Bank Austria IR Release

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Results for the first half of 2015:

Bank Austria posts net profit of EUR 489 million for the first six months

- **Sound operating performance from customer business despite persistently weak economic trends and market interest rates which are at a record low**
  - Lending volume in Austria and CEE up by a combined 1.4 per cent to EUR 117.2 billion compared with the first half of the previous year, since the beginning of 2015 up by 3.1 per cent
  - Substantial increase of 12.8 per cent to a total of EUR 108.0 billion in customer deposits in Austria and CEE compared with the first half of the previous year
- **Increase in net write-downs of loans to EUR 391 million leads to higher coverage ratios**
  - Net release of loan loss provisions in Austria, due to excellent risk management and large recoveries on loans previously written down
  - Higher net write-downs of loans in CEE leading to a further increase in coverage ratios, in the second quarter especially in Ukraine and Russia business, but also in Czech Republic, Croatia and Romania
- **Total charge for bank levies and other systemic charges increases by 33.3 per cent compared with the previous year, reaching a new all-time high of EUR 175 million**
- **Net profit amounts to EUR 489 million**
  - Without non-recurring items, net profit would be up by 32 per cent or EUR 119 million compared with the first half of the previous year
  - Comparison with the previous year impacted by non-recurring items not related to operating activities:
    - ⇨ Expiry of the participation in UniCredit's Markets subdivision relating to the sale of CAIB: EUR 63 million
    - ⇨ Total charge for bank levies and other systemic charges up by EUR 44 million on 2014
    - ⇨ Proceeds of EUR 72 million from sales of real estate included in the previous year's figure
    - ⇨ Ukrainian banking subsidiary impacts overall results with EUR 202 million

- **Capital ratios significantly improved: total capital ratio[1] up by 100 basis points to 14.4 per cent, Common Equity Tier 1 capital ratio[1] up by 50 basis points to 10.8 per cent under Basel 3**
- **Excellent 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 116.5 per cent
- **At 6.0 per cent, the leverage ratio is on a European top level, underlining the bank's conservative business model**

Items in the income statement[2]

Net interest continued to be the most important income component, accounting for 58.1 per cent of total operating income. In the first half of 2015, net interest was EUR 1,687 million, down by 3.8 per cent on the same period of the previous year (H1 2014: EUR 1,754 million) on account of the persistently low interest rate environment and negative exchange rate effects.

Dividend income and other income from equity investments rose by 4.4 per cent to EUR 234 million (H1 2014: EUR 224 million). Within the total figure, the contribution from the bank in Turkey was a substantial EUR 157 million.

Net fees and commissions continued to develop favourably, increasing by almost EUR 37 million or 5.4 per cent to EUR 714 million compared with the same period of the previous year (H1 2014: EUR 677 million). Particularly strong growth was seen in Austrian customer business, with net fees and commissions increasing by EUR 35 million or 10.6 per cent to EUR 366 million, mainly in retail banking and in the CIB Division.

Net trading, hedging and fair value income was EUR 230 million, down by 8.3 per cent on the same period of the previous year (H1 2014: EUR 251 million). The decrease was due to the fact that Bank

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[1] Capital ratios have been calculated pursuant to Basel 3 transitional arrangements; net profit for the first half of 2015 is included in regulatory capital and in capital ratios.

[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. Ukrsotsbank continues to be reflected in the income statement item "Total profit or loss after tax from discontinued operations".

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

Total **operating income** amounted to EUR 2,905 million, down by 2.1 per cent on the first half of the previous year (H1 2014: EUR 2,967 million). This was mainly due to the persistently low interest rate environment, which resulted in a significantly narrower interest margin.

Operating costs were reduced by 1.3 per cent to EUR 1,527 million (H1 2014: EUR 1,546 million), thanks to strict cost management and further efficiency enhancement.

