Bank Austria Member of UniCredit

Bank Austria IR Release

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Results for the first half of 2013:

Bank Austria posts net profit of EUR 566 million for the first half of 2013

- **Volume of customer business up on the previous year**
  - Lending volume was EUR 136 billion, up by 2.5 per cent year-on-year, with growth driven by Central and Eastern Europe while demand in Austria stagnated
  - Customer deposits increased in Austria and CEE, by a combined 3.8 per cent to EUR 108 billion
- **Charge for bank levies (Austria and CEE) and financial transaction tax in Hungary totalling EUR 102 million**
- **Operating profit up by 5.5 per cent to EUR 1.6 billion, reflecting sound customer business and flat cost trends**
- **Net write-downs of loans rose to EUR 688 million, but the cost of risk remained at a moderate level of 102 basis points**
- **Special effects to be noted in a comparison with the previous year:**
  - The buyback of hybrid instruments in the previous year resulted in a one-off gain of EUR 124 million; such a gain was not included this year
  - A provision of EUR 65 million following a judgment by the Swiss Federal Supreme Court impacted results for the current year with increased provisions for risks and charges
- **Net profit of EUR 566 million down by EUR 76 million or 11.8 per cent from the previous year reflecting special effects**
- **Large volume of direct funding: customer loans covered by customer deposits and debt securities in issue to the extent of 100 per cent**
- **Core Tier 1 capital ratio further improved to an excellent 11.1 per cent**

Bank Austria's CEO Willibald Cernko: "In an environment that remained volatile, and against the background of persistently weak economic trends, we again achieved sound results with a net profit of EUR 566 million, thanks to our broadly-based operations. However, bank levies and the Hungarian financial transaction tax, totalling EUR 102 million, have become a heavy burden on us. While net write-downs of loans in Austria increased from an extremely low level, the cost of risk remained very low. The higher provisioning charge in CEE was due to economic developments as recovery is not progressing as rapidly as we hoped, and it also resulted from our conservative risk management as we improved the coverage ratio in several countries. Our Core Tier 1 capital ratio of 11.1 per cent, a direct funding ratio of over 100 per cent of our lending volume, and a leverage ratio of 12.7 all show that we are a healthy and sound bank. This is an important message at a time when there are discussions about wills of banks and a bail-in of creditors."

Items in the income statement[1]

Net interest in the first half of 2013 was EUR 2,202 million, remaining the most important revenue component in an environment characterised by low interest rates. The figure was slightly higher, by 1.4 per cent, than in the same period of the previous year (H1 2012: EUR 2,173 million).

Net fees and commissions developed favourably – contrary to the general trend – for the first time since the onset of the financial crisis, rising by 13.8 per cent to EUR 868 million (H1 2012: EUR 763 million).

Net trading, hedging and fair value income was significantly higher than in the same period of the previous year; in this context one should note that the figure for the first half of 2012 included a gain of EUR 124 million on the buyback of hybrid instruments. Net trading, hedging and fair value income for the first six months of 2013 was EUR 371 million, up by 10.5 per cent on the same period of the previous year (H1 2012: EUR 336 million).

Overall, **operating income** amounted to EUR 3,555 million, an increase of 5 per cent over the first half of the previous year (H1 2012: EUR 3,387 million).

[1] To ensure comparability, the comparative figures for 2012 are shown on an adjusted basis: results from ATF Bank are now presented in the item "Total profit or loss after tax from discontinued operations" and segment reporting has been adjusted to the new structure.

Operating costs rose by 5 per cent to EUR 2,005 million (H1 2012: EUR 1,919 million). This reflects two developments: costs associated with operating activities increased only moderately, due to strict cost discipline and business expansion in growth markets. On the other hand, bank levies had a strong adverse impact on costs: the charge for bank levies totalled EUR 85.5 million, representing 4.3 per cent of operating costs in the first half of 2013. In addition to this, the charge for the newly introduced financial transactions tax in Hungary was EUR 16.5 million.

The total charge for bank levies and for the financial transactions tax in Hungary payable by the Bank Austria Group was EUR 102 million, of which EUR 48.4 million relates to Austria and EUR 53.5 million to CEE. Within CEE, the bank levy and the financial transaction tax in Hungary amounted to EUR 28 million and EUR 16.5 million, respectively; bank levies in other CEE countries were EUR 7.1 million in Slovakia, EUR 0.8 million in Slovenia and EUR 1.1 million in Romania.

Operating profit rose by 5.5 per cent to EUR 1,550 million (H1 2012: EUR 1,469 million); this sound operating performance was achieved despite the charges for bank levies.

