Bank Austria IR Release

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Bank Austria's results[1] for the first six months of 2014:

Bank Austria posts net profit of EUR 776 million for the first half of 2014

- **Stable operating performance from customer business reflects weak credit demand, low market interest rates and exchange rate effects**
  - Lending volume totals EUR 118 billion, up by 1.9 per cent on year-end 2013 despite negative exchange rate effects; down by 1.7 per cent compared with the end of June 2013. Growth driven by Central and Eastern Europe while credit demand in Austria is stagnating.
  - Customer deposits reach EUR 96 billion, an increase of 2.3 per cent over the previous year but a slight decline of 1.1 per cent compared with the end of 2013.
- **Bank levies and financial transaction taxes in Austria and CEE increase by 17 per cent year-on-year to a new record level of EUR 119 million, accounting for 7 per cent of total costs.**
- **Operating costs down by 1.3 per cent thanks to strict cost management and business model transformation.**
- **Net write-downs of loans significantly lower in Austria and CEE: provisioning charge down by 35.4 per cent to EUR 332 million.**
- **Net profit rises by 34.3 per cent to EUR 776 million compared with the same period of the previous year.**
- **Strong direct funding position: customer loans covered by customer deposits and debt securities in issue to the extent of over 100 per cent; loan/direct-funding ratio at a conservative 94.1 per cent**
- **Total capital ratio improves to 13.8 per cent, Common Equity Tier 1 capital ratio at an excellent 11.0 per cent**

Bank Austria's CEO Willibald Cernko: "We have had a good second quarter, with net profit for the first six months significantly higher than in the same period of the previous year. This performance is mainly due to strict cost management and excellent risk management. But it should not obscure the fact that we are still facing major structural challenges.

The total charge for bank levies and financial transaction taxes has risen by 17 per cent, increasingly offsetting our cost-saving measures. At the same time, the persistently low market interest rate environment and restrained credit demand continue to present us with challenges on the income side. We are doing our homework, making very good progress with the transformation of our business model in response to significant changes in customer expectations. But what is also important now is for economic policy to provide impetus to growth, and to inspire the general public and businesspeople with greater optimism. This can only be achieved through determined action to carry out reforms that are long overdue. In this context it would be helpful if commentators stopped questioning the soundness of Austrian banks' operations in Central and Eastern Europe – despite all the challenges which we are currently facing. It should be recognised that these operations are a success story which has strongly benefited, and will continue to strongly benefit, our neighbouring countries in Central and Eastern Europe and Austria's economy."

Items in the income statement[1]

Net interest, at EUR 1,708 million, remained the most important income component in the first half of 2014, despite the fact that the operating environment continued to be determined by low interest rates. Net interest was only 0.5 per cent down from the figure for the same period of the previous year (H1 2013: EUR 1,716 million), due to exchange rate effects. At constant exchange rates, net interest rose by 4.3 per cent compared with the previous year.

Dividend income and other income from equity investments amounted to EUR 224 million, down by 27.6 per cent from the previous year (H1 2013: EUR 310 million). The decrease is attributable to a lower contribution from Turkey on account of new regulatory requirements.

Net fees and commissions continued to develop favourably, with a slight increase of 0.6 per cent to EUR 675 million (H1 2013: EUR 671 million).

[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 within operating income in the item "dividend income and other income from equity investments", 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, Slovakia and Romania have been transferred to Bank Austria by the UniCredit parent company. Segment reporting has been adjusted to reflect the new structure.

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Net trading, hedging and fair value income was EUR 250 million, down by 20.3 per cent from the same period of the previous year (H1 2013: EUR 313 million).

Overall, **operating income** totalled EUR 2,907 million, down by 4.4 per cent from the previous year (H1 2013: EUR 3,041 million). At constant exchange rates, operating income showed a stable development, compared with the first six months of 2013.

Operating costs declined by 1.3 per cent to EUR 1,657 million (H1 2013: EUR 1,679 million), thanks to strict cost management and despite the higher charge for bank levies and financial transaction taxes; at constant exchange rates, operating costs were up by 1.1 per cent.

The total charge for **bank levies and financial transaction taxes** in Austria and CEE in the Bank Austria Group's income statement was EUR 119.3 million, an increase of 17 per cent compared with the same period of the previous year (H1 2013: EUR 102.0 million). Bank levies and financial transaction taxes accounted for 15.6 per cent of administrative expenses and 7.2 per cent of total costs.

In Austria, the bank levy totalled EUR 61.9 million. In CEE, the total charge for bank levies and financial transaction taxes (in Hungary and Slovenia) was EUR 57.4 million, of which EUR 50.8 million was payable in Hungary, EUR 3.3 million in Slovakia, EUR 1.6 million in Slovenia and EUR 1.7 million in Romania.

At EUR 1,250 million, **operating profit** was down by 8.2 per cent from the previous year, mainly due to exchange rate effects; adjusted for exchange rate movements, operating profit was only 1.3 per cent lower than for the same period of the previous year (H1 2013: EUR 1,362 million). Without the higher charge for bank levies and financial transaction taxes, operating profit even rose slightly, reflecting a stable development of operating performance.

