Bank Austria Member of UniCredit

Bank Austria IR Release

Günther Stromenger ☎ +43 (0) 50505 57232

Vienna, 12 February 2015

Preliminary results[1] for the 2014 financial year:

Bank Austria posts net profit of about EUR 1.4 billion

- **Sound operating performance from customer business despite persistently weak credit demand, low market interest rates and exchange rate effects**
- **Operating costs slightly down by 1.5 per cent thanks to strict cost management**
- **At EUR 214 million, the total charge for bank levies and financial transaction taxes in Austria and CEE remains extremely high**
  - Charge for bank levies and financial transaction taxes accounts for 6.4 per cent of total costs
- **Net write-downs of loans in Austria and CEE fall by 47.2 per cent to EUR 693 million**
- **Net profit of EUR 1.4 billion reflects wide diversification and successful development of business model**
- **Excellent direct funding ratio underlines the bank's strong liquidity position**
  - Customer loans are covered by customer deposits and debt securities in issue to the extent of 116 per cent
- **Total capital ratio[2] at 13.5 per cent, sound Common Equity Tier 1 capital ratio[2] of 10.3 per cent under Basel 3**

Bank Austria's CEO Willibald Cernko: "A net profit of EUR 1.4 billion for the full year, achieved in the market environment prevailing in 2014, is a respectable performance. It is impressive proof that even in challenging times, our broadly diversified business model covering 14 countries produces sustained profitability and is resilient to crises. But this should not obscure the fact that we are still facing massive challenges. Demand in Austria is low as reforms are unacceptably long overdue and there is a lack of impetus to the private business sector. On the other hand, the cost burden resulting from the bank levy in Austria is heavier than in any other country. The combination of these factors is a dangerous mix which has led to absurdly low levels of profitability in the Austrian banking sector.

[1] The Annual Report for the year 2014 will be published in the middle of March 2015.
[2] The capital ratios reflect the inclusion of net profit for 2014 in capital.

This has been repeatedly criticised by the Austrian supervisory authorities. Danièle Nouy, the EU's top banking supervisor, also sees low profitability as the biggest risk to the banks supervised by her. In Eastern Europe, on the other hand, geopolitical tensions and currency losses are dampening economic growth but our broadly diversified presence in 13 different markets will continue to pay off. Despite alarmist reports from some quarters, economic growth in CEE is still significantly higher than in Western Europe. And we generate the major part of our profits in the CEE region."

Items in the income statement[3]

Net interest – still the most important income component, accounting for 58 per cent of operating income – was EUR 3,433 million in 2014. The slight decline of 1.0 per cent compared with the previous year was due to persistently low interest rates and negative exchange rate effects (2013: EUR 3,470 million). At constant exchange rates, net interest rose by 4.3 per cent.

Dividend income and other income from equity investments fell by 35.0 per cent to EUR 496 million (2013: EUR 763 million), mainly because the previous year's figure included gains of EUR 195 million on the sale of Turkish insurance operations (Sigorta/Emeklilik).

Net fees and commissions reached EUR 1,367 million in 2014, a slight decline of 1.4 per cent from the previous year's level (2013: EUR 1,386 million). Adjusted for exchange rate movements, net fees and commissions rose by 1.6 per cent.

Net trading, hedging and fair value income was EUR 487 million, down by 38.5 per cent from the previous year (2013: EUR 792 million). The decline was mainly due to substantial depreciation of the Russian rouble and to one-off income from the sale of shares in MICEX, the Russian trading platform, in the previous year.

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[3] To ensure comparability, the comparative figures for 2013 have been adjusted: starting with 2014, the equity investment in Yapı Kredi in Turkey is no longer accounted for using proportionate consolidation in accordance with IFRSs; the investment is now accounted for using the equity method, i.e. net profit or loss is included within operating income in the item "dividend income and other income from equity investments", and the figures for the previous year have been adjusted to reflect this change in the accounting method. The equity investments in Ukrsotsbank and the newly acquired Immobilien Holding are shown 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". Furthermore, leasing activities in the three Baltic countries and in Bulgaria, Russia, the Czech Republic, Slovakia and Romania have been transferred to Bank Austria by the UniCredit parent company. Leasing operations in Austria and Hungary were transferred to Bank Austria in December 2014 but are only reflected in the balance sheet. Segment reporting has been adjusted to reflect the new structure.

