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# Bank Austria at a glance

## Income statement figures

(€ million)	2014	2013 <sup>1)</sup>	+/-
Net interest	3,433	3,470	-1.1%
Dividend income and other income from equity investments	496	763	-35.0%
Net fees and commissions	1,367	1,386	-1.4%
Net trading, hedging and fair value income	487	792	-38.5%
Operating income	5,890	6,503	-9.4%
Operating costs	-3,336	-3,387	-1.5%
Operating profit	2,554	3,116	-18.1%
Net write-downs of loans and provisions for guarantees and commitments	-693	-1,313	-47.2%
Net operating profit	1,860	1,803	+3.2%
Profit before tax	1,778	797	>100%
Net profit attributable to the owners of the parent company	1,383	-1,542	n. m.

n. m. = not meaningful

## Volume figures

(€ million)	31 DEC. 2014	31 DEC. 2013 <sup>1)</sup>	+/-
Total assets	189,118	177,503	+6.5%
Loans and receivables with customers	113,732	114,255	-0.5%
Direct funding (deposits from customers and debt securities in issue)	132,285	123,895	+6.8%
Equity	14,925	15,050	-0.8%
Risk-weighted assets (overall) <sup>2)</sup>	130,351	118,510	+10.0%

## Key performance indicators

	2014	2013 <sup>1)</sup>
Return on equity after tax (ROE)	9.7%	n. m.
Cost/income ratio <sup>3)</sup>	53.9%	49.9%
Cost of risk (provisioning charge/avg. lending volume)	0.61%	1.12%
Loans and receivables with customers/direct funding	86.0%	92.2%
Leverage ratio <sup>4)</sup>	5.6%	...
Common Equity Tier 1 capital ratio (2013: Core Tier 1 capital ratio) <sup>5)</sup>	10.3%	11.3%
Tier 1 capital ratio <sup>5)</sup>	10.3%	11.6%
Total capital ratio <sup>5)</sup>	13.4%	13.5%

## Staff

	31 DEC. 2014	31 DEC. 2013 <sup>1)</sup>	+/-
Bank Austria (full-time equivalent)	36,139	37,753	-1,614
Central Eastern Europe business segment	24,007	24,453	-447
Ukraine (held for sale)	4,830	6,143	-1,313
Austria (other business segments)	7,302 <sup>6)</sup>	7,156	+145

## Offices

	31 DEC. 2014	31 DEC. 2013 <sup>1)</sup>	+/-
Bank Austria	1,664	1,801	-137
Central Eastern Europe business segment	1,130	1,130	0
Ukraine (held for sale)	291	402	-111
Austria (other business segments)	243	269	-26

1) Comparative figures for 2013 recast to reflect the current structure and methodology. / 2) Regulatory risk-weighted assets, 2013 not adjusted. / 3) Cost/income ratio without bank levies. / 4) Leverage ratio under Basel 3 based on the current status of transitional arrangements (average figure for Q4 2014). / 5) Capital ratios based on all risks; 2014 under Basel 3 (transitional) and IFRSs, 2013 under Basel 2.5 and Austrian Business Code; end of period. / 6) The figure as at 31 December 2014 includes 603 full-time equivalents (FTEs) resulting from companies consolidated for the first time as at that date (Immobilien Holding and leasing companies). Adjusted for this effect, FTEs in Austria were 6,698, down by 458 or 6.4% on year-end 2013.

# Management Report of Bank Austria for 2014

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## The banking environment in 2014

2014 was another year of adjustment for the European banking sector. While the beginning of the year saw hopes for at least moderate growth, these were dashed as the year progressed although the general environment was supportive. Developments from the summer months onwards were characterised by uncertainty, a wait-and-see attitude and stagnation, aggravated by geopolitical crises. A moderate improvement was thus suspended for several months before investment, the major economic accelerator, picked up. In the year as a whole, demand did therefore not provide any significant impetus to banking business. Unconventional and expansionary monetary-policy measures were aimed at counteracting deflationary fears, and this resulted in interest rates and yields falling to all-time lows – low interest rate levels were followed by a zero rate environment and ultimately by negative rates. Although commercial transactions and securities turnover increased slightly, weak volume trends and the zero yield curve did not allow any significant recovery of income.

As external factors failed to stimulate business activity, banks increasingly implemented internal adjustments and structural changes to maintain their profitability in the medium term while meeting tighter regulatory requirements, especially with regard to funding and capital resources. With banks focusing on core business, their aggregate total assets declined. Faced with a number of detailed rules in the area of banking regulation, and also in response to accelerating changes in customer behaviour, banks are reviewing their business models.

● **Global** economic growth slowed perceptibly in summer 2014. This trend reflects the significantly weaker economic momentum in advanced industrial countries, primarily the euro area and Japan, in the course of the year. Combined economic growth of emerging markets remained considerably stronger, but this did not offset the slowdown in the industrial countries. Wide differences were seen among the various **country groups**: economic growth in China and India remained strong, but the import pull from these countries weakened and thus the ongoing decline in commodity markets became even more pronounced. Slackening growth of world trade impacted Latin American countries and other commodity producers, where the export-driven boom supported by capital inflows may have ended. The sharp fall in crude oil prices (Brent: –48.3%) and industrial metals (e.g. copper: –16.1%) changed the **terms of trade**. Among the industrial countries, the US economy continued its upward movement after a weather-related setback early in the year, with real growth of 2.3% in 2014 as a whole; the UK economy also grew significantly (+3.0%). This compared with a visibly weaker momentum of +0.8% in the euro area and +0.3% in Japan, where these modest annual average growth rates were due to a significant overhang from 2013.

● The moderate recovery seen in the **euro area** in the first few months came to a standstill in early summer 2014. Industrial output and real GDP hardly rose further from the levels reached by then.

The slowdown in emerging markets and the commodity cycle were important factors. In retrospect, one can see very clearly that **geopolitical factors** – initially the Crimea crisis, followed by the escalating conflict in eastern Ukraine, and then mutually imposed sanctions (see the timeline on page 7) – did not have any major direct impact via trade flows but indirectly acted as a brake on business climate and investment plans. The trend **reinforced itself** with the sharp fall in new orders and production in Germany, whose economy previously functioned as an engine of growth, in August/September, though this may have been partly due to insufficient adjustment for seasonal factors such as holiday shutdowns. This coincided with recessionary tendencies in France and Italy, where the reform process faltered and economic performance declined again. The strong recovery – based on determined adjustment measures – in Spain and also in other countries which had experienced problems during the sovereign debt crisis, was not sufficient to offset this unfavourable effect. Recovery came to a halt across Europe just when domestic demand was gathering momentum. Therefore economic accelerators, investment in particular, failed to produce their expected effects. It was only towards the end of 2014, in view of euro depreciation and collapsing commodity prices, that expectations turned more positive again.

In the course of 2014 **inflation rates** in many countries of the euro area dropped to levels close to or even below zero, fuelling fears of a general deflationary trend (HICP/euro area December 2014: –0.2%, annual average: +0.4%). This prompted the **European Central Bank** to further reduce key interest rates in early June while also deciding to conduct additional targeted longer-term refinancing operations (TLTROs), subject to the proviso that these are used for banks' lending activities to improve the transmission of the ECB's expansionary monetary policy to the real economy (mainly in countries on the euro area periphery). In September the ECB lowered its key interest rates a second time, reducing them to 0.05% (repo) and minus 0.20% (deposit facility). Moreover, the ECB announced that it would purchase covered bonds and asset-backed securities to relieve banks' balance sheets, thereby moving to counteract initial signs of hardening expectations that inflation would stay below the 2% target threshold.

→ Some of the external (mainly geopolitical) and economic risks mentioned in our 2013 Annual Report thus materialised. Economic forecasts for 2014 which were published at that time had to be revised downward during the year. Estimated **GDP growth rates for 2014** are +0.8% for the euro area (compared with +1.5% forecast a year ago), +0.9% for CEE (Bank Austria perimeter without Ukraine; +1.1% forecast a year ago), and on this basis +0.6% for Austria (forecast: +2.0%). Within the heterogeneous group of CEE countries, on the other hand, the growth forecasts for Central Europe (+2.6% vs. 2.4%) and for Turkey (+2.9% vs. +0.0%) were significantly exceeded.

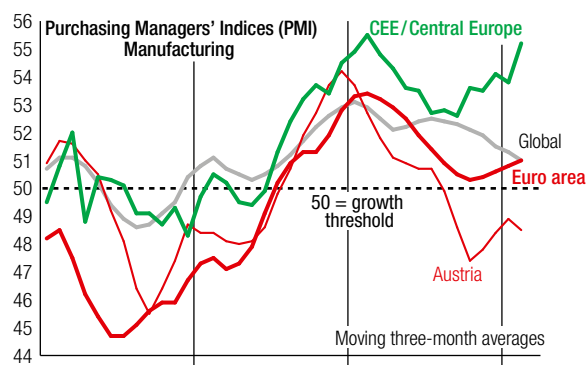
# Management Report (CONTINUED)

● Unlike the real economy, **financial markets** were surprisingly unimpressed by the numerous crises for a long time in 2014. It was probably central banks' guarantee of low interest rates that capped volatility in the first nine months of 2014. Investors decided to wait and see. **Share prices** continued to rise, driven by liquidity, although economic growth remained at a moderate level, risks were substantial and valuation levels were high already. Stock markets soon made up for ground lost during periods of correction at the beginning of October and in the middle of December. At the end of 2014, the MSCI world index showed a year-on-year rise of 7.4% (in local currency), the S&P500 was up by 1.4% and the EuroStoxx had gained a meagre 1.7%. Overall, emerging markets (+2.4%) advanced only thanks to the SSEC (Shanghai), with European emerging markets down by 8.6%, not only because of developments in Russia. Austria's ATX showed the worst performance, falling by 15.2%.

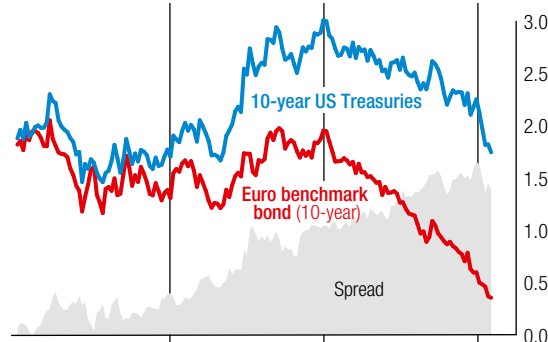
2014 will go down in history as an **exceptionally strong year for bonds**: the bull market continued across all risk classes. The 10-year euro benchmark yield (as low as 1.94% at the end of 2013) fell to a level well below the 1% mark in August and ended 2014 at a very low 0.54% (most recently continuing its decline to 0.46%). All benchmark yields for maturities up to 5 years were negative at the end of 2014. As a result of the search for pick-ups, yields on corporate bonds and government bonds of euro periphery countries decreased further, beyond the decline in reference rates. As the European sovereign debt crisis was overcome, CDS spreads for the former problem countries had fallen to a low of 60bp by the middle of 2014 (compared with 146bp at year-end 2013). **Performance** (price + reinvested coupon, year-end 2014 compared with year-end 2013) was +16.7% on 10-year benchmarks, +16.8% on euro government bonds (because of the higher coupon) and +14.8% on corporate bonds (non-financial BBB); this compares with +15.2% on covered bonds (euro mortgage bonds) and +8.2% on emerging markets bonds (EMBI global); all data relate to long maturities.

The yield differential between **US dollar and euro**, measured by two-year market interest rates (which are a good indicator of expectations), started to widen in spring 2014 due to asymmetrical monetary policies. However, it was not until September that the US dollar exchange rate began to rise strongly. A comparison of year-end levels shows US dollar appreciation of 13.6% to 1.2141 USD/EUR, for the most part in the second half of 2014, which accelerated in 2015 (with further appreciation of 8.6% to a recent level of 1.1183 USD/EUR). **Exchange rate movements** in the fourth quarter of 2014 and also after the turn of the year reflected growing **risk aversion**, which resulted from a number of interrelated factors, as well as from divergent trends in economic performance and interest rates: in a comparison of year-end levels, **oil prices** were down by 48.3% to 57.3 US\$/bl, despite the crises in the Middle East, as demand was weak and the

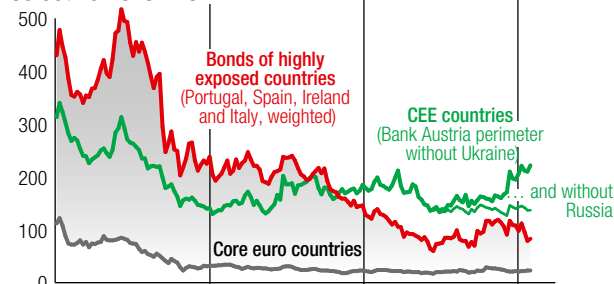
Economic momentum weakening from the middle of 2014



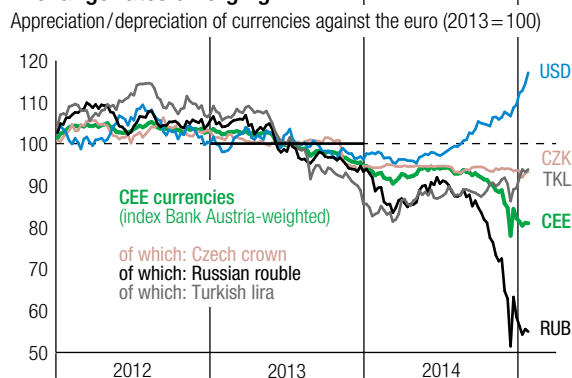
All-time low of euro benchmark yields



Risk premiums (CDS spreads) converging, selective risks in CEE



Exchange rates diverging



# Management Report (CONTINUED)

US became increasingly self-sufficient, but especially because Saudi Arabia expanded its oil production volume; subsequently, oil prices fell to a low of 46.8 US\$/bl. Capital inflows to emerging markets declined in a volatile movement. Sharply lower export revenues and mutually imposed sanctions in the conflict of the West with **Russia** led to rouble depreciation of 37.3% against the euro (fourth quarter of 2014: –31.2%, and a further –3.5% until recently). Increased foreign exchange inflows to Switzerland were taken out of the market at the intervention threshold in 2014, which led to an increase to almost CHF 500 billion in the fourth quarter (CHF/EUR at year-end 2014: 1.2024, +2.1%). On 15 January 2015, the Swiss National Bank surprisingly ended its policy of containing appreciation of the Swiss franc. After brief overshooting, the Swiss franc's exchange rate against the euro has since then settled down at about 1.07 CHF/EUR. The price of gold remained more or less unchanged in US dollar terms, at 1,184 US\$/oz as at year-end 2014 (–1.8% compared with year-end 2013); in euro terms it thus rose in line with US dollar appreciation (+11.6%).

● In **Austria** the moderate growth trend seen in the second half of 2013 continued in the early part of 2014. Supported by the economic recovery in the euro area and favoured by a mild winter, real GDP rose once more in the first quarter of 2014, exceeding the figure for the same period of the previous year by 0.9%. However, recovery started to falter at the beginning of spring 2014. As the year progressed, economic performance stagnated at the level reached before and annual average growth in 2014 matched the low +0.2% recorded in the preceding year.

Leading indicators such as the Bank Austria Business Indicator and the Bank Austria Purchasing Managers' Index showed significant declines from the spring onwards. The expected stronger growth, driven by stronger foreign demand, failed to materialise. The escalating Ukraine crisis was a new source of uncertainty. Sentiment in Austria's export-oriented industrial sector deteriorated sharply, and to an even greater extent in autumn 2014, when the US and the EU imposed sanctions on Russia. Contrary to original expectations, exports declined in the latter part of the year. While there was strong demand in the US and in many emerging markets for Austrian products, a development supported by the weaker euro, European exports in particular came under pressure as they became less competitive on price. Real exports fell in 2014 while imports rose, so that the external contribution curbed Austria's economic performance. Although financing terms were favourable and Austrian companies enjoyed a strong internal funding position, low export demand and the economic risks associated with the geopolitical situation did not provide the necessary incentives for the originally expected strong rise in investment activity (2014: a low +1.0%). Investment in equipment grew moderately, and investment in construction also lost momentum after a strong start to the year. Private consumption was the only component which grew slightly throughout 2014, by +0.3%, after a slight decline in the preceding year.

Employment continued to grow in 2014 (+0.9%) as in previous years, but the volume of work did not match this growth. The unemployment rate (Eurostat) deteriorated from an average 4.9% to 5.1%. This means that Austria is no longer the EU country with the lowest unemployment rate, losing this position to Germany. Private consumption in 2014 was supported by the downward trend in inflation, which fell from 2.1% to 1.5% on an annual average, reflecting falling crude oil prices. Nevertheless, Austria recorded the highest inflation rate in the euro area in 2014, by a wide margin and for the first time since the harmonised price index was introduced in the middle of the 1990s. The higher inflation rate in Austria is clearly home-made, driven by increases in taxes and fees and also by rising labour costs, which have an impact on prices for services; little competition is also a factor in some industries. Private households stepped up their consumption and their savings ratio rose to 7.7 per cent (+0.4 percentage points compared with 2013).

Credit demand remained moderate in the second half of 2014 as economic trends were weak. As a result, lending volume hardly rose during the reporting year (December 2014: +0.3% on the previous year). Loans to non-financial companies increased only slightly (November: +1.7%). Within loans to private households (+1.5%), housing loans showed the strongest growth (+3.6%) while short-term consumer loans continued to decline (–4.4%). Low growth was also recorded in total deposits held by private customers at banks (+1.5%), with liquidity maintained in the form of sight and savings deposits. Investments in bank bonds continued to decrease in 2014 whereas mutual funds recorded net inflows. Overall, monetary wealth formation was again disproportionately low in 2014, a development which may be explained with the weak trend in incomes and with investment in real assets (including real estate).

● In **Central and Eastern Europe** (with the exception of the conflict parties Russia and Ukraine) the export-oriented industrial sector performed well in the early part of 2014 and thus gave impetus to domestic demand. Growth was thereby put on a broader basis, strengthening the economy's resilience to external uncertainty. The CEE countries (Bank Austria perimeter without Russia and Ukraine) achieved combined economic growth of 2.5%, more than twice the rate seen in Western Europe. Export performance and sound growth rates of the industrial sector were often driven by additional capacity which came on stream in the international production context. Besides foreign direct investment, (infrastructure) investment in several countries was also supported by more intensive use of EU financial assistance schemes. CEE countries were affected by special factors (e.g. floods in the Western Balkan countries), by the temporary economic lull in Western Europe and by mutual sanctions imposed by the West and by Russia. At the same time monetary conditions improved and this was mainly reflected in interest rate reductions. Private consumption rose substantially in most economies, supported by increases in real incomes as inflation rates fell significantly.



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## 2014 timeline

<b>1 Jan.</b>	Latvia becomes the 18th country to introduce the euro.
<b>29 Jan.</b>	Pressure on <b>Turkish lira</b> to depreciate, key interest rate increased to 10% in a defensive move.
<b>18 Feb.</b>	Outbreak of violence in <b>Ukraine</b> .
<b>22 Feb.</b>	Upheaval in Ukraine, President Yanukovich leaves the country. Separatists occupy regional parliament in Crimea.
<b>14 March</b>	Austrian government announces a bad-bank solution for <b>Hypo Alpe Adria</b> .
<b>18 March</b>	Russia regards "Republic of Crimea" and Sevastopol as "federal subject", not recognised by Ukraine and most states of the international community.
<b>7 April</b>	Separatists occupy administrative offices in Donetsk, Luhansk and Kharkiv.
<b>16 April</b>	EU Parliament makes a decision on <b>banking union</b> : Bank Recovery and Resolution Directive, Single Resolution Mechanism in the euro area, and Directive on Deposit Guarantee Schemes.
<b>25 May</b>	Presidential election in Ukraine. President Poroshenko subsequently signs an agreement on EU cooperation and free trade.
<b>5 June</b>	<b>Key interest rate</b> reduced to 0.15% (negative interest rate on deposit facility). Announcement of measures including TLTRO to improve transmission of monetary policy, preparations for ABS purchases.
<b>11 June</b>	World Bank lowers growth forecast. Further downward <b>revisions of forecasts</b> following weather-induced decline in US growth in Q1 2014.
<b>27 June</b>	Run on two <b>Bulgarian banks</b> (CCB and FIB) triggers crisis.
<b>8 July</b>	Austria's parliament makes decision on <b>hair cut</b> in respect of Hypo Alpe Adria.
<b>17 July</b>	Ukraine: airliner of Malaysia Airlines shot down. US and EU respond by imposing sanctions on Russia.
<b>3 Aug.</b>	Portuguese <b>Banco Espírito Santo</b> rescued by the state.
<b>10 Aug.</b>	Presidential election in Turkey; Prime Minister Erdogan wins the election.
<b>21 Aug.</b>	Multi-year dispute over doubtful transactions in mortgage-backed securities ends with a settlement in which Bank of America pays US\$17 billion.
<b>4 Sept.</b>	<b>Key interest rate</b> reduced to 0.05%, interest rate on deposit facility lowered to -0.20%. Decision to buy asset-backed securities and covered bonds firmed up.
<b>12 Sept.</b>	US extends <b>sanctions</b> to include selected Russian financial institutions.
<b>15 Sept.</b>	Heavy fighting in Syria close to the Turkish border.
<b>26 Oct.</b>	Results of <b>asset quality review</b> and <b>stress test</b> . 13 out of 130 systemically important banks are required to submit plans to close gaps in their capitalisation. During the test phase, banks had made their balance sheets leaner and strengthened their equity capital.
<b>29 Oct.</b>	In the US, the <b>Fed</b> ends its government bond purchases.
<b>4 Nov.</b>	<b>Single Supervisory Mechanism</b> : ECB assumes responsibility for direct <b>supervision of significant banks</b> .
<b>18 Nov.</b>	Presidential election in Romania.
<b>27 Nov.</b>	As OPEC does not reduce oil production despite oversupply, <b>oil prices</b> continue to fall. The Russian rouble depreciates in the wake of this development.
<b>1 Dec.</b>	South Stream pipeline project and construction stopped.
<b>16 Dec.</b>	Peak <b>decline</b> of the <b>Russian rouble</b> ; intervention and increase in key interest rate.
<b>1 Jan. 2015</b>	<b>Lithuania</b> joins the euro area as its 19th member.

The reduction of (foreign) debt and the strengthening of balance sheets are still important factors also in CEE. In 2014, combined lending volume in Central Europe (CE) and South-East Europe (SEE) expanded by a low 2.6% (=CESEE) while deposits grew at double that rate (+5.3%). In Turkey, Russia and Ukraine, lending volume continued to rise strongly in 2014 (by between 15% and 22%), with deposits increasing somewhat more slowly (+9.6%); inflation rates remained high. After a period of weakness resulting from currency depreciation in the fourth quarter of 2013 and the first quarter of 2014, capital inflows to CEE countries resumed, relieving pressure on countries with external financing deficits. It was only towards the end of 2014 that international investors became more risk-averse again.

**Regional developments in detail:** After two years of recession the **Czech Republic** was one of the few CEE countries experiencing a classic cyclical upswing in 2014. Strong export growth in the winter months of 2013/14 – supported by currency depreciation in November 2013 – had given a boost to domestic demand. Strong impetus came from investment (+3.6%) and private consumption also expanded (+1.5%) reflecting a significant increase in mass purchasing power. Production in manufacturing industry paused in the summer months (as at the German parent companies) but rose again by 4.5% in the year as a whole. Supply-side effects (automotive industry) were supportive. We expect real GDP growth to reach +2.3% in 2014 (after -0.7% in 2013), a rate which would have been much higher without the strong import pull. Although currency depreciation in the past year resulted in price increases, the inflation rate in December 2014 was close to zero (0.08%). Interest rates in the country hardly differed from euro interest rates. The Czech crown, at an average exchange rate of 27.54 against the euro, was stable in 2014. Lending volume expanded moderately (+2.8%), exclusively in retail banking, while deposits rose more strongly in 2014 (+3.0%). The banking sector is highly profitable, with impaired loans (6.3%) and the cost/income ratio (43.3%) at low levels. **Slovakia** presents a similar picture in economic terms: domestic demand has become the mainstay of growth, stimulated by exports (+4.5%) and industrial output (+3.9%). Public consumption expanded despite the debt brake. Private consumption rose strongly in 2014, by 2.3%, supported by employment growth, large wage increases and stable consumer prices (December 2014: +0.2%). After the downward trend of the past two years, investment rose again (+3.8%). Private households accounted for all of the growth in lending volume (+5.6%). Impaired loans in the banking sector amounted to only 5.3% of total volume. **Slovenia** achieved a surprising turnaround in 2014: real GDP was up by 2.5% (2013: -1.0%), and manufacturing industry grew by 1.8% (2013: -1.3%). The contribution from foreign trade developed favourably, with lively exports and weak imports. The main factors driving growth were the turnaround in the area of investment (2014: +5.8%). The country again recorded FDI inflows (2014: +3.5% of GDP). However, private consumption

# Management Report (CONTINUED)

was stagnant and public consumption declined because the large deficit needs to be reduced after the recapitalisation of the banking sector. The past rescue programmes require extensive debt rollover; in 2014, Slovenia successfully tapped capital markets with three euro bond issues. Lending volume still declined in 2014 and the impaired loans ratio should have reached its peak at 20.6% in the year under review. The banking system passed the ECB test without requiring additional public support. Profit retention should suffice to meet any remaining need for additional capital identified in the stress scenario.

On account of an unusual policy mix, **Hungary** achieved a turnaround in 2014, with GDP growth of +3.3% after +1.5% and –1.7% in the two preceding years. The expansion was driven by industry (expected growth in 2014: +7.0%), mainly for export (+7.8%), with contributions coming from additional capacity in the automotive industry. The main factor driving growth in 2014 was investment (+13.5%), primarily public spending on infrastructure stretched to the Maastricht limit. Consumption rose by 1.7%, reflecting improvements in real incomes and zero inflation. As inflation has fallen to zero, and despite the high level of public debt, the key interest rate was reduced from 3.00% at the end of 2013 to recently 2.10%. In a comparison of year-end levels 2014/2013, the forint depreciated by 5.9% against the euro and by 17.1% against the US dollar. The banking sector will probably report an overall loss in 2014 as a result of bank levies and the retroactive adjustment, required by regulations, of exchange rate differences between the rates applied when foreign currency loans were granted and when repayment instalments are paid, and on account of changes in market interest rates on consumer loans being passed on to customers. Lending volume declined by 4.2%, one of the reasons being the repayment of foreign currency loans. The impaired loans ratio (20.5%) probably peaked in 2014.

After strong growth in 2013 (+3.5%), the upswing in **Romania** became more broadly based in 2014 as private consumption started to increase significantly (2014: +3.8%) thanks to increases in real incomes, and public consumption was stepped up (+5.0%). Growth in 2014 (+2.7%) was dampened by declining investment (–4.9%), partly due to a very low level of absorption of EU financial assistance. Long-term interest rates were significantly lower at year-end 2014, at 3.6% after 5.4% and 6.6% in the two preceding years, in an environment characterised by low inflation, continued portfolio inflows and currency stability. Even after the presidential election of November 2014, political indecision has impeded the implementation of promised reforms. Lending volume declined by 3.6% in 2014, mainly because of repayments of foreign currency loans. This compares with a more than 30% increase in deposits at banks (as in previous years), leading to a situation in which loans are fully funded with deposits. The proportion of impaired loans (14.4%) halved,

reflecting permission to write off problem loans for which loan loss provisions have been made. The cost of risk, at 470 bp, is still the highest in CEE (apart from Hungary, which is a special case).

**Bulgaria's** currency board is an anchor of stability. The basic balance is positive, public debt is the lowest among CEE countries, and money market interest rates are only slightly above the euro levels. Nevertheless, economic performance is weaker than in the other CEE countries which are EU member states. Industrial output rose only slightly in 2014 (+1.7%). Real GDP probably grew by 1.5%, against a background of deflation which has been recorded over the past one and a half years (2014: –1.5%). Lending volume stagnated in this environment (2014: +0.8%). The expansionary policy (social transfers, public consumption and investment) pursued by the government which was voted out of office at the elections in 2014 boosted domestic demand and made up for the lack of impetus from exports. But the public deficit (3.6% in 2014) rose beyond the Maastricht limit. Two local banks became distressed in June 2014: First Investment Bank, where deposits were guaranteed by the state, and Corporate Commercial Bank (CCB), whose banking licence has been revoked in the meantime. Banks which are majority-owned by international shareholders (69% of the banking sector) gained public confidence in this environment and also benefited from market share gains.

Industrial output in **Croatia** fell back after a fairly strong first six months, mainly because export demand from EU countries weakened. Results from tourism did not quite meet expectations, due to weather conditions. Public finances, with an expected deficit of 5.9% in 2014, were the main factor burdening the country. Major reform projects launched to restructure the public sector were postponed due to governance problems (presidential election in 2014 and parliamentary elections in 2015). EU accession has so far brought a macroeconomic imbalance procedure (MIP) and an excessive deficit procedure (EDP). This means that a way out of six years of recession is not yet in sight. We expect a decline of 0.7% in GDP for 2014. Most recently, the inflation rate was –0.5%; this compares with interest rate levels of less than 1% (short term, 3 to 6 months) and 3.60% (medium term, 5-year HRK bond). Lending volume has declined over the past three years (2014: –1.5%), and the impaired loans ratio increased only slightly, to 18.0% in 2014. After the Swiss franc's link to the euro was discontinued in early 2015, it is envisaged that a fixed exchange rate of 6.39 CHF/HRK (most recent market rate: 7.68) will be applied to the calculation of foreign currency loans, at the expense of banks. A comparison of year-end levels shows that the Croatian kuna remained stable against the euro (–0.7%).

Following a reasonably confident start in spring 2014, economic activity in **Bosnia and Herzegovina** was abruptly halted by disastrous floods and landslides in May. Floods destroyed private property, agricultural areas and infrastructure as well as impacting the mining and steel industries and power plants; total damage is

# Management Report (CONTINUED)

estimated at 15% of GDP. As the subsequent resumption of building activity failed to offset the losses, we expect zero growth for 2014. The IMF stepped up its standby agreement to a multiple of the quota, and European institutions launched aid programmes. Both measures are important in view of the country's negative basic balance (-4.6%). Total loans in the banking sector rose by 3.5% in 2014 and deposits increased by 6.1%. The impaired loans ratio was 17%. Floods in May seriously impacted industrial production in **Serbia**, too. Industrial output was about 6% lower, in average terms, than in the previous year. We estimate that GDP contracted by 2.1% in 2014. Revenues from car exports failed to offset the serious flood damage (agriculture, mining, energy supply). Domestic demand has been declining since 2013, a trend which is reflected in investment and in public and private consumption. This is to be seen in the context of the planned transition from a state-controlled business sector to private ownership. With a large number of laws and an ambitious privatisation programme, the government intends to get the public deficit under control (2014: -5.6% of GDP). The dinar depreciated by 5.3% against the euro in 2014. Inflation fell to 1.7% in December 2014. Lending volume rose by 3.5% and the impaired loans ratio reached 24.0% in 2014. In November, Serbia made an agreement with the IMF on a three-year programme.

In **Russia**, structural problems (insufficiently diversified production, permanent capital outflows, worse terms of trade) and cyclical factors (underinvestment, overconsumption and credit boom) impacted the economy even before it was hard hit by the sharp fall in oil prices in the second half of 2014 (-51.2% for Ural crude oil in US dollar terms, -16.0% in Russian rouble terms), by trade and financial market sanctions in response to the Ukraine conflict (see timeline) and by the falling rouble (exchange rate basket: -35.5%). While the economy still proved resilient in 2014 as a whole, early 2015 saw it on the verge of deep recession: our economists believe that the Russian economy grew slightly, by 0.4%, in 2014, due to developments in the first six months; but for 2015 they expect real GDP to shrink by 3.4%. GDP performance in 2014 was supported by the fact that imports (down by an estimated 5.1%) declined more strongly than exports (-1.0%) and private consumption rose slightly, by +0.4%, on account of accelerated purchases. Investment in plant and equipment probably declined by 7.2%. The collapse of crude oil prices and rouble depreciation have not yet passed through the entire economic and financial cycle. While the government budget, for example, still showed a surplus for 2014, the inflation rate had risen to a level of 11.4% by December 2014, leading to losses in real incomes. Losses on assets following currency depreciation, indebted companies faced with heavier repayment burdens, foreign exchange bottlenecks due to financial sanctions and interest rate increases (3-month money at the end of December: 21%, 10-year benchmark bond: 14.0%) are ultimately all weighing on the financial sector. Lending volume in 2014 still increased by

22.2%, with disproportionately strong growth of corporate loans (+26.0%). Deposits at banks also rose significantly (+14.4%, compared with an annual average inflation rate of 7.7%). The proportion of impaired loans started to rise (from 12.7% to 18.0% of gross lending volume in 2014). In view of the deterioration in asset quality, several local banks have already been recapitalised by the state.

The conflict in **eastern Ukraine**, the mutual trade embargo with Russia, uncertainty about gas deliveries and the sharp fall in energy prices have plunged Ukraine into deep recession, a development which was foreseeable even before the conflict escalated. The hotly contested regions of Donetsk and Luhansk account for 15% of nominal GDP and 28% of industrial output. In 2014, GDP probably contracted by 6.7%, with all demand aggregates declining (investment: -18.8%, private consumption: -6.2%, exports: -6.4%). Currency reserves have fallen sharply. Repayments, trade accounts payable and the unfavourable redemption profile of outstanding foreign currency bonds are not manageable without further IMF and EU support. The proportion of impaired loans has risen to over 30%. The Ukrainian hryvnia (UAH) depreciated by 40.7% against the euro. Ukraine's ratings are S&P: CCC-; Moody's: Caa3; Fitch: CCC (last foreign).

After a difficult start to the year, with capital outflows and strong currency depreciation, **Turkey** managed to reduce the large current account deficit, its main problem, as the year progressed. In addition to a good export performance (+8.1%), contributions to this reduction came from the dampening of the import pull (-1.5%) and private consumption (+1.0%) through a more restrictive monetary policy (increase of key interest rate, higher minimum reserve requirement) and various measures to directly curb credit expansion (credit card boom). Finally, the sharp fall in oil prices eased pressure on the current account: the deficit may have declined to a level below 5% of GDP in 2014 for the first time in many years. Higher exports (+8.1%, also as a result of currency depreciation and supported by sales of gold) and especially public consumption (+8.0% ahead of elections) contributed to GDP growth of 2.3%. The easing of the current account problem and the renewed flow of portfolio investments were used to reduce interest rates, despite the high inflation rate of recently over 8.2% (key interest rate: 7.75% most recently). Real interest rates have been negative for months. Credit expansion weakened significantly until the middle of 2014, reflecting measures to curb growth; but in the past few months, credit expansion accelerated again. The increase in the year as a whole was +16.1% (after +32.5% in the preceding year). Deposits showed a similar trend (+9.1% after +23.4%). Asset quality is comparatively good (impaired loans ratio in the banking sector: 3.0%, cost of risk: 170bp). The Turkish lira appreciated by 4.5% against the euro in 2014, but in average annual terms it depreciated by 12.9%.

# Management Report (CONTINUED)

## Bank Austria in 2014 – overview

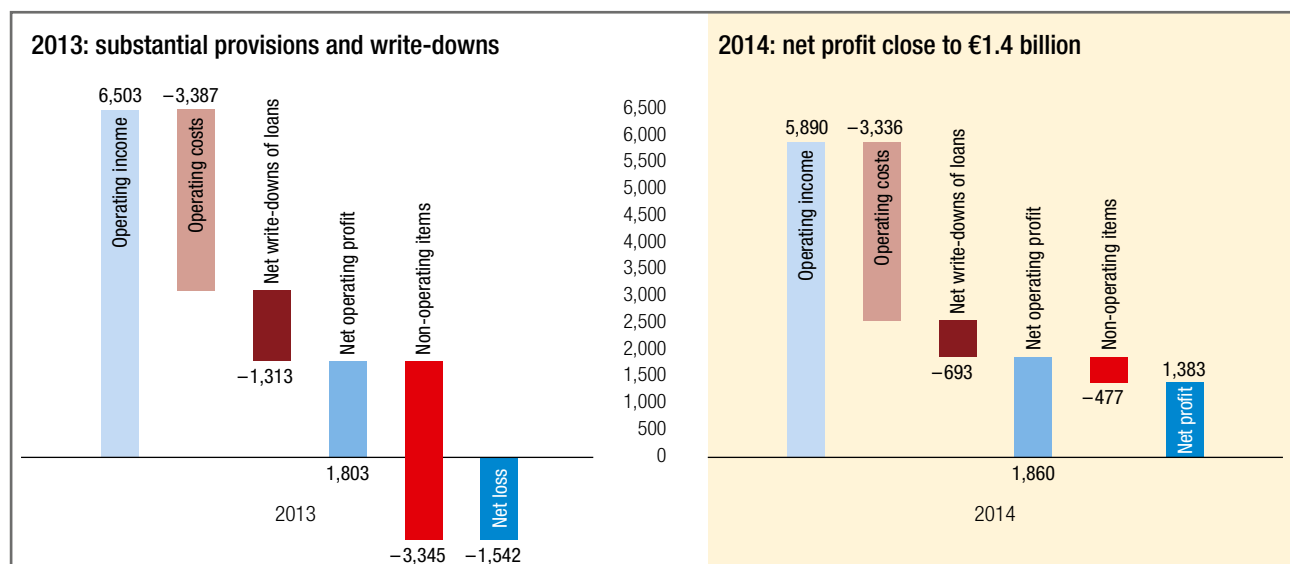
In a difficult economic and monetary environment, and with overall conditions becoming increasingly restrictive, Bank Austria generated a sound profit in 2014 after the major adjustments made in the previous year. The bank focused on modernising its customer business operations, enhancing efficiency, expanding in advanced growth markets, and strengthening its financial position.

● Bank Austria's broadly diversified presence benefited its **operating performance**: operating income held up well despite the dip in economic activity in the summer months and the decline in interest rates into negative territory, a development which was hardly thought possible, and although the escalation of geopolitical tensions affected a large region within the perimeter of Bank Austria's operations. The 9.4% decline in operating income to €5.9 billion in 2014 resulted from one-off effects in the previous year and from depreciation of currencies which are of major relevance to our overall performance. Adjusted for such one-off effects, operating income more or less matched the previous year's level (–0.2%). Apart from cost stability (–1.5%; adjusted for exchange rate movements: +0.9%), lower net write-downs of loans and provisions for guarantees and commitments were a decisive factor in 2014. Large additions to loan loss provisions made at the end of 2013 resulted in higher coverage ratios. Although the risk profile in 2014 required a lower provisioning charge, coverage ratios continued to improve. Overall, **net operating profit for 2014** reached **€1,860 million**, an increase of 3.2% over the previous year (adjusted for exchange rate movements: +9.7%).

● The **Austrian** customer business segments significantly improved their net operating profit, by 23.2% to €608 million in 2014. While operating income and costs remained stable, net write-downs of loans and provisions for guarantees and commitments declined. The **Central Eastern Europe** (CEE) business segment's contribution to net operating profit was €1,610 million, a slight decrease on the previous year (–1.3%) all of which is due to currency movements (adjusted for

exchange rate effects: +6.8%). A regional analysis shows that especially the Central European countries, and also the South-East European countries, were successful in 2014; combined net operating profit of these two country groups (CESEE) rose by 73.8%. Thanks to the strong weight of its business with large international customers, our Russian banking subsidiary operated at a high level of profitability in 2014, including the volatile fourth quarter. The main reason why its net operating profit declined by 36.9% compared with the previous year was a one-off effect (gains on the sale of shares in MICEX, the Moscow inter-bank trading platform, in 2013); without this one-off effect, and translated at constant exchange rates, net operating profit was down by only 3.2% in 2014. The change in the contribution from Turkey, which is accounted for using the equity method (see comments below), also reflects a base effect (gain on the sale of Sigorta insurance operations); the profit contribution from Turkey declined by 46.3%; adjusted for the one-off effect and translated at constant exchange rates, it was down by 10.8%. After the large additions to loan loss provisions at the end of 2013, net write-downs of loans and provisions for guarantees and commitments decreased substantially also in the CEE Division (–40.3%), with the cost of risk falling from 191 basis points (bp) to 116bp. The fact that net operating profit in CEE for 2014 came close to the previous year's figure and still accounted for almost three-quarters of net operating profit generated by Bank Austria's customer business underlines the positive effects of a widely diversified presence across Central and Eastern Europe.

● The main improvement in performance compared with the previous year resulted from **non-operating items** of the income statement between net operating profit and net profit. At the end of the previous year, the full write-off of goodwill, additions to provisions for risks and charges and restructuring costs had a strong negative impact. After the determined action taken in the previous year, the income statement for 2014 reflects much lower deductions for non-operating items (–€477 million after –€3,345 million), which included the income tax



charge and especially a higher provisioning charge for the forthcoming foreign currency conversion in Hungary as well as the total loss after tax from the banking subsidiary in Ukraine, which is classified as held for sale. This resulted in a swing of close to +€3 billion, from a net loss in 2013 to a net profit in 2014. The sound net operating profit in 2014, combined with a comparatively low negative balance of non-operating items, resulted in a **net profit** (attributable to the owners of the parent company) of **€1,383 million**.

● **Total assets** rose by 6.5% to €189.1 billion in 2014. The focus in the year under review was on strengthening funding while lending business remained weak. On the liabilities side, growth was mainly achieved through the acquisition of customer deposits (+5.9%) in Austria and CEE and through several bond issues. Direct funding as a whole increased by 6.8%, the ratio of direct funding to customer loans reached 116%. The large proportion of customer business is reflected in the leverage ratio of 5.6% under Basel 3 (for the fourth quarter of 2014 based on the current status of transitional arrangements); the leverage ratio is significantly above the 3% limit.

● Exchange rate movements weighed on profits in the CEE business segment in 2014 (via local effects and through translation into euro – see comments below) while also having an impact on capital via the foreign currency translation reserve. IFRS **equity** therefore remained more or less unchanged, at €14.9 billion (–0.8%) despite the large net profit. Although business volume expanded, the **total capital ratio**, calculated under the new Basel 3 definitions, remained almost unchanged at 13.4%, and the Common Equity Tier 1 capital ratio was 10.3%.

● In 2014 we consistently pursued our **customer-oriented strategy**. With our SmartBanking offer in Austria we started to adjust our business model to changes in customer behaviour (digitalisation), reshaping our sales operations to reflect the concepts of “basic services bank”, “advisory bank” and “premium bank”. Under the staff-related Initiative 2020, we reduced the number of full-time equivalents by raising the proportion of part-time employees. This was accompanied by various measures such as streamlining internal procedures, mobility management and training (see the section dealing with non-financial performance indicators). With a view to focusing on core business and reducing the amount of tied-up capital, we sold real estate and restructured a package of properties (Immobilien Holding), classifying it as held for sale. The leasing companies were reintegrated in the local banks. In the CEE business segment, after the withdrawal from Kazakhstan, we continued to classify the operations in Ukraine as held for sale while taking advantage of opportunities to acquire customer business from third parties, e.g. in the Czech Republic and in Romania. The merger of the Czech and Slovak units is a complete success. The CEE 2020 programme launched in Central and Eastern Europe currently encompasses 31 initiatives aimed at identifying cross-regional synergies and new ways to create value. We are focusing on high-growth advanced markets and, as in 2014, want to gain market shares across the entire region.

## Note to the 2014 income statement

● Starting with 2014 our **equity interest in Turkey**, Yapı Kredi ve Bankası (a joint venture with our partner Koç Group), is no longer accounted for using proportionate consolidation but using the equity method. This reflects the implementation of IFRS 11, which came into force at the beginning of 2014. In the income statement, the contribution from Turkey is shown in a single item, with the share of profit being included in “Dividend income and other income from equity investments”. The previous year’s figures in the statement of financial position and in the income statement have been adjusted. More detailed information is given in section “A.4.1 – Effects arising from changes in accounting methods” in the notes to the consolidated financial statements on pages 79 to 82 of this report.

● In addition, the **comparative figures** for 2013 have been **adjusted** to the consolidation perimeter of the 2014 consolidated financial statements, which changed in the reporting year. The equity interests in Ukrasotsbank, in which Bank Austria has a shareholding interest of about 72%, and in newly consolidated Immobilien Holding GmbH are included in the item “Non-current assets and disposal groups classified as held for sale”. In 2014, the UniCredit parent company transferred the leasing activities in the three Baltic countries and in the Czech Republic, Slovakia, Bulgaria, Romania and Russia to UniCredit Bank Austria AG. The leasing activities in Austria, Hungary and partly in Serbia were transferred in December 2014, with consolidation only in the statement of financial position for the time being. The comparative figures for 2013 were adjusted to this new structure. Information on other consolidation procedures is given on page 146.

● The commentary in this management report refers to the condensed income statement shown on page 14. The same format is used for segment reporting. This makes it possible to consistently explain the contributions made by the various business segments to the items in the income statement and to Bank Austria’s overall development. A reconciliation of the condensed income statement to the mandatory reporting schedule is given in the notes to the consolidated financial statements on pages 184 and 185.

● The local contributions to the income statement are translated into euro at average exchange rates for the reporting period; figures in the statement of financial position are translated at end-of-period exchange rates. 2014 saw strong currency depreciation in the Russian rouble (annual average: –16.9%/year-end 2014/2013: –37.3%), the Turkish lira (–12.8%/but +4.5%) and the Czech crown (–5.7%/–1.1%), followed by the Hungarian forint (–3.8%/–5.9%) and the Serbian dinar (–3.5%/–5.2%). The value of the Ukrainian hryvnia fell sharply in 2014, by 32.0% (average) and 41.0% (year-end 2014/2013), respectively. At the beginning of February 2015 the central bank discontinued its intervention and the hryvnia continued to depreciate dramatically.

# Management Report (CONTINUED)

## Quarterly trends in 2014

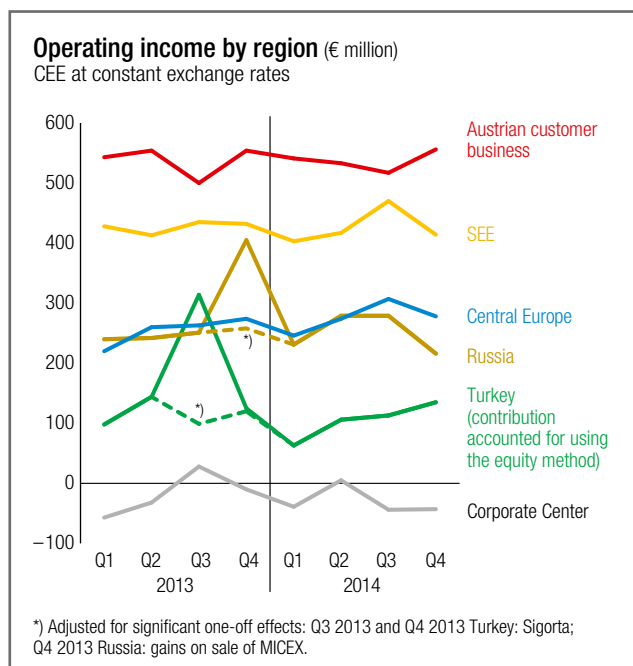
Bank Austria's widely diversified geographical presence enabled the bank to even out varying influences from the economic environment on its operating income in 2014. With its customer-focused business model, Bank Austria achieved a sound performance from its commercial banking operations. On top of this, the balance of non-operating income components improved significantly as major adjustments had already been made at the end of the previous year (goodwill impairment charge, net write-downs of loans, provisions for risks and charges). In terms of **net profit**, the year started with a comparatively low €351 million in Q1 2014, followed by two good quarters, with €426 million in Q2 and €416 million in Q3. The fourth quarter closed with a net profit of €191 million, reflecting declines (partly due to exchange rate movements) in Russia and Ukraine. After the exceptionally high charges recorded in the final quarter of 2013, all quarters in 2014 made positive contributions to the net profit of €1,383 million for the full year (see table on the next page).

● **Operating income** in the first quarter of 2014 was a comparatively weak €1,376 million. The figure for the third quarter, €1,554 million, represented an increase of 13.0% while the fourth quarter saw a decline of 8.1% to €1,429 million, 16.7% lower than in the same period of the previous year. Adjusted for a one-off effect in Russia (gains on the sale of shares in the MICEX trading platform in the fourth quarter of 2013), operating income declined by 9.0%; additionally adjusted for exchange rate movements, it was down by 5.0%, a respectable performance in view of the escalating geopolitical conflicts. Quarter-on-quarter developments were mainly determined by the **CEE business segment**: in early 2014, several CEE countries, primarily Turkey and Russia, raised key interest rates to counteract increasing capital outflows. This had a negative impact on net interest and partly also on net trading income. Subsequently the situation returned to normal and interest rates declined

significantly, in parallel with disinflation, also in the other countries. Lending business picked up across the region as domestic economic activity gained momentum. Operating income of the CEE Division therefore rose, by 23.6% from the first to the third quarter, reaching €1,081 million in Q3 2014 before falling by 15.3% to €916 million in the fourth quarter. One-third of the decline in operating income in the fourth quarter was due to exchange rate movements, mainly the sharp fall in the value of the Russian rouble. But operating income in Russia also fell at constant exchange rates, primarily because of the swing in the net trading performance from a large net income to a net loss. Operating income in South-East Europe was impacted by disastrous floods in May and by recession in the Western Balkan countries towards the end of 2014. Our banking subsidiaries in the Central European countries had a very good year. But the pessimistic view prevailing in late summer of future economic trends dampened the strong growth towards the year-end. Developments in Turkey moved in the opposite direction: after the restrictive economic-policy measures of the first quarter had been absorbed, interest rates declined and economic growth picked up. Therefore operating income (including the contribution from Koç, our joint venture accounted for using the equity method) steadily increased as the year progressed. Operating income from **Austrian** customer business in the fourth quarter of 2014 also rose – contrary to the overall trend – by 7.7% to €557 million, on account of slightly higher net interest, a stronger net trading performance, and higher net fees and commissions, especially those generated by asset management activities. Even if the strong fluctuations in Russia fed through to the bank as a whole, quarterly trends clearly show the positive effects of a widely diversified geographical presence (see chart).

2014 saw good progress in our efforts to enhance **cost efficiency**. Operating costs were lower throughout 2014 than in the previous year, one of the reasons being the steady reduction of staffing levels in Austria (FTEs at the end of 2014 down by 2.8% on the previous year without the consolidation effect at the end of 2014) and CEE (-5.8%). In the fourth quarter of 2014, operating costs were €865 million, 3.3% lower than for the same period of the previous year; even without exchange rate effects, which were favourable in this context, operating costs were down by 0.2%.

The income statement reflects a favourable trend in **net write-downs of loans and provisions for guarantees and commitments**. A substantial increase in the provisioning charge at the end of the previous year (to €536 million in Q4 2013) increased the coverage ratios on impaired loans. In 2014, the charge for net write-downs of loans was kept between €150 million and €200 million in each quarter. Although the risk profile started to deteriorate in several CEE countries (Croatia, Romania, Serbia, Russia, but in the latter country from a very low level) towards the end of 2014, the provisioning charge in the fourth quarter of 2014 was a low €192 million, down by 64.2% from the same period of the previous year. In Austria, the second and fourth quarters of 2014 saw net releases of provisions. Although the provisioning charge was lower, key risk indicators (coverage ratios, impairment loans ratios) were held at the year-end 2013 level.



# Management Report (CONTINUED)

→ On this basis **net operating profit** (operating profit less net write-downs of loans and provisions for guarantees and commitments) also mirrored external developments: starting from a disproportionately low level of €350 million in the first quarter of 2014, net operating profit rose to €568 million in the second quarter and €571 million in the third quarter, which was followed by a sharp decline of 35.0% (adjusted for exchange rate movements: –29.6%) to €371 million in the final quarter of 2014 (+30.8% over Q4 2013). Within the total, the CEE business segment accounted for €302 million, a figure which was significantly lower than in the preceding quarter (–43.2%) but one-third higher than in the same period of the previous year (+34.7%), a period impacted by a strong increase in the provisioning charge. The decline in the fourth quarter of 2014 is mainly explained by the return to a normal level after the excellent third quarter in South-East Europe (including substantial improvements in operating income and the provisioning charge in Croatia) and by net trading income in Russia, which reflected valuation losses on financial assets held for trading in the wake of strong interest-rate and exchange-rate movements. Austrian customer business contributed €170 million to net operating profit (+19.1% on Q3 2014/+8.2% on Q4 2013) as operating income improved slightly and net write-downs of loans and provisions for guarantees and commitments developed favourably. The Corporate Center recorded a net operating loss of €101 million (2013: –€98 million) as a result of structural burdens, consolidation procedures and other expenses.

● Quarterly trends in the **non-operating** items to be taken into account in calculating profit before tax for 2014 developed more favourably than in 2013. In the first quarter of 2014, the balance of these items was €70 million, reflecting net income from investments of €75 million which was mainly due to gains on the sale of real estate (head office building in Vienna, Schottengasse, and other properties in Vienna). In the second quarter (–€53 million) and in the third quarter (–€84 million), provisions for risks and charges for refunds, required by regulations, of exchange rate margins (Q2: –€31 million) and for unilateral interest rate adjustments on foreign currency loans (Q3: –€76 million) were major factors. The balance of non-operating items in the fourth quarter of 2014 was as low as –€15 million, equally benefiting from the sale of real estate (including the Campus project). A comparison with the same period of the previous year is not mean-

ingful because the fourth quarter of 2013 saw larger additions to provisions for risks and charges and larger integration/restructuring costs, and above all extensive restructuring and valuation adjustments relating to equity interests; as a result, non-operating deductions to arrive at profit before tax totalled –€848 million in that period.

**Profit before tax** showed a comparatively steady development from quarter to quarter in 2014, from €421 million in Q1 to €515 million in Q2, €487 million in Q3 and €356 million in Q4 (compared with –€564 million in the fourth quarter of 2013).

The other major non-operating items in the income statement included in the calculation of net profit attributable to the owners of the parent company are income tax, total profit or loss after tax from discontinued operations, and non-controlling interests. Within the balance of these items, total profit or loss from Ukrspotsbank, a bank in Ukraine which is classified as held for sale, is a major factor. In the second quarter of 2014, the net loss in this context was €27 million; the net loss of €35 million in the third quarter of 2014 was more than offset by positive valuation effects from real estate companies held for sale (Immobilien Holding) and, on balance, discontinued operations thus generated a profit of €6 million; the fourth quarter of 2014 was impacted by a loss of €127 million in Ukraine, reflecting the crisis. Valuation results from Immobilien Holding slightly reduced this figure to –€113 million. Total profit or loss after tax from discontinued operations in the fourth quarter of 2013 was –€251 million, which also included a charge for goodwill impairment relating to Ukraine.

→ The bottom line of Bank Austria's income statement for the fourth quarter of 2014 shows a **net profit** (attributable to the owners of the parent company) of €191 million after €351 million, €426 million and €416 million in Q1, Q2 and Q3, respectively (see table). This means that performance in the fourth quarter of 2014 was a respectable achievement in a difficult environment; results for the first three quarters were also significantly better than in 2013. Major restructuring and substantial net write-downs of loans and valuation adjustments at the end of the previous year, which led to a net loss of €2.7 billion in the fourth quarter of 2013, have thus proved to be one-off measures. Quarterly trends in 2014 also show that Bank Austria can balance out adverse developments in some markets in its overall results.

## Net profit \*)

(€ million)

	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	2013	2014
Austrian customer business	92	97	84	62	86	138	110	120	335	454
Central Eastern Europe (CEE)	308	312	498	139	263	311	349	175	1,256	1,098
... Turkey	98	142	294	102	50	86	93	112	636	341
... Russia	120	102	113	227	87	110	117	41	562	354
... Central Europe (CE)	25	64	56	–32	43	53	46	85	113	227
... South-East Europe (SEE)	92	73	89	–18	98	85	110	46	236	339
... Other (Ukraine, Baltic countries, PCV)	–27	–69	–55	–140	–15	–22	–17	–110	–290	–163
Corporate Center	–118	–113	–34	–2,869	1	–23	–43	–104	–3,133	–169
<b>Bank Austria as a whole</b>	<b>282</b>	<b>296</b>	<b>547</b>	<b>–2,667</b>	<b>351</b>	<b>426</b>	<b>416</b>	<b>191</b>	<b>–1,542</b>	<b>1,383</b>

\*) Net profit attributable to the owners of the parent company.

## Management Report (CONTINUED)

Condensed income statement of Bank Austria<sup>1)</sup>

(€ million)

	QUARTERLY FIGURES				2014	RECAST <sup>2)</sup> 2013	CHANGE	
	Q1 2014	Q2 2014	Q3 2014	Q4 2014			+/- €	+/- %
Net interest	841	866	884	841	3,433	3,470	-36	-1.1 %
Dividend income and other income from equity investments	73	151	126	145	496	763	-267	-35.0 %
Net fees and commissions	330	346	347	345	1,367	1,386	-19	-1.4 %
Net trading, hedging and fair value income	112	138	150	87	487	792	-305	-38.5 %
Net other expenses/income	20	30	47	10	106	92	+14	+15.4 %
Operating income	1,376	1,531	1,554	1,429	5,890	6,503	-613	-9.4 %
Payroll costs	-406	-404	-398	-413	-1,620	-1,638	+17	-1.1 %
Other administrative expenses	-385	-381	-373	-407	-1,546	-1,508	-37	+2.5 %
Recovery of expenses	0	0	0	0	1	1	-1	-56.0 %
Amortisation, depreciation and impairment losses on intangible and tangible assets	-44	-37	-43	-46	-170	-242	+72	-29.6 %
Operating costs	-835	-822	-814	-865	-3,336	-3,387	+51	-1.5 %
Operating profit	540	710	740	563	2,554	3,116	-563	-18.1 %
Net write-downs of loans and provisions for guarantees and commitments	-190	-142	-169	-192	-693	-1,313	+620	-47.2 %
<b>Net operating profit</b>	<b>350</b>	<b>568</b>	<b>571</b>	<b>371</b>	<b>1,860</b>	<b>1,803</b>	<b>+57</b>	<b>+3.2 %</b>
Provisions for risks and charges	-4	-28	-95	-7	-133	-148	+15	-10.2 %
Integration/restructuring costs	-1	-6	-1	-5	-13	-133	+120	-90.1 %
Net income/loss from investments	75	-20	12	-4	64	-725	+789	n.m.
<b>Profit before tax</b>	<b>421</b>	<b>515</b>	<b>487</b>	<b>356</b>	<b>1,778</b>	<b>797</b>	<b>+981</b>	<b>&gt;100 %</b>
Income tax for the period	-64	-63	-73	-87	-287	-428	+141	-33.0 %
Total profit or loss after tax from discontinued operations	2	-27	6	-113	-132	-266	+134	-50.5 %
Profit or loss for the period	359	425	420	156	1,360	103	+1,257	>100 %
Non-controlling interests	-8	1	-4	35	23	33	-10	-30.2 %
Net profit or loss before PPA <sup>3)</sup>	351	426	416	191	1,383	136	+1,247	>100 %
Purchase Price Allocation effect	0	0	0	0	0	0	+0	n.m.
Goodwill impairment	0	0	0	0	0	-1,678	+1,678	-100.0 %
<b>Net profit or loss<sup>3)</sup></b>	<b>351</b>	<b>426</b>	<b>416</b>	<b>191</b>	<b>1,383</b>	<b>-1,542</b>	<b>+2,925</b>	<b>n.m.</b>

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 2014. / 3) Attributable to the owners of the parent company.



## Management Report (CONTINUED)

## Details of the 2014 income statement

● **Operating income** generated by Bank Austria in 2014 was **€5,890 million**, down by €613 million or 9.4% on the previous year. An analysis of the factors which led to the decline shows that the previous year's figure included large one-off income (realised gains of €340 million) and that exchange rate movements had a significant impact. Adjusted for these factors, operating income in 2014 more or less matched the previous year's level (-0.2%). In view of the increasingly difficult environment in some countries, this respectable performance is due to Bank Austria's wide regional presence and the focus on customer business.

Trends which partly moved in opposite directions had a strong influence on Bank Austria's **operating income** in 2014: credit demand in **Austria** remained weak, reflecting a weak economic momentum and excess liquidity in the corporate sector. Foreign trade-related commercial transactions were also at a low level. Loans and deposits had to be renewed at ever lower interest rates. Net fees and commissions rose significantly, however, as securities business and especially asset management activities intensified in an environment of persistently low interest rates. In these circumstances, operating income in Austrian customer business held up well, coming very close to the high level of €2,152 million recorded in the previous year (-0.2%).

**Operating income by segment and region** € million (2013 recast)

	2014	2013	+/-	+/- %	CONST
Austrian customer business	2,148	2,152	-4	-0.2%	
Central Eastern Europe (CEE)	3,864	4,423	-559	-12.6%	-6.9%
... At-equity contribution from Turkey	341	636	-295	-46.3%	-38.7%
... Russia	795	1,083	-288	-26.6%	-11.6%
... Central Europe	1,032	995	+37	+3.7%	+8.6%
... South-East Europe	1,523	1,518	+4	+0.3%	+0.9%
... Other countries and PCV <sup>1)</sup>	173	190	-17	-9.2%	-9.8%
Corporate Center	-122	-71	-51	+72.1%	
Bank Austria as a whole	5,890	6,503	-613	-9.4%	-5.7%
... without one-off income in 2013 <sup>2)</sup>	5,890	6,163	-273	-4.4%	-0.2%

CONST = adjusted for exchange rate movements = translated at constant exchange rates. / 1) PCV = Profit Center Vienna = Vienna-based CEE headquarters in UniCredit Bank Austria AG. / 2) Gains on sale of Sigorta insurance operations in Turkey (€195 million) and on sale of remaining shares in the MICEX trading platform in Russia (€145 million).

Within the **CEE** business segment, our banks in the Central European (CE) countries took advantage of the economic upswing (Czech Republic and Slovakia, also Hungary) to generate a 3.7% increase in operating income (adjusted for exchange rate movements: +8.6%) to a combined total of over one billion euros (€1,032 million, see table). Our banking subsidiaries in South-East Europe (SEE) reinforced their market position as international banks in partly difficult circumstances (Croatia, Bulgaria). This development was supported by declining interest rates (which had not yet bottomed out). Operating income in this heterogeneous country group slightly exceeded the previous year's level, reaching €1,523 million. Revenues declined in

Turkey, whose contribution is accounted for using the equity method, and in Russia, where the net trading performance was negative in the turbulent fourth quarter of 2014. In these two countries, combined operating income declined by €583 million or one-third to €1,137 million (19% of Bank Austria's total operating income). It should be noted that the comparison with the previous year reflects substantial **base effects**: in the second half of 2013, Yapı Kredi, the Turkish bank in which we hold an equity interest, sold its insurance subsidiaries Yapı Kredi Sigorta (YKS) and Yapı Kredi Emeklilik (YKE) to Allianz SE (coupled with a cooperation agreement); the sale resulted in a gain of €195 million. This one-off income is not reflected in net income from investments; it is included in operating income because in accordance with IFRS 11, the contribution from our Turkish joint venture (Koç Group with the banking subsidiary Yapı Kredi) is included in "Dividend income and other income from equity investments" (equity method of accounting). The comparative figure for 2013 in Russia included gains of €145 million on the sale of the remaining shares in MICEX, the interbank trading platform, which were held for trading. Overall, operating income in the CEE business segment amounted to **€3,864 million**, a decrease of €559 million or 12.6% (adjusted for exchange rate movements: -6.9%). Adjusted for the above-mentioned non-operating one-off income, CEE operating income was down by 5.4%; translated at constant exchange rates, it rose slightly, by 1.3%.

**Operating income by component**

€ million (2013 recast)

	2014	2013	+/-	+/- %	CONST
Net interest	3,433	3,470	-36	-1.1%	+4.3%
Dividend income and other income from equity investments	496	763	-267	-35.0%	-29.2%
... of which at-equity contribution from Turkey	341	636	-295	-46.3%	-38.7%
Net fees and commissions	1,367	1,386	-19	-1.4%	+1.6%
Net trading, hedging and fair value income	487	792	-305	-38.5%	-39.6%
Other	106	92	+14	+15.4%	+1.7%
Total operating income	5,890	6,503	-613	-9.4%	-5.7%
... without one-off income in 2013 <sup>1)</sup>	5,890	6,163	-273	-4.4%	-0.2%

CONST = adjusted for exchange rate movements = translated at constant exchange rates. / \*) Gains on sale of Sigorta insurance operations in Turkey (€195 million) and on sale of remaining shares in the MICEX trading platform in Russia (€145 million).

The breakdown by income component shows that net interest came close to the previous year's level (-1.1%); without currency depreciation it would have increased (+4.3%). The same applies to net fees and commissions (-1.4% and +1.6%, respectively). The income components which are seen as sustainable thus slightly improved at constant exchange rates. At €4,800 million, they accounted for over four-fifths (82%) of Bank Austria's total operating income. Apart from the at-equity contribution from Turkey (€341 million), which – as mentioned above – also includes non-operating income components and in 2014 was down by €295 million on the previous year, net

## Management Report (CONTINUED)

trading income was €487 million, substantially lower than in the previous year (–€305 million/–38.5%). The decline is mainly explained by the one-off effect described above (gain on sale of MICEX shares) and by valuation results from available-for-sale securities holdings in Russia, which led to a negative net trading performance in Russia on account of the strong interest rate increase in the fourth quarter of 2014.

**Net interest**

€ million (2013 recast)

	2014	2013	+/-	+/- %	CONST
Austrian customer business	1,320	1,302	+18	+1.4%	
Retail & Corporates	932	911	+21	+2.4%	
Private Banking	64	49	+15	+29.6%	
CIB	324	342	-18	-5.2%	
Central Eastern Europe (CEE)	2,460	2,422	+37	+1.5%	+9.1%
Russia	696	674	+22	+3.3%	+24.3%
Central Europe (CE)	616	589	+27	+4.6%	+9.8%
South-East Europe (SEE)	986	957	+29	+3.0%	+3.7%
Other *)	161	202	-41	-20.4%	-20.4%
Corporate Center	-347	-255	-92	+36.0%	
Bank Austria as a whole	3,433	3,470	-36	-1.1%	+4.3%

\*) Other = Baltic countries, PCV = Profit Center Vienna, Vienna-based CEE headquarters, intersegment items.