At EUR 1,378 million, **operating profit** was down by 3 per cent on the same period of the previous year (H1 2014: EUR 1,420 million) due to the expiry of Bank Austria's participation in profits of the Markets subdivision of UniCredit's CIB Division, to which Bank Austria was entitled under the terms of the sale of CAIB.

Net write-downs of loans and provisions for guarantees and commitments in the first six months of 2015 were EUR 391 million, up by 11.3 per cent on the same period of the previous year (H1 2014: EUR 352 million). A very favourable trend was seen in Austrian customer business (incl. Corporate Center), where increased recoveries on loans previously written down and the higher quality of the loan portfolio led to a net release of provisions in the amount of EUR 2.5 million (H1 2014: a provisioning charge of EUR 37 million). Higher net write-downs of loans by 25.3 per cent to EUR 394 million (H1 2014: EUR 314 million) in CEE leading to a further improvement in coverage ratios in the second quarter of 2015, especially in Ukraine and Russia but also in Czech Republic, Croatia and Romania. Overall, the cost of risk (net write-downs of loans measured against the average volume of loans to customers) increased from 61 basis points in the first half of 2014 to 67 basis points in the first six months of 2015. As a result the coverage ratio improved by 121 basis points to currently 55.8 per cent.

Net operating profit, the key measure of operating performance, for the first six months of 2015 was EUR 986 million, down by 7.7 per cent on the previous year (H1 2014: EUR 1,069 million). The decline reflects lower operating income – mainly due to the contractually agreed expiry of the participation in profits of the Markets subdivision of UniCredit's CIB Division – and the higher charge for loan loss provisions.

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 on a combined basis in the line "Bank levies and systemic charges" within non-operating items of the income statement.

The balance of **non-operating items** in the income statement between net operating profit and profit before tax for the first half of 2015 was a charge of EUR 183 million, up by 45.8 per cent on the same period of the previous year (H1 2014: a charge of EUR 126 million).
Among the non-operating items, **bank levies and other systemic charges** were the most significant factor burdening the income statement. They rose to EUR 175 million (H1 2014: EUR 131 million).

The total charge in Austria amounted to EUR 92 million, of which EUR 66 million (H1 2014: EUR 62 million) related to the bank levy and EUR 26 million related to contributions to the deposit guarantee scheme and the bank resolution fund. In CEE, the total charge was EUR 83 million, of which bank levies (especially in Hungary and Slovakia) accounted for EUR 30 million and other systemic charges totalled EUR 53 million. Contributions to the bank resolution funds in Hungary and Croatia amounted to EUR 8 million and the contribution to the local bank resolution fund in Romania was EUR 2 million. Contributions to deposit guarantee schemes in CEE countries, on a pro-rata basis for the first half of the year, totalled EUR 43 million.

In the first half of 2015, systemic charges totalled EUR 175 million, an increase of 33.3 per cent over the same period of the previous year (H1 2014: EUR 131 million).

When comparing **net income from investments** in the first half 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 in the first quarter. Net income from investments in the first six months of 2015 amounted to EUR 1 million compared with EUR 56 million in the same period of the previous year.

Profit before tax for the first half of 2015 was EUR 803 million, down by 14.8 per cent on the previous year (H1 2014: EUR 943 million). The decline reflects the contractually agreed expiry of Bank Austria's participation in profits of the Markets subdivision of UniCredit's CIB Division and the combined impact of weak economic growth, the low level of interest rates and significantly higher systemic charges. Profit after deduction of income tax amounted to EUR 674 million, a decrease of 16.8 per cent compared with the same period of the previous year (H1 2014: EUR 811 million). Total profit or loss after tax from discontinued operations was a loss of EUR 183 million, reflecting the negative impact from Ukrsotsbank. This item of the income statement also includes sales proceeds generated by Immobilien Holding, which did not offset the impact from Ukrsotsbank. After deduction of noncontrolling interests, **net profit** attributable to the owners of the parent company was EUR 489 million (H1 2014: EUR 778 million). Without non-recurring items, net profit would be up by 32 per cent or EUR 119 million.

