Bank Austria IR Release

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Results for the 2011 financial year:

Bank Austria posts net profit of EUR 209 million despite burdens of EUR 1.2 billion resulting from Greece, goodwill impairment and bank levies

- **Operating performance further improved:**
  - Net operating profit up by 13 per cent to EUR 1.7 billion
  - Net write-downs of loans in Austria and CEE down by 27 per cent
  - Lending volume up by 3.7 per cent to EUR 135 billion, customer deposits up by 4.4 per cent to EUR 105 billion
- **Austrian business segments and CEE Division report profits**
- **Non-operating items burden results**
  - Bank levies in Austria and some CEE countries total EUR 148 million, of which EUR 100 million is reflected in Bank Austria's income statement
  - Write-downs on Greek government bonds total EUR 396 million
- **Profit before tax down by 11 per cent to EUR 1.3 billion, reflecting the impact of non-operating items**
  - Goodwill impairment charge totalling EUR 737 million, mainly relating to banking subsidiaries in Kazakhstan and Ukraine
- **Net profit amounts to EUR 209 million**
- **Capital base further strengthened: total capital ratio rises to 12.7 per cent, Core Tier 1 capital ratio to 10.55 per cent**
- **Customer loans covered by customer deposits and debt securities in issue to the extent of 100 per cent**

Bank Austria's CEO Willibald Cernko: "2011 was a year divided in two halves: a good first six months driven by economic recovery compared with a second half-year which was impacted by the European government debt crisis, disruptions in connection with Greece, and the beginning of the economic slowdown. These developments also had an impact on Bank Austria: we had to recognise substantial impairment losses on goodwill relating to our two banking subsidiaries in Ukraine and Kazakhstan as the earnings outlook is less favourable than the original assumptions. And we also had to make write-downs on Greek government bonds held in our portfolio. Added to these burdens were the bank levies in Austria and some CEE countries, which were fully reflected in the income statement for the first time in 2011. Overall, these factors had a negative impact of over EUR 1.2 billion on our results. Despite these exceptionally large charges, we achieved a net profit of EUR 209 million, which underlines once more our strong position in customer business and the significant risk-bearing capacity of our business model. Four years after the Lehman Brothers crisis, we can proudly say that we are the only major bank in Austria which neither reported losses in any year nor had to use state aid. We coped with the crisis on our own and achieved profits in each year since then.

We have also further improved our liquidity and strengthened our capital base. Customer loans are covered by primary funds – i.e. the sum total of customer deposits and debt securities in issue – to the extent of 100 per cent. Our Core Tier 1 capital ratio – excluding hybrid capital or participation capital – is 10.55 per cent, the highest level among all major banks in Austria. This enables us to perform our core function fully and without any restrictions also in the future: supporting the Austrian business sector and private households with loans."

Items in the income statement[1]

Although the interest rate environment changed in 2011, **net interest** more or less matched the previous year's level; at EUR 4,496 million, it was down by 0.6 per cent (2010: EUR 4,521 million). Trends in Austria differed from those in Central and Eastern Europe (CEE). Net interest in Austrian customer business rose by 2.3 per cent, whereas the figure for CEE declined slightly, by 1.8 per cent, at constant exchange rates and increased by only 2.3 per cent at current exchange rates.

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[1] To ensure comparability, the comparative figures for 2010 have been adjusted to reflect the sale of UniCredit CAIB AG and UniCredit CAIB Securities UK Ltd to UniCredit Bank AG (the former Bayerische Hypo- und Vereinsbank AG) and the transfer of Bank Austria Global Information Services GmbH (BAGIS) to UniCredit SpA.

While overall volume in Austria stagnated, net interest growth was driven by the improved interest margin, mainly in the Family & SME Banking and Private Banking Divisions, where deposits account for a large proportion of business. In CEE, the trend moved in the opposite direction: lending business grew by 6.4 per cent, while the interest margin narrowed.

Dividend income and other income from equity investments rose by 31.7 per cent to EUR 207 million (2010: EUR 157 million). Contributions to this growth came from the equity investments in UniCredit Leasing and in Austrian regional banks and specialised banking institutions.

Net fees and commissions declined by 5 per cent to EUR 1,885 million (2010: EUR 1,987 million). The decrease was mainly due to caution and restraint on the part of customers in view of the more volatile and uncertain investment environment in 2011, which impacted fee-based business.

