Bank Austria IR Release

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Bank Austria's results for the first half of 2012:

Bank Austria posts net profit of EUR 646 million for the first six months

- **Net operating profit up by 11.1 per cent due to sound performance from customer business, flat cost trend and further decline in net write-downs of loans**
- **Lending volume rises by 3.3 per cent to EUR 136 billion, customer deposits up by 9,4 per cent to EUR 107.4 billion**
- **Net write-downs of loans in Austria and CEE down by a combined 18.6 per cent to EUR 568 million**
- **Charge for bank levies totals EUR 58.7 million**
- **Profit before tax up by 3.4 per cent to EUR 864 million**
- **Net profit increases by 1.2 per cent to EUR 646 million**
- **High loan / direct funding ratio: customer loans funded by customer deposits and debt securities in issue to the extent of 100 per cent**

Bank Austria's CEO Willibald Cernko: "Our extensive presence in Austria and 18 countries in Central and Eastern Europe has proved to be effective also in the volatile market environment which prevailed in the first six months. While uncertainty on the part of investors continued and credit demand was marked by restraint, we achieved 11.1 per cent growth in our net operating profit. This reflects the sound development of commercial banking business with customers and a further decline in the provisioning charge. The fact that the volume of loans continued to grow shows that we fully meet our core function of financing companies and private households even in challenging times. The European environment means that we will continue to face significant challenges: in view of the stricter regulatory requirements we need to further improve our earnings capacity."

Items in the income statement

Net interest in the first half of 2012 was EUR 2,249 million. In an environment characterised by low interest rates, net interest remained the most important revenue component, at a level which was marginally above the figure for the same period of the previous year (H1 2011: EUR 2,241 million).

Net fees and commissions showed a weaker trend; at EUR 786 million, they were down by 4 per cent from the first half of the previous year (H1 2011: EUR 818 million). The decline was due to continued restraint on the part of customers, especially in securities business, in view of the volatile market environment.

Net trading, hedging and fair value income rose strongly compared with the previous year. The increase is mainly explained by the gain on the buyback of hybrid instruments in the first quarter of 2012. Overall, net trading, hedging and fair value income for the first six months was EUR 357 million, an increase of 31.4 per cent over the same period of the previous year (H1 2011: EUR 272 million).

Operating income in the first six months of 2012 totalled EUR 3,512 million (H1 2011: EUR 3,501 million).

At EUR 1,947 million, **operating costs** were up by a moderate 2.2 per cent from the comparative figure for the first half of the previous year (H1 2011: EUR 1,905 million); strict cost discipline and continued efficiency enhancement in current operations kept the increase down. In total, the charge for bank levies in Austria and in several CEE countries added up to 3 per cent of operating costs.

The total charge for bank levies payable in the Bank Austria Group in the first half of 2012 was EUR 58.7 million, of which EUR 48.3 million relates to Austria, EUR 4.8 million to Slovakia, EUR 0,5 million to Romania and EUR 0.4 million to Slovenia. In Hungary, the bank levy amounted to EUR 14 million, which was partly offset by a positive one-off effect of EUR 9.3 million because part of the losses resulting from the early repayment programme for foreign currency loans may be offset against the bank levy.

Operating profit was EUR 1,565 million, only slightly lower than in the same period of the previous year (H1 2011: EUR 1,595 million) thanks to sound operating performance and despite the additional burdens resulting from bank levies.

In the first half of 2012, **net write-downs of loans and provisions for guarantees and commitments** were EUR 568 million, down by a substantial EUR 130 million or 18.6 per cent from the same period of the previous year (H1 2011: EUR 698 million). The provisioning charge was reduced in Austrian customer business and in Central and Eastern Europe. In Austrian commercial banking, the provisioning charge declined by 51.7 per cent to EUR 88 million (H1 2011: EUR 182 million), in CEE by 6.7 per cent to EUR 481 million (H1 2011: EUR 516 million). Overall, the cost of risk (net write-downs of loans and provisions for guarantees and commitments as a proportion of average loans to customers) declined from 108 basis points (bp) in the first half of the previous year to 85 bp in H1 2012.

