





# Bank Austria at a Glance

## Income statement figures

(€ m)	H1 2008	H1 2007	+/-
Net interest income	2,309	1,838	25.6%
Net fees and commissions	1,037	1,054	-1.6%
Net trading, hedging and fair value loss/income	-198	224	-
Operating income	3,244	3,241	0.1%
Operating expenses	-1,891	-1,584	19.4%
Operating profit	1,352	1,657	-18.4%
Profit before tax	1,304	1,528	-14.7%
Consolidated profit	1,062	1,208	-12.1%

## Volume figures

(€ m)	30 JUNE 2008	31 DEC. 2007	+/-
Total assets	228,631	209,170	9.3%
Loans and receivables with customers	128,380	115,341	11.3%
Primary funds	128,892	119,699	7.7%
Shareholders' equity (excluding minority interests)	15,307	14,676	4.3%
Risk-weighted assets (overall)	139,925	117,993	18.6%

## Key performance indicators

	H1 2008	2007
Return on equity after tax (ROE)	14.7%	17.0%
Return on assets (ROA)	0.97%	1.18%
Cost/income ratio	58.3%	52.2%
Net interest income/avg. risk-weighted assets (banking book)	3.89%	4.08%
Risk/earnings ratio	14.2%	12.3%
Provisioning charge/avg. risk-weighted assets (banking book)	0.55%	0.50%
Total capital ratio (based on credit risk RWA)	8.8%	11.4%
Tier 1 capital ratio (based on credit risk RWA)	7.3%	8.8%

## Staff<sup>\*)</sup>

	30 JUNE 2008	31 DEC. 2007	+/-
Bank Austria (full-time equivalent)	67,462	54,387	24.0%
Central and Eastern Europe	56,234	43,648	28.8%
Austria and other subsidiaries	11,228	10,739	4.6%

<sup>\*)</sup> Employees of companies accounted for under the proportionate consolidation method are included at 100%.

## Offices<sup>\*)</sup>

	30 JUNE 2008	31 DEC. 2007	+/-
Bank Austria	2,974	2,343	26.9%
Central and Eastern Europe	2,623	1,977	32.7%
Austria and other subsidiaries	351	366	-4.1%

<sup>\*)</sup> Offices of companies accounted for under the proportionate consolidation method are included at 100%.

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# Preface by Erich Hampel

“Our engine of growth is running smoothly – let’s concentrate on longer-term perspectives!”

Ladies and Gentlemen,

Bank Austria’s profits increased by one half from the first to the second quarter of 2008. The bank has thus made up for the setback caused by the valuation result (adjustment of carrying amounts to lower market values in the net trading, hedging and fair value result) in the first quarter of the year. Profit before tax shows a 14 % increase in operating performance over the previous year.

While results for the first six months of 2008 still reflect the value adjustments made in the first quarter, profit before tax was € 1,304 m, down by only 5% from the very strong performance for the same period of the previous year. Operating income matched the previous year’s level. This means that the loss of revenue resulting from marking-to-market adjustments reflected in the net trading, hedging and fair value result was offset by the other income components, which rose by a combined 14 %. This is a noteworthy development, in light of the low levels of securities transactions and new issue activities as well as capital market transactions, which reflect the wait-and-see attitude adopted by customers.

Closer analysis of the income statement for the first half of 2008 shows the influence of these external factors on the underlying trend – which is still supported by strong fundamentals and pointing upwards. The sharp decline in market prices in credit markets is reflected in the net trading, hedging and fair value result although our portfolio is comparatively small. The currently depressed sentiment can be seen from a shift in the pattern of demand: lacklustre securities business, lower net fees and commissions, more interest-based business – this pattern is discernible in both Austria and CEE. In the first

half of 2008, attention again turned to the “classic on-balance sheet business of a universal bank”. This structural shift will not last long, and the valuation result may one day have a positive effect in the same way as it had a negative impact in the first quarter.

At mid-year 2008, early indicators and sentiment surveys point to an economic slowdown, bringing back memories of the recessions in the 1970s and 1980s. Cyclical ups and downs are a normal phenomenon in our economic system, but there is a major difference compared with earlier decades: we are experiencing a stable growth trend, with fluctuations around this steady development. The global economy is free, world trade is booming, and the upswing in emerging markets provides the long-term basis for global growth. We should see not only the short-term negative impact resulting, for example, from commodity prices, but also the longer-term outlook.

The CEE countries are to Europe what the “golden dragons” are to the global economy: a strong engine of growth offering creative potential and providing fresh impetus. Progressive integration on the way to the single market will enhance efficiency in production while also generating stronger demand.

This is the key to UniCredit Group’s vision. It is at this interface that Bank Austria is playing its important role as market leader in a mature market while acting as sub-holding company for CEE operations – now as a wholly-owned subsidiary of UniCredit. Bank Austria’s important role within UniCredit Group has recently been underlined once more.

We implement UniCredit Group’s business model in the perimeter of operations for which Bank Austria is responsible. The busi-

ness model focuses on local customer business, which we conduct with the cross-regional expertise of our Divisions and product lines, and on streamlined production procedures in back-office activities, using the advantages of locations in our region in line with the principle of best practice.

We are expanding our local networks: in CEE we will open some 1,200 new branches in the current Three-Year Plan period covering 2008/10; in the first six months of 2008 alone, we opened 223 new branches. In Austria, we are also enhancing our regional presence, adding new branches to the network. We aim to grow in both markets and are planning to achieve revenue growth of 23 % annually in CEE and 5 % in Austria.

We take the same international approach as our customers with a view to improving our performance capabilities. We are intensifying services for cross-regional customers in our entire network, including trade-related and cash management services, and in the leasing business, where we operate as number one in Europe. We will combine companies providing back-office services on a Group-wide basis in order to unlock synergies and enhance our competitiveness in serving our customers.

Let's all take advantage of the opportunities available to us in a Europe that is becoming increasingly integrated!



Yours sincerely,  
Erich Hampel  
Chairman of the Management Board  
Bank Austria



# Interim Management Report at 30 June 2008

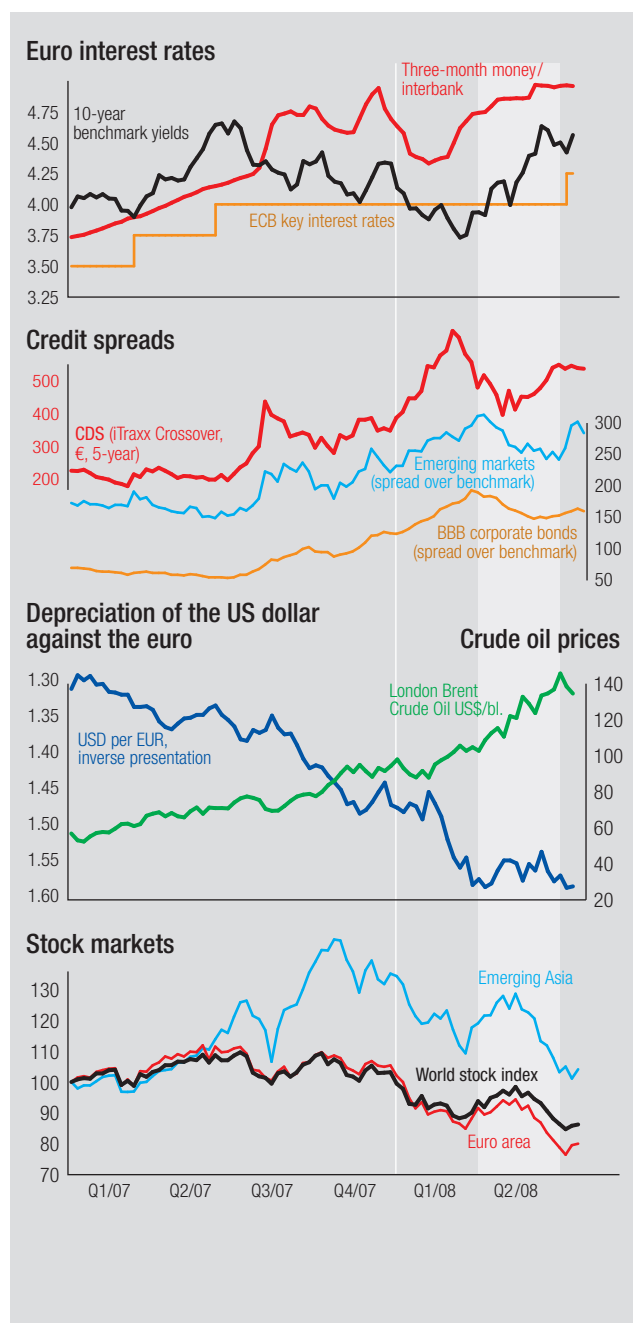
## Banking environment in the first half of 2008

● Developments in the first six months of 2008 proved once more that even large regions such as the euro area cannot escape global economic trends for a long period of time and that ultimately, the real economy has to bear the brunt of financial market crises – with strong repercussions on the banking industry. Credit market crisis, repricing of risk, the oil price hike and fears of stagflation were central topics in the first half-year.

► In spring 2008, around the time when international investment banks reported their results, the credit market crisis again came to a head in a third wave (after August 2007 and November/December 2007). The iTraxx Europe, one of the benchmarks for credit spreads, reached new highs by the middle of March (see chart). Central banks took determined action to support liquidity, and measures were taken to rescue floundering international investment banks. As a result, credit spreads narrowed significantly in April and May. Just before the middle of the year, however, the smouldering crisis in the US housing market flared up again, when government-sponsored enterprises had to be supported almost to the extent of losses being socialised. Again, the inevitable consequence for the institutions with large exposures was to make substantial writedowns in line with the marking-to-market principle and to launch large-scale capital increases. In Europe, writedowns totalled some € 130 bn, and € 95 bn in new capital was raised. Bank shares in Europe fell by 31 % in the first six months of 2008.

► The momentum which characterised the European economy in the previous year continued into the first quarter of 2008. Growth in the first few months was surprisingly strong. In the US, the improvement in the balance of trade offset the weak trend in the domestic economy. Later on, oil prices climbed to levels previously thought impossible, rising by 52 % to US\$ 143 per barrel by the end of June and reaching an all-time high of US\$ 147.50 per barrel on 11 July. Commodity prices (+ 10 %) – including the particularly sensitive prices for agricultural commodities (+ 28 %) – also rose dramatically. This affected the prospects of the booming Asian economies: during the first half of 2008, stock market indices in the region shed almost all of the gains they had registered in 2007. The imminent slowdown of the global economy and the noticeable decline in real incomes in the wake of rising inflation gradually had a negative impact on indicators of business climate and consumer sentiment all over Europe. Gross domestic product of the euro area probably stagnated in the second quarter of 2008.

► The US Federal Reserve reduced its key interest rate in four steps from 4.25 % to 2 % as part of its efforts to manage the crisis while pursuing its growth-oriented policy. The European Central Bank, however, maintained the strict policy of stability to which it is committed, raising its key interest rate by 0.25 percentage points to 4.25 % on 9 July. The wide gap and the divergence of interest rates was the main reason why the US dollar steadily depreciated by 7 % by the end of June (USD/EUR exchange rate over 1.60 on 22 April and again on 15 July). The yield curve in Europe was flat and temporarily inverted, reflecting interest rate expectations and strained interbank relations – short-term money market rates exceeded central banks' interest rates more visibly than before. This illustrates the difficult funding conditions in the banking sector.



With the exception of the narrow commodities and precious-metals markets, the first six months of 2008 was the most unfavourable half-year period for investors in many years: share prices fell in European stock markets (-23%) and in emerging markets (e.g. BRIC: -16%; Emerging Europe: -11%). As fears of inflation emerged in the course of the second quarter, bonds declined and showed a zero performance; corporate bonds and emerging markets bonds, affected by investors' risk aversion, performed only slightly better; and the euro's strength outweighed any outperformance. Thus savings went primarily into short-term and medium-term bank deposits.

► In **Austria**, economic performance was still strong in the first quarter of 2008, with quarter-on-quarter growth of 0.7% and 3.3% year-on-year supported by strong foreign demand. In the second quarter of 2008, however, the growth rate halved. Overall, Austria's economy grew by 2.8% in the first half of 2008 (2007: 3.1%). The economic slowdown in the US and in Europe as well as the consequences of the strong euro became more pronounced, with a negative impact on demand. Another factor was the significant increase in crude oil prices, which combined with rising food prices to push up inflation to a 15-year high of 3.9% in June. Uncertainty dampened consumption. The favourable liquidity situation experienced by private individuals and companies led to a strong year-on-year rise of almost 13% in bank deposits in the first six months of 2008 while securities investments reflected restraint. Despite bad news from the US and the repercussions on financial markets, credit demand in Austria slightly accelerated, increasing by about 4.5% year-on-year. Housing loans to private individuals and corporate loans showed dynamic growth. On the other hand, the volume of mutual funds fell significantly, as a result of outflows and valuation effects.

► Countries in **Central and Eastern Europe** have so far coped well with the more difficult environment. Economic growth in CEE is self-supporting to a large extent, and sustainable in the long term. In the first six months it slowed down to trend growth levels while showing significant local differences. In the CEE region within the wide perimeter of our operations, the year-on-year rate of real economic growth declined from 7.1% in the first quarter to an estimated 5.8% in the second quarter of 2008. External inflationary pressure has aggravated domestic problems in many cases, primarily in South-East Europe, and requires more restrictive action. Lower economic growth in the euro area mostly affects the closely integrated convergence countries, and the global repricing of risk has led to more difficult funding conditions especially for those countries which are strongly dependent on inflows of international capital (be it foreign investment or borrowing abroad).

– The **Central European EU member states** benefit from their attractive locations and from continued large direct investment, although demand is weakening. Interest rates are below euro levels in some cases, credit spreads for these countries are very narrow, and their currencies have strongly appreciated – convergence has reached an advanced stage; the ECOFIN has given the green light for the introduction of the euro in Slovakia as of 1 January 2009 (conversion rate: 30.126 SKK = 1 EUR). Hungary is the only country in which economic growth is below average (2.2%) because of the necessary stabilisation policy. Overall, this country group achieved robust growth of about 5% in the second quarter of 2008.

– Economic growth in the countries in **South-East Europe** (SEE) and the Baltic states showed the strongest decline as most of these countries are small but open economies which have large current account deficits and are hit hard by stricter international credit standards. In Romania, the changes in risk standards led to capital outflows and strong currency depreciation requiring corrective action in the form of interest rate increases. The growth rates of the SEE economies may have declined slightly, but the **Baltic states** are experiencing a phase of stabilisation after years of very strong growth.

– **Kazakhstan** feels the combined effect of international investors' higher risk aversion and administrative measures to stabilise and modernise the domestic banking sector. At present, banks are working out bad loans made in the past. In **Ukraine**, fighting inflation is the main problem, industrial output continues to grow strongly. Economic growth rates in the two countries were above average, at over 4% and 6%, respectively.

– **Russia's** economy is still booming, benefiting from the sharp increase in commodity prices while being unmoved by the liquidity crisis. GDP expanded by an estimated 7.5%. Despite the economic boom, Russia's strongly expanding private banking sector is still dependent on international funding. In **Turkey**, the economy is still affected by political uncertainty; moreover, the current account has deteriorated despite the good export performance. Economic growth in the second quarter was about 3.3%, half the rate achieved in the first quarter of 2008. Russia and Turkey are the countries within our perimeter where financial intermediation is making the fastest progress, with loan volume expected to grow by 30% and 25% per year (2007/2010) respectively.

## Bank Austria in the first half of 2008

### Business development in the first six months of 2008

● The market environment – especially the credit market crisis, which has been smouldering over the past twelve months and has repeatedly had a negative impact on the banking industry – also affected the business development of Bank Austria. In spring 2008, however, the bank returned to its longer-term performance trend, after weaker results in the three preceding quarters. The repricing of risk and global trends in interest rates and economic activity started to have an impact on the bank's operations in the third and fourth quarters of 2007. Results for the first quarter of 2008 were impacted by significant fair value adjustments in respect of debt instruments held for trading (marking to market); in line with Group policy, these adjustments were fully recognised in the net trading, hedging and fair value result, leading to a net loss in the Markets & Investment Banking (MIB) Division. The second quarter of 2008 saw performance improvements in all business segments, with some of them achieving strong increases in their results. MIB also made a positive contribution to Q2 profits (see chart). Profit before tax for the second quarter increased by over one half compared with the first quarter, thus exceeding the figure for Q2 2007 by 14%:

Profit before tax by quarter							
	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	+/- PREV. YEAR
€ m	688	690 <sup>*)</sup>	652	565	520	785	+ 14 %

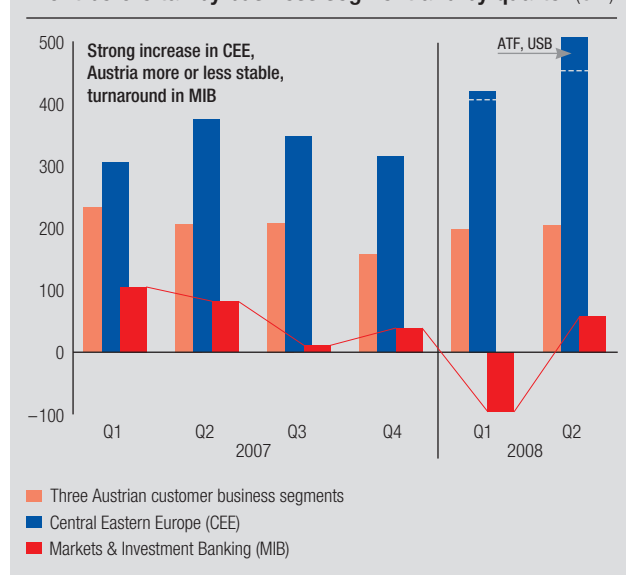
<sup>\*)</sup> Q2 2007 without ASVG-related one-off effect of € 150 m

The favourable performance trend was mainly driven by the above-mentioned turnaround in the MIB Division and by continued expansion in Central and Eastern Europe (CEE): profit before tax in the CEE business segment for the second quarter of 2008 was € 506 m, up by 20% on Q1 2008 and 35% higher than in the second quarter of the previous year. Our two new banking subsidiaries – ATF in Kazakhstan and Ukrsootsbank in Ukraine – contributed € 53 m to profit before tax for Q2 2008. But most of the increase in the overall figure was due to organic growth – even without the consolidation effect, the profit before tax generated in CEE was 21% higher than a year earlier.

Results generated by the three Austrian customer business segments (Retail, Private Banking & Asset Management and Corporates) in the second quarter of 2008 more or less matched the Q1 2008 figure (after a temporary decline in the fourth quarter of 2007); in view of the difficult environment, this is a satisfactory development. Given the ongoing media reports about the financial market crisis and the sharp decline in share prices, and as the economic outlook became less

favourable, demand for capital market-related financing instruments and structured investment products – the product groups that Bank Austria successfully promoted in past years – fell significantly in the course of the first six months of the year.

Profit before tax by business segment and by quarter (€ m)



● Results for the first half of 2008 still reflect the repercussions of the global credit market crisis, with the net trading, hedging and fair value result showing a significant loss especially in the first quarter of 2008. Overall, profit before tax was € 1,304 m, down by € 223 m or 15% from the figure for the first half of 2007. The decline was mainly due to the trend in the net trading, hedging and fair value result: in the same period of the previous year, it reached a level that was far above average (net income of € 224 m), while the figure for the first half of 2008 was a net loss of € 198 m. The swing of –€ 422 m from net profit to net loss was particularly large.

The table on page 9 shows the changes compared with the same period of the previous year: profit before tax for the first half of 2007 was € 1,528 m. This figure included a one-off effect of € 150 m resulting from the release of pension provisions in connection with the amendment to the Austrian General Social Insurance Act (ASVG). Deduction of this one-off effect gives € 1,378 m, a figure which provides a meaningful basis of comparison in terms of performance.

