**Bank Austria IR Release**

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**Results for the 2010 financial year:**

# Bank Austria: net consolidated profit of EUR 747 million despite negative impact of non-operating items totalling EUR 456 million

- **Operating performance after provisioning charge improved by 18 per cent to EUR 1.6 billion**
  - **"Sustainable" income from commercial banking business with customers significantly higher than in the previous year: net interest and net fees and commissions up by a combined 6 per cent**
  - **Net writedowns of loans and provisions for guarantees and commitments in Austria and CEE reduced by 19 per cent to a total of EUR 1.8 billion**
- **Both Austria-based business segments and CEE Division operate profitably**
- **Non-operating items have a negative impact of EUR 456 million on performance**
  - **Goodwill impairment charge of EUR 359 million relating to ATF Bank in Kazakhstan is the largest single item**
- **Profit before tax down by 14 per cent as a result of these effects; adjusted for the goodwill impairment, profit before tax would have been up by 13 per cent**
- **Net consolidated profit (without non-controlling interests) down by 32 per cent to EUR 747 million as non-operating items to be deducted and the tax charge were higher than in the previous year**
- **Capital base further improved: total capital ratio rises to just over 12 per cent, Core Tier 1 capital ratio increases to 10 per cent**
- **Bank Austria launches new growth initiatives in Austria and CEE on the basis of its sound equity capital and primary funds**

Bank Austria's CEO Willibald Cernko: "2010 saw two developments which offset each other: on the one hand, commercial banking business with customers recovered and the provisioning charge in Austria and Central and Eastern Europe continued to decline, so that the bank's operating performance improved by 18 per cent compared with the previous year. On the other hand, higher non-operating items including the goodwill impairment charge relating to ATF Bank in Kazakhstan had a significant impact on bottom-line profits. If these one-off effects are not taken into account in the analysis, one can see a favourable development: the ’sustainable‘ income components rose strongly, customer business showed a clear upward trend, and improvements were achieved in the structure of assets and liabilities and in our capital base. Customer loans are covered by customer deposits and debt securities in issue to the extent of almost 100 per cent. With our excellent equity capital base – in terms of the core elements of equity capital, without inclusion of hybrid or participation capital, we have the strongest capital base among all major banks in Austria – we continue to support the Austrian economy through our lending operations. In 2010, lending volume in the Group grew to a total of EUR 130 billion and in Austria Bank Austria continues to be the largest lender at single-institution level. After years of consolidation and crisis, we are now pursuing growth in Austria and Central and Eastern Europe.”

**Items in the income statement**

The following factors should be noted when analysing financial trends in the past financial year: commercial banking business experienced an upswing with a significant increase in the “sustainable” components of income and a considerably reduced provisioning charge; on the other hand, one-off effects including the sale of UniCredit CAIB and the impairment loss on goodwill relating to Kazakhstan weighed on profits and prevented the improvement in operating performance from becoming clearly visible. The following comments explain these effects and their impacts on individual items in the income statement.

In 2010, **net interest income** was EUR 4,701 million, down by 3.6 per cent (2009: EUR 4,877 million). Net interest income generated by the CEE business segment, which accounts for two-thirds of the figure for the bank as a whole, rose by a strong 9 per cent, while the figure for Austrian customer business was down by 23 per cent. The decrease was not due to operating business but to the decline in trading-induced interest income, which was exceptionally high in the first quarter of 2009; as markets returned to normal, it was not possible to repeat this interest income performance in 2010. Another factor contributing to the decrease was the sale of UniCredit CAIB. The trading activities of the then UniCredit CAIB resulted in a shortfall of EUR 364 million compared with the previous year. Adjusted for this special effect, net interest income from commercial banking business was up by 4 per cent from the previous year.

**Net fees and commissions** increased by 9 per cent to EUR 1,990 million in 2010 (2009: EUR 1,831 million), mainly due to growth in fee-based securities business, which had not yet returned to pre-crisis levels.

