Member of

Half-Yearly Financial Report 2016

Contents

Bank Austria at a Glance

Income statement figures

(€ million)	H1 2016 1)	H1 2016 2)	H1 2015 3)	+/–
Net interest	484	1,665	1,693	–1.7%
Dividend income and other income from equity investments	60	288	234	+22.9%
Net fees and commissions	337	693	714	–2.9%
Net trading, hedging and fair value income	19	270	231	+16.9%
Operating income	995	3,036	2,912	+4.3%
Operating costs	–754	–1,495	–1,531	–2.4%
Operating profit	241	1,542	1,381	+11.7%
Net write-downs of loans and provisions for guarantees and commitments	40	–290	–391	–26.0%
Net operating profit	281	1,252	989	+26.6%
Profit before tax	–36	832	806	+3.1%
Total profit or loss after tax from discontinued operations	747	0	–183	n. m.
Net profit attributable to the owners of the parent company	626	626	490	+27.7%

Volume figures

(€ million)	30 JUNE 2016 1)	30 JUNE 2016 2)	31 DEC. 2015	+/–
Total assets	193,807	193,807	193,638	+0.1%
Loans and receivables with customers	59,458	118,178	116,377	+1.5%
Direct funding 4)	74,775	140,070	139,695	+0.3%
Equity	16,110	16,110	15,394	+4.7%
Risk-weighted assets (overall) 5)	129,330	129,330	128,259	+0.8%

Key performance indicators

	30 JUNE 2016	2015
Return on equity after tax (ROE) 3)	8.8%	9.4%
Cost/income ratio 3)	49.2%	52.4%
Cost of risk (provisioning charge/avg. lending volume) 3)	0.49%	0.86%
Loans and receivables with customers/direct funding	84.4%	83.3%
Leverage ratio 6)	6.2%	5.8%
Common Equity Tier 1 capital ratio 7)	11.7%	11.0%
Tier 1 capital ratio 7)	11.7%	11.0%
Total capital ratio 7)	15.5%	14.9%

Staff

	30 JUNE 2016	31 DEC. 2015 3)	+/–
Bank Austria (full-time equivalent)	35,147	35,534	–387
Central Eastern Europe business segment	24,236	24,141	94
Ukraine (held for sale)	4,172	4,344	–172
Austria (other business segments)	6,739	7,048	–309

Offices

	30 JUNE 2016	31 DEC. 2015 3)	+/–
Bank Austria	1,472	1,510	–38
Central Eastern Europe business segment	1,062	1,065	–3
Ukraine (held for sale)	239	240	–1
Austria (other business segments)	171	205	–34

1) Accounting figures in the interim financial statements after the application of IFRS 5 in connection with the CEE demerger. / 2) Before the application of IFRS 5 in connection with the CEE demerger, i.e. contributions from the CEE Division included in the various items of the income statement and of the statement of financial position. / 3) Comparative figures for 2015 recast to reflect the current structure and methodology. / 4) Deposits from customers, debt securities in issue, and financial liabilities at fair value. / 5) Regulatory risk-weighted assets. / 6) Leverage ratio under Basel 3 based on the current status of transitional arrangements, end of period. / 7) Capital ratios based on all risks under Basel 3 (transitional) and IFRSs, end of period.

The banking environment

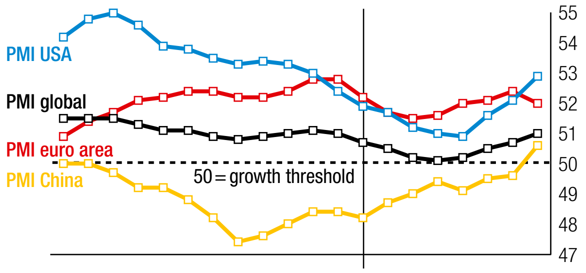
As anticipated in the outlook section of the 2015 Annual Report, the moderate upswing in Europe was gaining momentum in the first half of 2016 although the months around the turn of the year saw strong negative impacts from global economic trends and turbulence in financial and commodity markets. These adverse influences receded later on when actual data in Europe proved to be not quite so bad. The moderately positive sentiment continued until the referendum on Britain's membership of the European Union on 23 June 2016. The unexpected outcome of the referendum (Brexit) shocked financial markets in the final days of the reporting period. As a result, economic growth forecasts were revised (for more details see the outlook section on page 33).

● In early 2016, a slowdown of economic growth in **China** caused uncertainty about the transition to a growth model that is more strongly geared to domestic economic activity. Repeated slumps on the Shanghai Stock Exchange (with sharp falls in share prices of up to 25% in January/February) immediately spilled over to global stock markets, reflecting sensitivity to developments in China (MSCI/World down by 12.3% from year-end 2015 to the low in February; EuroStoxx down by 17.6%). Another unusual development was the Chinese currency's depreciation. Moreover, commodity-exporting emerging markets were impacted by a dramatic fall in prices for their products. **Crude oil prices**, which had declined significantly from about US$50/bl in November/December 2015, fell to a low of US$27.10/bl (Brent, future) in the first few weeks of 2016. In parallel with this decline, the Russian **rouble** depreciated to 90.7 roubles per euro by the middle of February (down by 12.0% ytd, 22.8% lower than the level of about 70 roubles seen in the third quarter of 2015). Strong volatility prompted a phase of risk aversion, leading to a sell-out of emerging market investments and bank equities. Political events, including terrorist attacks and the handling of the wave of migration to Europe, also impacted day-to-day sentiment in the first few months of 2016. In addition, US economic growth in the first quarter of 2016 was disappointing.

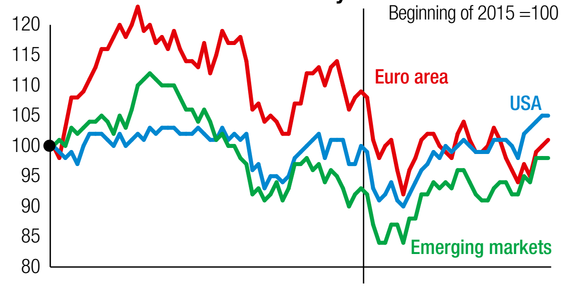
The economic climate started to improve in **spring 2016** when the Chinese government initiated structural reforms and supported these efforts with stimulating measures and intervention. The oil price subsequently began to rise towards a level of US$50/bl. The consumption-driven upswing in the **US** remained intact although industrial activity and investment showed signs of weakness. Economic growth in the **euro area** strengthened, supported by trends in Germany's domestic market. Spain also achieved strong growth, though from a low level. In the first half of 2016, real growth in the euro area probably averaged over 1½% compared with the same period of the previous year.

● The upturn was not strong enough, and global risks were too serious, for the Federal Reserve to swiftly implement the previously announced interest rate increase – market forecasts in this

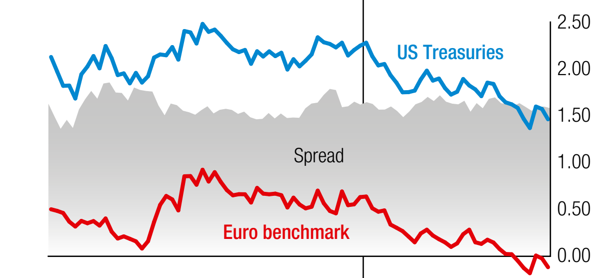
Moderate growth of European industry despite global uncertainty Purchasing Managers' Index (PMI) / Manufacturing



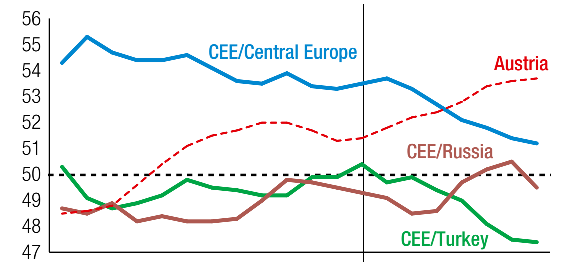
China and Brexit cause uncertainty in stock markets



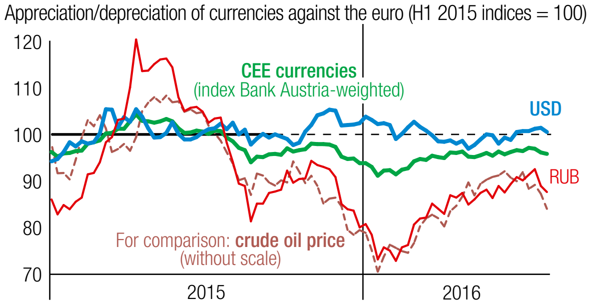
Euro benchmark yield in negative territory
10-year benchmark yields



Divergence in CEE
Purchasing Managers' Index (PMI)/Manufacturing, smoothed (mm3)



Exchange rate movements
Appreciation/depreciation of currencies against the euro (H1 2015 indices = 100)



The banking environment (CONTINUED)

context were revised downwards again. When longer-term inflation expectations in the euro area declined significantly (with the ECB indicator in March at a low 1.4 % in the 5-year/5-year forward inflation-linked swap), giving rise to fears of deflation, the **European Central Bank** took action. On 10 March 2016 it decided to lower the key interest rate to zero while reducing the deposit interest rate (penalty rate) for banks to minus 0.4 %. Monthly intervention under the asset purchase programme was stepped up from €60 billion to €80 billion and extended to include euro-denominated investment-grade bonds issued by non-financial companies (corporate bonds). Starting with June 2016, the ECB announced a new series of targeted longer-term refinancing operations (TLTRO II). In the reporting period – i. e. year-end 2015 to 1 July 2016 – the volume of open-market operations for monetary policy purposes rose by €404 billion to €1,766 billion and the banking sector's excess liquidity (central bank deposits without minimum reserves) rose by €252 billion to €907 billion; this means that only a smaller portion of quantitative easing entered the money cycle. The broadly defined aggregate M3 did not grow as strongly as intended (up by only 4.9 %). While bank loans to non-financial companies in Germany and France expanded more strongly, they continued to increase at a slow pace (+1.4 %) in the euro area as a whole.

Strong intervention by the ECB and pronounced risk aversion nevertheless resulted in a further narrowing of **bond yields**. The ten-year euro benchmark yield, which had been a low 0.63 % at the end of 2015, fell to a level **below zero** by the middle of June 2016. As the US dollar hardly moved, yields on US Treasury bonds also declined. The outcome of the British EU referendum shocked global financial markets on 24 June 2016. The ten-year euro benchmark yield fell to minus 0.17 %, subsequently reaching minus 0.20 % on 6 July. Most recently, the entire euro yield curve up to 15-year maturities was below zero, with yields on three-year bonds marking the lowest level (minus 0.71 %). Interbank swap rates (without liquidity) were negative up to 7-year maturities. Corporate bonds (BBB rating) yielded 1.02 % in the medium-term range (5-7yr); from the issuers' perspective, this was much more favourable than for banks (2.06 %). The Brexit shock in the last few days of the first half of 2016 had a significant influence on half-year performance (end of June 2016/end of 2015) in financial markets, which had just recovered from the phase of volatility in February/March. Despite negative yields, the performance of 10-year benchmark bonds was +8.2 % (EUR) and +8.5 % (USD). While the British pound depreciated strongly against the euro (–11.7 %), the FT All Share index rose after a temporary decline (+2.0 % ytd). Wall Street showed a firm trend after a brief disruption, closing June 2016 up by 1.9 % on year-end 2015. The EuroStoxx index overcame a period of weakness in February/March but started to decline even before the Brexit vote (–11.3 % ytd), a movement which was mainly determined by bank shares (–34.9 % ytd). The price of gold rose steadily in the first half of 2016 (+27.4 % to US$1,352/oz). There was also strong demand for Swiss francs: while intervention kept the currency stable (–0.3 % to 1.0867 CHF/EUR), Switzerland's currency reserves increased by a further 8.8 % to CHF609 billion, and even the yield on the 50-year CHF government bond was negative.

● The **Austrian economy** got off to a good start in 2016. In the first quarter, growth rose to 0.6 % compared with the preceding quarter. This trend reflects a continued increase in domestic demand, which thereby became the main factor driving economic recovery in Austria, as in most European countries. Net exports, on the other hand, did not make any contribution to growth in a difficult global environment. After a temporary slowdown, which was reflected in zero growth in the second quarter, the economy was picking up steam in the early summer. The Bank Austria Business Indicator has risen noticeably since May. GDP growth in the first six months reached almost 1½% year-on-year, which means that for 2016 as a whole, the Austrian economy is right on track to achieve growth at a rate clearly exceeding the previous year's 1 %.

Although consumer sentiment was negative in the early part of the year, especially consumption contributed to growth in the first six months, supported by an income tax reform which strengthened disposable incomes as from the beginning of 2016. Initial scepticism among the population over the favourable effect of the tax reform gradually subsided and in the summer consumer sentiment improved to the highest level in two years. The fact that the labour market situation stabilised certainly contributed to this improvement. In the middle of 2016 the seasonally adjusted unemployment rate was 6 % based on the EU definition and 9.1 % according to the national method of calculation, unchanged compared with year-end 2015, reflecting a strong increase in employment (+1.5 %) and slower growth of the labour supply. The favourable trend in private consumption was additionally supported by low inflation. In the first half of 2016, the inflation rate in Austria averaged only 0.8 %. Average oil prices were 30 % lower than a year earlier and thus had a strong dampening effect on inflation. However, the positive effect of low inflation on consumption in Austria was less pronounced than in other European countries. Inflation in Austria was mainly driven by rising rents and prices at hotels and restaurants. Expenditure on care and assistance for asylum seekers, financed through an increase in the budget deficit, provided additional impetus to demand in the first few months of 2016.

As sentiment gradually brightened, investment activity gained momentum. Expansion investment increased especially in the area of equipment, mainly machinery and vehicles. While investment in construction was still lagging behind, there has been an upward trend since the beginning of 2016, after almost two years of decline; growth was mainly driven by commercial buildings.

The banking environment (CONTINUED)

The low rate of export growth seen at the beginning of the year has in the meantime accelerated visibly. Export-dependent industry, which has maintained its moderate growth thanks to domestic orders, stepped up production towards the middle of the year in line with incoming orders from abroad. Reflecting this positive development, the Bank Austria Purchasing Managers' Index rose to 54.5, the highest level in over five years. Just before the Brexit vote all sentiment indicators and real economic data pointed to a sound continuation of recovery in Austria.

➔ As demand was moderate and companies continued to enjoy a strong liquidity position, credit demand hardly recovered. Corporate loans stagnated in the first half of 2016, SME loans and consumer loans continued to decline slightly. Housing loans were the only sector which experienced lively demand, with an annualised growth rate of close to 5% in the first half of 2016. Private households' propensity to invest reflected the low level of interest rates and uncertainty over trends in (volatile) stock markets. In line with these developments, sight deposits held by private households grew by almost 14% in the first six months while deposits invested for fixed periods declined by close to 5%. Overall, bank deposits remained by far the most popular type of investment in the first half of 2016. The first six months saw a net outflow from investment funds; after a volatile phase in the first quarter, purchases of retail funds increased again. Outflows were recorded mainly from funds for large investors and specialised funds. Demand for life assurance policies and (bank) bonds was weaker.

● In the region of **Central and Eastern Europe** (Bank Austria perimeter) the sustained upward trend was initially also impacted by a phase of uncertainty in the first quarter of 2016, which subsequently disappeared. The ups and downs in financial markets, primarily pressure on currencies and capital withdrawals, hardly affected the integrated EU member states, which were already seen as safe havens with narrow credit spreads; the volatility related mainly to Turkey and Russia, which were the focus of short-term portfolio movements being the countries with the widest credit spreads. In Russia the reversal of the trend in oil prices (from US$27.10/bl on 20 January to US$50.50/bl at the end of June 2016) and the parallel strengthening of the rouble against the euro, from a low of 90.73 RUB/EUR on 11 February to 71.52 RUB/EUR (+12.8% ytd) as well as an easing of the pressure caused by Western sanctions suggest that recession will soon be coming to an end. Domestic politics was also an important factor in the region. In Croatia and Serbia, political parties advocating reform emerged stronger from elections, paving the way for continued external support from the EU and the IMF. In Turkey, the Prime Minister's resignation at the end of April was followed by a market slump which had repercussions against the background of geopolitical uncertainty.

Economic growth (real GDP, % over previous year)

	2013	2014	2015	2016f	2017f
World (IMF, PPP)	+3.4	+3.4	+3.1	+3.1	+3.5
China	+7.7	+7.3	+6.9	+6.5	+6.2
USA	+2.2	+2.4	+2.4	+1.5	+2.0
Euro area	−0.4	+0.9	+1.6	+1.6	+1.0
… Austria	+0.3	+0.4	+1.0	+1.5	+1.1
Czech Republic	−0.5	+1.9	+4.6	+2.3	+2.1
Slovakia	+1.4	+2.5	+3.6	+3.1	+2.4
Hungary	+1.9	+3.7	+2.9	+2.1	+2.3
Slovenia	−1.1	+3.0	+2.9	+1.6	+1.7
Poland	*+1.2*	*+3.3*	*+3.6*	*+3.5*	*+3.3*
Bulgaria	+1.3	+1.5	+3.0	+3.2	+3.0
Romania	+3.5	+3.0	+3.8	+4.1	+3.1
Croatia	−1.1	−0.4	+1.6	+1.8	+1.2
Bosnia and Herzegovina	+2.4	+1.1	+3.2	+3.0	+3.0
Serbia	+2.6	−1.8	+0.7	+2.3	+2.2
Turkey	+4.2	+2.9	+4.0	+3.6	+3.0
Russia	+1.3	+0.7	−3.7	−1.8	+1.1
Ukraine	*+0.0*	*−6.8*	*−9.9*	*+1.9*	*+1.7*
CEE/EU (EU members without CRO)	**+1.3**	**+2.6**	**+3.7**	**+2.9**	**+2.5**
Western Balkans: CRO+BiH+SRB	**+0.8**	**−0.7**	**+1.5**	**+2.2**	**+1.8**
Turkey	**+4.2**	**+2.9**	**+4.0**	**+3.6**	**+3.0**
= CEE without Russia	**+2.7**	**+2.5**	**+3.7**	**+3.2**	**+2.7**
Russia	**+1.3**	**+0.7**	**−3.7**	**−1.8**	**+1.1**
= CEE incl. Russia	**+1.9**	**+1.5**	**−0.4**	**+0.4**	**+1.8**
= CEE Bank Austria-weighted	**+1.8**	**+1.7**	**+1.7**	**+1.9**	**+2.2**

Country groups weighted by nominal GDP for 2013. Source of original figures: UniCredit Research, July 2016. World: IMF/WEO at PPP. CEE = Bank Austria perimeter in 2015 = CZ, SK, H, SLO, ROM, BG; CRO, BiH, SRB; TK, RUS. / Bank Austria-weighted by operating income of CEE banking subsidiaries in 2013.

In this overall environment, economic performance in the first quarter of 2016 was disappointing. The **EU member states** in Central and Eastern Europe recorded slower growth, with the exception of Romania (+4.2% p.a.); Bulgaria, the Czech Republic and Slovakia nevertheless achieved sound growth of 2½% to 3% on an annualised basis (in Hungary, seasonally adjusted GDP stagnated). These developments are mainly explained by two factors: first, current EU transfer payments got bogged down in the transition to the new programme period; in the previous year, these growth-supporting payments, which are made for various purposes including infrastructure expansion projects, had reached a substantial size, accounting for 3% to 4.5% of GDP. Second, exports were weaker in the first quarter of 2016. Both factors are likely to be temporary, the second quarter probably saw stronger economic growth again. Based on the forecasts of our economists, real growth in CEE-EU (without Croatia) in the first half of 2016 may have reached a combined 3.0% compared with the same period of the previous year, with domestic demand as the main growth driver. Improvements in labour markets, stronger wage growth and stable consumer prices, partly with negative

The banking environment (CONTINUED)

rates of change, supported private consumption across all countries. The stable monetary environment enabled central banks to make further interest rate reductions. Credit expansion continued, though at significantly lower rates than in previous years. Banks' funding from local sources further improved as the inflow of deposits steadily increased.

In Croatia and Serbia, domestic demand and thus GDP growth seem to have become stronger. However, there is still unfinished business on the reform agenda and external pressure (from the EU and the IMF) to adjust fiscal policies continues to have an impact, which means that economic growth in these two countries will probably be lower than in the Central European EU countries. With interest rates more or less unchanged at a low level, the Croatian kuna appreciated by 2.1 %. The CDS spreads narrowed significantly in the first half of 2016, from about 300 bp to 240 bp. The Serbian currency depreciated slightly against the euro (–1.3 % ytd) although interest rates were higher. Given the widespread use of the euro as a parallel currency, there is hardly any scope for easing monetary and exchange rate policies in these two countries.

Economic growth in **Turkey** slowed to 3.2 % p.a. at the beginning of 2016, but given the large overhang it is still about 4½% year-on-year. Public and private consumption were the mainstay of growth. With a highly expansionary economic policy, consumption probably drove expansion along the limit of capacity utilisation also in the first half of 2016 (estimate for the first six months of 2016: about 3½% year-on-year after 4.7 % in the second half of 2015). This compares with a decline in investment in equipment, which has been stagnant over the past five years. The Purchasing Managers' Index for industry suggests that output has been contracting since the spring (the PMI of 47.4 is significantly below the growth threshold). As speculative portfolio inflows resumed (Turkey is one of the targets for short-term carry trades) markets stabilised until the change of government at the end of April. The Turkish lira remained more or less unchanged (–0.2 %) against the euro in the first half of 2016. The inflation rate temporarily declined to 6.4 %, reflecting oil price developments and the Russian trade sanctions, before rising again to 7.6 % in June. Due to pressure on the central bank, interest rates (both short-term and long-term) declined from over 11 % at the end of 2015 to a recent level of less than 9 %. Risks include the combination of expansionary financial and monetary policies, domestic political uncertainty and a strong dependence on external portfolio inflows, i.e. on the Fed's monetary policy. Given the shortfall of revenue from tourism, payments under the refugee agreement are of significance for external financing. While bank loans expanded at rates of over 25 % in the second half of 2015, the recent growth rate, about 12 %, was only half the previous year's figure for both corporate loans and consumer loans.

The economic outlook for **Russia** brightened in the course of the first six months of 2016. Essential impetus to the improvement came from the turnaround in world market prices for crude oil, which rose by 80 % to the end of June 2016 from their low at the end of January, thus returning to the level seen in autumn 2015. In the same period the Russian rouble appreciated by 26.5 %. This means that Russia's fiscal position has eased. The stabilisation has been accompanied by a decline in capital outflows. Companies which are not directly affected by sanctions are again finding it easier to access international finance. Real GDP continued to shrink in the first quarter of 2016. Developments in the labour market and in incomes and retail trade suggest a further contraction of the economy as a whole. But the Purchasing Managers' Index for manufacturing industry indicates renewed growth and hard data also show that industrial output is rising again. The adjustment recession thus seems to have bottomed out around the middle of the year. Our economists believe that the GDP contraction in 2016 as a whole will be lower than in the previous year (–1.8 % after –2.5 %), all the more so as the direct impact of Brexit on Russia is expected to be limited. The inflation rate declined from over 15 % a year ago to 7.5 % in June 2016, a development which is explained by weak demand and fiscal tightening. The central bank is pursuing a cautious policy; it was only in June, when the rouble showed a stronger tendency to appreciate, that the central bank lowered its policy rate by one half of a percentage point to 9.50 %. According to information provided by the central bank, the local banking sector achieved an aggregate profit of 350 billion roubles in the first half of 2016, up from 50 billion roubles in the same period of the previous year.

The sharp recession experienced by **Ukraine** in the two previous years seems to be bottoming out as GDP declined only slightly, by 0.7 %, in the first quarter of 2016. While industrial production (primarily the steelworks located close to the ceasefire line) revived somewhat, economic performance was still only about 80 % of the pre-crisis level. Capital controls helped to stabilise the Ukrainian currency in the reporting period: from year-end 2015 to the end of June 2016, it depreciated by 5.0 % against the euro, reaching 27.50 UAH/EUR. The inflation rate declined to 7.5 %, from a hyperinflationary level of 60 % a year earlier. In line with this development, the key interest rate was lowered from 30 % to 16.5 %. According to the government, non-performing loans account for at least 50 % of the banks' total lending volume. When the ongoing political crisis came to a head in spring 2016, this did not change the fact that there is a system-related lack of readiness to implement reforms. An expansionary fiscal policy again caused an external financing gap. This means that disbursement of the third IMF loan tranche (€ 1.7 billion), overdue since September 2015, and the granting of further EU and bilateral aid, which is linked to such disbursement, are indispensable to further stabilising the country.

Bank Austria in the first half of 2016

Bank Austria restructuring

The first half of 2016 saw intensive work on major **restructuring projects**. The relevant decisions had been made at the end of 2015 as part of Bank Austria's medium-term financial planning process, with the 2015 financial statements already reflecting the provisions required in this context. The restructuring projects, which are underway, relate to the transformation programme for the reorientation of Bank Austria under the **Bank Austria Reloaded** project name. The related reduction of **staffing levels** is being implemented – after the successful 2020 programme carried out in the previous year – through an ongoing offer for staff reduction based on the principles of voluntary termination of employment contracts and a socially acceptable approach. Moreover, at the end of 2015, Bank Austria initiated the transfer of the defined-benefit pension obligation for active employees to the defined-contribution state **pension scheme**. UniCredit's multi-year plan of November 2015 envisaged the **transfer of CEE business** of Bank Austria to UniCredit S.p.A.'s direct control. This intention became concrete in the course of the first half of 2016: legal preparations were followed by resolutions, adopted by the Supervisory Board and at the Annual General Meeting after the reporting period, concerning the demerger of the "CEE Business" operations of UniCredit Bank Austria AG and the cross-border merger with UniCredit S.p.A.

● The **Bank Austria Reloaded** project for the bank's reorientation in Austria was set up in the first few months of 2016. Business policy decisions were made in line with the market environment scenario and results planning, and the timeframe for implementation was defined. The bank used a bottom-up process to operationalise the objectives and calibrate measures to be taken on the revenue and cost sides. Detailed bottom-up planning includes a number of initiatives and has largely been completed; initial steps have been taken to implement the initiatives according to a timetable. Under the multi-year plan for the period to 2018, the cost/income ratio is to be significantly reduced and improved to 60%. The programme is to be implemented through a number of revenue initiatives and cost-reducing measures.

▶ On the **cost side**, we will focus on consolidation of **information technology** and efficiency enhancement in the area of **settlement services**. Cross-regional consolidation and the centralisation of settlement services at a small number of specialised competence centres (global hubs) of the Group in CEE will unlock synergies and economies of scale. The general process of making commercial banking business leaner (product range, complexity, process streamlining) will also enable the bank to reduce the related processing volume. Costs associated with office space will decline in line with the reduction of branches and the Corporate Center redimensioning ahead of the relocation of head office units from several locations to the new working world of the Austria Campus in 2018.

Under our new **retail banking service approach**, the range of services is geared to customer needs and value creation intensity in the various customer segments. Modern-style branches – fewer in number but larger – will provide customers with general basic products while also serving customers who need more intensive advisory services. Day-to-day transactions of all customers will also be handled via digital media. We will further expand our online branch, with currently about 270 employees offering a full range of services. The advance of digital sales channels enables the bank to focus on core business and simplify processes. Customers who need more intensive advice will be served by our decentralised specialists at branches or on a remote basis by specialists working in head-office units. The branch renewal programme is creating the required setting: by the end of 2018, about two-thirds of the total number of offices will be new-style branches (50 by the end of 2016). Over 40 branches currently offer extended opening hours from 9 a.m. to 6 p.m. or from 8.30 a.m. to 5.30 p.m. The **standardisation of core processes** will enhance efficiency and save time in day-to-day activities.

A review of the bank's **organisational structure** concentrated on business orientation and the focus on customer needs, with a view to bundling responsibilities and reducing interfaces and complexity in our organisation. Three Areas have been created for the Retail, Corporates and Private Banking customer segments, assuring the focus on customers and the bundling of responsibilities for these business operations. This means that there will be four Austrian customer business segments together with Corporate & Investment Banking (CIB). Moreover, we are creating flatter hierarchies and shortening reporting lines and decision-making paths. The number of organisational units reporting directly to the Management Board has been reduced by one-fifth.

▶ On the **revenue side**, we have launched initiatives in all market segments. In business with corporate customers, in Corporate & Investment Banking and in Private Banking, Bank Austria is the number one bank in Austria, operating at a high level of profitability. We expect further expansion and revenue growth in business with **corporate customers** (Corporates and CIB). The focus is on selective efforts to win new customers and making better use of existing potential for customer business. We are using a structured process, the shared-goal process, to intensify cooperation of corporate customers' relationship managers with our product specialists. With our Squared initiatives we are bringing CIB's bundled expertise to bear on a cross-divisional basis for the various corporate customer groups. On this basis we aim to generate additional income by 2018, especially through intensive cross-selling to existing customers, with due regard to international payment and cash management products of Global Transaction Banking (GTB). Our innovations – including the Supply Chain Finance platform, which is going live very soon – show that we attach great importance to payment processing in our customer relationships. These initiatives will also be rolled out to the Corporates customer segment.

Bank Austria in the first half of 2016 (CONTINUED)

Although we are market leader in private banking in Austria, we see further opportunities for growth in **Private Banking** with our tailor-made premium offering. Schoellerbank will further pursue its upmarket strategy. At Bank Austria, there is great potential in new business with existing customers of other Divisions. To diversify asset classes and move to a higher risk/return ratio level, we will step up efforts to promote our asset management services and the UNIVERS service model (with a transparent flat-rate fee). We expect to generate revenue growth also by marketing asset management products to the **Retail Affluent** customer segment and offering these customers Private Banking investment products adjusted to their requirements.

Expansion of multi-channel banking and online sales in retail banking combines significant cost reductions and more convenience for customers. We seek to gain the innovation leadership position in the online marketplace, and generate new business, through fast and efficient settlement of basic products which meet day-to-day needs and through larger sales capacity via the expansion of online channels and apps. Special mention should be made of the launch of the "more money quickly" tool in our new app, the mobile wallet. We are the only bank in Austria to offer this feature. A key component of our service approach is to provide customers who need **more intensive advice** with targeted services partly using digital channels. Following the great success of our 100 real estate specialists and a more than 50% increase in new housing finance business in 2015, we will additionally make available the expertise of 100 investment specialists by the end of 2016 – our specialists will be deployed at larger branches and a number of them will provide advisory services on a remote basis, via video calls. We will offer this advisory service approach to all retail customers, small businesses and independent professionals by the end of 2016.

Our service model for **small businesses and independent professionals**: Since 1 January 2016 we have served small businesses and independent professionals whose annual turnover does not exceed €3 million through the retail banking network. We have almost doubled the number of offices where we serve independent professionals and small businesses, to a total of 55 locations, thereby meeting customers' needs for greater proximity and comprehensive services.

● As a result of Bank Austria's reorientation, initiatives for enhancing efficiency and reducing costs, and the use of opportunities offered by digitalisation, the necessary tasks can in future be handled by fewer employees. **Staff numbers** will be **reduced** through normal staff turnover and the voluntary termination of employment contracts; this will be based on the principles of mutual agreement and a socially compatible approach. Employees who are interested in this option have been able since 30 June 2016 to access information on their specific terms and conditions for leaving the bank. Upon receipt of the responses from employees the company will examine them by the end of October 2016 to see if it consents to the termination of an employment contract by mutual agreement.

● The switch from a defined-benefit provision-based pension scheme, which covered a number of active employees (and still applies to a small number of persons until the end of 2016) to a **defined-contribution pension scheme** under the Austrian General Social Insurance Act (Allgemeines Sozialversicherungsgesetz – ASVG) significantly relieves the cost burden on Bank Austria. This will reduce the volatility of pension provisions in the future (which is caused, among other factors, by changes in the applicable discount rate) and lessen the impact on the income statement. As explained in the 2015 Annual Report, most of the rights to future pension benefits of the affected employees for whom Bank Austria previously assumed the obligations of the mandatory social insurance scheme were transferred to the Austrian general social security scheme as at 29 February 2016. Provisions required for this purpose, and for financial compensation for any disadvantages in connection with the transfer, were reflected in the 2015 financial statements, in accordance with the legal situation applicable at that time. On 16 March 2016, the National Council of the Republic of Austria passed an **amendment to the Austrian General Social Insurance Act** which requires the payment of 22.8% of the most recent contribution base, instead of the previously applicable 7.0%, for the transfer of rights to future pension benefits to the Austrian Pension Insurance Institution (Pensionsversicherungsanstalt – PVA) by other pension insurers. As a consequence of this retroactive amendment, Bank Austria had to increase the relevant provision by €444 million. In the interim financial statements as at 30 June 2016, about one-half of this unforeseeable additional amount was offset by the release of €240 million from the restructuring provision, while the remaining portion was a charge of €204 million included in the item "Integration/restructuring costs".

Under a commitment to provide defined benefits, UniCredit Bank Austria AG continues to recognise a pension provision for the entitlements of employees who retired before the pension reform as at 31 December 1999 became effective. Bank Austria also continues to assume the obligations of the mandatory pension insurance scheme for those employees who signed a pension agreement not later than 29 February 2016 and will leave the company to take retirement not later than 31 December 2016. The number of employees who made use of this option within the above-mentioned period was larger than expected; as a result, €139 million had to be taken from the restructuring provision and added to the pension provision (without an impact on the income statement).

A further decline in market interest rates, and thus in the **discount rate** from 2.05% to 1.40%, required an additional allocation of €235 million to the relevant component of equity (pension and

Bank Austria in the first half of 2016 (CONTINUED)

similar liabilities IAS 19) in the interim financial statements as at the end of June 2016 for pension payments and rights to future pension benefits remaining in Bank Austria (after related income tax). Following the transfer of pension obligations to the Austrian general social security scheme, the impact from the adjustment to the discount rate was significantly lower than in the past.

