Bank Austria Member of UniCredit

Bank Austria IR Release

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Results for the first three months of 2015:

Bank Austria posts net profit of EUR 198 million for the first quarter

- **Sound performance of commercial banking business with customers, despite weak economic growth, market interest rates which are at a record low, and exchange rate effects**
  - Lending volume totals EUR 117.5 billion, up by 3.5 per cent on the previous year
  - Disproportionately strong year-on-year growth of 11.0 per cent in customer deposits in Austria and CEE, to a total of EUR 106.2 billion
- **At EUR 210 million, net write-downs of loans remain at the very low level of the previous year**
- **Total charge for bank levies and partly new systemic charges increases to EUR 103 million, a new record level**
- **Net profit of EUR 198 million, down by 43.2 per cent on the same period of the previous year due to three effects not related to operating activities:**
  - Systemic charges up by EUR 27 million on 2014
  - Proceeds of EUR 72 million from sales of real estate in the previous year
  - Total loss after tax from discontinued operations of EUR 60 million, mainly resulting from Ukraine
- **Total capital ratio[1] at 13.7 per cent, Common Equity Tier 1 capital ratio[4] at a sound 10.2 per cent under Basel 3**
- **Further improvement in direct funding ratio underlines the bank's strong liquidity position**
  - Loans to customers funded with customer deposits and the bank's own issues to the extent of 115.9 per cent

Bank Austria's CEO Willibald Cernko: "The economic environment has remained challenging. Against this background we have got off to a good start in 2015, with a net profit of EUR 198 million in the first

[1] Capital ratios have been calculated pursuant to Basel 3 transitional arrangements; net profit for the first quarter of 2015 has not been taken into account in regulatory capital and in capital ratios.

quarter. A gratifying performance has been achieved especially by operations in Central and East European markets, where growth has continued despite geopolitical tensions. The transformation of our business model to create a modern and customer-friendly multi-channel bank is also making progress as planned. Our customers have responded favourably to these changes. The bank levy is an area in which I see an urgent need for action. While the contributions now to be made to resolution funds and deposit guarantee schemes are right and important, these new charges are pushing up costs in the banking industry to a record level, which banks in Austria cannot absorb in addition to a bank levy which is the highest in Europe. We therefore repeat our demand that the costs associated with these new 'systemic charges' should count towards the bank levy. In view of weak economic growth and increasing unemployment it would also make sense to take up the financial sector's proposals to stimulate the small and medium-sized business sector and to support research and start-ups, which we are ready to do. But decision-makers will have to choose between milking the cow or slaughtering it. Doing both at the same time will not be possible."

Items in the income statement[2]

Net interest continued to be the most important income component, accounting for 59.0 per cent of total operating income. In the first quarter of 2015, net interest was EUR 816 million, down by 6.2 per cent on the same period of the previous year (Q1 2014: EUR 869 million) on account of the persistently low interest rate environment and negative exchange rate effects. At constant exchange rates, net interest increased by 2.2 per cent.

Net fees and commissions developed favourably, rising by 3.0 per cent over the first quarter of the previous year, to EUR 341 million (Q1 2014: EUR 331 million); adjusted for exchange rate movements, the increase was 4.7 per cent.

Net trading, hedging and fair value income was EUR 107 million, down by 4.8 per cent on the same period of the previous year (Q1 2014: EUR 112 million). This was due to negative exchange rate effects (at constant exchange rates, net trading income was up by 0.8 per cent) and to the fact that

[2] To ensure comparability, the figures for 2014 have been adjusted. Most of the leasing activities were transferred to Bank Austria by the UniCredit parent company in the past year and segment reporting has been adjusted to reflect the new structure. The position in the income statement regarding Ukrsotsbank continues to be reflected in the line "Total profit or loss after tax from discontinued operations".

Bank Austria's participation in profits of the Markets subdivision of UniCredit's CIB Division, to which Bank Austria was entitled under the terms and conditions of the sale of CAIB, ended.

Total **operating income** amounted to EUR 1,383 million, down by 2.1 per cent on the figure for the first quarter of the previous year (Q1 2014: EUR 1,413 million). The slight decline was due to the effects mentioned above: interest rates remained low and exchange rate effects also had an impact. At constant exchange rates, operating income rose by 3.0 per cent.