Net trading, hedging and fair value income in 2011 was EUR 262 million, up by 7.3 per cent on the previous year (2010: EUR 244 million). The increase reflects developments which moved in opposite directions. While customer-driven net trading income in CEE rose significantly (plus 37.7 per cent), the net trading performance from Austrian customer business swung from a net loss in the previous year to net income in 2011. On the other hand, the amount of Bank Austria's participation in profit before tax of UniCredit's Markets subdivision was significantly lower.

Operating income was EUR 6,986 million, down by 1.2 per cent from the previous year's figure (2010: EUR 7,069 million). All of the slight decline was due to the Corporate Center, where higher funding costs for companies in which the bank holds equity investments and the significantly lower amount of the participation in profits of UniCredit's Markets subdivision resulted in a net expense. The customer business segments, on the other hand, generated moderate revenue growth, with an increase of 2.1 per cent in Austrian customer business, and 0.7 per cent in CEE. The comparatively low rate of growth in operating income in CEE was mainly due to exchange rate movements; at constant exchange rates, operating income grew by 5 per cent.

Operating costs in 2011 were EUR 3,903 million, up by 5.6 per cent on the previous year (2010: EUR 3,695 million). The increase is due to continued investment in business operations in Austria and Central and Eastern Europe, and to wage increases in a number of CEE countries reflecting higher local inflation rates. The bank levies in Austria and some CEE countries also made significant contributions to cost growth.

The total charge for bank levies payable in the Bank Austria Group was EUR 100 million, of which EUR 77 million relates to Austria, EUR 22 million to Hungary and EUR 1 million to Slovenia.

Together with the bank levy of EUR 48 million payable by the HVB office in Vienna (the former CAIB), the burden from the bank levy in Austria totalled EUR 125 million for 2011.

Net write-downs of loans and provisions for guarantees and commitments declined by 26.5 per cent to EUR 1,352 million in 2011, continuing the favourable trend seen in the previous year (2010: EUR 1,839 million). The provisioning charge was reduced in Austrian customer business and in Central and Eastern Europe. In Austria, net write-downs of loans and provisions for guarantees and commitments in 2011 declined by 28.3 per cent to EUR 297 million (2010: EUR 414 million), in CEE the provisioning charge was down by 26.0 per cent to EUR 1,055 million (2010: EUR 1,426 million). Overall, the cost of risk (net write-downs of loans and provisions for guarantees and commitments as a proportion of average loans to customers) declined from 144 bp to 103 bp.

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 significantly, by 12.8 per cent, to EUR 1,732 million in 2011 (2010: EUR 1,535 million), reflecting the favourable trend in the provisioning charge.

The following non-operating items are to be deducted from net operating profit to arrive at profit before tax:

Net additions to **provisions for risks and charges** in 2011, at EUR 136 million, matched the figure for the previous year. However, the **net result from investments** was a net loss of EUR 277 million (2010: net income of EUR 61 million), mainly reflecting write-downs on **Greek government bonds**, which had a negative impact of EUR 396 million on results.

The holdings of Greek government bonds, originally amounting to EUR 509 million, were written down by 78 per cent as at year-end 2011, corresponding to the market value at the time. The carrying amount of these bonds, including accrued interest, is EUR 129 million.

Profit before tax was EUR 1,291 million, down by 11.3 per cent from the previous year (2010: EUR 1,456 million).

Income tax amounted to EUR 261 million in 2011, giving an effective tax rate of 20.2 per cent.

After deduction of non-controlling interests of EUR 50 million, **net profit before Purchase Price Allocation** for 2011 was EUR 980 million.

As part of the multi-year planning process for all units of UniCredit – and ahead of the capital increase of UniCredit SpA – the medium-term scenarios for all business segments and regions were updated in the third quarter of 2011. Performance trends which were below the original assumptions used for planning purposes required the recognition of an **impairment loss** of EUR 350 m **on goodwill** related to ATF Bank in Kazakhstan and the recognition of an **impairment loss** of EUR 329 m **on goodwill** related to Ukrsotsbank in Ukraine as at the end of 2011. The statement of financial position includes residual goodwill of EUR 129 m for ATF Bank and EUR 168 m for Ukrsotsbank, corresponding to a very conservative valuation of 1.3 times the book value in both cases. Impairment losses on goodwill relating to CJSC Securities Russia (previously ATON), which is currently being restructured, totalled EUR 47 m, reducing the relevant goodwill to nil.

