Bank Austria Member of UniCredit

Bank Austria IR Release

Günther Stromenger ☎ +43 (0) 50505 57232

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Bank Austria's results for the 2013 financial year:

Operating profit from customer business rises strongly, by 7 per cent, to EUR 3.1 billion – the charge of EUR 2 billion for the reduction of total goodwill to nil leads to book loss of EUR 1.6 billion with no impact on capital ratios

- **Profit after tax before goodwill impairment amounts to EUR 354 million**
  - Operating profit up by 7.2 per cent to EUR 3.1 billion due to significant growth of operating income while cost growth remains moderate despite fiscal and regulatory burdens
  - Increase in net write-downs of loans translates into significant increase in the coverage ratio[1] to 54.9 per cent (2012: 47.6 per cent), which thereby returns to a pre-crisis level
  - Bank levies in Austria and CEE have a negative impact of EUR 209 million on results
  - Classification of Ukrsotsbank, the Ukrainian banking subsidiary, as held for sale and operating loss of the banking subsidiary have a negative impact of EUR 256 million on the income statement
  - Write-down on deferred tax assets in view of limited future usability burdens results with EUR 223 million
- **Clear commitment to Central and Eastern Europe (CEE), which remains an important driver of growth and profits of the Bank Austria Group**
- **Strategic decision, based on the multi-year plan and the recent goodwill impairment tests, to reduce to nil all goodwill relating to equity interests, leads to a write-off of about EUR 2 billion**
- **Full write-off of goodwill results in book loss of EUR 1.6 billion with no negative impact on capital ratios**
- **Capital ratios further improved despite the above measures**
  - Total capital ratio rises to 13.5 per cent (2012: 12.5 per cent), Core Tier 1 capital ratio improves to 11.3 per cent (2012: 10.6 per cent)

[1] Coverage ratio on impaired loans

- **Excellent direct funding ratio underlines the bank's strong liquidity position**
  - Customer loans are funded with customer deposits and debt securities in issue to the extent of 107 per cent (2012: 105 per cent)

Bank Austria's CEO Willibald Cernko: "As a result of the full write-off of all goodwill, this year's financial statements show a book loss which looks discouraging but is no cause for concern because it is good news for the following reasons:

- First, the goodwill impairment charge does not have any impact on our very good capital ratios and on our excellent liquidity position – on the contrary, both were further improved, which shows that we are a rock-solid and sound bank and we are in a position to continue to provide Austrian private households and businesses with loans.
- Second, we can absorb this substantial charge without external help because our operating activities are profitable. In explicit terms, while other banks needed or need help from the state and from the taxpayer, we have never needed such help and will not need it in the future.

Actually, this move is a clean sweep by which we get rid of legacy burdens. It reflects the 'new reality' of the current valuation of banks. The good news is that our bank's security is thereby further enhanced because we are taking an even more conservative approach than in the past. Our bank's performance is not a cause for concern to me. What worries me is that banks like us which manage their business in a sound manner, and with a focus on serving customers, are being burdened with increasing costs and have to help pay for distressed competitors. This involves the risk of being affected by a structural disadvantage and gradually becoming less competitive."

Francesco Giordano, Chief Financial Officer of Bank Austria: "These financial statements remove significant risks from our balance sheet. This underlines our conservative accounting policy while also making us a pioneer in the adjustment to changes in the environment in which banks operate. We are thereby also improving our earnings outlook and we can comfortably meet the regulatory requirements which are being tightened. Our capital ratios and our liquidity position, which have always been maintained on a sound basis, continued to improve. The goodwill impairment charge, which is a non-cash item, reflects an adjustment of the original purchase prices and the earnings outlook to today's reality, where banks are traded below or near book value (i.e. paid-in capital plus retained earnings). We are thereby reducing future risk for the income statement without a negative impact on capital ratios because goodwill is an intangible asset to be deducted from capital resources for regulatory purposes."

Items in the income statement[2]

Net interest – the most important income component, accounting for 59 per cent of operating income – was EUR 4,132 million in 2013, down by 0.3 per cent from the previous year's figure (2012: EUR 4,143 million) on account of the persistently low level of interest rates. Net interest generated in commercial banking business with customers in Austria declined by 1.7 per cent, while Central and Eastern Europe (CEE) recorded an increase of 1.9 per cent (adjusted for exchange rate movements, 6.0 per cent).

