Bank Austria Member of UniCredit

Bank Austria IR Release

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Vienna, 18 March 2013

Results for the 2012 financial year:

Bank Austria posts operating profit of EUR 2.7 billion and net profit of EUR 423 million reflecting large exceptional charges

- **Sound operating performance: net operating profit[1] from customer business in Austria and CEE improved by a combined 3 per cent**
    - Lending volume up by 1 per cent to EUR 132.4 billion, growth driven by Central and Eastern Europe (CEE)
    - Deposits from customers rise strongly, by 8.8 per cent, to EUR 110.6 billion – significantly stronger funding capacity in CEE underlined by deposit growth exceeding growth of loans
    - Net write-downs of loans and provisions for guarantees and commitments up by 4 per cent overall, in Austria down by 29 per cent
- **Results impacted by non-operating charges**
    - Equity investment in UniCredit Global Leasing: minus EUR 286 million
    - Bank levies in Austria and CEE have an impact of minus EUR 131 million on results
    - Strategic decision to sell ATF Bank, Kazakhstan: minus EUR 423 million
    - Impairment loss on goodwill relating to Ukrsotsbank, Ukraine: minus EUR 165 million
- **Net profit more than doubled to EUR 423 million compared with the previous year, despite exceptional charges**
- **Strong capital base: Core Tier 1 capital ratio of 10.6 per cent**
- **High direct funding ratio: customer loans funded by customer deposits and securities in issue to the extent of 105 per cent**

Bank Austria's CEO Willibald Cernko: "As expected, 2012 was again a difficult year for the entire banking industry. We were faced with an economic slowdown, which also had an impact on

[1] Without the Corporate Center, where the loss resulting from the equity investment in UniCredit Global Leasing is included in the item "Dividend income and other income from equity investments".

customer business. Regulatory requirements were tightened and bank levies were further increased, resulting in additional costs. In this difficult environment, I am very satisfied that we were able to further improve our operating performance, though only slightly.

Weak economic trends led to the recognition of losses on equity investments and additional goodwill impairment charges in our financial statements. Moreover, in line with our Group's strategy, we have decided to sell our equity investment in the bank in Kazakhstan. We thereby aim to further reduce risks, strengthen the capital base and invest the capital which becomes available through this measure in those CEE countries with the strongest potential for growth. I would like to emphasise that this decision does not change our commitment to the region of Central and Eastern Europe. On the contrary: on a combined basis, our CEE banking subsidiaries reported profits throughout the crisis, and in 2012 they accounted for 75 per cent of our overall results. For this reason the region will remain the growth market at our doorstep – even if we need to take a differentiated view of the individual markets. We want to further expand our leading position in the region through optimised capital allocation.

One-off charges totalled EUR 879 million; this figure includes a positive one-off effect of EUR 126 million resulting from the buyback of hybrid capital instruments in 2012.

As in previous years, we coped with all these challenges on our own, covering the exceptional charges with our good operating profit. A net profit of EUR 423 million underlines once more our strong position in customer business and it also proves the risk-bearing capacity of our business model. Five years after the Lehman Brothers crisis started, we can still proudly say that we are the only major bank in Austria which has reported profits in any year without ever using state aid."

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Items in the income statement[2]

Net interest – the most important income component, accounting for 66 per cent of total operating income – was EUR 4,373 million in 2012, up by 1.3 per cent on the previous year's figure (2011: EUR 4,315 million). Customer business generated an increase in net interest, while the Corporate Center recorded a significantly higher net interest expense, not least reflecting higher liquidity and funding costs. Net interest from Austrian customer business rose by 2 per cent, and Central and Eastern Europe (CEE) achieved an increase of 4 per cent; in view of strong volume growth, especially in deposits, this reflects the current pressure on margins.

