Bank Austria

Member of UniCredit

Half-Yearly Financial Report 2015

Contents

Bank Austria at a Glance

Income statement figures

(€ million)	H1 2015	H1 2014[1]	+/–
Net interest	1,687	1,754	–3.8%
Dividend income and other income from equity investments	234	224	+4.4%
Net fees and commissions	714	677	+5.4%
Net trading, hedging and fair value income	230	251	–8.3%
Operating income	2,905	2,967	–2.1%
Operating costs	–1,527	–1,546	–1.3%
Operating profit	1,378	1,420	–3.0%
Net write-downs of loans and provisions for guarantees and commitments	–391	–352	+11.3%
Net operating profit	986	1,069	–7.7%
Profit before tax	803	943	–14.8%
Net profit attributable to the owners of the parent company	489	778	–37.2%

Volume figures

(€ million)	30 JUNE 2015	31 DEC. 2014	+/–
Total assets	191,442	189,118	+1.2%
Loans and receivables with customers	117,226	113,732	+3.1%
Direct funding (deposits from customers and debt securities in issue)	136,608	132,285	+3.3%
Equity	15,696	14,925	+5.2%
Risk-weighted assets (overall) [2]	134,606	130,351	+3.3%

Key performance indicators

	30 JUNE 2015	2014
Return on equity after tax (ROE)	6.9%	9.7%
Cost/income ratio [1]	52.6%	52.4%
Cost of risk (provisioning charge/avg. lending volume) [1]	0.67%	0.68%
Loans and receivables with customers/direct funding	85.8%	86.0%
Leverage ratio [3]	6.0%	5.6%
Common Equity Tier 1 capital ratio [4]	10.8%	10.3%
Tier 1 capital ratio [4]	10.8%	10.3%
Total capital ratio [4]	14.4%	13.4%

Staff

	30 JUNE 2015	31 DEC. 2014[1]	+/–
Bank Austria (full-time equivalent)	35,882	36,192	–310
Central Eastern Europe business segment	24,140	24,124	15
Ukraine (held for sale)	4,616	4,830	–214
Austria (other business segments)	7,126	7,237	–111

Offices

	30 JUNE 2015	31 DEC. 2014[1]	+/–
Bank Austria	1,585	1,664	–79
Central Eastern Europe business segment	1,110	1,130	–20
Ukraine (held for sale)	250	291	–41
Austria (other business segments)	225	243	–18

1) Comparative figures for 2014 recast to reflect the current structure and methodology. / 2) Regulatory risk-weighted assets, not adjusted. / 3) Leverage ratio under Basel 3 based on the current status of transitional arrangements. / 4) Capital ratios based on all risks under Basel 3 (transitional) and IFRSs.

The banking environment

● After a weak start to the year characterised by erratic factors, **economic growth in the euro area** was gathering momentum as the year progressed, even if the rate of growth was much lower than in previous upswings. Global influences were mixed: world trade declined significantly, mainly due to weak demand from emerging markets (China, Brazil, Russia). The US economy, which had stagnated in the first quarter of 2015, did not pick up steam in the second quarter either. The price of crude oil, on the other hand, hardly changed: most recently it was 57.60 US$/bl, down by about one-half from the level a year earlier. The resulting gain in purchasing power has been the main factor providing impetus to the expansion of domestic demand in most industrial countries.

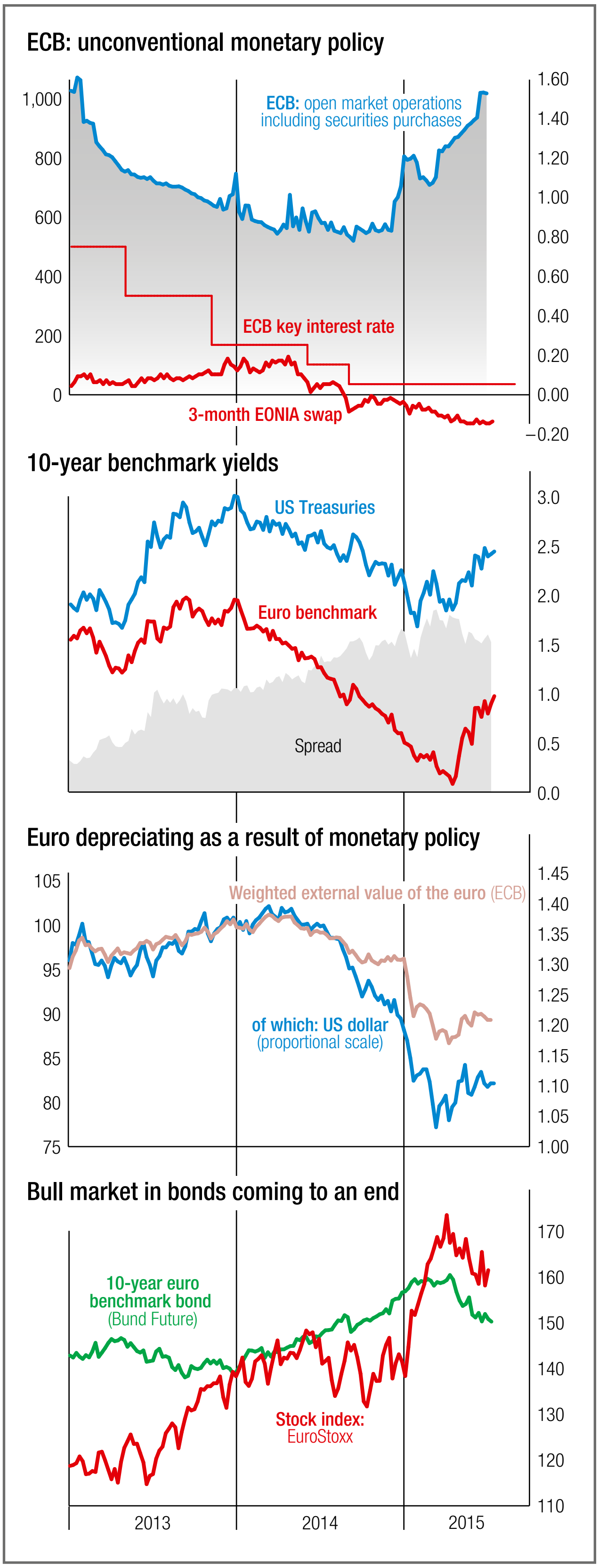
GDP in the **euro area** recorded quarter-on-quarter growth of 0.5% in real terms in the first quarter of 2015, driven by domestic demand. Leading indicators suggest that growth in the second quarter may have reached 0.4%. Overall, this gives a growth rate of over 2% compared with the second half of 2014, a performance which would have been even stronger if imports had increased more slowly. The growth trend varied from country to country, but was broadly based: Spain was the top performer with economic expansion of over 3%, and France also saw significant growth. Germany continued to expand steadily while recording a strong import pull. And Italy achieved appreciable growth after three and a half years of recession. Within Bank Austria's perimeter of operations, the **Austrian** economy was impacted by depressed sentiment which is difficult to explain and was reflected in restraint on the part of consumers; other impacts included higher inflation than in Austria's neighbouring countries and a lack of investment activity due to widespread uncertainty. Moreover, Austria lost export market shares to advancing CEE competitors. But the situation improved: after very low growth in the early part of the year, the economic momentum came close to the rate achieved in the EU as a whole. The young EU member states in the **CEE** region – especially the Czech Republic followed by Poland, Romania, Hungary and Slovakia, and with the exception of Croatia – achieved surprisingly strong growth of 3½% to 4% in the first six months of 2015. These economies benefited from private consumption supported by an increase in purchasing power and by a lively labour market, rising investment in plant and equipment, new manufacturing capacity as well as a less restrictive fiscal policy and a more expansionary monetary policy, additionally supported by gradually growing demand from Western Europe in recent months. Russia and Ukraine were sliding deeper into recession as their economies felt the combined impact of trends in commodity prices, geopolitical tensions and sanctions.

● Developments in **financial markets** in the first six months of 2015 were mainly determined by increasingly divergent monetary policies in the US and the euro area. The frustrating negotiations on reforms to mitigate the Greek debt crisis were building up dramatically until expiry of the (extended) period available to Greece to repay IMF loans at the end of June. Despite the associated risks, these negotiations did not yet have any major effects in the first half of 2015. The **European Central Bank** (ECB) continued to pursue its conventional monetary policy and intensified its unconventional measures (quantitative easing) by starting on 9 March 2015 to swiftly implement the Public Sector Purchase Programme (PSPP) announced on 22 January. By the end of the first half-year (weekly financial statement as at 3 July 2015), the ECB had purchased €205 billion in government bonds in the market against liquidity. Overall, the assets-side volume of monetary policy operations (including the securities portfolio) therefore rose by €174 billion to over one trillion euros (€1,022 billion) in the first six months of 2015; this compares with total assets of €2,497 billion. The announcement of the programme in itself had a significant effect on expectations and on the pattern of interest rates and exchange rates. **Benchmark yields** fell below zero step by step up to the eight-year maturity. Historically low levels were seen on 17 April 2015, with the yield on the ten-year benchmark bond at 0.049% p.a. (intraday); anticipatory positioning in trading operations may have contributed to this development. However, when euro inflation rates in April and May returned to positive territory after negative figures in four periods, this dispelled fears of deflation, and expectations and the yield curve abruptly reversed. The scenario of a forthcoming turnaround in US interest rates continued to firm. The ten-year benchmark yield rose to 1.059% in two major moves by 10 June 2015 (since then, yields on all maturities exceeding 5 years have been positive). Subsequently, yields declined again towards the end of June, reflecting the influence of accelerated purchases. Yet banks are still faced with extremely low interest rates, ranging from minus 0.25% to plus 0.6%. Moreover, the sudden and pronounced correction ("flash crash") has illustrated the interest rate risks in balance sheets.

In line with changing interest rate expectations, the US dollar appreciated from year-end 2014 to its high on 16 March 2015, by 15.7% to 1.0456 USD/EUR, subsequently declining in response to disappointing US growth rates and the turnaround in German yields. In May and June 2015, the exchange rate was moving around an average 1.12 USD/EUR, corresponding to appreciation of 22.0% compared with a year earlier. By the end of June 2015, effective (trade-weighted) depreciation of the euro amounted to 6.2% compared with year-end 2014 and 10.2% year-on-year. These levels reflected the strength of the British pound and the Swiss franc. After the Swiss National Bank ended the Swiss franc's link to the euro (intervention limit: 1.20) in a surprise move on 15 January 2015, the Swiss franc briefly overshot to 0.85 CHF/EUR. In recent months, the exchange rate was around 1.04 CHF/EUR, 15.5% up on the year-end 2014 level.

In **capital markets** the end of the bull market in bonds has channelled investments into higher-risk categories, an effect which is quite welcome. In May/June the excellent bond performance

The banking environment (CONTINUED)



achieved until then reversed in all categories – benchmark, covered, corporate bonds. The euro **stock market** (EuroStoxx), on the other hand, gained 11.0% from year-end 2014 to the end of June 2015 (despite the negative impact relating to Greece during the last weeks in that period) whereas the US stock market stagnated (S&P500: +0.2%). Even the Austrian ATX advanced by 11.7%, the first gain in a long time. The world index (MSCI in local currencies) rose by a mere 3.1% from year-end 2014 to the end of June 2015, reflecting developments on Wall Street and the setback in emerging markets exchanges in the second quarter of 2015. Commodities prices (in US dollar terms) without energy were down by 8.3% in the first half of 2015, those for industrial commodities fell by 9.6%; in a year-on-year comparison, prices in commodities markets declined at double these rates. Gold hardly moved (end of June 2015: 1,174 US$/oz); in US dollar terms, the gold price was 11.4% lower than a year earlier.

● **Austria** experienced a sluggish economic trend in the first six months of 2015. Yet the Bank Austria Business Indicator has developed favourably over the past four months, signalling that economic recovery in Austria is gaining momentum in line with recovery in the neighbouring countries. While the first quarter of 2015 was more or less characterised by stagnation, leading indicators suggest that the Austrian economy achieved slightly higher quarter-on-quarter growth of up to 0.3% in the second quarter. Overall, economic growth in the first half of 2015 is estimated at +0.3% compared with the same period of the previous year. This moderate growth has so far been driven by consumption, which benefited from an increase in incomes supported by low inflation, although sentiment among Austrian households reflected pessimism. In the first half of 2015, the inflation rate averaged 1.0% (2014: 1.7%). At this level it was significantly higher than the European average and thus provided less support for consumption than in other European countries. Comparatively higher inflation is one of the reasons for the low rate of growth of Austria's economy. Although interest rates were low as a consequence of the ECB's relaxed monetary policy, investment activity in Austria declined slightly in the first six months of 2015. An essential factor in this context was the public sector's investment restraint, explained by tight budgets, which had a negative impact especially on investment in construction. It was only in the spring that export companies saw signs of a slight recovery of demand although various export markets experienced problems. However, industry is now gradually benefiting from a stronger momentum. The Bank Austria Purchasing Managers' Index rose to 51.2 points in June, the highest level in over a year. While employment in manufacturing declined, growth in the services sector in Austria in the first half of 2015 created more than 20,000 new jobs, an increase of 0.6% over the same period of the previous year. Due to the strong increase in the labour supply, mainly through immigration, the unemployment rate rose to an average 5.8%.

The banking environment (CONTINUED)

Demand for corporate finance stagnated also in the past few months, with total volume in this sector growing by only 0.2% in the first half of 2015. Private households reduced their consumer loans. Housing loans were the only segment in which demand increased slightly, outstanding volume in this segment rose by 4.5% compared with year-end 2014. Total deposits declined slightly in the first six months of 2015, reflecting the low level of interest rates. Mutual funds recorded net inflows of funds in each of the first six months, with total volume rising by 4.8%, despite a decline in performance in June 2015. Investments in bank issues continued to decrease significantly.

● Economic growth in **Central and Eastern Europe** (CEE) – without Russia and Ukraine, and without the Western Balkan countries which are still in the process of overcoming recession – was surprisingly strong in the first quarter of 2015 and probably also in the first half of 2015. Supported by the turnaround in the euro area, and thanks mainly to rising real incomes (oil price), high liquidity and interest rate reductions, all of which led to a strong expansion of domestic demand, economic growth in the four Central European countries and also in Bulgaria/Romania came as a pleasant surprise. Our economists have raised their forecast for growth in these countries in 2015 as a whole (as compared with the figure published in our 2014 Annual Report) by an average 1.0 percentage point to +3.5%. Turkey was unable to fully use its high growth potential on account of an unclear economic-policy framework and external vulnerability. Russia and Ukraine were sliding deeper into recession in the first half of 2015 as commodity prices were lower and because of their increasing isolation in the wake of geopolitical tensions.

In Central Europe (CE), the **Czech Republic** was the top performer in the first quarter of 2015, with quarter-on-quarter growth of 10.6% on an annualised basis (+4.2% year-on-year); growth in the first half of 2015 probably also reached a record level of between 3½% and 4% compared with the same period of the previous year. The excellent performance was based on strong foreign demand recorded by the three car manufacturers, which gave impetus to industrial output (January/May: +4.3% year-on-year) and on lively domestic demand reflecting increased employment and higher real incomes as well as buoyant investment activity supported by favourable financing terms and growth in lending. While the effect of export growth is neutralised by rising imports, the growth forecast was revised upwards, by 1.4 percentage points to +3.8%. The Czech currency is under pressure to appreciate, with the central bank intervening at a level of 27.0 CZK/EUR. **Slovakia** presents a similar picture: stronger demand from Western Europe has offset a decline in exports to Russia and Ukraine. Investment in infrastructure and generally expansionary public spending ahead of elections support private consumption in addition to purchasing power gains. Credit demand is recovering. The **Hungarian** export sector achieved the strongest export growth of all CEE countries, which is still a result of the past year's expansion of manufacturing capacity in the automotive, chemicals and rubber industries. Wage increases in an environment of zero inflation, the favourable effect resulting from the haircut on foreign currency loans (averaging –20%) and the turnaround in the real estate sector are driving private consumption. Weaknesses include foreign investment and the extent to which EU funds are used. The key interest rate has recently been reduced to 1.35%. Retail lending is growing, loans to businesses are closely guided by the Funding for Growth Scheme (FGS). Consumer confidence in **Slovenia** has also risen to a peak level on the back of trends in real wages, but consumption is still weak. A significant inventory buildup in the first few months of the year suggests that growth will pick up. On this basis the GDP forecast has been raised (by 0.5 percentage points to +2.3%). Legacy burdens from the past crisis in the form of the EU excessive deficit procedure (wage cuts in the public sector, downward trend in public consumption in the past four years, cf. Greece) and necessary reforms (slow progress in privatisations) are still having an impact on growth.

While macroeconomic data for Romania and Bulgaria are excellent, these countries are still impacted by governance problems and a private sector that is lagging behind. Thanks to **Romania's** strong performance in the first quarter of 2015 (GDP: +6.1% quarter-on-quarter on an annualised basis/+4.3% year-on-year), we have raised the forecast for the entire year by 1.2 percentage points to +3.7%. The economy is supported by price stability, consumption-oriented measures taken by the government (reduction of value-added tax rates, increase of minimum wages) and stronger lending to private individuals. This compares with investment restraint on the part of private businesses (despite high liquidity and favourable financing terms), where attention is also given to Greece-related risks. Economic policy tends to be restrictive, all the more so as the country has to meet conditions imposed by the IMF (SBA). Romania has a moderate current account deficit and records weak FDI inflows while financial assistance available from EU funds is not fully used. Most recently, the inflation rate was 1.6%. Against the background of long-term interest rates of 4%, the currency showed a firm trend. The outlook for **Bulgaria** is also better than at the beginning of the year: the moderate upswing (forecast for 2015 as a whole: +0.6 percentage points to +2.1%) is mostly driven by exports: in the first quarter, exports increased at an annualised rate of 20% quarter-on-quarter, primarily in the pharmaceuticals, cosmetics, furniture and household appliances industries. International transport also expanded strongly. The Bulgarian economy is highly energy-intensive and this is the reason why competitiveness improved

The banking environment (CONTINUED)

in line with oil price developments. Both the current account and the basic balance show surpluses, the budget is under control, with a temporary surplus due to improved tax collection. The international institutions demand further progress in the administration of justice, the reduction of bureaucracy and efficiency in the health sector.

Croatia could overcome several years of recession by achieving moderate growth in the course of 2015 (forecast: +0.5 percentage points, moving into positive territory). The country recorded growth in the first quarter of 2015 and probably also in the first six months of the current year (+0.5%). Starting from a low level, exports including services were the main drivers of growth also in Croatia, while business activity in the domestic market continued to be affected by debt reduction and weak investment. The newcomer to the EU is undergoing an excessive deficit procedure and is also facing a procedure addressing economic imbalances. Recession is coming to an end but weak competitiveness and high public debt (close to 90% of GDP) as well as private households' efforts to reduce their debt are dampening prospects for stronger growth. Relatively generous EU structural aid (2.6% of GDP) offers opportunities but swift use of the funds is delayed by slow progress in project planning and by the public austerity policy. Some 40% of the country's public debt is denominated in US dollars, involving price and interest rate risks. In **Bosnia and Herzegovina**, efforts to repair damage to agricultural land and production facilities which was caused by disastrous floods a year earlier have made better progress than expected. The twin deficits (budget and current account) reflect the local structure of production together with a high marginal propensity to import. The Stabilisation and Association Agreement with the EU, which is seen as a precondition for EU financial assistance, came into force on 1 June 2015. The SBA with the IMF equally requires the country to carry out reforms. **Serbia** is still experiencing recession and implementing structural changes. Its GDP in the first quarter of 2015 was significantly lower than in the same period of the previous year (–1.8%), but in this context one should note the substantial damage to the infrastructure, mining and heavy industry which impacted the country's economy a year ago (Q3 2014: –4.0%). The catching-up process and reconstruction in the mining areas, the steel industry (in combination with investment in expansion) and in electricity generation marked the beginning of a turn for the better, suggesting that growth in 2015 may reach +2% in real terms. Exports are growing at a high rate (including Fiat to Russia) but still account for a disproportionately small proportion of economic activity. The transformation from a state-dominated to a private sector-based economy has started only recently, supported by agreements and co-financing with the IMF, the World Bank and the EBRD. Efforts to restore the budget to a healthy basis in the medium term (target for 2015: –5.9% of GDP) are progressing according to plan, and monetary policy is rather tight at the moment. The situation of the state-owned banks is cause for concern, in view of an impaired loans ratio of 22% (36% in corporate banking).

With 78 million inhabitants and a population that is growing at a rate of 1.2% to 1.5%, **Turkey** continues to enjoy a relatively high degree of economic autonomy and is among the economies which achieve long-term growth. Although economic performance in the first quarter of 2015 was strong (+5.4% quarter-on-quarter on an annualised basis/+2.5% year-on-year), our economists have reduced their growth forecast for 2015 as a whole by 0.7 percentage points to +2.7% (2016: –1.8 percentage points to +2.4%). One of the reasons for this reduction is weak exports: various crisis countries close to Turkey such as Iraq, and also Russia and Egypt, are among the country's key export markets but exports to these countries contracted by 30% to 40%. Another factor to be taken into account is increasing uncertainty among international investors, in view of the unclear formation of a new government following the recent elections. All these factors are having an impact on investment and on international exposures. The expansionary fiscal policy, the oil price decline and accelerated credit expansion (after the measures taken in the previous year to curb lending) supported private consumption. The net external position deteriorated and the inflation rate was 7.2%, despite lower oil prices. Given the country's current account deficit (about 5% of GDP), market interest rates rose to a level above 10% in the second quarter. In the six-month period to the end of June 2015 the Turkish lira depreciated by 5.5% against the euro and by 12.9% against the US dollar.

Massive terms-of-trade losses in the winter months plunged **Russia** into recession: export revenues fell sharply as oil prices declined. Imports decreased even more strongly, by about one-third, as a result of a general price increase due to currency depreciation, a fall in purchasing power and domestic demand, and not least on account of increasing isolation as a consequence of international sanctions and the local import substitution programme. Private consumption and investment were shrinking fast. To avoid unemployment, companies introduced part-time working arrangements and wage cuts. Inflation (mainly caused by currency depreciation) had a substantial impact on consumption. Nevertheless, the year-on-year decline of 2.2% in GPD in the first quarter of 2015 was not as strong as our economists had originally feared. Consequently, the forecast for 2015 as a whole was adjusted from –4.5% in March to –3.4%. A more favourable foreign-trade balance and anti-cyclical government spending contributed to easing the scenario somewhat. An essential factor was the significant strengthening of the rouble, which was successfully initiated by the country's central bank

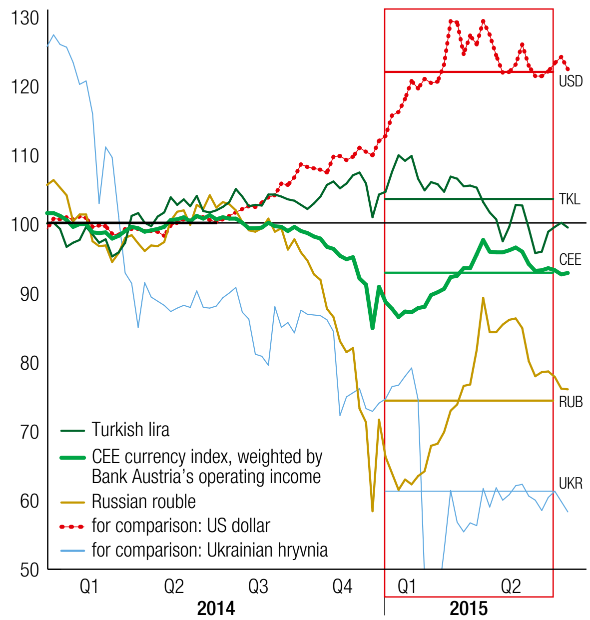
The banking environment (CONTINUED)

(through various measures including low-cost foreign-exchange repo transactions and intervention at the expense of currency reserves). Capital outflows were about US$20 billion in the second quarter of 2015, lower than in the first quarter of 2015 (US$32.5 billion; 2014 as a whole: US$154 billion). From a low in February (77.95 RUB/EUR), when oil prices bottomed out, the Russian rouble appreciated by about 40 % in the period to the end of May; despite a subsequent decline to a level of 62.355 RUB/EUR in June, the exchange rate was 16.0 % higher than at the end of 2014 (72.337 RUB/EUR). (Even at this level, the rouble was down by 24.9 % on June 2014, when it started to weaken in parallel with the fall in oil prices). The inflation rate rose to 17.0 % until April 2015 and subsequently declined to a recent level of 15.3 %. In line with this development, the key interest rate was reduced from 16.00 % to 10.50 % in the first six months. Apart from budgetary problems, which are to be seen mainly in the context of oil prices and exchange rate movements, the medium-term outlook is affected by capacity problems, outdated industrial plant and limited access to international technology.

Economic activity in **Ukraine** collapsed in late 2014/early 2015: a demand shock triggered by the correction of unsustainable imbalances was compounded by a supply shock caused by the loss of important production facilities located in the crisis region, which accounts for about 8 % of the country's territory, 12 % of its GDP and 15 % of exports. As in late 2014, real GDP shrank by 18 % year-on-year in the first quarter of 2015, and the contraction probably continued to a similar extent in the second quarter. If the economic situation stabilises and the status quo in the conflict in eastern Ukraine continues, we expect the economy to shrink by a real 13 % in 2015 as a whole. As exports fell by 20 %, the country recorded a current account deficit of 5 % of GDP. Budget policy had to be tightened via increases in administered (energy) prices; as a consequence, inflation rose to about 60 %. Inevitable market restrictions imposed by the central bank brought capital outflows – and financial markets overall – to a standstill. Following the introduction of capital controls, the Ukrainian hryvnia recovered from its sharp decline in the middle of February (from 16 UAH/EUR to a low of 33 UAH/EUR); in the period from March to June, the currency stabilised at an average level of 24.25 UAH/EUR (–35 % compared with the same period of the previous year). In the first quarter of 2015 the IMF replaced its two-year stand-by arrangement (SBA) with a four-year extended fund facility (EFF). However, the programme is based on an assessment which has in the meantime become outdated: new financing gaps of up to US$3 billion have been identified; moreover, US$12 billion to US$15 billion is now required to recapitalise local banks. Current negotiations on a restructuring of public debt with foreign private lenders (with a volume of about US$19 billion and part of the IMF package) have stalled on account of the controversial status of Russian bonds. The IMF and official creditors have continued partial disbursements following approval of reforms by the Ukrainian parliament and debt service payments on outstanding debt.

● Apart from the Russian rouble and the Ukrainian hryvnia, the **exchange rates** of CEE currencies hardly changed quarter-on-quarter and in a year-on-year comparison. Nevertheless, the translation of items in local income statements into euro had a negative impact of –6.5 % (implicit currency depreciation at the level of Bank Austria's operating income), in average terms for the first half of 2015 compared with the first half of 2014. All of this exchange rate effect was due to depreciation of the Russian rouble (CEE currencies without the rouble: +0.2 %).

CEE currencies: appreciation/depreciation against the euro
Appreciation/depreciation of currencies against the euro, H1 2014 = 100



Bank Austria in the first half of 2015

Overview

Bank Austria recorded a **stable trend** in its **operating activities** in the first six months of 2015 and in comparison with the same period of the previous year. Based on its broadly diversified operations, the bank was able to balance out special influences and cyclical factors, which were partly moving in opposite directions, and to clearly overcome the weakness experienced in the fourth quarter of 2014. This was a notable achievement in an environment characterised by economic stagnation in Austria, combined with continued margin erosion due to interest rates which are close to zero; moreover, Central and Eastern Europe saw more moderate developments including slow growth of business volume in most CEE countries, which reflected debt reduction and disinflation, as well as significant interest rate reductions and narrowing margins. While Bank Austria's commercial banking business with customers provided a sound base, performance in the first half of 2015 was impacted by sharply rising **non-operating charges**, which absorbed a large portion of net operating profit. These charges included one-off effects in connection with the envisaged sale of our banking subsidiary in Ukraine. In addition, new regulatory requirements (implementation of the bank resolution fund) became effective at the beginning of 2015; in combination with increasing bank levies, these charges impact profits.

● In the **second quarter of 2015**, operating income rose by 10.1% to €1,522 million, with contributions to this increase coming from Austrian customer business (+7.3%) and CEE (+8.5%). After two weak quarters, which mainly reflected the decline in Russia on account of exchange rate movements and economic developments, operating income in the second quarter of 2015 again reached the longer-term quarterly average of €1.5 billion. The CEE business segment continued to achieve further growth thanks to the sustained upswing in Central Europe, the strong market position of the banking subsidiaries in South-East Europe including the Western Balkan countries, and strong growth in Turkey. Our Russian banking subsidiary also showed a stronger performance in the second quarter of 2015 although the Russian economy was gliding into recession and sanctions had an impact on business activity. Overall, net operating profit improved significantly from the first to the second quarter, thanks to the stable cost trend and the net release of loan loss provisions in Austria. However, substantially higher non-operating charges totalling €273 million absorbed a large proportion of profits; although net profit for the second quarter of 2015, at €291 million, was higher than in the first quarter, it did not match the level of €430 million achieved in the same period of the previous year, which included the participation in profits of UniCredit Markets.

Net profit by quarter — € million (2014 recast)

	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
Operating income	1,413	1,554	1,570	1,445	1,383	1,522
Net operating profit	433	636	622	373	422	564
Non-operating items [1]	*–85*	*–205*	*–211*	*–235*	*–225*	*–273*
Net profit [2]	**348**	**430**	**412**	**139**	**198**	**291**

1) Total amount of items between net operating profit (operating profit less net write-downs of loans and provisions for guarantees and commitments) and net profit = provisions for risks and charges, systemic charges (including bank levies), integration/restructuring costs, net income from investments, income tax and total profit or loss after tax from discontinued operations. 2) Net profit attributable to the owners of the parent company.

● **Operating income** in the **first half of 2015** was €2,905 million, slightly lower (–2.1%) than in the same period of the previous year; adjusted for exchange rate movements, operating income rose by 2.0%. The slight decline was due to a net expense in the Corporate Center as rising liquidity, funding and issuance costs were no longer offset by the participation in profits of UniCredit Markets, to which Bank Austria was entitled until the end of 2014 under the terms of the sale of CAIB. Net interest was unusually weak (–3.8%) on account of volume and margin developments. While volume in Austrian customer business increased slightly, margins continued to narrow reflecting the protracted phase of zero interest rates. In advanced CEE countries, too, interest rate reductions led to declining margins. Net fees and commissions, on the other hand, rose significantly (+5.4%) – not only in CEE, where commercial services picked up, but also in Austria, where securities business revived. Net write-downs of loans and provisions for guarantees and commitments were €391 million in the first half of 2015, up by 11.3% on the same period of the previous year, with Russia and the cross-regional CEE portfolio accounting for all of the increase. The provisioning charge in the other CEE countries declined, and Austria recorded a net release of loan loss provisions. **Net operating profit** (€986 million) for the first half of 2015 came close to one billion euros (–7.7% compared with H1 2014). The volatile business development in Russia, which also reflected extreme exchange rate fluctuations of the Russian rouble, had a strong influence on performance. Nevertheless, our Russian banking subsidiary achieved significant revenue growth in local currency and a respectable profit. The balance of **non-operating items** in the first half of 2015 was a charge of close to €500 million, one-half of net operating profit. Within the total figure, systemic charges rose by one-third to €175 million. Net income from investments was down by €55 million mainly as a result of one-off income from the sale of real estate in the first half of the previous year. Total profit or loss after tax from discontinued operations – including Ukrsotsbank, which is classified as held for sale – was a loss of €183 million after a loss of €25 million. Net profit amounted to €489 million, with non-operating charges accounting for almost three-quarters (72%) of the significant decline compared with the first half of the previous year.

Net profit for the first half of 2015 — € million (2014 recast)

	H1 2015	H1 2014	+/– € MILLION	+/– %
Operating income	2,905	2,967	–62	*–2.1%*
Net operating profit	986	1,069	–82	*–7.7%*
Non-operating items	*–498*	*–291*	*–207*	*+71.3%*
Net profit	**489**	**778**	**–289**	**–37.2%**

● Bank Austria's **total assets** were **€191 billion**, up by €2.3 billion or 1.2% from year-end 2014 to 30 June 2015. Growth was driven by customer business: customer loans increased by €3.5 billion or 3.1% and customer deposits were up by €5.7 billion or 5.6%.

● **Capital resources** improved in the first six months of 2015: riskweighted assets rose by 3.3% to €135 billion and total regulatory capital increased by 10.7% to €19.4 billion. On this basis the total capital ratio rose from 13.4% to 14.4% as at 30 June 2015. The Common Equity Tier 1 capital ratio at the end of June 2015 was 10.8% (after 10.3% at the end of 2014).

Bank Austria in the first half of 2015 (CONTINUED)

Quarterly trends

Bank Austria's results improved significantly at all levels from the first to the second quarter of 2015. This means that the bank is on track to make up for the setback experienced in the final quarter of 2014 (see chart below). Starting with a very good second quarter of 2014 and an even better third quarter in that year, the past twelve months saw widely divergent quarterly trends: operating income at our banks in CEE countries which are EU member states improved significantly. Volume growth was increasingly impacted by local interest rate reductions – especially in the second quarter of 2015 – converging with the low interest rate environment in Western Europe, which has affected Austrian customer business for quite some time. On the other hand, quarterly trends were strongly determined by events in Russia and Ukraine. In the second quarter of 2015, our Russian banking subsidiary largely offset the revenue shortfall (aggravated by exchange rate effects) seen in the fourth quarter of 2014 (mainly in its net trading performance) and in the first quarter of 2015 (mainly in net interest); in local currency terms, the Russian bank even more than offset the revenue shortfall. And at the end of 2014 we had made large additions to loan loss provisions in CEE, a move which relieved the burden on the income statement in 2015. Non-operating items, on the other hand, increased significantly in the second quarter of 2015 as the combined charge for bank levies and other systemic charges, a permanent effect, rose strongly and one-off expenses related to the banking subsidiary in Ukraine, which is classified as held for sale, increased.

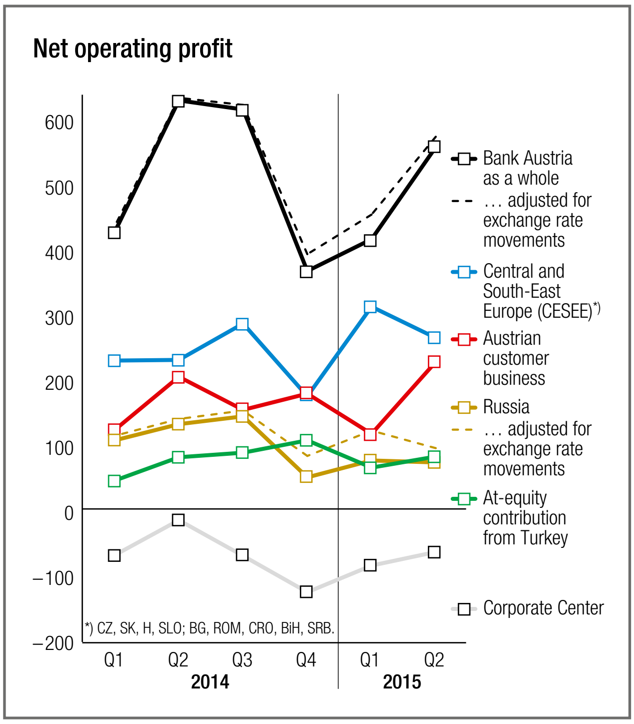
	Q2 2015	+/– Q1 2015		+/– Q2 2014	
	€ MILLION	€ MILLION	%	€ MILLION	%
Operating income	1,522	+139	+10.1%	–32	–2.1%
Operating costs	–776	–26	+3.4%	–2	+0.3%
Operating profit	746	+114	+18.0%	–34	–4.4%
Net write-downs of loans and provisions for guarantees and commitments	–181	+28	–13.5%	–37	+25.9%
Net operating profit	**564**	**+142**	**+33.7%**	**–71**	**–11.2%**
Non-operating items	–273	–48	+21.5%	–68	+32.9%
Net profit 1)	**291**	**+94**	**+47.5%**	**–139**	**–32.3%**

1) Net profit attributable to the owners of the parent company.