After these valuation adjustments, all our equity investments are valued at an average of 1.2 times the book value, which is a very conservative valuation. The impairment test recently completed shows that the current value of the entire portfolio of equity investments in Central and Eastern Europe is significantly higher than the total carrying amount.

The goodwill impairment charge and the Purchase Price Allocation effect impacted the consolidated financial statements of Bank Austria with EUR 772 million, corresponding to 60 per cent of the profit before tax.

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Net profit (attributable to the owners of Bank Austria) for 2011 was EUR 209 million after EUR 709 million in the previous year.

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 1.2 per cent.
- The cost/income ratio rose slightly, to 55.9 per cent.
- The risk/earnings ratio (provisioning charge as a percentage of net interest income) was 28.7 per cent (2010: 39.3 per cent).
- The total capital ratio (based on all risks) increased to 12.68 per cent (2010: 12.13 per cent).
- The Tier 1 capital ratio (based on all risks) improved to 10.88 per cent (2010: 10.35 per cent).
- The Core Tier 1 capital ratio (based on all risks) improved to 10.55 per cent (2010: 10.04 per cent).
- Earnings per share in 2011 were EUR 0.90 (2010: EUR 3.30) based on the average number of 231.2 million shares outstanding in 2011.

Francesco Giordano, Chief Financial Officer of Bank Austria: "With a Core Tier 1 capital ratio of 10.55 per cent we already meet the requirements of regulatory authorities in Austria and at the European level. It is especially the composition of equity capital, apart from its amount, that makes us stand out: the amount of our hybrid capital is not significant and we have no participation capital. In combination with our very good liquidity position and financial position in terms of assets and liabilities – which is reflected in the high proportion of customer deposits and debt securities in issue, and in low leverage – we are very well positioned for the future."

Results of the Divisions

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

Overall, and measured by results, the **Family & SME Banking Division** had a good year in 2011. The market and banking environment varied considerably: investors continued to show a pronounced risk aversion on account of economic trends, and a strong preference for bank deposits and simple and transparent bank bond issues; this led to very good placement results.

The F&SME Division positioned itself strongly with innovative services: Bank Austria became the first bank in Austria to present a bank card for visually impaired customers, and it launched the first bank apps for the iPhone and for Android in Austria. “SmartBanking”, a new service introduced in 2011, was well received: at present some 50,000 customers who hardly ever or very rarely visit a bank branch can use the new service to contact their bank and their relationship manager via OnlineB@nking, SMS, e-mail and telephone around the clock and 7 days a week from wherever they are.

The F&SME Division operates 60 branches throughout Austria which specialise in offering advisory services for small and medium-sized enterprises (SMEs). For companies with a turnover of up to EUR 50 million the bank again offered a lending scheme under which it made one billion euros available to SMEs. The lending scheme met with strong demand: new loans granted to small and medium-sized businesses in Austria totalled EUR 1.16 billion. The bank also acted as intermediary for subsidised finance, where volume rose by 30 per cent (EUR 185 m).

Operating income in the Family & SME Banking business segment was EUR 1,177 million, up by 2.3 per cent from the previous year (2010: EUR 1,151 million). Revenue growth and a significant decline in net write-downs of loans and provisions for guarantees and commitments contributed to profit improvement. The provisioning charge declined by 39 per cent or EUR 103 million to EUR 161 million (2010: EUR 264 million). On this basis, profit before tax increased to EUR 112 million, two and a half times the figure for the previous year (2010: EUR 43 million).

The **Private Banking Division** – represented by the two brands Bank Austria Private Banking and Schoellerbank – maintains a presence in 25 locations throughout Austria, with 556 employees serving foundations and almost 36,000 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 (total financial assets at the end of 2011: EUR 16.9 billion).

The Private Banking Division performed well in a challenging environment characterised by high volatility in stock markets and by the government debt crisis, which caused uncertainty among investors. Operating income in 2011 rose by 6.7 per cent to EUR 149 million (2010: EUR 140 million) while costs declined slightly, to EUR 100 million (2010: EUR 101 million). Operating profit improved strongly, by 25.3 per cent to EUR 49 million (2010: EUR 39 million). Profit before tax increased by 21.4 per cent to EUR 47 million (2010: EUR 39 million).

