Bank Austria IR Release

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Bank Austria's results for the first six months of 2011:

Net profit increases by 52 per cent to EUR 640 million

- **Net operating profit up to EUR 900 million, driven by strong performance in customer business and significantly lower provisioning charge**
- **Provisioning charge in Austria and CEE continues to decline by 21 per cent to a total of EUR 705 million**
- **Bank levy in Austria amounts to about EUR 63 million[1], in Hungary EUR 15 million**
- **Write-down on Greek government bonds as a contribution to the rescue package has a one-off impact of EUR 100 million on net profit**
- **After this one-off effect, which was recognised as a charge posted in the first half of 2011, net profit amounts to EUR 640 million, an increase of 52 per cent compared with the same period of the previous year**

Bank Austria's CEO Willibald Cernko: "Our commercial banking business with customers shows a satisfactory trend, despite the government debt crisis and related uncertainty in the market and among customers. Our banking subsidiaries in Central and Eastern Europe (CEE), in particular, have proved to be highly resilient to the crisis and have strongly supported our results with their good revenue performance. As the provisioning charge in Austria and in CEE has continued to decline, Bank Austria's net operating profit rose by 15 per cent. Net profit improved by 52 per cent to EUR 640 million, despite the burdens resulting from bank levies and the one-off write-down on Greek government bonds. It should be noted, however, that the improvement started from a low base and that we have not yet reached pre-crisis levels. We need to further improve our earnings power in view of the higher capital requirements which banks are expected to meet."

[1] Including the former CAIB in Vienna

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Items in the income statement [2]

Net interest, at EUR 2,248 million, remained the main component of operating income in the first half of 2011 and was up by 2 per cent on the same period of the previous year (H1 2010: EUR 2,196 million).

Net fees and commissions, the other major component of operating income, declined by 6 per cent to EUR 922 million (H1 2010: EUR 985 million). The decline was due to continued uncertainty among investors, which was reflected in lower activity levels in securities business.

Net trading, hedging and fair value income[3] for the first six months of 2011 was EUR 168 million, up by 11 per cent from the figure for the first half of the previous year (H1 2010: EUR 151 million).

Overall, **operating income** in the first six months increased slightly, by 1 per cent to EUR 3,545 million, compared with the previous year's level (H1 2010: EUR 3,501 million).

Operating costs amounted to EUR 1,941 million, an increase of 6 per cent over the same period of the previous year (H1 2010: EUR 1,825 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 this year; the bank levies totalled EUR 54.2 million, adding about 3 percentage points to overall costs.

Together with the amounts payable by the HVB office in Vienna (the former CAIB), the charge for the bank levy in Austria totalled EUR 62.8 million for the first half of 2011. The bank levy in Hungary for the first half of 2011 was EUR 15 million.

Operating profit declined slightly in the first six months of 2011, by 4 per cent to EUR 1,605 million, reflecting the above-mentioned significant decline in fee-based business and the additional burdens resulting from bank levies (H1 2010: EUR 1,676 million).

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[2] To ensure comparability, the figures for the first half of 2010 have been adjusted to reflect the sale of CAIB in the previous year.

[3] Following the sale of CAIB, the item "Net trading, hedging and fair value income" includes the participation in profits of the Markets product line of UniCredit's CIB Division.

Net write-downs of loans and provisions for guarantees and commitments in the first half of 2011 were EUR 705 million, down by a substantial EUR 191 million or 21 per cent from the comparative figure for the first six months of the previous year (H1 2010: EUR 896 million). The provisioning charge was reduced in Austrian customer business and in Central and Eastern Europe. In Austria, the provisioning charge was EUR 184 million, down by 28 per cent (H1 2010: EUR 255 million), in CEE it decreased by 19 per cent to EUR 520 million (H1 2010: EUR 641 million). Overall, the cost of risk (provisioning charge as a proportion of average loans to customers) declined from 142 basis points (bp) in H1 2010 to 109 bp in H1 2011.