The swing of minus € 422 m in the net trading, hedging and fair value result was offset by the combined increase of € 424 m or 14% in other income components compared with a year earlier. Total oper-



ating income for the first half of 2008 therefore matched the figure for the same period of the previous year. As costs increased by € 158 m or 9 % and the other items in the income statement rose by a combined € 82 m, profit before tax was € 1,304 m, only 5 % lower than the adjusted figure for the first half of the previous year. Without the net trading, hedging and fair value result, **profit improved by 30 %**.

Profit before tax				
Profit before tax for H1 2007 in € m	1,528			
of which: one-off income related to ASVG effect	150			
<b>Adjusted profit before tax for H1 2007</b>	<b>1,378</b>			
Swing in net trading, hedging and fair value result	-422			
Revenue growth without net trading, hedging and fair value result	+424			
Increase in costs	-158			
Change in other income statement items	+82			
<b>Profit before tax for H1 2008</b>	<b>1,304</b>	<b>-5 %</b>	<b>-15 %</b>	
Change without net trading, hedging and fair value result		+30 %	+15 %	

In analysing the income statement, one should note changes in the **group of consolidated companies**; however, these changes have no major impact on the overall picture. The most recent acquisitions in promising markets – i.e. ATF Bank in Kazakhstan and Ukrsofsbank in Ukraine – have been included in the consolidation perimeter since December 2007 and since the beginning of 2008, respectively; the combined profit before tax generated by these two banks in the first half of 2008 was € 67 m. Aton International and Aton Broker have been consolidated in the MIB business segment since August 2007. Moreover, the shareholding interest in Informations Technologie Austria (IT Austria), which was previously accounted for under the cost method, has been accounted for using the proportionate consolidation method as from the beginning of 2008 (as required by qualitative and quantitative consolidation criteria) and a number of other companies have been included (see note 3 to the consolidated financial statements); the effects of this change are small. BA-CA Leasing GmbH, a company previously included in the group of consolidated companies, was transferred to UniCredit Global Leasing – number one in the European leasing market – in the middle of 2007; since then, a 32.59 % interest in the results of UniCredit Global Leasing has been accounted for under the equity method. Adjusted for these consolidation effects, and if related funding costs are taken into account, profit before tax was 2 % lower than the previous year's level; if the net trading, hedging and fair value result is not included in the calculation, the profit performance improved by 39 %.

#### Profit before tax

€ M	H1 2008	H1 2007	+/- € M	+/- %
Austrian customer business	402	439	-38	-9 %
... 2007 and 2008 without leasing business	380	409	-29	-7 %
Central Eastern Europe (CEE)	926	679	+247	+36 %
... 2008 without ATF and USB	859	679	+179	+26 %
Markets & Investment Banking (MIB) <sup>1)</sup>	-37	187	-225	->100 %
Corporate Center <sup>2)</sup>	14	72	-58	-81 %

1) Consolidation effect Aton below € 1 m / 2) H1 2007 without ASVG effect (€ 150 m).

An analysis by major regional segment shows that CEE accounted for all of the revenue growth in the first half of 2008. The performance of the three Austrian customer business segments (Retail, PB&AM, Corporates) was affected by weak securities business and new issue activities and by low levels of demand for derivatives. Average risk-weighted assets rose only slightly, by 3 %, in line with strategy. While net interest income developed favourably (up by 5 % without the leasing-related effect), the combined profit before tax generated by these three business segments declined by 9 % (without leasing business, down by 7 %). The repercussions of the credit market crisis also had a slight impact on the CEE business segment, with net fees and commissions lagging behind the strong increase in overall income. Nevertheless, as a result of continued volume growth (RWA up by 50 %), profit before tax in the CEE segment increased by 36 %. Even without the two banking subsidiaries ATF and USB newly included in the group of consolidated companies, volume increased by 29 % and profit grew by 26 %, clearly confirming that the CEE business segment is driving the bank's growth. The profit increase in CEE, though significant, did not fully offset the loss of revenue in the Markets & Investment Banking Division and the weak results recorded in the other business segments.

● Bank Austria's consolidated profit (after minority interests) for the second quarter of 2008 was € 651 m, up by a substantial 59 % from the level of € 410 m achieved in the first quarter. Consolidated profit for the first six months again exceeded the € 1 bn mark. At € 1,062 m, it was 12 % lower than the figure for the same period of the previous year, which included a one-off effect of € 150 m resulting from the release of ASVG-related provisions. Adjusted for this one-off income and for consolidation effects including the leasing effect and funding costs associated with investments in promising markets, the profit for the first half of 2008 was € 1,060 m, only 0.6 % lower than the strong performance of the previous year.

## Details of the income statement

● In the first six months of 2008, Bank Austria continued to expand in the challenging environment of current economic trends and developments in the banking industry. While the income statement reflects the impact of the crisis on the net trading, hedging and fair value result, it also shows a solid overall performance. The current risk aversion and widespread restraint on the part of customers led to changes in demand and structural shifts among the various revenue components which are not typical of the longer-term trend.

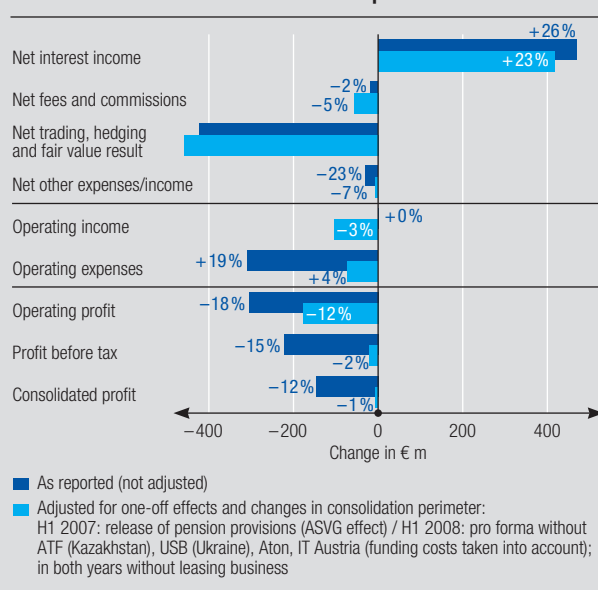
► “Sustainable income“ continued to grow strongly, though at somewhat lower rates: in the first six months of 2008, net interest income and net fees and commissions rose by a combined 16 % (or 11 % on an adjusted basis) compared with the same period of the previous year. The increase was driven by strong net interest income, which exceeded the comparative figure for H1 2007 by about one quarter, while net fees and commissions did not quite match the previous year’s level. Nevertheless, growth was strong enough to largely offset the massive loss of revenue reflected in the net trading, hedging and fair value result. Overall, therefore, operating income was maintained at the level of the first six months of the previous year.

► **Costs** were kept under control despite business expansion and the ongoing investment programme aimed at organic growth. The cost/income ratio in Austrian customer business and in CEE declined, even if the figures are not adjusted for changes in the bank’s perimeter of operations.

► **Net writedowns of loans and provisions for guarantees and commitments** were in line with business expansion, though the first and second quarters probably marked a cyclical low in the risk trend. Measured as a proportion of risk-weighted assets, the cost of risk was stable.

● Among the income items, **net interest income** (€ 2,309 m) grew by € 470 m or 26 %, remaining the most important revenue component. The CEE business segment made the strongest contribution to this development, with an increase of € 452 m or 46 % (compared with growth of € 252 m or 26 % in the old perimeter). This reflects general business expansion in a growth market, though margins have started to decline slightly. A substantial contribution came from the MIB business segment, where net interest income more than doubled from € 112 m to € 300 m. Net interest income generated by Austrian customer business almost matched the previous year’s level (–2 %); without leasing business, it rose by 4 %. This reflects the positive aspect of investors’ current preference for liquid bank deposits.

### Income statement for H1 2008 compared with H1 2007



**Net fees and commissions** stagnated at the high level of the previous year (€ 1,037 m or –2 %). The increase in CEE (+13 % on an adjusted basis) was disproportionately low, falling short of expectations. Income from fee-earning business – ranging from securities transactions and commercial risk management products to sales of structured investment instruments – fell sharply in Austria (–18 %) and in MIB (–41 %). Customers postponed numerous projects in the primary market and in investment banking generally.

The **net trading, hedging and fair value result** for the first half of 2008 was a net loss of € 198 m, resulting from losses recorded in the Markets & Investment Banking Division (–€ 282 m) and in the Corporate Center (–€ 24 m) and net income of € 110 m in the CEE business segment (€ 84 m in the old perimeter). When comparing the **net trading, hedging and fair value result** for the first half of 2008 (a net loss of € 198 m) with the figure for the same period of 2007 (net income of € 224 m), one should be aware of the far-reaching changes that occurred in financial markets in the wake of the credit market crisis. In four waves since the middle of 2007, and in each case around the reporting dates of US investment banks, the credit market crisis led to sharp price declines in the secondary market for credit instruments in a wider sense. These price declines also had an impact on Bank Austria’s net trading, hedging and fair value result, although the bank’s involvement is comparatively modest. In line with UniCredit Group policy, instruments held for trading are marked to

market, with the valuation result being recognised in the net trading, hedging and fair value result. This may lead to losses but also to gains. Marking-to-market adjustments were required in the Credit Structured Products and Credit Trading (CSP/CT) sector especially in the third quarter of 2007 and in the first quarter of 2008; these adjustments were not offset by the other components of the net trading, hedging and fair value result. The value adjustments peaked at € 155 m in the first quarter of 2008; in the second quarter of 2008, the total amount of such adjustments – with no further write-offs – was a comparatively small figure (€ 29 m). The negative effect on the income statement from CSP/CT, the sector which absorbed almost all of the direct impact of the credit market crisis, was as low as € 9 m including interest accruals. The ABS book was further reduced to € 3.0 bn as planned (31 December 2007: € 3.6 bn; 31 March 2008: € 3.2 bn).

Developments in the second quarter of 2008 were mainly determined by the spreading indirect repercussions of the financial market environment rather than direct valuation effects in the structured credit sector: further value adjustments were required especially on account of the price decline in related segments of the bond market. Moreover, higher volatility in currency markets led to higher rate hedging costs relating to the translation into euro of the financial statements of subsidiaries; such costs are recognised in the Corporate Center's net trading, hedging and fair value result.

Quite generally, it should be noted that the net trading, hedging and fair value result shows only part of the performance from capital market activities. The other income components – mainly current interest income which partly originates from the same portfolios – increased strongly over the past quarters; in the second quarter of 2008, they more than offset the negative net trading, hedging and fair value result (see the section on Markets & Investment Banking).

● Bank Austria continued to pursue tight cost management in the first half of 2008, cost trends in all of the bank's business segments were fully in line with the strategic targets. While the increase of 19% or € 307 m in **operating expenses** to a total of € 1,891 m in the first six months of 2008 may seem large at first sight, closer analysis shows that the rate of growth at the level of the bank as a whole, adjusted for changes in the group of consolidated companies, was as low as 4%. This compares with volume growth (RWA) of about 17% (adjusted) and revenue growth (without the net trading, hedging and fair value result) of 12%.

#### Cost trends (operating expenses)

€ M	H1 08	H1 07	+/- %	+/- % ADJ. <sup>*)</sup>
Bank Austria as a whole	1,891	1,584	+ 19 %	+ 4 %
Austrian customer business	612	726	- 16 %	- 6 %
CEE	1,057	787	+ 34 %	+ 18 %

<sup>\*)</sup> Adjusted for changes in the consolidation perimeter and for one-off effect (ASVG) in 2007; without leasing business

Both adjusted and unadjusted figures for operating expenses indicate that costs in the three Austrian customer business segments were further reduced (see table above). In the CEE business segment, costs grew at a significantly lower rate than business volume and revenues. As a result, the cost/income ratio declined in both Austria, where revenues showed a modest trend, and in CEE, where business expanded strongly.

#### Cost / income ratio

	AS REPORTED		ADJUSTED	
	H1 08	H1 07	H1 08	H1 07
Austrian customer business	53.7 %	56.1 %	54.5 %	55.1 %
CEE	49.3 %	50.2 %	49.7 %	50.2 %

Figure for the bank as a whole not meaningful because of loss of revenue in the net trading, hedging and fair value result

In CEE, the first-time inclusion of ATF Bank and of Ukrsootsbank accounted for about € 131 m, or almost one half, of the increase of € 270 m in total costs; the cost/income ratio for the two new banks, at 46.7%, is below average. The low cost/income ratio in CEE as a whole is noteworthy, especially because it includes expenses related to the rebranding process in a number of countries and also the ongoing investment programme for branch network expansion. In the course of the first six months, we opened 223 new branches; this means that we are on track to meet the target of 1,200 new branches to be opened in the growth markets under the Three-Year Plan covering the period 2008 to 2010. In Austria, costs were significantly reduced not only in the customer business segments, but also in the Corporate Center (without leasing effect, - 11%), which includes back-office and administrative services as well as ICT costs.

→ The swing in the net trading, hedging and fair value result from net income to net loss was only partly offset by revenue growth in other income components. For this reason, Bank Austria's **operating profit** declined by € 305 m or 18% to € 1,352 m, although cost growth remained moderate. On an adjusted basis, operating profit was 12% lower than for the same period of the previous year. If the swing in the net trading, hedging and fair value result is not included in the calculation, operating profit increased by 23%.

● **Net writedowns of loans and provisions for guarantees and commitments** in the first half of 2008 were € 329 m, up by € 121 m or 58 % on the same period of the previous year. All of the increase resulted from the CEE business segment (+ € 130 m), with the two newly added banks in Ukraine (€ 23 m) and Kazakhstan (€ 62 m) accounting for two-thirds (€ 85 m) of the increase in CEE.

#### Net writedowns of loans and provisions for guarantees and commitments

€ M	H1 08	H1 07	+/- %	+/- % ADJ. *)
Bank Austria as a whole	329	208	+ 58 %	+ 23 %
Austrian customer business	130	139	- 6 %	0 %
CEE	199	69	>100 %	66 %

\*) Adjusted for changes in the consolidation perimeter and for one-off effect (ASVG) in 2007; without leasing business

The provisioning charge for Ukrsofsbank and even more so for ATF Bank is disproportionately large, with risk/earnings ratios of 22.8 % and 62.3 %, respectively. Measured against average risk-weighted assets (banking book), the provisioning charge for the two banks is 122 basis points and 75 basis points, respectively. The large net writedowns of loans and provisions for guarantees and commitments are related to integration activities involving the initial application of Group-wide risk definitions, methodologies and valuation parameters at Ukrsofsbank and ATF Bank. Loan portfolios were scrutinised, which resulted in a decline in risk-weighted assets in both countries. Moreover, the international repricing of risk led to a significant widening of spreads especially for these countries. Overall, the provisioning charge rose faster than business volume (+ 29 %) even on the basis of the old perimeter. While this development was also due to a special effect – the comparative figures for Bosnia and Croatia were particularly low, reflecting a net release of loan loss provisions –, it is clear that there is an upward trend.

#### Cost of risk (provisioning charge / RWA) \*

BASIS POINTS	AS REPORTED		ADJUSTED	
	H1 08	H1 07	H1 08	H1 07
Austrian customer business	53	58	53	54
CEE	65	34	44	34

\*) Net writedowns of loans and provisions for guarantees and commitments expressed as basis points of average risk-weighted assets (Basel I)

Net writedowns of loans and provisions for guarantees and commitments in Austrian customer business continued to decline (- 6 %); if the comparative figure for the first half of 2007 is adjusted for leasing operations, the provisioning charged matched the previous year's level. Therefore the cost of risk was also lower. A significant contribution to this development came from the trend experienced in the Corporates business segment, where provisions for specific transactions in the Financial Institutions unit were released in the first half of 2008 and credit quality was improved via the secondary market and through the use of hedging instruments. The risk profile in corporate banking is still at a very low level in a long-term comparison. The Retail Division also experienced a stable trend in the cost of risk, following the sale of loans which made a contribution to this development.

**Net income from investments** in the first half of 2008 was € 291 m, up by € 158 m from the figure for the first six months of 2007 (€ 132 m). The largest component within the total figure was the share of current profits of the Polish banking subsidiaries, which is defined in the terms and conditions of the sale of Bank BPH and amounted to € 146 m (first half of 2007: € 101 m). The sale of Hypo Stavebni Bank in the Czech Republic in March 2008 resulted in a capital gain of € 26 m. The sale of the shareholding interest in BPH TFI, the asset management business of Bank BPH, to GE Money in June 2008 resulted in a profit of € 92 m.

→ The items between the operating profit and profit before tax added up to a net figure of -€ 48 m after -€ 130 m a year earlier. The increase in net writedowns of loans and provisions for guarantees and commitments was more than offset by significant growth of net income from investments and a lower requirement for provisions for risks and charges (€ 12 m after € 47 m). Profit before tax amounted to € 1,304 m, the charge for income tax was € 186 m; at 14.3 %, the effective tax rate was lower than in the previous year. **Consolidated profit** amounted to € 1,062 m, down by 12 % from the figure for the same period of the previous year. On an annualised basis, **earnings per share** were € 10.51 after € 11.96 in the first half of 2007 (based on the number of shares after the capital increase).



## Key performance indicators and value creation

At 14.7%, **return on equity** (ROE after tax) was 4.1 percentage points lower than a year before (18.7%). The decline was due to the lower profit resulting from the negative net trading, hedging and fair value result, and to the fact that average equity was 12% higher than in the previous year. But ROE after tax for the first half of 2008 exceeded the figure for the first quarter (11.5%), the period which saw the largest loss of revenue.

The key indicator of financial performance in UniCredit Group – providing indications of growth targets and the optimum capital allocation required to achieve them – is marginal **Economic Value Added** (mEVA), i.e. value creation beyond the cost of capital (net operating profit after tax less minimum return required by the market on equity capital employed, excluding goodwill impairment). As equity rose and profit declined, mEVA fell by 34% from € 559 m (without ASVG effect) to € 370 m. The decline was mainly due to the exceptional situation in the MIB Division and also to expenses, recognised in the Corporate Center, relating to the management of shareholding interests in connection with acquisitions and corporate restructuring activities.

Bank Austria's two large networks of operations, which are marked by structural differences in their markets, both make their contributions to overall performance:

► Marginal Economic Value Added in the three segments of Austrian customer business was lower than in the same period of the previous year. Therefore continued efforts are being made to expand customer business while also reducing capital employed in this sector. For this purpose, RWA productivity is to be enhanced from both sides: by achieving revenue growth, primarily in the form of higher fee and commission income and a higher contribution to net interest income from deposit business, and by reducing risk-weighted assets and the related capital allocation via active portfolio management. RARORAC, risk-adjusted return on risk-adjusted capital, in the Austrian customer business – despite weak profitability in retail banking – is close to that of the CEE Division, fully confirming the performance of this core market.

### Value creation and capital allocation

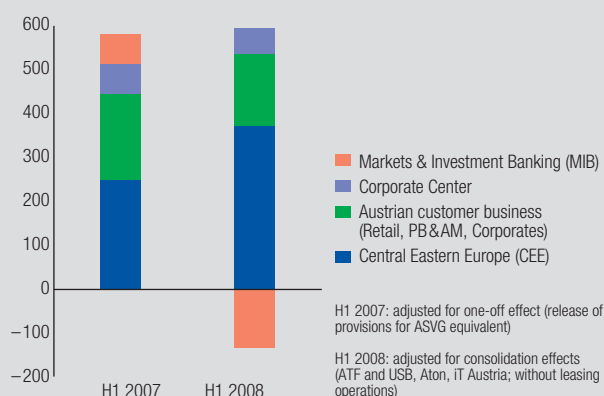
	H1 08	H1 07 <sup>1)</sup>	+/- €	+/- %
<b>Marginal Economic Value Added, € m</b>				
Austrian customer business	168	195	-26	-14 %
Central Eastern Europe (CEE)	392	249	143	57 %
<b>RARORAC<sup>2)</sup></b>				
Austrian customer business	10.9%	12.8%		
Central Eastern Europe (CEE)	13.4%	16.7%		
<b>Average risk-weighted assets, € bn</b>				
Austrian customer business	49.6	48.4	1.2	3 %
Central Eastern Europe (CEE)	63.8	42.5	21.3	50 %
<b>Average equity (IAS), € bn</b>				
Austrian customer business	3.6	3.6	0.0	+1 %
Central Eastern Europe (CEE)	8.8	6.8	2.0	30 %

1) Without ASVG effect / 2) Risk-adjusted return on risk-adjusted capital

► The CEE business segment is a growth market with a different structure. The focus is on enhancing marginal EVA. While close attention is also given to productivity, the contribution to the bank's marginal EVA comes from volume expansion. In the first half of 2008, risk-weighted assets in CEE increased by about 50%, marginal EVA rose by 57%. Average allocated equity was 30% higher, not least in connection with external growth.