Dividend income and other income from equity investments was EUR 83 million, 3.8 per cent lower than in the previous year (2012: EUR 86 million). It should be noted in this context that following the realignment of leasing business, the equity interest in UniCredit Leasing amounting to 31 per cent is no longer classified as an equity interest but as a disposal group held for sale; this item of the income statement therefore reflects only current profit or loss without including any valuation adjustments.

Net fees and commissions developed favourably in 2013 – contrary to the trend seen in previous years since the onset of the financial crisis; they rose by 10.0 per cent to EUR 1,698 million (2012: EUR 1,543 million). Growth was mainly driven by higher activity levels in securities business and by stronger demand for capital market and financial services.

Net trading, hedging and fair value income also rose strongly in 2013, by EUR 167 million or 21.7 per cent to EUR 934 million (2012: EUR 768 million). Without the gains on the buyback of hybrid instruments, which were included in the previous year's figure, the increase would have been EUR 293 million or 45.7 per cent. In addition to the participation in profits of the UniCredit Markets subdivision, which developed favourably in 2013, the CEE business segment achieved a significant increase of 32.6 per cent, thereby contributing about three-quarters to total net trading income.

Total **operating income** rose by 4.2 per cent or EUR 279 million to EUR 6,960 million compared with the previous year (2012: EUR 6,681 million).

[2] To ensure comparability, the comparative figures for 2012 have been recast as DOMUS Facility Management GmbH was transferred to UniCredit Global Information Services; UniCredit Consumer Financing AD (Bulgaria) and UniCredit Consumer Financing IFN S.A. (Romania) were taken over by UniCredit; and Ukrsotsbank, the Ukrainian banking subsidiary is shown in the item "Total profit or loss after tax from discontinued operations"".

Bank Austria
Corporate Relations
Lassallestrasse 5
A-1020 Vienna, Austria

Telephone: +43 (0)5 05 05 57232

mailto:investor.relations@unicreditgroup.at
http://ir.bankaustria.at

Efforts to further enhance cost efficiency in 2013 were successful. This is of major significance in view of the weaker revenue trend in the banking sector and low levels of economic activity and demand, while fiscal and regulatory burdens are growing. **Operating costs** in 2013 rose slightly, by 1.9 per cent or EUR 70 million to EUR 3,856 million, compared with the previous year (2012: EUR 3,786 million). Without the bank levies and financial transaction taxes, which are reflected in the item "other administrative expenses", operating costs would have declined by 0.2 per cent.

The total charge for **bank levies and financial transaction taxes** in Austria and CEE included in the Bank Austria Group's operating costs was EUR 209 million, an increase of 59.1 per cent over the previous year (2012: EUR 131.4 million). The bank levy in Austria amounted to EUR 96.7 million. In CEE, bank levies and financial transaction taxes totalled EUR 112.4 million, of which EUR 93.2 million was payable in Hungary, EUR 14.0 million in Slovakia, EUR 3.0 million in Slovenia and EUR 2.2 million in Romania. Overall, the charge for bank levies and financial transaction taxes accounted for 12.4 per cent of other administrative expenses and 5.4 per cent of total costs.

Operating profit rose by 7.2 per cent to EUR 3,104 million (2012: EUR 2,895 million), as revenue growth was achieved and growth of operating costs was moderate, despite larger burdens resulting from bank levies and financial transaction taxes. If the one-off effects in the previous year (gains on the buyback of hybrid instruments) are deducted, operating profit improved by 12.1 per cent over the previous year.

In 2013, **net write-downs of loans and provisions for guarantees and commitments** amounted to EUR 1,441 million (2012: EUR 969 million). The increase over the previous year is due to a more cautious assessment of future developments in CEE, which also led to an increase in the coverage ratio. A comparison with the previous year shows that the coverage ratio rose by about 7 percentage points to 55 per cent, thus returning to pre-crisis levels. In Austria, the provisioning charge rose only slightly, by EUR 11 million to EUR 219 million (2012: EUR 208 million). In CEE, net write-downs of loans and provisions for guarantees and commitments increased by EUR 461 million to EUR 1,222 million (2012: EUR 761 million), leading to a significant increase in the coverage ratio, which related to nearly all countries. Overall, the cost of risk (net write-downs of loans as a proportion of average loans to customers) rose to 109 basis points.