Net write-downs of loans and provisions for guarantees and commitments in the first half of 2013 were EUR 688 million, up by 41.5 per cent, the first increase seen in a long time (H1 2012: EUR 486 million). The provisioning charge in Austrian customer business rose by 31 per cent to EUR 114 million (H1 2012: EUR 88 million), returning to a normal yet still low level. In CEE, net write-downs of loans and provisions for guarantees and commitments increased by 43.7 per cent to EUR 574 million (H1 2012: EUR 399 million), the main reason being that the coverage ratio especially in Ukraine was further increased in response to current economic trends.

Net operating profit – i.e. operating profit less net write-downs of loans and provisions for guarantees and commitments – declined by 12.3 per cent to EUR 862 million (H1 2012: EUR 983 million) in the first six months of 2013, as a result of the higher provisioning charge.

Among the non-operating items, **provisions for risks and charges** were EUR 120 million, significantly higher than in the previous year (H1 2012: EUR 67 million). The increase was mainly due to the judgment of the Swiss Federal Supreme Court in the legal dispute with Bundesanstalt für vereinigungsbedingte Sonderaufgaben; the judgment is final and binding, and the related charge was EUR 65 million. This means that all charges relating to the Swiss lawsuit against Bank Austria have been included in the financial statements and that there is no risk of any further costs arising from this case.

Profit before tax for the first half of 2013 was EUR 740 million, down by 14.2 per cent from the previous year (H1 2012: EUR 862 million). **Profit for the period** was EUR 586 million, down by EUR 86 million or 12.8 per cent from the previous year (H1 2012: EUR 671 million). After deduction of non-controlling interests and the goodwill impairment charge, **net profit attributable to the owners of the parent company** was EUR 566 million, down by EUR 76 million or 11.8 per cent (H1 2012: EUR 641 million).

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

- Return on equity before tax was 8.6 per cent.
- Return on equity after tax was 6.8 per cent.
- The cost/income ratio improved slightly, to 54.0 per cent (H1 2012: 54.9 per cent).
- The risk/earnings ratio (provisioning charge as a percentage of net interest income) rose to 30.4 per cent (H1 2012: 21.6 per cent).
- The total capital ratio (based on all risks) increased to 13.1 per cent.
- The Tier 1 capital ratio (based on all risks) was 11.3 per cent.
- The Core Tier 1 capital ratio (based on all risks) improved to 11.1 per cent.

Francesco Giordano, Chief Financial Officer of Bank Austria: "Bank Austria has a sound balance sheet structure. We have further improved our Core Tier 1 capital ratio to an excellent 11.1 per cent and the leverage ratio[2] – a key indicator which is currently the subject of international discussion – is a conservative 12.7, reflecting our strong equity capital position and our conservative business model. At the same time, thanks to an increase in deposits, we have also further improved our liquidity position. The loan / direct funding ratio is 99.7 per cent. This means that all of our customer loans are covered by customer deposits and debt securities in issue.
As a result of the successful completion of the sale of ATF Bank, our former Kazakh banking subsidiary, our total capital ratio improved by a low double-digit figure reflecting a reduction of RWAs. Results for the first half of 2013 do not yet include the proceeds from the sale of Yapi Kredi Sigorta and Yapi Kredi Emeklilik, two Yapi Kredi subsidiaries, because the closing of the deal took place on 12 July 2013, after the end of the reporting period."

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[2] Leverage ratio = total assets less intangible assets / equity less intangible assets

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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.

In the first six months of 2013, the **Retail & Corporates** Division generated a profit before tax of EUR 78.6 million (H1 2012: EUR 152 million). The decline was due to the fact that interest rates were low and credit demand remained subdued; moreover, costs rose as a result of additional investments in IT. Both developments are reflected in the cost/income ratio of 74.6 per cent (H1 2012: 67.2 per cent). While net write-downs of loans and provisions for guarantees and commitments also increased in a year-on-year comparison, the cost of risk remained at a very low level of 44 basis points.

Profit before tax generated by the **Private Banking** Division in the first half of 2013 was EUR 21.9 million, up by a substantial 45.6 per cent (H1 2012: EUR 15.0 million). The favourable development was driven by significantly higher net fees and commissions compared with the same period of the previous year, an improvement which reflects investors' renewed interest in securities, and strict cost management.. The cost/income ratio improved to 70.9 per cent (H1 2012: 76.5 per cent).