The item **dividend income and other income from equity investments** shows a negative balance of minus EUR 150 million (2011: income of EUR 208 million), due to a special effect. Since the transfer of Bank Austria's own leasing company to UniCredit Global Leasing S.p.A. in 2007, Bank Austria has held a shareholding interest in UniCredit Global Leasing. Bank Austria's participation in that company's results is 31.01 per cent. As the economic environment and the risk profile deteriorated and funding conditions temporarily worsened, UniCredit Global Leasing reported negative results for 2012. Moreover, changes in the medium-term and long-term outlook for leasing business in several markets where the company operates, especially in Italy, required the recognition of an impairment loss in respect of the company. Overall, the related charge was EUR 286 million, of which the adjustment to the book value accounted for EUR 241 million.

Net fees and commissions declined slightly, by 1.9 per cent, to EUR 1,595 million in 2012 (2011: EUR 1,625 million). This was due to structural reasons, including changes in the payments sector, while also reflecting investors' continued restraint when it comes to investing in high-risk and high-yield securities.

Net trading, hedging and fair value income rose by a substantial 46.9 per cent or EUR 212 million to EUR 664 million (2011: EUR 452 million). This includes the participation in current profits of UniCredit's Markets subdivision, which developed favourably in 2012, and a gain of EUR 126 million on the buyback of hybrid capital instruments, which Bank Austria effected in 2012. Without this one-

[2] To ensure comparability, the figures for 2011 have been adjusted to reflect the fact that Bank Austria Global Information Services and DOMUS Facility Management have been transferred to UniCredit Global Information Services and ATF, the banking subsidiary in Kazakhstan, is shown in the item "Total profit or loss after tax from discontinued operations".

off effect, net trading income would have increased by 19 per cent, with growth mainly driven by Central and Eastern Europe.

Overall, **operating income** totalled EUR 6,622 million, down by 1.2 per cent from the previous year's figure (2011: EUR 6,700 million). All of the slight decline was due to the negative special effect in connection with the equity interest in UniCredit Leasing. Without this impact, operating income would have been significantly higher than in the previous year.

Operating costs were EUR 3,893 million in 2012, a slight increase of 3.1 per cent over the previous year (2011: EUR 3,777 million). Without the increase in the charge for bank levies, the rate of cost growth would have been 2 per cent, 1 percentage point lower.

The charge for bank levies payable in the Bank Austria Group was EUR 131.4 million (2011: EUR 100 million), of which EUR 96.7 million related to Austria, EUR 18.8 million to Hungary, EUR 14.1 million to Slovakia, EUR 1 million to Romania and EUR 0.8 million to Slovenia. Bank levies accounted for 7.8 per cent of administrative expenses and 3.4 per cent of total costs.

In 2012, **net write-downs of loans and provisions for guarantees and commitments** amounted to EUR 1,103 million. At this level, the provisioning charge was slightly higher, by 4 per cent, than in the previous year but more or less matched the figure for 2008, the last year before the onset of recession (2011: EUR 1,060 million). In Austria, net write-downs of loans and provisions for guarantees and commitments continued to decline, by a substantial 29 per cent, to EUR 208 million (2011: EUR 292 million), reaching a multi-year low. In CEE, net write-downs of loans and provisions for guarantees and commitments rose by 16 per cent to EUR 895 million (2011: EUR 768 million), mainly because the provisioning charge in Turkey returned to a more normal level from the extremely low figure for the previous year. Overall, the cost of risk (provisioning charge as a proportion of average loans to customers) remained at a low level of 84 basis points.

Net operating profit – i.e. operating profit less net write-downs of loans and provisions for guarantees and commitments, the key measure of operating performance – improved in both Austrian customer business and CEE, by a combined 3 per cent in 2012. However, the loss in value of the equity interest in Leasing (see above) resulted in a decline of 13 per cent in net operating profit for 2012, which reached EUR 1,625 million (2011: EUR 1,863 million) at overall bank level.

The balance of non-operating items between net operating profit and profit before tax was negative in 2012, at minus EUR 300 million; yet this constitutes a strong improvement of EUR 139 million compared with the previous year because results for 2011 reflected substantial write-downs on Greek government bonds. Allocations to **provisions for risks and charges** were EUR 305 million in 2012, up on the previous year. The total figure included provisions for equity investment risks and pending legal proceedings and other provisions.

Profit before tax was EUR 1,326 million, down by 6.9 per cent from the previous year (2011: EUR 1,424 million). **Income tax** to be deducted from this amount was EUR 353 million in 2012, 36 per cent higher than in the previous year.