Net operating profit reached EUR 1,663 million, a level which is 13.7 per cent lower than in the previous year. All of this decline is explained by higher allocations to loan loss provisions as described above.

The balance of **non-operating income/expenses** between net operating profit and profit before tax was a net charge of EUR 531 million in 2013, a significant improvement of EUR 125 million or 19.0 per cent over the previous year. Allocations to **provisions for risks and charges** were EUR 177 million in 2013, considerably lower than in the previous year (2012: EUR 305 million). Provisions were made for risks associated with equity interests and for other items and legal proceedings; the total figure includes EUR 65 million for the legal dispute in Switzerland.

On this basis, **profit before tax** was EUR 1,131 million, down by 10.9 per cent from the previous year (2012: EUR 1,269 million).

Although profit before tax was slightly lower than in the previous year, the **income tax** charge for 2013 was EUR 534 million, up by 63.4 per cent on the previous year (2012: EUR 327 million) because deferred tax assets had to be additionally written down in 2013, in view of their limited future usability, not least also because of the recent increase and extension of bank levies.

In line with the Group strategy of concentrating growth and the required allocation of capital on CEE countries with a better outlook for sustainable growth and earnings while further reducing risk, Ukrsotsbank – the banking subsidiary in Ukraine – was classified as a disposal group held for sale. The income statement items of Ukrsotsbank were combined and are shown in the item "Total profit or loss after tax from discontinued operations", together with write-downs and additional expenses as well as the result of the sale foreseeable from a current perspective; the net amount after deduction of minority interests is minus EUR 256 million.

It should be noted that Bank Austria's own share of the FX translation reserve (minus EUR 517 million as at 31 December 2013) will have to be recycled to profit or loss upon the final sale of Ukrsotsbank. Moreover, it should be noted that as a result of the difficult economic environment and the unclear political situation in Ukraine, the local currency (UAH) has weakened significantly against the euro and the US dollar since the beginning of 2014. Future developments are not yet foreseeable and it is therefore not possible to make any statement on the amount of the FX translation reserve which may be expected at the time of the sale. As the FX translation reserve is already deducted from IFRS equity, the recycling to profit or loss has no impact on the IFRS equity capital position.

The **net profit before Purchase Price Allocation (PPA)** was EUR 354 million (2012: EUR 467 million).

A strategic decision, based on the multi-year plan and the recent goodwill impairment tests, was made to recognise a goodwill impairment charge reducing to nil the goodwill of all companies in which we hold an equity interest. The goodwill impairment charge totalled EUR 1,957 million. This full impairment of goodwill relating to all equity interests led to a net loss of EUR 1,603 million (2012: net profit of EUR 419 million).

It is important to note in this context that the goodwill impairment charge does not have an influence on regulatory capital ratios because goodwill has to be deducted for the purpose of calculating regulatory equity.

The following key financial data have been calculated on the basis of the above-mentioned results:

- The cost/income ratio declined from 54.7 per cent to 53.4 per cent (without the bank levy).
- The risk/earnings ratio (provisioning charge as a percentage of net interest income) was 34.2 per cent.
- The total capital ratio (based on all risks) rose to 13.5 per cent (2012: 12.5 per cent).
- The Core Tier 1 capital ratio (based on all risks) improved to 11.3 per cent (2012: 10.6 per cent).

Results of the Divisions

Bank Austria reports its results in four Divisions: Retail & Corporates, Corporate & Investment Banking (CIB), Private Banking, and Central Eastern Europe (CEE). The bank also shows results for the Corporate Center.

The **Retail & Corporates Division** was created at the beginning of the 2013 financial year. The Division comprises two subdivisions: some 1.6 million retail customers and about 100,000 corporate customers; the Corporates subdivision serves the entire range of business customers, SMEs and medium-sized and large companies which do not access capital markets, including commercial real estate business and business with public sector entities.