- UniCredit's "strategic plan 2018" of November 2015 envisaged the **elimination of the sub-holding company function** of UniCredit Bank Austria AG and the transfer of CEE banking subsidiaries and CEE shareholding interests to UniCredit's direct control. When the concrete intention was announced, and after preparations made by the Management Board of UniCredit Bank Austria AG in the first half of 2016, the corporate bodies passed the necessary resolutions – in particular at the Annual General Meeting held on 5 August 2016, after the reporting period.

Under the adopted **demerger plan**, the "CEE Business" operations of UniCredit Bank Austria AG as transferor company will be transferred to UCG Beteiligungsverwaltung GmbH as transferee company and subsequently merged into UniCredit S.p.A. by way of a cross-border merger. For both steps, the effective date for tax purposes is 31 December 2015. The "CEE Business" operations comprise in particular the transferor company's CEE Banking Division and additional departments and units of other divisions which are ancillary to the operations described above, including "CEE Credit Operations", "CEE Credit Risk Retail", "CEE Credit Risk Corporates" and "Strategy, Planning & Controlling CEE". The "CEE Business" disposal group comprises all direct equity interests in Central and East European subsidiaries held by the transferor company, the assets and liabilities booked at the Milan-based permanent establishment of the transferor company, and the transferor company's "PCV Portfolio" (Profit Center Vienna). The transferor company's direct shareholding interests in Central and East European subsidiaries and other companies include the equity interests in Koç Finansal Hizmetler AŞ and BARN B.V. and the following consolidated companies included in the consolidated financial statements: AO UniCredit Bank, PIRTA Verwaltungs GmbH, Public Joint Stock Company "Ukrsotsbank" (which – due to exceptional circumstances – has been classified as held for sale already since the 2013 financial statements), SIA "UniCredit Leasing", UniCredit Bank a.d. Banja Luka, UniCredit Bank Czech Republic and Slovakia, a.s., UniCredit Bank Hungary Zrt., UNICREDIT BANK S.A., UniCredit Bank Serbia JSC, UniCredit Banka Slovenija d.d., UniCredit Bulbank AD, UniCredit Turn-Around Management GmbH, Zagrebačka banka d.d.

In accordance with IFRS 5, the "CEE Business" operations are required to be presented in the statement of financial position as a disposal group classified as held for sale.

Bank Austria in the first half of 2016 (CONTINUED)

Presentation of CEE in accordance with IFRS 5

The table below shows the income statement for the first half of 2016 compared with the same period of the previous year, in the format used for segment reporting. It presents the figures as published – i. e. the published accounting figures, with the "CEE Business" operations of UniCredit Bank Austria AG, which are classified as a disposal group, reflected in a single line. For analysis purposes, the accounting figures are compared with pro forma figures presented in the same way as the 2015 financial statements – i. e. with the "CEE Business" operations included line by line, with the comparative figures for 2015 recast to reflect the current consolidation perimeter.

The financial statements and the notes thereto are in accordance with IFRSs. The commentary on performance in the following section ("Details of the income statement") is based on the segment reporting format, with CEE reflected in all line items of the income statement to provide a transparent view of its contributions to Bank Austria's overall performance. (The segment reporting section includes a reconciliation of the reclassified accounts to the mandatory reporting schedule on pages 65 and 66 of this report.)

Condensed income statement of Bank Austria[1)]

(€ million)

	Income statement as published 2) CEE in accordance with IFRS 5				Pro-forma income statement 3) before transfer of CEE			
	HALF-YEAR FIGURES		CHANGE OVER PREVIOUS YEAR		HALF-YEAR FIGURES		CHANGE OVER PREVIOUS YEAR	
	H1 2016	H1 2015	+/– €	+/– %	H1 2016	H1 2015	+/– €	+/– %
Net interest	484	500	–16	–3.2%	1,665	1,693	–29	–1.7%
Dividend income and other income from equity investments	60	70	–9	–13.2%	288	234	+54	+22.9%
Net fees and commissions	337	363	–26	–7.1%	693	714	–21	–2.9%
Net trading, hedging and fair value income	19	62	–43	–69.6%	270	231	+39	+16.9%
Net other expenses/income	95	28	+66	>100%	120	39	+81	>100%
Operating income	995	1,023	–28	–2.8%	3,036	2,912	+125	+4.3%
Payroll costs	–376	–419	+43	–10.2%	–756	–796	+40	–5.0%
Other administrative expenses	–353	–360	+7	–1.8%	–661	–659	–2	+0.3%
Recovery of expenses	0	0	–0	–13.8%	0	0	–0	–66.8%
Amortisation, depreciation and impairment losses on intangible and tangible assets	–25	–25	+0	–0.4%	–78	–76	–1	+1.9%
Operating costs	–754	–804	+49	–6.2%	–1,495	–1,531	+36	–2.4%
Operating profit	241	220	+21	+9.7%	1,542	1,381	+161	+11.7%
Net write-downs of loans and provisions for guarantees and commitments	40	4	+36	>100%	–290	–391	+102	–26.0%
Net operating profit	**281**	**224**	**+57**	**+25.7%**	**1,252**	**989**	**+263**	**+26.6%**
Provisions for risks and charges	–1	–4	+3	–72.6%	2	–8	+10	n.m.
Systemic charges	–118	–87	–31	+35.8%	–227	–175	–52	+29.8%
Integration/restructuring costs	–204	0	–204	>100%	–210	–2	–208	>100%
Net income from investments	6	3	+4	>100%	14	2	+12	>100%
Profit or loss before tax	**–36**	**135**	**–171**	**n.m.**	**832**	**806**	**+25**	**+3.1%**
Income tax for the period	–25	–13	–12	+91.5%	–147	–130	–17	+12.9%
Total profit or loss after tax from discontinued operations	747	370	+377	>100%	0	–183	+184	n.m.
Non-controlling interests	–59	–2	–57	>100%	–59	–3	–57	>100%
Net profit 4)	**626**	**489**	**+137**	**+28.1%**	**626**	**490**	**+136**	**+27.7%**

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) Accounting figures presented in the format used for segment reporting, with the contribution from the CEE Division being included as a single amount in the item "Total profit or loss after tax from discontinued operations" in accordance with IFRS 5. / 3) In this presentation for analysis purposes, the CEE Division is shown with its contributions to the individual income statement items; the comparative figures for 2015 have been recast to reflect the consolidation perimeter in 2016. / 4) Attributable to the owners of the parent company.

Bank Austria in the first half of 2016 (CONTINUED)

Following the announcement of the intention to transfer CEE business, and after publication of the restructuring plan and the demerger and transfer agreement, the "CEE Business" operations had to be presented in the interim financial statements as at 30 June 2016 in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". Non-current assets or disposal groups which are classified as held for sale or as discontinued operations are measured at the lower of their carrying amounts and fair value less costs to sell, and presented separately in the financial statements. In the income statement, profit or loss after tax of the disposal group (including any profit or loss after tax resulting from remeasurement at fair value less costs to sell) is presented as a single amount in the item "Total profit or loss after tax from discontinued operations".

● In the **presentation in accordance with IFRS 5**, the CEE contributions to the various income and expense items which lead to profit after tax have been deducted and included in a single item, "Total profit or loss after tax from discontinued operations". In the first half of 2016 the CEE Division generated a profit before tax (before demerger effects) of €877 million.

According to the segment reporting figures, the CEE Division generated a profit before tax (before application of IFRS 5) of €877 million in the first half of 2016. After deduction of income tax, CEE is reflected in "Total profit or loss after tax from discontinued operations" with €746 million in accordance with IFRS 5. Added to this is the (negative) contribution from Ukrsotsbank, which was already previously held for sale and reflected in this line. Also reflected in this item is the settlement (counter-item) for intercompany relations included in operating items of the income statement between UniCredit Bank Austria and the CEE banks. Including these items, the CEE Division is reflected in the item "Total profit or loss after tax from discontinued operations" with €688 million after the application of IFRS 5. The contributions from the other business segments totalled €58 million. Within this total, the Immobilien Holding GmbH Group, which is classified as held for sale, accounted for €17 million and the remaining amount related to the (positive) settlement amount for operating interbank relations with the CEE banking subsidiaries as well as other consolidation effects. Overall, the item "Total profit or loss after tax from discontinued operations" shows a profit of **€747 million**.

The demerger of the "CEE Business" operations involves additional corrections (demerger effects) – beyond the previous segment definition – for the net expense relating to a number of functions performed by Bank Austria until recently in its capacity as sub-holding company. The impact of this settlement on the CEE Division was –€46 million before tax/–€37 million after tax. This is already included in the amount of €746 million at which CEE is reflected in the item "Total profit or loss after tax from discontinued operations", and has a positive effect on the results of the remaining Bank Austria.

● In the **first half of 2016**, Bank Austria generated a **net profit** (attributable to the owners of the parent company) of **€626 million**, an increase of €137 million or 28.1% over the figure for the first half of 2015. The increase was mainly due to the item **"Total profit or loss after tax from discontinued operations".** At €747 million, the profit contribution from this item was more than double the figure recorded for the first half of the previous year (€370 million). CEE (after IFRS 5) accounted for a €394 million increase. Over one-half (+€199 million) of this increase was accounted for by a base effect, i.e. the poor results of, and the impairment charge for, Ukrsotsbank, the Ukrainian bank already classified as a disposal group in the previous year: a total loss of €220 million (before non-controlling interests) for the first half of 2015 in this context compared with a total loss of €21 million in the first half of 2016.

Net operating profit (operating profit less net write-downs of loans and provisions for guarantees and commitments) from Austrian business (Bank Austria remaining after the application of IFRS 5) improved by €57 million or 25.7% to €281 million. After deduction, in accordance with IFRS 5, of the contribution from the CEE operations which are to be transferred, Bank Austria recorded a **loss before tax** of €36 million for the first half of 2016. The negative figure is mainly due to integration/restructuring costs (–€204 million after zero in the previous year) which arose as a result of the current legislative amendment, in connection with the addition to the provision for the transfer to the Austrian state pension scheme of defined-benefit pension obligations for active employees. The increase in bank levies and other systemic charges was an additional non-operating item burdening the income statement; the total amount of systemic charges rose by €31 million or 35.8% to €118 million. Adjusted for these two one-off effects, Bank Austria's profit before tax after deduction of the CEE Division, which is to be transferred, ("Austria") in the first half of 2016 was €199 million, up by close to one-half (+47.7%) on the same period of the previous year.

➔ *To explain developments at Bank Austria as a whole (and the CEE Division's contribution to overall profits), the following commentary is based on the pro forma income statement, where the CEE Division is included with its contributions to the various items instead of a single amount (see table at the beginning of the following section).*

Bank Austria in the first half of 2016 (CONTINUED)

Condensed income statement of Bank Austria[1)]

(€ million)

RECAST [2)]	QUARTERLY FIGURES		HALF-YEAR FIGURES		CHANGE OVER PREVIOUS YEAR	
	Q1 2016	+ Q2 2016	= H1 2016	H1 2015	+/– €	+/– %
Net interest	826	839	1,665	1,693	–29	–1.7%
Dividend income and other income from equity investments	100	188	288	234	+54	+22.9%
Net fees and commissions	339	354	693	714	–21	–2.9%
Net trading, hedging and fair value income	78	193	270	231	+39	+16.9%
Net other expenses/income	27	93	120	39	+81	>100%
Operating income	1,369	1,667	3,036	2,912	+125	+4.3%
Payroll costs	–375	–381	–756	–796	+40	–5.0%
Other administrative expenses	–342	–319	–661	–659	–2	+0.3%
Recovery of expenses	0	0	0	0	–0	–66.8%
Amortisation, depreciation and impairment losses on intangible and tangible assets	–38	–40	–78	–76	–1	+1.9%
Operating costs	–755	–740	–1,495	–1,531	+36	–2.4%
Operating profit	615	927	1,542	1,381	+161	+11.7%
Net write-downs of loans and provisions for guarantees and commitments	–144	–146	–290	–391	+102	–26.0%
Net operating profit	**471**	**781**	**1,252**	**989**	**+263**	**+26.6%**
Provisions for risks and charges	11	–9	2	–8	+10	n.m.
Systemic charges	–172	–55	–227	–175	–52	+29.8%
Integration/restructuring costs	–206	–4	–210	–2	–208	>100%
Net income from investments	12	1	14	2	+12	>100%
Profit before tax	**117**	**714**	**832**	**806**	**+25**	**+3.1%**
Income tax for the period	–58	–89	–147	–130	–17	+12.9%
Total profit or loss after tax from discontinued operations	12	–12	0	–183	+184	n.m.
Profit for the period	71	614	685	493	+192	+39.0%
Non-controlling interests	–13	–46	–59	–3	–57	>100%
Net profit [3)]	**59**	**567**	**626**	**490**	**+136**	**+27.7%**

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 2016. For the purposes of this presentation, the CEE Division, which is classified as held for sale in accordance with IFRS 5, continues to be included with its contributions to the various items of the income statement. / 3) Attributable to the owners of the parent company.

Bank Austria in the first half of 2016 (CONTINUED)

Details of the income statement

As described in the overview of the banking environment, the economic momentum in Europe was again too weak to give sufficient impetus to growth of the banking sector although sentiment improved in the first six months of 2016. This applies to Austria and neighbouring CEE countries in particular. Surplus liquidity – in the business sector, in private households and at banks – continued to increase. The ECB's expansionary policy led to a further decline in market interest rates and banks' interest rate margins. While Austria and neighbouring EU member states were again in the first line of countries affected by these developments, more distant countries and their banking sectors were increasingly experiencing a convergence pull. Lending volume in Bank Austria's commercial banking business therefore showed a moderate trend, also in CEE (even when adjusted for exchange rate movements), and net interest was impacted by margin compression. Trends in net fees and commissions varied among the various components and regions; overall, they were lagging somewhat behind the good performance in the previous year. Nevertheless, Bank Austria's revenues improved compared with the same period of the previous year, partly on account of a larger contribution from Turkey, which is accounted for using the equity method. Significant gains on the sale of shares in a credit card company (VISA) also contributed to the improvement. Net operating profit was €1,252 million, strongly supported by significant cost reductions in Austria and by a lower charge for loan loss provisions. At this level, net operating profit was up by one-quarter (+26.6%) on the same period of the previous year; adjusted for exchange rate movements, it increased by one-third (+33.3%). Both Austria and the CEE Division contributed to this performance. The balance of non-operating items was a charge of €626 million, mainly composed of an addition to the restructuring provision in Austria, required as a result of recent developments, and by the strong increase in bank levies and other systemic charges. These negative impacts were absorbed by net operating profit and led to a net profit of €626 million, which was 27.7% higher than the figure for the same period of the previous year; even after adjustment for the major positive and negative one-off effects, net profit increased at a double-digit rate.

The following commentary on Bank Austria's operating performance and results is based on the income statement used for segment reporting – before the combination of the CEE contributions to the various income statement items in a single line as the CEE Division is classified as a disposal group in accordance with IFRS 5.

● **Operating income** in the first half of 2016 increased by €125 million or 4.3% (adjusted for exchange rate movements: +7.8%) to a level exceeding three billion euros (see table). Within the total figure, the three segments of **Austrian customer business** came close to the combined amount of the previous year, reaching over one billion euros (€1,056 million, a decrease of 1.8% on the same period of the previous year). The **CEE Division** generated operating income of over 2 billion euros (€2,049 million), an increase of 8.1%; at constant exchange rates, growth was 13.6%. The Turkish lira depreciated by 12.2% against the euro, and the Russian rouble by 17.4% (measured by averages for the first six months); this means that currency depreciation had a strong impact on performance in euro terms.

Operating income / regions € million (2015 recast)

	H1 2016	H1 2015	+/–	+/– %	*VISA 1)*
Austrian customer business	1,056	1,075	–19	–1.8%	*–8.1%*
Central Eastern Europe (CEE)	2,049	1,895	+154	+8.1%	*+2.0%*
… Central Europe (CE)	584	549	+34	+6.3%	*–1.6%*
… South-East Europe (SEE)	846	787	+60	+7.6%	*+1.9%*
… At-equity contribution from Turkey	218	157	+61	+38.9%	*+21.8%*
… Russia	344	376	–32	–8.5%	
… CEE cross-regional 2)	57	26	+30	>100%	
Corporate Center	–69	–59	–10	+16.8%	
Bank Austria as a whole	**3,036**	**2,912**	**+125**	**+4.3%**	***+1.3%***

1) Adjusted for one-off income from share buyback by VISA. 2) Cross-regional business (Profit Center Vienna, UCTAM restructuring unit etc.) and CEE Corporate Center sub-holding company functions (liquidity management, equity interest management).

A major **one-off effect** supported revenue growth in Austria and CEE in the first half of 2016: VISA Inc. initiated a share buyback programme with its partner banks as part of the reintegration of the Europe business, which was spun off years ago. Income generated by Bank Austria in this context totalled €183 million. In Austria, card complete, a consolidated company, recorded income of €68 million in this context (included in the item "Net other expenses/income"), of which €34 million was attributable to minority shareholders. The CEE banking subsidiaries (with the exception of Bosnia and Herzegovina, Serbia and Russia) recorded €115 million in gains on the sale, which were recognised in net trading income (in the case of Turkey, the gain is included on a net basis in the at-equity contribution).

Without this positive one-off effect, the **CEE** business segment achieved revenue growth of 2.0%; adjusted for exchange rate movements, operating income increased by 7.2%. Within the total figure, operating income in the four Central European countries declined slightly, though from the high level reached in the previous year. The overall trend reflected a weaker net interest performance. The SEE country group (South-East Europe) generated higher operating income, even on an adjusted basis, which resulted from strong growth of commercial banking income in Romania and also in Croatia and in Bosnia and Herzegovina. The overall picture fits in with the expansionary environment in Romania and the beginning economic upswing in the Western Balkan countries. Growth was also achieved in Bulgaria. Our joint venture in Turkey performed very well; its contribution – accounted for using the equity method – is included in operating income and increased by 38.9% compared with the same period of the previous year; adjusted for exchange rate movements, the contribution from Turkey rose by more than one half (+57.8%). Even after deduction of

Bank Austria in the first half of 2016 (CONTINUED)

the one-off income from the sale of VISA shares, the contribution from Turkey was up by 21.8 % on the first half of the previous year or 38.4 % higher when adjusted for exchange rate movements. The economic environment in Russia remained challenging although recession was gradually coming to an end. Nevertheless, our Russian banking subsidiary achieved revenue growth of 10.8 % in local currency, an increase which resulted from net interest and net fees and commissions (guarantee business and retail commissions) although volume was slightly reduced. In euro terms, operating income in Russia declined by 8.5 %, reflecting strong currency depreciation. The cross-regional units of the CEE Division improved net trading income.

Operating income / components € million (2015 recast)

	H1 2016	H1 2015	+/–	+/– %	*CONST*
Net interest	1,665	1,693	–29	–1.7 %	*+1.6 %*
Dividend income and other income from equity investments	288	234	+54	+22.9 %	*+35.7 %*
Net fees and commissions	693	714	–21	–2.9 %	*–2.1 %*
Net trading, hedging and fair value income	270	231	+39	+16.9 %	*+20.1 %*
… without VISA-related income in CEE	*182*	*231*	*–49*	*–21.4 %*	*–18.5 %*
Net other expenses / income	120	39	+81	>100 %	*>100 %*
… without VISA-related income in Austria	*52*	*39*	*+14*	*+34.9 %*	
Bank Austria as a whole	**3,036**	**2,912**	**+125**	**+4.3 %**	***+7.8 %***
… without VISA-related income	*2.854*	*2,912*	*–58*	*–2.0 %*	*+1.3 %*

CONST = at constant exchange rates (adjusted for exchange rate movements).

▶ Among the components of operating income, **net interest** was the largest item, accounting for 55 % of the total. Net interest declined by €29 million or 1.7 % to €1,665 million; even when adjusted for exchange rate movements, there was only a modest increase of 1.6 %. Trends in both Austria and CEE were weak compared with the previous year.

In **Austrian** customer business, the multi-year trend of a gradual decline in net interest continued in the first half of 2016: although volume increased moderately, net interest was down by €19 million or 3.1 % to €604 million. Average lending volume grew by 2.7 %; a decline in the Retail segment compared with an increase in the Corporates segment and strong growth in the CIB Division (especially in medium-term and long-term loans). However, customer interest rates were significantly lower, leading to a decrease in net interest. Total deposits rose by 4.3 %. All of the increase was recorded in volatile sight deposits (+17.7 %), in line with the general surplus liquidity and customer preference for liquidity, with disproportionately strong growth in deposits from large companies; margins improved slightly. On the liabilities side, interest expenses rose mainly because of the volume effect. Overall, the negative impact of interest rate reductions on the assets side was stronger than the positive effect of lower interest rates on the liabilities side. Moreover, non-commercial components, including treasury operations, contributed to the decline in net interest. In the Corporate Center, the termination of an international funding transaction had a negative impact of –€9 million. Nevertheless, the reduction of structural interest expenses – not least in connection with the easing of pressure on asset / liability management through the CEE transfer – made good progress (+€11 million to –€119 million).

Net interest generated by the **CEE Division** was slightly lower than for the same period of the previous year (–€20 million or –1.7 % to €1,180 million); even when adjusted for exchange rate movements, the increase of 2.9 % was much lower than in previous years. Credit expansion in CEE as a whole was stagnant (–0.9 %; adjusted for exchange rate movements: +2.1 %), reflecting the economic and monetary environment. Direct funding, on the other hand, increased by 10.7 % (adjusted for exchange rate movements: about +15 %). In a parallel move, customer interest rates on the assets side declined across the region (with the exception of the special situation in Turkey, which is not included in this analysis). In most countries, the negative impact of this development was stronger than the positive effect of lower interest rates on the liabilities side. Net interest in the Central European countries declined slightly, by 2.9 %, although this country group achieved the strongest expansion of lending volume. In South-East Europe, net interest was up by 2.0 %, with growth recorded mainly in Romania, Croatia, and Bosnia and Herzegovina. Russia, where volume on the assets side declined slightly, benefited from an improvement in funding conditions compared with the difficult first half of 2015. Net interest in local currency rose by 9.0 % in Russia, mainly in interbank business, and the large proportion of foreign currency business was also a significant factor (higher valuation due to depreciation of the Russian rouble); in euro terms, net interest declined by 10.0 %. The cross-regional units of the CEE Division (Profit Center Vienna and Corporate Center) recorded growth in net interest, also as a result of the improved situation in Russia.

▶ **Dividend income and other income from equity investments** was €288 million in the first half of 2016, up by €54 million or 22.9 % on the same period of the previous year; adjusted for exchange rate movements, the increase was 35.7 %. Most of this improvement was accounted for by higher profits at our **Turkish** joint venture, where net interest rose on the back of continued strong growth (average lending volume up by 15.1 %, adjusted for exchange rate movements) in combination with successful repricing and more favourable funding costs compared with the previous year; net fees and commissions and net trading income (supported by VISA-related income) also developed favourably. Cost growth was absorbed, given the low cost / income ratio of 39.0 %, and the cost of risk measured against volume remained stable (–4 bp to 112 bp). Profits in Turkey increased by 57.8 % in local currency and by 38.9 % in euro terms, to €218 million.

▶ **Net fees and commissions** (€693 million) declined by €21 million or 2.9 % (adjusted for exchange rate movements: –2.1 %) in the first half of 2016 compared with the same period of the previous year, a

Bank Austria in the first half of 2016 (CONTINUED)

development largely explained by a base effect. The €32 million decline to €333 million in **Austrian** customer business partly reflects the upfront fee of an acquisition financing transaction in the CIB Division in the previous year. Two-fifths of net fees and commissions were generated by asset management business, a slight 2.4% decline was due to a further contraction in the area of assets under custody, especially in business with large customers. Revenues from assets under management continued to develop in a favourable manner, with further progress being made in the area of asset management products in line with strategy (+5.7%). Fund business also improved slightly, although the beginning of the year saw a phase of strong volatility with temporary withdrawal of funds. Among the bank's commercial financial services, guarantee business with Austrian corporate customers generated lower income. In regard to banking services, payment transactions including cash management services remained a stable source of fee and commission income; while card business contracted slightly, revenues from other banking services held up well, with a contribution also coming from digital products. The **CEE Division** contributed €364 million to overall results in the first half of 2016, only barely 10% more than the contribution from Austria-related business, exceeding the figure for the same period of the previous year by 3.6% (adjusted for exchange rate movements: +5.3%). A moderate decline in net fees and commissions in the countries of Central Europe compared with a significant rise of 6.1% in commission and fee income in the south-eastern European countries; the increase comes from credit commission in countries with strong growth (e.g. Romania) and from commercial banking services (e.g. Bulgaria). The increase in net fees and commissions was most pronounced in Russia (+27.0%; adjusted for exchange rate movements: +53.8%), driven by guarantee business and commission income from credit protection insurance business.

▶ **Net trading, hedging and fair value income**, a volatile revenue component, was again very high in the first six months of 2016, at €270 million, even if the increase of €39 million or 16.9% (adjusted for exchange rate movements: +20.1%) was driven by one-off income from the VISA group's buyback of shares held by CEE banks (+€88 million). Net trading income from **Austrian** customer business (for which the indirect VISA-related income is included in the item "Net other expenses/income") came to €22 million (–€35 million or –61.7%). In this case, the decline is primarily due to movements in credit value adjustments in respect of counterparties' credit ratings, and to fair value adjustments. Net trading income has already been declining for some time, in line with the reduction of proprietary trading activities. In the CEE Division, net trading income is still an important revenue component in countries with a volatile exchange rate/interest rate environment and substantial portfolio flows. In the first half of 2016 net trading income generated by CEE operations came to €253 million (+49.4%). Adjusted for the VISA effect, which benefited almost all countries, the figure was €165 million, close to the previous year's result (–2.7%; adjusted for exchange rate movements: +1.6%). As a result of the decline in interest rates, gains were achieved on the disposal of available-for-sale government bonds in a number of countries. The significant increase in non-derivative foreign exchange trading activities was a major factor reflected in net trading income. Russia, which did not benefit from the buyback of VISA shares, achieved net trading income which almost matched the level of the previous year (–19.4% on account of rouble depreciation, adjusted for exchange rate movements: –2.3%). Credit value adjustments had a positive impact in the CEE Profit Center.

▶ **Net other expenses/income** covers many items not included in core banking business. This item showed net other income of €120 million for the first half of 2016, up from €39 million in the same period of the previous year. The significant increase is largely explained by a gain of €68 million from the sale of VISA shares at the consolidated subsidiary card complete Service Bank AG (of which €34 million was attributable to minority shareholders, reflected in "Non-controlling interests"). Without this one-off effect, net other income increased by €14 million or 34.9% to €52 million, with the CEE Division contributing €25 million (+€15 million) to the overall amount. Within this figure, Hungary contributed almost €9 million through the release of provisions (in connection with foreign currency conversion in 2015).

● **Operating costs** continued to have a positive impact on the income statement in the first half of 2016. They declined by €36 million or 2.4% (adjusted for exchange rate movements: –1.1%) notwithstanding an expansion of business activities.

Operating costs (increase = +) — € million (2015 recast)

	H1 2016	H1 2015	+/–	+/– %	*CONST*
Austrian customer business	692	722	–30	–4.2%	
…Austria (incl. Corp. Center)	*756*	*805*	*–49*	*–6.1%*	
Central Eastern Europe (CEE)	739	726	+13	+1.8%	*+4.6%*
Bank Austria as a whole	1,495	1,531	–36	–2.4%	*–1.1%*
Cost/income ratio					
Austrian customer business	65.5%	67.2%		–1.7pp	
Austria (incl. Corp. Center)	*76.6%*	*79.2%*		*–2.7pp*	
Central Eastern Europe (CEE)	36.0%	38.3%		–2.2pp	
… without at-equity contribution from Turkey 1)	*40.3%*	*41.8%*		–1.4pp	
Bank Austria as a whole	49.2%	52.6%		–3.4pp	
… without at-equity contribution from Turkey 1)	*53.0%*	*55.6%*		–2.6pp	
Types of costs					
Payroll costs	756	796	–40	–5.0%	*–3.7%*
… average FTEs 2)	*31,037*	*31,352*	*–341*	*–1.0%*	
Other administrative expenses	661	659	+2	+0.3%	*+1.3%*
Amortisation, depreciation and impairment losses on intangible and tangible assets	78	76	+1	+1.9%	*+5.1%*

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).
pp = percentage points

Bank Austria in the first half of 2016 (CONTINUED)

Total costs in **Austria** (customer business including the Corporate Center) declined by €49 million or 6.1% to €756 million, with payroll costs decreasing by €43 million or almost 10% (–9.6%). This partly reflects the transfer of employees' rights to social security benefits to the state scheme. The implementation of the Bank Austria 2020 initiative (part-time models and other flexible working arrangements) also had a positive effect. In average terms for the first half of 2016, and without Immobilien Holding, which was classified as held for sale, payroll costs in Austria reflected a decrease of 195 full-time equivalents (–2.8%) to 6,659 FTEs in the reporting period compared with the previous year. Staff reductions were most pronounced in the Retail subdivision (down by an average 125 FTEs). While the cost/income ratio in this business segment is declining, at 79.7% (previous year 93.8%) it remains a focus of restructuring efforts. The cost/income ratio for Austria as a whole (customer business segments including the Corporate Center) was 76.6% compared with 79.2% in the same period of the previous year, a level still well above the medium-term target of 60% (see the section "Bank Austria restructuring").

Operating costs in the **CEE Division** (€739 million) rose by €13 million or 1.8% on the first six months of 2015. While the expansion-induced increase in costs (in local currency) took place across all countries except Hungary (adjusted for exchange rate movements: +4.6%), it remained well behind the rate of revenue growth (+13.6%). This is also reflected in the further decline of the cost/income ratio from 41.8% to 40.3% in the first six months of 2016 (without Turkey, whose contribution is included in operating income but not in operating costs). An analysis of types of costs shows that payroll costs rose at a disproportionately low rate; the number of FTEs averaged 24,168 for the first six months of 2016, close to the figure a year earlier (–53 FTEs, –0.2%). Expansion at our banking subsidiaries in the Czech Republic (+31 FTEs), Serbia (+94 FTEs) and Russia (+20 FTEs) was offset by a reduction in other countries, most notably in Croatia (–94 FTEs), Hungary (–71 FTEs) and Slovenia (–29 FTEs). The higher payroll costs resulted from increases in standard wages and performance-related remuneration (in various countries including Bulgaria and Hungary), and from severance payments. Other administrative expenses rose slightly for ICT and back-office services, marketing and office space (new corporate headquarters). Consulting fees were moreover incurred at the Vienna-based CEE headquarters through preparations for the demerger of the bank's "CEE Business" operations.

● In the first six months of 2016, **net write-downs of loans and provisions for guarantees and commitments** were €290 million, down by €102 million or 26.0% on the same period of the previous year. This improvement reflects the general upturn already experienced by domestic economies in CEE for about one year, coupled with the good liquidity position and increasingly favourable financing terms.

Net write-downs of loans and provisions for guarantees and commitments (increase = +, decrease = –) € million (2015 recast)

	H1 2016	H1 2015	+/–	+/– %	*CONST*
Austrian customer business	–30	0	–30	>100%	
Central Eastern Europe (CEE)	330	395	–65	–16.5%	*–11.9%*
… Central Europe (CE)	34	60	–25	–42.5%	*–42.9%*
… South-East Europe (SEE)	149	155	–6	–3.9%	*–3.9%*
… Russia	101	107	–6	–5.6%	*+14.3%*
… CEE cross-regional	46	74	–28	–37.7%	–
Corporate Center	–10	–3	–7	>100%	
Bank Austria as a whole	**290**	**391**	**–102**	**–26.0%**	***–21.7%***
… Austria (incl. Corp. Center)	*–40*	*–4*	*–37*	*>100%*	

The favourable developments continued in all segments of the bank's operations in **Austria** (customer business plus Corporate Center). In particular, the release of provisions for major exposures in the CIB Division resulted in a net release of loan loss provisions in the order of €40 million (H1 2015: net release of €4 million). In the **CEE countries** the situation improved across all regions, as did the general trend. Net write-downs of loans and provisions for guarantees and commitments were €330 million, €65 million or 16.5% down on the first half of 2015. The decline was pronounced in all Central European countries (a combined €25 million decline to €34 million). Net write-downs of loans were also lower in South-East Europe (SEE), decreasing by €6 million to €149 million. Significant declines in the charge for loan loss provisions in Romania (–€14 million) and Serbia (–€8 million) compared with an increase in Bulgaria (+€5 million) and Croatia (+€10 million). In Russia, the charge for loan loss provisions rose by 14.3% at constant exchange rates, in euro terms it fell by €6 million to €101 million. Progress in reducing our involvement in Ukraine had a positive impact on the CEE cross-regional portfolio: the reporting period saw a significant decline in the proportion of the Ukraine portfolio that was booked directly in the Profit Center Vienna, and in the provisioning charge, resulting in a €28 million or 37.7% reduction of the charge for loan loss provisions in the cross-regional portfolio.

Expressed in basis points (bp) of average lending volume, the **cost of risk** at Bank Austria as a whole improved from 67bp in the first half of 2015 to **49bp** in the first six months of 2016, and in the CEE Division from 135bp to **113bp**. Russia had the highest cost of risk (189bp), followed by Bulgaria (164bp) and Romania (149 bp, despite a sharp decline) and Croatia (127 bp).