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

- The cost/income ratio was 52.6 per cent (H1 2014: 52.1 per cent).
- The risk/earnings ratio (net write-downs of loans as a percentage of net interest income) rose to 20.4 per cent (H1 2014: 17.8 per cent).
- The total capital ratio[3] (based on all risks) increased to 14.4 per cent (year-end 2014: 13.4 per cent).
- The Common Equity Tier 1 capital ratio[3] (based on all risks) was 10.8 per cent (year-end 2014: 10.3 per cent).

[3] Capital ratios have been calculated pursuant to Basel 3 transitional arrangements; net profit for the first half of 2015 is included in regulatory capital and in capital ratios.

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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 six months of 2015 rose significantly, by 8.6 per cent, to EUR 158 million (H1 2014: EUR 146 million). The slight decline in operating income was due to the low level of interest rates, while costs showed a very favourable trend. This means that the improvement in profit before tax was mainly due to the net release of loan loss provisions, reflecting the excellent quality of the loan portfolio. The transformation into a modern multi-channel bank is making rapid progress, with extended opening hours at selected branches, now also in Austrian regions outside Vienna, and the SmartBanking service approach including advisory services via video calls. Customers decide when, where and how they wish to contact the bank. The new service model and the modernisation of our branches are being consistently pursued to create a completely new customer experience and respond to changes in customer needs. Customers welcome these changes, as can be seen from business developments: Retail & Corporates achieved significant improvements in the net customer base and in finance and fund business volume compared with the same period of the previous year. The Division gained 35,000 new customers in the first half of 2015, an increase of 24 per cent over the previous year. For the Corporates subdivision, the first half of 2015 was characterised by continued investment restraint on the part of companies and consequently low credit demand. Deposits continued to increase: in this context, companies preferred sight deposits, which recorded the strongest growth despite very low interest rates.

Profit before tax generated by the **Private Banking** Division in the first half of 2015 increased strongly, by 17.7 per cent, to EUR 25 million (H1 2014: EUR 22 million). 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 2015, total financial assets amounted to EUR 22.5 billion, an increase of 10.6 per cent over June 2014. Growth of 5.2 per cent in the first six months resulted mainly from assets under management, the core strategic objective of the Private Banking Division. Volume in this area increased by 17.9 per cent compared with the first half of the previous year, driven by price gains in the portfolio and by substantial net inflows of funds. Moreover, Bank Austria Private Banking expanded its position as innovation leader in the Austrian private banking market with its new UNIVERS service model, which features a transparent global fee and permits clients to make investment decisions without having to consider transaction fees. In the first few months after it was introduced in Austria in March 2015, clients opted for this service model to the extent of almost half a billion euros.

The **Corporate & Investment Banking (CIB)** Division recorded favourable revenue trends in the past quarters. Operating income in the first half of 2015 was EUR 236 million, up by 3.2 per cent on the same period of the previous year (H1 2014: EUR 229 million); the increase was mainly due to significant growth in net fees and commissions (+36.25 per cent) and a good trading performance. Operating profit rose by 1.2 per cent to EUR 130 million. Net write-downs of loans were very low, at EUR 1 million; this compares with a net release of loan loss provisions of EUR 15 million in the first half of 2014. This effect and systemic charges totalling EUR 18 million are reflected in profit before tax, which was EUR 112 million, down by 14.8 per cent on the same period of the previous year (H1 2014: EUR 131 million). The CIB Division further expanded its leading market position in business with multinational companies in Austria in the first half of 2015. Corporate & Investment Banking holds leading positions in euro bond issues and in structured financings in Austria and in Europe as a whole.