With an 11 per cent share of allocated capital, the Retail & Corporates Division generated 21 per cent of the bank's total revenues and 70 per cent of total operating income from Austrian customer business. The Division also has to absorb substantial costs which are in structural terms related to branch operations. Retail & Corporates contributed about 40 per cent to profit before tax generated by

Austrian customer business and 15 per cent of the bank's total profit before tax in 2013. Average primary funds of over EUR 40 billion in Retail & Corporates make the business segment an important source of funding for the bank.

Retail & Corporates accounts for three-quarters of Austrian interest-bearing business volume and was very strongly affected by persistently low interest rates in 2013, in combination with declining credit demand and intense competition on terms. Nevertheless, in this difficult economic environment, the Division achieved success through various initiatives: in the Retail subdivision, new sales of investment fund units were up by 30 per cent on the previous year. At Bank Austria, total fund volume in business with retail customers rose by 3 per cent to over EUR 5.8 billion compared with the previous year. In lending business, new loans to retail customers amounted to EUR 970 million, an increase of 14 per cent over the previous year; the increase in housing construction finance was 20 per cent.

With the introduction across Austria of the new SmartBanking service approach in September 2013 – including personal advisory services via video telephony, telephone, e-mail, SMS, and OnlineBanking and MobileBanking with the latest apps – Bank Austria launched a new initiative in the Austrian banking market. At the end of 2013, the number of customers served via SmartBanking totalled 57,000. SmartBanking offers extended service hours from 8 a.m. to 8 p.m. and the possibility of communicating with a personal relationship manager irrespective of time and place. This move has initiated Bank Austria's transformation into a modern innovative universal bank.

Bank Austria is the leading bank for corporate customers in Austria and a strategic financial partner for the whole range of small businesses to large corporates. In the Corporates subsegment, a number of innovative projects were financed under the Risk Sharing Instrument (RSI), a joint initiative of the European Investment Bank and the European Commission, as well as large real estate projects such as Austria's tallest building. Based on the great success of the RSI initiative and strong demand in this context, funds available under the Risk Sharing Instrument were increased from EUR 120 million to EUR 160 million, available in the period to the end of 2015. Bank Austria is also the undisputed market leader in business with public sector entities, with a transaction volume of EUR 12 billion, financing volume of EUR 8 billion and about 3,000 customers. Bank Austria's new business in the real estate sector in 2013 amounted to EUR 2.1 billion.

In 2013, the Retail & Corporates Division achieved a profit before tax of EUR 175 million (2012: EUR 211 million). The decline in profits is to be seen in the context of the low interest rate environment and restrained credit demand; additional investment-related costs also had an impact.

Since the reorganisation of Austrian customer business at the beginning of 2013, the **Corporate & Investment Banking (CIB)** Division has focused on serving multinational and large international customers, providing them with capital market services and investment banking solutions tailored to their specific needs. CIB also serves banks, asset managers, institutional customers and insurance companies. Moreover, the CIB Division Austria assumed regional responsibility within UniCredit Group for markets in South Africa, in the Scandinavian countries, in Spain, Portugal and the Netherlands. Within UniCredit Group, business with large international companies in these countries is managed out of Austria. The CIB Division Austria thus acts as a hub making it easy for large international companies to access Western, Central and Eastern Europa and vice versa.

Moreover, in 2013, CIB underlined its leading role as a strategic financial partner and top contact for capital market transactions of companies. The market position and placement power of UniCredit – no. 3 in the area of euro bonds, with a volume of over EUR 62 billion, and no. 2 in the area of syndicated finance, with a volume of over EUR 27 billion – offer an excellent platform and underline UniCredit's expertise in capital markets and on the lending side. In 2013, the Corporate & Investment Banking Division acted in a leading capacity for seven corporate bonds, a range of promissory note bonds and all syndicated finance transactions in Austria, in addition to many international mandates.

As a leading export finance bank with the largest network in CEE and throughout the world within UniCredit, we support the export industry – not least as some 42,000 companies are involved in exports. Throughout Austria, Bank Austria handles one-half of the export loans covered by Oesterreichische Kontrollbank. Almost every second export letter of credit is routed via Bank Austria, and in the area of foreign guarantees the bank has a market share of 40 per cent.