● **Operating income** in the second quarter of 2015 was €1,522 million, up by 10.1% on the preceding quarter and only slightly lower than in Q2 2014; adjusted for exchange rate movements, operating income rose by 1.2%. Among the income components, net interest rose by 6.8% to €871 million compared with the first quarter of 2015. Net interest generated by Austrian customer business was significantly lower than a year earlier (–8.4%) while the contribution from CEE more or less matched the Q2 2014 figure; adjusted for exchange rate movements, net interest in CEE was up by 6.9%. Within the item "Dividend income and other income from equity investments" (€136 million for Q2 2015), the contribution from our Turkish joint venture improved by almost one-quarter, to €87 million, after a moderate start to the year, thereby exceeding the Q2 2014 figure. Net fees and commissions rose strongly in the second quarter of 2015 (+9.2% to €373 million), in both CEE and Austria; a substantial contribution came from fee income generated in Austria by mutual fund business and asset management services, in addition to a one-off effect in business with large corporates. Net trading, hedging and fair value income in the second quarter of 2015 amounted to €124 million (Q1 2015: €107 million, Q2 2014: €139 million); this is a notable development as the favourable trend in customer business (Austria and CEE) helped to offset the expiry (at the end of 2014) of Bank Austria's participation in profits of the UniCredit Markets product line. **Costs** remained under control: operating costs in Q2 2015 were €776 million; adjusted for exchange rate movements, they were up by 1.8% on the first quarter of 2015 and 2.2% higher than in Q2 2014. In euro terms, costs increased by 3.4% over the preceding quarter and by 0.3% compared with Q2 2014; these developments mainly reflected exchange rate movements of the Russian rouble, which firmed against the first quarter of 2015 while depreciating significantly against the euro year-on-year.

Net write-downs of loans and provisions for guarantees and commitments in the second quarter of 2015 were €181 million, down by 13.5% on the preceding quarter. In Austria, there was a net release of loan loss provisions (as in the second quarter of 2014 and in the fourth quarter of 2014), resulting in a positive contribution to the income statement (plus €38 million after minus €35 million, a significant swing). Net write-downs of loans in the CEE business segment in the second quarter of 2015 rose by one-quarter, to €219 million, compared with the first quarter; all of this increase was due to developments in Russia (without Russia, the provisioning charge declined strongly quarter-on-quarter and year-on-year). The cost of risk for Bank Austria as a whole in the second quarter of 2015 was 62 basis points of average lending volume.

● As operating profit improved and the provisioning charge was lower, **net operating profit** increased by one-third, to €564 million, from the first to the second quarter of 2015. A year-on-year comparison shows a decline of 11.2%. As in the preceding quarter, **non-operating items** had a strong impact on profits: systemic charges to be deducted from net operating



Bank Austria in the first half of 2015 (CONTINUED)

profit to arrive at profit before tax amounted to €72 million in the second quarter of 2015, after €103 million in the preceding quarter (the figure for Q1 2015 was higher because of an advance payment for the full year in Hungary; the charge for Q2 2014 had been €55 million). Additions to provisions for risks and charges were very low. On this basis, **profit before tax** rose by 58.8% to €493 million; the comparative figure for Q2 2014 was €523 million. Among the other non-operating items, the total profit or loss after tax from discontinued operations was a loss of €123 million (after a loss of €60 million in the preceding quarter and a loss of €27 million in Q2 2014). The loss recorded in this item for the second quarter of 2015 reflects the positive contribution (+€17 million) from Immobilien Holding GmbH in connection with the structured sale process of real estate which is not part of core business, and the current loss (including a provision) of €141 million of PJSC Ukrsotsbank, Ukraine, a bank which is also classified as held for sale (details are given in the following section and in the risk report on page 72). **Net profit** attributable to the owners of the parent company in the second quarter of 2015 was €291 million, higher than for the first quarter (€198 million) and for Q4 2014 (€139 million) but substantially lower than in the second quarter of 2014 (€430 million). Four-fifths of the year-on-year decline of €139 million (–32.3%) is explained by the above-mentioned non-operating items.

Condensed income statement of Bank Austria[1]

(€ million)

RECAST [2]	QUARTERLY FIGURES		HALF-YEAR FIGURES		CHANGE OVER PREVIOUS YEAR	
	Q1 2015	+ Q2 2015	= H1 2015	H1 2014	+/– €	+/– %
Net interest	816	871	1,687	1,754	–67	–3.8%
Dividend income and other income from equity investments	98	136	234	224	+10	+4.4%
Net fees and commissions	341	373	714	677	+37	+5.4%
Net trading, hedging and fair value income	107	124	230	251	–21	–8.3%
Net other expenses/income	20	19	39	60	–21	–35.0%
Operating income	1,383	1,522	2,905	2,967	–62	–2.1%
Payroll costs	–390	–404	–793	–826	+32	–3.9%
Other administrative expenses	–320	–338	–658	–639	–19	+2.9%
Recovery of expenses	0	0	1	0	+0	+42.0%
Amortisation, depreciation and impairment losses on intangible and tangible assets	–41	–35	–76	–82	+6	–7.2%
Operating costs	–751	–776	–1,527	–1,546	+20	–1.3%
Operating profit	632	746	1,378	1,420	–43	–3.0%
Net write-downs of loans and provisions for guarantees and commitments	–210	–181	–391	–352	–40	+11.3%
Net operating profit	**422**	**564**	**986**	**1,069**	**–82**	**–7.7%**
Provisions for risks and charges	–8	0	–8	–43	+35	–81.5%
Systemic charges	–103	–72	–175	–131	–44	+33.3%
Integration/restructuring costs	–1	–1	–2	–7	+6	–77.3%
Net income from investments	0	2	1	56	–55	–97.6%
Profit before tax	**310**	**493**	**803**	**943**	**–140**	**–14.8%**
Income tax for the period	–60	–69	–129	–132	+3	–2.5%
Total profit or loss after tax from discontinued operations	–60	–123	–183	–25	–158	>100%
Profit for the period	190	301	491	786	–295	–37.5%
Non-controlling interests	7	–9	–2	–8	+6	–70.6%
Net profit before PPA [3]	198	291	489	778	–289	–37.2%
Purchase Price Allocation effect	0	0	0	0	+0	n.m.
Goodwill impairment	0	0	0	0	+0	n.m.
Net profit [3]	**198**	**291**	**489**	**778**	**–289**	**–37.2%**

n.m. = not meaningful. /1) Bank Austria's income statement as presented in this table is a reclassified format corresponding to the format used for segment reporting. / 2) Recast to reflect the consolidation perimeter and business structure in 2015. / 3) Attributable to the owners of the parent company.

Bank Austria in the first half of 2015 (CONTINUED)

Details of the income statement

Operating income of Bank Austria in the first half of 2015 more or less matched the figure for the same period of the previous year. It was only towards the end of the reporting period that the expected economic recovery in the euro area became more tangible. Demand did not yet pick up to any significant extent, and even less so in Austria. Key economic indicators suggested strong growth in some CEE countries neighbouring Austria. But disinflation and continued efforts to reduce debt, including the workout of foreign currency loans in several countries with public participation, had a dampening effect on the banking industry. Austrian customer business was impacted by a continued decline in margins as a consequence of the protracted phase of zero interest rates. In the advanced CEE countries, too, interest rate reductions led to lower rates in customer business and narrowing margins. The net interest performance was therefore unusually weak – on account of both volume and margins – while net fees and commissions rose significantly, partly in connection with reviving investor interest, especially in Austria, and partly as a result of commission income from guarantees, loan commissions and account/payment services in CEE (with trends and weights varying from country to country). A major factor was the volatile development of business in Russia, which partly reflected strong depreciation of the Russian rouble: even after appreciating in the course of the first six months of 2015, the average value of the rouble was down by 25.8% on the same period of the previous year. Moreover, compared with Western trends, monetary developments in Russia moved in the opposite direction. Nevertheless, our highly professional Russian banking subsidiary strengthened its market position as a local and international bank, generating revenue growth in local currency – despite restrictions on international capital transactions, the economic setback and volatile interest rates – and achieving significant profits. Turkey was again the economy recording the strongest growth, its economic performance in the first half of 2015 was even stronger than expected: our joint venture, whose results are accounted for using the equity method in accordance with IFRS 11, again made a substantial contribution to revenue growth.

Operating income / components € million (2014 recast)

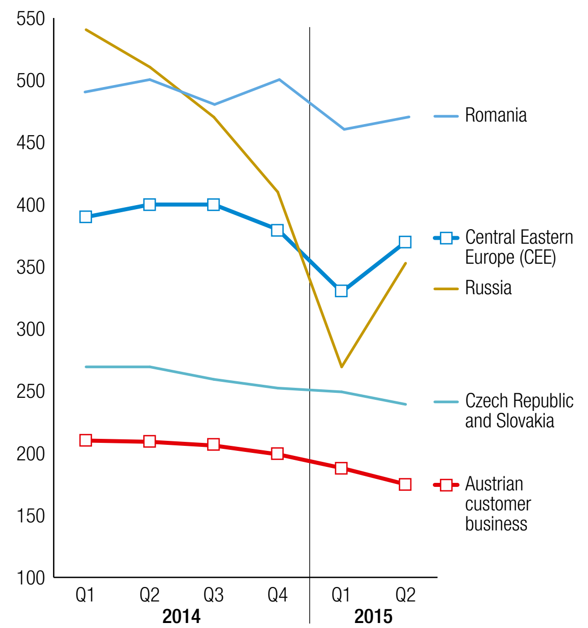
	H1 15	H1 14	+/– € MILLION	+/– %	*CONST*
Net interest	1,687	1,754	–67	–3.8%	*+2.6%*
Dividend income and other income from equity investments	234	224	+10	+4.4%	*+1.9%*
… of which at-equity contribution from Turkey	*157*	*136*	*+21*	*+15.6%*	*+11.4%*
Net fees and commissions	714	677	+37	+5.4%	*+6.7%*
Net trading, hedging and fair value income	230	251	–21	–8.3%	*–1.7%*
Other	39	60	–21	–35.0%	–54.8%
Total operating income	**2,905**	**2,967**	**–62**	**–2.1%**	***+2.0%***

● An analysis of **operating income** by component confirms the overall picture: operating income in the first half of 2015 was €2,905 million, down by €62 million or 2.1% on the first six months of the previous year, a period which was not strongly impacted by major adverse developments. Adjusted for exchange rate movements, i.e. translated at constant exchange rates, operating income rose slightly, by 2.0%.

▶ **Net interest** was **€1,687 million**, down by 3.8% on the same period of the previous year. It was the main income component, accounting for 58% of total operating income. The fact that underlying average lending volume rose by 1.7% shows that interest margins narrowed. Measured against all interest-bearing assets, net interest in the first half of 2015 was 198 basis points (bp), down by 17bp on the first six months of the previous year (206bp). Net interest generated from customer loans/deposits declined even more significantly, by 30bp to 194bp (H1 2014: 224bp).

Net interest generated by the three segments of Austrian customer business continued to decline in 2015, by 7.5% to €628 million, although volume increased by 1.6%. The most pronounced decrease was seen in retail banking. While lively new business helped to attract volume on competitive terms and to gain market share, the decline in the total commercial spread (customer rate on loans less customer rate on deposits, i.e. without contributions from maturity transformation and without the interest rate applied to investment of equity) accelerated in the first half of 2015 (see chart). In the CEE Division, net interest was €1,190 million, down by 1.7% in euro terms; at constant exchange rates, it was up by 7.5% on the same period of the previous year. Without Russia, which is a special case, and without Turkey, which is accounted for using the equity method, net interest rose modestly, by €12 million or 1.3% to €883 million although volume based on this definition was 4.2% higher than in the first six months of the previous year. While interest margins narrowed across all country groups, they are still wide enough for net

Total commercial spread
(customer rate loans less customer rate deposits in basis points of lending volume and deposit volume)



Bank Austria in the first half of 2015 (CONTINUED)

interest to grow at a disproportionately high rate the next time volume increases again. Net interest generated in Russia, at €306 million, was down by €32 million or 9.5% on the first half of 2014, although average lending volume increased by 2.3%. Net interest performance in the first half of 2015 was impacted by higher costs associated with liquidity holdings due to market conditions and by Tier 2 capital costs.

▶ In contrast to net interest, **net fees and commissions** rose by €37 million or 5.4% to **€714 million**. This may be interpreted as heralding stronger commercial activity in the second half of 2015, all the more so as the widely observed wait-and-see attitude is gradually being abandoned, if not in lending business most certainly in respect of transactions. Particularly gratifying growth of €35 million or 10.6% to a total of €366 million was recorded in net fees and commissions generated by Austrian customer business, with retail banking making the largest contribution (+€15 million/+9.5% to €168 million). Private Banking achieved growth of 15.2%. In both cases, growth was driven by customers' propensity to invest, in combination with successful efforts to attract new business in the areas of fund investments and asset management. The volume of mutual funds placed with retail customers rose by 9.8% year-on-year, to €6.2 billion. Private Banking recorded exceptionally strong growth of 17.9% in assets under management, which increased to €7.9 billion (including safe-custody business, the total figure grew by 11.1% to €14.4 billion). This result reflects net inflows of funds and performance as well as the effect of a new fee model (see commentary on the Private Banking business segment). The Corporate & Investment Banking (CIB) Division generated net fees and commissions of €56 million in the first half of 2015, an increase of €15 million or 36.2% over the same period of the previous year; the major portion of the increase was due to a large transaction settled in June.

Net fees and commissions in the CEE business segment were €351 million, matching the figure for the first half of the previous year; without Russia, net fees and commissions in CEE were up by €40 million or 14.3%. On account of structural differences, the composition of net fees and commissions differs from country to country, i.e. fees and commissions come from different sources. In the Central European countries, investment in mutual funds is growing, currently supported by rising disposable incomes; in this area, strong growth was achieved especially in the Czech Republic (+11.5%) and Hungary (+6.2%). In South-East Europe (where only Croatia recorded a weaker trend), loan/guarantee commissions and account/payment services were the main drivers of growth in net fees and commissions, from a low level. In Russia, a sharp decline was seen especially in fee-based retail banking business, for obvious reasons. This decline was partly offset by transaction banking services and cross-regional guarantees for corporate customers.

▶ **Net trading, hedging and fair value income**, which reflects a number of factors partly offsetting each other, was again strong in the first half of 2015; at **€230 million**, it was down by €21 million or 8.3% on the same period of the previous year. All of the decline was accounted for by the Corporate Center (–€78 million), which recorded net trading income of €5 million after €83 million. The decline was mainly due to the fact that from 2015, Bank Austria no longer received a share in profits of the UniCredit Markets product line to which the bank had been entitled in the past five years under the terms and conditions of the sale of UniCredit CAIB. Austrian customer business generated net trading income of €57 million in the first half of 2015, up from €38 million for the same period of the previous year. The favourable capital market environment in the first quarter of 2015 made it possible to realise gains and the second quarter of 2015 saw stronger demand for interest rate hedging transactions. Moreover, valuation effects in trading operations (CVA) benefited net trading income to a significant extent. Customer-driven trading activities (Markets/Network) of the CIB Division also developed favourably for these reasons.

The contribution from CEE countries to overall net trading, hedging and fair value income was €168 million, a year-on-year increase of €38 million or 29.2% (adjusted for exchange rate movements: +41.5%) although the cross-regional sub-holding company functions assigned to the business segment had a negative impact also on net trading performance. Results vary considerably from country to country. Customer-driven trading activities, which account for about 60% of net trading income, increased significantly, especially in those countries where outstanding volume and loans/investments in US dollars and euros are still important factors, despite an ongoing reduction. Trading in interest rate derivatives developed very well, against the background of volatile markets. Securities trading, on the other hand, was lagging behind the levels recorded in the previous year, when strong reductions of interest rates made it possible to realise gains on financial market investments. In regional terms, all country groups generated large increases in net trading income: an exceptionally strong performance came from Central Europe (CE) with an increase of 60.8% to €74 million. Our banking subsidiaries in South-East Europe (SEE) also reported higher net trading income (+9.8% to €77 million), with commercial foreign exchange trading accounting for the largest proportion. Our Russian bank recovered from the setback in the turbulent fourth quarter of 2014 (–€51 million) and generated net trading income of €40 million in the first half of 2015 thanks to a good performance from derivatives and bond trading, despite the adverse environment in foreign exchange trading and negative valuation effects (CVA) in trading operations. The increase of €22 million over H1 2014 also reflects the low base figure for that period, when the Ukraine conflict escalated.

Bank Austria in the first half of 2015 (CONTINUED)

▶ **Dividend income and other income from equity investments** increased by €10 million or 4.4% to **€234 million**. This figure includes the share in profits of Yapı Kredi ve Bankasi, a joint venture in Turkey with our partner Koç Group, which is accounted for using the equity method in accordance with IFRS 11. The contribution from Turkey in the first half of 2015 was €157 million, up by €21 million or 15.6% on the same period of the previous year. This good performance resulted from very strong volume expansion (loans: +27.6%/deposits: +23.0%), with a favourable development of net interest, and from continued growth of fee and commission income. The other companies accounted for using the equity method, mostly financial services providers in Austria, also performed well; the year-on-year decline is due to the sale of CA Immo.

➔ Overall, and also in the various Divisions and regions, operating income generated by Austrian customer business remained stable, at €1,080 million (–0.5%), accounting for 37% of the total figure for Bank Austria. Operating income in the CEE business segment rose by €29 million or 1.6% to €1,884 million (65% of the total figure for Bank Austria); the increase was unusually low on account of the cross-regional portfolios and expenses for sub-holding company functions (–€22 million) and because of exchange rate effects in Russia (–€54 million). (Operating income in Russia increased by 17.9% in local currency but declined by 12.5% in euro terms; in this context the revaluation of local foreign currency business denominated in US dollars compares with currency depreciation reflected in the translation of figures in the income statement.)

Operating income / business segments and regions

€ million (2014 recast)

	H1 15	H1 14	+/– € MILLION	+/– %	CONST
Austrian customer business	1,080	1,086	–6	–0.5%	
Central Eastern Europe (CEE)	1,884	1,854	+29	+1.6%	*+8.6%*
… CEE countries	*1,860*	*1,808*	*+52*	*+2.9%*	*+10.1%*
… Central Europe (CE)	545	501	+44	+8.7%	*+8.9%*
… South-East Europe (SEE)	782	741	+40	+5.4%	*+5.8%*
… At-equity contribution from Turkey	157	136	+21	+15.6%	*+11.4%*
Subtotal	*1,484*	*1,379*	*+105*	*+7.6%*	*+7.5%*
… Russia	376	430	–54	–12.5%	+17.9%
*… CEE cross-regional *)*	*24*	*46*	*–22*	*–48.2%*	*–49.7%*
Corporate Center	–59	27	–86	n.m.	
Bank Austria as a whole	**2,905**	**2,967**	**–62**	**–2.1%**	**+2.0%**

*) Cross-regional business (Profit Center Vienna, UCTAM restructuring unit, etc.) and CEE Corporate Center sub-holding company functions (capitalisation, liquidity management, equity interest management). n.m. = not meaningful

Operating income generated by the other CEE countries (CEE without Russia and cross-regional items = €1,484 million) rose significantly, by 7.6% (adjusted for exchange rate movements: +7.5%), across all regions (see table). Total operating income was impacted by a net expense recorded in the Corporate Center (–€59 million after +€27 million). This change is explained by the expiry of the participation in profits of UniCredit Markets at the end of 2014 and by rising liquidity costs, funding costs and issuance costs.

▶ The trend in **operating costs** reflects the success of various cost reduction initiatives in Austria (including the Bank Austria 2020 programme) and CEE. In the first half of 2015, operating costs were €1,527 million, down by €20 million or 1.3% on the first six months of 2014. Even when adjusted for (in this case favourable) exchange rate effects, costs present a stable picture (+1.3%). An analysis by type of costs shows that payroll costs (€793 million) were reduced by 3.9% year-on-year, and this was the main factor in overall cost reduction. Other administrative expenses, depreciation/amortisation and recovery of expenses rose only slightly, by a combined 1.8%, due to modernisation initiatives in customer business (digitalisation, implementation of the new branch concept in Austria and several other countries, development of new software). (Other costs were combined because leasing expenses for real estate used by the company for its own operations were transferred from the item "depreciation" to "other administrative expenses".) Total costs in Austria (customer business including the Corporate Center) were down by 0.5%, with payroll costs declining by 4.5%. Our Initiative 2020 helped to reduce effective employment, primarily through part-time models, and provided flexible working arrangements. In average terms for the first half of 2015, and without Immobilien Holding, payroll costs in Austria reflected a decrease of 389 full-time equivalents (FTEs, –5.3%) in the reporting period compared with the first six months of the previous year. Staff reductions were most pronounced in the Retail subdivision of the Retail & Corporates business segment (down by an average 261 FTEs). Some relief came from the fact that current social charges (pension obligations) were lower, reflecting a change in the interest rate applied. In the CEE Division, operating costs amounted to €718 million. At this level they were 2.1% lower than in the same period of the previous year and up by 3.4% at constant exchange rates, with both effects being due to developments in Russia (down by 18.0% in euro terms/up by 10.5% in rouble terms). Payroll costs in Russia rose as a result of higher social charges, and other administrative expenses increased in connection with IT projects; moreover, rent agreements denominated in US dollars had an impact on account of exchange rate movements. Without Russia, operating costs rose by only 1.5% (adjusted for exchange rate movements: +1.7%). In average terms for the first half of 2015, staff numbers in the CEE Division (without Turkey and Ukraine) were 24,060 FTEs, more or less unchanged. The decline of 310 FTEs (–1.3%) was accounted for by Croatia (–309 FTEs) following the deconsolidation of Istraturist. The cost/income ratio in CEE – without Turkey, whose contribution is accounted for using the equity method and is therefore included in operating income but not in operating costs – declined by 1.1 percentage points to 41.6%. As revenue trends in Austria were weaker, the cost/income ratio for Bank Austria as a whole rose slightly, from 54.6% to 55.6%.

Bank Austria in the first half of 2015 (CONTINUED)

Operating costs

€ million (2014 recast)

	H1 15	H1 14	+/– € MILLION	+/– %	CONST
Austrian customer business	725	712	+13	+1.8%	
Central Eastern Europe (CEE)	718	733	–15	–2.1%	*+3.4%*
Corporate Center	84	101	–17	–17.0%	
Bank Austria as a whole	1,527	1,546	–20	–1.3%	*+1.3%*
Cost/income ratio					
Austrian customer business	67.1%	65.6%	+1.5 percentage points		
Central Eastern Europe (CEE)	38.1%	39.5%	–1.4 percentage points		
… without at-equity contribution from Turkey 1)	*41.6%*	*42.7%*	*–1.1* percentage points		
Bank Austria as a whole	52.6%	52.1%	+0.4 percentage points		
… without at-equity contribution from Turkey 1)	*55.6%*	*54.6%*	*+0.9* percentage points		
Type of costs					
Payroll costs	793	826	–32	–3.9%	–1.1%
… average FTEs 2)	*30,959*	*31,658*	*–699*	*–2.2%*	
Other administrative expenses	658	639	+19	+2.9%	+5.0%
Depreciation/amortisation on tangible/intangible assets	76	82	–6	–7.2%	–1.8%

1) The contribution from Turkey is accounted for using the equity method. It is included in operating income but not in operating costs. 2) Without operations classified as held for sale (Ukraine and Immobilien Holding).

▶ **Net write-downs of loans and provisions for guarantees and commitments** in the first half of 2015 were €391 million, up by €40 million or 11.3% on the same period of the previous year. The effects of an exceptionally favourable trend in **Austria**, where the income statement reflects a net release of loan loss provisions, and of further declining provisioning charges in most of the CEE countries were offset by an increase in net write-downs of loans in Russia and in the cross-regional loan portfolio. Austria (customer business including the Corporate Center) benefited from a net release of loan loss provisions (€2 million) after a provisioning charge of €37 million for the same period of the previous year. The Retail & Corporates business segment saw a positive swing of €52 million in this item of the income statement. The first half of 2014 also saw a net release of loan loss provisions as the risk models indicated an improvement in asset quality; in that period, the net release of €11 million benefited the Retail subdivision, where the situation returned to normal in the first half of 2015. This year a net release of loan loss provisions (€19 million) became possible in the Corporates subdivision, supported by the resolution of a major exposure. Even without these movements, the risk profile in Austria has eased in line with the market situation and as a result of successful risk management over many years.

Net write-downs of loans and provisions for guarantees and commitments

€ million (2014 recast)

	H1 15	H1 14	+/– € MILLION	+/– %	CONST
Austrian customer business	0	36	–36	–100.4%	
Central Eastern Europe (CEE)	394	314	+80	+25.3%	+38.5%
… Russia	107	46	+61	>100%	>100%
… Central Europe (CE)	59	87	–28	–32.0%	–32.0%
… South-East Europe (SEE)	154	162	–8	–5.1%	–5.0%
… CEE cross-regional	74	19	+55	>100%	>100%
Corporate Center	–2	2	–4	n.m.	n.m.
Bank Austria as a whole	**391**	**352**	**+40**	**+11.3%**	**+23.2%**
Austria incl. Corporate Center	*–2*	*37*	*–40*	*n.m.*	

n.m. = not meaningful

Net write-downs of loans and provisions for guarantees and commitments in the **CEE** business segment in the first six months of 2015 were €394 million, significantly higher than in the same period of the previous year (+€80 million/+25.3%). The increase was due to developments in Russia (+€61 million) and in the cross-regional portfolio of the Vienna-based CEE headquarters (+€55 million). In Russia, the deterioration was caused by the commercial impact of currency depreciation on the balance sheets of corporate customers. Until the crisis started, Russia was among the countries with the lowest cost-of-risk levels: in the previous year, the cost of risk was 67 basis points of average lending volume. In the first half of 2015, the cost of risk more than doubled (but was still lower than in Romania, for example). The combined provisioning charge in the other countries reached €213 million, a decrease of €36 million or 14.4%. Contributions to the decline came from the Central European countries – reflecting their good economic performance –, led by our banking subsidiary in the Czech Republic and Slovakia with a reduction of one-third (–33.2%) and by Hungary (–41.9%), not least on account of successful conversion of foreign currency loans. In the first half of 2015, net write-downs of loans were also lower in Slovenia, and even in Bosnia and Herzegovina as well as Serbia, compared with the same period of the previous year. The cost of risk in CEE (without Russia and cross-regional) declined by 25 basis points (bp) to 106 bp. For CEE as a whole, the cost of risk in the first half of 2015 was 136 bp.

Provisioning charge and cost of risk

	PROVISIONING CHARGE € million (2014 recast)			COST OF RISK Basis points of lending volume		
	H1 15	H2 14	H1 14	H1 15	H2 14	H1 14
Austria *)	–2	70	37	–1bp	49bp	13bp
CEE	394	360	314	136bp	129bp	112bp
Without Russia and CEE cross-regional	*213*	*316*	*249*	*105bp*	*161bp*	*130bp*
Bank Austria as a whole	391	430	352	67bp	75bp	61bp

*) including the Corporate Center

Bank Austria in the first half of 2015 (CONTINUED)

As at the end of June 2015, **asset quality** of Bank Austria's loan portfolio was more or less unchanged, despite the burdens resulting from Russia and the cross-regional portfolio. Problem loans increased more slowly than lending volume. The proportion of impaired loans was 9.0% of the gross volume of loans to customers as at 30 June 2015, compared with 9.2% at the end of December 2014 and at the end of June 2014; in net terms, i.e. after deduction of loan loss provisions, the impaired loans ratio was 4.2% after 4.3% and 4.4%. As specific write-downs of loans were increased, the coverage ratio rose from 54.6% of the total amount of impaired loans as at the end of June 2014 to 55.8% at the end of June 2015. In CEE, the impaired loans ratio was 12.3% (on a net basis, 6.4%), slightly lower than at the relevant dates in the previous year, a development which reflects higher credit growth. In CEE, too, the coverage ratio improved slightly, to 52.0% (after 51.2% and 50.9%). In Austria, the impaired loans ratio was 5.6% (on a net basis, 2.1%) and the coverage rate reached 64.4%.

Lending volume and asset quality 1)

(€ million)	30 JUNE 2015	31 DEC. 2014	30 JUNE 2014
Bank Austria as a whole			
Gross loans to customers	124,150	120,536	122,052
Total write-downs	–6,925	–6,804	–6,748
Net loans to customers	117,226	113,732	115,304
Gross impaired loans	11,187	11,056	11,187
… % of gross loans to customers	*9.0%*	*9.2%*	*9.2%*
Specific write-downs	–6,244	–6,130	–6,108
Coverage ratio	55.8%	55.4%	54.6%
Net impaired loans	4,943	4,927	5,079
… % of net loans to customers	*4.2%*	*4.3%*	*4.4%*
Central Eastern Europe (CEE)			
Gross loans to customers	62,959	60,544	61,265
Total write-downs	–4,373	–4,165	–4,174
Net loans to customers	58,586	56,378	57,091
Gross impaired loans	7,764	7,499	7,614
… % of gross loans to customers	*12.3%*	*12.4%*	*12.4%*
Specific write-downs	–4,041	–3,836	–3,873
Coverage ratio	52.0%	51.2%	50.9%
Net impaired loans	3,723	3,662	3,741
… % of net loans to customers	*6.4%*	*6.5%*	*6.6%*

1) Ukraine (classified as held for sale) and Turkey (accounted for using the equity method) are no longer included in the relevant items of the statement of financial position and the income statement. Comparative figures for 2014 reflect the figures in the statement of financial position.

➔ Operating income less costs and net write-downs of loans and provisions for guarantees and commitments gives a **net operating profit** of €986 million for the first half of 2015. The decline of €82 million (–7.7%) compared with the same period of the previous year is mainly explained by the Corporate Center which was impacted by the expiry of the participation in profits of UniCredit Markets. The sub-holding company functions assigned to the CEE business segment also increased compared with the previous year, as a result of growth and financial market conditions; together with the results of the Vienna-based CEE headquarters (PCV) they contributed to the increase in the "CEE cross-regional" item (see table).

Net operating profit

€ million (2014 recast)

	H1 15	H1 14	+/– € MILLION	+/– %	*CONST*
Austrian customer business	355	338	+17	+5.1%	
Central Eastern Europe (CEE)	772	807	–35	–4.3%	+1.8%
… CEE countries operative	*904*	*856*	*+47*	*+5.5%*	*+11.2%*
… At-equity contribution from Turkey	157	136	+21	+15.6%	+11.4%
… Russia	159	249	–90	–36.3%	–14.2%
… Central Europe	261	204	+57	+27.8%	+28.2%
… South-East Europe	327	267	+60	+22.3%	+23.0%
… CEE cross-regional	*–131*	*–49*	*–82*	*>100%*	*>100%*
Corporate Center	–141	–76	–65	+85.0%	
Bank Austria as a whole	**986**	**1,069**	**–82**	**–7.7%**	**–3.9%**

For this reason the CEE Division's net operating profit was slightly lower than in the first half of the previous year (down by €35 million or 4.3%; adjusted for exchange rate movements, net operating profit in CEE rose by 1.8%). The decline in Russia (–€90 million/–36.3%; adjusted for exchange rate movements, –14.2%) was kept within limits in a difficult market environment. It was more than offset by the favourable developments in Central Europe, South-East Europe and Turkey: their combined net operating profit reached €745 million, an increase of €138 million or 22.7%. Overall, the CEE business segment accounted for over two-thirds (68%) of Bank Austria's net operating profit (calculated on the basis of the share of customer business, i.e. without the loss in the Corporate Center). Net operating profit generated by Austrian customer business was €355 million (32% of the total figure for Bank Austria), up by €17 million or 5.2% as it was not impacted by net write-downs of loans.

● The balance of **non-operating income/expenses** to be taken into account in calculating profit before tax on the basis of net operating profit was a net expense of €183 million for the first half of 2015 compared with a net expense of €126 million in the same period of the previous year, an increase of 45.8%. Systemic charges, which rose by one-third to €175 million, accounted for a large proportion of the total amount. Within the systemic charges, the charge for bank levies was €96 million (€66 million in Austria alone, before allocation); contributions to the EU resolution fund (€19 million in Austria, €2 million in Hungary, €6 million in Croatia) totalled €27 million and the contribution to the local Romanian fund amounted to €2 million; contributions to deposit guarantee schemes at the EU and local levels totalled €50 million (Austria: €7 million). Overall, bank levies and other systemic charges absorbed 17.7% of net operating profit (H1 2014: 12.3%). Additions to provisions for risks and charges in the first half of 2015 were €8 million, down by €35 million on the same period of the previous year, in which provisions were made for foreign currency conversion in Hungary. Net income from investments was €1 million after €56 million in the first half of the previous year; the previous year's figure reflected gains on the sale of real estate (including the head office building). Integration/restructuring costs remained low, at €2 million after €7 million.

Bank Austria in the first half of 2015 (CONTINUED)

➔ **Profit before tax** for the first half of 2015 was **€803 million**, down by €140 million or 14.8% on the same period of the previous year. Without the systemic charges, profit before tax would have increased. These charges and other burdens were absorbed by the Corporate Center. This explains why profit before tax generated by Austrian customer business, at €295 million, was only 1.0% lower than in the first half of the previous year, and profit before tax in the CEE Division was down by only 1.1% to €678 million. At constant exchange rates, profit before tax in CEE improved by 5.9%.

Profit performance € million (2014 recast)

	H1 15	H1 14	+/– € MILLION	+/– %	*CONST*
Operating profit	1,378	1,420	–43	–3.0%	*+2.8%*
Net write-downs of loans	–391	–352	–40	+11.3%	*+23.2%*
Net operating profit	986	1,069	–82	–7.7%	*–3.9%*
Provisions for risks and charges	–8	–43	+35	–81.5%	
Systemic charges	–175	–131	–44	+33.3%	
Integration/restructuring costs	–2	–7	+6	–77.3%	
Net income from investments	1	56	–55	n.m.	
… non-operating items I	*–183*	*–126*	*–57*	*+45.8%*	
Profit before tax	803	943	–140	–14.8%	*–10.5%*
Income tax	–129	–132	+3		
Total profit or loss after tax from discontinued operations	–183	–25	–158		
Non-controlling interests	–2	–8	+6		
… non-operating items II	*–315*	*–165*	*–150*	*+90.7%*	
Net profit [1)]	**489**	**778**	**–289**	**–37.2%**	***–46.6%***

1) Net profit attributable to the owners of the parent company. / CONST = CEE translated into euro at constant exchange rates. n.m. = not meaningful

● Among the **remaining items to be deducted** to determine net profit, **income tax** amounted to €129 million; this compares with €132 million for the first six months of the previous year. The effective tax rate in the first half of 2015 was 16.1%, higher than for the same period of the previous year (14.0%).

The item **total profit or loss after tax from discontinued operations** for the first half of 2015 was a loss of €183 million compared with a loss of €25 million for the first six months of the previous year. In addition to results from a number of individual assets, this item includes the profit or loss from major asset groups classified as held for sale: the Immobilien Holding GmbH Group (with its subsidiaries as well as Wien Mitte Immobilien GmbH and its parent company Wien Mitte Holding GmbH), which holds a portfolio of about 80 properties throughout Austria being sold via a structured sales process. In the first half of 2015, these activities generated a profit after tax of €25 million.

Public Joint Stock Company Ukrsotsbank, Kiev, with its subsidiaries continues to be classified as held for sale. The loss of this disposal group (before deduction of non-controlling interests) in the first half of 2015 was €208 million. About one-half (€100 million) of the total loss relates to a further provision for Ukrsotsbank reflected in the financial statements.

At the end of June 2015, we converted existing loans of UniCredit Bank Austria AG in the amount of US$250 million into equity of Ukrsotsbank. UniCredit SpA, the largest minority shareholder, did not participate in the capital increase. As a result, the Bank Austria Group's shareholding interest in Ukrsotsbank rose from 72.91% to 91.36%. The item "non-controlling interests" changed accordingly.

➔ **Net profit** (attributable to the owners of the parent company) for the first half of 2015 was €489 million after €778 million in the first six months of 2014. Based on net operating profit of €986 million, which was down by €82 million on the same period of the previous year, the difference between net operating profit and the bottom line in the first half of 2015 amounted to minus €498 million compared with minus €291 million in the same period of the previous year, a deterioration of €207 million. Net profit thus declined by €289 million or 37.2%; almost three-quarters (72%) of the decline is explained by the above-mentioned non-operating items:

Net profit € million (2014 recast)

	H1 15	H1 14	+/– € MILLION	+/– %
Net operating profit [1)]	986	1,069	–82	–7.7%
Non-operating items	–498	–291	–207	+71.3%
Net profit [2)]	**489**	**778**	**–289**	**–37.2%**

1) Operating profit less net write-downs of loans and provisions for guarantees and commitments. 2) Net profit attributable to the owners of the parent company.

