Bank Austria Member of UniCredit

Bank Austria IR Release

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Bank Austria's results for the first nine months of 2012:

Bank Austria posts net profit of EUR 1.1 billion for the first nine months

- **Net operating profit up by 11 per cent thanks to slight growth in customer business, flat cost trend and further decline in provisioning charge**
- **Compared to last year, lending volume rises by 3.9 per cent to EUR 136.3 billion, customer deposits up by 7.4 per cent to EUR 110.8 billion**
- **Net write-downs of loans in Austria and CEE down by a combined 13.4 per cent to EUR 887 million**
- **Charge for bank levies totals EUR 92.5 million**
- **Profit before tax up by 37.9 per cent to EUR 1.4 billion**
- **Net profit increases to EUR 1.1 billion**
- **High loan / direct funding ratio: customer loans funded by customer deposits and debt securities in issue to the extent of 102 per cent**

Bank Austria's CEO Willibald Cernko: "Despite the economic slowdown and restrained credit demand, we achieved a sound performance in the first nine months of the current year. This was due to slight growth in customer business, strict cost discipline to offset the significant charges for bank levies in Austria and Central and Eastern Europe, and a further decline in net write-downs of loans. But the bank's performance should not obscure the fact that with a return on equity of 8.5 per cent after tax, we still do not meet the earnings expectations of investors. We will therefore consistently pursue our strategy of optimising capital allocation by minimising risks and making targeted investments where the potential for growth and earnings is highest."

Items in the income statement[1]

Net interest – the most important component of income, accounting for 64 per cent of total operating income – for the first nine months of 2012 was EUR 3,396 million, slightly higher than in the previous year (1-9 2011: EUR 3,365 million).

Net fees and commissions showed a weaker trend: at EUR 1,198 million, they were down by 4 per cent from the first nine months of the previous year (1-9 2011: EUR 1,242 million). The decline was due to continued uncertainty among investors, reflected in lower turnover in securities business.

Net trading, hedging and fair value income[2] for the first nine months of 2012 was EUR 533 million, an increase of 52 per cent, which made the strongest contribution to revenue growth compared with the same period of the previous year (1-9 2011: EUR 351 million). The figure includes a gain of EUR 126 million on the buyback of hybrid capital instruments (perpetual bonds), which was effected in the first quarter of 2012 with a view to adjusting the capital structure to regulatory changes.

Overall, **operating income** for the first nine months rose by 1.6 per cent to EUR 5,301 million (1-9 2011: EUR 5,216 million).

Operating costs totalled EUR 2,940 million, a moderate increase of 2.7 per cent over the comparative figure for the previous year (1-9 2011: EUR 2,863 million). In view of the charges arising from further increased bank levies in Austria and several CEE countries, which totalled EUR 92.5 million, cost growth was kept down by strict cost discipline and continued efficiency enhancement in current operations.

The total charge for bank levies payable by the Bank Austria Group in the first nine months of 2012 was EUR 92.5 million, of which EUR 72.5 million relates to Austria, EUR 11.6 million to Hungary, EUR 7.1 million to Slovakia, EUR 0.7 million to Romania and EUR 0.6 million to Slovenia.

[1] To ensure comparability, the comparative figures have been adjusted. Bank Austria Global Information Services GmbH was sold to UniCredit Global Information Services, Milan, as at 30 June 2011.

[2] Following the sale of CAIB, the item “Net trading, hedging and fair value income” also includes the participation in profits of the Markets subdivision of UniCredit’s CIB Division.

Operating profit was EUR 2,361 million, slightly higher than for the same period of the previous year, despite the charge for bank levies (1-9 2011: EUR 2,353 million).

In the first nine months of 2012, **net write-downs of loans and provisions for guarantees and commitments** were EUR 887 million, down by EUR 137 million or 13.4 per cent from the same period of the previous year (1-9 2011: EUR 1,024 million). The provisioning charge was reduced in Austrian customer business and in Central and Eastern Europe. In Austria, net write-downs of loans declined by 40.1 per cent to EUR 163 million (1-9 2011: EUR 273 million), in CEE by 4 per cent to EUR 724 million (1-9 2011: EUR 752 million). Overall, the cost of risk (net write-downs of loans and provisions for guarantees and commitments as a proportion of average loans to customers) declined from 102 basis points (bp) for 2011 to 88 bp for the first nine months of 2012.

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 – improved significantly in the first nine months of 2012 by 11 per cent to EUR 1,475 million (1-9 2011: EUR 1,328 million).

Among the non-operating items, **provisions for risks and charges** were EUR 74 million, considerably lower than for the same period of the previous year (1-9 2011: EUR 131 million).

Net income from investments for the first nine months of 2012 was EUR 27 million (1-9 2011: a net loss of EUR 147 million); the figure for the previous year reflected write-downs on Greek government bonds.

Profit before tax for the first nine months was EUR 1,424 million, up by 37.9 per cent (1-9 2011: EUR 1,033 million).

Profit for the period for the first nine months of 2012 was EUR 1,161 million (1-9 2011: EUR 780 million), up by 48.9 per cent on the same period of the previous year.

Net profit attributable to the owners of Bank Austria for the first nine months of 2012 was EUR 1,101 million (1-9 2011: EUR 3 million). The comparison with the previous year is not meaningful because impairment losses on goodwill in 2011 totalled EUR 705 million, substantially reducing the net profit of the previous year.

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

- Return on equity before tax (without goodwill impairment) was 10.6 per cent.
- Return on equity after tax (without goodwill impairment) was 8.5 per cent.
- The cost/income ratio was 55.5 per cent.
- The risk/earnings ratio (provisioning charge as a percentage of net interest income) was 25.5 per cent.
- The total capital ratio (based on all risks) was 11.73 per cent.
- The Tier 1 capital ratio (based on all risks) was 10.31 per cent.
- The Core Tier 1 capital ratio (based on all risks) was 10.10 per cent.