Overall, **operating income** was EUR 5,890 million, down by 9.4 per cent from the previous year (2013: EUR 6,503 million). This is partly due to exchange rate effects – at constant exchange rates, operating income declined by only 5.7 per cent – and partly to lower profits in Turkey, reflecting the sale of insurance operations and changes in regulatory requirements (rise in key interest rate, rise in minimum reserve requirements, measures to contain the credit card boom).

Efforts to enhance cost efficiency in 2014 were successful. This is of major significance given the general weakness of operating income in the banking sector, which reflects low levels of economic growth and demand, persistently low interest rates and the parallel increase in fiscal and regulatory burdens. **Operating costs** in 2014 were EUR 3,336 million, down by 1.5 per cent compared with the previous year (2013: EUR 3,387 million). Adjusted for exchange rate movements, operating costs increased only slightly, by 0.9 per cent.

The total charge for **bank levies and financial transaction taxes** in Austria and CEE in the Bank Austria Group's income statement was EUR 214.2 million, an increase of 2.5 per cent compared with the previous year (2013: EUR 209.1 million). In Austria, the bank levy totalled EUR 123.7 million (2013: EUR 96.7 million), an increase of 27.9 per cent. In CEE, the total charge for bank levies and financial transaction taxes was EUR 90.5 million (2013: 112.3 million). Of the total amount, EUR 77.4 million was payable in Hungary, EUR 6.5 million in the Czech Republic and Slovakia, EUR 3.3 million in Romania and EUR 3.3 million in Slovenia.

Bank levies and financial transaction taxes accounted for 13.9 per cent of administrative expenses and 6.4 per cent of total costs.

Operating profit was EUR 2,554 million, down by 18.1 per cent from the previous year (2013: EUR 3,116 million), due to lower operating come and one-off effects in the previous year. Exchange rate effects explain about one-third of the decline; at constant exchange rates, operating profit was down by 12.8 per cent.

Net write-downs of loans and provisions for guarantees and commitments developed favourably in 2014, falling by 47.2 per cent to EUR 693 million (2013: EUR 1,313 million). In Austrian customer business, net write-downs of loans and provisions for guarantees and commitments declined substantially, by 79.4 per cent to EUR 39 million (2013: EUR 190 million), reflecting recoveries on loans in respect of which loan loss provisions were previously recognised, and because additions to impaired loans were lower.

Bank Austria
Corporate Relations
Lassallestrasse 5
A-1020 Vienna, Austria

Telephone: +43 (0)5 05 05 57232

mailto:investor.relations@unicreditgroup.at
http://ir.bankaustria.at

Net write-downs of loans and provisions for guarantees and commitments in Central and Eastern Europe declined by 40.3 per cent to EUR 654 million (2013: EUR 1,094 million), due to lower provisioning charges in almost all CEE countries and higher recoveries on loans in several countries. Overall, the cost of risk (net write-downs of loans and provisions for guarantees and commitments as a proportion of the average volume of loans to customers) declined from 112 to 61 basis points in 2014.

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 – was EUR 1,860 million, up by 3.2 per cent (2013: EUR 1,803 million).

The balance of **non-operating items** between net operating profit and profit before tax added up to minus EUR 82 million in 2014, a significant improvement over the previous year (2013: minus EUR 1,006 million). **Provisions for risks and charges** declined by 10.3 per cent to EUR 133 million; the figure mainly reflects a provision of EUR 107 million made in response to the most recent statutory measures in connection with foreign currency loans in Hungary. **Net income from investments** included gains on the sale of real estate, which was largely completed in the first quarter of 2014.

After deduction of the negative balance of non-operating items, **profit before tax** for 2014 was EUR 1,778 million, more than double the figure for the previous year (2013: EUR 797 million).

