Bank Austria Member of UniCredit

Bank Austria IR Release

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

Bank Austria posts profit despite substantial goodwill impairment – no need for capital measures thanks to strong capital base

- **Operating performance further improved:**
  - Net operating profit up by 8 per cent to EUR 1.3 billion
  - Provisioning charge in Austria and CEE down by 21 per cent to about EUR 1 billion
  - Lending volume up by 3 per cent, customer deposits up by 6 per cent
- **Weak economic outlook and sovereign debt crisis have a strong one-off impact on the good operating performance:**
  - Write-downs of 60 per cent on Greek government bonds in the second and third quarters have a negative impact of EUR 304 million on results
  - Higher cost of capital and lower earnings expectations in view of economic trends require the recognition of impairment losses on goodwill relating to the banking subsidiaries in Kazakhstan and Ukraine in the total amount of EUR 650 million
  - As in the past, the bank has taken a cautious approach in further reducing risk and continued applying prudent valuation measures
- **Following the recent valuation adjustment, all equity interests in central and eastern Europe (CEE) are now valued at a average of 1.2 times the book value, a very conservative valuation**
- **Despite these substantial one-off charges, Bank Austria shows a positive result for the first nine months of 2011, with a net profit of about EUR 4.5 million**
- **Bank Austria has the strongest capital base of all major banks in Austria, with a Core Tier 1 capital ratio of 10.42 per cent – there is no need for capital measures**

Bank Austria's CEO Willibald Cernko: "The wide diversification of our operations in 19 markets in Austria and Central and Eastern Europe, and our strong roots in commercial banking business with customers, have again proved to be stabilising factors in the difficult market environment. A good operating performance has enabled us to report a net profit for the first nine months, despite exceptional charges.

The large one-off costs resulted from two developments: the write-down on Greek government bonds as a consequence of the sovereign debt crisis had a negative impact of EUR 304 million on our results. On the other hand, given the high level of uncertainty in the market and the renewed lowering of economic growth forecasts, we have recognised impairment losses on goodwill relating to our two banking subsidiaries in Kazakhstan and Ukraine in the total amount of EUR 650 million. As in the past we have taken a cautious approach in further reducing risk. All our equity interests are now valued, on average, at a low 1.2 times book value, which is a conservative valuation. The recently completed goodwill impairment test has shown that the current value of our entire portfolio of equity interests in Central and Eastern Europe is significantly higher than the carrying amounts in the balance sheet.

Regardless of these one-off effects, our bank is sound and we do not need state aid or any additional capital measures. And we strongly expect a positive result for the year as a whole – as we did during the entire crisis in the past three years."

Items in the income statement [1]

Net interest – the most important revenue component, accounting for 64 per cent of total operating income – was EUR 3,376 million, remaining stable in the first nine months of 2011 compared with the previous year (1-9 2010: EUR 3,379 million).

Net fees and commissions declined by 5 per cent to EUR 1,401 million (1-9 2010: EUR 1,476 million). The decline was due to continued uncertainty among investors, which was reflected in lower activity levels in securities business.

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[1] To ensure comparability, the figures for the first nine months of 2010 have been adjusted to reflect the sale of CAIB to UniCredit Bank AG, Munich, in June of the previous year and of Bank Austria Global Information Services GmbH at 30 June 2011 to UniCredit Global Information Services, Milan.

Net trading, hedging and fair value income[2] for the first nine months of 2011 was EUR 192 million, 1 per cent below the figure for the same period of the previous year (1-9 2010: EUR 194 million).

Overall, **operating income** in the first nine months amounted to EUR 5,263 million, matching the previous year's level (1-9 2010: EUR 5,289 million). This development reflected narrower interest margins and persistently low demand in the market.

Operating costs totalled EUR 2,898 million, an increase of 6 per cent over the same period of the previous year (1-9 2010: EUR 2,739 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 81 million, adding about 2.4 percentage points to overall costs.