Bank Austria in the first half of 2016 (CONTINUED)

Lending volume and asset quality 1)

(€ million)	30 JUNE 2016	31 DEC. 2015	+/–	+/– %
Bank Austria as a whole				
Gross loans to customers	124,612	123,068	+1,544	+1.3%
Total write-downs	–6,435	–6,691	+257	–3.8%
Net loans to customers	118,178	116,377	+1,801	+1.5%
Gross non-performing exposures	9,720	10,381	–661	–6.4%
… % of gross loans to customers	*7.8%*	*8.4%*		*–0.6pp*
Specific write-downs	–5,709	–5,842	+133	–2.3%
Coverage ratio	58.7%	56.3%		+2.5pp
Net non-performing exposures	4,012	4,539	–528	–11.6%
… % of net loans to customers	*3.4%*	*3.9%*		*–0.5pp*
Central Eastern Europe (CEE)				
Gross loans to customers	63,444	61,439	+2,005	+3.3%
Total write-downs	–4,203	–4,337	+135	–3.1%
Net loans to customers	59,242	57,102	+2,139	+3.7%
Gross non-performing exposures	6,846	7,220	–373	–5.2%
… % of gross loans to customers	*10.8%*	*11.8%*		*–1.0pp*
Specific write-downs	–3,856	–3,857	+1	–0.0%
Coverage ratio	56.3%	53.4%		+2.9pp
Net non-performing exposures	2,990	3,363	–373	–11.1%
… % of net loans to customers	*5.0%*	*5.9%*		*–0.8pp*
Austria (incl. Corporate Center)				
Gross loans to customers	61,168	61,629	–461	–0.7%
Total write-downs	–2,232	–2,354	+122	–5.2%
Net loans to customers	58,936	59,274	–338	–0.6%
Gross non-performing exposures	2,874	3,162	–287	–9.1%
… % of gross loans to customers	*4.7%*	*5.1%*		*–0.4pp*
Specific write-downs	–1,853	–1,985	+132	–6.7%
Coverage ratio	64.5%	62.8%		+1.7pp
Net non-performing exposures	1,022	1,177	–155	–13.2%
… % of net loans to customers	*1.7%*	*2.0%*		*–0.3pp*

1) Data are based on the pro-forma statement of financial position at 30 June 2016 before inclusion of CEE in the item "Total profit or loss after tax from discontinued operations" in the income statement. 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 of the income statement. Comparative figures for 2015 reflect the figures in the statement of financial position.

Asset quality at Bank Austria improved in the course of the first half of 2016 (as at the end of June 2016, compared with year-end 2015), both in Austria and in CEE. With lending volume expanding slightly while non-performing exposures (NPE) declined by 6.4% to €9.7 billion, the NPE ratio declined by 0.6 percentage points to 7.8%. On account of specific write-downs, the coverage ratio improved by 2.5 percentage points to 58.7%. In the CEE Division, non-performing exposures declined by €373 million or 5.2% to €6.8 billion, thereby accounting for 70% of the total figure for the bank as a whole. The NPE ratio (gross) decreased by 1.0 percentage point to 10.8% in the first half of 2016. The coverage ratio improved by 2.9 percentage points to 56.3% as specific write-downs remained unchanged. After deduction of specific write-downs, the net NPE ratio was 5.0%. In Austria, non-performing exposures declined by €287 million or 9.1% to €2.9 billion; at the end of June 2016, the gross NPE ratio was 4.7% (–0.4 percentage points compared with year-end 2015) and a net 1.7% (–0.3 percentage points).

➔ **Net operating profit**, i.e. operating profit less net write-downs of loans, for the first six months of 2016 was positively impacted by all components. An increase in revenue (+€125 million), cost reductions (+€36 million) and lower net write-downs of loans (+€102 million) boosted Bank Austria's net operating profit by €263 million or 26.6% to €1,252 million in the first half of 2016 compared with the same period of the previous year. Adjusted for exchange rate movements, net operating profit increased by one-third (+33.3%).

Net operating profit/components

€ million (2015 recast)

	H1 2016	H1 2015	+/–	+/– %	*CONST*
Operating income	3,036	2,912	+125	+4.3%	*+7.8%*
Operating costs	–1,495	–1,531	+36	–2.4%	*–1.1%*
Operating profit	1,542	1,381	+161	+11.7%	*+17.8%*
Net write-downs of loans	–290	–391	+102	–26.0%	*–21.7%*
Net operating profit	**1,252**	**989**	**+263**	**+26.6%**	***+33.3%***

Although performance was influenced by positive net special effects, **Austrian customer business** accounted for €41 million or 11.7% of the increase (including the Corporate Center: +€57 million). Net operating profit generated by Austrian customer business in the first half of 2016 came to €394 million, with the following contributions made by the Austrian customer business segments: Retail €91 million, Corporates €145 million, Private Banking €20 million and CIB €127 million. The CEE Division contributed €981 million to the bank's net operating profit, €206 million or 26.6% up on the same period of the previous year (adjusted for exchange rate movements: +35.0%). Contributions to this performance came from all groups of countries and individual countries, including Russia if the calculation is based on figures adjusted for exchange rate movements.

Net operating profit/regions

€ million (2015 recast)

	H1 2016	H1 2015	+/–	+/– %	*CONST*
Austrian customer business	394	353	+41	+11.7%	
Central Eastern Europe (CEE)	981	775	+206	+26.6%	*+35.0%*
… Central Europe (CE)	315	263	+53	+20.0%	*+19.7%*
… South-East Europe	384	328	+56	+17.0%	*+17.1%*
… At-equity contribution from Turkey	218	157	+61	+38.9%	*+57.8%*
… Russia	142	159	–17	–10.8%	*+8.1%*
… CEE cross-regional	–78	–132	+54	–40.6%	*–40.7%*
Corporate Center	–123	–139	+16	–11.5%	
Bank Austria as a whole	**1,252**	**989**	**+263**	**+26.6%**	***+33.3%***

● The deduction of the negative balance of **non-operating items** from net operating profit led to a net profit which was about one-half lower than net operating profit.

Bank Austria in the first half of 2016 (CONTINUED)

▶ To determine profit before tax, €421 million was to be deducted from net operating profit, compared with a combined charge of €183 million in the same period of the previous year (sub-total 1 in the table below). Within the non-operating items, the largest single item was the addition to the provision for the planned transfer of the defined-benefit obligation for active employees to the Austrian state pension system; the provision had to be increased by €444 million following the amendment to the Austrian General Social Insurance Act passed by the Austrian parliament. In the financial statements as at 30 June 2016, this unforeseeable additional charge was partly absorbed by the release (use) of €240 million from the restructuring provision while the remaining amount of €204 million is reflected in **integration/restructuring costs**, which thereby rose by €208 million to €210 million (H1 2015: €2 million).

Among the non-operating items, costs were also driven by **bank levies and other systemic charges**, which rose by a combined 29.8% or €52 million to €227 million. The total charge for bank levies and other systemic charges has thus reached a level that is equal to 30% of total payroll costs in Austria and CEE. In Austria, bank levies and other systemic charges totalled €125 million, of which €68 million related to the bank levy (in the previous year: €66 million) and €57 million related to contributions to the deposit guarantee scheme and the bank resolution fund. In CEE the total charge was €102 million, of which bank levies (in Hungary and for Slovakia) accounted for €17 million and other systemic charges totalled €85 million, which were recognised in the first quarter of 2016 for the full year. Within this total amount, €48 million contributed to the bank resolution funds in Hungary, Bulgaria, Croatia, Slovenia, Romania, and the Czech Republic and Slovakia. The contribution in CEE countries to deposit guarantee schemes totalled €37 million in the first half of 2016.

Profit performance – deduction of non-operating items

€ million (2015 recast)

	H1 2016	H1 2015	+/–	+/– %	*CONST*
Net operating profit 1)	1,252	989	+263	+26.6%	*+33.3%*
Provisions for risks and charges	2	–8	+10	n.m.	
Systemic charges 2)	–227	–175	–52	+29.8%	
Integration/restructuring costs	–210	–2	–208	>100%	
Net income from investments	14	2	+12	>100%	
Sub-total 1	*–421*	*–183*	*–238*	*>100%*	
Profit before tax	832	806	+25	+3.1%	*+10.5%*
Income tax	–147	–130	–17	+12.9%	
Discontinued operations 3)	0	–183	+184	n.m.	
Non-controlling interests 4)	–59	–3	–57	>100%	
Sub-total 2	*–206*	*–316*	*+110*	*–34.9%*	
Net profit 5)	**626**	**490**	**+136**	**+27.7%**	***+45.7%***
… without major one-off effects 6)	*717*	*680*	*+37*	*+5.5%*	*+12.4%*

1) Operating profit less net write-downs of loans and provisions for guarantees and commitments. / 2) Bank levies and other systemic charges (without FTT, which is included in "Net other expenses/income"). / 3) Total profit or loss after tax from discontinued operations. / 4) Minority interests. / 5) Net profit attributable to the owners of the parent company. / 6) 2016: net effect of VISA: –€131 million, restructuring charge: +€204 million, Ukraine in H1 2016: +€18 million, in H1 2015: +€189 million.

➔ Based on a net operating profit of €1,252 million in the first half of 2016, and after the inclusion of provisions for risks and charges and net income from investments, which did not change significantly, **profit before tax** was **€832 million**. While net operating profit was €263 million higher than for the same period of the previous year, profit before tax was up by only €25 million (+3.1%; adjusted for exchange rate movements: +10.5%), mainly on account of additional integration costs Austria.

▶ **Income tax** of €147 million was also to be deducted from profit before tax to determine net profit (attributable to the owners of the parent company). The effective tax rate was 17.7% after 16.1%. In the pro forma income statement on which the commentary in this section is based, i.e. before the application of IFRS 5 to CEE, the item "Total profit or loss after tax from discontinued operations" does not include the contribution from the "CEE Business" operations which are classified as a disposal group. (The presentation of the accounting figures is included and described in the section "Presentation of CEE in accordance with IFRS 5" of this report.) In the first half of 2016, income of €17 million from Immobilien Holding, which is also included in the item "Total profit or loss after tax from discontinued operations", was fully offset by the negative contribution of –€17 million from Ukrsotsbank, Ukraine. In the same period of the previous year, the total loss of €183 million shown in this item reflected a charge of –€208 million for Ukrsotsbank (impairment charge and current loss) and a profit of €25 million resulting from gains on sales of Immobilien Holding. Non-controlling interests were –€59 million (H1 2015: –€3 million), including the minority interests in the VISA-related gain on a sale by card complete Service Bank (–€34 million) mentioned in the commentary on operating income.

➔ Other amounts (sub-total 2 in the above table) to be deducted from the profit before tax of €832 million for the first half of 2016 to arrive at net profit totalled –€206 million after –€316 million. The improvement of €110 million is due to the base effect of Ukraine (large total loss for the first half of the previous year). On this basis, **net profit** (attributable to the owners of the parent company) for the first half of 2016 was **€626 million** after €490 million for the first half of 2015, an increase of 27.7% (adjusted for exchange rate movements: +45.7%).

Return on equity (ROE after tax), based on average equity (after deductions relating to the cash flow hedge reserve and the available-for-sale reserve in accordance with IAS 39, pension and similar obligations in accordance with IAS 19, and non-controlling interests) was **8.8%** (after 6.9% in the first half of 2015).

Bank Austria in the first half of 2016 (CONTINUED)

Financial position

The transfer of the CEE sub-holding company function has been initiated. In accordance with ***IFRS 5*** *the CEE business operations to be transferred are therefore included in the items "Non-current assets and disposal groups classified as held for sale" and "Liabilities included in disposal groups classified as held for sale" of the statement of financial position. The CEE disposal group accounts for one-half (49.7 %) of total assets (€96.4 billion out of a total of €193.8 billion). Given the size of this disposal group, an analysis of changes in the various items of the statement of financial position is not meaningful (and the comparative figures in the condensed form of presentation are not allowed to be adjusted). For this reason, the commentary in this section is based on a pro forma presentation as at 30 June 2016 in which the contributions of the CEE business operations which are to be transferred are included in the various items (as in the published statement of financial position which is provided for comparison purposes). The table below shows the two forms of presentation.*

As at 30 June 2016, Bank Austria's **total assets** were **€ 193.8 billion**, more or less matching the figure as at 31 December 2015 (+€ 0.2 billion or + 0.1 %). Compared with 30 June 2015, total assets increased moderately, by € 2.4 billion or 1.2 %. In both comparisons, developments on the assets side were mainly determined by growth in the value of financial market investments and by moderate credit expansion, while interbank business declined. On the liabilities side, strong growth in deposits from customers was largely offset by maturing debt securities in issue and by the reduction of interbank business. Equity increased to € 16.1 billion, mainly on account of the inclusion of net profit for the period (+ 4.7 % from year-end 2015 to 30 June 2016, + 2.6 % year-on-year).

● On the **assets side, loans and receivables with customers** (€ 118.2 billion, 61.0 % of total assets) increased slightly. From the end of December 2015 to the end of June 2016, loans and receivables with customers rose by € 1.8 billion or 1.5 %; year-on-year growth (end of June 2016 / end of June 2015) was € 1.0 billion or 0.8 %. Austria accounted for almost exactly one-half (€ 59.5 billion) of total customer loans (see the comparison of the pro forma statement of financial position with the statement of financial position after application of IFRS 5 in connection with CEE). In the first six months of 2016 (ytd) the loan portfolio in Austrian customer business was stagnant (+ 0.1 %) while a year-on-year comparison shows a small increase (+ 1.4 %). In both cases the CIB Division generated significant growth (+ 2.7 % and + 6.5 %, respectively). Customer loans in the CEE Division increased by 3.3 % in the year to date, compared with growth of only 0.3 % year-on-year. Exchange rate effects resulting from consolidation of our Russian banking subsidiary had a strong impact on the underlying trend: from year-end 2015 to 30 June 2016, the Russian rouble appreciated by 12.8 % against

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

	30 JUNE 2016 CEE IFRS 5 1)	30 JUNE 2016 PRO FORMA 2)	31 DEC. 2015	CHANGE +/–	CHANGE +/– %	30 JUNE 2015	CHANGE +/–	CHANGE +/– %
ASSETS								
Financial market investments 3)	16,188	27,510	25,383	+2,127	+8.4%	25,091	+2,418	+9.6%
Financial assets held for trading and hedging derivatives	4,368	7,097	6,303	+794	+12.6%	6,302	+795	+12.6%
Loans and receivables with banks	12,822	27,225	32,214	–4,989	–15.5%	28,142	–917	–3.3%
Loans and receivables with customers	59,458	118,178	116,377	+1,801	+1.5%	117,226	+952	+0.8%
Investments in associates and joint ventures	1,792	4,918	4,741	+177	+3.7%	4,614	+303	+6.6%
Intangible assets	12	233	221	+13	+5.8%	192	+41	+21.3%
Non-current assets and disposal groups classified as held for sale	96,828	2,199	2,467	–268	–10.8%	3,045	–846	–27.8%
Other asset items	2,339	6,447	5,933	+514	+8.7%	6,830	–382	–5.6%
Total assets	**193,807**	**193,807**	**193,638**	**+169**	**+0.1%**	**191,442**	**+2,364**	**+1.2%**
LIABILITIES AND EQUITY								
Financial liabilities held for trading and hedging derivatives	3,941	6,158	5,424	+734	+13.5%	5,670	+488	+8.6%
Deposits from banks	15,340	21,328	23,432	–2,104	–9.0%	22,463	–1,135	–5.1%
Deposits from customers	56,081	113,006	110,346	+2,659	+2.4%	107,971	+5,035	+4.7%
Debt securities in issue	18,265	26,636	28,802	–2,166	–7.5%	28,637	–2,001	–7.0%
… Direct funding 4)	*74,775*	*140,070*	*139,695*	*+375*	*+0.3%*	*137,157*	*+2,913*	*+2.1%*
Liabilities included in disposal groups classified as held for sale	76,948	1,774	1,977	–203	–10.3%	1,556	+218	+14.0%
Provisions for risks and charges	4,678	4,820	4,830	–9	–0.2%	5,706	–885	–15.5%
Equity	16,110	16,110	15,394	+717	+4.7%	15,696	+414	+2.6%
Other liability items	2,442	3,975	3,433	+541	+15.8%	3,744	+231	+6.2%
Total liabilities and equity	**193,807**	**193,807**	**193,638**	**+169**	**+0.1%**	**191,442**	**+2,364**	**+1.2%**

1) Accounting figures; the "CEE Business" operations are combined in accordance with IFRS 5 and presented in the items "Non-current assets and disposal groups classified as held for sale" and "Liabilities included in disposal groups classified as held for sale". / 2) To ensure comparability, the contributions from the "CEE Business" operations are presented on a pro forma basis in the various items of the statement of financial position. / 3) Financial assets at fair value through profit or loss + available-for-sale financial assets + held-to-maturity investments. / 4) Deposits from customers + debt securities in issue + financial liabilities at fair value.

Bank Austria in the first half of 2016 (CONTINUED)

the euro; but from the end of June 2015 to the end of June 2016, the rouble depreciated by 14.4%. (The Turkish joint venture is not included in this analysis because it is accounted for in accordance with IFRS 11.) Lending volume in Russia is the second largest after our banking subsidiary in the Czech Republic/Slovakia. At constant exchange rates (i.e. adjusted for exchange rate movements), loans and receivables with customers expanded by 0.8% in the first six months of the current year and by 3.1% year-on-year. A significant factor in economic terms was the disproportionately strong credit expansion in the Central European countries as well as growth in lending volume in South-East Europe (primarily in Romania but also in Bosnia and Serbia). This means that overall weak growth of loans and receivables with customers is explained by developments in Russia, where lending volume declined in comparisons with both reference dates (in local currency even at double-digit rates). Without Russia, CEE recorded a 4.1% increase in customer loans over year-end 2015 and growth of 4.8% compared with the middle of the previous year.

Among the other asset items, **loans and receivables with banks** were €27.2 billion as at 30 June 2016, down by €5.0 billion or 15.5% from year-end 2015. The decrease also reflects the decline in transaction volume usually seen after the end of a year; a comparison with the level at the end of June 2015 shows a decrease of only 3.3%. **Financial market investments** (the sum total of financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments) rose relatively strongly (+8.4% and +9.6%, respectively) to €27.5 billion. This reflects an increase in available-for-sale financial assets to a total of €26.8 billion, due to purchases of government bonds and supranational issues as part of asset/liability management. There were only minor changes in the other asset items of the statement of financial position.

● On the **liabilities side**, deposits from customers were by far the largest item. They increased by €2.7 billion or 2.4% from year-end 2015 to the end of June 2016 and by €5.0 billion or 4.7% year-on-year. Within the **€113.0 billion** in deposits from customers, Austria accounted for €56.1 billion – almost exactly one-half (50%) of the total, similar to the proportion of loans and receivables with customers on the assets side (see the comparison of the statement of financial position before/after the application of IFRS 5 to CEE). Growth in Austrian customer business was just under 2%, a moderate figure, in both comparisons (June 2016/December 2015, June 2016/June 2015).[1)] Growth was driven by CEE (+2.2% from year-end 2015 to the end of June 2016, +7.9% year-on-year). In the Central European countries, especially at our Czech and Hungarian banking subsidiaries, but also in Romania and Croatia, the volume of deposits rose at double-digit rates compared with the previous year. Again, trends in Russia are difficult to assess: as a result of exchange rate movements, deposits from customers rose in euro terms in the first six months of 2016 but declined year-on-year while increasing strongly in local currency compared with the previous year. **Debt securities in issue** were down by about €2 billion or 7%, to €26.6 billion, in comparisons with both reference dates; redemptions were not replaced with new issues in view of slow business expansion, ample accrual of deposits and the current market conditions for bank issues. After strong growth in previous years, direct funding therefore rose only slightly (+0.3%/+2.1%); nevertheless, direct funding of **€140.1 billion** covers customer loans to the extent of **119%**.

1) Note: As deposits rose strongly in the first half of 2015 (from year-end 2014 to the middle of 2015), the rates of change in half-year averages, on which the calculation of net interest and the commentary on the income statement are based, were much higher than in the comparisons of levels at reference dates.

Interbank business declined also on the liabilities side, compared with year-end 2015 and 30 June 2015. Deposits from banks (including funding from central banks) were down by 9.0% and 5.1%, respectively, to €21.3 billion. In connection with current treasury operations and ALM activities, financial liabilities held for trading and hedging derivatives (a combined total of €6.2 billion) showed growth which was similar to that of the corresponding asset items.

Provisions for risks and charges were €4,820 million as at 30 June 2016; while the total amount was more or less unchanged compared with the end of 2015 (–0.2%), the sub-items reflected significant changes: provisions for post-retirement benefit obligations increased by €394 million (+10.6%). On account of the policy of low interest rates, trends in market interest rates made it necessary to further adjust the discount rate from 2.05% to 1.40%, requiring an addition of €235 million to provisions; and provisions for rights to future pension benefits remaining within Bank Austria had to be adjusted because more employees (who are near the standard retirement age and were eligible to do so) opted for retirement (+€139 million). Other provisions declined on account of the use of €139 million for the reason described above, and due to the release of €240 million; this decline compares with an increase in pension provisions which was similar in size.

As at 30 June 2016, IFRS **equity** was €16,110 million, up by €717 million or 4.7% on 31 December 2015. The increase resulted mainly from the inclusion of net profit for the first half of 2016 (€626 million). The foreign currency translation reserve (total amount: –€4.6 billion) developed favourably due to appreciation of the Russian rouble in the first six months of 2016 (change: +€217 million). Movements in the available-for-sale and cash flow hedge reserves were also positive (+€7 million). This compared with a negative amount of –€235 million in the item "Pension and similar obligations in accordance with IAS 19" (in connection with the above-mentioned adjustment to the discount rate and related income tax). Non-controlling interests and other items showed a combined increase of €101 million. Equity was equal to 8.3% of total assets (year-end 2015: 7.9%).

Bank Austria in the first half of 2016 (CONTINUED)

Capital resources and risk-weighted assets

Regulatory capital and capital requirements as well as regulatory capital ratios 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 third year of the transition period but to the extent defined for 2016 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 €20.0 billion, up by +€0.9 billion on year-end 2015. The improvement was due to the increase in **Common Equity Tier 1 capital** (CET1) to €15.1 billion.

The increase in Common Equity Tier 1 capital results from net profit and from the fact that positive valuation reserves were eligible for inclusion to a larger extent.

● The **total risk exposure amount** (RWAs) was **€129.3 billion**, up by **€1.1 billion** or +0.8% on year-end 2015. The increase was due to higher credit risk and market risk, partly offset by declines in operational risk and in credit valuation adjustments (CVA).

▶ The risk exposure amount for **credit risk** increased by **€1.4 billion** to **€114.6 billion**. The contribution from portfolios under the standardised approach rose by €0.8 billion and the contribution from portfolios under the internal ratings-based approach increased by +€0.7 billion.

The largest changes in credit risk were recorded in the exposure class "Corporates" with +€0.9 billion, followed by "Retail" with +€0.7 billion. This compared with declines for "Institutions" and "Exposure in default". An analysis of exchange rate movements in the first half of 2016 shows that especially the Russian rouble led to an increase in RWAs, which was partly offset by developments in the Turkish lira and the Ukrainian hryvnia.

▶ Market risk and operational risk: The risk exposure amount for **market risk** rose by €0.3 billion to **€4.2 billion**. The increase in the first half of 2016 resulted mainly from the implementation of the 2016 investment programme for CEE countries. Bond positions were expanded and cross-portfolio open foreign-currency and other trading positions were expanded or replaced in line with strategic decisions. Uncertainty in markets (among others in the Turkish market) led to an increase in risk assessments.

The risk exposure amount for **operational risk** was **€10.2 billion**, down by €0.5 billion on the end of the previous year. The decline in the first half of 2016 is primarily explained by a change in the allocation mechanism and by the reduction of underlying losses.

➔ Although the total risk exposure amount rose, the Common Equity Tier 1 capital ratio improved to 11.7% as Common Equity Tier 1 capital increased.

The increase in total capital offset the effect from the rise in the total risk exposure amount. On this basis the **total capital ratio** rose from 14.9% to **15.5%**.

Capital ratios

	30 JUNE 2016	31 DEC. 2015
Common Equity Tier 1 capital ratio[1)]	11.7%	11.0%
Tier 1 capital ratio[1)]	11.7%	11.0%
Total capital ratio[1)]	15.5%	14.9%

1) based on all risks

● As at 30 June 2016, the **leverage ratio** pursuant to the Delegated Regulation (EU) 2015/62, based on the current status of transitional arrangements, was 6.2% (31 December 2015: 5.8%).

Development of business segments

Retail & Corporates

	Business segment as a whole (incl. FactorBank and Leasing)				**of which: Retail**				**of which: Corporates**			
(€ million)	H1 2016	H1 2015[1]	CHANGE		H1 2016	H1 2015[1]	CHANGE		H1 2016	H1 2015[1]	CHANGE	
Operating income	772	753	+19	+2.6%	480	434	+46	+10.6%	263	291	–28	–9.7%
Operating costs	–522	–554	+32	–5.9%	–382	–407	+24	–6.0%	–122	–130	+7	–5.6%
Operating profit	250	199	+52	+26.2%	97	27	+70	n.m.	140	161	–21	–13.0%
Net write-downs of loans	–3	1	–4	n.m.	–6	–25	+19	n.m.	5	29	–24	–83.1%
Net operating profit	247	199	+48	+24.2%	91	2	+90	n.m.	145	191	–45	–23.8%
Profit before tax	**188**	**160**	**+28**	**+17.5%**	**56**	**–17**	**+73**	**n.m.**	**119**	**168**	**–49**	**–29.4%**
Loans to customers (avg.)	44,594	44,055	+538	+1.2%	18,035	18,081	–46	–0.3%	23,100	22,655	+446	+2.0%
Direct funding (avg.)	43,126	42,875	+250	+0.6%	24,352	24,832	–480	–1.9%	18,473	17,967	+506	+2.8%
Risk-weighted assets (avg.)[2]	17,520	19,402	–1,882	–9.7%	8,513	9,376	–863	–9.2%	6,455	7,564	–1,110	–14.7%
Average equity[3]	1,876	2,014	–138	–6.8%	761	807	–45	–5.6%	725	830	–106	–12.7%

1) For segment reporting purposes, the comparative figures for 2015 were recast to reflect the structure and methodology of the 2016 reporting period (see the description of segment reporting in the notes to the consolidated financial statements on pages 67 and 68 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" comprises the customer segments of private customers, independent professionals, and business customers with a turnover of up to €3 million; "Corporates" serves corporate customers ranging from medium-sized companies with a turnover of at least €3 million to large companies which do not access capital markets (including Real Estate and Public Sector). The Division also includes the specialised FactorBank AG and UniCredit Leasing Austria. Retail & Corporates contributed 23% to profit before tax generated by the bank as a whole and accounted for 61% of profit before tax from Austrian customer business. Direct funding of over €43 billion in Retail & Corporates makes the business segment an important source of funding for the bank.

Profit before tax generated by the Retail & Corporates business segment in the first half of 2016 improved substantially, by 17.5% to €188 million, compared with the previous year (H1 2015: €160 million). The improvement is explained by a slight 2.6% rise in operating income (supported by the buyback of VISA shares, a one-off effect) and a 5.9% reduction in operating costs due to strict cost discipline. **Net write-downs of loans and provisions for guarantees and commitments** declined further in the Retail subdivision, and, as in the first six months of 2015, the Corporates subdivision benefited from a net release of provisions, reflecting the very good quality of the loan portfolio. **Net operating profit** rose by €48 million or 24.2% to €247 million. The bank levy and other systemic charges increased by 44.7% and impacted net operating profit with €53 million (first six months of 2015: €37 million). Profit before tax increased by €28 million or 17.5% to €188 million.

● Since 1 January 2016 the **Retail** subdivision is also serving business customers and independent professionals with an annual turnover of less than €3 million. For this purpose the number of offices for independent professionals and small businesses has been almost doubled to 55 locations.

A number of growth initiatives were taken in the first half of 2016. Bank Austria once more underlined its innovation leadership position in mobile online services by launching the new Bank Austria app: the mobile wallet. The app includes the "more money quickly" function. Bank Austria is the only bank in Austria to offer this feature, which customers can use to increase the card limit locally at a shop within seconds. Bank Austria remains committed to its modern branch concept and advisory services approach, investing a total of €100 million in new and existing branches and in advisory services for customers. The bank is thereby giving branches and the online marketplace, including the Online-Shop and the online branch, equal weight as channels for product sales and advisory services. Following the great success of 100 real estate specialists, Bank Austria will additionally make about 100 investment specialists available for advisory services by the year-end. This innovative approach to advisory services for all private customers and small businesses as well as independent professionals will be rolled out to all Bank Austria branches by the end of 2016 – the specialists are either present at the branches or provide their services via video calls during customers' talks with relationship managers.

● Although financing terms were extremely favourable, the first half of 2016 continued to see only moderate investment propensity on the part of **corporate customers** and credit demand was low. Nevertheless, the volume of loans to corporate customers rose slightly on account of our close contact with customers.

Responsibility for serving independent professionals and small businesses was transferred to the retail banking network. This has enabled us to sharpen the focus on medium-sized and large companies in Austria and on our "strategic finance partner" service approach. Moreover, in the first half of 2016, the UniCredit International Center together with the teams of all regions successfully started an initiative to win new customers, with Bank Austria working together with UniCredit partner banks to provide assistance to Austrian companies

Development of business segments (CONTINUED)

for their international activities. The market leadership position in the area of guarantees was further expanded in the first six months of 2016.

Although prices have risen significantly, demand for real estate remained strong on account of the low interest rate environment. In the first half of 2016 about €1.3 billion was invested in commercial property in Austria, a sum similar to that of the first half of 2015, a record year. Foreign investors accounted for over one half of this amount, with the share taken by German investors falling to under 10%.

Although, in Austria, the volume of new business in the **Real Estate** segment declined slightly to €1.1 billion in a cyclically increasingly difficult environment characterised by strong competition, operating income in this segment improved slightly. New loans in Austria were primarily made available for office buildings (45%), with retail outlets (16%), housing (16%) and logistics/other (23%) accounting for the remaining amount. With a very low cost/income ratio of under 25% and a sound risk/return ratio, Real Estate is well prepared for the forthcoming cyclical challenges.

The **Public Sector** segment continued to pursue its positive revenue trend of the previous financial year. The favourable development is explained by the high volume of public sector deposits and the segment's sustainable earnings position in the area of long-term loans. Public sector investments (and therefore demand for loans by the public sector) remained very moderate on account of strict cost management, and customers are very hesitant in opting for alternative financing arrangements such as public private partnerships.

The new business generated by **UniCredit Leasing Austria** in the first six months of 2016 exceeded the previous year's figure by almost 30%. This is reflected in the contract and transaction figures, as well as in new business volume. Based on its very strong market leadership position in the area of equipment, the company again achieved additional growth of about 10%. Business volume related to aircraft financing doubled in the reporting period, and truck-related financing increased at a disproportionately strong rate. Sales financing activities in traditional motor vehicle business generated results which significantly exceeded those of the same period in the previous year.

FactorBank AG, a wholly-owned subsidiary of Bank Austria, offers companies in the services, trading and manufacturing sectors with an annual turnover of at least €5 million a modern instrument to optimise their financing structure. Factoring can be used by almost any company. With a market share of about 43%, FactorBank AG is market leader in factoring business; performance in the first half of 2016 was very good.

Private Banking

(€ million)	H1 2016	H1 2015	CHANGE	
Operating income	82	89	–7	–7.9%
Operating costs	–62	–62	–0	+0.2%
Operating profit	20	27	–7	–26.3%
Net write-downs of loans	0	1	–1	>100%
Net operating profit	20	28	–8	–28.2%
Profit before tax	**16**	**25**	**–9**	**–34.8%**
Total financial assets (avg.)	23,404	23,016	+388	+1.7%
Direct funding (avg.)	9,635	9,571	+64	+0.7%
Loans to customers (avg.)	640	607	+33	+5.4%
Risk-weighted assets (avg.)	613	635	–22	–3.5%
Average equity	228	204	+24	+11.6%

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. Two-thirds of the customers of Bank Austria Private Banking use the bank's extensive range of services, while Schoellerbank is perceived primarily as an institution providing asset management and other specialist services. With a presence in 22 locations throughout Austria, 547 employees (FTEs, end of June 2016) serve 34,500 high net worth individuals and 1,149 foundations.

The Private Banking segment recorded a satisfactory first half-year in 2016. Against the background of persistently low interest rates, Private Banking benefited from its strength in asset management and continued to pursue growth.

● At the end of June 2016, **total financial assets** amounted to €23.6 billion (+2.8% over June 2015). Volume rose by 1.8% in the first six months of the current year compared with year-end 2015. In the area of asset management, the core strategic objective of the Private Banking Division, volume expanded by 7.1% in the first six months of 2016 and by 13.1% compared with June 2015. The increase was driven by the performance component and net inflows of funds.

With "UNIVERS", a service model launched in Bank Austria's Private Banking Division that is based on a transparent global fee, the customer can make investment decisions without having to consider transaction fees. In the first year after it was introduced across Austria, clients opted for this service model to the extent of almost one billion euros.

Assets under custody declined by 6.6% in the first half of 2016 (–7.9% compared with June 2015), while deposits rose strongly by 7.9% in the same period (+8.0% over June 2015).

Development of business segments (CONTINUED)

● **Net fees and commissions** were the most important income component, reflecting the positive performance trend for our customers as well as net inflows of funds. Nevertheless, net fees and commissions declined by 5.8% to €53 million compared with the first six months of 2015, largely because customers acted more cautiously and showed preference for liquidity in the first half of 2016 on account of the volatile and challenging capital market environment. Management fees, mostly from asset management business, made the largest contribution to net fee and commission income.

● **Net interest** in the Private Banking segment was also impacted by market interest rate trends, falling by 9.9% to €27 million compared with the first half of 2015. In net interest terms, the rise in deposits which were acquired through competitive terms for Basel 3 products was more than offset by the decline in margins that reflected market interest rates.

Operating costs remained more or less unchanged at €62 million (+0.2% compared with the first half of 2015), with payroll costs rising slightly, by 0.7%.

Following net write-downs of loans and provisions for guarantees and commitments of €0.1 million, and after deduction of significantly higher bank levies and other systemic charges (+38.6% to €4 million), **profit before tax** for the first six months of 2016 was €16 million, down by €9 million compared with the same period of the previous year.