In the past year, the Private Banking Division focused on three initiatives: first, as market leader in business with private foundations, the Division set up a private foundations competence centre. The team of experts assigned to this centre supports clients throughout Austria with economic and legal issues, and with succession planning in particular. Second, the introduction of the Preferred Partners concept, with a focus on ten outstanding fund management companies, has resulted in a simplification of products and services, and in quality enhancement for our clients. The concept provides a basis for optimum coordination of current market evaluation by the Division's experts, and for precise quality management. Third, since 2011 Schoellerbank has acted as Private Banking competence centre and exclusive contact in Austria for high net worth individuals who are served by UniCredit in Central and Eastern Europe and want to diversify their assets.

The **Corporate & Investment Banking (CIB) Division** serves companies with a turnover exceeding EUR 50 million. CIB is market leader in Austria: eight out of ten companies maintain a banking relationship with Bank Austria, and for six out of ten companies Bank Austria is the main bank. This means that Bank Austria is the leading bank for corporate customers in Austria.

In 2011, Bank Austria further expanded its position as companies' preferred bank partner for capital market transactions. The bank played a leading role in eight corporate bond issues and four capital increases. The volume of debt capital transactions supported by Bank Austria totalled EUR 2.43 billion, almost double the 2010 figure. Based on the expertise of its employees, the bank again achieved excellent results in export finance: in 2011 almost one half of all export credits covered by Oesterreichische Kontrollbank (OeKB) was handled by Bank Austria.

"Umbrella Facility – one loan available in ten countries" was selected as the most innovative financial service at the Alpbach Finance Symposium in 2011. Bank Austria's innovative loan product enables Austrian companies which do business in Central and Eastern Europe to benefit from UniCredit Group's leading presence in these countries.

Corporate banking was faced with a difficult market environment in the past year. Although economic developments in the first six months of 2011 were encouraging, credit demand remained subdued, not least because companies enjoyed a strong liquidity position. This trend became more pronounced in the second half of the year as the government debt crisis escalated and economic growth slowed.

Despite the challenging environment, operating income generated by the Corporate & Investment Banking Division in 2011 rose by 1.3 per cent to EUR 1,095 million (2010: EUR 1,082 million). The 10.1 per cent decline in net write-downs of loans and provisions for guarantees and commitments to EUR 131 million (2010: EUR 146 million) also contributed to the Division's very strong operating performance. Net operating profit was EUR 574 million, matching the previous year's level. Non-operating items to be deducted from this figure included integration/restructuring costs relating to the Russian brokerage firm CJSC Securities Russia (previously ATON) and other write-downs. As a result, profit before tax was down by 6.7 per cent to EUR 513 million (2010: EUR 550 million). Nevertheless, the Corporate & Investment Banking Division accounted for 26 per cent of the operating performance of the bank as a whole (without the Corporate Center), once more strongly supporting Bank Austria's results in 2011.

The **CEE Division** reported a profit before tax of EUR 1,462 million for 2011 and once again strongly supported the overall performance of Bank Austria Group. This is an increase of 28 per cent over the previous year (2010: EUR 1,143 million).

Operating income in 2011 totalled EUR 4,722 million, a moderate increase compared with the previous year (2010: EUR 4,691 million) as net interest was down by 1.8 per cent, from EUR 3,279 million in 2010 to EUR 3,219 million in 2011. This reflects the phase shift in the business cycle in Turkey, where economic policy measures – including an increase in the minimum reserve requirement and stricter upper limits for interest rates on credit card products – dampened growth.

Net fees and commissions rose by 1.4 per cent to EUR 1,210 million (2010: EUR 1,193 million), with growth recorded in all CEE countries. Net trading income improved by 37.7 per cent to EUR 199 million (2010: EUR 144 million). Operating costs increased by 3.2 per cent, from EUR 2,128 million to EUR 2,195 million, mainly due to CEE branch expansion and local marketing expenses. Operating profit for 2011 amounted to EUR 2,528 million (2010: EUR 2,563 million) and the cost/income ratio remained stable at 46.5 per cent.

In the CEE Division the 2011 financial year was characterised by steady volume growth, a further reduction of net write-downs of loans, progress in local restructuring measures and the stabilisation or improvement in asset quality. Thus, net write-downs of loans and provisions for guarantees and commitments were reduced by 26 per cent to EUR 1,055 million. On this basis, net operating profit was EUR 1,472 million, up by a substantial 29.5 per cent on the previous year's figure (2010: EUR 1,137 million). By this, CEE Division made up for almost 70 per cent of the net operating profit of Bank Austria Group.