**Net interest**, the largest component of operating income, amounted to €3.4 billion in 2014, almost matching the previous year's figure; adjusted for exchange rate movements, net interest was up by 4.3%. The underlying average lending volume was down by 2.7% on the previous year while average direct funding rose by 5.1% in an environment of declining market interest rates. Contributions to these developments came from Austrian customer business and from most CEE countries.

In 2014, the **net interest margin**, measured against average interest-bearing assets, was 2.03%. Measured against the mean value of average interest-bearing volume on the assets and liabilities sides, the net interest margin was 2.10%. In customer business, this key figure was higher, at 2.22% (lending volume) and 2.41% (based on the mean value of average loans and deposits).

Net interest generated by Austrian customer business – comprising three business segments: Retail & Corporates, Private Banking and Corporate & Investment Banking (CIB) – rose by 1.4% to €1,320 million. The margin contribution from lending business declined, reflecting further narrowing spreads and lower lending volume as demand was weak. This means that the increase was due to deposit business: the total volume of deposits rose strongly, especially time deposits held by corporate customers, large customers and high net worth individuals. Spreads improved slightly, in line with general interest rate movements. The campaign launched by Bank Austria at the end of 2013 to attract longer-term deposits

by offering comparatively attractive interest rates in a low-interest environment was very successful, especially in corporate banking. These efforts aimed at extending deposit maturities and are therefore an important factor in liquidity management under Basel 3 (Liquidity Coverage Ratio).

In 2014, the CEE business segment generated net interest of €2,460 million, accounting for 72% of the total for the bank as a whole. Net interest in CEE thus grew by 1.5% compared with the previous year; adjusted for exchange rate movements, the increase was 9.1%. Our Russian banking subsidiary achieved growth of 3.3% to €696 million in net interest; at constant exchange rates, the increase was 24.3%. At the end of 2014, lending volume in Russia in local currency was up by 48.3% on a year earlier, and total deposits were up by 53.3%, partly on account of the higher valuation of foreign currency loans/deposits in Russian rouble terms. In the Central European (CE) countries, too, net interest rose by 4.6% (adjusted for exchange rate movements: +9.8%) and lending volume and total deposits expanded. Moreover, the interest margin improved as reference rates declined. In the country group of South-East Europe (SEE), net interest grew by 3.0% (adjusted for exchange rate movements: +3.7%), a lower rate reflecting the weak trend in Romania. Growth was driven by Bulgaria (+7.8%), where our banking subsidiary offered stability during the local banking crisis.

**Net fees and commissions**

€ million (2013 recast)

	2014	2013	+/-	+/- %	CONST
Austrian customer business	690	689	+1	+0.1%	
Retail & Corporates	483	480	+3	+0.6%	
Private Banking	109	100	+8	+8.4%	
CIB	99	109	-11	-9.7%	
Central Eastern Europe (CEE)	755	731	+25	+3.4%	+9.0%
Russia	126	130	-4	-3.0%	+16.7%
Central Europe (CE)	274	265	+9	+3.3%	+8.1%
South-East Europe (SEE)	343	333	+11	+3.2%	+3.8%
Other *)	12	3	+9	>100%	
Corporate Center	-78	-34	-44	>100%	
Bank Austria as a whole	1,367	1,386	-19	-1.4%	+1.6%

\*) Other = Baltic countries, PCV = Profit Center Vienna, Vienna-based CEE headquarters, intersegment items.

**Net fees and commissions** in 2014 were **€1,367 million**, down by 1.4% on the previous year. Adjusted for exchange rate movements, the figure increased by 1.6%. At €690 million, net fees and commissions generated by the Austrian customer business segments matched the previous year's level, as a result of divergent developments: net fees and commissions in asset management rose by 10.9%, and within the Retail & Corporates business segment by as much as 13.3%. This growth is mainly explained by strong mutual fund business. The structural decline in safe custody

## Management Report (CONTINUED)

business (–8.0%) had a negative impact on performance. Private Banking showed a similar profile: with its focus on asset management products, net fees and commissions from this type of business increased by 15.2%, and the total figure for net fees and commissions rose by 8.4%. Net fees and commissions generated by financial services also increased, by 3.2%, especially in the areas of guarantees and credit derivatives in business with medium-sized enterprises. Account-related and payment services, which still account for 45% of total fees and commissions in Austria, declined by 2.6%, especially in the areas of account services, foreign exchange trading and also in card business. Net fees and commissions generated in CEE rose more strongly and across the board, by 3.4% to €755 million; adjusted for exchange rate movements, growth reached 9.0%. The strongest increase in net fees and commissions was achieved by our banks in the Central European countries (+3.3%/in local currency: +8.1%), especially in Hungary (+12.1%/adjusted for exchange rate movements: +16.6%) and in Serbia (+12.4%/+16.5%) and also in Russia (–3.0%/+16.7%) in local currency and mainly in retail banking.

#### Net trading, hedging and fair value income

€ million (2013 recast)

	2014	2013	+/-	+/- %	CONST
Austrian customer business	78	89	-11	-12.4%	
Retail & Corporates	24	33	-8	-25.8%	
Private Banking	2	3	-1	-27.7%	
CIB	52	54	-2	-3.5%	
Central Eastern Europe (CEE)	254	563	-308	-54.8%	-55.7%
Russia	-30	269	-299	n.m.	n.m.
Central Europe (CE)	128	127	+0	+0.2%	+4.6%
South-East Europe (SEE)	152	174	-22	-12.8%	-12.3%
Other <sup>*)</sup>	5	-8	+13	n.m.	n.m.
Corporate Center	154	141	+14	+9.9%	
Bank Austria	487	792	-305	-38.5%	-39.6%

<sup>\*)</sup> Other = Baltic countries, PCV = Profit Center Vienna, Vienna-based CEE headquarters, intersegment items.  
n.m. = not meaningful

Net trading, hedging and fair value income in 2014 was €487 million, down by over one-third (–€305 million/–38.5%) on the previous year. The Austrian customer business segments generated a net trading performance of €78 million, of which €52 million was accounted for by the CIB Division. The €11 million decrease compared with the previous year is due to a base effect in the Retail & Corporates business segment, where the comparative figure for the previous year included one-off income from the buyback of Wohnbaubank bonds. The net trading performance was mainly determined by developments in CEE, which regularly accounts for the major part of net trading income given the size of commercial banking operations in an environment of flexible exchange rates, volatile foreign capital transactions and strong interest rate movements. The decline of €308 million to €254 million resulted from

developments in Russia, where the local bank recorded a net trading loss of €30 million against the background of dramatic market developments. Volatility, currency depreciation and the related strong increase in interest rates entailed valuation losses on foreign exchange and derivatives positions, especially in the fourth quarter of 2014; this failed to be offset by rising customer business volume. Moreover, one-half of the sharp decline compared with the previous year (–€299 million) is explained by the MICEX base effect mentioned above. The Corporate Center performs various functions in connection with liquidity and capital management and other subholding company functions including exchange rate hedging for expected CEE profit contributions. Net trading income in the Corporate Center rose by €14 million to €154 million although the share in profits of the UniCredit Markets product line, to which Bank Austria was entitled for the last time in 2014 (under the terms and conditions of the sale of UniCredit CAIB), was again lower. Realised gains on available-for-sale investments (including CEE government bonds) also supported the net trading performance.

Net other expenses/income covers many minor items not included in core commercial banking business. This item of the income statement showed net income of €106 million for 2014 (2013: €92 million).

● **Operating costs** were €3,336 million in 2014, down by €51 million or 1.5% thanks to strict cost discipline and targeted programmes for efficiency enhancement in Austria (Initiative 2020) and in CEE countries. Even when adjusted for the (in this case favourable) effect of exchange rate movements, operating costs rose at a low 0.9%.

#### Operating costs

€ million (2013 recast)

	2014	2013	+/-	+/- %	CONST
Austrian customer business	1,501	1,468	+33	+2.3%	
Central Eastern Europe (CEE)	1,600	1,697	-97	-5.7%	-0.8%
Corporate Center	235	222	+13	+5.7%	
Bank Austria as a whole	3,336	3,387	-51	-1.5%	+0.9%
... without bank levies	3,174	3,244	-70	-2.2%	
<b>Cost/income ratio (without bank levies)</b>					
Austrian customer business	66.0%	65.2%	+0.8 percentage points		
Central Eastern Europe (CEE) <sup>*)</sup>	40.3%	37.2%	+3.0 percentage points		
Bank Austria as a whole	53.9%	49.9%	+4.0 percentage points		
<b>Types of costs</b>					
Payroll costs	1,620	1,638	-17	-1.1%	
Other administrative expenses	1,546	1,508	+37	+2.5%	
... of which: bank levies	162	142	+20	+13.8%	
Amortisation, depreciation and impairment losses on intangible and tangible assets	170	242	-72	-29.6%	

<sup>\*)</sup> The contribution from Turkey is accounted for using the equity method. This means that it is included in operating income, but not in operating costs.

## Management Report (CONTINUED)

An analysis by cost type shows that payroll costs were down by €17 million (–1.1%) and amortisation, depreciation and impairment losses on intangible and tangible assets decreased by €72 million (–29.6%). Other administrative expenses rose by €37 million (+2.5%), mainly because the combined charge for bank levies in Austria, Slovenia, Slovakia, Romania and Hungary was €162 million. In Austria, the bank levy totalled €124 million (2013: €97 million), an increase of 27.9 per cent. In CEE, the total charge for bank levies and financial transaction taxes was €90 million (2013: €112 million). Of the total amount, €77 million was payable in Hungary, €7 million in the Czech Republic and Slovakia, and over €3 million in both Romania and Slovenia.

**Payroll costs in Austrian** customer business (Retail & Corporates, Private Banking and CIB) were reduced by 1.2% despite wage increases under the collective bargaining agreement. The decrease was particularly pronounced in the Retail (–3.3%) and Corporates (–0.6%) subdivisions. In Corporate & Investment Banking and in the expanding Private Banking Division payroll costs rose only slightly. In average terms for 2014, payroll costs in Austrian customer business reflected a total of 5,085 FTEs, a reduction of 232 FTEs compared with the previous year (–4.4%). The number of FTEs at the **end** of the reporting period (31 December 2014) was down by 365 FTEs on a year earlier (–7.0%; without the consolidation of leasing units as at the reporting date). Effective FTE reductions compared with 2013 were most pronounced in the Retail subdivision (–259 FTEs), followed by Corporates (–101 FTEs) and CIB (–10 FTEs). Private Banking added 6 FTEs to its staff. In the Corporate Center, staffing levels were reduced by an additional 93 FTEs; in HR statistics, this effect is mainly offset by the acquisition of Immobilien Holding GmbH, adding 276 FTEs to the total number. (These additions do not increase operating costs, however, because this holding company is classified as held for sale and represents a discontinued operation; it is therefore reflected in the income statement only in the item “Total profit or loss after tax from discontinued operations”.) Our **Initiative 2020**, aimed at reducing the effective workforce and providing more flexible working arrangements, made a strong contribution to the reduction of FTE numbers. In 2014, we came 70% of the way towards meeting the target under the two-year plan, without layoffs on operational grounds. We achieved a reduction of 309 FTEs by raising the proportion of part-time employees to 35% while retaining the required expertise in the bank. **Other administrative expenses** in Austria (including the Corporate Center) rose by 6.7%; about one-half of the increase was caused by the Austrian **bank levy**. Also reflected in cost growth are higher IT development costs for new advisory tools in corporate banking and in business with large companies.

Operating costs in the **CEE business segment** were stable despite the expansion of operations. Even without the currency depreciation effect, costs were lower than in the previous year (–0.8%; in euro terms: –5.7%). The only countries where operating costs increased were Bulgaria (because of the expansionary retail strategy), Serbia (due to various factors including higher deposit insurance premiums)

and Russia, on account of growth, in local currency. Payroll costs were up by 4.2% in local currency while declining by 1.4% in euro terms, despite continued expansion in the strategic countries which are the focus of attention. In average terms for 2014, 24,239 FTEs were active in CEE and reflected in operating costs, a decline of 290 FTEs (–1.2%). Not included in the item “Operating costs” are staff in the Turkish bank, which is accounted for using the equity method, and in Ukraine; also not included is Kazakhstan, where FTEs still counted towards the total figure at the beginning of 2013. Staffing levels increased mostly in Russia (+48 FTEs) and Romania (+110 FTEs); in Romania the increase was due to the acquisition of the retail portfolio of the Royal Bank of Scotland. FTE numbers were down in Hungary as a result of the streamlining of the branch network (–98 FTEs) and in Croatia due to the sale of a non-bank equity interest (–113 FTEs); in the Baltic countries FTEs declined following the discontinuation of universal banking business (–69 FTEs). In the new banking subsidiary in the Czech Republic, created through the merger of Czech and Slovak units in 2013, staffing levels declined by an average 165 FTEs on a comparable basis. Other administrative expenses in CEE were stable, the charge for amortisation and depreciation declined significantly.

The **cost/income ratio** (without bank levies) for 2014 was 53.9%, up on the previous year (49.9%). In Austria it rose by a mere 0.8 percentage points to 66.0% while increasing by 3 percentage points to 40.3% in CEE. The informational value of the cost/income ratio in the CEE Division in particular is limited because it reflects the asymmetrical inclusion of Turkey (included in operating income with its at-equity contribution but not in costs) and on account of the strong one-off effects in the previous year’s operating income (Sigorta, MICEX). Without Turkey and without the MICEX effect, the cost/income ratio in CEE improved from 45.2% to 44.2%. The figure for the bank as a whole rose slightly, by 0.5 percentage points on an adjusted basis, from 56.7% to 57.2%.

● After the large additions to loan loss provisions at the end of 2013, **net write-downs of loans and provisions for guarantees and commitments normalised**: at **€693 million**, the provisioning charge in 2014 was down by almost one-half (–€620 million or –47.2%) from the previous year’s level. Measured against average lending volume, the cost of risk declined to 61 basis points (bp) in 2014. Improvements came from Austria and from CEE.

#### Net write-downs of loans and provisions for guarantees and commitments

	PROVISIONING CHARGE € million (2013 recast)		COST OF RISK Basis points of lending volume	
	2014	2013	2014	2013
Austria *)	39	219	7 bp	36 bp
CEE	654	1,094	116 bp	191 bp
Bank Austria as a whole	693	1,313	61 bp	112 bp

\*) incl. Corporate Center

# Management Report (CONTINUED)

Among the **Austrian** business segments, the provisioning charge in the Retail & Corporates business segment was €43 million, down by €93 million, thereby accounting for a major part of the improvement. Within this business segment, especially the Retail subdivision recorded a lower volume of additions to impaired loans while benefiting from large recoveries on loans in respect of which provisions had previously been made. On balance, this led to a net release of loan loss provisions and a positive contribution to the income statement. Net write-downs of loans decreased also in the Corporates subdivision, by about one-third to €66 million. In the Corporate & Investment Banking (CIB) business segment, the release of a provision for a major customer led to a net release of €3 million of provisions after

## Lending volume and asset quality \*)

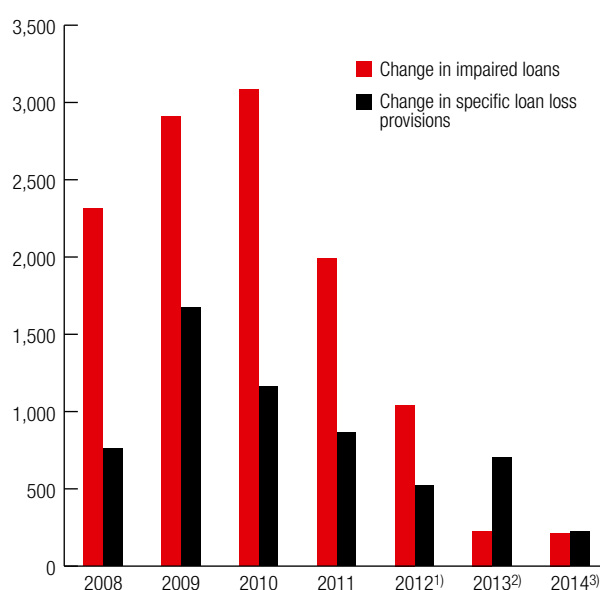
(€ million)	31 DEC. 2014	31 DEC. 2013 RECAST	+/- €	+/-
<b>Bank Austria as a whole</b>				
Gross loans to customers	120,536	120,778	-243	-0.2%
Total write-downs	-6,804	-6,523	-281	+4.3%
Net loans to customers	113,732	114,255	-524	-0.5%
Gross impaired loans	11,056	10,842	+214	+2.0%
... % of gross loans to customers	9.2%	9.0%	+0.2%p	
Specific write-downs	-6,130	-5,905	-224	+3.8%
Coverage ratio	55.4%	54.5%	+1.0%p	
Net impaired loans	4,927	4,937	-10	-0.2%
... % of net loans to customers	4.3%	4.3%	+0.0%p	
<b>Central Eastern Europe (CEE)</b>				
Gross loans to customers	60,544	58,007	+2,537	+4.4%
Total write-downs	-4,165	-3,934	-231	+5.9%
Net loans to customers	56,378	54,073	+2,305	+4.3%
Gross impaired loans	7,499	7,270	+228	+3.1%
... % of gross loans to customers	12.4%	12.5%	-0.1%p	
Specific write-downs	-3,836	-3,657	-179	+4.9%
Coverage ratio	51.2%	50.3%	+0.9%p	
Net impaired loans	3,662	3,613	+49	+1.4%
... % of net loans to customers	6.5%	6.7%	-0.2%p	
<b>Austria (incl. Corporate Center)</b>				
Gross loans to customers	59,992	62,772	-2,779	-4.4%
Total write-downs	-2,639	-2,589	-50	+1.9%
Net loans to customers	57,353	60,183	-2,829	-4.7%
Gross impaired loans	3,557	3,572	-14	-0.4%
... % of gross loans to customers	5.9%	5.7%	+0.2%p	
Specific write-downs	-2,293	-2,248	-45	+2.0%
Coverage ratio	64.5%	62.9%	+1.5%p	
Net impaired loans	1,264	1,324	-59	-4.5%
... % of net loans to customers	2.2%	2.2%	-0.0%p	

\*) 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 the income statement.

a provisioning charge of €53 million in the previous year. In Austria (including the Corporate Center, in which no provisions were required in 2014) the cost of risk was as low as 7 basis points (bp) in 2014, compared with 36bp in 2013.

The substantial decline of €441 million (-40.3%) in net write-downs of loans and provisions for guarantees and commitments in **Central and Eastern Europe (CEE)** to €654 million is to be seen in the context of the previous year's increase in the coverage ratio (i.e. loan loss provisions for impaired loans measured against the gross volume of impaired loans). Double-digit reductions of the provisioning charge were possible in all countries except Bosnia and Herzegovina and Russia. Although Russia slid into recession and its currency recently depreciated strongly, net write-downs of loans in Russia rose only slightly in 2014, by 5.0% to €85 million, mainly in business with corporate customers. In local currency terms, the provisioning charge rose more strongly (+26.4%) but average lending volume also increased significantly (+20.5%), not least because of a higher valuation of the foreign currency portion. The cost of risk thus hardly changed in 2014, from 64bp to 66bp, the lowest level in CEE besides our Czech banking subsidiary. The cost of risk in Romania (302bp), though lower than in the previous year, was still the highest in CEE, followed by Slovenia (192bp), which is a special case, and Bulgaria (185bp). Croatia recorded the largest amount in absolute terms, €136 million, given the size of the bank and its leading market position; the cost of risk was 145bp. Net write-downs of loans and provisions for guarantees and commitments declined

## Additions to impaired loans and loan loss provisions



1) Kazakhstan (deconsolidated) no longer included from 2012. / 2) Ukraine (classified as held for sale) no longer included from 2013. / 3) Turkey (accounted for using the equity method) no longer included from 2014. (Comparative figures adjusted accordingly).

## Management Report (CONTINUED)

significantly, by 26.9%, on account of the additions to loan loss provisions at the end of 2013 and because NPL management was improved (recovery, restructuring). (Ukraine is classified as held for sale and is therefore not included in the figures for net write-downs of loans in CEE; the bank's loss, which resulted mainly from the provisioning charge, is included in the item "Total profit or loss after tax from discontinued operations".) For further information see the commentary on the CEE business segment on pages 186 and 187 of this report.

Although net write-downs of loans and provisions for guarantees and commitments were significantly lower, the coverage ratio did not deteriorate in 2014. **Impaired loans** (non-performing loans, doubtful loans, restructured loans and past-due loans) rose by €214 million or 2.0% year-on-year, while loans and receivables with customers at overall bank level stagnated (gross volume: -0.2%). This means that the impaired loans ratio (impaired loans as a proportion of gross lending volume) rose by a mere 0.2 percentage points to 9.2%. As specific write-downs increased more strongly, by €224 million or 3.8%, the coverage ratio improved by 1.0 percentage point to 55.4%. (On a net basis, i.e. after deduction of loan loss provisions in the numerator and denominator of the calculation, the impaired loans ratio remained unchanged at 4.3%.) Of the total amount of impaired loans, close to 60% are classified as non-performing loans (NPLs), of which 70.8% is covered by specific loan loss provisions.

All of the increase in impaired loans in 2014 resulted from CEE (+3.1%), where lending volume also rose more strongly (+4.4%). Currency depreciation had a positive effect on both rates of change. At the end of 2014 the impaired loans ratio in CEE was 12.4%, slightly lower than at the end of 2013 (CEE without Turkey, which is accounted for using the equity method, and without Ukraine, which is classified as held for sale). The coverage ratio improved by 0.9 percentage points from the end of 2013 to the end of 2014. Impaired loans in Austria were down also in absolute terms (-0.4%) and total lending volume declined more strongly (-4.4%). Impaired loans were 5.9% of gross loans to customers; net of write-downs, the impaired loans ratio was 2.2% (compared with 5.7% and 2.2%, respectively, at the end of the previous year).

**Net operating profit** (operating profit less net write-downs of loans and provisions for guarantees and commitments) € million (2013 recast)

	2014	2013	+/-	+/- %	CONST
Operating income	5,890	6,503	-613	-9.4%	-5.7%
Operating costs	-3,336	-3,387	+51	-1.5%	+0.9%
Operating profit	2,554	3,116	-563	-18.1%	-12.8%
... without Sigorta and MICEX	2,554	2,776	-222	-8.0%	-1.5%
Net write-downs of loans and provisions for guarantees and commitments	-693	-1,313	+620	-47.2%	-45.0%
Net operating profit	1,860	1,803	+57	+3.2%	+9.7%
... without Sigorta and MICEX	1,860	1,463	+398	+27.2%	+37.5%

**Operating profit** for 2014 amounted to €2,554 million. Over one-half of the decline compared with the previous year is explained by gains realised in 2013 and exchange rate effects were also an important factor. Without the one-off effects, and translated at constant exchange rates, operating profit was down by only 1.5% year-on-year. After deduction of the substantially lower net write-downs of loans and provisions for guarantees and commitments, **net operating profit** was **€1,860 million**, up on the previous year's figure by 3.2% at current exchange rates and by 9.7% at constant exchange rates.

**Net operating profit** (operating profit less net write-downs of loans and provisions for guarantees and commitments) € million (2013 recast)

	2014	2013	+/-	+/- %	CONST
Austrian customer business	608	494	+114	+23.2%	
Central Eastern Europe (CEE)	1,610	1,631	-21	-1.3%	+6.8%
At-equity contribution from Turkey	341	636	-295	-46.3%	-38.7%
Russia	446	707	-261	-36.9%	-24.0%
Central Europe (CE)	396	199	+197	+98.7%	>100%
South-East Europe (SEE)	441	282	+159	+56.3%	+57.2%
Other *)	-15	-193	+178	n.m.	n.m.
Corporate Center	-358	-322	-36	+11.0%	
Bank Austria as a whole	1,860	1,803	+57	+3.2%	+9.7%

\*) Other = Baltic countries, PCV = Profit Center Vienna, intersegment items

Net operating profit generated by **Austrian** customer business increased by €114 million or 23.2%. While most of this growth was due to a lower provisioning charge, the quality of results improved as operating income, which held up well, and cost discipline fed through to net operating profit to a larger extent. In **CEE**, net operating profit was €1,610 million; at constant exchange rates it was 6.8% higher than in the previous year, reflecting a good performance in the Central European and South-East European countries in particular. The Vienna-based CEE headquarters, where cross-regional CEE financing transactions and guarantees are booked, also contributed to the improvement. The contribution from Turkey, which is accounted for using the equity method and also includes non-operating income components, and the lower yet still remarkably large net operating profit in Russia were down by a combined €555 million, accounting for the decline in net operating profit generated in CEE. This also reflects one-off effects and currency depreciation, as mentioned above. Expenses related to new issues to strengthen the funding position and capital resources, as well as guarantee commissions and a portion of the charge for bank levies, are reflected in the **Corporate Center**.

● The balance of **non-operating income/expenses** to be taken into account in calculating profit before tax on the basis of net operating profit was a net expense of €82 million for 2014, compared with a net expense of €1,006 million in the previous year.

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## Profit performance

€ million (2013 recast)

	2014	2013	+/-	+/- %	CONST
Net operating profit	1,860	1,803	+57	+3.2%	+9.7%
Provisions for risks and charges	-133	-148	+15	-10.2%	-6.0%
Integration/restructuring costs	-13	-133	+120	-90.1%	-89.9%
Net income from investments	64	-725	+789	n.m.	n.m.
Non-operating items <sup>1)</sup>	-82	-1,006	+924	-91.8%	
Profit before tax	1,778	797	+981	>100%	>100%
Non-operating items <sup>2)</sup>	-395	-2,339	+1,944	n.m.	n.m.
<b>Net profit or loss<sup>3)</sup></b>	<b>1,383</b>	<b>-1,542</b>	<b>+2,925</b>	<b>n.m.</b>	<b>n.m.</b>

1) Provisions for risks and charges, integration/restructuring costs, and net income from investments. / 2) Income tax, total profit or loss after tax from discontinued operations, non-controlling interests, Purchase Price Allocation effect (PPA), goodwill impairment charge. / 3) Net profit or loss attributable to the owners of the parent company. / CONST= CEE translated into euro at constant exchange rates. / n.m. = not meaningful

In 2014, net additions to **provisions for risks and charges** were €133 million, down by €15 million on the previous year. These additions related mainly to provisions for foreseeable charges resulting from the Hungarian Customer Loan Act for retroactive adjustment of foreign currency loans: in 2014, a provision of €107 million was made for foreseeable refunds, confirmed by a supreme court decision, of bid/ask spreads and unilateral interest rate adjustments (see risk report on page 246). Large provisions were made in 2013 for legacy burdens, mainly legal risks, which have largely been resolved in the meantime. The negative impact of contractually agreed compensation payments resulting from a measure relating to an equity interest was -€15 million in 2014, substantially lower than in 2013 (-€78 million).

**Integration/restructuring costs** amounted to €13 million in 2014, compared with €133 million in 2013. An additional provision of €4 million was made for modernisation initiatives in Austrian retail banking business (SmartBanking, restructuring of sales operations) and for HR measures including Initiative 2020, after the charge of €104 million recognised in 2013 for the launch of the project. Other charges in CEE related to the restructuring of the branch network in Hungary; in the previous year, integration/restructuring costs were associated with the merger of the Czech and Slovak banking networks and restructuring in the Baltic countries.

**Net income from investments** in 2014 amounted to €64 million, after a net loss of €725 million in the previous year. Gains on the sale of real estate, including the historical head office building in Vienna's Schottengasse, and of other properties in Vienna as well as the specific financing model of our future headquarters, the sale of the Campus project, had a combined positive effect of €98 million in 2014. This income was diminished by changes in

the valuation of equity interests. The large net loss of €725 million shown in the item "Net income from investments" in 2013 resulted from extensive value adjustments to equity interests.

After deduction of the balance of the above-mentioned non-operating items, **profit before tax** for 2014 was **€1,778 million**. As a result of the swing in net income from investments, which also shows the dimension of adjustments made in the financial statements for the previous year, profit before tax rose by €981 million.

## Profit before tax

€ million (2013 recast)

	2014	2013	+/-	+/- %	CONST
Austrian customer business	598	455	+144	+31.6%	
Central Eastern Europe (CEE)	1,500	1,534	-34	-2.2%	+6.1%
Turkey	341	636	-295	-46.3%	-38.7%
Russia	447	708	-261	-36.8%	-24.0%
Central Europe (CE)	278	148	+130	+87.7%	+94.8%
South-East Europe (SEE)	452	276	+176	+63.9%	+64.8%
Other*)	-18	-234	+216	n.m.	n.m.
Corporate Center	-320	-1,191	+871	-73.1%	
Bank Austria as a whole	1,778	797	+981	>100%	>100%
... without Sigorta and MICEX	1,778	457	+1,321	>100%	>100%

\*) Other = Baltic countries, PCV = Profit Center Vienna, Vienna-based CEE headquarters, intersegment items.

The **income tax** charge for 2014 was €287 million. The charge for 2013, on a lower profit before tax, was higher, at €428 million, because deferred tax assets were written down in that year. **Total profit or loss after tax from discontinued operations** was a loss of €132 million in 2014, compared with a loss of €266 million in the previous year. Within the total figure, Ukraine accounted for a loss of €208 million (2013: -€104 million). Immobilien Holding GmbH is reflected in this item with a profit of €48 million for 2014; the company holds a portfolio of about 80 properties throughout Austria which is intended to be sold via a structured sales process. As in the previous year, a positive amount is shown for **non-controlling interests** (+€23 million after +€33 million). This is explained by the pro-rata share of Ukrsofsbank's loss being attributed to non-controlling interests. This means that the net impact of developments in Ukraine on Bank Austria's consolidated financial statements was -€152 million after -€102 million in the previous year. The items between profit before tax and net profit added up to a **negative balance** of -€395 million in 2014. The comparative figure for the previous year was -€2,339 million, reflecting the charge for the full write-off of goodwill (recast 2013: -€1,678 million).

On this basis, **net profit** for 2014 was **€1,383 million** after a net loss of €1,542 million in 2013. Return on equity (ROE after tax), based on average equity (after deduction of reserves in accordance with IAS 39 and of non-controlling interests), was 9.7% for 2014.

# Management Report (CONTINUED)

## Financial position and capital resources

### Financial position

**Note:** In conformity with changes in accounting rules (implementation of IFRS 11) we have accounted for our investment in Yapı Kredi ve Bankası (a joint venture with our partner Koç Group in Turkey) using the equity method rather than proportionate consolidation since 1 January 2014. This means that in the statement of financial position, the Turkish bank is no longer included with its pro-rata contributions to the various items but only with the carrying amount of the investment, included in the item "Investments in associates and joint ventures". Moreover, the Real Invest Europe real estate fund has been included in consolidation in accordance with IFRS 10 since 1 January 2014. Given the large size of the operations in Turkey, as a result of these changes, total assets declined by €18.7 billion or 9.5% compared with the figure determined as at year-end 2013; loans and receivables with customers were down by €14.9 billion or 11.5%, and direct funding – i. e. the sum total of deposits from customers and debt securities in issue – declined by €14.0 billion or 10.2%. For comparability purposes, the figures in the statement of financial position as at the end of 2013 were adjusted to reflect the new method of accounting. Moreover, the comparative figures were adjusted to reflect a change in the sector to which a counterparty belongs.

● As at 31 December 2014, Bank Austria's **total assets** were **€189.2 billion, up by €11.6 billion or 6.5%** on year-end 2013.

This development reflects stable loans and receivables with customers and strong direct funding, notwithstanding significant exchange rate movements. Liquidity management saw volume increase on both the assets and liabilities sides, not least on account of stronger volatility in the fourth quarter of 2014; this included hedging derivatives, financial assets/liabilities held for trading and, for structural reasons (growing involvement of central clearing houses in trading activities), loans and receivables with banks.

● On the **assets side, loans and receivables with customers** accounted for **€113.7 billion** or about 60% of total assets, slightly down by €524 million or 0.5% on year-end 2013. In Austrian customer business, the volume of loans to customers hardly changed in 2014 (–0.4%); it rose slightly in the Retail & Corporates business segment (+0.5%), especially in the area of medium and long-term loans for housing and construction finance, while short-term loans declined. In the CIB Division the ample liquidity of large companies led to a reduction of 3.0%. In the CEE business segment, too, loans and receivables with customers at year-end 2014 more or less matched the level of the previous year (–0.2%).

### Major items in the statement of financial position

	31 DEC. 2014	31 DEC. 2013 ADJUSTED <sup>1)</sup>	CHANGE	
			+/-	+/- %
<b>ASSETS</b>				
Financial market investments <sup>2)</sup>	22,830	20,722	+2,108	+10.2%
Financial assets held for trading and hedging derivatives	7,484	5,047	+2,438	+48.3%
Loans and receivables with banks	30,542	22,941	+7,600	+33.1%
Loans and receivables with customers	113,732	114,255	–524	–0.5%
Investments in associates and joint ventures	4,644	4,463	+181	+4.1%
Intangible assets	171	162	+9	+5.7%
Non-current assets and disposal groups classified as held for sale <sup>3)</sup>	3,600	3,714	–114	–3.1%
Other asset items	6,114	6,198	–84	–1.4%
<b>Total assets</b>	<b>189,118</b>	<b>177,503</b>	<b>+11,615</b>	<b>+6.5%</b>
<b>LIABILITIES AND EQUITY</b>				
Financial liabilities held for trading and hedging derivatives	6,755	3,725	+3,030	+81.4%
Deposits from banks	23,696	24,530	–835	–3.4%
Deposits from customers	102,271	96,593	+5,678	+5.9%
Debt securities in issue	30,014	27,302	+2,712	+9.9%
... Direct funding (deposits from customers and debt securities in issue)	132,285	123,895	+8,390	+6.8%
Liabilities included in disposal groups classified as held for sale <sup>3)</sup>	1,845	2,242	–397	–17.7%
Provisions for risks and charges	6,076	4,985	+1,091	+21.9%
Equity	14,925	15,050	–125	–0.8%
Other liability items	3,536	3,075	+461	+15.0%
<b>Total liabilities and equity</b>	<b>189,118</b>	<b>177,503</b>	<b>+11,615</b>	<b>+6.5%</b>

1) Inclusion of the equity investment in the Turkish Koç Group adjusted to reflect the current method of accounting, i. e. accounted for using the equity method (previously: proportionate consolidation) and included in the item "Investments in associates and joint ventures". Due to a change related to the sector to which a counterparty belongs, loans and debt towards banks and loans and debt towards customers have been adjusted. / 2) Financial assets at fair value through profit or loss + available-for-sale financial assets + held-to-maturity investments. / 3) Mainly Ukrspbank, Ukraine, and Immobilien Holding GmbH, which are classified as disposal groups held for sale.

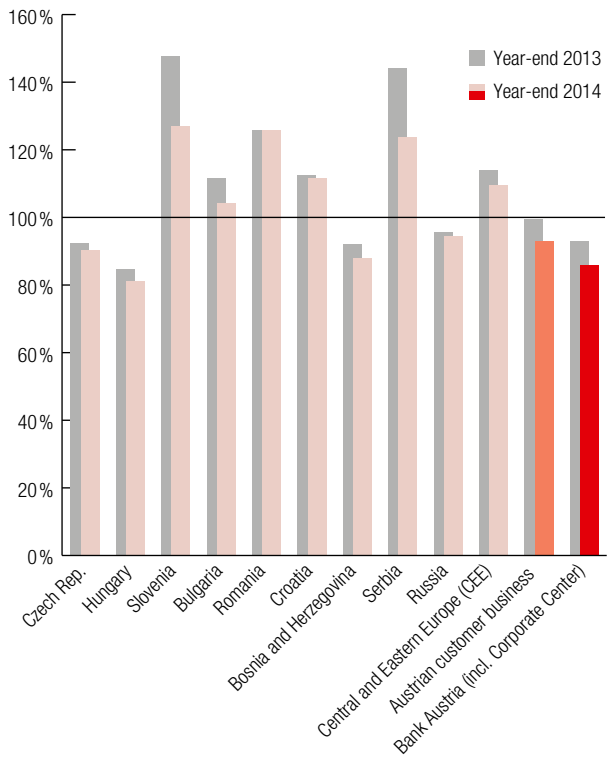


# Management Report (CONTINUED)

Changes in volume reflect exchange rate effects (at constant exchange rates, lending volume grew significantly, by 13.4%), while also differing among the various regions. Lending volume grew particularly strongly, by 16.7%, at our banking subsidiary in Bulgaria, which won additional market share as a stable international bank when two local banks became distressed. In Romania, lending volume rose by 6.9% (adjusted for exchange rate movements, +7.2%), partly because our bank there acquired the business of another competitor that left the market. Lending volume in SEE expanded by an overall 5.3% (+5.9%). At our banks in Central Europe, loans and receivables with customers grew by 2.1% (+4.2%), in both the Czech Republic (including Slovakia) and Hungary, despite a further decline in Slovenia. Russia is a special case: lending volume increased by 48.3% in local currency in 2014. It should be noted, however, that the reported volume of foreign currency loans (which account for a large proportion of about three-quarters of total loans), mostly denominated in US dollars, increased strongly on account of depreciation of the rouble. In euro terms, loans and receivables with customers declined by 7.0%, which affected overall developments. The exposure at the CEE headquarters in Vienna, which includes cross-regional loans, was reduced, as was the exposure in the Baltic countries following the changeover from universal banking business to leasing business.

In 2014, loans and receivables with banks rose significantly, by one-third (+€7.6 billion) to €30.5 billion. This is largely explained by the expansion of business with central clearing houses, which recently had to be included in trading activities as counterparties. Deposits with central banks also grew strongly (including Hungary, as part of local liquidity management activities). At year-end 2014, financial market investments (€22.8 billion) were €2.1 billion or 10.2% up on the figure at the end of 2013. The increase resulted mainly from larger holdings of liquid funds in the form of sovereign debt securities (+€3.6 billion/+22.9%), almost all of which (98%) are classified as available-for-sale financial assets. Three-quarters (74%) of the increase related to Austrian bonds, holdings of which rose by €2.7 billion (+39.4%) to €9.6 billion. The three largest positions of government bonds – Austrian (49.0%), Czech (9.9%) and Romanian sovereign bonds (7.0%) – accounted for a combined 65.9% of the total portfolio of €19.6 billion. Holdings of Russian sovereign bonds amounted to €421 million (2.2% of the portfolio), Ukrainian government bonds totalled €76 million (0.4%). As at 31 December 2014, volatile **financial assets held for trading** and hedging derivatives (accounting for a combined €7.5 billion) were again well up on the year-end 2013 level (+€2.4 billion or +48.3%). Growth was driven by heavy trading turnover and hedging transactions in Russia, reflecting a turbulent fourth quarter in 2014 with currency depreciation, volatile capital flows and interest rate increases. The largest disposal groups included in the item **“Non-current assets and disposal groups classified as held for sale”**, recognised at €3.6 billion (2013: €3.7 billion), are PJSC Ukrspotsbank and its subsidiaries, the Immobilien Holding GmbH group and its subsidiaries, consolidated for

**Customer loans funded by customer deposits and debt securities in issue** (loans/direct-funding ratio in %)



the first time as at 30 September 2014, and Wien Mitte Immobilien GmbH and its parent company Wien Mitte Holding GmbH. More detailed information is given in the notes to the consolidated financial statements in C.14 on page 175 of this report.

● On the **liabilities side**, customer business expanded (despite exchange rate effects) at a rate not seen in many years. This development reflects the economic environment: companies enjoyed ample liquidity and their propensity to invest was declining; private households continued to reduce their debts in an environment of low interest rates. The development is also to be seen in the context of our efforts to extend funding maturities, strengthen the funding base with issues of our own debt securities and, especially in CEE, increasingly focus on funding from local sources.

At the end of 2014, **direct funding** – defined as the sum total of deposits from customers and debt securities in issue – amounted to €132.3 billion, up by €8.4 billion or 6.8% on year-end 2013. This represents almost 70% of total liabilities and equity. Direct funding thus covered loans and receivables with customers to the extent of 116%. Of the total direct funding volume, €80.8 billion or 61.1% came from Austria (customer business plus Corporate Center) while loans in Austria totalled €57.4 billion. An analysis of

# Management Report (CONTINUED)

components shows that debt securities in issue increased at a disproportionately strong rate (+€2.7 billion or 9.9%) to €30.0 billion, despite large redemptions. In 2014 we issued a gross volume of €5.8 billion in bonds and covered securities, including €4.8 billion in Austria. Within this total, our benchmark issues, totalling €2.0 billion (three mortgage bond issues and a public-sector covered bond issue) met with a very favourable response. Bond issues targeted at retail investors totalled €1.0 billion. In addition, we placed €1.5 billion in Tier 2 capital, thereby partly replacing maturing issues in this category.

**Deposits from customers** were €102.3 billion, up by a substantial €5.7 billion or 5.9% on the year-end 2013 level. Austrian customer business showed strong growth of €3.7 billion or 7.4% to a total of €53.9 billion, reflecting efforts to attract time deposits with a view to extending maturities ("Basel 3 products" ahead of the introduction of new liquidity requirements). In CEE, too, customer deposits increased by €2.1 billion to €48.8 billion, despite being weighed down by exchange rate effects. Deposits in CEE have been expanding for quite some time and the gap vis-à-vis lending volume is narrowing. Growth of deposits in CEE was 4.5% year-on-year; adjusted for exchange rate movements, the increase reached 20.5%. On account of the Russian rouble's strong depreciation of 37.3% against the euro from the end of 2013 to the end of 2014, deposits declined by 4% in euro terms, affecting the overall trend. In local currency terms, deposits grew by 53.3%, but this reflects the large foreign currency portion. Our banking subsidiary in Bulgaria recorded not only significant growth of lending volume but also a strong inflow of deposits (+€1.1 billion/25.0%). Customer deposits in Serbia and in Bosnia and Herzegovina also grew at double-digit rates. Overall, these developments underline the good reputation of our local banking subsidiaries. The expansion of customer deposits at our Czech banking subsidiary (+5.9% in euro terms/+7.1% in local currency) was driven by favourable economic trends and the acquisition of customer portfolios from a third party.

Among the **other items on the liabilities side**, interbank business declined slightly, mainly in the Austrian banking sector, by 3.4% to €23.7 billion; this contrasted with developments on the assets side. Financial liabilities held for trading, financial liabilities at fair value through profit or loss and hedging derivatives rose (in line with the corresponding items on the assets side) by a combined €2.9 billion (+64.2%); as mentioned above, this was due to increased trading activity in the volatile Russian financial market environment. Provisions for risks and charges increased by €1.1 billion (+21.9%) to €6.1 billion in 2014, reflecting the actuarial adjustment of pension provisions under defined benefit plans to the declining discount rate.

● As at 31 December 2014, **IFRS equity** was **€14.9 billion**, compared with €15.1 billion at year-end 2013. The inclusion of net profit (including non-controlling interests) of €1,360 million for 2014 was more than offset by the higher negative balance of other comprehensive income, reducing equity by €125 million (−0.8%). Within these items, the foreign currency translation reserve had a negative impact of −€1,494 million in 2014, which mainly (to the extent of over four-fifths) resulted from substantial depreciation of the Russian rouble; depreciation of the Ukrainian hryvnia – reflected in the valuation of Ukrspotsbank, which is classified as held for sale – had a much less significant impact. The Hungarian forint also depreciated while the Turkish lira firmed in the course of 2014. A positive effect of +€525 million after tax in the reporting period resulted from reserves in accordance with IAS 39 (cash flow hedges, available-for-sale financial assets), which reflected market price movements of financial instruments in 2014, a good performance in bond markets in particular. In connection with the adjustment of the discount rate to the low interest rate environment, the impact on equity of actuarial losses in accordance with IAS 19 amounted to a net −€768 million. Changes in the consolidation perimeter and changes in other items of other comprehensive income totalled +€251 million.

## Capital resources and risk-weighted assets

**Regulatory developments and change in the calculation of regulatory capital to an IFRS basis:** *changes in risk-weighted assets and capital resources in 2014 include economic developments and the effects of methodological changes related to the application of Basel 3 and IFRSs for the first time as at 30 September 2014 compared with Basel 2.5 rules and the Austrian Business Code as at 31 December 2013.*

*Since 1 January 2014, regulatory capital and capital ratios have been calculated in accordance with the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV) to implement Basel 3 in the European Union. The CRR and CRD IV are subject to transition rules defined in the Austrian CRR Supplementary Regulation of 11 December 2013 for implementation in Austria. For example, under the Austrian CRR Supplementary Regulation, deductions from Common Equity Tier 1 capital or capital components which will no longer be eligible for inclusion in the future are not allowed to be fully included pursuant to CRR/CRD IV during the transition period but the relevant rules are gradually introduced over several years.*

*Since 30 September 2014, consolidated regulatory capital and consolidated regulatory capital requirements have been calculated on an IFRS basis.*

# Management Report (CONTINUED)

● **Movements in regulatory capital:** Total regulatory capital was €17.5 billion, up by €1.6 billion on year-end 2013. **Common Equity Tier 1 capital** (CET1) including net profit for 2014 amounted to €13.5 billion.

The changeover to an **IFRS basis as at 30 September 2014** reduced consolidated capital resources only slightly, essentially leading to a shift among the various capital components.

Quite generally, the introduction of the stricter **Basel 3 capital adequacy rules** was expected to lead to a decline in Tier 1 capital but this was offset by the fact that substantial Basel 2 deductions were no longer applicable and the above-mentioned transition rules became effective. Tier 3 capital is no longer eligible for inclusion, leading to a reduction of capital resources.

Further movements in capital resources in the **fourth quarter of 2014** were determined by exchange rate movements, mainly depreciation of the Russian rouble, and the adjustment of the actuarial valuation of pension obligations. Apart from the inclusion of the net profit for 2014, the capital base was significantly strengthened through three new issues of eligible Tier 2 capital in the total amount of €1.5 billion.

● In a comparison of year-end 2014/2013 levels, the **total risk exposure amount (RWAs)** rose by **€11.8 billion** (+10.0%) to **€130.4 billion**, with the increase in credit risk RWAs accounting for the largest proportion of this growth.

▶ **Credit risk RWAs** rose by **€9.4 billion** (+9.1%) to **€113.0 billion**, mainly driven by the changeover to IFRSs and Basel 3. In addition to these changeover effects CEE, especially Turkey, remained a major driver in this context.

The major effect resulting from the **changeover to IFRSs** relates to the inclusion of deferred tax assets, which are weighted at 250% until a level of 10% of Common Equity Tier 1 capital is reached. Other changeover effects resulted mainly from higher carrying amounts of significant investments with a 250% weighting.

A much larger effect resulted from the **switch from Basel 2.5 to Basel 3**. The main factors behind the increase were the 250% weighting of significant investments below the deduction threshold (mandatory deduction from capital under Basel 2.5) and the new Asset Value Correlation (AVC) multiplier applicable in 2014. The application of the SME supporting factor reduced RWAs.

Other changes in 2014 were the introduction of the IRB approach in Russia and the adjustment of the weighting of central governments

pursuant to the list published by the European Banking Authority (EBA) on the equivalence of supervisory authorities in third countries. The integration of leasing companies in Bank Austria resulted in an increase in RWAs.

▶ **Market risk**, risk positions for the Credit Valuation Adjustment (CVA) and operational risk: the risk exposure amount for **market risk** increased by €2.5 billion to **€4.6 billion**, mainly because of the limitation on offsetting market risk within EU countries under Basel 3 and because of currency volatility (especially in Q4 2014). The CVA newly introduced under Basel 3 led to an increase of €0.6 billion in the total risk exposure amount.

The risk exposure amount for **operational risk** was **€12.1 billion**, down by €0.7 billion from year-end 2013. The decline resulted mainly from use of a new AMA model (advanced measurement approach).

→ The **Common Equity Tier 1 capital ratio** reached 10.3% as at year-end 2014. Following the changeover to Basel 3 and IFRSs, the Common Equity Tier 1 capital ratio is not directly comparable with the Core Tier 1 capital ratio of 11.3% under Basel 2.5 (excluding hybrid capital) as published at the end of 2013.

Although risk-weighted assets increased significantly with the changeover to Basel 3 and IFRSs, and adverse exchange rate movements had an impact on capital resources, the **total capital ratio** was more or less **maintained at 13.4%**, reflecting new issues of Tier 2 capital.

#### Capital ratios based on all risks

	31 DEC. 2014 BASEL 3	31 DEC. 2013 BASEL 2.5
Common Equity Tier 1 capital ratio	10.3%	–
Core Tier 1 capital ratio without hybrid capital	–	11.3%
Tier 1 capital ratio	10.3%	11.6%
Total capital ratio	13.4%	13.5%

As at 31 December 2014, the **leverage ratio under Basel 3** was **5.6%** (average of the last three end-of-month levels) based on the current status of applicable transitional arrangements. The leverage ratio is the ratio of regulatory Tier 1 capital to the exposure measure (total assets plus derivative exposures, undrawn credit facilities, other off-balance sheet items and minor regulatory adjustments).

Capital ratios include net profit for 2014 of the various subsidiaries. The relevant annual financial statements are adopted by the relevant corporate bodies at a later date.

# Management Report (CONTINUED)

## Financial and non-financial performance indicators

### Volume, profitability and resources

The 2014 financial year was characterised by a challenging and regionally disparate environment. In addition to the geopolitical tensions referred to earlier, the year saw weak credit demand as a result of slow economic growth and exchange rate effects. Bank Austria counteracted these developments through wide diversification.

- Average **loans and receivables with customers** declined slightly, by 2.6% to €114.5 billion, as a result of the economic environment. The reasons for the decrease were stagnating demand

#### Resources and profitability

(2014 recast)

	BANK AUSTRIA	AUSTRIAN CUSTOMER BUSINESS <sup>1)</sup>	CEE
<b>Relative size<sup>2)</sup></b>			
Average loans to customers (€ billion)	114.5	54.1	56.5
Change over previous year	-2.7%	-1.8%	-1.4%
Average risk-weighted assets (RWAs, € billion)	125.1	26.8	84.8
Change over previous year	-1.7%	-1.8%	-0.6%
Average direct funding (€ billion)	126.9	58.5	49.1
Change over previous year	+5.1%	+1.7%	+4.8%
<b>Results, profitability and value creation<sup>2)</sup></b>			
Operating income (€ million)	5,890	2,148	3,864
Change over previous year	-9.4%	-0.2%	-12.6%
Profit before tax (€ million)	1,778	598	1,500
Change over previous year	>100%	+31.6%	-2.2%
ROE before tax <sup>3)</sup>	12.2%	21.7%	10.8%
Marginal EVA (€ million)	... <sup>4)</sup>	180	315 <sup>5)</sup>
Marginal RARORAC	... <sup>4)</sup>	7.5%	4.4%
<b>Equity</b>			
Average equity (€ billion) <sup>6)</sup>	14.6	2.8	13.9
Change over previous year	-14.5%	-5.0%	-2.8%

1) Retail & Corporates, Private Banking and Corporate & Investment Banking (CIB) Divisions; the difference to the total amount is allocated to the Corporate Center – see "Description of segment reporting" on pages 186 and 187 of this report. / 2) Turkey is included with its pro-rata contributions in RWAs and with its at-equity contribution in the income statement. 3) ROE = profit before tax divided by average equity allocated to the business segments. / 4) Not meaningful at overall bank level in light of the current situation on the capital market; see commentary. / 5) Without Ukraine. / 6) Subsidiaries are included at actual IFRS capital.

for loans and depreciation of important CEE currencies. Lending volume in CEE contracted by 1.4%; adjusted for exchange rate movements it rose by 4.9%. Average lending volume also declined in the three Austrian customer business segments (-1.6%).

Average **risk-weighted assets** (RWAs) decreased by 1.7% compared with the previous year. Direct funding (customer deposits and debt securities in issue) rose significantly, by 5.1%, driven by high market liquidity and a focus on acquisition efforts in CIB, Private Banking and CEE, as well as by the bank's successful new issue activities. (Risk-weighted assets include the contribution from Turkey on a proportionate basis.)

- Average **equity** declined by 14.5% to €14.6 billion, with equity allocated to the CEE business segment down by 2.8% (CEE equity is calculated on the basis of actual IFRS capital). Equity allocated to Austrian customer business declined by 5.0%, in parallel with risk-weighted assets. **Return on equity** (ROE before tax) was 10.8% for CEE and 21.7% for Austrian customer business, which absorbs significantly less equity.

**Marginal Economic Value Added** (EVA), one of the long-term indicators used by UniCredit Group for value creation, is linked to net operating profit after tax (NOPAT). In this context positive and negative one-off effects are eliminated as these do not reflect sustainable profitability. In 2014 the CEE business segment (without Ukraine) generated an **EVA** of €315 million, and the combined EVA for the three Austrian business segments was €180 million. Risk-adjusted return on risk-adjusted capital (RARORAC) in CEE was 4.4%, reflecting the relatively large amount of equity (target Tier 1 capital ratio multiplied by RWAs) allocated to the segment and the high cost of capital to be earned on it (averaging 13.0%). RARORAC in Austrian customer business was 7.5%, based on an average cost of capital of 11.8% for the Austrian customer business segments. (For Bank Austria as a whole – including the Corporate Center – EVA is no longer shown until further notice as this key figure is not meaningful at overall bank level in view of the high risk premiums and structurally weak profitability in the banking sector, and also because of the higher capital requirements imposed on banks.)

# Management Report (CONTINUED)

● The most recent numbers of branches and employees reflect the effects of the Initiative Bank Austria 2020 and reductions made at Ukrsofsbank, Ukraine, which is classified as a disposal group held for sale.

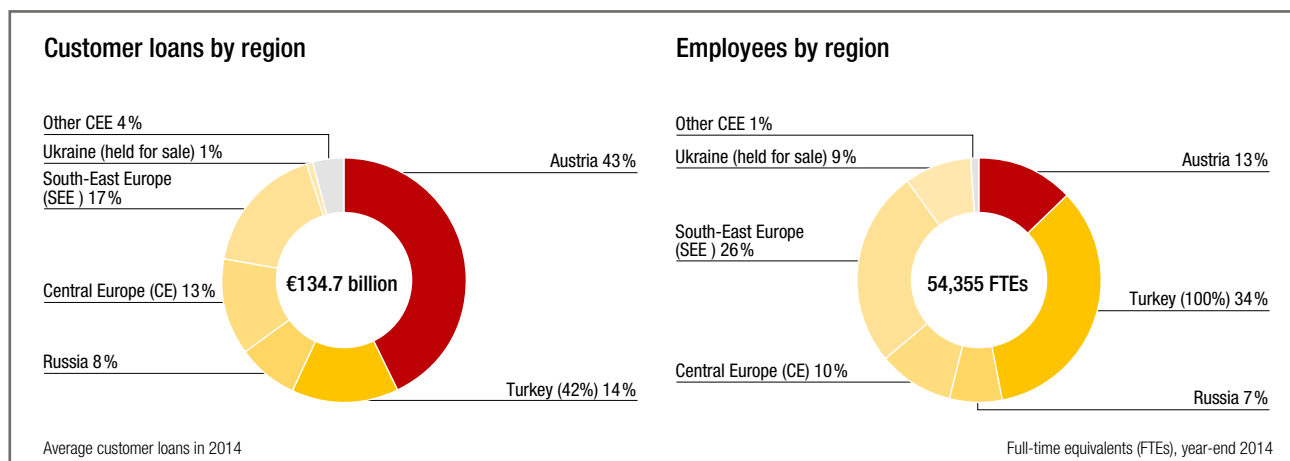
	BANK AUSTRIA	3 AUSTRIAN SEGMENTS <sup>1)</sup>	CEE <sup>2)</sup>	UKRAINE <sup>3)</sup>	CORPORATE CENTER <sup>4)</sup>
<b>Branches</b>					
Year-end 2014	1,664	243	1,130	291	...
Year-end 2013	1,801	269	1,130	402	
<b>Employees (FTEs)</b>					
Year-end 2014	36,139	5,130	24,007	4,830	2,172
Year-end 2013	37,753	5,240	24,453	6,143	1,916

1) Retail & Corporates, Private Banking and Corporate & Investment Banking (CIB) Divisions. / 2) CEE without Turkey. / 3) Ukraine classified as held for sale in 2014. / 4) Corporate Center = Global Banking Services plus Competence Lines.

At the end of 2014, Bank Austria had 1,664 **branches**, down from 1,801 at the end of 2013. The number of branches in CEE remained constant following a reduction of branches in the previous year. The number of branches in the Austrian business segments declined by 26 (net of new branches opened) following the reshaping

of operations to reflect a multi-channel bank. The decline in the number of branches in Ukraine is explained by the programme aimed at scaling down operations.

At the end of 2014 the **number of employees** totalled 36,139 full-time equivalents (FTEs), down by 1,614 FTEs or 4.3% compared with a year earlier. Of this change, Ukrsofsbank, Ukraine, which is classified as held for sale, accounted for the largest decline of 1,263 FTEs together with other units in CEE which recorded a decrease of 446 FTEs or 1.8%: the strongest declines were seen at the units in Croatia (–367 FTEs, on account of the sale of a non-bank equity interest) and in the Czech Republic/Slovakia (–113 FTEs), reflecting process optimisation, the outsourcing of activities to UBIS and synergy effects from the merger. Staff employed in Austrian customer business declined by 111 FTEs (–2.1%). In this context it should be noted that staff numbers for the first time include 255 FTEs of the Austrian leasing company as of 31 December 2014. Without these employees, staffing levels were down by 365 FTEs or 7.0%, reflecting the Initiative Bank Austria 2020. A decline in staff numbers through this initiative in the Corporate Center is offset primarily by the increase resulting from the first consolidation of Immobilien Holding (+276 FTEs) and of a leasing company (+73 FTEs). This effect increases the overall number of employees in the Corporate Center by 256 FTEs (13.4%).



# Management Report (CONTINUED)

## Further development of business model

The focal areas of Bank Austria's strategy are the concentration of its business portfolio on customer business in the core countries and the realignment of the service approach, the sales network and the range of products and services to meet customers' specific needs. Based on optimum employment of capital, and supported by professional risk management, these efforts are designed to assure the bank's development on a sustainable basis.

● In 2014 we vigorously pursued the transformation of Bank Austria's business model to create a **modern multi-channel bank**. We are working to put in place a fully-fledged hybrid business model bundling the very best physical and digital channels. The multi-channel target model leverages on strong links of branches with remote sales channels, in line with a division-of-labour concept. We are thereby moving closer to customers.

Milestones on this way in Austria in 2014 were the opening of the first eight new-style branches and the introduction of extended opening hours, from 9 a.m. to 6 p.m., at 30 branches in Vienna. In the online branch we have expanded our innovative SmartBanking service approach with personal advisory services via video telephony, telephone, SMS and e-mail, accessible via OnlineBanking and MobileBanking with extended opening hours from 8 a.m. to 8 p.m. A wide range of Bank Austria's key products is available at our new OnlineShop around the clock. We have opened SmartBanking to all of our 1.6 million customers, lowering the age limit from 18 to 14 years. At the end of 2014 we also opened multi-channel banking for corporate customers. Companies can now apply for products online at any time and from any place. The offering ranges from accounts, investments and finance all the way to leasing.

● In **our sales network** we pursued a multi-year project focusing on a universal banking concept with a differentiated approach:

One approach is the **basic services bank**, which offers services such as deposits and consumer loans, cash deposits and withdrawals as well as transfers with substantial technical support, in an efficient and dependable manner and at very competitive prices, which customers can use at any time and wherever they are. For this purpose we are expanding our product offering in the virtual world (Bank Austria website, self-service areas/branches, call centre, OnlineBanking & OnlineShop also for new customers). New technologies have enabled us to introduce SmartBanking Private & SmartBanking Business (for business customers with a turnover of up to €3 million). Our RetailCenter and BusinessCenter 24 are additional components of our strategy of offering financial services via channels which are less dependent on branches and customer services centres. In the future customers can use many services via telephone which have so far only been provided at branches.

The other approach is the **advisory bank** offering its customers genuine added value through specialised advice. Unlike simple online banking, SmartBanking offers advisory services in personal contact with customers, who can use these services according to their preferences. While being able to use personal advisory services until 8 p.m., customers can benefit from SmartBanking Private and SmartBanking Business also by settling almost all types of banking transactions via digital channels and using advisory services via video telephony, at any time and wherever they are. Drawing on expert know-how is also possible via video call.

The **premium bank** provides complex solutions tailored to specific needs. Services are provided by relationship managers and specialised experts. In addition, the services of external specialists including lawyers and tax consultants may also be used when needed. This type of service is available to customers of the Private Banking and Corporate & Investment Banking divisions. Asset management is a key product of the premium bank.

● The **branch network** is fully integrated in this service approach, with new types of branches.

At a **self-service branch**, customers can conveniently use our basic services at any time they want: cash deposits and withdrawals, transfers, account statements. In 2014 we invested in a technology upgrade. New machines including cash recyclers, cash managers, interactive screens, digital signage, service managers etc. enable us to process day-to-day business in a highly efficient manner around the clock, seven days a week. Our **pop-up branch**, a transportable branch with a floor area of seven square metres and innovative design is aimed at winning customers at major events and in highly frequented locations. This type of branch proved successful in 2014.

The new **branch** with a modern design is focused on customer needs, with a welcome manager, use of a queuing system and adjustment of opening hours. Modern technology enhances advisory services, and specialists (finance, investments) are increasingly involved in services provided by teams at branches; new technology makes it possible for experts to be involved in customer talks via video telephony.

The **advisory services centre** provides services in densely populated areas, across business segments and divisions. This unit offers an extensive range of banking services for all customer groups: retail and corporate customers, Private Banking clients, bundling of experts (foundations, ...). Multi-media equipment makes the advisory services centre a suitable place for events arranged for customers and employees.

# Management Report (CONTINUED)

● The new business model will enable us to make significantly better use of earnings opportunities. In 2014 we also launched the **Bank Austria 2020** initiative, drawing up innovative working time models and actually achieving the planned reduction of jobs by promoting part-time working arrangements. This efficiency enhancement programme was accompanied by human resources development measures and mobility management; in 2014, we opened MoveOn, an innovative online job platform – detailed information is given in the following section on Human Resources. The “Bank of the Future” also needs a simpler structure and more efficient processes. We have launched the **Streamlining** initiative to screen all areas of the bank, as part of workload reduction measures, to make our internal processes leaner and remove inefficient procedures. These measures are another step, also in terms of quality, towards a new and modern **working world**, which we are preparing with the planning and construction of our new Campus headquarters (see the report in this section).

● Similar initiatives were also launched in Central and Eastern Europe in 2014 under the name of **CEE2020** and they have led to revenue growth already in their first year. The programme currently comprises 31 cross-border initiatives to identify new ways of creating value. The underlying idea is to transfer solutions which have become best practice in the countries where they originated (design/pilot countries) to countries (customisation/rollout countries) where the experience gained is adopted and adjusted to local conditions. About 10 countries are involved in these activities in one way or another. In the CIB Division’s business with large companies, these activities include the “capital-light business model”, which encompasses quantitative methods of customer relationship management, reference pricing and RWA optimisation; this has already been implemented in Russia, Bulgaria, the Czech Republic/Slovakia. It is important in this area to take advantage of referrals of business opportunities in the entire UniCredit Group. A specific IT application (Babel) bundles information required by relationship managers for the optimum allocation of capital to their portfolio in terms of region and industry as well as rating.

In retail banking we are pursuing 15 initiatives with a view to increasing the share of wallet of existing customers, winning new customers, enhancing sales efficiency and broadening know-how through training. The new branch concept, with a structure that is similar to that in Austria, is currently being implemented in Bulgaria, Romania and Hungary, with a focus on mobile banking and the internet banking platform. In Private Banking we have established the PB Academy, a training platform, and an initiative for needs-oriented advisory services (Investment Advisory 2.0), which will raise competence in offering solutions which take account of clients’ needs in specific areas (transfer of assets across generations, investments and risk/liquidity management etc.). The initiative is being implemented in Russia, Bulgaria, Romania and Hungary.

All these initiatives and activities benefit from the advantages of a cross-regional network of banks with strong local roots.

## Customer satisfaction – a focal point of our business model

In our business model, customer centricity is a reference point in an environment characterised by profound change. The further development of our service approach – digitalisation, multi-channel bank, OnlineBanking and MobileBanking – is mainly guided by changes in our customers’ preferences. Our ambition is clearly reflected in our **promise to customers** – “Wir möchten die Besten für Sie sein!” (We want to be the best for you) – and in the slogan “Life is full of ups and downs – we’re there for both”. The promise to our customers encompasses four dimensions: “Focused on your future” (complete range of services, simple, easy and forward-looking); “Round the clock” (availability via modern communication channels); “Your needs” (satisfaction and relationship management); “All-round advice” (listening, lucidity, active information). These are the guiding principles in shaping our relations with customers.

We use the TRI\*M index to measure satisfaction of Bank Austria’s customers with services, reliability and quality of advice. This is an important factor in scorecards used at all levels of hierarchy, from top management to all managers. In the course of the year under review, Bank Austria’s aggregated TRI\*M improved by 2 points, reaching a level of 72 in the fourth quarter of 2014.

Service Rating GmbH, Germany, and the University of St. Gallen elected Bank Austria as the “Most customer-oriented services provider in Austria” in 2014, for the fourth time in succession and in a comparison covering all sectors. Their choice was based on a survey of customer perception and an audit of various factors including involvement of our customers in reshaping our service model, our complaint management processes, the “klipp&klar” initiative aimed at ensuring that our communications are written in plain language, and our activities focusing on sustainability and the community.

In **measuring customer satisfaction** we take advantage of technological progress: a few years ago, telephone interviews were the only method employed to obtain feedback. In the meantime, we use a combination of telephone interviews (about 25,000 calls per year) and online questionnaires (about 10,000 responses per year). This reflects the advance of digitalisation and gives added weight to the results. The analyses are conducted among all of the bank’s core target groups (Retail, Corporates, Private Banking), including a comparison within UniCredit Group.