On the basis of a sound profit before tax, net profit for 2012 was significantly influenced by valuation adjustments to the equity interests in the CEE banking subsidiaries in Kazakhstan and Ukraine, which were acquired a short time before the onset of the financial market crisis. In line with the Group's strategy of further reducing risk and concentrating growth – and capital employed for this purpose – on CEE countries with a better long-term outlook for growth and earnings, the Management Board decided not to continue banking business in Kazakhstan. For this reason the equity interest in ATF Bank in Kazakhstan (and its subsidiaries in Kazakhstan and Kirgizstan) was classified as a discontinued operation. The related impairment loss on goodwill, together with the current loss for 2012 and additional expenses, is shown in the item "**Total profit or loss after tax from discontinued operations**" in the amount of minus EUR 301 million; the income statement figures for 2011 were adjusted accordingly. Moreover, Bank Austria recognised an impairment loss in the remaining amount of goodwill of EUR 165 million relating to Ukrsotsbank as results fell short of the budgeted figures.

With the above-mentioned valuation adjustments, goodwill relating to ATF Bank and Ukrsotsbank was reduced to nil.

After these valuation adjustments, goodwill relating to our equity interests in CEE companies totalled EUR 2.1 billion. This means that the valuation of our equity interests averages 1.1 times book value, which is a very conservative valuation.

The main non-operating items in the income statement had a combined impact of EUR 879 million. The comparative figure for the previous year was higher. On this basis, **net profit** attributable to the owners of Bank Austria was EUR 423 million, more than double the figure for the previous year (2011: EUR 206 million).

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

- Return on equity before tax was 7.4 per cent.
- Return on equity after tax (after deduction of non-controlling interests) was 2.4 per cent.
- The cost/income ratio rose slightly, to 58.8 per cent; without the charge for bank levies, the cost/income ratio was 56.8 per cent.
- The risk/earnings ratio (provisioning charge as a percentage of net interest income) was 26.1 per cent.
- The Tier 1 capital ratio (based on all risks) was 10.8 per cent (2011: 10.9 per cent).
- The Core Tier 1 capital ratio (based on all risks) remained unchanged at 10.6 per cent (2011: 10.6 per cent).
- Earnings per share were EUR 1.83 (2011: EUR 0.89) based on the average number of shares (231.2 million shares) outstanding in 2012.

Francesco Giordano, CFO of Bank Austria: “The good performance of the customer business in Austria and CEE and the flat cost development once more prove successfully our broad diversification across different markets and customer segments as an asset even under different market conditions. Beyond that we are well equipped with both equity capital and liquidity. In order to enable further loan growth and to meet the tighter regulatory requirements, we are considering adequate capital measures.”

Results of the Divisions

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

Business with Austrian private individuals and corporate customers has been bundled in the new Commercial Banking Division, which was created through changes in the organisational structure at the beginnning of 2013. The bundling of Austrian customer business of the F&SME and CIB Divisions takes effect for the 2013 financial year. The comments on results for 2012 refer to the structure which applied in 2012.

The **Family & SME Banking** Division held its own in the difficult environment prevailing in 2012. In view of the persistent euro crisis, high market volatility and low interest rates, all customer groups showed a very low risk appetite in 2012. It was only towards the end of the year that the situation started to improve hesitantly. While interest rates and yields were at record lows, the Division succeeded in meeting customers' need for security and return expectations through 17 "ErfolgsAnleihe" bond issues with a total volume of EUR 432 million and maturities ranging between two and five years. Credit demand remained weak in 2012. Companies and private households sought to consolidate their financial position and reduced debt rather than investing in business assets or making long-term investments.

A focal area was the expansion of SmartBanking services, currently used by about 50,000 customers. SmartBanking enables customers to reach the bank via OnlineB@nking, SMS, e-mail and telephone around the clock and seven days a week, from wherever they are. The SmartBanking pilot test, with advisory services available via videotelephony, started at the beginning of 2013; the large-scale rollout is planned for autumn 2013.