The charge for **income tax** in 2014 was EUR 287 million, down by 33 per cent from the previous year (2013: EUR 428 million) because deferred tax assets had to be additionally written down in 2013, in view of their limited future usability.

In line with the Group strategy of concentrating growth and the required allocation of capital on CEE countries with a better outlook for sustainable growth and earnings while further reducing risk, Ukrsotsbank – the banking subsidiary in Ukraine – was classified as a disposal group held for sale already in the 2013 financial statements. The income statement items of Ukrsotsbank were combined and are included in the item "Total profit or loss after tax from discontinued operations", together with write-downs and additional expenses as well as the result of the sale foreseeable from a current perspective. Profit or loss of Ukrsotsbank is included in the item "Total profit or loss after tax from discontinued operations". Together with other consolidation effects, Ukrsotsbank has an impact of minus EUR 152 million on Bank Austria's net profit.

The item **"Total profit or loss after tax from discontinued operations"** also reflects Immobilien Holding, which was acquired in the past year and is intended to be sold by autumn 2015.

Net profit attributable to the owners of the parent company amounted to EUR 1,383 million. When comparing this with the figure for the previous year (2013: minus EUR 1,542 million), one should note that the goodwill impairment charge recognised in the 2013 financial statements reduced goodwill relating to all equity interests to nil, leading to a net loss.

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

- The cost/income ratio (without the bank levy) rose slightly, to 53.9 per cent (2013: 49.9 per cent).
- The risk/earnings ratio (provisioning charge as a percentage of net interest income) declined slightly, to 17.6 per cent (2013: 31.0 per cent).
- The total capital ratio (based on all risks) amounts to 13.5 per cent (2013: 13.5 per cent).
- The Common Equity Tier 1 capital ratio (based on all risks) amounts to a sound 10.3 per cent (2013: 11.3 per cent).

Francesco Giordano, Chief Financial Officer of Bank Austria: "Bank Austria's financial position is strong and sound: its total capital ratio is 13.5 per cent and the Common Equity Tier 1 capital ratio is a sound 10.3 per cent. IFRS equity stated in the 2014 financial statements hardly changed compared with the previous year. This is explained by the fact that the net profit for 2014 included in the calculation was offset by currency depreciation, especially in Russia and Ukraine, and by a new valuation of pension obligations required in an environment of low interest rates. The leverage ratio[4] is a very conservative 5.6 per cent, which reflects our strong equity capital position and our conservative business model. Moreover, we further improved our long-term liquidity position through an increase in deposits and four successful mortgage bond issues. And the self-financing capacity of our banking subsidiaries in Central and Eastern Europe was also further expanded. The loan/direct-funding ratio is an excellent 85.9 per cent. This means that customer loans are covered by customer deposits and debt securities in issue to an extent of well over 100 per cent."

[4] Leverage ratio in conformity with Basel 3 transitional rules including net profit for the year.

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 generated 25 per cent of the Bank Austria Group's total revenues in 2014, thus accounting for 70 per cent of total operating income from Austrian customer business. Direct funding of EUR 43 billion in Retail & Corporates makes the business segment an important source of funding for the bank.

Retail & Corporates accounts for two-thirds of Austrian interest-bearing business volume and was again very strongly affected by persistently low interest rates in 2014, in combination with declining credit demand. Nevertheless, in this difficult economic environment, the Division achieved success through various initiatives: in the Retail subdivision, new savings deposits increased by over EUR 7.2 billion or 37 per cent. Savings deposits were thus maintained at the level of EUR 13.4 billion (+0.1 per cent compared with 2013). New sales of investment funds reached about EUR 1.2 billion, an increase of 10.5 per cent over the previous year. At Bank Austria, total fund volume in business with retail customers rose by 3.9 per cent to over EUR 5.9 billion compared with the previous year. In lending business, new loans to retail customers amounted to EUR 1.2 billion, an increase of 8.4 per cent over the previous year; the increase in housing construction finance was 12 per cent. As a result, the volume of outstanding loans (EUR 13.6 billion) hardly changed (–1.6 per cent compared with 2013).