Austrian customer business generated a net profit of €212 million in the first six months of 2015, a decrease of €15 million or 6.7% compared with the same period of the previous year. Operations in the countries covered by the CEE business segment made a combined net profit of €675 million, an increase of €69 million or 11.4%, although net profit in Russia was down by €73 million or 36.9% to €124 million. This performance was impacted by non-operating items assigned to the CEE business segment – mainly the current loss and valuation result of the Ukrainian bank, which is a discontinued operation held for sale – and by expenses relating to the cross-regional loan portfolio.

Net profit by business segment € million (2014 recast)

	H1 15	H1 14	+/– € MILLION	+/– %
Austrian customer business	212	227	–15	–6.7%
CEE business segment	346	537	–192	–35.7%
… CEE countries	*675*	*606*	*+69*	*+11.4%*
… CEE cross-regional [1)]	*–329*	*–68*	*–260*	*>100%*
Corporate Center	–68	14	–83	n.m.
Net profit [2)]	**489**	**778**	**–289**	**–37.2%**

1) Cross-regional business (Profit Center Vienna, UCTAM restructuring unit, etc.) and CEE Corporate Center sub-holding company functions (capitalisation, liquidity management, equity interest management). 2) Net profit attributable to the owners of the parent company. n.m. = not meaningful

Return on equity (ROE after tax), based on average equity (after deduction of reserves in accordance with IAS 39 and of non-controlling interests), was 6.9% for the first half of 2015 after 10.9% in the first half of 2014.

Bank Austria in the first half of 2015 (CONTINUED)

Statement of financial position and capital resources

● As at 30 June 2015, Bank Austria's **total assets** were **€191.4 billion**, up by €2.3 billion or **1.2%** on year-end 2014 and €8.8 billion or **4.8%** higher than at the end of June 2014. Quarter-on-quarter and year-on-year developments show sound growth of customer loans and a strong increase in direct funding (i.e. the sum total of deposits from customers and debt securities in issue). Hedging derivatives on the assets side and the liabilities side declined from their year-end 2014 levels, as did financial assets/liabilities held for trading. Financial market investments, including holdings of government bonds, which are important for the bank's liquidity management, rose strongly. Equity increased, reflecting the net profit for the first half of 2015 and a more favourable trend in reserves.

In analysing movements in the statement of financial position, one should note **exchange rate changes** which were partly moving in opposite directions: the Russian rouble had depreciated strongly against the euro (and against the US dollar) in the second half of 2014 and subsequently gained 18.1% in the period to the end of June; overall, a year-on-year comparison shows currency depreciation of 24.3%. From the end of 2014 to the end of the reporting period, the euro depreciated significantly against the Swiss franc (–13.0%) and against the US dollar (–7.6%), with several CEE currencies following suit. In local balance sheets, this currency depreciation involved a revaluation of assets and liabilities denominated in foreign currency.

● On the **assets side, loans and receivables with customers** amounted to **€117.2 billion** at the end of June 2015, accounting for 61.2% of total assets. Growth was seen in the course of the first half of 2015 (+€3.5 billion or +3.1%). The year-on-year increase of €1.9 billion or 1.7% was lower, reflecting the weak trend in the second half of 2014. In Austria (customer business including the Corporate Center), lending volume rose by €1.7 billion or 2.9% from year-end 2014 to the end of June 2015; year-on-year, lending volume rose by only €0.5 billion or 0.9%, given the slight decline in 2014. Most of the increase was seen in the Retail subsegment of the Retail & Corporates Division (+€1.1 billion/+7.8% compared with year-end 2014). Lively new business in construction loans and housing finance led to market share gains. Developments were additionally supported by a statistical effect when the Swiss franc's link to the euro was discontinued in January, leading to a revaluation of loans. Lending volume also expanded in the Corporates subsegment (+1.5%) and in the CIB Division (+5.6%) in the first six months of 2015. Credit expansion in CEE was low, at +€1.8 billion or +3.2% from year-end 2014 to the end of June 2015 and +€1.0 billion or +1.8% year-on-year (our strongly growing Turkish joint venture is included in the item "Investments in associates and joint ventures", not with contributions to the various items of the statement of financial position). Loans and receivables with customers in Russia are very difficult to interpret as the Russian rouble appreciated by 18.1%

Major items in the statement of financial position (€ million)

	30 JUNE 2015	31 DEC. 2014	CHANGE +/– € MILLION	CHANGE +/– %	30 JUNE 2014 ADJUSTED [1]	CHANGE +/– € MILLION	CHANGE +/– %
ASSETS							
Financial market investments [2]	25,091	22,830	+2,261	+9.9%	23,852	+1,240	+5.2%
Financial assets held for trading and hedging derivatives	6,302	7,484	–1,183	–15.8%	5,540	+761	+13.7%
Loans and receivables with banks	28,142	30,542	–2,400	–7.9%	24,468	+3,674	+15.0%
Loans and receivables with customers	117,226	113,732	+3,494	+3.1%	115,304	+1,921	+1.7%
Investments in associates and joint ventures	4,614	4,644	–30	–0.6%	4,409	+205	+4.7%
Intangible assets	192	171	+21	+12.4%	167	+25	+15.2%
Non-current assets and disposal groups classified as held for sale [3]	3,045	3,600	–555	–15.4%	3,002	+43	+1.4%
Other asset items	6,830	6,114	+715	+11.7%	5,917	+913	+15.4%
Total assets	**191,442**	**189,118**	**+2,324**	**+1.2%**	**182,660**	**+8,783**	**+4.8%**
LIABILITIES AND EQUITY							
Financial liabilities held for trading and hedging derivatives	5,670	6,755	–1,086	–16.1%	4,526	+1,144	+25.3%
Deposits from banks	22,463	23,696	–1,233	–5.2%	26,635	–4,172	–15.7%
Deposits from customers	107,971	102,271	+5,700	+5.6%	95,842	+12,129	+12.7%
Debt securities in issue	28,637	30,014	–1,376	–4.6%	29,129	–492	–1.7%
… Direct funding (deposits from customers and debt securities in issue)	*136,608*	*132,285*	*+4,324*	*+3.3%*	*124,971*	*+11,637*	*+9.3%*
Liabilities included in disposal groups classified as held for sale [3]	1,556	1,845	–289	–15.6%	1,545	+11	+0.7%
Provisions for risks and charges	5,706	6,076	–371	–6.1%	5,368	+337	+6.3%
Equity	15,696	14,925	+771	+5.2%	15,884	–188	–1.2%
Other liability items	3,744	3,536	+208	+5.9%	3,730	+13	+0.4%
Total liabilities and equity	**191,442**	**189,118**	**+2,324**	**+1.2%**	**182,660**	**+8,782**	**+4.8%**

1) Due to a change related to the sector to which a counterparty belongs, loans and debt towards banks and loans and debt towards customers have been adjusted. Deferred tax assets and deferred tax liabilities adjusted (from the end of 2014, netting in accordance with IAS 12.74). / 2) Financial assets at fair value through profit or loss + available-for-sale financial assets + held-to-maturity investments. / 3) Mainly PJSC Ukrsotsbank, Ukraine, and Immobilien Holding GmbH together with its subsidiaries, which are classified as disposal groups held for sale.

Bank Austria in the first half of 2015 (CONTINUED)

against the euro and by 9.1% against the US dollar in the course of the first six months of 2015; but on account of developments in the fourth quarter of 2014, the value of the rouble was still lower by 24.7% and 37.8%, respectively, than a year earlier. Lending volume in local currency in Russia was up by 27.7% on June 2014, also reflecting the increase in the value of foreign-currency loans in rouble terms; in the first half of 2015, lending volume declined by 3.8%. In euro terms, loans declined by €0.7 billion compared with the June 2014 level, despite the increase of €1.3 billion or 11.5% since the end of 2014. The figures in euro probably reflect the underlying volume trend more accurately in economic terms as the foreign currency effect is largely eliminated. Credit expansion in the other CEE countries was also unusually moderate (+1.1% in the course of the first half of 2015, +3.9% compared with June 2014). An exception was our bank in the Czech Republic, which achieved growth of 6.6% (as against year-end 2014) and 9.1% (year-on-year). Bosnia and Herzegovina as well as Serbia also recorded relatively strong growth of lending volume; the significant year-on-year growth in Romania reflected the acquisition of the customer portfolio of a foreign bank which withdrew from the country.

Loans and receivables with banks (€28.1 billion) declined in the first six months of 2015 (–€2.4 billion/–7.9%) but were up by €3.7 billion or 15.0% on June 2014. This development is partly explained by the expansion of business with central clearing houses, which have to be included in trading activities as counterparties; the resulting business volume on the assets side and the liabilities side is very volatile. At the end of the reporting period, **financial market investments** were up by €2.3 billion (+9.9%) on the end of 2014. This mainly reflects larger holdings of liquid funds in the form of government bonds (+€2.4 billion or +12.3% to €22.0 billion), almost all of which are included in the category "available-for-sale financial assets". The increase resulted mainly from larger holdings of Spanish (+€0.8 billion), Hungarian (+€0.4 billion), Italian (+€0.4 billion) and Bulgarian (+€0.3 billion) government bonds. The total amount of Russian government bonds (+€0.1 billion) was close to €0.6 billion (3% of total holdings of sovereign debt securities). Austrian government bonds (€9.7 billion) were unchanged in the first six months; at the end of June 2015 they accounted for 44% of total holdings of sovereign debt securities compared with 49% at the end of 2014.

● On the **liabilities side, deposits from customers** totalled €108.0 billion; they made the largest contribution to growth, increasing by €5.7 billion or 5.6% in the first six months and expanding by €12.2 billion or 12.8% compared with June 2014. Within the total figure, customer deposits in Austria, especially in business with companies and large corporates, reflected growth in "Basel 3 products"; as in the previous year, deposit growth in Austrian customer business continued in the first six months of 2015, to a total of €56.3 billion (increase in H1 2015: +€2.4 billion/+4.4%; year-on-year growth: +€5.5 billion/+10.9%). Customer deposits in the CEE business segment also rose further in the first six months of 2015 (+€3.2 billion/+6.6%) to a total of €52.8 billion. The year-on-year increase of €6.7 billion or 14.5% (adjusted for exchange rate movements: +24.6%) further narrowed the gap vis-à-vis outstanding loans. Developments in Russia reflect the impact of exchange rate movements, as on the assets side. In euro terms, deposits grew by €1.8 billion or 15.9% to €13.0 billion from year-end 2014 to the end of June 2015; the increase over June 2014 was more or less the same. In the other CEE countries, deposits rose by 3.8% in the first six months of 2015 and by 14.2% year-on-year, with growth evenly spread across all country groups. **Debt securities in issue** totalled €28.6 billion; the decrease of €1.4 billion or 4.6% compared with year-end 2014 was due to redemptions in the Corporate Center (asset/liability management). As at 30 June 2015, **direct funding** (deposits from customers and debt securities in issue) amounted to **€136.6 billion** (+€4.3 billion/+3.3% on year-end 2014 and +€11.6 billion/+9.3% compared with June 2014). This means that lending volume is funded with direct funding to the extent of 117%. **Financial liabilities held for trading** (–16.1%) and deposits from banks (–5.2%) were reduced compared with their levels at the end of 2014.

After a slight decline in 2014, **IFRS equity** increased by €0.8 billion or 5.2% in the first half of 2015, reaching **€15.7 billion** at the end of June 2015 (June 2014: €15.9 billion). Net profit (including non-controlling interests) amounted to €491 million and the items of other comprehensive income showed a favourable trend: foreign currency translation resulted in a positive amount of €317 million, largely on account of the appreciation of the Russian rouble in the first half of 2015. The effects of interest rate increases in the past months moved in opposite directions: actuarial losses in accordance with IAS 19 benefited from a positive effect of €205 million while reserves in accordance with IAS 39 (cash flow hedge reserve and available-for-sale reserve after tax deduction) declined by €185 million reflecting the setback in bond markets. Together with other changes in equity totalling –€57 million (resulting from various factors including changes in the group of consolidated companies and dividend payments to non-controlling interests) equity increased by €771 million compared with year-end 2014.

Bank Austria in the first half of 2015 (CONTINUED)

Capital resources and risk-weighted assets

Regulatory capital and capital requirements are calculated in accordance with the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV) to implement Basel 3 in the European Union. Under the Austrian CRR Supplementary Regulation of 11 December 2013, these provisions are not yet fully applicable but will be gradually introduced over several years. For example, new deductions from Common Equity Tier 1 capital or capital components which are no longer eligible for inclusion under Basel 3 are not yet allowed to be fully taken into account pursuant to CRR/CRD IV in the second year of the transition period but to the extent defined for 2015 in the Austrian CRR Supplementary Regulation.

The Bank Austria Group calculates its consolidated regulatory capital and consolidated regulatory capital requirements on an IFRS basis.

● **Movements in capital resources: Total regulatory capital** was €19.4 billion, up by €1.9 billion on year-end 2014. **Common Equity Tier 1 capital** (CET1) rose by €1.1 billion to €14.5 billion.

The increase in Common Equity Tier 1 capital in the **first half of 2015** is mainly due to the inclusion of eligible net profit for the first half of 2015, an improvement in valuation reserves and the fact that unrealised gains on assets and liabilities measured at fair value were eligible for inclusion for the first time under Section 2 of the Austrian CRR Supplementary Regulation. In addition, Tier 2 capital was strengthened through three eligible new issues totalling €0.9 billion.

● The **total risk exposure amount** (RWAs) was **€134.6 billion**, up by **€4.3 billion** (+3.3%) year-on-year. The increase resulted mainly from credit risk and, to a lesser extent, from market risk.

▶ The risk exposure amount for **credit risk** rose by **€3.7 billion** (+3.3%) to **€116.7 billion**. Portfolios under the standardised approach and those under the internal ratings-based approach increased by €2.0 billion each while the contribution to the default fund of a central counterparty declined by €0.2 billion.

The increase relates mainly to the exposure classes "Corporates" (€3.1 billion) and "Retail" (€1.3 billion) while "Institutions" declined by €0.5 billion. In addition to business expansion, other factors which led to an increase in risk-weighted assets were the discontinuation of the Swiss franc's link to the euro in January 2015 and the partial recovery of the US dollar and the Russian rouble compared with year-end 2014. Exchange rate movements in the Turkish lira and the Ukrainian hryvnia had an RWA-reducing effect. The integration of the Croatian leasing companies in the Bank Austria Group led to an increase in RWAs.

▶ **Market risk and operational risk:** The risk exposure amount for **market risk** increased by € 0.7 billion to **€5.4 billion** in the first half of 2015. The increase over year-end 2014 was mainly driven by hedging transactions for profits of CEE subsidiaries. These hedging transactions were entered into shortly before the end of 2014; for this reason the risk exposure amount as at year-end 2014 was significantly lower than at the end of June 2015 because of the lower number of valuation days. The risk exposure amount for **operational risk** decreased by € 0.1 billion to **€12.0 billion.**

➔ Although the total risk exposure amount was higher, the **Common Equity Tier 1 capital ratio** rose to **10.8%**, reflecting an increase in Common Equity Tier 1 capital. The increase in capital resources was stronger than the effect from the rise in risk-weighted assets. On this basis the **total capital ratio** rose from 13.4% to **14.4%**.

Capital ratios

	30 JUNE 2015	31 DEC. 2014
Common Equity Tier 1 capital ratio[1)]	10.8%	10.3%
Tier 1 capital ratio[1)]	10.8%	10.3%
Total capital ratio[1)]	14.4%	13.4%

1) based on all risks

● After clarification by the European Banking Authority (EBA), the adjustments defined in the Delegated Regulation (EU) 2015/62 need to be taken into account in calculating the disclosed **leverage ratio.** As at 30 June 2015, the leverage ratio was **6.0%**, based on the current status of applicable transitional arrangements.

Development of business segments

Retail & Corporates

Business segment as a whole (incl. FactorBank and Leasing) / **of which: Retail** / **of which: Corporates**

(€ million)	H1 2015	H1 2014[1]	CHANGE		H1 2015	H1 2014[1]	CHANGE		H1 2015	H1 2014[1]	CHANGE	
Operating income	755	775	–20	–2.6%	367	380	–13	–3.4%	361	362	–1	–0.3%
Operating costs	–559	–554	–5	+0.9%	–367	–364	–3	+0.8%	–174	–172	–2	+1.0%
Operating profit	197	221	–25	–11.2%	0	16	–16	n.m.	186	189	–3	–1.6%
Net write-downs of loans	1	–51	+52	n.m.	–15	11	–27	n.m.	19	–58	+77	n.m.
Net operating profit	197	170	+27	+15.9%	–16	27	–43	n.m.	206	132	+74	+56.5%
Profit before tax	**158**	**146**	**+13**	**+8.6%**	**–34**	**19**	**–53**	**n.m.**	**183**	**115**	**+68**	**+59.5%**
Loans to customers (avg.)	44,101	42,943	+1,158	+2.7%	14,468	13,727	+740	+5.4%	26,314	25,886	+428	+1.7%
Direct funding (avg.)	43,127	40,528	+2,600	+6.4%	21,837	21,413	+423	+2.0%	21,215	19,012	+2,202	+11.6%
Risk-weighted assets (avg.)[2]	20,382	19,722	+661	+3.3%	8,324	7,831	+494	+6.3%	9,597	9,439	+158	+1.7%
Average equity[3]	2,095	2,099	–4	–0.2%	748	718	+30	+4.2%	970	991	–21	–2.2%

1) For segment reporting purposes, the comparative figures for 2014 were recast to reflect the structure and methodology of the 2015 reporting period (see the segment reporting section in the notes to the consolidated financial statements on pages 65 and 66 of this report. / 2) Average risk-weighted assets (all risks) under Basel 3. / 3) Standardised capital; capital allocation to subsidiaries reflects actual IFRS capital. The difference compared with the consolidated IFRS equity of Bank Austria is included in the Corporate Center. / This information applies to all business segment tables. / n.m. = not meaningful

The Retail & Corporates business segment covers two large subdivisions: Retail, which comprises customer segments ranging from mass-market to affluent customers; and Corporates, the subdivision serving the entire range of business customers, SMEs and medium-sized and large companies which do not access capital markets (including Real Estate and Public Sector). Retail & Corporates also includes the specialised FactorBank AG and UniCredit Leasing Austria. With 11% of the bank's employees and a 15% share of allocated capital, the Retail & Corporates business segment generated 26% of the bank's operating income in the first half of 2015 (and 70% of operating income from Austrian customer business). The business segment also has to absorb substantial costs which are in structural terms related to branch operations. Retail & Corporates contributed 20% to profit before tax generated by the bank as a whole and 54% of profit before tax from Austrian customer business. Direct funding of over €43 billion makes Retail & Corporates an important source of funding for the bank.

In the first half of 2015, the Retail & Corporates Division generated a **profit before tax** of €158 million, an increase of 8.6% over the same period of the previous year. Operating income was only slightly lower and costs hardly rose. On this basis, the improvement in profit before tax was mainly due to the release of loan loss provisions, reflecting very good asset quality. The first six months saw favourable volume trends. **Lending volume** was up by 2.7% on the same period of the previous year, with growth mainly achieved in the Retail subdivision's construction and housing finance activities. Growth in **direct funding** (+6.4% over H1 2014) came mainly from business with corporates.

The first six months of 2015 were characterised by persistently low interest rates and a further decline in net interest. Although the other income components developed favourably, especially net fees and commissions, **operating income** as a whole was down by 2.6% on the same period of the previous year. **Operating costs** were more or less stable, rising by only 0.9%; this development reflects a reduction of payroll costs and strict cost management. **Net write-downs of loans and provisions for guarantees and commitments** in the Retail subdivision returned to normal in the first half of 2015, after the net release of loan loss provisions in the previous year. The release of loan loss provisions for the corporate loan portfolio in view of excellent asset quality led to a net release of €1 million of loan loss provisions in the Retail & Corporates business segment as a whole, after a provisioning charge of €51 million in the same period of the previous year. Results thus improved by €52 million. On this basis, net operating profit (operating profit less net write-downs of loans and provisions for guarantees and commitments) rose by €27 million or 15.9% to €197 million. The significantly higher systemic charges (bank levy and other systemic charges) to be deducted from net operating profit amounted to €37 million (H1 2014: €24 million). Profit before tax increased by €13 million or 8.6% to €158 million.

In the first half of 2015, the **Retail** subdivision continued to be faced with low interest rates. Customers showed a greater need for information and higher product transparency. The trend towards using modern media is steadily intensifying. The Retail subdivision gained 35,000 new customers in the first half of 2015 (+24% compared with H1 2014) and achieved significant volume growth in new finance business (€1 billion, +98%) and new fund business (€0.9 billion, +42%) compared with the previous year. Contributions to these developments came from targeted advertising campaigns, a new portfolio analysis tool for investment advisory services, enhanced quality of advisory services for financing and faster lending decisions, an attractive product offering including specific VorteilsSpar savings products, new account packages including CashBack and a new credit card (JBC-Balance Card). Since 1 June 2015 the new current account products have come with a variable debit interest rate (EURIBOR plus 7% p.a.). This ensures that the debit interest rate on the account is always in line with market conditions. The transformation of the business model to create a modern multi-channel bank is making rapid progress. Four advisory service centres and eight new-style branches have been available to our customers since the end of June 2015.

Development of business segments (CONTINUED)

In these and other selected locations we now offer services and advice during extended opening hours (until 6 p.m.). The online branch with the innovative SmartBanking service – offering personal advisory services via video calls, telephone, SMS, e-mail and in OnlineBanking and MobileBanking – is being expanded, with opening hours extended from 8 a.m. to 8 p.m. In the online shop, customers can choose from a wide range of Bank Austria's key products around the clock. The new service model, the modernisation of our branches and the expansion of our digital offering are being consistently pursued to create a completely new customer experience.

For the **Corporates** subdivision, the first half of 2015 was characterised by continued investment restraint on the part of companies and consequently low credit demand, as in 2014. This situation did not change although interest rates fell to new all-time lows. Bank Austria launched an initiative in connection with an important investment topic: with the energy efficiency package for companies we support our customers in developing effective measures to save energy; we also help them identify suitable financial assistance schemes while offering finance solutions which meet companies' specific circumstances. Deposits continued to rise: in this context companies preferred sight deposits, which recorded the strongest growth despite very low interest rates. Other focal areas in the first half of 2015 were internationalisation and foreign trade. In cooperation with UniCredit partner banks, the UniCredit International Center launched in 2014 supports the objective of providing assistance to a larger number of Austrian companies for international activities. Increasing attention is being given in 2015 to cooperation with UniCredit China.

The volume of new financing business of the **Real Estate** department in the first six months of 2015 amounted to €2.1 billion, matching the very high level achieved in the first half of 2014. At €2 billion, new investments almost doubled compared with the first six months of the previous year. Our strategy focuses on sustainable real estate, close cooperation with real estate professionals, fast decisions and contracts which are less complex. As in the past years, this strategy has been very successful.

Public Sector had a very good first six months of 2015, with deposit business significantly exceeding, and financing business in line with, expectations. As public investors showed restraint on account of the stability pact, marketing efforts are currently concentrating on public private partnerships, which ease the burden of public debt.

Overall, **UniCredit Leasing Austria** achieved very satisfactory results for the first half of 2015. Developments in real estate leasing, the focal area in 2015, show that the targeted financing volume of €100 million should be within reach. New business in fleet management improved by about 20% compared with the same period of the previous year and equipment leasing business with dealers was kept at the very high level of the previous year. On the other hand, leasing business in the areas of trucks and other motor vehicles was significantly lower than in the first half of 2014, though there is a slightly positive trend. "Bestwertgarantie" (best value guarantee) is a very successful initiative launched in motor-vehicle leasing, which will continue until the end of the third quarter of 2015. The guarantee offered to customers in this context relates to the most favourable terms under the leasing finance contract and to the residual value at the end of the term.

With a market share of about 50%, **Factorbank** is market leader in the Austrian factoring market. The first half of 2015 saw satisfactory developments. New business was strong, but existing business partly fell short of expectations due to various factors (including economic trends, restraint on the part of credit insurers in respect of limits on accounts receivable). But the overall trend in the factoring industry remains favourable.

Private Banking

(€ million)	H1 2015	H1 2014	CHANGE	
Operating income	88	82	+7	+8.4%
Operating costs	–61	–59	–2	+3.7%
Operating profit	28	23	+5	+20.3%
Net write-downs of loans	1	0	+0	n.m.
Net operating profit	28	23	+5	+21.2%
Profit before tax	**25**	**22**	**+4**	**+17.7%**
Total financial assets (avg.)	22,602	20,043	+2,559	+12.8%
Direct funding (avg.)	9,341	8,302	+1,039	+12.5%
Loans to customers (avg.)	599	638	–39	–6.1%
Risk-weighted assets (avg.)	527	613	–86	–14.0%
Average equity	195	165	+30	+18.4%

n.m. = not meaningful

The Private Banking segment, with the two well-known brands Bank Austria Private Banking – the private banking arm of a major bank – and Schoellerbank – a traditional private banking institution – is the undisputed market leader in Austria's private banking market. With a presence in 24 locations throughout Austria, the Private Banking Division's 541 employees (FTEs, end of June 2015) serve about 34,000 high net worth individuals and 1,144 foundations.

The Private Banking business segment achieved excellent results for the first six months of 2015, benefiting from its strength in asset management against the background of persistently low interest rates while continuing on its growth path.

● **Total financial assets** amounted to €22.5 billion as of the end of June 2015 (+10.6% compared with June 2014). The 5.2% rise in the year to date was mainly due to growth in assets under management, the Private Banking Division's strategic core objective. In this area, volume increased by 11.2% in the first six months of 2015 and by 17.9% year-on-year, reflecting both performance and net inflows of funds.

Development of business segments (CONTINUED)

2015 saw the introduction of "UNIVERS" in Bank Austria's Private Banking services. This is a service model featuring a transparent global fee, permitting the customer to make investment decisions without having to consider transaction fees. In the first few months after it was introduced in Austria customers opted for this service model to the extent of almost half a billion euros.

Assets under custody remained more or less unchanged in the first six months of 2015 (up by 3.5% on June 2014), and deposits rose by 1.1% in the same period (+9.8% on June 2014).

● **Net fees and commissions** developed in line with the positive performance that benefited our customers, and with net inflows of funds, increasing by 15.2% to €56 million compared with the first six months of 2014. Management fees, primarily from asset management business, made the largest contribution to the total figure.

Net interest generated by Private Banking was also affected by trends in market interest rates, declining by 6.8% to €30 million on the same period of the previous year. The effect on net interest of the increase in deposits, which was achieved by offering attractive terms and conditions on Basel 3 products, was more than offset by narrower margins resulting from market interest rates.

Costs rose by 3.7% to €61 million; within the total figure, payroll costs grew by only 2.1%.

On this basis, **profit before tax** for the first six months of 2015 was €25 million, an increase of €4 million over the same period of the previous year. This figure includes the release of €0.5 million from loan loss provisions and systemic charges of €3 million.

Corporate & Investment Banking (CIB)

(€ million)	H1 2015	H1 2014	CHANGE	
Operating income	236	229	+7	+3.2%
Operating costs	–106	–100	–6	+5.7%
Operating profit	130	129	+2	+1.2%
Net write-downs of loans	–1	15	–16	n.m.
Net operating profit	130	144	–15	–10.1%
Profit before tax	**112**	**131**	**–19**	**–14.8%**
Loans to customers (avg.)	12,802	12,998	–196	–1.5%
Direct funding (avg.)	9,235	8,720	+515	+5.9%
Risk-weighted assets (avg.)	8,840	8,314	+526	+6.3%
Average equity	824	801	+23	+2.8%

n.m. = not meaningful

Corporate & Investment Banking (CIB) focuses on serving multinational companies and large international customers, providing them with capital market services and/or investment banking solutions tailored to their specific needs. CIB also serves banks, asset managers, institutional customers, insurance companies and selected real estate customers. Global Account Managers serve multinational customers, Senior Bankers provide services to selected top customers with a focus on investment banking. Integrated in the international network of UniCredit's CIB Division, and based on the financial market expertise of a major international player, CIB also performs important functions as a product provider for other Divisions. These products include structured finance; export and trade finance; cash management solutions; risk management to hedge currency risk, commodity risk and interest rate risk; and capital market and investment products. CIB manages treasury operations and funding for the entire bank.

Austria was faced with higher inflation rates than neighbouring countries in the first half of 2015. Sentiment in the country was subdued, with consumers and companies showing pronounced restraint in response to widespread uncertainty. This affected confidence among industrial companies and also prompted large companies (with ample liquidity) to postpone their plans for expansion. Demand for banking services did not intensify in this environment. Moreover, in the export sector, Austrian companies lost market share to advancing CEE competitors. But the situation is improving: after very low growth in the early part of the year, economic performance has recently moved closer to the rate achieved in the EU. Export recovery should be followed by a positive trend in investment activity in the coming months, even though the comparatively low rate of capacity utilisation in the Austrian economy indicates that a significant recovery of investment is not yet in sight. Banks continue to operate in an environment characterised by very low interest rates, which has an impact on interest margins.

● The **CIB business segment** has seen a favourable revenue trend over the past quarters: in the second quarter of 2015, operating income was €129 million, significantly exceeding the average for the three preceding quarters (Q1 2015: €108 million, Q4 2014: €111 million and Q3 2014: €103 million). Total **operating income** in the first half of 2015 was **€236 million**, up by 3.2% on the figure for the first six months of 2014 (€229 million). Among the various income components, **net interest** more or less matched the level of preceding quarters; at €150 million, it was down by €8 million or 5.0% on the first half of the previous year. The decline is explained by persistently low interest rates and by significantly narrower margins on deposit business, while deposit volume rose strongly. On the lending side, volume grew by 1.7% to €13.2 billion (H1 2014: €12.9 billion). Overall, customer deposits increased by 17.7% to €10 billion (H1 2014: €8.5 billion). **Net fees and commissions** were up by €15 million to a total of €56 million (+36.2% compared with H1 2014). Growth was driven by a significant increase in financial services, which account for 56.3% of net fees and commissions; they rose strongly, by 261% over the preceding quarter and by 224% over the first half of 2014, mainly on account of higher one-off income from the arrangement of major financings. **Net trading, hedging and fair value income** was €30 million, slightly higher than in the first half of the previous year (€29 million).

Development of business segments (CONTINUED)

Operating costs reflect stable payroll costs while other administrative expenses declined (to €35 million in the second quarter of 2015, down from a peak of €43 million in the fourth quarter of 2014, due to IT development costs in that period). Overall, operating costs in the first half of 2015 were €106 million, up by 5.7% on the same period of the previous year. **Net write-downs of loans and provisions for guarantees and commitments** remained very low in the first half of 2015, at €1 million, translating into a cost of risk of 1 basis point.

Net operating profit – i.e. **operating profit less net write-downs of loans and provisions for guarantees and commitments** – amounted to €130 million in the first six months of 2015, a decrease of 10.1% on the first half of 2014 due to a net release of loan loss provisions in the same period of the previous year. Non-operating items in the form of the charge for the bank levy and the contribution to the Single Resolution Fund in the total amount of €18 million had to be deducted from net operating profit of the CIB business segment, giving a **profit before tax** of **€112 million**. The decline of 14.8% compared with the first half of the previous year is due to the above-mentioned net release of loan loss provisions in 2014. On this basis, return on equity (ROE before tax) was 27.1% (H1 2014: 32.8%). With 7% of risk-weighted assets and 7% of total operating costs, CIB contributed about 14% to Bank Austria's overall profit before tax.

● In addition to the internal functions performed by CIB, its capital market expertise, the position within the network of UniCredit Group and the presence in all major financial centres around the world as well as excellent access to our core regions in Western, Central and Eastern Europe and 50 countries worldwide are essential competitive advantages of Bank Austria.

The CIB business segment further expanded its leading market position in business with **multinational companies** in the first half of 2015. Bank Austria was the preferred provider of international non-SEPA payment services.

In a challenging and highly competitive market environment, **corporate finance** business developed very favourably in the first half of 2015. Growth in structured business such as acquisitions, corporate syndicated lending, capital market activities, commodity trade finance and structured trade & export finance was much stronger than in the previous year, in most cases reaching significant double-digit rates. A weaker trend was seen in lending volume in the Austrian core market, adjusted for special factors, a development which reflected the pattern of demand. This was partly offset by gains in the defined growth regions of the extended core markets of Scandinavia, South Africa and the Iberian peninsula, where Bank Austria is increasingly becoming established as a leading provider of financing solutions via the CIB business segment. Despite the difficult interest rate situation and changes in overall conditions, CIB also achieved growth in deposits. Given the low level of interest rates, decision-makers in companies are looking for attractive alternative investments. In this context, Treasury used its expertise and offered products tailored to customers' needs. Many companies took advantage of the low interest rates to hedge their long-term interest payment obligations. While the ECB's policy of quantitative easing presented a challenging environment, pushing money market rates into negative territory, treasury business benefited from market volatility and made a positive contribution to CIB's results.

Apart from loans, **bonds and loans against borrowers' notes** have become an essential second pillar of finance. In 2015, CIB maintained its number one position for Bank Austria in the area of Austrian corporate bonds.

The level of companies' funding activities was rather low in a European context – in many cases companies used the interest rate environment, which has been attractive to them for quite some time, to lock in interest rates for long periods – and investment activity did not yet provide any general expansionary stimulus. **M&A activity** intensified, however, leading to growth also for Bank Austria, a well-established market leader in this sector. In addition to arranging a number of syndicated finance transactions, CIB successfully structured an acquisition with a transaction volume of €2.3 billion, the largest transaction of this type in Austria to date.

Austrian and foreign corporate customers benefited from Bank Austria's know-how and contacts with export credit agencies to make better use of export opportunities – from low-cost working capital finance all the way to highly complex buyer finance for plant engineering companies. New business in the area of **export finance** increased by 176% in the first half of 2015 compared with the same period of the previous year. In letter-of-credit business, export volume rose by €345 million in the first half of 2015, an increase of 50% on the first six months of the previous year. Turnover in connection with the issuance of foreign guarantees was up by 73% or €597 million on June 2014. Overall, CIB had a very successful first six months of 2015.

Development of business segments (CONTINUED)

Central Eastern Europe (CEE)

(€ million)	H1 2015	H1 2014	CHANGE		CONST[1]
Operating income	1,884	1,854	+29	+1.6%	*+8.6%*
Operating costs	–718	–733	+15	–2.1%	*+3.4%*
Operating profit	1,166	1,121	+45	+4.0%	*+12.0%*
Net write-downs of loans	–394	–314	–80	+25.3%	*+38.5%*
Net operating profit	772	807	–35	–4.3%	*+1.8%*
Profit before tax	**678**	**686**	**–8**	**–1.1%**	***+5.9%***
Loans to customers (avg.)	58,109	56,138	+1,971	+3.5%	*+11.9%*
Direct funding (avg.)	54,367	48,856	+5,512	+11.3%	*+20.0%*
Risk-weighted assets (avg.)[2]	97,505	82,942	+14,563	+17.6%	*+27.0%*
Average equity	13,519	13,883	–364	–2.6%	*+5.2%*

1) CONST = rates of change at constant exchange rates. / 2) Risk-weighted assets include Turkey on the basis of proportionate consolidation.

Bank Austria with its CEE business segment is UniCredit's sub-holding company for operations in Central and Eastern Europe, managing the leading banking network in CEE in 13 countries. The consolidated banks in CEE (end of June 2015, including the bank in Ukraine, which is classified as held for sale) have 28,755 employees (FTEs), who work in 1,360 branches; added to this are 19,186 employees (FTEs at 100%) and 1,056 branches in our Turkish joint venture. In accordance with IFRS 11, the investment in the Turkish joint venture is accounted for using the equity method. The CEE business segment generated a profit before tax of €678 million, accounting for about 70% of Bank Austria's profit before tax generated by customer business (Bank Austria without the Corporate Center). This makes the CEE Division the most important contributor to Bank Austria's overall results.

Methodological changes: *Starting with this report, income and expenses arising from CEE sub-holding company functions which are closely connected with operating activities of the commercial banks in CEE are assigned to the CEE business segment in accordance with the principle of causation. (Comparative figures for the previous year have been recast.) These items, which have so far been reflected in the Corporate Center of the bank as a whole, mainly include income and expenses arising from asset/liability management, items relating to equity interest management and results from the hedging of the annual profits of individual CEE banking subsidiaries. This means that the methodological changes primarily affect net interest, net fees and commissions, net trading income and also total profit or loss after tax from discontinued operations. The resulting effect at the level of operating profit is shown below:*

CEE sub-holding company functions € million (2014 recast)

	H1 15	H1 14	+/– € MILLION	+/– %
CEE (new and recast)	1,166	1,121	+45	+4.0%
Sub-holding company functions assigned	–137	–47	–90	>100%
CEE based on the previous definition	*1,303*	*1,169*	*+135*	*+11.5%*

This change is intended to provide a clearer definition of the performance of Bank Austria's two major business areas: the region of Central and Eastern Europe and the business segments in Austria. Income and expenses newly assigned to the CEE business segment are combined with the results of the Profit Center Vienna (primarily cross-regional loan portfolio) to form the item "CEE cross-regional".

