Bank Austria IR Release

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Bank Austria's results for the first nine months of 2014:

Bank Austria posts net profit of EUR 1.2 billion for the first nine months

- **Sound operating performance from customer business despite continued weak credit demand, low market interest rates and exchange rate effects**
  - Lending volume up by 0.8 per cent to EUR 115.2 billion compared with the end of the previous year, despite negative exchange rate effects. Growth driven by Central and Eastern Europe while demand in Austria is stagnating
  - Customer deposits in both Austria and CEE up by a combined 3.4 per cent to EUR 99.9 billion compared with the year-end 2013 level
- **Operating costs slightly lower thanks to strict cost management**
- **Net write-downs of loans in Austria and CEE down by 35.5 per cent to EUR 501 million**
- **Charge for bank levies and financial transaction taxes in Austria and CEE totals EUR 167.7 million, accounting for 6.8 per cent of total costs**
- **Net profit of EUR 1.2 billion, up by 6.0 per cent over the same period of the previous year**
- **Strong direct funding position: customer loans are covered by customer deposits and debt securities in issue to the extent of over 100 per cent. Loan/direct-funding ratio at a conservative 88.2 per cent**
- **Total capital ratio at 13.8 per cent, excellent Common Equity Tier 1 capital ratio of 10.9 per cent**

Bank Austria's CEO Willibald Cernko: "We have achieved a good operating performance in customer business, given the low interest rate environment and persistently weak credit demand. A comparison with the same period of the previous year reflects exchange rate effects and the sale of insurance operations in Turkey in 2013. Strict cost management and excellent risk management made strong contributions to profit growth over the previous year. Nevertheless, it is important now to provide impetus to growth to stimulate business activity and credit demand; it will also be necessary to reduce the cost burden on Austrian banks, which is significantly higher than in other European countries and puts the banking sector at a serious competitive disadvantage."

Items in the income statement[1]

Net interest generated in the first nine months of 2014 was EUR 2,592 million and thus remained the most important income component, accounting for over 58 per cent of total operating income. At this level, net interest matched the figure for the previous year (1-9 2013: EUR 2,597 million), despite persistently low interest rates and negative exchange rate effects. At constant exchange rates, net interest rose by 4.3 per cent.

Net fees and commissions increased slightly, by 1.5 per cent and from a low level, to EUR 1,022 million (1-9 2013: EUR 1,008 million).

Net trading, hedging and fair value income was EUR 400 million, down by 15.1 per cent from the previous year (1-9 2013: EUR 471 million). An even more significant decline was seen in **dividend income and other income from equity investments**, which fell by 45.1 per cent to EUR 351 million (1-9 2013: EUR 639 million). One of the reasons for the sharp decline was one-off income of EUR 190.8 million from the sale of Turkish insurance operations (Sigorta/Emeklilik) in the previous year, which was included in the previous year's figure for this item.

Overall, **operating income** in the first nine months of 2014 totalled EUR 4,461 million, down by 6.8 per cent from the same period of the previous year (1-9 2013: EUR 4,788 million). On the one hand, this development is due to exchange rate effects: at constant exchange rates, as operating income declined by only half the amount at constant exchange rates – and precisely by 3.1 per cent; on the other hand, it is due to the drop in profits in Turkey which was determined by the sale of insurance operations and changes in regulatory requirements (rise in key interest rates, rise in minimum reserves, provisions aiming at containing the credit card boom).

[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 investments in Ukrsotsbank and the newly acquired Immobilien Holding are 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.

Operating costs declined by 0.9 per cent (at constant exchange rates: plus 1.4 per cent) to EUR 2,471 million (1-9 2013: EUR 2,492 million), thanks to strict cost management and despite the charge for bank levies and financial transaction taxes, which continued to increase.

The total charge for **bank levies and financial transaction taxes** in Austria and CEE in the Bank Austria Group's income statement was EUR 167.7 million, an increase of 13.5 per cent compared with the same period of the previous year (1-9 2013: EUR 147.8 million). Bank levies and financial transaction taxes accounted for 14.7 per cent of administrative expenses and 6.8 per cent of total costs.

In Austria, the bank levy totalled EUR 92.8 million. In CEE, the total charge for bank levies and financial transaction taxes (in Hungary and Slovenia) was EUR 74.9 million, of which EUR 63.4 million was payable in Hungary, EUR 6.5 million in Slovakia, EUR 2.4 million in Slovenia and EUR 2.5 million in Romania.

Operating profit was EUR 1,990 million, down by 13.3 per cent from the previous year (1-9 2013: EUR 2,296 million); as mentioned before, the decline was primarily due to exchange rate effects and the sale of insurance operations in the previous year, as well as lower profits in the important Turkish market on account of regulatory requirements.

