compared to 2010 year-end. Assets' increase in the second quarter of 2011 has surpassed the first quarter growth by more than 50 percent. Such growth of assets is a result of an increase of the Bank's deposit base, that has been increasing continuously from the beginning of 2010, and especially retail savings. Namely, deposits have increased by HRK 534,6 million during the first half of 2011, wherein growth of retail deposits amounts to HRK 320,8 million. These trends in deposit movement have resulted in continuous decrease of the Bank's borrowings from other financial institutions.

Assets increase during the first half of 2011 mainly relates to loan growth amounting to HRK 158,9 million, as well as investment in securities and growth of deposits with the CNB.

Albeit the Bank's balance sheet structure indicates a higher level of liquidity, share of loans in total assets remained on the same level as at 2010 year-end. As an answer to market stagnation, the Bank has continued to lower interest rates on loans, which resulted in an increase of gross loans to companies amounting to HRK 99,7 million, and in an increase of gross retail housing loans amounting to HRK 66,5 million or 18,5 percent compared to 2010 year-end.

As mentioned before, funds and placements movement has resulted in net interest income increase of 19 percent compared to the same period last year. Net interest income growth is mainly due to lower interest expenses, while interest income increased slowly in spite of loan growth.

Lower fees and commissions that the Bank charges it's customers, as well as a decrease of fee and commission expenses, resulted in lower net fee and commission income than during the same period last year.

By successful FX trading, the Bank has managed to annul negative impact of exchange rate to its position. This, as well as a positive effect of trading and fair value adjustment of securities, resulted in higher income from trading activities, which is compared to the same period last year, higher by HRK 11,3 million.

Despite the rise, level of general and administrative expenses follows the Bank's planned improvements concerning business expansion and enhanced access to the Bank's services, and is also linked to ancillary costs of further development of information system. The indicator of efficiency of operations C/I continued a downward trend, and equals 68,5 percent.

New provisions for impairment losses amounting to HRK 45 million were recognized during the first half of 2010.

In accordance with the decision of the Bank's General Assembly held on June 30 2011, net profit for 2010, in amount of HRK 50,8 million, was allocated to cover a part of loss realized during 2009.

INCOME STATEMENT FOR THE PERIOD FROM 01.01.-30.06.2011

	2011 in HRK	2010 in HRK
Interest income	420.951.887	415.791.062
Interest expense	200.444.606	230.458.367
Net interest income	220.507.281	185.332.695
Fee and commission income	283.587.299	294.746.847
Fee and commission charges	191.421.755	192.021.758
Net fee and commission income	92.165.544	102.725.089
Profit / loss from investments in subsidiaries, associated companies and joint venture	-	-
Profit / loss from trading activities	28.465.177	17.177.162
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	1.632.859
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	3.424.656	4.278.594
Profit / loss from exchange rate differences	(710.574)	2.147.056
Other income	2.787.716	5.104.990
Other expense	22.253.694	12.359.118
General and administrative expense and depreciation	221.460.970	193.867.795
Net operating income before provisions and impairment losses	103.786.781	112.171.532
Provisions and impairment losses	45.160.318	58.125.536
PROFIT / LOSS BEFORE TAX	58.626.463	54.045.996
INCOME TAX EXPENSE	387.271	-
PROFIT / LOSS FOR THE YEAR	58.239.192	54.045.996