Net write-downs of loans and provisions for guarantees and commitments in the first six months of 2014 were EUR 332 million, down by 35.4 per cent from the same period of the previous year (H1 2013: EUR 514 million). The provisioning charge in Austrian customer business declined significantly, by 72.4 per cent to EUR 32 million (H1 2013: EUR 115 million) as a result of higher releases of provisions previously made for impaired loans and a lower new volume of impaired loans. In Central and Eastern Europe, net write-downs of loans and provisions for guarantees and commitments also declined by a substantial 24.9 per cent to EUR 300 million (H1 2013: EUR 400 million), due to higher releases of provisions in several countries, especially in Croatia. Overall, the cost of risk (net write-downs of loans as a proportion of the average volume of loans to customers) declined from 86 basis points in the first half of 2013 to 58 basis points in the first six months 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 six months of 2014 rose by 8.2 per cent (adjusted for exchange rate movements, plus 17.6 per cent) to EUR 918 million (H1 2013: EUR 848 million).

In the first six months of 2014, 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 17 million; this compares with a net expense of EUR 105 million in the same period of the previous year. The favourable development was mainly due to the fact that additions to **provisions for risks and charges**, at EUR 31 million, were substantially lower than in the same period of the previous year (H1 2013: EUR 97 million); in this context provisions had to be made especially for the recent measures in connection with foreign currency loans in Hungary. Moreover, **net income from investments** included gains on the sale of real estate, which had been recorded in the first quarter of 2014.

Profit before tax for the first half of 2014 was EUR 935 million, up by 25.8 per cent on the same period of the previous year (H1 2013: EUR 743 million). **Profit for the period** was EUR 809 million, 29.1 per cent higher than in the previous year (H1 2013: EUR 626 million). After deduction of non-controlling interests and goodwill impairment, **net profit** (attributable to the owners of the parent company) increased by EUR 198 million or 34.3 per cent to EUR 776 million (H1 2013: EUR 578 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 53.7 per cent (H1 2013: 52.4 per cent).
- The risk/earnings ratio (net write-downs of loans as a percentage of net interest income) declined to 17.2 per cent (H1 2013: 25.4 per cent).
- The total capital ratio (based on all risks) increased to 13.8 per cent.
- The Common Equity Tier 1 capital ratio (based on all risks) was 11.0 per cent.

Francesco Giordano, CFO of Bank Austria: “Bank Austria’s financial position is strong and sound. Its total capital ratio is 13.8 per cent and Common Equity Tier 1 capital ratio is an excellent 11.0 per cent. We also further reduced the leverage ratio[2] to a very conservative 11.6, which reflects our strong equity capital position and our conservative business model. Moreover, we further improved our liquidity position through an increase in deposits and three successful bond issues. Bank Austria’s loan/direct-funding ratio is 94.1 per cent. This means that customer loans are covered by customer deposits and debt securities in issue to the extent of over 100 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 six months of 2014 was EUR 134 million, a substantial increase of 51.6 per cent (H1 2013: EUR 89 million). The improvement resulted from stable operating income in an environment of persistently low interest rates, and from a reduction of operating costs through strict cost management, despite a higher charge for the bank levy compared with the previous year. Improved asset quality in retail banking and a stable provisioning charge in corporate banking made significant contributions to profit growth because net write-downs of loans and provisions for guarantees and commitments were significantly lower than in the same period of the previous year. The cost/income ratio continued to improve, to a current level of 72.3 per cent (H1 2013: 73.5 per cent).

The **Private Banking** Division achieved a significant increase of 18.2 per cent in its profit before tax for the first half of 2014, which rose to EUR 23 million (H1 2013: EUR 19 million). Higher net interest and significant growth in asset management were the main drivers of the 8.2 per cent increase in operating income. The Division’s strategy of focusing on these activities has thus proved successful. The cost/income ratio improved to 70.1 per cent (H1 2013: 73.4 per cent).

[2] Leverage ratio = total assets minus intangible assets / equity minus intangible assets.

Profit before tax generated by the **Corporate & Investment Banking (CIB)** Division in the first six months of 2014 was EUR 139 million, up by 2.8 per cent on the same period of the previous year (H1 2013: EUR 135 million). In the first half year of 2014 Corporate & Investment Banking continued being at the forefront of Euro bond emissions as well as structured financing, both in Austria and in Europe. The increase in profit before tax compared with the previous year is mainly due to a net release of provisions and good asset quality of the loan portfolio. Operating profit reflected weak demand in the market, a higher charge for the bank levy and additional IT expenses. The cost/income ratio remained low, at 44.1 per cent (H1 2013: 35.5 per cent).