With this mix of capital allocation and RWA productivity as well as growth and sustainable customer business, Bank Austria sets about meeting the targets defined in the current Three-Year Plan.

### Marginal Economic Value Added (€ m)



## Balance sheet

Bank Austria's consolidated **total assets** increased steadily in the first six months to reach **€ 228.6 bn** on 30 June 2008. The increase of € 19.5 bn or 9.3% over year-end 2007, and of € 25.6 bn or 12.6% over the figure at 30 June 2007 resulted from organic and external growth, as can be seen from a comparison with the previous year. ATF Bank in Kazakhstan was consolidated as from December 2007, most recently it contributed € 6.4 bn to Bank Austria's total assets. With the integration of our banking subsidiary in Ukraine – Ukrsofsbank together with its holding company Ferrotrade was included in the balance sheet for the first time as at 31 March 2008 – total assets increased by € 5.3 bn at the end of June 2008; together the two banks accounted for 5.4% of Bank Austria's total assets at mid-year 2008. Both banks are active in young growth markets, contributing to the increase in customer business mainly on the assets side. Without the two new banking subsidiaries, total assets grew by 6.95% compared with the previous year. On the basis of the new perimeter of Bank Austria's operations – June 2008 compared with March 2008 –, total assets also rose by 3.6%.

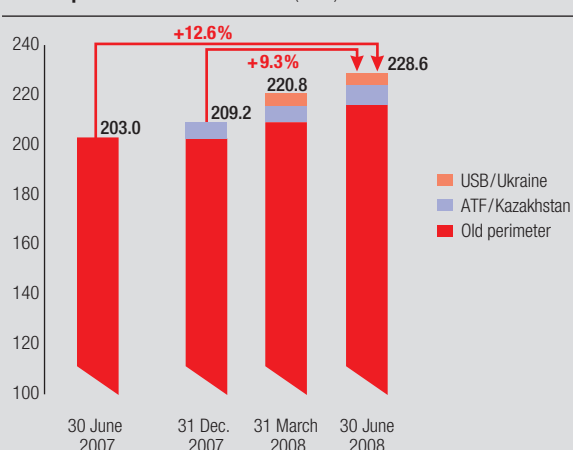
The **first six months of 2008** saw strong growth of customer business on both sides of the balance sheet. Interbank business also rose significantly, but this also relates to business with the parent company UniCredit and with HypoVereinsbank AG, which are external relationships from the point of view of Bank Austria's consolidated financial statements. Balance sheet growth from the end of 2007 to the end of June 2008 was dampened by currency depreciation primarily in

Turkey and Russia; while this was partly offset by strong currency appreciation in a number of other countries (Czech Republic, Slovakia, Hungary), our Turkish unit and our Russian banking subsidiary account for a large part of overall business volume. However, changes in exchange rates were small compared with the strong business expansion in these countries.

More than two-thirds of the increase on the **assets side** was driven by loans and receivables with customers, which grew by € 13.0 bn or 11.3% and accounted for 56% of total assets. Loans and receivables with banks totalled € 45.2 bn, up by € 7.2 bn or 18.9% on year-end 2007. Financial assets held for trading were € 19.5 bn, slightly higher than at the end of 2007 (+2.3%), following a reduction since the interim balance sheet at 31 March 2008 (–7.2%). Intangible assets increased mainly on account of goodwill capitalised in connection with the acquisition in Ukraine (+€ 1.4 bn/+32.3%).

On the **liabilities side**, deposits from customers (€ 98.6 bn) grew more moderately in the first half of 2008, rising by +€ 5.4 bn (+5.8%). Deposits from banks showed the strongest growth (+€ 9.8 bn/+18.7% to € 62.3 bn). Primary funds – including deposits from customers and debt securities in issue (€ 30.3 bn) – totalled € 128.9 bn and thus slightly exceeded loans and receivables with customers; they also accounted for 56% of the balance sheet total. This means that Bank Austria can fully fund its loans and receivables with customers out of primary funds. Financial liabilities held for trading were € 8.6 bn at the end of June 2008, up by 16.0% on year-end 2007, but down by 7.7% from March to June. At 30 June 2008, **equity** amounted to € 16.0 bn or 7% of the balance sheet total. The increase of 4.3% or € 653 m over year-end 2007 largely resulted from income and expenses (+€ 655 m) recognised in equity; this net figure includes the consolidated profit of € 1,062 m, foreign currency translation (–€ 124 m) and the reserves in accordance with IAS 39 (–€ 348 m) as well as income and expenses recognised in equity which are attributable to minority interests (+€ 66 m).

Development of total assets (€ bn)



## Net capital resources and capital requirements pursuant to the Austrian Banking Act at 30 June 2008

On 1 January 2008, the calculations required under regulatory standards pursuant to the Austrian Banking Act were converted to the Basel II rules. The main changes in respect of (net) capital resources result from differences in taking account of deductions and from the lower net Tier 3 capital (to meet – lower – capital requirements for market risks in the trading book). In addition to the changed rules for determining the assessment basis for credit risk, the provisions in Section 22 of the Austrian Banking Act concerning the minimum capital requirements now comprise the calculation of capital requirements for operational risk and changes in the rules for capital to be held against parts of the trading book (in particular, Tier 3 capital can no longer be used to meet the capital requirements for counterparty default risk).

From March 2008, Bank Austria Creditanstalt AG applies the advanced internal ratings-based approach for credit risk. The subsidiaries are taken into account by applying the standardised approach for credit risk. As at 30 June 2008, operational risk is determined in Bank Austria Creditanstalt AG and in Zagrebačka banka d.d. using the advanced approach, while the other subsidiaries use the standardised or basic-indicator approach.

The comparison of 30 June 2008 (new presentation pursuant to Basel II) with the calculation as at the end of 2007 (old method pursuant to Basel I) shows a decline of 7.0% in net capital resources to € 12.2 bn, most of which is due to the new supervisory rules. On the other hand, risk-weighted assets rose by 18.6% to € 139.9 bn as a result of the regulatory changes and the bank's underlying business development. The largest contribution to this development came from expansion in the CEE business segment. The capital requirement for credit risk increased by 13.3% to € 10.0 bn, and together with the other risk types it rose by 18.6% to € 11.2 bn. The Tier 1 capital ratio – based on all risk types pursuant to Basel II – on 30 June 2008 was 6.49% after 8.20% at the end of 2007 (Basel I); the total capital ratio was 8.75% (new presentation) after 11.16% (old method/all risks).

## Development of business segments

### Retail Division

(€ m)	H1 08	H1 07	CHANGE	
Net interest income	357	372	-15	-4%
Net non-interest income	232	267	-36	-13%
Operating income	589	639	-50	-8%
Operating expenses	-432	-470	38	-8%
Operating profit	157	170	-13	-7%
Net writedowns of loans	-106	-109	2	-2%
Net income from investments	1	13	-13	-94%
<b>Profit before tax</b>	<b>55</b>	<b>72</b>	<b>-17</b>	<b>-24%</b>
Risk-weighted assets (avg.) <sup>1)</sup>	15,842	16,355	-512	-3%
Average equity <sup>2)</sup>	982	1,031	-49	-5%
Cost/income ratio	73.4%	73.5%		
Risk/earnings ratio	29.8%	29.2%		
ROE before tax	11.2%	14.0%		

1) Average risk-weighted assets for credit and market risk under Basel I.

2) Equity allocated as defined in note 33 on page 42, IAS capital for subsidiaries.  
This information applies to all business segment tables.

The economic environment in Austria remained relatively robust and lending business continued to expand. Nevertheless, the Retail business segment was affected indirectly in the first half of 2008 by the repercussions of the difficult situation in financial markets. Reacting to an unremitting stream of bad news of the international credit market crisis, investors showed extreme restraint, in the second quarter even more so than in the first three months. Some investors withdrew from securities investments and switched to bank deposits. As a result of these developments in the market, net fees and commissions generated in the second quarter of 2008 fell to the lowest level in three years. Moreover, short-term market rates fluctuated strongly, affecting deposits business despite the favourable volume trend: the first few months of the year saw a significant decline in interest rates, which the bank was unable to pass on to customers as interest rates can only be adjusted with some delay; this was followed by a renewed interest rate rise in the second quarter, which improved margins only slightly as funding conditions for lending business deteriorated again. Operating income for the first half of 2008 was € 589 m, down by 8%.

**Net interest income** for the first six months was € 357 m. Though improving slightly from quarter to quarter, the figure was € 15 m or 4% lower than in the same period of the previous year. In medium-term to long-term lending business, average volume rose – with

volume in housing finance increasing by 5% – and margins improved somewhat; this was offset by developments in short-term loans. As interest rates increased in the first six months, and even more strongly compared with the previous year, this had an impact on volume (overdraft loans and working capital facilities for business customers) and margins in particular. Business volume on the liabilities side rose significantly compared with the previous year (primary funds: + 5%). While time deposits grew at a high rate, reflecting the strong preference for liquidity and the attractive terms and conditions, the increase in savings deposits was more significant in absolute terms. The average level of savings deposits in the Retail business segment in the first six months was € 17.8 bn – almost matching the volume of medium-term to long-term loans. As a result of the delay mentioned above, however, interest rate spreads were significantly lower than a year before, especially for savings deposits. Thus deposits accounted for two-thirds of the decline in net interest income.

**Net fees and commissions** fell by € 35 m or 12% to € 248 m; the significant decline resulted from this year's unusual market situation and from the large comparative figure for the same period of the previous year. In the first half of 2007, securities business was booming, generating exceptionally large income. This year, securities business and the sale of mutual funds and the bank's own issues were affected by ongoing media reports on the banking crisis and the weak stock market performance, which prompted investors to await further developments. Customers exercised restraint in the area of derivatives business, preferring simple and transparent products to complex structurings. Such patterns of customer behaviour are largely dictated by macroeconomic conditions; consequently, the demand trends among the three sub-segments Mass Market, Affluent Customers and Small Businesses hardly differ. Inflation-GarantieAnleihe, an investment product launched in July after the end of the reporting period, was placed very successfully; this proves that investor restraint with regard to structured products is not an underlying trend but a response to current market conditions.

Operating efficiency in the Retail business segment has further improved, which is reflected in the **cost trend**: operating expenses were € 432 m, down by € 38 m or 8% from the previous year's level. This significant cost reduction was achieved through savings in non-staff expenses and efficiency improvements in cooperation with Administration Services, Bank Austria's subsidiary providing back-office services. The cost/income ratio (73.4%) was only slightly lower than a year before, but this was due to the decline in revenues.

**Net writedowns of loans and provisions for guarantees and commitments** developed as planned, reaching € 106 m in the first half of 2008 after € 109 m in the same period of the previous year. The risk/earnings ratio, at 29.8%, was only slightly higher than a year before, as was the cost of risk at 135 basis points, measured against the average banking book. The quality and volume of the portfolio improved thanks to the sale of problem loans in the market in the fourth quarter of 2007. Risk-weighted assets declined by 3% to € 15.8 bn compared with the previous year.

**Profit before tax** increased by 13% from the first to the second quarter, amounting to € 55 m for the first half of 2008 compared with € 72 m in the same period of the previous year (–24%). The H1 2007 figure for net income from investments included one-off gains of € 12 m on the sale of shares in CA Immobilien AG; adjusted for this effect, profit before tax declined by only 8%. ROE before tax also improved from the first to the second quarter, reaching 11.2% for the first six months of 2008.

As part of our regional initiative, we expanded our network in Austria by adding new branches at Telfs, Saalfelden and Deutschlandsberg in the first half of 2008.

RARORAC in the Retail business segment was slightly below zero (–0.3%) in the first half of 2008 (as in the same period of the previous year). However, the turnaround from the losses seen in previous years has been confirmed; as a proportion of risk-weighted assets, revenues are 7.43%, higher than the average for the bank, making the Retail business attractive. Based on the efficiency enhancement that has been achieved, and as soon as the currently difficult market environment improves, the Retail segment is expected again to make a positive contribution to value creation beyond the cost of capital.



## Private Banking & Asset Management

(€ m)			
	H1 08	H1 07	CHANGE
Net interest income	10	8	2 20%
Net non-interest income	70	85	-15 -18%
Operating income	80	94	-14 -15%
Operating expenses	-50	-49	-1 1%
Operating profit	30	44	-14 -32%
Net writedowns of loans	0	0	0 n.m.
Net income from investments	7	0	6 n.m.
<b>Profit before tax</b>	<b>37</b>	<b>44</b>	<b>-7 -16%</b>
Risk-weighted assets (avg.)	473	449	24 5%
Average equity	189	201	-12 -6%
Cost/income ratio	62.3%	52.5%	
ROE before tax	38.8%	43.6%	

n.m. = not meaningful

In the first half of 2008, the Private Banking & Asset Management (PB&AM) business segment operated in an environment that was more difficult than in previous years. In a medium-term perspective, PB&AM continued to improve its market position and its range of products, in preparation for more favourable times to come. The continued net inflows recorded by BANKPRIVAT and Schoellerbank underlined the attractiveness of the private banking business model and the long-term orientation of their clients. On the other hand, investors – more specifically, the target groups for asset management services other than private banking clients – were unusually averse to risk and showed restraint in their investment decisions. This is easy to understand and may be explained by ongoing bad news in financial reports about “sub-prime and the consequences”, and by the sharp declines in market values in the first half of 2008. This was one of the rare periods when almost all asset classes – equities, bonds, the high-yield sector – showed massive losses in value for six months across all world regions (chart). The narrow and volatile markets for precious metals and commodities were the only exception, which is a positive indication that the global economy continues to expand. Temporary valuation adjustments were reflected in volume trends. As large numbers of investors adopted a wait-and-see attitude, this had an adverse impact on fee-earning business and benefited net interest income; the latter is, however, of lesser importance in the up-market customer segments.

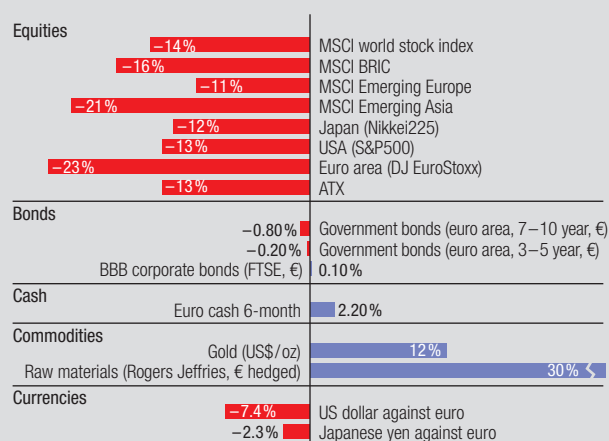
**Operating income** (€ 80 m) reflected lower net fees and commissions and was 15% lower than in the first half of 2007, a period which was characterised by different investment perspectives and the placement of large volumes of guarantee products in particular. After

a successful fourth quarter of 2007, sales of structured products in the first six months of 2008 fell short of expectations; as a result of ongoing valuation adjustments, outstanding volume declined as compared with the preceding period and the first six months of the previous year. Investors displayed a preference for liquid bank deposits for the time being. Net interest income in the PB&AM business segment rose strongly, by 20%, though from a low level; normally, bank deposits in this segment are mainly held for liquidity purposes, but not as an asset class.

**Private Banking** used this period of low activity to complete its restructuring process. The transfer of customers to **BANKPRIVAT** from other business segments of Bank Austria was successfully completed in the previous year. Business with the top segment of private customers is geared to the needs of this customer group, providing specialised services with a cross-selling perspective. A pyramid of service/fee packages is now in place in asset management, Private Banking's core competence, offering the optimum mix of standardisation and in-depth personalised services at attractive fees to meet different customer needs in line with managed volume. The significant net inflow recorded by **Schoellerbank** in the first six months of 2008 more than offset losses in market value. The bank responded to market conditions by placing inflation-proof investment products and structured fixed-income products. Net fees and commissions were lower, reflecting the significance of market price-related fee models. **AMG** launched another issue of WeltAktienIndex-GarantieAnleihe

### Performance of market segments in the first half of 2008

Change in value in %, end of June 2008 compared with year-end 2007



MSCI indices: local currency

(WAIGA 2008–2011/1), of Champions Bond and of Austria Express Zertifikat and in the first few months of the year was able to absorb substantial redemptions due in 2008. Moreover, AMG manages the asset management products FokusInvest and FokusLife (insurance-linked option), which offer investors active management of their assets in risk/return classes from a minimum investment of € 15,000 and are distributed by Bank Austria to a broad range of customers.

→ Overall, volume in Private Banking was € 15.0 bn at the end of June 2008. While direct deposits increased by 10 % over year-end 2007, valuation adjustments to market prices for assets under management and for assets under custody led to a decline of 8.5 %. Total financial assets in Private Banking were only 2.8 % lower than at the end of 2007.

In Asset Management, **Pioneer Investments Austria (PIA)** slightly increased its market share in Austria (by 0.53 percentage points to 15.76 %). However, the entire mutual fund industry experienced net outflows and was affected by the adverse development of market prices for underlying instruments. The fund volume of PIA totalled € 21.7 bn at the end of June 2008 (down by 7.6 % from year-end 2007). Global Emerging Markets Garantie, PIA – BRIC Afrika and PIA – Austria Garantie were major placement successes in the first six months of 2008. Investors are showing renewed interest, at the moment in less complex products to which they can relate more easily. In this context, the Lipper Fund Awards 2008, which attract great attention in the fund management industry, are of major significance: Pioneer Funds European Potential was awarded best fund in the category “Equity Europe Small and Mid Caps”, 3 years. Pioneer Funds Austria – Telemedia Stock was named best fund in the category “Equity Sector Technology, Media and Telecommunications”, 5 years.

The income statement of the PB&AM business segment for the first six months of 2008 shows a 15 % decline in operating income and almost unchanged operating expenses (+ 1 %). Net income from investments was € 6.6 m after € 0.1 m; the figure includes realised gains on investments. PB&AM generated a **profit before tax** of € 37 m, return on equity before tax was 38.8 % (H1 2007: 43.6 %). Given the large proportion of fee-based business and advisory services – which keeps capital allocation at a low level – in this area, the return beyond the cost of capital (RARORAC) is far above average, at 21 %.