In its activities for small and medium-sized businesses with a turnover of up to EUR 50 million, Bank Austria strengthened the services offered to independent professionals. In 2011, the bank had brought the number of branches specialising in services for SMEs from 20 to 60 throughout Austria. 2012 saw the creation of 40 new competence centres for independent professionals, which were set up at SME branches in all Austrian regions. The "Business Billion" lending scheme under which Bank Austria makes loans available to SMEs met with strong demand: new loans granted to small

and medium-sized businesses in Austria totalled EUR 1.2 billion. Subsidised finance for which the bank acted as intermediary grew by 21 per cent, with new volume amounting to EUR 73 million.
At the Alpbach Finance Symposium, Bank Austria's online advisory service for financial assistance schemes was selected as the most innovative financial service in Austria in 2012.

In October 2012, Bank Austria became the first bank in Europe to sign a cooperation agreement with the European Investment Fund (EIF) on the Risk Sharing Instrument (RSI) – a joint contribution of the EU and Bank Austria to financing Austrian companies. The EIF provides a guarantee of 50 per cent for loans with a total volume of EUR 120 million which Bank Austria aims to grant in Austria within the next two years.

Net operating profit generated by the F&SME Division in 2012 was EUR 81 million, up by 31 per cent on the previous year (2011: EUR 62 million). In an environment characterised by low interest rates, the main contribution to the improvement came from significantly lower net write-downs of loans and provisions for guarantees and commitments, which declined by EUR 72 million to EUR 86 million (2011: EUR 158 million). Profit before tax was EUR 43 million, down from the previous year (2011: EUR 68 million) because the bank made a provision for the implementation of the "Smart Banking Solutions" project.

Bank Austria's **Private Banking** Division, represented by the two brands Bank Austria Private Banking – the private banking arm of a major bank – and Schoellerbank – a traditional private banking institution –, is the market leader in the Austrian private banking market, with a market share of 19 per cent. Serving foundations and 35,000 high net worth individuals with a minimum investment potential of EUR 500,000, the Private Banking Division has about EUR 18.4 billion in client assets under management.

In 2012, the Private Banking Division used potential for growth through strategic cooperation with the Corporate & Investment Banking Division. The objective of this successful initiative is to inspire business customers of Bank Austria to take advantage of Private Banking services as private individuals. As a result of this initiative, client assets under management rose by about EUR 260 million in 2012. The successful initiative will be continued in 2013.
The investment advisory concept has been enhanced through the addition of innovative products such as Portfolio Quality Analysis and the new risk profile test. "VermögensManagement5Invest" is

an innovative asset management service which is used by many customers. Clients can choose from five investment approaches, depending on their risk tolerance and specific investment goals. “VermögensManagement5Invest” has been chosen for a total of EUR 321 million in client assets since the service was introduced in autumn 2011. Accumulated performance of the balanced investment approach in 2012 was 9.20 per cent (before tax).

Schoellerbank’s asset management arm celebrated its twentieth anniversary in 2012. Classic asset management, together with investment advisory services and retirement planning, belong to Schoellerbank’s core competence areas, and this sub-segment has performed very well in the challenging environment of the past few years. The twentieth year is also the most successful in terms of new clients and new business volume.

The Private Banking Division’s business model, featuring a holistic service philosophy with a 360-degree analysis of customer needs, tailor-made strategies and a wide range of services, has proved effective especially in the difficult environment of the past years: net fees and commissions, traditionally the most important income component in Private Banking operations, rose by 6 per cent to EUR 91 million. Operating income came to EUR 152 million in 2012, an increase of 1.5 per cent over the previous year. Operating costs grew by 6 per cent year-on-year, reflecting a quality initiative in advisory services and the related training measures. Profit before tax generated by the Division was EUR 44 million (2011: EUR 47 million).

The **Corporate & Investment Banking (CIB)** Division comprises business with large corporate customers, real estate customers, multinational companies, the public sector and the financial sector (banks and insurance companies). CIB is market leader in Austria.