Based on its broad diversification and focusing on regional initiatives in the first half of 2015, the CEE Division balanced out divergent economic trends and varying business conditions in the large CEE region and again achieved a **strong operating profit**. In those CEE countries which are members of the European Union, key economic indicators signalled strong growth in real terms (with the exception of Croatia). However, disinflation and continued efforts to reduce debt had a dampening effect on business volume in commercial banking, all the more so as the workout of foreign currency loans (with public participation) was still underway in several countries. Moreover, significant interest rate reductions in advanced CEE countries in the past quarters put pressure on commercial banking margins. While net interest performance was relatively low in a long-term comparison, net fees and commissions rose significantly, partly due to reviving investor interest and partly in connection with guarantees, loan commissions and account/payment services.

A major factor was the volatile development of business in **Russia**, reflecting the sharp decline in oil prices, the slide into recession, sanctions and strong depreciation of the Russian rouble. While the Russian currency appreciated in the course of the first half of 2015, the average value of the rouble in the first six months was still down by 25.8% on the same period of the previous year. Local interest rates showed a countermovement, rising strongly in the first few months and subsequently declining only slightly. Nevertheless, our highly professional Russian banking subsidiary strengthened its market position as a local and international bank, generating revenue growth in local currency – despite the economic setback, volatile interest rates and restrictions on international capital transactions – and achieving significant profits. **Turkey's** economic growth in the first half of 2015 was stronger than expected. Our joint venture, whose results are accounted for using the equity method in accordance with IFRS 11, recorded high volume growth, generated significantly higher net interest and net fees and commissions and thus again made a substantial contribution to revenue growth.

Development of business segments (CONTINUED)

Net operating profit in CEE € million (2014 recast)

	H1 15	H1 14	+/– € MILLION	+/– %	*CONST*
… Average lending volume	*58,109*	*56,138*	*+1,971*	*+3.5%*	*+11.7%*
…Net interest	1,190	1,210	–20	–1.7%	*+7.5%*
…Net fees and commissions	351	352	–0	–0.1%	*+2.4%*
… At-equity contribution from Turkey	*157*	*136*	*+21*	*+15.6%*	*+11.4%*
Operating income	1,884	1,854	+29	+1.6%	*+8.6%*
Operating costs	–718	–733	+15	–2.1%	*+3.4%*
…Cost/income ratio [1]	41.6%	42.7%	–1.1 percentage points		
Net write-downs of loans	–394	–314	–80	+25.3%	*+38.5%*
…Cost of risk [2]	136bp	112bp	+24bp		
Net operating profit [3]	**772**	**807**	**–35**	**–4.3%**	***+1.8%***

1) Without Turkey, which would be reflected with its at-equity contribution in the denominator but not in the numerator of the cost/income ratio. 2) Net write-downs of loans and provisions for guarantees and commitments in basis points of average lending volume. 3) Operating profit less net write-downs of loans and provisions for guarantees and commitments. / CONST= translated at constant exchange rates.

● **Operating income** in the CEE Division rose by 1.6% to €1,884 million, adjusted for exchange rate movements the increase was 8.6%. Within this amount, **net interest** fell short of the figure for the same period of the previous year (–€20 million/–1.7% to €1,190 million); adjusted for exchange rate movements net interest was up by 7.5%. The unusual developments in Russia are reflected in euro terms and at constant exchange rates: net interest rose significantly in local currency terms (+22.0%), reflecting the revaluation of US dollar-denominated business in rouble terms. Due to the depreciation of the euro, net interest declined by 9.5%. Without Russia, which was a special case, and without Turkey, which is accounted for using the equity method, net interest rose by €12 million or 1.3%, although volume based on this definition was 4.2% higher than in the first six months of 2014. In the first half of 2015, net interest was significantly impacted by the high costs related to liquidity, hedging and the cost of raising equity, which had to be borne by the CEE Division. In Central Europe (+3.0%) and South-East Europe (+7.6%), net interest rose more slowly than the underlying business volume. While interest margins narrowed across all country groups, margins are in absolute terms still wide enough for net interest to grow at a disproportionately high rate the next time business volume increases again.

Net fees and commissions generated by the CEE business segment totalled €351 million, matching the level of the previous year. Without Russia, a special case, net fees and commissions exceeded the figure for the same period of the previous year by €40 million or 14.3%. On account of structural differences, the trend varied from country to country, i.e. fees and commissions come from different sources. Strong growth in net fees and commissions was seen in the Central European countries, where investment in mutual funds is growing, currently supported by rising disposable incomes. This was particularly apparent in the Czech Republic (+11.5%) and Hungary (+6.2%). In South-East Europe (where only Croatia recorded a weaker trend), loan/guarantee commissions and account/payment services were the main drivers of growth in net fees and commissions. In Russia, a sharp decline was seen especially in fee-based retail banking business, for obvious reasons. This decline was partly offset by transaction banking services and cross-regional guarantees for corporate customers.

In the CEE business segment, **net trading, hedging and fair value income** is a reliable source of revenue given the significant commercial needs in view of exchange rate/interest rate volatility. Net trading income increased by €38 million or 29.2% (adjusted for exchange rate movements: +41.5%) to €168 million year-on-year, although the cross-regional sub-holding company functions assigned to the business segment had a negative impact also on net trading performance. Results vary considerably from country to country. Customer-driven trading activities, which account for about 60% of net trading income, increased significantly, especially in those countries where outstanding volume and loans/investments in US dollars and euros are still important factors, despite an ongoing reduction. Trading in interest rate derivatives developed very well, against the background of volatile markets. Securities trading, on the other hand, was lagging behind the levels recorded in the previous year, when strong reductions of interest rates made it possible to realise gains on financial markets investments. In regional terms, all country groups generated large increases in net trading income: an exceptionally strong performance came from Central Europe (CE) with an increase of 60.8% to €74 million. Our banking subsidiaries in South-East Europe (SEE) also reported higher net trading income (+9.8% to €77 million), with commercial foreign exchange trading accounting for the largest proportion. Our Russian bank recovered from the setback in the turbulent fourth quarter of 2014 (–€51 million) and generated net trading income of €40 million in the first half of 2015 thanks to a good performance from derivatives and bond trading, despite the adverse environment in foreign exchange trading and negative valuation effects (CVA) in trading operations. The increase of €22 million over H1 2014 also reflects the low base figure for that period, when the Ukraine conflict escalated.

On a **regional** basis, operating income in Russia increased by 17.9% in local currency but declined by 12.5% in euro terms (in this context the revaluation of local foreign currency business denominated in US dollars compares with currency depreciation reflected in the translation of figures in the income statement). Operating income generated by the other CEE countries (CEE without Russia and cross-regional items = €1,484 million) rose significantly, by 7.6% (adjusted for exchange rate movements: +7.5%), across all country groups (see table). Our bank in Turkey, Yapı Kredi ve Bankasi, a joint venture with our partner Koç Group, is accounted for using the equity method in accordance with IFRS 11, and its results are included under operating income. The contribution from Turkey in the first half

Development of business segments (CONTINUED)

of 2015 was €157 million, up by €21 million or 15.6% on the same period of the previous year. This good performance resulted from very strong volume expansion (loans: +27.6%/deposits: +23.0%), with a favourable development of net interest, and from continued growth of fee and commission income. Only net write-downs of loans and provisions for guarantees and commitments increased again in Turkey, primarily due to growth in business with corporates. The cost of risk was still 117 basis points. Among the CEE cross-regional items, results were impacted by higher costs related to sub-holding company functions (see table below), reflecting market conditions.

CEE operating income, regional € million (2014 recast)

	H1 15	H1 14	+/– € MILLION	+/– %	CONST
… CEE countries	*1,860*	*1,808*	*+52*	*+2.9%*	*+10.1%*
… Central Europe (CE)	545	501	+44	+8.7%	*+8.9%*
… South-East Europe (SEE)	782	741	+40	+5.4%	*+5.8%*
… At-equity contribution from Turkey	157	136	+21	+15.6%	*+11.4%*
Subtotal	*1,484*	*1,379*	*+105*	*+7.6%*	*+7.5%*
… Russia	376	430	–54	–12.5%	*+17.9%*
*… CEE cross-regional *)*	*24*	*46*	*–22*	*–48.2%*	*–49.7%*
Central Eastern Europe (CEE)	**1,884**	**1,854**	**+29**	**+1.6%**	***+8.6%***

*) Cross-regional business (Profit Center Vienna, UCTAM restructuring unit, etc.) and CEE Corporate Center sub-holding company functions (capitalisation, liquidity management, equity interest management). CONST= translated at constant exchange rates.

● **Operating costs** in the CEE Division amounted to €718 million. At this level they were 2.1% lower than in the same period of the previous year and up by 3.4% at constant exchange rates, with both effects being due to developments in Russia (down by 18.0% in euro terms/up by 10.5% in rouble terms). Payroll costs in Russia rose as a result of higher social charges, and other administrative expenses increased in connection with IT projects; moreover, rent agreements denominated in US dollars had an impact on account of exchange rate movements. Without Russia, operating costs rose by only 1.5% (adjusted for exchange rate movements: +1.7%). In average terms for the first half of 2015, staff numbers in the CEE Division (without Turkey and Ukraine) were 24,060 FTEs, more or less unchanged. The decline of 310 FTEs (–1.3%) was accounted for by Croatia (–309 FTEs) following the deconsolidation of Istraturist. The cost/income ratio in CEE – without Turkey, whose contribution is accounted for using the equity method and is therefore included in operating income but not in operating costs – declined by 1.1 percentage points to 41.6%.

● **Net write-downs of loans and provisions for guarantees and commitments** in the CEE business segment in the first six months of 2015 were €394 million, significantly higher than in the same period of the previous year (+€80 million/+25.3%). The increase was due to developments in Russia (+€61 million) and in the cross-regional portfolio of the Vienna-based CEE headquarters (+€55 million). In Russia, the deterioration was caused by the commercial impact of currency depreciation on the balance sheets of corporate customers. Until the crisis started, Russia was among the countries with the lowest cost-of-risk levels: in the previous year, the cost of risk was 74 basis points of average lending volume. In the first half of 2015, the cost of risk more than doubled (but was still lower than in Romania, for example). The impaired loans ratio, at 5.3%, is among the lowest in CEE. The combined provisioning charge in the other countries reached €213 million, a decrease of €36 million or 14.4%. Contributions to the decline came from the Central European countries – reflecting their good economic performance –, led by our banking subsidiary in the Czech Republic and Slovakia with a reduction of one-third (–33.2%) and by Hungary (–41.9%), not least on account of successful conversion of foreign currency loans. In the first half of 2015, net write-downs of loans were also lower in Slovenia, Bosnia and Herzegovina and in Serbia, compared with the same period of the previous year. The cost of risk in CEE (without Russia and cross-regional) declined by 25 basis points (bp) to 106 bp. For CEE as a whole, the cost of risk in the first half of 2015 was 136 bp. In CEE, the impaired loans ratio – impaired loans as a percentage of loans to customers before deduction of write-downs (gross) or after deduction of write-downs (net) – was 12.3% (on a net basis, 6.4%), slightly lower than at the end of December 2014 and at the end of June 2014 as lending growth exceeded the increase in impaired loans. The coverage ratio improved slightly, to 52.0% (after 51.2% and 50.9%).

Net operating profit, regional 1) € million (2014 recast)

	H1 15	H1 14	+/– € MILLION	+/– %	CONST
… CEE countries	*904*	*856*	*+47*	*+5.5%*	*+11.2%*
… Central Europe	261	204	+57	+27.8%	*+28.2%*
… South-East Europe	327	267	+60	+22.3%	*+23.0%*
… At-equity contribution from Turkey	157	136	+21	+15.6%	*+11.4%*
Subtotal	*745*	*607*	*+138*	*+22.7%*	*+22.1%*
… Russia	159	249	–90	–36.3%	*–14.2%*
… CEE cross-regional 2)	*–131*	*–49*	*–82*	*>100%*	*>100%*
Central Eastern Europe (CEE)	**772**	**807**	**–35**	**–4.3%**	***+1.8%***

1) Operating profit less net write-downs of loans and provisions for guarantees and commitments. 2) Cross-regional business (Profit Center Vienna, UCTAM restructuring unit, etc.) and CEE Corporate Center sub-holding company functions (capitalisation, liquidity management, equity interest management).

➔ The CEE Division's **net operating profit** was slightly lower than in the first half of the previous year (down by €35 million or 4.3%; adjusted for exchange rate movements, net operating profit in CEE rose by 1.8%). The sub-holding company functions newly assigned to the CEE Division had a negative impact reflected in the item "CEE cross-regional". The decline in Russia (–€90 million/–36.3%; adjusted for exchange rate movements, –14.2%) was kept within limits in a difficult market environment. It was more than offset by the favourable developments in Central Europe, South-East Europe and Turkey: their combined contribution to net operating profit reached €745 million, an increase of €138 million or 22.7%. Overall, the CEE business segment accounted for over two-thirds (68%)

Development of business segments (CONTINUED)

of Bank Austria's net operating profit (calculated on the basis of the share of customer business, i.e. without the Corporate Center).

● To arrive at the CEE Division's profit before tax for the first half of 2015, the balance of **non-operating expenses/income** of –€94 million (H1 2014: –€121 million) was to be deducted from net operating profit. Within the total figure deducted, net additions to provisions for risks and charges declined significantly, while systemic charges rose by €15 million to €88 million.

➔ **Profit before tax** generated by the CEE Division was €678 million, more or less matching the figure for the first half of the previous year (–1.1%). Adjusted for exchange rate movements, profit before tax rose by 5.9%.

Among the items below profit before tax, income tax amounted to €114 million after €103 million and the item "total profit or loss after tax from discontinued operations" reflected results from Public Joint Stock Company Ukrsotsbank, Kiev, together with its subsidiaries, which is classified as held for sale. In the first half of 2015, the loss of this disposal group (before deduction of non-controlling interests) was €208 million. About one-half (€100 million) of the total loss relates to a further provision for Ukrsotsbank, which is reflected in the financial statements and was necessary in view of economic developments. At the end of June 2015, we converted existing loans of UniCredit Bank Austria AG in the amount of US$250 million into equity of Ukrsotsbank. UniCredit SpA, the largest minority shareholder, did not participate in the capital increase. As a result, the Bank Austria Group's shareholding interest in Ukrsotsbank rose from 72.91% to 91.36%. The item "non-controlling interests" changed accordingly.

➔ **Net profit** generated by the CEE Division in the first half of 2015 was **€346 million**, thus again accounting for the major portion (71%) of Bank Austria's overall net profit. All operative banking subsidiaries reported positive results.

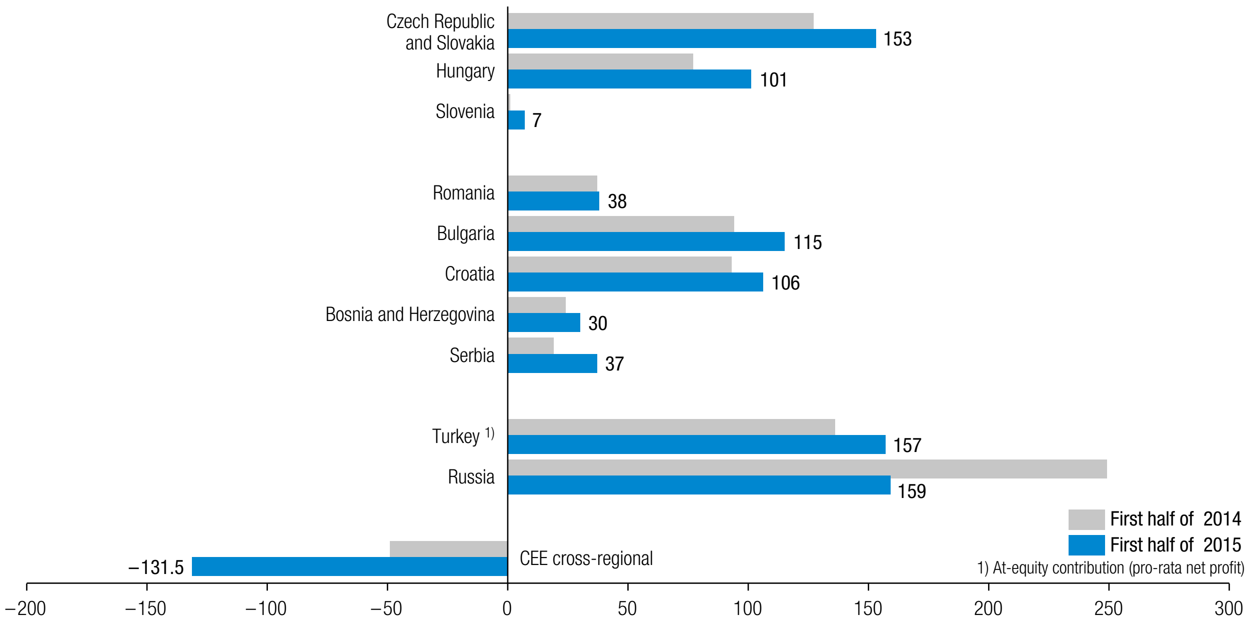
Profit contribution from the CEE Division € million (2014 recast)

	H1 15	H1 14	+/– € MILLION	+/– %	*CONST*
Net operating profit	**772**	**807**	**–35**	**–4.3%**	***+1.8%***
Non-operating items	–94	–121	+27	–22.6%	
… of which: systemic charges 1)	*–88*	*–73*	*–15*	*+20.3%*	
Profit before tax	**678**	**686**	**–8**	**–1.1%**	***+5.9%***
Non-operating items	–333	–149	–184	>100%	
… of which: discontinued operations 2)	*–220*	*–39*	*–181*	*>100%*	
Net profit 3)	**346**	**537**	**–192**	**–35.7%**	***–49.2%***

1) Bank levies and other systemic charges. 2) Total profit or loss after tax from discontinued operations. 3) Net profit attributable to the owners of the parent company.

Net operating profit in CEE

(operating profit less net write-downs of loans and provisions for guarantees and commitments, in € million)



1) At-equity contribution (pro-rata net profit)

Development of business segments (CONTINUED)

Income statement of the banks in CEE 1)

(€ million)

	CEE DIVISION		CZECH REPUBLIC, SLOVAKIA		HUNGARY	
	H1 2015	H1 2014	H1 2015	H1 2014	H1 2015	H1 2014
Net interest	1,190	1,210	189	179	104	104
Dividends and income from equity investments	165	138	1	1	1	0
Net fee and commission income	351	352	71	64	63	59
Net trading income	168	130	40	27	28	18
Net other operating income/expenses	10	25	4	9	1	2
Operating income	**1,884**	**1,854**	**306**	**279**	**196**	**183**
Operating costs	**–718**	**–733**	**–125**	**–111**	**–80**	**–80**
Operating profit	**1,166**	**1,121**	**181**	**168**	**116**	**103**
Net write-downs of loans	–394	–314	–28	–42	–15	–26
Net operating profit	**772**	**807**	**153**	**127**	**101**	**77**
Provisions for risks and charges 3)	–91	–113	–10	–13	–34	–60
Integration/restructuring costs	–1	–7	–1	–1	0	–5
Net income from investments	–1	–2	0	–3	0	1
Profit before tax	**678**	**686**	**141**	**109**	**66**	**12**
Net profit or loss 4)	**346**	**537**	**112**	**90**	**53**	**10**
Customer loans (end of period)	58,586	57,545	13,043	11,958	3,068	3,033
Customer deposits and debt securities in issue (eop)	56,084	49,104	14,707	12,210	3,753	3,131
Exchange rate (period average)			27.502	27.444	307.506	306.931
Appreciation/depreciation against the euro	–6.5% 5)		–0.2%		–0.2%	

(€ million)

	SLOVENIA		BULGARIA		ROMANIA	
	H1 2015	H1 2014	H1 2015	H1 2014	H1 2015	H1 2014
Net interest	24	24	148	131	98	101
Dividends and income from equity investments	0	0	0	1	0	0
Net fee and commission income	14	14	50	47	32	35
Net trading income	5	1	20	14	37	42
Net other operating income/expenses	0	0	0	0	0	–1
Operating income	**43**	**39**	**218**	**194**	**168**	**177**
Operating costs	**–20**	**–20**	**–64**	**–63**	**–79**	**–80**
Operating profit	**23**	**19**	**154**	**131**	**89**	**97**
Net write-downs of loans	–16	–19	–39	–37	–51	–60
Net operating profit	**7**	**1**	**115**	**94**	**38**	**37**
Provisions for risks and charges	–1	0	–13	–9	–4	–5
Integration/restructuring costs	0	0	0	0	0	0
Net income from investments	0	0	0	0	–1	0
Profit before tax	**5**	**0**	**103**	**85**	**34**	**33**
Net profit or loss	**5**	**0**	**91**	**76**	**16**	**15**
Customer loans (end of period)	1,755	1,882	5,230	4,963	4,701	4,454
Customer deposits and debt securities in issue (eop)	2,058	1,474	6,195	4,784	3,264	3,011
Exchange rate (period average)	1.0000	1.0000	1.9558	1.9558	4.4479	4.4643
Appreciation/depreciation against the euro	Euro		0.0%		+0.4%	

1) The CEE business segment for segment reporting purposes comprises the total figures for the CEE banks shown in this table and the cross-regional portfolio of the Vienna-based CEE headquarters and the CEE sub-holding company functions assigned to the business segment (for details see the description of segment reporting on pages 65 and 66 of this report). / 2) Turkey presented at equity in accordance with IFRS 11; additionally, pro-quota data for information purposes. 3) Including bank levies and other systemic charges. 4) Attributable to the owners of the parent company. / 5) Depreciation against the euro at the level of operating income.

Development of business segments (CONTINUED)

(€ million)

	RUSSIA		BALTICS		TURKEY AT EQUITY 2)		FOR INFORMATION: TURKEY PRO QUOTA 2)	
	H1 2015	H1 2014	H1 2015	H1 2014	H1 2015	H1 2014	H1 2015	H1 2014
Net interest	306	338	7	7			410	317
Dividends and income from equity investments	0	0	0	0	157	136	5	3
Net fee and commission income	29	70	0	0			158	140
Net trading income	40	18	0	0			26	29
Net other operating income/expenses	1	3	0	1			2	2
Operating income	**376**	**430**	**8**	**8**	**157**	**136**	**601**	**491**
Operating costs	**–111**	**–135**	**–3**	**–3**			**–265**	**–241**
Operating profit	**265**	**295**	**5**	**5**	**157**	**136**	**336**	**250**
Net write-downs of loans	–107	–46	–1	–1			–120	–73
Net operating profit	**159**	**249**	**4**	**4**	**157**	**136**	**216**	**177**
Provisions for risks and charges	–4	–3	0	0			–22	–5
Integration/restructuring costs	0	0	0	–1			0	0
Net income from investments	0	1	0	0			3	3
Profit before tax	**155**	**247**	**4**	**3**	**157**	**136**	**198**	**175**
Net profit or loss	**124**	**197**	**3**	**3**	**157**	**136**	**157**	**136**
Customer loans (end of period)	12,698	13,374	380	392			20,793	16,291
Customer deposits and debt securities in issue (eop)	13,653	12,470	0	0			18,886	15,350
Exchange rate (period average)	64.6407	47.9924	1.0000	1.0000	2.8627	2.9678	2.8627	2.9678
Appreciation/depreciation against the euro	–25.8%		Euro		+3.7%		+3.7%	

(€ million)

	CROATIA		BOSNIA		SERBIA	
	H1 2015	H1 2014	H1 2015	H1 2014	H1 2015	H1 2014
Net interest	179	165	49	46	49	44
Dividends and income from equity investments	4	4	0	0	0	0
Net fee and commission income	62	61	18	17	11	9
Net trading income	9	6	3	2	7	5
Net other operating income/expenses	5	12	0	0	0	0
Operating income	**259**	**248**	**70**	**65**	**67**	**58**
Operating costs	**–102**	**–115**	**–34**	**–34**	**–22**	**–21**
Operating profit	**157**	**133**	**35**	**31**	**46**	**37**
Net write-downs of loans	–51	–40	–6	–8	–8	–17
Net operating profit	**106**	**93**	**30**	**24**	**37**	**19**
Provisions for risks and charges	–15	–8	–2	–2	–2	–9
Integration/restructuring costs	0	0	0	0	0	0
Net income from investments	0	0	0	0	0	0
Profit before tax	**91**	**86**	**27**	**22**	**35**	**10**
Net profit or loss	**62**	**58**	**21**	**16**	**32**	**7**
Customer loans (end of period)	9,888	9,786	1,732	1,597	1,441	1,380
Customer deposits and debt securities in issue (eop)	9,084	8,328	1,966	1,756	1,227	1,052
Exchange rate (period average)	7.6277	7.6247	1.9558	1.9558	120.882	115.611
Appreciation/depreciation against the euro	–0.0%		0.0%		–4.4%	

2) Turkey presented at equity in accordance with IFRS 11; additionally, pro-quota data for information purposes.

Outlook

Economic scenario

● The very moderate **economic scenario** for 2015 and 2016 published in the Outlook section of our 2014 Annual Report remains more or less intact, we have meanwhile only highlighted specific areas: in the first six months, expectations of weaker global trade as growth in major emerging economies loses momentum have become more pronounced. While growth forecasts for the western industrial nations were adjusted to the weaker start to the year, we still believe that we will see a cyclical economic revival as the year progresses. In Western Europe, the countries in the south are moving out of recession. The core and peripheral European countries are experiencing convergence, and therefore growth is accelerating at only a moderate rate. The moderate forecasts remained unchanged. This compared with surprisingly strong growth of the domestic economies of EU member states, in respect of which forecasts were revised significantly higher.

It seems to be becoming increasingly apparent that a cyclical revival of the global economy cannot take place in the face of a slowdown of **emerging economies'** long-term path of expansion. After the recent Iran deal the oil price declined to 50 US$/bl – after rising to 65 US$/bl in April / May – before the expected acceleration of the global economy, and other commodity prices also fell sharply, confirming the view that these developments reflect a structural change of the global growth model. It appears that sectoral change in China and the persistent slackness of economic activity in Latin America, exacerbated by the recession in Russia, impact export-oriented industrial countries more strongly than the extent to which they benefit from the oil price. **Global trade** will therefore probably grow only negligibly also in the next few months, as indicated by the UniCredit Leading Indicator, which has fallen below 0 standard deviations.

The impetus for the second half of 2015 and subsequent months is once again expected to come from the consumer-driven upswing in the **US**. Our economists expect a growth rate of 3.3 % p.a. for the second half of 2015. On this basis, the growth rate for 2015 as a whole will be 2.3 % (given a poor first quarter) and 2.6 % for 2016. The upswing is in line with the pattern seen over many years: increase in wealth, decline in the savings ratio (to below 4½ %), stronger consumption, improved labour market conditions and a balance of trade deficit. We still expect interest rates to be raised in September for the first time, even if this will only be marginal, not least on account of the potential impact on the world economy.

● We confirm the growth forecast of 1.4 % for 2015 and 1.8 % for 2016 for the **euro area**. As growth in the second quarter of 2015 may have reached 0.4 % (annualised rate: + 1.6 %), we expect economic growth to accelerate to 2.2 % (annualised rate) in the second half of 2015. While the initial impetus from falling oil prices is weakening, the euro area is beginning to feel the benefits of the depreciation of the euro with a time lag. The revival is supported by the ECB's open-market policy, most notably the purchase programme, which assures ample liquidity and low interest rates (irrespective of the recent setback on bond markets). In addition, the fiscal policy pursued by the relevant countries is less restrictive than in previous years. On this basis, Italy (+ 0.6 %) and especially Spain (+ 3.2 %) will again support economic growth. Among the leading indicators, the Purchasing Managers' Index (Composite Index Production) for the euro area stood at 53.7 in July (despite the uncertainty caused by the negotiations with Greece), well above the growth threshold of 50. However, companies are displaying little readiness to invest. While trends signalled strong growth in money supply (M1 June 2015: + 11.8 % compared to a year earlier), this has not yet reached any significant momentum (M3 + 4.5 %). Business loans are stagnating (+ 0.1 %) and private housing loans are growing at only 1.6 %. A recent ECB survey showed that the high liquidity levels and companies' ongoing debt reduction efforts are dampening demand for loans. And reports from stock exchanges of share buybacks and restructurings despite good results were more frequent than reports of investments in fixed assets.

● While the **Austrian economy** will benefit from European trends to a greater extent in the coming months, growth rates will remain very low. Export activity is still moderate but incoming export orders are increasing. The weaker euro will have a favourable effect over time. The situation in the industrial sector has improved: the Bank Austria Purchasing Managers' Index exceeded the growth threshold in the past four months, rising to 52.4 in July, the highest level in 18 months. Industrial output increased by 1.5 % in the first half of 2015, and we expect 2 % growth for the year as a whole. This stronger impetus should be followed by a positive turnaround in investment activity even if a significant recovery in this sector is not yet in sight as capacity utilisation in the Austrian economy is currently at a comparatively low level. (Investment in equipment averaged only 0.2 % due to the statistical trough.) Consumption should give a boost to the slight recovery in the next few months. While consumers in Austria take a more pessimistic view of general economic developments than those in other countries, Austrian households think that their own financial situation is comparatively good. Low inflation, which averaged only 1 % in the first half of 2015, will support moderate growth of consumption (+ 0.8 % on an annual average).

Bank Austria's economists believe that Austria's GDP in 2015 as a whole will grow by 0.9 %, more strongly than in the previous year (2014: + 0.4 %) but at a slower pace than the European average (+ 1.4 %). Supported by a base effect resulting from the sharp decline of commodity prices which started in the previous year, and due to growing demand, the inflation rate will gradually

Outlook (CONTINUED)

be moving closer to 2% in the second half of the year (average for 2015: 1.2%). Even at this low level, inflation will be considerably higher than in most other euro area countries. Developments in the Austrian labour market also differ from overall European trends: as a result of the strong increase in the labour supply, mainly stemming from immigration from the EU, unemployment in Austria is rising to an average 5.8% in 2015, a level which is still among the lowest rates in Europe.

As the economy got off to a slow start in 2015, **credit growth** in the year as a whole, especially in corporate loans, will remain weak – below 2%, adjusted for the effect of appreciation of the Swiss franc. The only dynamic segment will be housing loans, which will grow by about 2½%, also more moderately than in pre-crisis years. Credit demand from SMEs will also pick up, though only slightly, in view of the moderate pace of economic recovery. Although interest rates are low and the rate of **monetary capital formation** is moderate, deposits from private households and from institutional and public depositors continue to grow strongly. Short-term deposits will account for a large portion of the additions to holdings of financial assets in 2015. The major part of savings will be invested in **mutual funds** and equity securities. As in the past two years, 2015 will see a reduction of investments in bonds, primarily bank issues. The trend towards **assets in real terms** such as real estate will continue.

● We believe that the trends seen in the first half of 2015 will also continue in the **CEE region**. The new EU members in Central and Eastern Europe (EU CEE region, except Croatia) will benefit most from more lively demand from the euro area and the expansion of liquidity under the ECB's quantitative easing programme, due to their close manufacturing links with the euro area in key industries. Moreover, unlike developments in the recent past, economic recovery is now more broadly based as domestic demand has become the mainstay of growth. Investment in fixed assets benefits from the improved outlook and private consumption is gradually responding favourably to the upward trend in the labour market, the increase in wages and the fact that debt reduction, especially the reduction of foreign currency debt, is gradually coming to an end. In contrast to export growth, strong domestic demand has led to unexpectedly large tax revenue in EU CEE countries, giving their governments more scope for expansionary measures. At the same time, significantly lower inflation will permit interest rates to stay low in the remaining part of the year, with the ECB's monetary policy acting as an additional anchor. Growth rate forecasts for Central Europe were raised by 1 percentage point to the multi-year high of 3.4%. The top performer after years of recession will be the Czech Republic with +3.8% (see table). While Romania has to meet conditions imposed by the IMF, the country has used fiscal leeway (including a reduction of value-added tax rates) to support growth (+3.7%). Bulgaria is pursuing a restrictive economic policy. Although the oil price has improved the outlook for growth in view of the country's strong dependence on energy, Bulgaria's economy is expected to grow at 2.1%, a below-average rate. Conditionality focuses on administrative and judicial reforms.

The **Western Balkan countries** emerged from recession in the first half of 2015. Inevitable fiscal consolidation continues to dampen demand, especially in Serbia and Croatia. Moreover, the region's exports mainly go to countries recording lower economic growth (Italy and Slovenia). The supply side is handicapped by the large proportion of non-tradable output, by the limited industrial base and by relatively high unit labour costs. Reconstruction after the disastrous floods in the previous year has made good progress, supporting economic performance. Yet combined GDP growth in these countries in 2015 will remain below 1%. The decline in commodity and energy prices has improved the current accounts of these countries without, however, reducing their dependence on foreign capital and loans. This may pose a risk in the remaining part of the year if the risk appetite of investors looking for an interest rate premium reverses. In this mixed environment, the function of the international banking sector is still seen as being of great importance.

Our economists revised forecasts for **Turkey** downwards compared with the figures published in the 2014 Annual Report. (GDP forecast: –0.7 percentage points to +2.7% for 2015 and –1.8 percentage points to +2.4% in 2016). They believe that the country's dependence on international portfolio capital is too strong, despite its undisputed long-term growth potential. The reasons for this dependence are low internal savings, a structural current account deficit, currency depreciation, high (imported) inflation (recently 9.6%) and interest rate increases which are dampening growth. While there is political pressure on the central bank to reduce interest rates, the current situation is characterised by negative real interest rates, an inverted yield curve and renewed weakness of the Turkish lira (depreciation of 14.3% against the euro since the beginning of 2015). Domestic political uncertainty (new elections cannot be ruled out) have recently been compounded by geopolitical risks arising from military intervention in the regions bordering Syria and Iraq. CDS spreads have increased again (from 160bp at the beginning of 2015 to 217bp at the end of July). Within the CEE region, Turkey seems to be particularly vulnerable to distortions resulting from a future increase in US interest rates. A period of risk aversion and repatriation of international portfolio capital would have a severe negative impact on Turkey. Nevertheless, based on the demographic structure and monetary expansion, the Turkish banking sector is still the fastest-growing market: strong demand, modernisation and product penetration in the country and also international financing flows continue to offer banks good business opportunities.

Outlook (CONTINUED)

Russia's real economy moved deeper into recession in the second quarter of 2015, though not as deep as was originally feared (according to initial estimates, –3.4 % compared with the second quarter of the previous year, after –2.2 % in the preceding quarter). The situation in external trade has eased somewhat as imports contracted more strongly than exports. Moreover, the balance of capital transactions has improved, due to the successful redirection of investments by domestic investors from US dollar bonds to rouble-denominated bonds and because of some redemptions of foreign debt. It is therefore doubtful, for seasonal reasons, whether this improvement will prove sustainable. The Russian rouble depreciated again in July (– 9.7 %), a movement which was not entirely unwelcome, in line with the renewed decline in the oil price. As inflation receded in the past months (from 16.9 % in March to 15.3 %), interest rates, which were previously raised significantly (early 2015: 16.0 %), were slightly reduced; we expect an interest rate level of 9.5 % for year-end 2015. Given lower export revenue (due to volume and prices) and the continued downward adjustment of domestic demand, and especially in view of low productivity in the domestic economy and the lack of private investment, we now expect recession to be less pronounced but longer. Real GDP could shrink by 3.4 % in 2015 and by 1.6 % in 2016.

After losing more than one-tenth of its economic strength and a lot of confidence in the market, **Ukraine** is moving in a downward spiral. We expect real GDP to shrink by 13.0 % in 2015, after a decline of 6.8 % in the previous year. Parliament has cleared the way for further international financial aid by adopting reforms in the banking and energy sectors. International creditors subsequently disbursed further tranches and the Ukrainian hryvnia firmed slightly. The negotiating positions of Kiev and private creditors concerning a haircut, which are also seen as a prerequisite for the IMF's further commitment, are currently far apart and do not reach the 40 % required to stabilise the debt position. Despite supreme court decisions by which a political decentralisation of Ukraine has been declared to be in conformity with the constitution, the conflict in eastern Ukraine remains unresolved, and the outlook is still an incalculable tail risk.