In 2014, the Retail & Corporates Division achieved a profit before tax of EUR 312 million, an increase of 76.3 per cent over the previous year (2013: EUR 177 million). Various factors contributed to this significant growth: the favourable development of operating income (up by 0.8 per cent) despite the difficult market environment in customer business; strict cost discipline leading to a stable cost trend despite considerable burdens in the form of taxes and regulatory requirements; and especially a significant decline in net write-downs of loans and provisions for guarantees and commitments.

The **Corporate & Investment Banking (CIB)** Division focuses on serving multinational and large international customers, providing them with capital market services and investment banking solutions tailored to their specific needs. CIB serves banks, asset managers, institutional customers and insurance companies.

Profit before tax generated by the CIB Division in 2014 was EUR 230 million 2013: EUR 238 million), down by 3.3 per cent from the previous year. The decrease was mainly due to persistently low interest rates and lower net fees and commissions generated in a weaker economic environment.

Bank Austria's **Private Banking** Division, 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 – holds the leading position in Austria's private banking market. Assets under management total EUR 21.4 billion. The Division serves foundations set up under Austrian law and 34,000 high net worth individuals with a minimum investment potential of EUR 500,000.

Net fees and commissions, traditionally the most important income component in private banking operations, rose by 8.4 per cent to EUR 109 million in 2014. Private Banking generated a profit before tax of EUR 56 million, an increase of 40.8 per cent over the previous year (2013: EUR 40 million).

The **CEE Division** reported a profit before tax of EUR 1,500 million in 2014, representing a 6.1 per cent increase over the previous year at constant rates, i.e. excluding the effect of unfavourable exchange rates in some countries of the region. At current rates, profit before tax remained more or less at the same level as in the previous year (2013: EUR 1,534 million).

Operating income in 2014 showed a strong development of net interest income amounting to EUR 2,460 million (2013: EUR 2,422 million) and higher net fees and commissions of EUR 755 million (2013: EUR 731 million), while net trading income decreased significantly, to EUR 254 million (2013: EUR 563 million), mainly due to depreciation of the Russian rouble and to the sale of MICEX in 2013. The net contribution of Turkey, reported as income from equity investments within operating income, was lower than in the previous year primarily due to the substantial gain on the sale of the Turkish insurance company in 2013. Including these effects, overall operating income therefore decreased by 6.9 per cent at constant rates and by 12.6 per cent at current rates, to EUR 3,864 million (2013: EUR 4,423 million).

Due to strict cost management the CEE Division was able to reduce operating costs compared with the previous year by 0.8 per cent at constant rates; at current rates, operating costs decreased by 5.7 per cent to EUR 1,600 million (2013: EUR 1,697 million). The cost/income ratio excluding bank levies stood at a sound 40.3 per cent (2013: 37.2 per cent).

Net write-downs on loans in the CEE Division showed a significantly better picture than in 2013 and decreased to EUR 654 million in 2014 (2013: EUR 1,094 million). The cost of risk fell from 191 basis points in 2013 to 116 basis points in 2014. Thus the CEE Division recorded a net operating profit of EUR 1,610 million (2013: EUR 1,631 million), which at constant rates represents an increase of 6.8 per cent.

In a persistently challenging economic environment the broad geographical diversification of the CEE Division over 13 countries has again proved to be a very sustainable business model, which has demonstrated its resilience against adverse effects and its ability to continuously deliver profits every single year since 2008. The pattern of contributions to profit before tax illustrates the broad diversification: 30 per cent was generated in South-East Europe, 30 per cent in Russia, 22 per cent in Turkey and 18 per cent in Central Europe. In 2014 the CEE Division again achieved sound financial results and contributed three-quarters to the overall performance of Bank Austria's business divisions.