In corporate banking, CIB further strengthened its position as a strategic financial partner and companies’ partner of first choice for capital market activities. Acting in a leading capacity for 15 corporate bonds, which represented 65 per cent of the total volume of new issues in Austria in 2012, the Corporate & Investment Banking Division is the clear number one in the Austrian capital market. Overall, UniCredit’s market position and placement power – with EUR 66 billion number two in the area of euro bonds, and with EUR 22 billion number 3 in EMEA loans – provide a sound basis, underlining UniCredit’s capital market competence.

The bank was again highly successful with its outstanding expertise in export finance. In 2012, almost one half of all export credits covered by Oesterreichische Kontrollbank (OeKB) were handled by Bank Austria. With the introduction of the Senior Banker concept, the Division provides services to CEOs/CFOs of large national and international companies, managing business with international companies in Scandinavia, the Netherlands, Spain, South Africa and Israel out of Austria – and handling business of Asian customers in Europe with a view to bringing them to the network of UniCredit.

With its range of products and its competences, CIB responded well to changes in customers' preferences and changes in corporate banking in 2012. The CIB Division aims to intensify cross-selling efforts to expand its market position and enhance profitability, and it will make intensive use of the entire value creation chain covered by the Division's cross-regional operations.

At EUR 997 million, opeating income generated by CIB almost matched the high level of the previous year (minus 2 per cent) although credit demand was weak, companies had excess liquidity at their disposal, interest rates were very low and the CAIB Markets subsidiaries were closed. A major contribution to results in 2012 was the decline in operating costs, which fell by EUR 26 million or 7 per cent to EUR 361 million. Moreover, net write-downs of loans and provisions for guarantees and commitments declined by 6 per cent to EUR 122 million. The CIB Division generated a profit before tax of EUR 476 million in 2012, a year-on-year increase of EUR 34 million or 8 per cent (2011: EUR 442 million), thus making a significant contribution to Bank Austria's overall results.

The **CEE Division** reported a profit before tax of EUR 1,712 million for 2012, a distinct increase of 6 per cent over the previous year (2011: EUR 1,615 million), and contributed exactly three-quarters to the overall performance of Bank Austria's business divisions.

Operating income in 2012 totalled EUR 4,728 million, an increase of 5 per cent compared to the previous year (2011: EUR 4,493 million). This was mainly driven by a stronger net interest (particularly in Turkey), which was up at EUR 3,194 million in 2012 from EUR 3,058 million in 2011, and net trading income, which improved by 20 per cent to EUR 416 million (2011: EUR 347 million). At the same time net fees and commissions remained stable at EUR 1,008 million (2011: EUR 992 million). Net other income was EUR 89 million (2011: EUR 63 million). Operating costs increased by 3.6 per cent, well below the region's weighted inflation rate, from EUR 2,102 million to

EUR 2,177 million, leading to an operating profit for 2012 of EUR 2,551 million for 2012 (2011: EUR 2,392 million). With revenues growing faster than costs for the first time in many years, the cost/income ratio improved to 46.0 per cent (2011: 46.8 per cent).

In spite of austerity programmes, weak domestic economies and critical employment trends, the risk situation in Central and Eastern Europe was stable in 2012. Net write-downs on loans were at EUR 895 million resulting in a moderate increase of the corresponding cost of risk from 121 basis points in 2011 to 130 basis points in 2012. This increase is partially also due to the exceptionally low risk costs in Turkey in 2011. On this basis, net operating profit was EUR 1,657 million, up by 2.1 per cent on the previous year's figure (2011: EUR 1,623 million).

"In a challenging macroeconomic environment, we continued to optimise our intra-Group capital allocation and to minimise risk in line with our Strategic Plan in 2012. As part of its implementation we initiated a project to combine our subsidiaries in the Czech Republic and Slovakia into a single cross-border bank subject to the approval of the relevant national authorities. The recent centralisation of our Baltic banking operations in Riga, Latvia, and the discontinuation of our Kazakh activities are further steps toward simplifying our organisational structures, reducing risks and freeing capital – in order to invest it in those countries with the best growth opportunities. After all, we keep up our commitment as a long-term investor in Central and Eastern Europe, which is expected to grow significantly faster than Western Europe in the forthcoming years and which we consider our 'engine for growth'. In CEE, we will continue to pursue a diversified approach on the basis of the attractiveness of each country, focusing on our 'expansion countries', the Czech Republic, Russia and Turkey", 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 47,000 employees and 2,500 branches in 16 countries (excluding Kazakhstan, which is not allocated to the CEE Division anymore due to the planned divestiture).