The **Corporate & Investment Banking (CIB)** Division achieved a profit before tax of EUR 121.3 million in the first six months of 2013, a figure which was 7.4 per cent lower than for the same period of the previous year (H1 2012: EUR 131 million). This development was mainly due to a decline in net interest from the Markets subsegment, which reflects the low level of interest rates and was not offset by a strong trading performance and strict cost discipline. The cost/income ratio declined to 37.3 per cent (H1 2012: 37.9 per cent). Customer business of the Corporate & Investment Banking Division showed a positive development, with an increase of 17 per cent over the level recorded in the same period of the previous year, despite the challenging environment.

The net operating profit generated by the **CEE** Division in the first half of 2013 amounted to EUR 816 million, up by 5.6 per cent from the comparative figure for the first half of the previous year (H1 2012: EUR 773 million). At constant exchange rates, net operating profit increased by 6.8 per cent. This growth is mainly driven by stronger revenues from a sound customer business and a well-contained development of cost across the region, despite the accumulative burden from special taxes in some countries. At the same time profit before tax was EUR 786 million, 3.5 per cent above the first half of

2012 equalling 4.6 per cent at constant exchange rates. Despite the Division´s continued business expansion, its cost/income ratio improved to an outstanding level of 43.9 per cent (H1 2012: 47.6 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 roughly 47,400 employees in 14 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.

Despite constraints, Central and Eastern Europe is making progress in working its way through a variety of growth challenges. Especially industry has shown signs of improvement recently. Nevertheless, the years leading up to 2008 were unique in terms of growth and its patterns will not be repeated. Instead CEE is adjusting to the slower growth of its trading partners and it is determining a 'new norm'. UniCredit economists expect regional GDP to gain some 2.4 per cent this year and 2.7 percent in 2014, which is significantly above Western European rates. The primary risks to the recovery path are more negative external financing conditions, which means that there is a need for building buffers.

"In the coming years, economic growth in CEE should outperform the core Western European countries, provided the right conditions are in place. This revived growth is likely to be driven by investment rather than consumption", says Gianni Franco Papa, Bank Austria's Deputy CEO and Head of CEE Division, "Right now profitability and efficiency are the dictate of the moment. We need to steadily test our customer service model, whether or not it still meets customer expectations. Concerning risk management we want to be prudent without missing business opportunities."

Financial position

Bank Austria's **total assets** as at 30 June 2013 were EUR 201.8 billion, down by EUR 5.8 billion from the end of the previous year (31 December 2012: EUR 207.6 billion); the year-end 2012 figure still included the banking subsidiary in Kazakhstan (EUR 3.5 billion), which has been sold in the meantime.

On the assets side, **loans and receivables with customers** rose by 2.7 per cent or EUR 3.6 billion to EUR 136.0 billion as at 30 June 2013 (31 December 2012: EUR 132.4 billion), while **loans and receivables with banks** declined by 16.4 per cent to EUR 23.5 billion (31 December 2012: EUR 28.1 billion).

On the liabilities side, **deposits from customers** declined slightly, by 2.2 per cent, to EUR 108.1 billion (31 December 2012: EUR 110.6 billion). **Debt securities in issue** rose slightly, by 1.3 per cent, to EUR 28.4 billion (31 December 2012: EUR 28.1 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 136.5 billion or 67.7 per cent of total liabilities and equity. This means that customer loans were fully covered by primary funds.

The leverage ratio (total assets less intangible assets / equity less intangible assets) improved from 13.0 at the end of the previous year to 12.7 as at the end of June 2013.

As at 30 June 2013, IFRS **equity** was EUR 18.0 billion, marginally down from the end of the previous year (31 December 2012: EUR 18.2 billion) as a result of exchange rate movements and other valuation effects.

Capital ratios continued to improve compared with the year-end 2012 levels. As at 30 June 2013, the **total capital ratio** based on all risks was 13.1 per cent (31 December 2012: 12.5 per cent). The **Tier 1 capital ratio** based on **all risks** rose to 11.3 per cent (31 December 2012: 10.8 per cent) and the **Core Tier 1 capital ratio** (excluding hybrid capital) based on all risks was 11.1 per cent (31 December 2012: 10.6 per cent).

Staff numbers in the Bank Austria Group including the employees of UniCredit's subsidiaries[3] in Austria totalled 57,495 (full-time equivalents – FTEs) as at 30 June 2013 (30 June 2012: 58,102 FTEs). Of this total, 10.107 FTEs were employed in Austria and 47,388 FTEs in CEE countries.

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[3] Mainly UniCredit Business Integrated Solutions Austria GmbH (UBIS Austria), Pioneer Investments Austria and UniCredit Leasing.