**Net trading, hedging and fair value income** amounted to EUR 326 million, exactly matching the figure for the previous year. This reflects developments which moved in opposite directions: while the net trading performance in CEE was lower than the exceptionally high level recorded in 2009, the Corporate & Investment Banking (CIB) Division recorded a positive swing in its net trading result to EUR 35 million, from a net loss in the previous year to a significant amount of net trading income in 2010, despite organisational changes in trading and investment banking activities. This shows that the strategic reorientation in favour of customer-driven trading activities was the right strategy.

**Operating income** was EUR 7,208 million, more or less matching the previous year's level (2009: EUR 7,245 million). A detailed analysis shows that the "sustainable" components of income generated by commercial banking business with customers rose by 5.6 per cent to EUR 6,226 million while other income declined by 27 per cent to EUR 982 million – especially as a result of the above-mentioned significant decline in trading-induced interest income.

**Operating expenses** totalled EUR 3,766 million in 2010, a slight increase of 4 per cent over the previous year (2009: EUR 3,615 million). Staff costs increased by no more than 2 per cent, while non-staff expenses rose by 9.9 per cent compared with the previous year, mainly due to the further targeted expansion of the sales network and costs in CEE relating to IT modernisation. The cost/income ratio for the bank as a whole rose to 52.3 per cent as operating income was slightly lower.

**Operating profit** declined by 5 per cent to EUR 3,442 million; adjusted for the special effects described above, operating profit grew by 3 per cent (2009: EUR 3,630 million).

**Net writedowns of loans and provisions for guarantees and commitments** were EUR 1,839 million, down by a substantial EUR 428 million or 19 per cent from the previous year (2009: EUR 2,267 million) but still significantly higher than the pre-crisis level. The reduction of risk-related costs was achieved both in Austrian customer business and in Central and Eastern Europe. In Austria, the provisioning charge declined by 30 per cent to EUR 384 million (2009: EUR 549 million), in CEE by

15 per cent to EUR 1,454 million (2009: EUR 1,718 million). Overall, the cost of risk (provisioning charge measured as a proportion of average loans to customers) declined from 178 basis points (bp) to 144 bp.

If **net writedowns of loans and provisions for guarantees and commitments** are **deducted from operating profit**, the result – the key measure of **operating performance** – shows a significant improvement of 18 per cent to EUR 1,602 million for 2010 (2009: EUR 1,363 million); it should be noted that this calculation is based on published figures, reflecting the significant decline in trading-induced interest income compared with the previous year.

**Net income from investments** was EUR 62 million, lower than in the previous year (2009: EUR 113 million). The decrease was mainly due to a decline in income from equity investments as Bank Austria's contractual participation in the current profits of the Polish banking subsidiary[1] expired at the end of 2009; income from the latter item in 2009 was EUR 106 million.

The other non-operating items between operating profit and profit before tax in 2010 included a large amount of valuation adjustments. The charge for **goodwill impairment** in 2010 was EUR 378 million (2009: EUR 19 million), of which EUR 359 million related to ATF Bank, our banking subsidiary in Kazakhstan, where the goodwill impairment test led to a need for adjustment.

The significant improvement in results from commercial banking business, after the provisioning charge, was absorbed by impairment losses on goodwill and other non-operating expenses. As a result, **profit before tax** was EUR 1,146 million, down by 14 per cent from the previous year (2009: EUR 1,335 million). A detailed analysis shows that improvements achieved in commercial banking business were offset by special non-operating effects which totalled EUR 456 million. Adjusted for these non-operating items, profit before tax would have increased by 12.8 per cent instead of falling by 14 per cent.

**Income tax** to be deducted from profit before tax in 2010 was EUR 348 million, an increase of 91 per cent.

[1] When Bank BPH, Bank Austria's Polish banking subsidiary, was sold to UniCredit in November 2006, it was agreed that Bank Austria would receive a share of current profits of the combined Bank BPH and Pekao Bank for the three subsequent years.

**Net profit** amounted to EUR 798 million, the amount attributable to non-controlling interests (previously: minority interests) remained unchanged at EUR 51 million. **Net consolidated profit** (net profit attributable to the owners of Bank Austria) for 2010 was EUR 747 million, down by 32 per cent from the previous year (2009: EUR 1,102 million).