Our @Feedback Kundenerlebnis (customer experience feedback) tool continued to develop favourably in 2014: immediately after an advisory talk with a customer – e.g. on finance, the 360-degree investment analysis or Willkommens @-Mail for new customers – we send our customer a short electronic

# Management Report (CONTINUED)

questionnaire. Since the tool was launched in 2010, the rate of response to 280,000 e-mails inviting feedback has reached almost 39%. Quite generally, the results show a high level of satisfaction (91%) with the quality of advisory talks. In 2014 we became the first financial services provider in Austria to complete an exclusive pilot project with @Honestly for giving direct electronic feedback to Bank Austria branches via QR code, tablet, smartphone and online. Overall, within a few weeks, we received almost 5,000 responses via this channel. Starting in the first quarter of 2015, we will use this instrument under the name of "myFeedback" at all branches of Bank Austria and also via electronic channels (website, Bank Austria app, OnlineBanking etc.).

To identify **customer preferences** and help us to make the right strategic decisions, we developed Bank Austria Mitarbeiterforum (for internal use) and www.kundenforum.at (available to customers) in 2013, thereby creating a social media platform for surveys, forum discussions, quick polls and votings. Since the two platforms were launched, they have been used to discuss about 35 topics, with 15,000 responses via questionnaires and 600 forum contributions from about 3,000 customers and employees; the topics included the "Bank of the Future", the "Branch of the Future", electronic information services, contactless payments, MobileBanking apps and our new "Wirtschaft Online" service platform.

We measured internal customer satisfaction again in 2014 with a view to enhancing **internal service quality**. The services provided by employees in 41 head office units were evaluated by their colleagues via 14,000 questionnaire responses, supplemented by 5,000 free-text comments. The Group-wide **People Survey** will again be launched at the beginning of 2015, giving our employees an opportunity to let us know what they think about such topics as leadership, clarity of strategy and objectives, commitment to the company, customer orientation and contributions to the community. The high participation rate of recently 71% underlines the importance of this regular survey and the related action plans.

With the BeschwerdeExzellenz project launched in 2013 we take a critical look at all internal and external complaint management processes with a view to further optimising them for our customers at all points of contact (branch, @mail, CallCenter etc.) and setting a benchmark in the financial sector. Moreover, we have bundled specific competencies in the ombudsperson's office for persons experiencing social hardship, where customers in financial difficulty receive assistance in reducing their debt, or are granted additional time for payment, etc. In 2014 we again maintained close contact with consumer protection organisations, the Chamber of Labour, debtor associations and special interest groups in order to live up to our claim of acting responsibly within society.

## Human Resources

Human Resources Management supports the ongoing change processes in the company and acts as **strategic partner and change agent for all business units**. These activities also make a significant contribution to creating the best possible environment for all employees on our way to the "Bank of the Future". Creating optimal conditions to identify and use potential, investing in education and supporting employees in all areas with a view to establishing a work-life balance, are key requirements met by HR Management in living up to its claim to be a leading player in the banking sector.

The **CEE Human Resources** team in Vienna plays an important role for human resources management with regard to UniCredit banks in Central and Eastern Europe (CEE) and the CEE Division of UniCredit Bank Austria. In both the CEE HR team in Vienna and the HR department of CEE banks, the skills and organisational structure in place ensure effective professional coverage of the main HR topics and processes with a focus on HR Business Partner activities – to provide the operating units with the support required to achieve their objectives – and expertise centres such as Learning & Development, Compensation and HR Planning. The CEE HR team in Vienna also plays a key role in steering the main processes across the region and ensuring the exchange of best practice among countries to foster UniCredit values and principles. On top of these activities, the CEE HR team is engaged since 2014 in a dedicated initiative under the **CEE2020 programme** – the CEE Division's strategic programme for sustainable growth of our business, aimed at accelerating the development of the best people through different initiatives like Functional Academies, Development Centres and innovative learning tools. All the initiatives are focused to create the next leader generation of CEE banks based on international background, rounded banking knowledge, risk awareness and agility to perform in different geographies.

● The strategic projects which we launched in 2013 – primarily **SmartBanking** and the **Bank Austria 2020** initiative – are our dynamic response to rapid changes in customer behaviour, demographic changes, technological progress and new communication media, in banking and in the working environment quite generally. The implementation of these projects relies on the qualifications and flexibility of our employees, i. e. on intensive HR support.

The new job-related challenges presented by these changes require new approaches to **staff development**. The UniCredit Academy established in 2013 supports all employees on their way into the future. Numerous initiatives dispel any fears of facing new situations – these initiatives include team coaching; seminars for managers focusing on learning partnerships for mutual support; internships and job rotation for young employees. To implement



# Management Report (CONTINUED)

flexible work arrangements at branches with longer opening hours (9 a. m. to 6 p. m. at selected branches in Vienna and other Austrian regions) within the framework of variable working hours, an internal service agreement was concluded between HR and the Employees' Council. We also launched a pilot operation to test IT-supported working time planning and accounting. Specific multi-media training programmes are making our employees fit for serving customers online, via video or personally at a branch. Training for new products is provided on "power days" to enable employees to offer advisory services to customers at all stages of their lives. Professional welcome management improves processes at branches in order to more effectively attend to customers' wishes.

The **reorientation of the business model**, continued in 2014, was accompanied by measures to reduce payroll costs and other administrative expenses. Of the €70 million staff-related cost reductions which the bank aims to achieve over a two-year period, 70% was already implemented through measures taken in 2014. These reductions were made, as planned, without operational layoffs, by offering employees attractive HR instruments, primarily part-time working arrangements, which were accepted by 1,140 employees. This translated into a reduction of 309 FTEs while retaining the necessary know-how in the bank. As a result, the proportion of part-time employees rose by 40% within a single year, to 35% across the bank. Special attention is being given to making processes leaner so that service quality for our customers can be further enhanced with reduced staff numbers. Overall, the number of employees declined by 423 FTEs in 2014, with 20% of this reduction resulting from normal staff turnover and retirement. The declared objective is to achieve the remaining reduction target of about 230 FTEs by the end of 2015, again in a socially acceptable manner.

The **Movement Management** initiative has been an integral part of HR strategy since 2012. Against the background of the new HR instruments and the related impact on the internal job market, we have adjusted and expanded this initiative. All vacant positions in the bank are now offered internally via the new **"Move On" job platform**, an innovative approach. The objective of this cloud-based recruiting solution is to show employees new perspectives through the automated analysis of their personality and subsequent job matching. Several hundred employees make daily use of Move On and appreciate the opportunities which the platform offers, including direct availability of a personal assessment report. Finding the right job no longer depends on employees' curriculum vitae and training alone but on their personality. This brings the internal job market to life, with employees being able to view new job opportunities with ease. These activities are aimed at supporting a more effective use of employee potential and raising employee satisfaction.

● **Award-winning HR activities.** The first HR Innovation Congress at the St. Martin Therme spa in Austria's easternmost province of Burgenland focused on analysing current and future challenges faced by HR managers, and presenting strategies, trends and visions in human resources management; a high-calibre jury of specialists selected the most innovative HR projects. In this context, "Move On" won the "HR Innovation Award Gold 2014", being recognised as the most innovative human resources project.

Bank Austria employs persons who differ from one another in their background, culture, language, religion, training, state of health and sexual orientation. With our **diversity management** activities we want to use opportunities in this context and unlock underlying potential for the bank. The corporate culture of Bank Austria therefore encompasses mutual respect, openness, recognition and appreciation. This enables us to benefit greatly from the manifold qualities, talents and personality facets of our employees in all their diversity. Implementing these objectives is facilitated by an innovative design of the work environment. With the "Job and Family" audit we use assessments by external auditors to make further improvements. Key topics in this context in 2014 included expanding part-time working arrangements, giving support to part-time employees who hold management positions, and specifically enhancing managers' awareness of the need for a work-life balance.

UniCredit has launched a **Gender Balance Programme** at an international level. The objective is to create jobs for men and women which are characterised by equal rights and respect. Looking at current developments at all levels of management is key to the success of these efforts. Qualitative and quantitative targets are defined and measured for (almost) any activity. Women are seen as a key resource in UniCredit Group and are provided with support already at middle-management level through targeted measures including seminars which focus on identifying one's own strengths and weaknesses, self-marketing and networking.

● The pleasure of learning – **UniCredit Academy Austria.** Sharing knowledge and experience – in an entertaining, informal and timely manner – is an essential feature of the "Bank of the Future". Against this background we created the UniCredit Academy Austria in autumn 2013, which bundles all Learning & Development activities of UniCredit in Austria. The UniCredit Academy Austria offers our employees a wide range of programmes to acquire and develop know-how required for an employee's sphere of activities by using the appropriate learning method. Seminars, eLearning, podcasts (audio files), coaching, mentoring, shadowing and internships are among the methods used for promoting and supporting a person's individual learning style. This gives the learner a more active role in his/her learning

# Management Report (CONTINUED)

process. We have created a new way of learning – new in terms of architecture and advanced learning environment, such as UniCredit Center Am Kaiserwasser; and new with regard to knowledge transfer. The changes are also noticeable in the virtual Academy, a different type of learning space. Virtual learning space helps the bank to respond at short notice to market requirements with a suitable learning programme, thereby enhancing the return on learning for everyone – in line with the motto: higher earnings through effective learning. [www.unicredit-academy.at](http://www.unicredit-academy.at)

- Our human resources activities are based on and guided by the **Global Job Model**, the Group-wide job evaluation system used for describing and categorising all roles and activities within UniCredit, and the **UniCredit Competency Model**, which defines essential skills and employee conduct in our company.

Our **Executive Development Plan (EDP)** and **Talent Management** programme support our managers in developing the relevant qualities and skills for the “Bank of the Future”. We focus on the development of management potential from within the bank, in line with the motto “Investing in People”, while giving special attention to raising the percentage of female managers on a sustainable basis. We thereby ensure forward-looking and effective personnel planning for managers and talents who can get along well in a changing digitalised society and who can make sustainable contributions to shaping the “Bank of the Future”. Uniform Group-wide quality criteria are applied in the evaluation process, with a focus on feedback exchange. Moreover, as part of UniCredit, Bank Austria offers the opportunity to gain and use international experience in a Group-wide process of filling vacancies.

**UniCredit Performance Management** is a modern, fair and transparent performance evaluation and development system for all employees of Bank Austria. It offers effective guidance to staff members, especially during periods of profound change. All employees can easily view their evaluation and the feedback documentation in their personal electronic archives. Performance Management thus makes an essential contribution to a feedback culture. The goals of each employee are discussed between the employee and the manager and then captured in the Performance Management tool. The employee's performance is evaluated after a maximum period of 12 months and feedback on development is provided. The information obtained from feedback and evaluation serves as a basis for personal development measures and further steps in Bank Austria.

- The proper mix: our **Total Compensation** system. Our Group-wide remuneration system provides for a balanced mix of fixed and variable monetary and non-monetary components. Regular communication to our employees and information available on “myHR”, the HR Intranet site, provide an overview of all components of compensation while linking this to the related compensation processes including the merit review and the bonus.

Remuneration of top management is determined within UniCredit by way of a Group Compensation System, which has been in place for several years and has also been implemented at Bank Austria. Parts of the variable components of compensation are withheld in line with regulatory requirements, and deferred payments are made subject to sustainability. This may also be in the form of UniCredit shares. The bonus pool method introduced across the Group in 2014 ensures that variable components of remuneration are subject to the achievement of sustainable, long-term financial and non-financial performance criteria. The introduction of this method further strengthens the link between variable remuneration and risk-weighted results of Bank Austria.

- More than 2 years ago, within UniCredit Group, we entered into a **strategic partnership with hp** and founded the Enterprise Services Shared Service Center (ES SSC). This is a joint venture which settles **HR services** for Bank Austria at an international shared service centre of hp in Poland. At the end of 2014 we reached a further milestone in this cooperation by migrating our HR tools for travel management and time management to a modern state-of-the-art IT systems landscape. With effect from the beginning of 2015 we will also switch the payroll for our employees to this IT platform. These new HR tools have enabled us to use opportunities for efficiency enhancement of our HR processes, and they will serve as the basis for clear and simple HR processes also in the future.

## Creating a new working environment: Austria Campus

The groundbreaking ceremony in December 2014 represented the first step in the realisation of plans for the construction of Bank Austria's new headquarters. The new buildings will cut costs and offer us the opportunity to benefit from a new working environment. Extensive programmes have been launched to ensure that the changeover is successfully implemented. The programmes involve employees with whom we prepare the future users of the “Austria Campus” for state-of-the-art offices and new working methods.

**Austria Campus** ... The historic representational buildings of banks are now out-of-date. We are in the process of creating a new location for Bank Austria's headquarters and 15 Group companies of UniCredit in Austria at Vienna's former Northern Railway Station, one of the city's key development areas. For this purpose we have developed the “Austria Campus”, a project which encompasses office space covering a gross area of about 200,000 square metres, infrastructure facilities and shops. In line with our plans, we sold this project in October 2014, together with the land earmarked for development and the building permits. It was acquired by SIGMA, an Austrian company specialising in real estate, which is now responsible for the construction work following the closing of the contracts in November. Construction commenced in early 2015 and is scheduled

# Management Report (CONTINUED)

for completion in 2019. During this time the real estate company will be in constant touch with the authorities of Vienna's second district and will maintain an information office where it will answer questions of residents.

Two of the buildings on the Austria Campus will be used by the bank through a long-term rent agreement. This office landscape for about 6,000 employees accounts for about 45 per cent of the Austria Campus and is scheduled for completion in 2018. Bank Austria itself will be responsible for the interior of the buildings itself so that it can design the headquarters in line with its own plans.

**... more than a construction project:** The new headquarters are intended to unlock synergies totalling an annual €25 million from 2020, through time savings and shorter distances, more efficient use of space and lower operating and maintenance costs. Besides strengthening the team spirit among employees, the new design of our headquarters will result in efficient and attractive working methods for head office banking functions. This modernisation project is being implemented hand in hand with the reorganisation of our branch network, where the working environment and working methods of employees in the innovative branch premises are also changing.

**The new working world** will be realised through transparent office architecture that can be used on an individual basis, state-of-the-art technology and low paper consumption, and by offers for greater work flexibility in terms of time and location. A test office, which simulates the most recent plans for the Austria Campus, provides employees with an insight into the new working methods. More than 1,000 visitors have so far been guided through these premises. The space is moreover permanently used as an office by two teams of employees; their feedback is also used for the planning process. Acceptance and readiness for change are further enhanced by the involvement of employees acting on behalf of future users, the development of a multiplier network, various surveys and a web-based information platform.

## Communication using digital channels

● Bank Austria's "Wirtschaft Online" portal, introduced in January 2014, was named the most innovative financial service by participants at the 28th Alpbach Finance Symposium. Unlike other online portals, "Wirtschaft Online" contains sound analyses by experts, mainly those from Economic Research and Private Banking Research of Bank Austria, in addition to facts and figures on current economic developments. Bank Austria's **security portal** "Sicherheit Online" offers extensive information, revised in 2014, on Internet fraud. Notices warning against phishing attacks, i.e. attempted fraud in online banking, are particularly important in this context. Both "Sicherheit Online" and "Wirtschaft Online"

are available in versions optimised for all mobile devices.

**Bank exklusiv**, Bank Austria's customer magazine, appeared as an eMagazine for the first time in 2014. All eMagazines published by Bank Austria can be viewed via the eMagazine app (for iOS and Android).

● Our **social media** presence covers the interests of a wide range of customer groups. The company's Facebook site focuses on service and edutainment while Twitter offers information on banking business and all press releases. Pictures of Bank Austria are presented via videos and images on YouTube and Pinterest, with the content ranging from branch openings and the "Acting together for a respectful society" initiative all the way to the most recent advertising spots. Bank Austria maintains company profiles on XING, LinkedIn, Watchado and Kununu, which concentrate on jobs and training. The BusinessForum on XING is a platform offered by Bank Austria for dialogue between its customers and employees.

A selection of about 100 eBooks comprising specialised literature and guides (job applications, career, software) has been available for download free of charge since early 2014.

## Sustainability management

Sustainability and responsibility are key values guiding our day-to-day activities. The balance between economic, ecological and social objectives has been a highly significant factor at Bank Austria for many years. Stakeholder management plays a crucial role in Bank Austria's sustainability activities. It is a question of identifying, within and outside the bank, the needs of important stakeholders and including them in the measures to improve corporate sustainability. This also requires a meaningful and open communication of topics on corporate social responsibility. Bank Austria's sustainability report, which can be viewed in the "Sustainability" section at [www.bankaustria.at](http://www.bankaustria.at), provides an overview of our commitment to society and the environment.

**Social commitment** is an essential component of our sustainability strategy. In 2014 we launched the "Acting together for a respectful society" initiative to make a broader public familiar with our social commitment and stimulate discussion on such important topics as tolerance, respect and social interaction.

In our **social sponsoring** activities we pursue a clear strategy by primarily supporting initiatives which help children and young people in need, and which also focus on integration/migration. Every year, we present the Bank Austria Social Prize, with prize money of €10,000, in each of Austria's federal provinces to award outstanding initiatives in the social sphere. The €30,000 Bank Austria Social Innovation Award was presented for the first time in 2013. It focuses on innovations in the social sector, with a different target

# Management Report (CONTINUED)

region selected every year. The region chosen in 2013 was the Tyrol with its capital Innsbruck, and in 2014 the bank invited participants to present innovative ideas for Lower Austria's capital St. Pölten. The two prizes were made possible by generous support provided by UniCredit Foundation.

Long-term partnerships which we have developed over many years with well-known **social care organisations** are a particularly important aspect of our activities in the social sector. Focusing on continuity, this strategy has been pursued in our cooperation with SOS Children's Villages, where we act as house sponsor in Children's Villages throughout Austria. Caritas is another partner with which we have maintained close and professional cooperation for many years. This covers proven projects such as young Caritas Käfig League, the Bank Austria Volunteers Day, cooperation in disaster relief activities, and the Bank Austria Familienfonds, with which Caritas has been able, over the past 20 years, to help over 600 families in need who have faced crises through no fault of their own. The 20th anniversary of the Bank Austria Familienfonds provided an occasion to jointly celebrate the long-standing cooperation with Caritas.

Bank Austria's "**Gift Matching Programme**", probably unique in Austria, is an annual initiative which promotes the social commitment of the bank's employees. The idea is simple: private donations are increased by funds held by UniCredit Foundation if the initiating employees succeed in inspiring at least 15 colleagues to donate to the same charity and exceed a threshold. There are no limits to creativity, and employees are motivated to engage in stimulating exchange of ideas on social issues. The Gift Matching Programme 2014 raised over €290,000 for 76 projects, an amount which will now be increased by the Foundation.

In line with the "**Financial Education**" initiative, our website [www.finanz-bildung.at](http://www.finanz-bildung.at) has been created to provide young people, students and teachers with information on various aspects of money. With a renowned partner, the Austrian Museum for Social and Economic Affairs, we offer interested schools free workshops. The topics discussed range from money, the role of banks and banking products to distributive justice. The objective is to give young people an overview of the various types of financial transactions, to draw their attention to opportunities and risks, and to inform them of their rights and duties as consumers of financial products. In addition to passing on knowledge, the workshops are aimed at encouraging young people to critically examine how they themselves handle money and the significance of money in their social environment. Some 10,000 schoolchildren attend the workshops every year.

For an international and diverse company like Bank Austria, **diversity management** is not simply an integral component of its corporate culture but something which also promotes productivity,

creativity and innovation. Our employees differ from one another in their gender, the colour of their skin, in their language, ethnic, cultural and religious values, marital status, age, disabilities, social status and sexual orientation. We see the diversity of our employees as a major asset for the company. Numerous initiatives are being implemented to promote a work-life balance and equal opportunities for men and women. Looking at current developments, at all levels of management, is key to the success of these efforts. Qualitative objectives and quantitative targets are defined and measured with regard to (almost) any activity.

Consideration for **disabled persons** is a key factor for us, both within and outside the bank. Two disability managers are responsible for planning and implementing numerous disability-related measures. They are supported by a network of about 60 disability employees, and awareness of this issue is raised by employee training programmes. In pilot projects we are testing various possibilities for helping disabled persons to settle their banking business. Measures that have already been implemented include a special bank card for visually impaired persons, sections of Bank Austria's website which enable customers to listen to spoken information and watch videos in sign language or read texts in simple language, and a shuttle service introduced in 2010 for customers with limited mobility, which is steadily being expanded to cover the whole of Austria. The bank plans to complete the adaption of its buildings and branches to make them barrier-free by 2016. We are also creating a pool of employees who are skilled in disability-related communication techniques such as sign language.

## Environmental management

In May 2011, Bank Austria's environmental management system (EMS) was certified in accordance with **ISO 14001**, an internationally recognised standard. Re-certification took place in 2014. By complying with ISO 14001, a company can prove that it operates in harmony with the environment. Environmental management benefits the community while also involving advantages for the company in the form of cost savings resulting from more efficient use of resources. Environmental and climate protection covers the head office buildings and all branches, and involves all employees. The company thus makes an important contribution to reducing CO<sub>2</sub>. The great importance given to ecological sustainability and a sparing use of resources is also reflected in the **organisation**: the steering committee is headed by the Chief Executive Officer and the EMS team coordinates the measures and ensures that environmental and climate protection issues are implemented in all operations.

In **CEE** we enhance environmental awareness through the cross-regional **UniCredit sustainability network** of central and local contacts. Specific CEE initiatives are described in the UniCredit Sustainability Report, which corresponds to the highest Global Reporting Initiative (GRI) standard.

# Management Report (CONTINUED)

**Bank Austria** is reducing its ecological footprint by drawing up an annual environmental programme. In regard to operational climate protection considerations, Bank Austria, as one of the six founding members, has since November 2011 been a partner of **klima:aktiv pakt2020**, which was created by the Austrian Ministry of Life. The participating companies undertake, through a voluntary agreement on objectives, to meet the Austrian climate-related targets for 2020. Bank Austria has additionally committed itself to reducing CO<sub>2</sub> emissions by 45% and achieving a 51% share of renewable energies. In its **fleet management** Bank Austria has switched to low-consumption cars and reduced the number of pool cars. Bank Austria further reduced **business travel** through the use of video conferencing facilities and the trend towards digitalisation in the working world. A positive secondary effect of the gradual expansion of teleworking is that it reduces environmental pollution, especially the pollution caused by commuters who use cars.

## Key environmental indicators <sup>1)</sup>

	2014	2013	2012
CO <sub>2</sub> emissions in t <sup>2)</sup>	20,567	21,896	20,382
Electricity consumption in MWh	68,243 <sup>3)</sup>	68,900	71,954
Heating in MWh	43,954 <sup>3)</sup>	52,000	46,800
Business travel in thsd km	11,620	12,935	16,332
<i>of which: air travel</i>	<i>8,461</i>	<i>8,334</i>	<i>11,133</i>
<i>by car <sup>4)</sup></i>	<i>1,478</i>	<i>2,702</i>	<i>3,423</i>
<i>by train <sup>4)</sup></i>	<i>1,680</i>	<i>1,899</i>	<i>1,776</i>
Water consumption in m <sup>3</sup>	217,429	215,358	216,305
Waste in kg	1,376,126	1,427,095	1,385,630
Paper consumption in kg	517,682	591,958	889,649
<i>of which copying paper</i>	<i>317,225</i>	<i>390,343</i>	<i>437,149</i>

1) All branches, head office buildings and subsidiaries located therein. / 2) Since 2010, all electricity supplied to Bank Austria has come from renewable sources of energy. / 3) Projection. / 4) UniCredit Bank Austria AG only.

Measures aimed at improving **energy efficiency** focus on reducing consumption of electricity (which accounts for about 60% of overall energy consumption); these include the areas of refrigeration and IT. All electricity supplied to Bank Austria comes from renewable sources of energy, which is guaranteed by a certificate issued by the bank's energy supplier confirming that 100% of the electricity supplied is hydroelectric power. As a contribution to increasing the proportion of renewable energy, the bank has installed **photovoltaic systems** at branches in Innsbruck and Hirschstetten/Vienna and a **solar power installation** in Vienna's second district, on the roof of the Lassallestrasse 5 office building, which enables Bank Austria to save a CO<sub>2</sub> equivalent of about 35 tonnes annually. The aforementioned projects aimed at bundling and modernising the central administrative buildings and at adapting the branches offer the bank the opportunity to implement its ecological targets as well as its operational and social objectives. The Austria Campus, in particular, is expected to result in a significant improvement in energy efficiency.

## Report on research and development

Bank Austria's business purpose is to provide banking services. The production process of a bank does not involve research and development in an industrial sense. But day-to-day business operations continuously benefit from **development activities**. Generally, Bank Austria aims to meet the needs of different customer groups with simple products. Expenditure on product development, methodological progress in risk management or on the continuous expansion of the bank's reporting system is included in current expenses.

In the area of **information and communication technology (ICT)**, **investment planning** takes place at UniCredit level. It is based on local requests and considers synergies which may be unlocked by the cross-regional approach. Expenditure on information and communication technology (investment budgets) which can be capitalised represents cash outflows at UBIS. This is different to the current expenses which are charged to the bank and the individual business segments (via Global Banking Services, which is part of the Corporate Center).

If the workstreams of the three-year plan are broken down by functional aspects, the investment amount of the immediate **business-related ICT projects** is much higher than in previous years, both in absolute and proportionate terms. This is explained by the numerous retail banking initiatives with a view to stepping up the digitalisation of banking business. Expenses for development work as a result of **regulatory requirements** has risen significantly in a longer term comparison. In the current three-year plan about 30% of the overall project budget is earmarked for regulatory requirements. The implementation of these projects is also responsible for a large portion of the budget for external consulting services (regulatory projects account for almost 50% of the cost of consulting services).

In **2014**, over €83 million was invested in numerous **strategic projects**, most of them IT projects (this includes Bank Austria's share of UniCredit projects managed on a cross-regional basis). This corresponds to almost two-fifths of UniCredit Bank Austria AG's current IT expenses. Close to one-quarter (24%) were key projects that focused on the Retail business segment in Austria and included SmartBanking, the upgrading of the online banking system, and, to a lesser extent, on the preparations for the Austria Campus. Software upgradings and process optimisation in customer business, including an IT platform of the CIB business segment that can be employed on a cross-regional basis, accounted for the highest proportion of investment expenses with over two-fifths (41%). Adjustments for meeting the new regulatory requirements in settlement and accounting procedures absorbed 17% of the investment amount. This increases to 35% or about one-third if one includes adjustments of Group Transaction Banking (GTB) services to the new SEPA regime.

# Management Report (CONTINUED)

## Operations, ICT, infrastructure

One of UniCredit's strategic objectives focuses on the development of a cross-regional infrastructure for settlement, IT and internal services which will provide optimum support to the bank's customer service units with a view to creating value, bundling technical expertise, strengthening the bank's innovative power and improving cost efficiency. The need for such measures is partly underlined by the growing relevance of IT and back office activities (taxation of securities, reporting requirements, regulatory requirements etc.). A general cross-regional service model is moreover consistent with the logic of an international banking group. This function of a global service company is performed by UniCredit Business Integrated Solutions S. C. p. A. (UBIS S. C. p. A.), a wholly-owned company of UniCredit.

## UBIS and UBIS Austria

● **UniCredit Business Integrated Solutions S.C.p.A.** (UBIS) offers its customers flexible and integrated banking services with end-to-end logic control. The company's objective is to provide a timely response to its customers' needs, thus assuring innovation, transparency, flexibility and time-to-market. With this service model, which is unique in the banking sector, UBIS is positioning itself among the most important service providers in Europe.

In Austria, UBIS is represented through its wholly-owned subsidiary **UniCredit Business Integrated Solutions Austria GmbH** (UBIS Austria). Its main customer is UniCredit Bank Austria AG (Bank Austria), which uses services in the areas of Information and Communication Technology (ICT), Back Office and Middle Office, Real Estate, Security and Procurement.

At the end of 2014, **UBIS Austria** had 2,156 employees, including branches in Poland and Romania. Overall, UBIS has around 10,000 employees, who work in two legal entities and several branches in nine European countries and in two branches, located in New York and Singapore, of UGBS (UniCredit Global Business Services GmbH), an associated company of UniCredit Bank AG.

● Cooperation between Bank Austria and UBIS in 2014 focused on **IT stabilisation**. Measures were taken jointly with the UBIS partner V-TServices (Value Transformation Services) to further stabilise infrastructure. Other focal areas were Internet banking and security. To be mentioned in this context are server updates with new versions and application improvements. UBIS implemented organisational measures such as the introduction of release management, and test environment management.

UBIS acts as a hub for **coordination and control of outsourced services** in Blue IT, V-TServices and the ES Shared Service Center. This task is performed by UBIS Retained Organisation in Italy, Germany and Austria.

In 2014, UBIS used **EuroMIB** for Bank Austria and eight other banks in CEE countries. The newly implemented end-to-end trading platform serves the entire value creation chain: from trading to accounting and risk processing. Outdated IT platforms will be replaced with a global architecture, leading to IT harmonisation and significant cumulative cost savings and economies of scale.

**CEE 2020** is the name of projects launched within UBIS in 2014 to update IT systems at UniCredit's banking subsidiaries in Central and Eastern Europe, with local customer needs being taken into account. These projects will continue in 2015.

Issues of relevance to IT and Real Estate are implemented by UBIS in Bank Austria's projects relating to **SmartBanking**, the **new-style branches** and the **new current account packages**. UBIS Austria also made a contribution to project management for CashBack: from feasibility study to concept design and support for procurement and contract management.

● In connection with the construction of the **Austria Campus**, the location of the new headquarters, UBIS Austria is primarily involved in the areas of real estate and infrastructure. As central archiving space needs to be reduced ahead of the relocation, the **dIPS** (digital Initiation Processing Storage) project was launched, which will result in cost reductions for paper, printers, toner and copiers. State-of-the-art technology – developed under the name of Operations Virtual Factory (OVF) through a global UBIS initiative in cooperation with the UniCredit holding company – is used to achieve this objective.

Given the growing flexibility and mobility of employees, it makes sense to create standardised workplace systems. This will be implemented with the standard EuroPC workplace. In 2014, UBIS Austria started preparations for the changeover in Bank Austria in 2015.

## Further information

The following detailed information is included in the notes to the consolidated financial statements:

- ▶ Events after the end of the reporting period are included in section F.14 within "F – Additional disclosures" of the notes to the consolidated financial statements on page 268.
- ▶ The risk report is a separate chapter ("E – Risk report") in the notes to the consolidated financial statements (pages 195 to 250).
- ▶ The report on key features of the internal control and risk management systems in relation to the financial reporting process is contained in section E.16 of the risk report (pages 249 and 250).
- ▶ Information on the use of financial instruments is included in the notes to the consolidated financial statements, parts B, C and E in particular.

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## Development of business segments

## Retail &amp; Corporates

Business segment as a whole (incl. FactorBank)

(€ million)	2014	2013 <sup>1)</sup>	CHANGE	
Operating income	1,496	1,484	+12	+0.8%
Operating costs	-1,131	-1,131	-1	+0.0%
Operating profit	365	353	+12	+3.3%
Net write-downs of loans	-43	-136	+93	-68.4%
Net operating profit	322	217	+105	+48.3%
<b>Profit before tax</b>	<b>312</b>	<b>177</b>	<b>+135</b>	<b>+76.3%</b>
Loans to customers (avg.)	40,481	40,754	-273	-0.7%
Direct funding (avg.)	41,137	41,205	-68	-0.2%
Risk-weighted assets (avg.) <sup>2)</sup>	17,854	17,579	+275	+1.6%
Average equity <sup>3)</sup>	1,749	1,761	-12	-0.7%

of which: Retail

2014	2013 <sup>1)</sup>	CHANGE	
752	760	-8	-1.0%
-742	-762	+19	-2.5%
9	-2	+11	n.m.
24	-40	+64	n.m.
34	-41	+75	n.m.
<b>33</b>	<b>-60</b>	<b>+92</b>	<b>n.m.</b>
13,685	14,060	-374	-2.7%
21,560	22,222	-662	-3.0%
7,772	7,909	-137	-1.7%
751	701	+50	+7.2%

of which: Corporates

2014	2013 <sup>1)</sup>	CHANGE	
735	715	+20	+2.8%
-382	-362	-20	+5.4%
353	353	+0	+0.1%
-66	-95	+29	-30.2%
287	258	+29	+11.2%
<b>278</b>	<b>237</b>	<b>+42</b>	<b>+17.7%</b>
26,010	26,363	-353	-1.3%
19,542	18,764	+777	+4.1%
9,461	9,414	+47	+0.5%
919	1,036	-116	-11.2%

1) For segment reporting purposes, the comparative figures for 2013 were recast to reflect the structure and methodology of the 2014 reporting period (see the segment reporting section in the notes to the consolidated financial statements on pages 186 and 187 of this report. / 2) Average risk-weighted assets (all risks) under Basel 3 and IFRS (2014) and Basel 2.5 (2013), respectively. / 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, which comprises customer segments ranging from mass-market to affluent customers; and Corporates, the subdivision serving the entire range of business customers, SMEs and medium-sized and large companies which do not access capital markets (including Real Estate and Public Sector). The Division also includes the specialised FactorBank AG and our Austrian leasing subsidiary, which was included in consolidation at the end of 2014 and was thus reflected in business volume but not yet in the income statement. With 11% of all employees and an 11% share of allocated capital, Retail & Corporates generated 25% of the bank's total revenues and 70% of total operating income from Austrian customer business. This business segment also has to absorb substantial costs which are in structural terms related to branch operations. Retail & Corporates contributed about 18% to profit before tax generated by the bank as a whole and accounted for 52% of profit before tax from Austrian customer business. Average direct funding of over €41 billion in Retail & Corporates makes the business segment an important source of funding for the bank.

● The Retail & Corporates business segment's profit before tax for 2014 was €312 million, up by three-quarters on the previous year, although the Austrian market was still characterised by weak demand and excess liquidity in a low interest rate environment, and business and consumer sentiment started to deteriorate in the summer months. Return on equity before tax reached 17.9%. This improvement was due to a decline in net write-downs of loans while operating income rose slightly and costs remained unchanged. Moreover, the negative balance of non-operating items was lower than in the previous year. The implementation of the SmartBanking project and targeted modernisation of our branch network made good progress in 2014; our efforts to enhance cost efficiency and customer acquisition as well as achieving a sustainable improvement in operating income were beginning to prove successful. Operating performance in both subdivisions of Retail & Corporates improved strongly, with a significant swing to positive results in the Retail subdivision at all levels.

● As in the previous year, **operating income in 2014** was affected by weak credit demand reflecting general economic trends and excess liquidity. The low level of interest rates seen for quite a long time turned into a zero rate environment in 2014, with an impact on customer behaviour and on income from current business volume. On the assets side and the liabilities side, large volume had to be renewed or replaced at declining market rates and under competitive pricing pressure. Treasury income was much lower than in previous years. A positive factor in this general environment of close-to-zero returns was the reviving propensity to invest, focused on standardised fund products in the Retail subdivision. Our marketing and acquisition campaigns and the attractive terms we offered translated into good growth of new business in an otherwise stationary market, though outstanding volume hardly increased.

Against intense competition, Retail & Corporates achieved an increase in **operating income** of €12 million or 0.8%, bringing the total to €1,496 million. The **sustainable** components within the total figure, i.e. net interest and net fees and commissions, were up by a combined €24 million or 1.8% to €1,415 million. **Net interest** rose by €21 million or 2.4% to €932 million, reflecting strong efforts in sales operations. The improvement came from business on the liabilities side. While lending volume and spreads declined, the business segment attracted time deposits, especially from corporate customers. **Net fees and commissions** totalled €483 million in 2014, an increase of €3 million or 0.6% over the previous year. This is the net effect of an increase in sales of asset management products, including mutual funds in particular (though custody business continued to decline) and growing net fees and commissions from financial services (above all guarantee commissions), which contrasted with persistently negative developments in account services, payment services, card business and foreign exchange trading. Dividend income and other income from equity investments were up on the previous year (€40 million after €36 million), mainly as a result of equity investments in companies supporting the banking sector's activities. The other income

# Management Report (CONTINUED)

components decreased by a combined €16 million, mainly because of a base effect in the previous year (income from the buyback of Wohnbaubank bonds).

**Operating costs** were €1,131 million in 2014, matching the previous year's level. This means that the higher charge for the bank levy (+€9 million/+23.5% to €47.8 million) included in other administrative expenses was offset by reductions of other cost types. **Payroll costs** were down by €10 million or 2.5%, mainly in the Retail subdivision. Initiative 2020, focused on part-time working models which are socially compatible, made a substantial contribution to reducing staffing levels (FTEs). FTE numbers employed in the Retail & Corporates Division and reflected in costs (i.e. in average terms for the year) were down by 214 or 5.1%. A comparison of year-end 2014/2013 levels shows a decrease of 365 FTEs (–8.3%).

Of the 4,025 employees (FTEs) at the end of 2014, 2,899 FTEs were employed in the Retail subdivision. Despite the cost reduction programmes, the **cost/income ratio** (without the bank levy) of the Retail & Corporates Division was 72.4%, representing the average figure resulting from 96.6% in the Retail subdivision and 47.7% in the Corporates subdivision. Our SmartBanking modernisation programme and the new branch concept are aimed at reducing the high cost/income ratio in retail banking through improvements on the revenue and cost sides. **Net write-downs of loans and provisions for guarantees and commitments** in Retail & Corporates were down by 68.4%, from €136 million in 2013 to €43 million in 2014, an improvement of €93 million compared with the previous year.

The Retail subdivision recorded a net release of provisions, reflecting low additions to impaired loans and large recoveries on loans for which provisions had been previously made. The cost of risk in the Retail & Corporates Division therefore declined to 11 basis points (bp) of average lending volume (2013: 33bp). The Corporates subdivision also benefited from a decline in the cost of risk, from 36bp in 2013 to 25bp in 2014; the figure was also low in absolute terms.

→ On this basis **net operating profit** for 2014 was €322 million, up by €105 million or 48.3%. Net income from investments improved, too (as the comparative figure for the previous year included an impairment charge for an equity interest). **Profit before tax** thus rose even more strongly, by €135 million or 76.3% to €312 million.

● Operating income in the two **subdivisions** of Retail & Corporates showed different trends. **Retail banking** is characterised by weak demand and low interest rates as well as a structural change in customer preferences. Demand for more information and higher product transparency as well as the use of digital media and social networks is steadily growing. In 2014, **operating income** was €752 million, more or less matching the previous year's level (–1.0%). Net interest improved slightly, by 0.3%, to €420 million as acquisition efforts on the deposit side were successful while lending business was still weak. Our efforts to achieve growth in **lending business** and our intensive sales campaigns proved successful from the middle of 2014. In the second half of the year, we extended finance activities in the motor vehicle leasing sector to include an insurance package.

There was a strong increase in new consumer finance business, and very strong growth in new housing loans. Although new business reached €1.2 billion (+8.4% over 2013) the volume of outstanding loans (€13.7 billion, of which medium/long-term loans accounted for €12.7 billion) was slightly lower than in the previous year (–0.7%). Margins continued to narrow. The **deposit side** made a larger contribution to net interest as spreads improved. Above all, a large volume of maturing savings deposits held in “Kapitalsparbuch” accounts with high interest rates agreed in the past was replaced, the lead product in this context being the “Regionalsparbuch” account (1.25%/24-month deposit period). New business of €7.2 billion helped to maintain the total volume of savings deposits at €13.4 billion (+0.1% compared with 2013). **Net fees and commissions** generated by the Retail subdivision declined slightly, by 1.2%, reflecting developments in account services and payment transactions which were partly offset by stronger securities business. At the end of 2014, the volume of customers' investments in **mutual funds** was €5.8 billion, up by 3.0% on the end of the previous year. At the beginning of 2014, as part of the “Investing – making provision for the future” campaign, we used the mailing of safe-custody account statements to our customers to launch an advisory services initiative, drawing their attention to our wide range of products including the PIA Europa Garantiebasket 2/2022. In spring 2014 we launched **komfortinvestzone.at**, a website set up together with Pioneer Investments Austria which represents a digital upgrade of advisory services and gives access to specific information and calculators which investors can use according to their individual objectives: saving up, investing, earning additional income. As a result of this effort, sales of the Komfort Invest fund of funds tripled. Moreover, we use the **BestInvest** analysis tool to provide our customers, through a few simple steps, with an overview of their assets including a risk profile test, thorough analysis, diversification indicator and personalised investment proposal. To enhance the efficiency of our account services we introduced a range of **account packages** geared to various levels of use and priced accordingly. These account packages met with a favourable response: the Online Account is a low-price solution for customers who prefer to manage their banking transactions primarily online but wish to use branch services when necessary. The PerfectFit Account is tailored to the needs of customers who have traditionally used branch services and use their current accounts for a low number of transactions. The Relax Account is ideal for those who want to use the whole range of our services, be it online or via branches, at a fixed price.

► In 2014 the Retail & Corporates Division pursued the transformation of Bank Austria's **business model** to create a modern **multi-channel bank**. The openings of the first eight new-style branches were milestones on this way. The introduction of extended opening hours, from 9 a.m. to 6 p.m., at 30 branches in Vienna was also a great success. We have implemented a completely **new service approach** at our new-style branches. Staff provide advisory services with strong IT support while being able to draw on specialist know-how by instantly involving credit and investment experts. These experts may be present on site or they may be connected to branches via video calls. We currently operate **231 offices** serving **retail customers** in Austria; of this



# Management Report (CONTINUED)

total number, 200 meet the criteria of a **branch**. Added to this are 16 self-service centres. In the reporting year we combined branches in 31 locations (of which 12 in regions outside Vienna and 19 in Vienna); this compares with 19 branches combined in 2013. **SmartBanking** is a virtual branch now open to all 1.6 million customers of Bank Austria and also available in regions where our services were previously not easily accessible. We extended opening hours from 8 a.m. to 8 p.m. in our online branch with the innovative SmartBanking service including personal advisory services via video call, telephone, SMS and e-mail, as well as in OnlineBanking and MobileBanking. A wide range of key products is available in our OnlineShop around the clock.

● Operating income in the **Corporates subdivision of Retail & Corporates** rose by €20 million or 2.8% to €735 million. Within the total figure, **net interest** showed the strongest increase (+€19 million/+4.0% to €506 million). In **lending business**, volume (–1.7%) and spreads were lower than in the previous year, with net interest down by 7.7%. This means that all of the improvement in net interest performance resulted from the deposit side, where volume grew by 5.8% and net interest was up by 14.8%. Given the high level of liquidity and the renewed decline in the propensity to invest, and despite historically low interest rates and the stimulus provided by monetary policy, Bank Austria – like the entire banking industry – did not achieve any significant **loan growth**. As in the previous year, our attention focused on innovative small and medium-sized businesses: we again financed a number of projects under the Risk Sharing Instrument (RSI), a joint initiative of the European Investment Bank and the European Commission. As this initiative is very successful and there is strong demand, funds which may be used under the RSI were increased from €120 million to €160 million, available until the end of 2015. On the liabilities side, attractive offers across various maturity bands helped us achieve double-digit growth of **deposit volume**, and income generated by deposits increased almost to the same extent, although interest rates were at historically low levels. The “Dispo+” account introduced at the beginning of 2014 with a term of 31 days was developed as a new product contributing to meeting Basel 3 liquidity rules; the attractively priced account met with strong interest on the part of our customers. **Net fees and commissions** generated by the Corporates subdivision of Retail & Corporates increased by 4.1% to €175 million. While all lines of securities business (asset management, trading and custody) made contributions to this growth, financial services including guarantees and credit risk management accounted for most of the increase. Fees and commissions from transaction & banking services were slightly lower than in the previous year, reflecting the continued decline in foreign exchange trading and in derivatives business. In international business, one of Bank Austria’s traditional strengths, the focus was on export-oriented customers. The UniCredit International Center was launched with a view to supporting those companies which are themselves active in cross-border business in several countries. The activities in this context included providing assistance to international companies setting up business in Austria (e.g. Italian companies in Carinthia) while conversely promoting internationalisation activities of Austrian companies together with our UniCredit partner banks.

“Handel goes www” is a series of events organised by Bank Austria in cooperation with the Austrian Federal Economic Chamber to support **customers** in expanding their **Internet** presence as a sales channel. We offer them the EPS system as a secure and easy method of settling payments in their webshops. Future-oriented partners such as Google AdWords or everbill, an accounting solution specifically tailored to smaller companies, complete the offering.

► At the end of 2014 we opened **multi-channel banking** to corporate customers. The products offered in our OnlineShop range from accounts, investments and finance to leasing services. An onboarding team of the newly created BusinessCenter 24 accompanies the process to ensure that our customers are provided with the specific services they need.

► In 2014 the **Real Estate** department generated new business of €3.2 billion, up by about 50% over the previous year, with long-term finance provided to Austria’s highly competitive real estate sector (commercial real estate customers, housing companies and builders). Overall business volume rose slightly, to €8.2 billion. In regional terms, the focus was on Austria and our core markets in CEE/SEE. An analysis by customer group shows that commercial real estate such as office and retail property accounted for most of the new business; another key area is large-volume housing construction (under financial assistance schemes or freely financed). In the current environment of historically low interest rates we hedged a number of financing arrangements through long-term interest rate hedging transactions.

► Transaction volume in the **Public Sector** on the assets and liabilities sides rose to over €12 billion, in a market which declined overall (reflecting developments in connection with the stability pact and the debt brake). The Public Sector department thus further expanded its leading position among Austria’s universal banks. Public sector deposits contributed significantly to this development. Acting as a strategic financial partner for municipalities, Bank Austria has, in cooperation with the Association of Austrian Cities and Municipalities (KDZ) over the past years, made various analysis tools available to the public sector free of charge, including “Offener Haushalt”, a web platform which received the eAward 2015 in the “Administration and e-government” category from the “Digitales Österreich” platform of the Austrian Federal Chancellery.

► **FactorBank AG**, a wholly-owned subsidiary of Bank Austria, offers companies in the services, trading and manufacturing sectors with annual turnover of at least €5 million a modern instrument to optimise their financing structure which can be used by almost any company. Total factoring turnover in Austria rose by 16.3% to over €16 billion in 2014. FactorBank AG holds the leading position in Austria, with a market share of 49%.

► We reintegrated the Austrian leasing companies in this business segment as at 31 December 2014.

## Management Report (CONTINUED)

## Private Banking

(€ million)	2014	2013	CHANGE	
Operating income	175	153	+22	+14.4%
Operating costs	-116	-110	-6	+5.4%
Operating profit	59	43	+16	+37.8%
Net write-downs of loans	0	-1	+1	n.m.
Net operating profit	59	42	+17	+41.4%
<b>Profit before tax</b>	<b>56</b>	<b>40</b>	<b>+16</b>	<b>+40.8%</b>
Total financial assets (avg.)	20,593	19,019	+1,574	+8.3%
Direct funding (avg.)	8,610	7,813	+797	+10.2%
Loans to customers (avg.)	622	620	+1	+0.2%
Risk-weighted assets (avg.)	600	661	-61	-9.2%
Average equity	170	157	+13	+8.6%

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. At the end of 2014, total financial assets were €21.4 billion. 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 24 locations throughout Austria, the Private Banking Division's 545 employees (FTEs, year-end 2014) serve about 34,000 high net worth individuals with an investment potential of €500,000 or more and 1,145 private foundations.*

2014 was a very successful year for the Private Banking Division: total financial assets grew by 11.4% to €21.4 billion. Operating income rose by 14.4% and profit before tax improved by more than two-fifths, increasing from €40 million to €56 million.

The strategy of focusing on asset management, a value creation-intensive service, and on a service approach which concentrates on providing holistic but flexible customer services and a wide range of products which includes commercial banking products, has been very successful – all the more so in an environment of interest rates close to zero and investment conditions which are perceived as being generally unfavourable.

● In 2014, **total financial assets** (TFA) rose by an average 8.0% to €20.6 billion (see table); as of 31 December 2014 they came to €21.4 billion, 11.4% up on the previous year. The increase of €2.2 billion was driven by assets under management and direct deposits, while assets under custody were more or less unchanged, in line with the long-term trend.

The expansion of the leading market position in asset management, the Private Banking Division's core objective, is reflected in an increase in the volume of **assets under management** over the

past years to a current share of one-third (33%) of TFA.

One half of the 13.5% increase in assets under management to €7.1 billion in 2014 is explained by good performance, and the other half by ongoing net inflows of funds, which were positive in every quarter of the reporting period. At €6.0 billion, assets under custody (classic safe-custody business) slightly exceeded the figure of the previous year (+0.6%), with the increase in value being offset by net outflows of funds which were a result of the structural trend in favour of managed products.

2014 was an excellent year in terms of performance and net inflows of funds: the bond bull market continued at an unprecedented rate in 2014, with the benchmark yield on 10-year euro bonds rising by 16.7% and two-digit increases were also seen in other euro area bonds. Driven by ample liquidity, stock exchanges also continued to advance despite sluggish economic growth, substantial risks and the high valuation level achieved to date, although the increase was very uneven across the various regions (MSCI world index +7.4%, EuroStoxx a meagre +1.7%, emerging markets +2.4%). A number of factors induced active investors to switch to professional portfolio management: volatility characterised by recurring periods of risk aversion and economic pessimism, the replacement of the previously most preferred investment products (e.g. BRIC, commodities, gold), disruptions in currency markets in the fourth quarter of 2014, unorthodox central bank policy and interest rates that were close to zero for low-risk investments.

**Direct deposits**, which were more volatile from quarter to quarter, totalled €8.3 billion at the end of 2014, 18.9% up on the previous year. Time deposits with long maturities and competitive terms (Basel 3 products) met with a strong response also from Private Banking customers, partly at the expense of sight deposits. The attractive interest rates offered by these time deposits were particularly popular with major customers with ample liquidity.

● **Operating income** of the Private Banking business segment rose by 14.4% to €175 million in 2014, in parallel with the expansion of volume and turnover. The increase came from **net interest** (which rose by 29.6% to €64 million) due to the strong growth in deposits and wider spreads. Given the nature of private banking business, **net fees and commissions** were again the largest income component (62%), contributing €109 million to operating income in 2014. This was an increase of 8.4% on the previous year. In line with the Division's business strategy, fee-based income from asset management, including fund products, was up by 15.2% and most recently accounted for over three-quarters of net fees and commissions. This compared with a year-on-year decline of 12.7% in income from custody services (safe-custody charges, commission from trading activities etc.). Fee-based income from other banking services remained stable.

# Management Report (CONTINUED)

**Operating costs** in the reporting period rose by 5.4% compared with the previous year, largely due to growth in non-staff expenses (+9.9%). The increase is primarily explained by the significant rise in the bank levy over the previous year.

→ After deduction of costs (and after the release of a small loan loss provision) and inclusion of minor non-operating items, **profit before tax** came to **€56 million**, 40.8% higher than the figure for 2013. As capital allocation to this service-intensive business segment is low, and thanks to the high profitability and competitiveness of Bank Austria's Private Banking activities, ROE before tax was disproportionately high at 33.0% (2013: 25.5%).

● A long-term, sustainable business policy is of particular relevance after a successful year such as 2014, in which some trends of previous decades have without doubt come to an end. With the Bank Austria **Private Banking business model** we embrace a holistic service philosophy geared to meeting clients' specific needs. This is complemented by a broad range of services which includes commercial banking products. This approach proved to be very successful during the financial market crisis. Given the extraordinary investment environment characterised by historically low interest rate levels and the absence of easily identifiable trends, we give priority to **asset optimisation** over short-term performance targets and focus on managing risk through wide diversification. Our holistic advisory approach covers liquidity planning, analyses of financial and portfolio structures, asset transfers and retirement planning. This approach reduces the Private Banking Division's dependence on current market developments.

These activities are based on a sound market view obtained through comprehensive analyses by our experts in the Division. We pass this information lead on to our clients each day by means of an active information service provided in the form of online newsletters and regular specialist publications. Investment advisory and asset management services are also based on our market view as a component of our advisory approach. Under our **Preferred Partners concept** we cooperate closely with eleven of the largest and most renowned fund partners who were carefully selected by us. On this basis we can offer our clients a selection of mutual funds which meet their needs while reflecting our market view and our quality criteria.

Bank Austria Private Banking will launch UNIVERS from the second quarter of 2015, a new model for closer cooperation between the relationship manager and the client which comes with new terms. It is targeted at investors looking for professional advice and execution, while preferring to take investment decisions themselves.

Bank Austria's Private Banking Division serves 1,145 out of a total of 3,257 private **foundations** and 460 foundations set up by Austrian federal and provincial government agencies. On this basis, Bank Austria is the market leader in services for foundations, with a market share of 31%. Under its special **initiative focusing on foundations**, Bank Austria is committed to innovation as a factor helping to maintain Austria's attraction as a business location, an important topic for the Austrian economy. Over a period of six months, numerous expert interviews were conducted with representatives from the areas of tax and fiscal law, social sciences and economics, civil law and company law, and science and basic research, as well as with practitioners, entrepreneurs and grantors of foundations. These interviews served to collect ideas and demands for modernising Austria's legislation on foundations and to improve the overall framework for private providers of risk capital. The ideas and demands were then presented to the relevant decision-makers.

**Schoellerbank**, founded in 1833, is one of Austria's largest private banking institutions and serves private individuals, corporate customers and institutional investors. It specialises in meeting the demands of exacting investors, focusing on its core competencies of providing investment advisory services, asset management and retirement planning. Its investment philosophy is based on the motto: "It is better to invest than to speculate". Schoellerbank is a wholly-owned subsidiary of UniCredit Bank Austria AG and with a presence in twelve locations it covers virtually all of Austria.

Classic asset management, set up in 1992, together with investment advisory services and retirement planning belongs to the core competencies of Schoellerbank and achieved very good results, especially in the last few challenging years. As a growing number of clients are entrusting Schoellerbank with the management of their assets, managed products account for two-thirds of total portfolio volume. This is in large part attributable to Schoellerbank's own investment management company, whose investment funds are regularly recognised for their outstanding performance. Apart from product solutions, the overall client service approach also gained recognition, e.g. with the Elite Report. For ten years now, several hundred asset managers from German-speaking countries have been subjected to comprehensive tests each year. Schoellerbank has been ranked among the elite asset managers for many years and – after 2012 and 2013 – again reached the prestigious first place in the past year among 350 private banking institutions. On this basis it has repeatedly been recognised as the best private banking institution in Austria and in all German-speaking countries.

## Management Report (CONTINUED)

## Corporate &amp; Investment Banking (CIB)

(€ million)	2014	2013	CHANGE	
Operating income	477	515	-38	-7.4%
Operating costs	-253	-226	-27	+11.8%
Operating profit	224	289	-65	-22.4%
Net write-downs of loans	3	-53	+57	n. m.
Net operating profit	227	235	-8	-3.3%
<b>Profit before tax</b>	<b>230</b>	<b>238</b>	<b>-8</b>	<b>-3.3%</b>
Loans to customers (avg.)	12,966	13,575	-610	-4.5%
Direct funding (avg.)	8,753	8,506	+247	+2.9%
Risk-weighted assets (avg.)	8,393	9,093	-701	-7.7%
Average equity	836	984	-147	-15.0%

Corporate & Investment Banking (CIB) focuses on serving multinational companies and large 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. Under the overall concept, and operating out of Vienna, Bank Austria is responsible for markets in Scandinavia, Spain, Portugal, the Netherlands, South Africa and Israel, not least with a view to making it easier for large international companies to access Austria and CEE and the entire UniCredit network. Global Account Managers serve multinational customers (MNC), Senior Bankers provide services to selected top customers with a focus on investment banking. In cooperation with local relationship managers of corporate customers, CIB meets customers' commercial banking product needs. 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; cash management solutions; risk management to hedge currency risk, commodity risk and interest rate risk; and capital market and investment products. CIB manages funding and treasury operations for the entire bank.

In organisational terms, the CIB business segment has a matrix structure comprising two customer groups, i.e. Network (commercial customers) and Counterparts, and three product lines including Finance & Advisory (F&A): loan products/credit advisory, Corporate Finance & Advisory, Loan Syndication, Capital Markets (equities, bonds), Leveraged Buy-out, Project & Commodity Finance, Structured Trade & Export Finance, Real Estate Financing, Principal Investments; Markets: fixed-income and foreign-exchange market activities, risk management products, structured products, implementation of strategy in asset/liability and liquidity management, Treasury function. Global Transaction Banking (GTB): Cash Management & eBanking, Supply Chain Finance, Trade Finance activities, clearing, Global Securities Services.

## Operating income matrix: product view/network view

2014, € million

	Finance & Advisory	Markets	Global Transaction Banking	CIB total
<b>Network</b>	165	29	134	328
+/- € million	-13	5	-11	-18
<b>Counterparts</b>	0	149	...	149
+/- € million	-3	-17		-20
<b>Total</b>	<b>165</b>	<b>178</b>	<b>134</b>	<b>477</b>
+/- € million	-16	-12	-11	-38

● Expectations in the early part of the year under review failed to materialise for the CIB Division's business with large customers, which is strongly dependent on global economic trends. The forecast economic recovery was once more delayed. The international economic climate started to deteriorate in emerging markets in the first half of 2014, and the weak recovery in Europe came to a halt, with Southern Europe struggling with recession. The summer months were still characterised by general stagnation and low volatility, followed by a turbulent fourth quarter. As the Ukraine/Russia conflict escalated, accompanied by sanctions and counter-measures, markets experienced sharp exchange rate movements and renewed uncertainty. Despite high levels of liquidity, and although terms and conditions for financing were extremely favourable, companies again postponed planned investment projects, new issues and capital measures. They continued to use excess liquidity and favourable terms to strengthen their balance sheets. Export-related and international transactions also remained weak. Although the general conditions for a moderate recovery were in place, economic pessimism was particularly pronounced in Austria. In view of growing fears of deflation, the ECB took further unorthodox measures in the second half of 2014. From the banks' perspective, the environment was characterised by weak credit demand and low export turnover as well as by an unprecedented decline in interest rates – ultimately to levels close to zero in money markets – and a further flattening yield curve.

● The CIB business segment's **profit before tax** in the mixed environment prevailing in 2014 was a sound **€230 million**, down by €8 million or 3.3% on the previous year. With 560 employees (FTEs at year-end 2014) CIB contributed 38% to overall profit before tax generated by Austrian customer business in 2014. Return on equity (ROE before tax) improved from 24.2% to 27.5%.

**Operating income** in 2014 totalled €477 million, down by €38 million or 7.4% from the previous year. The decline was mainly due to **net interest**, which fell by €18 million or 5.2% to €324 million. This item also reflects net interest from

# Management Report (CONTINUED)

Bank Austria's **treasury** operations, which declined by €18 million or 12.3% as the market situation was completely different to that in 2013 and transformation income was lower than in the previous year. Net interest from **commercial banking** activities was slightly higher than in the previous year (€193 million, +0.3%), with weaker lending business being offset by improvements in deposit business. On the lending side, volume declined by 4.0% as demand remained weak, despite lively new business. Moreover, spreads narrowed on the assets side, also because financings bearing higher interest rates matured and on account of pressure on margins when loans were renewed in an environment of extremely strong competition. On the liabilities side, the promotion of Basel-3 products through the campaign mentioned before in this report led to a strong increase in time deposits (which are normally of lesser importance) also in CIB; while this came partly at the expense of sight deposits, it also increased the total volume of deposits by 12.7%. Due to interest rate reductions (also reflected in spreads), the net interest contribution from the liabilities side rose, offsetting the decline in lending operations in commercial banking.

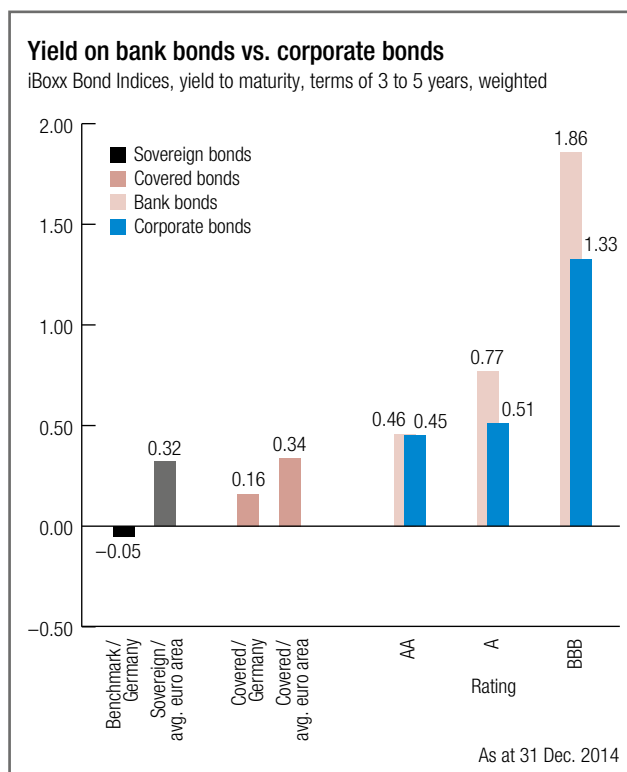
**Net fees and commissions** were €99 million, down by 9.7% on the previous year, reflecting customer restraint in securities business, mainly in brokerage and safe-custody business. Guarantee commissions accounted for the major part of commission income from financial services and about one-half of net fees and commissions. Given the dominant market share in the area of international guarantees, and the leading role in international cash management within transaction banking, the decline in 2014 followed the general trend in export activity. Income from interest-rate-risk and currency-risk hedging transactions and from foreign exchange trading remained at the previous year's level in 2014. **Net trading, hedging and fair value income** was €52 million, only slightly lower than in the previous year (€54 million) and without showing any major fluctuations. The low underlying trading volume reflects the reduction of proprietary trading activities in the past years.

**Operating costs** rose by 11.8% to €253 million compared with the previous year. Within the total figure, payroll costs were almost unchanged at €78 million (2013: €76 million, +2.9%). In average terms for 2014, staff numbers (FTEs) reflected in costs were 564, down by 11 FTEs on the previous year. **Other administrative expenses** increased more strongly (+16.8%) because they include the significantly larger portion attributable to CIB (+21.9% to €32 million) of the (higher) bank levy, which accounts for 18% of CIB's other administrative expenses and 12% of total operating costs. Another factor in 2014 was higher IT costs associated with **product innovation** in the **transaction banking** sector: the SEPA project was successfully completed. New products which are currently being developed include MNC@WEB, which provides internationally active groups of companies – and all banks involved within the UniCredit network – with a single electronic banking platform for

account transactions, payments and cash management. The UniCredit Supply Chain Finance (UCSF) project makes it easier for companies to manage payments to their suppliers (purchase of accounts receivable for buyers and sellers) along the value creation chain. The cost/income ratio was 46.4%, up from the previous year's 38.9%, not least on account of the higher IT costs and also because operating income was lower. At this level it is still significantly lower than the average for the bank as a whole.

A **net release of loan loss provisions** in 2014 resulted in income of €3 million, compared with a provisioning charge of €53 million in the previous year. In the second quarter of 2014, the provision for a large exposure was released (after a legal dispute which had been pending for many years). Even without this one-off income, the cost of risk in 2014 would have been significantly lower, at 23bp, than in the previous year (39bp). Credit risk has been moderate for years, reflecting the high portfolio quality. **Net operating profit** was €227 million, coming close to the previous year's level of €235 million (-3.3%). As the balance of non-operating items was slightly positive, the CIB business segment closed 2014 with a **profit before tax of €230 million** (-3.3% compared with 2013).

● **Loans** remain the key product in our business relationships. Notwithstanding moderate demand for loans, the Corporate & Investment Banking Division took a pro-active approach in making loans



# Management Report (CONTINUED)

available to the business sector in 2014; lending volume most recently amounted to about €12.6 billion, with medium-term and long-term finance accounting for almost all of this amount. We expect credit demand to pick up in the course of 2015 and we can meet such demand within a very short time, all the more so as the targeted longer-term refinancing operations (TLTRO) are a low-cost source of funding and we can offer very attractive terms and conditions.

We actively support our customers in their efforts to more effectively plan their liquidity, interest-rate, currency and funding needs. As a long-term finance partner we offer our customers various risk management instruments and **strategic financial advisory services** (Capital Structure Advisory), working with them to analyse their balance sheets and financing flows and draw up customised solutions. For this purpose we use IT-supported **analysis and advisory instruments** such as the WorkingCapitalCheck, stress simulation, RatingBeratung, BusinessPlanner (on a database basis), BranchenCheck and VerschuldungsKapazitätsRechner.

**Customer Treasury Services** (CTS) implements companies' financial risk management measures. Developments around the turn of the year 2014/2015 have shown that foreign exchange trading and hedging transactions, including the hedging of interest rate positions, are not a thing of the past; today companies use simpler and more transparent products instead of complex structured products. Our approach is solution-focused, not product-driven. The successful attraction of longer-term money market deposits in 2014, which is of relevance in view of banks' gradual transition to Basel 3 liquidity rules, has given impetus to competition for investment of corporate liquidity.

● CIB's **capital market expertise**, the presence of UniCredit's global CIB Division in all major financial centres around the world, and excellent access to our core regions in Western, Central and Eastern Europe and 50 countries worldwide are essential competitive advantages of Bank Austria.

In 2014 we maintained our leading role as strategic financial partner and top contact for **capital market measures** of companies. The Corporate & Investment Banking Division acted in a leading capacity for ten corporate bond issues in Austria with a total volume of over

€1.8 billion in 2014, making it the clear number one in the Austrian capital market. We are thus acting in line with the structural long-term trend of increasingly substituting capital market products for loan finance, though certainly not completely replacing it, in this customer segment. This development also reflects the Basel 3 rules. We also expect an increase in the volume of new issues in the Austrian bond market. There are about 80 issuers with 140 outstanding bond issues in the Austrian non-financial corporate sector. In addition to many international mandates, we also acted in a leading capacity for a number of loans against borrowers' notes and we are also the market leader, by a wide margin, in syndicated finance in Austria.

● International transaction banking is a unique selling proposition of Bank Austria. We support the Austrian **export industry**, which comprises some 42,000 Austrian companies, by making available the largest network in CEE and throughout the world within UniCredit. Bank Austria handles every second export loan covered by Oesterreichische Kontrollbank, and almost every second export letter of credit is routed via Bank Austria; in the area of foreign guarantees Bank Austria's market share is 40%. There is sound demand for export finance products (tied finance credit and purchase of accounts receivable), though this is subject to varying economic trends – these products offer our customers protection against risk, liquidity and competitive advantages through favourable terms and conditions for finance. Our innovative cash management solutions permit our customers to effectively handle their payment transactions and intercompany payments via our web-based platforms.