Together with the amount payable by the HVB office in Vienna (the former CAIB), the charge for the bank levy in Austria totalled EUR 94 million for the first nine months of 2011. The bank levy in Hungary for the first nine months of 2011 was EUR 23 million.

Operating profit declined slightly, by 7 per cent to EUR 2,365 million, in the first nine months of 2011 (1-9 2010: EUR 2,551 million), reflecting the above-mentioned significant decline in fee-based business and the additional burdens resulting from bank levies.

Net write-downs of loans and provisions for guarantees and commitments in the first nine months of 2011 were EUR 1,035 million, down by a substantial EUR 279 million or 21 per cent from the comparative figure for the first nine months of the previous year (1-9 2010: EUR 1,314 million). The provisioning charge was reduced in Austrian customer business and in Central and Eastern Europe. In Austria, the provisioning charge was EUR 276 million, down by 18 per cent (1-9 2010: EUR 337 million), in CEE it decreased by 22 per cent to EUR 759 million (1-9 2010: EUR 977 million). Overall, the cost of risk (provisioning charge as a proportion of average loans to customers) declined from 144 basis points (bp) for the year 2010 to 106 bp in the first nine months of 2011.

[2] 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 operating profit, the key measure of operating performance, improved significantly in the first nine months of 2011, by 8 per cent to EUR 1,330 million (1-9 2010: EUR 1,237 million). This favourable development was driven by a stable trend in customer business and a further decline in net write-downs of loans and provisions for guarantees and commitments.

The net result from investments was a net loss of EUR 147 million (1-9 2010: net income of EUR 60 million), reflecting write-downs on Greek government bonds as a contribution to the rescue package. After a write-down of EUR 130 million in the second quarter, a further write-down of EUR 174 million was made in the third quarter of 2011 on the basis of the recent decisions at EU level. Overall, write-downs on Greek government bonds amounted to EUR 304 million.

As a result of this one-off effect, **profit before tax** for the first nine months of 2011 was EUR 1,035 million, down by 13 per cent from the previous year's figure (1-9 2010: EUR 1,191 million).

Profit for the period reached EUR 782 million for the first nine months of 2011 (1-9 2010: EUR 945 million). As a result of the valuation adjustments in respect of the banking subsidiaries in Ukraine and Kazakhstan and in respect of the Russian subsidiary CJSC UniCredit Securities (previously ATON) in the first nine months 2011, which were made using a prudent approach, **net profit** (attributable to the owners of Bank Austria) was EUR 4.5 million (1-9 2010: EUR 724 million).

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

- Return on equity before tax (excluding goodwill impairment) was 8.0 per cent.
- Return on equity after tax (excluding goodwill impairment) was 6.5 per cent.
- The cost/income ratio rose slightly, to 55.1 per cent.
- The risk/earnings ratio (provisioning charge as a percentage of net interest income) declined to 29.3 per cent.
- The total capital ratio (based on all risks) was 12.31 per cent (12/2010: 12.13 per cent).
- The Tier 1 capital ratio (based on all risks) was 10.75 per cent (12/2010: 10.35 per cent).
- The Core Tier 1 capital ratio (based on all risks) was 10.42 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 already comply with 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 nine months of 2011, the **Family & SME Banking** Division generated a profit before tax of EUR 61 million, an increase of 48 per cent (1-9 2010: EUR 41 million). The increase resulted from a favourable development in customer business and from a significant decline of 24 per cent in the provisioning charge, which amounted to EUR 158 million (1-9 2010: EUR 207 million). The cost/income ratio is currently 76.1 per cent (1-9 2010: 72.9 per cent).

The **Private Banking** Division recorded an increase in net interest in the first nine months of 2011. However, net fees and commissions were significantly 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 nine months of 2011 was EUR 31 million, up by 12 per cent from the previous year (1-9 2010: EUR 27 million). The cost/income ratio was 70.5 per cent (1-9 2010: 72.9 per cent).