BALANCE SHEET AS AT JULY 30 2011

	2011 in HRK	2010 in HRK
Cash and deposits with the CNB	2.270.208.074	1.786.998.615
- cash	528.562.227	452.953.492
- deposits held with the CNB	1.741.645.847	1.334.045.123
Deposits with banking institutions	942.822.638	1.235.793.653
Treasury bills issued by the Ministry of Finance and the CNB Treasury bills	719.783.129	802.399.557
Securities and other financial instruments held for trading	703.372.010	400.246.708
Securities and other financial instruments available for sale	265.276.330	248.440.247
Securities and other financial assets held to maturity	586.048.702	535.398.412
Securities and other financial instruments at fair value through profit or loss – non actively traded	-	-
Derivative financial instruments	1.184.660	1.252.602
Loans to financial institutions	296.069.093	290.092.148
Loans to customers	8.808.691.606	8.656.327.797
Investment in subsidiaries, associated companies and joint venture	95.540.876	95.540.876
Assets acquired in lieu of uncollectible receivables	113.957.409	114.364.253
Tangible assets (less depreciation)	156.313.592	158.710.362
Interest, fees and other assets	488.733.394	464.699.659
TOTAL ASSETS	15.448.001.513	14.790.264.889
LIABILITIES		
Borrowings from financial institutions	1.130.325.799	1.260.507.325
- short-term borrowings	25.000.000	124.785.770
- long-term borrowings	1.105.325.799	1.135.721.555
Deposits	10.828.364.600	10.293.809.044
- giro and current account deposits	2.394.625.843	2.276.664.978
- savings deposits	1.623.121.308	1.278.167.861
- term deposits	6.810.617.449	6.738.976.205
Other borrowings	13.150.204	26.340.450
- short-term borrowings	-	-
- long-term borrowings	13.150.204	26.340.450
Financial derivatives and other traded financial liabilities	942.275	401.774
Debt securities – issued	-	-
- Short term debt securities	-	-
- Long term debt securities	-	-
Subordinated instruments - issued	-	-
Hybrid instruments	600.565.135	600.642.122
Interest, fees and other liabilities	1.622.086.552	1.418.526.308
TOTAL LIABILITIES	14.195.434.565	13.600.227.023
EQUITY		
Share capital	1.193.901.828	1.193.901.828
Profit /(loss) for the year	58.239.192	50.836.264
Retained earnings (loss)	(12.822.684)	(63.658.948)
Statutory reserves	-	-
Statutory and other capital reserve	564.055	5.643.055
Unrealized gain (loss) on financial assets available for sale	7.605.557	3.315.667
Hedge transactions reserve	-	-
TOTAL EQUITY	1.252.566.948	1.190.037.866
TOTAL LIABILITIES AND EQUITY	15.448.001.513	14.790.264.889

STATEMENT OF CHANGES IN EQUITY FROM 01.01. – 30.06.2011

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	-	-	-	-	-	5.362.363	5.362.363
Deferred tax on items directly recognized or transferred from equity and reserves	-	-	-	-	-	(1.072.473)	(1.072.473)
Other gains / losses recognized directly in equity	-	-	-	-	-	-	-
Net gains/losses recognized directly in equity	-	-	-	-	-	4.289.890	4.289.890
Profit/loss for the year	-	-	-	-	58.239.192	-	58.239.192
Total recognized gains/ (losses) for 2011	-	-	-	-	58.239.192	4.289.890	62.529.082
Increase / decrease in share capital	-	-	-	-	-	-	-
Purchase / sale of treasury shares	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-
Transfer to reserves	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-
Profit allocation	-	-	-	-	-	-	-
Balance at 31 March 2011	1.194.776.328	(874.500)	5.643.055	(12.822.684)	58.239.192	7.605.557	1.252.566.948