Net operating profit, the key measure of operating performance, improved significantly in the first six months of 2011, by 15 per cent to EUR 900 million (H1 2010: EUR 780 million). This favourable development was driven by a favourable trend in customer business and a further decline in net write-downs of loans and provisions for guarantees and commitments.

Among the other non-operating items, **goodwill impairment** was EUR 53 million, considerably lower than in the same period of the previous year, when the income statement reflected an impairment loss on goodwill related to ATF, our banking subsidiary in Kazakhstan (H1 2010: EUR 167 million). The goodwill impairment charge in the first half of 2011 resulted mainly from the recognition of an impairment loss on goodwill related to our Russian subsidiary CJSC UniCredit Securities (previously ATON).

The net result from investments was a net loss of EUR 29 million (H1 2010: net income of EUR 38 million), reflecting the write-down on Greek government bonds as a contribution to the rescue package. Without this one-off charge of EUR 130 million, net income from investments would have been EUR 101 million, up by EUR 63 million from the comparative figure for the same period of the previous year on account of various factors including primarily the revaluation of shares in MICEX, the Moscow Interbank Currency Exchange.

Profit before tax for the first half of 2011 was EUR 838 million, an increase of 15 per cent over the previous year's figure (H1 2010: EUR 726 million).

Although income tax was slightly higher, by 1 per cent, than in the first six months of the previous year, **profit for the period** rose by 18 per cent to EUR 725 million (H1 2010: EUR 614 million). After deduction of non-controlling interests and of goodwill impairment, **net profit** (attributable to the owners of Bank Austria) was EUR 640 million, up by 52 per cent (H1 2010: EUR 422 million).

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

- Return on equity before tax was 9.5 per cent.
- Return on equity after tax was 7.5 per cent.
- The cost/income ratio rose slightly, to 54.7 per cent.
- The risk/earnings ratio (provisioning charge as a percentage of net interest income) declined to 30 per cent (H1 2010: 39.3 per cent).
- The total capital ratio (based on all risks) was 11.87 per cent (12/2010: 12.13 per cent).
- The Tier 1 capital ratio (based on all risks) was 10.34 per cent (12/2010: 10.35 per cent).
- The Core Tier 1 capital ratio (based on all risks) was 10.02 per cent (12/2010: 10.04 per cent).

Francesco Giordano, Chief Financial Officer of Bank Austria: “The capital ratios once more confirm our strong capital base. It is especially the composition of equity capital, apart from its amount, that makes us stand out: as the amount of our hybrid capital is not significant and we have no participation capital, almost all of our equity capital qualifies as core equity under the new, stricter capital adequacy rules of Basel III. This means that we are well positioned to meet the new requirements.”

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.

In the first half of 2011, the **Family & SME Banking** Division generated a profit before tax of EUR 54 million, an increase of 20.5 per cent (H1 2010: EUR 45 million). The increase resulted from a favourable development in customer business and from a significant decline of 26.3 per cent in the provisioning charge, which amounted to EUR 103 million (H1 2010: EUR 139 million). The cost/income ratio is currently 75.2 per cent (H1 2010: 70,7 per cent).

The **Private Banking** Division recorded an increase in net interest in the first six months of 2011. However, net fees and commissions were lower than in the same period of the previous year, reflecting investors' restraint in view of persistent uncertainty in the overall environment. The Division's profit before tax for the first half of 2011 was EUR 19 million, down by 14.5 per cent from the previous year (H1 2010: EUR 22 million). The cost/income ratio was 72.1 per cent (H1 2010: 68,8 per cent).

The **Corporate & Investment Banking (CIB)** Division's profit before tax for the first six months of 2011 reached EUR 285 million, an increase of 20.6 per cent over the same period of the previous year (H1 2010: EUR 237 million). Contributions to the stronger profit performance came from the favourable revenue trend in customer business, the positive trading result and especially from the provisioning charge, which declined substantially, by 30.8 per cent to EUR 79 million. The cost/income ratio was 34.5 per cent (H1 2010: 33,7 per cent).