● Apart from the **political risks** mentioned above (tensions and potential escalation on Turkey's southern border, fight against terrorism, conflict in eastern Ukraine, further mutual tightening of sanctions, political impact of refugee movements) the compromise reached on 12 July 2015 in respect of the **Greek** debt crisis, and the subsequent adoption by parliament of the reforms demanded of Greece, have brought some relief for the next few months but have not resolved the problem. During the critical days when Greece's exit from the currency union was a possibility the situation in neighbouring countries remained stable; indirect effects, reflected in credit spreads and CDS spreads, were negligible. When Greek banks were temporarily closed, the large exposure of Greek banks' subsidiaries, especially in Bulgaria, Serbia and Romania, was seen as cause for concern. However, the institutions concerned are now no longer financially dependent on their parent banks. The ECB and national central banks have implemented programmes to reduce vulnerability to risk in connection with Greece to a minimum. This view is shared by rating agencies: some of the major subsidiaries have been assigned ratings which are better by several notches than that of the relevant parent company – for quite some time, not only since the onset of the current crisis.

Economic growth (real GDP, % over the previous year)

	2012	2013	2014	2015f	2016f
World (IMF, PPP)	+3.4	+3.4	+3.4	+3.3	+3.8
China	+7.8	+7.7	+7.4	+6.9	+6.5
USA	+2.3	+2.2	+2.4	+2.3	+2.6
Euro area	–0.6	–0.4	+0.9	+1.4	+1.8
… Austria	+0.9	+0.3	+0.4	+0.9	+1.5
Czech Republic	–0.7	–0.7	+2.0	+3.8	+2.7
Slovakia	+1.6	+1.4	+2.4	+3.2	+3.3
Hungary	–1.7	+1.5	+3.6	+3.2	+2.9
Slovenia	–2.6	–1.0	+2.6	+2.3	+2.2
Poland	*+1.8*	*+1.7*	*+3.4*	*+3.8*	*+3.9*
Bulgaria	+0.5	+1.1	+1.7	+2.1	+2.4
Romania	+0.6	+3.4	+2.8	+3.7	+3.4
Croatia	–2.2	–1.1	–0.4	+0.3	+0.8
Bosnia and Herzegovina	–1.2	+2.1	+0.0	+2.0	+3.5
Serbia	–1.0	+2.6	–1.8	+0.2	+1.5
Turkey	+2.1	+4.0	+2.9	+2.7	+2.4
Russia	+3.4	+1.3	+0.6	–3.4	–1.6
Ukraine	*+0.2*	*+0.0*	*–6.8*	*–13.0*	*+2.0*
Bank Austria market 1)	**+2.1**	**+1.7**	**+1.3**	**–0.5**	**+0.4**
CEE (Bank Austria perimeter in 2014) 2)	**+2.2**	**+1.8**	**+1.4**	**–0.6**	**+0.3**
Central Europe (CZ, SK, H, SLO)	**–0.7**	**+0.3**	**+2.6**	**+3.4**	**+2.8**
South-East Europe (ROM, BG, CRO, BiH, SRB)	**–0.2**	**+2.1**	**+1.4**	**+2.4**	**+2.6**
Turkey	**+2.1**	**+4.0**	**+2.9**	**+2.7**	**+2.4**
CEE without Russia	**+0.8**	**+2.5**	**+2.5**	**+2.8**	**+2.6**
Russia	**+3.4**	**+1.3**	**+0.6**	**–3.4**	**–1.6**

Country groups weighted by nominal GDP for 2012. Source of original figures: UniCredit Research (June 2015) (world: IMF/WEO at PPP). / 1) Bank Austria market = Austria (10 %) and CEE (90 %). / 2) CEE, Bank Austria perimeter in 2015 = CZ, SK, H, SLO; ROM, BG, CRO, BiH, SRB; TK, RUS.

Outlook (CONTINUED)

Outlook for Bank Austria's performance

Bank Austria's performance in 2015 as a whole, as in the first six months, will continue to be characterised by a **stable trend** in **operating activities**. We expect that a stronger performance in the prospering markets of Central Europe will balance out weaker developments at banks which are currently faced with a particularly difficult environment. While commercial banking business will remain sound, operating performance will be impacted by significant **non-operating items** also in the year as a whole. As in the first half of 2015, these impacts will result from imponderable economic developments in Ukraine, where our banking subsidiary is held for sale. Moreover, tighter regulatory requirements and fiscal charges will significantly diminish net profit for 2015, as in the first six months of the year.

▶ **Austria** once again failed to meet its economic forecasts made at the beginning of the year, reflecting the lack of confidence – typical of Austria – in the business sector and among consumers in times of uncertainty (Greece). Even with the expected easing of the situation in the second half of the year, growth will remain below one per cent in 2015 as a whole. This means that the banking industry will probably not experience any significant volume growth. We expect that Bank Austria will gain market share on the assets side and the liabilities side (partly at the expense of best-in-market terms and conditions), but the low interest rate levels will impact our net interest performance also in the second half of 2015. Even somewhat better trends in lending volume and deposits will hardly offset the effect of narrower margins compared with the previous year. Net fees and commissions, on the other hand, will continue to rise, as in the first six months of 2015. With our targeted and less complex investment products, and especially with the recent focus on asset management services, we are responding to a growing investment propensity. The internationalisation initiative launched in business with corporate customers has strengthened our position in time for the forthcoming upswing in foreign trade. Large companies took advantage of the interest rate environment, which is attractive to them, to lock in interest rates for longer periods. Credit demand is therefore low. But with our undisputed market position in structured business including acquisitions, syndications, bonds and loans against borrowers' notes, as well as commodity trade finance and structured trade & export finance, we will achieve strong overall growth also in 2015. While costs will remain stable, net write-downs of loans and provisions for guarantees and commitments will return to normal in the coming quarters, after the exceptional reduction in the previous year and in the first half of 2015. Nevertheless, the provisioning charge will remain low in a multi-year comparison. Net operating profit in Austria will therefore develop in line with the first six months of 2015.

In analysing results, greater attention should be given to the cost of capital. Regulatory intervention is increasing from quarter to quarter. This requires a specific structure of assets and liabilities, stronger liquidity buffers and, above all, a capital base which rises at a disproportionately strong rate. In this context, one should note that banks in many cases have to pay higher interest rate spreads than large companies. While Basel 3 is in the process of being phased in, the banking industry has to prepare for a new tightening of requirements such as "Basel 4", TLAC, MREL, etc. The cumulative effect of these requirements – appropriate though all of them may be individually – impacts the banks' ability to generate capital on their own as a base for growth.

In view of the mixed outlook for operating income and profitability, the increasing expenses for meeting regulatory requirements, bank levies and other systemic charges – which we basically welcome – are difficult to absorb. Therefore our strategy focuses on gaining market share in customer business by offering competitive products and services, and through modern, customer-oriented sales channels (multi-channel bank) while enhancing sales efficiency by implementing our new branch concept with a lower number of staff. This will help us reduce the structurally high cost/income ratio in Austrian retail banking.

In Austria, the transformation into a modern multi-channel bank, where customers decide when, where and how they interact with their bank, is beginning to bear fruit in the form of gains in the number of customers and rising customer satisfaction. On the other hand, the rising charges for bank levies and other systemic charges impacted profits in Austria with €92 million in the first half of 2015. The level of these charges is higher than in any other country.

▶ With regard to the **CEE Division** we expect that our banking subsidiaries in the countries in Central Europe and South-East Europe will continue to benefit from the favourable economic situation described above although interest rate convergence has reached an advanced stage and growth rates in the banking sector are now significantly lower than in the years before 2007. Foreign trade will probably pick up and this should give an impetus to operating income from commercial banking business. The operating environment in the Western Balkan countries is still difficult but our banks have large market shares and can make full use of the advantages of an international network. The banking sector in Turkey is growing strongly, based on dynamic monetary trends and the outlook for a demographically young market, despite the expected slowdown in the real economy. Our joint venture in Turkey has always made a significant contribution to profits, notwithstanding risks associated with currency depreciation and interest rates. The same applies to our Russian banking subsidiary, which proved in the first half of 2015 that it has a robust business model. Focusing on large, internationally active companies, and with its sound deposit base and its good standing in financial markets, the Russian bank will continue to perform well locally even though results for the full year are difficult to anticipate in view of the extremely volatile financial market environment and political risks.

Outlook (CONTINUED)

Apart from imponderable geopolitical **risks** (Ukraine conflict, further tensions in the Middle East, fight against terrorism, political problems in view of growing inflows of refugees), one of the economic risks is that the first US move to increase interest rates could lead to an abrupt reversal of sentiment in bond markets. Although intervention by the ECB provides euro interest rates with a fairly strong anchor, such a move could entail the withdrawal of funds from peripheral markets; higher interest rate and exchange rate volatility would impact markets with current account deficits, in our case Turkey and Western Balkan countries (although official creditors are playing a stabilising role there).

Our commitment to CEE is determined (contrary to the views held by international analysts) not only by economic conditions and credit risk: our banking subsidiaries are spearheading modernisation in the banking sector and are strengthening their leading market positions in many countries. The UniCredit banks are sound banks with an international background and are attracting deposits, especially in times of uncertainty, for example in the Western Balkan countries, in Bulgaria as a country neighbouring Greece, and in Russia. Most recently, loans in Central Europe were funded with local direct funding to the extent of 115%; in Russia the figure was 108% and even in South-East Europe it reached 95%. In business with corporate customers, professionalism and the international background of a systemically important bank are key factors in countries where the management of interest-rate and currency positions is of much greater significance than in Western Europe – this can be seen from the fact that customer business accounts for a large proportion of net trading income. Net write-downs of loans are of course higher in growth markets than in mature but stagnant markets; but trends in 14 inhomogeneous countries will never be the same. It should be noted, however, that the net interest margin in the CEE countries, even after the provisioning charge, is 312 basis points, still higher than in Austrian customer business (218 basis points).

➔ In the second and third quarters of the previous year, trends in the various CEE regions were moving upwards more or less in parallel. Therefore Bank Austria achieved very good results in 2014 as a whole. This means that 2014 set a high standard against which to measure performance in 2015. Nevertheless, on the basis of the geographic diversification of operations and the professionalism of our local banks, we expect a good operating profit also for 2015 although overall conditions vary from country to country. But non-operating charges will absorb a portion of net operating profit in 2015 as a whole, as in the first half of the year.

Consolidated Income Statement

of the Bank Austria Group for the first half of 2015

Income statement

(€ million)

	1 JAN.– 30 JUNE 2015	1 JAN.– 30 JUNE 2014
Interest income and similar revenues	3,265	3,133
Interest expense and similar charges	–1,578	–1,425
Net interest margin	**1,687**	**1,708**
Fee and commission income	924	884
Fee and commission expense	–210	–209
Net fees and commissions	**714**	**675**
Dividend income and similar revenue	4	4
Gains and losses on financial assets and liabilities held for trading	231	184
Fair value adjustments in hedge accounting	–14	–2
Gains and losses on disposal of:	8	79
a) loans	3	5
b) available-for-sale financial assets	27	74
c) held-to-maturity investments	0	0
d) financial liabilities	–21	–0
Gains and losses on financial assets/liabilities at fair value through profit or loss	8	–7
OPERATING INCOME	**2,638**	**2,642**
Impairment losses on:	–398	–341
a) loans	–408	–375
b) available-for-sale financial assets	–4	–3
c) held-to-maturity investments	0	–0
d) other financial assets	14	38
Net income from financial activities	**2,240**	**2,302**
Administrative costs:	–1,618	–1,579
a) staff expense	–794	–811
b) other administrative expense	–824	–768
Provisions for risks and charges	–8	–31
Impairment/write-backs on property, plant and equipment	–85	–65
Impairment/write-backs on intangible assets	–24	–24
Other net operating income	63	53
OPERATING COSTS	**–1,673**	**–1,645**
Profit (loss) of associates	227	200
Gains and losses on tangible and intangible assets measured at fair value	–1	–0
Impairment of goodwill	0	0
Gains and losses on disposal of investments	9	79
TOTAL PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**803**	**935**
Tax expense (income) related to profit or loss from continuing operations	–129	–126
Total profit or loss after tax from continuing operations	**674**	**809**
Total profit or loss after tax from discontinued operations	–183	–25
NET PROFIT OR LOSS FOR THE PERIOD	**491**	**784**
Attributable to:		
Non-controlling interests from continuing operations	21	18
from discontinued operations	–19	–11
Attributable to non-controlling interests	**2**	**8**
Owners of the parent company from continuing operations	653	792
from discontinued operations	–164	–15
Attributable to owners of the parent company	**489**	**776**
Earnings per share (in €, basic and diluted) from continuing operations	2.82	3.42
from discontinued operations	–0.71	–0.07

Consolidated Statement of Comprehensive Income

of the Bank Austria Group for the first half of 2015

Statement of comprehensive income

(€ million)

	1 JAN.– 30 JUNE 2015	1 JAN.– 30 JUNE 2014
Total profit or loss after tax from continuing operations	**674**	**809**
Total profit or loss after tax from discontinued operations	**–183**	**–25**
PROFIT OR (–) LOSS FOR THE PERIOD	**491**	**784**
OTHER COMPREHENSIVE INCOME	**337**	**–81**
Items that will not be reclassified to profit or loss	**205**	**–274**
Actuarial gains or (–) losses on defined benefit pension plans	273	–365
Share of other recognised income and expense of entities accounted for using the equity method	0	0
Income tax relating to items that will not be reclassified	–68	91
Items that may be reclassified to profit or loss	**132**	**193**
Foreign currency translation	317	–266
Cash flow hedges [effective portion]	–28	238
Valuation gains or (–) losses taken to equity	*–29*	*235*
Transferred to profit or loss	*1*	*3*
Available-for-sale financial assets	–189	283
Valuation gains or (–) losses taken to equity	*–187*	*313*
Transferred to profit or loss	*–3*	*–30*
Non-current assets and disposal groups held for sale	3	–3
Valuation gains or (–) losses taken to equity	*2*	*–3*
Transferred to profit or loss	*1*	*0*
Share of other recognised income and expense of entities accounted for using the equity method	–36	82
Cash flow hedges [effective portion]	*82*	*–30*
Available-for-sale financial assets	*–118*	*112*
Other recognised income and expenses	*0*	*0*
Income tax relating to items that may be reclassified to profit or (–) loss	66	–140
Gains/losses on assets available for sale (available-for-sale reserve)	*51*	*–66*
Gains/losses on cash flow hedges (cash flow hedge reserve)	*6*	*–55*
Gains/losses on assets available for sale (available-for-sale reserve) of investments measured at equity	*25*	*–24*
Gains/losses on cash flow hedges (cash flow hedge reserve) of investments measured at equity	*–16*	*6*
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**828**	**703**
Comprehensive income after tax from continuing operations	**940**	**951**
Comprehensive income after tax from discontinued operations	**–112**	**–248**
Thereof attributable to		
Non-controlling interests from continuing operations	24	21
from discontinued operations	–27	–80
Attributable to non-controlling interests	**–3**	**–59**
Owners of the parent company from continuing operations	916	930
from discontinued operations	–85	–168
Attributable to owners of the parent company	**831**	**762**

Earnings per share (in €, basic and diluted)

(€)

	1 JAN.– 30 JUNE 2015	1 JAN.– 30 JUNE 2014
Earnings per share from comprehensive income after tax from continuing operations	3.96	4.02
Earnings per share from comprehensive income after tax from discontinued operations	–0.37	–0.73

Statement of Financial Position

of the Bank Austria Group at 30 June 2015

Assets

(€ million)

	30 JUNE 2015	31 DEC. 2014
Cash and cash balances	2,065	1,942
Financial assets held for trading	2,956	3,533
Financial assets at fair value through profit or loss	121	110
Available-for-sale financial assets	24,670	22,148
Held-to-maturity investments	301	572
Loans and receivables with banks	28,142	30,542
Loans and receivables with customers	117,226	113,732
Hedging derivatives	3,345	3,952
Changes in fair value of portfolio hedged items (+/–)	–18	–99
Investments in associates and joint ventures	4,614	4,644
Property, plant and equipment	2,137	2,147
of which held for investment	*873*	*896*
Intangible assets	192	171
Tax assets	563	570
a) current tax assets	65	72
b) deferred tax assets	498	499
Non-current assets and disposal groups classified as held for sale	3,045	3,600
Other assets	2,083	1,554
TOTAL ASSETS	**191,442**	**189,118**

Liabilities and equity

(€ million)

	30 JUNE 2015	31 DEC. 2014
Deposits from banks	22,463	23,696
Deposits from customers	107,971	102,271
Debt securities in issue	28,637	30,014
Financial liabilities held for trading	2,781	3,454
Financial liabilities at fair value through profit or loss	548	670
Hedging derivatives	2,889	3,302
Changes in fair value of portfolio hedged items (+/–)	–114	84
Tax liabilities	199	165
a) current tax liabilities	65	58
b) deferred tax liabilities	135	107
Liabilities included in disposal groups classified as held for sale	1,556	1,845
Other liabilities	3,110	2,617
Provisions for risks and charges	5,706	6,076
a) post-retirement benefit obligations	5,394	5,665
b) other provisions	312	411
Equity	15,696	14,925
of which non-controlling interests (+/–)	*404*	*193*
TOTAL LIABILITIES AND EQUITY	**191,442**	**189,118**

Statement of Changes in Equity

of the Bank Austria Group for the first half of 2015

(€ million)

	SUB-SCRIBED CAPITAL	CAPITAL RESERVES	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION	CASH FLOW HEDGE RESERVE	AVAILABLE-FOR-SALE RESERVE	CASH FLOW HEDGE AND AFS RESERVE ASSOCIATES	ACTUARIAL LOSSES IN ACCORDANCE WITH IAS 19	SHARE-HOLDERS' EQUITY	NON-CON-TROLLING INTERESTS	EQUITY
As at 1 January 2014	**1,681**	**6,052**	**10,287**	**−2,577**	**194**	**400**	**25**	**−1,351**	**14,710**	**340**	**15,050**
Changes in the group of consolidated companies			148						148	−12	136
Shares in controlling companies		4							4	0	4
Net profit for the period			776						776	8	784
Other comprehensive income				−200	181	215	64	−274	−14	−67	−81
Dividend paid									0	−10	−10
AS AT 30 JUNE 2014	**1,681**	**6,056**	**11,211**	**−2,777**	**375**	**615**	**88**	**−1,625**	**15,624**	**258**	**15,884**
	SUB-SCRIBED CAPITAL	CAPITAL RESERVES	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION	CASH FLOW HEDGE RESERVE	AVAILABLE-FOR-SALE RESERVE	CASH FLOW HEDGE AND AFS RESERVE ASSOCIATES	ACTUARIAL LOSSES IN ACCORDANCE WITH IAS 19	SHARE-HOLDERS' EQUITY	NON-CON-TROLLING INTERESTS	EQUITY
As at 1 January 2015	**1,681**	**6,058**	**11,950**	**−3,980**	**347**	**721**	**71**	**−2,116**	**14,732**	**193**	**14,925**
Changes in the group of consolidated companies			−79	−197					−276	247	−29
Shares in controlling companies		5							5		5
Net profit for the period			489						489	2	491
Other comprehensive income				322	−22	−135	−27	205	342	−6	337
Dividend paid									0	−33	−33
AS AT 30 JUNE 2015	**1,681**	**6,063**	**12,359**	**−3,855**	**325**	**586**	**44**	**−1,911**	**15,292**	**404**	**15,696**

Statement of Cash Flows

of the Bank Austria Group for the first half of 2015

(€ million)

	1 JAN.– 30 JUNE 2015	1 JAN.– 30 JUNE 2014
NET PROFIT OR LOSS	**491**	**784**
Non-cash items included in net profit, and adjustments to reconcile net profit to cash flows from operating activities		
Depreciation, amortisation, net write-downs of loans, and changes in fair values	521	440
Increase in staff-related provisions and other provisions	122	160
Increase/decrease in other non-cash items	–857	–770
Interest income/interest expenses from investing activities	85	–19
Gains/losses on disposal of intangible assets, property, plant and equipment, and investments	–17	–104
SUB-TOTAL	**345**	**491**
Increase/decrease in operating assets and liabilities after adjustment for non-cash components		
Financial assets held for trading	755	31
Loans and receivables with banks and customers	–882	–340
Other asset items	538	–58
Financial liabilities held for trading	–761	231
Deposits from banks and customers	4,069	–756
Debt securities in issue	–2,274	919
Other liabilities items	–438	200
CASH FLOWS FROM OPERATING ACTIVITIES	**1,352**	**718**
of which: cash flows from operating activities of discontinued operations	***–48***	***11***
Proceeds from disposal of		
investments	4,772	6,457
property, plant and equipment	39	70
Payments for purchases of		
investments	–6,856	–9,096
property, plant and equipment	–148	–132
Proceeds from sales (less cash disposed of) of subsidiaries	66	135
Payments for acquisition (less cash acquired) of subsidiaries	–34	0
Other changes	19	248
CASH FLOWS FROM INVESTING ACTIVITIES	**–2,142**	**–2,318**
of which: cash flows from investing activities of discontinued operations	***46***	***7***
Proceeds from capital increase	0	0
Dividends paid	0	0
Subordinated liabilities and other financial activities (net)	906	965
CASH FLOWS FROM FINANCING ACTIVITIES	**906**	**965**
of which: cash flows from financing activities of discontinued operations	***0***	***0***
CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS AT END OF PREVIOUS PERIOD	**1,942**	**2,375**
Cash and cash equivalents from discontinued operations at end of previous period	**85**	**191**
CASH AND CASH EQUIVALENTS AT END OF PREVIOUS PERIOD	**2,027**	**2,566**
Cash flows from operating activities	1,352	718
Cash flows from investing activities	–2,142	–2,318
Cash flows from financing activities	906	965
Effects of exchange rate changes	–12	1
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**2,131**	**1,932**
Cash and cash equivalents from discontinued operations	**66**	**152**
Cash and cash equivalents from continuing operations	**2,065**	**1,780**
Payments for taxes, interest and dividends		
Income taxes paid from operating activities	–73	–36
Interest received from operating activities	2,856	2,617
from investing activities	233	315
Interest paid from operating activities	–1,338	–1,043
from investing activities	–392	–553
Dividends received from investing activities	71	66

Notes to the Consolidated Financial Statements

Basis for the preparation of the financial statements

The consolidated interim financial statements for the first six months of 2015 (January 2015 to June 2015), which include the financial statements of UniCredit Bank Austria AG and its subsidiaries, the Group's interests in associates and jointly controlled entities (collectively "Bank Austria"), are presented in euros, the presentation currency of the Group.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU) and are presented in accordance with the requirements of IAS 34 "Interim Financial Reporting".

The consolidated interim financial statements of the Bank Austria Group for the first six months of 2015 are unaudited and not reviewed. They include a statement of financial position, an income statement and a statement of comprehensive income, a statement of changes in equity, a statement of cash flows, segment reporting and selected explanatory notes. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at 31 December 2014.

The interim financial statements do not include all the information and disclosures required in the annual consolidated financial statements, they should be read in conjunction with the audited consolidated financial statements of the Bank Austria Group for 2014, for which the same accounting policies were applied.

The preparation of financial statements under IFRS requires management to make estimates and assumptions for certain categories of assets and liabilities. These assumptions and estimates affect the reported revenues and expenses during the reporting period, and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the end of the reporting period. Actual results could differ from management's estimates and the results reported should not be regarded as necessarily indicative of the results that may be expected for the entire year.

Accounting policies

Except for new standards and amendments as described below, the accounting policies applied by the Group in this interim financial report are the same as those applied by the Group in its consolidated financial statements for the year 2014.

Accounting for contributions pursuant to EU Directives 2014/49/EU and 2014/59/EU

Pursuant to Directive 2014/49/EU on deposit guarantee schemes and pursuant to Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions – implemented in Austria through the Austrian Deposit Guarantee and Investor Compensation Act (Einlagensicherungs- und Anlegerentschädigungsgesetz – ESAEG) and the Austrian Recovery and Resolution of Banks Act (Banken-Sanierungs- und Abwicklungsgesetz – BaSAG), respectively – credit institutions are required from 2015 to make contributions to protection schemes created by the state. In this context UniCredit Group applies the following accounting methods: if the relevant law was passed by the national legislative body (in Austria: the National Assembly – Nationalrat), the amounts of the contributions for the full year are to be recognised as expenses immediately in full (in line with the relevant requirement under IFRIC 21 for levies where the obligation to pay the levy is not triggered by operating over a period of time). If the law has not yet been passed, it is not yet possible (also in line with IAS 12) to recognise an expense because there is no legal obligation. In the Bank Austria Group, the total amount recognised as an expense in this connection in the first half of 2015 was €37 million; the expected contributions pursuant to the Austrian Recovery and Resolution of Banks Act accounted for a large proportion of the total amount.

Amendments resulting from "Annual Improvements to IFRS"

The amendments resulting from the Annual Improvements to IFRS 2011–2013 Cycle have been effective since 1 January 2015; the amendments from the 2010–2012 Cycle have been effective since 1 February 2015. The amendments from the 2010–2012 Cycle relate in particular to minor amendments to IFRS 2 (concerning the definition of vesting conditions), IFRS 3 (with regard to accounting for contingent consideration in a business combination), IFRS 8 (clarifying the aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets), IFRS 13 (clarifying the fair value of short-term receivables and payables), IAS 7 (questions relating to the classification of interest paid that is capitalised) and IAS 24 (definition of key management personnel). The amendments from the 2011–2013 Cycle mainly relate to IFRS 3 (scope exceptions for joint ventures), IFRS 13 (clarifying the application of the portfolio exception), IAS 40 (clarifying the interrelationship of IFRS 3 and IAS 40 in the case of the acquisition of investment property). All these amendments and clarifications are of minor significance for the Bank Austria Group.

Amendments to IAS 19 – Defined benefit plans

An amendment to IAS 19 relating to changes in accounting for contributions from employees became effective on 1 February 2015. This amendment has no effect on the Bank Austria Group.

Notes (CONTINUED)

Effects from the change in material calculation parameters

Post-employment benefits

The interest rate used in the calculation of the defined benefit obligation for our pension and severance pay plan was increased to 2.4 % as of 30 June 2015 (31 December 2014: 2.1 % p. a.) in order to reflect changes in interest rate levels. All other valuation parameters remained unchanged. The resulting measurement effect of the DBO in the amount of €205 million (net of tax) was recognised in other comprehensive income in equity in accordance with IAS 19.

Information on fair value

This section presents a disclosure of reclassified financial instruments according to IAS 39 and information on fair value as required by IFRS 13.

The methods of determining the fair values of different categories of financial instruments in the consolidated financial statements were disclosed in detail as at 31 December 2014 and are still applicable.

The following tables show a breakdown of financial assets and liabilities designated at fair value according to the above-mentioned levels, as well as changes of Level 3 assets or liabilities.

Accounting portfolios – Breakdown by fair value levels (€ million)

FINANCIAL ASSETS/LIABILITIES MEASURED AT FAIR VALUE	30 JUNE 2015			31 DEC. 2014		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial assets held for trading	188	2,720	48	225	3,236	72
Financial assets at fair value through profit or loss	0	94	26	2	52	57
Available-for-sale financial assets	18,906	4,811	878	15,980	4,960	1,133
Hedging derivative assets	0	3,343	3	0	3,932	20
Property, plant and equipment (measured at fair value)	0	0	70	0	0	70
TOTAL	**19,094**	**10,968**	**1,026**	**16,208**	**12,179**	**1,351**
Financial liabilities held for trading	63	2,666	53	28	3,308	117
Financial liabilities at fair value through profit or loss	0	545	4	0	666	5
Hedging derivative liabilities	0	2,889	0	0	3,290	12
TOTAL	**63**	**6,099**	**56**	**28**	**7,264**	**134**

Notes (CONTINUED)

Annual changes in financial assets at fair value level 3

(€ million)

	1 JAN.–30 JUNE 2014				
	FINANCIAL ASSETS				
	HELD FOR TRADING	AT FAIR VALUE THROUGH P&L	AVAILABLE FOR SALE	HEDGING DERIVATIVES	PROPERTY, PLANT AND EQUIPMENT
Opening balances	**13**	**86**	**1,220**	**2**	**69**
Increases	**257**	**4**	**615**	**4**	**2**
Purchases	248	–	156	–	–
Profits recognised in:					
Income statement	8	4	–	–	1
of which unrealised gains[1)]	*4*	*4*	–	–	*1*
Equity[2)]	X	X	22	–	–
Transfers from other levels	1	–	–	–	1
Other increases	1	–	437	4	–
Decreases	**–252**	**–6**	**–219**	**–**	**–4**
Sales	–246	–	–119	–	–
Redemptions	–4	–5	–26	–	–
Losses recognised in:					
Income statement	–1	–	–	–	–1
of which unrealised losses[3)]	–	–	–	–	–
Equity[4)]	X	X	–49	–	–
Transfers to other levels	–	–	–13	–	–
Other decreases	–	–	–12	–	–2
Closing balances	**19**	**85**	**1,615**	**6**	**66**
	1 JAN.–30 JUNE 2015				
	FINANCIAL ASSETS				
	HELD FOR TRADING	AT FAIR VALUE THROUGH P&L	AVAILABLE FOR SALE	HEDGING DERIVATIVES	PROPERTY, PLANT AND EQUIPMENT
Opening balances	**72**	**57**	**1,133**	**20**	**70**
Increases	**240**	**8**	**442**	**1**	**1**
Purchases	218	0	192	0	0
Profits recognised in:	0	0	0	0	0
Income statement	19	7	1	0	1
of which unrealised gains[1)]	*5*	*1*	*0*	*0*	*1*
Equity[2)]	X	X	22	0	0
Transfers from other levels	0	0	194	0	0
Other increases	2	2	34	1	0
Decreases	**–263**	**–39**	**–696**	**–18**	**–2**
Sales	–174	–35	–70	0	0
Redemptions	–21	–3	–51	0	–0
Losses recognised in:	0	0	0	0	0
Income statement	–1	0	–11	0	–1
of which unrealised losses[3)]	*–0*	*0*	*0*	*0*	*–1*
Equity[4)]	X	X	–6	0	0
Transfers to other levels	–39	0	–344	–18	0
Other decreases	–29	–1	–213	–0	–1
Closing balances	**48**	**26**	**878**	**3**	**70**

1), 3) Increases/decreases in financial assets are recognised in the income statement in the following items:
- Gains and losses on financial assets held for trading;
- Fair value adjustments in hedge accounting;
- Gains and losses on financial assets at fair value through profit or loss.

2), 4) Gains or losses arising out of changes in fair value are recognised in the equity item "Revaluation reserves" – except losses due to impairment and exchange rate gains or losses on monetary items (debt instruments) which are recognised under "Impairment losses on available-for-sale financial assets" and "Gains and losses on financial assets and liabilities held for trading", respectively – until the financial asset is sold, at which time cumulative gains and losses presented in revaluation reserves are recognised in profit or loss in "Gains (losses) on disposal or repurchase of available-for-sale financial assets".

Notes (CONTINUED)

Annual changes in financial liabilities at fair value level 3

(€ million)

	1 JAN.–30 JUNE 2014		
	FINANCIAL LIABILITIES		
	HELD FOR TRADING	AT FAIR VALUE THROUGH PROFIT OR LOSS	HEDGING DERIVATIVES
Opening balances	**7**	**9**	**1**
Increases	**8**	**–**	**1**
Purchases	–	–	1
Profits recognised in:			
Income statement	7	–	–
of which unrealised gains 1)	*4*	–	–
Equity	X	X	–
Transfers from other levels	–	–	–
Other increases	1	–	–
Decreases	**–10**	**–3**	**–**
Sales	–	–	–
Redemptions	–9	–	–
Losses recognised in:			
Income statement	–1	–	–
of which unrealised losses 2)	–	–	–
Equity	X	X	–
Transfers to other levels	–	–	–
Other decreases	–	–3	–
Closing balances	**6**	**6**	**1**

	1 JAN.–30 JUNE 2015		
	FINANCIAL LIABILITIES		
	HELD FOR TRADING	AT FAIR VALUE THROUGH PROFIT OR LOSS	HEDGING DERIVATIVES
Opening balances	**117**	**5**	**12**
Increases	**56**	**24**	**0**
Purchases	42	0	0
Profits recognised in:	0	0	0
Income statement	12	0	0
of which unrealised gains 1)	*8*	*0*	*0*
Equity	X	X	0
Transfers from other levels	0	0	0
Other increases	2	24	0
Decreases	**–121**	**–25**	**–12**
Sales	–4	0	0
Redemptions	0	0	0
Losses recognised in:	0	0	0
Income statement	–0	0	0
of which unrealised losses 2)	*–0*	*0*	*0*
Equity	X	X	0
Transfers to other levels	–29	0	–10
Other decreases	–88	–25	–1
Closing balances	**53**	**4**	**0**

1), 2) Increases/decreases in financial liabilities are recognised in the income statement in the following items:
- Gains and losses on financial liabilities held for trading;
- Fair value adjustments in hedge accounting;
- Gains and losses on financial liabilities at fair value through profit or loss.

Notes (continued)

Accounting portfolios measured at fair value: transfers between Levels of the fair value hierarchy (Level 1 and Level 2) (€ million)

	1 JAN.–30 JUNE 2015		1 JAN.–30 JUNE 2014	
	LEVEL 1	LEVEL 2	LEVEL 1	LEVEL 2
Financial assets				
Financial assets held for trading				
Transfer from Level 1	X	–	X	9
Transfer from Level 2	0	X	1	X
Financial assets at fair value through profit or loss				
Transfer from Level 1	X	–	X	–
Transfer from Level 2	0	X	–	X
Available-for-sale financial assets				
Transfer from Level 1	X	–	X	147
Transfer from Level 2	249	X	–	X
Hedging derivatives assets				
Transfer from Level 1	X	–	X	–
Transfer from Level 2	–	X	–	X
Financial liabilities				
Financial liabilities held for trading				
Transfer from Level 1	X	–	X	–
Transfer from Level 2	–	X	–	X
Financial liabilities at fair value through profit or loss				
Transfer from Level 1	X	–	X	–
Transfer from Level 2	–	X	–	X
Hedging derivatives liabilities				
Transfer from Level 1	X	–	X	–
Transfer from Level 2	–	X	–	X

Notes (CONTINUED)

Accounting portfolios measured at fair value: sensitivity analysis for Fair Value Level 3

The sensitivity analysis for Level 3 positions measured at fair value on a recurring basis with respect to the unobservable model input is based on the following categories of model inputs:

Credit Spreads (SP): For instruments exposed to issuer risk the unobservable input is mainly the issuer credit spread.

Interest Rates (IR): In the absence of liquid interest rate swap markets the term structure of the yield curve is proxied.

Equity (EQ): In the absence of active markets equity prices are proxied.
The reasonable alternative estimate for the model input is disclosed in the column "Variation range".

The sensitivity analysis for the Bank Austria Group shows that the Level 3 position consists mainly of fixed income securities, which are predominantly booked as available for sale and relate to the regulatory banking book. Most of the derivatives listed in the table also relate to the banking book and are mainly used for hedge accounting. As the portfolio in the Bank Austria Group is rather plain by nature, there are materially no more complex unobservable model inputs applied (e.g. volatilities).

Sensitivity analysis for Level 3 positions measured at fair value (€ million)

PRODUCT CATEGORIES			FAIR VALUE ASSETS	FAIR VALUE LIABILITIES	VALUATION TECHNIQUES	UNOBSERVABLE PARAMETERS	RANGE
Derivatives	Financial						
		Equity	25.8	31.5	Option pricing model	Underlying	15%
		Foreign Exchange	16.3	19.9	Option pricing model	Interest rate	100 bps
		Interest Rate	1.0	1.2	Discounted cash flows	Swap Rate (bps)	100 bps
	Credit		0.0	0.0	Hazard Rate Model	Credit Spread	10 bps
Debt Securities and Loans		Corporate/Government/Other	823.1	3.6	Market approach	Price	10 bps to 300 bps
Equity Securities		Unlisted Equity & Holdings	98.3		Market approach	Price	15%
Units in Investment Funds		Real Estate & Other Funds	65.2		Adjusted net asset value	Price	15%

(€ million)

PRODUCT CATEGORIES			FAIR VALUE MOVEMENTS GIVEN REASONABLE POSSIBLE ALTERNATIVES	
Derivatives				
	Financial			
		Equity	+/–	4.9
		Foreign Exchange	+/–	3.1
		Interest Rate	+/–	0.2
	Credit		+/–	0.6
Debt Securities and Loans		Corporate/Government/Other	+/–	11.3
Equity Securities		Unlisted Equity & Holdings	+/–	4.9
Units in Investment Funds		Real Estate & Other Funds	+/–	6.8

Notes (CONTINUED)

Transfer between portfolios

In accordance with the amendments to IAS 39 and IFRS 7, Reclassification of Financial Assets, published in October 2008, and in response to the rare circumstances presented by the financial market crisis, we had reclassified asset-backed securities (ABSs/specific securitised assets) from financial assets held for trading into loans and receivables with customers with effect from 1 July 2008 at the fair values determined at that date.