"In the last two years we have fundamentally reshaped our operations in Central and Eastern Europe, e.g. by exiting Kazakhstan and purchasing complementary assets in the Czech Republic and Romania. In addition we have launched 'CEE 2020', a special programme currently comprising 31 cross-border initiatives, which aims at identifying new ways to create value and build a future-oriented customer business. Due to our ongoing investments in the CEE region we have gained market shares in most countries and intend to continue doing so in the future, while competitors are deleveraging", says Gianni Franco Papa, outgoing Deputy CEO and Head of the CEE Division at Bank Austria, "Without doubt geopolitical tensions and hesitant recovery in the euro area are going to be the main challenges in the upcoming quarters. In this difficult environment the CEE Division is strongly positioned for future growth and to remain a key contributor to our banking group."

Bank Austria is UniCredit's sub-holding company for operations in Central and Eastern Europe. In this function it manages one of the leading banking networks in the region with about 47,000 employees and 2,500 branches in 13 countries.

Statement of financial position[5]

Bank Austria's **total assets** as at 31 December 2014 were EUR 189.1 billion, up by 6.3 per cent or EUR 11.2 billion on the year-end 2013 level (31 December 2013: EUR 177.9 billion).

On the assets side, **loans and receivables with customers** were EUR 113.7 billion, slightly lower – by 0.5 per cent or EUR 0.5 billion – than a year earlier (31 December 2013: EUR 114.3 billion). **Loans and receivables with banks** rose strongly, by 33.1 per cent, to EUR 30.5 billion (31 December 2013: EUR 22.9 billion).

On the liabilities side, **deposits from customers** increased by 5.9 per cent or EUR 5.7 billion to EUR 102.3 billion (31 December 2013: EUR 96.6 billion). **Debt securities in issue** also rose strongly, by 9.9 per cent or EUR 2.7 billion, to EUR 30.0 billion (31 December 2013: EUR 27.3 billion); the increase reflects the successful expansion of new issue activities in Austria and CEE in the past years.

Direct funding, i.e. the sum total of deposits from customers and debt securities in issue, totalled EUR 132.3 billion, an increase of 6.8 per cent or EUR 8.4 billion over the end of the previous year (31 December 2013: EUR 123.9 billion). At this level, direct funding accounts for over two-thirds (70.0 per cent) of total liabilities and equity, giving a loan/direct-funding ratio of 85.9 per cent. This means that customer loans are covered by customer deposits and debt securities in issue to the extent of 116 per cent.

As at year-end 2014, the **leverage ratio**[6] to be calculated under Basel 3 was a conservative 5.6 per cent in conformity with Basel 3 transitional rules.

As at 31 December 2014, regulatory **equity**[7] was EUR 17.5 billion, up by EUR 1.4 billion on the end of the previous year (31 December 2013: EUR 16.0 billion).

[5] Based on a strategic decision of the Management Board, Ukrsotsbank is to be sold. Therefore the bank is no longer included with its contributions to the various items in the statement of financial position as at 31 December 2014. On the assets side it is reflected in the item "Non-current assets and disposal groups classified as held for sale" and on the liabilities side in the item "Liabilities included in disposal groups classified as held for sale".
[6] Leverage ratio calculated on the basis of the inclusion of net profit for the year.
[7] Calculated on an IFRS basis.

The **total capital ratio**[8] based on all risks remained at 13.5 per cent (2013: 13.5 per cent[9]). The **Common Equity Tier 1 capital ratio**[8] based on all risks was a sound 10.3 per cent (2013: 11.3 per cent).

Staff numbers of the Bank Austria Group including the employees of UniCredit's subsidiaries[10] in Austria were 56,704 full-time equivalents (FTEs) as at 31 December 2014 (31 December 2013: 56,896 FTEs). Of this total, 9,641 FTE were employed in Austria and 47,053 FTEs in CEE countries.

Enquiries: Bank Austria Corporate Relations
Günther Stromenger, phone: +43 (0)50505-57232
mailto:guenther.stromenger@unicreditgroup.at

[8] The capital ratios reflect the inclusion of net profit for 2014 in capital.
[9] Capital ratios for 2014 under Basel 3 transitional arrangements; capital ratios for 2013 under Basel 2.5.
[10] Mainly UniCredit Business Integrated Solutions Austria GmbH (UBIS Austria), Pioneer Investments Austria, UniCredit Leasing and, from the fourth quarter of 2014, Immobilien Holding.