Corporate & Investment Banking (CIB)

(€ million)	H1 2016	H1 2015	CHANGE	
Operating income	201	233	−31	−13.4%
Operating costs	−108	−106	−2	+1.9%
Operating profit	94	127	−33	−26.2%
Net write-downs of loans	33	−1	+34	n.m.
Net operating profit	127	126	+1	+0.7%
Profit before tax	**104**	**108**	**−5**	**−4.2%**
Loans to customers (avg.)	13,715	12,716	+999	+7.9%
Direct funding (avg.)	10,091	9,235	+856	+9.3%
Risk-weighted assets (avg.)	8,042	8,686	−645	−7.4%
Average equity	812	812	−0	−0.0%

n.m. = not meaningful

Corporate & Investment Banking (CIB) focuses on serving multinational companies and major 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, CIB uses the financial market expertise of a major international bank to perform important functions as a product provider for other divisions. These products include structured finance; export and trade finance; real estate finance; cash management solutions; risk management to hedge currency risk, commodity risk and interest rate risk; M&A advisory and the structuring and financing of acquisitions; capital market and investment products. CIB also manages treasury operations and funding for the entire bank.

● Revenues generated by the **CIB business segment** in the first half of 2016 were lower than in the same period of the previous year. **Operating income** totalled €201 million, down by €31 million or 13.4% (H1 2015: €233 million). Among the income components, **net interest** was maintained at more or less the same level as in the preceding quarters, supported by rising volume. At €147 million, net interest was 0.4% higher than for the first half of 2015. Lending volume increased by 6.5% to €13.9 billion as at the end of June 2016 (June 2015: €13.1 billion), and customer deposits rose by 7.9% to €9.4 billion (€8.7 billion). **Net fees and commissions** declined by €20 million to €36 million (H1 2015: €56 million). The decrease is mainly explained by a significant decline (–55.8% to €14 million) in financing services, which account for almost 40% of net fees and commissions, as the previous year's figure included one-off double-digit income from an acquisition financing transaction. Moreover, income from assets-under-custody products was down by 17.1% to €9 million. A further component of net fees and commissions, transaction & banking services, reached €13 million, showing a stable development. **Net trading, hedging and fair value income** was down by €13 million or 43.3% compared with the same period of the previous year. The underlying low trading volume reflects the reduction of proprietary trading activities over the past years.

Operating costs were €108 million, a slight increase of 1.9% over the same period of the previous year. Payroll costs were down by 11.8% to €33 million (H1 2015: €38 million). Staff numbers were reduced by 16 FTEs to 470 FTEs as at the end of June 2016 compared with the first half of 2015. Other administrative expenses increased by 9.5% to €75 million, largely in connection with an increased provisioning requirement. Given the excellent quality of the loan portfolio, the second quarter of 2016 saw a net release of loan loss provisions, with a positive contribution of €33 million to profits in the first half of 2016 (H1 2015: a charge of €1 million).

Net operating profit, i.e. **operating profit less net write-downs of loans**, improved by €1 million to €127 million on account of the net release of loan loss provisions, thus exceeding the good performance achieved in the first half of 2015. The CIB business segment also benefits from a low cost/income ratio of 53.5%. The total charge for the bank levy and the contribution to the sin-

Development of business segments (CONTINUED)

gle resolution fund amounted to €23 million in the first half of 2016, a significant increase of 30.6% over the first half of the previous year (H1 2015: €18 million). The impact of this charge was a major factor leading to the decline of €5 million (–4.2%) in **profit before tax** to **€104 million**. This gives a return on equity (ROE before tax) of 25.6% (H1 2015: 26.7%). CIB accounted for 6.2% of risk-weighted assets and 7.2% of costs of the bank as a whole, and contributed 12.5% to the bank's profit before tax.

● In addition to its functions within the bank, CIB enables its customers to benefit from its capital market expertise, its market position based on the UniCredit Group network and a presence in all major financial centres around the world as well as from excellent access to our core regions in Western, Central and Eastern Europe and 50 countries worldwide, giving Bank Austria essential competitive advantages. We offer customers access to over 4,000 correspondent banks in 175 countries via UniCredit's international network.

In the first half of 2016, the CIB business segment further expanded its leading market position in the segment of **multinational companies**. There is strong competition in Austria for business with international and multinational Austrian companies, given their business models and strong credit ratings. In addition to Austrian banks, an increasing number of international banks are actively offering their global services to Austrian multinational companies. Non-banks (e.g. insurance companies) and platform providers are also increasingly active in Austria. A strong focus of international competitors is on providing companies with assistance for business in South America and Asia.

The first half of 2016 saw a highly competitive market environment in combination with moderate credit demand. Performance was weaker than in the same period of the previous year as the first half of 2015 saw exceptional double-digit income from an acquisition financing transaction. While the strong performance of the previous year was not repeated, **corporate finance business** nevertheless showed a sound development.

● Credit demand in Austria declined slightly, reflecting companies' strong cash flow position and a low level of investment activity. Moderate trends were seen especially in standard lending business and in commodity trade finance, where demand declined in the wake of low commodity prices. Finance raised via **corporate bonds** was also lagging behind the levels of 2015. Premiums demanded by investors were too high, and this led companies to postpone planned bond issues to the second half of 2016 or to use loans against borrowers' notes as an alternative source of finance. CIB continued to act as finance partner assisting companies in their plans for new issues and maintained its leading market position in this segment. There are promising deal pipelines for both Austrian and international customers.

Very favourable trends were seen in structured finance, project finance and structured trade & export financing activities, where CIB achieved double-digit growth rates. CIB won an additional export credit agency as financing and cooperation partner. Companies can benefit from Bank Austria's extended network and expertise in realising their expansion and export plans. However, these prospering business lines did not fully offset a downward market trend.

Early July saw the signing of the InnovFin **SME** agreement with the European Investment Fund, making Bank Austria the first bank in Austria to grant loans on favourable terms and conditions with a total volume of up to €200 million to innovative Austrian companies on the basis of a guarantee provided by the European Investment Fund (EIF). Bank Austria is thereby making a significant contribution to stimulating investment activity in Austria.

Intensive marketing efforts made by CIB in the extended core markets of **Scandinavia**, **Spain** and **Portugal** as well as **South Africa** continued in the first six months of 2016. The lead bankers have been frequently present in Scandinavia since 2010. Customers appreciate this continuity by comparison with other international banks. The successful conclusion of large-volume financing transactions in these regions contributed to **significant growth in the structured finance segment**. The opening of a branch in Spain strengthened the local presence and is an essential success factor which will benefit future activities.

● The volume of **deposits** in the CIB business segment increased, despite the difficult interest rate environment and changes in the general framework conditions. As the low level of interest rates is prompting decision-makers in companies to look for attractive alternative investments, CIB took advantage of this situation by offering customers its expertise and customised products. Hedging long-term interest payments became even more attractive as euro interest rates declined further. In view of the high volatility of currency markets, demand for currency hedging remained strong. Treasury operations made a structurally significant contribution to CIB's performance in the face of a challenging monetary environment characterised by negative money market rates in euro and CHF, an unusually flat yield curve and negative yields on government bonds. This was achieved by making consistent use of market volatility and through optimised management of the underlying equity capital resources.

● In the areas of cash management, trade finance and supply chain finance, the Corporate & Investment Banking business segment won mandates from renowned Austrian and multinational customers. UniCredit's competitive strengths in these areas compared with local and international banks have been brought to bear. The position of UniCredit in these markets is being steadily expanded and its visibility is being enhanced.

Development of business segments (CONTINUED)

On this basis, and despite a decline in the overall market, Bank Austria maintained its position as market leader in **Trade Finance** and was again named "#1 Bank for Trade Finance in Austria 2016" by Global Finance. CIB won several major deals in **CashManagement** and thus maintained or even expanded its market share. "UC eBanking global", the new Group-wide electronic banking system, was launched and started to attract customers. Use of e-services, especially EPS (payments in the Internet), expanded in the first half of 2016. Euromoney again named Bank Austria CashManagement "#1 Cash Mgmt House in Austria 2015". **Supply Chain Finance** has recorded sustained strong demand for solutions to optimise working capital, with CIB customers focusing their attention on web-based IT solutions. Although commodity prices are low, CIB saw increasing utilisation of lines in this context. In accounts receivable and accounts payable management, CIB won new customers in Spain and Scandinavia, and successfully completed transactions.

Moreover, we are positioning ourselves as bank partner for **Industry 4.0**: we offer integrated financial services and close contacts with agencies which operate financial assistance schemes, and assist companies in their analysis of existing supply chains and their digitalisation. To support companies' activities in managing accounts receivable and accounts payable, Bank Austria provides customers with solutions to improve working capital and is currently developing a new supply chain finance platform, which will be rolled out in autumn 2016.

Central Eastern Europe (CEE)

(€ million)	H1 2016	H1 2015	CHANGE		CONST[1)]
Operating income	2,049	1,895	+154	+8.1%	*+13.6%*
Operating costs	–739	–726	–13	+1.8%	*+4.6%*
Operating profit	1,310	1,170	+141	+12.0%	*+19.2%*
Net write-downs of loans	–330	–395	+65	–16.5%	*–11.9%*
Net operating profit	981	775	+206	+26.6%	*+35.0%*
Profit before tax	**877**	**681**	**+197**	**+28.9%**	***+38.2%***
Loans to customers (avg.)	58,171	58,717	–546	–0.9%	*+2.1%*
Direct funding (avg.)	60,186	54,360	+5,826	+10.7%	*+14.1%*
Risk-weighted assets (avg.)[2)]	95,099	97,464	–2,365	–2.4%	…
Average equity	14,548	14,587	–39	–0.3%	…

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

In this Interim Report at 30 June 2016, the CEE business segment comprises UniCredit Bank Austria's banking subsidiaries and other companies in 13 countries as well as the management functions at the Vienna-based CEE headquarters, including the CEE Corporate Center. UniCredit is far and away the international market leader in CEE with a market share of 12% based on lending volume without Russia (1.8%), serving 13.5 million retail customers and 95,000 corporate customers. As at the end of June 2016, 28,408 employees (FTEs) served customers in 1,301 branches across the CEE region. Added to this are the 19,279 employees (FTEs at 100%) and 1,022 branches of our Turkish joint venture. In accordance with IFRS 11, the investment in the Turkish joint venture is accounted for using the equity method. In the first half of 2016, the CEE business segment generated net operating profit (operating profit less net write-downs of loans and provisions for guarantees and commitments) of €981 million, accounting for 71% of net operating profit of Bank Austria as a whole (without the Corporate Center).

The intention to terminate Bank Austria's **CEE sub-holding company function** and transfer CEE business to UniCredit S.p.A. became concrete in the course of the first half of 2016: legal preparations were followed by the required resolutions, adopted by the Supervisory Board and at the Annual General Meeting after the reporting period, concerning the demerger of the "CEE Business" operations of UniCredit Bank Austria AG and the subsequent cross-border merger with UniCredit S.p.A., the Group's parent company. The move will ensure leaner organisational structures within UniCredit Group and eliminate duplication. It will also facilitate liquidity and capital management for the Group and for CEE business within the current regulatory environment (global SIFI, banking union, etc.).

The favourable performance recorded by the **CEE business segment** in 2015 continued **in the first half of 2016**, with further increases in operating profit and net profit. As previously described in the section on the banking environment in this Interim Report, economic growth in Central Europe and in South-East Europe was driven by domestic demand, while foreign demand provided little impetus. The CEE-EU countries remained stable despite these developments: the impact of uncertainty in international capital markets in the first few months of the year was negligible. The environment of the banking sector in these countries was determined by parallel movements (in the most advanced countries) and rapid convergence to trends in Western Europe, i.e. declining interest rates, very low inflation and ample liquidity. Against this background, loan expansion was weaker than in previous years, while bank deposits rose strongly and the local funding gap closed. Commercial interest rate margins, still high by comparison, continued to decline. Among the countries in South-East Europe (SEE), Romania enjoyed a period of expansion. Our banking subsidiaries in the Western Balkan countries also succeeded in making extensive use of their prominent position in the market as banks with an international footprint, achieving significant volume growth and improved results. On the back of strong monetary expansion and dynamic

Development of business segments (CONTINUED)

real economic growth, our joint venture in Turkey increased its at-equity contribution to overall results, as in the previous year, although the business outlook started to deteriorate during the reporting period. While Russia was struggling to adjust to the (still) low oil prices, and limited access to international capital markets impeded economic developments, our professional banking subsidiary again achieved a good, improved result in local currency. The depreciation of the respective currencies against the euro (in average terms for H1 and in a comparison with the previous year) significantly eroded the favourable performance trends in Turkey and Russia in euro terms.

Profit performance in the first half of 2016 € million (2015 recast)

	H1 2016	H1 2015	+/–	+/– %	*CONST*
Net operating profit 1)	981	775	+206	+26.6%	*+35.0%*
Profit before tax	877	681	+197	+28.9%	*+38.2%*
Net profit 2)	707	346	+361	>100%	*>100%*
… without VISA, without Ukrsotsbank 3)	*628*	*536*	*+92*	*+17.2%*	*+26.4%*

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. / 3) After deduction of one-off sales proceeds in connection with VISA share buyback (net) and contribution from Ukrsotsbank in the item "Total profit or loss after tax from discontinued operations". CONST = translated at constant exchange rates.

➔ In the first half of 2016, the CEE Division achieved **strong growth at all levels of profit** (see table above). Adjusted for exchange rate movements, net operating profit and profit before tax improved by over one-third. **Net profit** (attributable to the owners of the parent company) doubled to **€707 million** compared with the same period of the previous year. Profits also reflect two major **one-off effects**: the gain on the buyback of VISA shares by the US parent company (€115 million before tax/€97 million after tax and minority interests); and the base effect in connection with the large current loss and the impairment charge for Ukrsotsbank in the item "Total profit or loss after tax from discontinued operations". Even if these special effects are excluded from the calculation, the increase in net profit was 17.2% (adjusted for exchange rate movements: +26.4%).

● The **CEE Division** generated **operating income** of over 2 billion euros (€2,049 million), an increase of 8.1%; at constant exchange rates, growth was 13.6%. The Turkish lira depreciated by 12.2% against the euro, and the Russian rouble by 17.4% (measured by averages for the first six months). Without the above-mentioned one-off effect relating to VISA, revenue growth was 2.0%; adjusted for exchange rate movements, operating income increased by 7.2%.

▶ In **regional terms**, and adjusted for the VISA effect, operating income in the four Central European countries declined slightly, though from the high level reached in the previous year. The overall trend reflected a weaker net interest performance in particular. The SEE country group (South-East Europe) generated higher operating income, even on an adjusted basis, which resulted from strong growth of commercial banking income in Romania and also in Croatia and in Bosnia and Herzegovina. The overall picture fits in with the expansionary environment in Romania and the beginning economic upswing in the Western Balkan countries. Growth was also achieved in Bulgaria. Our joint venture in Turkey performed very well; its contribution – accounted for using the equity method – is included in operating income and increased by 38.9% compared with the same period of the previous year; adjusted for exchange rate movements, the contribution from Turkey rose by more than one half (+57.8%). Even after deduction of one-off income from the sale of VISA shares, the contribution from Turkey was up by 21.8% on the first half of the previous year or 38.4% higher when adjusted for exchange rate movements.

Operating income/regions € million (2015 recast)

	H1 2016	H1 2015	+/–	+/– %	*ADJ. 1)*
… Central Europe (CE)	584	549	+34	+6.3%	*–1.9%*
… South-East Europe (SEE)	846	787	+60	+7.6%	*+1.9%*
… At-equity contribution from Turkey	218	157	+61	+38.9%	*+38.4%*
… Russia	344	376	–32	–8.5%	*+10.8%*
… CEE cross-regional 2)	57	26	+30	>100%	
Central Eastern Europe (CEE)	**2,049**	**1,895**	**+154**	**+8.1%**	***+7.2%***

1) Adjusted for one-off income from share buyback by VISA, additionally adjusted for exchange rate movements. 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 economic environment in Russia remained challenging although recession was gradually coming to an end. Nevertheless, our Russian banking subsidiary achieved revenue growth of 10.8% in local currency, an increase which resulted from net interest and net fees and commissions (guarantee business and retail commissions). In euro terms, operating income in Russia declined by 8.5%, reflecting strong currency depreciation. The cross-regional units of the CEE Division improved especially net trading income.

▶ An analysis **by component** of operating income shows that **net interest** was a weak point in this overall positive picture. In the CEE Division, net interest was slightly lower than for the same period of the previous year (–€20 million or –1.7% to €1,180 million). Even when adjusted for exchange rate movements, growth of 2.9% was lower than it used to be in previous years. Credit expansion in CEE as a whole was stagnant (–0.9% in a comparison of half-year averages; adjusted for exchange rate movements: +2.1%), reflecting the economic and monetary environment. Direct funding, on the other hand, increased by 10.7% (adjusted for exchange rate movements: +15.5%). In a parallel move, customer interest rates on the assets side declined in almost all countries; the impact of this development was stronger than the positive effect of lower interest rates on the liabilities side.

Development of business segments (CONTINUED)

Operating performance in CEE € million (2015 recast)

	H1 2016	H1 2015	+/–	+/– %	*CONST*
… Average volume of customer loans	*58,171*	*58,717*	*–546*	*–0.9%*	*+2.1%*
… Average volume of direct funding	*60,186*	*54,360*	*+5,826*	*+10.7%*	*+15.5%*
…Net interest	1,180	1,200	–20	–1.7%	*+2.9%*
…Net fees and commissions	364	351	+13	+3.6%	*+5.3%*
…Net trading, hedging and fair value income	253	169	+84	+49.4%	*+54.9%*
… without VISA effect	*164*	*169*	*–5*	*–2.7%*	*+1.7%*
… At-equity contribution from Turkey	*218*	*157*	*+61*	*+38.9%*	*+57.8%*
Operating income	2,049	1,895	+154	+8.1%	*+13.6%*
… without VISA effect	*1,934*	*1,895*	*+39*	*+2.0%*	*+7.2%*
Operating costs	–739	–726	–13	+1.8%	*+4.6%*
…Cost/income ratio [1)]	*40.3%*	*41.8%*		*–1.4pp*	
Net write-downs of loans	–330	–395	+65	–16.5%	*–11.9%*
…Cost of risk [2)]	*113bp*	*135bp*		*–21bp*	
Net operating profit [3)]	**981**	**775**	**+206**	**+26.6%**	***+35.0%***
… without VISA effect	*866*	*775*	*+91*	*+11.8%*	*+19.4%*

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

Net fees and commissions were €364 million in the first half of 2016, up by 3.6% (adjusted for exchange rate movements: +5.3%) on the same period of the previous year. The increase comes partly from credit commission in countries with strong growth (e.g. Romania) and partly from commercial banking services (e.g. Bulgaria). Growth was most pronounced in Russia (+27.0%/adjusted for exchange rate movements: +53.8%), driven by guarantee business and commission income from credit protection insurance.

Net trading, hedging and fair value income is still an important component in CEE, especially in countries with a volatile exchange-rate/interest-rate environment and substantial portfolio flows. In the first half of 2016, it totalled €253 million (+49.4%); adjusted for the VISA effect, which benefited almost all countries, the figure was €165 million, close to the previous year's result (–2.7%; adjusted for exchange rate movements: +1.6%). As a result of the decline in interest rates, significant gains were achieved on the disposal of available-for-sale government bonds in a number of countries. The increase in non-derivative foreign exchange trading activities was a major factor reflected in net trading income. Russia, which did not benefit from the buyback of VISA shares, achieved net trading income which almost matched the level of the previous year but was down by 19.4% in euro terms on account of rouble depreciation. Credit value adjustments had a positive impact in the CEE Profit Center.

The at-equity contribution from our **Turkish** joint venture increased by 57.8% in local currency and by 38.9% in euro terms, to €218 million. The improvement in net interest was due to continued strong growth (average lending volume up by 15.1%) in combination with successful repricing and more favourable funding costs compared with the previous year; net fees and commissions and net trading income also developed favourably. Adjusted for exchange rate movements, operating income grew by 29.7%. On this basis, cost growth of 14.9% was absorbed, given the low cost/income ratio of 39.0%. The cost of risk measured against volume remained stable (–4bp to 112bp).

● **Operating costs** in the CEE Division (€739 million) rose by €13 million or 1.8% (adjusted for exchange rate movements: +4.6%) compared with the first six months of 2015. While the expansion-induced increase in costs (in local currency) took place across all countries except Hungary (adjusted for exchange rate movements: +4.6%), it remained well behind the rate of revenue growth (+13.6%). This is also reflected in the further decline in the cost/income ratio from 41.8% to 40.3% in the first six months of 2016 (without Turkey, whose contribution is included in operating income but not in operating costs). An analysis of types of costs shows that payroll costs rose at a disproportionately low rate; the number of FTEs averaged 24,168 for the first six months of 2016, close to the figure a year earlier (–53 FTEs, –0.2%). The higher payroll costs resulted from increases in standard wages and performance-related remuneration. Other administrative expenses rose at a rate which was slightly above average for ICT and back-office services, marketing and office space (new corporate headquarters).

● In the first six months of 2016, **net write-downs of loans and provisions for guarantees and commitments** were €330 million, down by €65 million or 16.5% on the same period of the previous year. The decline was pronounced in all Central European countries; net write-downs of loans were also lower in South-East Europe (SEE). Significant declines in the charge for loan loss provisions in Romania and Serbia compared with an increase in Bulgaria and Croatia. In Russia, the charge for loan loss provisions at constant exchange rates rose significantly while in euro terms it declined slightly. At the cross-regional CEE units, the reporting period saw a significant decline in the proportion of the Ukraine portfolio booked directly in the Profit Center Vienna and in the related net write-downs of loans. The cost of risk in the CEE Division decreased from 135bp to 113bp.

➔ **Net operating profit** (operating profit less net write-downs of loans and provisions for guarantees and commitments) generated by the CEE Division in the first half of 2016 was **€981 million**. The increase of €206 million or 26.6% (adjusted for exchange rate movements: +35.0%) over the same period of the previous year was due to revenue growth, a moderate increase in costs and lower net write-downs of loans.

● Among the non-operating items to be taken into account in calculating profit before tax on the basis of net operating profit, bank levies and other systemic charges had the strongest impact; the total charge in this context, including the Vienna-based CEE

Development of business segments (CONTINUED)

headquarters, was €108 million after €88 million in the previous year. Of the total amount, bank levies (in Hungary and for Slovakia) accounted for €17 million and other systemic charges totalled €85 million, which were recognised in the first half of 2016 for the full year. Within this total amount, €48 million contributed to the bank resolution funds in Hungary, Bulgaria, Croatia, Slovenia, Romania, and the Czech Republic and Slovakia. The contributions to deposit guarantee schemes totalled €37 million. There were only minor movements in the other non-operating items, with an overall slightly positive effect.

➔ After non-operating items, profit before tax for the first half of 2016 was €877 million, up by €197 million or 28.9% on the same period of the previous year; adjusted for exchange rate movements, the increase was 38.2%. Even without the positive VISA effect, profit before tax improved significantly, by 12.0% (adjusted for exchange rate movements: +20.4%).

Profit contribution from the CEE Division € million (2015 recast)

	H1 2016	H1 2015	+/–	+/– %	*CONST*
Net operating profit 1)	981	775	+206	+26,6%	*+35.0%*
Provisions for risks and charges	3	–4	+7	n.m.	*n.m.*
Systemic charges 2)	–108	–88	–21	+23.8%	*+25.2%*
Integration/restructuring costs	–6	–2	–4	>100%	*>100%*
Net income from investments	7	–1	+9	n.m.	*n.m.*
Profit before tax	877	681	+197	+28.9%	*+38.2%*
Income tax	–131	–115	–16	+13.8%	*+18.7%*
Discontinued operations 3)	–21	–220	+199	–90.6%	*–88.1%*
Non-controlling interests 4)	–18	1	–20	n.m.	*n.m.*
Net profit 5)	**707**	**346**	**+361**	**>100%**	***>100%***

1) Operating profit less net write-downs of loans and provisions for guarantees and commitments. / 2) Bank levies and other systemic charges (without FTT, which is included in the item "Net other expenses/income". 3) Total profit or loss after tax from discontinued operations. 4) Minority interests. / 5) Net profit attributable to the owners of the parent company.

● The balance of the items between profit before tax and net profit is –€170 million, significantly lower than for the same period of the previous year (–€334 million), in which total profit or loss after tax from discontinued operations included an impairment charge for, and the current loss of, Ukrsotsbank, the Ukrainian subsidiary classified as held for sale, in the total amount of €220 million. In the first half of 2016, the total loss in this context was €21 million, giving a year-on-year improvement of €199 million.

➔ The above improvement and the increase in profit before tax were the main factors leading to a **doubling of net profit**, from €346 million to **€707 million**, generated by the CEE Division in the first half of 2016. **Return on equity** (ROE after tax and before deduction of non-controlling interests) in the reporting period was 12.1% after 9.3% in the same period of the previous year.

Development of business segments (CONTINUED)

Income statement of the banks in CEE[1)]

	CEE DIVISION		CZECH REPUBLIC, SLOVAKIA		HUNGARY	
	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015
Net interest	1,180	1,200	188	189	100	105
Dividends and income from equity investments	228	165	1	1	1	1
Net fee and commission income	364	351	71	71	63	63
Net trading income	253	169	68	40	32	28
Net other operating income/expenses	25	10	6	4	10	1
Operating income	**2,049**	**1,895**	**334**	**306**	**207**	**198**
Operating costs	**–739**	**–726**	**–132**	**–125**	**–80**	**–81**
Operating profit	**1,310**	**1,170**	**202**	**181**	**127**	**117**
Net write-downs of loans	–330	–395	–20	–28	–9	–16
Net operating profit	**981**	**775**	**182**	**153**	**118**	**101**
Provisions for risks and charges [3)]	–105	–91	–23	–10	–14	–34
Integration/restructuring costs	–6	–2	–4	–1	0	0
Net income from investments	7	–1	7	0	0	0
Profit before tax	**877**	**681**	**161**	**141**	**105**	**66**
Net profit or loss [4)]	**707**	**346**	**128**	**112**	**86**	**53**
Customer loans (end of period)	59,242	59,069	13,751	13,048	3,379	3,101
Customer deposits and debt securities in issue (eop)	59,770	56,103	16,018	14,707	4,418	3,747
Exchange rate (period average)			27.040	27.502	312.71	307.51
Appreciation/depreciation against the euro	–4.8% [5)]		+1.7%		–1.7%	

(€ million)

	SLOVENIA		BULGARIA		ROMANIA	
	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015
Net interest	23	26	147	148	102	98
Dividends and income from equity investments	0	0	1	0	0	0
Net fee and commission income	12	14	52	50	36	32
Net trading income	6	5	35	20	47	37
Net other operating income/expenses	2	0	1	0	2	0
Operating income	**43**	**45**	**236**	**218**	**187**	**168**
Operating costs	**–22**	**–21**	**–67**	**–64**	**–79**	**–79**
Operating profit	**21**	**25**	**169**	**154**	**108**	**89**
Net write-downs of loans	–6	–16	–43	–39	–37	–51
Net operating profit	**16**	**9**	**126**	**115**	**71**	**39**
Provisions for risks and charges	–2	–1	–17	–13	–8	–4
Integration/restructuring costs	0	0	0	0	–2	0
Net income from investments	0	0	1	0	–1	–1
Profit before tax	**13**	**7**	**109**	**103**	**60**	**34**
Net profit or loss	**10**	**5**	**98**	**91**	**45**	**16**
Customer loans (end of period)	1,770	1,921	5,293	5,230	5,045	4,701
Customer deposits and debt securities in issue (eop)	1,830	2,055	6,935	6,195	4,310	3,259
Exchange rate (period average)	1.0000	1.0000	1.9558	1.9558	4.4956	4.4479
Appreciation/depreciation against the euro	Euro		0.0%		–1.1%	

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 67 and 68 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 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015
Net interest	276	306	7	7			464	410
Dividends and income from equity investments	0	0	0	0	218	157	4	5
Net fee and commission income	37	29	0	0			158	158
Net trading income	32	40	0	0			55	26
Net other operating income/expenses	0	1	0	0			3	2
Operating income	**344**	**376**	**7**	**8**	**218**	**157**	**684**	**601**
Operating costs	**–102**	**–111**	**–3**	**–3**			**–267**	**–265**
Operating profit	**242**	**265**	**5**	**5**	**218**	**157**	**417**	**336**
Net write-downs of loans	–101	–107	–1	–1			–119	–120
Net operating profit	**142**	**159**	**3**	**4**	**218**	**157**	**298**	**216**
Provisions for risks and charges	–8	–4	0	0			–29	–22
Integration/restructuring costs	0	0	0	0			0	0
Net income from investments	0	0	0	0			3	3
Profit before tax	**134**	**155**	**3**	**4**	**218**	**157**	**272**	**198**
Net profit or loss	**107**	**124**	**3**	**3**	**218**	**157**	**218**	**157**
Customer loans (end of period)	10,659	12,698	377	380			21,880	20,793
Customer deposits and debt securities in issue (eop)	12,410	13,653	0	0			19,596	18,886
Exchange rate (period average)	78.2968	64.6407	1.0000	1.0000	3.2593	2.8627	3.2593	2.8627
Appreciation/depreciation against the euro	–17.4%		Euro		–12.2%		–12.2%	

(€ million)

	CROATIA		BOSNIA		SERBIA	
	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015
Net interest	187	182	53	50	50	50
Dividends and income from equity investments	4	4	0	0	0	0
Net fee and commission income	65	62	19	18	11	11
Net trading income	22	10	3	3	6	8
Net other operating income/expenses	4	5	2	0	0	0
Operating income	**282**	**262**	**76**	**70**	**66**	**69**
Operating costs	**–107**	**–104**	**–36**	**–35**	**–25**	**–22**
Operating profit	**175**	**159**	**40**	**35**	**41**	**47**
Net write-downs of loans	–61	–51	–7	–6	0	–8
Net operating profit	**114**	**108**	**33**	**29**	**41**	**38**
Provisions for risks and charges	–20	–15	–2	–2	–3	–2
Integration/restructuring costs	0	0	0	0	0	0
Net income from investments	1	0	0	0	0	0
Profit before tax	**95**	**93**	**31**	**26**	**38**	**36**
Net profit or loss	**65**	**63**	**24**	**21**	**34**	**32**
Customer loans (end of period)	9,810	9,888	1,887	1,791	1,648	1,498
Customer deposits and debt securities in issue (eop)	10,238	9,084	2,157	1,966	1,371	1,226
Exchange rate (period average)	7.5594	7.6277	1.9558	1.9558	122.928	120.882
Appreciation/depreciation against the euro	+0.9%		0.0%		–1.7%	

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

Outlook

Economic scenario

The decision in the United Kingdom to leave the European Union came as a surprise and added another factor of uncertainty to the global economic outlook in the middle of 2016. The world economy is facing major challenges anyway: the slow pace of growth in the industrial countries, a growing number of geopolitical crises, the slowdown of economic expansion in China, and problems experienced also by other emerging markets due to the sharp decline in commodity prices, a high level of debt and current account imbalances. The initial shock after the Brexit vote could be followed by periods of strong financial market volatility and large short-term capital movements, which could have indirect impacts.

● After the decision to leave the EU the **United Kingdom** is facing a long period of pronounced political and economic uncertainty. Around the turn of the year 2016/17, the UK economy will slide into technical recession as a consequence of falling prices for high-risk asset classes, foreign trade disruption and restraint in the areas of investment and consumption. We have therefore lowered our growth forecast for 2016 from +1.9% to +1.4% while expecting stagnation for 2017 instead of a 2.1% increase in GDP. Strong depreciation of the pound will fuel inflation, presenting the Bank of England with a conflict of objectives between growth and price stability. In view of the currently low inflation rate and moderate inflation expectations, the Bank of England has opted for monetary easing by resuming the securities purchase programme and reducing its key interest rate by 25 basis points. A further step should follow by the end of 2016. We believe it is unlikely that interest rates will be reduced to a level below zero.

● While the Brexit decision will have a limited impact on the **world economy**, the chance of overcoming the current low-growth phase is now getting smaller. Given the uncertainty that existed even before the referendum, investment restraint due to weak demand, the weak momentum in world trade, generally low productivity increases and the slowdown in structural reforms, we now expect that global economic growth in 2016 will not exceed the rate achieved in the previous year. We believe that global growth in 2017 will be about 3½%, also lower than we previously expected.

● The influence of the Brexit decision on the **US economy** will be weaker than its impact on European countries. Following a poor start to 2016, the US economy has recovered over the past few months, achieving growth of 1% in the first half of the year on the back of strong consumption. However, more restrictive financial conditions prevailing as a consequence of the Brexit vote will have a dampening effect in the coming months. We have reduced our growth forecast for 2016 from +2.2% to +1.5% (mainly on account of the weaker start to the year), and lowered our assumption of GDP growth for 2017 from +2.4% to +2.0% mainly because of the Brexit repercussions. At its recent meeting the US Federal Reserve decided to leave the key interest rate unchanged within a range of 0.25% to 0.5%, where it has been since December 2015. Official interest rate forecasts for year-end 2017 and 2018, however, have been trimmed down. We, too, believe that we may see only one move, if any, by the Fed to raise interest rates in 2016, towards the end of the year. For 2017 we now assume that there will be only two (rather than three) interest rate hikes in the US.

● For the **euro area** we have lowered our GDP forecast for 2016 from +1.7% to +1.6 % and for 2017 from +1.6% to 1.0% as a consequence of the Brexit vote. After all, with a share of about 13.5%, the United Kingdom is the euro area's second most important trading partner after the US. Direct trading links are stronger with the euro area's core countries than with the periphery; conversely, the peripheral countries are more susceptible to financial market turmoil. The lowering of our growth forecasts is primarily based on our assumption of weaker export demand from the United Kingdom, and it also reflects general uncertainty which leads companies to postpone investment projects. Consumption, on the other hand, should continue to develop favourably. We believe that the euro area members will feel the negative effects of Brexit especially around the turn of the year 2016/17. The Brexit decision could put pressure on the ECB to take action in the coming months. Despite higher downside risks to growth and inflation in the euro area, we do not assume that the ECB will lower its key interest rates further. The combination of weaker economic growth, slightly lower inflation and higher risks to financial stability could prompt the European Central Bank to extend quantitative easing by six months until at least September 2017.