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

- Return on equity before tax was 6.7 per cent.
- Return on equity after tax was 4.5 per cent.
- The cost/income ratio rose slightly, to 52.3 per cent.
- The risk/earnings ratio (provisioning charge as a percentage of net interest income) was 39.1 per cent.
- The total capital ratio (based on all risks) increased to 12.13 per cent (2009: 10.92 per cent).
- The Tier 1 capital ratio (based on all risks) improved to 10.35 per cent (2009: 8.68 per cent).
- The Core Tier 1 capital ratio (based on all risks) improved to 10.04 per cent (2009: 8.33 per cent).
- Earnings per share were EUR 3.30 (2009: EUR 5.45), based on the average number of 226.3 million shares outstanding in 2010.

**Results of the Divisions**

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

In 2010, the former Retail Division was expanded to include the customer group comprising small and medium-sized enterprises (SMEs) up to EUR 50 million in turnover[2]. Operating under the new name **Family & SME Banking** since 1 July 2010, the Division has enhanced its regional service approach for commercial customers, with services to SMEs now being provided through 60 instead of previously 22 specialised branches. The Family & SME Banking business segment is a major pillar of Bank Austria, with loans totalling EUR 20 billion and deposits amounting to EUR 22 billion (as at the end of 2010) and with operating income of over 1 billion euros.

[2] This restructuring is not yet reflected in segment reporting for 2010.

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The F&SME Division is characterised by large business volume and a sharp focus on customer business. Therefore it did not experience any major setbacks in the years of the financial market crisis and recession. Nevertheless, in 2010, operations serving private customers and small businesses felt the repercussions of economic developments in the difficult years preceding 2010. The moderate trend in operating performance reflected the fact that customers were seeking to reduce debt, primarily by repaying short-term loans and financing purchases of durable goods to a larger extent out of current cash flow, all the more so as the low interest rate environment did not permit any significant returns on savings. Overall, the Family & SME Banking business segment emerged significantly better from the transitional year 2010 than was to be expected in view of cyclical developments.

Net fees and commissions, a major income component accounting for 38 per cent of total revenues, rose by 4 per cent to EUR 404 million, mainly driven by a favourable development in the first half of 2010. As interest margins narrowed, net interest income declined by 6 per cent to EUR 647 million although average lending volume was 5 per cent higher than in the previous year. Despite a moderate cost trend, operating profit for 2010 declined by 16 per cent to EUR 253 million (2009: EUR 300 million). Profit before tax was EUR 47 million, 27 per cent lower than in the previous year (2009: EUR 65 million). The cost/income ratio was 75.9 per cent (2009: 72.2 per cent).

The **Private Banking Division** – represented by the two brands Bank Austria Private Banking and Schoellerbank – maintains a presence in 25 locations throughout Austria, with 569 employees serving almost 34,000 high net worth individuals with a minimum investment potential of EUR 500,000. With a market share of 19 per cent and about EUR 17 billion in client assets under management, the Private Banking Division is market leader in Austria. The investment strategy gives priority to preserving wealth over achieving short-term performance, and risks are managed through wide diversification.

Following completion of the reorganisation in 2009, the Private Banking Division – in its new structure in 2010 – became the third pillar of Bank Austria's customer business in Austria. In its first year, the Private Banking Division achieved volume growth and exceeded the planned results; customer portfolios showed a very good performance. From 2011, Schoellerbank will become the Private Banking competence centre for customers from Central and Eastern Europe, which also offers significant growth potential for Austria.

2010 saw various innovations, including the introduction of Private Portfolio Premium, which offers investors more possibilities of individual fine-tuning. Private Banking launched the “PREMIUM Aktion 3 Prozent Plus“, a campaign under which investors receive a bonus of up to 3 per cent in the form of interest credited to their account if the agreed performance target is not met. Portfolio quality analysts, a new function established in 2010, review portfolio quality on an ongoing basis and adjust portfolios to the environment and strategy.