Net operating profit – i.e. operating profit less net write-downs of loans and provisions for guarantees and commitments, the key measure of operating performance – improved strongly in the first half of 2012, by 11.1 per cent to EUR 997 million, compared with the same period of the previous year (H1 2011: EUR 898 million). This favourable development was driven by a sound operating performance from customer business and by a further decline in the provisioning charge.

Among the non-operating items, **provisions for risks and charges** were EUR 67 million, significantly higher than in the same period of the previous year (H1 2011: EUR 31 million). The increase was partly due to substantial provisions for the credit card bonus points programme in Turkey and also to provisions for legal proceedings.

The **net result from investments** was negative, at minus EUR 63 million, representing a significantly larger burden than in the same period of the previous year (H1 2011: minus EUR 29 million). The increase is mainly due to write-downs on Greek, Spanish and Portuguese bonds.

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Profit before tax for the first half of 2012 was EUR 864 million, up by 3.4 per cent on the figure for the same period of the previous year (H1 2011: EUR 836 million).

Income tax for the period was EUR 185 million, up by 65 per cent on the first half of the previous year. As a result, **profit for the period** declined by 6.1 per cent to EUR 679 million (H1 2011: EUR 723 million). After deduction of non-controlling interests and goodwill impairment, **net profit** attributable to the owners of Bank Austria rose by 1.2 per cent to EUR 646 million (H1 2011: EUR 638 million).

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

- Return on equity before tax was 9.8 per cent.
- Return on equity after tax was 7.5 per cent.
- The cost/income ratio rose slightly, to 55.4 per cent (H1 2011: 54.4 per cent).
- The risk/earnings ratio (provisioning charge as a percentage of net interest income) declined to 24.3 per cent (H1 2011: 29.8 per cent).
- The total capital ratio (based on all risks) was 11.73 per cent.
- The Tier 1 capital ratio (based on all risks) was 10.17 per cent.
- The Core Tier 1 capital ratio (based on all risks) was 9.97 per cent.

Francesco Giordano, Chief Financial Officer of Bank Austria: “Bank Austria has a sound balance sheet structure: although total assets increased, the leverage ratio[1] continued to decline, to 12.6, a level which reflects our strong equity capital position and our conservative business model. At the same time, thanks to an increase in deposits, we also further improved our liquidity position. The loan / direct funding ratio is exactly 100 per cent. This means that all of our customer loans are covered by customer deposits and the bank’s debt securities in issue.“

[1] Leverage ratio = total assets less intangible assets / equity less intangible assets

Results of the Divisions

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

Profit before tax generated by the **Family & SME Banking** Division in the first six months of 2012 was EUR 62 million, an increase of about 92 per cent over the first six months of the previous year (H1 2011: EUR 32 million). The improvement resulted from the sound development of customer business and especially from a substantial decline in the provisioning charge, which was down by 54 per cent to EUR 46 million (H1 2011: EUR 101 million). The cost/income ratio was 80.6 per cent (H1 2011: 78.3 per cent).

The **Private Banking** Division's profit before tax for the first half of 2012 amounted to EUR 20 million, an increase of 7.5 per cent over the same period of the previous year (H1 2011: EUR 19 million) which was achieved despite continued uncertainty and restraint on the part of investors. The cost/income ratio was 71.6 per cent (H1 2011: 72.5 per cent).

In the first half of 2012, the **Corporate & Investment Banking (CIB)** Division recorded a profit before tax of EUR 277 million, an increase of 9.3 per cent over the same period of the previous year (H1 2011: EUR 253 million). Contributions to this improvement came from the sound revenue trend in customer business and from the substantial decline of 47.4 per cent, to EUR 41 million, in net write-downs of loans and provisions for guarantees and commitments. The cost/income ratio was 34.7 per cent (H1 2011: 36.6 per cent).