Statement of financial position[3]

Bank Austria's **total assets** as at 31 December 2012 were EUR 207.6 billion, up by 4.2 per cent or EUR 8.4 billion from the end of the previous year (31 December 2011: EUR 199.2 billion). On the liabilities side, growth was driven by a strong increase in deposits from customers. On the assets side, credit expansion was weak and funds were partly used to strengthen liquidity reserves.

Leverage (total asset less intangible assets / equity less intangible assets) further improved to 13.0.

On the assets side, **loans and receivables with customers** increased by 0.9 per cent or EUR 1.1 billion to EUR 132.4 billion (31 December 2011: EUR 131.3 billion), accounting for 63.8 per cent of total assets. **Loans and receivables with banks** rose by EUR 2.7 billion to EUR 28.1 billion (2011: EUR 25.4 billion). The total amount of **financial market investments** was up by EUR 5.1 billion to EUR 23.4 billion (2011: EUR 18.2 billion).

On the liabilities side, **deposits from customers** rose by 8.8 per cent or EUR 8.9 billion to EUR 110.6 billion (2011: EUR 101.6 billion). **Debt securities in issue** declined slightly, by EUR 1 billion to EUR 28.1 billion (2011: EUR 29.1 billion) as maturing securities were initially not replaced in view of the inflow of deposits. Allocations to **provisions for risks and charges** were significantly higher, mainly due to higher pension provisions as a result of the significantly lower discount rate. Overall, provisions for risks and charges rose by EUR 1.2 billion to EUR 5.4 billion (2011: EUR 4.2 billion).

Primary funds – the sum total of deposits from customers and debt securities in issue, i.e. direct funding – increased more strongly than total liabilities and equity, by 6 per cent or EUR 7.9 billion to EUR 138.6 billion (2011: EUR 130.7 billion), accounting for over two-thirds (66.8 per cent) of total liabilities and equity. This means that customer loans were effectively funded by primary funds to the extent of 105 per cent.

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[3] Based on a strategic decision of the Management Board, ATF Bank is classified as held for sale. For this reason the contributions from ATF Bank are no longer included in the relevant items of the statement of financial position at 31 December 2012. They are instead shown under "Non-current assets and disposal groups classified as held for sale" and "Liabilities included in disposal groups classified as held for sale". To ensure comparability with the previous year's figures, the statement of financial position at 31 December 2011 is shown as published and also in a form adjusted to reflect the reclassification of ATF Bank. The commentary refers to the adjusted figures.

As at 31 December 2012, IFRS **equity** was EUR 18.2 billion, up by EUR 0.5 billion on the year-end figure for the previous year (31 December 2011: EUR 17.7 billion) mainly as a result of net profit. At the end of 2012, the **Tier 1 capital ratio** based on **credit risk** was 12.3 per cent (2011: 12.5 per cent). The **Tier 1 capital ratio** based on **all risks** was 10.8 per cent (2011: 10.9 per cent) and the **Core Tier 1 capital ratio** (without hybrid capital) based on all risks remained unchanged at 10.6 per cent (2011: 10.6 per cent).

Staff numbers in the Bank Austria Group including the employees of UniCredit's subsidiaries[4] in Austria totalled 60,353 (full-time equivalents – FTEs) as at 31 December 2012 (31 December 2011: 62,364). Of this total, 10,192 FTEs were employed in Austria and 46,847 FTEs in CEE countries (excl. 3,314 FTE in Kazakhstan).

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[4] Administration Services (now UniCredit Business Partner), Banking Transaction Services, Pioneer Investments Austria, WAVE Solutions Information Technology, Bank Austria Global Information Services, DOMUS Facility Management (now UniCredit Global Information Services), UniCredit Leasing, and UniCredit CAIB were transferred on an intra-group basis.