The profit before tax generated by the **CEE** Division in the first half of 2011 amounted to EUR 762 million, up by a substantial 36.5 per cent from the comparative figure for the first half of the previous year (H1 2010: EUR 570 million). This growth reflects a strong operating performance in customer business, with operating income exceeding the previous year's level by 4.1 per cent, and the 17.8 per cent decline in net write-downs of loans and provisions for guarantees and commitments. The cost/income ratio was 46.5 per cent (H1 2010: 46.1 per cent).

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Bank Austria Member of UniCredit

Within UniCredit, Bank Austria is the sub-holding company for operations in the region of Central and Eastern Europe. Its banking network comprises more than 2,700 branches and about 51,000 employees[4] in 18 countries. The Group continues to see itself as a long-term investor in the CEE region and aims to expand its leading market position through sustained organic growth in the coming years.

The economic recovery in the countries of Central and Eastern Europe continued in the first six months of 2011. In many countries, growth is driven by a stronger export performance, while domestic demand is recovering more slowly in some markets. Turkey, Kazakhstan and Ukraine showed a stronger economic performance than other CEE countries. Slower global growth has so far had only a small impact on economic trends in CEE. Overall, Central and Eastern Europe is expected to achieve economic growth of 4.4 per cent in 2011, matching the growth rate experienced in the previous year and outperforming the economy in Western Europe.

“The CEE region is currently facing a number of challenges ranging from the government debt crisis in peripheral countries of the euro area all the way to inflation. Nevertheless, asset quality has continued to return to normal, a development which is reflected in significantly lower provisioning charges. In this environment our CEE banking subsidiaries achieved a strong operating performance in customer business while focusing on cost discipline and risk management, and generated a profit before tax which was about 34 per cent higher than in the same period of the previous year. Russia and Croatia, in particular, performed very strongly,” says Gianni Franco Papa, Bank Austria’s Deputy CEO and Head of the CEE Division.

Statement of financial position

Bank Austria’s **total assets** as at 30 June 2011 were EUR 193.8 billion, a slight increase over 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 131.6 billion at the end of June 2011, up by 1.2 per cent on year-end 2010 (31 December 2010: EUR 130.1 billion). **Loans and receivables with banks** declined slightly, by EUR 0.4 billion to EUR 19.4 billion (31 December 2010: EUR 19.8 billion).

[4] Figures without Poland

On the liabilities side, **deposits from customers** declined by EUR 2 billion to EUR 98.2 billion (31 December 2010: EUR 100.3 billion), while **debt securities in issue** rose by EUR 2.9 billion to EUR 30.5 billion (31 December 2010: EUR 27.6 billion). **Primary funds** – i.e. the sum total of deposits from customers and debt securities in issue – totalled EUR 128.7 billion or 66 per cent of total liabilities and equity. This means that loans and receivables with customers were almost fully covered by primary funds.

The loan/deposit ratio is currently 134.0 per cent (31 December 2010: 129.7 per cent).

Equity increased by 3 per cent to EUR 18 billion compared with the end of 2010 (31 December 2010: EUR 17.5 billion).

Capital ratios as at 30 June 2011 remained at the high year-end 2010 levels. The **Tier 1 capital ratio** based on **credit risk** was 11.66 per cent (31 December 2010: 11.68 per cent). The **Tier 1 capital ratio** based on **all risks** was 10.34 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 was 10.02 per cent (31 December 2010: 10.04 per cent).

Staff numbers in the Bank Austria Group including the employees of UniCredit Group subsidiaries[5] in Austria totalled 62,318 (FTEs) as at 30 June 2011 (30 June 2010: 62,545 FTEs). Of this total, 10,823 FTEs were employed in Austria and 51,495 FTEs in CEE countries.

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