Net fees and commissions – which are the main revenue component in Private Banking, accounting for 68 per cent of operating income – were up by 9 per cent to EUR 95 million, while net interest income, at EUR 43 million, was significantly lower than in the previous year (2009: EUR 55 million) as interest margins narrowed. Operating income nevertheless rose by 3 per cent to EUR 140 million compared with the previous year (2009: EUR 136 million). In 2010, operating expenses increased by 3 per cent to EUR 101 million; the increase reflects the first-time consolidation of Schoellerbank Invest, a capital investment company, in June 2010. Profit before tax amounted to EUR 39 million, an increase of 1 per cent over the previous year (2009: EUR 38 million). Private Banking business is based on staff-intensive client relationships, reflected in a cost/income ratio of 72.3 per cent compared with 71.7 per cent in 2009.

Total financial assets (assets managed for clients) of the Private Banking Division rose by 4.4 per cent to EUR 16.9 billion, of which EUR 7.1 billion is under Schoellerbank’s management. Deposits accounted for 32.3 per cent of total investment volume in the Division; assets under management (asset management and managed products) were 29,6 per cent and assets under custody were 38 per cent of total investment volume.

**Corporate & Investment Banking (CIB):** The restructuring of corporate banking which started in 2009 was completed in 2010, and the CIB Division now focuses on customer business. The sale of UniCredit CAIB AG to HypoVereinsbank was finalised as at 1 June 2010 as planned. Customer-driven investment banking business, Bank Austria’s funding activities and local capital market activities were previously reintegrated from UniCredit CAIB AG into Bank Austria.

A major initiative launched in 2010 was “GemeindeMilliarde”, under which Bank Austria, the market leader in business with public sector entities, granted loans to municipalities at favourable terms and conditions for investment in infrastructure and social measures. Loans made available by Bank Austria under its “AufschwungKredit” initiative – nominated as the most innovative financial service of the year in Austria at the Alpbach Financial Symposium in 2010 – supported the competitiveness of small and medium-sized businesses in Austria in a persistently difficult economic environment.

The CIB Division’s operating income from commercial banking business remained more or less stable, at EUR 1,334 million. The decline of EUR 228 million from the total figure for the previous year (2009: EUR 1,562 million) was due to the special effect – already explained in the general comments on the income statement – of exceptionally large trading-induced interest income generated in the early part of 2009. This special effect also explains why operating profit was down by 21 per cent to EUR 899 million (2009: EUR 1,144 million). Although the provisioning charge was reduced by almost one half (by EUR 137 million or 45 per cent) to EUR 169 million compared with the previous year, profit before tax, at EUR 706 million, was 7.5 per cent lower than in the previous year (2009: EUR 764 million). Without the above-mentioned special effect, profit before tax would have increased by 38 per cent. The cost/income ratio, though slightly higher, was still a low 32.6 per cent (2009: 26.7 per cent).

Profit before tax generated by the **CEE Banking Division** in 2010 rose by 16 per cent to EUR 1,064 million (2009: EUR 916 million). The region of Central and Eastern Europe thus once more underlined its role as the mainstay of Bank Austria’s growth and a major contributor to profits.

In 2010, particularly strong growth was recorded in the “sustainable” components of income: net interest income and net fees and commissions rose by 8 per cent and 12 per cent, respectively, to EUR 3,256 million and EUR 1,185 million. As net trading income declined, total operating income rose only slightly, by 1 per cent to EUR 4,649 million. Operating expenses amounted to EUR 2,128 million (2009: EUR 1,951 million), operating profit for 2010 reached EUR 2,521 million (2009: EUR 2,669 million). The cost/income ratio increased slightly, from 42.2 to 45.8 per cent.

Overall, volume and operating income in the CEE business segment picked up in 2010. The analysis of the past five years shows that operating income came very close to the peak level achieved in

2008. Costs continued to be lower than in 2008, despite an increase of 9 per cent in 2010 compared with the previous year.

In 2010, net writedowns of loans and provisions for guarantees and commitments were EUR 1,454 million, down by 15 per cent compared with the previous year as the economic environment in CEE improved. In line with regional economic trends, Turkey and Russia benefited from the strongest improvements in this context. In the Baltic countries and in Kazakhstan and Ukraine, the provisioning charge declined by a combined 18 per cent; the two latter countries still accounted for 40 per cent of the total figure for net writedowns of loans and provisions for guarantees and commitments in CEE.