In 2015, the US financial magazine "Global Finance" named Bank Austria "**Best Trade Finance Bank**" in Austria for 2014, a distinction which the bank has received seven years in succession. This was the result of an annual survey among analysts, managers and technology experts in 84 countries. Awards were also presented to the banking subsidiaries in Bulgaria, the Czech Republic and Ukraine. UniCredit was voted "Best Trade Finance Bank" in Central and Eastern Europe. The key selection criteria for the awards were transaction volume, geographic reach, customer services, competitive pricing and innovative technology. With our international network we can offer Austrian and CEE companies unique advantages in documentary and guarantee business.

## Management Report (CONTINUED)

## Central Eastern Europe (CEE)

(€ million)	2014	2013	CHANGE	CONST. <sup>1)</sup>
Operating income	3,864	4,423	-559 -12.6%	-6.9%
Operating costs	-1,600	-1,697	+97 -5.7%	-0.8%
Operating profit	2,264	2,726	-462 -16.9%	-10.6%
Net write-downs of loans	-654	-1,094	+441 -40.3%	-37.6%
Net operating profit	1,610	1,631	-21 -1.3%	+6.8%
<b>Profit before tax</b>	<b>1,500</b>	<b>1,534</b>	<b>-34 -2.2%</b>	<b>+6.1%</b>
Loans to customers (avg.)	56,460	57,255	-795 -1.4%	+4.9%
Direct funding (avg.)	49,108	46,840	+2,268 +4.8%	+11.5%
Risk-weighted assets (avg.) <sup>2)</sup>	84,848	85,368	-520 -0.6%	...
Average equity	13,923	14,317	-395 -2.8%	...

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

Bank Austria with its CEE business segment is UniCredit's subholding company for operations in Central and Eastern Europe, managing the leading banking network in CEE in 13 countries. The consolidated banks in CEE (end of December 2014, including the bank in Ukraine, which is classified as held for sale) have 28,837 employees (FTEs), who work in 1,441 branches; added to this are 18,216 employees (FTEs at 100%) and 1,042 branches in our Turkish joint venture. Following changes in accounting rules (IFRS 11), the investment in the Turkish joint venture has been accounted for using the equity method instead of proportionate consolidation since the beginning of 2014.

The overall environment in the 2014 financial year was characterised by regional differences, with some regions prospering and others affected by crises. In these circumstances, the basic idea of developing business in Central and Eastern Europe through an extensive network of banks with strong local roots proved successful. Our banking subsidiaries benefited from their role as local yet international banks in 2014, further strengthening their market position. The CEE business segment generated a profit before tax of €1.5 billion and a net profit of over €1 billion, accounting for over 70% of Bank Austria's profit before tax and net profit generated by customer business (Bank Austria without the Corporate Center).

● Although the economy in Western Europe started to lose momentum in the middle of 2014 and geopolitical tensions escalated in the fourth quarter of 2014, with the conflict in Ukraine and the tensions with Russia, our banking subsidiaries in CEE had a good year, both overall and individually. As explained in the introductory section on the banking environment, economic trends in Western Europe were disappointing and the expected external stimulus failed to materialise. These developments were, however, offset by a recovery of domestic demand in most countries. As inflation rates fell significantly, in some countries to levels below zero, the banking sector was faced with an equally strong decline in market interest rates. As in Western Europe, credit demand

weakened considerably in CEE while deposits rose strongly and local funding thus gained in importance. Market penetration with banking products made further progress, in both asset management and services. Business with large export-oriented companies expanded strongly.

● **Operating income** in the CEE Division amounted to **€3,864 million** in 2014, close to two-thirds (65.6%) of the total figure for Bank Austria. Operating performance compared with the previous year – down to the level of profit before tax in the income statement – reflected the net effect of developments which moved in opposite directions. The Central European (CE) countries experienced a stronger-than-expected upward trend and operating income in South-East Europe (SEE) was stable, despite the impact of recession, structural problems and natural disasters (floods). Overall, despite diverse trends, the CESEE region achieved an increase of €41.3 million or 1.6% in operating income (adjusted for exchange rate movements: +4.0%) to a total of €2,555 million. On the other hand, operating income in Turkey and Russia, though still large, declined by a combined €583 million compared with the previous year. While this development is not surprising in view of the market environment, it largely reflects statistical base effects. Operating income was therefore down by €559 million or 12.6% on the previous year; this means that without Turkey and Russia, the total figure increased.

When assessing developments in CEE, one should note the following **important factors**: Turkey's contribution to the income statement is accounted for using the **equity method**, corresponding to the pro-rata share of profit and included in operating income in accordance with IFRS 11, although the figure also reflects non-operating items. The contribution from Turkey was down by €295 million to €341 million, with two-thirds of the decrease being due to the above-mentioned **base effect** (gains of €195 million on the sale of the Sigorta insurance operations in the second half of 2013, coupled with a cooperation arrangement with Allianz). Operating income of our **Russian banking subsidiary** fell by a similar amount of €288 million (-26.6%). Over one-half of this decline (-€156 million) was due to the **exchange rate effect** (adjusted for exchange rate movements, operating income was down by 11.6%); moreover, the net trading performance turned negative (-€30 million) in the wake of turbulent developments in financial markets in the fourth quarter of 2014. The decline (-€288 million) in operating income in Russia compared with the previous year also reflects a one-off effect: gains of €145 million on the sale of the remaining shares in the restructured Moscow Interbank Currency Exchange (MICEX), the Russian trading platform which previously recorded the largest turnover in the country.

● Within total **operating income**, **net interest** amounted to €2,460 million, up by 1.5%; adjusted for exchange rate movements, it rose by 9.1%. This is a good performance given the

## Management Report (CONTINUED)

mixed environment. Net interest in the Central European countries increased by 4.6% and 9.8%, respectively; volume in this region (in local currency) expanded, both on the lending side and even more strongly on the deposit side, with interest margins improving as interest rates declined. In the South-East Europe country group, net interest rose by 3.0%/3.7%, a lower rate than in CE because of weaker trends in Romania and in Bosnia and Herzegovina. Growth was driven by Bulgaria (+7.8%), where our banking subsidiary offered stability during the local banking crisis. In a difficult environment, Russia reported a significant increase of 3.3% in net interest, to €696 million. In this context, exchange rate movements had a double influence: currency depreciation (–16.9% in average terms for the year) impacted translation into euro of figures in the local financial statements; adjusted for exchange rate movements, net interest increased by 24.3%. On the other hand, assets denominated in foreign currency are stated at higher values in the local financial statements as a result of appreciation against the Russian rouble (the US dollar accounts for about 70% of business with large international customers). Average lending volume in rouble terms in 2014 was 20.5% higher than in the previous year, and at year-end 2014 it was up by 48.3% on year-end 2013 (deposits: +50.6%). In any case, volume rose strongly and interest margins improved, underlining the local entity's prominent role as an international bank. The concentration of commercial banking activities in the Baltic countries to focus on leasing business and, to an even greater extent, the reduction of the cross-regional portfolio in the Profit Center Vienna lowered volume (–19.6%) and net interest (–20.4% or over –€40 million) in the CEE Division.

**Net fees and commissions** generated in CEE rose strongly across all regions, by 3.4% to €755 million; adjusted for exchange rate movements, growth reached 9.0%. The strongest increase was achieved by our banks in the Central European countries (+3.3%; in local currency +8.1%), especially in Hungary (+12.1%/adjusted for exchange rate movements: +16.6%). Net fees and commissions also rose significantly in SEE (+3.2%/+3.8%), supported by loan commissions, guarantees and credit insurance. A general trend was the continued advance of securities investments (assets under management/assets under custody) and classic transaction banking including account services and payment transactions as well as card business.

**Net trading, hedging and fair value income** in 2014 was positive in all countries except Russia. The total figure was €254 million, down by €308 million on the previous year, mainly on account of developments in Russia: apart from the one-off effect reflected in the previous year's figure (€145 million, MICEX) the decline was due to a negative contribution of –€51 million in the fourth quarter of 2014; as a result, the trading performance in Russia for 2014 as a whole was –€30 million. In an environment characterised by sanctions, currency depreciation and a shortage of foreign exchange, liquidity management of large companies again led to

large turnover in customer-driven foreign exchange trading activities. But results were impacted by the effect of dramatic interest rate increases and write-downs on financial assets held for trading and derivatives positions. A positive factor was net trading income generated in Hungary (€65 million after €36 million), driven by securities trading activities in customer business and gains realised on the bond portfolio as interest rates declined. Net trading income in Romania was again very high, at €79 million (2013: €87 million).

**CEE: net operating profit by component**

(€ million)	2014	2013	+/-	+/- %	CONST
Net interest	2,460	2,422	+37	+1.5%	+9.1%
Dividend income and other income from equity investments	345	648	–303	–46.7%	–39.2%
Net fees and commissions	755	731	+25	+3.4%	+9.0%
Net trading, hedging and fair value income	254	563	–308	–54.8%	–55.7%
Operating income	3,864	4,423	–559	–12.6%	–6.9%
Operating costs	–1,600	–1,697	+97	–5.7%	–0.8%
Net write-downs of loans and provisions for guarantees and commitments	–654	–1,094	+441	–40.3%	–37.6%
<b>Net operating profit</b>	<b>1,610</b>	<b>1,631</b>	<b>–21</b>	<b>–1.3%</b>	<b>+6.8%</b>
... without Sigorta and MICEX <sup>1)</sup>	1,610	1,291	319	+24.7%	+35.9%
Customer loans <sup>2)</sup>	56,378	56,479	–100	–0.2%	+13.4%
Direct funding <sup>2)3)</sup>	51,499	49,524	+1,976	+4.0%	+20.1%

CONST = adjusted for exchange rate movements/at constant exchange rates. /

1) Gains on the sale of Turkish insurance operations (Sigorta effect, €195 million) and on the sale of shares in the Moscow Interbank Currency Exchange (MICEX, €145 million). / 2) End of period. 3) Deposits from customers and debt securities in issue.

● **Operating costs** in the CEE business segment totalled €1,600 million, down by €97 million or 5.7%; costs were also below the level of the previous year without the effects of currency depreciation (–0.8%). At current exchange rates, payroll costs declined by 1.4% despite continued expansion in the strategic countries which are the focus of attention; when adjusted for exchange rate movements they rose by 4.2%. Operating costs (i. e. without the Turkish operations, which are accounted for using the equity method, and without Ukraine, whose payroll costs are also not included in operating costs, and without Kazakhstan, which was still included at the beginning of 2013) reflected an average 24,239 FTEs in CEE in 2014, a reduction of 290 FTEs (–1.2%) compared with 2013. Staffing levels increased mostly in Russia (+48 FTEs) and Romania (+110 FTEs); in Romania the increase was due to the acquisition of the retail and corporate business portfolios from a foreign bank that discontinued operations in CEE. FTE numbers were down in Hungary as a result of the streamlining of the branch network (–98 FTEs) and in Croatia on account of the sale of a non-bank equity interest (–113 FTEs); in the Baltic



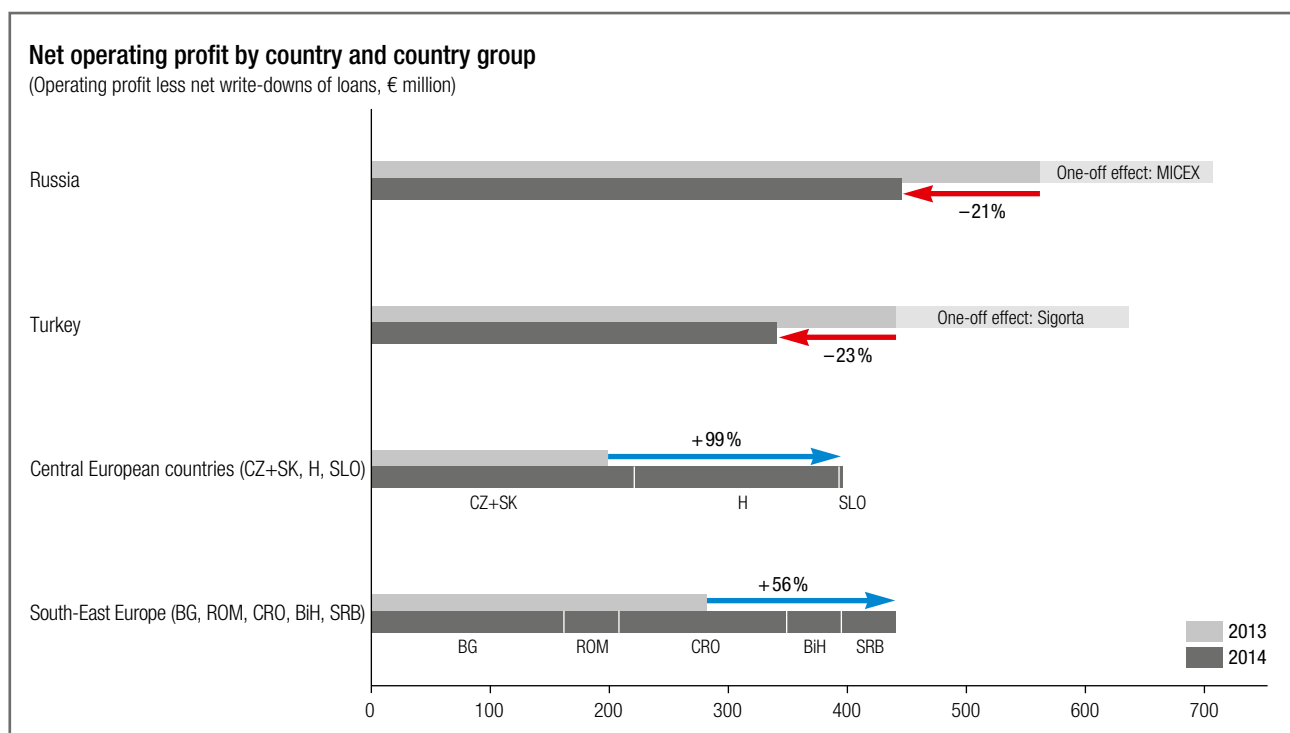
# Management Report (CONTINUED)

countries FTEs declined following the discontinuation of universal banking business (-69 FTEs). In the new banking subsidiary in the Czech Republic, created through the merger of Czech and Slovak units in 2013, staffing levels declined by an average 165 FTEs on a comparable basis. The decline was the result of synergy effects and of services outsourced to UBIS, the internal service provider of UniCredit, in 2014. In 2014, **other administrative expenses** came to €771 million, down by €39 million or 4.8% on the previous year. The lower amount is partly explained by the fact that a special payment related to the financial transaction tax in Hungary was not applicable. Adjusted for exchange rate movements, other administrative expenses remained stable in all other respects. As operating income declined more significantly than costs due to one-off effects, the **cost/income ratio** rose by 3.0 percentage points to 40.3% (without bank levies). The cost/income ratio remains more or less unchanged (0.2 percentage points down compared with 41.6% in the previous year) if the 2013 figures are adjusted for the two one-off effects (Sigorta and MICEX).

● Net operating profit of the CEE Division improved substantially in a comparison with the previous year through the lower **provisioning charge**. After the large additions to loan loss provisions at the end of 2013, whereby the coverage ratio for impaired loans improved considerably, fewer net additions to loan loss provisions were required in 2014 so that **net write-downs of loans and provisions for guarantees and commitments** in the CEE Division (€654 million) declined by two-fifths (-40.3% or **-€441 million**)

on the figure for 2013 (€1,094 million). This was not at the expense of the **coverage ratio** of impaired loans, which **improved** from 50.3% to 51.2%: specific write-downs in the CEE business segment (without Turkey and Ukraine) rose by 4.9%, the gross volume of impaired loans increased by 3.1%, while total lending volume expanded by a gross 6.1%. The improvement in the coverage ratio was even more pronounced in the sub-group of non-performing loans (NPLs), which increased from 60.0% (year-end 2013) to 65.6% (year-end 2014).

Net write-downs of loans and provisions for guarantees and commitments declined across the business segment (with the exception of Bosnia and Herzegovina and Russia). The reduction of cross-regional financings booked at the Profit Center Vienna (and the resulting reduction of write-downs of loans) lowered net write-downs of loans and provisions for guarantees and commitments in the Division by €181 million. On this basis, the **cost of risk** (net write-downs of loans and provisions for guarantees and commitments p.a./average lending volume) in CEE declined to 116bp. At this level it was less than half the figure recorded in the difficult years 2009 and 2010, when it ranged between 200bp and 300bp. The cost of risk improved in all CEE countries based on a comparison of year-end 2013/year-end 2014. The only exception was Russia, where net write-downs of loans and provisions for guarantees and commitments, in parallel with the increase in lending volume, increased by 26.4% (adjusted for exchange rate movements). At 66bp, the cost of risk in Russia was still well below the CEE average in the reporting



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period. The cost of risk remained the highest in Romania (302bp), Bulgaria (185bp) and Serbia (185bp); Slovenia is a special case due to the after-effects of the restructuring of the banking sector (192bp). While the cost of risk also improved in Croatia (to 145bp), the fourth quarter of 2014 again saw an increase in net write-downs of loans and provisions for guarantees and commitments. The cost of risk was lowest at our Czech banking subsidiary (64bp), with asset quality deteriorating slightly at the end of 2014.

→ **Net operating profit** of the CEE business segment (€1,610 million) was 6.8% up on the figure for the previous year at constant exchange rates; at current exchange rates it fell slightly, by 1.3%.

● On a **regional** basis, the countries in Central Europe recorded the strongest improvement in net operating profit, reflecting economic developments in that region (see table below). While the convergence process in the Western Balkan countries continues to focus on structural change, our banks succeeded in maintaining their significant market position and their best reputation as international banks in the region. The decline in net write-downs of loans and provisions for guarantees and commitments resulted in a double-digit increase in net operating profit of all banks in SEE (including Romania and Bulgaria).

**CEE: net operating profit** (operating profit less net write-downs of loans)

(€ million)	2014	2013	+/-	+/- %	CONST
Czech Rep./Slovakia	221	187	+35	+18.6%	+25.3%
Hungary	172	40	+132	>100%	>100%
Slovenia	2	-27	+30	n.m.	n.m.
... CE (Central Europe)	396	199	+197	+98.7%	+>100%
Bulgaria	162	106	+56	+53.1%	+53.1%
Romania	46	-2	+48	n.m.	n.m.
Croatia	141	106	+35	+32.7%	+33.7%
Bosnia and Herzegovina	46	42	+4	+9.6%	+9.6%
Serbia	47	31	+16	+52.4%	+58.0%
... SEE (South-East Europe)	441	282	+159	+56.3%	+57.2%
... CESEE = CE+SEE	837	482	+355	+73.8%	+78.0%
Turkey (at-equity contribution) <sup>1)</sup>	341	636	-295	-46.3%	-38.7%
Russia	446	707	-261	-36.9%	-24.0%
Other <sup>2)</sup>	-15	-193	178	-92.5%	-91.8%
<b>CEE</b>	<b>1,610</b>	<b>1,631</b>	<b>-21</b>	<b>-1.3%</b>	<b>+6.8%</b>

<sup>1)</sup> The Turkish joint venture is no longer accounted for under the proportionate consolidation method but using the equity method in accordance with IFRS 11; its contribution also includes non-operating items. / <sup>2)</sup> Baltic countries and Vienna-based CEE headquarters (Profit Center Vienna). / n.m. = not meaningful

The contribution from **Turkey**, accounted for using the equity method, was down by about one-half (-46.3%) to €341 million in 2014. Adjusted for the gains on the sale of Sigorta in the previous year, and for average currency depreciation of 14.6% in 2014, net profit declined by 9.4%, reflecting a 3.7% increase in operating income and a 16.5% rise in costs, while credit risk was up by

13.5% from a low level (all figures adjusted for exchange rate movements). This development is to be seen in the longer-term context of the adjustment of the Turkish economy's growth model: the boom in past years was driven by growth in consumption, which in turn was supported by excessive lending. The result was a huge current account deficit, which could not be financed on a sustainable basis through (volatile) capital inflows. As a consequence, the Turkish currency depreciated towards the end of 2013 and in the first quarter of 2014. The government subsequently pursued a restrictive economic policy, including increases in interest rates and in minimum reserve requirements, a policy which was further tightened in subsequent months through additional measures to contain the credit card boom and overdraft loans, directly impacting banks. In the meantime, loan growth and the inflation rate rose again. The Turkish bank in which we hold an equity interest continued to achieve strong lending growth of around 25.4% in 2014 (in local currency) compared with the previous year. But net interest rose by only 13.1% as margins narrowed. Net fees and commissions increased by 4.8%, an unusually low rate explained by the curb on credit card business. Net trading income was down by 40.2% on the previous year, also reflecting substantial sales of bonds in the previous year and the impact of interest rate increases on valuations. The cost of risk improved (on account of strong growth) from 104bp to 94bp. The expansion programme continued as planned, and costs therefore rose more strongly, by 16.5%, also due to index-linked salary increases in local currency. Quite generally, Turkey is still a classic growth market and can cope well with a period of consolidation.

● The **non-operating items** between net operating profit and profit before tax reduced the CEE Division's net profit by €110 million in 2014 after a net expense of €98 million in the previous year, mainly because provisions for risks and charges (-€115 million after -€11 million) included provisions of €107 million for refunds of bid/ask spreads and unilateral interest rate adjustments in Hungary which were applied to foreign currency loans in the past.

→ The CEE Division ended the 2014 financial year successfully with a **profit before tax of €1,500 million**. Without the one-off effects in the previous year (Sigorta and MICEX), profit before tax was up by 25%.

**CEE: profit performance in 2014**

(€ million)	2014	2013	+/-	+/- %	CONST
<b>Net operating profit</b>	<b>1,610</b>	<b>1,631</b>	<b>-21</b>	<b>-1.3%</b>	<b>+6.8%</b>
Non-operating items <sup>1)</sup>	-110	-98	-12	+12.6%	
<b>Profit before tax</b>	<b>1,500</b>	<b>1,534</b>	<b>-34</b>	<b>-2.2%</b>	<b>+6.1%</b>
Non-operating items <sup>2)</sup>	-402	-278	-124	+44.7%	
<b>Net profit <sup>3)</sup></b>	<b>1,098</b>	<b>1,256</b>	<b>-158</b>	<b>-12.6%</b>	<b>-9.0%</b>

<sup>1)</sup> Provisions for risks and charges, integration/restructuring costs and net income from investments. / <sup>2)</sup> Income tax, total profit or loss after tax from discontinued operations, non-controlling interests, Purchase Price Allocation effect (PPA), impairment losses on goodwill. / <sup>3)</sup> Net profit attributable to the owners of the parent company.

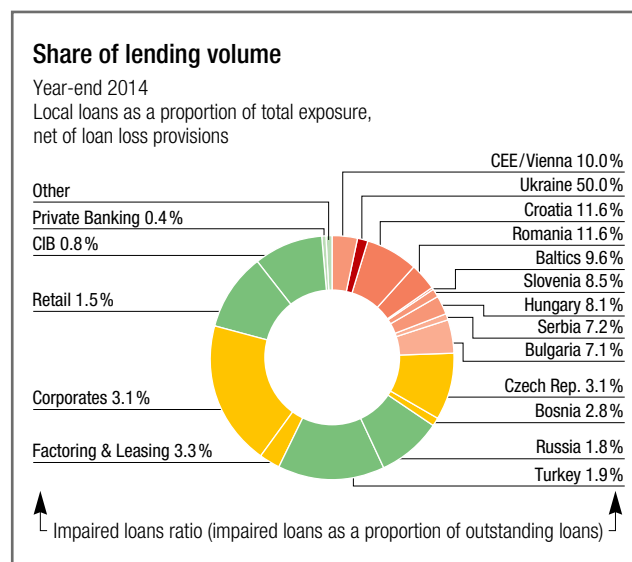
# Management Report (CONTINUED)

Among the **other non-operating items** to be taken into account in calculating net profit, the item “Total profit or loss after tax from discontinued operations” includes the current results of –€206 million in **Ukraine** (2013: –€103 million), reflecting average UAH/EUR depreciation of 32.0%. A portion of this loss is attributable to the minority shareholder UniCredit S.p.A. This means that the impact of operations in Ukraine on the CEE business segment and on the consolidated financial statements of Bank Austria was –€152 million after –€102 million in 2013. The current situation in the country has a strong impact on commercial activity. Ukrspbank has closed its offices in Crimea. Most of the branches in the regions of Donetsk and Luhansk have been closed permanently. Overall, a strong focus on deposit retention and restrictive lending practice helped to keep the bank’s liquidity position stable. Net interest was significantly lower than in the previous year, reflecting a workout of impaired loans and higher funding costs. Net fees and commissions reflect a decline in account and payment transactions due to the crisis. Costs in local currency were slightly down, one of the reasons being the reduction of staffing levels, by 1,313 FTEs or 21.4%, to 4,830 FTEs as at the end of December 2014 compared with the previous year. As was to be expected, net write-downs of loans were significantly higher than the (very low) operating profit, leading to the above-mentioned loss. As of 31 December 2014, 50% of the loans held by the Ukrainian banking subsidiary were classified as impaired, and the percentage has meanwhile risen to 67%. In the crisis region itself, the volume of impaired loans totalled 90%. As of 31 December 2014, the default ratio on loans to Ukrainian companies booked at the Profit Center Vienna was 55%. For details of asset quality and liquidity risk see section E.2 of the notes to the consolidated financial statements on pages 197 to 200.

→ **Net profit** (attributable to the owners of the parent company) for 2014 was **€1,098 million**, down by 12.6% on the previous year’s €1,256 million.

**Risk-weighted assets** (RWAs) of the CEE business segment (which in line with COREP regulatory reporting cover the entire exposure including Turkey and Ukraine) were somewhat below the level of the previous year in 2014 (–0.6%), partly due to exchange rate movements. Equity allocated to the CEE Division was therefore also lower (–2.8%). On this basis, **return on equity** (ROE before tax) of the CEE Division again reached 10.8% (after 10.7% in 2013). Despite a disproportionately high cost of capital of 13.0%, the CEE business segment generated a marginal **Economic Value Added** (EVA) of €315 million (without Ukraine).

Overall, the consolidated financial statements for 2014 reflect the **wide diversification of Bank Austria’s presence in CEE**, enabling the bank to benefit from positive market trends and offset negative developments. The strategy also ensures a good spread of risk associated with business operations in younger markets. At the level of Bank Austria as a whole, the diversification of the loan portfolio – CEE with the business segments of the mature Austrian market – is such that it can even offset exceptional historical factors such as Ukraine in 2014. The chart shows that the exposure in this market, in which credit risk – as one would expect – needs to be critically evaluated, is lower than that of Austrian leasing and factoring operations. Countries with an impaired loans ratio of over 5% account for about one-quarter of the portfolio. Three countries have an impaired loans ratio of over 10%.



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. Without doubt geopolitical tensions and hesitant recovery in the euro area are going to be the main challenges in the forthcoming quarters. In this difficult environment the CEE Division is strongly positioned for future growth and will remain a key contributor to our banking group.

# Management Report (CONTINUED)

## Reports on CEE banking subsidiaries

► **Turkey:** 2014 was a volatile year in terms of economic and geopolitical developments. The first half of the year was impacted by FED tapering and domestic political uncertainties in which **Turkey** experienced currency depreciation and a significant rise in interest rates. Following the outcome of the local elections in March 2014, market dynamics started to normalise. The second half was marked by progressive normalisation in fundamentals following the presidential elections in August 2014. Accordingly, economic activity and consumer sentiment started to pick up. In this environment, Turkey's banking sector achieved 18% y/y growth in loans, 10% y/y growth in deposits and a slight improvement in net income.

In 2014, **Koç Financial Services (KFS)**, the financial holding company controlling 81.8% of **Yapı Kredi**, effectively implemented its growth strategy and achieved all of its ambitious targets for 2014 despite global and domestic challenges. In line with its growth strategy, sales operations were further strengthened with the total number of employees increasing by about 1,800 to 17,500. During the year, Yapı Kredi acquired some 600,000 new customers, almost three times the level of previous years, reaching a total of 10.6 million customers. At the same time, with the opening of 60 new branches, the number of branches exceeded 1,000. Additionally, over 600 new ATMs were deployed, further strengthening the ATM network to over 3,600. Internet banking with 4.2 million users, mobile banking with 775,000 users and the call centre with more than 50 million customer contacts annually continued to be focal areas. In 2014, Yapı Kredi continued to handle 83% of total banking transactions through its alternative delivery channels. Yapı Kredi's local capital adequacy ratio was 15.0% (-10bp y/y) as of the end of 2014.

In 2014, the bank continued to achieve market share gains in key areas generating value. Total loans increased by 26% y/y, leading to market share gains of 70bp to 10.2%. Growth was mainly driven by consumer loans, corporate loans denominated in local currency, and SME loans. The bank maintained its leadership role in credit cards despite a decline in volume that was mainly driven by regulations. Total deposits increased by more than 20% y/y, leading to market share gains of 90bp to 10.0%. Growth was mainly driven by deposits in local currency. In 2014, Yapı Kredi continued to focus on diversifying its funding sources and raised 5.7 billion US dollars through syndications, securitisations, bond issues and other financial instruments.

Total revenues increased to 7.8 billion Turkish lira, driven by a strong contribution from core revenues. The net interest margin decreased only 10bp to 3.5%, underlining Yapı Kredi's ability to manage a challenging interest rate environment. Fee growth of 5% y/y was mainly driven by value-generating lending growth. Costs were up by 17% y/y, reflecting all the investments successfully made in 2014. Asset quality improved, with the NPL ratio decreasing by 10bp to 3.4%. Net profit was 2.0 billion Turkish lira, indicating a return on average tangible equity of 12.0%.

► **Russia:** Despite the recent turbulence on the Russian market, **UniCredit Bank Russia** in 2014 delivered tangible results with sound liquidity and an adequate capital base, and underlined its position as the leading international bank in Russia.

The current turmoil with strong devaluation of the Russian rouble affected the bank in different ways. As a large share of its loan and deposit business is denominated in US dollars, reported volumes were significantly inflated by such strong devaluation. Despite this strong pressure on capital ratios, the bank achieved a sound capital adequacy ratio of 13.2% in accordance with local accounting standards. UniCredit Bank Russia has strong liquidity, with a significant positive liquidity position and a loan to deposit ratio of 94% at year-end 2014.

The bank achieved a net profit of about 18 billion Russian roubles and generated a strong return on equity of about 13%. The bank's revenues in general showed a positive performance, reaching a total 40.5 billion Russian roubles (+1.7% y/y normalised for the one-off effect from the sale of MICEX in 2013). At 35.5 billion Russian roubles, net interest income remained the main source of the bank's revenues, driven by an increase in business volume: about 48% y/y growth in loans and a 53% y/y increase in deposits. Strong growth of commercial business was also supported by depreciation of the rouble. Operating costs amounted to 13.5 billion Russian roubles and continued to be strictly monitored, leading to a very efficient cost/income ratio of 33.2%. Asset quality, with an excellent cost of risk ratio of below 0.7% and impaired loans accounting for 3.7% of the overall portfolio, remained solid. UniCredit Bank Russia serves almost 1,600,000 customers through its network of 110 branches.

The CIB segment maintained its position as the main contributor to the bank's total revenues and profit before taxes. Revenue totalled 19.2 billion Russian roubles, a decrease of 18% y/y

# Management Report (CONTINUED)

which was entirely due to trading performance. CIB continued to serve the bulk of the largest corporate clients in Russia, actively supporting cross-border cooperation while dynamically developing and expanding relationships with international companies and regional corporates.

The Retail Division achieved double-digit growth in revenues of 16% y/y to 13.5 billion Russian roubles, maintaining its focus on bringing UniCredit closer to the customer. Thanks to an excellent combination of applied segment models, timely solutions with value propositions and a new generation of personal individual packages launched in conditions of market turbulence, retail customers proved their loyalty to the bank by significantly increasing its portfolio of deposits. The bank's digital innovation, the online "Click.Deposit", was an anchor product that helped the bank to build up customer deposits: throughout the year, more than 79,000 deposits were opened online, and total customer funds invested via "Click.Deposit" exceeded 1.4 billion Russian roubles. According to market research, the bank has performed very well in meeting customer expectations and remained a benchmark for the Russian market.

► **Croatia:** The **Zagrebačka banka (ZABA) Group** achieved a net profit before taxes of more than 1.1 billion Croatian kuna, an increase of 42% compared to 2013, mainly driven by lower provisioning charges and the sale of Istraturist. The Group's total revenues reached 4 billion Croatian kuna, 2.6% below the previous year's level and still impacted by protracted recession, deleveraging and low demand as well as enacted consumer protection regulations in the area of housing and consumer lending. Net operating profit totalled 1.075 billion Croatian kuna.

The sustainability of the ZABA Group was underlined in 2014 by the Asset Quality Review (AQR), conducted by the European Banking Authority (EBA) and the European Central Bank (ECB), which revealed the bank's high level of resilience and strong capitalisation.

The Group maintained its leading market position in all strategic areas. Loans to private individuals and small businesses totalled 32.7 billion Croatian kuna at the end of 2014, while deposits amounted to 48.4 billion Croatian kuna. Market share in retail deposits and retail loans remained stable at 24.4% and 24.6%, respectively. Corporate loans amounted to 44.3 billion Croatian kuna, with market share maintained

at 29.4%, reflecting a strong market position despite deteriorating economic conditions and fierce competition. Corporate deposits amounted to 13.9 billion Croatian kuna, with market share stable at 23.7%. The bank held its leading market position in investment banking, participating in bond issues with a volume of over 4.8 billion Croatian kuna and arranging structured finance transactions with a volume of over 3 billion Croatian kuna.

In 2014 the Group received the EMEA Finance award as best investment bank in Croatia, as Best Bank and Most Innovative Bank in CEE & CIS, the European Business Award as National Champion in the category of Most Innovative Company, the Euromoney award as Best Trade Finance Provider, the Croatian Public Relation Association Award for Corporate Social Responsibility for its MOJ ZABA START project, the Global Investor Award as No. 1 local provider weighted by assets, as part of UniCredit Group, CRF Institute certification Top Employers Europe and Top Employer Croatia, as well as The Institute for Research and Education Working Mother certification as MAMFORCE COMPANY.

In 2014 Zagrebačka banka celebrated its 100th anniversary as a universal bank. Over the past 25 years the bank has expanded its universal banking business by installing almost 900 ATMs and 20,000 POS terminals and developing online and mobile banking. The bank has also achieved world-class expertise in the capital market and created a client network comprising one million retail clients, 60,000 craftsmen and small entrepreneurs, and nearly 10,000 medium-sized and large entrepreneurs.

► **UniCredit Bank Czech Republic and Slovakia a.s.** increased its consolidated profit after tax by about 40% y/y to 4.8 billion Czech crowns.

Following the legal merger as of 1 December 2013 with UniCredit Bank Slovakia, the bank is now headquartered in Prague with the Slovakian business operated as a foreign branch. In March 2014 UniCredit Bank finalised the acquisition of all UniCredit leasing companies in both the Czech Republic and Slovakia in an intragroup transaction. Both the merger as well as the acquisitions resulted in an enhanced market position of the newly formed banking group on both markets, a wider range of products and improved service quality for our clients, while offering the possibility to unlock both revenue and cost synergies. On the revenue side, synergies come

# Management Report (CONTINUED)

mostly from optimised funding structures, know-how sharing and from standardising product offers. On the cost side, synergies are achieved by centralising functions and reducing related personnel, and by optimising purchasing procedures and standardising processes in general. The cost base, netted for one-off effects, was kept stable y/y.

The excellent risk result, with no major write-downs and very good loan recovery results, contributed significantly to growth of net profit. Capital adequacy of the group, after the acquisition of UniCredit Leasing, is sound at over 14%.

Business performance was above market, despite ongoing integration activities. Lending grew by 5%, especially thanks to the 13% y/y growth of retail loans. Customer deposits, up by 7%, ensured balanced growth and the bank's continued ability to finance itself. The Retail Division doubled its client acquisitions rate by launching the revolutionary U-konto account product (with a 10-year fee-waiving guarantee and unlimited, free-of-charge ATM withdrawals worldwide). The Corporates Division continued to focus on the growth of its business with SMEs and on leveraging on expertise in large structured finance deals, where the bank participates in most of the major deals in both countries.

UniCredit Bank won numerous awards in 2014. It came in first place in the Czech Republic in the Trade Finance Award presented by Global Finance. In the Czech Republic the bank won prestigious awards conferred by *Hospodarske noviny* daily, 3rd prize as Best Bank and 3rd prize as the Most Client-friendly Bank. The bank also received 2 retail product awards that were presented as part of the Golden Crown Award in 2014. In addition, the bank was voted Top Employer in the Czech Republic.

► In 2014, a year marked by political tension and tension in the banking sector, economic growth in **Bulgaria** accelerated slightly to 1.5% y/y (1.1% in 2013). External demand faltered, but the surge in government capital expenditure buoyed economic activity. Despite the turbulence and the collapse of the fourth largest bank in terms of assets, net profit in the banking sector increased by 29% y/y as of November 2014, mainly due to growth in total revenue (+ 5.4% y/y).

**In 2014 UniCredit Bulbank** marked its 50th anniversary as the number one bank in the market with total assets of 16 billion Bulgarian leva, net customer loans of 11.1 billion Bulgarian leva, and customer deposits of 10.7 billion Bulgarian leva.

The mass withdrawal of deposits from some banks with Bulgarian ownership led to a shift in funds to the most reputable banks. UniCredit Bulbank emerged as the most trusted bank with 25% y/y growth in customer deposits, thereof +36% y/y in the retail segment and +22% y/y in the corporates segment. The bank remained the main partner of companies and households. In addition, it supported the Bulgarian government with a bridge financing loan of 1.0 billion Bulgarian leva. Thus loans to corporates and to the government accelerated by 23% y/y, while retail loans increased by 3.3% y/y. The structural liquidity position improved; the net loan/deposit ratio stood at 104%. UniCredit Bulbank recorded revenues of 787 million Bulgarian leva, +7.8% y/y; within this figure net interest was up by almost 8% y/y, supported by historically low customer deposit interest rates, and net fee income increased by 6.0% y/y thanks to growth in payment transactions. Payroll costs and the costs for the Deposit Insurance Fund determined the y/y growth in operating costs (+3.2%). Efficiency was further enhanced and the cost/income ratio improved by 1.6 percentage points y/y to 37%. Loan loss provisions decreased significantly by 25% y/y to 182 million Bulgarian leva, thanks to the slowdown of the deterioration of the portfolio. On this basis net profit reached 283 million Bulgarian leva (+60% y/y).

The retail banking model continued to feature innovative measures during the year; these included the roll-out of the Branch of the Future venues – a state-of-the-art and easy-to-deal-with multichannel customer experience. A focus was on product and process simplification. The direct banking channels were extended with new Internet services and the second generation ATM network was enlarged. The product portfolio was enhanced with the inclusion of pension funds and with a special initiative called “Car Corner”. The Corporates Division focused its commercial activities on delivering a fully-fledged offer specifically designed for each client's needs. Solutions for small businesses and international coverage were the key success factors in 2014. The first International Center was introduced – a contemporary designed facility, supporting the growth of international business clients by providing a “one-stop” service.

► In a year when the **Hungarian** banking sector suffered historical losses, caused by provisions for the final and comprehensive phasing out of FX-based retail mortgage loans and compensation for “unfair” loan contract conditions (application of a bid/ask spread, unilateral interest rate changes),

# Management Report (CONTINUED)

**UniCredit Bank Hungary** posted a solid profit of 16 billion Hungarian forints, which was peerless among large banks. The bottom line for 2014 is even more remarkable when taking into account the 33 billion Hungarian forint additional provisions set aside for the government measures.

With all revenue items exceeding the previous year's result, the total figure came in 20% higher. Strong 17% growth of net fees and commissions was a result of higher income from securities services and transactional banking fees driven by an increase in the number and volume of transactions. In response to changing economic and customer needs the bank continued to enhance its network, cost profile and business model; operating costs declined by 7.8%. Loan loss provisions fell significantly by 59% thanks to successful workout and restructuring activities. The network optimisation measures resulted in 1.6 billion Hungarian forint integration costs.

Contrary to the still deleveraging market, with a massive increase in customer and interbank volumes, total assets reached a historical level of 2,236 billion Hungarian forint. With a growth rate of 26% in 2014, UniCredit Bank Hungary is expected to be ranked third in terms of size (from 6th in 2013). Loans to households remained stable, while the corporate loan book exceeded a 6-year record by growing close to 10% in the last 12 months. Despite a historically low base rate, deposits grew at double-digit rates (13%) to new record level, so that the loan/deposit ratio fell to 81%. The challenge of a shift in saving preferences was efficiently handled via a transformation of retail deposits into assets under management and assets under custody. Total savings with the bank thus increased by 9.5%.

► Economic activity in **Romania** remained on a recovery path in 2014, supported by consumption which benefited from real wage growth amid persistent low inflation. At the same time, new RON-denominated lending is accelerating, providing a positive impetus to domestic demand. For 2014, overall GDP growth rate is expected at 2.7% y/y. A balance sheet clean-up accompanied by additional provisioning in 2014 likely led to a substantial estimated loss for the banking system in 2014.

**UniCredit Tiriac Bank (UCT)** continued to actively support the real economy and maintained its customer-oriented business approach. In 2014 the bank successfully acquired the remaining corporate portfolio of RBS in Romania after purchasing the retail clients portfolio in the previous year, from the same entity.

Also, UniCredit Tiriac Bank maintained its focus on developing the SME segment and on adding new functions to alternative channels. UCT reported revenues amounting to 1.53 billion Romanian leu last year, while operating costs were 753 million Romanian leu, thus leading to a gross operating profit of 775.4 million Romanian leu. Loan loss provisions decreased significantly compared to last year, by almost 30%, reaching 572.8 million Romanian leu, resulting in a net profit before minorities of 185 million Romanian leu. The consolidated balance sheet reached 32.7 billion Romanian leu at the end of December 2014, up by almost 5% y/y. Gross loans increased by 6.4% to 22.9 billion Romanian leu supported by the corporate segment, up by 12% y/y, and the leasing company, up by 3% y/y. Deposits also delivered a positive performance, increasing by more than 7% to 15.8 billion Romanian leu. At year-end 2014 the bank had a network of 184 branches and 3,369 employees.

► UniCredit Group in **Bosnia and Herzegovina (BiH)** operates through two banks, UniCredit Bank d.d. Mostar and UniCredit Bank a.d. Banja Luka, as well as UniCredit Leasing Group, serving over 1.2 million customers through the largest network of branches (120) in the country.

Besides a deterioration of the economic environment, 2014 saw political unrest at the beginning of the year, followed by floods in May that impacted both households and the overall economy. Despite the challenging environment, the Group once again underlined and further strengthened its leading position on the market – the highest lending volume (market share 21%, +1 percentage point compared with 2013), the strongest deposit base (market share 22%, +0.3 percentage points y/y), strong asset quality, high cost efficiency and profitability.

Besides outperforming the market, the two banks in total significantly improved y/y results, with total assets growing by 8.2% y/y (reaching 5.1 billion BiH Convertible Marks at year-end 2014), net profit rose by over 9%, the cost/income ratio improved by almost 3 percentage points with operating costs declining by more than 3% and total revenues increasing by more than 1%.

By designing new products and improving the service model based on clients' needs, the Group is recognised as an important driver of innovations and progress in the industry. The Group was a major partner in financing the biggest state

# Management Report (CONTINUED)

and corporate projects in the country, and initiator of crucial changes in local regulations. Those achievements and efforts are reflected in numerous awards, recognising the banks' financial performance and their roles as "Best Employer" in the country.

► In 2014 **Serbia** experienced a significant slowdown of the economic recovery that commenced in the previous year. The difficult and complex economic situation resulted in a 2% contraction of GDP due to lower industrial output and net exports. Catastrophic floods which hit Serbia in May 2014 caused damage and losses of around 1.7 billion euros, and they were primarily responsible for the decline in GDP. In late 2014 the government embarked on a process of fiscal consolidation by reducing pensions and salaries in the public sector, supported by three year precautionary stand-by agreement with the IMF. Several important legislative changes were adopted in 2014, concerning legislation on labour, privatisation and bankruptcy. There is still a need for accelerating the restructuring process in the public sector and among state-owned companies. Inflation was at a record low in 2014 (1.7% y/y), remaining under the central bank's tolerance band since April. In 2014 foreign direct investment in Serbia almost doubled y/y to 1.4 billion euros. Despite all the difficulties which characterised the business environment in 2014, the banking sector in Serbia has shown itself to be well capitalised with adequate liquidity levels.

UniCredit in Serbia operates through **UniCredit Bank Serbia**, **UCTAM d.o.o.**, and **UniCredit Leasing**. In this challenging business environment UniCredit Bank Serbia managed to further consolidate its position within the top three banks in the market, setting high standards in terms of efficiency and productivity, while improving its market share in all relevant areas. Revenues rose by 6% y/y, driven by 12% growth in loans and 30% growth in deposits, with the latter assuring significantly improved stable funding and self-sufficiency of the bank reflected in a 20 percentage point improvement of the loan to deposit ratio y/y. UniCredit Bank again proved to be one of the most important pillars of Serbia's banking system, given its position among the top two banks in the Government Subsidised Loan Programme and its role as the exclusive bank for the management of student loans and scholarships. In 2014, the bank's client base was further enlarged to 240,000 clients thanks to the state-of-the-art service model and introduction of numerous innovative products and services. The bank serves its clients through a network of 71 branches. In line with its strategy of being socially responsible, UniCredit Bank Serbia,

among others, provided support to citizens affected by the floods, continuously working at increasing the attractiveness of its brand and the level of customer satisfaction.

► After two years of negative growth, **Slovenia's** economy started to recover in 2014, with GDP reaching 2% growth y/y. Lending activity in the banking sector nevertheless shrank further, while customer deposits continued to increase in 2014.

In a challenging business environment, UniCredit Banka Slovenija d. d. managed to even increase revenue by 6% (€5 million) as a result of sustainable deposit repricing, further fee income growth and trading operations. As a result of continued cost management, costs decreased further by 1% y/y and the decline contributed to overall gross operating profit of €38 million (+ 16% y/y).

The bank increased its assets by 4% y/y and maintained its market share of 7%. The decline in overall lending activity was also apparent in UniCredit Banka Slovenija d. d. as lending volume declined by 8% y/y, closing the year with a volume of €1.8 billion or the third largest lending volume in the total sector. Following the trend in customer deposits, the bank recorded growth of 7% y/y and reached a loan to deposit ratio of 127% compared to 148% in 2013. The bank also increased assets under custody by more than 60% y/y.

The overall consolidated business performance in Slovenia, including UniCredit Leasing and UCTAM Upravljanje d.o.o., was concluded with a net operating profit of €1.4 million, which is €32 million higher than the year before. As of year-end 2014, the bank showed a sound capital adequacy ratio of about 20%, clearly above the regulatory requirement of 8%.

For the fourth consecutive year, the bank received the EMEA Finance Award as the Best Bank in Slovenia. In addition, the bank received the Euromoney award as the Best Bank in cash management services and the Global Finance Magazine award as the Best Bank for Custody Business. Also, the bank received recognition for socially responsible practices and a family-friendly certificate.

► 2014 was a stressful year for **Ukraine** as economic recession accelerated on the back of the annexation of Crimea and protracted military conflict in the eastern part of the country. The hryvnia, Ukraine's currency, depreciated by 41% against the euro and by 48% against the US dollar in 2014, substantially increasing the risks in the already turbulent financial sector.



## Management Report (CONTINUED)

Given the distressed environment that worsened closer to the end of the year, UniCredit Bank Ukraine focused on mitigating materialised and potential risks. The bank's operations in the conflict zone were partially curtailed. A contingency plan was implemented in Crimea, Donetsk and Luhansk provinces with a restructuring programme developed specifically for borrowers in those regions. As UniCredit Bank is one of Ukraine's largest systemic banks, its financial performance was especially affected by local economic shocks. As of 31 December 2014, total assets of the bank amounted to 47.0 billion Ukrainian hryvnias, which represents growth of 10% y/y. Net loans to customers increased by 16% y/y to 32.6 billion Ukrainian hryvnias. Growth mainly took place on the back of depreciation of the local currency as 70% of the bank's gross loan portfolio is denominated in foreign currency. On the liabilities side, UniCredit Bank's deposits grew by 7% y/y to 23.2 billion Ukrainian hryvnias, with 12.7 billion Ukrainian hryvnias accounting for deposits of private individuals. As of 31 December 2014, the net loan to deposit ratio of the bank totalled 141%, increasing from 130% in 2013 on account of the depreciation of the hryvnia.

For 2014 UniCredit Bank posted a local net loss of 3.3 billion Ukrainian hryvnias. The loss was mainly caused by loan loss provisions of about 4.2 billion Ukrainian hryvnias for impairment losses. Such a large loan loss provision will ensure a sizeable cushion to cover risks materialising in the future.

Beyond the conflict zone UniCredit Bank employed its strategy and focused on improving operational efficiency while maintaining the quality of customer services. The Retail Division's major targets were the promotion of the bank's products through alternative sales channels while optimising the branch network and reducing costs. In the corporate segment UniCredit Bank focused on multinational corporations operating in Ukraine and local exporting companies. Trade financing played a key role in the bank's corporate business. In 2015 UniCredit Bank will maintain its prudent approach of focusing on operations in local currency and curbing operations denominated in foreign currency.

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Income statement of the banks in CEE <sup>1)</sup>

(€ million)

	CEE BUSINESS SEGMENT		CZECH REPUBLIC, SLOVAKIA		HUNGARY	
	2014	2013	2014	2013	2014	2013
Net interest	2,460	2,422	356	341	212	200
Dividends and income from equity investments	345	648	2	4	0	0
Net fee and commission income	755	731	127	133	120	107
Net trading income	254	563	57	90	65	36
Net other operating income/expenses	50	60	9	6	3	3
<b>Operating income</b>	<b>3,864</b>	<b>4,423</b>	<b>551</b>	<b>573</b>	<b>400</b>	<b>346</b>
<b>Operating costs</b>	<b>-1,600</b>	<b>-1,697</b>	<b>-254</b>	<b>-280</b>	<b>-193</b>	<b>-218</b>
<b>Operating profit</b>	<b>2,264</b>	<b>2,726</b>	<b>297</b>	<b>292</b>	<b>207</b>	<b>129</b>
Net write-downs of loans	-654	-1,094	-76	-106	-35	-89
<b>Net operating profit</b>	<b>1,610</b>	<b>1,631</b>	<b>221</b>	<b>187</b>	<b>172</b>	<b>40</b>
Provisions for risks and charges	-115	-11	-3	0	-109	-3
Integration/restructuring costs	-7	-33	-1	-19	-5	-8
Net income from investments	13	-53	-3	6	6	-1
<b>Profit before tax</b>	<b>1,500</b>	<b>1,534</b>	<b>214</b>	<b>174</b>	<b>64</b>	<b>27</b>
<b>Net profit or loss <sup>2)</sup></b>	<b>1,098</b>	<b>1,256</b>	<b>174</b>	<b>137</b>	<b>53</b>	<b>21</b>
Customer loans (end of period)	56,378	56,479	12,231	11,776	3,115	3,065
Primary funds (end of period)	51,499	49,524	13,552	12,757	3,838	3,620
Exchange rate (period average)			27.536	25.980	308.71	296.87
Appreciation/depreciation against the euro	-6.2% <sup>3)</sup>		-5.7%		-3.8%	

(€ million)

	SLOVENIA		BULGARIA		ROMANIA	
	2014	2013	2014	2013	2014	2013
Net interest	49	48	271	251	201	200
Dividends and income from equity investments	0	0	1	1	0	0
Net fee and commission income	27	26	99	93	66	71
Net trading income	5	1	31	22	79	87
Net other operating income/expenses	0	0	1	6	-2	-3
<b>Operating income</b>	<b>80</b>	<b>76</b>	<b>402</b>	<b>373</b>	<b>344</b>	<b>355</b>
<b>Operating costs</b>	<b>-42</b>	<b>-43</b>	<b>-147</b>	<b>-142</b>	<b>-170</b>	<b>-174</b>
<b>Operating profit</b>	<b>38</b>	<b>33</b>	<b>255</b>	<b>231</b>	<b>174</b>	<b>181</b>
Net write-downs of loans	-36	-60	-93	-125	-129	-184
<b>Net operating profit</b>	<b>2</b>	<b>-27</b>	<b>162</b>	<b>106</b>	<b>46</b>	<b>-2</b>
Provisions for risks and charges	-1	0	0	-5	-1	-1
Integration/restructuring costs	0	0	0	0	0	0
Net income from investments	-1	-25	-1	1	5	0
<b>Profit before tax</b>	<b>0</b>	<b>-53</b>	<b>162</b>	<b>101</b>	<b>50</b>	<b>-3</b>
<b>Net profit or loss</b>	<b>0</b>	<b>-45</b>	<b>144</b>	<b>90</b>	<b>22</b>	<b>13</b>
Customer loans (end of period)	1,749	1,895	5,683	4,872	4,591	4,295
Primary funds (end of period)	1,378	1,283	5,450	4,359	3,645	3,408
Exchange rate (period average)	1.0000	1.0000	1.9558	1.9558	4.4437	4.4190
Appreciation/depreciation against the euro	0.0%		0.0%		-0.6%	

1) The CEE business segment for segment reporting purposes comprises the total figures for the CEE banks shown in this table and the Vienna-based CEE headquarters. / 2) Attributable to the owners of the parent company. / 3) Depreciation against the euro, at the level of operating income.

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(€ million)

	RUSSIA		BALTICS		TURKEY AT EQUITY <sup>4)</sup>		FOR INFORMATION: TURKEY PRO QUOTA <sup>4)</sup>	
	2014	2013	2014	2013	2014	2013	2014	2013
Net interest	696	674	14	18			725	732
Dividends and income from equity investments	0	3	0	0	341	636	6	2
Net fee and commission income	126	130	1	2			296	323
Net trading income	-30	269	0	1			74	143
Net other operating income/expenses	4	8	0	-5			5	19
<b>Operating income</b>	<b>795</b>	<b>1,083</b>	<b>15</b>	<b>16</b>	<b>341</b>	<b>636</b>	<b>1,105</b>	<b>1,219</b>
<b>Operating costs</b>	<b>-264</b>	<b>-295</b>	<b>-6</b>	<b>-12</b>			<b>-516</b>	<b>-505</b>
<b>Operating profit</b>	<b>531</b>	<b>788</b>	<b>9</b>	<b>4</b>	<b>341</b>	<b>636</b>	<b>589</b>	<b>713</b>
Net write-downs of loans	-85	-81	-4	-6			-154	-156
<b>Net operating profit</b>	<b>446</b>	<b>707</b>	<b>5</b>	<b>-2</b>	<b>341</b>	<b>636</b>	<b>435</b>	<b>557</b>
Provisions for risks and charges	0	-1	0	0			-14	-29
Integration/restructuring costs	0	0	-1	-6			0	0
Net income from investments	1	3	0	0			5	228
<b>Profit before tax</b>	<b>447</b>	<b>708</b>	<b>4</b>	<b>-8</b>	<b>341</b>	<b>636</b>	<b>426</b>	<b>756</b>
<b>Net profit or loss</b>	<b>354</b>	<b>562</b>	<b>9</b>	<b>-9</b>	<b>341</b>	<b>636</b>	<b>341</b>	<b>636</b>
Customer loans (end of period)	11,384	12,247	378	427			19,337	14,669
Primary funds (end of period)	12,058	12,781	0	0			17,563	13,699
Exchange rate (period average)	50.9518	42.3370	0.7015 <sup>5)</sup>	0.7015	2.9065	2.5335	2.9065	2.5335
Appreciation/depreciation against the euro	-16.9%		0.0%		-12.8%		-12.8%	

(€ million)

	CROATIA		BOSNIA		SERBIA	
	2014	2013	2014	2013	2014	2013
Net interest	332	325	93	94	89	88
Dividends and income from equity investments	6	5	0	0	0	0
Net fee and commission income	124	118	36	34	19	17
Net trading income	26	49	5	6	10	10
Net other operating income/expenses	35	45	0	-1	0	0
<b>Operating income</b>	<b>524</b>	<b>542</b>	<b>134</b>	<b>133</b>	<b>118</b>	<b>115</b>
<b>Operating costs</b>	<b>-248</b>	<b>-250</b>	<b>-73</b>	<b>-76</b>	<b>-46</b>	<b>-42</b>
<b>Operating profit</b>	<b>277</b>	<b>292</b>	<b>61</b>	<b>57</b>	<b>72</b>	<b>73</b>
Net write-downs of loans	-136	-186	-15	-15	-25	-42
<b>Net operating profit</b>	<b>141</b>	<b>106</b>	<b>46</b>	<b>42</b>	<b>47</b>	<b>31</b>
Provisions for risks and charges	0	0	-1	0	-1	0
Integration/restructuring costs	0	0	0	0	0	0
Net income from investments	8	-1	0	0	0	0
<b>Profit before tax</b>	<b>149</b>	<b>105</b>	<b>45</b>	<b>42</b>	<b>46</b>	<b>31</b>
<b>Net profit or loss</b>	<b>91</b>	<b>72</b>	<b>34</b>	<b>31</b>	<b>47</b>	<b>29</b>
Customer loans (end of period)	9,380	9,518	1,628	1,534	1,378	1,300
Primary funds (end of period)	8,407	8,463	1,851	1,664	1,112	902
Exchange rate (period average)	7.6344	7.5786	1.9558	1.9558	117.23	113.09
Appreciation/depreciation against the euro	-0.7%		0.0%		-3.5%	

4) Turkey presented at equity in accordance with IFRS 11; additionally, pro-quota data for information purposes. / 5) Latvian lat (LVL).

## Outlook

### Economic scenario

● Following the difficult economic stretch in the second half of 2014, at least in our immediate environment, economic prospects brightened in early 2015 – and for a number of reasons, these expectations are supported by sounder data than was the case a year ago. On the other hand, the geopolitical risks mentioned at the time have materialised, developing into regional crises. Future developments are viewed with greater confidence from a global perspective than currently still in Europe.

In 2015/16 the **global economy** will grow at a rate of about 3½% p. a., the multi-year average and the highest growth rate seen in three years. Growth will be driven primarily by the decline in oil prices (unlike the scenario one year ago), which will provide a strong global impetus from both the supply and demand sides. In most countries, the primary source of economic growth will be domestic demand and not exports, a development not seen in many years. The industrial countries will be the growth drivers in 2015/16, in particular the **US**, which is expected to see sound growth of up to 3%. A significant rise in employment, higher increases in incomes and an improvement in purchasing power make private consumption the most important growth component. The forecasts for the **euro area** have most recently been raised by one-half of a percentage point to 1.4% in 2015 and 1.7% in 2016. In the fourth quarter of 2014, growth was stronger than expected, leading to a current positive overhang. These developments are further supported by a growth impetus from an expansive monetary policy, depreciation of the euro and the easing of effects resulting from fiscal measures. The survey performed by the ECB in January shows that credit standards have also eased in Europe. It indicates a revival in demand from companies, suggesting that the backlog in investment may be coming to an end.

● The **Austrian** economy started 2015 with low expectations. Following a disappointing trend in demand from emerging markets and Europe, and the outbreak of several geopolitical crises in the previous year, discussions aimed at resolving Greece's debt and the repeated flaring up of the conflict of the West with Russia had a negative impact on sentiment in the Austrian economy at the beginning of 2015. The confidence indicators in industry and among consumers were well below the multi-year average at the beginning of the current year. The Bank Austria Purchasing Managers' Index has been moving below the growth threshold of 50 points for a number of months.

But 2015 holds out the prospect of a moderate recovery of the Austrian economy. The 0.3% economic growth recorded in 2014 could accelerate to 0.9% in the current year, driven by five factors:

▶ First, the global economy will probably provide a stronger impetus. While growth rates in emerging markets are declining (yet still high), this development is offset by an upturn in industrial countries.

The Austrian economy is also benefiting from the stronger momentum of economic recovery in Europe. This is based on the performance of the German economy, which is expected to expand by about 2%, the moderate upturn experienced in Italy, and on growth prospects in Central and Eastern Europe, which are in the region of 3% without Russia. We consequently look for a turnaround in Austria's net exports, from a decline of about 0.5 percentage points in the previous year to a moderate contribution to economic growth beginning in 2015. Stronger global demand makes Austria's export-oriented industry an important driver of recovery. After almost stagnating in the past year, industrial output will experience a slight upward trend and may grow by an average of about 3% in 2015.

▶ Second, the adverse impact of fiscal austerity programmes on growth, which was very much in evidence in past years, will ease in the forthcoming years, enabling demand from other European countries to pick up.

▶ Third, the decline of oil prices as an impetus to economic growth. In 2015, oil prices will average about 60 US dollars per barrel, well below the level of the previous year. In Austria, inflation will consequently decline to about 0.5% by the middle of the year. It is expected to fall to an average level of 0.9% in 2015, from 1.7% in the previous year. These two factors together will probably result in an increase in real incomes, which in turn will provide a stronger impetus to private consumption.

▶ Fourth, the weaker euro will support economic growth in Austria. Compared with an average rate of 1.33 US dollars per euro in 2014, we look for an average exchange rate of 1.09 in 2015, almost 20% less than in the previous year. More competitive pricing in many export markets will also boost export growth in the course of 2015, thereby helping to clear the investment backlog. On account of the time lag before investment in plant and equipment takes effect, gross fixed capital formation will amount to no more than +½% in 2015 before expanding to 3.5% in 2016.

▶ Fifth, Austria's industry will also benefit from the ECB's monetary policy. While the further easing of monetary policy as part of the ECB's policy of quantitative easing – its new securities acquisition programme that is to commence in March 2015 – is expected to provide only little direct economic stimulus, the impetus is likely to come from the subsequent effect of a weaker euro. Low interest rates in Europe are assured for some time to come, while the US could launch a cycle of interest rate rises in a few months. On this basis, the weaker euro as a means of stimulating exports will probably be maintained for a longer time.

→ The slight improvement in economic conditions will support employment which is expected to pick up slightly in 2015/2016 compared with 2014 (+0.6%). Unemployment will nevertheless rise to 5.1% in 2015 (2014: 5.0%) due to an increase in the labour supply. Disposable nominal incomes will therefore grow only moderately, as in the previous year, and the savings ratio will continue to rise slightly in 2015.

# Management Report (CONTINUED)

Debt reduction of companies and private households has reached an advanced stage. In combination with very low interest rates, this will support growth of lending volume in the course of 2015, to a level of +2% by year-end 2015. Within the total volume, loans to private households will continue to show disproportionately strong growth, reflecting trends in housing loans. Lending to SMEs, primarily relating to working capital, will probably also pick up (+1.5%). Deposits reflect the weak creation of monetary wealth and the shift to other types of investment such as real estate, as well as the very low interest levels. In 2014, deposits by private customers grew at an average rate close to zero. On the other hand, deposit volume of non-bank financial intermediaries and of the public sector rose significantly, resulting in overall deposit growth of 1.5%. Demand for deposits from private households is expected to remain weak in 2015, and, as in 2014, the current year will probably see a further net reduction of fixed income investments. Demand for mutual funds continues to be relatively strong; private households will probably again make net purchases in 2015. Creation of monetary wealth will remain moderate as the trend to assets in real terms, such as real estate, continues due to the current uncertainty.

● Data for the **CEE region** for the fourth quarter of 2014 confirm that accelerated growth of domestic demand is sustainable although impetus from exports is weakening. In **CESEE**, low inflation rates and an improved labour market situation will probably lead to increases in real incomes and consumption. The high levels of capacity utilisation and profitability in the industrial sector suggest that investment will pick up, especially in Poland, the Czech Republic and Hungary. Surveys of business sentiment have also indicated improvements, reflecting reviving growth in Germany and the resulting demand for exports. Local central banks take advantage of this situation to reduce interest rates. Debt reduction of private households is gradually receding, and there are signs of a recovery of credit demand. Overall, we expect steady growth of 2.4% for the Central European countries in 2015, rising to +2.8% in 2016. The South-East European countries will achieve lower growth of 1.5% and 2.3%, respectively (see table), as recession in Croatia and Serbia continues in 2015.

**Turkey** benefits from a better outlook for growth and inflation while facing the risk of stronger dependence on external capital inflows. The economy is set to experience a demand-driven upswing on the back of accelerating credit demand in the past months. Moreover, demand in the areas of consumption and investment may be expected to become stronger ahead of the elections in June. The inflation rate, at over 7%, is high by international standards. This will probably prompt Turkey's central bank to take a cautious approach to any further interest rate reductions so as not to jeopardise the valuation of the

Turkish lira, all the more so as capital inflows are necessary – despite the decline in the current account deficit, which reflects oil prices – and companies hold large foreign currency positions. Growth forecasts for Turkey are +3.4% in 2015 and +4.2% in 2016, the highest in CEE.