Net write-downs of loans and provisions for guarantees and commitments in the first nine months of 2014 were EUR 501 million, down by 35.5 per cent from the previous year (1-9 2013: EUR 777 million). The provisioning charge in Austrian customer business declined significantly, by 70.5 per cent to EUR 51 million (1-9 2013: EUR 173 million), as a result of several recoveries on loans in respect of which loan loss provisions were previously recognised, and because additions to impaired loans were lower. In Central and Eastern Europe, net write-downs of loans and provisions for guarantees and commitments also declined by a substantial 25.6 per cent to EUR 450 million (1-9 2013: EUR 605 million), due to lower provisioning charges in almost all CEE countries and higher recoveries on loans in several countries, especially in Croatia. Overall, the cost of risk (net write-downs of loans and provisions for guarantees and commitments as a proportion of the average volume of loans to customers) declined from 112 to 58 basis points in the first nine months.

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 – was EUR 1,489 million, a slight decrease of 2.0 per cent from the same period of the previous year (1-9 2013: EUR 1,519 million). Adjusted for the above-mentioned exchange rate effects, i.e. at constant exchange rates, net operating profit rose by 4.6 per cent compared with the previous year.

Among the non-operating items, **provisions for risks and charges** were EUR 126 million, up by 10.1 per cent on the previous year (1-9 2013: EUR 114 million); the increase mainly reflects a provision of EUR 107 million made in response to the most recent statutory measures in connection with foreign currency loans in Hungary. **Net income from investments** included gains on the sale of real estate which were largely completed in the first quarter of the current year.

Profit before tax for the first nine months of 2014 was EUR 1,423 million, up by 4.5 per cent (at constant exchange rates, up by 11.2 per cent) on the same period of the previous year (1-9 2013: EUR 1,362 million).

Net profit (attributable to the owners of the parent company) improved by 6.0 per cent (at constant exchange rates, by 11.4 per cent) to EUR 1,192 million (1-9 2013: EUR 1,125 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 52.5 per cent (1-9 2013: 49.7 per cent).
- The risk/earnings ratio[2] (net write-downs of loans as a percentage of net interest income) declined to 17.0 per cent (1-9 2013: 24.0 per cent).
- The total capital ratio[3)] (based on all risks) improved to 13.8 per cent (year-end 2013: 13.5 per cent).
- The Tier 1 capital ratio[3)] (based on all risks) was 10.9 per cent (year-end 2013: 11.6 per cent).
- The Common Equity Tier 1 capital ratio[3)] (based on all risks) was 10.9 per cent (Core Tier 1 capital ratio as at year-end 2013: 11.3 per cent).

[2] When comparing the figures for the first nine months of 2014 with those for the same period of the previous year, one should note that the contribution from the Turkish bank is now included in the item “Dividend income and other income from equity investments” and that the previous year’s figure included one-off income from the sale of Turkish insurance operations.
[3] When comparing capital ratios, it should be noted that the capital ratios as at 31 December 2013 are presented pursuant to Basel 2.5 while the capital ratios as at 30 September 2014 are shown in accordance with the transition rules under Basel 3. Capital ratios as at 30 September 2014 for the first time calculated on an IFRS basis.

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 nine months of 2014 was EUR 219 million, up by 58.2 per cent (1-9 2013: EUR 138 million). The improvement resulted from a slight increase of 1.0 per cent in operating income, in an environment characterised by persistently low interest rates, and from a slight 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, by 56.1 per cent, than in the same period of the previous year. The cost/income ratio continued to improve, to a current level of 71.8 per cent (1-9 2013: 73.4 per cent).

The **Private Banking** Division achieved an increase of 29.4 per cent in its profit before tax for the first nine months of 2014, which rose to EUR 36 million (1-9 2013: EUR 28 million). Higher net interest, mainly in connection with deposit business, and significant growth in asset management were the main drivers of the 9.4 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 69.0 per cent (1-9 2013: 73.3 per cent).

Profit before tax generated by the **Corporate & Investment Banking (CIB)** Division in the first nine months of 2014 was EUR 185 million, up by 1.5 per cent on the same period of the previous year (1-9 2013: EUR 182 million). Profit growth compared with the previous year mainly resulted from a net release of loan loss provisions, due to releases of provisions and recoveries on impaired loans as well as good asset quality. 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 44.3 per cent (1-9 2013: 38.6 per cent).