In accordance with IAS 39.50E, bonds included in the available-for-sale category had been reclassified into loans and receivables with banks with effect from 1 August 2011. There is the intention to hold these reclassified bonds until maturity.

The following table shows the effects of this reclassification by item in the statement of financial position and by income statement item as at 30 June 2015:

Reclassified financial assets: carrying amount, fair value and effects on comprehensive income

(€ million)

TYPES OF INSTRUMENTS	ACCOUNTING PORTFOLIO BEFORE RECLAS-SIFICATION	ACCOUNTING PORTFOLIO AFTER RECLASSIFICATION	CARRYING AMOUNT AS AT 30 JUNE 2015	FAIR VALUE AS AT 30 JUNE 2015	INCOME/EXPENSES ABSENT RECLASSIFICATION (BEFORE TAXES)		INCOME/EXPENSES RECOGNISED DURING THE PERIOD (BEFORE TAXES)	
					FROM MEASUREMENT	OTHER	FROM MEASUREMENT	OTHER
Debt securities								
	HFT	AFS	4	4	0	0	0	0
	HFT	HTM	0	0	0	0	0	0
	HFT	Loans to banks	0	0	0	0	0	0
	HFT	Loans to customers	395	396	–5	3	3	5
	AFS	Loans to banks	2,974	2,996	21	22	0	32
TOTAL			**3,374**	**3,396**	**16**	**25**	**3**	**37**

Notes (CONTINUED)

Consolidated companies and changes in consolidated companies of the Bank Austria Group in the first half of 2015

	CONSOLIDATED COMPANIES	COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD	TOTAL
Opening balance	**413**	**37**	**450**
Additions	**8**	**0**	**8**
Newly established companies	1	0	1
Acquired companies	1	0	1
Other changes	6	0	6
Disposals	**–10**	**0**	**–10**
Companies sold or liquidated	–6	0	–6
Mergers	–3	0	–3
Changes in UniCredit Group	–1	0	–1
CLOSING BALANCE	**411**	**37**	**448**

In the first half of 2015 the number of companies of the Bank Austria Group declined from 450 to 448.

The newly established company is UniCredit Leasing Insurance Slovakia. Transfinance a.s., Prague, was acquired. Additions resulting from changes in UniCredit Group relate to six Croatian leasing subsidiaries, which were taken over by Zagrebačka banka d.d.

The Austrian leasing companies Rondo Leasing GmbH and CALG Immobilien Leasing GmbH & Co were sold in the first quarter of 2015. The liquidation of GUS Consulting GmbH was completed. The Slovak leasing subsidiary UniCredit Leasing Real Estate s.r.o. was merged into UniCredit Leasing Slovakia, a.s., in the first quarter of 2015. In the second quarter, the Hungarian leasing subsidiary BACA-Leasing Gemini Kft and the Czech leasing subsidiary CAC Real Estate, s.r.o., were sold. The Romanian leasing subsidiary UniCredit Leasing Romania S.A. was merged into UniCredit Leasing Corporation IFN S.A. and the Bulgarian HVB Leasing EOOD was merged into UniCredit Leasing EAD. The liquidation of the Ukrainian subsidiary LLC BDK Consulting was completed.

UniCredit CAIB Poland S.A. was sold to a UniCredit Group company outside the Bank Austria Group.

Effect from the capital increase at Public Joint Stock Company "Ukrsotsbank"

In addition to the partial debt forgiveness in the first quarter of 2015 in the amount of about US$250 million, a capital increase of about US$250 million was carried out at the end of June 2015 (through the conversion of existing loans of UniCredit Bank Austria AG into equity) at the Ukrainian banking subsidiary Public Joint Stock Company Ukrsotsbank, Kiev, to strengthen Ukrsotsbank's capital base. As a result of this capital increase, the Bank Austria Group's shareholding interest in Ukrsotsbank rose from 72.91% to 91.36% as the other shareholders, including UniCredit SpA in particular, did not participate in the capital increase. This change in shareholding interests led to shifts between shareholders' equity and non-controlling interests within the Bank Austria Group's equity.

Completion of purchase price allocation from the acquisition of the Immobilien Holding Group

With the closing dated 18 September 2014 the Bank Austria Group acquired 100% of the shares in Immobilien Holding GmbH. Immobilien Holding GmbH is the holding company of the Immobilien Holding Group, which at the acquisition date comprised 56 legal entities.

Due to this acquisition, 34 entities have been included in the scope of consolidation as fully consolidated entities since 30 September 2014, amongst them Wien Mitte Immobilien GmbH, in which the Bank Austria Group had already had an indirect 50% stake and which had therefore already been included in the group using the equity method until 30 September 2014. Nine further entities have been included in the scope of consolidation at equity based on the fact that the Bank Austria Group has significant influence over them; the 13 remaining entities have not been included in the scope of consolidation based on materiality reasons, shares in these companies are shown as available-for-sale financial assets at cost.

The Bank Austria Group had already been participating in 88% of the results of the Immobilien Holding Group through a profit participation right. For strategic reasons, Bank Austria intends to dispose of its real estate participations. As a prerequisite of such a disposal, the remaining 12% economic participation in the Immobilien Holding Group was purchased in this acquisition along with the gain of the control over the group. Simultaneously, the existing profit participation right structure was wound up.

The Management Board remains committed to its intention to dispose of the entire Immobilien Holding Group, including Wien Mitte Immobilien GmbH and its holding company Wien Mitte Holding GmbH, within a year from the acquisition date. The respective entities have therefore been classified as "held for sale" since 30 September 2014 and are simultaneously treated as a "discontinued operation".

Notes (CONTINUED)

The sales activities started in 2014 and have been pursued intensively since then.

The acquisition of the Immobilien Holding Group did not result in any goodwill or badwill based on the preliminary purchase price allocation in accordance with IFRS 3.45 in the consolidated financial statements as at 31 December 2014. The preliminary purchase price allocation was finalised as of June 2015, which means that the final result of first-time consolidation of the Immobilien Holding Group is reflected in the financial statements for the first half of 2015:

In the context of first-time consolidation as of 30 September 2014, the previously held profit participation right (PPR) was derecognised as part of the purchase price. According to IFRS 3.37 the PPR had to be remeasured to its proportionate fair value, which was determined on the basis of an external fairness opinion. The purchase price for the Immobilien Holding Group, composed of the fair value of the PPR derecognised as well as the cash consideration transferred, basically equalled the fair value of the net assets less the expected costs to sell for the packages intended to be sold according to IFRS 5.

The purchase price was composed of the following components:

	(€ million)
Profit participation right derecognised (fair value):	461
Cash consideration transferred	69
Purchase price for stake in Immobilien Holding GmbH	530
Derecognised investments in associates and AFS investments	55
Total purchase price for the Immobilien Holding Group	**585**

The derecognition of the previously held profit participation right in Immobilien Holding GmbH resulted in an unrealised gain of €31 million (net of tax). The derecognition of the stake in Wien Mitte Immobilien GmbH, which was previously measured at equity, had an effect of €2.9 million on profit or loss. In addition, small profits were made upon the derecognition of previous available-for-sale investments in bareal Immobilientreuhand GmbH, Garage Am Hof Gesellschaft m.b.H. and WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m.b.H.

A contingent consideration was not part of the purchase agreement.

The assets and liabilities recognised in the course of first-time consolidation (and according to the purchase price allocation which has now been completed) mainly consisted of real estate assets with related financing liabilities. The expected costs of disposal in accordance with IFRS 5 had already been deducted:

	(€ million)
Fair values of acquired assets less costs of disposal	1,303
Fair values of acquired liabilities	–714
Net asset value less cost of disposal	**589**
Less: non-controlling interests	–2
Own share of net asset value less costs of disposal	587
Less: total purchase price	–585
Badwill (gain on bargain purchase)	**2**

The insignificant effect from final badwill which resulted from the completion of purchase price allocation in June 2015 is included in the line “Changes in the group of consolidated companies” in the statement of changes in equity for the first half of 2015.

All non-controlling interests were measured at net asset value, the “full goodwill method” was not applied.

All assets and liabilities acquired as part of the purchase of the Immobilien Holding Group are shown in the statement of financial position in the line items “Non-current assets and disposal groups classified as held for sale” and “Liabilities included in disposal groups classified as held for sale”, respectively. A breakdown into the components is not required because the group had been acquired with a view to resale. Similarly, the pro-forma disclosures of the consolidated profit or loss which would have resulted if the acquisition had taken place on 1 January 2014, can be omitted as the whole group is classified as a “discontinued operation” and the related result is shown separately in this line in the income statement.

Put options Tiriac and Mostar

The put option for 45.06% of the shares in UniCredit Tiriac Bank S.A. was exercised by the contracting party in the second quarter of 2015 and the shares were transferred. The calculation of non-controlling interests in UniCredit Tiriac Bank S.A., Bucharest, for consolidation purposes had already been based on the economic equity interest of 95.52% in the past, taking into account the effect of the interlinked put/call options.

The put option in respect of shares in UniCredit Bank D.D., Mostar, was exercised in 2014. The closing of the transaction will take place in the second half of 2015.

Notes to the income statement

Interest income / Interest expense

Interest income and similar revenues

(€ million)

	1 JAN.–30 JUNE 2015				1 JAN.–30 JUNE 2014
	DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	TOTAL	TOTAL
Financial assets held for trading	7	0	314	321	255
Financial assets at fair value through profit or loss	1	0	0	1	1
Available-for-sale financial assets	255	0	0	255	294
Held-to-maturity investments	7	0	0	7	14
Loans and receivables with banks	29	156	0	185	123
Loans and receivables with customers	9	2,188	0	2,197	2,254
Hedging derivatives	X	X	298	298	189
Other assets	X	X	2	2	3
TOTAL	**307**	**2,343**	**614**	**3,265**	**3,133**

Interest expense and similar charges

(€ million)

	1 JAN.–30 JUNE 2015				1 JAN.–30 JUNE 2014
	DEPOSITS	SECURITIES	OTHER TRANSACTIONS	TOTAL	TOTAL
Deposits from central banks	–74	X	0	–74	–53
Deposits from banks	–167	X	0	–167	–171
Deposits from customers	–677	X	0	–677	–584
Debt securities in issue	X	–390	0	–390	–379
Financial liabilities held for trading	–0	0	–262	–262	–230
Financial liabilities at fair value through profit or loss	0	–2	0	–2	–4
Other liabilities	X	X	–3	–3	–1
Hedging derivatives	X	X	–4	–4	–3
TOTAL	**–917**	**–392**	**–268**	**–1,578**	**–1,425**

Fee and commission income / Fee and commission expense

Fee and commission income

(€ million)

	1 JAN.–30 JUNE 2015	1 JAN.–30 JUNE 2014
Guarantees given	**80**	**88**
Credit derivatives	**2**	**1**
Management, brokerage and consultancy services:	**257**	**263**
securities trading	0	1
currency trading	6	14
portfolio management	103	96
custody and administration of securities	46	38
custodian bank	19	19
placement of securities	9	11
reception and transmission of orders	10	10
advisory services	9	24
distribution of third party services	54	50
Collection and payment services	**345**	**374**
Factoring	**3**	**3**
Management of current accounts	**130**	**92**
Other services	**108**	**64**
TOTAL	924	884

Notes to the income statement (CONTINUED)

Fee and commission expense

(€ million)

	1 JAN.–30 JUNE 2015	1 JAN.–30 JUNE 2014
Guarantees received	**–46**	**–45**
Credit derivatives	**–2**	**–7**
Management, brokerage and consultancy services:	**–40**	**–36**
trading in financial instruments	–2	–2
currency trading	–0	–1
portfolio management	–7	–8
custody and administration of securities	–18	–18
placement of financial instruments	–0	–0
off-site distribution of financial instruments, products and services	–12	–7
Collection and payment services	**–110**	**–111**
Other services	**–13**	**–11**
TOTAL	**–210**	**–209**

Dividend income and similar revenue

(€ million)

	1 JAN.–30 JUNE 2015			1 JAN.–30 JUNE 2014		
	DIVIDENDS	INCOME FROM UNITS IN INVESTMENT FUNDS	TOTAL	DIVIDENDS	INCOME FROM UNITS IN INVESTMENT FUNDS	TOTAL
Financial assets held for trading	0	0	0	0	0	0
Available-for-sale financial assets	4	0	4	3	0	3
Financial assets at fair value through profit or loss	0	0	0	1	0	1
Investments	0	X	0	1	X	1
TOTAL	**4**	**0**	**4**	**4**	**0**	**4**

Gains and losses on financial assets and liabilities held for trading

(€ million)

	1 JAN.–30 JUNE 2015					1 JAN.–30 JUNE 2014
	UNREALISED PROFITS	REALISED PROFITS	UNREALISED LOSSES	REALISED LOSSES	NET PROFIT	NET PROFIT
Financial assets held for trading	**8**	**44**	**–9**	**–128**	**–85**	**6**
Debt securities	7	20	–8	–6	12	2
Equity instruments	0	0	–0	–0	0	–0
Units in investment funds	0	0	–0	–0	0	0
Loans	0	6	0	0	6	0
Other	1	17	–0	–121	–103	4
Financial liabilities held for trading	**0**	**1**	**–0**	**–7**	**–6**	**0**
Debt securities	0	0	0	0	0	0
Deposits	0	0	–0	–5	–5	0
Other	0	1	–0	–2	–1	0
Other financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**213**	**98**
Derivatives	**339**	**72**	**–237**	**–56**	**109**	**80**
Financial derivatives	339	72	–237	–56	109	61
on debt securities and interest rates	*327*	*51*	*–225*	*–33*	*119*	*7*
on equity securities and share indices	*5*	*3*	*–4*	*–5*	*–2*	*5*
on currency and gold	*X*	*X*	*X*	*X*	*–9*	*51*
other	*8*	*18*	*–8*	*–17*	*0*	*–2*
Credit derivatives	0	0	0	0	0	19
TOTAL	**347**	**117**	**–246**	**–191**	**231**	**184**

Notes to the income statement (CONTINUED)

Fair value adjustments in hedge accounting

(€ million)

	1 JAN.– 30 JUNE 2015	1 JAN.– 30 JUNE 2014
Gains on:		
Fair value hedging instruments	376	16
Hedged asset items (in fair value hedge relationship)	219	10
Hedged liability items (in fair value hedge relationship)	6	1
Cash-flow hedging derivatives (ineffectiveness)	0	0
Total gains on hedging activities	**601**	**26**
Losses on:		
Fair value hedging instruments	–265	–27
Hedged asset items (in fair value hedge relationship)	–25	–0
Hedged liability items (in fair value hedge relationship)	–311	0
Cash-flow hedging derivatives (ineffectiveness)	–15	–1
Total losses on hedging activities	**–615**	**–28**
NET HEDGING RESULT	**–14**	**–2**

Gains and losses on disposals/repurchases

(€ million)

	1 JAN.–30 JUNE 2015			1 JAN.–30 JUNE 2014		
	GAINS	LOSSES	NET PROFIT	GAINS	LOSSES	NET PROFIT
Financial assets						
Loans and receivables with banks	0	0	0	0	0	0
Loans and receivables with customers	3	–1	3	6	–1	5
Available-for-sale financial assets	36	–9	27	86	–13	74
Debt securities	*35*	*–8*	*27*	*84*	*–13*	*71*
Equity instruments	*1*	*–1*	*–0*	*1*	*0*	*1*
Units in investment funds	*0*	*0*	*0*	*1*	*0*	*1*
Loans	*0*	*0*	*0*	*0*	*0*	*0*
Held-to-maturity investments	0	0	0	0	0	0
TOTAL ASSETS	**39**	**–10**	**29**	**93**	**–14**	**79**
Financial liabilities						
Deposits from banks	0	–21	–21	0	–0	0
Deposits from customers	0	0	0	0	0	0
Debt securities in issue	0	–0	–0	0	–0	–0
TOTAL LIABILITIES	**0**	**–22**	**–21**	**0**	**–0**	**–0**
TOTAL	**39**	**–31**	**8**	**93**	**–14**	**79**

Notes to the income statement (CONTINUED)

Net change in financial assets and liabilities at fair value through profit or loss

(€ million)

	1 JAN.–30 JUNE 2015					1 JAN.–30 JUNE 2014
	UNREALISED PROFITS	REALISED PROFITS	UNREALISED LOSSES	REALISED LOSSES	NET PROFIT	NET PROFIT
Financial assets	**3**	**5**	**–0**	**–0**	**8**	**7**
Debt securities	0	5	–0	–0	5	2
Equity instruments	0	0	0	0	0	0
Units in investment funds	3	0	–0	0	3	5
Loans	0	0	0	0	0	0
Financial liabilities	**4**	**0**	**–7**	**–0**	**–3**	**–13**
Debt securities	4	0	–7	–0	–3	–13
Deposits from banks	0	0	0	0	0	0
Deposits from customers	0	0	0	0	0	0
Credit and financial derivatives	**3**	**0**	**–0**	**0**	**3**	**0**
TOTAL	**9**	**6**	**–7**	**–0**	**8**	**–7**

Impairment losses

(€ million)

	1 JAN.–30 JUNE 2015						1 JAN.–30 JUNE 2014
	WRITE-DOWNS			WRITE-BACKS			
	SPECIFIC						
	WRITE-OFFS	OTHER	PORTFOLIO	SPECIFIC	PORTFOLIO	TOTAL	TOTAL
Impairment losses on loans and receivables	**–52**	**–768**	**–54**	**407**	**59**	**–408**	**–375**
Loans and receivables with banks	0	0	–0	0	0	–0	2
Loans and receivables with customers	–52	–768	–54	407	59	–408	–377
Impairment losses on available-for-sale financial assets	**0**	**–4**	**X**	**0**	**X**	**–4**	**–3**
Debt securities	0	0	X	0	X	0	–3
Equity instruments	0	–4	X	X	X	–4	–0
Units in investment funds	0	0	X	0	X	0	0
Impairment losses on held-to-maturity investments	**0**	**–0**	**0**	**0**	**0**	**0**	**–0**
Debt securities	0	–0	0	0	0	0	–0
Impairment losses on other financial transactions	**0**	**–11**	**–4**	**23**	**6**	**14**	**38**
Guarantees given	0	–5	–3	17	3	13	33
Credit derivatives	0	0	0	0	0	0	0
Commitments to disburse funds	0	–4	–1	5	2	2	5
Other transactions	0	–2	0	1	0	–1	0
TOTAL	**–52**	**–784**	**–58**	**430**	**65**	**–398**	**–341**

Notes to the income statement (CONTINUED)

Payroll

(€ million)

	1 JAN.– 30 JUNE 2015	1 JAN.– 30 JUNE 2014
Employees	**–766**	**–783**
Wages and salaries	–562	–565
Social charges	–131	–130
Provision for retirement payments and similar provisions	–106	–122
Payments to external pension funds	–10	–11
Costs/recoveries related to share-based payments	–4	–4
Other employee benefits	–24	–30
Recovery of compensation*)	72	78
Others	**–28**	**–28**
TOTAL	**–794**	**–811**

*) This includes recovery of staff costs relating to Bank Austria employees who are not active within the Group.

Other administrative expenses

(€ million)

	1 JAN.– 30 JUNE 2015	1 JAN.– 30 JUNE 2014
Indirect taxes and duties	**–134**	**–129**
Ex-ante contributions to resolution funds and deposit guarantee schemes (DGS) *)	**–78**	**–38**
Contributions based on harmonised EU regulations	–37	0
Contributions based on existing local regulations	–41	–38
Miscellaneous costs and expenses	**–612**	**–639**
Advertising, marketing and communication	–47	–53
Expenses related to credit risk	–5	–5
Expenses related to personnel	–15	–17
Information and communication technology expenses	–219	–198
Consulting and professional services	–38	–34
Real estate expenses	–121	–125
Other functioning costs	–167	–169
TOTAL	**–824**	**–768**

*) Ex-ante contributions to resolution funds and deposit guarantee schemes include contributions based on harmonised EU regulations and contributions based on existing local regulations for those countries where the relevant EU Directives have not yet been transposed into national legislation. Amounts for the previous year were reclassified accordingly.

Net provisions for risks and charges

(€ million)

	1 JAN.–30 JUNE 2015			1 JAN.– 30 JUNE 2014
	PROVISIONS	REALLOCATION SURPLUS	TOTAL	TOTAL
Other provisions				
Legal disputes	–9	3	–7	–11
Staff costs	–0	0	–0	0
Other	–2	1	–1	–20
TOTAL	**–12**	**4**	**–8**	**–31**

Notes to the income statement (CONTINUED)

Impairment on property, plant and equipment

(€ million)

	1 JAN.–30 JUNE 2015				1 JAN.–30 JUNE 2014
	DEPRECIATION	IMPAIRMENT LOSSES	WRITE-BACKS	NET PROFIT	NET PROFIT
Property, plant and equipment					
Owned	**–85**	**–0**	**0**	**–85**	**–64**
used in the business	–74	–0	0	–74	–55
held for investment	–11	0	0	–11	–9
Finance lease	**–0**	**0**	**0**	**–0**	**–1**
used in the business	–0	0	0	–0	–1
held for investment	–0	0	0	–0	0
TOTAL	**–85**	**–0**	**0**	**–85**	**–65**

Impairment on intangible assets

(€ million)

	1 JAN.–30 JUNE 2015				1 JAN.–30 JUNE 2014
	AMORTISATION	IMPAIRMENT LOSSES	WRITE-BACKS	NET PROFIT	NET PROFIT
Intangible assets					
Owned	**–24**	**–0**	**0**	**–24**	**–24**
generated internally by the company	–3	0	0	–3	–3
other	–21	–0	0	–21	–21
Finance leases	**0**	**0**	**0**	**0**	**0**
TOTAL	**–24**	**–0**	**0**	**–24**	**–24**

Other net operating income

Other operating expenses

(€ million)

	1 JAN.–30 JUNE 2015	1 JAN.–30 JUNE 2014
Costs for operating leases	–0	–0
Non-deductible tax and other fiscal charges	–1	–0
Write-downs on improvements of goods owned by third parties	–10	–2
Costs related to the specific service of financial leasing	–4	–2
Other	–42	–42
TOTAL OTHER OPERATING EXPENSES	**–58**	**–46**

Other operating income

(€ million)

	1 JAN.–30 JUNE 2015	1 JAN.–30 JUNE 2014
Recovery of costs	**1**	**0**
Other income	**119**	**99**
Revenue from administrative services	20	21
Revenues from rentals of real estate investments (net of direct operating costs)	11	5
Revenues from operating leases	35	15
Recovery of miscellaneous costs paid in previous years	0	2
Revenues from finance lease activities	3	5
Others	51	51
TOTAL OTHER OPERATING INCOME	**120**	**99**
OTHER NET OPERATING INCOME	**63**	**53**

Notes to the income statement (CONTINUED)

Profit (Loss) of associates

(€ million)

	1 JAN.– 30 JUNE 2015	1 JAN.– 30 JUNE 2014
Jointly owned companies – equity		
Income	**157**	**136**
Profits of associates	157	136
Gains on disposal	0	0
Write-backs	0	0
Other gains	0	0
Expense	**0**	**0**
Losses of associates	0	0
Impairment losses	0	0
Losses on disposal	0	0
Other expenses	0	0
Net profit	**157**	**136**
Companies subject to significant influence		
Income	**75**	**91**
Profits of associates	74	91
Gains on disposal	1	0
Write-backs	0	0
Other gains	0	0
Expense	**–5**	**–26**
Losses of associates	–2	–6
Impairment losses	0	–6
Losses on disposal	–3	–13
Other expenses	0	0
Net profit	**70**	**65**
TOTAL	**227**	**200**

Gains and losses on disposal of investments

(€ million)

	1 JAN.– 30 JUNE 2015	1 JAN.– 30 JUNE 2014
Property		
Gains on disposal	9	38
Losses on disposal	–0	–0
Other assets		
Gains on disposal	2	43
Losses on disposal	–2	–2
TOTAL	**9**	**79**

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. Earnings per share are calculated on the basis of the average number of shares outstanding (231.2 million shares).

Notes to the statement of financial position

Financial assets held for trading

(€ million)

	30 JUNE 2015				31 DEC. 2014			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Financial assets (non-derivatives)	**187**	**84**	**8**	**278**	**224**	**54**	**2**	**281**
Debt securities	185	83	8	276	222	54	2	279
Equity instruments	2	0	0	2	2	0	0	2
Units in investment funds	0	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0
Derivative instruments	**1**	**2,636**	**40**	**2,678**	**1**	**3,181**	**69**	**3,252**
Financial derivatives	1	2,636	41	2,678	1	3,181	69	3,251
Credit derivatives	0	0	–0	0	0	0	1	1
TOTAL	**188**	**2,720**	**48**	**2,956**	**225**	**3,236**	**72**	**3,533**

Financial assets at fair value through profit or loss

(€ million)

	30 JUNE 2015				31 DEC. 2014			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Debt securities	0	78	7	85	0	39	38	77
Equity instruments	0	0	0	0	0	0	0	0
Units in investment funds	0	16	19	35	2	12	19	33
Loans	0	0	0	0	0	0	0	0
TOTAL	**0**	**94**	**26**	**121**	**2**	**52**	**57**	**110**

This item shows assets in respect of which Bank Austria used the option to designate financial instruments as at fair value through profit or loss in order to avoid inconsistencies in the valuation of assets and liabilities which are connected with each other. Most of these assets are complex structures with embedded derivatives.

Available-for-sale financial assets

(€ million)

	30 JUNE 2015				31 DEC. 2014			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Debt securities	18,906	4,764	808	24,478	15,974	4,960	1,037	21,970
Equity instruments	1	46	98	145	6	0	124	130
Units in investment funds	0	1	46	47	0	1	46	47
Loans	0	0	0	0	0	0	0	0
TOTAL	**18,906**	**4,811**	**952**	**24,670**	**15,980**	**4,960**	**1,207**	**22,148**

Held-to-maturity investments

(€ million)

	30 JUNE 2015					31 DEC. 2014				
	BOOK VALUE	FAIR VALUE	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	BOOK VALUE	FAIR VALUE	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3
Debt securities	301	306	12	292	2	572	582	110	305	166
Structured securities	*0*	*0*	*0*	*0*	*0*	*0*	0	0	0	0
Other securities	*301*	*306*	*12*	*292*	*2*	*572*	*582*	*110*	*305*	*166*
Loans	0	0	0	0	0	0	0	0	0	0
TOTAL	**301**	**306**	**12**	**292**	**2**	**572**	**582**	**110**	**305**	**166**

Notes to the statement of financial position (CONTINUED)

Loans and receivables with banks

(€ million)

	30 JUNE 2015	31 DEC. 2014
Loans to central banks	**9,126**	**8,795**
Time deposits	3,132	3,955
Compulsory reserves	5,091	4,828
Reverse repos	881	0
Other	23	12
Loans to banks	**19,016**	**21,747**
Current accounts and demand deposits	2,254	5,119
Time deposits	5,397	6,344
Other loans	7,890	6,318
Debt securities	3,475	3,966
TOTAL (CARRYING AMOUNT)	**28,142**	**30,542**
Loan loss provisions deducted from loans and receivables	18	17

Loans and receivables with customers

(€ million)

	30 JUNE 2015			31 DEC. 2014		
	PERFORMING	IMPAIRED	TOTAL	PERFORMING	IMPAIRED	TOTAL
Loans	**111,620**	**4,933**	**116,553**	**108,190**	**4,913**	**113,103**
Current accounts	10,494	317	10,811	11,143	433	11,576
Reverse repos	200	0	200	391	0	391
Mortgages	23,855	1,141	24,997	23,226	1,211	24,437
Credit cards and personal loans, including wage assignment loans	4,141	72	4,213	4,075	56	4,132
Finance leases	5,516	313	5,829	5,142	315	5,456
Factoring	1,854	13	1,867	1,349	16	1,365
Other loans	65,559	3,076	68,636	62,864	2,882	65,746
Debt securities	**664**	**9**	**673**	**615**	**14**	**629**
TOTAL (CARRYING AMOUNT)	**112,284**	**4,942**	**117,226**	**108,805**	**4,927**	**113,732**
Loan loss provisions deducted from loans and receivables	680	6,231	6,911	674	6,130	6,804

Hedging derivatives

(€ million)

	30 JUNE 2015				31 DEC. 2014			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Financial derivatives	**0**	**3,343**	**3**	**3,345**	**0**	**3,932**	**20**	**3,952**
Fair value hedge	0	2,876	0	2,876	0	3,476	17	3,493
Cash flow hedge	0	467	3	470	0	456	3	459
Credit derivatives	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
TOTAL	**0**	**3,343**	**3**	**3,345**	**0**	**3,932**	**20**	**3,952**

Notes to the statement of financial position (CONTINUED)

Property, plant and equipment

(€ million)

	30 JUNE 2015	31 DEC. 2014
Assets for operational use	**1,263**	**1,251**
Owned	**1,219**	**1,206**
Land	75	72
Buildings	637	642
Office furniture and fittings	88	145
Electronic systems	77	80
Others	342	268
Leased	**44**	**45**
Land	13	13
Buildings	31	31
Office furniture and fittings	0	0
Electronic systems	0	0
Others	1	1
Held-for-investment assets	**873**	**896**
Owned	**873**	**896**
Land	231	221
Buildings	643	675
Leased	**0**	**0**
Land	0	0
Buildings	0	0
TOTAL	**2,137**	**2,147**

Intangible assets

(€ million)

	30 JUNE 2015	31 DEC. 2014
Goodwill	**0**	**0**
Other intangible assets	**192**	**171**
Assets carried at cost	192	171
Intangible assets generated internally	*47*	*35*
Other assets	*145*	*136*
Assets valued at fair value	0	0
TOTAL	**192**	**171**

Notes to the statement of financial position (CONTINUED)

Non-current assets and disposal groups classified as held for sale

(€ million)

	30 JUNE 2015	31 DEC. 2014
Individual assets		
Financial assets	0	58
Equity investments	0	0
Tangible assets	43	9
Intangible assets	0	0
Non current – Other	0	25
Total	**43**	**91**
Asset groups classified as held for sale		
Financial assets held for trading	41	65
Financial assets designated at fair value	0	0
Available-for-sale financial assets	25	76
Held-to-maturity investments	0	0
Loans and receivables with banks	109	176
Loans and receivables with customers	1,526	1,699
Equity investments	60	60
Tangible assets	138	170
Intangible assets	38	45
Other assets	1,066	1,218
Total	**3,002**	**3,509**
ASSETS	**3,045**	**3,600**

This item includes non-current assets and disposal groups whose sale is highly probable. They are recognised at the lower of their carrying amount and fair value less costs to sell and are presented separately in the consolidated financial statements.

Individual assets

UniCredit CAIB Poland S.A. AG, a company which was classified as held for sale as at 31 December 2014, was sold to a UniCredit Group company on 2 January 2015. Assets of Vienna DC Tower 2 Liegenschaftsbesitz GmbH, a company which was intended to be sold, were also included in this item as at 31 December 2014; in the meantime they have been reclassified to "Property, plant and equipment".

New additions to this item in 2015 included a property which is owned by our Hungarian banking subsidiary UniCredit Bank Hungary Zrt. and several properties of the UCTAM Group, a group of companies specialising in the acquisition of assets which originally served as collateral for loans and are sold by auction.

Asset groups classified as held for sale

Asset groups classified as held for sale include all assets and liabilities of the Immobilien Holding GmbH Group, consolidated for the first time as at 30 September 2014, together with its subsidiaries as well as Wien Mitte Immobilien GmbH and its parent company Wien Mitte Holding GmbH. This is a disposal group acquired for resale. In accordance with IFRS 5.39, a disclosure of the major classes of the disposal group's assets is not required and they are therefore shown on a combined basis in the item "Other assets" of the table "Asset groups classified as held for sale".

Moreover, Public Joint Stock Company Ukrsotsbank and its subsidiaries continued to be classified as a disposal group held for sale as at 30 June 2015. The Management Board of UniCredit Bank Austria AG remains committed to a sales plan of Ukrsotsbank and is actively engaged in a sales process. However, the current negative economic conditions and political circumstances in Ukraine result in significant uncertainty about the Management Board's assessment of the disposability and the price realisable upon disposal of the shares in Ukrsotsbank within the twelve-month period.

The original 12-month period defined in IFRS 5 was exceeded as a result of unforeseeable external circumstances (conflict in parts of Ukraine) which are beyond the bank's control and therefore, in accordance with IFRS 5.9, do not constitute grounds to discontinue the presentation in accordance with IFRS 5. In view of economic trends in Ukraine in the first half of 2015, the existing provision of €200 million reflected in the financial statements had to be increased by a further €100 million to take account of the lower price, less costs to sell, which may be expected to be realised upon disposal.

It should be noted that UniCredit Bank Austria AG's own share of the FX translation reserve (–€827 million as at 30 June 2015; –€697 million as at 31 December 2014) will have to be recycled to profit or loss upon the final sale of Ukrsotsbank. Moreover, it should be noted that as a result of the difficult economic environment and the unclear political situation in Ukraine, the local currency (UAH) has continued to weaken significantly against the

Notes to the statement of financial position (CONTINUED)

euro and the US dollar since the beginning of 2015, even though it has stabilised recently. Future developments are not yet foreseeable and it is therefore not possible to make any statement on the amount of the FX translation reserve which may be expected at the time of the sale. Further information on the development of the Ukrainian currency is given in the risk report.

Deposits from banks

(€ million)

	30 JUNE 2015	31 DEC. 2014
Deposits from central banks	**4,699**	**4,006**
Deposits from banks	**17,764**	**19,689**
Current accounts and demand deposits	2,204	2,367
Time deposits	4,446	5,739
Loans	10,569	11,578
Other liabilities	545	5
TOTAL	**22,463**	**23,696**

Deposits from customers

(€ million)

	30 JUNE 2015	31 DEC. 2014
Current accounts and demand deposits	59,410	55,186
Time deposits	43,253	42,825
Loans	588	474
Liabilities in respect of commitments to repurchase treasury shares	27	744
Other liabilities	4,692	3,042
TOTAL	**107,971**	**102,271**

Debt securities in issue

(€ million)

	30 JUNE 2015					31 DEC. 2014				
	CARRYING AMOUNT	TOTAL FAIR VALUE	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	CARRYING AMOUNT	TOTAL FAIR VALUE	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3
Securities										
Bonds	28,487	29,385	8,252	21,007	126	29,867	31,425	9,004	22,296	124
Other securities	151	151	0	147	3	146	159	0	159	0
TOTAL	**28,637**	**29,536**	**8,252**	**21,154**	**130**	**30,014**	**31,583**	**9,004**	**22,455**	**124**

Financial liabilities held for trading

(€ million)

	30 JUNE 2015				31 DEC. 2014			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Financial liabilities	**63**	**0**	**0**	**63**	**28**	**0**	**0**	**28**
Deposits from banks	3	0	0	3	0	0	0	0
Deposits from customers	60	0	0	60	28	0	0	28
Debt securities	0	0	0	0	0	0	0	0
Derivative instruments	**0**	**2,666**	**53**	**2,718**	**0**	**3,308**	**117**	**3,426**
Financial derivatives	0	2,654	53	2,706	0	3,308	107	3,415
Credit derivatives	0	12	–0	12	0	0	10	11
TOTAL	**63**	**2,666**	**53**	**2,781**	**28**	**3,308**	**117**	**3,454**

Notes to the statement of financial position (CONTINUED)

Financial liabilities at fair value through profit or loss

(€ million)

	30 JUNE 2015				31 DEC. 2014			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Deposits from banks	0	0	0	0	0	0	0	0
Deposits from customers	0	0	0	0	0	0	0	0
Debt securities	0	545	4	548	0	666	5	670
TOTAL	**0**	**545**	**4**	**548**	**0**	**666**	**5**	**670**

This item shows liabilities in respect of which Bank Austria used the option to designate financial instruments as at fair value through profit or loss in order to avoid inconsistencies in the valuation of assets and liabilities which are connected with each other. Most of these liabilities are debt securities and complex structures with embedded derivatives.