Although the **Russian** economy grew by 0.6% in 2014, performing better than expected, the most recent indicators suggest that the domestic mainstays of growth are weakening. Moreover, recent commodity price developments and geopolitical tensions are impacting the economy. Our scenario is based on an annual average oil price of about US\$60 per barrel, significantly lower than in 2014 (99.5 US\$/bl), putting pressure on export revenues and public finances. A continued reduction of imports (after strong currency depreciation) will partly offset capital exports, which are mainly connected with the rollover of foreign debt. Appreciation of the rouble (target for year-end 2015: 70 RUB/USD with peaks of up to 75) is unlikely, given the US dollar's

## Economic growth (real GDP, % over the previous year)

	2012	2013	2014e	2015f	2016f
World (IMF, PPP)	+3.4	+3.3	+3.3	+3.5	+3.7
China	+7.8	+7.7	+7.4	+7.0	+6.6
USA	+2.3	+2.2	+2.4	+3.0	+2.6
Euro area	-0.6	-0.4	+0.9	+1.4	+1.8
... Austria	+0.9	+0.3	+0.3	+0.9	+1.5
Czech Republic	-0.7	-0.7	+2.0	+2.4	+2.8
Slovakia	+1.6	+1.4	+2.3	+2.5	+3.1
Hungary	-1.7	+1.5	+3.5	+2.4	+2.5
Slovenia	-2.6	-1.0	+2.5	+1.8	+2.8
<i>Poland</i>	<i>+1.8</i>	<i>+1.7</i>	<i>+3.3</i>	<i>+3.3</i>	<i>+3.4</i>
Bulgaria	+0.5	+1.1	+1.5	+1.5	+2.0
Romania	+0.6	+3.5	+2.7	+2.5	+3.0
Croatia	-2.2	-0.9	-0.7	-0.2	+0.8
Bosnia and Herzegovina	-1.2	+2.1	+0.0	+2.0	+3.5
Serbia	-1.5	+2.5	-2.1	-0.7	+1.0
Turkey	+2.1	+4.1	+2.9	+3.4	+4.2
Russia	+3.4	+1.3	+0.6	-3.4	+0.0
<i>Ukraine</i>	<i>+0.3</i>	<i>+0.2</i>	<i>-6.7</i>	<i>...</i>	<i>...</i>
<b>Bank Austria market<sup>1)</sup></b>	<b>+2.1</b>	<b>+1.7</b>	<b>+1.3</b>	<b>-0.5</b>	<b>+1.5</b>
<b>CEE (Bank Austria perimeter in 2014)<sup>2)</sup></b>	<b>+2.2</b>	<b>+1.9</b>	<b>+1.4</b>	<b>-0.7</b>	<b>+1.5</b>
Central Europe (CZ, SK, H, SLO)	-0.7	+0.3	+2.5	+2.4	+2.8
South-East Europe (ROM, BG, CRO, BIH, SRB)	-0.2	+2.2	+1.2	+1.5	+2.3
Turkey	+2.1	+4.1	+2.9	+3.4	+4.2
CEE without Russia	+0.8	+2.6	+2.4	+2.7	+3.4
Russia	+3.4	+1.3	+0.6	-3.4	+0.0

Country groups weighted by nominal GDP for 2012. Source of original figures: UniCredit Research (forecast applicable as at December 2014, partly revised in February 2015); world: IMF at PPP (WEO update of January 2015). / 1) Bank Austria market = Austria (10%) and CEE (90%). / 2) CEE, Bank Austria perimeter in 2014 = CZ, SK, H, SLO; ROM, BG, CRO, BIH, SRB; TK, RUS.

# Management Report (CONTINUED)

strength and the low oil price. With the effects of currency depreciation being felt throughout the economy, inflation will remain high, probably peaking at 18% in the first half of 2015 and then subsiding. Interest rates have already been lowered to 15%. Real GDP will shrink by 3.4% in 2015.

Economic **risks** include underestimating the effects of the turnaround in the US interest rate cycle and its impact on emerging markets which have current account deficits. As the year progresses, this may lead to phases of intense financial market volatility in 2015, entailing stronger risk aversion and the repatriation of portfolio investments. Even after the recent extension of the assistance programme, the Greek **debt crisis** could flare up again and again in the course of negotiations surrounding public sector consolidation until the end of April, causing irritation in financial markets. A new aid package could become inevitable at the end of June.

**Geopolitical** risks – including the situation in the Middle East and a potential spreading of international terrorism – are again a significant factor, and hard to quantify, in 2015. Future developments in **Ukraine** and the related conflict of the West with **Russia** are difficult to assess and may at best be contained within the region. While the situation could escalate further, a freezing of the conflict is equally conceivable.

## Outlook for Bank Austria's performance

● Even if the expected improvement in the overall economic environment leads to a stronger growth momentum, conditions in the European banking sector will improve only gradually and moderately.

▶ Credit demand will remain weak for several quarters to come as impetus to economic growth takes a relatively long time to feed through to the financing cycle. Moreover, the currently low level of interest rates will not change in the foreseeable future. And finally, banks' flexibility will be restricted by the requirement to further raise their capital ratios, by the implementation of liquidity requirements and, last but not least, by excessive and detailed regulatory intervention.

▶ It became clear in 2014 that a deterioration in sentiment can halt a recovery that is in progress. Whether improvements in our market environment are sustainable will therefore depend on future developments in **crisis spots**. The renewed flaring up of the Greek debt crisis could entail increased volatility in financial markets and new uncertainty. A further escalation of the armed conflict in Ukraine or a financial collapse of the country would have a strong impact on our local operations and would also have indirect repercussions via sanctions/countersanctions and restrictions of international financial flows.

● Our plans for **Austrian** customer business envisage continued growth in new business in 2015, which will also lead to a slight increase in volume. Our efforts to gain market share will support growth. There will be persistent pressure on margins on existing business, and income from maturity transformation will remain moderate in the foreseeable future. We do not expect trading-induced interest income to reach high levels. The outlook for net fees and commissions is better than for net interest: the continued period of low interest rates, in combination with the end of the boom in bond markets and growing volatility in stock markets, should lead to stronger demand for suitable investment products and sound advice; on this basis, we should see growth in commission income from securities business, from the placement of investment products and mutual funds, and from asset management activities, which we have significantly expanded. Foreign trade-related services should also overcome their temporary weakness as external trade picks up later in the year. Our risk management activities have considerably reduced net write-downs of loans and provisions for guarantees and commitments over the past years. This applies also in a multi-year comparison, even if the cost of risk was exceptionally low in 2014, also reflecting one-off effects.

We introduced SmartBanking successfully in 2014 and started to implement our new branch concept. In 2015 we will vigorously pursue the transformation of our **business model** to create a modern multi-channel bank. SmartBanking is being further developed on an ongoing basis and will penetrate our sales operations. With our differentiated branch concept we meet customers' specific needs: both as a basic services bank, where we will launch a new online service offering in early 2015, and as an advisory bank and premium bank. We are making these highly visible efforts in response to trends in consumer behaviour. We thereby also want to win new customers while additionally benefiting from the positive side-effect of significant efficiency enhancement, not least a reduction of the structurally high cost/income ratio in Austrian retail banking in particular. In corporate banking we aim to expand our market position in business with medium-sized companies, e.g. by using funding advantages of the ECB's targeted longer-term refinancing operations (TLTROs) and cooperating with banks which operate financial assistance schemes. "Business-Center24", our customer service centre, and the expansion of online services in this segment, too, will further improve efficiency. The economic recovery should prompt large companies to carry out investment projects and capital market measures which they had previously postponed (bond issues, loans against borrowers' notes, syndicated finance, classic loans). Being the top contact in Austria for financial market activities, and backed by UniCredit's placement power, we are ready to support companies.

# Management Report (CONTINUED)

Overall, we expect Austrian customer business to strengthen the bank's market position and generate a sound net operating profit in the near future.

● In the **CEE** business segment we believe that the upward trend in operating performance in the Central European and South-East European countries (CESEE) will continue. Growth in lending business will accelerate in this region, driven by a stronger momentum in corporate banking and with demand from retail customers remaining at a sound level. This overall picture is based on economic trends. The recovery in the European industrial network is supporting business with large companies in the Czech Republic, in Hungary and also in Romania. While the situation in the Western Balkan countries is more difficult, our local banks have demonstrated that based on their reputation and market position, they are able to achieve further growth in volume and profits even in a stagnating environment. **Turkey** continues to be a model of a growth market. Volume expansion and the advance of fee-based business generate rising income even during periods when funding presents difficulties. Therefore continued investment in the branch network and in staff is paying off. As a result, the contribution from Turkey, which is accounted for using the equity method, should increase. Exchange rate movements could become more volatile in the coming quarters, impacting local business in highly exposed countries and profit performance in euro terms.

Our **Russian banking subsidiary** made a significant contribution to profits also during difficult market phases: focusing on the large corporates segment, the bank has so far proved to be robust and profitable. With a loan/direct-funding ratio of 94%, the bank has a strong local funding base and a strong capital base. It remains to be seen how the impact of strong currency depreciation at the end of 2014 will be absorbed in 2015 and how the rollover of international financings of our main target group can be effected in view

of continuing, possibly even further tightened sanctions and the most recent downgrade of the country's rating. Current business is additionally impacted by the inverted yield curve and currency risk. We believe our Russian banking subsidiary is robust, given its focus on large internationally active companies and its good standing in financial markets. In Ukraine, Bank Austria holds a direct equity interest of about 72% in Ukrsofsbank, which continues to be classified as held for sale. The current situation in the country is having a strong impact on business activity. Ukrsofsbank has closed its branches in Crimea, most of the branches in the Donetsk and Luhansk regions have been closed permanently. The Ukrainian banking sector and thus also our local banking subsidiary continue to be exposed to significant default risk; more detailed information is given in the notes to the consolidated financial statements (section E.2 – Major risks in Central and Eastern Europe).

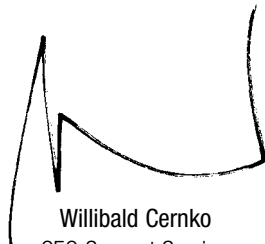
**Geopolitical tensions** and hesitant recovery in the euro area are certainly going to be the major challenges to be met in the next few quarters. In this difficult environment, the CEE Division is strongly positioned for future growth to remain a key contributor to our banking group. With our ongoing investments in Central and Eastern Europe we have gained market shares in most countries and will continue to do so in the future while competitors are deleveraging. 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.

● All in all, the **cross-regional diversification** of Bank Austria's business portfolio, which includes the mature Austrian market, stable and well-integrated EU member countries in CEE and highly profitable growth markets, continues to provide a sound basis for bearing local risks.

# Management Report (CONTINUED)

Vienna, 2 March 2015

The Management Board



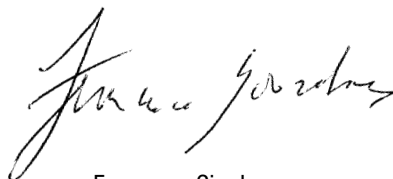
**Willibald Cernko**  
CEO Support Services  
(Chief Executive Officer)



**Carlo Vivaldi**  
CEE Banking Division  
(Deputy CEO)



**Helmut Bernkopf**  
Commercial Banking Division  
(Retail & Corporates)



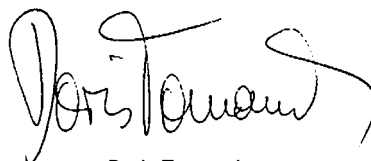
**Francesco Giordano**  
CFO Finance



**Dieter Hengl**  
Corporate & Investment  
Banking Division



**Jürgen Kullnigg**  
CRO Risk Management



**Doris Tomanek**  
Human Resources Austria & CEE



**Robert Zadrazil**  
Private Banking Division







# Consolidated Financial Statements

in accordance with International Financial Reporting Standards (IFRSs)

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# Consolidated Income Statement

## of the Bank Austria Group for the year ended 31 December 2014

### Income statement for the year ended 31 December 2014

(€ million)

	Notes	2014	2013 <sup>*)</sup>
Interest income and similar revenues	B.1	6,365	5,931
Interest expense and similar charges	B.1	-2,932	-2,531
<b>Net interest margin</b>		<b>3,433</b>	<b>3,400</b>
Fee and commission income	B.2	1,795	1,747
Fee and commission expense	B.2	-428	-373
<b>Net fees and commissions</b>		<b>1,367</b>	<b>1,374</b>
Dividend income and similar revenue	B.3	7	24
Gains and losses on financial assets and liabilities held for trading	B.4	332	496
Fair value adjustments in hedge accounting	B.5	17	10
Gains and losses on disposal of:	B.6	133	251
a) loans		4	4
b) available-for-sale financial assets		129	233
c) held-to-maturity investments		-	3
d) financial liabilities		1	11
Gains and losses on financial assets/liabilities at fair value through profit or loss	B.7	8	37
<b>OPERATING INCOME</b>		<b>5,298</b>	<b>5,593</b>
Impairment losses on:	B.8	-705	-1,347
a) loans		-675	-1,271
b) available-for-sale financial assets		-8	-56
c) held-to-maturity investments		-	-
d) other financial assets		-22	-19
<b>Net income from financial activities</b>		<b>4,593</b>	<b>4,247</b>
<b>Net income from financial and insurance activities</b>		<b>4,593</b>	<b>4,247</b>
Administrative costs:		-3,173	-3,232
a) staff expense	B.9	-1,620	-1,725
b) other administrative expense	B.10	-1,553	-1,507
Net provisions for risks and charges	B.11	-132	-27
Impairment/write-backs on property, plant and equipment	B.12	-154	-188
Impairment/write-backs on intangible assets	B.13	-48	-98
Other net operating income	B.14	122	91
<b>OPERATING COSTS</b>		<b>-3,386</b>	<b>-3,454</b>
Profit (loss) of associates	B.15	454	222
Gains and losses on tangible and intangible assets measured at fair value		3	-3
Impairment of goodwill		-	-1,678
Gains and losses on disposal of investments	B.16	113	-159
<b>TOTAL PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>1,778</b>	<b>-825</b>
Tax expense (income) related to profit or loss from continuing operations	B.17	-287	-414
<b>Total profit or loss after tax from continuing operations</b>		<b>1,492</b>	<b>-1,239</b>
Total profit or loss after tax from discontinued operations	B.18	-132	-392
<b>NET PROFIT OR LOSS FOR THE YEAR</b>		<b>1,360</b>	<b>-1,631</b>
Attributable to:			
Non-controlling interests from continuing operations		31	25
from discontinued operations		-54	-52
<b>Non-controlling interests</b>		<b>-23</b>	<b>-27</b>
Owners of the parent company from continuing operations		1,461	-1,264
from discontinued operations		-78	-340
<b>Owners of the parent company</b>		<b>1,383</b>	<b>-1,604</b>
Earnings per share (in €, basic and diluted) from continuing operations		6.32	-5.47
from discontinued operations		-0.34	-1.47

<sup>\*)</sup> Prior year figures were restated due to IFRS 10 and IFRS 11. This relates to the inclusion of the real estate investment fund "Real Invest Europe" in the consolidation perimeter, and to the presentation of the entities of the Yapı Kredi Group using the equity method instead of proportionate consolidation.

# Consolidated Statement of Comprehensive Income

## of the Bank Austria Group for the year ended 31 December 2014

### Statement of comprehensive income

(€ million)

	1 JAN. – 31 DEC. 2014	1 JAN. – 31 DEC. 2013
<b>Total profit or loss after tax from continuing operations</b>	<b>1,492</b>	<b>-1,239</b>
<b>Total profit or loss after tax from discontinued operations</b>	<b>-132</b>	<b>-392</b>
<b>PROFIT OR (-) LOSS FOR THE PERIOD</b>	<b>1,360</b>	<b>-1,631</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>-1,737</b>	<b>-1,577</b>
<b>Items that will not be reclassified to profit or loss</b>	<b>-768</b>	<b>-18</b>
Actuarial gains or (-) losses on defined benefit pension plans	-1,020	-25
Share of other recognised income and expense of entities accounted for using the equity method	-3	1
Income tax relating to items that will not be reclassified	255	6
<b>Items that may be reclassified to profit or loss</b>	<b>-968</b>	<b>-1,559</b>
Foreign currency translation	-1,494	-1,033
Cash flow hedges [effective portion]	200	-205
<i>Valuation gains or (-) losses taken to equity</i>	<i>189</i>	<i>-197</i>
<i>Transferred to profit or loss</i>	<i>11</i>	<i>-8</i>
Available-for-sale financial assets	434	-233
<i>Valuation gains or (-) losses taken to equity</i>	<i>513</i>	<i>-97</i>
<i>Transferred to profit or loss</i>	<i>-79</i>	<i>-136</i>
Non-current assets and disposal groups held for sale	3	-5
Share of other recognised income and expense of entities accounted for using the equity method	71	-221
Income tax relating to items that may be reclassified to profit or (-) loss	-182	138
<i>Gains/losses on assets available for sale (available-for-sale reserve)</i>	<i>-114</i>	<i>56</i>
<i>Gains/losses on assets available for sale (available-for-sale reserve) of investments measured at equity</i>	<i>-28</i>	<i>52</i>
<i>Gains/losses on cash flow hedges (cash flow hedge reserve)</i>	<i>-46</i>	<i>50</i>
<i>Gains/losses on cash flow hedges (cash flow hedge reserve) of investments measured at equity</i>	<i>6</i>	<i>-20</i>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>-377</b>	<b>-3,208</b>
<b>Comprehensive income after tax from continuing operations</b>	<b>32</b>	<b>-2,657</b>
<b>Comprehensive income after tax from discontinued operations</b>	<b>-408</b>	<b>-551</b>
Thereof attributable to		
Non-controlling interests from continuing operations	29	22
from discontinued operations	-141	-234
<b>Non-controlling interests</b>	<b>-112</b>	<b>-212</b>
Owners of the parent from continuing operations	3	-2,679
from discontinued operations	-268	-317
<b>Attributable to owners of the parent</b>	<b>-265</b>	<b>-2,996</b>

### Earnings per share (in €, basic and diluted)

(€)

	1 JAN. – 31 DEC. 2014	1 JAN. – 31 DEC. 2013
Earnings per share from comprehensive income after tax from continuing operations	0.01	-11.59
Earnings per share from comprehensive income after tax from discontinued operations	-1.16	-1.37

# Statement of Financial Position

## of the Bank Austria Group at 31 December 2014

### Assets

(€ million)

	Notes	31 DEC. 2014	31 DEC. 2013 <sup>1)</sup>	1 JAN. 2013 <sup>1)</sup>
Cash and cash balances	C.1	1,942	2,375	2,458
Financial assets held for trading	C.2	3,533	2,207	2,686
Financial assets at fair value through profit or loss	C.3	110	343	426
Available-for-sale financial assets	C.4	22,148	19,746	18,434
Held-to-maturity investments	C.5	572	633	882
Loans and receivables with banks	C.6	30,542	22,941 <sup>3)</sup>	25,538
Loans and receivables with customers	C.7	113,732	114,255 <sup>3)</sup>	118,328
Hedging derivatives	C.8	3,952	2,839	4,109
Changes in fair value of portfolio hedged items (+/-)	C.9	-99	33	28
Investments in associates and joint ventures	C.10	4,644	4,463	5,352
Property, plant and equipment	C.11	2,147	2,096	2,356
<i>of which held for investment</i>		896	800	782
Intangible assets	C.12	171	162	2,042
<i>of which goodwill</i>		-	-	1,777
Tax assets		570	591	715
a) current tax assets		72	72	52
b) deferred tax assets	C.13	499	519 <sup>4)</sup>	663 <sup>4)</sup>
Non-current assets and disposal groups classified as held for sale	C.14	3,600	3,714	3,787
Other assets	C.15	1,554	1,103	913
<b>TOTAL ASSETS</b>		<b>189,118</b>	<b>177,503 <sup>4)</sup></b>	<b>188,053 <sup>4)</sup></b>

### Liabilities and equity

(€ million)

	Notes	31 DEC. 2014	31 DEC. 2013 <sup>1)</sup>	1 JAN. 2013 <sup>1)</sup>
Deposits from banks	C.16	23,696	24,530 <sup>3)</sup>	28,006
Deposits from customers	C.17	102,271	96,593 <sup>3)</sup>	98,418
Debt securities in issue	C.18	30,014	27,302	26,646
Financial liabilities held for trading	C.19	3,454	1,505	2,129
Financial liabilities at fair value through profit or loss	C.20	670	797	1,162
Hedging derivatives	C.21	3,302	2,220	2,832
Changes in fair value of portfolio hedged items (+/-)	C.22	84	-	-
Tax liabilities		165	154	261
a) current tax liabilities		58	21	48
b) deferred tax liabilities	C.23	107	133 <sup>4)</sup>	213 <sup>4)</sup>
Liabilities included in disposal groups classified as held for sale	C.24	1,845	2,242	3,506
Other liabilities	C.25	2,617	2,124	1,750
Provisions for risks and charges	C.26	6,076	4,985	5,149
a) post-retirement benefit obligations		5,665	4,630	4,577
b) other provisions		411	355	572
Equity	C.27	14,925	15,050	18,194
<i>of which non-controlling interests (+/-) <sup>2)</sup></i>		193	340	530
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>189,118</b>	<b>177,503 <sup>4)</sup></b>	<b>188,053 <sup>4)</sup></b>

1) Prior year figures were restated due to IFRS 10 and IFRS 11. This relates to the inclusion of the real estate investment fund "Real Invest Europe" in the consolidation perimeter, and to the presentation of the entities of the Yapı Kredi Group using the equity method instead of proportionate consolidation.

2) Due to the merger of both Ukrainian banks and the simultaneous capital increase in December 2013, the non-controlling interest in Bank Austria Group as at 31 December 2013 was shown too high, by €145 million, while the group's own retained earnings were shown too low by the same amount. The figures have been restated. There was no effect on total equity as at 31 December 2013.

3) Due to a change related to the sector to which a counterparty belongs, the previous year's figures for loans and debt towards banks and loans and debt towards customers have been restated to allow a meaningful comparison between periods.

4) Starting with the 2014 financial year, the Group offsets deferred tax assets and deferred tax liabilities if the conditions specified in IAS 12.74 are met. The previous year's figures were adjusted accordingly. The offset as at 31 December 2013 amounted to €354 million (31 December 2012: €446 million), reducing total assets by the same amount.

# Statement of Changes in Equity

## of the Bank Austria Group for the year ended 31 December 2014

(€ million)

	SUB- SCRIBED CAPITAL	CAPITAL RESERVES	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION	CASH FLOW HEDGE RESERVE	AVAILABLE- FOR-SALE RESERVE	CASH FLOW HEDGE AND AFS RESERVE ASSOCIATES	ACTUARIAL LOSSES IN ACCORDANCE WITH IAS 19	SHARE- HOLDERS' EQUITY	NON-CON- TROLLING INTERESTS	EQUITY
<b>As at 1 January 2013<sup>1)</sup></b>	<b>1,681</b>	<b>7,100</b>	<b>10,805</b>	<b>-1,735</b>	<b>350</b>	<b>582</b>	<b>212</b>	<b>-1,332</b>	<b>17,663</b>	<b>530</b>	<b>18,194</b>
Changes in the group of consolidated companies <sup>2)</sup>			35	5					39	43	83
Shares in controlling companies		3							3		3
Net profit for the period			-1,604						-1,604	-27	-1,631
Other comprehensive income			0	-847	-156	-183	-188	-19	-1,392	-185	-1,577
Dividend paid									0	-22	-22
Other changes		-1,051	1,051						0		0
<b>AS AT 31 DECEMBER 2013<sup>1) 2)</sup></b>	<b>1,681</b>	<b>6,052</b>	<b>10,287</b>	<b>-2,577</b>	<b>194</b>	<b>400</b>	<b>25</b>	<b>-1,351</b>	<b>14,711</b>	<b>340</b>	<b>15,050</b>
	SUB- SCRIBED CAPITAL	CAPITAL RESERVES	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION	CASH FLOW HEDGE RESERVE	AVAILABLE- FOR-SALE RESERVE	CASH FLOW HEDGE AND AFS RESERVE ASSOCIATES	ACTUARIAL LOSSES IN ACCORDANCE WITH IAS 19	SHARE- HOLDERS' EQUITY	NON-CON- TROLLING INTERESTS	EQUITY
<b>As at 1 January 2014<sup>1) 2)</sup></b>	<b>1,681</b>	<b>6,052</b>	<b>10,287</b>	<b>-2,577</b>	<b>194</b>	<b>400</b>	<b>25</b>	<b>-1,351</b>	<b>14,711</b>	<b>340</b>	<b>15,050</b>
Changes in the group of consolidated companies			280						280	-15	265
Shares in controlling companies		6							6	0	6
Net profit for the period			1,383						1,383	-23	1,360
Recognised income and expenses				-1,403	153	321	46	-765	-1,648	-89	-1,737
Dividend paid									0	-20	-20
<b>AS AT 31 DECEMBER 2014</b>	<b>1,681</b>	<b>6,058</b>	<b>11,950</b>	<b>-3,980</b>	<b>347</b>	<b>721</b>	<b>71</b>	<b>-2,116</b>	<b>14,732</b>	<b>193</b>	<b>14,925</b>

1) Prior year figures were restated due to IFRS 10 and IFRS 11. This relates to the inclusion of the real estate investment fund "Real Invest Europe" in the scope of consolidation as well as the presentation of the entities of the Yapı Kredi Group using the equity method instead of proportionate consolidation.

2) Due to the merger of both Ukrainian banks and the simultaneous capital increase in December 2013, the non-controlling interest in Bank Austria Group as at 31 December 2013 was shown too high, by €145 million, while the group's own retained earnings were shown too low by the same amount. The figures have been restated. There was no effect on total equity as at 31 December 2013.

# Statement of Cash Flows

## of the Bank Austria Group for the year ended 31 December 2014

(€ million)

	2014	2013
<b>NET PROFIT OR LOSS</b>	<b>1,360</b>	<b>-1,631</b>
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	953	3,945
Increase in staff-related provisions and other provisions	402	284
Increase/decrease in other non-cash items	-654	136
Interest income/interest expenses from investing activities	95	113
Gains/losses on disposal of intangible assets, property, plant and equipment, and investments	-246	-337
<b>SUB-TOTAL</b>	<b>1,910</b>	<b>2,510</b>
Increase/decrease in operating assets and liabilities after adjustment for non-cash components		
Financial assets held for trading	-1,982	580
Loans and receivables with banks and customers	-2,718	1,510
Other asset items	882	339
Financial liabilities held for trading	2,383	-952
Deposits from banks and customers	738	-2,629
Debt securities in issue	1,264	1,324
Other liabilities items	-1,345	-1,325
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>1,132</b>	<b>1,357</b>
<i>of which: cash flows from operating activities of discontinued operations</i>	<i>-112</i>	<i>7</i>
Proceeds from disposal of investments	13,613	14,198
property, plant and equipment	146	38
Payments for purchases of investments	-15,455	-15,702
property, plant and equipment	-396	-378
Proceeds from sales (less cash disposed of) of subsidiaries	135	416
Payments for acquisition (less cash acquired) of subsidiaries	-452	-87
Other changes	-692	545
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>-3,101</b>	<b>-970</b>
<i>of which: cash flows from investing activities of discontinued operations</i>	<i>78</i>	<i>-12</i>
Proceeds from capital increase	-	-
Dividends paid	-	-
Subordinated liabilities and other financial activities (net)	1,526	-549
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>1,526</b>	<b>-549</b>
<i>of which: cash flows from financing activities of discontinued operations</i>	<i>-</i>	<i>-3</i>
<b>CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS AT END OF PREVIOUS PERIOD</b>	<b>2,375</b>	<b>2,457</b>
<b>Cash and cash equivalents from discontinued operations at end of previous period</b>	<b>191</b>	<b>293</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PREVIOUS PERIOD</b>	<b>2,566</b>	<b>2,750</b>
Cash flows from operating activities	1,132	1,357
Cash flows from investing activities	-3,101	-970
Cash flows from financing activities	1,526	-549
Effects of exchange rate changes	-96	-22
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>2,027</b>	<b>2,566</b>
<b>Cash and cash equivalents from discontinued operations</b>	<b>85</b>	<b>191</b>
<b>Cash and cash equivalents from continuing operations</b>	<b>1,942</b>	<b>2,375</b>
<b>Payments for taxes, interest and dividends</b>		
Income taxes paid from operating activities	-178	-289
Interest received from operating activities	5,685	5,413
from investing activities	676	711
Interest paid from operating activities	-2,353	-1,902
from investing activities	-779	-843
Dividends received from investing activities	77	62







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## Note

In this report, "Bank Austria" and "the Bank Austria Group" refer to the Group. To the extent that information relates to the parent company's separate financial statements, "UniCredit Bank Austria AG" is used.

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.



# A – Accounting policies

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## A – Accounting policies (CONTINUED)

### A.1 – Information on the company

UniCredit Bank Austria AG, Schottengasse 6–8, A-1010 Vienna, Austria, is a universal bank conducting banking business within the meaning of Section 1 (1) of the Austrian Banking Act. It is registered under no. FN 150714p in the Austrian Register of Firms. The Bank Austria Group as part of the UniCredit group offers a complete range of banking and other financial services, such as corporate finance, foreign trade financing, project finance, capital markets and money market services, securities and foreign exchange trading, investment banking, consumer credit and mortgage lending, savings accounts, asset management, leasing and factoring. The bank continues to operate in the market under the “Bank Austria” brand name. The geographical focus of the bank’s operations is on Austria, Central and Eastern Europe (CEE), and Turkey and Russia.

### A.2 – Basis for the preparation of the financial statements

The consolidated financial statements of Bank Austria for the year ended 31 December 2014 and the comparative information have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), including the interpretation documents issued by the SIC and IFRIC, and endorsed by the European Commission up to 31 December 2014, pursuant to EU Regulation 1606/2002. The additional disclosure requirements according to Section 245a UGB (Austrian Business Code) and Section 59a of the Austrian Banking Act as well as the disclosure requirements specified in the Accounting Manual of UniCredit S.p.A., the ultimate parent company, required to be applied throughout the Group were taken into account in the preparation of the consolidated financial statements.

The following documents have been used to interpret and support the application of IFRS, even though they have not all been endorsed by the European Commission:

- Framework for the Preparation and Presentation of Financial Statements issued by the IASB in 2010;
- Implementation Guidance, Basis for Conclusions and any other documents prepared by the IASB or the IFRS Interpretations Committee supplementing the IFRS;
- ESMA (European Securities and Markets Authority) and Consob documents on the application of specific IFRS provisions;
- Interpretative documents on the application of IFRS in Austria prepared by the Austrian Financial Reporting and Advisory Committee (AFRAC).

The consolidated financial statements comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows (compiled using the indirect method) and the notes to the consolidated financial statements, and are accompanied by the management report.

The consolidated financial statements are prepared in euros, the presentation currency of the Group. Unless indicated otherwise, all figures are in millions of euros (€).

These consolidated accounts have been prepared on the assumption that the business is a going concern in accordance with IAS 1, as there is no uncertainty as to the company’s ability to continue its business operations.

The measurement criteria adopted are therefore consistent with this assumption and with the principles of accrual based accounting, the relevance and materiality of accounting information, and the prevalence of economic substance over legal form. These criteria have not changed with respect to the previous year.

#### **Risk and uncertainty due to use of estimated figures**

The preparation of financial statements under IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting principles and the amounts of assets and liabilities and income and expenses reported in the consolidated financial statements, as well as the disclosure concerning contingent assets and liabilities. Estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances and have been used to estimate the carrying values of assets and liabilities for which evidence of value is not readily available from other sources.

Valuation is particularly complex given the uncertainty in the macroeconomic and market environment, which is characterised by both the volatility in the financial parameters defined for the valuation process and signs of deterioration in credit quality.

The parameters and information used to check the above-mentioned values are therefore significantly affected by such factors, which could change rapidly in ways that are currently unforeseeable, such that further effects on future carrying amounts cannot be ruled out.

## A – Accounting policies (CONTINUED)

Estimates and assumptions are regularly reviewed. Any changes resulting from these reviews are recognised in the period in which these reviews are carried out, provided that the change only concerns that period. If the revision concerns both current and future periods, it is recognised accordingly in both current and future periods.

Uncertainty affecting estimates is generally inherent in the measurement of:

- fair value of financial instruments not listed in active markets;
- loans and receivables, investments and, in general, any other financial assets/liabilities;
- post-employment benefit obligations and other employee benefits;
- provisions for risks and charges, contingent liabilities and contingent assets;
- goodwill and other intangible assets as well as
- deferred tax assets.

This is because the measurement of these items is mainly dependent on both the evolution of socio-economic conditions and the performance of the financial markets, which affect interest rates, securities prices, actuarial assumptions and, more generally, the creditworthiness of borrowers and counterparties.

A more detailed description of the relevant estimates and assumptions used in the consolidated financial statements of the Bank Austria Group as well as quantitative sensitivity analyses are disclosed in detail in the relevant notes to the consolidated financial statements.

### A.3 – Consolidation principles

This section outlines the consolidation criteria and principles used to prepare the consolidated accounts at 31 December 2014.

#### **Consolidated Accounts**

The financial information in the consolidated financial statements includes that of the parent company, UniCredit Bank Austria AG, together with its subsidiaries as at 31 December 2014.

Amounts in foreign currencies are converted at closing exchange rates in the statement of financial position, whereas the average exchange rate for the year is used for the income statement.

The accounts and the explanatory notes of the main consolidated subsidiaries prepared under IFRS are subject to audit by leading audit companies.

#### **Subsidiaries**

Subsidiaries are entities which the parent company controls in accordance with IFRS 10. An investor controls an entity when it is exposed, or has rights, to variable returns from its involvement with a subsidiary and has the ability to influence those returns through its power over the subsidiary.

The list of subsidiaries also includes any special purpose entities required to be consolidated in accordance with IFRS 10 even if no interest in the equity capital of the special purpose entity is held.

Equity interests held by third parties in a special purpose entity consolidated by the Bank in accordance with IFRS 10 are recognised under non-controlling interests.

The carrying amount of an ownership interest in a fully consolidated entity held by the parent company or another group company is eliminated – against the recognition of the assets and liabilities of the investee – as an offsetting entry to the corresponding portion of equity of the subsidiary due to the Group.

Intragroup balances, off-balance sheet transactions, income and expenses and gains/losses between consolidated companies are eliminated in full.

A subsidiary's income and expenses are included in the consolidation from the date the parent acquires control. On disposal of a subsidiary, its income and expenses are consolidated up to the date of disposal, i. e., until the parent ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and the carrying amount of its net assets is recognised in the item "Gains and losses on disposal of investments" in profit and loss for fully consolidated entities.

Minority interests are recognised in the consolidated balance sheet item "Non-controlling interests" separately from liabilities and parent shareholders' equity. Minority interests in the profit or loss of the group are separately disclosed under the item "Non-controlling interests" of the consolidated income statement.

The fair value of purchase price components which are transferred to obtain control of the subsidiary when the subsidiary is included in consolidation for the first time is measured at the acquisition date.

## A – Accounting policies (CONTINUED)

### Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, which is usually structured in the legal form of a separate vehicle.

Investments in jointly controlled companies are accounted for under the equity method, if they are material for the Bank Austria Group. At present, there is no case in the Bank Austria Group where proportionate consolidation, which IFRS 11 permits only in exceptional cases, is applied.

### Associates

These are entities over which an investor has significant influence and which are not subsidiaries or joint ventures. It is presumed that:

- the investor has significant influence if the investor holds, directly or indirectly, at least 20 per cent of the voting power of an investee;
- is able to exercise significant influence through:
  - representation on the board of directors or equivalent governing body of the investee;
  - participation in policy-making process, including participation in decisions about dividends or other distributions;
  - material transactions between the investor and the investee;
  - interchange of managerial personnel;
  - provision of essential technical information.

Investments in associates are recognised using the equity method. The carrying amount includes goodwill (less any impairment loss). The investor's share of the profit and loss of the investee after the date of acquisition is recognised in the item "Profit (Loss) of associates" in the income statement. Distributions received from an investee reduce the carrying amount of the investment.

Gains and losses on transactions between fully consolidated entities and associates are eliminated according to the percentage interest in the associate.

The changes in the revaluation reserves of associates, which are recorded as a contra item to changes in value of assets and liabilities that are relevant to this purpose, are reported separately in the Statement of Comprehensive Income.



## A – Accounting policies (CONTINUED)

### A.4 – Application of amended and new IASs and IFRSs

#### A.4.1 – Effects arising from changes in accounting methods

Except for the changes below, the accounting policies applied are consistent with those of the previous financial year.

##### **Change in accounting for deferred taxes**

Starting with the consolidated financial statements as at 31 December 2014, the Bank Austria Group has decided, following the accounting policy of UniCredit Group, to offset deferred tax assets and deferred tax liabilities in the consolidated financial statements if the conditions specified in IAS 12.74 are met. The offset of deferred tax assets and deferred tax liabilities as at 31 December 2013 was €354 million (31 December 2012: €446 million), reducing total assets by the same amount. The published amounts were adjusted accordingly.

##### **New and amended financial reporting standards adopted in 2014**

The Group has adopted the following new standards and amendments to standards, with a date of initial application of 1 January 2014.

##### ***Introduction of IFRS 10, IFRS 11 and IFRS 12 as well as amendments to IAS 27 and IAS 28***

In May 2011 the IASB issued **IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests in Other Entities**, a revised IAS 27 Separate Financial Statements, which was amended as IFRS 10 was issued, while leaving the existing rules for separate financial statements unchanged, and a revised IAS 28 Investments in Associates and Joint Ventures, which was adjusted as IFRS 10 and IFRS 11 were issued. These Standards were endorsed by the EU in December 2012. The amendments to IFRS 10, IFRS 11 and IFRS 12 with regard to transition and the amendments to IFRS 10, IFRS 12 and IAS 27 for investment entities were also endorsed by the EU in 2013.

The Group applies IFRS 10, IFRS 11, IFRS 12, the amended IAS 27, the amended IAS 28, and the consequential amendments from 1 January 2014.

**IFRS 10** supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities and establishes a single control model that applies to all entities, including special purpose entities previously considered under SIC 12. IFRS 10 specifies that an investor controls an investee when the investor is exposed or has rights to variable returns from its investment with the investee and has the ability to use power over the investee to influence such returns. Control is to be assessed on the basis of all current facts and circumstances and is to be reassessed as facts and circumstances change.

The Group has assessed the consolidation perimeter under the new control concept of IFRS 10 in detail. The effect on the consolidated financial statements as a result of this change is negligible.

**IFRS 11** supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 classifies joint arrangements as either joint operations or joint ventures and focuses on the nature of the rights and obligations of the arrangement. For joint ventures IFRS 11 requires the use of the equity method of accounting, eliminating the option to use the proportionate consolidation method. IFRS 11 brings a major change to the financial statements of the Bank Austria Group as our investment in Yapı Kredi ve Bankası, a joint venture with our partner Koç Group in Turkey, and all the subsidiaries belonging to Yapı Kredi group, which in the consolidated financial statements were accounted for using proportionate consolidation based on IAS 31 until 31 December 2013, have been accounted for using the equity method since 1 January 2014.

The following tables show the effects of IFRS 10 and IFRS 11 on our consolidated financial statements:

## A – Accounting policies (CONTINUED)

## Effects of the application of IFRS 10 and IFRS 11 in the income statement for the year ended 31 December 2013

(€ million)

	PUBLISHED IN THE 2014 ANNUAL REPORT	PUBLISHED IN THE 2013 ANNUAL REPORT	EFFECT OF THE APPLICATION OF IFRS 10 AND IFRS 11
Interest income and similar revenues	5,931	7,508	-1,578
Interest expense and similar charges	-2,531	-3,376	846
<b>Net interest margin</b>	<b>3,400</b>	<b>4,132</b>	<b>-732</b>
Fee and commission income	1,747	2,161	-414
Fee and commission expense	-373	-463	91
<b>Net fees and commissions</b>	<b>1,374</b>	<b>1,698</b>	<b>-323</b>
Dividend income and similar revenue	24	25	-1
Gains and losses on financial assets and liabilities held for trading	496	565	-68
Fair value adjustments in hedge accounting	10	12	-2
Gains and losses on disposal of:	251	321	-70
a) loans	4	2	3
b) available-for-sale financial assets	233	305	-73
c) held-to-maturity investments	3	3	-
d) financial liabilities	11	11	-
Gains and losses on financial assets/liabilities at fair value through profit or loss	37	37	-
<b>OPERATING INCOME</b>	<b>5,593</b>	<b>6,791</b>	<b>-1,197</b>
Impairment losses on:	-1,347	-1,500	154
a) loans	-1,271	-1,416	145
b) available-for-sale financial assets	-56	-56	-
c) held-to-maturity investments	-	-	-
d) other financial assets	-19	-28	9
<b>Net income from financial activities</b>	<b>4,247</b>	<b>5,290</b>	<b>-1,044</b>
Premiums earned (net)	-	83	-83
Other income (net) from insurance activities	-	-65	65
<b>Net income from financial and insurance activities</b>	<b>4,247</b>	<b>5,308</b>	<b>-1,061</b>
Administrative costs:	-3,232	-3,697	465
a) staff expense	-1,725	-1,992	267
b) other administrative expense	-1,507	-1,705	198
Net provisions for risks and charges	-27	-56	29
Impairment/write-backs on property, plant and equipment	-188	-215	27
Impairment/write-backs on intangible assets	-98	-112	13
Other net operating income	91	94	-3
<b>OPERATING COSTS</b>	<b>-3,454</b>	<b>-3,986</b>	<b>532</b>
Profit (loss) of associates	222	-135	356
Gains and losses on tangible and intangible assets measured at fair value	-3	-1	-2
Impairment of goodwill	-1,678	-1,957	279
Gains and losses on disposal of investments	-159	66	-225
<b>TOTAL PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>-825</b>	<b>-704</b>	<b>-122</b>
Tax expense (income) related to profit or loss from continuing operations	-414	-534	120
<b>Total profit or loss after tax from continuing operations</b>	<b>-1,239</b>	<b>-1,237</b>	<b>-2</b>
Total profit or loss after tax from discontinued operations	-392	-392	-
<b>NET PROFIT OR LOSS FOR THE YEAR</b>	<b>-1,631</b>	<b>-1,629</b>	<b>-2</b>

## A – Accounting policies (CONTINUED)

**Effects of the application of IFRS 10 and IFRS 11 in the Statement of Financial Position at 1 January 2013**

(€ million)

	1 JAN. 2013 PUBLISHED IN THE 2014 ANNUAL REPORT *)	31 DEC. 2012 PUBLISHED IN THE 2013 ANNUAL REPORT	EFFECT OF THE APPLICATION OF IFRS 10 AND IFRS 11
<b>Assets</b>			
Cash and cash balances	2,458	2,754	-296
Financial assets held for trading	2,686	2,855	-170
Financial assets at fair value through profit or loss	426	426	-
Available-for-sale financial assets	18,434	21,063	-2,630
Held-to-maturity investments	882	1,895	-1,013
Loans and receivables with banks	25,538	28,112	-2,575
Loans and receivables with customers	118,328	132,424	-14,097
Hedging derivatives	4,109	4,125	-16
Changes in fair value of portfolio hedged items (+/-)	28	54	-26
Investments in associates and joint ventures	5,352	2,348	3,003
Insurance reserves attributable to reinsurers	-	1	-1
Property, plant and equipment	2,356	2,509	-153
Intangible assets	2,042	2,459	-416
Tax assets	1,162	1,336	-175
a) current tax assets	52	52	-
b) deferred tax assets	1,110	1,284	-174
Non-current assets and disposal groups classified as held for sale	3,787	3,788	-
Other assets	913	1,446	-533
<b>TOTAL ASSETS</b>	<b>188,500</b>	<b>207,596</b>	<b>-19,096</b>
<b>Liabilities and equity</b>			
Deposits from banks	28,006	31,061	-3,055
Deposits from customers	98,418	110,563	-12,144
Debt securities in issue	26,646	28,063	-1,417
Financial liabilities held for trading	2,129	2,196	-67
Financial liabilities at fair value through profit or loss	1,162	1,152	10
Hedging derivatives	2,832	2,989	-157
Changes in fair value of portfolio hedged items (+/-)	-	-	-
Tax liabilities	708	856	-149
a) current tax liabilities	48	88	-40
b) deferred tax liabilities	659	768	-109
Liabilities included in disposal groups classified as held for sale	3,506	3,506	-
Other liabilities	1,750	3,428	-1,678
Provisions for risks and charges	5,149	5,388	-239
a) post-retirement benefit obligations	4,577	4,600	-23
b) other provisions	572	789	-217
Insurance reserves	-	201	-201
Equity	18,194	18,192	1
of which non-controlling interests (+/-)	530	530	-
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>188,500</b>	<b>207,596</b>	<b>-19,096</b>

\*) The additional effect from netting of deferred tax assets and deferred tax liabilities was not taken into account for purposes of this analysis.

## A – Accounting policies (CONTINUED)

**IFRS 12** requires an entity to disclose the nature, associated risks, and financial effects of interests in subsidiaries, associates and joint arrangements and of unconsolidated structured entities. IFRS 12 requires more comprehensive disclosures in the notes than IAS 27 or SIC-12.

### **IFRIC 21 Levies**

IFRIC Interpretation 21 Levies contains new rules for accounting for levies in the financial statements. The Interpretation is applicable for annual periods beginning on or after 1 January 2014 and was endorsed by the EU on 13 June 2014. This Interpretation is of relevance for our Group in the context of accounting for bank levies in various countries. The first-time application of IFRIC Interpretation 21 does not result in any changes with regard to the method of accounting for bank levies which has been used so far.

### **Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting**

This amendment to IAS 39 allows the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met. The amendment is a response to changes in laws and regulations for over-the-counter derivatives, requiring many of them to be transacted with a central counterparty or entity acting in a similar capacity. The amendment became effective on 1 January 2014. Whether these amendments will have effects on the Bank Austria Group will depend on the final technical standard of the European Securities and Markets Authority (ESMA).

### **Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets**

The amendments refer to minor changes in the disclosures regarding recoverable amounts of non-financial assets and in particular cash-generating units. They became effective on 1 January 2014 and are of relevance for our Group for the first time for the consolidated financial statements as at 31 December 2014.

## A.4.2 – New and amended financial reporting standards not yet adopted by the Group

### **IFRS 9 Financial Instruments**

The IASB issued the final version of IFRS 9 Financial Instruments on 24 July 2014. IFRS 9 introduces changes in the classification and measurement of financial instruments while also including changes in rules for recognising credit losses ("Phase 2") and for hedge accounting ("Phase 3"). The Standard will come into effect on 1 January 2018.

None of the parts of IFRS 9 have been endorsed by the European Union as yet, therefore our group does not early adopt any of the parts of IFRS 9. However, the Group has started a project to analyse the effects of the extensive new requirements resulting from IFRS 9 and to prepare for such requirements in the best possible manner in the coming years. The potential effects on the financial statements of Phase 1 (classification and measurement) are expected to be significant: preliminary analyses, which were still based on Exposure Draft 2010, suggest that more financial assets will have to be carried at fair value through profit or loss than has been the case so far as some of the mass products sold in Austria and also in various CEE countries may not meet the criteria for "solely payments on principal and interest" (SPPI) that will be required for a treatment at amortised cost under IFRS 9. This will probably also require changes to be made to the bank's systems. Moreover, Phase 2 is expected to result in an increase in loan loss provisions because provisions will have to be made not only for losses incurred, as has been the case so far, but also for expected losses. Moreover, the Group is currently examining the various options offered by the new hedge accounting regulations (Phase 3) that are expected to bring hedge accounting and risk management closer together.

As the EU has announced that only the complete set of IFRS 9 will be endorsed, first-time application of IFRS 9 in the Bank Austria Group will probably not take place before 1 January 2018.

### **IFRS 14 Regulatory Deferral Accounts**

IFRS 14 Regulatory Deferral Accounts permits a company which is a first-time adopter of IFRS to continue to account, with some limited changes, for regulatory deferral account balances in accordance with the previously used generally accepted accounting policies. The Standard will become effective on 1 January 2016 but has not yet been endorsed by the EU. It has no effect on our Group.

### **IFRS 15 Revenue from Contracts with Customers**

On 28 May 2014, the IASB issued IFRS 15, which specifies when and how revenue from contracts with customers is to be recognised in all lines of business. The Standard supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The Standard will be effective from 1 January 2017; its endorsement by the EU is expected for the middle of 2015. The Group will analyse the potential effects of the application of this Standard in the coming months.

## A – Accounting policies (CONTINUED)

### **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. They will be effective from 1 January 2016, their endorsement by the EU is expected for the third quarter of 2015. An initial analysis shows that these amendments will have no effect on our Group.

### **Amendments to IAS 16 and IAS 41 concerning bearer plants**

In June 2014, the IASB issued amendments to IAS 16 and IAS 41 concerning bearer plants. These amendments have no effect on our Group. They will be effective from 1 January 2016, their endorsement by the EU is expected for the third quarter of 2015.

### **Amendments to IAS 19 concerning employee contributions**

These amendments to IAS 19 clarify the accounting for contributions from employees, in addition to those from the employer, to a defined-contribution plan. The amendments became effective on 1 July 2014 and they were endorsed by the EU on 17 December 2014. These amendments have no effect on our Group.

### **Amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28**

On 12 August 2014 the IASB issued an amendment to IAS 27 concerning use of the equity method in separate financial statements. This amendment will become effective on 1 January 2016, its endorsement by the EU is expected for the third quarter of 2015. It will have no effect on our Group's consolidated financial statements.

On 11 September 2014 the IASB issued amendments to IFRS 10 and IAS 28 concerning the sale or contribution of assets between an investor and its associate or joint venture. These amendments will become effective on 1 January 2016. In February 2015, the European Financial Reporting Advisory Group (EFRAG) recommended that the EU endorsement process in respect of these amendments be suspended until further notice because a conflict with IAS 28.32 was identified; in the meantime, the IASB has confirmed that a conflict exists.

On 18 December 2014 the IASB issued amendments to IFRS 10, IFRS 12 and IAS 28 concerning a consolidation exception for investment entities. This amendment will become effective on 1 January 2016, its endorsement by the EU is expected for the fourth quarter of 2015. It will have no effect on our 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 will become effective on 1 January 2016. Its endorsement by the EU is expected for the first quarter of 2015. Effects on our 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 will become effective on 1 January 2016, their endorsement by the EU is expected for the fourth quarter of 2015. The amendments will result in minor additional information to be given by our 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. Endorsement by the EU is expected for the third quarter of 2015. The effects on our Group are considered to be negligible.

## A.5 – Significant accounting policies

### A.5.1 – Business Combinations

A business combination is a transaction through which an entity obtains control of a company or of a business segment, thus bringing together different businesses into one reporting entity.

A business combination may result in a parent-subsidiary relationship in which the acquirer is the parent and the acquiree a subsidiary of the acquirer. A business combination may involve the purchase of the net assets of another entity – in which case goodwill can arise – or the purchase of the equity of the other entity (mergers).

## A – Accounting policies (CONTINUED)

IFRS 3 requires that all business combinations shall be accounted for by applying the purchase method, that involves the following steps:

- identifying an acquirer;
  - measuring the cost of the business combination;
- and:
- allocating, at the acquisition date, the cost of the business combination to the fair value of the assets acquired and liabilities and contingent liabilities assumed.

The cost of a business combination is the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer, in exchange for control of the acquiree.

The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. When this is achieved through a single exchange transaction, the date of exchange coincides with the acquisition date.

A business combination may involve more than one exchange transaction; nevertheless, the cost of the business combination remains equal to the fair value of the amount paid at the acquisition date. This involves the revaluation at fair value – and the recognition of the effects in the income statement – of the equity investments previously held in the acquired entity.

The cost of a business combination is allocated by recognising the assets, the liabilities and the identifiable contingent liabilities of the acquired company at their acquisition-date fair value. Exceptions to this principle are deferred income tax assets and liabilities, employee benefits, indemnification assets, reacquired rights, non-current assets held for sale, and share-based payment transactions that are subject to review in accordance with the principle applicable to them.

A positive difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities so recognised is accounted for as goodwill.

After initial recognition, goodwill is tested for impairment at least annually.

If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall reassess the fair values and recognise immediately any excess remaining after that reassessment in profit or loss.

If the acquisition concerns a percentage less than 100% of the assets of the acquired company, non-controlling interests are recognised.

At the acquisition date, non-controlling interests are valued:

- either at fair value ("full goodwill method") or
- as a proportion of non-controlling interests in the assets, liabilities and identifiable contingent liabilities of the acquired company.

A decision on the method applied in the case of an acquisition will be made on a case-by-case basis.

**Business combinations under common control** (e.g. transfers of entities to and from other subsidiaries of UniCredit S.p.A. outside our Bank Austria Group) are accounted for based on book values, with any effects directly recognised in equity.

A reduction of a stake from a controlled entity to an entity with significant influence accounted for under the equity method is accounted for as a sale without any proportionate elimination of the result of deconsolidation regarding the percentage of ownership retained. The fair value of the retained investment is its deemed cost for the purpose of subsequent accounting.

### A.5.2 – Foreign currency translation

The consolidated financial statements are prepared in euros, the presentation currency of the Group.

Various entities in the Group use a different functional currency, the currency of the primary economic environment in which the entity operates.

Foreign currency transactions are translated into the functional currency using the spot exchange rates prevailing at the dates of the transaction or valuation when items are re-measured.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange effective at the balance sheet date. Any resulting exchange differences are included in the income statement under "gains and losses on financial assets and liabilities held for trading".

## A – Accounting policies (CONTINUED)

Non-monetary assets and liabilities recognised at historical cost in a foreign currency are translated into the functional currency using the exchange rate at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined.

The exchange differences on a non-monetary item are recognised in other comprehensive income if the gain or loss on a non-monetary item is recognised in other comprehensive income. Any exchange component of a gain or loss on a monetary item is recognised in the income statement if the gain or loss on the monetary item is recognised in the income statement.

For consolidation purposes assets, liabilities and equity of foreign operations, the functional currency of which is not euro, are translated into the Group's presentation currency at the closing rate of exchange of each period. Items of income and expenses are translated at the average rate of exchange for the reporting period. Differences arising from the use of spot and weighted average exchange rates and from the remeasurement of a foreign operation's net assets at the closing rate of the period are recognised in the revaluation reserves.

The exchange differences arising on the translation of the financial statements of a foreign operation are recognised in other comprehensive income and accumulated in a separate component of equity. The amount attributable to any non-controlling interests is allocated to and recognised as part of non-controlling interests.

Goodwill and intangible assets recognised on acquisition of foreign subsidiaries (brands, customer relationships) and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of a foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

On the disposal of a foreign subsidiary and associate, which results in the loss of control or loss of significant influence of that operation, all the exchange differences accumulated in a separate component of equity in respect of that operation attributable to the equity holders of the company are reclassified to profit or loss.

In case of a partial disposal of a foreign operation that does not result in the loss of control, the proportionate share of the accumulated exchange differences is re-attributed to non-controlling interests and is not recognised in profit or loss. For all other partial disposals the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

### Exchange rates used for foreign currency translation

(Exchange rate in currency/€)

		2014		2013		CHANGE IN %	
		AVERAGE	END OF REPORT- ING PERIOD	AVERAGE	END OF REPORT- ING PERIOD	AVERAGE	END OF REPORT- ING PERIOD
Azerbaijani manat	AZN	1.0422	0.9525	1.0418	1.0819	0.04 %	-11.96 %
Bosnian marka	BAM	1.9558	1.9558	1.9558	1.9558	0.00 %	0.00 %
Bulgarian lev	BGN	1.9558	1.9558	1.9558	1.9558	0.00 %	0.00 %
Swiss franc	CHF	1.2146	1.2024	1.2311	1.2276	-1.34 %	-2.05 %
Czech crown	CZK	27.5359	27.7350	25.9797	27.4270	5.99 %	1.12 %
Croatian kuna	HRK	7.6344	7.6580	7.5786	7.6265	0.74 %	0.41 %
Hungarian forint	HUF	308.7060	315.5400	296.8730	297.0400	3.99 %	6.23 %
Kyrgyzstan som	KGS	71.1620	71.5352	64.3337	67.8901	10.61 %	5.37 %
Kazakh tenge	KZT	238.1550	221.4599	202.1400	212.4386	17.82 %	4.25 %
Lithuanian litas	LTL	3.4528	3.4528	3.4528	3.4528	0.00 %	0.00 %
Latvian lat	LVL	0.7015	0.7028	0.7015	0.7028	0.00 %	0.00 %
Polish zloty	PLN	4.1843	4.2732	4.1975	4.1543	-0.32 %	2.86 %
Romanian leu	RON	4.4437	4.4828	4.4190	4.4710	0.56 %	0.26 %
Serbian dinar	RSD	117.2310	121.1225	113.0870	114.7915	3.66 %	5.52 %
Russian rouble	RUB	50.9518	72.3370	42.3370	45.3246	20.35 %	59.60 %
Turkish lira	TRY	2.9065	2.8320	2.5335	2.9605	14.72 %	-4.34 %
Ukrainian hryvnia	UAH	15.8643	19.2060	10.7877	11.3292	47.06 %	69.53 %
US dollar	USD	1.3285	1.2141	1.3281	1.3791	0.03 %	-11.96 %

## A – Accounting policies (CONTINUED)

### A.5.3 – Financial instruments

#### A.5.3.1 – General definitions in the context of financial instruments

##### *Initial recognition and measurement*

A financial instrument is any contract giving rise to a financial asset at one company and a financial liability or equity instrument at another company. In accordance with IAS 39, all financial assets and liabilities, including derivative financial instruments, have to be recognised in the statement of financial position and measured in accordance with their assigned classification. As regards the date of initial recognition, IAS 39 specifies that an entity may use either trade date accounting or settlement date accounting. In the entire UniCredit Group, initial recognition is at the settlement date as required by the Bank of Italy.

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them.

The group classifies its financial instruments into the following categories:

- at fair value through profit or loss
  - held for trading
  - designated under the "fair value option"
- available for sale (AfS)
- held to maturity (HTM)
- loans and receivables

All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and liabilities recorded at fair value through profit or loss.

##### *Amortised cost*

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

The effective interest method is a method of allocating the interest income or interest expense over the life of a financial asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Commissions forming an integral part of the effective interest rate include loan drawdown fees or underwriting fees relating to a financial asset not designated at fair value, e.g., fees received as compensation for the assessment of the issuer's or borrower's financial situation, for valuation and registration of security, and generally for the completion of the transaction (management fees).

Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

##### *Impairment of financial assets*

At each balance sheet date an entity assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Losses expected as a result of future events, no matter how likely, are not recognised.



## A – Accounting policies (CONTINUED)

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to our attention about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting a concession to the borrower which the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; however, the disappearance of an active market due to the fact that a company's financial instruments are no longer traded publicly is no evidence of impairment; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

Objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment may not be recovered.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss is recognised in the profit and loss item "Impairment losses".

If the terms of a loan, receivable or held-to-maturity investment are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. If a loan, receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Objective evidence of impairment is initially assessed individually; however, if it is determined that there is no objective evidence of individual impairment, the asset is included in a group of financial assets with similar credit risk characteristics and assessed collectively.

Formula-based approaches and statistical methods may be used to assess impairment losses on a group of financial assets. Models used incorporate the time value of money, and consider cash flows over the entire residual life of the asset (not just the following year) and do not give rise to an impairment loss on initial recognition of a financial asset. They take into account losses already sustained but not manifest in the group of financial assets at the time of measurement, on the basis of past experience of losses on assets having a similar credit risk to the group of assets being measured.

### **Reversals of impairment losses**

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's creditworthiness), the previously recognised impairment loss is reversed and the amount of the reversal is recognised in profit and loss item "Impairment losses" except in the case of AfS equity instruments (see section 5.3.2 below).

The reversal shall not result – at the date the impairment is reversed – in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised.

## A – Accounting policies (CONTINUED)

### ***Derecognition***

Derecognition is the removal of a previously recognised financial asset or financial liability.

Before evaluating whether, and to what extent, derecognition is appropriate, under IAS 39 an entity should determine whether the relevant conditions apply to a financial asset in its entirety or to a part of a financial asset. The standard is applied to a part of financial assets being transferred if, and only if, the part being considered for derecognition meets one of the following conditions:

- the part comprises only specifically identified cash flows from a financial asset (or a group of assets), e.g. interest cash flows from an asset;
- the part comprises a clearly identified percentage of the cash flows from a financial asset, e.g., a 90 per cent share of all cash flows from an asset;
- the part comprises only a fully proportionate (pro rata) share of specifically identified cash flow, e.g. a 90 per cent share of interest cash flows from an asset.
- In all other cases, the standard is applied to the financial asset in its entirety (or to the group of similar financial assets in their entirety).

A financial asset must be derecognised when the contractual rights to the cash flows from the financial asset expire or the contractual rights to receive the cash flows of the financial asset are transferred to a non-Group counterparty. Rights to cash flow are considered to be transferred even if contractual rights to receive the asset's cash flow are retained but there is an obligation to pay this cash flow to one or more entities and all the following conditions are fulfilled (pass-through agreement):

- there is no obligation on the Group to pay amounts not received from the original asset;
- sale or pledge of the original asset is not allowed, unless it secures the obligation to pay cash flow;
- the Group is obliged to transfer forthwith all cash flows received and may not invest them, except for liquidity invested for the short period between the date of receipt and that of payment, provided that the interest accrued in that period is paid on.

Recognition is also subject to verification of effective transfer of all the risks and rewards of ownership of the financial asset. If the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall derecognise the asset (or group of assets) and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer.

Conversely, if the entity substantially retains all the risks and rewards of ownership of the asset (or group of assets), the entity shall continue to recognise the transferred asset(s). In this case it is necessary to recognise a liability corresponding to the amount received under the transfer and subsequently recognise all income accruing on the asset or expense accruing on the liability.

The main transactions that do not allow, under the above rules, total derecognition of a financial asset are securitisations, repurchase (sell and buybacks) and stock lending transactions.

In the case of securitisations the Group does not derecognise the financial asset on purchase of the equity tranche or provision of other forms of support of the structure which result in the Group retaining the credit risk of the securitised portfolio.

In the case of repurchase transactions and stock lending, the assets transacted are not derecognised since the terms of the transaction entail the retention of all their risks and rewards.

Lastly, it should be noted that securities lending transactions collateralised by other securities or not collateralised were recorded as off-balance sheet items.

### **A.5.3.2 – Categories of financial instruments**

#### ***Financial assets and financial liabilities at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as at fair value through profit or loss upon initial recognition.

## A – Accounting policies (CONTINUED)

### Financial assets and financial liabilities held for trading (HfT)

A financial asset is classified as held for trading if it is:

- acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for derivatives which constitute financial guarantees, see Section 5.3.3, and derivatives designated as hedging instruments – see Section 5.3.3).

Like other financial instruments, on initial recognition, at settlement date, a held-for-trading financial asset is measured at its fair value, usually equal to the amount paid, excluding transaction costs and income, which are recognised in profit and loss even when directly attributable to the financial assets.

After initial recognition these financial assets are measured at their fair value through profit or loss. An exception is represented by derivatives settled by delivery of an unlisted equity instrument whose fair value cannot be reliably measured, and which is therefore measured at cost.

All changes in fair value are recognised as part of “Gains and losses on financial assets and liabilities held for trading” in the income statement. Interest income and expenses are reported under “net interest”.

A gain or loss arising from sale or redemption or a change in the fair value of an HfT financial instrument is recognised in the income statement item “Gains and losses on financial assets and liabilities held for trading”.

Financial assets held for trading include securities held for trading and positive market values of derivative financial instruments, recognised at their fair values. The item financial liabilities held for trading shows negative market values of derivative financial instruments and short positions held in the trading portfolio.

### Derivatives

A derivative is a financial instrument or other contract with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (usually called the ‘underlying’);
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- it is settled at a future date.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

An embedded derivative is separated from the host contract and recognised as a derivative if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid (combined) instrument is not measured entirely at fair value through profit or loss.

If it is necessary to separate an embedded derivative from its host contract, but it is not possible to measure the embedded derivative separately either at acquisition or at a subsequent financial reporting date, the entire combined contract is treated as a financial asset or financial liability at fair value through profit or loss.

When an embedded derivative is separated, the host contract is recognised according to its accounting classification.

Some derivatives are traded on organised exchanges where the terms of the contracts are standardised and quoted prices for the instruments are generally available publicly.

Non-exchange traded derivatives, commonly referred to as over-the-counter (OTC) derivatives, are transacted directly between market counterparties with the terms of the contracts often tailored to the parties’ specific requirements. These trades are usually governed by general terms published by the International Swaps and Derivatives Association (ISDA) and may be accompanied by a Credit Support Annex (CSA), which details the requirements for the posting of collateral.

## A – Accounting policies (CONTINUED)

Generally, derivatives fall into the following categories:

- **Forward-based derivatives** are contracts with a mandatory requirement to settle at a set point in time in the future at a specified price. The agreement stipulates the reference rate – e.g. interest rate or currency exchange rate – the settlement date and the notional value.
- A forward contract that is exchange-traded is generally referred to as a “futures contract”. Futures are generally based on interest rates, currencies, commodities or stock market indices. OTC forward-based derivatives are generally referred to as “forward agreements”. The two most common types of OTC forward agreements are based on interest rates and foreign exchange rates.
- **Swap-based derivatives** are contracts in which counterparties exchange, over a period of time, one stream of cash flows for another stream of cash flows. The cash flows are normally calculated with reference to a notional amount, which is often not exchanged by the counterparties – e.g. interest rate swaps.
- **Option-based derivatives** include contracts that give one party the right, but not the obligation, to engage in a transaction to buy or sell an asset on a set date or within a set period of time at a particular (strike) price. Options can be exchange-traded or OTC.

All derivatives are initially measured at fair value.

Subsequent to initial recognition all derivatives are measured at fair value with changes in fair value recognised in profit or loss.

### **Financial instruments at fair value through profit or loss (fair value option)**

Any financial instrument may be designated as a financial instrument measured at fair value through profit and loss on initial recognition, in accordance with the provisions of IAS 39, except for the following:

- investments in equity instruments for which there is no price quoted in active markets and whose fair value cannot be reliably determined;
- derivatives.

Financial assets and liabilities classified in this category are those that have been designated by management upon initial recognition under the so-called “fair value option”. Management may only designate an instrument at fair value through profit and loss upon initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains and losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets and liabilities, which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets and liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value; changes in fair value are recorded in the item “Net change in financial assets and liabilities at fair value through profit or loss”. Interest earned or incurred is accrued in interest income or interest expense using the effective interest rate.

FaFV includes financial assets and liabilities:

- (i) not belonging to the regulatory trading book, whose risk is:
  - connected with debt positions measured at fair value
  - and managed by the use of derivatives not treatable as accounting hedges.
- (ii) represented by hybrid (combined) instruments containing embedded derivatives that otherwise should have been separated from the host contract.

FaFV are accounted for in a similar manner to HFT financial instruments (see above), however gains and losses, whether realised or unrealised, are recognised in item “Gains (losses) on financial assets and liabilities measured at fair value”.

### **Available-for-sale financial assets (AfS)**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments, financial assets held for trading or financial assets at fair value through profit or loss. These assets are held for an indefinite period of time and can meet the need to ensure liquidity and face changes in interest rates, exchange rates and prices.

## A – Accounting policies (CONTINUED)

AfS financial assets are money market instruments, other debt instruments or equity instruments; they include shares held as non-controlling interests where these do not constitute controlling or associate interests, or joint control.

On initial recognition, at settlement date, an AfS financial asset is measured at fair value, which is usually equal to the consideration of the transaction, plus transaction costs and income directly attributable to the instrument. In subsequent periods AfS assets are measured at fair value, the interest on interest-bearing instruments being recognised at amortised cost in the income statement.

Equity instruments (shares) not listed in an active market and whose fair value cannot be reliably determined are valued at cost.