Results of the Divisions

Bank Austria reports its results in four Divisions: Family & SME Banking (F&SME), Private Banking, Corporate & Investment Banking (CIB) and the CEE Banking Division. The bank also shows results for the Corporate Center.

Profit before tax generated by the **Family & SME Banking** Division in the first nine months of 2012 was EUR 78 million, more than double the previous year's figure (1-9 2011: EUR 30 million). The improvement resulted from the sound development of customer business and especially from the significant decline in the provisioning charge, which was down by 52.7 per cent to EUR 74 million (1-9 2011: EUR 156 million). The cost/income ratio was 81.7 per cent (1-9 2011: 79.0 per cent).

The **Private Banking** Division's profit before tax for the first nine months of 2012 was EUR 31 million, matching the previous year's level (1-9 2011: EUR 31 million). Compared to the same period of the previous year, net fees and commissions remained stable, while net interest increased by about 6 percent. The cost/income ratio was 71.7 per cent (1-9 2011: 70.8 per cent).

Profit before tax generated by the **Corporate & Investment Banking (CIB)** Division in the first nine months of 2012 was EUR 369 million, up by 14.4 per cent on the same period of the previous year (1-9 2011: EUR 323 million). The significant increase resulted from slight growth of operating profit and a decline of 20.8 per cent in net write-downs of loans and provisions for guarantees and commitments. The cost/income ratio was 36.2 per cent (1-9 2011: 37.9 per cent).

The **CEE** Division performed strongly in the first nine months of 2012. Profit before tax rose to EUR 1,287 million, an increase of 13.8 per cent over the same period of the previous year (1-9 2011: EUR 1,131 million). This was driven by a strong operating performance in customer business and by a further decline in net write-downs of loans and provisions for guarantees and commitments despite the ongoing business expansion in selected markets. The cost/income ratio was 46.4 per cent, more or less matching the previous year's level (1-9 2011: 46.2 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 about 2,700 branches and about 50,500 employees[3] in 18 countries. The Group continues to see itself as a long-term investor in the CEE region and is going to maintain its leading market position in the region through selective investments in the strategic CEE markets of the Czech Republic, Turkey and Russia.

The past couple of quarters unmistakably reminded CEE countries of the fact that the post-crisis growth path is neither smooth nor guaranteed. Although the region has proven surprisingly resilient towards a contagion from the Western European sovereign debt crisis, concern about uncertainty over the pace of global growth remains. In their latest GDP forecast for the CEE region UniCredit economists assume economic growth to amount to plus 2.5 per cent in 2012 and plus 3.1 per cent in 2013. Regional labour productivity, costs and competitiveness give reason for optimism.

"Sound customer business, strict cost discipline and a lower provisioning charge have enabled us to achieve a strong increase in profit before tax in CEE business. At the same time the local funding capabilities of many CEE subsidiaries have improved through strong growth in deposits, which clearly exceeded growth in loans. Despite recently blurring economic indications for the CEE region, we stick to our strategy of focused investments in selected growth markets", says Gianni Franco Papa, Bank Austria's Deputy CEO and Head of the CEE Division.

[3] Figures without Poland

Financial position

Bank Austria's **total assets** as at 30 September 2012 were 205.3 billion, up by 6.1 billion or 3.1 per cent from the end of the previous year (31 December 2011: EUR 199.2 billion).

On the assets side, **loans and receivables with customers** amounted to EUR 136.3 billion as at the end of September 2012, up by 3.9 per cent on a year earlier (30 September 2011: EUR 131.1 billion). **Loans and receivables with banks** declined significantly, to EUR 25.7 billion (30 September 2011: EUR 27.6 billion).

On the liabilities side, **deposits from customers** increased by 7.4 per cent to EUR 110.8 billion (30 September 2011: EUR 103.2 billion) while **debt securities in issue** declined by 7.7 per cent to EUR 28.3 billion (30 September 2011: EUR 30.6 billion). **Primary funds** – i.e. the sum total of deposits from customers and debt securities in issue – totalled EUR 139.1 billion, representing 67.7 per cent of total liabilities and equity. This means that customer loans were covered by primary funds to the extent of 102 per cent.

As at 30 September 2012, IFRS **equity** was EUR 19.4 billion, up by EUR 1.8 billion or 10 per cent on year-end 2011 (31 December 2011: EUR 17.7 billion). At this level, IFRS equity was 12.4 per cent higher than at the end of September 2011.

The **Tier 1 capital ratio** (which by definition does not include net profit for a period of less than one year) was 10.31 per cent at the end of September 2012, slightly lower than at the end of the previous year (31 December 2011: 10.88 per cent). The decline reflects the buyback of hybrid instruments and the increase in risk-weighted assets. The **Core Tier 1 capital ratio (Tier 1 capital ratio without hybrid capital)** based on all risks was 10.10 per cent (31 December 2011: 10.55 per cent), comfortably above the regulatory requirement.

Staff numbers in the Bank Austria Group including the employees of UniCredit's subsidiaries[4] in Austria totalled 60,750 (full-time equivalents – FTEs) as at 30 September 2012 (30 September 2011: 62,390 FTEs). Of this total, 10,216 (FTEs) were employed in Austria and 50,534 in CEE countries.

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[4] Administration Services / UniCredit Business Partner, BAGIS, WAVE (which are now integrated in UBIS); UniCredit Leasing, Pioneer Investments Austria and UniCredit CAIB were transferred on an intra-group basis.