CASH FLOW STATEMENT FOR THE PERIOD FROM 01.01. – 30.06.2011

	2011 in HRK	2010 in HRK
OPERATING ACTIVITIES		
Cash flow from operating activities before changes in operating assets	151.342.322	139.789.328
Profit / loss before tax	58.626.463	54.045.996
Impairment losses and provisions for liabilities and charges	45.160.318	58.125.536
Amortization and depreciation	32.909.651	32.989.101
Net unrealized gains/losses on financial assets at fair value through profit or loss	10.356.000	(1.900.000)
Other gains/ losses	4.289.890	(3.471.305)
Net cash inflow / decrease of operating assets	(606.673.510)	(59.813.489)
Deposits with the CNB	(407.600.724)	99.823.052
Treasury bills issued by Ministry of Finance and CNB bills	82.616.428	(215.280.007)
Deposits with banking institutions and loans to financial institutions	287.533.530	167.867.555
Loans to customers	(193.494.032)	(47.826.087)
Securities and other financial instruments held for trading	(313.481.302)	(87.681.096)
Securities and other financial instruments available for sale	(21.125.973)	23.422.094
Other operating assets	(41.121.437)	(139.000)
Net changes in operating liabilities	739.641.229	104.006.667
Demand deposits	117.960.864	63.432.956
Savings and term deposits	416.594.691	(18.361.956)
Derivative financial liabilities and other liabilities held for trading	540.501	(680.712)
Other liabilities	204.545.173	59.616.379
Net cash flow from operating activities before tax	284.310.041	183.982.506
Income tax paid	(387.271)	-
Net cash inflow / outflow from operating activities	283.922.770	183.982.506
INVESTMENT ACTIVITIES		
Net cash flow from investing activities	(64.865.276)	(79.451.375)
Disposal/acquisition/ of property and equipment and intangible assets	(17.670.152)	(68.964.074)
Disposal/acquisition of investment in subsidiaries, associated companies and joint ventures	0	(4.111.200)
Maturity/acquisition of securities and other financial instruments held to maturity	(50.619.780)	(10.654.695)
Dividend receipts	3.424.656	4.278.594
FINANCIAL ACTIVITIES		
Cash flow from financing activities	(143.448.759)	9.336.729
Net increase /decrease in borrowings	(143.371.772)	(189.285.734)
Net increase/decrease in subordinated debt	(76.987)	198.622.463
Net increase in cash and cash equivalents	75.608.735	113.867.860
Effect of foreign exchange differences on cash and cash equivalents	-	-
Net increase/decrease in cash and cash equivalents	75.608.735	113.867.860
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	528.562.227	515.820.597

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 01.01. – 30.06.2011

1. BALANCE SHEET

CASH AND DEPOSITS WITH THE CNB (in HRK)	30.06.2011.	31.12.2010.
Cash	528.562.227	452.953.492
Deposits with the CNB	1.759.238.230	1.347.520.326
<i>Obligatory reserve</i>	1.111.237.879	1.077.091.981
<i>Giro account with the CNB</i>	98.000.351	270.428.345
<i>Other deposits</i>	550.000.000	0
Portfolio based provisions	(17.592.383)	(13.475.203)
TOTAL	2.270.208.074	1.786.998.615

DEPOSITS WITH BANKING INSTITUTIONS (in HRK)	30.06.2011.	31.12.2010.
<i>Deposits with foreign banking institutions</i>	744.292.579	1.080.056.741
<i>Deposits with domestic banking institutions</i>	208.053.520	168.218.312
Portfolio based provisions	(9.523.461)	(11.941.602)
TOTAL	942.822.638	1.236.333.451

LOANS TO CUSTOMERS (in HRK)	30.06.2011.	31.12.2010.
Gross		
<i>Loans to financial institutions</i>	299.688.809	293.650.408
<i>Loans to companies</i>	4.945.669.466	4.845.936.209
<i>Retail loans</i>	2.732.677.551	2.675.853.778
<i> therein: housing loans</i>	426.416.321	359.908.909
<i>Other loans</i>	1.973.228.331	1.938.096.458
Total gross loans	9.951.264.157	9.753.536.853
Provisions for impairment losses	(768.141.305)	(729.939.061)
Portfolio based provisions	(78.362.153)	(77.740.997)
TOTAL NET LOANS TO CUSTOMERS	9.104.760.699	8.945.856.795

SECURITIES AND OTHER FINANCIAL INSTRUMENTS (in HRK)	30.06.2011.	31.12.2010.
<i>Ministry of Finance Treasury Bills</i>	719.783.129	802.399.557
<i>Financial instruments held for trade</i>	703.372.010	400.246.708
<i>Financial instruments available for sale</i>	265.276.330	248.440.247
<i>Financial instruments held until maturity</i>	591.930.181	540.806.477
Portfolio based provisions	(5.881.479)	(5.393.756)
TOTAL	2.274.480.171	1.986.499.233

DEPOSITS (in HRK)	30.06.2011.	31.12.2010.
<i>Deposits from financial institutions</i>	902.595.993	784.335.507
<i>Deposits from companies</i>	1.807.864.552	1.893.246.799
<i>Retail deposits</i>	6.726.683.049	6.452.124.663
<i>Deposits from other clients</i>	1.391.221.006	1.164.102.075
TOTAL	10.828.364.600	10.293.809.044