The devaluation of some CEE currencies, especially of Turkish Lira, versus the Euro strains a y/y comparison significantly. At constant FX rates net operating profit would have been up by 37.8 per cent. Profit before tax would have increased by 36.4 per cent.

"The government debt crises in the peripheral countries of the euro area and the related turmoil also impacted Central and Eastern Europe in 2011. Economic growth in the region nevertheless averaged at 4.8 per cent in 2011, significantly exceeding growth achieved in Western Europe. Following an estimated growth of 3.4 per cent this year, we are confident that CEE will be able to maintain a positive gap well above 2 percentage points in the mid term. This is why we aim to expand our branch networks above all in Russia, the Czech Republic and Turkey in the next four years. These are countries where we already maintain a strong presence and where the outlook is the brightest. In all CEE countries we are working on the optimisation of investments and the development of new service channels in line with our customer relationship strategy and capital efficiency focus", 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 51,000 employees and 2,750 branches in 18 countries.

Statement of financial position

As in 2010, the bank's financial position for 2011 reflected what may be perceived as contradictory targets of stepping up business with customers while further improving equity capital efficiency and complying with the regulatory requirement for additional risk buffers. In this situation, it is clear that structural improvements of the balance sheet take priority over higher business volume; increases in total assets are no longer a quality criterion.

Bank Austria's **total assets** as at 31 December 2011 were EUR 199.2 billion, an increase of 3.2 per cent or EUR 6.2 billion compared with the end of the previous year (31 December 2010: EUR 193 billion). On the liabilities side, all of the increase in 2011 resulted from the strong growth of primary funds (deposits from customers and debt securities in issue). On the assets side, loans and receivables with customers continued to expand, mainly driven by growth in CEE, while financial investments were reduced, as in previous periods.

Leverage (total assets less intangible assets / equity less intangible assets) continued to improve, from 13.8 to 13.3.

On the assets side, **loans and receivables with customers** rose by 3.7 per cent or EUR 4.8 billion to EUR 134.9 billion (31 December 2010: EUR 130.1 billion), accounting for 67.7 per cent of total assets. **Loans and receivables with banks** increased by EUR 5.9 billion to EUR 25.6 billion (2010: EUR 19.7 billion). **Financial assets held for trading** declined by 22.8 per cent to EUR 3.3 billion (2010: EUR 4.3 billion). Within **intangible assets**, goodwill was down by EUR 828 million or 25.7 per cent to EUR 2.4 billion (2010: EUR 3.2 billion), mainly reflecting impairment losses.

On the liabilities side, **deposits from customers** increased by 4.4 per cent or EUR 4.4 billion to EUR 104.7 billion (2010: EUR 100.3 billion). **Debt securities in issue** rose by EUR 2.4 billion or 8.6 per cent to EUR 29.9 billion (2010: EUR 27.6 billion), mainly as a result of successful mortgage bond issues. **Deposits from banks** declined slightly, by 1.1 per cent, to EUR 32.8 billion (2010: EUR 33.1 billion).

Primary funds – the sum total of deposits from customers and debt securities in issue – continued to rise by 5.3 per cent or EUR 6.8 billion to EUR 134.7 billion (2010: EUR 127.8 billion); they accounted for over two-thirds (67.6 per cent) of total liabilities and equity. This means that customer loans were funded by primary funds to the extent of close to 100 per cent.

As at year-end 2011, IFRS **equity** amounted to EUR 17.7 billion, an increase of 1.1 per cent over the figure at the end of the previous year (2010: EUR 17.5 billion). At the end of 2011, the **Tier 1 capital ratio** based on **credit risk** was 12.47 per cent (2010: 11.68 per cent). The **Tier 1 capital ratio** based on **all risks** improved to 10.88 per cent (2010: 10.35 per cent) and the **Core Tier 1 capital ratio** – excluding hybrid capital – (based on **all risks)** rose to 10.55 per cent (2010: 10.04 per cent).

Staff numbers in the Bank Austria Group including the employees of UniCredit subsidiaries[2] in Austria totalled 62,445 (full-time equivalents) as at 31 December 2011 (31 December 2010: 62,159 FTEs). Of this total, 10,927 FTEs were employed in Austria and 51,518 FTEs in CEE countries.

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[2] 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. Increase due to newly consolidated companies KSG, DC and Cards & Systems.