In the first half of 2015 the **CEE Division** again achieved a strong net operating profit of EUR 772 million; adjusted for exchange rate movements, the figure was up by 1.8 per cent on the same period of the previous year. Material contributions to the overall figure came from the Central European countries, whose combined net operating profit rose by 28.2 per cent. Bank Austria's banking subsidiaries in the Czech Republic and Slovakia (+21.0 per cent) and Hungary (+31.8 per cent) showed a particularly good performance. The countries in South-East Europe generated a combined increase of 23.0 per cent in net operating profit, and the contribution from the Turkish joint venture, which is accounted for using the equity method, rose by 11.6 per cent. The Russian banking subsidiary operated in a particularly volatile environment characterised by extreme exchange rate fluctuations, restrictions on capital movements and high interest rate volatility. It generated a profit before tax of EUR 155 million, again making a substantial contribution to overall results. Additions to loan loss provisions in the first half of 2015 were higher in Russia and Ukraine, leading to higher coverage ratios in these countries. In the other countries covered by the CEE Division, combined net write-downs of loans and provisions for guarantees and commitments declined. Profit before tax generated by the CEE Division in the first half of 2015 was EUR 678 million; adjusted for exchange rate movements, the figure was 5.9 per cent higher than for the same period of the previous year. The CEE Division thus remained an important contributor to Bank Austria's profits.

Bank Austria is UniCredit's sub-holding company for operations in Central and Eastern Europe. In this function it manages the banking network in the region with 47,941 employees and about 2,500 branches (including the Turkish joint venture, which is accounted for using the equity method) in 13 countries. The Group continues to see itself as a long-term investor in this region and will expand its leading market position through sustainable organic growth in the coming years.

Economic growth in the CEE region was unexpectedly positive in 2015, considering the difficult situation in Ukraine and Russia (declining commmodity prices, sanctions and geopolitical tensions). The performance was due to recovery of demand in the euro area and the expansion of liquidity through the ECB’s quantitative easing programme. These factors, in combination with an increase in exports from the euro area to third countries, will also benefit the countries in Central and Eastern Europe in the remaining part of the year.

Bank Austria Member of UniCredit

Statement of financial position[4]

Bank Austria's **total assets** as at 30 June 2015 were EUR 191.4 billion[5], up by 1.2 per cent or EUR 2.3 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 June 2015 were EUR 117.2 billion, up by 3.1 per cent or EUR 3.5 billion (31 December 2014: EUR 113.7 billion). **Loans and receivables with banks** declined significantly, by 7.9 per cent, to EUR 28.1 billion (31 December 2014: EUR 30.5 billion).

On the liabilities side, **deposits from customers** rose by 5.6 per cent to EUR 108.0 billion (31 December 2014: EUR 102.3 billion). **Debt securities in issue** declined by 4.6 per cent to EUR 28.6 billion (31 December 2014: EUR 30.0 billion) as a result of redemptions. **Direct funding** – i.e. the sum total of deposits from customers and debt securities in issue – increased by EUR 4.3 billion or 3.3 per cent to EUR 136.6 billion, accounting for 71.4 per cent of total liabilities and equity. This gives a loans/direct-funding ratio of 86 per cent, which means that customer loans are covered by customer deposits and debt securities in issue to the extent of 116.5 per cent.

As at 30 June 2015, the **leverage ratio** to be calculated under Basel 3 improved to an excellent 6.0 per cent in conformity with Basel 3 transitional rules.

Total **regulatory capital**[6] was EUR 19.4 billion, an increase of EUR 1.9 billion over year-end 2014.

As at 30 June 2015, the **total capital ratio**[7] based on all risks was a sound 14.4 per cent. The **Common Equity Tier 1 capital ratio** based on all risks **rose to an excellent 10.8 per cent.**

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[4] Comparative figures for the previous year as published.
[5] Shareholding interest in Yapı Kredi in Turkey accounted for using the equity method (i.e. included only in the item "Investments in associates and joint ventures").
[6] Calculated on an IFRS basis.
[7] Capital ratios have been calculated pursuant to Basel 3 transitional arrangements; net profit for the first half of 2015 is included in regulatory capital and capital ratios.