The net operating profit generated by the **CEE** Division in the first half of 2012 amounted to EUR 752 million, up by 3.5 per cent from the comparative figure for the first half of the previous year (H1 2011: EUR 727 million). At constant exchange rates, net operating profit increased by 6.2 per cent. This growth clearly reflects a sound performance in customer business as well as another strong decrease in net write-downs on loans and provisions for guarantees and commitments. At the same time profit before tax was EUR 747 million, 1.7 per cent below the first half of 2011, mainly due to higher provisions for the bonus points programme for Turkish credit card holders and a positive one-off back in 2011. At constant exchange rates and adjusted for the one-off in the first half of the previous year, profit before tax increased by 12.2 per cent.

Despite the Division´s continued business expansion, its cost/income ratio remains at an outstanding level of 47.4 per cent (H1 2011: 46.6 per cent).

Within UniCredit, Bank Austria is the sub-holding company for operations in the region of Central and Eastern Europe. Its banking network comprises around 2,700 branches and roughly 51,000 employees[2] in 18 countries. The Group continues to see itself as a long-term investor in the CEE region and aims to expand its leading market position through sustained organic growth in the coming years.

Despite the persistence of the Western European sovereign debt crisis and the prospect of a more gradual recovery in the region, CEE is still set to significantly outperform the euro zone with expected GDP growth of 2.6 per cent this year and 3.4 per cent in 2013. With a plus of only 0.4 per cent qoq, the first three months of 2012 were the weakest quarter since Q2 2009, but the second quarter is shaping up better. As industrial production is improving, the growth outlook remains determined by uncertain prospects for external demand and continued weakness of internal demand. Overall Central and Eastern Europe is in a much better fiscal shape than many EMU countries.

“The CEE countries are currently facing some headwinds caused by the ongoing EMU crisis. Nevertheless, the long-term outlook for regional economic convergence remains unchanged, with local growth differentials being wider than in the past. In the mid-term we expect the region to grow at an above 2 per cent margin compared to Western Europe”, says Gianni Franco Papa, Bank Austria’s Deputy CEO and Head of CEE Division, “A sound customer business with growing deposits and loan volumes on the one hand, and shrinking cost of risk on the other hand, clearly reaffirm our commitment to the region, which the Group considers as its ‘engine for growth’. We will continue with our business expansion and selective investments in promising markets such as the Czech Republic, Russia and Turkey.”

[2] Figures without Poland

Financial position

Bank Austria's **total assets** as at 30 June 2012 were EUR 202.9 billion, up by EUR 3.7 billion from the end of the previous year (31 December 2011: EUR 199.2 billion).

On the assets side, **loans and receivables with customers** amounted to EUR 136 billion as at 30 June 2012 (31 December 2011: EUR 134.9 billion) and **loans and receivables with banks** totalled EUR 25.5 billion (31 December 2011: EUR 25.6 billion).

On the liabilities side, **deposits from customers** rose by 2.6 per cent to EUR 107.4 billion (31 December 2011: EUR 104.7 billion) and **debt securities in issue** declined slightly, to EUR 28.5 billion (31 December 2011: EUR 29.9 billion). **Primary funds** – the sum total of deposits from customers and debt securities in issue, i.e. funding from commercial banking sources – amounted to EUR 135.9 billion or 67 per cent of total liabilities and equity. This means that customer loans were fully covered by primary funds.

The loan / direct funding ratio, i.e. the ratio of loans to deposits and own issues, is currently 100 per cent (31 December 2011: 100.2 per cent).

As at 30 June 2012, IFRS **equity** was EUR 18.7 billion, up by EUR 1 billion or 6.2 per cent on the year-end 2011 level (31 December 2011: EUR 17.7 billion).

At the end of June 2012, the **Tier 1 capital ratio** (which by definition does not include net profit for a period of less than one year) was 10.17 per cent, slightly lower than at year-end 2011 (31 December 2011: 10.88 per cent). The decline reflects the buyback of hybrid instruments and the increase in risk-weighted assets. The **Core Tier 1 capital ratio** based on all risks was 9.97 per cent, comfortably above the regulatory requirements.

Staff numbers in the Bank Austria Group including the employees of UniCredit's subsidiaries[3] in Austria totalled 61,023 (full-time equivalents) as at 30 June 2012 (30 June 2011: 62,034 FTEs). Of this total, 10,410 FTEs were employed in Austria and 50,613 FTEs in CEE countries.

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