● The economic climate in **Austria** improved significantly around the middle of 2016. In June, the Bank Austria Business Indicator rose to its highest level in two years. Sentiment in Austria, subdued for a long time, has started to brighten up. Both consumers and industrial companies have become visibly more optimistic. The Bank Austria Purchasing Managers' Index has recently risen significantly, indicating stronger growth of industrial activity thanks to an increase in foreign demand. It should be noted, however, that these sentiment indicators do not yet reflect the new situation following the Brexit vote at the end of June. Although economic trends are favourable, uncertainty caused by British voters' decision to leave the EU is expected to dampen economic growth in Austria in the second half of 2016. Overall, the slightly weaker momentum in the second half of the year will be offset by the fact that economic activity has developed better than anticipated by us. This means that we still expect economic growth to reach 1.5% in 2016.

Negative influences of Brexit on investment activity and export demand will become more pronounced in 2017. For Austria, the

Outlook (CONTINUED)

United Kingdom is the eighth most important export partner; measured by added value, the UK is in sixth place as a destination of Austrian exports, after Germany, the US, Italy, France and China. Exports to the UK account for about 1.5 % of Austria's economic output. Moreover, the negative impact on the Austrian economy of indirect effects via Germany and France, our most important export partners, and via CEE countries is at least as strong as the direct effects. We have lowered our GDP forecast for 2017 from 1.5 % to 1.1 %. According to our calculations, the Brexit decision will cost the Austrian economy about one half of a percentage point in growth over the two years 2016/17. This means that the impact on Austria is disproportionately low in a European comparison. In the medium term, the repercussions of Brexit on the Austrian economy will be manageable, though dependent on the political consequences of this decision.

Inflation in Austria has shown a slight upward trend since May. In the first half of 2016, the rate of inflation averaged only 0.8 % year-on-year. The rise in inflation in Austria will become more pronounced in the coming months due to a base effect related to the sharp decline in oil prices in autumn 2015. We expect the inflation rate to average 1.1 % in 2016 and 1.8 % in 2017.

➔ While this scenario indicates a slight recovery of volume trends in the banking sector, it does not invalidate previous trends. Without the effect of Swiss franc appreciation in 2015, loans will probably grow by about 2 % in 2016, a significantly higher rate than the 0.4 % growth seen in 2015; even at this level, credit growth will remain below the multi-year average. There will be a disproportionately strong expansion of housing loans, and for consumer loans and SME loans we expect the decline to come to a halt. Sentiment in Austria improved around the middle of the year and this should stimulate growth in corporate loans in the second half of 2016, Brexit risks notwithstanding, though the increase will remain well below 2 %. The preference for short-term deposits will also continue so that bank deposits will again account for over one-half of newly invested private financial assets in 2016, despite the strong decline in deposits invested for fixed periods. Mutual funds will be the second most important type of investment far and away, life assurance policies will be stagnant at best, and bonds will decline further. The savings ratio will remain low, demand for tangible investments (real estate) will remain strong and, last but not least, investment plans serving as repayment vehicles for foreign currency loans with a bullet maturity will be liquidated. All these factors will limit the total volume of additions to private households' financial assets.

● The Brexit vote also affects the **CEE outlook**. Short-term consequences in the remaining months of 2016 will be limited as increased financial market volatility is mitigated by the Federal Reserve's restrained interest rate policy and because it has a stronger impact only on highly exposed countries; however, these countries still offer high interest rate spreads and benefit from the quest for higher returns. Local political developments and possible contagion effects are more significant. In the longer term, the effects on the real economy of technical recession in the United Kingdom, which is expected for the turn of the year, will cost some growth points also in CEE in view of direct and indirect economic links and uncertainty over corporate planning. The slowdown of economic growth in the euro area (from +1.6 % to +1.0 %) which has been forecast by our economists for 2017 will dampen demand for imports in the euro area by one half of a percentage point, to +2.2 %. Depending on the proportion of exports to euro area members, which varies between 40 % and 85 % from country to country, the impact will spread and also affect investment financed locally and internationally. But the curbing effect will not be substantial as this will affect an economy which is benefiting from a self-sustaining upswing – none of the countries is experiencing recession or stagnation. Ultimately, the effect will depend on the degree of economic openness and industrial links and on available scope for economic policy measures to counteract any adverse impact.

The **EU member states in CEE** ("CEE-EU", without Croatia because of structural differences in the economy) will achieve combined growth of 2.9 % in 2016 as a whole, after +3.7 % in the previous year (see table). The slowdown in the first six months of 2016, which was caused by slackening EU transfers and related infrastructure investment and by lower export demand, will reverse in the second half of the year, intensifying the ongoing increase in domestic demand. This development reflects labour market tightening in combination with strongly rising real wages (e.g. +3.6 % in the Czech Republic, +7.9 % in Hungary, +11.6 % in Romania) and yet increasingly expansionary economic policies ahead of elections in several countries. The average impact of Brexit on CEE-EU in 2016 will be as low as a –0.1 percentage point of GDP but will cost an average –0.9 % of GDP in the coming year, which could be reduced to –0.6 % through economic policy measures. The shortfall in exports will have a disproportionately strong impact on the smaller, open economies of the Czech Republic, Hungary, Slovakia, Slovenia and Bulgaria, mainly because automotive industry is a major factor in these countries. Among the CEE-EU countries, Romania and Poland (the latter is not included in the total figure for Bank Austria) are affected to a disproportionately small extent of –0.4 % to –0.6 % of GDP in view of the size of their domestic markets. The slightly lower

Outlook (CONTINUED)

growth outlook will hardly affect financial stability and the banking sector. The CEE-EU countries benefit from a balanced foreign position, with some of them even showing a large surplus, and exchange rates are stable. Once the oil price-induced relief and base effects cease to have an influence, average inflation rates will return to normal, moving from around zero to an average 1.5% to 2% in 2017; however, at this level they will be below the central bank targets. This means that there is further room for monetary easing and low interest rates.

The growth forecast for the **Western Balkan** countries for 2016 has been raised to a combined +2.2% because the economic momentum in the first half of the year was surprisingly strong. One of the reasons for this performance was the adoption of a credible reform agenda by the new governments in Croatia and Serbia, which eased relations with the IMF and the EU authorities as well as international investors. Exports and investment are increasing in both countries, driving growth in 2016 even more strongly than private and public consumption. Bosnia and Herzegovina also benefits from a sustained economic upswing, with growth possibly reaching +3.0% in 2016, supported by the economic programme put in place to meet IMF conditionality. Serbia is the country most highly exposed to the Brexit shock because of direct and indirect trade links and a weak domestic market; given the tight framework of IMF and EU conditions imposed on the country, there is no leeway to compensate for the 0.8% growth shortfall. In Croatia, where Brexit could have an impact on tourism, the renewed government crisis threatens to put at risk what has been achieved so far. Growth in this country group will probably reach +2.2% in 2016 and be slightly lower in 2017 (+1.8%).

Growth forecasts for **Turkey** have also been reduced to reflect the new scenario following the UK referendum (growth expected to reach +3.0% in 2017 compared with +3.6% in 2016 and +4.0% in 2015). The attempted coup on 15 July 2016 has shown that this effect is marginal in view of political uncertainty ahead of the constitutional change planned for September, which is aimed at introducing a presidential system, in an unstable geopolitical environment. The Turkish economy is currently supported by a boom in private and public consumption (2016: +6.8% and +7.5%, respectively), which is overstretching production potential and leading to a rise in imports while exports are stagnant. Sentiment in the business sector is declining (the PMI, at a recent level of 47.6, has indicated a contraction since spring 2016) and investment is stagnant. A sharp decline in tourism around the middle of the year will have a negative impact on the labour market, insolvency statistics and the financial cycle. With the current account and the basic balance deteriorating, the old problem of dependence on capital inflows has again become critical. While the inflation rate declined to 6.4% in May (June: +7.6%), it will rise again to over 8% by the end of 2016 (central bank target: 5.0%) as the oil price-related base effect ceases to have an influence and imports become more expensive as a result of currency depreciation. While firming most recently, the Turkish lira has declined against the USD/EUR basket by 3.2% since the end of June 2016 and could weaken further. Over the past few months, nominally high and declining interest rates have made Turkey one of the preferred targets of speculative portfolio inflows; however, this dependence poses a serious risk. Potential rating downgrades would inevitably entail capital withdrawals by institutional investors.

The **Russian economy** seems to have overcome recession – for adjustment to the oil price shock – in the middle of 2016. Monthly indicators (PMI, industrial output, surveys) suggest that sentiment has improved and the second half of 2016 will see a slight recovery, so that the economy will contract by –1.8% in 2016 as a whole, a lower rate than the originally expected –2.5% (2015: –3.7%). For the coming year we expect growth of +1.1% as Russia is hardly affected by the Brexit revision of growth forecasts (–0.1%). Stabilisation is now also reflected in the monetary cycle. Domestic demand is still weak – real purchasing power, private and public consumption, investment and imports are declining significantly in 2016 – and this will lead to lower inflation rates (most recently 7.5%; year-end 2016 level expected at 6.3% compared with 16.7% in February 2015). Although the central bank will act cautiously, it will lower the key interest rate further (from recently 10.5% by up to 1.5 percentage points by the end of 2016). Leeway for action increases as capital outflows decline and the rouble stabilises; from the beginning of the year to the end of July 2016, the currency appreciated by 15.8%, to 70 RUB/EUR, more or less matching the level of summer 2015. Local banks' earnings position improved despite constraints resulting from international sanctions.

Macroeconomic data for **Ukraine** are improving (with growth expected to reach +1.9% in 2016 after a contraction of –9.9% in the previous year, and the inflation rate expected to fall to 9.1% by year-end 2016 compared with 43.3% in the previous year) but the financing cycle is still malfunctioning. Capital controls helped overcome the weakness of the Ukrainian hryvnia in February; from year-end 2015 until recently, the currency depreciated by 5.0% to 27.40 UAH/EUR. Further stabilisation is dependent on the disbursement of the suspended tranche under the IMF's EFF programme, which is also a prerequisite for the readiness of the EU and other creditor countries to provide assistance. The reforms required under IMF conditionality are again and again getting bogged down in conflicting particular interests. 2015 was the third consecutive year for which the dysfunctional local banking sector reported a loss (7.5% of GDP). According to official data, non-performing bank loans are 30% of GDP.

Outlook (CONTINUED)

Outlook for Bank Austria's performance

The outlook for the remaining months of 2016 – and beyond – is determined by two far-reaching **structural changes**: the transfer of the sub-holding company function for CEE to the parent company of UniCredit Group, and the restructuring of the remaining Austrian business with a number of revenue and cost initiatives.

● Implementation of the **CEE transfer** is fully under way and the process is expected to be completed – as announced – by the end of the year. The reorganisation plan and the demerger and transfer agreement were published at the end of June. The Annual General Meeting of UniCredit Bank Austria AG unanimously approved the demerger of the CEE business of Bank Austria into UCG Beteiligungsverwaltung GmbH, an Austrian company wholly owned by UniCredit SpA. This company also approved the demerger and the subsequent transfer into UniCredit SpA. The completion of the demerger of Bank Austria's CEE business and its transfer into UniCredit are subject to the relevant regulatory approvals and are expected to be executed simultaneously with effect from 1 October 2016.

The CEE Division will be transferred to UniCredit SpA's direct responsibility in excellent condition: the broadly diversified presence in 13 countries has made it possible to achieve a steady upward trend across varying regional conditions over the past years. With assets of about €97 billion and almost 25,000 employees in over 1,000 branches (and a further 19,000 employees in over 1,000 branches in Turkey), the CEE Division generated operating income of over two billion euros in the first half of 2016 and a net operating profit of close to €1 billion. With Bank Austria no longer performing the sub-holding company function, the cross-regional organisation can be made leaner, eliminating duplication within the Group. In the current regulatory environment, this move will enhance UniCredit's ability to manage liquidity and capital. Regardless of where the equity investments in CEE banking subsidiaries and other companies are held, our internationally active corporate customers will benefit from service continuity. The full expertise and customary high advisory service quality will continue to be available to them.

After the demerger and transfer of CEE business, Bank Austria will have consolidated total assets of about €108 billion and 1.6 million customers, thus remaining the largest individual institution in the Austrian banking market. With a lending volume of about €62 billion and direct funding of €75 billion (including €16 billion in savings deposits), Bank Austria is the leading commercial bank. In the private banking sector, in business with corporate customers and in Corporate & Investment Banking, it is the number one bank in Austria, with all the advantages offered to customers by an international, global systemically important banking group. The concentration on the home market, where business volume is comparable to that in CEE, will significantly improve Bank Austria's risk profile: risk intensity, capital absorption, the cost of capital, liquidity levels and funding costs will be those of a mature universal bank operating in core Europe. After the CEE demerger, risk-weighted assets will be significantly lower than loans and receivables with customers. Bank Austria has a sound capital base: On 4 August 2016, UniCredit made a cash contribution of €1 billion to strengthen the capital structure of Bank Austria. After this cash contribution the Bank Austria stand-alone Common Equity Tier 1 (CET1) capital ratio will include a significant buffer above the regulatory requirements, both according to national (UGB) and international accounting rules (IFRS). As a result Bank Austria (without CEE) will be the best capitalised major bank in Austria.

● Under the **Bank Austria Reloaded** project, the key pillars of Bank Austria's reorientation have been defined over the past few months, on the basis of intensive and detailed analyses of all segments and divisions. All analyses and results have been used as input in designing a transformation programme whose key elements were coordinated with the holding company, the supervisory authorities and the Employees' Council. Implementation of the programme will be completed by the end of 2018.

We aim to achieve our goal of improving the cost/income ratio to 60% by 2018 through revenue and cost initiatives. On the revenue side, we will expand our market leadership position in business with corporate customers and high net worth individuals (Private Banking) and in Corporate & Investment Banking. We believe that our new retail banking service approach will produce effects on both sides, costs and revenues. With a sharp focus on changes in our customers' needs, we will give branches and the digital marketplace, with the Online-Shop and the online branch, equal weight as channels for advisory services and product sales, offering extended opening hours (9 a.m. to 6 p.m. at branches and 8 a.m. to 8 p.m. in the online branch). In retail banking we will concentrate on fewer but larger branches. We are also massively expanding advisory services provided by specialists: following the success of our 100 real estate specialists, we are now increasing the number of investment specialists to 100. In the first half of 2016, we doubled the number of offices, to a total of 55 across Austria, where we offer advisory services to independent professionals and small businesses.

The cost initiatives focus on simplifying and streamlining the organisational structure mainly in the Corporate Center, i.e. in back-office activities: our efforts aim at making hierarchies flatter, combining units and responsibilities, reducing interfaces and complexity, simplifying processes and increasing speed (time-to-market). Leaner organisational structures will be followed by more efficient processes. We have already presented the new organisational structure. The first management level below the Manage-

Outlook (CONTINUED)

ment Board has been significantly reduced and the number of units in the Corporate Center has been reduced by almost one-half (with a reduction from 50 to 30 units in CRO, CFO and Organisation).

As a result of Bank Austria's reorientation and the use of opportunities offered by digitalisation, the necessary tasks can in future be handled by fewer employees. Staff numbers will be reduced through normal staff turnover and the voluntary termination of employment contracts; this will be based on the principles of mutual agreement and a socially compatible approach. Employees who are interested in this option have been able since 30 June 2016 to access information on their specific terms and conditions for leaving the bank. Upon receipt of the responses from employees the company will examine them by the end of October to see if it consents to the termination of an employment contract by mutual agreement.

● In **Austrian customer business** we expect the general environment to remain difficult, characterised by surplus liquidity, slow growth in credit demand and persistent pressure on interest margins. The strong growth of deposits experienced in the past year will subside. As a result, net interest will show a sideways trend. In fee-earning business we see revenue potential in commercial services, where we are highly competitive with the modern international payment products; in using this potential, we may be supported by an increase in foreign trade activity and international transactions. The capital market environment was highly volatile at the beginning of the year, and uncertainty also prevailed around the middle of the year. Nevertheless, persistently low interest rates and the fact that the real estate boom has reached an advanced stage suggest that the propensity to invest in securities will revive. We can take advantage of this development with our asset management advisory services, especially with UNIVERS, our attractive fee model. We expect to gain market share through the rollout of our new investment advisory service approach in the Affluent segment of private customers.

The restructuring measures had positive effects in Austria already in the first half of 2016: operating costs were down by 6% on the same period of the previous year and payroll costs were almost 10% lower; this will significantly relieve the cost burden also for the year as a whole. Although the charge for loan loss provisions cannot be expected to have a continued positive effect on the income statement, we believe that the provisioning charge will be low for the time being. The reform of the rules for the bank levy which was recently adopted by the Austrian government will not immediately have a favourable effect because these rules impose a one-off payment on banks. We expect to benefit from significant relief in this context in the years from 2020. Overall, we believe that Bank Austria will achieve a sound operating profit in 2016, which should enable the bank to absorb the strong negative impacts from non-operating items in the first half of the year.

After completion of the CEE transfer, Bank Austria will, at the end of 2016 and in subsequent years, focus on strengthening its market position as a universal bank and achieving its plan targets on the way to becoming the most attractive bank for customers of the 21st century.

Consolidated Income Statement

of the Bank Austria Group for the first half of 2016

Income statement

(€ million)

	1 JAN.– 30 JUNE 2016	1 JAN.– 30 JUNE 2015 *)
Interest income and similar revenues	901	954
Interest expense and similar charges	–416	–453
Net interest margin	**484**	**500**
Fee and commission income	435	465
Fee and commission expense	–98	–102
Net fees and commissions	**337**	**363**
Dividend income and similar revenue	5	2
Gains and losses on financial assets and liabilities held for trading	7	50
Fair value adjustments in hedge accounting	1	–
Gains and losses on disposal of:	10	10
a) loans	–	–
b) available-for-sale financial assets	1	10
c) held-to-maturity investments	–	–
d) financial liabilities	8	–
Gains and losses on financial assets/liabilities at fair value through profit or loss	2	2
OPERATING INCOME	**845**	**927**
Impairment losses on:	30	–
a) loans	22	–1
b) available-for-sale financial assets	–10	–4
c) held-to-maturity investments	–	–
d) other financial assets	18	4
Net income from financial activities	**876**	**927**
Administrative costs:	–1,046	–861
a) staff expense	–580	–419
b) other administrative expense	–465	–441
Provisions for risks and charges	–1	–4
Impairment/write-backs on property, plant and equipment	–36	–35
Impairment/write-backs on intangible assets	–3	–3
Other net operating income	101	36
OPERATING COSTS	**–984**	**–867**
Profit (loss) of associates	55	65
Gains and losses on tangible and intangible assets measured at fair value	–	–
Gains and losses on disposal of investments	18	10
TOTAL PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**–36**	**135**
Tax expense (income) related to profit or loss from continuing operations	–25	–13
Total profit or loss after tax from continuing operations	**–61**	**122**
Total profit or loss after tax from discontinued operations	747	370
NET PROFIT OR LOSS FOR THE PERIOD	**685**	**491**
Attributable to:		
Non-controlling interests from continuing operations	46	7
from discontinued operations	14	–5
Attributable to non-controlling interests	**59**	**2**
Owners of the parent company from continuing operations	–107	114
from discontinued operations	733	375
Attributable to owners of the parent company	**626**	**489**
Earnings per share (in €, basic and diluted) from continuing operations	–0.46	0.49
from discontinued operations	3.17	1.62

*) Figures for the previous year re-presented in accordance with IFRS 5.

Consolidated Statement of Comprehensive Income

of the Bank Austria Group for the first half of 2016

Statement of comprehensive income

(€ million)

	1 JAN.– 30 JUNE 2016	1 JAN.– 30 JUNE 2015 [1)]
Total profit or loss after tax from continuing operations	**–61**	**122**
Total profit or loss after tax from discontinued operations	**747**	**370**
PROFIT OR (–) LOSS FOR THE PERIOD	**685**	**491**
OTHER COMPREHENSIVE INCOME	**50**	**337**
Items that will not be reclassified to profit or loss	**–234**	**205**
Actuarial gains or (–) losses on defined benefit pension plans	–312	273
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	78	–68
Items that may be reclassified to profit or loss	**285**	**132**
Foreign currency translation [2)]	278	317
Cash flow hedges [effective portion]	–37	–1
Available-for-sale financial assets	186	–226
Non-current assets and disposal groups held for sale	–95	–17
Share of other recognised income and expense of entities accounted for using the equity method	–27	–5
Income tax relating to items that may be reclassified to profit or (–) loss	–20	65
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**736**	**828**
Comprehensive income after tax from continuing operations	**–193**	**183**
Comprehensive income after tax from discontinued operations	**929**	**645**
Thereof attributable to		
Non-controlling interests from continuing operations	41	182
from discontinued operations	44	188
Attributable to non-controlling interests	**85**	**370**
Owners of the parent company from continuing operations	–234	1
from discontinued operations	885	458
Attributable to owners of the parent company	**651**	**459**

1) Figures for the previous year re-presented in accordance with IFRS 5.
2) Of the total amount, discontinued operations account for €272 million (previous year: €305 million).

Earnings per share (in €, basic and diluted)

(€)

	1 JAN.– 30 JUNE 2016	1 JAN.– 30 JUNE 2015
Earnings per share from comprehensive income after tax from continuing operations	–1.01	0.00
Earnings per share from comprehensive income after tax from discontinued operations	3.83	1.98

Statement of Financial Position

of the Bank Austria Group at 30 June 2016

Assets

(€ million)

	30 JUNE 2016	31 DEC. 2015
Cash and cash balances	159	2,146
Financial assets held for trading	1,222	3,013
Financial assets at fair value through profit or loss	16	89
Available-for-sale financial assets	15,919	24,810
Held-to-maturity investments	253	484
Loans and receivables with banks	12,822	32,214
Loans and receivables with customers	59,458	116,377
Hedging derivatives	3,146	3,290
Changes in fair value of portfolio hedged items (+/–)	41	41
Investments in associates and joint ventures	1,792	4,741
Property, plant and equipment	1,146	2,132
of which held for investment	*578*	*827*
Intangible assets	12	221
Tax assets	317	448
a) current tax assets	48	94
b) deferred tax assets	269	353
Non-current assets and disposal groups classified as held for sale	96,828	2,467
Other assets	676	1,167
TOTAL ASSETS	**193,807**	**193,638**

Liabilities and equity

(€ million)

	30 JUNE 2016	31 DEC. 2015
Deposits from banks	15,340	23,432
Deposits from customers	56,081	110,346
Debt securities in issue	18,265	28,802
Financial liabilities held for trading	1,225	2,642
Financial liabilities at fair value through profit or loss	429	547
Hedging derivatives	2,716	2,782
Changes in fair value of portfolio hedged items (+/–)	–143	–101
Tax liabilities	30	214
a) current tax liabilities	7	46
b) deferred tax liabilities	22	169
Liabilities included in disposal groups classified as held for sale	76,948	1,977
Other liabilities	2,126	2,773
Provisions for risks and charges	4,678	4,830
a) post-retirement benefit obligations	4,068	3,697
b) other provisions	611	1,133
Equity	16,110	15,394
of which non-controlling interests (+/–)	*305*	*238*
TOTAL LIABILITIES AND EQUITY	**193,807**	**193,638**

Statement of Changes in Equity

of the Bank Austria Group for the first half of 2016

(€ million)

			CHANGES DURING THE PERIOD					
				SHAREHOLDERS' EQUITY TRANSACTIONS				
	BALANCE AS AT 1 JAN. 2015	ALLOCATION OF PROFIT FROM PREVIOUS YEAR	CHANGES IN RESERVES	CHANGES IN SCOPE OF CONSOLIDATION	OTHER	TOTAL	COMPREHENSIVE INCOME	SHAREHOLDERS' EQUITY GROUP AS AT 30 JUNE 2015
Issued capital: a) ordinary shares	1,681					0		**1,681**
b) other shares	0					0		**0**
Share premium	6,058				5	5		**6,063**
Reserves: a) other reserve	10,567	1,383		–79		–79		**11,870**
b) foreign currency reserve	–3,980			–197		–197	322	**–3,855**
Cash flow hedge reserve	347						–22	**325**
Available-for-sale reserve	721						–135	**586**
Cash flow hedge and AFS reserve associates and joint ventures	71						–27	**44**
Pension and similar liabilities IAS 19	–2,116						205	**–1,911**
Net profit or loss for the period	1,383	–1,383	489			0		**489**
Shareholders' Equity Group	**14,732**	**0**	**489**	**–276**	**5**	**–271**	**342**	**15,292**
Shareholders' Equity minorities	193	–33	2	247	0	247	–6	404
Total Shareholders' Equity	14,925	–33	491	–29	5	–24	337	15,696

			CHANGES DURING THE PERIOD					
				SHAREHOLDERS' EQUITY TRANSACTIONS				
	BALANCE AS AT 1 JAN. 2016	ALLOCATION OF PROFIT FROM PREVIOUS YEAR	CHANGES IN RESERVES	CHANGES IN SCOPE OF CONSOLIDATION	OTHER	TOTAL	COMPREHENSIVE INCOME	SHAREHOLDERS' EQUITY GROUP AS AT 30 JUNE 2016
Issued capital: a) ordinary shares	1,681					0		**1,681**
b) other shares	0					0		**0**
Share premium	6,067				1	1		**6,068**
Reserves: a) other reserve	11,098	1,325		34		34		**12,456**
b) foreign currency reserve	–4,797			–36		–36	253	**–4,580**
Cash flow hedge reserve	305						–28	**278**
Available-for-sale reserve	814						96	**910**
Cash flow hedge and AFS reserve associates and joint ventures	21						–61	**–40**
Pension and similar liabilities IAS 19	–1,359						–235	**–1,594**
Net profit or loss for the period	1,325	–1,325	626			0		**626**
Shareholders' Equity Group	**15,155**	**0**	**626**	**–2**	**1**	**–1**	**25**	**15,805**
Shareholders' Equity minorities	238	–13	59	–4	0	–4	25	305
Total Shareholders' Equity	15,394	–13	685	–6	1	–6	50	16,110

Statement of Cash Flows

of the Bank Austria Group for the first half of 2016

(€ million)

	1 JAN.– 30 JUNE 2016	1 JAN.– 30 JUNE 2015*)
NET PROFIT OR LOSS	**685**	**491**
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	571	521
Increase in staff-related provisions and other provisions	633	122
Increase/decrease in other non-cash items	–634	–857
Interest income/interest expenses from investing activities	–8	85
Gains/losses on disposal of intangible assets, property, plant and equipment, and investments	–62	–17
SUB-TOTAL	**1,185**	**345**
Increase/decrease in operating assets and liabilities after adjustment for non-cash components		
Financial assets held for trading	–474	755
Loans and receivables with banks and customers	3,051	–882
Other asset items	–334	538
Financial liabilities held for trading	73	–761
Deposits from banks and customers	537	4,069
Debt securities in issue	–2,418	–2,274
Other liabilities items	147	–438
CASH FLOWS FROM OPERATING ACTIVITIES	**1,767**	**1,352**
of which: cash flows from operating activities of discontinued operations	***1,048***	***908***
Proceeds from disposal of		
investments	5,240	4,772
property, plant and equipment	52	39
Payments for purchases of		
investments	–6,624	–6,856
property, plant and equipment	–145	–148
Proceeds from sales (less cash disposed of) of subsidiaries	15	66
Payments for acquisition (less cash acquired) of subsidiaries	0	–34
Other changes	0	19
CASH FLOWS FROM INVESTING ACTIVITIES	**–1,462**	**–2,142**
of which: cash flows from investing activities of discontinued operations	***–713***	***–771***
Proceeds from capital increase	0	0
Dividends paid	0	0
Subordinated liabilities and other financial activities (net)	–29	906
CASH FLOWS FROM FINANCING ACTIVITIES	**–29**	**906**
of which: cash flows from financing activities of discontinued operations	***0***	***–10***
CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS AT END OF PREVIOUS PERIOD	**218**	**269**
Cash and cash equivalents from discontinued operations at end of previous period	**1,978**	**1,758**
CASH AND CASH EQUIVALENTS AT END OF PREVIOUS PERIOD	**2,197**	**2,027**
Cash flows from operating activities	1,767	1,352
Cash flows from investing activities	–1,462	–2,142
Cash flows from financing activities	–29	906
Effects of exchange rate changes	12	–12
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**2,485**	**2,131**
Cash and cash equivalents from discontinued operations	**2,325**	**1,872**
Cash and cash equivalents from continuing operations	**159**	**259**
Payments for taxes, interest and dividends		
Income taxes paid from operating activities	–63	–73
Interest received from operating activities	5,670	2,856
from investing activities	588	233
Interest paid from operating activities	–2,319	–1,338
from investing activities	–770	–392
Dividends received from investing activities	101	71

*) Figures for the previous year re-presented in accordance with IFRS 5.

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 2016 (January 2016 to June 2016), 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 2016 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 2015.

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 2015, 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 income 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 2015.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

In May 2014, the IASB issued amendments to IAS 16 and IAS 38, clarifying that the use of revenue-based depreciation methods for property, plant and equipment is not appropriate, and significantly limiting the use of revenue-based depreciation methods for intangible assets. The amendments were endorsed by the EU in December 2015; they have been applied since 1 January 2016. These amendments only have insignificant effects on the Bank Austria Group.

Amendment to IFRS 11 Joint Arrangements

This amendment clarifies the accounting for acquisitions of interests in joint operations if these constitute a business. The amendment was published on 6 May 2014 and became effective on 1 January 2016; it was endorsed by the EU in November 2015. Effects on the Bank Austria Group will only result if such a transaction is made in the future.

Amendments to IAS 1 Presentation of Financial Statements

On 18 December 2014 the IASB, under its Disclosure Initiative, published amendments to IAS 1 concerning various clarifications and additional disclosure requirements. The amendments became effective on 1 January 2016; they were endorsed by the EU in December 2015. The amendments result in minor additional information to be given by the Bank Austria Group in the notes to the consolidated financial statements.

Amendments resulting from "Annual Improvements to IFRS 2012–2014 Cycle"

On 25 September 2014 the IASB issued amendments under the Annual Improvements to IFRS project. These amendments relate to minor adjustments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, with regard to changes in methods of disposal; amendments to IFRS 7 Financial Instruments: Disclosures, in connection with the application to servicing contracts; more specific information in IAS 19 Employee Benefits with regard to the currency of the discount rate to be applied; and clarifications with regard to wordings in IAS 34 Interim Financial Reporting. The amendments became effective on 1 January 2016; they were endorsed by the EU in December 2015. The effects on the Bank Austria Group are considered to be negligible.

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 reduced to 1.4% as of 30 June 2016 (31 December 2015: 2.05% 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 €285 million (net of tax) was recognised in other comprehensive income in equity in accordance with IAS 19.

Under a commitment to provide defined benefits, UniCredit Bank Austria AG continues to recognise a pension provision for the entitlements of employees who retired before the pension reform as at 31 December 1999 became effective, and – as a special feature of UniCredit Bank Austria AG's staff regulations – for the future benefits, equivalent to those under mandatory insurance, earned by active employees and pensioners for whom UniCredit Bank Austria AG has assumed the obligations of the mandatory pension insurance scheme pursuant to Section 5 of the Austrian General Social Insurance Act (ASVG) if these persons signed a pension agreement not later than 29 February 2016 and if they leave the company to take retirement by 31 December 2016.

In the past, UniCredit Bank Austria AG assumed the obligations of the mandatory social insurance scheme for a number of its employees, especially with regard to pension obligations. In December 2015, UniCredit Bank Austria AG and the Employees' Council made an agreement to the effect that for almost all of the employees who have rights to future benefits (essentially the active employees covered by the bank's own pension scheme) the bank's own pension system is terminated and the rights to future pension benefits will consequently be transferred to the state scheme under the Austrian General Social Insurance Act. The employees concerned will receive compensation, in the form of one-off lump-sum payments, for any disadvantages resulting from this transfer. In addition, UniCredit Bank Austria has to make a payment, defined by law, to the state scheme under the Austrian General Social Insurance Act for the transfer of the rights to future pension benefits. The amount of this payment was determined in the best possible manner based on the legal situation applicable as at 31 December 2015 and a provision was recognised for it.

The agreement with the Employees' Council was signed with legal effect in December 2015 and terminates the bank's own pension system for the employees concerned upon expiry of 29 February 2016. The employees concerned are automatically, by operation of law, taken over by the state scheme under the Austrian General Social Insurance Act. While the entitlements will not be transferred, and the payments will not be made, until the first quarter of 2016, the effect of this plan curtailment and the related reduction of the present value of the pension obligation had to be recognised in the financial statements in accordance with IAS 19 already in 2015.

The Austrian legislator subsequently passed an amendment to the Austrian General Social Insurance Act, which was published in the Austrian Federal Law Gazette No. 18/2016 on 13 April 2016 and became effective retroactively so that the above-mentioned transfers are covered by the amendment. In some areas, the effectiveness of the new legal provisions still depends on whether the Austrian Federal Minister of Labour, Social Affairs and Consumer Protection states by way of regulation that the European Commission does not see the transferred amount as state aid under the new Section 311a of the Austrian General Social Insurance Act. In effect, this ASVG amendment puts the transfer to the ASVG scheme of rights to future pension benefits on a separate legal basis while also increasing the amount to be transferred to the Austrian state pension system. Although no official notice of the amount to be transferred has been issued as yet and the Austrian Ministry has not yet issued the relevant regulation, the provisions were adjusted accordingly. This was done irrespective of the fact that UniCredit Bank Austria AG has not yet made a decision on whether to challenge the law on grounds of potential legal objections.

Notes (CONTINUED)

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 2015 and are still applicable.

The following tables show a breakdown of financial assets and liabilities designated at fair value as well as changes in Level 3 financial assets and liabilities.