Operating costs declined by 2.8 per cent to EUR 751 million (Q1 2014: EUR 772 million), thanks to strict cost management across all business segments and also as a result of exchange rate movements. Adjusted for exchange rate movements, operating costs rose slightly, by 0.5 per cent.

Operating profit was EUR 632 million, down by 1.3 per cent on the same period of the previous year (Q1 2014: EUR 641 million), reflecting lower operating income and exchange rate effects. At constant exchange rates, operating profit rose by 5.9 per cent.

Net write-downs of loans and provisions for guarantees and commitments in the first quarter of 2015 amounted to EUR 210 million, remaining at the very low level reached in the previous year (Q1 2014: EUR 208 million). The provisioning charge in Austrian customer business declined to EUR 37 million (Q1 2014: EUR 61 million). In Central and Eastern Europe, net write-downs of loans and provisions for guarantees and commitments increased to EUR 175 million (Q1 2014: EUR 146 million), mainly due to a higher charge for loan loss provisions in Russia. Overall, the cost of risk (net write-downs of loans measured against the average volume of loans to customers) matched the previous year's level of 73 basis points.

Net operating profit, the key measure of operating performance, for the first three months of 2015 was EUR 422 million, down by 2.5 per cent on the same period of the previous year (Q1 2014: EUR 433 million). The decline reflects low operating income, impacted mainly by the low interest rate environment, persistently weak credit demand and exchange rate effects. The lower charge for loan loss provisions had a favourable effect.

While cost growth in the business divisions was contained through strict cost management, cost-cutting efforts were offset by further increases in bank levies and other systemic charges (contributions to resolution funds and deposit guarantee schemes), which are shown for the first time on a combined basis in the line "Systemic charges" within non-operating items of the income statement for the first quarter of 2015. The balance of **non-operating income/expenses**, which are shown between net operating profit and profit before tax, in the first quarter of 2015 was minus EUR 112 million, compared with minus EUR 13 million in the same period of the previous year.

Among the non-operating items, **systemic charges** were the most significant factor burdening the income statement. They amounted to EUR 103 million, an increase of 35.8 per cent over the same period of the previous year (Q1 2014: EUR 76 million).

The charge for the bank levy in Austria rose by 9.5 per cent to a total of EUR 31.2 million (Q1 2014: EUR 28.5 million). In CEE, bank levies (especially in Hungary and in Slovakia) added up to EUR 30.3 million. Other systemic charges totalled EUR 41.5 million. Of this total amount, EUR 18.1 million related to the new bank resolution fund in Austria, representing the full contribution for the entire year. Moreover, contributions to local bank resolution funds in Hungary and Romania amounted to a combined EUR 3.0 million and contributions to deposit guarantee funds in CEE countries, on a pro-rata basis for the first quarter, totalled EUR 20.4 million.

Overall, these systemic charges were equal to 32.2 per cent of administrative expenses and 13.7 per cent of total costs.

When comparing **net income from investments** in the first three months of 2015 with the same period of the previous year, it should be noted that the previous year's figure included proceeds of EUR 72 million from sales of real estate. Net income from investments in the first quarter of 2015 was zero (Q1 2014: EUR 75 million).

Profit before tax for the first quarter of 2015 was EUR 311 million, down by 26.1 per cent on the same period of the previous year (Q1 2014: EUR 420 million). Performance was burdened by weak economic growth, low interest rates and a significant increase in systemic charges. **Net profit** attributable to the owners of the parent company was **EUR 198 million, down by 43.2 per cent** on the same period of the previous year (Q1 2014: EUR 348 million).

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

- The cost/income ratio improved to 54.3 per cent (Q1 2014: 54.7 per cent).
- The risk/earnings ratio (net write-downs of loans as a percentage of net interest income) was 23.0 per cent (Q1 2014: 22.0 per cent).

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- The total capital ratio (based on all risks) was 13.7 per cent (year-end 2014: 13.4 per cent).
- The Common Equity Tier 1 capital ratio (based on all risks) was a sound 10.2 per cent (year-end 2014: 10.3 per cent).

Results of the Divisions

Bank Austria reports its results in four Divisions: Retail & Corporates, Corporate & Investment Banking (CIB), Private Banking, and Central Eastern Europe (CEE). The bank also shows results for the Corporate Center.

The **Retail & Corporates** Division's profit before tax for the first quarter of 2015 was EUR 47 million, a decrease of 5.4 per cent on the same period of the previous year (Q1 2014: EUR 50 million). The Corporates subdivision achieved an improvement in its profit before tax, due to a sound operating performance from customer business and a lower provisioning charge. In the Retail subdivision, new business on the lending side and on the deposits side increased but this growth failed to fully offset the negative effects of persistently low interest rates.