BORROWINGS (in HRK)	30.06.2011.	31.12.2010.
<i>Borrowings from HBOR</i>	988.210.186	1.049.180.742
<i>Borrowings from banks</i>	117.115.613	130.326.583
<i>Borrowings from other banking institutions</i>	25.000.000	81.000.000
<i>Borrowings from foreign banking institutions</i>	13.150.204	26.340.450
TOTAL	1.143.476.003	1.286.847.775

INTEREST, FEES AND OTHER LIABILITIES (in HRK)	30.06.2011.	31.12.2010.
<i>Restricted deposits</i>	1.036.193.393	832.133.384
<i>Interest and fees payable</i>	116.653.673	101.382.322
<i>Provisions for off-balance sheet exposures</i>	19.962.583	19.895.303
<i>Other</i>	449.276.903	465.115.299
TOTAL	1.622.086.552	1.418.526.308

2. INCOME STATEMENT

INTEREST INCOME (in HRK)	I. - VI. 2011.	I. - VI. 2010.
<i>Loans</i>	363.620.077	341.947.217
<i>Deposits with banking institutions</i>	5.931.659	8.150.565
<i>Debt securities</i>	51.400.151	65.693.280
TOTAL	420.951.887	415.791.062

INTEREST EXPENSE (in HRK)	I. - VI. 2011.	I. - VI. 2010.
<i>Borrowings</i>	18.188.558	27.517.708
<i>Deposits from customers</i>	151.810.381	173.965.167
<i>Debt instruments</i>	20.606.697	19.765.690
<i>Deposit insurance expenses</i>	9.838.970	9.209.802
TOTAL	200.444.606	230.458.367

FEE AND COMMISSION INCOME (in HRK)	I. - VI. 2011.	I. - VI. 2010.
<i>Commissions from payment transactions</i>	215.383.204	221.580.633
<i>Other</i>	68.204.095	73.166.214
TOTAL	283.587.299	294.746.847

FEE AND COMMISSION EXPENSE (in HRK)	I. - VI. 2011.	I. - VI. 2010.
<i>Commissions on payment transactions</i>	178.042.696	179.015.782
<i>Other</i>	13.379.059	13.005.975
TOTAL	191.421.755	192.021.757

PROFIT / LOSS FROM TRADING ACTIVITIES (in HRK)	I. - VI. 2011.	I. - VI. 2010.
<i>Securities</i>	12.273.462	5.361.527
<i>Foreign currencies</i>	15.464.187	12.485.001
<i>Cash (HRK)</i>	65.405	19.230
<i>Derivatives</i>	662.123	(688.596)
TOTAL	28.465.177	17.177.162

GENERAL AND ADMINISTRATIVE EXPENSES AND AMORTIZATION (in HRK)	I. - VI. 2011.	I. - VI. 2010.
<i>General and administrative expenses</i>	188.499.433	160.878.694
<i>Amortization and depreciation</i>	32.961.537	32.989.101
TOTAL	221.460.970	193.867.795

PROVISIONS AND IMPAIRMENT LOSSES (in HRK)	I. - VI. 2011.	I. - VI. 2010.
<i>Impairment losses</i>	42.153.215	66.612.904
<i>Portfolio based provisions for identified losses (RISK GROUP A)</i>	3.007.103	(8.487.368)
TOTAL	45.160.318	58.125.536

3. ACCOUNTING POLICIES

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

4. Shareholder structure

The Bank's shareholder structure as per June 30 2011 is as follows :

	June 30 2011 Ownership (%)
Agency for State's Assets Management (AUDIO)	51,46%
Croatian Post (HP)	27,49%
Croatian Pension Insurance Institute (HZMO)	20,18%
Other	0,78%
Treasury shares	0,09%
Total	100,00%

No changes in ownership concerning the Bank's major shareholders occurred during the first half of 2011.

Establishment of the Agency for State's Assets Management on April 01 2011 meant that managing of the shares owned by Republic of Croatia, which up to that moment consisted of shares managed by Central State Office for State's Assets Management (29,08%) and Croatian Privatization Fund (22,38%), was taken over by the newly established Agency.