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

FINANCIAL ASSETS/LIABILITIES MEASURED AT FAIR VALUE	30 JUNE 2016			31 DEC. 2015		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial assets held for trading	1	1,176	44	134	2,810	69
Financial assets at fair value through profit or loss	–	–	16	–	72	16
Available-for-sale financial assets	14,487	1,274	100	19,648	4,070	1,030
Hedging derivative assets	–	3,146	–	–	3,284	6
Property, plant and equipment (measured at fair value)	–	–	24	–	–	69
TOTAL	**14,488**	**5,596**	**184**	**19,782**	**10,236**	**1,190**
Financial liabilities held for trading	–	1,201	25	34	2,578	30
Financial liabilities at fair value through profit or loss	–	426	2	–	544	3
Hedging derivative liabilities	–	2,716	–	–	2,761	20
TOTAL	**–**	**4,343**	**27**	**34**	**5,883**	**53**

Notes (CONTINUED)

Annual changes in financial assets at fair value level 3

(€ million)

	1 JAN.–30 JUNE 2015				
	FINANCIAL ASSETS				
	HELD FOR TRADING	AT FAIR VALUE THROUGH PROFIT OR LOSS	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	–	192	–	–
Profits recognised in:					
Income statement	19	7	1	–	1
of which unrealised gains[1)]	*5*	*1*	–	–	*1*
Equity[2)]	X	X	22	–	–
Transfers from other levels	–	–	194	–	–
Other increases	2	2	34	–	–
Decreases	**–263**	**–39**	**–696**	**–18**	**–2**
Sales	–174	–35	–70	–	–
Redemptions	–21	–3	–51	–	–
Losses recognised in:					
Income statement	–1	–	–11	–	–1
of which unrealised losses[3)]	–	–	–	–	*–1*
Equity[4)]	X	X	–6	–	–
Transfers to other levels	–39	–	–344	–18	–
Other decreases	–29	–1	–213	–	–1
Closing balances	**48**	**26**	**878**	**3**	**70**

	1 JAN.–30 JUNE 2016				
	FINANCIAL ASSETS				
	HELD FOR TRADING	AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE	HEDGING DERIVATIVES	PROPERTY, PLANT AND EQUIPMENT
Opening balances	**69**	**16**	**1,030**	**6**	**69**
Increases	**274**	**1**	**266**	**–**	**–**
Purchases	262	–	244	–	–
Profits recognised in:					
Income statement	9	1	1	–	–
of which unrealised gains[1)]	*5*	*1*	–	–	–
Equity[2)]	X	X	14	–	–
Transfers from other levels	1	–	–	–	–
Other increases	3	–	7	–	–
Decreases	**–299**	**–2**	**–1,196**	**–6**	**–45**
Sales	–267	–	–253	–3	–10
Redemptions	–5	–1	–2	–	–
Losses recognised in:					
Income statement	–6	–	–10	–	–
of which unrealised losses[3)]	*–1*	–	–	–	–
Equity[4)]	X	X	–33	–	–
Transfers to other levels	–	–	–251	–	–
Other decreases	–21	–	–647	–3	–35
Closing balances	**44**	**16**	**100**	**–**	**24**

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 of available-for-sale financial assets".

Notes (CONTINUED)

Annual changes in financial liabilities at fair value level 3

(€ million)

	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**	**–**
Issuance	42	–	–
Losses recognised in:			
Income statement	12	–	–
of which unrealised losses 1)	*8*	–	–
Equity	X	X	–
Transfers from other levels	–	–	–
Other increases	2	24	–
Decreases	**–121**	**–25**	**–12**
Redemptions	–4	–	–
Purchases	–	–	–
Profits recognised in:			–
Income statement	–	–	–
of which unrealised gains 2)	–	–	–
Equity	X	X	–
Transfers to other levels	–29	–	–10
Other decreases	–88	–25	–1
Closing balances	**53**	**4**	**–**

	1 JAN.–30 JUNE 2016		
	FINANCIAL LIABILITIES		
	HELD FOR TRADING	AT FAIR VALUE THROUGH PROFIT OR LOSS	HEDGING DERIVATIVES
Opening balances	**30**	**3**	**21**
Increases	**29**	**23**	**–**
Issuance	18	–	–
Losses recognised in:			
Income statement	9	–	–
of which unrealised losses 1)	*2*	–	–
Equity	X	X	–
Transfers from other levels	–	–	–
Other increases	3	23	–
Decreases	**–34**	**–23**	**–21**
Redemptions	–23	–	–21
Purchases	–	–	–
Profits recognised in:			
Income statement	–6	–	–
of which unrealised gains 2)	–	–	–
Equity	X	X	–
Transfers to other levels	–	–	–
Other decreases	–5	–23	–
Closing balances	**24**	**2**	**–**

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 2016		1 JAN.–30 JUNE 2015	
	LEVEL 1	LEVEL 2	LEVEL 1	LEVEL 2
Financial assets				
Financial assets held for trading	x	–	x	–
Transfer from Level 1	–	x	–	x
Transfer from Level 2				
Financial assets at fair value through profit or loss	x	–	x	–
Transfer from Level 1	–	x	–	x
Transfer from Level 2				
Available-for-sale financial assets	x	–30	x	–
Transfer from Level 1	–	x	249	x
Transfer from Level 2				
Hedging derivatives assets	x	–	x	–
Transfer from Level 1	–	x	–	x
Transfer from Level 2				
Financial liabilities				
Financial liabilities held for trading	x	–	x	–
Transfer from Level 1	–	x	–	x
Transfer from Level 2				
Financial liabilities at fair value through profit or loss	x	–	x	–
Transfer from Level 1	–	x	–	x
Transfer from Level 2				
Hedging derivatives liabilities	x	–	x	–
Transfer from Level 1	–	x	–	x
Transfer from Level 2				

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 "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	UNOBSERVABLE PARAMETERS	RANGE
Derivatives	Financial					
		Equity	52.6	29.6	Underlying	15%
		Foreign Exchange	0.1	0.1	Interest rate	100 bps
Debt Securities and Loans		Corporate/Government/Other	663.9	2.4	Price	10 bps to 300 bps
Equity Securities		Unlisted Equity & Holdings	110.0		Price	15%
Units in Investment Funds		Real Estate & Other Funds	33.8		Price	15%

(€ million)

PRODUCT CATEGORIES		FAIR VALUE MOVEMENTS GIVEN REASONABLE POSSIBLE ALTERNATIVES		
Derivatives				
	Financial			
		Equity	+/–	10.9
		Foreign Exchange	+/–	0.0
		Interest Rate	+/–	0.0
	Credit		+/–	0.4
Debt Securities and Loans		Corporate/Government/Other	+/–	1.6
Equity Securities		Unlisted Equity & Holdings	+/–	6.0
Units in Investment Funds		Real Estate & Other Funds	+/–	1.6

*) The sensitivity analysis tables include CEE before reclassification in accordance with IFRS 5.

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 2016:

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 2016	FAIR VALUE AS AT 30 JUNE 2016	INCOME/EXPENSES ABSENT RECLASSIFICATION (BEFORE TAXES)		INCOME/EXPENSES RECOGNISED DURING THE PERIOD (BEFORE TAXES)	
					FROM MEASUREMENT	OTHER	FROM MEASUREMENT	OTHER
Debt securities								
	HFT	AFS	–	–	–	–	–	–
	HFT	HTM	–	–	–	–	–	–
	HFT	Loans to banks	–	–	–	–	–	–
	HFT	Loans to customers	299	287	–3	2	3	3
	AFS	Loans to banks	1,503	1,507	3	11	–	19
TOTAL			**1,802**	**1,794**	**–**	**13**	**3**	**22**

Notes (CONTINUED)

Consolidated companies and changes in consolidated companies of the Bank Austria Group in the first half of 2016

	CONSOLIDATED COMPANIES	COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD	TOTAL
Opening balance	**400**	**37**	**437**
Additions	**1**	**0**	**1**
Acquired companies	1	0	1
Disposals	**–15**	**–1**	**–16**
Companies sold or liquidated	–10	–1	–11
Mergers	–5	0	–5
CLOSING BALANCE	**386**	**36**	**422**

In the first half of 2016 the number of companies of the Bank Austria Group declined from 437 to 422.

The company acquired in 2016 is UniCredit Leasing Srbija d.o.o. Beograd.

Disposals resulted from the merger of INPROX Poprad, spol. s.r.o. and INPROX SR I., spol. s.r.o. into UniCredit Leasing Slovakia a.s., and the merger of Nordbahnhof Baufeld Acht Projektentwicklung GmbH, Nordbahnhof Baufeld Sieben Projektentwicklung GmbH and Nordbahnhof Baufeld Fünf Projektentwicklung GmbH into Nordbahnhof Projekte Holding GmbH. Moreover, the liquidation of the Ukrainian subsidiary SVIF Ukrsotsbud was completed. The following companies were sold in the first half of 2016:

CONSOLIDATED COMPANIES
DONAUTURM Aussichtsturm- und Restaurantbetriebsges.m.b.H.
DONAUTURM Liegenschaftsverwaltungsgesellschaft m.b.H.
NATA Immobilien-Leasing Gesellschaft m.b.H.
HVB-Leasing Hamlet Ingatlanhasznosító Kft.
CA-Leasing Kappa Kft.
BACA Leasing Gama s.r.o.
BACA-Leasing Omikron Kft.
Interkonzum Doo Sarajevo
Bacal Beta Nekretnine d.o.o., za poslovanje nekretninama
COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD
Mariahilfergürtel Grundstücksvermietungsgesellschaft m.b.H.

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

In the second quarter of 2016, a capital increase was carried out at the Ukrainian banking subsidiary Public Joint Stock Company Ukrsotsbank, Kiev (USB), in the amount of about US$145 million (through the conversion of existing loans of UniCredit Bank Austria AG into equity) to strengthen the bank's capital base. As a result of this capital increase, the Bank Austria Group's shareholding interest in Ukrsotsbank rose from 91.36% to currently 94.21% as at 30 June 2016. This change in shareholding interests resulted in shifts between "Shareholders' Equity Group" and "Shareholders' Equity minorities" within the Bank Austria Group's equity. In addition to the capital measures undertaken, UniCredit Bank Austria AG has issued a letter of intent in favour of Ukrsotsbank in order to support USB's operations also prior to its future transfer.

Notes to the income statement

Interest income / Interest expense

Interest income and similar revenues

(€ million)

	1 JAN.–30 JUNE 2016				1 JAN.–30 JUNE 2015
	DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	TOTAL	TOTAL
Financial assets held for trading	–	–	4	4	6
Financial assets at fair value through profit or loss	–	–	–	–	–
Available-for-sale financial assets	105	–	–	105	111
Held-to-maturity investments	3	–	–	3	4
Loans and receivables with banks	13	9	–	22	59
Loans and receivables with customers	3	535	–	538	575
Hedging derivatives	X	X	225	225	187
Other assets	X	X	4	4	11
TOTAL	**124**	**544**	**233**	**901**	**954**

Interest expense and similar charges

(€ million)

	1 JAN.–30 JUNE 2016				1 JAN.–30 JUNE 2015
	DEPOSITS	SECURITIES	OTHER TRANSACTIONS	TOTAL	TOTAL
Deposits from central banks	–2	X	–	–2	–2
Deposits from banks	–96	X	–	–96	–70
Deposits from customers	–92	X	–	–92	–130
Debt securities in issue	X	–222	–	–222	–247
Financial liabilities held for trading	–	–	–2	–2	–2
Financial liabilities at fair value through profit or loss	–	–2	–	–2	–2
Other liabilities	X	X	–	–	–
Hedging derivatives	X	X	–	–	–
TOTAL	**–190**	**–224**	**–2**	**–416**	**–453**

Fee and commission income / Fee and commission expense

Fee and commission income

(€ million)

	1 JAN.–30 JUNE 2016	1 JAN.–30 JUNE 2015
Guarantees given	**21**	**29**
Credit derivatives	**1**	**2**
Management, brokerage and consultancy services:	**175**	**184**
securities trading	–	–
currency trading	2	6
portfolio management	98	100
custody and administration of securities	26	25
custodian bank	17	19
placement of securities	2	3
reception and transmission of orders	10	10
advisory services	–	2
distribution of third party services	20	20
Collection and payment services	**123**	**129**
Securitisation servicing	**–**	**–**
Factoring	**2**	**2**
Tax collection services	**–**	**–**
Management of multilateral trading facilities	**–**	**–**
Management of current accounts	**69**	**71**
Other services	**44**	**48**
TOTAL	**435**	**465**

Notes to the income statement (CONTINUED)

Fee and commission expense

(€ million)

	1 JAN.– 30 JUNE 2016	1 JAN.– 30 JUNE 2015
Guarantees received	**–15**	**–15**
Credit derivatives	**–**	**–2**
Management, brokerage and consultancy services:	**–31**	**–32**
trading in financial instruments	–1	–1
currency trading	–	–
portfolio management	–6	–7
custody and administration of securities	–16	–15
placement of financial instruments	–	–
off-site distribution of financial instruments, products and services	–7	–9
Collection and payment services	**–50**	**–53**
Other services	**–2**	**–**
TOTAL	**–98**	**–102**

Dividend income and similar revenue

(€ million)

	1 JAN.–30 JUNE 2016			1 JAN.–30 JUNE 2015		
	DIVIDENDS	INCOME FROM UNITS IN INVESTMENT FUNDS	TOTAL	DIVIDENDS	INCOME FROM UNITS IN INVESTMENT FUNDS	TOTAL
Financial assets held for trading	–	–	–	–	–	–
Available-for-sale financial assets	5	–	5	2	–	2
Financial assets at fair value through profit or loss	–	–	–	–	–	–
Investments	–	X	–	–	X	–
TOTAL	**5**	**–**	**5**	**2**	**–**	**2**

Gains and losses on financial assets and liabilities held for trading

(€ million)

	1 JAN.–30 JUNE 2016					1 JAN.– 30 JUNE 2015
	UNREALISED PROFITS	REALISED PROFITS	UNREALISED LOSSES	REALISED LOSSES	NET PROFIT	NET PROFIT
Financial assets held for trading	**–**	**1**	**–**	**–**	**1**	**2**
Debt securities	–	1	–	–	1	1
Equity instruments	–	–	–	–	–	–
Units in investment funds	–	–	–	–	–	–
Loans	–	–	–	–	–	–
Other	–	–	–	–	–	1
Financial liabilities held for trading	**–**	**–**	**–**	**–**	**–**	**–**
Debt securities	–	–	–	–	–	–
Deposits	–	–	–	–	–	–
Other	–	–	–	–	–	–
Other financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**10**	**–13**
Derivatives	**16**	**–**	**–25**	**–**	**–4**	**62**
Financial derivatives	16	–	–25	–	–4	62
on debt securities and interest rates	*16*	–	*–23*	–	*–7*	*59*
on equity securities and share indices	–	–	*–2*	–	*–2*	*–2*
on currency and gold	*X*	*X*	*X*	*X*	*5*	*5*
other	–	–	–	–	–	–
Credit derivatives	–	–	–	–	–	–
TOTAL	**16**	**1**	**–25**	**–**	**7**	**50**

Notes to the income statement (CONTINUED)

Fair value adjustments in hedge accounting

(€ million)

	1 JAN.– 30 JUNE 2016	1 JAN.– 30 JUNE 2015
Gains on:		
Fair value hedging instruments	782	336
Hedged asset items (in fair value hedge relationship)	67	122
Hedged liability items (in fair value hedge relationship)	–	–
Cash-flow hedging derivatives (ineffectiveness)	–	–
Total gains on hedging activities	**849**	**458**
Losses on:		
Fair value hedging instruments	–741	–165
Hedged asset items (in fair value hedge relationship)	–	–
Hedged liability items (in fair value hedge relationship)	–107	–293
Cash-flow hedging derivatives (ineffectiveness)	–	–
Total losses on hedging activities	**–848**	**–458**
NET HEDGING RESULT	**1**	**–**

Gains and losses on disposals/repurchases

(€ million)

	1 JAN.–30 JUNE 2016			1 JAN.–30 JUNE 2015		
	GAINS	LOSSES	NET PROFIT	GAINS	LOSSES	NET PROFIT
Financial assets						
Loans and receivables with banks	–	–	–	–	–	–
Loans and receivables with customers	–	–	–	–	–	–
Available-for-sale financial assets	11	–10	1	15	–5	10
Debt securities	*10*	*–10*	*1*	*15*	*–4*	*10*
Equity instruments	–	–	–	*1*	*–1*	–
Units in investment funds	–	–	–	–	–	–
Loans	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
TOTAL ASSETS	**11**	**–10**	**2**	**15**	**–5**	**10**
Financial liabilities						
Deposits from banks	–	–	–	–	–	–
Deposits from customers	–	–	–	–	–	–
Debt securities in issue	8	–	8	–	–	–
TOTAL LIABILITIES	**8**	**–**	**8**	**–**	**–**	**–**
TOTAL	**19**	**–10**	**10**	**15**	**–5**	**10**

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 2016					1 JAN.–30 JUNE 2015
	UNREALISED PROFITS	REALISED PROFITS	UNREALISED LOSSES	REALISED LOSSES	NET PROFIT	NET PROFIT
Financial assets	**1**	**–**	**–**	**–**	**1**	**2**
Debt securities	–	–	–	–	–	–
Equity instruments	–	–	–	–	–	–
Units in investment funds	1	–	–	–	1	2
Loans	–	–	–	–	–	–
Financial liabilities	**6**	**2**	**–1**	**–**	**7**	**–3**
Debt securities	6	2	–1	–	7	–3
Deposits from banks	–	–	–	–	–	–
Deposits from customers	–	–	–	–	–	–
Credit and financial derivatives	**–**	**–**	**–6**	**–**	**–6**	**3**
TOTAL	**7**	**2**	**–7**	**–**	**2**	**2**

Impairment losses

(€ million)

	1 JAN.–30 JUNE 2016						1 JAN.–30 JUNE 2015
	WRITE-DOWNS			WRITE-BACKS			
	SPECIFIC						
	WRITE-OFFS	OTHER	PORTFOLIO	SPECIFIC	PORTFOLIO	TOTAL	TOTAL
Impairment losses on loans and receivables	**–8**	**–71**	**–30**	**123**	**8**	**22**	**–1**
Loans and receivables with banks	–	–	–	–	–	–	–
Loans and receivables with customers	–8	–71	–30	123	8	22	–1
Impairment losses on available-for-sale financial assets	**–**	**–10**	**X**	**–**	**X**	**–10**	**–4**
Debt securities	–	–	X	–	X	–	–
Equity instruments	–	–10	X	–	X	–10	–4
Units in investment funds	–	–	X	–	X	–	–
Impairment losses on held-to-maturity investments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Debt securities	–	–	–	–	–	–	–
Impairment losses on other financial transactions	**–**	**–1**	**–6**	**25**	**–**	**18**	**4**
Guarantees given	–	–1	–6	25	–	18	4
Credit derivatives	–	–	–	–	–	–	–
Commitments to disburse funds	–	–	–	–	–	–	–
Other transactions	–	–	–	–	–	–	–
TOTAL	**–8**	**–82**	**–36**	**148**	**8**	**30**	**–**

Notes to the income statement (CONTINUED)

Payroll

(€ million)

	1 JAN.– 30 JUNE 2016	1 JAN.– 30 JUNE 2015
Employees	**–577**	**–414**
Wages and salaries	–289	–293
Social charges	–78	–68
Provision for retirement payments and similar provisions	–634	–104
Defined contribution	–	–
Defined benefit	*–634*	*–104*
Payments to external pension funds	–7	–8
Defined contribution	*–7*	*–7*
Defined benefit	*–1*	*–1*
Costs/recoveries related to share-based payments	–	–1
Other employee benefits	368	–9
Recovery of compensation*)	63	69
Others	**–4**	**–5**
TOTAL	**–580**	**–419**

*) 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 2016	1 JAN.– 30 JUNE 2015
Indirect taxes and duties	**–65**	**–64**
Ex-ante contributions to resolution funds and deposit guarantee schemes*)	**–54**	**–24**
Contributions based on harmonised EU regulations	–54	–24
Contributions based on existing local regulations	–	–
Miscellaneous costs and expenses	**–346**	**–353**
Advertising, marketing and communication	–22	–23
Expenses related to credit risk	–2	–2
Expenses related to personnel	–5	–6
Information and communication technology expenses	–118	–122
Consulting and professional services	–43	–27
Real estate expenses	–53	–57
Other functioning costs	–102	–116
TOTAL	**–465**	**–441**

*) 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 2016			1 JAN.– 30 JUNE 2015
	PROVISIONS	REALLOCATION SURPLUS	TOTAL	TOTAL
Legal disputes	–	–	–	–4
Staff costs	–	–	–	–
Other	–1	–	–1	–1
TOTAL	**–2**	**1**	**–1**	**–4**

Notes to the income statement (CONTINUED)

Impairment on property, plant and equipment

(€ million)

	1 JAN.–30 JUNE 2016				1 JAN.– 30 JUNE 2015
	DEPRECIATION	IMPAIRMENT LOSSES	WRITE-BACKS	NET PROFIT	NET PROFIT
Property, plant and equipment					
Owned	**–34**	**–1**	**–**	**–36**	**–35**
used in the business	–27	–	–	–27	–27
held for investment	–7	–1	–	–9	–8
Finance lease	**–**	**–**	**–**	**–**	**–**
used in the business	–	–	–	–	–
held for investment	–	–	–	–	–
TOTAL	**–34**	**–1**	**–**	**–36**	**–35**

Impairment on intangible assets

(€ million)

	1 JAN.–30 JUNE 2016				1 JAN.– 30 JUNE 2015
	AMORTISATION	IMPAIRMENT LOSSES	WRITE-BACKS	NET PROFIT	NET PROFIT
Intangible assets					
Owned	**–3**	**–**	**–**	**–3**	**–3**
generated internally by the company	–	–	–	–	–
other	–3	–	–	–3	–3
Finance leases	**–**	**–**	**–**	**–**	**–**
TOTAL	**–3**	**–**	**–**	**–3**	**–3**

Other net operating income

Other operating expenses

(€ million)

	1 JAN.– 30 JUNE 2016	1 JAN.– 30 JUNE 2015
Costs for operating leases	–	–
Non-deductible tax and other fiscal charges	–1	–1
Write-downs on improvements of goods owned by third parties	–6	–6
Costs related to the specific service of financial leasing	–1	–1
Other	–24	–18
TOTAL OTHER OPERATING EXPENSES	**–32**	**–26**

Other operating income

(€ million)

	1 JAN.– 30 JUNE 2016	1 JAN.– 30 JUNE 2015
Recovery of costs	**–**	**–**
Other income	**133**	**62**
Revenue from administrative services	19	19
Revenues from rentals of real estate investments (net of direct operating costs)	7	7
Revenues from operating leases	15	16
Recovery of miscellaneous costs paid in previous years	–	–
Revenues from finance lease activities	–	1
Others	92	17
TOTAL OTHER OPERATING INCOME	**133**	**62**
OTHER NET OPERATING INCOME	**101**	**36**

Notes to the income statement (CONTINUED)

Profit (Loss) of associates

(€ million)

	1 JAN.– 30 JUNE 2016	1 JAN.– 30 JUNE 2015
Joint ventures		
Income	**–**	**–**
Profits of joint ventures	–	–
Gains on disposal	–	–
Write-backs	–	–
Other gains	–	–
Expense	**–**	**–**
Losses of joint ventures	–	–
Impairment losses	–	–
Losses on disposal	–	–
Other expenses	–	–
Net profit	**–**	**–**
Associates		
Income	**55**	**69**
Profits of associates	55	69
Gains on disposal	–	1
Write-backs	–	–
Other gains	–	–
Expense	**–**	**–5**
Losses of associates	–	–2
Impairment losses	–	–
Losses on disposal	–	–3
Other expenses	–	–
Net profit	**55**	**65**
TOTAL	**55**	**65**

Gains and losses on disposal of investments

(€ million)

	1 JAN.– 30 JUNE 2016	1 JAN.– 30 JUNE 2015
Property		
Gains on disposal	13	9
Losses on disposal	–	–
Other assets		
Gains on disposal	5	2
Losses on disposal	–	–
TOTAL	**18**	**10**

Total profit or loss after tax from discontinued operations

(€ million)

	1 JAN.– 30 JUNE 2016	1 JAN.– 30 JUNE 2015
Income	8,049	5,882
Expense	–7,180	–5,297
Gains and losses from valuations of the group of assets and associated liabilities	–	–100
revaluations	–	–
impairment loss	–	–100
Realised gains (losses)	1	3
Realised gains	3	3
Realised losses	–2	–
Tax expenses	–123	–118
PROFIT (LOSS)	**747**	**370**

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 2016				31 DEC. 2015			
	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)	**1**	**1**	**–**	**2**	**133**	**51**	**21**	**205**
Debt securities	1	1	–	2	131	51	21	203
Structured securities	–	–	–	–	–	–	–	–
Other debt securities	*1*	*1*	–	*2*	*131*	*51*	*21*	*203*
Equity instruments	–	–	–	–	2	–	–	2
Derivative instruments	**–**	**1,175**	**45**	**1,220**	**1**	**2,759**	**48**	**2,808**
Financial derivatives	–	1,175	45	1,220	1	2,758	48	2,807
Credit derivatives	–	–	–	–	–	1	–	1
TOTAL	**1**	**1,176**	**45**	**1,222**	**134**	**2,810**	**69**	**3,013**

Financial assets at fair value through profit or loss

(€ million)

	30 JUNE 2016				31 DEC. 2015			
	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	–	–	–	–	–	57	–	57
Equity instruments	–	–	–	–	–	–	–	–
Units in investment funds	–	–	16	16	–	15	17	32
Loans	–	–	–	–	–	–	–	–
TOTAL	**–**	**–**	**16**	**16**	**–**	**72**	**17**	**89**
COST	**–**	**–**	**16**	**16**	**–**	**71**	**16**	**87**

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 2016				31 DEC. 2015			
	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	14,486	1,243	77	15,806	19,647	4,016	909	24,572
Structured securities	–	–	*13*	*13*	–	*96*	*68*	*164*
Other debt securities	*14,486*	*1,243*	*64*	*15,793*	*19,647*	*3,920*	*841*	*24,408*
Equity instruments	–	31	47	78	–	53	151	204
measured at fair value	–	*31*	*22*	*53*	–	*53*	*121*	*174*
carried at cost	–	–	*25*	*25*	–	–	*30*	*30*
Units in investment funds	–	1	34	35	–	1	33	34
TOTAL	**14,486**	**1,275**	**158**	**15,919**	**19,647**	**4,070**	**1,093**	**24,810**

Held-to-maturity investments

(€ million)

	30 JUNE 2016					31 DEC. 2015				
	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	253	259	7	252	–	484	491	114	377	–
Loans	–	–	–	–	–	–	–	–	–	–
TOTAL	**253**	**259**	**7**	**252**	**–**	**484**	**491**	**114**	**377**	**–**

Notes to the statement of financial position (CONTINUED)

Loans and receivables with banks

(€ million)

	30 JUNE 2016	31 DEC. 2015
Loans to central banks	**1,261**	**11,455**
Time deposits	–	3,380
Compulsory reserves	1,259	6,012
Reverse repos	–	1,702
Other	2	361
Loans to banks	**11,561**	**20,759**
Current accounts and demand deposits	764	3,753
Time deposits	4,679	6,052
Other loans	3,634	8,475
Debt securities	2,484	2,479
TOTAL (CARRYING AMOUNT)	**12,822**	**32,214**
Loan loss provisions deducted from loans and receivables	4	18

Loans and receivables with customers

(€ million)

	30 JUNE 2016			31 DEC. 2015		
	PERFORMING	IMPAIRED	TOTAL	PERFORMING	IMPAIRED	TOTAL
Loans	**58,134**	**975**	**59,109**	**111,208**	**4,531**	**115,739**
Current accounts	6,977	191	7,168	9,368	345	9,713
Reverse repos	105	–	105	222	–	222
Mortgages	11,166	61	11,227	24,058	1,077	25,135
Credit cards and personal loans, including wage assignment loans	1,064	8	1,072	3,541	60	3,601
Finance leases	2,891	115	3,006	5,669	308	5,977
Factoring	1,404	5	1,409	2,255	54	2,309
Other loans	34,528	596	35,124	66,095	2,686	68,781
Debt securities	**341**	**8**	**349**	**630**	**8**	**638**
TOTAL (CARRYING AMOUNT)	**58,475**	**983**	**59,458**	**111,838**	**4,539**	**116,377**
Loan loss provisions deducted from loans and receivables	374	1,951	2,325	849	5,842	6,691

Hedging derivatives

(€ million)

	30 JUNE 2016				31 DEC. 2015			
	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	**–**	**3,146**	**–**	**3,146**	**–**	**3,284**	**6**	**3,290**
Fair value hedge	–	3,105	–	3,105	–	2,895	3	2,898
Cash flow hedge	–	41	–	41	–	389	3	392
Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL	**–**	**3,146**	**–**	**3,146**	**–**	**3,284**	**6**	**3,290**

Notes to the statement of financial position (CONTINUED)

Property, plant and equipment

(€ million)

	30 JUNE 2016	31 DEC. 2015
Assets for operational use	**568**	**1,305**
Owned	**568**	**1,261**
Land	57	84
Buildings	280	622
Office furniture and fittings	82	91
Electronic systems	20	80
Others	129	384
Leased	**–**	**44**
Land	–	13
Buildings	–	30
Office furniture and fittings	–	–
Electronic systems	–	–
Others	–	1
Held-for-investment assets	**578**	**827**
Owned	**578**	**827**
Land	176	219
Buildings	402	608
TOTAL	**1,146**	**2,132**

Intangible assets

(€ million)

	30 JUNE 2016	31 DEC. 2015
Other intangible assets	**12**	**221**
Assets carried at cost	12	221
Intangible assets generated internally	*–*	*81*
Other assets	*12*	*139*
Assets valued at fair value	–	–
TOTAL	**12**	**221**

Notes to the statement of financial position (CONTINUED)

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

(€ million)

	30 JUNE 2016	31 DEC. 2015
Individual assets		
Financial assets	–	9
Equity investments	1	1
Tangible assets	20	16
Intangible assets	–	–
Non current – Other	–	–
Total	**20**	**26**
Asset groups classified as held for sale		
Financial assets held for trading	2,206	–
Financial assets designated at fair value	17	–
Available-for-sale financial assets	10,844	–
Held-to-maturity investments	461	–
Loans and receivables with banks	14,544	210
Loans and receivables with customers	60,027	1,368
Equity investments	3,177	60
Tangible assets	1,103	135
Intangible assets	255	36
Other assets	4,173	632
Total	**96,808**	**2,441**
ASSETS	**96,828**	**2,467**

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

The item essentially includes selected assets of the companies BA Immo-Gewinnscheinfonds1 (€10 million) and Baca Nekretnine Drustvo Sa Ogranicenom Odgovornoscu (€4.6 million), which are held for sale.

Asset groups classified as held for sale

After publication of the reorganisation plan and of the demerger and transfer agreement, the "CEE Business" operations to be transferred had to be presented in the interim financial statements as at 30 June 2016 in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". The "CEE Business" operations are included in the item "Non-current assets and disposal groups classified as held for sale" with €96,367 million and in the item "Liabilities included in disposal groups classified as held for sale" with €76,817 million. Public Joint Stock Company Ukrsotsbank and its subsidiaries were integrated in the "CEE Business" operations. Further information on the transfer of CEE business is included in the section "Bank Austria restructuring" in the consolidated management report.

Moreover, as at 30 June 2016, the Immobilien Holding GmbH Group continued to be included in the item "Non-current assets and disposal groups classified as held for sale" with assets of €441 million which have not yet been sold, and in the item "Liabilities included in disposal groups classified as held for sale" with liabilities of €131 million.

Deposits from banks

(€ million)

	30 JUNE 2016	31 DEC. 2015
Deposits from central banks	**1,340**	**4,363**
Deposits from banks	**14,000**	**19,069**
Current accounts and demand deposits	1,531	2,435
Time deposits	3,505	4,299
Loans	8,915	10,981
Repos	*950*	*259*
Other	*7,965*	*10,722*
Other liabilities	50	1,354
TOTAL	**15,340**	**23,432**

Notes to the statement of financial position (CONTINUED)

Deposits from customers

(€ million)

	30 JUNE 2016	31 DEC. 2015
Current accounts and demand deposits	36,296	64,908
Time deposits	12,248	40,826
Loans	7,378	753
Repos	*363*	*338*
Other	*7,015*	*416*
Liabilities in respect of commitments to repurchase treasury shares	–	–
Other liabilities	159	3,859
TOTAL	**56,081**	**110,346**

Debt securities in issue

(€ million)

	30 JUNE 2016					31 DEC. 2015				
	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	18,106	30,432	7,963	22,469	–	28,651	29,711	8,073	21,513	125
Structured	*727*	*681*	–	*681*	–	*886*	*881*	–	*881*	–
Other	*17,379*	*29,751*	*7,963*	*21,788*	–	*27,765*	*28,830*	*8,073*	*20,632*	*125*
Other securities	159	160	–	146	14	151	150	–	146	4
Structured	–	–	–	–	–	–	–	–	–	–
Other	*159*	*160*	–	*146*	*14*	*151*	*150*	–	*146*	*4*
TOTAL	**18,265**	**30,591**	**7,963**	**22,614**	**14**	**28,802**	**29,862**	**8,073**	**21,660**	**129**

Financial liabilities held for trading

(€ million)

	30 JUNE 2016				31 DEC. 2015			
	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	**–**	**–**	**–**	**–**	**34**	**–**	**–**	**34**
Deposits from banks	–	–	–	–	–	–	–	–
Deposits from customers	–	–	–	–	34	–	–	34
Derivative instruments	**–**	**1,201**	**24**	**1,225**	**–**	**2,578**	**30**	**2,608**
Financial derivatives	–	1,188	24	1,212	–	2,570	30	2,600
Credit derivatives	–	13	–	13	–	8	–	8
TOTAL	**–**	**1,201**	**24**	**1,225**	**34**	**2,578**	**30**	**2,642**

Financial liabilities at fair value through profit or loss

(€ million)

	30 JUNE 2016				31 DEC. 2015			
	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	–	426	3	429	–	544	3	547
Structured	–	*426*	–	*426*	–	544	–	*544*
Other	–	–	*3*	*3*	–	–	3	*3*
TOTAL	**–**	**426**	**3**	**429**	**–**	**544**	**3**	**547**

Of the changes in fair values in the first half of 2016, income of €7 million (2015: an expense of €2 million) related to changes in UniCredit Bank Austria AG's own credit risk. In the valuation as at 30 June 2016, the portion relating to changes in the bank's own credit risk was cumulative income of €12 million (31 December 2015: cumulative income of €5 million). The repayable amount of liabilities as at 30 June 2016 was €403 million (31 December 2015: €506 million).