Profit before tax generated by the CIB Division was EUR 231 million, up by 9.7 per cent. On this basis, the Division again made a strong contribution to overall results of Bank Austria in 2013. The increase resulted from strong operating income, significant cost savings and a risk profile which remained favourable. Operating income from customer business rose by over 10 per cent compared with the previous year.

Bank Austria's **Private Banking** Division, with the two well-known brands Bank Austria Private Banking – the private banking arm of a major bank – and Schoellerbank – a traditional private banking institution – holds the leading position in Austria's private banking market. Assets under management totalled EUR 19.2 billion. The Division serves private foundations and 34,000 high net worth individuals with a minimum investment potential of EUR 500,000.

Assets under management showed disproportionately strong growth of 12 per cent or EUR 660 million, reflecting good performance and net inflows of funds. VermögensManagement 5Invest, an asset management product, was very successful in 2013, with volume growing by 43 per cent to EUR 827 million. With equities being given a strong weight, even a balanced portfolio widely diversified in terms of risk achieved a return of 9 per cent, well above the underlying benchmark of 7 per cent.

Our advisory services are supported by Portfolio Quality Analysis, an innovative analysis tool for monitoring and optimising portfolios to ascertain whether there is any unused return potential and/or insufficient diversification of risk. The inclusion of specialists (portfolio quality analysts, investment managers, wealth advisors, credit experts, legal experts) is of growing relevance for client advisory services and for meeting clients' needs. Two-thirds of the customers of Bank Austria Private Banking use the entire range of services offered by Bank Austria as a universal bank, while also taking advantage of Private Banking advisory services to meet their specific needs.

The Private Banking Division's business model has proved effective especially in the difficult environment experienced in the past years. The approach encompasses integrated advisory services with a 360-degree analysis of client needs, solutions tailored to meet specific needs, and a wide range of services.

Net fees and commissions, traditionally the most important income component in private banking operations, rose by 10.3 per cent to EUR 101 million. Private Banking generated a profit before tax of EUR 44 million, an increase of 33.7 per cent over the previous year (2012: EUR 33 million).

The **CEE Division** reported an operating profit of EUR 2,767 million in 2013, representing an 8.3 per cent increase in comparison to the previous year (2012: EUR 2,555 million). At constant rates, i.e. excluding the effect of declining exchange rates in some countries of the region, the operating profit improved by 13.0 per cent.

Operating income in 2013 totalled EUR 4,929 million, an increase of 6.4 per cent compared to the previous year (2012: EUR 4,630 million). This was mainly driven by stronger net fees and commissions across all countries, which grew by 8.6 per cent to EUR 1,040 million (2012: EUR 958 million), and net trading income, which improved by 32.6 per cent to EUR 705 million (2012: EUR 531 million). At the same time net interest was EUR 3,091 million (2012: EUR 3,032 million), reflecting less dynamic growth than in past years. Operating costs increased by 4.2 per cent, trailing well behind the growth in operating income, from EUR 2,075 million to EUR 2,162 million. After deducting special bank levies, which were three times the previous year's figure, operating costs declined in real terms. The cost/income ratio therefore improved to 42.9 per cent (2012: 44.0 per cent).

Net write-downs on loans in the CEE Division increased to EUR 1,222 million in 2013 (2012: EUR 761 million). The cost of risk thus rose from 115 basis points in 2012 to 174 basis points in 2013 at the CEE Division.

As a consequence of these increased loan loss provisions, partly offset by gains on the sale of the insurance subsidiary in Turkey, profit before tax increased by only 0.9 per cent at constant exchange rates in 2013. As a result of declining exchange rates in the region, profit before tax decreased by 4.7 per cent at current rates in comparison to the previous year, to EUR 1,641 million (2012: EUR 1,722 million).

In a persistently challenging economic environment the CEE Division achieved sound financial results and contributed more than three-quarters to the overall performance of Bank Austria's business divisions.

"With regard to its operating profit, 2013 was a very successful year for the CEE Division. Over the past twelve months we have realigned our banking operations in Central and Eastern Europe and acquired around 450,000 new customers through a broad range of business initiatives. As economic recovery is slowly accelerating, we decided to take also some precautionary accounting measures to safeguard our strategic options in the region. None of these measures influences our local customer business; instead we are reducing balance sheet volatility and improving our future earnings prospects.