The **Corporate & Investment Banking (CIB)** Division’s profit before tax for the first nine months of 2011 reached EUR 373 million, which is a decrease of 5.4 per cent compared to the same period of the previous year (1-9 2010: EUR 395 million). While operating profit rose by 2 per cent and the provisioning charge fell by 10 per cent, non-operating items and restructuring costs at subsidiaries outside Austria had a negative impact. The cost/income ratio was 35.6 per cent (1-9 2010: 34.2 per cent).

The **CEE** Division performed strongly in the first nine months of 2011. Profit before tax amounted to EUR 1,134 million, up by a substantial 22 per cent from the comparative figure for the first nine months of the previous year (1-9 2010: EUR 931 million). This is a result from a strong operating performance in customer business and strict cost discipline, which is also reflected by an operating income growing by 2 per cent, as well as from a decline of almost 22 per cent in net write-downs of loans and provisions for guarantees and commitments. The cost/income ratio was 46.1 per cent (1-9 2010: 45.2 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 more than 2,700 branches and about 51,000 employees[3] 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.

In the past few months, growth prospects for Central and Eastern Europe have been affected by the global economic slowdown. Nevertheless, growth in the region is expected to reach 3.4 per cent in 2012 and 4.2 per cent in 2013, double the rate forecast for the euro area. This year the region will probably achieve GDP growth of 4.1 per cent. In the medium term, the outlook is brightest for Turkey and the CIS countries, followed by countries in Central Europe. Economic growth in South-East Europe is lagging somewhat behind, these markets will experience a stronger economic momentum after 2012.

“Sound business with customers, strict cost discipline and a lower provisioning charge have enabled us to generate a strong increase in profit before tax in CEE business. Our widely diversified banking network in the region has once more proved to be a stabilising factor in a persistently challenging economic environment. Although the outlook has become less favourable recently, we continue to see strong potential in Central and Eastern Europe”, says Gianni Franco Papa, Bank Austria’s Deputy CEO and Head of the CEE Division.

[3] Figures without Poland

Statement of financial position

Bank Austria's **total assets** as at 30 September 2011 were EUR 197.7 billion, an increase of 2.4 per cent compared with 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 131.1 billion at the end of September 2011, up by 2.7 per cent on end-of-period 2010 (30 September 2010: EUR 127.7 billion). **Loans and receivables with banks** rose strongly, to EUR 27.6 billion (30 September 2010: EUR 20.7 billion).

On the liabilities side, **deposits from customers** increased by 5.7 per cent to EUR 103.2 billion (30 September 2010: EUR 97.7 billion), and **debt securities in issue** rose by almost EUR 3 billion to EUR 30.6 billion (30 September 2010: EUR 27.9 billion). **Primary funds** – i.e. the sum total of deposits from customers and debt securities in issue – totalled EUR 133.8 billion or 67 per cent of total liabilities and equity. This means that loans and receivables with customers were covered by primary funds to the extent of 102 per cent.

The loan/deposit ratio improved to 127 per cent compared with the end of the previous year (30 September 2010: 130 per cent).

Equity amounts to EUR 17.3 billion (31 December 2010: EUR 17.5 billion).

Capital ratios as at 30 September 2011 remained at the high year-end 2010 levels. The **Tier 1 capital ratio** based on **credit risk** was 12.03 per cent (31 December 2010: 11.65 per cent). The **Tier 1 capital ratio** based on **all risks** was 10.75 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 10.42 per cent (31 December 2010: 10.04 per cent).

Staff numbers in the Bank Austria Group including the employees of UniCredit Group subsidiaries[4] in Austria totalled 62,390 (FTEs) as at 30 September 2011 (30 September 2010: 62,377 FTEs). Of this total, 10,924 FTEs were employed in Austria and 51,466 FTEs in CEE countries.

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[4] 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.