Notes to the statement of financial position (CONTINUED)

Hedging derivatives

(€ million)

	30 JUNE 2016				31 DEC. 2015			
	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	**–**	**2,716**	**–**	**2,716**	**–**	**2,761**	**21**	**2,782**
Fair value hedge	–	2,489	–	2,489	–	2,288	21	2,309
Cash flow hedge	–	227	–	227	–	473	–	473
Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL	**–**	**2,716**	**–**	**2,716**	**–**	**2,761**	**21**	**2,782**

Liabilities included in disposal groups classified as held for sale

(€ million)

	30 JUNE 2016	31 DEC. 2015
Liabilities associated with assets classified as held for sale		
Deposits	–	2
Securities	–	–
Other liabilities	–	4
Total	**–**	**6**
Liabilities included in disposal groups classified as held for sale		
Deposits from banks	6,215	221
Deposits from customers	57,827	1,013
Debt securities in issue	8,370	2
Financial liabilities held for trading	1,585	–
Financial liabilities designated at fair value	–	–
Reserve	640	498
Other liabilities	2,311	237
Total	**76,948**	**1,971**
LIABILITIES	**76,948**	**1,977**

Provisions for risks and charges

(€ million)

	30 JUNE 2016	31 DEC. 2015
Pensions and other post-retirement benefit obligations	**4,068**	**3,697**
Other provisions for risks and charges	**611**	**1,133**
Legal disputes	66	124
Staff expenses	423	806
Other	121	203
TOTAL	**4,678**	**4,830**

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 2016	1 JAN.– 30 JUNE 2015
Net interest	484	500
Dividends and other income from equity investments	60	70
Dividend income and similar revenue	*5*	*2*
Profit (loss) of associates – of which: income (loss) from equity investments valued at net equity	*55*	*68*
Net fees and commissions	337	363
Net trading, hedging and fair value income	19	62
Gains (losses) on financial assets and liabilities held for trading	*7*	*50*
Fair value adjustments in hedge accounting	*1*	*0*
Gains (losses) on disposal and repurchase of available-for-sale financial assets	*1*	*10*
Gains (losses) on disposal and repurchase of held-to-maturity investments	*0*	*0*
Gains (losses) on disposal or repurchase of financial liabilities	*8*	*0*
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss	*2*	*2*
Net other expenses/income	95	28
Gains (losses) on disposals/repurchases on loans and receivables – not impaired	*0*	*0*
Other net operating income	*101*	*36*
less: other operating income – of which: recovery of expenses	*0*	*0*
plus: impairment on tangible assets – other operating leases	*–12*	*–13*
less: other operating expenses – amortisation on leasehold improvements	*6*	*6*
OPERATING INCOME	**995**	**1,023**
Payroll costs	–376	–419
Administrative costs – staff expenses	*–580*	*–419*
less: integration/restructuring costs	*204*	*0*
Other administrative expenses	–353	–360
Administrative costs – other administrative expenses	*–465*	*–441*
less: ex-ante contributions to resolution funds and deposit guarantee schemes and bank levies	*118*	*87*
plus: other operating expenses – amortisation on leasehold improvements	*–6*	*–6*
Recovery of expenses = Other net operating income – of which: Other operating income – recovery of costs	0	0
Amortisation, depreciation and impairment losses on intangible and tangible assets	–25	–25
Impairment/write-backs on property, plant and equipment	*–36*	*–35*
less: impairment losses/write-backs on property owned for investment	*1*	*0*
less: impairment on tangible assets – other operating leases	*12*	*13*
Impairment/write-backs on intangible assets	*–3*	*–3*
OPERATING COSTS	**–754**	**–804**
OPERATING PROFIT	**241**	**220**

Segment reporting (CONTINUED)

	1 JAN.– 30 JUNE 2016	1 JAN.– 30 JUNE 2015
Net write-downs of loans and provisions for guarantees and commitments	40	4
Gains (losses) on disposal and repurchase of loans	0	0
Impairment losses on loans	22	–1
Impairment losses on other financial assets	18	4
NET OPERATING PROFIT	**281**	**224**
Provisions for risks and charges	–1	–4
Net provisions for risks and charges	–1	–4
Systemic charges	–118	–87
plus: ex-ante contributions to resolution funds and deposit guarantee schemes and bank levies	–118	–87
Integration/restructuring costs	–204	0
Net income from investments	6	3
Impairment losses on available-for-sale financial assets	–10	–4
Impairment losses on held-to-maturity investments	0	0
plus: impairment losses/write-backs on property owned for investment	*–1*	*0*
Profit (loss) of associates	55	65
less: profit (loss) of associates – income (loss) from equity investments valued at net equity	*–55*	*–68*
Gains and losses on tangible and intangible assets	0	0
Gains (losses) on disposal of investments	18	10
PROFIT OR LOSS BEFORE TAX	**–36**	**135**
Income tax for the period	–25	–13
Total profit or loss after tax from discontinued operations	747	370
Profit or loss after tax from discontinued operations	*747*	*370*
PROFIT OR LOSS FOR THE PERIOD	**685**	**491**
Non-controlling interests	–59	–2
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	**626**	**489**

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.

Following the announcement of the intention to transfer CEE business to UniCredit S.p.A., the CEE business segment is to be presented in the income statement of the interim financial statements as at 30 June 2016 in the item "Total profit or loss after tax from discontinued operations" in accordance with IFRS 5. To ensure comparability with previous periods and provide a management view, the CEE business segment continues to be presented in the segment report on a line-by-line basis. A reconciliation to Bank Austria's overall results in accordance with IFRS 5 is included in the column "Recasting differences, CEE adjusted according to IFRS 5". The column also includes other minor recasting differences mainly resulting from changes in the consolidation perimeter.

Segment reporting covers the following business segments:

Retail & Corporates
The Retail & Corporates business segment covers two large subdivisions: Retail and Corporates. "Retail" comprises the customer segment of "private customers" and the newly added customer segments "independent professionals" and "business customers" with an annual turnover of up to €3 million; the latter customer segments were included in "Corporates" in previous periods. Also included in the Retail subdivision are subsidiaries active in credit card business. The Corporates subdivision covers customers with an annual turnover from €3 million to over €50 million, Real Estate, the Public Sector customer segment and various subsidiaries, e.g. Wohnbaubank, the Bank Austria Real Invest Group and FactorBank.

Private Banking
Private Banking has responsibility for private banking customers with investments exceeding €500,000. Schoellerbank AG and various other smaller 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. Income and expenses arising from sub-holding company functions which are closely connected with operating activities of the commercial banks in CEE are also assigned to the CEE business segment. These items mainly include income and expenses arising from asset/liability management and items relating to equity interest management. Also included in the CEE business segment are the leasing companies active in the various countries. The equity interest in Ukrsotsbank continues 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.

Corporate Center
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.

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 10% (2015: 9.25%) of risk-weighted assets.

Recasting:

As mentioned above, the CEE business segment continues to be presented in the segment report on a line-by-line basis to ensure comparability with previous periods and provide a management view. Adjustments were made to reflect structural changes and changes in the consolidation perimeter which affect comparability of results for previous periods.

The pro-forma adjustments are as follows:

- In the second quarter of 2015, leasing companies in Croatia, and in the third quarter of 2015 in Slovenia, and in the fourth quarter of 2015 in Bosnia, and in the first quarter of 2016 in Serbia were taken over from UniCredit Leasing SpA and newly included in the group of consolidated companies of the Bank Austria Group. To ensure comparability, these companies are included in the relevant previous periods in 2015. The companies were assigned to the CEE business segment.
- With effect from the beginning of 2016, the customer segment of independent professionals and business customers with an annual turnover of up to €3 million was transferred from the Corporates subdivision to the Retail subdivision. Figures for previous periods were adjusted accordingly.

Segment reporting (CONTINUED)

Segment reporting 1–6 2016/1–6 2015

(€ million)

		RETAIL & CORPORATES	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CENTRAL EASTERN EUROPE (CEE)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST, BEFORE CEE ACC. TO IFRS 5)	RECASTING DIFFERENCES, CEE ADJ. ACC. TO IFRS 5 1)	BANK AUSTRIA GROUP 2)
Net interest	1–6 2016	429	27	147	1,180	–119	1,665	–1,181	484
	1–6 2015	446	30	147	1,200	–130	1,693	–1,193	500
Dividends and other income from equity investments	1–6 2016	16	0	0	228	44	288	–228	60
	1–6 2015	20	0	0	165	49	234	–165	70
Net fees and commissions	1–6 2016	244	53	36	364	–4	693	–356	337
	1–6 2015	253	57	56	351	–3	714	–351	363
Net trading, hedging and fair value income/loss	1–6 2016	3	2	17	253	–4	270	–251	19
	1–6 2015	26	2	30	169	5	231	–169	62
Net other expenses/income	1–6 2016	80	–1	1	25	14	120	–25	95
	1–6 2015	8	1	0	10	20	39	–10	28
OPERATING INCOME	**1–6 2016**	**772**	**82**	**201**	**2,049**	**–69**	**3,036**	**–2,041**	**995**
	1–6 2015	**753**	**89**	**233**	**1,895**	**–59**	**2,912**	**–1,888**	**1,023**
OPERATING COSTS	**1–6 2016**	**–522**	**–62**	**–108**	**–739**	**–64**	**–1,495**	**741**	**–754**
	1–6 2015	**–554**	**–62**	**–106**	**–726**	**–83**	**–1,531**	**728**	**–804**
OPERATING PROFIT	**1–6 2016**	**250**	**20**	**94**	**1,310**	**–133**	**1,542**	**–1,301**	**241**
	1–6 2015	**199**	**27**	**127**	**1,170**	**–142**	**1,381**	**–1,161**	**220**
Net write-downs of loans and provisions for guarantees and commitments	1–6 2016	–3	0	33	–330	10	–290	330	40
	1–6 2015	1	1	–1	–395	3	–391	395	4
NET OPERATING PROFIT	**1–6 2016**	**247**	**20**	**127**	**981**	**–123**	**1,252**	**–971**	**281**
	1–6 2015	**199**	**28**	**126**	**775**	**–139**	**989**	**–765**	**224**
Provisions for risks and charges	1–6 2016	–1	0	0	3	0	2	–4	–1
	1–6 2015	0	0	0	–4	–4	–8	4	–4
Systemic charges	1–6 2016	–53	–4	–23	–108	–38	–227	108	–118
	1–6 2015	–37	–3	–18	–88	–30	–175	88	–87
Integration/restructuring costs	1–6 2016	0	0	0	–6	–204	–210	6	–204
	1–6 2015	0	0	0	–2	0	–2	2	0
Net income/loss from investments	1–6 2016	–5	0	0	7	11	14	–7	6
	1–6 2015	–2	0	0	–1	5	2	1	3
PROFIT BEFORE TAX	**1–6 2016**	**188**	**16**	**104**	**877**	**–354**	**832**	**–868**	**–36**
	1–6 2015	**160**	**25**	**108**	**681**	**–168**	**806**	**–672**	**135**
Income tax for the period	1–6 2016	–29	–4	–26	–131	44	–147	122	–25
	1–6 2015	–41	–6	–28	–115	60	–130	117	–13
Total profit or loss after tax from discontinued operations	1–6 2016	0	0	0	–21	21	0	746	747
	1–6 2015	0	0	0	–220	37	–183	553	370
PROFIT OR LOSS FOR THE PERIOD	**1–6 2016**	**158**	**12**	**78**	**725**	**–289**	**685**	**0**	**685**
	1–6 2015	**119**	**19**	**80**	**345**	**–71**	**493**	**–2**	**491**
Non-controlling interests	1–6 2016	–41	0	0	–18	0	–59	0	–59
	1–6 2015	–5	0	0	1	2	–3	0	–2
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	**1–6 2016**	**118**	**12**	**78**	**707**	**–289**	**626**	**0**	**626**
	1–6 2015	**114**	**19**	**80**	**346**	**–69**	**490**	**–1**	**489**
Risk-weighted assets (RWA) (avg.) 3)	**1–6 2016**	**17,520**	**613**	**8,042**	**95,099**	**7,554**	**128,828**	**0**	**128,828**
	1–6 2015	**19,402**	**635**	**8,686**	**97,464**	**9,166**	**135,354**	**0**	**135,354**
Loans to customers (end of period)	**1–6 2016**	**44,450**	**648**	**13,940**	**59,242**	**–101**	**118,178**	**–58,719**	**59,458**
	1–6 2015	**44,514**	**618**	**13,087**	**59,069**	**–56**	**117,233**	**–53,879**	**63,354**
Direct funding (end of period) 4)	**1–6 2016**	**42,508**	**9,891**	**10,456**	**59,770**	**17,446**	**140,070**	**–65,295**	**74,775**
	1–6 2015	**43,107**	**9,235**	**10,013**	**56,103**	**18,690**	**137,147**	**–55,388**	**81,759**
Cost/income ratio in %	*1–6 2016*	*67.6*	*75.5*	*53.5*	*36.0*	*93.9*	*49.2*	*n.m.*	*75.8*
	1–6 2015	*73.6*	*69.3*	*45.4*	*38.3*	*142.0*	*52.6*	*n.m.*	*78.5*
Risk/earnings ratio in % 5)	*1–6 2016*	*0.7*	*0.5*	*n.m.*	*23.4*	*n.m.*	*14.8*	*n.m.*	*n.m.*
	1–6 2015	*n.m.*	*n.m.*	*0.6*	*28.9*	*n.m.*	*20.3*	*n.m.*	*n.m.*

1) For segment reporting purposes, the comparative figures for 2015 have been recast to reflect the consolidation perimeter and the segment structure used in segment reporting for 2016. For Bank Austria as a whole the differences between recast figures for 2015 and published figures for 2015 are shown in the column "Recasting differences". These differences mainly relate to the application of IFRS 5 in connection with the CEE demerger, but also to the transfer of Leasing subsidiaries in Croatia, Bosnia and Herzegovina, Slovenia and Serbia. 2016 recasting differences relate to IFRS 5 adjustments. / 2) The comparative figures 2015 and 2016 reflect the accounting figures. / 3) Turkey consolidated on a proportionate basis. / 4) Direct funding: deposits from customers, debt securities in issue and financial liabilities at fair value. / 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 2016/Q1–Q4 2015

(€ million)

		RETAIL & CORPORATES	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CENTRAL EASTERN EUROPE (CEE)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST, BEFORE CEE ACC. TO IFRS 5) [1]
Net interest	Q2 2016	216	13	72	599	–61	839
	Q1 2016	214	14	75	581	–58	826
	Q4 2015	223	15	74	596	–55	853
	Q3 2015	223	15	71	599	–60	848
	Q2 2015	224	15	74	619	–59	873
	Q1 2015	222	15	73	581	–71	820
Dividends and other income from equity investments	Q2 2016	5	0	0	153	30	188
	Q1 2016	11	0	0	75	14	100
	Q4 2015	5	0	0	132	56	193
	Q3 2015	4	0	0	67	36	107
	Q2 2015	17	0	0	92	27	136
	Q1 2015	4	0	0	73	22	98
Net fees and commissions	Q2 2016	121	26	18	190	–1	354
	Q1 2016	123	27	17	174	–3	339
	Q4 2015	128	33	27	189	–2	375
	Q3 2015	125	26	20	178	0	350
	Q2 2015	127	26	35	184	1	373
	Q1 2015	126	31	21	168	–4	341
Net trading, hedging and fair value income/loss	Q2 2016	5	1	11	182	–6	193
	Q1 2016	–2	1	6	70	2	78
	Q4 2015	9	1	10	88	4	111
	Q3 2015	–3	1	8	74	–2	78
	Q2 2015	18	1	17	83	5	124
	Q1 2015	8	1	12	86	0	108
Net other expenses/income	Q2 2016	74	–1	1	13	5	93
	Q1 2016	6	0	0	12	9	27
	Q4 2015	9	0	4	14	9	36
	Q3 2015	8	0	0	4	11	22
	Q2 2015	3	0	0	7	9	19
	Q1 2015	5	1	0	3	11	20
OPERATING INCOME	**Q2 2016**	**422**	**40**	**102**	**1,136**	**–33**	**1,667**
	Q1 2016	**351**	**42**	**99**	**912**	**–35**	**1,369**
	Q4 2015	**373**	**49**	**116**	**1,018**	**12**	**1,568**
	Q3 2015	**357**	**41**	**100**	**923**	**–15**	**1,406**
	Q2 2015	**388**	**41**	**127**	**985**	**–17**	**1,524**
	Q1 2015	**365**	**48**	**106**	**911**	**–42**	**1,387**
OPERATING COSTS	**Q2 2016**	**–252**	**–31**	**–47**	**–378**	**–32**	**–740**
	Q1 2016	**–270**	**–31**	**–60**	**–360**	**–32**	**–755**
	Q4 2015	**–272**	**–31**	**–55**	**–401**	**–39**	**–798**
	Q3 2015	**–269**	**–30**	**–50**	**–361**	**–43**	**–752**
	Q2 2015	**–277**	**–31**	**–53**	**–373**	**–43**	**–778**
	Q1 2015	**–277**	**–31**	**–52**	**–352**	**–41**	**–753**
OPERATING PROFIT	**Q2 2016**	**170**	**9**	**55**	**758**	**–66**	**927**
	Q1 2016	**80**	**11**	**39**	**552**	**–67**	**615**
	Q4 2015	**102**	**18**	**61**	**617**	**–27**	**771**
	Q3 2015	**88**	**11**	**50**	**561**	**–57**	**653**
	Q2 2015	**111**	**10**	**73**	**611**	**–59**	**746**
	Q1 2015	**88**	**17**	**54**	**558**	**–83**	**634**
Net write-downs of loans and provisions for guarantees and commitments	Q2 2016	3	0	33	–189	7	–146
	Q1 2016	–7	0	0	–140	3	–144
	Q4 2015	–21	0	24	–266	11	–251
	Q3 2015	–7	0	1	–359	0	–365
	Q2 2015	30	1	7	–220	1	–182
	Q1 2015	–29	0	–8	–175	3	–210
NET OPERATING PROFIT	**Q2 2016**	**173**	**9**	**88**	**569**	**–59**	**781**
	Q1 2016	**74**	**11**	**39**	**412**	**–64**	**471**
	Q4 2015	**81**	**18**	**85**	**352**	**–16**	**520**
	Q3 2015	**81**	**10**	**52**	**202**	**–57**	**288**
	Q2 2015	**141**	**11**	**80**	**391**	**–59**	**565**
	Q1 2015	**58**	**17**	**46**	**383**	**–80**	**424**

Segment reporting (CONTINUED)

		RETAIL & CORPORATES	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CENTRAL EASTERN EUROPE (CEE)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST, BEFORE CEE ACC. TO IFRS 5) [1]
Provisions for risks and charges	Q2 2016	–1	0	0	–8	0	–9
	Q1 2016	0	0	0	12	0	11
	Q4 2015	–4	0	–8	–65	–8	–85
	Q3 2015	0	0	0	1	–44	–43
	Q2 2015	0	0	0	0	0	0
	Q1 2015	0	0	0	–4	–4	–8
Systemic charges	Q2 2016	–13	–1	–7	–22	–12	–55
	Q1 2016	–40	–3	–16	–86	–26	–172
	Q4 2015	–20	–1	–12	–41	–19	–94
	Q3 2015	–13	–1	–7	–26	–11	–58
	Q2 2015	–19	–2	–7	–33	–11	–72
	Q1 2015	–18	–1	–11	–55	–18	–103
Integration/restructuring costs	Q2 2016	0	0	0	–4	0	–4
	Q1 2016	0	0	0	–2	–204	–206
	Q4 2015	0	0	0	–4	321	317
	Q3 2015	0	0	0	–3	0	–3
	Q2 2015	0	0	0	–1	0	–1
	Q1 2015	0	0	0	–1	0	–1
Net income/loss from investments	Q2 2016	–10	0	0	0	10	1
	Q1 2016	5	0	0	7	1	12
	Q4 2015	–18	0	–8	–3	1	–28
	Q3 2015	0	0	0	0	0	0
	Q2 2015	–3	0	0	0	4	2
	Q1 2015	1	0	0	–1	0	0
PROFIT BEFORE TAX	**Q2 2016**	**150**	**8**	**81**	**535**	**–60**	**714**
	Q1 2016	**38**	**8**	**22**	**343**	**–294**	**117**
	Q4 2015	**40**	**16**	**58**	**238**	**278**	**630**
	Q3 2015	**67**	**10**	**45**	**174**	**–113**	**184**
	Q2 2015	**119**	**9**	**74**	**358**	**–66**	**494**
	Q1 2015	**41**	**16**	**34**	**323**	**–102**	**313**
Income tax for the period	Q2 2016	–20	–3	–20	–78	32	–89
	Q1 2016	–10	–2	–6	–53	12	–58
	Q4 2015	–8	–4	–15	–38	156	92
	Q3 2015	–14	–2	–11	–17	–5	–49
	Q2 2015	–27	–2	–18	–54	32	–69
	Q1 2015	–13	–4	–10	–61	28	–61
Total profit or loss after tax from discontinued operations	Q2 2016	0	0	0	–23	11	–12
	Q1 2016	0	0	0	3	10	12
	Q4 2015	0	0	1	–192	46	–145
	Q3 2015	0	0	0	–11	37	25
	Q2 2015	0	0	0	–146	22	–123
	Q1 2015	0	0	0	–74	15	–60
PROFIT (LOSS) FOR THE PERIOD	**Q2 2016**	**130**	**6**	**61**	**433**	**–17**	**614**
	Q1 2016	**28**	**6**	**17**	**292**	**–272**	**71**
	Q4 2015	**32**	**12**	**44**	**8**	**480**	**577**
	Q3 2015	**53**	**7**	**35**	**146**	**–81**	**160**
	Q2 2015	**92**	**6**	**56**	**158**	**–12**	**301**
	Q1 2015	**28**	**12**	**24**	**187**	**–59**	**192**
Non-controlling interests	Q2 2016	–37	0	0	–10	0	–46
	Q1 2016	–4	0	0	–9	0	–13
	Q4 2015	–3	0	0	86	0	83
	Q3 2015	–4	0	0	16	1	13
	Q2 2015	–3	0	0	–8	1	–9
	Q1 2015	–3	0	0	9	1	7
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY BEFORE PPA	**Q2 2016**	**94**	**6**	**61**	**423**	**–17**	**567**
	Q1 2016	**24**	**6**	**17**	**284**	**–272**	**59**
	Q4 2015	**29**	**12**	**44**	**94**	**481**	**659**
	Q3 2015	**49**	**7**	**35**	**162**	**–80**	**173**
	Q2 2015	**89**	**6**	**56**	**151**	**–11**	**292**
	Q1 2015	**25**	**12**	**24**	**196**	**–58**	**199**

Segment reporting (CONTINUED)

		RETAIL & CORPORATES	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CENTRAL EASTERN EUROPE (CEE)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST, BEFORE CEE ACC. TO IFRS 5)[1]
Purchase Price Allocation effect	Q2 2016	0	0	0	0	0	0
	Q1 2016	0	0	0	0	0	0
	Q4 2015	0	0	0	0	0	0
	Q3 2015	0	0	0	0	0	0
	Q2 2015	0	0	0	0	0	0
	Q1 2015	0	0	0	0	0	0
Goodwill impairment	Q2 2016	0	0	0	0	0	0
	Q1 2016	0	0	0	0	0	0
	Q4 2015	0	0	0	0	0	0
	Q3 2015	0	0	0	0	0	0
	Q2 2015	0	0	0	0	0	0
	Q1 2015	0	0	0	0	0	0
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	**Q2 2016**	**94**	**6**	**61**	**423**	**–17**	**567**
	Q1 2016	**24**	**6**	**17**	**284**	**–272**	**59**
	Q4 2015	**29**	**12**	**44**	**94**	**481**	**659**
	Q3 2015	**49**	**7**	**35**	**162**	**–80**	**173**
	Q2 2015	**89**	**6**	**56**	**151**	**–11**	**292**
	Q1 2015	**25**	**12**	**24**	**196**	**–58**	**199**
Risk-weighted assets (RWA) (avg.)[2]	**Q2 2016**	**17,365**	**602**	**8,032**	**95,697**	**7,400**	**129,095**
	Q1 2016	**17,675**	**625**	**8,052**	**94,500**	**7,708**	**128,560**
	Q4 2015	**17,971**	**641**	**8,329**	**95,002**	**7,609**	**129,552**
	Q3 2015	**18,517**	**628**	**8,819**	**97,057**	**7,704**	**132,725**
	Q2 2015	**19,357**	**629**	**8,805**	**98,736**	**8,888**	**136,413**
	Q1 2015	**19,447**	**642**	**8,568**	**96,192**	**9,445**	**134,294**
Loans to customers (end of period)	**Q2 2016**	**44,450**	**648**	**13,940**	**59,242**	**–101**	**118,178**
	Q1 2016	**44,565**	**640**	**13,675**	**58,045**	**139**	**117,064**
	Q4 2015	**44,795**	**629**	**13,572**	**57,353**	**54**	**116,402**
	Q3 2015	**44,251**	**638**	**13,669**	**58,092**	**–120**	**116,530**
	Q2 2015	**44,514**	**618**	**13,087**	**59,069**	**–56**	**117,233**
	Q1 2015	**44,249**	**610**	**12,638**	**59,342**	**665**	**117,505**
Direct funding (end of period)[3]	**Q2 2016**	**42,508**	**9,891**	**10,456**	**59,770**	**17,446**	**140,070**
	Q1 2016	**43,644**	**9,714**	**9,741**	**61,123**	**18,387**	**142,608**
	Q4 2015	**42,715**	**9,223**	**10,426**	**58,728**	**18,590**	**139,683**
	Q3 2015	**43,208**	**9,601**	**10,939**	**57,806**	**18,816**	**140,370**
	Q2 2015	**43,107**	**9,235**	**10,013**	**56,103**	**18,690**	**137,147**
	Q1 2015	**42,987**	**9,856**	**9,086**	**54,563**	**20,357**	**136,848**
Cost/income ratio in %	*Q2 2016*	*59.7*	*77.3*	*46.2*	*33.3*	*97.0*	*44.4*
	Q1 2016	*77.1*	*73.8*	*61.0*	*39.5*	*90.9*	*55.1*
	Q4 2015	*72.8*	*63.3*	*47.3*	*39.4*	*330.2*	*50.9*
	Q3 2015	*75.3*	*74.0*	*49.7*	*39.2*	*289.4*	*53.5*
	Q2 2015	*71.4*	*75.2*	*42.1*	*37.9*	*251.8*	*51.0*
	Q1 2015	*76.0*	*64.3*	*49.4*	*38.7*	*97.6*	*54.3*
Risk/earnings ratio in %[4]	*Q2 2016*	*n.m.*	*0.1*	*n.m.*	*25.2*	*n.m.*	*14.2*
	Q1 2016	*2.9*	*0.9*	*n.m.*	*21.4*	*n.m.*	*15.5*
	Q4 2015	*9.1*	*0.3*	*n.m.*	*36.5*	*n.m.*	*24.0*
	Q3 2015	*3.3*	*2.0*	*n.m.*	*53.9*	*n.m.*	*38.2*
	Q2 2015	*n.m.*	*n.m.*	*n.m.*	*30.9*	*n.m.*	*18.0*
	Q1 2015	*13.0*	*n.m.*	*10.9*	*26.8*	*n.m.*	*22.8*

1) The quarterly figures for 2015 have been recast to reflect the consolidation perimeter and the segment structure used in segment reporting for 2016.
2) Turkey consolidated on a pro-rata basis.
3) Direct funding: deposits from customers, debt securities in issue and financial liabilities at fair value.
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
Russia has been experiencing an economic downturn triggered by a combination of falling oil prices and sanctions-induced capital flows against a background of structural issues in the economy. This has also contributed to significant volatility in the exchange rate of the currency over the past two years, which has driven inflation higher putting additional pressure on the economy. The near-term outlook has improved thanks to the rebound in oil prices and improving local confidence. The recession seems to be bottoming out and economic growth is expected to resume in the second half of 2016. The rouble appreciated in the first half of the year, in line with increases in the oil price. Inflation has slowed in recent months amid weak domestic demand and the central bank of Russia has started to lower policy rates. The uncertain fiscal outlook, especially next year, ahead of the March 2018 presidential elections, and possible downward pressure on oil prices are key risks for the outlook. The direct impact from Brexit is most likely limited, yet potential further financial market volatility poses a risk.

Sovereign exposures mainly result from management of excess liquidity at the Russian banking subsidiary.

Credit risk
As at 30 June 2016, lending volume at our Russian banking subsidiary was €11.2 billion, almost unchanged compared with 31 December 2015. Although non-performing exposures rose in the first half of 2016 (default ratio as at 30 June 2016: 7.63%), the net volume of such exposures remained at more or less the same level due to a disproportionately strong increase in loan loss provisions. The provisioning charge declined slightly, to €101 million in the first half of 2016 (H1 2015: €107 million).

UniCredit Bank Austria AG has assumed an intra-group guarantee in the amount of €1.13 billion in favour of its Russian banking subsidiary for a portfolio of corporate loans to enable the subsidiary to meet local regulatory requirements. This intra-group guarantee does not increase Bank Austria’s overall exposure.

Currency risk
In the first quarter of 2016 the Russian rouble remained more or less stable against the euro while slightly recovering against the US dollar. As the year progressed, the rouble showed a stable trend against both currencies. Our banking subsidiary in Russia does not hold any major open currency positions.

Liquidity risk
UniCredit Bank Russia is not experiencing deposit outflows which exceed normal fluctuations, just the usual seasonal outflows of short-term deposits of corporate customers. A large proportion of customer deposits is held by major corporate customers, with maturities of up to five years. No problems have so far been encountered in renewals of maturing deposits.

The bank is compliant with all external and internal liquidity limits and liquidity ratios. UniCredit Bank Russia continues to be a net liquidity provider to Bank Austria. Severe outflow assumptions in a stress test can be covered with the existing counterbalancing capacity.

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
There are no signs of a resolution of the armed conflict in the eastern part of the country and the overall economic and political situation in Ukraine remains difficult. While the economy has improved compared to last year, with GDP ending its contraction in Q1 2016, inflation coming down and a gradual lowering of the central bank policy rate, the recovery has been rather weak and the financial system remains under pressure. Domestic political uncertainty was high in the first half of the year and ultimately culminated in a government reshuffle, including a change of prime minister. The political uncertainty has taken a toll on economic policies and the reform progress, which are vital to accelerate growth, achieve financial stabilisation and ensure external financing, in particular the IMF’s financial support. While the IMF is expected to resume lending soon, reducing some of the immediate financing pressures, the broader outlook is uncertain. Risks remain skewed to the downside – especially after 2018 once the repayment of IMF loans and the servicing of the restructured private sector debt begin.

Risk report (CONTINUED)

Credit risk

Lending volume at Ukrsotsbank (USB), the Ukrainian banking subsidiary, declined to €2.0 billion (31 December 2015: €2.1 billion), a development which also reflects exchange rate movements. The ratio of non-performing exposures (€1.7 billion as at 30 June 2016) to total loans to customers was 85.7%, up by 3.3% on the beginning of the year.

Volume booked directly in UniCredit Bank Austria AG (Profit Center Vienna, PCV) declined significantly in the first half of 2016 and the coverage ratio improved by 10 percentage points.

(€ million)

	USB		PCV		TOTAL	
	30 JUNE 2016	31 DEC. 2015	30 JUNE 2016	31 DEC. 2015	30 JUNE 2016	31 DEC. 2015
Total bank						
Loans to customers (gross)	1,973	2,120	357	526	2,330	2,646
Loans to customers (net)	1,307	1,368	240	372	1,547	1,739
Impaired loans (gross)	1,690	1,745	187	295	1,877	2,040

Currency risk

The EUR/UAH exchange rate has shown a stable trend in the year to date. Ukrsotsbank continues to hold a substantial currency position in USD, which partly serves as protection against the conversion of USD deposits and against potential outflows of UAH deposits.

Liquidity risk

Deposits remained at a stable level in the first half of the year. Collateral held by the bank at the Ukrainian central bank amounts to about UAH 1.6 billion, exceeding the minimum reserve requirement. Bank Austria supports USB with a USD overnight facility, which is currently not used.

Operational risk

Losses resulting from operational risk at Ukrsotsbank in connection with the current conflict amount to €4.4 million (as at 31 March 2016), mainly relating to cash, valuables, security vans and leased equipment.

Capital measures

At the beginning of the second quarter of 2016, the capital position of Ukrsotsbank was increased through a capital increase in the amount of about US$145 million. At the beginning of July 2016, a further capital increase of about US$200 million was carried out at Ukrsotsbank. Both capital increases were executed via conversion of existing claims of UniCredit Bank Austria AG and UniCredit SpA into equity to further strengthen the bank's capital base and were fully consistent with the capitalisation plan as agreed with the Ukrainian regulator. In addition to the capital measures undertaken in 2015 and 2016, UniCredit Bank Austria AG in 2015 provided the local regulator and the Ukrainian subsidiary with a statement of its intention to support the bank's continuation as a going concern also in the period before completion of the sale of Ukrsotsbank, which is expected for the second half of 2016.

Risk report (CONTINUED)

Currency risk

About 95 % (€ 10.3 billion) of Bank Austria's **CHF lending volume** (gross) is attributable to the Austrian portfolio as at 30 June 2016. Of this amount, about 78 % is in the (reorganised) Retail subdivision (CHF volume June 2016: € 8.0 billion). Following the conversion into euro or into the Croatian currency (HRK) of a large portion of the Croatian CHF loans, the remaining volume in CEE is at a very low level.