## Corporates

(€ m)					
	H1 08	H1 07	CHANGE		WITHOUT LEASING <sup>*)</sup>
Net interest income	317	316	1	0 %	15 %
Net non-interest income	153	245	-92	-37 %	-19 %
Operating income	470	561	-91	-16 %	1 %
Operating expenses	-130	-208	78	-37 %	0 %
Operating profit	340	354	-13	-4 %	1 %
Net writedowns of loans	-23	-30	7	-23 %	11 %
Net income from investments	-9	0	-9	n.m.	n.m.
<b>Profit before tax</b>	<b>310</b>	<b>323</b>	<b>-13</b>	<b>-4 %</b>	<b>-1 %</b>
Risk-weighted assets (avg.)	33,253	31,552	1,701	5 %	
Average equity	2,437	2,332	106	5 %	
Cost/ income ratio	27.6 %	37.0 %			
Risk/ earnings ratio	7.3 %	9.5 %			
ROE before tax	25.4 %	27.7 %			

<sup>\*)</sup> Without leasing business in H2 2007 (consolidated) and H1 2008 (at equity, funded)

In a challenging operating environment, the Corporates Division achieved significantly improved results compared with the weaker second half of 2007, returning to the high level of performance in the first six months of the previous year. Developments in the first half of 2008 differed from the pattern seen in previous years because of conditions in financial markets and customers' reaction to this unusual situation. Growth was driven by classic on-balance sheet business, reflected in very strong net interest income. On the other hand, securities and derivatives business – those areas in which Bank Austria was particularly successful in recent years – impacted net fees and commissions in almost equal measure. While economic growth in Austria was still generally robust, corporate banking business moved sideways.

When comparing results with the same period of the previous year, one should note a **structural change**: BA-CA Leasing was reflected in results for the first half of 2007 as a consolidated company; since the third quarter of 2007, the income statement – in “other income from equity investments”, a sub-item of net interest income – has included an interest of about 33 % in the results of UniCredit Global Leasing S.p.A., the European market leader, to which Bank Austria's leasing business was transferred. This means that income and expense items in H1 2008 and H1 2007 are not directly comparable, but the effect of this change on results is less significant (rates of change are also indicated without leasing business, see the table above).

**Profit before tax** for the first half of 2008 was € 310 m, down by € 13 m or 4 % from the figure for the same period of the previous year. Adjusted for the leasing effect (pro-forma deconsolidation in both periods) profit before tax more or less matched the strong performance of the previous year (– 1 %) and **operating income** increased slightly, by 1 %. The performance of the Corporates Division in the first half of 2008 was mainly supported by the fact that the decline in net fees and commissions, which was due to market conditions, was offset by a strong increase in the other income components achieved in a highly competitive environment.

**Net interest income** (without the leasing effect) rose by € 38 m or 15 %. On an unadjusted basis, it remained more or less unchanged at € 317 m; one should note in this context that, while leasing business continues to make good progress in 2008, the income statement reflects the share of profit but not the individual components. Lending business (medium-term and long-term loans) accounted for most of the increase in net interest income as volume rose by almost 10 % and overall spreads remained stable. Strong contributions came from the customer segments International Corporates and Real Estate, and also from small and medium-sized companies. The Financial Institutions profit centre generated significant volume growth. Deposits taken by the Corporates Division increased by 24 %, with most of this increase relating to time deposits from corporate customers of all size categories. All customer groups except Real Estate contributed to this growth. The strong increase was partly offset by lower interest rate spreads. This reflects the currently strong liquidity position in the corporate sector while also indicating the wait-and-see attitude towards long-term financial and capital investments, a trend which is intensified by the attractive levels to which interest rates have risen, at the expense of securities business.

**Net fees and commissions** were € 155 m, down by € 35 m or 19 % from the (adjusted) figure for same period of the previous year because of the unusual market situation. (If leasing business is included in the comparative figure for the first half of 2007, net fees and commissions declined by 25 %). All of the decrease in revenues results from securities business and commercial derivatives, which were consciously avoided by all customer groups (except International Corporates) in new business either because they believed that this was not the right time for investments or own issues or as a result of uncertainty over complex products. Another factor that had an impact on net fees and commissions was the placement of loans (securitisation and hedging) which reduced net interest income while also leading to commission expenses – in return for an improvement in credit quality.

**Costs** in the Corporates Division have shown a pronounced downward trend over the past quarters. Operating expenses in the first half of 2008 were € 130 m, down by 37 % compared with the H1 2007 figure. All of the decline was due to the leasing effect: BA-CA Leasing GmbH had about 1,400 employees. Without leasing business, costs in the first half of 2008 matched the figure for the same period of the previous year and the cost/income ratio was 29.0% (the cost/income ratio as reported was lower, at 27.6 %, because income from the shareholding interest in UniCredit Global Leasing was included in the calculation while costs remained unchanged). It should be noted that the Corporates Division has not yet made full use of adjustments to staffing numbers, which increased in connection with the regional business initiatives in Western Austria. At any rate, non-staff expenses declined strongly.

**Net writedowns of loans and provisions for guarantees and commitments** in the first half of 2008 were € 23 m. This translates into a risk/earnings ratio of 7.9 % (including income from the investment in the leasing company, which increases net interest income: 7.3 %). This means that the provisioning charge has remained at a very low level, despite an increase of 11 % (or € 2 m) on an adjusted basis compared with the first half of 2007. The cost of risk (provisioning charge/average banking book) is 16 basis points (adjusted figure for the first half of the previous year: 16 basis points).

The Corporates business segment generated a profit before tax of € 310 m, **return on equity** before tax was 25.4 % after 27.7 % in the first half of the previous year (without leasing business, 23.6 % after 25.1 %).

Average **risk-weighted assets** under Basel I – and thus allocated equity – remained stable despite volume expansion in customer business (RWA + 5 %). Active portfolio management via secondary market transactions and hedging contracts contributed to this development without affecting customer relationships. This lowers current income, but also reduces allocated equity in line with strategy. Although the market environment impacted net fees and commissions, RWA productivity was more or less unchanged as the bank has a strong deposit base in addition to the income it generates from lending business (against which capital is required to be held): the ratio of operating income to risk-weighted assets, at 3.08 %, was relatively high for corporate banking business. Efforts to enhance RWA productivity, the high level of cost efficiency and, last but not least, the currently still favourable risk situation combined to enable the Corporates Division in Austria to make an above-average contribution to value creation: marginal EVA in the first half of 2008 was about € 155 m, RARORAC (risk-adjusted return on risk-adjusted capital) was 14.5 %.

## Markets & Investment Banking (MIB)

(€ m)				
	H1 08	H1 07	CHANGE	
Net interest income	300	112	188	>100 %
Net non-interest income	-238	187	-425	n. m.
Operating income	63	299	-236	-79 %
Operating expenses	-101	-112	11	-10 %
Operating profit	-38	187	-225	n. m.
Net writedowns of loans	0	0	0	n. m.
Net income from investments	1	3	-2	-64 %
<b>Profit before tax</b>	<b>-37</b>	<b>187</b>	<b>-225</b>	<b>n. m.</b>
Risk-weighted assets (avg.)	7,121	4,484	2,637	59 %
Average equity	4,341	428	3,913	>100 %
Cost/income ratio	n. m.	37.5 %		
ROE before tax	n. m.	87.5 %		

Since the sub-prime crisis started in August 2007, the market for securitised credit instruments has seen a downward spiral of self-reinforcing valuation losses. In the past year the crisis came in several waves, spreading to a growing number of segments of the credit market. In the first three waves – in August/September 2007, followed by a weaker and shorter wave in November/December 2007 and the strongest in February/March 2008 – securitised credit instruments of all types were affected by a dramatic loss in value, which required substantial writedowns on the portfolios held by banks and investors with large exposures, especially in the third quarter of 2007 and in the first quarter of 2008. Successful measures were taken to rescue floundering investment banks and the US Federal Reserve provided liquidity support. This led to a recovery starting in April/May 2008, which led to hopes that the worst was over.

However, in the second half of June, the crisis again came to a head, triggered by the US housing market where the crisis had originated. Varying reports on this crisis, which has overshadowed the markets for one year now, increasingly affected other segments of the financial markets and the banking sector. The result was a global reassessment of all credit risks. Tighter credit standards and rising commodity prices led to changes in consumer behaviour, with an adverse direct impact on the corporate sector. As a consequence, primary market activities were significantly down and investors adopted a wait-and-see attitude. These reactions determined the environment for current activities in capital markets, which means that the indirect repercussions of the crisis have again directly affected the financial sector.

The Markets & Investment Banking (MIB) business segment of Bank Austria was affected by the credit market crisis via two channels: firstly, through the valuation result of trading positions (fair value adjustments in line with the marking-to-market principle) mainly in Structured Credit, which is fully recognised in the net trading, hedging and fair value result in line with UniCredit Group policy; secondly, via the economic impact of the sharp decline in global stock markets and the virtual absence of primary market transactions in the equity sector and – though less pronounced – in the bond segment; customers postponed numerous planned projects also in the investment banking sector.

In this challenging environment, the MIB Division achieved a noteworthy **turnaround** in the course of 2008: operating income turned from a negative figure of € 45 m in the first three months to **plus € 108 m** in the second quarter of 2008. And results turned from a loss before tax of € 96 m to a **profit before tax of € 58 m**. This swing from loss to profit was due to a record level of net interest income in the second quarter of 2008, which more than offset the negative impact that is still, though in a weaker form, emanating from marking-to-market adjustments and again led to a negative net trading, hedging and fair value result (see chart).

In the **Markets** area, almost all of the direct impact of the credit market crisis is absorbed by the units involved in trading and investments in structured credit products. The valuation of trading positions showed the strongest negative impact of € 155 m in the first quarter of 2008; the relevant amount in the second quarter of 2008 was a comparatively small double-digit figure (€ 29 m), reflecting a slightly improved market environment; taking into account current income from the portfolio, the negative effect in the second quarter was a single-digit million euro amount.

The other Markets units continued to generate healthy income, despite the fact that they were faced with a difficult market environment and although trading volume was low in some areas. While the equities sector was challenged by highly volatile conditions, the sales teams specialised in CEE markets achieved good placement successes. FIC (Fixed Income, Currencies, Commodities; mainstream markets and emerging markets) continued to perform well. Interest rate management and trading activities in EEMEA markets exceeded expectations.



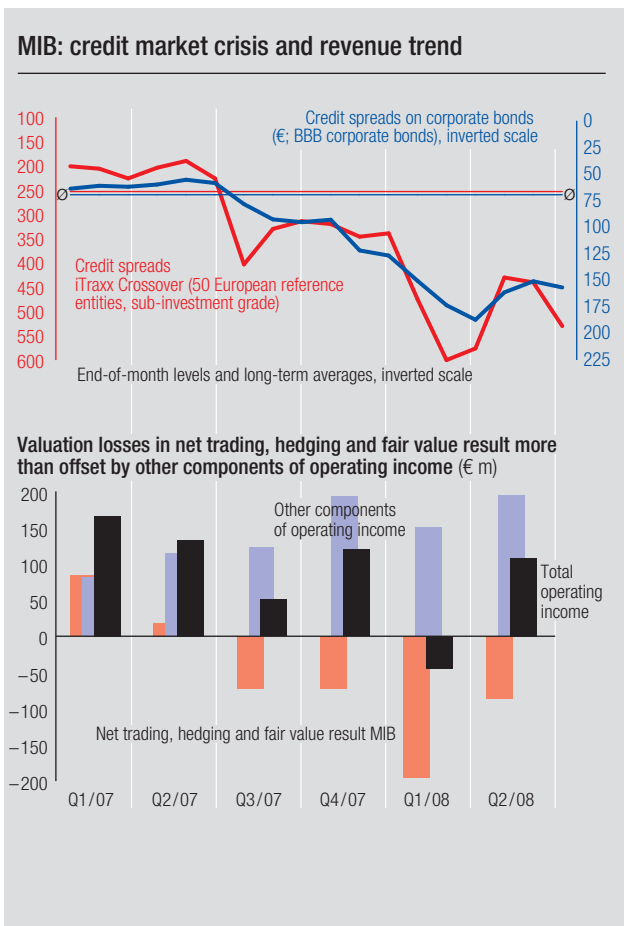
In the second quarter of 2008, **Investment Banking**, the other MIB area, was affected less by the crisis than by the general wait-and-see attitude. Based on an undisputed market leadership position, structured financing activities benefited from the favourable level of economic growth in Austria and the continued restructuring activity within Austria's business sector, and fully met expectations. In capital market transactions there was very slow progress in the equities sector on account of the difficult market conditions, while the performance of Debt Capital Markets (DCM) was somewhat better. This sector recorded market share gains mostly in the euro area in customer business with corporates, local government and institutional customers. M&A business fell somewhat short of expectations; however, the transaction outlook for the second half of 2008 suggests a positive development.

In **Principal Investments**, a business area in which investments in alternative asset categories have been bundled, the performance of hedge fund investments impacted results, while Private Equity Investments developed favourably.

Among the other MIB activities, **Corporate Treasury Sales** delivered a good performance as in previous periods; the unit handles current Austrian customer business in the areas of currency risk and interest rate risk management in cooperation with the Corporates Division and holds an undisputed market position in this area.

→ Overall, results for the **first half of 2008** reflect the strong impact of the negative valuation result recorded in the first quarter. Operating income totalled € 63 m, down by 79 % from the figure for the first half of 2007, a period which saw a very strong performance. Net interest income was € 300 m, over two and a half times the figure for the same period of the previous year (€ 112 m). Net fees and commissions declined strongly, to € 46 m, reflecting the low levels of activity in advisory business. Together, these two items more than offset the negative net trading, hedging and fair value result (a net loss of € 282 m after net income of € 103 m). Costs declined by 10 % in the first half of 2008; in addition to cost savings relating to staff and non-staff expenses, this improvement was also due to lower provisions for profit-sharing. Despite the turnaround achieved in the first half of 2008, MIB still showed a loss before tax (– € 37 m after a profit before tax of € 187 m for the same period of the previous year).

On the basis of the increase in risk-weighted assets (up by 59 % due to general business expansion), the inclusion of ATON Group and the legal restructuring activities in the MIB Division as described in previous reports, more specifically the bundling of various units within UniCredit CAIB AG, allocated **equity** rose to € 4.3 bn (compared with € 428 m in the previous year).



## Central Eastern Europe (CEE)

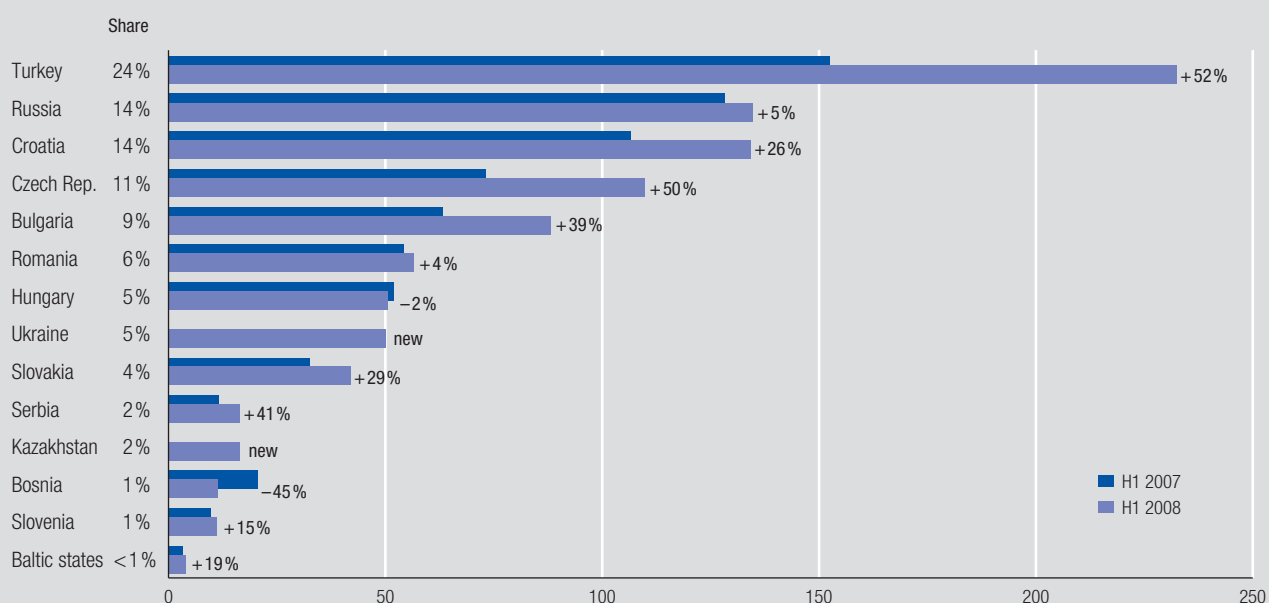
(€ m)	H1 08	H1 07	CHANGE	ADJ. <sup>*)</sup>
Net interest income	1,434	983	452 46 %	26 %
Net non-interest income	710	585	125 21 %	7 %
Operating income	2,145	1,568	577 37 %	19 %
Operating expenses	-1,057	-787	-270 34 %	18 %
Operating profit	1,088	782	306 39 %	20 %
Net writedowns of loans	-199	-69	-130 >100 %	66 %
Net income from investments	57	3	54 >100 %	>100 %
<b>Profit before tax</b>	<b>926</b>	<b>679</b>	<b>247 36 %</b>	<b>26 %</b>
Risk-weighted assets (avg.)	63,753	42,474	21,279 50 %	26 %
Average equity	8,805	6,751	2,054 30 %	...
Cost/income ratio	49.3 %	50.2 %		49.7 %
Risk/earnings ratio	13.9 %	7.0 %		9.3 %
ROE before tax	21.0 %	20.1 %		...

<sup>\*)</sup> H1 08 without ATF and Ukrasotsbank

The banking subsidiaries in CEE, for which Bank Austria acts as holding company, fulfilled their role in the first six months of 2008 as a source of growth and revenue. The countries in Bank Austria's perimeter of operations achieved economic growth of 7 % in the first

quarter of 2008 and almost 6 % in the second quarter, about two and a half times the momentum in Western Europe. The banking sector continues to experience buoyant growth despite the adverse developments impacting a number of CEE countries following the global reassessment of risks. The economies however differ significantly in regard to their industrial sector's international exposure; the economic structure shows that the prominence of economic sectors varies widely from country to country. Other important factors are the size and degree of autonomy, convergence with the EU, the exchange rate regime etc. This results in different growth potential levels for the banking sector, quite apart from the diverse market positions held by the UniCredit subsidiaries. These considerations are reflected in the development and performance of Bank Austria's banking subsidiaries in CEE. For this reason they are classified in the following country groups: Central Europe (Slovakia, Slovenia, Czech Republic and Hungary; Poland is a separate UniCredit Division), the Baltic states and South-East Europe (SEE: Bosnia and Herzegovina, Bulgaria, Romania, Croatia, Serbia) and "Broader Europe" (Russia, Turkey). The last group includes Kazakhstan and Ukraine – countries with abundant raw materials which have a bright long-term outlook. With our most recent acquisitions, ATF Bank in Kazakhstan and Ukrasotsbank in Ukraine, we have strengthened our basis for sustained growth in the longer term and further diversified our business portfolio.

## Profit before tax of CEE banking subsidiaries (€ m)



**Profit before tax** for the first half of 2008 was € 926 m, up by 36 % on the same period of the previous year and accounting for 71 % of Bank Austria's overall results (although it should be noted that the negative net trading, hedging and fair value result in MIB currently makes this proportion larger than it would normally be). In absolute terms, the increase of € 247 m in profit before tax is evenly spread over the various country groups. Over one third comes from "Broader Europe". The Central European CEE countries and the SEE country group each contributed about one-fifth to the increase, with growth rates of 28 % and 19 %, respectively. The profit contribution from our subsidiaries in Kazakhstan and Ukraine, included in CEE results for the first time, accounted for 27 % of profit growth; based on the old perimeter, profit before tax improved by 26 %.