If there is objective evidence of an impairment loss on an available-for-sale financial asset, the cumulative loss that had been recognised directly in the equity item "Revaluation reserves", is removed from equity and recognised in profit or loss under the item "Impairment losses (b) available-for-sale financial assets".

The loss of value is normally considered lasting if fair value falls to less than 50 % of the carrying amount or if fair value is lower than the carrying amount for more than 18 months.

If however the fall in the fair value of the instrument is over 20 % but less than or equal to 50 % or continues for no less than 9 months but no longer than 18 months, further market indicators are used for a review. If the results of the review are such as to prejudice the recovery of the amount originally invested, a lasting loss of value is recognised. The amount taken to profit and loss is the difference between the carrying amount (value of initial recognition less any impairment loss already recognised in profit or loss) and current fair value. Given the low volume of available-for-sale equity instruments, there is currently no material case in which this is applied in the Bank Austria Group. Where instruments are valued at amortised cost, the amount of the loss is determined as the difference between their carrying value and the present value of estimated future cash flows, discounted at the current market yield on similar financial assets.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss, but recognised in equity.

In respect of debt instruments, any circumstances indicating that the borrower/issuer is experiencing financial difficulties which could prejudice the collection of the principal or interest, represent an impairment loss. A lasting loss of value of equity instruments is assessed on the basis of indicators such as fair value below the carrying amount and adverse changes in the environment in which the company operates, as well as the issuer's debt service difficulties.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event such as an improvement in the debtor's credit worthiness occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed and the amount of the reversal is recognised in the same profit or loss item. The reversal cannot result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised.

### ***Held-to-maturity investments (HtM)***

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, for which there is the positive intention and ability to hold them to maturity.

If, during the financial year, more than an insignificant amount of held-to-maturity investments are sold or reclassified before maturity, the remaining HtM financial assets shall be reclassified as available-for-sale and no financial assets shall be classified as HtM investments for the two following financial years, unless the sales or reclassifications:

- are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after substantially all of the financial asset's original principal has been collected through scheduled payments or prepayments;
- are attributable to an isolated event that is beyond the reporting entity's control, is non-recurring and could not have been reasonably anticipated.

After initial recognition at its fair value, which will usually be the price paid including transaction costs and income directly attributable to the acquisition or provision of the financial asset (even if not yet settled), a held-to-maturity investment is measured at amortised cost using the effective interest method. A gain or loss is recognised in profit or loss in the item "Gains and losses on disposal of held-to-maturity investments" when the financial asset is derecognised.

## A – Accounting policies (CONTINUED)

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised on the date of contract signing, which normally coincides with the date of disbursement to the borrower.

These items include debt instruments with the above characteristics or those subject to portfolio reclassification in accordance with the rules of IAS 39 (see Section A.7.5) and the net value of finance leases of assets under construction or awaiting lease, provided the leases have the characteristics of contracts entailing the transfer of risk.

After initial recognition at fair value, which is usually the price paid including transaction costs and income directly attributable to the acquisition or issuance of the financial asset (even if not yet paid), a loan or receivable is measured at amortised cost, which can be adjusted to take account of any write-downs/write-backs resulting from the valuation process.

A gain or loss on loans and receivables is recognised in profit or loss:

- when a loan or receivable is derecognised: in the item “Gains and losses on disposal”;

or:

- when a loan or receivable is impaired (or the impairment loss previously recognised is reversed): in the item “Impairment losses (a) loans and receivables”.

Interest on loans and receivables is recognised in profit or loss on an accrual basis by using the effective interest rate method under the item “Interest income and similar revenue”.

Delay interest is taken to the income statement on collection or receipt.

Loans and receivables are reviewed in order to identify those that, following events occurring after initial recognition, show objective evidence of possible impairment. These impaired loans are reviewed and analysed periodically at least once a year.

A loan or receivable is deemed impaired when it is considered that it will probably not be possible to recover all the amounts due according to the contractual terms, or equivalent value.

Allowances for impairment of loans and receivables are based on the present value of expected cash flows of principal and interest; in determining the present value of future cash flows, the basic requirement is the identification of estimated collections, the timing of payments and the rate used.

The amount of the loss on impaired exposure classified as non-performing, doubtful or restructured according to the categories specified below, is the difference between the carrying value and the present value of estimated cash flows discounted at the original interest rate of the financial asset. If the original rate is not immediately available, or if obtaining it is too burdensome, its best approximation will be applied.

For all fixed rate positions the interest rate so determined is kept constant also in subsequent financial years, while for floating rate positions the interest rate is updated with respect to the floating component used as a reference while keeping the spread originally set constant.

Recovery times are estimated on the basis of any repayment schedules agreed with the borrower or included in a business plan or in forecasts based on historical recovery experience observed for similar classes of loans, taking into account the type of loan, the geographical location, the type of security and any other factors considered relevant.

Any subsequent change vis-à-vis initial expectations of the amount or timing of expected cash flows of principal and interest causes a change in allowances for impairment and is recognised in profit or loss in the item “Impairment losses (a) loans and receivables”.

In the notes to the financial statements, write-downs of impaired loans are classified as specific in the relevant income statement item even when the calculation is flat-rate or statistical, as indicated below.

When the reasons for the impairment no longer exist, and this assessment is objectively attributable to an event such as an improvement in the debtor’s creditworthiness occurred after the impairment, a reversal is made in the same profit or loss item, within the amount of the amortised cost that there would have been if there had been no impairments.

Derecognition of a loan or receivable in its entirety is made when the loan or receivable is deemed to be irrecoverable or is written off. Write-offs are recognised directly in profit or loss under the item “Impairment losses (a) loans and receivables” and reduce the amount of the principal of the loan or receivable. Reversals of all or part of amounts previously written off are recognised in the same item.

## A – Accounting policies (CONTINUED)

According to UniCredit Group guidelines, impaired loans and receivables are classified in the following categories:

- **Non-performing loans** – formally impaired loans, being exposure to insolvent borrowers, even if the insolvency has not been recognised in a court of law, or borrowers in a similar situation. Measurement is generally on a loan-by-loan basis, or for loans which are not significant individually, on a portfolio basis for homogeneous categories of loans.
- **Doubtful loans** – exposure to borrowers experiencing temporary difficulties, which the group believes may be overcome within a reasonable period of time.
- **Restructured loans** – exposure to borrowers with whom a rescheduling agreement has been entered into including renegotiated pricing at interest rates below market, reduction of principal and/or the conversion of part of a loan into shares.
- **Past due loans** – total exposure to any borrower not included in the other categories, which at the end of the reporting period has expired facilities or unauthorised overdrafts that are more than 90 days past due.

In respect of loans and receivables on which no specific write-downs have been made, any impairment losses which have been incurred as at the end of the reporting period but have not yet been identified by the bank are covered by a portfolio-based write-down. In this context we use the Loss Confirmation Period Method. The Loss Confirmation Period is the period between the occurrence of a loss event or the default of a borrower and the time when the bank identifies the loss. The Loss Confirmation Period is determined on a differentiated basis for various loan portfolios. The loss which has been incurred but has not yet been identified is estimated by using Basel parameters (expected loss – with a one-year time horizon) for the differentiated loan portfolios and the respective loss confirmation period.

Allowances for impairment reduce the loan or receivable's carrying amount. The risk inherent in off-balance-sheet items, such as loan commitments, losses due to impairment of guarantees and comparable credit derivatives under IAS 39, is recognised in profit or loss under the item "Impairment losses (d) other financial assets", offsetting the item "Other liabilities".

### A 5.3.3 Further definitions in the context of financial instruments

#### **Factoring**

Loans acquired in factoring transactions with recourse are recognised to the extent of the advances granted to customers on their consideration. Loans acquired without recourse are recognised.

#### **Guarantees and credit derivatives in the same class**

Guarantees and credit derivatives in the same class measured under IAS 39 (i. e. contracts under which the issuer makes pre-established payments in order to compensate the guaranteed party or buyer of protection for losses sustained due to default by a debtor on the maturity of a debt instrument) are initially and subsequently (on remeasurement following impairment losses) recognised in the item "Other liabilities".

On first recognition guarantees given are recognised at fair value, which usually corresponds to the amount received when the guarantee is issued. After initial recognition, guarantees given are recognised at the greater of the initially recognised value, net of any amortised portion, and the estimated amount required to meet the obligation. The effects of valuation, related to any impairment of the underlying, are recognised in the same balance-sheet item contra item "Write-downs and write-backs due to impairment of other financial transactions" in the income statement.

#### **Finance leases**

Finance leases effectively transfer all the risks and benefits of ownership of an asset to the lessee; ownership of the asset is transferred to the lessee, however not necessarily at contractual maturity.

The lessee acquires the economic benefit of the use of the leased asset for most of its useful life, in exchange for a commitment to pay to the lessor an amount approximately equivalent to the fair value of the asset and related finance costs. Recognition in the lessor's accounts is as follows:

- in assets, the value of the loan, less the principal of lease payments due and paid by the lessee;
- in profit or loss, interest received.

See the sections on "Property, plant and equipment" and "Intangible assets" below for the treatment of the lessee's assets.

#### **Forbearance**

Forbearance measures are concessions made by a bank to a debtor facing or about to face difficulties in meeting its financial commitments. If such measures involve a loss, they will lead to the recognition of an impairment loss in accordance with IAS 39. For further information on forbearance see section E.9 in the risk report.

## A – Accounting policies (CONTINUED)

### **Hedge accounting**

Hedging instruments are those created to hedge market risks (interest-rate, currency and price) to which the hedged positions are exposed. They may be described as follows:

- Fair value hedge: a hedge of the exposure to changes in fair value of a recognised asset or liability, or an identifiable portion of such an asset or liability;
- Cash flow hedge: a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction which could affect profit or loss in future periods;
- Hedge of a net investment in a foreign entity whose operations are presented in a currency other than euro. Hedges of net investments are currently not used by the Bank Austria Group.

Hedging derivatives are initially recognised at the settlement date and are valued at their fair value.

A hedging relationship qualifies for hedge accounting if there is formal designation and documentation of the hedging relationship including the risk management objective, the strategy for undertaking the hedge, and how the hedging instrument's prospective and retrospective effectiveness will be assessed. It is necessary to assess the hedge's effectiveness, at inception and in subsequent periods, in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

A hedge is regarded as highly effective if, at the inception of the hedge and in subsequent periods, it is determined prospectively to remain highly effective, and the retrospectively verified that the hedge ratio (i. e. the changes in fair value of hedged items and hedging instruments) is within a range of 80–125 per cent. The hedge is assessed on an ongoing basis and thus must prospectively remain highly effective throughout the financial reporting periods for which the hedge has been designated.

The assessment of effectiveness is made at each balance-sheet date or other reporting date.

If the assessment does not confirm the effectiveness of the hedge, from that time on hedge accounting is discontinued in respect of the hedge and the hedging derivative is reclassified as a held-for-trading instrument.

In addition, the hedging relationship ceases when the hedging instrument expires or is sold, terminated or exercised; the hedged item is sold, expires or is repaid; or it is no longer highly probable that the forecast transaction will occur.

Hedging instruments are so designated when identifiable with an ultimate counterparty outside the Group.

Hedging derivatives are measured at fair value. Specifically:

- **Fair value hedging** – an effective fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value is recognised through profit or loss in the item "Fair value adjustments in hedge accounting"; the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised through profit or loss in the same item. If the hedging relationship is terminated for reasons other than the sale of the hedged item, this is measured according to the original criterion dictated by the accounting standard applied to the relevant portfolio. In the case of interest-bearing instruments, the difference between the carrying amount of the hedged item on termination of the hedging and the carrying amount it would have had if the hedge had never existed, is recognised through profit or loss in interest receivable or payable over the residual life of the original hedge. The difference in fair value of the hedging derivative since the latest effectiveness testing date is recognised in profit or loss under the item "Fair value adjustments in hedge accounting". If the hedged item is sold or repaid, the portion of fair value which is still unamortized is at once recognised through profit or loss in the item "Gains and losses on disposal or repurchase".
- **Cash flow hedging** – hedging instruments are valued at fair value. A change in the fair value of a hedging instrument that is considered effective is recognised in the equity item "Revaluation reserves". The ineffective portion of the gain or loss is recognised through profit or loss in the item "Fair value adjustments in hedge accounting". If a cash flow hedge is determined to be no longer effective or the hedging relationship is terminated, the cumulative gain or loss on the hedging instrument that remains recognised in "Revaluation reserves" from the period when the hedge was effective remains separately recognised in "Revaluation reserves" until the forecast hedged transaction occurs or is determined to be no longer possible; in the latter case gains or losses are transferred through profit or loss to "Fair value adjustments in hedge accounting". The fair value changes recorded in item "Revaluation reserves" are also disclosed in the Statement of Comprehensive Income.



## A – Accounting policies (CONTINUED)

- **Hedging a net investment in a foreign entity** – hedges of a net investment in a foreign entity are accounted for similarly to cash flow hedges. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised directly in equity is recognised through profit or loss on disposal of the foreign entity.
- **Portfolio fair value hedge for financial assets (liabilities)** – IAS 39 allows a fair-value item hedged against interest rate fluctuations to be not only a single asset or liability but also a monetary position contained in a number of financial assets or liabilities (or parts of them); accordingly, a group of derivatives can be used to offset fair-value fluctuations in hedged items due to changes in market rates. Macro hedging may not be used for net positions resulting from the offsetting of assets and liabilities. As for fair value micro hedging, macro hedging is considered highly effective if, at the inception of the hedge and in subsequent periods, changes in the fair value attributable to the hedged position are offset by changes in fair value of the hedging instrument and if the hedge ratio is retrospectively assessed falling within the range of 80–125 per cent. Net changes – gains or losses – in the fair value of the macro-hedged assets and liabilities attributable to the hedged risk are recognised in special line items on the asset or liability side and offset the profit and loss item “Fair value adjustments in hedge accounting”. The ineffectiveness of the hedging arises to the extent that the change in the fair value of the hedging item differs from the change in the fair value of the hedged monetary position. The extent of hedge ineffectiveness is in any case recognised in the profit and loss item “Fair value adjustments in hedge accounting”. If the hedging relationship is terminated, for reasons other than the sale of the hedged items, a cumulative gain or loss in the balance sheet line items is recognised through profit or loss in interest income or expenses, along the residual life of the hedged financial assets or liabilities. If the latter are sold or repaid, unamortised fair value is at once recognised through profit and loss in the item “Gains and losses on disposal or repurchase”.

A portfolio fair value hedge is used by our Russian banking subsidiary AO UniCredit Bank and by our Romanian subsidiary UniCredit Consumer Financing IFN S.A. In AO UniCredit Bank, portfolio fair value hedge accounting is part of an interest rate risk hedging strategy that helps to avoid discrepancies between the economic substance of deals concluded for hedging purposes and their accounting treatment. Interest rate swaps are designated as hedging instruments. UniCredit Consumer Financing IFN S.A. uses interest rate swaps to hedge a portfolio of euro-denominated fixed-rate loans against interest rate risk.

Bank Austria has also introduced a portfolio fair value hedge for fixed-rate exposures since November 2014. The bank uses interest rate swaps and cross-currency interest rate swaps with fixed legs, which hedge fixed exposures resulting from transactions on the assets side or liabilities side – depending on the currency – in euro or foreign currency. In this context Bank Austria applies the EU carve-out because it also includes replication portfolios of sight deposits in the portfolio of hedged items. The group cash flow hedge previously applied to these derivatives was terminated at the end of October 2014; the cash flow hedge reserve is maintained until the hedged items affect profit or loss, and will be gradually released in the coming years.

In 2014 our Serbian banking subsidiary UniCredit Bank Serbia J.S.C. also started to use a portfolio fair value hedge for a portfolio of fixed-rate loans in foreign currency.

Cash flow hedges are used by Bank Austria for protecting future variable cash flows against changes in market rates. They hedge the exposure to variability in cash flows which result from assets or liabilities or from planned transactions and have an effect on profit or loss. Changes in the fair values of derivatives designated as hedging instruments are divided into a portion that is determined to be an effective hedge, and into an ineffective portion. The effective portion of any gain or loss on the hedging instrument is included in the cash flow hedge reserve and recognised in profit or loss in the same period in which the change in the value of the hedged item is recognised in profit or loss. This neutralises the effect on profit or loss. The effectiveness of cash flow hedges is measured on a regular basis.

### **Equity investments**

The principles governing the recognition and measurement of equity investments under IFRS 10 and IFRS 11 are given in detail in Part A.3 – Consolidation principles. Remaining interests other than subsidiaries, associates and joint ventures, and interests recognised in items “Non-current assets and disposal groups classified as held for sale” and “Liabilities included in disposal groups classified as held for sale” are classified as AfS financial assets or financial assets at fair value through profit and loss and treated accordingly.

### **Repo transactions and securities lending**

Securities received in a transaction that entails a contractual obligation to sell them at a later date or delivered under a contractual obligation to repurchase are neither recognised nor derecognised. In respect of securities purchased under an agreement to resell, the consideration is recognised as a loan to customers or banks, or as an asset held for trading. In respect of securities held in a repurchase agreement, the liability is recognised as due to banks or customers, or as an HFT financial liability. Revenue from these loans, being the coupons accrued on the securities and the difference between the sale/purchase and resale/repurchase prices, is recognised in profit or loss through interest income and expenses on an accrual basis.

These transactions can only be offset if, and only if, they are carried out with the same counterparty and provided that such offset is provided for in the underlying contracts.

The same rules apply to securities lending transactions. Counterparty risk related to such securities lending or borrowing transactions is shown in the tables in section “E.9 – Credit risk”.

## A – Accounting policies (CONTINUED)

### **Liabilities, debt securities in issue and subordinated loans**

The items "Deposits from banks", "Deposits from customers" and "Debt securities in issue" are used for all forms of third-party funding other than trading liabilities or those valued at fair value through profit and loss.

These financial liabilities are recognised on the settlement date principle initially at fair value, which is normally the consideration received less transaction costs directly attributable to the financial liability. Subsequently these instruments are measured at amortised cost using the effective interest method.

Hybrid debt instruments relating to equity instruments, foreign exchange, credit instruments or indexes, are treated as structured instruments. The embedded derivative is separated from the host contract and recognised as a derivative, provided that separation requirements are met, and recognised at fair value. Any subsequent changes in fair value are recognised in the profit and loss item "Gains and losses on financial assets and liabilities held for trading".

The difference between the total amount received and the initial fair value of the embedded derivative is attributed to the host contract. Instruments convertible into treasury shares imply recognition, at the issuing date, of a financial liability and of the equity part, recognised in the item "Equity instruments", any time contractual terms provide for physical delivery settlement. The equity part is initially measured at the residual value, i.e., the overall value of the instrument less the separately determined value of a financial liability with no conversion clause and the same cash flow.

The financial liability is initially recognised at amortised cost using the effective interest method.

Securities in issue are recognised net of repurchased amounts; the difference between the carrying value of the liability and the amount paid to repurchase it is taken to profit and loss under the item "Gains and losses on repurchases of financial liabilities". Subsequent disposal by the issuer is considered as a new issue which does not produce gains or losses.

Our subsidiary Bank Austria Wohnbaubank AG has issued debt instruments theoretically involving convertibility to equity instruments (under IASB IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments), because this feature is required for providing tax advantages for the holder of the instruments. However, the embedded call options are deemed to have a fair value of zero upon issuance, as a conversion into equity does virtually never occur.

### **Loan securitisations**

Loans and receivables also include loans securitised which cannot be derecognised under IAS 39.

Corresponding amounts received for the sale of securitised loans net of the amount of any issued securities and any other type of credit enhancement held in portfolio (retained risk) are recognised in the liability items "Deposits from banks" and "Deposits from customers".

Both assets and liabilities are measured at amortised cost and interest received is recognised through profit or loss.

Impairment losses on securitised assets sold but not derecognised are reported in item "Impairment losses (a) loans and receivables".

### **Asset encumbrance**

The term "asset encumbrance" refers to assets pledged as security for a company's own liabilities and commitments. Such assets continue to be recognised in the financial statements as long as the Bank Austria Group retains beneficial ownership. For information on assets pledged as security see section F.8.

## A.6 – Information on other financial statement line items

### A.6.1 – Cash and cash equivalents

The amount of cash and cash equivalents stated in the statement of cash flows includes the cash holdings (cash and demand deposits with central banks). In addition to the cash and cash equivalents shown in the item "Cash and cash balances" in the statement of financial position, cash and cash equivalents also include those in the item "Non-current assets and disposal groups classified as held for sale".

## A – Accounting policies (CONTINUED)

### A.6.2 – Property, plant and equipment; investment property

The item includes:

- land;
  - buildings;
  - furniture and fixtures;
  - plant and machinery;
  - other machinery and equipment;
- and is divided between
- assets used in the business and
  - assets held as investments

**Assets used in the business** are held for use in the production or supply of goods or services or for administrative purposes and are expected to be used during more than one period. This category also (conventionally) includes assets to be let or under construction and to be leased under a finance lease, only for those finance leases which provide for retention of risk by the lessor until the acceptance of the asset by the lessee and the start of rentals under the finance lease (see also section “loans and receivables” for finance leases with risk transfer).

The item includes assets used by the Group as lessee under a finance lease, or let/hired out by the Group as lessor under an operating lease.

Property, plant and equipment also include leasehold improvements relating to assets which can be which can be separately identified. They are classified according to the specific sub-items relating to the asset type (e.g. plants). Leasehold improvements are usually borne in order to make leased premises fit for the expected use. Improvements and additional expenses relating to property, plant and equipment identifiable but not separable are recognised in the item “Other assets”.

**Assets held for investment purposes** (“Investment Property”) are properties covered by IAS 40, i.e. properties held (owned or under a finance lease) in order to derive rentals and/or a capital gain.

Property, plant and equipment are initially recognised at cost including all costs directly attributable to bringing the asset into use (transaction costs, professional fees, direct transport costs incurred in bringing the asset to the desired location, installation costs and dismantling costs).

Subsequent costs are added to the carrying amount or recognised as a separate asset only when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be reliably measured. Other expenses borne at a later time (e.g. normal maintenance costs) are recognised in the year they are incurred in profit and loss items:

- “General and administrative expenses”, if they refer to assets used in the business; or:
- “Other net operating income”, if they refer to property held for investment.

After being recognised as an asset, an item of property, plant and equipment is carried at cost less any accumulated depreciation and any cumulative impairment losses.

Exceptions are made for property investments underlying liabilities whose yield is linked to their fair value. For these latter assets the fair value model as per IAS 40 paragraph 32A is used.

An item with a finite useful life is subject to straight-line depreciation.

Useful life is usually assessed as follows:

PROPERTY, PLANT AND EQUIPMENT (TANGIBLE ASSETS)	USEFUL LIFE
Buildings	max. 50 years
Movables	max. 25 years
Electronic equipment	max. 15 years
Other	max. 10 years
Leasehold improvements	max. 25 years

An item with an indefinite useful life is not depreciated.

## A – Accounting policies (CONTINUED)

Land and buildings are recognised separately, even if acquired together. Land is not depreciated since it usually has an indefinite useful life. Buildings, conversely, have a finite useful life and are therefore subject to depreciation.

The estimate of the useful life of an asset is reviewed at least at each accounting period-end on the basis inter alia of the conditions of use of the asset, of maintenance conditions and expected obsolescence, and, if expectations differ from previous estimates, the depreciation amount for the current and subsequent financial years is adjusted accordingly.

If there is objective evidence that an asset has been impaired the carrying amount of the asset is compared with its recoverable value, equal to the greater of its fair value less selling cost and its value in use, i. e., the present value of future cash flow expected to originate from the asset. Any value adjustment is recognised in profit and loss item “Impairment/write-backs on property, plant and equipment”.

If the value of a previously impaired asset is restored, its increased carrying amount cannot exceed the net carrying amount it would have had if there had been no losses recognised on the prior-year impairment.

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or sale in the future and any difference between sale proceeds or recoverable value and carrying value is recognised in the profit and loss item “Gains and losses on disposal of investments”.

### A.6.3 – Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance which is expected to be used during more than one period, and from which future economic benefits are probable.

Intangible assets are principally goodwill, software, brands and customer-related intangible assets.

Intangible assets other than goodwill are recognised at purchase cost, i. e. including any cost incurred to bring the asset into use, less accumulated amortisation and impairment losses.

An intangible asset with a finite life is subject to straight-line amortisation over its estimated useful life.

Useful life is usually assessed as follows:

- software: 4–6 years
- other intangible assets: 4–20 years
- customer base: 3–20 years

Intangible assets with an indefinite life are not amortised.

If there is objective evidence that an asset has been impaired, the carrying amount of the asset is compared with its recoverable value, equal to the greater of its fair value less selling cost and its value in use, i. e. the present value of future cash flows expected to originate from the asset. Any impairment loss is recognised in the profit and loss item “Impairment/write-backs on intangible assets”.

For an intangible asset with an indefinite life even if there are no indications of impairment, the carrying amount is compared annually with its recoverable value. If the carrying amount is greater than the recoverable value, the difference is recognised in the profit and loss item “Impairment/write-backs on intangible assets”.

If the value of a previously impaired intangible asset, other than goodwill is restored, its increased carrying amount cannot exceed the net carrying amount it would have had if there were no losses recognised on the prior-year impairment.

#### Goodwill

In accordance with IFRS3, goodwill is the excess of the cost of a business combination over the net fair value of the assets and liabilities acquired at the acquisition date. Intangible assets are recognised separately from goodwill when they are separable or arise from contractual or other legal rights, and their fair value can be measured reliably.

Goodwill arising from the acquisition of subsidiaries and joint ventures (consolidated proportionally) is recognised as an intangible asset, whereas goodwill arising from the acquisition of associates is included in the carrying value of the investments in associates.

At a subsequent financial reporting date, goodwill is recognised net of any cumulative impairment losses and is not amortised.

## A – Accounting policies (CONTINUED)

Goodwill is tested for impairment annually, as for other intangible assets with an indefinite useful life. To this end it is allocated to the Group's business areas identified as the Cash Generating Units (CGUs). Goodwill is monitored by the CGUs at the lowest level in line with its business model.

Impairment losses on goodwill are recognised in the profit and loss item "Impairment of goodwill". In respect of goodwill, no write-backs are allowed. Please see Section A.8. regarding the goodwill impairment test.

### A.6.4 – Non-current assets held for sale

Non-current assets or groups of associated assets/liabilities (i.e. so called "disposal groups", which may also be cash-generating units) whose sale is highly probable, are recognised in the item "Non-current assets and disposal groups classified as held for sale" and in the item "Liabilities included in disposal groups classified as held for sale", respectively, at the lesser of the carrying amount and fair value net of disposal costs.

If a disposal group constitutes a separate material line of business or geographical operation, it is referred to as a "discontinued operation". The balance of revenue and expense relating to discontinued operations and the measurement as determined above of discontinued operations, net of current and deferred tax, is recognised in the item "Total profit or loss after tax from discontinued operations".

The revaluation reserves relating to Non-current assets held for sale, which are recorded as a contra item in other comprehensive income within equity, are reported separately in the Statement of Comprehensive Income.

### A.6.5 – Income tax

Tax assets and tax liabilities are recognised in the consolidated balance sheet respectively in the item "Tax assets" or in the item "Tax liabilities".

In compliance with the "balance sheet liability method", current and deferred tax items are:

- current tax assets, i.e. amount of tax paid in excess of income tax due in accordance with local tax regulations;
- current tax liabilities, i.e. amount of corporate tax due in accordance with local tax regulations;
- deferred tax assets, i.e. amounts of income tax recoverable in future fiscal years and attributable to:
  - deductible temporary differences;
  - the carryforward of unused tax losses; and
  - the carryforward of unused tax credits
- deferred tax liabilities, i.e. the amounts of income tax due in future fiscal years in respect of taxable temporary differences.

Current and deferred tax assets and tax liabilities are calculated in accordance with local tax regulations and are recognised in profit or loss on an accrual basis.

In general, deferred tax assets and liabilities arise when there is a difference between the accounting treatment and the tax treatment of the carrying amount of an asset or liability.

Deferred tax assets and liabilities are recognised applying tax rates that at the balance sheet date are expected to apply in the period when the carrying amount of the asset will be recovered or the liability will be settled on the basis of tax regulations in force, and are periodically reviewed in order to reflect any changes in regulations.

Furthermore, deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profit will be generated by the entity. In accordance with the provisions of IAS12, the probability that sufficient future taxable profit against which the deferred tax assets can be utilised will be available is reviewed periodically. The carrying amount of deferred tax assets should be reduced to the extent that it is not probable that sufficient taxable profit will be available.

Deferred tax assets and deferred tax liabilities are offset in the consolidated financial statements if the conditions specified in IAS 12.74 are met.

Current and deferred taxes are recognised in profit and loss item "Tax expense (income) related to profit or loss from continuing operations", except for tax relating to items that in the same or in another fiscal year are credited or charged directly to equity, such as those relating to gains or losses on available-for-sale financial assets and those relating to changes in the fair value of cash flow hedging instruments, whose changes in value are recognised, net of tax, directly in the Statement of Comprehensive Income – valuation reserves.

## A – Accounting policies (CONTINUED)

Pursuant to the group taxation rules introduced in Austria in 2005, Bank Austria has formed a group of companies. Profit and loss transfer agreements have been concluded with 24 group members, tax compensation agreements have been reached with 25 companies and there is one joint control arrangement. These agreements and arrangements do not include foreign companies.

### A.6.6 – Other assets

The components of this item are accounts receivable from deliveries of goods and the performance of services, tax claims and deferred tax assets.

### A.6.7 – Deposits from banks/customers, debt securities in issue

These financial liabilities are recognised initially at fair value, net of transaction costs incurred. Subsequently these instruments are measured at amortised cost using the effective interest rate.

### A.6.8 – Provisions for risks and charges and contingent liabilities

#### A.6.8.1 – Long-term employee benefits

For retirement provisions – i. e. provisions for employee benefits payable after the completion of employment – a distinction is made between defined-contribution plans and defined-benefit plans according to the economic nature of the plan.

In detail:

- Defined-benefit plans provide a series of benefits depending on factors such as age, years of service and compensation policies. Under this type of plan actuarial and investment risks are borne by the company;
- Defined-contribution plans are plans under which the company makes fixed contributions. Benefits are the result of the amount of contributions paid and return on contributions invested. The employer bears no actuarial and/or investment risks connected with this type of plans as it has no legal or implicit obligation to make further contributions, should the plan not be sufficient to provide benefit to all employees.

Defined-benefit plans are present-valued by an external actuary using the Projected Unit Credit Method.

This method distributes the cost of benefits uniformly over the employee's working life. Obligations are the present value of average future benefits pro rata to the ratio of years of service to theoretical seniority at the time of benefit payment.

The amount recognised as a liability in the item "Provisions for risks and charges – (a) post-retirement benefit obligations" is the present value of the obligation at the balance sheet date. The UniCredit Bank Austria AG sub-group currently does not have any plan assets.

Pursuant to IAS 19, actuarial gains and losses are not recognised in profit or loss but directly in equity. Such gains and losses are stated in the table "Other comprehensive income".

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).

The following are also covered by the provision:

- disability risk and rights to future benefits based on early retirement and pension entitlements of surviving dependants, to the extent that the pension fund benefit is insufficient,
- rights to future benefits under commitments to provide direct benefits in individual service agreements,
- rights to future benefits relating to additional pension payments for employees performing manual work.

The present value of pension obligations and severance-payment obligations as well as anniversary bonuses is determined with due regard to internal service regulations, on the basis of the following actuarial assumptions:

- Discount rate/Austria: 2.10% p. a. (2013: 3.75% p. a.)

The duration applicable to the pension provision is 17.84 years. On the basis of the Mercer Pension Discount Yield Curve and the cash flows determined for the pension plan for active employees and pensioners, the interest rate is 2.12% (interpolated). A shorter duration applies to provisions for severance payments and anniversary bonuses. The interest rate applied to these plans could therefore be lower than for the pension provision. However, Bank Austria prefers a standard interest rate for all provisions and therefore determines the interest rate on the basis of weighted duration. On this basis the interest rate used for all calculations as at 31 December 2014 is 2.10% (31 December 2013: 3.75%).

## A – Accounting policies (CONTINUED)

- Increases under collective bargaining agreements for employees: 2.05 % p. a. (2013: 2.45 % p. a.). Career trends including regular salary increases under the current collective bargaining agreement for employees of Austrian banks and the effects of the transitional rules under the 2005 reform of Bank Austria's staff regulations. The rate applied in calculating non-regular salary increases was 0.25 % p. a. (2013: 0.25 % p. a.); assumption of increases for employees.
- Pension increase (Bank Austria ASVG): 1.40 % p. a. (2013: 1.80 % p. a.).  
Pension increase (others): 2.05 % p. a., (2013: 2.45 % p. a.).
- No discount for staff turnover.
- Retirement age: as a basis for calculation in respect of employees enjoying "permanent tenure" status in accordance with the internal agreement dated 30 December 1999 (as amended on 1 May 2007) on the payment of a Bank Austria ASVG pension equivalent, the age of 60 for men and 55 for women, with a transition to the retirement age of 65, has been taken into account. For all other employees, the new retirement age of 65 for men and women has been taken into account in accordance with the applicable rules (2003 pension reform including transitional rules). If the corridor pension rule results in a lower retirement age, the lower age was used as retirement age.
- 2008-P statistical tables of Aktuarverein Österreich (life-expectancy tables for salaried staff).

### Sensitivity analysis

(€ million)

		EFFECT ON DEFINED BENEFIT OBLIGATION	
		31 DEC. 2014	31 DEC. 2013
Discount rate	-0.25 %	242	180
	0.25 %	-227	-169
Salary increase rate	-0.25 %	-62	-49
	0.25 %	64	50
Pension increase rate	-0.25 %	-168	-125
	0.25 %	177	131

No provisions are made for defined-contribution plans. Payments agreed to be made to a pension fund for defined-contribution plans are recognised as an expense.

The resulting adjustment of –€765 million (after tax) to the measurement of the defined benefit obligation was recognised directly in equity in accordance with IAS 19.

### A.6.8.2 – Other provisions

Provisions for risks and charges are recognised when

- the entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amounts recognised as provisions are the best estimate of the expenditure required to settle the present obligation. The risks and uncertainties that inevitably surround the relevant events and circumstances are taken into account in reaching the best estimate of a provision.

Where the effect of the time value of money is significant, the amount of the provision should be the present value of the best estimate of the cost required to settle the obligation. The discount rate used reflects the current market assessments.

Provisions are reviewed periodically and adjusted to reflect the current best estimate. If it becomes clear that it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Provisions are used only for expenses for which they were originally recognised. Allocations made in the year are recognised in the profit and loss item "Provisions for risks and charges" and include increases due to the passage of time; they are also net of any reversal.

"Other provisions" also include obligations relating to benefits due to agents, specifically supplementary customer portfolio payments, merit payments, contractual payments and payments under non-competition agreements, which are measured as per defined benefit plans; accordingly these obligations are calculated using the projected unit credit projection method (see above under Retirement Payments and Similar Obligations).

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by occurrence or non-occurrence, of one or more uncertain future events not wholly within the control of Bank Austria, or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of resources, or because the amount of obligation cannot be reliably measured.

Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is low.

## A – Accounting policies (CONTINUED)

### A.6.8.3 – Share-based payments

Equity-settled payments made to employees in consideration of services rendered, using equity instruments comprise:

- Stock options;
- Performance shares (i.e. awarded on attainment of certain objectives);
- Restricted shares (i.e. subject to a lock-up period).

Considering the difficulty of reliably measuring the fair value of the services acquired against equity-settled payments, reference is made to the fair value of the instruments themselves, measured at the date of the allocation.

This fair value is recognised as cost in the profit and loss item “Administrative costs – staff expense” offsetting the Shareholders’ Equity item “Reserves”, on an accrual basis over the period in which the services are acquired.

The fair value of a cash-settled share-based payment, the services acquired and the liability incurred are measured at the fair value of the liability, recognised in the item “Other liabilities”. The fair value of the liability, as long as it remains unsettled, is remeasured at each balance sheet date and all changes in fair value are recognised in the profit and loss item “Administrative costs”.

### A.6.8.4 – Other long-term employee benefits

Long-term employee benefits – e.g. long-service bonuses, paid on reaching a predefined number of years’ service – are recognised in the item “Other liabilities” on the basis of the measurement at the balance sheet date of the liability, also in this case determined by an external actuary using the Projected Unit Credit Method (see section “Provisions for risks and charges – post-employment benefits”).

Gains (losses) on this type of benefit are recognised at once through profit or loss.

## A.6.9 – Equity

Equity is composed of paid-in capital, i.e., capital made available to the company by shareholders (subscribed capital plus capital reserves), and earned capital (retained earnings, foreign currency translation reserves, IAS 39 reserves, actuarial gains/losses, profit carried forward from the previous year, and net profit). The IAS 39 reserves include gains and losses on available-for-sale financial assets (available-for-sale reserve), which are not recognised in income, and those components of hedge accounting in accordance with IAS 39 which are not included in income (cash flow hedge reserve), after adjustment for deferred taxes.

Treasury shares held are deducted from equity. The difference between the price on a later sale of treasury shares and the related post-tax repurchase cost is recognised directly in equity.

## A.6.10 – Net interest

Interest income and expense and similar income and expense items relate to monetary items – i.e. liquidity and debt, financial instruments held for trading, measured at fair value through profit or loss or available for sale, HtM financial assets, loans and receivables, deposits, and securities in issue.

Interest income and expense are recognised through profit or loss with respect to all instruments measured at amortised cost, using the effective interest method.

Interest also includes the net credit or debit balance of differentials and margins on financial derivatives:

- hedging interest-bearing assets and liabilities;
- HFT but linked for business purposes to assets and liabilities designated as measured at fair value (fair value option);
- linked for business purposes to HFT assets and liabilities paying differentials or margins on different maturities.



## A – Accounting policies (CONTINUED)

### A.6.11 – Fees and commissions

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment managing fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed.

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

### A.6.12 – Dividends

Dividends are recognised in profit or loss in the financial year in which their distribution has been approved.

### A.6.13 – Gains and losses on disposals of financial instruments

This item shows the results from disposals of loans and receivables, available-for-sale financial assets, held-to-maturity investments and financial liabilities. Gains and losses on disposal of financial assets held for trading and on financial instruments at fair value through profit or loss are not included.

### A.6.14 – Gains and losses on financial assets/liabilities at fair value through profit or loss

This item includes gains and losses on financial assets and financial liabilities as well as the results from the measurement of these items at their fair values.

### A.6.15 – Impairment losses on loans/Impairment losses on other financial transactions

These items include write-downs of loans, write-offs and additions to provisions for guarantees and commitments, and income from write-backs as well as recoveries of loans previously written off.

### A.6.16 – Impairment/write-backs on property, plant and equipment and on intangible assets

Write-downs on assets held under finance leases are part of this item.

### A.6.17 – Profit (loss) of associates

Dividends received from associates are included in the item Dividend income.

### A.6.18 – Gains and losses on disposal of investments

This item includes gains/losses on the disposal of investments in property and other assets.

## A – Accounting policies (CONTINUED)

### A.7 – Information on fair value

#### A.7.1 – General overview

This section presents a disclosure of reclassified financial instruments according to IAS 39 and information on fair value as required by IFRS 13.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i. e. an exit price).

The fair value of a financial liability with a demand feature (e. g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

For financial instruments listed in active markets, fair value is determined on the basis of official prices in the principal market to which the Group has access (Mark to Market).

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from a pricing service, dealer, broker, agency that determines prices or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active markets exist for its component parts, fair value is determined on the basis of the relevant market prices for the component parts.

If the observable prices in an active market for the identical item held by another party as an asset, or other observable inputs, such as the quoted price in a market that is not active for the identical item held by another party as an asset are not available, the Group should use another valuation technique, such as:

- (i) an income approach (e. g. a present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the liability or equity instrument as an asset);
- (ii) a market approach (e. g. using quoted prices for similar liabilities or equity instruments held by other parties as assets).

The Group uses valuation models (Mark to Model) in keeping with the methods generally accepted and used by the market. Valuation models include techniques based on the discounting of future cash flows and on volatility estimates, and they are subject to revision both during their development and periodically in order to ensure their consistency with the objectives of the valuation.

These methods use inputs based on prices set in recent transactions for the instrument being valued and/or prices/quotations for instruments having similar characteristics in terms of risk profile.

Indeed, these prices/quotations are relevant for determining significant parameters in terms of the credit risk, liquidity risk and price risk of the instrument being valued.

Reference to these "market" parameters makes it possible to limit the discretionary nature of the valuation, and ensures that the resulting fair value can be verified.

If for one or more risk factors it is not possible to refer to market data, the valuation models employed use estimates based on historical data as inputs.

As a further guarantee of the objectivity of valuations derived from valuation models, the Group employs:

- independent price verifications (IPVs);
- fair value adjustments (FVAs).

Independent price verification requires that the prices for trading positions be verified monthly by Risk Management units that are independent from the units that assume the risk exposure.

This verification calls for comparing and adjusting the daily price in line with valuations obtained from independent market participants.

For instruments not quoted in active markets, the above verification process uses prices contributed by information providers as a reference, and assigns a greater weighting to those prices that are considered representative of the instrument being valued.

## A – Accounting policies (CONTINUED)

This valuation includes the “executability” of the transaction at the price observed, the number of contributors, the degree of similarity of the financial instruments, the consistency of prices from different sources, and the process followed by the information provider to obtain the information.

Independent price verification is supplemented by the calculation of further regulatory fair-value adjustments, which are also recognised for accounting purposes, to take into account risks mainly associated with both the limited liquidity of the positions, the valuation models used and counterparty risk.

### A.7.2 – Fair value hierarchy

IFRS 13 calls for classifying instruments being measured at fair value as a function of the ability to observe the inputs used for pricing.

To be specific, three levels are specified:

- Level 1: the fair value of instruments classified in this level is determined based on quotation prices observed in active markets;
- Level 2: the fair value of instruments classified in this level is determined based on valuation models that use inputs that can be observed in active markets;
- Level 3: the fair value of instruments classified in this level is determined based on valuation models that primarily use inputs that cannot be observed in active markets.

The following tables show a breakdown of financial assets and liabilities designated at fair value according to the above-mentioned levels, as well as the annual changes of Level 3 assets or liabilities.

#### Accounting portfolios – Breakdown by fair value levels

(€ million)

FINANCIAL ASSETS/LIABILITIES MEASURED AT FAIR VALUE	31 DEC. 2014			31 DEC. 2013		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial assets held for trading	225	3,236	72	290	1,904	13
Financial assets at fair value through profit or loss	2	52	57	21	236	86
Available-for-sale financial assets	15,980	4,960	1,133	12,479	5,928	1,220
Hedging derivative assets	–	3,932	20	–	2,837	2
Property, plant and equipment (measured at fair value)	–	–	70	–	–	69
<b>TOTAL</b>	<b>16,208</b>	<b>12,179</b>	<b>1,351</b>	<b>12,789</b>	<b>10,905</b>	<b>1,391</b>
Financial liabilities held for trading	28	3,308	117	31	1,467	7
Financial liabilities at fair value through profit or loss	–	666	5	–	788	9
Hedging derivative liabilities	–	3,290	12	–	2,218	1
<b>TOTAL</b>	<b>28</b>	<b>7,264</b>	<b>134</b>	<b>31</b>	<b>4,473</b>	<b>17</b>

## A – Accounting policies (CONTINUED)

## Annual changes in financial assets at fair value level 3

(€ million)

	2013			
	FINANCIAL ASSETS			
	HELD FOR TRADING	AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE	HEDGING DERIVATIVES
<b>Opening balances</b>	<b>76</b>	<b>127</b>	<b>2,224</b>	<b>–</b>
<b>Increases</b>	<b>744</b>	<b>6</b>	<b>925</b>	<b>2</b>
Purchases	721	–	492	2
Profits recognised in:				
Income statement	15	5	138	–
<i>of which unrealised gains<sup>1)</sup></i>	2	5	–	–
Equity <sup>2)</sup>	x	x	69	–
Transfers from other levels	1	–	139	–
Other increases	6	1	87	–
<b>Decreases</b>	<b>–806</b>	<b>–47</b>	<b>–1,929</b>	<b>–</b>
Sales	–735	–	–637	–
Redemptions	–23	–16	–15	–
Losses recognised in:				
Income statement	–4	–29	–33	–
<i>of which unrealised losses<sup>3)</sup></i>	–	–29	–	–
Equity <sup>4)</sup>	x	x	–138	–
Transfers to other levels	–	–	–838	–
Other decreases	–45	–2	–269	–
<b>Closing balances</b>	<b>13</b>	<b>86</b>	<b>1,220</b>	<b>2</b>
	2014			
	FINANCIAL ASSETS			
	HELD FOR TRADING	AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE	HEDGING DERIVATIVES
<b>Opening balances</b>	<b>13</b>	<b>86</b>	<b>1,220</b>	<b>2</b>
<b>Increases</b>	<b>681</b>	<b>11</b>	<b>684</b>	<b>18</b>
Purchases	660	–	628	18
Profits recognised in:				
Income statement	19	2	–	–
<i>of which unrealised gains<sup>1)</sup></i>	7	–	–	–
Equity <sup>2)</sup>	x	x	21	–
Transfers from other levels	1	7	4	–
Other increases	1	3	31	–
<b>Decreases</b>	<b>–623</b>	<b>–41</b>	<b>–771</b>	<b>–</b>
Sales	–608	–	–198	–
Redemptions	–13	–31	–38	–
Losses recognised in:				
Income statement	–1	–10	–4	–
<i>of which unrealised losses<sup>3)</sup></i>	–1	–10	–1	–
Equity <sup>4)</sup>	x	x	–43	–
Transfers to other levels	–	–	–51	–
Other decreases	–1	–	–437	–
<b>Closing balances</b>	<b>72</b>	<b>57</b>	<b>1,133</b>	<b>20</b>

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 or repurchase of available-for-sale financial assets".

## A – Accounting policies (CONTINUED)

## Annual changes in financial liabilities at fair value level 3

(€ million)

	2013		
	FINANCIAL LIABILITIES		
	HELD FOR TRADING	AT FAIR VALUE THROUGH PROFIT OR LOSS	HEDGING DERIVATIVES
<b>Opening balances</b>	<b>2</b>	<b>10</b>	<b>1</b>
<b>Increases</b>	<b>22</b>	<b>26</b>	<b>1</b>
Issuance	1	–	1
Losses recognised in:			
Income statement	21	–	–
<i>of which unrealised losses<sup>1)</sup></i>	–	–	–
Equity	X	X	–
Transfers from other levels	–	–	–
Other increases	–	26	–
<b>Decreases</b>	<b>–17</b>	<b>–27</b>	<b>–1</b>
Redemptions	–16	–	–
Purchases	–	–	–
Profits recognised in:			
Income statement	–1	–	–
<i>of which unrealised gains</i>	–	–	–
Equity	X	X	–
Transfers to other levels	–	–	–
Other decreases	–	–27	–1
<b>Closing balances</b>	<b>7</b>	<b>9</b>	<b>1</b>
	2014		
	FINANCIAL LIABILITIES		
	HELD FOR TRADING	AT FAIR VALUE THROUGH PROFIT OR LOSS	HEDGING DERIVATIVES
<b>Opening balances</b>	<b>7</b>	<b>9</b>	<b>1</b>
<b>Increases</b>	<b>125</b>	<b>24</b>	<b>11</b>
Issuance	116	–	11
Losses recognised in:			
Income statement	9	–	–
<i>of which unrealised losses</i>	–	–	–
Equity	X	X	–
Transfers from other levels	–	–	–
Other increases	–	24	–
<b>Decreases</b>	<b>–15</b>	<b>–28</b>	<b>–</b>
Redemptions	–14	–	–
Purchases	–	–	–
Profits recognised in:			
Income statement	–1	–	–
<i>of which unrealised gains<sup>2)</sup></i>	–1	–	–
Equity	X	X	–
Transfers to other levels	–	–	–
Other decreases	–	–28	–
<b>Closing balances</b>	<b>117</b>	<b>5</b>	<b>12</b>

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.

## A – Accounting policies (CONTINUED)

**Accounting portfolios measured at fair value: transfers between Levels of the fair value hierarchy (Level 1 and Level 2)**

(€ million)

	31 DECEMBER 2014		31 DECEMBER 2013	
	LEVEL 1	LEVEL 2	LEVEL 1	LEVEL 2
<b>Financial assets</b>				
Financial assets held for trading				
Transfer from Level 1	X	–	X	4
Transfer from Level 2	6	X	28	X
Financial assets at fair value through profit or loss				
Transfer from Level 1	X	12	X	–
Transfer from Level 2	–	X	4	X
Available-for-sale financial assets				
Transfer from Level 1	X	2	X	49
Transfer from Level 2	181	X	1,228	X
Hedging derivatives assets				
Transfer from Level 1	X	–	X	–
Transfer from Level 2	–	X	–	X
<b>Financial liabilities</b>				
Financial liabilities held for trading				
Transfer from Level 1	X	–	X	–
Transfer from Level 2	–	X	–	X
Financial liabilities at fair value through profit or loss				
Transfer from Level 1	X	–	X	–
Transfer from Level 2	–	X	–	X
Hedging derivatives liabilities				
Transfer from Level 1	X	–	X	–
Transfer from Level 2	–	X	–	X

The level migrations for fixed income securities are due to alignment with fair value hierarchy levels provided by the UCG group-wide bond IPV process. Level migrations between Level 1 and Level 2 in particular are usually due to increasing or decreasing marketability of the relevant financial instrument.

**A.7.3 – Day One Profit/Loss**

The value at which financial instruments are recognised is equal to their fair value on the same date.

The fair value of financial instruments, other than those designated at fair value through profit or loss, at their recognition date is usually assumed to be equal to the amount collected or paid.

For financial instruments held for trading (see Part A.5.3.2 above) and instruments designated at fair value (see Part A.5.3.2 above), any difference from the amount collected or paid is posted under the appropriate items of the income statement.

The use of conservative valuation models, the processes described above for revising the models used and related parameters and value adjustments to reflect model risk ensure that the amount recognised in the income statement is not derived from the use of valuation parameters that cannot be observed.

More specifically, the calculation of fair value adjustments to reflect model risk ensures that the fair value portion of these instruments relating to the use of subjective parameters is not recognised in the profit and loss account, but changes the balance sheet value of these instruments. Recognition of this portion in the profit and loss account is then made only when objective parameters are applied and therefore the adjustments are derecognised.

The balance of value adjustments to reflect model risk was €71 million at 31 December 2014 (31 December 2013: €69 million).

## A – Accounting policies (CONTINUED)

### A.7.4 – Additional information on fair value

We hereby provide information required under IFRS 13 about accounting portfolios measured at fair value on a recurring basis.

#### **Fixed income securities**

Fixed income securities are priced in a two-tier process depending on the liquidity in the respective market. Liquid instruments in active markets are marked to market and consequently positions in these instruments are disclosed in reference to the fair value hierarchy under Level 1. Instruments not traded in active markets are marked to model based on implied credit spread curves derived from the former Level 1 instruments. The model maximises the use of observable input and minimises the use of unobservable inputs. In this respect, depending on the proximity of the credit spread curve applied, the bonds are disclosed as Level 2 or Level 3, respectively; Level 3 is applied in case comparable credit spread curves are not available (and unobservable credit spreads are used), or in the case of complex bonds. Under fair value accounting, fair value adjustments for liquidity and model deficiencies compensate for the lack of market observables for the Level 2 and Level 3 positions.

In the global bond Independent Price Verification (IPV) process, market prices of Level 1 bonds and pricing models for illiquid bonds are regularly verified for accuracy.

#### **Structured financial products**

The company determines the fair value of structured financial products using the appropriate derivative valuation methodology given the nature of the embedded derivative. Such instruments are classified as Level 2 or Level 3 depending on the observability of significant inputs to the model.

#### **Asset-backed securities**

UniCredit's "Structured Credit Bonds Valuation Group Policy" is centred on:

- extension and implementation across all the Group's legal entities of the new Independent Price Verification (IPV) process suited to the changed market conditions for structured credit bonds;
- integration of the current Fair Value Adjustments Policy.

According to the IPV process the quality of a price is assessed based upon the availability of quotes of independent market players for identical assets. The process relies in the first instance on Markit as reliable collector of market quotes.

As a second step "fallback" prices are assessed by benchmarking each security to a pool of similar securities with available market quotes.

#### **OTC derivatives**

Fair value of derivatives not traded in an active market is determined using a valuation technique. In such cases, where active markets exist for its component parts, then fair value is determined on the basis of the relevant market prices for the component parts.

Valuation techniques that are based on inputs that are observable are referred to as Level 2 valuations. Valuation techniques that use significant unobservable inputs are referred to as Level 3 valuations.

#### **Equity instruments**

Equity instruments are assigned to Level 1 when a quoted price is available on an active market and to Level 3 when no quotations are available or quotations have been suspended indefinitely (equity instruments are disclosed as Level 2 only if the market where the equity is quoted is not considered to be sufficiently active and therefore an adjustment to the quoted prices appears to be required).

#### **Investment funds**

The Bank Austria Group holds investments in certain investment funds that calculate the net asset value (NAV) per share, including mutual funds, private equity funds, and real estate funds. The company's investments include co-investments in funds that are managed by the company and investments in funds that are managed by third parties.

#### **Private equity funds**

Private equity funds are disclosed as Level 3 since reliable NAV prices are usually not available.

When reliable information for fair value measurements is not available, private equity funds are valued at cost and classified as available for sale ("fixed assets") under IAS 39. An increase in value of the private equity asset does not lead to an increase in book value, while a value increase is only shown at exit via capital gains. A decline of value might give reason for an impairment if certain criteria are met. Objective evidence is given when an adverse effect on the expected future cash flows can be presumed, and quantified reliably, and is significant or prolonged.

## A – Accounting policies (CONTINUED)

### **Other funds**

The Bank Austria Group holds investments also in mutual funds and real estate funds.

Mutual funds are usually assigned to Level 1 or Level 2 due to the high level of transparency and traceability of their market and observable inputs.

Real estate funds disclosure as level 2 or level 3 is mainly related to the characteristics of their underlying asset. Regardless of the typology, investment funds are evaluated through an adequate adjustment of the NAV based on the specific features of each fund.

### **Fair value adjustments**

The base fair value assessments have to be adjusted for factors not included in the base NPV that a market participant would consider in order to arrive at the derivative instrument's fair value. Such adjustments, within the Bank Austria Group, include:

- Credit and debit valuation adjustment (CVA/DVA)
- Model risk
- Close-out risk
- Market liquidity risk
- Other adjustments

If fair value adjustments are measured on the basis of a net exposure in accordance with IFRS 13.48, such adjustment is apportioned to the individual transactions using consistent algorithms.

### **Credit and debit valuation adjustment (CVA/DVA)**

Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit Bank Austria AG's own credit quality, respectively.

UniCredit CVA/DVA methodology is based on the following input:

- Expected exposure profiles derived by simulation techniques. Simulated exposures also take into account Specific Wrong Way Risk (e.g. EQ options, repos) is considered.

Depending on the counterparty segment a mixed approach is applied:

- 1) unilateral CVA calculation based on historical PDs and LGDs (for non-financial counterparts and counterparts with no single-name CDS),
- 2) bilateral CVA calculation based on market-implied PDs and LGDs (CDS).

For customers with PD=1 (i.e. defaulted customers), an additional CVA/DVA is not calculated in order to avoid double counting with a general or specific loan loss provision.

### **OIS Discounting Adjustment**

The group has applied the effect of OIS (overnight index swap) discounting for collateralised exposures with the following central adjustment since 31 December 2013: the EUR discount curve is replaced with the OIS curve and the impact on profit or loss is evaluated via a full revaluation.

In order to cover the OIS effect from non-EUR currencies, an additional OIS-model reserve was booked. Both adjustments were booked as changes in accounting estimates and recognised in profit or loss for the first time in 2013.

### **Model risk**

Financial models are used for the valuation of the financial instruments if direct market quotes are not readily available. In general the model risk is represented by the possibility that a financial instrument's evaluation is actually sensitive to the choice of model. It is possible to value the same financial instrument by using alternative models which could provide different results in terms of pricing. The model risk adjustments refer to the risk that the actual fair value of the instrument differs from the value produced by the model. The reserve with regard to structured own issues (own credit spread) is covered under the model risk reserve.

### **Close-out risk**

The close-out adjustment accounts for the costs of closing an (aggregated) position measured at fair value. The position could be closed by a sale (or purchase in the case of a short position), or by entering into a new transaction (or several transactions) that offsets (hedges) the open position. The close-out costs are typically derived from the bid/ask spreads observed on the market. It accounts for the fact that a position is valued at mid but can only be closed at bid or ask. Therefore the bid/ask spread determines the adjustment. Moreover a close-out adjustment of the NAV is required when there are some penalties related to position write-off in an investment fund.



## A – Accounting policies (CONTINUED)

### **Other adjustments**

Other fair value adjustments, which are not included in the previous categories, could be taken into consideration to align the evaluation to the current exit price, e.g. adjustments of equity prices whose quotation on the market is not representative of the effective exit price or adjustments of less liquid securities.

### **Description of the valuation processes used by the entity for fair value measurements categorised within Level 3 of the fair value hierarchy**

UniCredit ensures that the value applied to each trading book position appropriately reflects the current fair value. Fair value measurements of assets and liabilities are determined using various techniques, including, but not limited to, discounted cash flows and internal models.

Based on the observability of inputs used, all the financial instruments are classified as Level 1, Level 2 or Level 3 of the fair value hierarchy.

When a position involves one or more significant inputs that are not directly observable, additional price verification procedures are applied.

These procedures may include reviewing relevant historical data, analysing profit and loss, valuing each component of a structured trade individually, and benchmarking, among others. This approach involves estimation and expert judgment and, therefore, might require valuation adjustments which take into account bid-ask spreads, liquidity and counterparty risk, besides the employed pricing model.

According to Group Market Risk Governance Guidelines, in order to ensure the adequate separation between functions in charge of development activities and functions in charge of validation, all pricing models developed by legal entities' front-office functions are centrally and independently tested and validated by the Holding Company Market Risk functions. The purpose of this independent control framework is to assess model risk arising from models' theoretical soundness, calibration techniques where needed, and the appropriateness of the model for a specific product in a defined market.

In addition to daily marking to market or marking to model, Independent Price Verification (IPV) shall be performed. The Global Bond IPV Project is aimed at supplying a market risk-independent fair value (FV) for any illiquid instrument.

The sensitivity analysis for Level 3 positions 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 reveals that the Level 3 position resides in the regulatory banking book (BB); from a financial reporting perspective the fixed income securities are predominantly booked as available for sale (AFS) and derivatives in the BB 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).

## A – Accounting policies (CONTINUED)

(€ million)

PRODUCT CATEGORIES		FAIR VALUE ASSETS	FAIR VALUE LIABILITIES	UNOBSERVABLE PARAMETERS	RANGE	
Derivatives	Financial	Equity	-47.5	63.7	Underlying	15 %
		Foreign Exchange	-34.0	45.6	Interest rate	100 bps
		Interest Rate	-7.0	9.5	Swap Rate (bps)	100 bps
	Credit		-0.5	10.4	Credit Spread	10 bps
Debt Securities and Loans	Corporate/ Government/Other	-1,066.6	4.7	Price	10 bps to 300 bps	
Equity Securities	Unlisted Equity & Holdings	-124.2		Price	15 %	
Units in Investment Funds	Real Estate & Other Funds	-64.8		Price	15 %	

(€ million)

PRODUCT CATEGORIES	FAIR VALUE MOVEMENTS GIVEN REASONABLE POSSIBLE ALTERNATIVES		
Derivatives	Equity	+/-	1.7
	Foreign Exchange	+/-	1.2
	Interest Rate	+/-	0.2
Debt Securities and Loans	Corporate/ Government/Other	+/-	39.7
Equity Securities	Unlisted Equity & Holdings	+/-	2.0
Units in Investment Funds	Real Estate & Other Funds	+/-	1.0

### Description of the valuation technique used to measure the fair value of items categorised in Level 2 or Level 3

Valuation techniques are used to value positions for which a market price is not available from market sources. UniCredit Group uses well known valuation techniques for determining fair values of financial and non-financial instruments that are not actively traded and quoted. The valuation techniques used for Level 2 and Level 3 assets and liabilities are described as follows.

#### Option pricing model

Option model valuation techniques are generally used for instruments in which the holder has a contingent right or obligation based on the occurrence of a future event, such as the price of a referenced asset going above or below a predetermined strike price. Option models estimate the likelihood of the specified event occurring by incorporating assumptions such as volatility estimates, price of the underlying instrument and expected rate of return.

#### Discounted cash flow

Discounted cash flow valuation techniques generally consist of developing an estimate of future cash flows that are expected to occur over the life of an instrument. The model requires the estimation of the cash flow and the adoption of market parameters for the discounting: the discount rate or discount margin reflects the credit and/or funding spreads required by the market for instruments with similar risk and liquidity profiles to produce a "present value". The fair value of the contract is given by the sum of the present values of future cash flows.

#### Hazard Rate Model

Unlike bonds, the gain or loss from a CDS position cannot be computed simply by taking the difference between current market quoted price plus the coupons received and the purchase price. To value a CDS we need to use a term structure of default swap spreads, a recovery rate assumption and a model.

#### Market approach

A valuation technique that uses prices generated by market transactions involving identical or comparable (i. e. similar) assets, liabilities or a group of assets and liabilities, such as a business.

#### Adjusted NAV

Net asset value is the total value of a fund's assets less liabilities. An increase in net asset value would result in an increase in a fair value measurement.

## A – Accounting policies (CONTINUED)

### **Description of the unobservable inputs used to measure the fair value of items categorised in Level 3 and of the sensitivity of the fair value measurement to changes in those inputs**

The directional sensitivity of the company's Level 3 fair value measurements to changes in significant unobservable inputs is provided below. For fair value measurement where significant unobservable inputs are used (Level 3) sensitivity analysis is performed in order to generate a range of reasonably possible alternative valuations. The Group considers that the impact of an unobservable input on the Level 3 fair value measurements depends on the correlation between various inputs used in the valuation process. Furthermore, the effect of a change in an unobservable input impacts the amount and the direction of the fair value measurement depending also on the nature of the instrument and on whether the instrument is held as an asset or as a liability.

#### **Volatility**

Volatility is a measure for variation of price of a financial instrument over time. In particular, volatility measures the speed and severity of market price changes for an instrument, parameter or market index given how much the particular instrument, parameter or index changes in value over time, expressed as a percentage of relative change in price. The higher the volatility of the underlying, the riskier the instrument.

In general, long option positions (assets) benefit from increases in volatility, whereas short option positions (liabilities) will suffer losses.

There are different types of volatility: volatility of interest rate, inflation volatility, volatility of foreign exchange and volatility of equity stocks, equity or other indices.

#### **Correlation**

Correlation is a measure of the relationship between the movements of two variables. When parameters are positively correlated, an increase in correlation results in a higher fair value measurement. On the contrary, given a short correlation position, an increase in correlation, in isolation, would generally result in a decrease in a fair value measurement. Therefore changes in correlation levels can have a major impact, favourable or unfavourable, on the fair value of an instrument, depending on the type of correlation.

Correlation is a pricing input for a derivative product where the payoff is driven by multiple underlying risks. The level of correlation used in the valuation of derivatives with multiple underlying risks depends on a number of factors including the nature of those risks.

#### **Dividends**

The derivation of a forward price for an individual stock or index is important both for measuring fair value for forward or swap contracts and for measuring fair value using option pricing models. The relationship between the current stock price and the forward price is based on a combination of expected future dividend levels and payment timings and, to a lesser extent, the relevant funding rates applicable to the stock in question. The dividend yield and timing represents the most significant parameter in determining fair value for instruments that are sensitive to an equity forward price.

#### **Interest rate curve**

Less liquid currencies' interest curve refers to the rates in currencies for which a market liquidity in terms of tightness, depth and resiliency does not exist. The illiquidity of these input data directly impacts the valuation of bonds or derivatives expressed in illiquid currencies.

#### **Credit spreads**

Different valuation models, especially for credit derivatives, require an input for the credit spread which reflects the credit quality of the associated credit name. The credit spread of a particular security is quoted in relation to the yield on a benchmark security or reference rate, typically either U.S. Treasury or LIBOR, and is generally expressed in terms of basis points. The ranges for credit spreads cover a variety of underlyings (index and single names), regions, sectors, maturities and credit qualities (high-yield and investment-grade). The broad range of this population gives rise to the width of the ranges of unobservable inputs.

#### **Loss Given Default (LGD)/recovery rate**

LGD, also known as loss severity (the inverse concept is the recovery rate), represents the percentage of contractual cash flows lost in the event of a default, expressed as the net amount of loss relative to the outstanding balance. An increase in the loss severity, in isolation, would result in a decrease in a fair value measurement. Loss Given Default is facility-specific because such losses are generally understood to be influenced by key transaction characteristics such as the presence of collateral and the degree of subordination.

#### **Price**

Where market prices are not observable, comparison via proxy is used to measure a fair value.

#### **Prepayment rate (PR)**

The PR is the estimated rate at which forecast prepayments of principal of the related debt instrument are expected to occur. Voluntary unscheduled payments (prepayments) change the future cash flows for the investor and thereby change the fair value of the security.

In general, as prepayment speeds change, the weighted average life of the security changes, which impacts the valuation either positively or negatively, depending upon the nature of the security and the direction of the change in the weighted average life.

## A – Accounting policies (CONTINUED)

### **Probability of Default (PD)**

The probability of default is an estimate of the likelihood of not collecting contractual amounts. It provides an estimate of the likelihood that a client of a financial institution will be unable to meet its debt obligations over a particular time horizon. The PD of an obligor not only depends on the risk characteristics of that particular obligor but also on the economic environment and the degree to which it affects the obligor.

Financial instruments not carried at fair value (FV), including “Loans and receivables with customers and banks” and “Deposits from customers and banks”, are not managed on a fair value basis.

For these instruments, fair values are calculated solely in order to comply with disclosure requirements and do not impact the balance sheet nor profit or loss. As these instruments are generally not traded, FV measurement is based on internal parameters partly classified as unobservable inputs.

In 2014 the fair value calculation of loans and deposits was refined by normalising customer-specific risk parameters to take account of market parameters in the fair value calculation. This improvement in methodology means that comparisons with 2013 provide meaningful information only to a limited extent. In average terms, however, the decline in market indicators should have led to an increase in fair values for specific maturity structures.

