Bank Austria IR Release

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Results for the first quarter of 2014:

Bank Austria posts net profit of EUR 350 million for the first quarter

- **Sound commercial banking business with customers impacted by weak credit demand, low market interest rates and exchange rate movements**
- **Charge for bank levies (Austria and CEE) and financial transaction taxes up by 8.1 per cent to a total of EUR 69.7 million**
- **Net write-downs of loans down by 22.6 per cent to EUR 190 million, with significant decline in Central and Eastern Europe (CEE)**
- **Net profit (attributable to the owners of the parent company) rises to EUR 350 million, an increase of 24.5 per cent over the same period of the previous year**
- **Common Equity Tier 1 capital ratio at an excellent 11.1 per cent**
- **Direct funding ratio further improved, underlining the bank's strong liquidity position**
  - Loans to customers funded with customer deposits and the bank's own issues to the extent of 108.6 per cent (2013: 102.0 per cent)

Bank Austria's CEO Willibald Cernko: "A net profit of EUR 350 million means that we have got off to a good start in 2014, in an environment that continues to be characterised by low interest rates and restrained credit demand. It should be noted, however, that the charge for bank levies and financial transaction taxes has increased further and now accounts for 8.3 per cent of our total costs. The bank levies are a heavy burden weakening the competitiveness of the Austrian banking industry in an international comparison. As regards the economic outlook for the rest of the year, we are cautiously optimistic. Recovery should continue and credit demand should rise if the current geopolitical tensions can be resolved peacefully."

Items in the income statement[1]

Net interest declined by 1.5 per cent to EUR 841 million (Q1 2013: EUR 855 million), reflecting restrained credit demand in an environment characterised by persistently low interest rates and by exchange rate movements.

Net fees and commissions rose slightly, by 1.8 per cent to EUR 330 million (Q1 2013: EUR 324 million).

Net trading, hedging and fair value income fell by 16.0 per cent to EUR 112 million (Q1 2013: EUR 133 million), mainly as a result of negative exchange rate movements.

Overall, **operating income** was EUR 1,376 million, down by 6.5 per cent from the first quarter of the previous year (Q1 2013: EUR 1,472 million). Adjusted for exchange rate movements, operating income rose slightly.

Operating costs declined by 1.0 per cent to EUR 835 million (Q1 2013: EUR 844 million) thanks to strict cost management and exchange rate movements, despite the higher charge for bank levies. The total charge for **bank levies and financial transaction taxes** in Austria and CEE included in the Bank Austria Group's operating costs was EUR 69.7 million, an increase of 8.1 per cent over the previous year (Q1 2013: EUR 64.4 million).

The bank levy in Austria totalled EUR 30.1 million. In CEE, bank levies and financial transaction taxes (in Hungary and Slovenia) amounted to EUR 39.6 million, of which EUR 38 million was payable in Hungary, EUR 0.9 million in Slovenia and EUR 0.7 million in Romania. Overall, the charge for bank levies and financial transaction taxes accounted for 18.1 per cent of administrative expenses other than payroll costs, and 8.3 per cent of total costs.

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[1] To ensure comparability, the comparative figures for 2013 have been adjusted: starting with 2014, the equity investment in Yapı Kredi in Turkey is no longer accounted for using proportionate consolidation in accordance with IFRSs; the investment is now accounted for using the equity method, i.e. net profit or loss is included in operating income, and the figures for the previous year have been adjusted to reflect this change in the accounting method. The equity investment in Ukrsotsbank continues to be shown 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". Furthermore, leasing activities in the three Baltic countries and in Bulgaria, Russia, the Czech Republic and Slovakia have been transferred to Bank Austria by the UniCredit parent company. Segment reporting has been adjusted to reflect the new structure.

At EUR 541 million, **operating profit** was down by 13.9 per cent from the same period of the previous year (Q1 2013: EUR 628 million), partly as a result of exchange rate movements.

Net write-downs of loans and provisions for guarantees and commitments were EUR 190 million in the first quarter of 2014, down by 22.6 per cent from the same period of the previous year (Q1 2013: EUR 246 million). The provisioning charge in Austrian customer business declined slightly, to EUR 56 million (Q1 2013: EUR 58 million). In Central and Eastern Europe, net write-downs of loans and provisions for guarantees and commitments decreased substantially, by 28.5 per cent to EUR 134 million (Q1 2013: EUR 188 million); this was partly due to write-backs of provisions in several countries including Bulgaria and Romania. Overall, the cost of risk (net write-downs of loans as a proportion of the average volume of loans to customers) declined from 83 basis points in the first quarter of 2013 to 66 basis points in the first quarter of 2014.

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 – for the first quarter of 2014 was EUR 350 million, down by 8.3 per cent from the previous year (Q1 2013: EUR 382 million). The decrease was mainly due to lower operating income – reflecting the low interest rate environment, restrained credit demand, and exchange rate movements – and higher costs resulting from increases in bank levies and financial transaction taxes, while lower net write-downs of loans and provisions for guarantees and commitments had a positive effect.

The balance of **non-operating income/expenses**, i.e. the income statement items between net operating profit and profit before tax, was net income of EUR 70 million for the first quarter of 2014, compared with a net expense of EUR 67 million in the same period of the previous year. The main reason for this improvement was a significantly lower allocation of EUR 4 million to **provisions for risks and charges** (Q1 2013: EUR 63 million); the figure for the first quarter of the previous year included a charge of EUR 64 million for costs relating to the judgment of the Swiss Federal Court, the court of final instance, in the legal dispute with the German Bundesanstalt für vereinigungsbedingte Sonderaufgaben (BvS). **Net income from investments** included gains of EUR 72 million on the sale of real estate.