**Operating income** totalled € 2,145 m, an increase of 37 % over the first six months of the previous year; in the old perimeter, the figure rose by 19 %. As in the Austrian business segments, **net interest income** in CEE made significantly stronger progress than net fees and commissions, which reflected the current market weakness in securities business and new issue activities. Net interest income grew by 46 % in the first half of 2008 (old perimeter: 26 %), mainly supported by general business expansion. Our CEE banking subsidiaries continued to achieve strong **volume growth**, with average risk-weighted assets rising by 50 %. If the two newly added banks are not included in the calculation, organic growth reached 26 %; net interest income grew at the same rate. Net fees and commissions were 25 % (old perimeter: 13 %) higher than in the previous year. The various country groups experienced different trends. While securities business and new issue activities in the "Broader Europe" region rose more strongly than net interest income, reflecting more favourable developments in local stock markets and strategic corporate investments, growth in the other country groups was modest. But quite generally, commercial services such as cash management and loan commissions developed well. In CEE, the **net trading, hedging and fair value result** for the first six months of 2008 was positive (€ 110 m after € 94 m), with all of the increase over the previous year resulting from the consolidation effect (ATF and Ukrasbank: € 26 m). As capital markets in CEE did not escape the repercussions of the global credit market crisis, risk premiums demanded by international investors on securities in the high-yield sector rose strongly, and stock market indices shed a large proportion of the gains recorded in the past year.

**Cost growth** in the first half of 2008 compared with the same period of the previous year was somewhat slower than revenue growth, both in the new perimeter (+ 34 %) and in the old perimeter (+ 18 %) and in all country groups. As a result, the cost/income ratio improved by about one half of a percentage point on both definitions; at 49.7 %

(old) and 49.3 % (new), respectively, it was significantly lower than the average for the bank as a whole (58.3 %). This is to be seen against the background of our ongoing **branch network expansion programme**, investments aimed at unlocking further cross-regional synergies, and the rebranding process. Our network expansion programme provides for about 1,200 new branches to be opened in the current Three-Year Plan period. In the first half of 2008, we opened 223 new branches and are on track to meet the target. With 157 new branches in Broader Europe, followed by Romania (36 new branches), the focus was on high-growth markets. The network in Hungary was also expanded by 12 branches to strengthen retail banking activities. Most recently, the CEE network comprised 2,623 branches.

**Net writedowns of loans and provisions for guarantees and commitments** in the first half of 2008 was € 199 m (H1 2007: € 69 m). The inclusion of ATF/Kazakhstan accounted for € 62 m of this total and USB/Ukraine for € 23 m. It is to these initial levels that the Uni-Credit business model with its strict risk policies and processes will be applied. In the old consolidation perimeter, net writedowns of loans and provisions for guarantees and commitments were € 115 m in the first half of 2008, significantly higher than in the same period of the previous year (H1 2007: € 69 m, but reduced by one-off effects). However, the increase in the provisioning charge is in line with general expansion and the focus on retail banking and business with small and medium-sized companies. On this basis, the risk/earnings ratio is very low on all definitions: 13.9 % with Kazakhstan and Ukraine, and 9.3 % in the old perimeter. Among the various country groups, the risk/earnings ratio increases with the degree of convergence with Western Europe. In high-growth markets, with the exception of the newly added banks, strong expansion of the banking sector as a whole leads to lower ratios. This applies also to the cost of risk, i.e. the provisioning charge measured against risk-weighted assets (CEE in the old perimeter: 0.45 percentage points after 0.34 percentage points).

→ **Net profit** generated in the CEE business segment in the first half of 2008 as reported rose by 34 % to € 742 m. While RWA productivity (revenues as a percentage of risk-weighted assets) was slightly lower than in the first half of the previous year (6.73 percentage points compared with 7.38 percentage points), the underlying volume expansion of 50 % was achieved on the basis of improved capital efficiency. Average equity increased by 30 % to € 8.8 bn. Value creation beyond the cost of capital (marginal Economic Value Added) was € 392 m, up by 57 % on the previous year. RARORAC was 13.4 %.

## Opportunities and risks in the second half of 2008

### Macroeconomic outlook and risks in our core markets

► At mid-year 2008, the international environment reflects the following expectations: cyclical weakening with lower growth in the US and in the euro area; fears that the rise in commodity prices which drives inflation will have an impact on economic activity; strong volatility in money/currency/capital markets and persistent uncertainty over future developments in credit markets; and a general repricing of risk. In the second half of 2008, all these factors can have an impact on longer-term trends, which remain intact however: growth in the Far East, intensive world trade and the catching-up process in CEE supported by structural factors.

► **Austria's** economy will come very close to stagnation in the second half of 2008. Domestic demand is not expected to provide any stimulus as wage growth is absorbed by the general price increase; it is not until the end of the year that inflation will ease towards the 3% mark, reflecting the base factor and relief from food prices. On the other hand, the weakening momentum in the export-dependent industrial sector is dampening growth. The Bank Austria Purchasing Managers' Index has shown levels below the growth threshold for the past four months. Industrial companies have started to reduce the number of their employees. Uncertainties in global financial markets will continue to have an impact. In combination with a tighter monetary policy (key interest rate in the euro area raised by 25 basis points to 4.25%), this will adversely affect financing conditions for companies in Europe, with lower investment activity. In the context of the economic slowdown in a number of large European economies and especially the currently emerging unfavourable outlook for the industrial sector in Germany, Austria's largest trading partner, the growth trend for the Austrian economy is pointing downward. The strong performance in the early part of 2008 (momentum continued from the past year), economic growth is expected to average 2.3% for 2008 as a whole even if, as assumed under the basic scenario, the rest of the year will see very sluggish growth. Given the unfavourable global environment, however, there are significant downside risks. If commodity prices remain at high levels and the global crisis in financial markets turns into a credit crunch, economic growth in Austria could fall to zero in the second half of the year.

► For the **CEE countries** we expect the upward trend to continue in the rest of the year and beyond, though the growth momentum will weaken.

Consumption will continue to be supported by rising incomes of private households and by falling unemployment, but strong inflationary pres-

sure and stricter credit standards will have a dampening impact. Household budgets in the region are feeling the strain and are becoming more sensitive to disruptions, all the more so as rising standards of living have recently been financed increasingly by borrowing. Business activity will remain strong, driven by a number of infrastructure projects financed by structural funds (in EU member states) or investment and growth funds (in the former CIS countries). The outlook for investment activity is still relatively positive. While lower growth in Western Europe and rising production costs are weakening the strong export performance in CEE countries, the region remains competitive. In several key sectors, international companies may even push ahead with the integration of their production facilities in CEE locations into the production chain; this applies especially to Central Europe and partly also to SEE. The current price levels of oil and commodities continue to support the economies in the former CIS countries, while involving the risk of a sudden and sustained trend reversal.

→ On this basis, we expect economic growth in the CEE countries within the perimeter of our operations to reach 5.5% in the second half of 2008, compared with 1.3% in the euro area.

This scenario is under pressure from two sides: one is the general risk aversion, which makes external borrowing more expensive and more difficult. Countries with large current account deficits and significant external capital requirements are feeling this effect more strongly than others. As international investors take a widely differentiated approach, some countries may experience increased exchange rate volatility. Countries in which the banking sector is strongly dependent on foreign capital include the Baltic states, Ukraine, Kazakhstan and Romania. The Baltic states and, in South-East Europe, Serbia, Romania and Bulgaria are the countries with the largest financing requirement in respect of their current accounts.

The other factor to be noted here is the strong increase in inflation, which has revealed internal weaknesses previously going unnoticed in the general upward trend. The increase in food and oil prices driving inflation seems to have a particularly strong impact in CEE as primary goods have a significant weight in households' consumption basket and the situation is aggravated by homemade inflation problems (partly still inefficient markets, price liberalisation, adjustment of prices to Western levels, wage pressure and scarcity of supply in some areas). In view of the significance of foreign loans especially in countries with exchange rate arrangements, stabilisation measures via monetary policy have had a limited effect. Fighting inflation will be a major challenge also in the "Broader Europe" countries in this context.

## Institutional and organisational changes

**Squeeze-out:** The Commercial Court in Vienna (Handelsgericht Wien) entered the resolution on a squeezeout of all minority shareholders holding bearer shares that was adopted by the Annual General Meeting of Bank Austria Creditanstalt AG on 3 May 2007 in the Register of Firms on 21 May 2008. Proceedings for the review of the cash compensation are currently pending at the Commercial Court in Vienna.

**Change to the company's name:** A resolution will be adopted at the ordinary Annual General Meeting of Bank Austria Creditanstalt AG on 31 July 2008 for changing the bank's name to "UniCredit Bank Austria AG". The change will take legal effect when the new name is entered in the Register of Firms. In Austria, the bank will continue to operate under the Bank Austria brand name.

**MIB Division:** Bank Austria intends to transfer the sub-segment "Trading Activities" to UniCredit CAIB AG, in which Bank Austria holds an equity interest of 100 %, by the end of 2008.

**TSS:** The Treasury & Securities Services Department – with the exception of some areas of the Issuer Services section – will be integrated in BA-CA Administration Services GmbH on 1 July 2008.

## Bank Austria's performance in the second half of 2008

● **Bank Austria's future performance** will – to a larger extent than before – depend on the economic environment and on risks in financial markets.

In **Austrian customer business** we anticipate a moderate trend in revenues. The economic slowdown will make itself felt in on-balance sheet business in the second half of 2008. In the current stock market environment, we do not as yet see any indications that the investment jam may clear in the near future. This affects the outlook for the Retail Division and the PB&AM Division. Advisory services for companies and institutional customers enjoy better prospects as customers can no longer postpone projects that have already been delayed for a long time, and restructuring activities on a European level continue. We expect that, on the basis of sustained cost discipline, results generated by Austrian customer business can be maintained at least at the level achieved in the first six months of 2008.

The **Markets & Investment Banking** Division benefits from its widely diversified business while being impacted by the valuation result; the future development of the latter is difficult to foresee. The large proportion of customer-driven trading activities and MIB's competitiveness especially in CEE markets suggest that the positive trend in the year to date can be maintained. Moreover, investment banking activities should intensify as numerous projects postponed by customers for a long time are waiting to be implemented. Credit spreads remained at high levels in July, which means there are further risks in the credit market. There are as yet no indications that the situation may have returned to normal. However, we will, as in the first half of 2008, further reduce ABS volume as planned.

**In CEE** we are focusing on further increasing revenue through organic growth. Our branch network expansion programme is under way. In this context, strong efforts in retail banking business will help us gain market share in those segments which are strongly expanding in the structural catching-up process. Risks associated with future developments tend to be of a macroeconomic nature, but well-balanced thanks to the diversification of our business. While the strong growth in CEE banking markets will slow somewhat, we believe that we can more or less maintain the level of growth compared with the previous year.

**Within** Bank Austria and UniCredit Group, we will make more intensive use of opportunities for cross-regional organisational arrangements. Further steps towards bundling decentralised units in Markets & Investment Banking will enhance the effectiveness of our operations in Europe and benefit customer business. With our product lines, in product development of the Divisions and through streamlined organisational procedures and more intensive cross-regional cooperation in back-office activities, we will use economies of scale. This is likely to result in short-term cost advantages and improved efficiency in services for our customers.

→ We expect – unless there are further sharp declines in market prices for credit risks – that we will be able to maintain in the second half of the year the upward trend in our operating performance which we achieved in the first six months.



# Income statement of the Bank Austria Group

## for the first six months of 2008

(€ m)					
		1 JAN. – 30 JUNE 2008	1 JAN. – 30 JUNE 2007	CHANGE	
	(Notes)			€ M	IN %
Net interest	(4)	2,183	1,735	448	25.8
Dividend income	(5)	41	42	-1	-3.0
Other income from equity investments	(5)	85	61	24	39.0
<b>Net interest income</b>		<b>2,309</b>	<b>1,838</b>	<b>470</b>	<b>25.6</b>
Net fees and commissions	(6)	1,037	1,054	-18	-1.7
Net trading, hedging and fair value loss/income	(7)	-198	224	-422	-
Net other expenses/income	(8)	96	124	-29	-22.9
<b>Net non-interest income</b>		<b>935</b>	<b>1,403</b>	<b>-468</b>	<b>-33.3</b>
<b>OPERATING INCOME</b>		<b>3,244</b>	<b>3,241</b>	<b>2</b>	<b>0.1</b>
Payroll costs	(9)	-1,102	-852	-250	29.3
Other administrative expenses	(10)	-644	-589	-55	9.3
Recovery of expenses		2	1	1	96.2
Amortisation, depreciation and impairment losses on tangible and intangible assets		-147	-144	-4	2.7
<b>OPERATING EXPENSES</b>		<b>-1,891</b>	<b>-1,584</b>	<b>-308</b>	<b>19.4</b>
<b>OPERATING PROFIT</b>		<b>1,352</b>	<b>1,657</b>	<b>-305</b>	<b>-18.4</b>
Goodwill impairment		-	-	-	-
Provisions for risks and charges	(11)	-12	-47	35	-74.9
Restructuring costs		2	-8	9	-
Net writedowns of loans and provisions for guarantees and commitments	(12)	-329	-208	-121	58.4
Net income from investments	(13)	291	132	158	>100
<b>PROFIT BEFORE TAX</b>		<b>1,304</b>	<b>1,528</b>	<b>-223</b>	<b>-14.6</b>
Income tax		-186	-259	73	-28.1
<b>NET PROFIT</b>		<b>1,118</b>	<b>1,269</b>	<b>-151</b>	<b>-11.9</b>
Minority interests		-56	-60	4	-6.6
<b>CONSOLIDATED PROFIT</b>		<b>1,062</b>	<b>1,208</b>	<b>-147</b>	<b>-12.1</b>

### Key figures

	1 JAN. – 30 JUNE 2008	1 JAN. – 30 JUNE 2007
Earnings per share (in €, basic and diluted)	5.25	6.58
ROE before tax	17.2%	22.6%
ROE after tax	14.7%	18.7%
Cost/income ratio	58.3%	48.9%
Risk/earnings ratio	14.2%	11.3%

# Income statement of the Bank Austria Group

by quarter

	(€ m)				
	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Net interest	1,107	1,075	1,015	903	883
Dividend income	30	11	17	64	33
Other income from equity investments	46	39	47	52	32
<b>Net interest income</b>	<b>1,183</b>	<b>1,125</b>	<b>1,079</b>	<b>1,019</b>	<b>948</b>
Net fees and commissions	518	519	550	520	537
Net trading, hedging and fair value loss/income	-55	-143	-39	-44	63
Net other expenses/income	54	42	42	47	75
<b>Net non-interest income</b>	<b>517</b>	<b>418</b>	<b>553</b>	<b>522</b>	<b>675</b>
<b>OPERATING INCOME</b>	<b>1,700</b>	<b>1,543</b>	<b>1,632</b>	<b>1,541</b>	<b>1,624</b>
Payroll costs	-551	-551	-505	-479	-350
Other administrative expenses	-327	-316	-370	-284	-314
Recovery of expenses	2	-	1	1	1
Amortisation, depreciation and impairment losses on tangible and intangible assets	-75	-73	-67	-60	-72
<b>OPERATING EXPENSES</b>	<b>-951</b>	<b>-941</b>	<b>-941</b>	<b>-821</b>	<b>-735</b>
<b>OPERATING PROFIT</b>	<b>750</b>	<b>603</b>	<b>691</b>	<b>720</b>	<b>889</b>
Goodwill impairment	-	-	-	-	-
Provisions for risks and charges	-5	-7	-34	5	-29
Restructuring costs	6	-5	-13	-12	-5
Net writedowns of loans and provisions for guarantees and commitments	-156	-173	-128	-148	-90
Net income from investments	190	101	49	87	74
<b>PROFIT BEFORE TAX</b>	<b>785</b>	<b>520</b>	<b>565</b>	<b>652</b>	<b>840</b>
Income tax	-101	-86	-34	-88	-134
<b>NET PROFIT</b>	<b>684</b>	<b>434</b>	<b>531</b>	<b>564</b>	<b>705</b>
Minority interests	-33	-24	-24	-21	-32
<b>CONSOLIDATED PROFIT</b>	<b>651</b>	<b>410</b>	<b>507</b>	<b>543</b>	<b>674</b>

## Key figures

	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Earnings per share (in €, basic and diluted)	3.22	2.03	2.51	2.69	3.34
ROE before tax	20.4%	13.9%	15.5%	18.6%	24.4%
ROE after tax	17.7%	11.5%	14.5%	16.2%	20.6%
Cost/income ratio	55.9%	60.9%	57.7%	53.3%	45.3%
Risk/earnings ratio	13.2%	15.4%	11.8%	14.5%	9.5%

# Balance sheet of the Bank Austria Group

## at 30 June 2008

					(€ m)	
Assets	(Notes)	30 JUNE 2008	31 DEC. 2007	CHANGE		
				€ M	IN %	
Cash and cash balances		2,003	2,967	-964	-32.5	
Financial assets held for trading	(14)	19,524	19,092	433	2.3	
Financial assets at fair value through profit or loss	(15)	837	935	-98	-10.5	
Available-for-sale financial assets	(16)	11,680	10,864	816	7.5	
Held-to-maturity investments	(17)	6,300	7,623	-1,323	-17.4	
Loans and receivables with banks	(18)	45,181	38,007	7,174	18.9	
Loans and receivables with customers	(19)	128,380	115,341	13,040	11.3	
Hedging derivatives		1,332	1,147	185	16.1	
Changes in fair value of portfolio hedged items (+/-)		-	-	-	-	
Investments in associates and joint ventures		2,263	2,281	-17	-0.8	
Property, plant and equipment	(20)	2,349	2,003	346	17.3	
Intangible assets	(21)	5,622	4,258	1,364	32.0	
<i>of which: goodwill</i>		5,255	3,886	1,370	35.3	
Tax assets		1,117	1,007	110	10.9	
a) current tax assets		177	151	25	16.6	
b) deferred tax assets		941	856	85	9.9	
Non-current assets and disposal groups classified as held for sale	(22)	541	1,727	-1,186	-68.7	
Other assets		1,501	1,918	-418	-21.8	
<b>TOTAL ASSETS</b>		<b>228,631</b>	<b>209,170</b>	<b>19,461</b>	<b>9.3</b>	
<b>Liabilities and equity</b>						
	(Notes)					
Deposits from banks	(23)	62,265	52,445	9,820	18.7	
Deposits from customers	(24)	98,612	93,203	5,409	5.8	
Debt securities in issue	(25)	30,280	26,496	3,784	14.3	
Financial liabilities held for trading	(26)	8,632	7,442	1,189	16.0	
Financial liabilities at fair value through profit or loss	(27)	1,874	2,386	-512	-21.5	
Hedging derivatives		2,145	1,638	507	31.0	
Changes in fair value of portfolio hedged items (+/-)		-	-	-	-	
Tax liabilities		537	616	-79	-12.9	
a) current tax liabilities		171	125	46	36.8	
b) deferred tax liabilities		366	492	-125	-25.5	
Liabilities included in disposal groups classified as held for sale	(29)	136	1,247	-1,111	-89.1	
Other liabilities		3,843	3,574	270	7.5	
Provisions for risks and charges	(28)	4,162	4,611	-449	-9.7	
a) post-retirement benefit obligations		3,599	4,088	-490	-12.0	
b) other provisions		563	523	41	7.8	
Insurance reserves		159	178	-19	-10.7	
Equity		15,986	15,334	653	4.3	
<i>of which: Minorities (+/-)</i>		679	658	21	3.3	
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>228,631</b>	<b>209,170</b>	<b>19,461</b>	<b>9.3</b>	

## Cash flow statement

			(€ m)	
	1 JAN. - 30 JUNE 2008	1 JAN. - 30 JUNE 2007		
<b>CASH AND CASH EQUIVALENTS AT END OF PREVIOUS PERIOD</b>	<b>2,967</b>	<b>1,584</b>		
Cash flows from operating activities	1,511	1,644		
Cash flows from investing activities	-2,280	586		
Cash flows from financing activities	-188	-917		
Effects of exchange rate changes	-7	-19		
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>2,003</b>	<b>2,878</b>		