The net operating profit generated by the **CEE** Division in the first half of 2014 amounted to EUR 775 million, which is 3.5 per cent below the comparative figure for the first half of the previous year (H1 2013: EUR 803 million). At constant exchange rates, net operating profit increased by 7.1 per cent. This development is mainly driven by favourable growth in net interest, particularly in Russia, and a strong fee increase across all countries, which is partially offset by the influence of a lower H1 2014 net result in Turkey due to regulatory changes, the first effects of the new Hungarian Customer Loan Act and low trading income in Russia due to rouble depreciation. Net write-downs of loans and provisions for guarantees and commitments decreased by 24.9 per cent to EUR 300 million (H1 2013: EUR 400 million) due to lower current year requirements. At the same time profit before tax was EUR 734 million, 7.2 per cent below the first half of 2013 equalling plus 3.4 per cent at constant exchange rates. The cost/income ratio was at a sound level of 40.5 per cent (H1 2013: 38.9 per cent).

Within UniCredit, Bank Austria is the sub-holding company for operations in the region of Central and Eastern Europe. Its banking network comprises around 2,500 branches and 48,335 FTEs in 13 countries (including the Turkish joint venture accounted for using the equity method). 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 first half of 2014 delivered a very favourable mix of stronger developed-world growth, ample central bank liquidity and evidence of adjustment in some large emerging markets. Over the course of the second half of this year, emerging markets should continue to benefit from the export of growth from developed markets while recent ECB actions are supportive of risk appetite. Central Europe is well placed to continue to take advantage of a recovery in external demand while weathering some volatility in foreign capital flows. Events in Ukraine have served to highlight Russia's structural growth challenge as well as its reliance on foreign capital.

The economy is showing some modest signs of re-balancing but there are no easy sources of growth at this stage. Meanwhile geopolitical risks are likely to persist at least over the course of the next couple of quarters.

"Although the geopolitical tensions in Ukraine call European and CEE growth into question, the macroeconomic scenario has become more encouraging. We do hope that this conflict comes to a peaceful solution and we remain a committed strategic investor in Central and Eastern Europe", says Gianni Franco Papa, Bank Austria´s Deputy CEO and Head of CEE Division, "In the first six months of 2014 our subsidiary banks in CEE have shown a solid performance with overall net operating profit at Division level improving due to lower credit risk and stable costs. We will continue refining our regional service model and adapting it to the changes in customer behaviour."

Statement of financial position[3]

Bank Austria's **total assets** as at 30 June 2014 were EUR 183.1 billion[4], up by 3.0 per cent or EUR 5.3 billion on the end of the previous year (31 December 2013: EUR 177.9 billion).

On the assets side, **loans and receivables with customers** as at 30 June 2014 totalled EUR 117.6 billion, an increase of 2.4 per cent or EUR 2.7 billion (31 December 2013: EUR 114.9 billion), despite negative exchange rate effects. **Loans and receivables with banks** declined slightly, by 0.5 per cent, to EUR 22.2 billion (31 December 2013: EUR 22.3 billion).

On the liabilities side, **deposits from customers** amounted to EUR 95.8 billion, a slight decrease of 1.2 per cent (31 December 2013: EUR 97.0 billion). **Debt securities in issue** rose by 6.7 per cent to EUR 29.1 billion (31 December 2013: EUR 27.3 billion), reflecting three successful bond issues totalling EUR 1.5 billion. **Primary funds** – i.e. the sum total of deposits from customers and debt securities in issue, representing direct funding from commercial banking sources – totalled EUR 125 billion, accounting for 68.2 per cent of total liabilities and equity. This gives a loan/direct-funding ratio of 94.1 per cent; customer loans are covered by customer deposits and debt securities in issue to the extent of over 100 per cent.

The leverage ratio (total assets minus intangible assets / equity minus intangible assets) improved further, from 11.9 at the end of 2013 to 11.6 as at 30 June 2014.

[3] Comparative figures of the previous year as published
[4] Equity investment in Yapı Kredi, Turkey, accounted for using the equity method.

As at 30 June 2014, **IFRS equity** was EUR 15.9 billion, up by EUR 833 million on the end of the previous year (31 December 2013: EUR 15.1 billion).

Total regulatory capital as at 30 June 2014 amounted to EUR 17.4 billion, up by EUR 1.4 billion on year-end 2013.

As at 30 June 2014, the **total capital ratio** based on all risks was 13.8 per cent. The **Common Equity Tier 1 capital ratio** was an excellent **11.0 per cent** (in accordance with the transition provisions of the Capital Requirements Regulation).

Staff numbers of the Bank Austria Group including the employees of UniCredit's subsidiaries[5] in Austria were 57,835 full-time equivalents[6] (FTEs) as at 30 June 2014 (30 June 2013: 58,627 FTEs). Of this total, 9,500 FTEs were employed in Austria and 48,335 FTEs in CEE countries.

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[5] Mainly UniCredit Business Integrated Solutions Austria GmbH (UBIS Austria), Pioneer Investments Austria and UniCredit Leasing.
[6] Including the employees of the Turkish joint venture accounted for using the equity method.