Loan loss provisions of € 234 million for the performing portfolio of Austrian real estate loans in respect of exchange rate risk and coverage shortfall risk of repayment vehicles are mainly related to the CHF portion of the portfolio.

As at 30 June 2016, provisions for IBNR losses on CHF loans amounted to € 31.0 million. Provisions for defaulted CHF loans were € 50.7 million.

Other currency risks

Almost all of the negative foreign currency translation reserve of – € 4,580 million as at 30 June 2016 was accounted for by the currencies of Russia, Ukraine and Turkey. The change of + € 217 million in the first half of 2016 was mainly due to the Russian rouble.

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. Both risks are assessed via a UniCredit Group-wide credit process. Country limits and sovereign limits are assessed by the responsible risk management team, approved by the relevant body having approval authority, and assigned to UniCredit subsidiaries according to business needs. In general, cross-border business is not limited for countries which are presumed less risky, e. g. the US, Japan, core EU countries; for all other countries, cross-border business is limited via the assigned country limit. Sovereign risk is in each case limited via counterparty limits. The overall bond exposure is monitored via nominal credit risk limits and market risk limits. Impairment losses are recognised, if necessary, according to international standards.

Sovereign exposures relating to some CIS / CEE countries (e. g. Russia, Romania, Croatia) mainly result from excess liquidity management of Bank Austria banking subsidiaries or guarantees from the respective sovereign provided to support local (i. e. Bank Austria banking subsidiaries in e. g. Serbia, Croatia) corporate business. Both are monitored and limited within the framework of credit risk management.

Risk report (CONTINUED)

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

	30 JUNE 2016			31 DEC. 2015		
COUNTRY/PORTFOLIO	NOMINAL VALUE	BOOK VALUE	FAIR VALUE	NOMINAL VALUE	BOOK VALUE	FAIR VALUE
Austria	**7,853**	**9,076**	**9,091**	**7,919**	**9,115**	**9,124**
HFT financial assets/liabilities (net exposures)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	7,742	8,965	8,965	7,807	9,002	9,002
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	111	111	126	111	113	121
Spain	**1,963**	**2,100**	**2,100**	**1,538**	**1,765**	**1,765**
HFT financial assets/liabilities (net exposures)	–	–	–	19	21	21
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	1,955	2,094	2,094	1,518	1,744	1,744
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	8	6	6	–	–	–
Hungary	**1,534**	**1,781**	**1,781**	**1,448**	**1,633**	**1,633**
HFT financial assets/liabilities (net exposures)	41	42	42	8	9	9
Financial assets at FV through P&L	–	–	–	57	57	57
Available for sale	1,493	1,740	1,740	1,384	1,567	1,567
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
Czech Republic	**1,482**	**1,656**	**1,656**	**1,375**	**1,516**	**1,516**
HFT financial assets/liabilities (net exposures)	70	68	68	39	45	45
Financial assets at FV through P&L	2	2	2	–	–	–
Available for sale	1,410	1,587	1,587	1,336	1,471	1,471
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
Bulgaria	**1,494**	**1,561**	**1,561**	**1,358**	**1,473**	**1,473**
HFT financial assets/liabilities (net exposures)	0	0	0	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	1,490	1,557	1,557	1,350	1,467	1,467
Loans and receivables	4	4	4	–	–	–
Held-to-maturity investments	–	–	–	8	6	6
Romania	**1,562**	**1,472**	**1,472**	**1,173**	**1,233**	**1,233**
HFT financial assets/liabilities (net exposures)	269	63	63	5	5	5
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	1,293	1,409	1,409	1,164	1,223	1,223
Loans and receivables	–	–	–	4	4	5
Held-to-maturity investments	–	–	–	–	–	–
Russia	**1,165**	**1,198**	**1,210**	**750**	**918**	**918**
HFT financial assets/liabilities (net exposures)	24	25	25	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	720	727	727	750	918	918
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	420	446	458	–	–	–

Risk report (CONTINUED)

COUNTRY/PORTFOLIO	30 JUNE 2016			31 DEC. 2015		
	NOMINAL VALUE	BOOK VALUE	FAIR VALUE	NOMINAL VALUE	BOOK VALUE	FAIR VALUE
Italy	**750**	**921**	**921**	**881**	**861**	**863**
HFT financial assets/liabilities (net exposures)	–	–	–	13	12	12
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	750	921	921	683	649	649
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	186	200	202
Croatia	**743**	**853**	**853**	**796**	**810**	**810**
HFT financial assets/liabilities (net exposures)	8	8	8	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	735	845	845	796	810	810
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
Luxembourg	**783**	**822**	**822**	**673**	**756**	**756**
HFT financial assets/liabilities (net exposures)	–	–	–	7	8	8
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	783	822	822	659	741	741
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	7	7	7
Other Countries	**3,617**	**3,631**	**3,631**	**2,685**	**2,665**	**2,666**
HFT financial assets/liabilities (net exposures)	320	72	72	179	29	29
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	3,283	3,545	3,545	2,493	2,623	2,623
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	14	14	14	13	13	14
TOTAL	**22,947**	**25,071**	**25,099**	**20,597**	**22,745**	**22,757**
thereof:	–	–	–	–	–	–
Slovenia	**418**	**480**	**481**	**346**	**389**	**390**
Greece	**153**	**0**	**0**	**153**	**0**	**0**
Portugal	**60**	**65**	**65**	**60**	**66**	**66**

Risk report (CONTINUED)

Breakdown of sovereign debt securities by portfolio

(€ million)

	30 JUNE 2016					
	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	278	2	24,210	4	577	25,071
Total portfolio of debt securities	286	2	26,574	590	715	28,180
% Portfolio	97.42%	100.00%	91.10%	0.70%	80.78%	88.97%
	31 DEC. 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	129	57	22,216	4	339	22,745
Total portfolio of debt securities	169	57	24,572	638	484	25,919
% Portfolio	76.45%	99.63%	90.41%	0.70%	70.06%	87.75%

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 2016	31 DEC. 2015
COUNTRY	BOOK VALUE	BOOK VALUE
Austria	4,947	5,026
Croatia	2,661	2,551
Serbia	312	322
Indonesia	290	318
Slovenia	211	210
Gabon	201	195
Bosnia and Herzegovina	187	192
Bulgaria	166	182
Romania	117	120
Ghana	102	104
Other	826	795
TOTAL ON-BALANCE SHEET EXPOSURE	**10,019**	**10,016**

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

Net write-downs of loans and provisions for guarantees and commitments at **Bank Austria** in the first half of 2016 were €290 million, significantly lower than in the same period of the previous year (H1 2015: €391 million).

The provisioning charge in **CEE** was reduced from €395 million to €330 million in the first half of 2016. Net write-downs of loans declined in all major CEE countries except Croatia and a small increase in Bulgaria. The decline relating to the portion of the Ukraine portfolio which is booked in the Profit Center Vienna was particularly strong (provisioning charge down by €30 million compared with the first half of the previous year).

In the **Austrian portfolio** the favourable development continued across all business segments. The release of provisions for major exposures in the CIB segment was the main factor leading to a net release of €40 million (H1 2015: €4 million).

The comparative figures for the first half of 2015 given above have been recast to reflect the current structure and methodology. The segment figures for Central and Eastern Europe are the segment reporting figures. Austria is defined as the sum total of all other segments.

Legal risks

We generally do not make provisions to the extent it is not possible to reliably predict the outcome of proceedings or to quantify possible losses. In cases where it is possible to estimate in a reliable manner the amount of the possible loss and such loss is deemed probable, we have made provisions in amounts we deem appropriate in light of the particular circumstances and in accordance with applicable accounting principles.

Termination of the internal service regulation concerning “BA-CA-ASVG” pension benefits equivalent to those under mandatory insurance pursuant to the Austrian General Social Insurance Act (Allgemeines Sozialversicherungsgesetz – ASVG)

Detailed information is given on page 44.

Legal risks for which provisions have been made

In line with the above policy, provisions have been made in the amount of the estimated risk for the following pending legal proceedings. In accordance with IAS 37 information which would seriously prejudice the relevant company’s position in the dispute may be omitted:

Madoff

Austrian civil proceedings

Investors in the Primeo and Herald Madoff feeder funds have brought numerous civil proceedings, of which 87 with a claimed amount totaling €33.6 million plus interest remain. The claims in these proceedings are either that UniCredit Bank Austria AG breached certain duties regarding its function as prospectus controller, or that UniCredit Bank Austria AG improperly advised certain investors (directly or indirectly) to invest in those funds or a combination of these claims. The Austrian Supreme Court has issued 14 final decisions with respect to prospectus liability claims asserted in the legal proceedings. With respect to claims related to the Primeo feeder funds, all 9 final Austrian Supreme Court decisions have been in favour of UniCredit Bank Austria AG. With respect to the Herald feeder funds, the Austrian Supreme Court has ruled four times with respect to prospectus liability, once in favour of UniCredit Bank Austria AG and three times in favour of the claimant. In a prospectus liability case with Primeo and Herald investments the Austrian Supreme Court recently ruled in favour of UniCredit Bank Austria AG. In a further case the Austrian Supreme Court decided in favour of UniCredit Bank Austria AG on Primeo prospectus liability; but remanded the case to the Court of First Instance on a different base of claim. The Court of First Instance decided in favour of UniCredit Bank Austria AG. The Austrian Supreme Court issued two further Herald decisions in favour of UniCredit Bank Austria AG and remanded the cases to the Court of Appeal. The Court of Appeal remanded both cases to the Court of First Instance. While we cannot predict with certainty the impact of these decisions on the remaining Herald cases, future rulings may be adverse to UniCredit Bank Austria AG.

In respect of the Austrian civil proceedings pending as against UniCredit Bank Austria AG related to Madoff’s fraud, UniCredit Bank Austria AG has made provisions for an amount considered appropriate to the current risk.

Austrian criminal proceedings

UniCredit Bank Austria AG has been named as a defendant in criminal proceedings in Austria which concern the Madoff case. These complaints allege, amongst other things, that UniCredit Bank Austria AG 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. The Public Prosecutor sent a short questionnaire in June 2016, asking for a small number of further documents to be submitted by the end of July 2016.

Risk report (CONTINUED)

Proceedings in the United States:
With regard to proceedings in the United States in the Madoff case, there were no major changes in substance, in any case no changes which would increase risk, compared with the information given in the 2015 Annual Report.

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. In addition, politicians in a number of countries are proposing or have implemented legislation that impacts FX loans. These developments have resulted in litigation against subsidiaries of UniCredit Bank Austria AG in a number of countries including Croatia, Hungary, Slovenia and Serbia. More specifically, in Croatia, Zagrebačka banka ("Zaba") successfully defended a challenge brought by a consumer association against the validity of FX loans, with the Supreme Court finding in April 2015 that FX loans and the related currency clause were lawful. As the Court held that the variable interest rate clause was, however, in principle unfair, this has resulted in individual customers bringing lawsuits to challenge the validity of the interest charged. Following the implementation of a new law in Croatia in September 2015 which purported to rewrite the terms of FX loan contracts, a number of these lawsuits were withdrawn as customers took advantage of the benefits of the new law. Zaba takes the view that the law is unlawful and has challenged it before the Croatian Constitutional Court. The bank is awaiting the outcome of that challenge. In the interim, it has observed the provisions of the new law in full and adjusted the respective terms of contract with the customers who accepted a loan currency conversion from CHF into EUR, in line with the legally prescribed terms of loan conversion. More specifically, in Hungary, comprehensive legislation was introduced in 2014 requiring the compulsory conversion of foreign currency-based retail home loans into forint-based ones, as well as containing rules on the compensation banks had to pay to clients, with which the bank has complied. Some legacy litigation remains pending. At this time, it is not possible to reliably assess the ultimate impact of these developments, the timing of any final court decisions, how successful any litigation may ultimately be or what financial impact it or any associated legislative or regulatory initiatives, might ultimately have on the individual subsidiaries or the consolidated Bank Austria Group.

The Group has made provisions for these risks in various countries in the total amount of €10.5 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 three class actions filed by the Federal Chamber of Labour (with the claimed amount totalling about €20.5 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 mainly pending in the first instance. No final decisions 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. 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.

Legal risks for which provisions have not yet been made

In line with the above policy, no provision has been made for the following pending legal proceedings and the following other proceedings. Due to the uncertain nature of litigation, however, we cannot exclude that the following may result in losses to the bank:

Valauret S.A.

In 2001, the plaintiffs, Valauret S.A. and Hughes de Lasteyrie du Saillant, bought shares in the French company Rhodia S.A. The plaintiffs argue that they suffered losses as a result of the drop in Rhodia share prices between 2002 and 2003, allegedly caused by previous fraudulent actions by members of the company's board of directors, which made the financial statements untruthful and misleading.

Risk report (CONTINUED)

In 2004, the plaintiffs filed a petition claiming damages against the board of directors, the external auditors, and Aventis S.A. (the alleged majority shareholder of Rhodia S.A.). Subsequently, they extended their claim to other parties, including UniCredit Bank Austria AG, amounting to a total of 14 defendants, against which a petition was filed at the end of 2007, as successor entity of Creditanstalt AG. The plaintiffs argue that the latter was involved in the aforementioned alleged fraudulent activities, as it was the credit institution of one of the companies involved in said activities. Valauret S.A. is seeking damages of €129.8 million in addition to legal costs and Hughes de Lasteyrie du Saillant is seeking damages of €4.39 million.

In UniCredit Bank Austria AG's opinion, the claim that Creditanstalt AG was involved in fraudulent activities is without grounds. In 2006, prior to UniCredit Bank Austria AG being included as a defendant, the civil proceedings were suspended following the opening of criminal proceedings. In December 2008, the Commercial Court of Paris suspended the civil proceedings against UniCredit Bank Austria AG as well.

Istraturist Umag d.d

In 2014 Zagrebačka banka d.d. closed a sale and purchase agreement whereby its stake in its former subsidiary Istraturist Umag d.d. was sold. Under the terms of the transaction a specific seller's warranty was agreed in relation to the litigations pending between Istraturist Umag d.d. and Nova Ljubljanska Banka dd.

Several court proceedings involving Nova Ljubljanska Banka dd ("NLJB"), Ljubljanska Banka d.d. ("LJB") and Istraturist Umag d.d. ("Istraturist") are pending. These arise out of the fact that in 1993 Istraturist notified LJB that it was setting off its own credit commitments to LJB in the sum of €15.8 million (originally DEM 31 million) against LJB's commitments to it in the same amount, effectively reducing the position to zero.

NLJB, to whom all assets of LJB had been transferred, rejected the set-off and, between 1994 and 1998, sued Istraturist before the court in Slovenia, demanding payment of €15.8 million (originally DEM 31 million) plus interest. Other legal proceedings are also pending.

Due to various legal reasons (different laws applicable during the long period of the interest calculation, different proceedings pending with the Courts of Slovenia and Croatia, information prejudicing Istraturist's position in the ongoing dispute) Istraturist cannot estimate and disclose any reliable interest figure at this stage.

At the current time, it is not possible to estimate when the legal disputes will finally be resolved and what the ultimate resolution might be.

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 UniCredit Bank Austria AG 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, UniCredit Bank Austria AG will not apply that rate but a debit interest rate of 0.00001% – in line with UniCredit Bank Austria AG'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. On 30 September 2015 a negative decision was rendered by the Commercial Court in Vienna against UniCredit Bank Austria AG. According to this decision UniCredit Bank Austria AG would have to pay out negative interest (in FX loans) to consumers. UniCredit Bank Austria AG has appealed against this decision. On 23 December 2015, a positive decision was rendered by the Regional Appeal Court of Vienna in favour of UniCredit Bank Austria AG, dismissing the suit of VKI for lack of standing without addressing the merits of the case. This decision is not legally binding and a ruling of the Austrian Supreme Court (Oberster Gerichtshof) on the merits of the case is to be expected.

Wealth AG j.d.o.o. (1)

Wealth AG j.d.o.o. filed a motion for execution against Zagrebačka banka d.d. based on trustworthy documents – 20 invoices issued by another firm, Ante gradnja d.o.o. – for the claim whose fulfilment is demanded in the amount of HRK 1,939,526,833.35 (Croatian kuna). A public notary issued a writ of execution based on a trustworthy document on 18 September 2015.

Zagrebačka banka d.d. filed an objection against the writ of execution for various reasons, in particular for the reason that regulatory requirements for the qualification of the submitted documents as trustworthy enforceable deeds were not met.

Zagrebačka banka d.d. is of the opinion that this is a sham action and the claimant is seen as a vexatious litigant.

As Zagrebačka banka d.d. filed an objection, the Commercial Court of Zagreb will suspend the writ and revoke any performed action, thus the proceedings will continue before the Commercial Court of Zagreb as litigation.

Risk report (CONTINUED)

Wealth AG j.d.o.o. (2)

Wealth AG j.d.o.o. filed a claim against Zagrebačka banka d.d. with the Commercial Court of Zagreb pursuant to which the claimant requests payment in the amount of HRK 1,183,547,613.76 (Croatian kuna). The claim is unfounded and has no legal ground. As the director and the sole proprietor of the claimant repeatedly filed numerous lawsuits against the bank, as a natural person or director and proprietor of other legal entities, it is obvious that these proceedings represent an act of excessive litigation of the claimant. Zagrebačka banka d.d. and the external attorney representing the bank in this case are of the opinion that this is a sham action and the claimant is seen as a vexatious litigant. The civil proceedings are pending in the first instance.

Loan processing fees

The Austrian Association for Consumer Information (Verein für Konsumenteninformation, VKI) has filed two class actions against two other banks in Austria in connection with loan processing fees. First-instance courts have handed down decisions against the two banks; the decisions are not final. The two courts have stated different reasons for their rulings: the Regional Court of Innsbruck referred to one of the parties being put at a serious disadvantage as defined in Section 879 (3) of the Austrian Civil Code (Allgemeines Bürgerliches Gesetzbuch – ABGB), and the Regional Court of St. Pölten referred to intransparency pursuant to Section 6 (3) of the Austrian Consumer Protection Act (Konsumentenschutzgesetz – KSchG). The reasoning used by the Higher Regional Appeal Court of Innsbruck (one of the parties being put at a serious disadvantage basically because of this fee) was taken over by the Higher Regional Appeal Court of Vienna without any reflections of its own. As these cases involve a point of law, these matters will be decided by the Austrian Supreme Court, to which both banks have appealed. An assessment of whether borrowers have a right to reclaim loan processing fees, and if so, to what extent this might be the case or what objections the banks can raise against this, will only be possible when the Supreme Court has finally clarified the question of whether the relevant clause is effective.

In one of the two cases the sixth senate of the Austrian Supreme Court recently set aside the decisions of the first and second instances (Higher Regional Appeal Court of Innsbruck), decided that loan processing fees are permissible in Austria for various reasons, and dismissed the action brought by the VKI. Borrowers have no right to reclaim loan processing fees on this basis. Before a final assessment can be made, however, the decision of the Austrian Supreme Court regarding the second pending case has to be awaited. Although rather unlikely, it is still possible that the tenth senate does not assess all aspects of the issue in the same way as the sixth senate.

Other proceedings

Recently, violations of US sanctions and certain US dollar payment practices have resulted in certain financial institutions entering into settlements and paying substantial fines and penalties to various US authorities, including the US Treasury Department's Office of Foreign Assets Control ("OFAC"), the US Department of Justice ("DOJ"), the District Attorney for New York County ("DANY"), the US Federal Reserve ("Fed") and the New York Department of Financial Services ("DFS"), depending on the individual circumstances of each case.

UniCredit Bank Austria AG has initiated a voluntary investigation of its historic compliance with applicable U.S. financial sanctions and has identified certain historic non-transparent practices. It is possible that investigations into past compliance practices may be extended to one or more of our subsidiaries and/or affiliates. The scope, duration and outcome of any such review or investigation will depend on facts and circumstances specific to each individual case. UniCredit Bank Austria AG is updating its regulators as appropriate and remediation activities are ongoing. Although we cannot at this time determine the form, extent or the timing of any resolution with any relevant authorities, the investigation costs, remediation required and/or payment or other legal liability incurred could lead to liquidity outflows and could potentially negatively affect the net assets and net results of UniCredit Bank Austria AG and one or more of its subsidiaries in any particular period.

Additional disclosures

Guarantees given and commitments

(€ million)

	30 JUNE 2016	31 DEC. 2015
Financial guarantees given to:	**4,935**	**4,610**
Banks	621	1,093
Customers	4,313	3,517
Commercial guarantees given to:	**12,605**	**13,196**
Banks	3,511	4,355
Customers	9,094	8,841
Other irrevocable commitments to disburse funds	**21,258**	**19,942**
Banks	1,584	1,343
Usage certain	*1,445*	*1,287*
Usage uncertain	*139*	*56*
Customers	19,674	18,599
Usage certain	*15,997*	*14,985*
Usage uncertain	*3,677*	*3,614*
Underlying obligations for credit derivatives: sales of protection	**–**	**–**
Assets used to guarantee others' obligations	**10**	**10**
Other commitments	**988**	**1,015**
TOTAL	**39,796**	**38,773**

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;
- **Group Executive Incentive System** that offers to eligible Group Executive a variable remuneration for which payment will be made within five years. The beneficiary will receive the payment by cash and/or by UniCredit shares; the payments are related to the achievement of performance conditions (other than market conditions) stated in the Plan Rules;
- **Group Executive Incentive System (Bonus Pool)** that offers to eligible Group Executives and relevant employees identified following regulatory rules, a bonus structure composed by 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 4 or 5 years deferred). This payment structure will guarantee the alignment to shareholder interests and will be subject 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 – Let's Share)** that offers to eligible Group employees the possibility to buy UniCredit ordinary shares with the following advantage: granting of free ordinary shares ("Free Shares" or 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

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 equal to an exercise price-multiple (M);
- probability of beneficiaries' early exit (E) after the end of the vesting period.

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

No new Stock Options' Plans were granted during 2016.

Group Executive Incentive System

The amount of the incentive is determined on a 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.

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

Group Executive Incentive System (Bonus Pool)

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.

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

Group Executive Incentive System "Bonus Pool 2015" – 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.

The plan is divided into clusters, each of which can have two or three instalments of share-based payments spread over a period defined according to Plan Rules.

	SHARES GRANTED GROUP EXECUTIVE INCENTIVE SYSTEM – BONUS POOL 2015			
	INSTALMENT 2018	INSTALMENT 2019	INSTALMENT 2020	INSTALMENT 2021
Date of Bonus Opportunity Economic Value granting	21 January 2015	21 January 2015	21 January 2015	21 January 2015
Date of Board resolution (to determine number of shares)	15 March 2016	15 March 2016	15 March 2016	15 March 2016
Vesting Period start-date	1 January 2015	1 January 2015	1 January 2015	1 January 2015
Vesting Period end-date	31 December 2015	31 December 2017	31 December 2018	31 December 2019
UniCredit Share market price [€]	3.411	3.411	3.411	3.411
Economic value of vesting conditions [€]	–0.261	–0.492	–0.814	–1.175
Performance Shares' fair value per unit at the Grant Date [€]	**3.150**	**2.919**	**2.597**	**2.236**

Group Executive Incentive System 2016 (Bonus Pool)

The new Group Incentive system 2016 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.

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

Additional disclosures (CONTINUED)

Employee Share Ownership Plan (Let's Share for 2016)

The following table shows the measurements and parameters used in relation to Free Shares (or rights to receive them) connected to the "Employee Share Ownership Plan" approved in 2015.

Measurement of Free Shares ESOP 2016

	FREE SHARES 1ST ELECTION WINDOW	FREE SHARES 2ND ELECTION WINDOW
Date of Free Shares delivery to Group employees	29 July 2016	To be defined
Vesting Period start-date	29 July 2016	To be defined
Vesting Period end-date	29 July 2017	To be defined
Discount Shares' fair value per unit (€)	**To be defined**	**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).

The Let's Share for 2016 Plan provides for the use of shares to be purchased on the market. To that end, Participants give a mandate to a broker (internal or external to UniCredit Group) to purchase the shares to be transferred into an account opened in their name.

Full-time equivalents

	H1 2016	2015
Salaried staff	35,198	35,783
Other employees	8	32
TOTAL 1)	**35,206**	**35,815**
of which: in Austria	*6,954*	*7,198*
of which: abroad	*28,251*	*28,617*

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

On 2 July 2016, a capital increase at Public Joint Stock Company Ukrsotsbank (again through the conversion of existing loans into equity) was carried out by UniCredit Bank Austria AG in the amount of about US$19 million and by UniCredit S.p.A. in the amount of about US$183 million. This led to further changes in shareholding interests. UniCredit Bank Austria AG's shareholding interest declined from 94.2% to 68.5%.

On 15 July 2016, a coup attempt took place in Turkey where a minority faction inside the Turkish armed forces attempted to overthrow the government. Early on 16 July 2016, the coup attempt was blocked. Following the events, the parliament approved a three-month state of emergency. The implications of the attempted coup had a mild effect on key macro indicators. The main point of attention currently is a potential sovereign rating downgrade to below investment grade, while in terms of liquidity, the central bank has announced that it will provide unlimited liquidity and no issues are foreseen.

UniCredit Bank Austria is exposed to Turkey mainly via its subsidiary Yapı ve Kredi Bankası A.Ş. ("YKB"), which is 41% owned through a 50%/50% joint venture with Koç Holding and is the 4th largest private bank in Turkey with total assets of €73 billion. The main impact on Bank Austria would be on capital, triggered by a potential sovereign rating downgrade. In terms of profit or loss, we currently do not expect any major impact. As far as the positioning of our subsidiary is concerned, YKB has a comfortable liquidity position with no major impacts foreseen.

As mentioned on page 44 in connection with the transfer of rights to future pension benefits to the state scheme under the Austrian General Social Insurance Act (ASVG), the Austrian legislator passed an amendment to the ASVG which was published in the Federal Law Gazette No. 18/2016 on 13 April 2016 and became effective retroactively so that the above-mentioned transfers are covered by the amendment. In some areas, the effectiveness of the new legal provisions still depends on whether the Austrian Federal Minister of Labour, Social Affairs and Consumer Protection states by way of regulation that the European Commission does not see the transferred amount as state aid under the new Section 311a of the ASVG. The European Commission stated, in a Commission service letter dated 20 July 2016, that it stopped the investigation. This means that the European Commission does not consider the process to constitute prohibited state aid.

Additional disclosures (CONTINUED)

Consolidated capital resources and risk-weighted assets

Consolidated capital resources

(€ million)

	30 JUNE 2016	31 DEC. 2015
Paid-in capital instruments (excl. own Common Equity Tier 1 instruments)	1,681	1,681
Reserves (incl. profit) and minority interests	14,259	13,602
Adjustments to Common Equity Tier 1	–741	–878
Transitional adjustments to Common Equity Tier 1*)	–126	–244
Common Equity Tier 1 (CET1)	**15,074**	**14,162**
Additional Tier 1 capital and qualifying Additional Tier 1 instruments issued by subsidiaries	48	90
Adjustments to Additional Tier 1	0	0
Transitional adjustments to Additional Tier 1*)	–48	–90
Additional Tier 1 (AT1)	**0**	**0**
Tier 1 capital (T1=CET1+AT1)	**15,074**	**14,162**
Tier 2 capital and qualifying Tier 2 instruments issued by subsidiaries	4,850	4,897
Adjustments to Tier 2 capital	96	158
Transitional adjustments to Tier 2 capital*)	–2	–146
Tier 2 capital (T2)	**4,944**	**4,909**
Total regulatory capital (TC=T1+T2)	**20,018**	**19,070**

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

Risk-weighted assets

(€ million)

	30 JUNE 2016	31 DEC. 2015
a) Credit risk pursuant to standardised approach	70,005	69,241
b) Credit risk pursuant to internal ratings-based (IRB) approach	44,569	43,920
c) Other (contribution to default fund of a central counterparty [CCP])	15	3
Credit risk	114,589	113,164
Settlement risk	2	0
Position, foreign exchange and commodity risk	4,236	3,974
Operational risk	10,214	10,716
Additional risk exposure amount due to fixed overheads	3	0
Risk positions for credit value adjustments (CVA)	285	405
TOTAL RWAS	**129,330**	**128,259**

Capital ratios

	30 JUNE 2016	31 DEC. 2015
Common Equity Tier 1 ratio*)	11.7%	11.0%
Tier 1 ratio*)	11.7%	11.0%
Total capital ratio*)	15.5%	14.9%

*) 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 Interim Report

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 applicable accounting 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

Robert Zadrazil	**CEO Commercial & Private Banking Support Services (Chairman)**
Carlo Vivaldi	**CEE Banking Division (Deputy Chairman)**
Mirko Bianchi	**CFO Finance**
Romeo Collina	**COO Chief Operating Officer**
Dieter Hengl	**Corporate & Investment Banking Division**
Jürgen Kullnigg	**CRO Risk Management**
Doris Tomanek	**Human Resources Austria & CEE**

Vienna, 25 July 2016

Robert Zadrazil

Carlo Vivaldi

Mirko Bianchi

Romeo Collina

Dieter Hengl

Jürgen Kullnigg

Doris Tomanek

Additional Information

Glossary of alternative performance measures

The following list contains definitions of key financial indicators (alternative performance measures, APMs) used in addition to the applicable financial reporting framework.

Adjustment for exchange rate movements: presentation of a trend (reporting period versus comparative period) on the basis of constant exchange rates rather than current exchange rates. The exchange rates used in this context are those which prevailed at the end of the year preceding the beginning of the comparative period.

Cost/income ratio: operating costs divided by operating income.

Cost of risk: net write-downs of loans and provisions for guarantees and commitments measured against loans and receivables with customers (average for the period), usually expressed in basis points (1 bp = 1/100% = 0.01%). If the cost of risk is calculated for a period of less than a full year, net write-downs of loans and provisions for guarantees and commitments are annualised.

Coverage ratio: specific write-downs of loans measured as a percentage of non-performing exposures at the reference date.

Credit Value Adjustments (CVA): adjustment to the valuation of a portfolio of transactions reflecting the counterparties' credit risk, which is the risk that the counterparty to a transaction involving financial instruments might default prior to completing all agreed cash-flow exchanges.

Direct funding: sum total of deposits from customers, debt securities in issue and financial liabilities at fair value.

Direct funding ratio: direct funding measured against loans and receivables with customers as reflected in the statement of financial position.

Effective tax rate: income tax in the consolidated income statement measured against profit before tax.

Financial market investments: sum total of financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments as reflected in the statement of financial position.

FTE (full-time equivalent): number of full-time employees, with part-time employees being counted on the basis of effective working hours.

Loans/direct funding ratio: loans and receivables with customers measured against direct funding.

Non-performing exposures include (1) "bad loans", i.e. credit exposures, formally considered uncollectible, to insolvent borrowers, even if insolvency has not been judicially ascertained; (2) "unlikely to pay", i.e. on-balance sheet and off-balance sheet exposures which do not meet the conditions to be classified as "bad loans". The classification as "unlikely to pay" derives from the assessment of the debtor's unlikeliness, without actions such as realisation of collateral, to fully repay the credit obligation (principal and/or interest); (3) "past due": on-balance sheet exposures other than those classified among "bad loans" or "unlikely to pay", which at the reference date have amounts that are more than 90 days past due or over limits.

NPE ratio: non-performing exposures as a percentage of loans to customers before deduction of loan loss provisions (NPE ratio in gross terms) and after deduction of loan loss provisions (loans to customers as reflected in the IFRS statement of financial position; NPE ratio in net terms) at the reference date.

Net operating profit: operating profit less net write-downs of loans and provisions for guarantees and commitments.

Period averages: quarterly averages based on figures at reference dates are calculated as the mean value of the figure at the end of the preceding quarter and the figure at the end of the reporting period. The calculation of averages for longer reporting periods (first six months, first nine months or full year) is based on the averages for the quarters included in the reporting period.

Return on equity (ROE) before tax: Profit before tax (annualised) measured against average IFRS equity after deduction of IAS 39 reserves.

Return on equity (ROE) after tax: Net profit (annualised) attributable to the owners of the parent company measured against average IFRS equity after deduction of IAS 39 reserves and non-controlling interests.

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.

Systemic charges: bank levies and other systemic charges, including contributions to bank resolution funds and deposit guarantee schemes established on the basis of European or local regulations.

Total financial assets (TFA): sum total of deposits from customers, assets under management (fund and asset management products) and assets under custody (direct capital market investments/safe-custody business).

Investor Relations

UniCredit Bank Austria AG / Corporate Relations

Lassallestrasse 5, 1020 Vienna, Austria	
Tel: (+43) (0)5 05 05-57232	Fax: (+43) (0)5 05 05-8957232
e-mail: investor.relations@unicreditgroup.at	Internet: http://ir-en.bankaustria.at
Günther Stromenger, tel.: (+43) (0)5 05 05-57232	
Erich Kodon, tel.: (+43) (0)5 05 05-54999	
Ana-Maria Olteanu, tel.: (+43) (0)5 05 05-59522	
Birgit Tscherteu, tel.: (+43) (0)5 05 05-82638	

Ratings

	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 A3, grandfathered subordinated debt is rated Baa3.
2) Grandfathered senior debt is rated BBB, grandfathered subordinated debt is rated BB+.

Financial calendar

11 November 2016	Publication of the results as of 30 September 2016
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):

Publisher and media owner:
UniCredit Bank Austria AG
A-1010 Vienna, Schottengasse 6–8
Tel: + 43 (0)5 05 05-0
Internet: www.bankaustria.at
e-mail: info@unicreditgroup.at
BIC: BKAUATWW
Austrian bank routing code: 12000
Register of Firms: FN 150714p
Data Processing Register number: 0030066
VAT registration number: ATU 51507409

Editor:
Planning & Controlling Austria, External Reporting

Creative concept: M&C Saatchi Milano

Layout concept and design: UniCredit

Graphics: www.horvath.co.at

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

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

Supervisory Board of the media owner:
Erich Hampel (Chairman of the Supervisory Board), Paolo Fiorentino (Deputy Chairman of the Supervisory Board), Massimiliano Fossati, Alfred Fürler, Olivier Nessime Khayat, Adolf Lehner, Alfredo Meocci, Marina Natale, 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

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