# Statement of changes in equity of the Bank Austria Group

(€ m)									
	SUB- SCRIBED CAPITAL	CAPITAL RESERVES	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION	RESERVES IN ACCORDANCE WITH IAS 39 <sup>1)</sup>	ACTUARIAL LOSSES IN ACCORDANCE WITH IAS 19	SHARE- HOLDERS' EQUITY	MINORITY INTERESTS	EQUITY
<b>As at 1 January 2007</b>	<b>1,069</b>	<b>2,859</b>	<b>6,482</b>	<b>-73</b>	<b>347</b>	<b>-757</b>	<b>9,927</b>	<b>213</b>	<b>10,140</b>
Capital increase	400	2,463					2,863	411	3,274
Changes in the group of consolidated companies							-	-	-
Shares in controlling companies			1				1		1
Recognised income and expenses			1,208	99	104		1,411	52	1,464
Dividend paid			-588				-588		-588
Other changes		2	17				20		20
<b>AS AT 30 JUNE 2007</b>	<b>1,469</b>	<b>5,324</b>	<b>7,121</b>	<b>26</b>	<b>451</b>	<b>-757</b>	<b>13,634</b>	<b>677</b>	<b>14,310</b>
1) Reserves in accordance with IAS 39	1 Jan. 2007	30 June 2007							
Cash flow hedge reserve	-175	-178							
Available-for-sale reserve	522	629							
<b>Total</b>	<b>347</b>	<b>451</b>							
	SUB- SCRIBED CAPITAL	CAPITAL RESERVES	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION	RESERVES IN ACCORDANCE WITH IAS 39 <sup>1)</sup>	ACTUARIAL LOSSES IN ACCORDANCE WITH IAS 19	SHARE- HOLDERS' EQUITY	MINORITY INTERESTS	EQUITY
<b>As at 1 January 2008</b>	<b>1,469</b>	<b>5,323</b>	<b>8,118</b>	<b>-31</b>	<b>397</b>	<b>-600</b>	<b>14,676</b>	<b>658</b>	<b>15,334</b>
Capital increase							-	-	-
Changes in the group of consolidated companies							-	-25	-25
Shares in controlling companies							-	-	-
Recognised income and expenses			1,062	-124	-348		589	66	655
Dividend paid							-	-21	-21
Other changes		3	40				43	-	43
<b>AS AT 30 JUNE 2008</b>	<b>1,469</b>	<b>5,326</b>	<b>9,220</b>	<b>-155</b>	<b>49</b>	<b>-600</b>	<b>15,308</b>	<b>679</b>	<b>15,986</b>
1) Reserves in accordance with IAS 39	1 Jan. 2008	30 June 2008							
Cash flow hedge reserve	-119	-233							
Available-for-sale reserve	516	282							
<b>Total</b>	<b>397</b>	<b>49</b>							

## Statement of recognised income and expenses

(€ m)		
	2008	2007
Gains/losses on assets held for sale (available-for-sale reserve)	-291	132
Gains/losses on cash flow hedges (cash flow hedge reserve)	-157	-5
Changes at companies accounted for under the equity method	-12	11
Foreign currency translation – exchange differences	-119	98
Foreign currency translation relating to assets held for sale	-	-
Actuarial losses on defined-benefit plans	-	-
Taxes on items directly recognised in equity	116	-41
<b>Recognised directly in equity</b>	<b>-464</b>	<b>194</b>
<b>Net profit</b>	<b>1,118</b>	<b>1,269</b>
<b>TOTAL OF INCOME AND EXPENSES RECOGNISED IN THE REPORTING PERIOD</b>	<b>655</b>	<b>1,464</b>
Shareholders' equity	589	1,411
Minority interests	66	52

# Notes to the Consolidated Financial Statements of the Bank Austria Group

## (1) Significant accounting policies

The interim report of the Bank Austria Group has been prepared in accordance with International Financial Reporting Standards (IFRSs). IAS 34 was applied to the interim report. The interim report covers the first six months of 2008 (1 January 2008 to 30 June 2008) and compares this period with the same period of the previous year.

In January 2008, the IASB published a reviewed IFRS 3, "Business Combinations" ("IFRS 3 R"), and an amended IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27 R"). IFRS 3 R and IAS 27 R will become effective for business combinations in business years beginning on or after 1 July 2009. They may be applied for earlier periods if both Standards are applied simultaneously. The Bank Austria Group is examining the possible application from 2009.

## (2) Earnings per share

During the reporting period, no financial instruments with a dilutive effect on the bearer shares were outstanding. Therefore basic earnings per share in accordance with IAS 33 equal diluted earnings per share in accordance with IAS 33. Based on the average number of shares outstanding, earnings per share for the first six months of 2008 were € 5.25 (comparative figure for the same period of the previous year: € 6.58).

## (3) Changes in the group of consolidated companies in 2008

The following subsidiaries were included in the group of consolidated companies as from 1 January 2008:

- Factorbank AG
- HYPERION Immobilienvermietungsgesellschaft m. b. H.
- Teledata Consulting und Systemmanagement Gesellschaft m. b. H.
- Treuconsult Beteiligungsgesellschaft m. b. H.
- Informations Technologie Austria GmbH (accounted for under the proportionate consolidation method)

On 25 June 2007, the Management Board of BA-CA AG ("Bank Austria") approved the acquisition of Joint Stock Commercial Bank for Social Development Ukrsofsbank, Kiev, Ukraine, (Ukrsofsbank). On 21 January 2008, the bank acquired a 94.20% shareholding interest for € 1,526.9 m. A shareholding interest of 8.05% with a book value of € 131.7 m was acquired directly by Bank Austria, and 86.15% with a book value of € 1,395.2 m was acquired indirectly through Private Joint Stock Company "Ferrotrade International" (a wholly-owned subsidiary of Bank Austria), which has its headquarters in Kiev. The two companies have been included in the group of consolidated companies of the Bank Austria Group as from 1 January 2008. The preliminary goodwill resulting from the transaction is € 1,167.7 m.

Two of Bank Austria's Bosnian banking subsidiaries, HVB Central Profit Banka and UniCredit Zagrebačka banka, were integrated to form the new UniCredit Bank d. d. on 1 March 2008.

In March 2008, our equity interest in the Czech banking subsidiary Hypo Stavebni Sporitelna was sold for CZK 1.2 bn.

In the course of the new corporate branding process, the subsidiary International Moscow Bank (IMB) was renamed UniCredit Bank in the first quarter of 2008; it is now operating under the name of ZAO UniCredit Bank.

The following subsidiaries were included in the group of consolidated companies as from 1 April 2008:

- Artist Marketing GmbH
- MY Beteiligungs GmbH
- MC Marketing GmbH
- MC Retail GmbH

The Bosnian banking subsidiary Nova banjalučka banka was renamed UniCredit Bank a. d. Banjaluka in June 2008.



## Notes to the income statement

### (4) Net interest

	(€ m)	
	1 JAN. – 30 JUNE 2008	1 JAN. – 30 JUNE 2007
<b>Interest income</b>	<b>6,019</b>	<b>4,883</b>
Financial assets held for trading	269	270
Financial assets designated at fair value through profit or loss	23	7
Available-for-sale financial instruments	234	198
Held-to-maturity investments	263	343
Loans and receivables with banks	903	988
Loans and receivables with customers	4,246	2,870
Hedging derivatives	72	190
Other assets	9	17
<b>Interest expense</b>	<b>-3,836</b>	<b>-3,148</b>
Deposits from banks	-1,199	-1,179
Deposits from customers	-1,895	-1,368
Debt securities in issue	-674	-533
Financial liabilities held for trading	-39	-19
Financial liabilities designated at fair value through profit or loss	-18	-20
Other liabilities	-9	-6
Hedging derivatives	-2	-24
<b>TOTAL</b>	<b>2,183</b>	<b>1,735</b>

### (5) Dividends and other income from equity investments

	(€ m)	
	1 JAN. – 30 JUNE 2008	1 JAN. – 30 JUNE 2007
<b>Income from dividends</b>	<b>41</b>	<b>42</b>
Investments	9	7
Available-for-sale financial assets	24	26
Financial assets designated at fair value through profit or loss	8	9
<b>Income from investments valued at equity</b>	<b>85</b>	<b>61</b>
<b>TOTAL</b>	<b>126</b>	<b>103</b>

# Notes (CONTINUED)

## Notes to the income statement (CONTINUED)

### (6) Net fees and commissions

<b>Fee and commission income/expense</b>		<b>(€ m)</b>	
	1 JAN. – 30 JUNE 2008	1 JAN. – 30 JUNE 2007	
<b>Fee and commission income</b>	<b>1,275</b>	<b>1,267</b>	
Management, brokerage and consultancy services	410	441	
Collection and payment services	473	420	
Other services	392	407	
<b>Fee and commission expense</b>	<b>–238</b>	<b>–212</b>	
Management, brokerage and consultancy services	–71	–54	
Collection and payment services	–96	–91	
Other services	–71	–67	
<b>TOTAL</b>	<b>1,037</b>	<b>1,054</b>	

<b>Net fees and commissions</b>		<b>(€ m)</b>	
	1 JAN. – 30 JUNE 2008	1 JAN. – 30 JUNE 2007	
Management, brokerage and consultancy services	339	386	
Collection and payment services	376	329	
Other services	321	340	
<b>TOTAL</b>	<b>1,037</b>	<b>1,054</b>	

### (7) Net trading, hedging and fair value loss/income

		<b>(€ m)</b>	
	1 JAN. – 30 JUNE 2008	1 JAN. – 30 JUNE 2007	
<b>Financial assets held for trading</b>	<b>–118</b>	<b>97</b>	
Debt securities	–274	–26	
Equity instruments	115	59	
Units in investment funds	–14	50	
Loans	–	–	
Other	55	14	
<b>Financial liabilities held for trading</b>	<b>–</b>	<b>–11</b>	
Deposits	–1	–	
Other	1	–11	
<b>Other financial investments</b>	<b>–4</b>	<b>–54</b>	
<b>Derivatives</b>	<b>–48</b>	<b>181</b>	
Financial derivatives	–79	178	
Credit derivatives	31	3	
<b>Trading income from assets and liabilities designated at fair value through profit or loss</b>	<b>–29</b>	<b>9</b>	
<b>Dividends from trading assets</b>	<b>2</b>	<b>2</b>	
<b>TOTAL</b>	<b>–198</b>	<b>224</b>	

## (8) Net other expenses/income

	(€ m)	
	1 JAN.– 30 JUNE 2008	1 JAN.– 30 JUNE 2007
Other income	176	183
Other expenses	-81	-59
<b>TOTAL</b>	<b>96</b>	<b>124</b>

## (9) Payroll costs

	(€ m)	
	1 JAN.– 30 JUNE 2008	1 JAN.– 30 JUNE 2007
<b>Employees</b>	<b>-1,069</b>	<b>-830</b>
Wages and salaries	-737	-688
Social charges	-153	-133
Severance pay	-6	-2
Social security costs	-28	-27
Allocation to employee severance pay provision	-12	-11
Provision for retirement payments and similar provisions	-97	53
Payments to external pension funds	-16	-12
Costs related to share-based payments	-3	-1
Other employee benefits	-42	-28
Recovery of compensation	25	19
<b>Others</b>	<b>-34</b>	<b>-23</b>
<b>TOTAL</b>	<b>-1,102</b>	<b>-852</b>

## (10) Other administrative expenses

	(€ m)	
	1 JAN.– 30 JUNE 2008	1 JAN.– 30 JUNE 2007
<b>Indirect taxes and duties</b>	<b>-18</b>	<b>-12</b>
<b>Miscellaneous costs and expenses</b>	<b>-626</b>	<b>-577</b>
Fees paid to external professionals	-30	-44
Insurance	-18	-9
Advertising	-83	-78
Premises surveillance and cash transportation	-21	-13
Supply and miscellaneous services rendered by third parties	-118	-131
Property related expense	-134	-117
Maintenance and lease rentals for plant and equipment	-41	-29
Postage, telephone, printed materials and other office expenses	-75	-68
Hire charges and other expenses	-28	-24
Other costs	-78	-63
<b>TOTAL</b>	<b>-644</b>	<b>-589</b>

# Notes (CONTINUED)

## Notes to the income statement (CONTINUED)

### (11) Provisions for risks and charges

	(€ m)	
	1 JAN. – 30 JUNE 2008	1 JAN. – 30 JUNE 2007
<b>Increase</b>	-36	-55
Legal disputes	-2	-18
Reserves for advisory services	-34	-37
<b>Decrease</b>	24	8
Legal disputes	14	3
Reserves for advisory services	10	6
<b>TOTAL</b>	-12	-47
<b>Net provisions</b>		
Legal disputes	12	-15
Reserves for advisory services	-23	-32
<b>TOTAL</b>	-12	-47

### (12) Net writedowns of loans and provisions for guarantees and commitments

	(€ m)	
	1 JAN. – 30 JUNE 2008	1 JAN. – 30 JUNE 2007
<b>Impairment losses on loans and receivables</b>	-326	-213
<b>Loans and receivables with banks</b>	-	4
writedowns	-	-
writebacks	-	4
payments received for written-off loans	-	-
<b>Loans and receivables with customers</b>	-326	-217
writedowns	-551	-420
writebacks	204	203
payments received for written-off loans	21	-
<b>Impairment losses on other transactions</b>	-3	5
<b>TOTAL</b>	-329	-208

### (13) Net income from investments

	(€ m)	
	1 JAN. – 30 JUNE 2008	1 JAN. – 30 JUNE 2007
Income	346	209
Expense	-56	-77
<b>NET INCOME FROM INVESTMENTS</b>	291	132

## Notes to the balance sheet

### (14) Financial assets held for trading

	30 JUNE 2008			31 DEC. 2007
	LISTED	UNLISTED	TOTAL	TOTAL
	(€ m)			
<b>Financial assets (non-derivatives)</b>	<b>7,715</b>	<b>3,079</b>	<b>10,794</b>	<b>11,491</b>
Debt securities	7,506	1,090	8,596	10,416
Equity instruments	182	425	607	808
Units in investment funds	9	40	48	42
Loans	–	1,524	1,524	214
Impaired assets	20	–	20	10
Assets sold but not derecognised	–	–	–	–
<b>Positive fair values of derivative financial instruments</b>	<b>5</b>	<b>8,725</b>	<b>8,730</b>	<b>7,601</b>
Financial derivatives	5	8,442	8,447	7,489
Credit derivatives	–	284	284	112
<b>TOTAL</b>	<b>7,720</b>	<b>11,804</b>	<b>19,524</b>	<b>19,092</b>

### (15) Financial assets at fair value through profit or loss

	30 JUNE 2008			31 DEC. 2007
	LISTED	UNLISTED	TOTAL	TOTAL
	(€ m)			
Debt securities	438	49	487	577
Equity instruments	8	19	28	31
Units in investment funds	–	304	305	306
Loans	–	18	18	20
<b>TOTAL</b>	<b>446</b>	<b>391</b>	<b>837</b>	<b>935</b>

In the first six months of 2008, the negative effect in the Bank Austria Group's income statement from financial assets at fair value through profit or loss was € 15.2 m.

### (16) Available-for-sale financial assets

	30 JUNE 2008			31 DEC. 2007
	LISTED	UNLISTED	TOTAL	TOTAL
	(€ m)			
Debt securities	5,865	2,728	8,594	7,521
Equity instruments	59	1,836	1,895	2,185
Units in investment funds	26	1,165	1,191	1,159
<b>TOTAL</b>	<b>5,951</b>	<b>5,729</b>	<b>11,680</b>	<b>10,864</b>



# Notes (CONTINUED)

## Notes to the balance sheet (CONTINUED)

### (17) Held-to-maturity investments

	(€ m)	
	30 JUNE 2008	31 DEC. 2007
<b>Debt securities</b>		
Structured securities	46	70
Other securities	6,254	7,553
<b>TOTAL</b>	<b>6,300</b>	<b>7,623</b>

### (18) Loans and receivables with banks

	(€ m)	
	30 JUNE 2008	31 DEC. 2007
<b>Loans to central banks</b>	<b>6,077</b>	<b>5,365</b>
Time deposits	876	289
Compulsory reserves	3,956	3,573
Repos	892	1,120
Other	353	382
<b>Loans to banks</b>	<b>39,103</b>	<b>32,642</b>
Current accounts and demand deposits	9,488	7,527
Time deposits	11,561	11,689
Other loans	18,025	13,397
Debt securities	–	–
Impaired assets	29	28
<b>TOTAL</b>	<b>45,181</b>	<b>38,007</b>
Loan loss provisions deducted from loans and receivables	33	33

### (19) Loans and receivables with customers

	(€ m)	
	30 JUNE 2008	31 DEC. 2007
Other transactions	78,384	72,641
Current accounts	18,257	15,824
Mortgages	18,705	15,506
Credit cards and personal loans, incl. loans guaranteed by salary	10,368	8,559
Impaired assets	1,937	2,071
Finance leases	730	740
Assets sold but not derecognised	–	–
<b>TOTAL</b>	<b>128,380</b>	<b>115,341</b>
Loan loss provisions deducted from loans and receivables	3,733	3,570

## (20) Property, plant and equipment

	(€ m)	
	30 JUNE 2008	31 DEC. 2007
<b>Assets for operational use</b>	<b>2,097</b>	<b>1,751</b>
<b>Owned</b>	<b>2,034</b>	<b>1,698</b>
Land	202	185
Buildings	1,359	1,088
Equipment	154	152
Electronic systems	175	131
Other	144	142
<b>Leased</b>	<b>64</b>	<b>53</b>
Land	–	–
Buildings	56	53
Equipment	–	–
Electronic systems	7	–
Other	–	–
<b>Held-for-investment assets</b>	<b>252</b>	<b>252</b>
<b>Owned</b>	<b>252</b>	<b>252</b>
Land	197	197
Buildings	55	55
Other	–	–
<b>TOTAL</b>	<b>2,349</b>	<b>2,003</b>

## (21) Intangible assets

	(€ m)	
	30 JUNE 2008	31 DEC. 2007
<b>Goodwill</b>	<b>5,255</b>	<b>3,886</b>
<b>Other intangible assets</b>	<b>367</b>	<b>373</b>
Intangible assets generated internally	148	153
Other assets	219	220
<b>TOTAL</b>	<b>5,622</b>	<b>4,258</b>

# Notes (CONTINUED)

## Notes to the balance sheet (CONTINUED)

### (22) Non-current assets and disposal groups classified as held for sale

	(€ m)	
	30 JUNE 2008	31 DEC. 2007
<b>Individual non-current assets</b>	<b>541</b>	<b>535</b>
<b>Asset groups classified as held for sale</b>		
Financial assets held for trading	–	–
Financial assets at fair value through profit or loss	–	–
Available-for-sale financial assets	–	557
Held-to-maturity investments	–	407
Loans and receivables with banks	–	65
Loans and receivables with customers	–	95
Equity investments	–	–
Property, plant and equipment	–	3
Intangible assets	–	3
Other assets	–	62
<b>Total</b>	<b>–</b>	<b>1,192</b>
<b>TOTAL ASSETS</b>	<b>541</b>	<b>1,727</b>

### (23) Deposits from banks

	(€ m)	
	30 JUNE 2008	31 DEC. 2007
<b>Deposits from central banks</b>	<b>4,959</b>	<b>5,448</b>
<b>Deposits from banks</b>	<b>57,307</b>	<b>46,997</b>
Current accounts and demand deposits	14,719	6,933
Time deposits	23,397	21,473
Other liabilities	19,191	18,591
<b>TOTAL</b>	<b>62,265</b>	<b>52,445</b>

### (24) Deposits from customers

	(€ m)	
	30 JUNE 2008	31 DEC. 2007
Current accounts and demand deposits	40,327	34,439
Time deposits	53,053	35,323
Other liabilities	5,232	23,441
<b>TOTAL</b>	<b>98,612</b>	<b>93,203</b>

From 2008, savings deposits with fixed deposit periods have been included in time deposits.