Profit before tax generated by the **Corporate & Investment Banking (CIB)** Division in the first quarter of 2015 amounted to EUR 42 million, down by 17.9 per cent on the same period of the previous year (Q1 2014: EUR 51 million). The main reason for the decline was lower operating income compared with the first three months of the previous year, due to one-off income recorded by Markets operations in 2014 as well as stagnant demand and low interest rates. Strict cost management and excellent risk management did not fully offset this development.

In the first quarter of 2015, the **Private Banking** Division generated a profit before tax of EUR 16 million, an increase of 47.5 per cent (Q1 2014: EUR 11 million). The main driver of the 18.0 per cent increase in operating income was fee-based business, which rose significantly on account of growth in asset management activities, while the increase in costs was moderate as a result of strict cost management.

The **Central Eastern Europe (CEE)** Division generated a profit before tax of EUR 390 million for the first quarter of 2015 compared to EUR 327 million in the same period of the previous year. Despite adverse currency effects and prolonged geopolitical tensions this is a significant increase of 19.3 per cent in a year-on-year comparison. Operating expenses were declining due to strict cost management, the moderate cost-of-risk trend versus last year was confirmed in the first three months of 2015.

Bank Austria is UniCredit's sub-holding company for operations in Central and Eastern Europe (CEE), managing the leading banking network in CEE in 13 countries, with around 47,600 employees and about 2,500 branches[3].

"In a still difficult environment, our geographically broadly diversified business model keeps proving its pronounced resilience and capability to counterbalance unfavourable local developments. Although we could not fully avoid the effects of the conflict in Ukraine and international sanctions against Russia in the first quarter of 2015, all of our local banks, except for our Ukrainian unit, have shown a strong business performance and achieved sound financial results", says Carlo Vivaldi, Deputy CEO and Head of the CEE Division of Bank Austria. "While we consider ourselves a strategic long-term investor in Central and Eastern Europe without lowering our sights, we have launched 33 cross-border initiatives to identify new ways of value creation and build a future-oriented customer business."

Statement of financial position

Bank Austria's **total assets** as at 31 March 2015 were EUR 195.0 billion, up by 3.1 per cent or EUR 5.9 billion on the end of the previous year (31 December 2014: EUR 189.1 billion).

On the assets side, **loans and receivables with customers** at the end of March 2015 were EUR 117.5 billion, up by 3.3 per cent or EUR 3.8 billion (31 December 2014: EUR 113.7 billion). **Loans and receivables with banks** declined slightly, by 1.5 per cent to EUR 30.1 billion (31 December 2014: EUR 30.5 billion).

On the liabilities side, **deposits from customers** amounted to EUR 106.2 billion, an increase of 3.8 per cent or EUR 3.9 billion (31 December 2014: EUR 102.3 billion). **Debt securities in issue** rose slightly, by 0.3 per cent to EUR 30.1 billion (31 December 2014: EUR 30.0 billion).

Direct funding – i.e. the sum total of deposits from customers and debt securities in issue – continued to increase, by 3.0 per cent or EUR 4.0 billion to EUR 136.3 billion (31 December 2014: EUR 132.3 billion), accounting for over two-thirds (69.9 per cent) of total liabilities and equity. This gives a loan/direct-funding ratio of 86.2 per cent. On this basis, customer loans were funded with customer deposits and debt securities in issue to the extent of 115.9 per cent.

[3] Including Turkey.

In the first quarter of 2015, the **leverage ratio** to be calculated under Basel 3 remained at a conservative 5.6 per cent in conformity with Basel 3 transitional rules.

Total regulatory capital[4] as at 31 March 2015 was EUR 18.9 billion, up by EUR 1.3 billion on the end of the previous year (31 December 2014: EUR 17.5 billion).

The **total capital ratio**[5] improved to 13.7 per cent (31 December 2014: 13.4 per cent) in the first three months of 2015. The **Common Equity Tier 1 capital ratio** was a sound 10.2 per cent (31 December 2014: 10.3 per cent).

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[4] Calculated on an IFRS basis.

[5] Capital ratios have been calculated pursuant to Basel 3 transitional arrangements; net profit for the first quarter has not been taken into account in capital and in capital ratios.