### **Loans and receivables**

The fair value of loans and receivables with customers and banks measured at amortised cost is mainly determined using a risk-adjusted net present value approach. For some portfolios simplified approaches are applied, taking into consideration their financial features.

Cash flows include capital repayments, interest payments and any other charges and depend on contractual conditions and market conditions (i. e. interest rates).

The risk-free rate represents the amount of interest the market asks for investments with no risk for a specific maturity.

Credit Spread (CS) represents the excess return a market participant asks for a risky investment. CS for non-quoted products, like commercial instruments, cannot be derived from observable market prices; the bank has therefore estimated the CS based on counterpart/transaction specific factors (i. e. recovery-rate assumptions and probability of default).

For the purpose of defining the level of the fair value hierarchy (Level 2 or Level 3), the bank estimates whether the estimated credit spread has a material effect on the fair value. If the fair value calculated on the basis of a discount rate including the estimated credit spread does not differ materially from a risk-free present value, the loans and receivables are classified as Level 2. Short-term transactions for which fair value is stated as being equal to carrying amount using the approximation rule in accordance with IFRS 7.29 are classified as Level 3. The methods applied in assessing in the best possible manner whether inputs are observable and significant are adjusted to changes in market conditions.

### **Liabilities**

The fair value of liabilities, recorded at amortised cost, is determined using the Discounted Cash Flow model as previously described for loans and receivables. The bank's own credit spread is determined using Bank Austria's subordinated and non-subordinated risk curves.

The classification into the levels of the fair value hierarchy is made according to the same methodology as for loans and receivables.

### **Held-to-maturity investments**

Considering that held-to-maturity investments are mainly composed of securities, fair value for this asset class is determined according to what was previously explained in the section “Additional information on fair value – fixed income securities”.

### **Cash and cash balances**

Cash and cash balances are not carried at fair value on the consolidated balance sheet, but they are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk.

### **Debt securities in issue**

The fair value of debt securities in issue, recorded at amortised cost, is determined using the Discounted Cash Flow model.

## A – Accounting policies (CONTINUED)

### A.7.5 – 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 31 December 2014:

#### Reclassified financial assets: carrying amount, fair value and effects on comprehensive income

(€ million)

TYPES OF INSTRUMENTS	ACCOUNTING PORTFOLIO BEFORE RECLASSIFICATION	ACCOUNTING PORTFOLIO AFTER RECLASSIFICATION	CARRYING AMOUNT AS AT 31 DEC. 2014	FAIR VALUE AS AT 31 DEC. 2014	INCOME/EXPENSES ABSENT RECLASSIFICATION (BEFORE TAXES)		INCOME/EXPENSES RECOGNISED DURING THE PERIOD (BEFORE TAXES)	
					FROM MEASUREMENT	OTHER	FROM MEASUREMENT	OTHER
<b>Debt securities</b>			<b>-3,463</b>	<b>-3,506</b>	<b>74</b>	<b>65</b>	<b>3</b>	<b>84</b>
	HFT	AFS	-5	-5	-	-	-	-
	HFT	HTM	-20	-20	1	1	-	1
	HFT	Loans to banks	-	-	-	-	-	-
	HFT	Loans to customers	-473	-483	40	13	3	12
	AFS	Loans to banks	-2,965	-2,997	32	49	-	70
<b>TOTAL</b>			<b>-3,463</b>	<b>-3,506</b>	<b>74</b>	<b>65</b>	<b>3</b>	<b>84</b>

### A.8 – Impairment test

In Bank Austria, the most recent impairment test in respect of cash-generating units and goodwill allocated to them was performed as at 31 December 2013 and led to the full write-off of all goodwill. This means that specific information on the goodwill impairment test is not required as at 31 December 2014.

## A – Accounting policies (CONTINUED)

### A.9 – Group of consolidated companies and changes in the group of consolidated companies of the Bank Austria Group in 2014

#### Consolidated companies

##### Investments in subsidiaries (consolidated line by line)

NAME	MAIN OFFICE/ OPERATIONAL HQ	HELD BY	OWNERSHIP RELATIONSHIP			
			2014		2013	
			HOLDING %	VOTING RIGHTS % *)	HOLDING %	VOTING RIGHTS %
AI BETEILIGUNGS GMBH Issued capital EUR 35,000	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
ALLEGRO LEASING GESELLSCHAFT M. B. H. Issued capital EUR 3,576,202	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
ALLIB LEASING S. R. O. Issued capital CZK 100,000	PRAGUE	UNICREDIT LEASING CZ, A. S.	100.00		Addition as at 14 March 2014	
ALLIB ROM S. R. L. Issued capital RON 680,000	BUCHAREST	UNICREDIT CONSUMER FINANCING IFN S. A. UNICREDIT LEASING CORPORATION IFN S. A.	0.02 99.98		Addition as at 28 April 2014	
ALMS LEASING GMBH. Issued capital EUR 36,337	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
ALPINE CAYMAN ISLANDS LTD. Issued capital EUR 798	CAYMAN ISLANDS	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
ALV IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
AMBASSADOR PARC DEDINJE D. O. O. BEOGRAD Issued capital RSD 2,715,063	BELGRADE	UCTAM D. O. O. BEOGRAD	100.00		100.00	
ANTARES IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
AO UNICREDIT BANK Issued capital RUR 41,787,805,174	MOSCOW	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
ARANY PENZUEGYI LIZING ZRT. Issued capital HUF 60,000,000	BUDAPEST	UNICREDIT BANK HUNGARY ZRT.	100.00		100.00	
ARNO GRUNDSTUECKSVERWALTUNGS GESELLSCHAFT M. B. H. Issued capital EUR 36,337	VIENNA	GALA GRUNDSTUECKVERWALTUNG GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
ARTIST MARKETING ENTERTAINMENT GMBH Issued capital EUR 50,000	VIENNA	MY BETEILIGUNGS GMBH	100.00		100.00	
AS UNICREDIT FINANCE, LATVIA Issued capital LVL 86,100,170	RIGA	UNICREDIT BANK AUSTRIA AG		Merger as at 26 Aug. 2014	100.00	
AUSTRIA LEASING GMBH Issued capital EUR 36,336	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH GALA GRUNDSTUECKVERWALTUNG GESELLSCHAFT M. B. H.	0.40 99.60		Addition as at 10 Dec. 2014	
AWT HANDELS GESELLSCHAFT M. B. H. Issued capital EUR 2,906,913	VIENNA	UNIVERSALE INTERNATIONAL REALITAETEN GMBH	100.00		100.00	
AWT INTERNATIONAL TRADE GMBH Issued capital EUR 100,000	VIENNA	UNICREDIT BANK AUSTRIA AG		Merger as at 26 June 2014	100.00	
B 03 IMMOBILIEN GMBH & CO KG Issued capital EUR 10,000	VIENNA	B A I BAUTRAGER AUSTRIA IMMOBILIEN GMBH	100.00		Addition as at 18 Sep. 2014	
B A I BAUTRAGER AUSTRIA IMMOBILIEN GMBH Issued capital EUR 730,000	VIENNA	BA-CA MARKETS & INVESTMENT BETEILIGUNG GES. M. B. H. IMMOBILIEN HOLDING GMBH	0.25 99.75		Addition as at 18 Sep. 2014	
BA ALPINE HOLDINGS, INC. Issued capital USD 74,435,918	WILMINGTON	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
BA BETRIEBSOBJEKTE GMBH Issued capital EUR 5,630,000	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	

\*) Voting rights are disclosed only if different from the percentage of holding.

## A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	HELD BY	OWNERSHIP RELATIONSHIP			
			2014		2013	
			HOLDING %	VOTING RIGHTS %*)	HOLDING %	VOTING RIGHTS %
BA BETRIEBSOBJEKTE GMBH & CO BETA VERMIETUNGS OG Issued capital EUR 1,000	VIENNA	BA BETRIEBSOBJEKTE GMBH MY DREI HANDELS GMBH	99.90 0.10		99.90 0.10	
BA BETRIEBSOBJEKTE PRAHA, SPOL. S. R. O. Issued capital CZK 100,000	PRAGUE	BA BETRIEBSOBJEKTE GMBH	100.00		100.00	
BA CA SECUND LEASING GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
BA CREDITANSTALT BULUS EOOD Issued capital BGN 6,250,000	SOFIA	HVB LEASING EOOD	100.00		100.00	
BA EUROLEASE BETEILIGUNGSGESELLSCHAFT M. B. H. Issued capital EUR 363,364	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
BA GEBAEUEVERMIETUNGSGMBH Issued capital EUR 36,336	VIENNA	BA GVG-HOLDING GMBH	70.00		70.00	
BA GVG-HOLDING GMBH Issued capital EUR 18,168	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
BA IMMO GEWINNSCHEIN FONDS1 Issued capital EUR 0	VIENNA	UNICREDIT BANK AUSTRIA AG	99.00		99.00	
BA PRIVATE EQUITY GMBH IN LIQU. Issued capital EUR 1,200,000	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
BA-CA ANDANTE LEASING GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
BA-CA FINANCE (CAYMAN) II LIMITED Issued capital EUR 15,000	GEORGETOWN	ALPINE CAYMAN ISLANDS LTD.	100.00		100.00	
BA-CA FINANCE (CAYMAN) LIMITED Issued capital EUR 15,000	GEORGETOWN	ALPINE CAYMAN ISLANDS LTD.	100.00		100.00	
BA-CA LEASING DREI GARAGEN GMBH Issued capital EUR 35,000	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	100.00			Addition as at 10 Dec. 2014
BA-CA LEASING MAR IMMOBILIEN LEASING GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
BA-CA MARKETS & INVESTMENT BETEILIGUNG GES. M. B. H. Issued capital EUR 127,177	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
BA-CA PRESTO LEASING GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
BA-CA WIEN MITTE HOLDING GMBH Issued capital EUR 35,000	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
BA/CA-LEASING BETEILIGUNGEN GMBH Issued capital EUR 454,000	VIENNA	CALG DELTA GRUNDSTUECKVERWALTUNG GMBH	100.00			Addition as at 10 Dec. 2014
BACA CENA IMMOBILIEN LEASING GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
BACA CHEOPS LEASING GMBH Issued capital EUR 36,500	VIENNA	GALA GRUNDSTUECKVERWALTUNG GESELLSCHAFT M. B. H.	100.00			Addition as at 10 Dec. 2014
BACA HYDRA LEASING GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
BACA KOMMUNALLEASING GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
BACA LEASING ALFA S. R. O. Issued capital CZK 110,000	PRAGUE	UNICREDIT LEASING CZ, A. S.	100.00			Addition as at 10 Dec. 2014
BACA LEASING CARMEN GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
BACA LEASING GAMA S. R. O. Issued capital CZK 110,000	PRAGUE	UNICREDIT LEASING CZ, A. S.	100.00			Addition as at 10 Dec. 2014
BACA LEASING UND BETEILIGUNGSMANAGEMENT GMBH Issued capital EUR 21,936,492	VIENNA	CALG IMMOBILIEN LEASING GMBH UNICREDIT LEASING (AUSTRIA) GMBH	99.00 1.00			Addition as at 10 Dec. 2014

\*) Voting rights are disclosed only if different from the percentage of holding.

## A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	HELD BY	OWNERSHIP RELATIONSHIP			
			2014		2013	
			HOLDING %	VOTING RIGHTS % <sup>*)</sup>	HOLDING %	VOTING RIGHTS %
BACA-LEASING AQUILA INGATLANHASNOSITO KORLATOLT FELELOSSEGUE TARSASAG Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
BACA-LEASING GEMINI INGATLANHASNOSITO KORLATOLT FELELOSSEGUE TARSASAG Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
BACA-LEASING OMIKRON INGATLANHASNOSTO KORLATOLT FELELOSSEGUE TARSASAG Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
BAI WOHNUNGSEIGENTUMSGESELLSCHAFT M. B. H. Issued capital EUR 73,000	VIENNA	B A I BAUTRAGER AUSTRIA IMMOBILIEN GMBH BA-CA MARKETS & INVESTMENT BETEILIGUNG GES. M. B. H.	99.90 0.10		Addition as at 10 Dec. 2014	
BAL CARINA IMMOBILIEN LEASING GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
BAL DEMETER IMMOBILIEN LEASING GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
BAL HESTIA IMMOBILIEN LEASING GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
BAL HORUS IMMOBILIEN LEASING GMBH Issued capital EUR 36,500	VIENNA	CALG DELTA GRUNDSTUECKVERWALTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
BAL HYPNOS IMMOBILIEN LEASING GMBH Issued capital EUR 36,500	VIENNA	CALG DELTA GRUNDSTUECKVERWALTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
BAL LETO IMMOBILIEN LEASING GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
BAL OSIRIS IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
BAL SOBEK IMMOBILIEN LEASING GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
BANK AUSTRIA CREDITANSTALT LEASING IMMOBILIENANLAGEN GMBH Issued capital EUR 36,500	VIENNA	GALA GRUNDSTUECKVERWALTUNG GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
BANK AUSTRIA FINANZSERVICE GMBH Issued capital EUR 490,542	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
BANK AUSTRIA HUNGARIA BETA LEASING KORLATOLT FELELOSSEGUE TARSASAG Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
BANK AUSTRIA LEASING ARGO IMMOBILIEN LEASING GMBH Issued capital EUR 36,500	VIENNA	WOEM GRUNDSTUECKSVORWALTUNG- GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
BANK AUSTRIA LEASING HERA IMMOBILIEN LEASING GMBH Issued capital EUR 36,337	VIENNA	UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
BANK AUSTRIA LEASING IKARUS IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
BANK AUSTRIA LEASING MEDEA IMMOBILIEN LEASING GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
BANK AUSTRIA REAL INVEST CLIENT INVESTMENT GMBH Issued capital EUR 145,500	VIENNA	BANK AUSTRIA REAL INVEST IMMOBILIEN- MANAGEMENT GMBH	100.00		100.00	
BANK AUSTRIA REAL INVEST IMMOBILIEN- KAPITALANLAGE GMBH Issued capital EUR 5,000,000	VIENNA	BANK AUSTRIA REAL INVEST IMMOBILIEN- MANAGEMENT GMBH	100.00		100.00	
BANK AUSTRIA REAL INVEST IMMOBILIEN- MANAGEMENT GMBH Issued capital EUR 10,900,500	VIENNA	UNICREDIT BANK AUSTRIA AG	94.95		94.95	
BANK AUSTRIA WOHNBAUBANK AG Issued capital EUR 18,765,944	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	

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## A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	HELD BY	OWNERSHIP RELATIONSHIP			
			2014		2013	
			HOLDING %	VOTING RIGHTS %*)	HOLDING %	VOTING RIGHTS %
BAREAL IMMOBILIENTREUHAND GMBH Issued capital EUR 35,000	VIENNA	IMMOBILIEN HOLDING GMBH UNICREDIT BANK AUSTRIA AG	50.00 50.00		Addition as at 18 Sep. 2014	
BAULANDENTWICKLUNG GDST 1682/8 GMBH & CO OEG Issued capital EUR 0	VIENNA	CALG ANLAGEN LEASING GMBH CALG IMMOBILIEN LEASING GMBH	1.00 99.00		Addition as at 10 Dec. 2014	
BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
BF NINE HOLDING GMBH Issued capital EUR 35,000	VIENNA	ALLEGRO LEASING GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
BREWO GRUNDSTUECKSERWALTUNGS- GESELLSCHAFT M. B. H. Issued capital EUR 36,337	VIENNA	GALA GRUNDSTUECKVERWALTUNG GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
BUCHSTEIN IMMOBILIENVERWALTUNG GMBH UND CO OG Issued capital EUR 18,168	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
BULBANK LEASING EAD Issued capital BGN 2,050,000	SOFIA	UNICREDIT LEASING EAD	100.00		100.00	
CA-LEASING DELTA INGATLANHASZNOSITO KORLATOLT FELELOSSEGUE TARSASAG Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
CA-LEASING EPSILON INGATLANHASZNOSITO KORLATOLT FELELOSSEGUE TARSASAG Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
CA-LEASING EURO, S. R. O. Issued capital CZK 100,000	PRAGUE	UNICREDIT LEASING CZ, A. S.	100.00		Addition as at 10 Dec. 2014	
CA-LEASING KAPPA INGATLANHASZNOSITO KORLATOLT FELELOSSEGUE TARSASAG Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
CA-LEASING OMEGA INGATLANHASZNOSITO KORLATOLT FELELOSSEGUE TARSASAG Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
CA-LEASING OVUS S. R. O. Issued capital CZK 100,000	PRAGUE	UNICREDIT LEASING CZ, A. S.	100.00		Addition as at 10 Dec. 2014	
CA-LEASING PRAHA S. R. O. Issued capital CZK 100,000	PRAGUE		Merger as at 01 Nov. 2014		Addition as at 14 March 2014	
CA-LEASING SENIOREN PARK GMBH Issued capital EUR 36,500	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	100.00		Addition as at 10 Dec. 2014	
CA-LEASING ZETA INGATLANHASZNOSITO KORLATOLT FELELOSSEGUE TARSASAG Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
CABET-HOLDING GMBH Issued capital EUR 290,909	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
CABO BETEILIGUNGSGESELLSCHAFT M. B. H. Issued capital EUR 35,000	VIENNA	CABET-HOLDING GMBH	100.00		100.00	
CAC IMMO S. R. O. Issued capital CZK 200,000	PRAGUE		Merger as at 01 Nov. 2014		Addition as at 14 March 2014	
CAC REAL ESTATE, S. R. O. Issued capital CZK 110,000	PRAGUE	UNICREDIT LEASING CZ, A. S.	100.00		Addition as at 14 March 2014	
CAFU VERMOEGENSVERWALTUNG GMBH & CO OG Issued capital EUR 6,719,227	VIENNA	SCHOELLERBANK AKTIENGESELLSCHAFT	100.00		100.00	
CAL-PAPIER INGATLANHASZNOSITO KORLATOLT FELELOSSEGUE TARSASAG Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	

\*) Voting rights are disclosed only if different from the percentage of holding.

## A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	HELD BY	OWNERSHIP RELATIONSHIP			
			2014		2013	
			HOLDING %	VOTING RIGHTS %*)	HOLDING %	VOTING RIGHTS %
CALG 307 MOBILIEN LEASING GMBH Issued capital EUR 90,959	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	99.00		Addition as at 10 Dec. 2014	
		UNICREDIT LEASING (AUSTRIA) GMBH	1.00			
CALG 443 GRUNDSTUECKVERWALTUNG GMBH Issued capital EUR 36,336	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	99.00		Addition as at 10 Dec. 2014	
		CALG IMMOBILIEN LEASING GMBH	1.00			
CALG 445 GRUNDSTUECKVERWALTUNG GMBH Issued capital EUR 18,168	VIENNA	CALG IMMOBILIEN LEASING GMBH	100.00		Addition as at 10 Dec. 2014	
CALG 451 GRUNDSTUECKVERWALTUNG GMBH Issued capital EUR 36,500	VIENNA	CALG DELTA GRUNDSTUECKVERWALTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
CALG ALPHA GRUNDSTUECKVERWALTUNG GMBH Issued capital EUR 36,500	VIENNA	CALG DELTA GRUNDSTUECKVERWALTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
CALG ANLAGEN LEASING GMBH Issued capital EUR 55,945,753	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
CALG ANLAGEN LEASING GMBH & CO GRUNDSTUECKVERMIETUNG UND -VERWALTUNG KG Issued capital EUR 2,326,378	MUNICH	CALG ANLAGEN LEASING GMBH	99.90		Addition as at 10 Dec. 2014	
CALG DELTA GRUNDSTUECKVERWALTUNG GMBH Issued capital EUR 13,318,789	VIENNA	CALG ANLAGEN LEASING GMBH	100.00		Addition as at 10 Dec. 2014	
CALG GAMMA GRUNDSTUECKVERWALTUNG GMBH Issued capital EUR 36,337	VIENNA	CALG IMMOBILIEN LEASING GMBH	100.00		Addition as at 10 Dec. 2014	
CALG GRUNDSTUECKVERWALTUNG GMBH Issued capital EUR 36,500	VIENNA	CALG IMMOBILIEN LEASING GMBH	75.00		Addition as at 10 Dec. 2014	
		UNICREDIT LEASING (AUSTRIA) GMBH	25.00			
CALG IMMOBILIEN LEASING GMBH Issued capital EUR 41,384,084	VIENNA	CALG ANLAGEN LEASING GMBH	100.00		Addition as at 10 Dec. 2014	
CALG IMMOBILIEN LEASING GMBH & CO. 1050 WIEN, SIEBENBRUNNENGASSE 19–21 OG Issued capital EUR 300	VIENNA	CALG IMMOBILIEN LEASING GMBH	100.00		Addition as at 10 Dec. 2014	
CALG IMMOBILIEN LEASING GMBH & CO. 1120 WIEN, SCHOENBRUNNER SCHLOSSSTRASSE 38–42 OG Issued capital EUR 300	VIENNA	CALG IMMOBILIEN LEASING GMBH	100.00		Addition as at 10 Dec. 2014	
CALG IMMOBILIEN LEASING GMBH & CO. PROJEKT ACHT OG Issued capital EUR 300	VIENNA	CALG IMMOBILIEN LEASING GMBH	100.00		Addition as at 10 Dec. 2014	
CALG IMMOBILIEN LEASING GMBH & CO. PROJEKT VIER OG Issued capital EUR 300	VIENNA	CALG IMMOBILIEN LEASING GMBH	100.00		Addition as at 10 Dec. 2014	
CALG MINAL GRUNDSTUECKVERWALTUNG GMBH Issued capital EUR 18,286	VIENNA	CALG ANLAGEN LEASING GMBH	100.00		Addition as at 10 Dec. 2014	
CARD COMPLETE SERVICE BANK AG Issued capital EUR 6,000,000	VIENNA	UNICREDIT BANK AUSTRIA AG	50.10		50.10	
CARDS & SYSTEMS EDV-DIENSTLEISTUNGS GMBH Issued capital EUR 75,000	VIENNA	CARD COMPLETE SERVICE BANK AG	5.00		5.00	
		DC BANK AG	1.00		1.00	
		UNICREDIT BANK AUSTRIA AG	52.00		52.00	
CEAKSCH VERWALTUNGS G. M. B. H. Issued capital EUR 35,000	VIENNA	BA-CA MARKETS & INVESTMENT BETEILIGUNG GES. M. B. H.	100.00		100.00	
CENTAR KAPTOL DOO Issued capital HRK 46,830,400	ZAGREB	ZAGREBACKA BANKA D. D.	100.00		100.00	
CENTER HEINRICH-COLLIN-STRASSE1 VERMIETUNGS GMBH U. CO KG Issued capital EUR 0	VIENNA	BA IMMO GEWINNSCHEIN FONDS1 BANK AUSTRIA REAL INVEST IMMOBILIEN- MANAGEMENT GMBH	83.46 0.10		83.46 0.10	

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## A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	HELD BY	OWNERSHIP RELATIONSHIP			
			2014		2013	
			HOLDING %	VOTING RIGHTS % <sup>*)</sup>	HOLDING %	VOTING RIGHTS %
CHARADE LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	75.00		100.00	
		UNICREDIT LEASING (AUSTRIA) GMBH	25.00			
CHEFREN LEASING GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
CHRISTOPH REISEGGER GESELLSCHAFT M. B. H. IN LIQU. Issued capital EUR 0	VIENNA	LASSALLESTRASSE BAU-, PLANUNGS-, ERRICHTUNGS- UND VERWERTUNGSGESELLSCHAFT M. B. H.		Wound up as at 29 Aug. 2014	100.00	
CIVITAS IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
COMMUNA - LEASING GRUNDSTUECKSVERWALTUNGS- GESELLSCHAFT M. B. H. Issued capital EUR 36,337	VIENNA	REAL-LEASE GRUNDSTUECKSVERWALTUNGS- GESELLSCHAFT M. B. H.	100.00			Addition as at 10 Dec. 2014
CONTRA LEASING-GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	75.00			Addition as at 10 Dec. 2014
		JAUSERN-LEASING GESELLSCHAFT M. B. H.	25.00			
DBC SP.Z O. O. Issued capital PLN 50,000	WARSAW	UNIVERSALE INTERNATIONAL REALITAETEN GMBH	100.00		100.00	
DC BANK AG Issued capital EUR 5,000,000	VIENNA	UNICREDIT BANK AUSTRIA AG	99.94		99.94	
DC ELEKTRONISCHE ZAHLUNGSSYSTEME GMBH Issued capital EUR 35,000	VIENNA	KSG KARTEN-VERRECHNUNGS- UND SERVICEGESELLSCHAFT M. B. H.	100.00		100.00	
DEBO LEASING IFN S. A. Issued capital RON 724,400	BUCHAREST	UNICREDIT CONSUMER FINANCING IFN S. A.	0.01			Addition as at 28 April 2014
		UNICREDIT LEASING CORPORATION IFN S. A.	99.99			
DINERS CLUB CS, S. R. O. Issued capital EUR 829,848	BRATISLAVA	DC BANK AG	100.00		100.00	
DINERS CLUB POLSKA SP.Z. O. O. Issued capital PLN 7,500,000	WARSAW	DC BANK AG	100.00		100.00	
DIRANA LIEGENSCHAFTSVERTWERTUNGS- GESELLSCHAFT M. B. H. Issued capital EUR 17,500	VIENNA	UNIVERSALE INTERNATIONAL REALITAETEN GMBH	100.00		100.00	
DLV IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
DOBLERHOF IMMOBILIEN GMBH & CO KG Issued capital EUR 10,000	VIENNA	KLEA TERRAIN- UND BAU-GESELLSCHAFT M. B. H.	100.00			Addition as at 18 Sep. 2014
DOMUS CLEAN REINIGUNGS GMBH Issued capital EUR 17,500	VIENNA	UNICREDIT BUSINESS INTEGRATED SOLUTIONS AUSTRIA GMBH		Sold on 20 Jan. 2014	100.00	
DONAUMARINA PROJEKTENTWICKLUNG GMBH Issued capital EUR 35,000	VIENNA	B A I BAUTRAGER AUSTRIA IMMOBILIEN GMBH	100.00			Addition as at 18 Sep. 2014
DONAUTURM AUSSICHTSTURM-UND RESTAURANT-BETRIEBSGESELLSCHAFT M. B. H. Issued capital EUR 880,000	VIENNA	IMMOBILIEN HOLDING GMBH	95.00			Addition as at 18 Sep. 2014
DONAUTURM LIEGENSCHAFTSVERTWALTUNGS- GESELLSCHAFT M. B. H. Issued capital EUR 1,820,000	VIENNA	EKAZENT REALITAETENGESELLSCHAFT M. B. H.	94.85			Addition as at 18 Sep. 2014
DR. W. W. DONATH IMMOBILIENVERWALTUNG GMBH Issued capital EUR 37,000	VIENNA	IMMOBILIEN HOLDING GMBH	100.00			Addition as at 18 Sep. 2014
DUODEC Z IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
DV ALPHA GMBH Issued capital EUR 35,000	VIENNA	PIRTA VERWALTUNGS GMBH	100.00		100.00	
DV BETEILIGUNGSVERWALTUNGS GMBH Issued capital EUR 35,000	VIENNA	PIRTA VERWALTUNGS GMBH	100.00		100.00	

\*) Voting rights are disclosed only if different from the percentage of holding.

## A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	HELD BY	OWNERSHIP RELATIONSHIP			
			2014		2013	
			HOLDING %	VOTING RIGHTS % <sup>*)</sup>	HOLDING %	VOTING RIGHTS %
EKAZENT GEBAEUEVERMIETUNG GMBH Issued capital EUR 1,310,000	VIENNA	BA-CA MARKETS & INVESTMENT BETEILIGUNG GES.M.B.H. EKAZENT REALITAETENGESELLSCHAFT M.B.H.	0.06 99.94			Addition as at 18 Sep. 2014
EKAZENT IMMOBILIEN MANAGEMENT GMBH Issued capital EUR 35,000	VIENNA	IMMOBILIEN HOLDING GMBH	100.00			Addition as at 18 Sep. 2014
EKAZENT REALITAETENGESELLSCHAFT M.B.H. Issued capital EUR 4,370,000	VIENNA	BA-CA MARKETS & INVESTMENT BETEILIGUNG GES.M.B.H. IMMOBILIEN HOLDING GMBH	0.01 99.99			Addition as at 18 Sep. 2014
EUROGATE BETEILIGUNGSVERWALTUNG GMBH Issued capital EUR 35,000	VIENNA	PRO WOHNBAU AG	100.00			Addition as at 18 Sep. 2014
EUROGATE PROJEKTENTWICKLUNG GMBH Issued capital EUR 35,000	VIENNA	B A I BAUTRAGER AUSTRIA IMMOBILIEN GMBH	100.00			Addition as at 18 Sep. 2014
EUROGATE PROJEKTENTWICKLUNG GMBH & CO AREA BETA KG Issued capital EUR 35,000	VIENNA	EUROGATE BETEILIGUNGSVERWALTUNG GMBH	100.00			Addition as at 18 Sep. 2014
EUROLEASE AMUN IMMOBILIEN LEASING GESELLSCHAFT M.B.H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
EUROLEASE ANUBIS IMMOBILIEN LEASING GESELLSCHAFT M.B.H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
EUROLEASE ISIS IMMOBILIEN LEASING GESELLSCHAFT M.B.H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
EUROLEASE MARDUK IMMOBILIEN LEASING GESELLSCHAFT M.B.H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
EUROLEASE RA IMMOBILIEN LEASING GESELLSCHAFT M.B.H. Issued capital EUR 36,500	VIENNA	UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	100.00			Addition as at 10 Dec. 2014
EUROLEASE RAMSES IMMOBILIEN LEASING GESELLSCHAFT M.B.H. Issued capital EUR 14,398,879	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
EUROPA BEFETETESI ALAPKEZELOE ZRT (EUROPA INVESTMENT FUND MANAGEMENT LTD.) Issued capital HUF 100,000,000	BUDAPEST	UNICREDIT TURN-AROUND MANAGEMENT CEE GMBH	100.00		100.00	
EUROPE REAL-ESTATE INVESTMENT FUND Issued capital HUF 0	BUDAPEST	UNICREDIT BANK HUNGARY ZRT.	100.00		100.00	
EUROVENTURES-AUSTRIA-CA- MANAGEMENT GESMBH Issued capital EUR 36,336	VIENNA	CABET-HOLDING GMBH	100.00		100.00	
EXPANDA IMMOBILIEN LEASING GESELLSCHAFT M.B.H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
FACTORBANK AKTIENGESELLSCHAFT Issued capital EUR 3,000,000	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
FMC LEASING INGATLANHASZNOSITO KORLATOLT FELELOESSEGUE TARSASAG Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M.B.H.	100.00			Addition as at 10 Dec. 2014
FMZ SAVARIA SZOLGALTATO KORLATOLT FELELOESSEG TARSASAG Issued capital HUF 3,000,000	BUDAPEST	UNICREDIT LEASING KFT	75.00			Addition as at 10 Dec. 2014
FMZ SIGMA PROJEKTENTWICKLUNGS GMBH Issued capital EUR 35,000	VIENNA	UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	100.00			Addition as at 10 Dec. 2014
FOLIA LEASING GESELLSCHAFT M.B.H. Issued capital EUR 1,981,769	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	100.00			Addition as at 10 Dec. 2014

\*) Voting rights are disclosed only if different from the percentage of holding.

## A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	HELD BY	OWNERSHIP RELATIONSHIP			
			2014		2013	
			HOLDING %	VOTING RIGHTS %*)	HOLDING %	VOTING RIGHTS %
FUGATO LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,336	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	100.00			Addition as at 10 Dec. 2014
G. N. E. GLOBAL GRUNDSTUECKSVERTWERTUNG GESELLSCHAFT M. B. H. Issued capital EUR 36,337	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
GALA GRUNDSTUECKVERWALTUNG GESELLSCHAFT M. B. H. Issued capital EUR 21,872,755	VIENNA	CALG IMMOBILIEN LEASING GMBH	100.00			Addition as at 10 Dec. 2014
GARAGE AM HOF GESELLSCHAFT M. B. H. Issued capital EUR 220,000	VIENNA	IMMOBILIEN HOLDING GMBH SCHOELLERBANK AKTIENGESELLSCHAFT	90.60 2.00			Addition as at 18 Sep. 2014
GBS GRUNDSTUECKSVERTWALTUNGS- GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	CALG ANLAGEN LEASING GMBH	100.00			Addition as at 10 Dec. 2014
GEBAEUDELEASING GRUNDSTUECKSVERTWALTUNGS- GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH UNICREDIT LEASING (AUSTRIA) GMBH	99.00 1.00			Addition as at 10 Dec. 2014
GEMEINDELEASING GRUNDSTUECKVERWALTUNG GESELLSCHAFT M. B. H. Issued capital EUR 18,333	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH CALG IMMOBILIEN LEASING GMBH UNICREDIT LEASING (AUSTRIA) GMBH	37.50 37.50 25.00			Addition as at 10 Dec. 2014
GENERAL LOGISTIC SOLUTIONS LLC Issued capital RUB 142,309,444	MOSCOW	UCTAM RU LIMITED LIABILITY COMPANY	100.00			100.00
GRUNDSTUECKSVERTWALTUNG LINZ-MITTE GMBH Issued capital EUR 35,000	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00			Addition as at 10 Dec. 2014
GUS CONSULTING GMBH IN LIQUIDATION Issued capital EUR 30,000,000	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00			100.00
HBF PROJEKTENTWICKLUNG ZWEI GMBH & CO KG Issued capital EUR 1,000	VIENNA	B A I BAUTRAGER AUSTRIA IMMOBILIEN GMBH EUROGATE BETEILIGUNGSVERWALTUNG GMBH	95.00 5.00	0.00 100.00		Addition as at 18 Sep. 2014
HBF PROJEKTENTWICKLUNG DREI GMBH & CO KG Issued capital EUR 1,000	VIENNA	B A I BAUTRAGER AUSTRIA IMMOBILIEN GMBH EUROGATE BETEILIGUNGSVERWALTUNG GMBH	95.00 5.00	0.00 100.00		Addition as at 18 Sep. 2014
HBF PROJEKTENTWICKLUNG EINS GMBH & CO KG Issued capital EUR 1,000	VIENNA	B A I BAUTRAGER AUSTRIA IMMOBILIEN GMBH EUROGATE BETEILIGUNGSVERWALTUNG GMBH	95.00 5.00	0.00 100.00		Addition as at 18 Sep. 2014
HERKU LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH UNICREDIT LEASING (AUSTRIA) GMBH	75.00 25.00			Addition as at 10 Dec. 2014
HONEU LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,336	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH UNICREDIT LEASING (AUSTRIA) GMBH	75.00 25.00			Addition as at 10 Dec. 2014
HUMAN RESOURCES SERVICE AND DEVELOPMENT GMBH Issued capital EUR 18,168	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00			100.00
HVB AUTO LEASING EOOD Issued capital BGN 8,073,320	SOFIA	HVB LEASING EOOD	100.00			100.00
HVB LEASING CZECH REPUBLIC S. R. O. Issued capital CZK 49,632,000	PRAGUE	UNICREDIT LEASING CZ, A. S.	100.00			Addition as at 14 March 2014
HVB LEASING EOOD Issued capital BGN 9,353,510	SOFIA	UNICREDIT BULBANK AD	100.00			100.00
HVB-LEASING AIDA INGATLANHASZNOSITO KORLATOLT FELELOESSEGUE TARSASAG Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00			Addition as at 10 Dec. 2014

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## A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	HELD BY	OWNERSHIP RELATIONSHIP			
			2014		2013	
			HOLDING %	VOTING RIGHTS % <sup>*)</sup>	HOLDING %	VOTING RIGHTS %
HVB-LEASING ATLANTIS INGATLANHASZNOSITO KORLATOLT FELELOESSEGUE TARSASAG Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
HVB-LEASING FIDELIO INGATLANHASZNOSITO KORLATOLT FELELOESSEGUE TARSASAG Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
HVB-LEASING FORTE INGATLANHASZNOSITO KORLATOLT FELELOESSEGUE TARSASAG Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
HVB-LEASING GARO INGATLANHASZNOSITO KORLATOLT FELELOESSEGUE TARSASAG Issued capital HUF 3,100,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
HVB-LEASING HAMLET INGATLANHASZNOSITO KORLATOLT FELELOESSEGUE TARSASAG Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
HVB-LEASING JUPITER INGATLANHASZNOSITO KORLATOLT FELELOESSEGUE TARSASAG Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
HVB-LEASING MAESTOSO INGATLANHASZNOSITO KFT. Issued capital HUF 3,100,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
HVB-LEASING NANO INGATLANHASZNOSITO KORLATOLT FELELOESSEGUE TARSASAG Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
HVB-LEASING ROCCA INGATLANHASZNOSITO KORLATOLT FELELOESSEGUE TARSASAG Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
HVB-LEASING RUBIN KFT. Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
HVB-LEASING SMARAGD KFT. Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
HVB-LEASING SPORT INGATLANHASZNOSITO KORLATOLT FELELOEOASSEGUE TARSASAG Issued capital HUF 3,100,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
HYPovereins IMMOBILIEN EOOD Issued capital BGN 100,000	SOFIA	UNICREDIT BULBANK AD	100.00		100.00	
IMMOBILIEN HOLDING GMBH Issued capital EUR 36,336	VIENNA	ZETA FUENF HANDELS GMBH	100.00		Addition as at 18 Sep. 2014	
IMMOBILIEN RATING GMBH Issued capital EUR 50,000	VIENNA	BANK AUSTRIA REAL INVEST IMMOBILIEN- MANAGEMENT GMBH	61.00		61.00	
		UNICREDIT BANK AUSTRIA AG	19.00		19.00	
		UNICREDIT LEASING (AUSTRIA) GMBH	19.00		19.00	
IMMOBILIENLEASING GRUNDSTUECKSVERWALTUNGS- GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	ARNO GRUNDSTUECKSVERWALTUNGS GESELLSCHAFT M. B. H.	75.00		Addition as at 10 Dec. 2014	
		UNICREDIT LEASING (AUSTRIA) GMBH	25.00			
IMU IMMOBILIENENTWICKLUNG MUTHGASSE GMBH & CO KG Issued capital EUR 2,500	VIENNA	B A I BAUTRAGER AUSTRIA IMMOBILIEN GMBH	60.00		Addition as at 18 Sep. 2014	
INPROX CHOMUTOV, S. R. O. Issued capital CZK 100,000	PRAGUE	UNICREDIT LEASING CZ, A. S.	100.00		Addition as at 14 March 2014	
INPROX Kladno, S. R. O. Issued capital CZK 100,000	PRAGUE	UNICREDIT LEASING CZ, A. S.	100.00		Addition as at 14 March 2014	
INPROX POPRAD, SPOL. S. R. O. Issued capital EUR 6,639	BRATISLAVA	UNICREDIT LEASING SLOVAKIA A. S.	100.00		Addition as at 14 March 2014	
INPROX SR I., SPOL. S. R. O. Issued capital EUR 6,639	BRATISLAVA	UNICREDIT LEASING SLOVAKIA A. S.	100.00		Addition as at 14 March 2014	

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## A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	HELD BY	OWNERSHIP RELATIONSHIP			
			2014		2013	
			HOLDING %	VOTING RIGHTS % <sup>*)</sup>	HOLDING %	VOTING RIGHTS %
INTRO LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,336	VIENNA	PROJEKT-LEASE GRUNDSTUECKSVERWALTUNGS- GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
INV TOTALUNTERNEHMER GMBH Issued capital EUR 35,000	VIENNA	EUROGATE PROJEKTENTWICKLUNG GMBH	100.00		Addition as at 18 Sep. 2014	
ISB UNIVERSALE BAU GMBH Issued capital EUR 6,288,890	BRANDENBURG	UNIVERSALE INTERNATIONAL REALITAETEN GMBH	100.00		100.00	
ISTRA D. M. C. DOO Issued capital HRK 0	UMAG	ISTRATURIST UMAG, HOTELIJERSTVO TURIZAM I TURISTICKA AGENCIJA DD	Sold on 28 Nov. 2014		100.00	
ISTRATURIST UMAG, HOTELIJERSTVO TURIZAM I TURISTICKA AGENCIJA DD Issued capital HRK 0	UMAG	ZAGREBACKA BANKA D. D.	Sold on 27 Nov. 2014		93.04	
IVONA BETEILIGUNGSVERWALTUNG GMBH Issued capital EUR 18,168	VIENNA	BA IMMO GEWINNSCHEIN FONDS1	100.00		100.00	
JAUSERN-LEASING GESELLSCHAFT M. B. H. Issued capital EUR 2,802,537	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
JOHA GEBAEUDE- ERRICHTUNGS- UND VERMIETUNGS- GESELLSCHAFT M. B. H. Issued capital EUR 37,000	LEONDING	UNO-EINKAUFSZENTRUM- VERWALTUNGSGESELLSCHAFT M. B. H.	99.03		99.03	
KAISERWASSER BAU- UND ERRICHTUNGS GMBH UND CO OG Issued capital EUR 36,336	VIENNA	UNICREDIT BANK AUSTRIA AG	99.80	0.00	99.80	0.00
KLEA TERRAIN- UND BAU-GESELLSCHAFT M. B. H. Issued capital EUR 3,650,000	VIENNA	IMMOBILIEN HOLDING GMBH	100.00		Addition as at 18 Sep. 2014	
KLEA WOHNBAU GESELLSCHAFT GMBH Issued capital EUR 35,000	VIENNA	KLEA TERRAIN- UND BAU-GESELLSCHAFT M. B. H.	100.00		Addition as at 18 Sep. 2014	
KLEA ZS-IMMOBILIENVERMIETUNG G. M. B. H. Issued capital EUR 36,336	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
KLEA ZS-LIEGENSCHAFTSVERMIETUNG G. M. B. H. Issued capital EUR 36,336	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
KSG KARTEN-VERRECHNUNGS- UND SERVICEGESELLSCHAFT M. B. H. Issued capital EUR 44,000	VIENNA	CARD COMPLETE SERVICE BANK AG	100.00		100.00	
KUNSTHAUS LEASING GMBH Issued capital EUR 36,500	VIENNA	KUTRA GRUNDSTUECKSVERWALTUNGS- GESELLSCHAFT M. B. H.	5.00		Addition as at 10 Dec. 2014	
KUR- UND SPORHOTEL GESELLSCHAFT M. B. H. Issued capital EUR 3,650,000	KITZBUHEL	KLEA TERRAIN- UND BAU- GESELLSCHAFT M. B. H.	100.00		Addition as at 18 Sep. 2014	
KUTRA GRUNDSTUECKSVERWALTUNGS- GESELLSCHAFT M. B. H. Issued capital EUR 36,337	VIENNA	CALG DELTA GRUNDSTUECKVERWALTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
LAGERMAX LEASING GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
LAGEV IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
LARGO LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH VAPE COMMUNA LEASINGGESELLSCHAFT M. B. H.	1.00 99.00		Addition as at 10 Dec. 2014	
LASSALLESTRASSE BAU-, PLANUNGS-, ERRICHTUNGS- UND VERWERTUNGSGESELLSCHAFT M. B. H. Issued capital EUR 36,336	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
LBC UNTERNEHMENS BETEILIGUNGSGES. M. B. H. Issued capital EUR 37,000	VIENNA	IMMOBILIEN HOLDING GMBH	100.00		Addition as at 18 Sep. 2014	
LEASFINANZ BANK GMBH Issued capital EUR 5,136,500	VIENNA	BACA LEASING UND BETEILIGUNGSMANAGEMENT GMBH	100.00		Addition as at 10 Dec. 2014	

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## A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	HELD BY	OWNERSHIP RELATIONSHIP			
			2014		2013	
			HOLDING %	VOTING RIGHTS %*)	HOLDING %	VOTING RIGHTS %
LEASFINANZ GMBH Issued capital EUR 672,053	VIENNA	BACA LEASING UND BETEILIGUNGSMANAGEMENT GMBH	100.00		Addition as at 10 Dec. 2014	
LEGATO LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	75.00		Addition as at 10 Dec. 2014	
		UNICREDIT LEASING (AUSTRIA) GMBH	25.00			
LELEV IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	GALA GRUNDSTUECKVERWALTUNG GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
LINDENGASSE BUROHAUSGESELLSCHAFT M. B. H. Issued capital EUR 37,000	VIENNA	BA-CA MARKETS & INVESTMENT BETEILIGUNG GES. M. B. H.	0.20		Addition as at 18 Sep. 2014	
		KLEA TERRAIN- UND BAU- GESELLSCHAFT M. B. H.	99.80			
LINO HOTEL-LEASING GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
LIPARK LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	75.00		Addition as at 10 Dec. 2014	
		UNICREDIT LEASING (AUSTRIA) GMBH	25.00			
LIVA IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 38,731	VIENNA	UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
LLC BDK CONSULTING LLC Issued capital UAH 0	LUTSK	PUBLIC JOINT STOCK COMPANY UKRSOTSBANK	100.00		100.00	
LLC UKROTSBUD Issued capital UAH 31,000	KIEV	PUBLIC JOINT STOCK COMPANY UKRSOTSBANK	99.00		99.00	
LTD SI&C AMC UKRSOTS REAL ESTATE Issued capital UAH 7,000,000	KIEV	PUBLIC JOINT STOCK COMPANY UKRSOTSBANK	99.99		99.99	
M. A. V. 7., BANK AUSTRIA LEASING BAUTRAEGER GMBH & CO. OG. Issued capital EUR 3,707	VIENNA	UNICREDIT LUNA LEASING GMBH	100.00		Addition as at 10 Dec. 2014	
M. A. I. L. BETEILIGUNGSMANAGEMENT GESELLSCHAFT M. B. H. & CO. MCL THETA KG Issued capital EUR 0	VIENNA	TREUCONSULT BETEILIGUNGSGESELLSCHAFT M. B. H.	100.00	0.00	100.00	0.00
M. A. I. L. FINANZBERATUNG GESELLSCHAFT M. B. H. Issued capital EUR 254,355	VIENNA	BANK AUSTRIA REAL INVEST IMMOBILIEN- MANAGEMENT GMBH	Merger as at 12 June 2014		99.95	
		TREUCONSULT BETEILIGUNGSGESELLSCHAFT M. B. H.			0.05	
MARTIANEZ COMERCIAL, SOCIEDAD ANONIMA Issued capital EUR 0	PUERTO DE LA CRUZ	BF NINE HOLDING GMBH	99.96		Addition as at 10 Dec. 2014	
MBC IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
MC MARKETING GMBH IN LIQUIDATION Issued capital EUR 300,000	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
MC RETAIL GMBH IN LIQUIDATION Issued capital EUR 35,000	VIENNA	MC MARKETING GMBH	100.00		100.00	
MENUETT GRUNDSTUECKSVERWALTUNGS- GESELLSCHAFT M. B. H. Issued capital EUR 36,337	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
MEZZANIN FINANZIERUNGS AG Issued capital EUR 30,000,000	VIENNA	UNICREDIT BANK AUSTRIA AG	Sold on 19 Feb. 2014		56.67	
MIK 2012 KARLATOLT FELELOESSEGUE TARSASAG Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
MM OMEGA PROJEKTENTWICKLUNGS GMBH Issued capital EUR 35,000	VIENNA	UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
MOEGRA LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	75.00		Addition as at 10 Dec. 2014	
		UNICREDIT LEASING (AUSTRIA) GMBH	25.00			

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## A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	HELD BY	OWNERSHIP RELATIONSHIP			
			2014		2013	
			HOLDING %	VOTING RIGHTS % <sup>*)</sup>	HOLDING %	VOTING RIGHTS %
MY BETEILIGUNGS GMBH Issued capital EUR 17,500	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
NAGE LOKALVERMIETUNGSGESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
NATA IMMOBILIEN-LEASING GESELLSCHAFT M. B. H. Issued capital EUR 18,200	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	51.50		Addition as at 10 Dec. 2014	
		UNICREDIT LEASING (AUSTRIA) GMBH	6.00			
NOE HYPO LEASING ASTRICTA GRUNDSTUECKVERMIETUNGS GESELLSCHAFT M. B. H. Issued capital EUR 36,337	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	95.00		Addition as at 10 Dec. 2014	
NORDBAHNHOF BAUFELD 39 PROJEKTENTWICKLUNG GMBH & CO KG Issued capital EUR 1,000	VIENNA	BA-CA MARKETS & INVESTMENT BETEILIGUNG GES. M. B. H.	7.00		Addition as at 18 Sep. 2014	
		UNICREDIT BANK AUSTRIA AG	93.00			
NORDBAHNHOF BAUFELD ACHT PROJEKTENTWICKLUNG GMBH Issued capital EUR 35,000	VIENNA	NORDBAHNHOF PROJEKTE HOLDING GMBH	100.00		100.00	
NORDBAHNHOF BAUFELD FUENF PROJEKTENTWICKLUNG GMBH Issued capital EUR 35,000	VIENNA	NORDBAHNHOF PROJEKTE HOLDING GMBH	100.00		100.00	
NORDBAHNHOF BAUFELD SECHS PROJEKTENTWICKLUNG GMBH & CO KG Issued capital EUR 1,000	VIENNA	BA-CA MARKETS & INVESTMENT BETEILIGUNG GES. M. B. H.	7.00		Addition as at 18 Sep. 2014	
		UNICREDIT BANK AUSTRIA AG	93.00			
NORDBAHNHOF BAUFELD SIEBEN PROJEKTENTWICKLUNG GMBH Issued capital EUR 35,000	VIENNA	NORDBAHNHOF PROJEKTE HOLDING GMBH	100.00		100.00	
NORDBAHNHOF PROJEKTE HOLDING GMBH Issued capital EUR 35,000	VIENNA	BA-CA MARKETS & INVESTMENT BETEILIGUNG GES. M. B. H.	7.00		93.00	
		UNICREDIT BANK AUSTRIA AG	93.00			
OCT Z IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
OLG HANDELS- UND BETEILIGUNGSVERWALTUNGS- GESELLSCHAFT M. B. H. Issued capital EUR 36,336	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	100.00		Addition as at 10 Dec. 2014	
OOO UNICREDIT LEASING Issued capital RUR 149,160,248	MOSCOW	AO UNICREDIT BANK	100.00		Addition as at 10 Dec. 2014	
PALAIS ROTHSCHILD VERMIETUNGS GMBH & CO OG Issued capital EUR 2,180,185	VIENNA	SCHOELLERBANK AKTIENGESELLSCHAFT	100.00		100.00	
PARZHOF-ERRICHTUNGS- UND VERWERTUNGSGESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	99.80		Addition as at 10 Dec. 2014	
		UNICREDIT LEASING (AUSTRIA) GMBH	0.20			
PELOPS LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,337	VIENNA	EUROLEASE RAMSES IMMOBILIEN LEASING GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
PESTSZENTIMREI SZAKORVOSI RENDELŐE KFT. Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
PIANA LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
PIRTA VERWALTUNGS GMBH Issued capital EUR 2,067,138	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
POLLUX IMMOBILIEN GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
POMINVEST DD Issued capital HRK 17,434,000	SPLIT	ZAGREBACKA BANKA D. D.	88.66	88.95	88.66	88.95

\*) Voting rights are disclosed only if different from the percentage of holding.

## A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	HELD BY	OWNERSHIP RELATIONSHIP			
			2014		2013	
			HOLDING %	VOTING RIGHTS % *)	HOLDING %	VOTING RIGHTS %
POSATO LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	75.00		Addition as at 10 Dec. 2014	
		UNICREDIT LEASING (AUSTRIA) GMBH	25.00			
PRELUDE GRUNDSTUECKSV ERWALTUNGS- GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	99.00		Addition as at 10 Dec. 2014	
		UNICREDIT LEASING (AUSTRIA) GMBH	1.00			
PRIVATE JOINT STOCK COMPANY FERROTRADE INTERNATIONAL Issued capital UAH 877,000,000	KIEV	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
PRO WOHNBAU AG Issued capital EUR 23,621,113	VIENNA	IMMOBILIEN HOLDING GMBH	99.69		Addition as at 18 Sep. 2014	
		KLEA TERRAIN- UND BAU- GESELLSCHAFT M. B. H.	0.31			
PROJEKT-LEASE GRUNDSTUECKSV ERWALTUNGS- GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	ARNO GRUNDSTUECKSV ERWALTUNGS GESELLSCHAFT M. B. H.	75.00		Addition as at 10 Dec. 2014	
		UNICREDIT LEASING (AUSTRIA) GMBH	25.00			
PRVA STAMBENA STEDIONICA DD ZAGREB Issued capital HRK 80,000,000	ZAGREB	ZAGREBACKA BANKA D. D.	100.00		100.00	
PUBLIC JOINT STOCK COMPANY UKRSOTSBANK Issued capital UAH 2,594,671,442	KIEV	PRIVATE JOINT STOCK COMPANY FERROTRADE INTERNATIONAL	35.58		35.58	
		UNICREDIT BANK AUSTRIA AG	37.33		36.88	
QUADEC Z IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
QUART Z IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	CALG ANLAGEN LEASING GMBH	100.00		Addition as at 10 Dec. 2014	
QUINT Z IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
RAMSES IMMOBILIEN GESELLSCHAFT M. B. H. & CO OG Issued capital EUR 36,500	VIENNA	RAMSES-IMMOBILIENHOLDING GMBH	0.20		0.20	
		UNICREDIT BANK AUSTRIA AG	99.30		99.30	
RANA-LIEGENSCHAFTSV ERWERTUNG GMBH Issued capital EUR 72,700	VIENNA	UNIVERSALE INTERNATIONAL REALITAETEN GMBH	99.90		99.90	
REAL INVEST EUROPE D BA RI KAG Issued capital EUR 0	AUSTRIA	UNICREDIT BANK AUSTRIA AG	75.64		Addition as at 01 Jan. 2014	
REAL INVEST IMMOBILIEN GMBH Issued capital EUR 36,400	VIENNA	TREUCONSULT BETEILIGUNGSGESELLSCHAFT M. B. H.	99.00		100.00	
REAL-LEASE GRUNDSTUECKSV ERWALTUNGS- GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
REAL-RENT LEASING GESELLSCHAFT M. B. H. Issued capital EUR 73,000	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
REGEV REALITAETENVERWERTUNGS- GESELLSCHAFT M. B. H. Issued capital EUR 726,728	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
RIGEL IMMOBILIEN GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
RONDO LEASING GMBH Issued capital EUR 36,336	VIENNA	WOEM GRUNDSTUECKSV ERWALTUNGS- GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
RSB ANLAGENVERMIETUNG GESELLSCHAFT M. B. H. Issued capital EUR 36,337	VIENNA	CALG IMMOBILIEN LEASING GMBH	100.00		Addition as at 10 Dec. 2014	
RVT BAUTRAEGER GESELLSCHAFT M. B. H. Issued capital EUR 37,000	VIENNA	LBC UNTERNEHMENSBETEILIGUNGSGES. M. B. H.	100.00		Addition as at 18 Sep. 2014	

\*) Voting rights are disclosed only if different from the percentage of holding.

## A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	HELD BY	OWNERSHIP RELATIONSHIP			
			2014		2013	
			HOLDING %	VOTING RIGHTS %*)	HOLDING %	VOTING RIGHTS %
SAS-REAL INGATLANUEZEMELTETO ES KEZELOE KFT. (ENGLISH: SAS-REAL KFT) Issued capital HUF 750,000,000	BUDAPEST	UNICREDIT BANK HUNGARY ZRT.	100.00		100.00	
SCHOELLERBANK AKTIENGESELLSCHAFT Issued capital EUR 20,000,000	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
SCHOELLERBANK INVEST AG Issued capital EUR 2,543,549	SALZBURG	SCHOELLERBANK AKTIENGESELLSCHAFT	100.00		100.00	
SCHOTTENGASSE 6–8 IMMOBILIEN GMBH Issued capital EUR 10,000	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
SCHOTTENGASSE 6–8 IMMOBILIEN GMBH UND CO OG Issued capital EUR 0	VIENNA	UNICREDIT BANK AUSTRIA AG		Sold on 19 Feb. 2014	100.00	
SECA-LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	CALG DELTA GRUNDSTUECKVERWALTUNG GMBH	75.00			Addition as at 10 Dec. 2014
		UNICREDIT LEASING (AUSTRIA) GMBH	25.00			
SEDEC Z IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	100.00			Addition as at 10 Dec. 2014
SEXT Z IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	CALG DELTA GRUNDSTUECKVERWALTUNG GMBH	100.00			Addition as at 10 Dec. 2014
SIA UNICREDIT INSURANCE BROKER Issued capital EUR 15,082	RIGA	SIA UNICREDIT LEASING	100.00		100.00	
SIA UNICREDIT LEASING Issued capital EUR 15,569,120	RIGA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
SIGMA LEASING GMBH Issued capital EUR 18,286	VIENNA	CALG ANLAGEN LEASING GMBH	99.60			Addition as at 10 Dec. 2014
		UNICREDIT LEASING (AUSTRIA) GMBH	0.40			
SIRIUS IMMOBILIEN GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT BANK AUSTRIA AG	99.80		99.80	
SONATA LEASING-GESELLSCHAFT M. B. H. Issued capital EUR 36,336	VIENNA	ARNO GRUNDSTUECKSVERWALTUNGS GESELLSCHAFT M. B. H.	1.00	1.00		Addition as at 10 Dec. 2014
		UNICREDIT LEASING (AUSTRIA) GMBH	99.00			
SPECTRUM GRUNDSTUECKSVERWALTUNGS- GESELLSCHAFT M. B. H. Issued capital EUR 36,336	VIENNA	WOEM GRUNDSTUECKSVERWALTUNGS- GESELLSCHAFT M. B. H.	100.00			Addition as at 10 Dec. 2014
STEW E GRUNDSTUECKSVERWALTUNGS- GESELLSCHAFT M. B. H. Issued capital EUR 36,337	VIENNA	PROJEKT-LEASE GRUNDSTUECKSVERWALTUNGS- GESELLSCHAFT M. B. H.	24.00			Addition as at 10 Dec. 2014
		UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	76.00			
SUVREMENE POSLOVNE KOMUNIKACIJE D. O. O. Issued capital HRK 1,110,000	ZAGREB	ZAGREBACKA BANKA D. D.	100.00		100.00	
SVIF UKRSOTSBUD Issued capital UAH 0	KIEV	PUBLIC JOINT STOCK COMPANY UKRSOTSBANK	100.00		100.00	
TERZ Z IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	100.00			Addition as at 10 Dec. 2014
TREDEC Z IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	100.00			Addition as at 10 Dec. 2014
TREUCONSULT BETEILIGUNGSGESELLSCHAFT M. B. H. Issued capital EUR 365,000	VIENNA	BANK AUSTRIA REAL INVEST IMMOBILIEN- MANAGEMENT GMBH	100.00		100.00	
UCL NEKRETNINE D. O. O. Issued capital BAM 10,000	SARAJEVO	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	30.00			Addition as at 10 Dec. 2014
		UNICREDIT LEASING (AUSTRIA) GMBH	70.00			

\*) Voting rights are disclosed only if different from the percentage of holding.

## A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	HELD BY	OWNERSHIP RELATIONSHIP			
			2014		2013	
			HOLDING %	VOTING RIGHTS % <sup>*)</sup>	HOLDING %	VOTING RIGHTS %
UCTAM BALTICS SIA Issued capital EUR 4,265,585	RIGA	UNICREDIT TURN-AROUND MANAGEMENT CEE GMBH	100.00		100.00	
UCTAM BULGARIA EOOD Issued capital BGN 20,000	SOFIA	UNICREDIT TURN-AROUND MANAGEMENT CEE GMBH	100.00		100.00	
UCTAM CZECH REPUBLIC SRO Issued capital CZK 45,500,000	PRAGUE	UNICREDIT TURN-AROUND MANAGEMENT CEE GMBH	99.96		99.96	
		UNICREDIT TURN-AROUND MANAGEMENT GMBH	0.04		0.04	
UCTAM D. O. O. BEOGRAD Issued capital RSD 564,070,470	BELGRADE	UNICREDIT TURN-AROUND MANAGEMENT CEE GMBH	100.00		100.00	
UCTAM HUNGARY KFT Issued capital HUF 10,100,000	BUDAPEST	EUROPA BEFEKTETESI ALAPKEZELOE ZRT (EUROPA INVESTMENT FUND MANAGEMENT LTD.)	0.33	1.00	Established on 4 March 2014	
		UNICREDIT TURN-AROUND MANAGEMENT CEE GMBH	99.67	99.00		
UCTAM RK LIMITED LIABILITY COMPANY Issued capital KZT 5,000,000	ALMATY CITY	UNICREDIT TURN-AROUND MANAGEMENT CEE GMBH	Wound up as at 6 March 2014		100.00	
UCTAM RO S. R. L. Issued capital RON 17,806,000	BUCHAREST	UNICREDIT TURN-AROUND MANAGEMENT CEE GMBH	100.00		100.00	
UCTAM RU LIMITED LIABILITY COMPANY Issued capital RUB 4,000,000	MOSCOW	AO UNICREDIT BANK	...		100.00	
		UNICREDIT TURN-AROUND MANAGEMENT CEE GMBH	100.00		...	
UCTAM UKRAINE LLC Issued capital UAH 1,013,324	KIEV	UNICREDIT TURN-AROUND MANAGEMENT CEE GMBH	99.99		99.99	
UCTAM UPRAVLJANJE D. O. O. Issued capital EUR 7,500	LJUBLJANA	UNICREDIT TURN-AROUND MANAGEMENT CEE GMBH	100.00		100.00	
UFFICIUM IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,337	VIENNA	KUTRA GRUNDSTUECKSVERWALTUNGS- GESELLSCHAFT M. B. H.	5.00		Addition as at 10 Dec. 2014	
		UNICREDIT LEASING (AUSTRIA) GMBH	95.00			
UNICOM IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
UNICREDIT AURORA LEASING GMBH Issued capital EUR 219,000	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
UNICREDIT AUTO LEASING E. O. O. D. Issued capital BGN 2,205,830	SOFIA	UNICREDIT LEASING EAD	100.00		100.00	
UNICREDIT BANK A. D. BANJA LUKA Issued capital BAM 97,055,000	BANJA LUKA	UNICREDIT BANK AUSTRIA AG	98.39		98.37	
UNICREDIT BANK AUSTRIA AG Issued capital EUR 1,681,033,521	VIENNA	UNICREDIT SPA	100.00		100.00	
UNICREDIT BANK CZECH REPUBLIC AND SLOVAKIA, A. S. Issued capital CZK 8,754,617,898	PRAGUE	UNICREDIT BANK AUSTRIA AG	99.94		99.94	
UNICREDIT BANK D. D. Issued capital BAM 119,195,000	MOSTAR	UNICREDIT BANK AUSTRIA AG	30.14	24.40	30.14	24.40
		ZAGREBACKA BANKA D. D.	65.63	65.69	65.63	65.69
UNICREDIT BANK HUNGARY ZRT. Issued capital HUF 24,118,220,000	BUDAPEST	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
UNICREDIT BANK SERBIA JSC Issued capital RSD 23,607,620,000	BELGRADE	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
UNICREDIT BANKA SLOVENIJA D. D. Issued capital EUR 20,383,765	LJUBLJANA	UNICREDIT BANK AUSTRIA AG	99.99		99.99	
UNICREDIT BROKER DOO SARAJEVO ZA BROKERSKE POSLOVE U OSIGURANJU Issued capital BAM 7,823	SARAJEVO	UNICREDIT GLOBAL LEASING VERSICHERUNGSSERVICE GMBH	100.00		Addition as at 23 Oct. 2014	
UNICREDIT BROKER S. R. O. Issued capital EUR 8,266	BRATISLAVA	UNICREDIT LEASING SLOVAKIA A. S.	100.00		Addition as at 14 March 2014	
UNICREDIT BULBANK AD Issued capital BGN 285,776,674	SOFIA	UNICREDIT BANK AUSTRIA AG	99.45		99.45	

<sup>\*)</sup> Voting rights are disclosed only if different from the percentage of holding.

<sup>1)</sup> For consolidation purposes, the calculation of non-controlling interests in UniCredit Bank D. D., Mostar, is based on the economic equity interest of 95.77% taking into account interlinked put/call options.

