Bank Austria Member of UniCredit

Bank Austria IR Release

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Results for the first three months of 2011:

Bank Austria starts the year with net profit of EUR 341 million

- **Operating profit up by 8 per cent to EUR 851 million compared with Q1 2010, driven by strong revenue trend in commercial banking business and flat cost development**
- **Bank levies have an impact of EUR 27 million on first-quarter results**
- **Provisioning charge in Austria and CEE continues to decline by 14 per cent to a total of EUR 376 million**
- **Net operating profit increases by 38 per cent to EUR 475 million**
- **Profit before tax rises to EUR 449 million, net profit (after non-controlling interests) increases to EUR 341 million**
- **Core Tier 1 capital ratio improves further to 10.4 per cent**
- **Leverage ratio continues to decline to 13.6x**

Bank Austria's CEO Willibald Cernko: "We got off to a good start in 2011. The upward trend seen in the past few quarters continued in the first three months of the current year. It is particularly noteworthy that we have further improved our performance in commercial banking business with customers while the provisioning charge in Austria and in Central and Eastern Europe continued to decline. On the basis of these two factors, net operating profit increased by 38 per cent, and net profit reached EUR 341 million. Although the economy is gaining momentum, especially in our CEE markets, we have not yet attained the pre-crisis level. We need to maintain stringent cost discipline and further improve our productivity in order to absorb the additional burdens resulting from the bank levies in Austria and Hungary and to meet the new capital requirements under Basel 3."

Items in the income statement

Net interest was EUR 1,128 million, up by 4 per cent (Q1 2010: EUR 1,081 million), and thus remained the most important income component in the first quarter of 2011.

Net fees and commissions, which accounted for about 26 per cent of total operating income, showed a weaker trend, falling by 2 per cent to EUR 462 million compared with the same period of the previous year (Q1 2010: EUR 470 million). The decline was due to lower activity levels in securities business, while income from payment transactions and card transactions supported fee income.

Net trading, hedging and fair value income was substantially higher than in the first quarter of the previous year. The increase resulted from a significantly stronger trading performance in customer business – in both Austria and CEE – and from the participation in profits of the Markets product line of UniCredit's CIB Division, which results from the sale of CAIB and is reflected in net trading, hedging and fair value income. The net trading performance in the first quarter of 2011 rose by 50 per cent to EUR 114 million (Q1 2010: EUR 76 million).

Overall, **operating income** reached EUR 1,801 million, an increase of 6 per cent over the figure for the first quarter of the previous year (Q1 2010: EUR 1,695 million).

Operating costs amounted to EUR 950 million, up by 4 per cent on a year earlier (Q1 2010: EUR 911 million). The increase is explained by higher investment costs related to business expansion in Central and Eastern Europe, and by the bank levies in Hungary and Austria, which are for the first time reflected in the income statement for Q1 2011; the bank levies totalled EUR 27 million, adding about 3 percentage points to overall costs.

Operating profit rose by 8 per cent to EUR 851 million (Q1 2010: EUR 784 million), thanks to a strong operating performance and despite the additional burdens resulting from bank levies.

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Net write-downs of loans and provisions for guarantees and commitments in the first quarter of 2011 were EUR 376 million, significantly lower, by EUR 63 million or 14 per cent, than in the comparative period of the previous year (Q1 2010: EUR 439 million). The provisioning charge was reduced in Austrian customer business and in Central and Eastern Europe. In Austria, it declined by 17 per cent to EUR 102 million (Q1 2010: EUR 122 million), in CEE by 13 per cent to EUR 274 million (Q1 2010: EUR 316 million). Overall, the cost of risk (provisioning charge as a proportion of average loans to customers) declined from 142 basis points (bp) in Q1 2010 to 116 bp in Q1 2011.

Net operating profit, the key measure of operating performance, improved significantly in the first quarter of 2011, by 38 per cent to EUR 475 million (Q1 2010: EUR 345 million). The positive trend was driven by a favourable development of customer business and a further decline in the provisioning charge.

Other provisions for risks and charges, an item to be deducted from net operating profit, amounted to EUR 32 million and were down by EUR 39 million from the comparative figure for the previous year. Other non-operating items are the unchanged integration costs and **net income from investments**, which was EUR 8 million, down by EUR 14 million from the Q1 2010 figure, which included exceptional gains on the sale of shares of a subsidiary (card complete).

As the net amount of non-operating items to be deducted was lower than in the previous year, **profit before tax** rose more strongly than net operating profit, by 52 per cent to EUR 449 million (Q1 2010: EUR 296 million). Income tax was EUR 89 million, more than double the figure for the same period of the previous year, giving an effective tax rate of 19.8 per cent (Q1 2010: 12.1 per cent).

After deduction of income tax, **profit for the period** was EUR 360 million, an increase of 38 per cent over the previous year (Q1 2010: EUR 260 million). After deduction of non-controlling interests, **net profit** (attributable to the owners of Bank Austria) amounted to EUR 341 million, up by 41 per cent on the same period of the previous year (Q1 2010: EUR 242 million).