Hedging derivatives

(€ million)

	30 JUNE 2015				31 DEC. 2014			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Financial derivatives	**0**	**2,889**	**0**	**2,889**	**0**	**3,290**	**12**	**3,302**
Fair value hedge	0	2,328	0	2,328	0	2,580	10	2,591
Cash flow hedge	0	560	0	560	0	709	1	711
Credit derivatives	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
TOTAL	**0**	**2,889**	**0**	**2,889**	**0**	**3,290**	**12**	**3,302**

Liabilities included in disposal groups classified as held for sale

(€ million)

	30 JUNE 2015	31 DEC. 2014
Liabilities associated with assets classified as held for sale		
Deposits	0	16
Securities	0	0
Other liabilities	0	9
Total	**0**	**26**
Liabilities included in disposal groups classified as held for sale		
Deposits from banks	304	291
Deposits from customers	954	1,207
Debt securities in issue	0	3
Other liabilities	298	316
Total	**1,556**	**1,819**
LIABILITIES	**1,556**	**1,845**

Provisions for risks and charges

(€ million)

	30 JUNE 2015	31 DEC. 2014
Pensions and other post-retirement benefit obligations	**5,394**	**5,665**
Other provisions for risks and charges	**312**	**411**
Legal disputes	103	102
Staff expenses	42	58
Other	166	252
TOTAL	**5,705**	**6,076**

Segment reporting

The table on the following two pages presents the income statement in the format used for controlling purposes and permits a reconciliation to the interim results and key indicators used for segment reporting.

Reconciliation of reclassified accounts to mandatory reporting schedule

(€ million)

	1 JAN.– 30 JUNE 2015	1 JAN.– 30 JUNE 2014
Net interest	1,687	1,708
Dividends and other income from equity investments	234	224
Dividend income and similar revenue	*4*	*4*
less: dividends from held-for-trading equity instruments	*0*	*0*
Profit (loss) of associates – of which: income (loss) from equity investments valued at net equity	*231*	*220*
Net fees and commissions	714	675
Net trading, hedging and fair value income	230	250
Gains (losses) on financial assets and liabilities held for trading	*231*	*184*
plus: dividends from held-for-trading equity instruments	*0*	*0*
Fair value adjustments in hedge accounting	*–14*	*–2*
Gains (losses) on disposal and repurchase of available-for-sale financial assets	*27*	*74*
Gains (losses) on disposal and repurchase of held-to-maturity investments	*0*	*0*
Gains (losses) on disposal or repurchase of financial liabilities	*–21*	*0*
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss	*8*	*–7*
Net other expenses/income	39	50
Gains (losses) on disposals/repurchases on loans and receivables – not impaired	*0*	*0*
Premiums earned (net)	*0*	*0*
Other income (net) from insurance activities	*0*	*0*
Other net operating income	*63*	*53*
less: other operating income – of which: recovery of expenses	*–1*	*0*
plus: impairment on tangible assets – other operating leases	*–33*	*–5*
less: other operating expenses – amortisation on leasehold improvements	*10*	*2*
plus: gains on disposals of investments – other assets leasing operation	*0*	*0*
OPERATING INCOME	**2,905**	**2,907**
Payroll costs	–793	–810
Administrative costs – staff expenses	*–794*	*–811*
less: integration/restructuring costs	*0*	*1*
Other administrative expenses	–658	–635
Administrative costs – other administrative expenses	*–824*	*–768*
less: integration/restructuring costs	*1*	*5*
less: ex-ante contributions to resolution funds and deposit guarantee schemes and bank levies	*175*	*131*
plus: other operating expenses – amortisation on leasehold improvements	*–10*	*–2*
Recovery of expenses = Other net operating income – of which: Other operating income – recovery of costs	1	0
Amortisation, depreciation and impairment losses on intangible and tangible assets	–76	–81
Impairment/write-backs on property, plant and equipment	*–85*	*–65*
less: impairment losses/write-backs on property owned for investment	*0*	*0*
less: impairment on tangible assets – other operating leases	*33*	*5*
Impairment/write-backs on intangible assets	*–24*	*–24*
less: integration/restructuring costs	*0*	*2*
OPERATING COSTS	**–1,527**	**–1,526**
OPERATING PROFIT	**1,378**	**1,381**

Segment reporting (CONTINUED)

	1 JAN.– 30 JUNE 2015	1 JAN.– 30 JUNE 2014
Net write-downs of loans and provisions for guarantees and commitments	–391	–332
Gains (losses) on disposal and repurchase of loans	2	5
Impairment losses on loans	–408	–375
Impairment losses on other financial assets	14	38
NET OPERATING PROFIT	**986**	**1,049**
Provisions for risks and charges	–8	–31
Net provisions for risks and charges	–8	–31
less: integration/restructuring costs	0	0
Systemic charges	–175	–131
plus: ex-ante contributions to resolution funds and deposit guarantee schemes and bank levies	–175	–131
Integration/restructuring costs	–2	–7
Net income from investments	1	55
Impairment losses on available-for-sale financial assets	–4	–3
Impairment losses on held-to-maturity investments	0	0
plus: impairment losses/write-backs on property owned for investment	*0*	*0*
Profit (loss) of associates	227	200
less: profit (loss) of associates – income (loss) from equity investments valued at net equity	*–231*	*–220*
Gains and losses on tangible and intangible assets	–1	0
Gains (losses) on disposal of investments	9	79
PROFIT BEFORE TAX	**803**	**935**
Income tax for the period	–129	–126
Total profit or loss after tax from discontinued operations	–183	–25
PROFIT OR LOSS FOR THE PERIOD	**491**	**784**
Non-controlling interests	–2	–8
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY BEFORE PPA	**489**	**776**
Purchase Price Allocation effect	0	0
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	**489**	**776**

Segment reporting (CONTINUED)

Description of segment reporting

The segment reporting format is based on the internal reporting structure of business segments, which reflects management responsibilities in the Bank Austria Group. The business segments are presented as independent units with responsibility for their own results. The definition of business segments is primarily based on organisational responsibility for customers.

The income statement format has been modified: the charges for bank levies and contributions to resolution funds and deposit guarantee schemes have been taken out of the item "Operating costs" and are presented in a separate item "Systemic charges" in the income statement. Figures for previous periods have been adjusted accordingly.

Segment reporting covers the following business segments:

Retail & Corporates

The Retail & Corporates business segment comprises business with private individuals (Retail), including the Mass Market and Affluent customer segments except Private Banking customers, and thus encompasses the entire multi-channel distribution network. Also included in this Division are subsidiaries active in credit card business, FactorBank and also leasing companies in Austria, which were taken over from UniCredit Leasing SpA as part of the realignment of leasing business in the fourth quarter of 2014. The Corporates subdivision covers the customer segments SMEs (small and medium-sized businesses) and corporate customers with an annual turnover of over €50 million, and Real Estate including various subsidiaries (e.g. Wohnbaubank, Bank Austria Real Invest Group) and the Public Sector customer segment.

Private Banking

Private Banking has responsibility for private customers with investments exceeding €500,000. Schoellerbank AG and various other small subsidiaries are also included in the Private Banking business segment.

Corporate & Investment Banking (CIB)

The Corporate & Investment Banking business segment covers the customer segment of multinational companies and large international customers using capital market services and investment banking solutions. Corporate & Investment Banking also serves financial institutions including banks, asset managers, institutional customers and insurance companies. The product lines offered by CIB to these customers are Financing & Advisory (classic and structured lending business and capital market advisory services), Global Transaction Banking (including payment transactions, trade finance, cash management) and within Markets & Corporate Treasury Sales the services relating to customer-driven trading activities. The product specialists also support commercial banking activities of the bank's other business segments.

Central Eastern Europe (CEE)

The CEE business segment covers the commercial banking units of the Bank Austria Group in the region of Central and Eastern Europe (including Turkey) and cross-regional CEE portfolios. Starting with this report, income and expenses arising from sub-holding company functions which are closely connected with operating activities of the commercial banks in CEE are assigned to the CEE business segment. Figures for previous periods have been recast. These items, which have so far been reflected in the Corporate Center of the bank as a whole, mainly include income and expenses arising from asset/liability management, items relating to equity interest management and results from the hedging of the annual profits of individual CEE banking subsidiaries.

The equity interest in Ukrsotsbank continued to be classified as a discontinued operation (held for sale). Profit or loss of Ukrsotsbank is included in the CEE business segment in the income statement item "Total profit or loss after tax from discontinued operations". The companies of the Yapı Kredi Group are accounted for as a consolidated group using the equity method. These companies continue to be included on a proportionate basis in the calculation of risk-weighted assets and capital resources for regulatory purposes. The leasing companies in Russia, the Czech Republic, Slovakia, Romania and Serbia taken over from UniCredit Leasing SpA in 2014, and the leasing companies taken over from UniCredit Leasing SpA in Croatia in 2015, have also been assigned to the CEE business segment.

Corporate Center

Starting with this report, income and expenses arising from CEE sub-holding company functions are assigned to the CEE business segment and are therefore no longer included in the Corporate Center. Figures for previous periods have been recast. In addition to current expenses relating to steering and administrative functions for the entire bank, the Corporate Center comprises all equity interests that are not assigned to a business segment. These companies include the leasing companies in Hungary. Funding costs relating to consolidated subsidiaries are also assigned to the Corporate Center. Also included are inter-segment eliminations and other items which are not to be assigned to the business segments.

The Immobilien Holding Group companies acquired in September 2014 and assigned to the Corporate Center are being sold step by step. The companies which have not yet been sold continue to be classified as held for sale.

Segment reporting (CONTINUED)

Methods

Net interest 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 earned by the respective segment. The interest rate applied to investment of equity allocated to the business segments is determined for one year in advance as part of the budgeting process. Essentially, it is composed of the 1-month EURIBOR and a liquidity cost margin based on the average term of balance sheet volume.

Overhead costs are allocated to the business segments according to a key of distribution applied within the Group on a uniform basis (50 % costs, 20 % revenues, 20 % FTEs and 10 % proportionately).

Capital allocated to the business segments in UniCredit Bank Austria AG, based on the Tier 1 capital ratio, is 9.25 % of risk-weighted assets.

Recasting:

A number of structural changes took place within the business segments and in the group of consolidated companies. This means that results for previous periods are not fully comparable. For this reason, the segment results have been adjusted to the new structure. The difference compared with Bank Austria's overall results is presented in a separate column showing "Recasting differences".

The pro-forma adjustments are as follows:

- In the first quarter of 2014, leasing companies in the Czech Republic, Slovakia and Russia, and in the second quarter of 2014 in Romania, and in December 2014 in Serbia, Hungary and Austria, and in the second quarter of 2015 in Croatia, were taken over from UniCredit Leasing SpA and newly included in the group of consolidated companies of the Bank Austria Group. To ensure comparability with 2015, these companies are included in the relevant previous periods in 2014. The Austrian leasing companies were assigned to the Retail & Corporates business segment, the Hungarian leasing companies were assigned to the Corporate Center, and the other companies operating in Central and Eastern Europe were assigned to the CEE business segment.
- The income statement format has been modified: the charges for bank levies and contributions to resolution funds and deposit guarantee schemes have been taken out of the item "Operating costs" and are presented in a separate item "Systemic charges" in the income statement.
- Further adjustments at segment level relate mainly to structural adjustments. Starting with this report, income and expenses arising from CEE sub-holding company functions have been taken out of the Corporate Center and assigned to the CEE business segment. Figures for previous periods have been adjusted accordingly.

Segment reporting (CONTINUED)

Segment reporting 1–6 2015/1–6 2014

(€ million)

		RETAIL & CORPORATES	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CENTRAL EASTERN EUROPE (CEE)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST)	RECASTING DIFFER-ENCES [1]	BANK AUSTRIA GROUP (PUBLISHED) [2]
Net interest	1–6 2015	448	30	150	1,190	–131	1,687	0	1,687
	1–6 2014	489	32	158	1,210	–135	1,754	–46	1,708
Dividends and other income from equity investments	1–6 2015	20	0	0	165	49	234	0	234
	1–6 2014	21	0	0	138	65	224	0	224
Net fees and commissions	1–6 2015	253	56	56	351	–3	714	0	714
	1–6 2014	241	48	41	352	–5	677	–2	675
Net trading, hedging and fair value income/loss	1–6 2015	26	1	30	168	5	230	0	230
	1–6 2014	8	1	29	130	83	251	–1	250
Net other expenses/income	1–6 2015	7	2	0	10	20	39	0	39
	1–6 2014	16	1	1	25	18	60	–10	50
OPERATING INCOME	**1–6 2015**	**755**	**88**	**236**	**1,884**	**–59**	**2,905**	**0**	**2,905**
	1–6 2014	**775**	**82**	**229**	**1,854**	**27**	**2,967**	**–60**	**2,907**
OPERATING COSTS	**1–6 2015**	**–559**	**–61**	**–106**	**–718**	**–84**	**–1,527**	**0**	**–1,527**
	1–6 2014	**–554**	**–59**	**–100**	**–733**	**–101**	**–1,546**	**21**	**–1,526**
OPERATING PROFIT	**1–6 2015**	**197**	**28**	**130**	**1,166**	**–143**	**1,378**	**0**	**1,378**
	1–6 2014	**221**	**23**	**129**	**1,121**	**–74**	**1,420**	**–39**	**1,381**
Net write-downs of loans and provisions for guarantees and commitments	1–6 2015	1	1	–1	–394	2	–391	0	–391
	1–6 2014	–51	0	15	–314	–2	–352	19	–332
NET OPERATING PROFIT	**1–6 2015**	**197**	**28**	**130**	**772**	**–141**	**986**	**0**	**986**
	1–6 2014	**170**	**23**	**144**	**807**	**–76**	**1,069**	**–20**	**1,049**
Provisions for risks and charges	1–6 2015	0	0	0	–4	–4	–8	0	–8
	1–6 2014	–1	0	0	–40	–3	–43	12	–31
Systemic charges	1–6 2015	–37	–3	–18	–88	–30	–175	0	–175
	1–6 2014	–24	–2	–15	–73	–17	–131	0	–131
Integration/restructuring costs	1–6 2015	0	0	0	–1	0	–2	0	–2
	1–6 2014	0	0	0	–7	0	–7	0	–7
Net income/loss from investments	1–6 2015	–2	0	0	–1	5	1	0	1
	1–6 2014	0	0	2	–2	56	56	–1	55
PROFIT BEFORE TAX	**1–6 2015**	**158**	**25**	**112**	**678**	**–170**	**803**	**0**	**803**
	1–6 2014	**146**	**22**	**131**	**686**	**–41**	**943**	**–8**	**935**
Income tax for the period	1–6 2015	–44	–6	–28	–114	63	–129	0	–129
	1–6 2014	–31	–6	–32	–103	39	–132	6	–126
Total profit or loss after tax from discontinued operations	1–6 2015	0	0	0	–220	37	–183	0	–183
	1–6 2014	0	0	0	–39	14	–25	0	–25
PROFIT OR LOSS FOR THE PERIOD	**1–6 2015**	**114**	**19**	**84**	**344**	**–70**	**491**	**0**	**491**
	1–6 2014	**115**	**16**	**99**	**544**	**12**	**786**	**–2**	**784**
Non-controlling interests	1–6 2015	–5	0	0	1	2	–2	0	–2
	1–6 2014	–3	0	0	–6	2	–8	0	–8
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY BEFORE PPA	**1–6 2015**	**109**	**19**	**84**	**346**	**–68**	**489**	**0**	**489**
	1–6 2014	**111**	**16**	**99**	**537**	**14**	**778**	**–2**	**776**
Purchase Price Allocation effect	1–6 2015	0	0	0	0	0	0	0	0
	1–6 2014	0	0	0	0	0	0	0	0
Goodwill impairment	1–6 2015	0	0	0	0	0	0	0	0
	1–6 2014	0	0	0	0	0	0	0	0
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	**1–6 2015**	**109**	**19**	**84**	**346**	**–68**	**489**	**0**	**489**
	1–6 2014	**111**	**16**	**99**	**537**	**14**	**778**	**–2**	**776**

Segment reporting (CONTINUED)

		RETAIL & CORPORATES	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CENTRAL EASTERN EUROPE (CEE)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST)	RECASTING DIFFER-ENCES 1)	BANK AUSTRIA GROUP (PUBLISHED) 2)
Risk-weighted assets (RWA) (avg.) 3)	**1–6 2015**	**20,382**	**527**	**8,840**	**97,505**	**8,099**	**135,354**	**0**	**135,354**
	1–6 2014	**19,722**	**613**	**8,314**	**82,942**	**9,780**	**121,371**	**1,874**	**123,245**
Loans to customers (end of period)	**1–6 2015**	**44,576**	**607**	**13,204**	**58,586**	**253**	**117,226**	**0**	**117,226**
	1–6 2014	**43,157**	**635**	**12,984**	**57,545**	**1,339**	**115,661**	**–356**	**115,304**
Direct funding (end of period) 4)	**1–6 2015**	**43,317**	**9,055**	**10,013**	**56,084**	**18,141**	**136,608**	**0**	**136,608**
	1–6 2014	**40,531**	**8,352**	**8,509**	**49,104**	**18,358**	**124,854**	**118**	**124,971**
Cost/income ratio in %	*1–6 2015*	*73.9*	*68.7*	*44.8*	*38.1*	*n.m.*	*52.6*	*n.m.*	*52.6*
	1–6 2014	*71.4*	*71.8*	*43.7*	*39.5*	*n.m.*	*52.1*	*n.m.*	*52.5*
Risk/earnings ratio in % 5)	*1–6 2015*	*n.m.*	*n.m.*	*0.6*	*29.1*	*n.m.*	*20.4*	*n.m.*	*20.4*
	1–6 2014	*10.0*	*n.m.*	*n.m.*	*23.3*	*n.m.*	*17.8*	*n.m.*	*17.2*

1) The segment results have been recast. The difference compared to Bank Austria's results is presented in a separate column showing "Recasting differences", which for 2014 mainly relate to the transfer of Leasing subsidiaries in Russia, the Czech Republic, Slovakia, Romania, Croatia, Austria, Hungary and some Leasing entities in Serbia to Bank Austria. Recasting differences also relate to the sale of UniCredit CAIB Poland S.A.

2) The comparative figures 2014 and 2015 reflect the accounting figures.

3) Turkey consolidated on a pro-rata basis.

4) Direct funding: deposits from customers and debt securities in issue.

5) Risk/earnings ratio: net write-downs of loans and provisions for guarantees and commitments measured against net interest and dividends and other income from equity investments.

n.m. = not meaningful

Segment reporting (CONTINUED)

Segment reporting H1 2015/Q1–Q4 2014

(€ million)

		RETAIL & CORPORATES	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CENTRAL EASTERN EUROPE (CEE)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST) [1]
Net interest	Q2 2015	225	15	76	615	–60	871
	Q1 2015	224	15	74	574	–71	816
	Q4 2014	243	16	75	602	–78	858
	Q3 2014	242	16	72	644	–74	899
	Q2 2014	247	16	81	612	–72	885
	Q1 2014	242	15	77	598	–63	869
Dividends and other income from equity investments	Q2 2015	17	0	0	92	27	136
	Q1 2015	4	0	0	73	22	98
	Q4 2014	9	0	0	112	24	145
	Q3 2014	10	0	0	95	21	126
	Q2 2014	12	0	0	90	49	151
	Q1 2014	9	0	0	48	16	73
Net fees and commissions	Q2 2015	127	25	35	183	1	373
	Q1 2015	126	30	21	168	–4	341
	Q4 2014	121	36	22	168	–4	343
	Q3 2014	117	24	21	183	–1	344
	Q2 2014	119	24	20	184	–1	346
	Q1 2014	122	25	21	168	–4	331
Net trading, hedging and fair value income/loss	Q2 2015	18	1	17	83	4	124
	Q1 2015	8	1	12	85	1	107
	Q4 2014	14	1	14	28	29	87
	Q3 2014	2	1	9	107	30	149
	Q2 2014	6	1	8	69	55	139
	Q1 2014	3	0	20	61	28	112
Net other expenses/income	Q2 2015	3	0	0	6	10	19
	Q1 2015	4	1	0	4	10	20
	Q4 2014	8	0	0	–3	7	12
	Q3 2014	7	0	0	33	12	52
	Q2 2014	6	0	0	17	8	33
	Q1 2014	10	0	0	7	9	27
OPERATING INCOME	**Q2 2015**	**390**	**41**	**129**	**980**	**–17**	**1,522**
	Q1 2015	**366**	**48**	**108**	**904**	**–42**	**1,383**
	Q4 2014	**396**	**53**	**111**	**907**	**–21**	**1,445**
	Q3 2014	**377**	**40**	**103**	**1,062**	**–12**	**1,570**
	Q2 2014	**390**	**41**	**110**	**972**	**40**	**1,554**
	Q1 2014	**385**	**40**	**119**	**882**	**–14**	**1,413**
OPERATING COSTS	**Q2 2015**	**–279**	**–30**	**–54**	**–370**	**–43**	**–776**
	Q1 2015	**–280**	**–30**	**–52**	**–347**	**–41**	**–751**
	Q4 2014	**–292**	**–30**	**–61**	**–391**	**–49**	**–823**
	Q3 2014	**–262**	**–28**	**–47**	**–377**	**–53**	**–767**
	Q2 2014	**–276**	**–30**	**–51**	**–367**	**–50**	**–774**
	Q1 2014	**–277**	**–29**	**–49**	**–366**	**–51**	**–772**
OPERATING PROFIT	**Q2 2015**	**111**	**10**	**75**	**610**	**–60**	**746**
	Q1 2015	**86**	**17**	**56**	**556**	**–83**	**632**
	Q4 2014	**104**	**23**	**50**	**516**	**–70**	**623**
	Q3 2014	**114**	**13**	**56**	**685**	**–65**	**803**
	Q2 2014	**113**	**12**	**60**	**605**	**–10**	**780**
	Q1 2014	**108**	**11**	**69**	**516**	**–64**	**641**
Net write-downs of loans and provisions for guarantees and commitments	Q2 2015	30	1	7	–219	0	–181
	Q1 2015	–29	0	–8	–175	2	–210
	Q4 2014	11	0	–4	–204	–52	–250
	Q3 2014	–16	0	–8	–156	–1	–181
	Q2 2014	–4	0	28	–168	–1	–144
	Q1 2014	–48	0	–13	–146	–1	–208
NET OPERATING PROFIT	**Q2 2015**	**141**	**11**	**82**	**390**	**–60**	**564**
	Q1 2015	**57**	**17**	**48**	**382**	**–81**	**422**
	Q4 2014	**114**	**23**	**46**	**312**	**–122**	**373**
	Q3 2014	**99**	**13**	**48**	**529**	**–66**	**622**
	Q2 2014	**110**	**12**	**88**	**437**	**–11**	**636**
	Q1 2014	**61**	**11**	**56**	**370**	**–65**	**433**

Segment reporting (CONTINUED)

		RETAIL & CORPORATES	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CENTRAL EASTERN EUROPE (CEE)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST) [1]
Provisions for risks and charges	Q2 2015	0	0	0	0	0	0
	Q1 2015	0	0	0	–4	–4	–8
	Q4 2014	2	–1	0	–6	–3	–9
	Q3 2014	0	0	0	–92	–3	–95
	Q2 2014	0	0	0	–30	–3	–32
	Q1 2014	0	0	0	–10	0	–11
Systemic charges	Q2 2015	–19	–2	–7	–33	–11	–72
	Q1 2015	–18	–1	–11	–55	–18	–103
	Q4 2014	–12	–1	–8	–23	–9	–52
	Q3 2014	–12	–1	–8	–25	–9	–54
	Q2 2014	–12	–2	–7	–25	–9	–55
	Q1 2014	–12	0	–8	–48	–8	–76
Integration/restructuring costs	Q2 2015	0	0	0	–1	0	–1
	Q1 2015	0	0	0	–1	0	–1
	Q4 2014	0	–1	0	1	–4	–5
	Q3 2014	0	0	0	–1	0	–1
	Q2 2014	0	0	0	–6	0	–6
	Q1 2014	0	0	0	–1	0	–1
Net income/loss from investments	Q2 2015	–3	0	0	0	4	2
	Q1 2015	1	0	0	–1	0	0
	Q4 2014	–10	0	0	8	–1	–3
	Q3 2014	1	0	0	6	5	12
	Q2 2014	–1	0	0	–1	–17	–19
	Q1 2014	0	0	2	0	73	75
PROFIT BEFORE TAX	**Q2 2015**	**119**	**9**	**75**	**357**	**–67**	**493**
	Q1 2015	**39**	**16**	**37**	**321**	**–103**	**310**
	Q4 2014	**94**	**20**	**38**	**292**	**–139**	**305**
	Q3 2014	**87**	**12**	**41**	**418**	**–72**	**485**
	Q2 2014	**97**	**11**	**81**	**375**	**–40**	**523**
	Q1 2014	**49**	**11**	**50**	**311**	**–1**	**420**
Income tax for the period	Q2 2015	–30	–3	–18	–53	34	–69
	Q1 2015	–15	–4	–10	–60	29	–60
	Q4 2014	–21	–5	–9	–41	–12	–88
	Q3 2014	–17	–3	–10	–68	23	–75
	Q2 2014	–22	–3	–20	–51	30	–66
	Q1 2014	–9	–3	–12	–52	9	–66
Total profit or loss after tax from discontinued operations	Q2 2015	0	0	0	–146	22	–123
	Q1 2015	0	0	0	–74	15	–60
	Q4 2014	0	0	0	–126	13	–113
	Q3 2014	0	0	0	–41	47	6
	Q2 2014	0	0	0	–35	8	–27
	Q1 2014	0	0	0	–4	6	2
PROFIT (LOSS) FOR THE PERIOD	**Q2 2015**	**89**	**7**	**57**	**158**	**–10**	**301**
	Q1 2015	**25**	**13**	**26**	**186**	**–60**	**190**
	Q4 2014	**73**	**15**	**29**	**125**	**–138**	**104**
	Q3 2014	**70**	**9**	**30**	**309**	**–3**	**416**
	Q2 2014	**75**	**8**	**61**	**289**	**–2**	**430**
	Q1 2014	**40**	**8**	**38**	**255**	**15**	**356**
Non-controlling interests	Q2 2015	–3	0	0	–8	1	–9
	Q1 2015	–3	0	0	9	1	7
	Q4 2014	–2	0	0	33	3	35
	Q3 2014	–3	0	0	–2	1	–4
	Q2 2014	–1	0	0	1	1	0
	Q1 2014	–2	0	0	–7	1	–8
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY BEFORE PPA	**Q2 2015**	**87**	**7**	**57**	**150**	**–10**	**291**
	Q1 2015	**22**	**13**	**26**	**195**	**–59**	**198**
	Q4 2014	**71**	**15**	**29**	**158**	**–135**	**139**
	Q3 2014	**67**	**9**	**30**	**307**	**–2**	**412**
	Q2 2014	**74**	**8**	**61**	**290**	**–2**	**430**
	Q1 2014	**38**	**8**	**38**	**248**	**16**	**348**

Segment reporting (CONTINUED)

		RETAIL & CORPORATES	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CENTRAL EASTERN EUROPE (CEE)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST) [1]
Purchase Price Allocation effect	Q2 2015	0	0	0	0	0	0
	Q1 2015	0	0	0	0	0	0
	Q4 2014	0	0	0	0	0	0
	Q3 2014	0	0	0	0	0	0
	Q2 2014	0	0	0	0	0	0
	Q1 2014	0	0	0	0	0	0
Goodwill impairment	Q2 2015	0	0	0	0	0	0
	Q1 2015	0	0	0	0	0	0
	Q4 2014	0	0	0	0	0	0
	Q3 2014	0	0	0	0	0	0
	Q2 2014	0	0	0	0	0	0
	Q1 2014	0	0	0	0	0	0
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	**Q2 2015**	**87**	**7**	**57**	**150**	**–10**	**291**
	Q1 2015	**22**	**13**	**26**	**195**	**–59**	**198**
	Q4 2014	**71**	**15**	**29**	**158**	**–135**	**139**
	Q3 2014	**67**	**9**	**30**	**307**	**–2**	**412**
	Q2 2014	**74**	**8**	**61**	**290**	**–2**	**430**
	Q1 2014	**38**	**8**	**38**	**248**	**16**	**348**
Risk-weighted assets (RWA) (avg.) [2]	**Q2 2015**	**20,292**	**520**	**9,015**	**98,768**	**7,818**	**136,413**
	Q1 2015	**20,472**	**534**	**8,665**	**96,242**	**8,380**	**134,294**
	Q4 2014	**19,525**	**558**	**8,487**	**90,126**	**8,826**	**127,522**
	Q3 2014	**19,816**	**617**	**8,461**	**86,307**	**8,970**	**124,171**
	Q2 2014	**20,052**	**623**	**8,227**	**84,201**	**9,311**	**122,414**
	Q1 2014	**19,391**	**604**	**8,401**	**81,683**	**10,249**	**120,328**
Loans to customers (end of period)	**Q2 2015**	**44,576**	**607**	**13,204**	**58,586**	**253**	**117,226**
	Q1 2015	**44,311**	**599**	**12,751**	**58,533**	**1,317**	**117,511**
	Q4 2014	**43,208**	**588**	**12,502**	**56,786**	**664**	**113,749**
	Q3 2014	**43,100**	**599**	**12,856**	**58,155**	**823**	**115,533**
	Q2 2014	**43,157**	**635**	**12,984**	**57,545**	**1,339**	**115,661**
	Q1 2014	**42,812**	**636**	**13,060**	**55,231**	**1,822**	**113,560**
Direct funding (end of period) [3]	**Q2 2015**	**43,317**	**9,055**	**10,013**	**56,084**	**18,141**	**136,608**
	Q1 2015	**43,213**	**9,660**	**9,086**	**54,572**	**19,721**	**136,251**
	Q4 2014	**42,767**	**8,990**	**8,758**	**52,243**	**19,512**	**132,269**
	Q3 2014	**42,063**	**9,163**	**8,870**	**50,800**	**19,499**	**130,396**
	Q2 2014	**40,531**	**8,352**	**8,509**	**49,104**	**18,358**	**124,854**
	Q1 2014	**40,581**	**8,585**	**8,802**	**48,050**	**17,884**	**123,903**
Cost/income ratio in %	*Q2 2015*	*71.5*	*74.4*	*42.0*	*37.8*	*250.3*	*51.0*
	Q1 2015	*76.5*	*63.7*	*48.0*	*38.5*	*98.0*	*54.3*
	Q4 2014	*73.8*	*56.0*	*54.7*	*43.1*	*238.2*	*56.9*
	Q3 2014	*69.6*	*68.6*	*45.8*	*35.5*	*450.7*	*48.9*
	Q2 2014	*70.9*	*71.5*	*46.0*	*37.8*	*125.0*	*49.8*
	Q1 2014	*71.9*	*72.1*	*41.6*	*41.5*	*376.3*	*54.7*
Risk/earnings ratio in % [4]	*Q2 2015*	*n.m.*	*n.m.*	*n.m.*	*31.0*	*n.m.*	*18.0*
	Q1 2015	*12.9*	*n.m.*	*10.7*	*27.0*	*n.m.*	*23.0*
	Q4 2014	*n.m.*	*n.m.*	*5.6*	*28.6*	*n.m.*	*24.9*
	Q3 2014	*6.3*	*0.3*	*10.6*	*21.1*	*n.m.*	*17.6*
	Q2 2014	*1.4*	*n.m.*	*n.m.*	*24.0*	*n.m.*	*13.9*
	Q1 2014	*18.9*	*0.7*	*17.3*	*22.6*	*n.m.*	*22.0*

1) Quarterly figures based on unaudited recast data only.
2) Turkey consolidated on a pro-rata basis.
3) Direct funding: deposits from customers and debt securities in issue.
4) Risk/earnings ratio: net write-downs of loans and provisions for guarantees and commitments measured against net interest and dividends and other income from equity investments.
n.m. = not meaningful

Risk report

Major risks in Central and Eastern Europe

Russia

Country risk
Oil prices have remained low since their sharp fall in the second half of 2014, and the sanctions imposed in connection with the Ukraine conflict are still in place. These factors and general structural weaknesses of the Russian economy mean that the outlook for economic growth is bleak. The sanctions continue to significantly restrict Russian companies' business and access to Western capital markets. These developments have led to strong currency fluctuations and higher funding costs. Prospects continue to be impacted by uncertainty essentially determined by oil price movements and the situation in Ukraine. The Russian banking subsidiary's sovereign exposures mainly result from management of excess liquidity.

Credit risk
Lending volume rose to €13.1 billion (year-end 2014: €11.7 billion) as a result of exchange rate movements; the proportion of defaulted loans increased to 5.2% (year-end 2014: 3.7%).

The increase in net write-downs of loans and provisions for guarantees and commitments to €107 million (first half of 2014: €46 million) was mainly driven by provisioning for corporate customers and reflects the more difficult economic environment.

The intra-group guarantee assumed by UniCredit Bank Austria AG in favour of its Russian banking subsidiary for a portfolio of corporate loans remained unchanged at €1.3 billion.

Currency and liquidity risk
In the first quarter of 2015 the Russian rouble remained more or less stable against the US dollar while slightly recovering against the euro. The second quarter saw a stable trend of the rouble against both currencies. The liquidity position is unchanged compared with the comments made in the 2014 Annual Report. The bank is compliant with all external and internal liquidity limits and liquidity ratios.

Operational risk
In UniCredit Bank Russia, no direct operational risk losses have occurred so far in connection with the current crisis in Ukraine.

Ukraine

Country risk
The conflict in the eastern part of the country and the deterioration in economic indicators led to a severe economic downturn in Ukraine. Recession is aggravated by various factors including financial markets which have come to a standstill, currency depreciation, and a loss of confidence in politics and efforts to carry out reforms. The situation of public sector finances has become more difficult as a result of additional borrowing requirements.

Although the IMF has undertaken to make available US$17.5 billion in financial aid under a four-year programme, a comprehensive rescheduling package will be required to avert the country's insolvency. According to the Ukrainian Ministry of Finance, negotiations with creditors are due to begin in July.

The outlook for the next months will depend on developments in the conflict, on the progress of reforms and on the success of debt restructuring efforts.

Operations in Crimea were closed. In the regions of Donetsk and Luhansk, 44 branches were closed permanently and 3 branches were closed at least temporarily.

Credit risk
As loan loss provisions increased and the loan portfolio declined, net lending volume (after deduction of loan loss provisions) of the Ukrainian banking subsidiary Ukrsotsbank (USB) in the first half of 2015 decreased from €1.7 billion to €1.5 billion. Net loans and receivables booked directly in UniCredit Bank Austria AG (Profit Center Vienna, PCV) declined from €0.5 billion to €0.4 billion.

Within Ukraine, only loans with a net exposure or EUR 0.3 billion (net exposure after deduction of loan loss provisions) is attributable to the eastern region (loans booked directly in Crimea and the Donbass region and loans booked in other regions to the extent that the borrower conducts the major part of its activities in the crisis region).

The default ratio for the Ukrainian banking subsidiary rose to 74% (year-end 2014: 67%); in the Profit Center Vienna it increased to 75% (year-end 2014: 55%). The NPL ratio in the crisis region lies at approximately 95%.

Risk report (CONTINUED)

(€ million)

	USB		PCV		TOTAL	
	30 JUNE 2015	31 DEC. 2014	30 JUNE 2015	31 DEC. 2014	30 JUNE 2015	31 DEC. 2014
Total bank						
Loans to customers (gross)	2,328	2,413	776	768	3,104	3,181
Loans to customers (net)	1,526	1,699	402	463	1,927	2,162
Impaired loans (gross)	1,733	1,623	584	422	2,316	2,044
thereof eastern region (Crimea, Donbass)						
Loans to customers (gross)	428	416	291	280	719	696
Loans to customers (net)	272	285	165	230	437	515
Impaired loans (gross)	405	376	281	139	686	515

An assessment of potential impairment was made on the basis of information most recently available. This involves uncertainty especially with regard to the crisis region of Crimea and Donbass, with future management being largely dependent on future developments in the region.

This uncertainty resulting from the above mentioned negative development in the economic conditions of Ukraine as well as a potential aggravation or prolonged duration of the armed conflict in the region, particularly in the Donbass area, could have a material impact on the valuation of customer receivables included in the financial statements, as well as on loan loss provisions and real estate of our banking subsidiary Ukrsotsbank as well as on the exposures booked in the Profit Center Vienna of UniCredit Bank Austria AG.

Currency risk

After a significant rise to above 30 UAH per euro in February 2015, the EUR/UAH exchange rate continued to stabilise in the second quarter, to a level of 23 to 25 UAH per euro.

Currency risk at Ukrsotsbank was significantly reduced in the first quarter of 2015 as the USD position was, in effect, closed (via debt forgiveness by UniCredit Bank Austria AG). A capital increase in June further improved the USD position at the end of the second quarter, making the bank more robust against potential future UAH currency depreciation.