On this basis, **profit before tax** in the first quarter of 2014 rose by 33.2 per cent to EUR 421 million (Q1 2013: EUR 316 million). **Net profit** (attributable to the owners of the parent company) **improved by 24.5 per cent to EUR 350 million** (Q1 2013: EUR 281 million).

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

- The cost/income ratio excluding bank levies was 56.5 per cent.
- The risk/earnings ratio (net write-downs of loans as a percentage of net interest income) improved to 20.8 per cent.
- The total capital ratio (under Basel 3 phase-in rules and based on all risks) was 13.6 per cent.
- The Tier 1 capital ratio (under Basel 3 phase-in rules and based on all risks) was 11.2 per cent.
- The Common Equity Tier 1 capital ratio (under Basel 3 phase-in rules and based on all risks) was 11.1 per cent.

Results of the Divisions

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

The **Retail & Corporates** Division's profit before tax for the first quarter of 2014 was EUR 42 million, matching the figure for the same period of the previous year (Q1 2013: EUR 43 million). Operating income was maintained at the previous year's level although credit demand remained weak and interest rates continued to be low. Strict cost management helped to keep costs stable despite the higher charge for bank levies. The cost/income ratio excluding the bank levy improved to 73.9 per cent (Q1 2013: 73.7 per cent).

Profit before tax generated by the **Corporate & Investment Banking (CIB)** Division in the first quarter of 2014 was EUR 57 million, down by 8.8 per cent from the same period of the previous year (Q1 2013: EUR 63 million). The decline was mainly due to weak demand and low interest rates, leading to a decline in net interest and net fees and commissions compared with the first quarter of the previous year, while costs included a higher charge for the bank levy and additional IT expenses. On this basis, the cost/income ratio excluding the bank levy rose to 41.2 per cent, which is still a very low figure (Q1 2013: 36.0 per cent).

The **Private Banking** Division generated a profit before tax of EUR 12 million for the first quarter of 2014, an increase of 24.9 per cent (Q1 2013: EUR 9 million). The main driver of the 8.2 per cent increase in operating income was growth achieved in asset management activities, while the increase in costs was moderate as a result of strict cost management. The cost/income ratio excluding the bank levy fell to 70.3 per cent (Q1 2013: 73.9 per cent).

The **Central Eastern Europe (CEE)** Division generated a profit before tax of EUR 332 million for the first quarter of 2014 compared to EUR 374 million in the same period of the previous year. Excluding the effect of significant depreciation of the currencies of Turkey, Russia and Ukrainein particular, the year-on-year comparison shows a marginal decrease of only 0.2 per cent despite the tensions in Ukraine and further regulatory changes in Turkey. Operating expenses were well contained and net write-downs of loans showed a significantly better picture than in Q1 2013. The cost/income ratio – excluding bank levies – remains at a very healthy level below 43 per cent.

"In a still challenging environment, characterised by adverse currency effects and further regulatory tightening, first quarter results have exceeded our conservative expectations for the period. This is mainly due to the sound customer business of our local banks in the CEE region and rigid cost discipline", says Gianni Franco Papa, Deputy CEO and Head of the CEE Division of Bank Austria. "While we hope that political tensions in the region will come to a peaceful solution, we still consider ourselves a strategic long-term investor in Central and Eastern Europe. With regard to changes in customer behaviour we are going to focus on simplifying our product range and processes as well as on integrating the real and the virtual world into a seamless multi-channel service model."

Statement of financial position

Bank Austria's **total assets** as at 31 March 2014 were EUR 179.2 billion, up by 0.7 per cent or EUR 1.3 billion on the end of the previous year (31 December 2013: EUR 177.9 billion).

On the assets side, **loans and receivables with customers** at the end of March 2014 were EUR 114.3 billion (31 December 2013: EUR 114.9 billion), a slight decline of 0.5 per cent or EUR 0.6 billion which was due to exchange rate movements. **Loans and receivables with banks** rose by 6.1 per cent to EUR 23.7 billion (31 December 2013: EUR 22.3 billion).

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On the liabilities side, **deposits from customers** were EUR 95.8 billion, down by 1.2 per cent from the end of the previous year (31 December 2013: EUR 97 billion) as a result of changes in exchange rates, while **debt securities in issue** rose by 3.6 per cent to EUR 28.3 billion (31 December 2013: EUR 27.3 billion), reflecting successful new issue activities.

Primary funds – i.e. the sum total of deposits from customers and debt securities in issue, representing direct funding from commercial banking sources – amounted to EUR 124.1 billion or 69.2 per cent of total liabilities and equity. This means that customer loans were funded with primary funds to the extent of 108.6 per cent.

As at 31 March 2014, **equity** amounted to EUR 15.1 billion, matching the year-end 2013 level (31 December 2013: EUR 15.1 billion). The **total capital ratio** based on all risks was 13.6 per cent (31 December 2013: 13.5 per cent). The **Tier 1 capital ratio** based on **all risks** rose to 11.2 per cent (31 December 2013: 10.8 per cent) and the **Common Equity Tier 1 capital ratio** based on all risks was 11.1 per cent (Core Tier 1 capital ratio as at 31 December 2013: 11.3 per cent)[2].

Staff numbers in the Bank Austria Group including the employees of UniCredit's subsidiaries[3] in Austria were 57,644 full-time equivalents (FTEs) as at 31 March 2014 (31 March 2013: 60,792 FTEs). Of this total, 9,644 FTEs were employed in Austria and 48,000 FTEs in CEE countries.

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[2] Capital ratios as at 31 March 2014 are shown in conformity with Basel 3 phase-in rules. Capital ratios as at 31 December 2013 are shown under Basel 2.5.
[3] Mainly UniCredit Business Integrated Solutions Austria GmbH (UBIS Austria), Pioneer Investments Austria and UniCredit Leasing.