We remain a committed long-term investor in Central and Eastern Europe, as its regional economic growth is set to outperform EMU and banking sector profitability is clearly above that of major Western European countries", says Gianni Franco Papa, Deputy CEO and Head of the CEE Division of Bank Austria.

Bank Austria is UniCredit's sub-holding company for operations in Central and Eastern Europe. In this function it manages one of the leading banking networks in the region with about 40,000 employees and 2,500 branches in 13 countries.

Statement of financial position[3]

Bank Austria's **total assets** as at 31 December 2013 were EUR 196.2 billion, down by 5.5 per cent or EUR 11.4 billion from the end of the previous year (31 December 2012: EUR 207.6 billion). Most of the decrease was accounted for by two factors which were more or less equal in weight: first, deconsolidation in 2013 of ATF Bank, Kazakhstan – a bank which at the end of 2012 was included in the assets item "Non-current assets and disposal groups classified as held for sale" and in the liabilities item "Liabilities included in disposal groups classified as held for sale" – and, second, exchange rate movements.

The leverage ratio (total assets less intangible assets / equity less intangible assets) continued to improve, to a level of 13.2.

On the assets side, **loans and receivables with customers** were EUR 129.1 billion, down by a mere 0.7 per cent or EUR 0.9 billion from the previous year (31 December 2012: EUR 130 billion). Intangible assets decreased by 90.9 per cent or EUR 2.2 billion to EUR 219 million (2012: EUR 2.5 billion), reflecting the above-mentioned strategic decision to write off all goodwill. **Loans and receivables with banks** were reduced by 10.1 per cent or EUR 2.8 billion to EUR 25 billion (2012: EUR 27.8 billion).

[3] Ukrsotsbank, which is classified as held for sale on the basis of a strategic decision of the Management Board, is included in the 2013 statement of financial position in the items "Non-current assets and disposal groups classified as held for sale" and "Liabilities included in disposal groups classified as held for sale", rather than with its contributions to the various items of the statement of financial position. To ensure comparability with the previous year's figures, the statement of financial position as at 31 December 2012 is shown as published and also in an adjusted form which reflects the reclassification of Ukrsotsbank and on which the commentary is based.

On the liabilities side, **deposits from customers** amounted to EUR 108.9 billion and were only slightly higher than in the previous year as a result of the above-mentioned exchange rate movements (2012: EUR 108.8 billion). **Debt securities in issue** rose more strongly, by 3.5 per cent or EUR 987 million, to EUR 29 billion (2012: EUR 28.1 billion), despite large redemptions. The increase reflects the successful expansion of new issue activities in Austria and CEE in the past years.

Primary funds, the sum total of deposits from customers and debt securities in issue, rose by 0.8 per cent or EUR 1.1 billion to EUR 138 billion (2012: EUR 136.9 billion), accounting for over two-thirds (70.3 per cent) of total liabilities and equity. This means that customer loans were funded with primary funds to the extent of 107 per cent.

As at 31 December 2013, **equity** was EUR 15.1 billion, down from the previous year (2012: EUR 18.2 billion). As goodwill is to be deducted from equity for regulatory purposes and the write-off of goodwill therefore does not reduce regulatory capital, and as **risk-weighted assets** were reduced, **capital ratios** continued to improve. The **total capital ratio** (based on all risks) rose to 13.5 per cent (2012: 12.5 per cent) and the **Core Tier 1 capital ratio** (based on all risks) improved to 11.3 per cent (2012: 10.6 per cent).

Staff numbers in the Bank Austria Group including the employees of UniCredit's subsidiaries[4] in Austria were 56,193 full-time equivalents (FTEs) as at 31 December 2013 (31 December 2012: 57,655 FTEs). Of this total, 9,797 FTEs were employed in Austria and 46,396 FTEs in CEE countries.

Enquiries: Bank Austria Corporate Relations
Günther Stromenger, phone: +43 (0)50505-57232
mailto:guenther.stromenger@unicreditgroup.at

[4] Mainly UniCredit Business Integrated Solutions GmbH (UBIS Austria), Pioneer Investments Austria and UniCredit Leasing.