## (25) Debt securities in issue

(€ m)			
	30 JUNE 2008	31 DEC. 2007	
<b>Listed securities</b>	<b>12,149</b>	<b>12,329</b>	
Bonds	11,745	11,923	
Other securities	403	406	
<b>Unlisted securities</b>	<b>18,132</b>	<b>14,167</b>	
Bonds	15,619	11,663	
Other securities	2,513	2,504	
<b>TOTAL</b>	<b>30,280</b>	<b>26,496</b>	

## (26) Financial liabilities held for trading

(€ m)				
	30 JUNE 2008			31 DEC. 2007
	LISTED	UNLISTED	TOTAL	TOTAL
<b>Financial liabilities</b>	<b>125</b>	<b>1,166</b>	<b>1,291</b>	<b>1,248</b>
Deposits from banks	–	772	772	1,109
Deposits from customers	110	392	501	114
Debt securities	15	3	18	25
<b>Derivatives</b>	<b>118</b>	<b>7,223</b>	<b>7,341</b>	<b>6,194</b>
Financial derivatives	118	6,998	7,115	6,120
Credit derivatives	–	225	225	74
<b>TOTAL</b>	<b>243</b>	<b>8,389</b>	<b>8,632</b>	<b>7,442</b>

## (27) Financial liabilities at fair value through profit or loss

(€ m)				
	30 JUNE 2008			31 DEC. 2007
	LISTED	UNLISTED	TOTAL	TOTAL
Deposits from banks	–	11	11	12
Deposits from customers	–	–	–	–
Debt securities	166	1,698	1,863	2,374
<b>TOTAL</b>	<b>166</b>	<b>1,709</b>	<b>1,874</b>	<b>2,386</b>

On balance, a positive change of € 97.4 m in the fair values of other debt securities totalling € 1,874 m was recognised in the income statement.

In the first six months of 2008, changes in fair values resulting from changes in our own funding costs (debt securities in issue, and financial liabilities at fair value through profit or loss) were € 20 m (2007: € 7 m).

# Notes (CONTINUED)

## Notes to the balance sheet (CONTINUED)

### (28) Provisions

	(€ m)	
	30 JUNE 2008	31 DEC. 2007
<b>Pensions and other post-retirement benefit obligations</b>	<b>3,599</b>	<b>4,088</b>
<b>Other provisions for risks and charges</b>	<b>563</b>	<b>523</b>
Legal disputes	163	181
Other	401	341
<b>TOTAL</b>	<b>4,162</b>	<b>4,611</b>

### (29) Liabilities included in disposal groups classified as held for sale

	(€ m)	
	30 JUNE 2008	31 DEC. 2007
<b>Liabilities associated with assets classified as held for sale</b>		
Deposits	–	–
Securities	–	–
Other liabilities	–	103
<b>Total</b>	<b>–</b>	<b>103</b>
<b>Liabilities included in disposal groups classified as held for sale</b>		
Deposits from banks	–	–
Deposits from customers	–	1,143
Debt securities in issue	–	–
Financial liabilities held for trading	–	–
Financial liabilities at fair value through profit or loss	–	–
Other liabilities	136	1
<b>Total</b>	<b>136</b>	<b>1,144</b>
<b>TOTAL LIABILITIES</b>	<b>136</b>	<b>1,247</b>



## Additional IFRS disclosures

### (30) Contingent liabilities and commitments

	(€ m)	
	30 JUNE 2008	31 DEC. 2007
<b>Financial guarantees given to:</b>	<b>9,061</b>	<b>8,228</b>
Banks	414	1,697
Customers	8,647	6,531
<b>Commercial guarantees given to:</b>	<b>12,643</b>	<b>12,768</b>
Banks	2,927	2,825
Customers	9,716	9,943
<b>Other irrevocable commitments</b>	<b>17,139</b>	<b>14,224</b>
<b>Credit derivatives: sales of protection</b>	<b>1,013</b>	<b>969</b>
<b>Assets used to guarantee others' obligations</b>	<b>10</b>	<b>–</b>
<b>Other commitments</b>	<b>6,048</b>	<b>5,731</b>
<b>TOTAL</b>	<b>45,913</b>	<b>41,919</b>

### (31) Employees

#### Share-based payments

The Management Board and selected key management personnel of Bank Austria participate in UniCredit Group's incentive scheme for share-based payments. The share-based payment arrangements relate to Stock Options, Performance Shares and Restricted Shares based on shares in the parent company UniCredito Italiano S.p.A. (UCI).

UniCredit calculates the economic value of the share-based payment arrangements on a uniform basis for the entire Group and provides the Group companies with the relevant information. In the Bank Austria Group, the total amount recognised in the income statement for the first six months of 2008 is € 3 m.

<b>Employees</b>			
	H1 2008	Q1 2008	2007
Salaried staff	67,303	60,478	44,542
Other employees	90	94	98
<b>TOTAL<sup>*)</sup></b>	<b>67,253</b>	<b>60,572</b>	<b>44,640</b>
<i>of which: in Austria</i>	<i>10,408</i>	<i>10,255</i>	<i>10,558</i>
<i>of which: abroad</i>	<i>56,845</i>	<i>50,317</i>	<i>34,082</i>

<sup>\*)</sup> Average full-time equivalents of staff employed in the Bank Austria Group (employees of companies accounted for under the proportionate consolidation method are included at 100%), excluding apprentices and employees on unpaid sabbatical or maternity/paternity leave

### (32) Events after the date of the interim financial statements

In its meeting on 31 July 2008, the Supervisory Board of Bank Austria passed resolutions on changes in the Management Board: Helmut Bernkopf will join the Management Board and be responsible for corporate banking; in this function he will succeed Regina Prehofer. Thomas Gross, Chief Risk Officer, will leave Bank Austria at the end of October at his own request.

### (33) Segment reporting

As in previous periods, the primary segment reporting format is based on the internal reporting structure of business segments, which reflects management responsibilities in the Bank Austria Group in 2008. The business segments are presented as independent units with their own capital resources and responsibility for their own results. This also complies with the requirements of IFRS 8.

# Notes (CONTINUED)

## Additional IFRS disclosures (CONTINUED)

The definition of business segments is primarily based on organisational responsibility for customers.

### Retail

Responsibility for the Retail Division covers Bank Austria's business with private customers and small businesses and the credit card business.

### Private Banking & Asset Management

The Private Banking & Asset Management Division comprises the subsidiaries *BANKPRIVAT*, *Schoellerbank AG*, *Asset Management Gesellschaft AMG* and *Pioneer Investments Austria*.

### Corporates

The Corporates Division covers the sub-segment Large Corporates (multinational corporates, financial institutions, public sector) and Real Estate, business with medium-sized companies and customers using specific products (e.g. derivatives) as well as the activities of *BA-CA Wohnbaubank AG* and *BA-CA Real Invest GmbH*. The leasing business of the Bank Austria Creditanstalt Leasing Group was transferred to UniCredit Global Leasing with effect from July 2007. In exchange, Bank Austria received a 32.59% shareholding interest in that company which is accounted for under the equity method.

### CEE

The CEE business segment includes the commercial banking units of the Bank Austria Group in the region of Central and Eastern Europe. From 2007, the CEE segment also includes the units in Central and Eastern Europe and in Turkey which were transferred from UniCredit and HVB to the Bank Austria Group. Corporate finance business for CEE customers was transferred to the Markets & Investment Banking Division. JSC ATF Bank was included in the group of consolidated companies as from December 2007 and Ukrsootsbank was included as from January 2008.

### Markets & Investment Banking

The Markets & Investment Banking Division essentially comprises the treasury activities of Bank Austria. The equity interests in Aton International Limited and Aton Broker were included in the group of consolidated companies and allocated to the MIB Division as from August 2007.

### Corporate Center

"Corporate Center" covers all equity interests that are not assigned to other segments. Also included are inter-segment eliminations and other items which cannot be assigned to other business segments.

### Methods

Net interest income is split up according to the market interest rate method. Costs are allocated to the individual business segments from which they arise.

The result of each business segment is measured by the profit before tax and the net profit after tax earned by the respective segment. In addition to the cost/income ratio, the return on equity is one of the key ratios used for controlling the business segments. The segment reporting data also show the net profit after tax.

The interest rate applied to investment of equity allocated to the business segments corresponds to the 3-month EURIBOR plus a margin of the average 5-year UniCredit credit spread. The rate applied to the business segments for investment of equity is determined for one year as part of the budgeting process. A uniform rate of 3.8% is applied to loans on which interest is not accrued and to writedowns.

Overhead costs are allocated proportionately to direct and indirect costs of the business segments.

Capital allocated to the business segments in Bank Austria is based on the Core Tier 1 capital ratio on the basis of planned risk-weighted assets. The bank uses differentiated percentage rates according to the individual business segments:

Retail	6.00 %
Private Banking & Asset Management	5.90 %
Corporates	6.45 %
CEE	6.45 %
Markets & Investment Banking	6.45 %
Corporate Center	6.80 %

Capital allocation to subsidiaries reflects actual IAS capital. In the CEE Division and in the MIB Division, the IAS capital of subsidiaries exceeds the capital calculated on the basis of risk-weighted assets. This effect is reflected in the Corporate Center, leading to a negative amount being shown as average equity for the Corporate Center.

**Segment reporting 1–6 2007 / 1–6 2008**

(€ m)

		RETAIL DIVISION	PRIVATE BANKING & ASSET MANAGEMENT DIVISION	CORPORATES DIVISION	CENTRAL EASTERN EUROPE DIVISION	MARKETS & INVESTMENT BANKING DIVISION	CORPORATE CENTER	BANK AUSTRIA GROUP
<b>Net interest income</b>	<b>1–6 2008</b>	<b>357</b>	<b>10</b>	<b>317</b>	<b>1,434</b>	<b>300</b>	<b>–110</b>	<b>2,309</b>
	<b>1–6 2007</b>	<b>372</b>	<b>8</b>	<b>316</b>	<b>983</b>	<b>112</b>	<b>47</b>	<b>1,838</b>
Net fees and commissions	1–6 2008	248	52	155	542	46	–6	1,037
	1–6 2007	283	67	205	432	77	–10	1,054
Net trading, hedging and fair value loss/income	1–6 2008	–2	–	–	110	–282	–24	–198
	1–6 2007	–	1	–	94	103	26	224
Net other expenses/income	1–6 2008	–15	17	–1	58	–2	38	96
	1–6 2007	–16	18	40	59	7	17	125
<b>Net non-interest income</b>	<b>1–6 2008</b>	<b>232</b>	<b>70</b>	<b>153</b>	<b>710</b>	<b>–238</b>	<b>7</b>	<b>935</b>
	<b>1–6 2007</b>	<b>267</b>	<b>85</b>	<b>245</b>	<b>585</b>	<b>187</b>	<b>33</b>	<b>1,403</b>
<b>OPERATING INCOME</b>	<b>1–6 2008</b>	<b>589</b>	<b>80</b>	<b>470</b>	<b>2,145</b>	<b>63</b>	<b>–103</b>	<b>3,244</b>
	<b>1–6 2007</b>	<b>639</b>	<b>94</b>	<b>561</b>	<b>1,568</b>	<b>299</b>	<b>80</b>	<b>3,241</b>
<b>OPERATING EXPENSES</b>	<b>1–6 2008</b>	<b>–432</b>	<b>–50</b>	<b>–130</b>	<b>–1,057</b>	<b>–101</b>	<b>–122</b>	<b>–1,891</b>
	<b>1–6 2007</b>	<b>–470</b>	<b>–49</b>	<b>–208</b>	<b>–787</b>	<b>–112</b>	<b>41</b>	<b>–1,584</b>
<b>OPERATING PROFIT</b>	<b>1–6 2008</b>	<b>157</b>	<b>30</b>	<b>340</b>	<b>1,088</b>	<b>–38</b>	<b>–225</b>	<b>1,352</b>
	<b>1–6 2007</b>	<b>170</b>	<b>44</b>	<b>354</b>	<b>782</b>	<b>187</b>	<b>121</b>	<b>1,657</b>
Goodwill impairment	1–6 2008	–	–	–	–	–	–	–
	1–6 2007	–	–	–	–	–	–	–
Provisions for risks and charges	1–6 2008	4	–	2	–22	–	5	–12
	1–6 2007	–2	–	–	–29	–2	–12	–46
Restructuring costs	1–6 2008	–	–	–	2	–	–1	2
	1–6 2007	–	–1	–	–7	–	–	–8
Net writedowns of loans and provisions for guarantees and commitments	1–6 2008	–106	–	–23	–199	–	–	–329
	1–6 2007	–109	–	–30	–69	–	–	–208
Net income from investments	1–6 2008	1	7	–9	57	1	234	291
	1–6 2007	13	–	–	3	3	113	132
<b>PROFIT BEFORE TAX</b>	<b>1–6 2008</b>	<b>55</b>	<b>37</b>	<b>310</b>	<b>926</b>	<b>–37</b>	<b>14</b>	<b>1,304</b>
	<b>1–6 2007</b>	<b>72</b>	<b>44</b>	<b>323</b>	<b>679</b>	<b>187</b>	<b>222</b>	<b>1,528</b>
Income tax	1–6 2008	–12	–9	–67	–184	12	74	–186
	1–6 2007	–16	–11	–67	–128	–42	5	–259
<b>NET PROFIT</b>	<b>1–6 2008</b>	<b>43</b>	<b>27</b>	<b>243</b>	<b>742</b>	<b>–26</b>	<b>88</b>	<b>1,118</b>
	<b>1–6 2007</b>	<b>56</b>	<b>33</b>	<b>256</b>	<b>552</b>	<b>146</b>	<b>227</b>	<b>1,269</b>
<b>RWA credit and market risk</b>	<b>1–6 2008</b>	<b>15,842</b>	<b>473</b>	<b>33,253</b>	<b>63,753</b>	<b>7,121</b>	<b>4,749</b>	<b>125,192</b>
	<b>1–6 2007</b>	<b>16,355</b>	<b>449</b>	<b>31,552</b>	<b>42,474</b>	<b>4,484</b>	<b>4,242</b>	<b>99,556</b>
Average equity <sup>1)</sup>	1–6 2008	982	189	2,437	8,805	4,341	–1,600	15,153
	1–6 2007	1,031	201	2,332	6,751	428	2,790	13,532
<i>ROE before tax in %</i>	<i>1–6 2008</i>	<i>11.2</i>	<i>38.8</i>	<i>25.4</i>	<i>21.0</i>	<i>–1.7</i>	<i>n.m.<sup>2)</sup></i>	<i>17.2</i>
	<i>1–6 2007</i>	<i>14.0</i>	<i>43.6</i>	<i>27.7</i>	<i>20.1</i>	<i>87.5</i>	<i>n.m.</i>	<i>22.6</i>
<i>ROE after tax in %</i>	<i>1–6 2008</i>	<i>8.7</i>	<i>28.8</i>	<i>20.0</i>	<i>16.9</i>	<i>–1.2</i>	<i>n.m.</i>	<i>14.8</i>
	<i>1–6 2007</i>	<i>10.9</i>	<i>32.4</i>	<i>22.0</i>	<i>16.3</i>	<i>68.0</i>	<i>n.m.</i>	<i>18.7</i>
<i>Cost/income ratio in %</i>	<i>1–6 2008</i>	<i>73.4</i>	<i>62.3</i>	<i>27.6</i>	<i>49.3</i>	<i>161.1</i>	<i>n.m.</i>	<i>58.3</i>
	<i>1–6 2007</i>	<i>73.5</i>	<i>52.5</i>	<i>37.0</i>	<i>50.2</i>	<i>37.5</i>	<i>n.m.</i>	<i>48.9</i>
<i>Risk/earnings ratio in %</i>	<i>1–6 2008</i>	<i>29.8</i>	<i>n.m.</i>	<i>7.3</i>	<i>13.9</i>	<i>0.0</i>	<i>n.m.</i>	<i>14.2</i>
	<i>1–6 2007</i>	<i>29.2</i>	<i>n.m.</i>	<i>9.5</i>	<i>7.0</i>	<i>0.0</i>	<i>n.m.</i>	<i>11.3</i>

1) Total of IAS capital for the subsidiaries allocated to the respective Division and standardised capital for the rest of the respective Division / 2) not meaningful

## Notes (CONTINUED)

## Additional IFRS disclosures (CONTINUED)

Segment reporting Q1 2008 / Q2 2008		(€ m)						
		RETAIL DIVISION	PRIVATE BANKING & ASSET MANAGEMENT DIVISION	CORPORATES DIVISION	CENTRAL EASTERN EUROPE DIVISION	MARKETS & INVESTMENT BANKING DIVISION	CORPORATE CENTER	BANK AUSTRIA GROUP
<b>Net interest income</b>	<b>Q2/2008</b>	<b>184</b>	<b>5</b>	<b>166</b>	<b>731</b>	<b>173</b>	<b>-76</b>	<b>1,183</b>
	<b>Q1/2008</b>	<b>173</b>	<b>5</b>	<b>151</b>	<b>704</b>	<b>127</b>	<b>-34</b>	<b>1,125</b>
Net fees and commissions	Q2/2008	119	26	74	282	23	-4	518
	Q1/2008	129	27	81	261	23	-2	519
Net trading, hedging and fair value loss/income	Q2/2008	-2	-	-	78	-86	-46	-55
	Q1/2008	-	-	-	31	-196	22	-143
Net other expenses/income	Q2/2008	-8	9	-1	34	-2	16	54
	Q1/2008	-7	8	-	24	-	16	42
<b>Net non-interest income</b>	<b>Q2/2008</b>	<b>109</b>	<b>35</b>	<b>73</b>	<b>394</b>	<b>-65</b>	<b>-29</b>	<b>517</b>
	<b>Q1/2008</b>	<b>123</b>	<b>36</b>	<b>80</b>	<b>316</b>	<b>-172</b>	<b>36</b>	<b>418</b>
<b>OPERATING INCOME</b>	<b>Q2/2008</b>	<b>293</b>	<b>40</b>	<b>239</b>	<b>1,125</b>	<b>108</b>	<b>-105</b>	<b>1,700</b>
	<b>Q1/2008</b>	<b>296</b>	<b>40</b>	<b>231</b>	<b>1,020</b>	<b>-45</b>	<b>2</b>	<b>1,543</b>
<b>OPERATING EXPENSES</b>	<b>Q2/2008</b>	<b>-217</b>	<b>-24</b>	<b>-67</b>	<b>-544</b>	<b>-50</b>	<b>-49</b>	<b>-951</b>
	<b>Q1/2008</b>	<b>-215</b>	<b>-26</b>	<b>-63</b>	<b>-513</b>	<b>-50</b>	<b>-73</b>	<b>-941</b>
<b>OPERATING PROFIT</b>	<b>Q2/2008</b>	<b>76</b>	<b>15</b>	<b>172</b>	<b>582</b>	<b>57</b>	<b>-153</b>	<b>750</b>
	<b>Q1/2008</b>	<b>81</b>	<b>15</b>	<b>168</b>	<b>506</b>	<b>-96</b>	<b>-72</b>	<b>603</b>
Goodwill impairment	Q2/2008	-	-	-	-	-	-	-
	Q1/2008	-	-	-	-	-	-	-
Provisions for risks and charges	Q2/2008	4	-	1	-15	-	-	-5
	Q1/2008	-	-	1	-7	-	-	-7
Restructuring costs	Q2/2008	-	-	-	7	-	-1	6
	Q1/2008	-	-	-	-4	-	-1	-5
Net writedowns of loans and provisions for guarantees and commitments	Q2/2008	-51	-	-9	-96	-	-	-156
	Q1/2008	-56	-	-15	-103	-	-	-173
Net income from investments	Q2/2008	-	4	-9	29	1	164	190
	Q1/2008	1	2	-	28	-	70	101
<b>PROFIT BEFORE TAX</b>	<b>Q2/2008</b>	<b>29</b>	<b>20</b>	<b>155</b>	<b>506</b>	<b>58</b>	<b>16</b>	<b>785</b>
	<b>Q1/2008</b>	<b>26</b>	<b>17</b>	<b>154</b>	<b>420</b>	<b>-96</b>	<b>-2</b>	<b>520</b>
Income tax	Q2/2008	-6	-5	-34	-90	-14	48	-101
	Q1/2008	-6	-4	-33	-94	26	26	-86
<b>NET PROFIT</b>	<b>Q2/2008</b>	<b>23</b>	<b>15</b>	<b>122</b>	<b>416</b>	<b>44</b>	<b>64</b>	<b>684</b>
	<b>Q1/2008</b>	<b>20</b>	<b>13</b>	<b>122</b>	<b>326</b>	<b>-70</b>	<b>24</b>	<b>434</b>
<b>RWA credit and market risk</b>	<b>Q2/2008</b>	<b>15,966</b>	<b>465</b>	<b>34,370</b>	<b>67,731</b>	<b>7,850</b>	<b>5,494</b>	<b>131,876</b>
	<b>Q1/2008</b>	<b>15,719</b>	<b>481</b>	<b>32,135</b>	<b>59,776</b>	<b>6,392</b>	<b>4,004</b>	<b>118,507</b>
Average equity <sup>1)</sup>	Q2/2008	989	178	2,540	9,510	4,267	-2,081	15,403
	Q1/2008	975	199	2,335	8,100	4,415	-1,120	14,903
ROE before tax in %	Q2/2008	11.8	44.5	24.5	21.3	5.5	n.m. <sup>2)</sup>	20.4
	Q1/2008	10.6	33.7	26.5	20.8	-8.7	n.m.	13.9
ROE after tax in %	Q2/2008	9.4	32.6	19.1	17.5	4.2	n.m.	17.8
	Q1/2008	8.0	25.4	20.9	16.1	-6.3	n.m.	11.6
Cost/income ratio in %	Q2/2008	74.0	61.0	28.1	48.3	46.8	n.m.	55.9
	Q1/2008	72.7	63.6	27.1	50.3	-111.5	n.m.	60.9
Risk/earnings ratio in %	Q2/2008	27.6	n.m.	5.2	13.2	n.m.	n.m.	13.2
	Q1/2008	32.2	n.m.	9.7	14.6	n.m.	n.m.	15.4