The **CEE** Division showed a sound performance in the first nine months of 2014 with a profit before tax of EUR 1,195 million. In comparison to the result from the same period of the previous year (1-9 2013: EUR 1,346 million) this represents a decline by 3.4 per cent at constant exchange rates. The decline is however entirely due to the fact that the results of the previous year included the extraordinary gain from the sale of Turkish insurance operations, while the current year's results include the negative effects of the new Hungarian Customer Loan Act. Net of these two components, profit before tax actually increased by 24 per cent year over year, at constant exchange rates. Significant growth was achieved in operating activities across the CEE region, with net interest at constant exchange rates rising by 8 per cent and net fees and commissions up by 13 per cent, while the trading result was negatively influenced by the depreciation of the Ruble. Risk costs at EUR 450 million were 22.6 per cent lower than last year at constant exchange rates and operating expenses kept very much on the level of the previous year. The cost/income ratio (without bank levies) was an excellent 39.0 per cent (1-9 2013: 36.7 per cent).

Within UniCredit, Bank Austria is the sub-holding company for operations in Central and Eastern Europe. Its banking network comprises about 2,500 branches and about 48,000 employees[4] in 13 countries. The Group sees itself as a long-term investor in the CEE region and is going to further expand its leading market position in the region in the next few years through selective measures.

Events in Russia and Ukraine have created geopolitical uncertainty in Central and Eastern Europe which has not been seen for many years. In combination with other factors including weak global trade, this has prompted UniCredit’s economists to adjust their growth outlook for the euro area. These factors will also influence developments in the entire CEE region in the coming quarters, with the trend varying significantly from country to country. Central Europe enjoys a better outlook, while growth prospects for the Balkans are less favourable on account of inadequate reform efforts.

“Although growth in Central and Eastern Europe cannot be decoupled from developments in Russia, Ukraine and the euro area, some countries continue to benefit from new production capacity while domestic demand should also prove resilient. We have been able to improve our operating performance despite burdens in some countries of the CEE region. But this improvement was offset by exchange rate effects, changes in regulatory requirements in Turkey and further cost burdens in Hungary,” says Gianni Franco Papa, Deputy CEO of Bank Austria and Head of the CEE Division. “Against this background our local banks continue to focus on efficiency and risk management to ensure a sound balance sheet structure.”

[4] including Turkey.

Statement of financial position

Bank Austria's **total assets** as at 30 September 2014 were EUR 189.5 billion, up by EUR 11.6 billion or 6.5 per cent 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 September 2014 totalled EUR 115.2 billion, an increase of 0.8 per cent over the end of the previous year (31 December 2013: EUR 114.3 billion). **Loans and receivables with banks** rose significantly, by 28.5 per cent to EUR 29.5 billion (31 December 2013: EUR 22.9 billion).

On the liabilities side, **deposits from customers** were EUR 99.9 billion, up by 3.4 per cent (31 December 2013: EUR 96.6 billion) and **debt securities in issue** rose strongly, by 12.2 per cent to EUR 30.6 billion (31 December 2013: EUR 27.3 billion). **Primary funds** – i.e. the sum total of deposits from customers and debt securities in issue – increased by EUR 6.6 billion or 5.4 per cent to EUR 130.5 billion (31 December 2013: EUR 123.9 billion), accounting for 68.9 per cent of total liabilities and equity. This gives a loan/direct-funding ratio of 88.2 per cent. This means that customer loans are covered by customer deposits and debt securities in issue to the extent of 113.3 per cent.

As at 30 September 2014, the **leverage ratio** to be calculated under Basel 3 is a conservative 5.86 per cent in conformity with Basel 3 transitional rules.

As at 30 September 2014, regulatory **equity**[5] was EUR 17.4 billion, up by EUR 1.4 billion on the end of the previous year (31 December 2013: EUR 16.0 billion).

Capital ratios as at 30 September 2014 are not directly comparable with those of the previous year because in 2013, capital ratios were presented in accordance with Basel 2.5. Since 2014 they have been shown in accordance with Basel 3 transition provisions. As at 30 September 2014, the **total capital ratio** based on all risks was 13.8 per cent (31 December 2013: 13.5 per cent). The **Tier 1 capital ratio** based on all risks was 10.9 per cent (31 December 2013: 11.6 per cent). The **Common Equity Tier 1 capital ratio** based on all risks was an excellent 10.9 per cent (Core Tier capital ratio as at 31 December 2013: 11.3 per cent).

[5] For the first time calculated on an IFRS basis.

Staff numbers of the Bank Austria Group including the employees of UniCredit Group's subsidiaries[6] in Austria were 57,375 full-time equivalents[7] [FTEs] as at 30 September 2014 (30 September 2013: 57,177 FTEs). Of this total, 9,564 FTE were employed in Austria and 47,811 FTEs in CEE countries.

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