Liquidity risk

Deposits in UAH and in USD stabilised in the course of the first half of 2015, after declines seen in the first quarter. The bank holds collateral (Ukrainian government bonds) which can be used in the amount of about UAH 0.6 billion for UAH refinancing with the local central bank. In addition, there is a collateral-free National Bank of Ukraine (NBU) facility of UAH 0.4 billion. Bank Austria supports USB with a USD overnight facility, which is currently not used. Ukrsotsbank is currently not using any local central bank support.

Operational risk

Losses resulting from operational risk at Ukrsotsbank – mainly relating to cash, valuables, security vans and leased equipment – did not increase to any significant extent in the first half of 2015 as compared with the comments made in the 2014 Annual Report.

Real estate

The carrying amounts of real estate held by the bank in the crisis region amounted to €17.5 million at the end of the reporting period. This amount reflects the most recent reliably available information. As some parts of the country are still accessible only to a very limited extent on account of the political crisis, there is considerable uncertainty over this amount in respect of existence and measurement.

Capital measures

During the first quarter of 2015, capital resources were temporarily lower than the minimum capital requirements defined by the National Bank of Ukraine (NBU). As a first step, in March 2015, the capital base was improved through debt forgiveness vis-à-vis Ukrsotsbank in the amount of about US$250 million. At the end of June 2015, a capital increase of US$250 million was carried out at Ukrsotsbank (through the conversion of existing loans of UniCredit Bank Austria AG into equity) to further strengthen the bank's capital base. As at the end of June 2015, Ukrsotsbank complied with the minimum capital adequacy level defined by the NBU. The N2-ratio of USB thereafter stood at about 17% as of 30 June 2015 (minimum requirement 10%).

However, a further negative development of the economic conditions and/or of the Ukrainian currency UAH and a further aggravation or prolonged duration of the conflict in the region may have a significant impact on compliance with local regulatory requirements of Ukrsotsbank, in particular with regard to minimum capital requirements. Therefore, and in addition to the capital measures undertaken, UniCredit Bank Austria AG has issued a letter of comfort in favour of Ukrsotsbank in order to support its continuation as a going concern also in the period before the future sale of Ukrsotsbank and to support the plans of the bank's management.

Risk report (CONTINUED)

Bulgaria, Romania and Serbia

Liquidity risk

The discussion on Greece's future led to increased vigilance in neighbouring countries with regard to potential liquidity outflows or liquidity bottlenecks of Greek banks in the countries concerned. As a precautionary measure, the liquidity position of the various banking subsidiaries and in the relevant markets is being closely monitored on a local basis. The liquidity situation in these countries is currently regarded as stable. The current crisis has also led to a rise in yield curves and credit curves in the various countries, entailing valuation losses.

Currency risk

CHF risk

The CHF exchange rate movement led to an increase in risk-weighted assets (RWAs) at the beginning of the year. Estimates of the negative impact of this development on credit risk – mentioned in the section "CHF exchange rate movements after the reporting period" of the 2014 Annual Report – proved to be conservative. The provisioning requirement for the Austrian Retail subsegment remained below the estimated requirement in respect of loans already assessed as defaulted and performing loans.

The impact on the bank's liquidity results from increased margin calls of €2.2 billion, which had to be met vis-à-vis our swap counterparties on account of the revaluation of the hedge swaps. These margin calls are an outflow of liquidity which has not led to any violations of limits or other negative impacts on our liquidity management because of the currently prevailing excess liquidity. In the meantime, the margin calls have declined to a level of €0.4 billion as at 30 June 2015, mainly driven by periodical adjustments to the hedge swaps on the basis of current exchange rates or early termination in the first quarter.

Legal risks associated with foreign exchange risks are discussed in detail in the "Legal risks" section.

Risk report (CONTINUED)

Country risk and sovereign risk

Risk associated with cross-border transactions with all customer groups is reflected in country risk ("transfer and convertibility risk"; country risk includes, for example, loans to foreign corporate customers or banks). Risk associated with the state itself (e.g. the purchase of government bonds) is reflected in sovereign risk, irrespective of whether such risk is cross-border or local risk.

The following table shows the ten largest country portfolios, measured by book value in descending order.

Breakdown of sovereign debt securities by country and portfolio (€ million)

	30 JUNE 2015			31 DEC. 2014		
COUNTRY/PORTFOLIO	NOMINAL VALUE	BOOK VALUE	FAIR VALUE	NOMINAL VALUE	BOOK VALUE	FAIR VALUE
Austria	**8,369**	**9,662**	**9,672**	**8,215**	**9,585**	**9,597**
HFT financial assets/liabilities (net exposures)	0	0	0	0	0	0
Financial assets at FV through P&L	0	0	0	0	0	0
Available for sale	8,257	9,549	9,549	8,096	9,465	9,465
Loans and receivables	0	0	0	0	0	0
Held-to-maturity investments	113	113	122	118	119	132
Czech Republic	**2,097**	**2,058**	**2,058**	**1,898**	**1,939**	**1,939**
HFT financial assets/liabilities (net exposures)	11	16	16	72	73	73
Financial assets at FV through P&L	78	78	78	39	39	39
Available for sale	2,008	1,963	1,963	1,786	1,827	1,827
Loans and receivables	0	0	0	0	0	0
Held-to-maturity investments	0	0	0	0	0	0
Spain	**1,358**	**1,474**	**1,474**	**648**	**678**	**678**
HFT financial assets/liabilities (net exposures)	0	0	0	0	0	0
Financial assets at FV through P&L	0	0	0	0	0	0
Available for sale	1,350	1,468	1,468	640	672	672
Loans and receivables	0	0	0	0	0	0
Held-to-maturity investments	8	6	6	8	6	6
Romania	**1,226**	**1,328**	**1,328**	**1,270**	**1,365**	**1,365**
HFT financial assets/liabilities (net exposures)	31	25	25	29	34	34
Financial assets at FV through P&L	0	0	0	0	0	0
Available for sale	1,195	1,303	1,303	1,241	1,331	1,331
Loans and receivables	0	0	0	0	0	0
Held-to-maturity investments	0	0	0	0	0	0
Hungary	**1,049**	**1,182**	**1,182**	**704**	**808**	**808**
HFT financial assets/liabilities (net exposures)	28	29	29	10	11	11
Financial assets at FV through P&L	0	0	0	0	0	0
Available for sale	1,021	1,153	1,153	688	791	791
Loans and receivables	0	0	0	0	0	0
Held-to-maturity investments	0	0	0	6	6	6
Bulgaria	**1,121**	**1,146**	**1,146**	**793**	**835**	**835**
HFT financial assets/liabilities (net exposures)	2	2	2	3	3	3
Financial assets at FV through P&L	0	0	0	0	0	0
Available for sale	1,114	1,139	1,139	718	757	757
Loans and receivables	5	5	5	6	6	6
Held-to-maturity investments	0	0	0	67	69	69
Italy	**750**	**890**	**890**	**401**	**500**	**500**
HFT financial assets/liabilities (net exposures)	0	0	0	0	0	0
Financial assets at FV through P&L	0	0	0	0	0	0
Available for sale	750	890	890	400	499	499
Loans and receivables	0	0	0	0	0	0
Held-to-maturity investments	0	0	0	1	1	1

Risk report (CONTINUED)

COUNTRY/PORTFOLIO	30 JUNE 2015			31 DEC. 2014		
	NOMINAL VALUE	BOOK VALUE	FAIR VALUE	NOMINAL VALUE	BOOK VALUE	FAIR VALUE
Croatia	**864**	**864**	**864**	**851**	**859**	**859**
HFT financial assets/liabilities (net exposures)	5	6	6	4	4	4
Financial assets at FV through P&L	0	0	0	0	0	0
Available for sale	858	858	858	847	856	856
Loans and receivables	0	0	0	0	0	0
Held-to-maturity investments	0	0	0	0	0	0
Slovakia	**704**	**776**	**776**	**609**	**693**	**693**
HFT financial assets/liabilities (net exposures)	43	45	45	14	15	15
Financial assets at FV through P&L	0	0	0	0	0	0
Available for sale	654	725	725	588	670	670
Loans and receivables	0	0	0	0	0	0
Held-to-maturity investments	7	7	7	7	7	7
Russia[1)]	**640**	**561**	**561**	**558**	**421**	**421**
HFT financial assets/liabilities (net exposures)	38	38	38	26	20	20
Financial assets at FV through P&L	0	0	0	0	0	0
Available for sale	602	523	523	533	400	400
Loans and receivables	0	0	0	0	0	0
Held-to-maturity investments	0	0	0	0	0	0
Other Countries	**2,209**	**2,026**	**2,026**	**2,054**	**1,874**	**1,875**
HFT financial assets/liabilities (net exposures)	160	8	8	191	43	43
Financial assets at FV through P&L	0	0	0	0	0	0
Available for sale	2,037	2,005	2,005	1,850	1,818	1,818
Loans and receivables	0	0	0	0	0	0
Held-to-maturity investments	13	13	14	13	13	14
TOTAL	**20,387**	**21,966**	**21,976**	**18,000**	**19,555**	**19,569**
thereof:						
Slovenia	**323**	**346**	**347**	**289**	**318**	**318**
Ukraine	**25**	**25**	**25**	**80**	**76**	**76**
Greece	**273**	**1**	**1**	**273**	**1**	**1**
Portugal	**30**	**33**	**33**	**30**	**33**	**33**

1) Given the amount of the portfolio of Russian sovereign debt securities as at 30 June 2015, figures for Russia are presented separately and figures for Luxembourg are included in "Other countries".

Risk report (CONTINUED)

Breakdown of sovereign debt securities by portfolio

(€ million)

	30 JUNE 2015					
	HELD FOR TRADING (NET EXPOSURES)	FINANCIAL ASSETS AT FAIR VALUE	AVAILABLE-FOR-SALE FINANCIAL ASSETS	LOANS	HELD-TO-MATURITY INVESTMENTS	TOTAL
Book value of sovereign portfolio	169	78	21,575	5	139	21,966
Total portfolio of debt securities	216	85	24,482	673	301	25,757
% Portfolio	78.09%	91.90%	88.13%	0.76%	45.99%	85.28%
	31 DEC. 2014					
	HELD FOR TRADING (NET EXPOSURES)	FINANCIAL ASSETS AT FAIR VALUE	AVAILABLE-FOR-SALE FINANCIAL ASSETS	LOANS	HELD-TO-MATURITY INVESTMENTS	TOTAL
Book value of sovereign portfolio	204	39	19,085	6	221	19,555
Total portfolio of debt securities	250	77	21,970	629	572	23,498
% Portfolio	81.37%	51.24%	86.87%	0.91%	38.64%	83.22%

Sovereign exposures are bonds issued by and loans granted to central banks, governments and other public sector entities. ABSs are not included.

Breakdown of sovereign loans by country

(€ million)

	30 JUNE 2015	31 DEC. 2014
COUNTRY	BOOK VALUE	BOOK VALUE
Austria	5,930	5,754
Croatia	2,491	2,479
Indonesia	358	395
Serbia	349	289
Slovenia	233	237
Bosnia and Herzegovina	205	130
Gabon	194	169
Bulgaria	186	680
Romania	117	122
Ghana	105	105
Other	716	734
TOTAL ON-BALANCE SHEET EXPOSURE	**10,883**	**11,095**

The above table shows the ten largest sovereign borrowers, measured by book value in descending order.
Sovereign loans are loans granted to central and local governments and other public sector entities.

Risk report (CONTINUED)

Credit risk

In the first half of 2015, net write-downs of loans and provisions for guarantees and commitments of Bank Austria were €391 million, slightly higher than for the same period of the previous year (H1 2014: €352 million).

Contrary to developments in CEE, the provisioning charge in Austria declined significantly in all business segments. Overall, the release of a provision in the Corporates segment led to a net release of €2 million. The comparative figure for the same period of the previous year was a provisioning charge of €37 million.

In Central and Eastern Europe, net write-downs of loans and provisions for guarantees and commitments increased to €394 million in the first half of 2015 (H1 2014: €314 million), mainly reflecting developments in Russia and the Ukraine crisis.

The comparative figures for H1 2014 have been recast to reflect the current structure and methodology. The segment data indicated above for Central and Eastern Europe are the segment reporting figures. Austria is defined as the sum of all other segments.

Legal risks

In addition to our disclosure made in the annual consolidated financial report dated 31 December 2014 we would like to point out that in the first half of 2015 new developments occurred regarding the following legal risks:

Madoff

Austrian civil proceedings

Investors in the Primeo and Herald Madoff feeder funds have brought numerous civil proceedings, of which 195 with a claimed amount totaling €128 million plus interest remain. The claims in these proceedings are either that BA breached certain duties regarding its function as prospectus controller, or that BA improperly advised certain investors (directly or indirectly) to invest in those funds or a combination of these claims. The Austrian Supreme Court has issued 10 final decisions with respect to prospectus liability claims asserted in the legal proceedings. With respect to claims related to the Primeo feeder funds, all 7 final Austrian Supreme Court decisions have been in favour of BA. With respect to the Herald feeder funds, the Austrian Supreme Court has ruled three times with respect to prospectus liability, once in favour of BA and twice in favour of the claimant. While we cannot predict with certainty the impact of these decisions on the remaining Herald cases, future rulings may be adverse to Bank Austria.

In respect of the Austrian civil proceedings pending as against BA related to Madoff's fraud, BA has made provisions for an amount considered appropriate to the current risk.

Austrian criminal proceedings

BA has been named as a defendant in criminal proceedings in Austria which concern the Madoff case. These complaints allege, amongst other things, that BA breached provisions of the Austrian Investment Fund Act as prospectus controller of the Primeo fund and certain tax issues. On the tax issues the tax authorities confirmed in a final report in April 2015 that all taxes had been correctly paid. The criminal proceedings are still at the pre-trial stage.

Proceedings in the United States:

Purported Class Actions

On November 29, 2011, the Southern District dismissed all three putative class actions on grounds, with respect to UniCredit S.p.A., PGAM, PAI and BA, that the United States was not a convenient forum for resolution of plaintiffs' claims. That decision was upheld on appeal by the United States Court of Appeals for the Second Circuit (the "Second Circuit") and then was further appealed to the United States Supreme Court (the "Supreme Court"). On March 30, 2015, the Supreme Court denied the appeal. After denial by the Supreme Court, Thema and Herald moved to have the Second Circuit recall its mandate in this matter. The Second Circuit denied those motions by order dated June 19, 2015. All dismissals in the class actions are now final.

HSBC Case

In the HSBC case, the SIPA Trustee made claims against some 60 defendants, including BA, UniCredit S.p.A., BAWFM, PAI, certain current or formerly affiliated persons and Bank Medici. Two categories of claims were advanced: "claw-back" or avoidance claims against certain defendants on a joint and several basis, including the abovementioned, alleged to be in excess of $2 billion; and common law claims in unspecified amounts (said to exceed several billion dollars), including aiding and abetting BLMIS's breach of fiduciary duty and BLMIS's fraud.

The common law claims were dismissed by the Southern District on July 28, 2011. That decision was upheld on appeal by the Second Circuit, a further request for review by the Supreme Court was also rejected, and no further appeals are pending.

Risk report (CONTINUED)

The Trustee voluntarily dismissed the avoidance claims against BA without prejudice, and the dismissal was approved by the court on July 22, 2015.

The current or formerly affiliated persons named as defendants in the HSBC case, who had not been previously served, have now been served. The current or formerly affiliated persons may have similar defenses to the claims as BA and its affiliated entities, and may have rights to indemnification from those parties.

Certain legal developments in CEE arising out of disputes relating to foreign currency loans

In Central and Eastern Europe, in the last decade, a significant number of customers took out loans and mortgages denominated in a foreign currency (FX). In a number of instances customers – or consumer associations acting on their behalf – have sought to renegotiate the terms of such FX loans and mortgages, including having the loan principal and associated interest payments redenominated in the local currency at the time the loan was taken out, and floating rates retrospectively changed to fixed rates. This is resulting in litigation against subsidiaries of UniCredit Bank Austria AG in a number of countries including Hungary, Serbia and Croatia.

In **Hungary**, a Supreme Court decision on 16 June 2014 to ensure uniformity of judicial decisions regarding loans made to consumers in a foreign currency established the following principles:

- foreign currency exchange rate risk is to be borne by the consumer unless the consumer was misinformed about the risk
- whether a unilateral change (e. g. to a rate) is unfair and therefore invalid must be assessed on a case by case basis
- applying a different exchange rate for repayments of the loan from that used when the loan was made is unfair and therefore unenforceable and the difference must be repaid to consumers

In addition, on 4 July 2014 legislation was passed which amended the above decision and also extended it to apply not only to foreign currency based loans but also to domestic currency consumer loans and leasing contracts. Building on the above Supreme Court decision, the legislation established a rebuttable presumption that terms allowing unilateral changes to consumer contracts are unfair and therefore unenforceable. It is for the lender to rebut the presumption. In addition, for loans based on foreign currency, the law requires the substitution of the foreign exchange rate applied by the lender with the midmarket rate of the Hungarian Central Bank (unless the lender used its own midmarket rate). UniCredit Bank Hungary Zrt – just like any other of its peers having the final court decision on the case – was not able to rebut the presumption of unfairness.

The financial settlement with clients has to be executed gradually based on the detailed regulations of the Hungarian Central Bank. In November 2014 Hungary's parliament approved further laws in relation to the comprehensive settlement of households' loans. The act on conversion forces banks to convert foreign-currency home loans to forint and impose pricing limits for fresh lending. The bill on "fair banking" prescribes criteria under which banks can offer household credit in future. The above-mentioned financial settlement and the conversion of mortgages in the case of foreign-currency-based loans were made at the end of March 2015.

The conversion of foreign-currency mortgages was based on the central bank's official forint rate on 7 November 2014 which was 308.97 forints per euro and 256.6 forints per Swiss franc, or the average exchange rate between 16 June and 7 November 2014. The new forint loans, tied to the three-month Budapest interbank rate, or Bubor, may carry a margin of as much as 4.5 percentage points for mortgages and a maximum of 6.5 percentage points for home equity loans.

Under the fair banking bill, banks can only extend retail credit that carries fixed interest rates or fixed interest-rate margins over a set benchmark, for loans with a maximum maturity of three years.

In **Serbia** the association of users of banking services "Currency" has filed a class action against three banks in connection with up to 10,000 contracts on loans in CHF. UniCredit Bank Serbia JSC is not among the three defendants. The Primary Court has rejected this claim as inadmissible. On 22 October 2014 the Appeal Court issued a decision confirming the partial decision of the first instance court by which an article of the banks' loan agreement is null. In further court proceedings the first instance court will decide on the amount of money which the banks will be obliged to return to the clients (the plaintiff). Even though this court decision is not a precedent for other cases, it might influence other judges to decide in the same way.

In **Croatia**, a consumer association sued 8 of the largest banks in 2012 (including Zagrebačka banka) claiming that: for loans linked to Swiss francs, consumers had not been given adequate information prior to taking out the loan and had not therefore been able to make a fully informed decision about the risks of such loans; and a variable interest rate was unlawful, as it was set by reference to a unilateral decision of the relevant bank and without the factors affecting the setting of the rate being clearly defined.

Risk report (CONTINUED)

On 4 July 2013 the first instance court in Zagreb upheld the complaint of the consumer association. The court required the banks, within 60 days, to offer the customers amended terms, converting the outstanding principal amount to Croatian kuna (HRK) at the CHF/HRK rate prevailing on the date the loan agreement was signed and substituting the variable interest rate with the fixed rate applicable at the date the loan in question was drawn down (the 60 Day Order). The decision was not binding as it was appealed by all 8 banks. On 13 June 2014, the Croatian appeal court varied the first instance decision and ruled that the foreign currency clause was lawfully agreed. The appeal court upheld, however, the first instance judgment regarding the unfairness of contractual terms permitting the banks to make unilateral changes to the floating rate of interest and ruled such terms null and void. The court annulled the 60 Day Order. The court stated that its decision does not give individual customers a direct entitlement to damages but individual consumers could seek a revision of their contract or compensation in individual actions before the courts. Zagrebačka banka has lodged an appeal before the Supreme Court of Croatia against the part of the judgment of the appeal court (High Commercial Court) where a contractual provision enabling unilateral changes to the interest rate was determined unfair.

On 9 April 2015 the Supreme Court gave its judgment dismissing all appeals lodged against the judgment of the High Commercial Court of 13 June 2014 and confirmed its validity in full.

A certain number of individual lawsuits is pending against Zagrebačka banka related to the legal issues linked to variability of interest rates, for which Zagrebačka banka is in principle expecting a positive final outcome.

The Group has made provisions for these risks in various countries in the total amount of €17.6 million.

Alpine Holding GmbH

Alpine Holding GmbH (a limited liability company) issued a bond in every year from 2010 to 2012. In the years 2010 and 2011, UniCredit Bank Austria AG acted as Joint Lead Manager, each year together with another bank. In June/July 2013, Alpine Holding GmbH and Alpine Bau GmbH became insolvent and bankruptcy proceedings began. Numerous bondholders then started to send letters to the banks involved in the issuance of the bonds, specifying their demands. At least as far as UniCredit Bank Austria AG is concerned, bondholders substantiated their claims mainly by referring to prospectus liability of the Joint Lead Managers and only in a minority of cases also to bad investment advice by the banks which sold the bonds to their customers. At this time, civil proceedings including a class action filed by the Federal Chamber of Labour (with the claimed amount totalling about €3.4 million) have been initiated by investors in which UniCredit Bank Austria AG, among other banks, has been named as defendant. The key aspect is prospectus liability. These civil proceedings are pending in the first instance. No judgments have been issued so far against UniCredit Bank Austria AG. In addition to the foregoing proceedings against UniCredit Bank Austria AG stemming from the Alpine insolvency, additional Alpine-related actions have been threatened and may be filed in the future by investors and/or a consumer protection agency/the Chamber of Labour. The pending or future actions may have negative consequences for UniCredit Bank Austria AG. UniCredit Bank Austria AG intends to defend itself vigorously against these claims. At this stage, it is not possible to estimate reliably the timing and results of the various actions, nor determine the level of responsibility, if any responsibility exists.

Negative interest rates

After the Swiss National Bank (SNB) surprisingly discontinued the Swiss franc's link to the euro in the middle of January 2015, the variable indicator (e.g. CHF Libor 1M) in some existing loan agreements became negative. As long as the negative indicator does not exceed the margin, the method used by Bank Austria for charging interest for loan agreements with no other specific stipulation will not change. This means that the rate of interest payable by the customer may be lower than the margin in such cases (example: indicator minus 0.5% and margin 1.2% = debit interest rate 0.7%). If the calculated debit interest rate becomes negative, however, Bank Austria will not apply that rate but a debit interest rate of 0.00001% – in line with Bank Austria's legal view that the borrower is in each case required to pay interest at a minimum rate. The borrower will therefore pay interest at the above-mentioned minimum rate even if the negative indicator exceeds the margin (example: indicator minus 1.3% and margin 1.2% = debit interest rate applied is 0.00001%, not minus 0.1%). The Austrian Association for Consumer Information (Verein für Konsumenteninformation – VKI) has filed a class action against this practice. The pleading was brought in by Bank Austria, the court proceedings are still pending in the first instance.

Additional disclosures

Guarantees given and commitments

(€ million)

	30 JUNE 2015	31 DEC. 2014
Financial guarantees given to:	**4,718**	**4,398**
Banks	1,227	460
Customers	3,491	3,938
Commercial guarantees given to:	**11,826**	**11,973**
Banks	2,812	2,687
Customers	9,014	9,287
Other irrevocable commitments to disburse funds	**18,557**	**20,314**
Banks	1,304	1,563
Usage certain	*1,247*	*1,364*
Usage uncertain	*57*	*199*
Customers	17,252	18,751
Usage certain	*12,984*	*13,865*
Usage uncertain	*4,269*	*4,886*
Underlying obligations for credit derivatives: sales of protection	**0**	**0**
Assets used to guarantee others' obligations	**10**	**10**
Other commitments	**3,431**	**2,803**
TOTAL	**38,542**	**39,498**

Employees

Description of payment agreements based on own equity instruments

Outstanding instruments

Group Medium & Long Term Incentive Plans for selected employees include equity-settled share-based payments based on the shares of the parent company UniCredit S.p.A.

These plans include the following:

- **Stock Options** allocated to selected Top & Senior Managers and Key Talents of the Group;
- **Performance Stock Options** allocated to selected Top & Senior Managers and Key Talents of the Group and represented by UniCredit Options that the Parent Company undertakes to grant, conditional upon achieving performance targets approved by the Parent Company's Board;
- **Share Plan for Talent** that offers free UniCredit ordinary shares that the Parent Company undertakes to grant, conditional upon achieving performance targets approved by the Parent Company's Board;
- **Group Executive Incentive System (Bonus Pool)** that offers to eligible Group Executives and relevant employees identified following regulatory rules, a bonus structure composed of upfront (following the moment of performance evaluation) and deferred payments in cash and in shares, to be paid over a period ranging from 1 to 6 years (first year upfront and 5 years deferred). This payment structure will guarantee the alignment to shareholder interests and will be subjected to malus (which applies in case specific profitability, capital and liquidity thresholds are not met at both Group and Country/Division level) and clawback conditions (as legally enforceable) as defined in Plan Rules (both non-market vesting conditions);
- **Employee Share Ownership Plan (ESOP)** that offers to eligible Group employees the possibility to buy UniCredit ordinary shares with the advantages to foresee the granting of free ordinary shares ("Discount Shares" and "Matching Shares" or, for the second category, rights to receive them) measured on the basis of the shares purchased by each Participant ("Investment Shares") during the "Enrolment Period". The granting of free ordinary shares is subordinated to vesting conditions (other than market conditions) stated in the Plan Rules.

Additional disclosures (CONTINUED)

Measurement model

Stock Options and Performance Stock Options

The Hull and White Evaluation Model has been adopted to measure the economic value of Stock Options.
This model is based on a trinomial tree price distribution using the Boyle's algorithm and estimates the early exercise probability on the basis of a deterministic model connected to:

- reaching a Market Share Value equals to an exercise price-multiple (M);
- probability of beneficiaries' early exit (E) after the end of the vesting eriod.

Economic and equity effects will be recognised on the basis of the instruments' vesting period.

No new Stock Options' Plans and Performance Stock Options have been granted during 2015.

Share Plan for Talent

The plan offers three "Free UniCredit Shares" instalments, having subsequent annual vesting, to selected beneficiaries.
The economic value of Performance Shares is measured considering the share market price at the grant date less the present value of the future dividends, not available to beneficiaries, during the performance period. Parameters are estimated by applying the same model used for Stock Options measurement.

Economic and net equity effects will be accrued during the instrument's vesting period.

No new Share Plans have been granted during 2015.

Group Executive Incentive System

The amount of the incentive is determined on the basis of the achievement of quantitative and qualitative goals stated by the plan. In particular, the overall evaluation of the employee's relevant manager expressed as a percentage, from a minimum of 0% to a maximum of 150% (non-market vesting conditions).

This percentage, adjusted by the application of a risk/opportunity factor – Group Gate – at first payment multiplied by the Bonus Opportunity, determines the effective amount that will be paid to the beneficiary.

Economic and net equity effects will be accrued on the basis of instruments' vesting period.

Group Executive Incentive System "Bonus Pool 2014" – Shares

The economic value of Performance Shares is measured considering the share market price at the grant date less the present value of the future dividends during the vesting period.

	SHARES GRANTED GROUP EXECUTIVE INCENTIVE SYSTEM – BONUS POOL 2014			
	INSTALMENT (2017)	INSTALMENT (2018)	INSTALMENT (2019)	INSTALMENT (2020)
Date of granting Board resolution (Grant Date)	21 Jan. 2014	21 Jan. 2014	21 Jan. 2014	21 Jan. 2014
Date of Board resolution	9 April 2015	9 April 2015	9 April 2015	9 April 2015
Vesting Period start-date	1 Jan. 2014	1 Jan. 2014	1 Jan. 2014	1 Jan. 2014
Vesting Period end-date	31 Dec. 2016	31 Dec. 2017	31 Dec. 2018	31 Dec. 2019
UniCredit Share market price [€]	6.269	6.269	6.269	6.269
Economic value of vesting conditions [€]	–0.243	–0.434	–0.705	–1.032
Performance Shares' fair value per unit at the Grant Date [€]	**6.026**	**5.835**	**5.564**	**5.237**

Group Executive Incentive System 2015 (Bonus Pool)

The new Group Incentive system 2015 is based on a bonus pool approach, aligned with regulatory requirements and market practices. It defines:

- sustainability, through direct link with entity results and alignment with relevant risk categories, utilising specific indicators linked to risk appetite;
- link between bonuses and organisation structure, defining the pool on a country/division level with further review at Group level;
- bonuses allocated to Executives and other relevant employees, on the basis of European Banking Authority (EBA) rules and local regulations;
- payment structure has been defined in accordance with regulatory provisions qualified by Directive 2013/36/EU (CRD IV) and will be distributed in a period of six years by using a mix of shares and cash.

Additional disclosures (CONTINUED)

All profit-or-loss and net equity effects related to the plan will be booked during the vesting period.

Employee Share Ownership Plan (Let's Share for 2015)

The following tables show the measurements and parameters used in relation to Free Shares (or rights to receive them) connected to the "Employee Share Ownership Plan" approved in 2014.

Measurement of Free Shares ESOP 2015

	FREE SHARES 1ST ELECTION WINDOW	FREE SHARES 2ND ELECTION WINDOW
Date of Free Shares delivery to Group employees	30 Jan. 2015	31 July 2015
Vesting Period start-date	30 Jan. 2015	31 July 2015
Vesting Period end-date	30 Jan. 2016	31 July 2016
Discount Shares' fair value per unit [€]	5.280	To be defined

All profit-or-loss and net equity effects related to free shares will be booked during the vesting period (except adjustments, according to Plan Rules, that will be booked during the next closing after vesting period).

Payroll costs in the Bank Austria Group in the first six months of 2015 include share-based payments of €x million.

Full-time equivalents

	H1 2015	2014
Salaried staff	35,884	37,087
Other employees	35	42
TOTAL 1)	**35,919**	**37,129**
of which: in Austria	*7,224*	*7,171*
of which: abroad	*28,695*	*29,958*

1) Average full-time equivalents of staff employed in the Bank Austria Group, excluding employees on unpaid sabbatical or maternity/paternity leave.

Events after the reporting period

Six Hungarian leasing subsidiaries were merged into HVB-Leasing Garo Kft with effect from 1 July 2015.

Additional disclosures (CONTINUED)

Consolidated capital resources and risk-weighted assets

Consolidated capital resources

(€ million)

		30 JUNE 2015	31 DEC. 2014
Paid-in capital instruments (excl. own Common Equity Tier 1 instruments)		1,681	1,681
Reserves (incl. profit) and minority interests		13,750	13,183
Adjustments to Common Equity Tier 1		–903	–860
Transitional adjustments to Common Equity Tier 1	1)	–8	–539
Common Equity Tier 1 (CET1)		**14,520**	**13,465**
Additional Tier 1 capital and qualifying Additional Tier 1 instruments issued by subsidiaries		89	154
Adjustments to Additional Tier 1		0	0
Transitional adjustments to Additional Tier 1	1)	–89	–154
Additional Tier 1 (AT1)		**0**	**0**
Tier 1 capital (T1=CET1+AT1)		**14,520**	**13,465**
Tier 2 capital and qualifying Tier 2 instruments issued by subsidiaries		4,974	4,080
Adjustments to Tier 2 capital		41	96
Transitional adjustments to Tier 2 capital	1)	–140	–113
Tier 2 capital (T2)		**4,875**	**4,062**
Total regulatory capital (TC=T1+T2)		**19,396**	**17,527**

1) according to the Austrian CRR Supplementary Regulation (CRR-Begleitverordnung) of 11 Dec. 2013

Risk-weighted assets

(€ million)

	30 JUNE 2015	31 DEC. 2014
a) Credit risk pursuant to standardised approach	70,890	68,896
b) Credit risk pursuant to internal ratings-based (IRB) approach	45,847	43,879
c) Other (contribution to default fund of a central counterparty [CCP])	1	220
Credit risk	116,737	112,995
Position, foreign exchange and commodity risk	5,368	4,643
Operational risk	11,976	12,068
Risk positions for credit value adjustments (CVA)	526	644
TOTAL RWAS	**134,606**	**130,351**

Capital ratios

		30 JUNE 2015	31 DEC. 2014
Common Equity Tier 1 ratio	1)	10.8%	10.3%
Tier 1 ratio	1)	10.8%	10.3%
Total capital ratio	1)	14.4%	13.4%

1) based on all risks

Deviating from IFRS 11, the Yapı Kredi sub-group companies continue to be included on a proportionate basis in the calculation of consolidated capital resources and risk-weighted assets for regulatory purposes.

Statement by Management

on the Half-Yearly Financial Report 2015

We confirm to the best of our knowledge that the interim consolidated 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 applicableaccounting standards and that the interim report of the group for the first six months gives a true and fair view of important events that occurred during the first six months of the financial year and their impact on the interim consolidated financial statements,and of the principal risks and uncertainties for the remaining six months of the financial year.

	The Management Board
Willibald Cernko	CEO Support Services (Chairman)
Carlo Vivaldi	CEE Banking Division (Deputy Chairman)
Helmut Bernkopf	Commercial Banking Division (Retail & Corporates)
Mirko Bianchi	CFO Finance
Dieter Hengl	Corporate & Investment Banking Division
Jürgen Kullnigg	CRO Risk Management
Doris Tomanek	Human Resources Austria & CEE
Robert Zadrazil	Private Banking Division

Vienna, 27 July 2015

Willibald Cernko

Carlo Vivaldi

Helmut Bernkopf

Mirko Bianchi

Dieter Hengl

Jürgen Kullnigg

Doris Tomanek

Robert Zadrazil

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Ratings

AS OF 27 AUGUST 2015	LONG-TERM	SUBORDINATED LIABILITIES	SHORT-TERM
Moody's 1)	Baa2	Ba2	P-2
Standard & Poor's 2)	BBB	BB+	A-2
Fitch Ratings	BBB+	–	F2

Public-sector covered bonds and mortgage bonds of Bank Austria are rated Aaa by Moody's.

1) Grandfathered senior debt is rated Baa3, grandfathered subordinated debt is rated A3.

2) Grandfathered senior debt is rated BBB, grandfathered subordinated debt is rated BB+.

Financial calendar

12 November 2015	Publication of the results as of 30 September 2015
All information is available electronically at http://ir-en.bankaustria.at	

Information and disclosure pursuant to Sections 24 and 25 of the Austrian Media Act (Mediengesetz):

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Credit institution pursuant to Section 1 (1) of the Austrian Banking Act (Bankwesengesetz)

Persons (Management Board) authorised to represent the media owner:
Willibald Cernko (Chairman of the Management Board), Carlo Vivaldi (Deputy Chairman of the Management Board), Helmut Bernkopf, Mirko Bianchi, Dieter Hengl, Jürgen Kullnigg, Doris Tomanek, Robert Zadrazil.

Supervisory Board of the media owner:
Erich Hampel (Chairman of the Supervisory Board), Paolo Fiorentino (Deputy Chairman of the Supervisory Board), Alessandro Decio, Olivier Nessime Khayat, Adolf Lehner, Alfredo Meocci, Marina Natale, Roberto Nicastro, Vittorio Ogliengo, Josef Reichl, Karl Samstag, Eveline Steinberger-Kern, Ernst Theimer, Robert Traunwieser, Wolfgang Trumler, Michaela Vrzal, Barbara Wiedernig.

Interests held in the media owner pursuant to Section 25 of the Austrian Media Act:
UniCredit S.p.A. holds 99.996% of the shares in the media owner (information on the shareholder structure of UniCredit S.p.A. is available at https://www.unicreditgroup.eu/en/governance/shareholder-structure.html).

"Betriebsratsfonds des Betriebsrats der Angestellten der UniCredit Bank Austria AG, Region Wien" (the Employees' Council Fund of the Employees' Council of employees of UniCredit Bank Austria AG in the Vienna area) and "Privatstiftung zur Verwaltung von Anteilsrechten" (a private foundation under Austrian law; founder: Anteilsverwaltung-Zentralsparkasse; beneficiary: WWTF – Wiener Wissenschafts-, Forschungs- und Technologiefonds) have a combined interest of 0.004% in the media owner.

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 – such as those mentioned in this 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 this report.

"Bank Austria" as used in this report refers to the group of consolidated companies. "UniCredit Bank Austria 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