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

- Return on equity before tax was 10.3 per cent.
- Return on equity after tax was 8.0 per cent.
- The cost/income ratio was 52.8 per cent.
- The risk/earnings ratio (provisioning charge as a percentage of net interest income) was 31.9 per cent.
- The total capital ratio (based on all risks) rose to 12.33 per cent (12/2010: 12.13 per cent).
- The Tier 1 capital ratio (based on all risks) improved to 10.71 per cent (12/2010: 10.35 per cent).
- The Core Tier 1 capital ratio (based on all risks) improved to 10.38 per cent (12/2010: 10.04 per cent).

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 the first quarter of 2011, the **Family & SME Banking** Division generated a profit before tax of EUR 29 million, an increase of 16 per cent over the same period of the previous year (Q1 2010: EUR 25 million). The increase resulted from a steady favourable development in customer business and from strict cost management as well as a significant decline of 20 per cent in the provisioning charge. The cost/income ratio was lower than in the two preceding quarters while rising slightly, to 72.1 per cent, compared with the first quarter of the previous year (Q1 2010: 71.2 per cent).

The **Private Banking** Division generated an increase in net interest in the first quarter of 2011. However, net fees and commissions declined compared with the previous year, reflecting investors' restraint in view of persistent uncertainty in the overall environment. The Division's profit before tax for the first quarter of 2011 was EUR 10 million, slightly lower than in the previous year (Q1 2010: EUR 11 million). The cost/income ratio rose slightly, to 70.9 per cent (Q1 2010: 69.0 per cent).

The **Corporate & Investment Banking (CIB)** Division generated a profit before tax of EUR 146 million for the first quarter of 2011, an increase of 40 per cent over the previous year (Q1 2010: EUR 104 million). Apart from a slight increase in net interest, a positive trading performance and very moderate cost growth, the significant decline in net write-downs of loans and provisions for guarantees and commitments also contributed to profit growth. The cost/income ratio declined to 32.7 per cent (Q1 2010: 36.0 per cent).

The **CEE** Division recorded a profit before tax of EUR 354 million for the first quarter of 2011, generating a significant increase of 32 per cent over the same period of the previous year (Q1 2010: EUR 267 million). Contributions to this growth came from a strong operating performance in customer business, reflected in a 7 per cent increase in operating income, and from the provisioning charge, which was down by 13 per cent. The cost/income ratio declined to 45.9 per cent (Q1 2010: 46.5 per cent).

Within UniCredit Group, Bank Austria is the sub-holding company for the leading banking network in Central and Eastern Europe with over 51,500 employees and more than 2,700 branches. The economic situation in Central and Eastern Europe continued to improve in the first three months of 2011. UniCredit's analysts expect the region's economy to grow by almost 4 per cent this year. For the first time in four years, all countries covered by UniCredit's banking network will probably achieve economic growth. This view is also supported by the Purchasing Managers' Index for the manufacturing sector in CEE, which has recently risen to an unprecedented high.

"During the crisis our attention focused on risk. Now we are looking ahead again and are ready for new organic growth," says Gianni Franco Papa, Deputy CEO and Head of Bank Austria's CEE Banking Division. "Against the background of the economic upswing I see significant potential, especially in cross-border business with corporate customers. In retail banking we will strongly expand our branch network and intensify multi-channel banking."

Statement of financial position

Bank Austria's **total assets** as at 31 March 2011 were 190.3 billion, down by 1.4 per cent from the end of the previous year (31 December 2010: EUR 193.0 billion).

On the assets side, **loans and receivables with customers** amounted to EUR 128.6 billion at the end of March 2011 (31 December 2010: EUR 130.1 billion), and **loans and receivables with banks** were EUR 18.3 billion (31 December 2010: EUR 19.7 billion).

On the liabilities side, **deposits from customers** declined slightly to EUR 98.5 billion (31 December 2010: EUR 100.3 billion), while **debt securities in issue** rose by 6.3 per cent to EUR 29.3 billion (31 December 2010: EUR 27.6 billion). **Primary funds** – i.e. the sum total of deposits from customers and debt securities in issue, representing funding from commercial banking sources – totalled EUR 127.8 billion or 67.1 per cent of total liabilities and equity. This means that loans and receivables with customers were covered by primary funds to the extent of 99.4 per cent.

Capital ratios as at 31 March 2011 improved further compared with the year-end 2010 figures. The **Tier 1 capital ratio** based on **credit risk** rose to 12.05 per cent (31 December 2010: 11.68 per cent). The **Tier 1 capital ratio** based on **all risks** improved to 10.71 per cent (31 December 2010: 10.35 per cent), and the **Core Tier 1 capital ratio** – Tier 1 capital without hybrid capital – based on all risks rose to 10.38 per cent (31 December 2010: 10.04 per cent).

Staff numbers in the Bank Austria Group including the employees of UniCredit subsidiaries[1] in Austria totalled 62.522 as at 31 March 2011 (FTEs; 31 December 2010: 63,218 FTEs). Of this total, 10.943 FTEs were employed in Austria and 51,579 FTEs in CEE countries.

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