1) Total of IAS capital for the subsidiaries allocated to the respective Division and standardised capital for the rest of the respective Division / 2) not meaningful

## Information required under Austrian law

### (34) Consolidated capital resources and regulatory capital requirements

<b>Net capital resources of the Bank Austria group of credit institutions</b>			(€ m)
	30 JUNE 2008 BASEL II	31 DEC. 2007 BASEL I	
Paid-in capital (less own shares)	1,468	1,468	
Reserves and minority interests	9,141	8,912	
Intangible assets	-781	-702	
<b>Core capital (Tier 1, under Basel I)</b>	<b>9,828</b>	<b>9,678</b>	
Deductions from Tier 1 capital (in particular 50% deduction pursuant to Section 23 (13) 3 to 4d of the Austrian Banking Act <sup>3)</sup> )	-749		
<b>Core capital (Tier 1, under Basel II)</b>	<b>9,079</b>	<b>9,678</b>	
Net subordinated liabilities	3,593	3,893	
Revaluation reserves and undisclosed reserves	114	141	
<b>Supplementary capital resources (Tier 2, under Basel I)</b>	<b>3,653</b>	<b>4,034</b>	
Deductions from Tier 2 (50% deduction pursuant to Section 23 (13) 3 to 4d <sup>3)</sup> )	-728		
<b>Supplementary capital resources (Tier 2, under Basel II)</b>	<b>2,925</b>	<b>4,034</b>	
Deductions from Tier 1 and Tier 2 (under Basel II only deduction pursuant to Section 23 (13) 4a <sup>4)</sup> )	-144	-1,153	
<b>Net capital resources (excl. Tier 3)</b>	<b>11,860</b>	<b>12,559</b>	
Tier 3 (re-assigned subordinated capital)	384	606	
<b>NET CAPITAL RESOURCES (INCL. TIER 3)</b>	<b>12,244</b>	<b>13,165</b>	

<b>Capital requirements of the Bank Austria group of credit institutions</b>			(€ m)
	30 JUNE 2008 BASEL II	31 DEC. 2007 BASEL I	
<b>Basel I</b>			
Banking book		8,833	
Trading book		606	
<b>Basel II</b>			
a) Credit risk pursuant to standardised approach	7,970		
b) Credit risk pursuant to internal ratings-based (IRB) approach	2,041		
Credit risk	10,011		
Operational risk	799		
Position risk – debt instruments, equities, foreign currencies and commodities	384		
Settlement risk	–		
<b>CAPITAL REQUIREMENT</b>	<b>11,194</b>	<b>9,439</b>	
Total RWA	139,925	117,993	

<b>Capital ratios</b>			(€ m)
	30 JUNE 2008 BASEL II	31 DEC. 2007 BASEL I	
Tier 1 capital ratio, based on all risks	6.49%	8.20%	
Total capital ratio, based on all risks <sup>1)</sup>	8.75%	11.16%	
Tier 1 capital ratio, based on credit risk	7.26%	8.76%	
Total capital ratio, based on credit risk <sup>2)</sup>	8.84%	11.37%	

1) Net capital resources (incl. Tier 3) as a percentage of the risk-weighted assessment basis for all risks

2) Total capital resources less requirement for trading book, commodities risk, exchange rate risk and operational risk as a percentage of the risk-weighted assessment basis for credit risk

3) Capital components in non-consolidated companies and "shortfall"

4) Capital components in insurance companies


# Statement by Management on the Interim Report

We confirm to the best of our knowledge that the interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a

true and fair view of important events that have occurred during the first six months of the financial year and their impact on the interim financial statements and of the principal risks and uncertainties for the remaining six months of the financial year.

Vienna, 28 July 2008

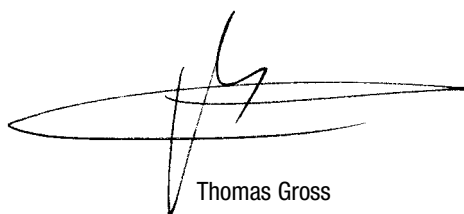
The Management Board



Erich Hampel  
(Chairman)



Federico Ghizzoni



Thomas Gross



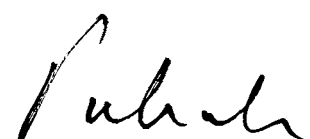
Wilhelm Hemetsberger



Werner Kretschmer



Ralph Müller



Regina Prehofer



Carlo Vivaldi



Robert Zadrazil





# Additional Information

## Income statement of the consolidated banking subsidiaries in CEE

(€ m)									
	TURKEY <sup>*)</sup>			RUSSIA			CROATIA		
	H1 2008	H1 2007	%	H1 2008	H1 2007	%	H1 2008	H1 2007	%
<b>Net interest income</b>	<b>284.4</b>	<b>240.9</b>	<b>+18%</b>	<b>224.1</b>	<b>162.1</b>	<b>+38%</b>	<b>179.6</b>	<b>135.1</b>	<b>+33%</b>
Net fee and commission income	152.1	112.6	+35%	60.9	52.4	+16%	65.2	54.9	+19%
Net trading, hedging and fair value income	14.4	12.7	+13%	-10.4	6.3	n.m.	11.6	1.6	>100%
Net other income/expenses	32.1	25.2	+27%	7.3	2.6	>100%	12.4	29.0	-57%
<b>Net non-interest income</b>	<b>198.6</b>	<b>150.6</b>	<b>+32%</b>	<b>57.9</b>	<b>61.2</b>	<b>-5%</b>	<b>89.2</b>	<b>85.5</b>	<b>+4%</b>
<b>OPERATING INCOME</b>	<b>483.0</b>	<b>391.5</b>	<b>+23%</b>	<b>281.9</b>	<b>223.3</b>	<b>+26%</b>	<b>268.9</b>	<b>220.7</b>	<b>+22%</b>
<b>OPERATING EXPENSES</b>	<b>-229.7</b>	<b>-199.7</b>	<b>+15%</b>	<b>-111.7</b>	<b>-81.3</b>	<b>+37%</b>	<b>-137.4</b>	<b>-119.3</b>	<b>+15%</b>
<b>OPERATING PROFIT</b>	<b>253.2</b>	<b>191.7</b>	<b>+32%</b>	<b>170.2</b>	<b>142.0</b>	<b>+20%</b>	<b>131.5</b>	<b>101.4</b>	<b>+30%</b>
Provisions for risks and charges	-23.1	-23.8	-3%	0.0	-0.8	n.m.	0.0	-1.6	-99%
Net writedowns on loans	-2.0	-19.1	-90%	-37.9	-13.1	>100%	-6.9	6.8	n.m.
Net income from investments	4.3	3.8	+14%	2.5	0.0	-	9.7	0.1	>100%
Integration costs	0.0	0.0	-	0.0	0.0	-	-0.1	0.0	+54%
<b>PROFIT BEFORE TAX</b>	<b>232.5</b>	<b>152.6</b>	<b>+52%</b>	<b>134.8</b>	<b>128.2</b>	<b>+5%</b>	<b>134.2</b>	<b>106.7</b>	<b>+26%</b>
Cost/income ratio	47.6%	51.0%		39.6%	36.4%		51.1%	54.0%	
Exchange rate	1.889	1.826		36.615	34.666		7.270	7.358	
Appreciation/depreciation against the euro	-3.3%			-5.3%			+1.2%		

(€ m)									
	CZECH REPUBLIC			SLOVAKIA			SLOVENIA		
	H1 2008	H1 2007	%	H1 2008	H1 2007	%	H1 2008	H1 2007	%
<b>Net interest income</b>	<b>130.1</b>	<b>97.9</b>	<b>+33%</b>	<b>51.8</b>	<b>39.7</b>	<b>+30%</b>	<b>21.4</b>	<b>16.2</b>	<b>+32%</b>
Net fee and commission income	52.5	55.5	-5%	15.0	12.1	+23%	10.5	8.4	+24%
Net trading, hedging and fair value income	-1.1	0.8	n.m.	11.4	15.1	-24%	-0.8	2.0	n.m.
Net other income/expenses	0.0	1.0	-97%	1.2	1.3	-9%	0.0	0.2	-100%
<b>Net non-interest income</b>	<b>51.5</b>	<b>57.4</b>	<b>-10%</b>	<b>27.6</b>	<b>28.5</b>	<b>-3%</b>	<b>9.7</b>	<b>10.7</b>	<b>-9%</b>
<b>OPERATING INCOME</b>	<b>181.6</b>	<b>155.3</b>	<b>+17%</b>	<b>79.4</b>	<b>68.2</b>	<b>+16%</b>	<b>31.1</b>	<b>26.9</b>	<b>+16%</b>
<b>OPERATING EXPENSES</b>	<b>-80.7</b>	<b>-71.3</b>	<b>+13%</b>	<b>-35.7</b>	<b>-32.8</b>	<b>+9%</b>	<b>-16.5</b>	<b>-14.1</b>	<b>+17%</b>
<b>OPERATING PROFIT</b>	<b>100.9</b>	<b>84.0</b>	<b>+20%</b>	<b>43.6</b>	<b>35.4</b>	<b>+23%</b>	<b>14.6</b>	<b>12.8</b>	<b>+14%</b>
Provisions for risks and charges	0.0	-1.1	-100%	0.7	0.0	>100%	0.0	-0.1	-100%
Net writedowns on loans	-15.1	-9.5	+59%	-2.9	-2.2	+29%	-2.9	-2.3	+27%
Net income from investments	27.2	0.2	>100%	0.5	-0.2	n.m.	0.2	-0.6	n.m.
Integration costs	-3.2	-0.5	>100%	0.0	-0.3	-100%	-0.7	-0.2	>100%
<b>PROFIT BEFORE TAX</b>	<b>109.8</b>	<b>73.1</b>	<b>+50%</b>	<b>42.0</b>	<b>32.7</b>	<b>+29%</b>	<b>11.1</b>	<b>9.7</b>	<b>+15%</b>
Cost/income ratio	44.4%	45.9%		45.0%	48.1%		53.0%	52.3%	
Exchange rate	25.191	28.153		32.223	34.053		1.000	1.000	
Appreciation/depreciation against the euro	+11.8%			+5.7%					

<sup>\*)</sup> pro quota  
n.m. = not meaningful

BULGARIA			ROMANIA			HUNGARY			KAZAKHSTAN	UKRAINE
H1 2008	H1 2007	%	H1 2008	H1 2007	%	H1 2008	H1 2007	%	H1 2008	H1 2008
<b>113.9</b>	<b>93.0</b>	<b>+23%</b>	<b>55.8</b>	<b>44.3</b>	<b>+26%</b>	<b>81.0</b>	<b>74.8</b>	<b>+8%</b>	<b>98.9</b>	<b>100.4</b>
36.4	34.3	+6%	29.0	41.0	-29%	43.6	37.4	+16%	19.2	35.3
-2.6	1.2	n.m.	53.7	43.1	+24%	1.9	8.6	-78%	12.9	12.7
0.1	1.1	-89%	0.2	-2.6	n.m.	0.0	0.3	-92%	1.6	1.0
<b>33.9</b>	<b>36.6</b>	<b>-7%</b>	<b>82.9</b>	<b>81.5</b>	<b>+2%</b>	<b>45.5</b>	<b>46.3</b>	<b>-2%</b>	<b>33.7</b>	<b>49.0</b>
<b>147.8</b>	<b>129.5</b>	<b>+14%</b>	<b>138.6</b>	<b>125.9</b>	<b>+10%</b>	<b>126.5</b>	<b>121.1</b>	<b>+4%</b>	<b>132.6</b>	<b>149.4</b>
<b>-63.1</b>	<b>-53.4</b>	<b>+18%</b>	<b>-71.8</b>	<b>-60.8</b>	<b>+18%</b>	<b>-65.7</b>	<b>-58.4</b>	<b>+12%</b>	<b>-55.1</b>	<b>-76.2</b>
<b>84.7</b>	<b>76.1</b>	<b>+11%</b>	<b>66.9</b>	<b>65.0</b>	<b>+3%</b>	<b>60.8</b>	<b>62.7</b>	<b>-3%</b>	<b>77.5</b>	<b>73.2</b>
0.5	-0.7	n.m.	-0.4	-0.3	+40%	0.1	-0.6	n.m.	0.0	0.0
-10.5	-12.7	-17%	-14.7	-7.5	+96%	-10.5	-10.0	+5%	-61.6	-22.9
4.2	0.9	>100%	4.8	-0.8	n.m.	1.0	1.9	-47%	0.6	-0.2
9.2	-0.2	n.m.	0.0	-2.0	-100%	-0.7	-2.1	-66%	0.0	0.0
<b>88.1</b>	<b>63.4</b>	<b>+39%</b>	<b>56.6</b>	<b>54.4</b>	<b>+4%</b>	<b>50.6</b>	<b>51.9</b>	<b>-2%</b>	<b>16.4</b>	<b>50.1</b>
42.7%	41.2%		51.8%	48.3%		51.9%	48.2%		41.6%	51.0%
1.956	1.956		3.670	3.331		253.584	250.346		184.470	7.572
0.0%			-9%			-1.3%				

BOSNIA			SERBIA			BALTICS			CEE BANKS TOTAL		
H1 2008	H1 2007	%	H1 2008	H1 2007	%	H1 2008	H1 2007	%	H1 2008	H1 2007	%
<b>37.7</b>	<b>37.6</b>	<b>+0%</b>	<b>22.7</b>	<b>16.7</b>	<b>+36%</b>	<b>10.0</b>	<b>8.4</b>	<b>+18%</b>	<b>1,411.6</b>	<b>966.7</b>	<b>+46%</b>
14.7	15.2	-3%	9.5	8.1	+18%	0.4	0.8	-54%	544.2	432.9	+26%
2.6	1.7	+51%	2.9	2.5	+15%	0.4	-0.2	n.m.	109.8	95.5	+15%
0.7	0.7	-6%	-0.3	0.0	n.m.	1.3	-0.1	n.m.	57.6	58.7	-2%
<b>18.1</b>	<b>17.7</b>	<b>+2%</b>	<b>12.1</b>	<b>10.6</b>	<b>+15%</b>	<b>2.0</b>	<b>0.5</b>	<b>&gt;100%</b>	<b>711.6</b>	<b>587.1</b>	<b>+21%</b>
<b>55.8</b>	<b>55.3</b>	<b>+1%</b>	<b>34.8</b>	<b>27.2</b>	<b>+28%</b>	<b>12.0</b>	<b>8.9</b>	<b>+34%</b>	<b>2,123.2</b>	<b>1,553.8</b>	<b>+37%</b>
<b>-39.0</b>	<b>-36.0</b>	<b>+9%</b>	<b>-15.9</b>	<b>-14.1</b>	<b>+13%</b>	<b>-6.5</b>	<b>-6.2</b>	<b>+5%</b>	<b>-1,005.0</b>	<b>-747.4</b>	<b>+34%</b>
<b>16.7</b>	<b>19.3</b>	<b>-13%</b>	<b>18.9</b>	<b>13.1</b>	<b>+44%</b>	<b>5.5</b>	<b>2.7</b>	<b>+100%</b>	<b>1,118.3</b>	<b>806.4</b>	<b>+39%</b>
-0.5	-0.4	+17%	0.0	-0.2	-100%	0.0	0.0	-	-22.6	-29.3	-23%
-5.0	2.8	n.m.	-2.4	-1.5	+62%	-1.5	0.6	n.m.	-196.9	-67.7	>100%
2.2	0.4	>100%	0.0	0.2	-100%	0.0	0.0	-	57.0	5.8	>100%
-2.0	-1.4	+40%	0.0	0.0	-	0.0	0.0	-	2.5	-6.9	n.m.
<b>11.5</b>	<b>20.7</b>	<b>-45%</b>	<b>16.4</b>	<b>11.7</b>	<b>+41%</b>	<b>4.0</b>	<b>3.3</b>	<b>+19%</b>	<b>958.2</b>	<b>708.2</b>	<b>+35%</b>
70.0%	65.1%		45.7%	51.9%		54.3%	69.3%		47.3%	48.1%	
1.956	1.956		81.845	80.535		0.699	0.700		13.9%	7.01%	
0.0%			-1.6%			+0.3%					

## Ratings, Investor Relations

<b>Ratings</b>			
	<b>LONG-TERM</b>	<b>SUBORDINATED LIABILITIES</b>	<b>SHORT-TERM</b>
Moody's <sup>1)</sup>	Aa2	Aa3	P-1
Standard & Poor's <sup>2)</sup>	A+	A	A-1

1) Grandfathered debt remains rated Aa2, subordinated debt rating remains Aa3.

2) Grandfathered debt and subordinated debt rating remain rated AA+.

<b>Investor Relations of Bank Austria Creditanstalt AG</b>	
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Günther Stromenger	
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Christina Klein	
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<b>Financial calendar</b>	
12 November 2008	Results for the first nine months of 2008
All information is available electronically at <a href="http://ir.bankaustria.at">http://ir.bankaustria.at</a>	

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### **Notes**

This report contains forward-looking statements relating to the future performance of Bank Austria. These statements reflect estimates which we have made on the basis of all information available to us at present. Should the assumptions underlying forward-looking statements prove incorrect, or should risks mentioned in the Interim Report materialise to an extent not anticipated, actual results may vary from those expected at present. Market share data are based on the most recent information available at the editorial close of the Interim Report.

"Bank Austria" as used in this report refers to the group of consolidated companies. "Bank Austria Creditanstalt AG" as used in this report refers to the parent company. In adding up rounded figures and calculating the percentage rates of changes, slight differences may result compared with totals and rates arrived at by adding up component figures which have not been rounded off.

### **Disclaimer**

This edition of our Interim Report is prepared for the convenience of our English-speaking readers. It is based on the German original, which is the authentic version and takes precedence in all legal aspects.