Bank Austria is the sub-holding company for UniCredit's operations in Central and Eastern Europe. In this function it manages a leading banking network in the CEE region with about 52,000 employees and some 3,000 branches in 18 countries.

"In the aftermath of the global crisis, the economic recovery in Central and Eastern Europe is consolidating. Although the regional growth prospects will vary significantly in 2011, every country in CEE, as covered by our banking network, is expected to show gains for the first time in four years. Moreover we should also see some further recovery of the banking sector in general. Hence our Group remains focused on risk control and efficiency, we seize these days the right time to pick up on organic growth and to invest again. Until 2015 we intend to open about 900 new branches in selected countries such as Turkey, Romania, Hungary, Russia, Bulgaria and Serbia", said Gianni Franco Papa, Deputy CEO of Bank Austria and Head of CEE Division.

## Statement of financial position

Bank Austria's **total assets** as at 31 December 2010 were EUR 193 billion, slightly lower than in the previous year (31 December 2009: EUR 194.5 billion). The most important structural change in the reporting year – the deconsolidation of UniCredit CAIB AG – was offset by an expansion of other items in the statement of financial position. At year-end 2009, UniCredit CAIB AG was contained 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", at EUR 13.2 billion and EUR 10.5 billion, respectively. Adjusted for this effect, total assets would have risen by 6.5 per cent in 2010.

The structure of the bank's financial position improved in several ways in 2010: the proportion of business with customers increased, interbank business was reduced in line with the general trend in the banking sector, and equity rose especially as UniCredit strengthened Bank Austria's equity capital with a EUR 2 billion capital increase in March 2010. Leverage (total assets minus intangible assets / equity minus intangible assets) thus continued to decline, from 18.2 to 13.8.

On the assets side, **loans and receivables with customers** increased by 5.3 per cent or EUR 6.5 billion to EUR 130.1 billion (31 December 2009: EUR 123.6 billion). **Loans and receivables with banks** continued to decline, as in previous years, contracting by EUR 3.3 billion or 14.4 per cent to EUR 19.7 billion (2009: EUR 23.1 billion). **Financial assets held for trading** increased by 4 per cent, to EUR 4.3 billion (2009: EUR 4.1 billion). Among the other items on the assets side, goodwill declined by EUR 190 million or 5.5 per cent to EUR 3.2 billion.

On the liabilities side, **deposits from customers** were up by 3.3 per cent or EUR 3.2 bilion to EUR 100 billion (2009: EUR 97 billion). **Debt securities in issue** declined slightly, by EUR 1.3 billion or 4.4 per cent to EUR 27.6 billion (2009: EUR 28.8 billion). **Interbank business** remained almost unchanged, at EUR 33.1 billion (2009: EUR 33.4 billion).

**Primary funds** – i.e. deposits from customers and debt securities in issue – increased by 1.6 per cent to EUR 127.8 billion (2009: EUR 125.9 billion), representing two-thirds (66.2 per cent) of total liabilities and equity. This means that loans and receivables with customers were covered by primary funds to the extent of 98 per cent.

As at year-end 2010, **equity** was EUR 17.5 billion, an increase of EUR 3.1 billion or 21.5 per cent over the end of the previous year (2009: EUR 14.4 billion). At the end of 2010, the **Tier 1 capital ratio** based on **credit risk** was 11.68 per cent (2009: 9.76 per cent). The **Tier 1 capital ratio** based on **all risks** improved to 10.35 per cent (2009: 8.68 per cent). The **Core Tier 1 capital ratio** – Tier 1 capital ratio without hybrid capital – rose to 10.04 per cent (2009: 8.33 per cent).

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**Staff numbers** in the Bank Austria Group including the employees of UniCredit subsidiaries[3] in Austria totalled 62,524 (full-time equivalents) as at 31 December 2010 (31 December 2009: 63,218 FTEs). Of this total, 10,908 FTEs were employed in Austria and 51,616 FTEs in CEE countries.

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[3] Administration Services (now UniCredit Business Partner), BTS (Banking Transaction Services), Pioneer Investments Austria, WAVE (now UGIS), UniCredit Leasing and UniCredit CAIB were transferred on an intra-group basis.