## A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	HELD BY	OWNERSHIP RELATIONSHIP			
			2014		2013	
			HOLDING %	VOTING RIGHTS % <sup>*)</sup>	HOLDING %	VOTING RIGHTS %
UNICREDIT CAIB POLAND S. A. Issued capital PLN 225,141,851	WARSAW	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
UNICREDIT CAIB ROMANIA SRL (IN LIQUIDAZIONE) Issued capital RON 12,173,666	BUCHAREST	UNICREDIT BANK AUSTRIA AG	Wound up as at 28 May 2014		100.00	
UNICREDIT CAIB SECURITIES ROMANIA SA Issued capital RON 13,490,893	BUCHAREST	BA-CA MARKETS & INVESTMENT BETEILIGUNG GES. M. B. H. UNICREDIT TIRIAC BANK S. A.	Wound up as at 23 April 2014		80.02	19.98
UNICREDIT CENTER AM KAISERWASSER GMBH Issued capital EUR 35,000	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
UNICREDIT CONSUMER FINANCING EAD Issued capital BGN 2,800,000	SOFIA	UNICREDIT BULBANK AD	100.00		100.00	
UNICREDIT CONSUMER FINANCING IFN S. A. Issued capital RON 103,269,200	BUCHAREST	UNICREDIT SPA UNICREDIT TIRIAC BANK S. A.	49.90 50.10		49.90 50.10	
UNICREDIT FACTORING EAD Issued capital BGN 1,000,000	SOFIA	UNICREDIT BULBANK AD	100.00		100.00	
UNICREDIT FLEET MANAGEMENT S. R. O. Issued capital CZK 5,000,000	PRAGUE	UNICREDIT LEASING CZ, A. S.	100.00		Addition as at 14 March 2014	
UNICREDIT FLEET MANAGEMENT S. R. O. Issued capital EUR 6,639	BRATISLAVA	UNICREDIT LEASING SLOVAKIA A. S.	100.00		Addition as at 14 March 2014	
UNICREDIT FUGGETLEN BIZTOSITASKOEZVETITOE SZOLGALTATO KFT. Issued capital HUF 5,000,000	BUDAPEST	UNICREDIT BANK HUNGARY ZRT. UNICREDIT LEASING KFT	25.20 74.80		Addition as at 10 Dec. 2014	
UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH Issued capital EUR 14,383,206	VIENNA	EUROLEASE RAMSES IMMOBILIEN LEASING GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
UNICREDIT GLOBAL LEASING VERSICHERUNGSSERVICE GMBH Issued capital EUR 156,905	VIENNA	DV ALPHA GMBH	100.00		Addition as at 10 Dec. 2014	
UNICREDIT INGATLANLIZING ZRT Issued capital HUF 81,000,000	BUDAPEST	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
UNICREDIT INSURANCE BROKER OOD Issued capital BGN 5,000	SOFIA	UNICREDIT LEASING EAD	100.00		100.00	
UNICREDIT INSURANCE BROKER SRL Issued capital RON 25,000	BUCHAREST	UNICREDIT LEASING CORPORATION IFN S. A.	100.00		Addition as at 28 April 2014	
UNICREDIT JELZALOGBANK ZRT. Issued capital HUF 3,000,000,000	BUDAPEST	UNICREDIT BANK HUNGARY ZRT.	100.00		100.00	
UNICREDIT KFZ LEASING GMBH Issued capital EUR 648,265	VIENNA	GALA GRUNDSTUECKVERWALTUNG GESELLSCHAFT M. B. H.	100.00		100.00	
UNICREDIT LEASING (AUSTRIA) GMBH Issued capital EUR 93,510,420	VIENNA	BA-CA MARKETS & INVESTMENT BETEILIGUNG GES. M. B. H. UNICREDIT BANK AUSTRIA AG	10.00 90.00	89.98	Addition as at 10 Dec. 2014	
UNICREDIT LEASING CORPORATION IFN S. A. Issued capital RON 41,144,990	BUCHAREST	UNICREDIT CONSUMER FINANCING IFN S. A. UNICREDIT TIRIAC BANK S. A.	0.10 99.90		Addition as at 28 April 2014	
UNICREDIT LEASING CZ, A. S. Issued capital CZK 981,452,000	PRAGUE	UNICREDIT BANK CZECH REPUBLIC AND SLOVAKIA, A. S.	100.00		Addition as at 14 March 2014	
UNICREDIT LEASING EAD Issued capital BGN 2,605,000	SOFIA	UNICREDIT BULBANK AD	100.00		100.00	
UNICREDIT LEASING FLEET MANAGEMENT S. R. L. Issued capital RON 680,000	BUCHAREST	DV ALPHA GMBH UNICREDIT LEASING CORPORATION IFN S. A.	90.02 9.98		Addition as at 14 March 2014	
UNICREDIT LEASING FUHRPARKMANAGEMENT GMBH Issued capital EUR 364,000	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
UNICREDIT LEASING HUNGARY ZRT Issued capital HUF 350,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	

\*) Voting rights are disclosed only if different from the percentage of holding.

## A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	HELD BY	OWNERSHIP RELATIONSHIP			
			2014		2013	
			HOLDING %	VOTING RIGHTS % <sup>*)</sup>	HOLDING %	VOTING RIGHTS %
UNICREDIT LEASING IMMOTRUCK ZRT. Issued capital HUF 100,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
UNICREDIT LEASING KFT Issued capital HUF 3,100,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
UNICREDIT LEASING LUNA KFT Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	80.00		Addition as at 10 Dec. 2014	
UNICREDIT LEASING MARS KFT Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	80.00		Addition as at 10 Dec. 2014	
UNICREDIT LEASING REAL ESTATE S. R. O. Issued capital EUR 106,221	BRATISLAVA	UNICREDIT LEASING SLOVAKIA A. S.	100.00		Addition as at 14 March 2014	
UNICREDIT LEASING ROMANIA S. A. Issued capital RON 880,000	BUCHAREST	UNICREDIT TIRIAC BANK S. A.	100.00		Addition as at 28 April 2014	
UNICREDIT LEASING SLOVAKIA A. S. Issued capital EUR 26,560,000	BRATISLAVA	UNICREDIT LEASING CZ, A. S.	100.00		Addition as at 14 March 2014	
UNICREDIT LEASING TECHNIKUM GMBH Issued capital EUR 1,435,000	VIENNA	LEASFINANZ GMBH	100.00		Addition as at 10 Dec. 2014	
UNICREDIT LEASING URANUS KFT Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	80.00		Addition as at 10 Dec. 2014	
UNICREDIT LEASING VERSICHERUNGSSERVICE GMBH & CO KG Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
UNICREDIT LUNA LEASING GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
UNICREDIT MOBILIEN UND KFZ LEASING GMBH Issued capital EUR 36,500	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH UNICREDIT LEASING (AUSTRIA) GMBH	99.00 1.00		Addition as at 10 Dec. 2014	
UNICREDIT PARTNER D. O. O. BEOGRAD Issued capital RSD 2,001,875	BELGRADE	ALLEGRO LEASING GESELLSCHAFT M. B. H.	100.00		Addition as at 23 Oct. 2014	
UNICREDIT PARTNER LLC Issued capital UAH 53,557	KIEV	UNICREDIT GLOBAL LEASING VERSICHERUNGSSERVICE GMBH	100.00		Addition as at 23 Oct. 2014	
UNICREDIT PEGASUS LEASING GMBH Issued capital EUR 36,500	VIENNA	CALG IMMOBILIEN LEASING GMBH UNICREDIT LEASING (AUSTRIA) GMBH	75.00 25.00		Addition as at 10 Dec. 2014	
UNICREDIT POJISTOVACI MAKLERSKA SPOL. S R. O. Issued capital CZK 510,000	PRAGUE	UNICREDIT LEASING CZ, A. S.	100.00		Addition as at 14 March 2014	
UNICREDIT POLARIS LEASING GMBH Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
UNICREDIT RENT D. O. O. BEOGRAD Issued capital RSD 43,500	BELGRADE	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
UNICREDIT TECHRENT LEASING GMBH Issued capital EUR 36,336	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH UNICREDIT LEASING (AUSTRIA) GMBH	99.00 1.00		Addition as at 10 Dec. 2014	
UNICREDIT TIRIAC BANK S. A. Issued capital RON 1,101,604,066	BUCHAREST	ARNO GRUNDSTUECKSERWALTUNGS GESELLSCHAFT M. B. H. BANK AUSTRIA-CEE BETEILIGUNGSGMBH BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH UNICREDIT BANK AUSTRIA AG UNICREDIT LEASING (AUSTRIA) GMBH	0.01 0.01 0.01 95.52 0.01	50.56	0.01 0.01 0.01 95.52 0.01	50.56 <sup>1)</sup>
UNICREDIT TURN-AROUND MANAGEMENT CEE GMBH Issued capital EUR 750,000	VIENNA	UNICREDIT TURN-AROUND MANAGEMENT GMBH	100.00		100.00	
UNICREDIT TURN-AROUND MANAGEMENT GMBH Issued capital EUR 72,673	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	

<sup>\*)</sup> Voting rights are disclosed only if different from the percentage of holding.

<sup>1)</sup> For consolidation purposes, the calculation of non-controlling interests in UniCredit Tiriac Bank S. A., Bucharest, is based on the economic equity interest of 95.52% taking into account interlinked put/call options.

## A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	HELD BY	OWNERSHIP RELATIONSHIP			
			2014		2013	
			HOLDING %	VOTING RIGHTS %*)	HOLDING %	VOTING RIGHTS %
UNICREDIT ZAVAROVALNO ZASTOPINSKA DRUZBA D. O. O. Issued capital EUR 40,000	LJUBLJANA	UNICREDIT GLOBAL LEASING VERSICHERUNGSSERVICE GMBH	100.00		Addition as at 23 Oct. 2014	
UNICREDIT ZEGA LEASING-GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	100.00		Addition as at 10 Dec. 2014	
UNICREDIT-LEASING HOSPES KFT Issued capital HUF 1,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
UNICREDIT-LEASING NEPTUNUS KFT Issued capital HUF 3,010,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	96.35		Addition as at 10 Dec. 2014	
UNICREDIT-LEASING ORION KFT Issued capital HUF 3,000,000	BUDAPEST	AWT HANDELS GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
UNIVERSALE INTERNATIONAL REALITAETEN GMBH Issued capital EUR 32,715,000	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
UNO-EINKAUFSZENTRUM- VERWALTUNGSGESELLSCHAFT M. B. H. Issued capital EUR 37,000	LEONDING	TREUCONSULT BETEILIGUNGSGESELLSCHAFT M. B. H.	100.00		100.00	
VAPE COMMUNA LEASINGGESELLSCHAFT M. B. H. Issued capital EUR 431,630	VIENNA	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	75.00		Addition as at 10 Dec. 2014	
		UNICREDIT LEASING (AUSTRIA) GMBH	25.00			
VECTIGAL IMMOBILIEN GMBH & CO KG Issued capital EUR 2,470,930	VIENNA	KLEA TERRAIN- UND BAU- GESELLSCHAFT M. B. H.	100.00		Addition as at 18 Sep. 2014	
VIENNA DC BAUTRAEGER GMBH Issued capital EUR 18,168	VIENNA	WED WIENER ENTWICKLUNGSGESELLSCHAFT FUER DEN DONAURAUM AKTIENGESELLSCHAFT	100.00		100.00	
VIENNA DC TOWER 1 LIEGENSCHAFTSBESITZ GMBH Issued capital EUR 17,500	VIENNA	WED DONAU-CITY GESELLSCHAFT M. B. H.	100.00		100.00	
VIENNA DC TOWER 2 LIEGENSCHAFTSBESITZ GMBH Issued capital EUR 17,500	VIENNA	WED DONAU-CITY GESELLSCHAFT M. B. H.	100.00		100.00	
WED DONAU-CITY GESELLSCHAFT M. B. H. Issued capital EUR 726,728	VIENNA	WED WIENER ENTWICKLUNGSGESELLSCHAFT FUER DEN DONAURAUM AKTIENGESELLSCHAFT	100.00		100.00	
WED HOLDING GESELLSCHAFT M. B. H. Issued capital EUR 72,673	VIENNA	UNICREDIT BANK AUSTRIA AG	53.83		53.83	
WED WIENER ENTWICKLUNGSGESELLSCHAFT FUER DEN DONAURAUM AKTIENGESELLSCHAFT Issued capital EUR 3,634,368	VIENNA	UNICREDIT BANK AUSTRIA AG	38.00		38.00	
		WED HOLDING GESELLSCHAFT M. B. H.	62.00		62.00	
WIEN MITTE IMMOBILIEN GMBH Issued capital EUR 17,500	VIENNA	B A I BAUTRAGER AUSTRIA IMMOBILIEN GMBH	50.00			
		BA-CA WIEN MITTE HOLDING GMBH	50.00		50.00	
WOEM GRUNDSTUECKSVERWALTUNGSGESELLSCHAFT M. B. H. Issued capital EUR 3,322,141	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
WOHNBAUERRICHTUNGS-UND- VERWERTUNGS-GMBH Issued capital EUR 6,615,700	VIENNA	BA-CA MARKETS & INVESTMENT BETEILIGUNG GES. M. B. H.	0.28		Addition as at 18 Sep. 2014	
		IMMOBILIEN HOLDING GMBH	99.72			
WOHNPAK BRANDENBURG-GORDEN GMBH Issued capital EUR 51,150	BRANDENBURG	IMMOBILIEN HOLDING GMBH	5.18		Addition as at 18 Sep. 2014	
		KLEA TERRAIN- UND BAU- GESELLSCHAFT M. B. H.	94.82			
Z LEASING ALFA IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
Z LEASING ARKTUR IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	

\*) Voting rights are disclosed only if different from the percentage of holding.

## A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	HELD BY	OWNERSHIP RELATIONSHIP			
			2014		2013	
			HOLDING %	VOTING RIGHTS % <sup>*)</sup>	HOLDING %	VOTING RIGHTS %
Z LEASING AURIGA IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
Z LEASING CORVUS IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	BA EUROLEASE BETEILIGUNGSGESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
Z LEASING DORADO IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	CALG GRUNDSTUECKVERWALTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
Z LEASING DRACO IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	GALA GRUNDSTUECKVERWALTUNG GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
Z LEASING GAMA IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
Z LEASING GEMINI IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
Z LEASING HEBE IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	GEBAEUDELEASING GRUNDSTUECKVERWALTUNGS- GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
Z LEASING HERCULES IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
Z LEASING IPIILON IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
Z LEASING ITA IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	GALA GRUNDSTUECKVERWALTUNG GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
Z LEASING JANUS IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	GALA GRUNDSTUECKVERWALTUNG GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
Z LEASING KALLISTO IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 263,958	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
Z LEASING KAPA IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	GALA GRUNDSTUECKVERWALTUNG GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
Z LEASING LYRA IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	GALA GRUNDSTUECKVERWALTUNG GESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
Z LEASING NEREIDE IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
Z LEASING OMEGA IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	CALG DELTA GRUNDSTUECKVERWALTUNG GMBH	100.00		Addition as at 10 Dec. 2014	
Z LEASING PERSEUS IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 16,134,987	VIENNA	BANK AUSTRIA LEASING ARGO IMMOBILIEN LEASING GMBH	100.00		Addition as at 10 Dec. 2014	
Z LEASING SCORPIUS IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
Z LEASING TAURUS IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 73,000	VIENNA	BA EUROLEASE BETEILIGUNGSGESELLSCHAFT M. B. H.	100.00		Addition as at 10 Dec. 2014	
Z LEASING VENUS IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	

\*) Voting rights are disclosed only if different from the percentage of holding.



## A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	HELD BY	OWNERSHIP RELATIONSHIP			
			2014		2013	
			HOLDING %	VOTING RIGHTS % <sup>*)</sup>	HOLDING %	VOTING RIGHTS %
Z LEASING VOLANS IMMOBILIEN LEASING GESELLSCHAFT M. B. H. Issued capital EUR 36,500	VIENNA	UNICREDIT LEASING (AUSTRIA) GMBH	100.00		Addition as at 10 Dec. 2014	
ZABA PARTNER DOO ZA POSREDOVANJE U OSIGURANJU I REOSIGURANJU Issued capital HRK 1,500,000	ZAGREB	ZAGREBACKA BANKA D. D.	100.00		100.00	
ZAGREB NEKRETNINE DOO Issued capital HRK 5,000,000	ZAGREB	ZAGREBACKA BANKA D. D.	100.00		100.00	
ZAGREBACKA BANKA D. D. Issued capital HRK 6,404,839,100	ZAGREB	UNICREDIT BANK AUSTRIA AG	84.48		84.48	
ZANE BH DOO Issued capital BAM 131,529	SARAJEVO	ZAGREB NEKRETNINE DOO	100.00		100.00	
ZAO LOCAT LEASING RUSSIA Issued capital RUR 107,000,000	MOSCOW	OOO UNICREDIT LEASING	100.00		Addition as at 13 Feb. 2014	
ZAPADNI TRGOVACKI CENTAR D. O. O. Issued capital HRK 20,000	RIJEKA	UNIVERSALE INTERNATIONAL REALITAETEN GMBH	100.00		100.00	
ZB INVEST DOO Issued capital HRK 4,000,000	ZAGREB	ZAGREBACKA BANKA D. D.	100.00		100.00	
ZETA FUENF HANDELS GMBH Issued capital EUR 17,500	VIENNA	UNICREDIT BANK AUSTRIA AG	100.00		100.00	
ZM REVITALISIERUNGS-UND VERMIETUNGS-GMBH Issued capital EUR 2,056,561	VIENNA	BA-CA MARKETS & INVESTMENT BETEILIGUNG GES. M. B. H. EKAZENT REALITAETENGESELLSCHAFT M. B. H.	0.04 99.96		Addition as at 18 Sep. 2014	

## Breakdown of non-controlling interests

## Non-controlling interests

(€ million)

	31 DEC. 2014	31 DEC. 2013
ZABA Subgroup	397	403
Public Joint Stock Company "UkrSotsbank"	-280	-134
UniCredit Tiriak Bank S. A.	28	28
card complete Service Bank AG	24	24
UniCredit Consumer Financing IFN S. A.	21	15
UniCredit Bulbank AD	6	6
Bank Austria Real Invest Immobilien-Management GmbH	7	6
WED Holding Gesellschaft m. b. H.	4	4
Cards & Systems EDV-Dienstleistungs GmbH	4	4
WED Wiener Entwicklungsges. für den Donauraum AG	4	5
KSG Karten-Verrechnungs- und Servicegesellschaft m. b. H.	2	2
Other entities	2	20
Other consolidation adjustments	-26	-45
<b>TOTAL</b>	<b>193</b>	<b>340</b>

\*) Voting rights are disclosed only if different from the percentage of holding.

## A – Accounting policies (CONTINUED)

### Investments in subsidiaries with material non-controlling interests, 2014

NAME	TOTAL ASSETS	CASH AND CASH EQUIVALENTS	FINANCIAL ASSETS	PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	FINANCIAL LIABILITIES	SHARE-HOLDERS' EQUITY	SHARE-HOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	NON-CONTROLLING INTERESTS %
Zagrebacka banka d. d. (ZABA Subgroup)	13,408,537	368,856	12,780,776	167,728	11,072,460	2,198,788	341,366	15.53
Public Joint Stock Company "Ukrsotsbank"	2,450,053	–	–	–	–	273,826	–279,601	27.09
UniCredit Bank d. d. (ZABA Subgroup)	2,024,883	151,480	1,824,862	31,080	1,653,926	325,501	46,946	14.42
UniCredit Tiriak Bank S. A.	6,386,667	132,007	6,144,016	74,059	5,625,463	639,493	28,435	4.44
card complete Service Bank AG	584,214	1	547,348	6,824	263,925	47,292	23,599	49.90
UniCredit Consumer Financing IFN S. A.	298,213	–	296,060	894	254,219	40,357	21,037	52.13
UniCredit Bulbank AD	7,585,671	152,802	7,273,222	101,796	6,382,965	1,141,724	6,336	0.55
Prva Stambena Stedionica d. d. Zagreb (ZABA Subgroup)	326,093	–	324,282	62	285,237	36,457	5,660	15.53
Bank Austria Real Invest Immobilien-Management GmbH	113,560	–	84,206	8,403	–	104,851	6,609	5.05
WED Holding Gesellschaft m. b. H.	9,458	–	9,441	–	–	9,270	4,280	46.17
Cards & Systems EDV-Dienstleistungs GmbH	14,375	1	12,054	282	–	9,130	4,062	44.50
WED Wiener Entwicklungsges. für den Donauraum AG	14,306	2	12,220	10	160	13,078	3,744	28.63
KSG Karten-Verrechnungs- und Servicegesellschaft m. b. H.	7,460	–	267	2,973	–	4,068	2,031	49.90
Other entities (ZABA Subgroup)	31,261	12	7,171	22,392	12,960	16,704	2,872	

Consolidation adjustments to non-controlling interests are –€24,269 thousand.

### Investments in subsidiaries with material non-controlling interests, 2013

NAME	TOTAL ASSETS	CASH AND CASH EQUIVALENTS	FINANCIAL ASSETS	PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	FINANCIAL LIABILITIES	SHARE-HOLDERS' EQUITY	SHARE-HOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	NON-CONTROLLING INTERESTS %
Zagrebacka banka d. d. (ZABA Subgroup)	14,012,372	722,808	12,982,207	165,668	11,744,370	2,121,273	329,331	15.53
Public Joint Stock Company "Ukrsotsbank"	3,771,791	–	–	–	–	754,772	–133,938	27.54
UniCredit Bank d. d. (ZABA Subgroup)	1,906,580	181,650	1,673,210	33,074	1,568,791	294,603	42,490	14.42
UniCredit Tiriak Bank S. A.	6,134,640	96,116	5,903,705	74,023	5,392,761	623,923	27,993	4.48
card complete Service Bank AG	571,427	1	521,854	19,869	243,056	48,574	24,238	49.90
UniCredit Consumer Financing IFN S. A.	292,769	–	290,148	714	260,390	28,941	15,092	52.15
UniCredit Bulbank AD	6,475,367	119,535	6,239,068	76,451	5,346,164	1,073,049	5,943	0.55
Prva Stambena Stedionica d. d. Zagreb (ZABA Subgroup)	316,176	–	300,095	63	267,933	30,282	4,702	15.53
Bank Austria Real Invest Immobilien-Management GmbH	136,097	–	93,349	8,801	1,605	126,359	6,381	5.05
WED Holding Gesellschaft m. b. H.	9,461	–	9,438	–	–	9,269	4,279	46.17
Cards & Systems EDV-Dienstleistungs GmbH	15,083	–	11,372	401	–	8,822	3,925	44.50
WED Wiener Entwicklungsges. für den Donauraum AG	19,535	1	12,220	24	280	18,195	5,208	28.63
KSG Karten-Verrechnungs- und Servicegesellschaft m. b. H.	18,280	–	268	2,731	–	3,832	1,912	49.90
Other entities (ZABA Subgroup)	216,188	37	13,422	195,188	75,855	128,700	26,820	

Consolidation adjustments to non-controlling interests are –€24,461 thousand.

## A – Accounting policies (CONTINUED)

(€ thousand)

NET INTEREST MARGIN	OPERATING INCOME	OPERATING COSTS	TOTAL PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	TOTAL PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS	PROFIT (LOSS) AFTER TAX FROM DIS-CONTINUED OPERATIONS	NET PROFIT OR LOSS <sup>(1)</sup>	OCI <sup>(2)</sup>	COMPREHENSIVE INCOME <sup>(3) = (1) + (2)</sup>	TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	DIVIDENDS PAID TO NON-CONTROLLING INTERESTS
329,753	482,965	-221,664	182,367	143,863	-	143,863	1,276	145,139	22,533	9,453
-	2	-2	3	3	-207,222	-207,219	1,477	-205,742	-55,727	-
70,864	105,134	-58,849	35,274	31,395	-	31,395	-499	30,896	4,456	-
154,557	297,264	-155,117	32,554	27,137	-	27,137	4,970	32,107	1,426	-
5,132	70,990	-53,816	15,039	15,039	-	15,039	-	15,039	7,504	8,144
28,763	30,414	-9,297	13,811	11,593	-	11,593	-	11,593	6,043	-
227,684	352,656	-133,279	137,549	123,559	-	123,559	-17,094	106,465	590	203
4,857	7,191	-2,895	4,049	3,232	-	3,232	3,080	6,312	980	-
1,036	13,888	-1,621	7,736	7,800	-	7,800	-	7,800	394	165
-5	-5	7	2	1	-	1	-	1	-	-
33	33	3,362	3,395	2,508	-	2,508	-	2,508	1,116	979
6	6	-145	-139	-5,118	-	-5,118	-	-5,118	-1,465	-
-	-	314	314	236	-	236	-	236	118	-
-271	4,051	-1,556	2,498	1,942	-	1,942	-	1,942	334	455

(€ thousand)

NET INTEREST MARGIN	OPERATING INCOME	OPERATING COSTS	TOTAL PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	TOTAL PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS	PROFIT (LOSS) AFTER TAX FROM DIS-CONTINUED OPERATIONS	NET PROFIT OR LOSS <sup>(1)</sup>	OCI <sup>(2)</sup>	COMPREHENSIVE INCOME <sup>(3) = (1) + (2)</sup>	TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	DIVIDENDS PAID TO NON-CONTROLLING INTERESTS
322,994	490,627	-212,386	91,836	74,127	-	74,127	7,110	81,237	12,612	12,485
-	324	1	390	390	-106,932	-106,542	3,539	-103,003	-28,363	-
71,550	104,649	-61,632	32,214	28,413	-	28,413	-249	28,164	4,062	-
158,971	312,882	-174,857	-26,254	-2,595	-	-2,595	10,817	8,222	368	-
5,108	72,633	-53,241	17,047	17,047	-	17,047	-	17,047	8,506	7,379
22,909	24,183	-8,685	3,300	3,053	-	3,053	-	3,053	1,592	-
213,277	321,633	-127,527	81,955	73,431	-	73,431	2,097	75,528	418	301
3,909	6,069	-2,725	3,136	2,488	-	2,488	-1,258	1,230	191	-
353	18,521	-1,836	8,325	11,415	-	11,415	-	11,415	576	212
-4	-4	6	2	-	-	-	-	-	-	-
27	28	3,527	3,555	2,805	-	2,805	-	2,805	1,248	667
5	5	-167	-162	-164	-	-164	-	-164	-47	-
-	-	40	40	30	-	30	-	30	15	-
-2,268	2,839	9,416	12,276	11,544	-	11,544	-	11,544	2,406	437

## A – Accounting policies (CONTINUED)

## Investments in associates and joint ventures, 2014

NAME	MAIN OFFICE/ OPERATIONAL HQ	NATURE OF RELATION- SHIP	OWNERSHIP RELATIONSHIP 2014			CARRYING AMOUNT € THOUSAND
			HELD BY	FINANCIAL INVEST- MENTS %	VOTES %	
<b>Under joint control</b>						
FIDES LEASING GMBH Issued capital EUR 57,229	VIENNA	2	CALG ANLAGEN LEASING GMBH	50.00		24
KOC FINANSAL HIZMETLER AS GROUP Issued capital TRL 3,093,741,012	ISTANBUL	2	UNICREDIT BANK AUSTRIA AG	50.00		2,932,503 <sup>*)</sup>
MARIAHILFERGUERTEL GRUNDSTUECKSVERMIE- TUNGS-GESELLSCHAFT M. B. H. Issued capital EUR 660,000	VIENNA	5	EKAZENT REALITAETENGESELLSCHAFT M. B. H.	50.00		3,056
MUTHGASSE ALPHA HOLDING GMBH Issued capital EUR 35,000	VIENNA	5	B A I BAUTRAGER AUSTRIA IMMOBILIEN GMBH	52.94	50.00	20
ZS EINKAUFSZENTER ERRICHTUNGS-UND VERMIETUNGS-AKTIENGESELLSCHAFT Issued capital EUR 7,300,000	VIENNA	5	EKAZENT REALITAETENGESELLSCHAFT M. B. H.	50.00		22,128
<b>Under significant influence</b>						
ALLIANZ ZB D. O. O. DRUSTVO ZA UPRAVLJANJE DOBROVOLJNIM MIROVINSKIM FONDOM Issued capital HRK 90,000,000	ZAGREB	2	ZAGREBACKA BANKA D. D.	49.00		9,542
ALLIANZ ZB D. O. O. DRUSTVO ZA UPRAVLJANJE OBVEZNIM MIROVINSKIM FONDOM Issued capital HRK 15,000,000	ZAGREB	2	ZAGREBACKA BANKA D. D.	49.00		1,790
ARWAG HOLDING-AKTIENGESELLSCHAFT Issued capital EUR 3,000,000	VIENNA	5	IMMOBILIEN HOLDING GMBH	34.38		22,604
BANK FUER TIROL UND VORARLBERG AKTIENGESELLSCHAFT Issued capital EUR 50,000,000	INNSBRUCK	1	CABO BETEILIGUNGSGESELLSCHAFT M. B. H. UNICREDIT BANK AUSTRIA AG	37.53 9.85	41.70 4.93	483,734
BARN BV Issued capital EUR 195,020,000	AMSTERDAM	2	UNICREDIT BANK AUSTRIA AG	40.00		43,888
BKS BANK AG Issued capital EUR 72,072,000	KLAGENFURT	1	CABO BETEILIGUNGSGESELLSCHAFT M. B. H. UNICREDIT BANK AUSTRIA AG	25.47 7.29	26.81 6.74	228,979
CASH SERVICE COMPANY AD Issued capital BGN 12,500,000	SOFIA	5	UNICREDIT BULBANK AD	20.00		1,389
CBD INTERNATIONAL SP. ZO. O. Issued capital PLN 100,500	WARSAW	5	ISB UNIVERSALE BAU GMBH	49.75		6,210
GLAMAS BETEILIGUNGSVERWALTUNGS GMBH & CO BETA KG Issued capital EUR 10,000	VIENNA	5	B A I BAUTRAGER AUSTRIA IMMOBILIEN GMBH	30.00		100
HSG ZANDER GMBH Issued capital EUR 363,364	VIENNA	5	IMMOBILIEN HOLDING GMBH	36.00		5,607
LISCIV MUTHGASSE GMBH & CO KG Issued capital EUR 10,000	VIENNA	5	B A I BAUTRAGER AUSTRIA IMMOBILIEN GMBH	30.00		0
MARINA CITY ENTWICKLUNGS GMBH Issued capital EUR 120,000	VIENNA	5	CABET-HOLDING GMBH	25.00		15
MARINA TOWER HOLDING GMBH Issued capital EUR 35,000	VIENNA	5	CABET-HOLDING GMBH	25.00		393
MEGAPARK OOD Issued capital BGN 5,000	SOFIA	5	AWT HANDELS GESELLSCHAFT M. B. H.	43.50		0
MULTIPLUS CARD D. O. O. ZA PROMIDZBU I USLUGE Issued capital HRK 5,000,000	ZAGREB	5	SUVREMENE POSLOVNE KOMUNIKACIJE D. O. O.	25.00		0

\*) Koç Financial Services (KFS, Koç Finansal Hizmetler A.Ş.) is a 50:50 joint venture between Bank Austria Group and the Koç Group. In its consolidated financial statements, Bank Austria Group has accounted for the equity interest in Koç Financial Services Group using the equity method since 1 January 2014.

Koç Financial Services essentially holds about 81.8% of the shares in Yapı Kredi Bankası A.Ş., the remaining 18.2% are publicly traded on the Istanbul Stock Exchange. Measured by the market price on 31 December 2014, the market value of the Bank Austria Group's share in the equity interest in Yapı Kredi Bankası A.Ş. is about €2,991 million (31 December 2013: €2,234 million).

## A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	NATURE OF RELATION- SHIP	OWNERSHIP RELATIONSHIP 2014			CARRYING AMOUNT € THOUSAND
			HELD BY	FINANCIAL INVEST- MENTS %	VOTES %	
NOTARTREUHANDBANK AG Issued capital EUR 8,030,000	VIENNA	1	UNICREDIT BANK AUSTRIA AG	25.00		6,384
OBERBANK AG Issued capital EUR 85,635,000	LINZ	1	CABO BETEILIGUNGSGESELLSCHAFT M. B. H. UNICREDIT BANK AUSTRIA AG	29.15 4.19	32.54 1.65	509,338
OBJEKT- LEASEGRUNDSTUECKSVERWALTUNGS- GESELLSCHAFT M. B. H. Issued capital EUR 107,912	VIENNA	2	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH UNICREDIT LEASING (AUSTRIA) GMBH	49.23 0.77		443
OESTERREICHISCHE HOTEL- UND TOURISMUSBANK GESELLSCHAFT M. B. H. Issued capital EUR 11,628,000	VIENNA	1	UNICREDIT BANK AUSTRIA AG	50.00		13,559
OESTERREICHISCHE KONTROLLBANK AKTIENGESELLSCHAFT Issued capital EUR 130,000,000	VIENNA	1	CABET-HOLDING GMBH SCHOELLERBANK AKTIENGESELLSCHAFT UNICREDIT BANK AUSTRIA AG	24.75 8.26 16.14		362,850
OESTERREICHISCHE WERTPAPIERDATEN SERVICE GMBH Issued capital EUR 36,336	VIENNA	5	UNICREDIT BANK AUSTRIA AG	29.30		18
PALATIN GRUNDSTUECKVERWALTUNGS GESELLSCHAFT M. B. H. Issued capital EUR 36,336	STOCKERAU	2	UNICREDIT LEASING (AUSTRIA) GMBH	50.00		587
PSA PAYMENT SERVICE AUSTRIA GMBH Issued capital EUR 285,000	VIENNA	2	CAFU VERMOEGENSVERWALTUNG GMBH & CO OG UNICREDIT BANK AUSTRIA AG	4.50 19.36	4.50 19.36	5,982
PURGE GRUNDSTUECKSVERWALTUNGS- GESELLSCHAFT M. B. H. Issued capital EUR 36,336	VIENNA	2	BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	50.00		2
RCI FINANCIAL SERVICES S. R. O. Issued capital CZK 70,000,000	PRAGUE	2	UNICREDIT LEASING CZ, A. S.	50.00	49.86	15,683
REMBRA LEASING GESELLSCHAFT M. B. H. Issued capital EUR 886,336	VIENNA	2	UNICREDIT LEASING (AUSTRIA) GMBH	50.00		69
SCHULERRICHTUNGSGESELLSCHAFT M. B. H. Issued capital EUR 36,340	VIENNA	2	UNICREDIT LEASING (AUSTRIA) GMBH	50.00		643
SP PROJEKTENTWICKLUNG SCHOENEFELD GMBH & CO. KG Issued capital EUR 102,258	SCHOENEFELD	5	UNICREDIT BANK AUSTRIA AG	50.00		8,633
UNI GEBAEUEMANAGEMENT GMBH Issued capital EUR 18,168	LINZ	5	BA GVG-HOLDING GMBH	50.00		0
VBV DELTA ANLAGEN VERMIETUNG GESELLSCHAFT M. B. H. Issued capital EUR 36,336	VIENNA	5	IMMOBILIEN HOLDING GMBH	40.00		4,843
WKBG WIENER KREDITBUERGSCHAFTS- UND BETEILIGUNGSBANK AG Issued capital EUR 15,065,745	VIENNA	2	UNICREDIT BANK AUSTRIA AG	22.73		7,819
WWE WOHN- UND WIRTSCHAFTSPARK ENTWICKLUNGSGESELLSCHAFT M. B. H. Issued capital EUR 36,336	VIENNA	5	IMMOBILIEN HOLDING GMBH UNICREDIT BANK AUSTRIA AG	15.50 9.50		699

Nature of relationship:

- 1 = Banks
- 2 = Financial entities
- 3 = Ancillary banking entities services
- 4 = Insurance enterprises
- 5 = Non-financial enterprises
- 6 = Other equity investments

Voting rights are disclosed only if different from the percentage of holding.

## A – Accounting policies (CONTINUED)

## Investments in associates and joint ventures: accounting information 2014

NAME	TOTAL ASSETS	CASH AND CASH EQUIVALENTS	FINANCIAL ASSETS	NON-FINANCIAL ASSETS	TOTAL LIABILITIES	FINANCIAL LIABILITIES
<b>Under joint control</b>						
FIDES LEASING GMBH	50,046	–	49,934	111	49,999	48,702
KOC FINANSAL HIZMETLER AS GROUP	27,947,175	354,260	26,844,320	748,595	25,014,672	22,999,489
MARIAHILFERGUELTEL GRUNDSTUECKSVERMIETUNGS-GESELLSCHAFT M. B. H.	7,870	–	–	7,870	1,758	–
MUTHGASSE ALPHA HOLDING GMBH	850	–	–	850	812	–
ZS EINKAUFSZENTER ERRICHTUNGS-UND VERMIETUNGS-AKTIENGESELLSCHAFT	65,411	–	–	65,411	21,155	–
<b>Under significant influence</b>						
ALLIANZ ZB D. O. O. DRUSTVO ZA UPRAVLJANJE DOBROVOLJNIM MIROVINSKIM FONDOM	20,975	–	15,453	5,522	1,505	–
ALLIANZ ZB D. O. O. DRUSTVO ZA UPRAVLJANJE OBVEZNIM MIROVINSKIM FONDOM	5,359	–	4,628	730	1,705	–
ARWAG HOLDING-AKTIENGESELLSCHAFT	430,813	–	–	430,813	365,066	–
BANK FUER TIROL UND VORARLBERG AKTIENGESELLSCHAFT	9,388,703	58,674	8,941,271	388,758	8,412,754	8,145,260
BARN BV	532,685	–	–	532,685	422,966	–
BKS BANK AG	6,859,235	106,046	6,607,675	145,514	6,065,767	5,966,448
CASH SERVICE COMPANY AD	7,241	–	–	7,241	299	–
CBD INTERNATIONAL SP.ZO.O.	23,730	–	–	23,730	18,539	–
GLAMAS BETEILIGUNGSVERWALTUNGS GMBH & CO BETA KG	4,712	–	–	4,712	4,377	–
HSG ZANDER GMBH	26,802	–	–	26,802	11,228	–
LISCIV MUTHGASSE GMBH & CO KG	3,590	–	–	3,590	3,683	–
MARINA CITY ENTWICKLUNGS GMBH	12,033	–	–	12,033	12,038	–
MARINA TOWER HOLDING GMBH	1,506	–	–	1,506	35	–
MEGAPARK OOD	73,173	–	–	73,173	102,531	–
MULTIPLUS CARD D. O. O. ZA PROMIDZBU I USLUGE	1,326	–	270	1,056	2,474	1,444
NOTARTREUHANDBANK AG	1,379,752	–	–	1,379,752	1,354,220	–
OBERBANK AG	18,038,640	120,645	17,281,157	636,838	16,510,611	15,892,236
OBJEKT-LEASE GRUNDSTUECKSVERWALTUNGSGESELLSCHAFT M. B. H.	9,107	–	9,106	1	8,221	7,075
OESTERREICHISCHE HOTEL- UND TOURISMUSBANK GESELLSCHAFT M. B. H.	1,068,682	1,001	1,062,466	5,216	1,041,564	1,035,445
OESTERREICHISCHE KONTROLLBANK AKTIENGESELLSCHAFT	27,965,000	–	–	27,965,000	27,254,708	–
OESTERREICHISCHE WERTPAPIERDATEN SERVICE GMBH	1,696	–	–	1,696	1,635	–
PALATIN GRUNDSTUECKVERWALTUNGS GESELLSCHAFT M. B. H.	8,301	–	7,697	605	7,127	7,127
PSA PAYMENT SERVICE AUSTRIA GMBH	107,131	–	–	107,131	82,064	–
PURGE GRUNDSTUECKSVERWALTUNGS-GESELLSCHAFT M. B. H.	382	–	367	15	376	375
RCI FINANCIAL SERVICES S. R. O.	86,251	–	84,284	1,967	59,360	56,162
REMBRA LEASING GESELLSCHAFT M. B. H.	133	–	108	25	–	–
SCHULERRICHTUNGSGESELLSCHAFT M. B. H.	1,287	–	951	336	–	–
SP PROJEKTENTWICKLUNG SCHOENEFELD GMBH & CO. KG	19,060	–	–	19,060	1,795	–
UNI GEBAEUEMANAGEMENT GMBH	1,917	–	–	1,917	2,035	–
VBV DELTA ANLAGEN VERMIETUNG GESELLSCHAFT M. B. H.	23,818	–	–	23,818	11,711	–
WKBG WIENER KREDITBUERGSCHAFTS- UND BETEILIGUNGSBANK AG	32,404	–	–	32,404	4,086	–
WWE WOHN- UND WIRTSCHAFTSPARK ENTWICKLUNGSGESELLSCHAFT M. B. H.	2,846	–	–	2,846	55	–

## A – Accounting policies (CONTINUED)

(€ thousand)

NON-FINANCIAL LIABILITIES	NET EQUITY	TOTAL REVENUES	NET INTEREST MARGIN	IMPAIRMENT/ WRITE-BACKS ON TANGIBLE AND INTANGIBLE ASSETS	OPERATING COSTS	PROFIT (LOSS)	COMPRE- HENSIVE INCOME	POSITIVE DIFFERENCES	DIVIDENDS RECEIVED
1,297	46	727	4	–	–	–81	–81	–	–
2,015,183	2,932,503	2,362,092	724,703	–39,263	–524,399	335,983	379,801	–	53,969
1,758	6,112	–	–	–	–	–	–	–	–
812	38	–	–	–	–	–	–	–	–
21,155	44,256	–	–	–	–	–	–	–	–
1,505	19,470	16,375	467	–41	–5,573	8,490	8,490	–	3,692
1,705	3,653	4,583	102	–22	–1,304	1,829	1,829	–	753
365,066	65,748	–	–	–	–	–	–	–	–
267,494	975,949	222,423	178,792	–	–99,394	71,857	126,765	21,280	3,554
422,966	109,719	8,069	–	–	–22,293	–14,223	–78,217	–	–
99,319	793,468	206,948	157,554	–	–105,148	43,006	36,653	–	2,951
299	6,941	3,660	–	–	–3,224	393	390	–	–
18,539	5,191	218	–	–	–580	–362	–362	3,624	–
4,377	335	–	–	–	–	–	–	–	–
11,228	15,574	–	–	–	–	–	–	–	–
3,683	–92	–	–	–	–	–	–	–	–
12,038	–5	–	–	–	–319	–318	–318	–	–
35	1,471	–	–	–	–3	–3	–3	–	–
102,531	–29,358	4,721	–	–	–8,684	–3,963	–3,963	–	–
1,029	–1,148	4,459	–180	–90	–4,063	117	117	–	–
1,354,220	25,532	12,042	–	–	–5,198	6,844	6,844	–	1,710
618,375	1,528,029	464,586	342,939	–	–239,825	132,626	141,333	–	4,797
1,146	886	208	20	–	–62	–62	–62	–	–
6,119	27,118	6,712	3,577	–	–3,658	2,330	2,330	–	750
27,254,708	710,292	104,200	–	–	–38,920	65,280	65,280	13,743	9,840
1,635	61	3,435	–	–	–3,427	7	7	–	–
–	1,174	84	36	–	–21	53	53	–	–
82,064	25,067	30,545	–	–	–20,602	9,943	9,943	–	2,373
2	6	9	2	–	–2	–30	–30	–	–
3,197	26,892	14,881	5,657	–	–1,142	5,231	5,231	2,238	3,868
–	133	4	3	–	–6	–35	–35	–	–
–	1,287	256	256	–	–	256	256	–	–
1,795	17,265	1,240	–	–	–1,719	–479	–479	–	–
2,035	–117	187	–	–	–152	35	35	–	–
11,711	12,107	–	–	–	–	–	–	–	–
4,086	28,318	2,270	–	–	–2,626	–356	–356	–	–
55	2,791	–	–	–	–	–	–	–	–

## A – Accounting policies (CONTINUED)

## Investments in associates and joint ventures, 2013

NAME	MAIN OFFICE/ OPERATIONAL HQ	NATURE OF RELATION- SHIP	OWNERSHIP RELATIONSHIP 2013			CARRYING AMOUNT € THOUSAND
			HELD BY	FINANCIAL INVEST- MENTS %	VOTES %	
<b>Under joint control</b>						
KOC FINANSAL HIZMETLER AS GROUP Issued capital TRL 3,093,741,012	ISTANBUL	2	UNICREDIT BANK AUSTRIA AG	50.00		2,494,668
<b>Under significant influence</b>						
ALLIANZ ZB D. O. O. DRUSTVO ZA UPRAVLJANJIE DOBROVOLJNIM MIROVINSKIM FONDOM Issued capital HRK 90,000,000	ZAGREB	2	ZAGREBACKA BANKA D. D.	49.00		9,112
ALLIANZ ZB D. O. O. DRUSTVO ZA UPRAVLJANJIE OBVEZNIM MIROVINSKIM FONDOM Issued capital HRK 15,000,000	ZAGREB	2	ZAGREBACKA BANKA D. D.	49.00		1,655
BANK FUER TIROL UND VORARLBERG AKTIENGESELLSCHAFT Issued capital EUR 50,000,000	INNSBRUCK	1	CABO BETEILIGUNGSGESELLSCHAFT M. B. H. UNICREDIT BANK AUSTRIA AG	37.53 9.85	41.70 4.93	435,676
BARN BV Issued capital EUR 170,020,000	AMSTERDAM	2	UNICREDIT BANK AUSTRIA AG	40.00		65,174
BKS BANK AG Issued capital EUR 65,520,000	KLAGENFURT	1	CABO BETEILIGUNGSGESELLSCHAFT M. B. H. UNICREDIT BANK AUSTRIA AG	28.01 8.02	29.64 7.46	254,444
CA IMMOBILIEN ANLAGEN AKTIENGESELLSCHAFT Issued capital EUR 638,713,600	VIENNA	5	UNICREDIT BANK AUSTRIA AG	18.16		266,683
CASH SERVICE COMPANY AD Issued capital BGN 12,500,000	SOFIA	5	UNICREDIT BULBANK AD	20.00		1,311
CBD INTERNATIONAL SP.ZO. O. Issued capital PLN 100,500	WARSAW	5	ISB UNIVERSALE BAU GMBH	49.75		6,568
MARINA CITY ENTWICKLUNGS GMBH Issued capital EUR 120,000	VIENNA	5	CABET-HOLDING GMBH	25.00		99
MARINA TOWER HOLDING GMBH Issued capital EUR 35,000	VIENNA	5	CABET-HOLDING GMBH	25.00		406
MEGAPARK OOD Issued capital BGN 5,000	SOFIA	5	BANK AUSTRIA REAL INVEST IMMOBILIEN- MANAGEMENT GMBH	43.50		0
MULTIPLUS CARD D. O. O. ZA PROMIDZBU I USLUGE Issued capital HRK 5,000,000	ZAGREB	5	SUVREMENE POSILOVNE KOMUNIKACIJE D. O. O	25.00		0
NOTARTREUHANDBANK AG Issued capital EUR 8,030,000	VIENNA	1	UNICREDIT BANK AUSTRIA AG	25.00		6,328
OBERBANK AG Issued capital EUR 85,496,000	LINZ	1	CABO BETEILIGUNGSGESELLSCHAFT M. B. H. UNICREDIT BANK AUSTRIA AG	29.15 4.19	32.54 1.65	466,362
OESTERREICHISCHE HOTEL- UND TOURISMUSBANK GESELLSCHAFT M. B. H. Issued capital EUR 11,628,000	VIENNA	1	UNICREDIT BANK AUSTRIA AG	50.00		13,144
OESTERREICHISCHE KONTROLLBANK AKTIENGESELLSCHAFT Issued capital EUR 130,000,000	VIENNA	1	CABET-HOLDING GMBH SCHOELLERBANK AKTIENGESELLSCHAFT UNICREDIT BANK AUSTRIA AG	24.75 8.26 16.14		340,606
OESTERREICHISCHE WERTPAPIERDATEN SERVICE GMBH Issued capital EUR 36,336	VIENNA	5	UNICREDIT BANK AUSTRIA AG	29.30		16
OOO UNICREDIT LEASING Issued capital RUR 149,160,248	MOSCOW	2	sAO UNICREDIT BANK	40.00		17,112



## A – Accounting policies (CONTINUED)

OWNERSHIP RELATIONSHIP 2013						
NAME	MAIN OFFICE/ OPERATIONAL HQ	NATURE OF RELATION- SHIP	HELD BY	FINANCIAL INVEST- MENTS %	VOTES %	CARRYING AMOUNT € THOUSAND
PSA PAYMENT SERVICE AUSTRIA GMBH (former: ADF Service GMBH) Issued capital EUR 285,000	VIENNA	2	CAFU VERMOEGENSVERWALTUNG GMBH & CO OG	4.50		
			EUROVENTURES-AUSTRIA-CA-MANAGEMENT GESMBH	5.78		
			UNICREDIT BANK AUSTRIA AG	13.58		
SP PROJEKTENTWICKLUNG SCHOENEFELD GMBH & CO. KG Issued capital EUR 102,258	SCHOENEFELD	5	UNICREDIT BANK AUSTRIA AG	50.00		8,872
UNI GEBAEUEMANAGEMENT GMBH Issued capital EUR 18,168	LINZ	5	BA GVG-HOLDING GMBH	50.00		0
UNICREDIT LEASING S.P.A. Issued capital EUR 410,131,062	MILAN	2	UNICREDIT BANK AUSTRIA AG	31.01		200,000
WIEN MITTE IMMOBILIEN GMBH Issued capital EUR 17,500	VIENNA	5	BA-CA WIEN MITTE HOLDING GMBH	50.00		53,284
WKBG WIENER KREDITBURGSCHAFTS- UND BETEILIGUNGSBANK AG Issued capital EUR 15,065,745	VIENNA	2	UNICREDIT BANK AUSTRIA AG	22.73		7,415

Nature of relationship:

- 1 = Banks
- 2 = Financial entities
- 3 = Ancillary banking entities services
- 4 = Insurance enterprises
- 5 = Non-financial enterprises
- 6 = Other equity investments

Voting rights are disclosed only if different from the percentage of holding.

## A – Accounting policies (CONTINUED)

## Investments in associates and joint ventures: accounting information 2013

NAME	TOTAL ASSETS	CASH AND CASH EQUIVALENTS	FINANCIAL ASSETS	NON-FINANCIAL ASSETS	TOTAL LIABILITIES	FINANCIAL LIABILITIES	NON-FINANCIAL LIABILITIES
<b>Under joint control</b>							
KOC FINANSAL HIZMETLER AS GROUP	22,044,167	287,746	21,134,070	622,351	19,549,500	17,937,554	1,611,946
<b>Under significant influence</b>							
ALLIANZ ZB D. O. O. DRUSTVO ZA UPRAVLJANJE DOBROVOLJNIM MIROVINSKIM FONDOM	20,013	–	14,383	5,630	1,418	–	1,418
ALLIANZ ZB D. O. O. DRUSTVO ZA UPRAVLJANJE OBVEZNIM MIROVINSKIM FONDOM	5,065	–	4,369	695	1,690	–	1,690
BANK FUER TIROL UND VORARLBERG AKTIENGESELLSCHAFT	9,304,189	42,570	8,975,106	286,513	8,429,662	8,205,288	224,374
BARN BV	164,648	–	–	164,648	1,712	–	1,712
BKS BANK AG	6,812,920	118,437	6,562,987	131,496	6,106,801	5,949,761	157,040
CA IMMOBILIEN ANLAGEN AKTIENGESELLSCHAFT	5,491,468	–	–	5,491,468	4,022,943	–	4,022,943
CASH SERVICE COMPANY AD	6,770	–	–	6,770	219	–	219
CBD INTERNATIONAL SP. ZO. O.	23,791	–	–	23,791	18,087	–	18,087
MARINA CITY ENTWICKLUNGS GMBH	11,860	–	–	11,860	11,547	–	11,547
MARINA TOWER HOLDING GMBH	1,508	–	–	1,508	35	–	35
MEGAPARK OOD	70,565	1	563	70,000	95,960	70,877	25,083
MULTIPLUS CARD D. O. O. ZA PROMIDZBU I USLUGE	2,285	–	248	2,037	3,555	1,523	2,032
NOTARTREUHANDBANK AG	1,466,920	–	–	1,466,920	1,441,618	–	1,441,618
OBERBANK AG	17,388,900	126,800	16,684,900	577,200	15,989,801	15,259,301	730,500
OESTERREICHISCHE HOTEL- UND TOURISMUSBANK GESELLSCHAFT M. B. H.	1,052,985	998	1,049,168	2,819	1,026,697	1,022,350	4,347
OESTERREICHISCHE KONTROLLBANK AKTIENGESELLSCHAFT	30,531,299	–	–	30,531,299	29,866,267	–	29,866,267
OESTERREICHISCHE WERTPAPIERDATEN SERVICE GMBH	1,958	–	–	1,958	1,904	–	1,904
OOO UNICREDIT LEASING	238,735	–	213,943	24,791	187,232	172,125	15,107
PSA PAYMENT SERVICE AUSTRIA GMBH	130,973	–	–	130,973	99,227	–	99,227
SP PROJEKTENTWICKLUNG SCHOENEFFELD GMBH & CO. KG	19,168	–	–	19,168	1,424	–	1,424
UNI GEBAEUEMANAGEMENT GMBH	2,007	–	–	2,007	2,159	–	2,159
UNICREDIT LEASING SPA	26,743,711	35	25,293,287	1,450,400	24,929,872	24,382,921	546,951
WIEN MITTE IMMOBILIEN GMBH	463,874	–	–	463,874	357,306	–	357,306
WKBG WIENER KREDITBURGSCHAFTS- UND BETEILIGUNGSBANK AG	30,831	–	–	30,831	2,157	–	2,157

## A – Accounting policies (CONTINUED)

(€ thousand)

NET EQUITY	TOTAL REVENUES	NET INTEREST MARGIN	IMPAIRMENT/ WRITE-BACKS ON TANGIBLE AND INTANGIBLE ASSETS	OPERATING COSTS	PROFIT (LOSS)	COMPREHENSIVE INCOME	POSITIVE DIFFERENCES	DIVIDENDS RECEIVED
2,494,668	2,408,215	732,245	-40,586	-531,502	392,461	203,631	-	51,249
18,595	15,566	457	-48	-4,571	8,007	8,007	-	3,388
3,375	4,088	97	-18	-1,431	1,390	1,390	-	390
874,527	217,530	173,255	-	-102,132	65,716	62,570	21,280	3,554
162,936	2,613	-	-	-6,996	-4,383	-7,092	-	-
706,119	202,866	144,092	-	-102,024	40,569	34,913	-	2,951
1,468,524	176,752	-	-	-169,904	6,848	82,238	-	6,063
6,551	3,221	-	-	-2,944	250	228	-	-
5,704	52	-803	-	-44	-795	-795	3,728	-
313	8	-	-	-313	-305	-305	-	-
1,473	-	-	-	-3	-3	-3	-	-
-25,395	2,103	-2,883	-1,274	-645	-2,876	-2,876	-	-
-1,270	4,423	-187	-63	-4,304	-132	-132	-	-
25,302	11,976	-	-	-4,794	7,182	7,182	-	1,792
1,399,099	450,772	338,145	-	-227,389	116,811	109,367	-	4,797
26,288	6,352	2,882	-	-4,499	1,852	1,852	-	750
665,032	106,222	-	-	-59,761	46,461	46,461	13,743	14,749
53	3,437	-	-	-3,432	6	6	-	-
51,503	27,416	14,881	-74	-6,662	2,617	2,617	-	1,190
31,746	17,304	-	-	-12,600	4,704	4,704	-	1,670
17,744	3,943	-	-	-1,340	2,603	2,603	-	-
-152	240	-	-	-202	38	38	-	-
1,813,839	663,334	270,673	-54,893	-142,981	-151,636	-151,887	-	-
106,568	16,653	-	-	-41,356	-24,703	-24,703	-	-
28,674	2,178	-	-	-2,522	-344	-344	-	-

## A – Accounting policies (CONTINUED)

### Investments in unconsolidated subsidiaries and associates

Aggregate total assets of unconsolidated companies which are controlled by UniCredit Bank Austria AG amounted to €5.7 million (2013: €6.0 million). Aggregate total assets of associated companies in which Bank Austria holds investments which were not accounted for under the equity method were €15.2 million (2013: €18.4 million).

Aggregate equity capital amounted to €490 thousand (2013: €850 thousand) for controlled companies and €6.5 million (2013: €7.3 million) for associated companies.

Controlled companies generated a combined net loss of €748 thousand (2013: a net loss of €917 thousand) and associated companies reported a combined net loss of €2.2 million (2013: a net profit of €1.0 million).

### Consolidated companies and changes in consolidated companies of the Bank Austria Group in 2014

	CONSOLIDATED COMPANIES	COMPANIES ACCOUNTED FOR UNDER THE PROPORTIONATE CONSOLIDATION METHOD	COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD	TOTAL
<b>Opening balance</b>	<b>149</b>	<b>15</b>	<b>27</b>	<b>191</b>
<b>Additions</b>	<b>278</b>	<b>–</b>	<b>16</b>	<b>294</b>
Newly established companies	1	–	–	1
Acquired companies	35	–	9	44
Other changes	242	–	7	249
<b>Disposals</b>	<b>–15</b>	<b>–</b>	<b>–4</b>	<b>–19</b>
Companies sold or liquidated	–9	–	–2	–11
Mergers	–6	–	–	–6
Changes in UniCredit Group	–	–	–2	–2
<b>Changes as a result of IFRS 10 and IFRS 11</b>	<b>1</b>	<b>–15</b>	<b>–2</b>	<b>–16</b>
Addition based on IFRS 10 and IFRS 11	1	–	1	2
Reduction based on IFRS 10 and IFRS 11	–	–15	–3	–18
<b>CLOSING BALANCE</b>	<b>413</b>	<b>–</b>	<b>37</b>	<b>450</b>

#### Profit or loss on disposal of companies previously included in consolidation

(€ million)

	PROFIT OR LOSS
Mezzanin Finanzierungs AG	2
Schottengasse 6–8 Immobilien GmbH und Co OG	38
CA Immobilien Anlagen Aktiengesellschaft	20
ISTRATURIST UMAG, hotelijerstvo, turizam i turisticka agencija d. d.	7
<b>TOTAL</b>	<b>68</b>

#### Application of IFRS 10 and IFRS 11 for the first time resulted in the following changes in the group of companies included in consolidation:

The companies of the Yapı Kredi Group, which were previously accounted for using the proportionate consolidation method or the equity method, have been accounted for as a consolidated group using the equity method since 1 January 2014; this has reduced the total number of companies directly contributing to our group by 18, while instead the consolidated entity has been added to the companies accounted for using the equity method.

Moreover, Real Invest Europe, a real estate investment fund managed by Bank Austria Real Invest Immobilien-Kapitalanlage GmbH, has been included in consolidation since 1 January 2014.

The newly established company is UCTAM Hungary Kft.

Additions resulting from acquired companies relate to the acquisition of the Immobilien Holding Group comprising 33 consolidated companies and 9 companies accounted for using the equity method. Moreover, two other companies (Nordbahnhof Baufeld sechs Projektentwicklung GmbH and Nordbahnhof Baufeld 39 Projektentwicklung GmbH) were acquired which hold land in connection with the planned construction of the new Bank Austria Campus in the area of the former Northern Railway Station in Vienna.

## A – Accounting policies (CONTINUED)

### Acquisition of Immobilien Holding Group

With the closing dated 18 September 2014 the Bank Austria Group acquired 100% of the shares in Immobilien Holding GmbH. Immobilien Holding GmbH is the holding company of Immobilien Holding group, which comprises 56 legal entities.

Due to this acquisition, 34 entities have been included in the scope of consolidation as fully consolidated entities since 30 September 2014, amongst them Wien Mitte Immobilien GmbH, in which Bank Austria Group had already had an indirect 50% stake and which had therefore already been included in the group using the equity method until 30 September 2014. Nine further entities have been included in the scope of consolidation at equity based on the fact that Bank Austria Group has significant influence over them; the 13 remaining entities have not been included in the scope of consolidation based on materiality reasons, shares in these companies are shown as available-for-sale financial assets at cost.

The Bank Austria Group had already been participating in 88% of the results of the Immobilien Holding group through a profit participation right. For strategic reasons, Bank Austria intends to dispose of its real estate participations. As a prerequisite of such a disposal, the remaining 12% economic participation in the Immobilien Holding group was purchased in this acquisition along with the gain of the control over the group. Simultaneously, the existing profit participation right structure was wound up.

The Management Board intends to dispose of the entire Immobilien Holding group, including Wien Mitte Immobilien GmbH and its holding company Wien Mitte Holding GmbH, within the next 12 months. The respective entities have therefore been classified as “held for sale” since 30 September 2014 and are simultaneously treated as a “discontinued operation”.

The sales activities started in 2014.

The acquisition of Immobilien Holding group did not result in any goodwill or badwill based on preliminary PPA allocation as at 31 December 2014. The previously held profit participation right (PPR) was derecognised as part of the purchase price. According to the IFRS regulations, the PPR had to be remeasured to its proportionate fair value, which was determined on the basis of an external fairness opinion. The purchase price, composed of the fair value of the PPR derecognised as well as the cash consideration transferred, basically equalled the fair value of the net assets less the expected costs to sell for the packages intended to be sold according to IFRS 5.

The derecognition of the previously held profit participation right in Immobilien Holding GmbH resulted in a gain of €31 million (net of tax). The derecognition of the stake in Wien Mitte Immobilien GmbH, which was previously measured at equity, had an effect of €2.9 million on profit or loss. In addition, small profits were made upon the derecognition of previous available-for-sale investments in bareal Immobilienreuehand GmbH, Garage Am Hof Gesellschaft m. b. H. and WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m. b. H.

A contingent consideration was not part of the purchase agreement.

All assets and liabilities acquired as part of the purchase of the Immobilien Holding group are shown in the balance sheet line items “Non-current assets and disposal groups classified as held for sale” and “Liabilities included in disposal groups classified as held for sale”, respectively. A breakdown into the components is not required because the group had been acquired with a view to resale. Similarly, the pro-forma disclosures of the consolidated profit or loss which would have resulted if the acquisition had taken place on 1 January 2014, can be omitted, as the whole group is classified as a “discontinued operation” and the related result is shown separately in this line in the income statement.

The purchase price allocation is being seen as preliminary as at 31 December 2014 based on the timeframe allowed in IFRS 3.45.

### Restructuring of leasing business

As part of the restructuring of leasing business, one company accounted for under the equity method and 33 consolidated leasing and insurance brokerage companies in Russia, Romania, Serbia, Slovakia, Slovenia, Hungary, Ukraine and Austria were taken over from UniCredit Leasing SpA.

Moreover, with the closing dated 10 December 2014, all 164 Austrian leasing companies were taken over from UniCredit Leasing SpA and have since been included in consolidation. Additionally, six Austrian leasing companies are accounted for using the equity method. Also as part of this transaction, one Bosnian leasing company, two Serbian and three Hungarian leasing companies and one Spanish leasing company were added to the group of consolidated companies of Bank Austria.

In a transaction equally completed on 10 December 2014, 35 Hungarian leasing companies were taken over from UniCredit Leasing SpA and integrated as consolidated companies into the Bank Austria Group.

All newly consolidated leasing companies were taken over from UniCredit Leasing SpA. As with all transfers within UniCredit Group, first-time consolidation was carried out as a common control transaction, for which the option of using the carrying amounts is applied in UniCredit Group.

In respect of the Austrian, Hungarian and Serbian leasing companies which were acquired on 10 December 2014, the date of first-time consolidation was assumed to be 31 December 2014. The resulting effect on the Group’s profit or loss is insignificant.

## A – Accounting policies (CONTINUED)

### **Sale of Istraturist**

On 27 November 2014, Zagrebačka banka dd disposed of its 93% of voting rights in its subsidiary Istraturist Umag dd, a company operating in the tourist industry. Consequently, the bank disposed of its indirect shareholding in Istra D. M. C. doo, which is involved in organising the ATP tournament.

### **Put options Tiriac and Mostar**

For consolidation purposes, the calculation of non-controlling interests in **UniCredit Tiriac Bank S.A.**, Bucharest, is based on an economic equity interest of 95.52% taking into account interlinked put/call options. The put option for 45.06% of the shares in UniCredit Tiriac Bank S.A. is exercisable at any time in the period ending on 31 August 2015.

Similarly, the calculation of non-controlling interests in **UniCredit Bank D.D.**, Mostar, is based on the economic equity interest of 95.77%. Since 2009, interlinked put/call options have existed in respect of 5.731% of the shares in UniCredit Bank D.D. included in the above figure. The holder exercised the put option before 31 December 2014, the closing of the transaction will take place in 2015.

## A – Accounting policies (CONTINUED)

## Effects of changes in the group of consolidated companies in 2014

**Assets**

(€ million)

	31 DEC. 2014	OF WHICH: ADDITIONS IN 2014
Cash and cash balances	1,942	–
Financial assets held for trading	3,533	–
Financial assets at fair value through profit or loss	110	–
Available-for-sale financial assets	22,148	1
Held-to-maturity investments	572	–
Loans and receivables with banks	30,542	173
Loans and receivables with customers	113,732	5,422
Hedging derivatives	3,952	–
Changes in fair value of portfolio hedged items (+/-)	-99	–
Investments in associates and joint ventures	4,644	535
Insurance reserves attributable to reinsurers	–	–
Property, plant and equipment	2,147	323
Intangible assets	171	6
Tax assets	570	43
a) current tax assets	72	4
b) deferred tax assets	499	39
Non-current assets and disposal groups classified as held for sale	3,600	1,925
Other assets	1,554	2,078
<b>TOTAL ASSETS</b>	<b>189,118</b>	<b>10,507</b>

**Liabilities and equity**

(€ million)

	31 DEC. 2014	OF WHICH: ADDITIONS IN 2014
Deposits from banks	23,696	5,182
Deposits from customers	102,271	194
Debt securities in issue	30,014	–
Financial liabilities held for trading	3,454	–
Financial liabilities at fair value through profit or loss	670	–
Hedging derivatives	3,302	1
Changes in fair value of portfolio hedged items (+/-)	84	–
Tax liabilities	165	44
a) current tax liabilities	58	3
b) deferred tax liabilities	107	41
Liabilities included in disposal groups classified as held for sale	1,845	709
Other liabilities	2,617	2,057
Provisions for risks and charges	6,076	20
a) post-retirement benefit obligations	5,665	5
b) other provisions	411	15
Insurance reserves	–	–
Equity	14,925	2,302
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>189,118</b>	<b>10,507</b>

Total assets of companies which are no longer included in consolidation amounted to €100 million.

## A – Accounting policies (CONTINUED)

## Exposure towards unconsolidated structured entities

## Exposure towards unconsolidated investment funds

## Units in investment funds

(€ million)

EXPOSURE TYPE	IAS 39 CATEGORY	BOOK VALUE	NOMINAL VALUE	FAIR VALUE
Units in investment funds	Fair value option	39	36	39
	Available for sale	143	40	143
	Held for trading	–	–	–
<b>TOTAL</b>		<b>183</b>	<b>76</b>	<b>183</b>

## Other exposure towards unconsolidated investment funds

## Assets

(€ million)

EXPOSURE TYPE	IAS 39 CATEGORY	BOOK VALUE	NOMINAL VALUE
Loans	Loans and receivables	318	318
Credit derivatives	Held for trading	4	214
Other derivatives (no credit risk)	Held for trading	–	–
Guarantees	Off-balance sheet	–	–
Credit lines revocable	Off-balance sheet	–	267
Credit lines irrevocable	Off-balance sheet	–	904
<b>TOTAL</b>		<b>322</b>	<b>1,703</b>

## Liabilities

(€ million)

EXPOSURE TYPE	IAS 39 CATEGORY	BOOK VALUE
Derivatives	Held for trading	681
Deposits	Liabilities	28
<b>TOTAL</b>		<b>709</b>

## Exposure towards other unconsolidated structured entities

(€ million)

EXPOSURE TYPE	IAS 39 CATEGORY	BOOK VALUE
Loans to Leasing SPVs	Loans and receivables	60
<b>TOTAL</b>		<b>60</b>

## Income from unconsolidated structured entities

Fees and commissions earned by the Bank Austria Group from unconsolidated investment funds amounted to €40 million in 2014.



## A – Accounting policies (CONTINUED)

### Disclosures of material restrictions

Minimum regulatory capital requirements and other requirements restrict the ability of subsidiaries of our group to pay dividends or redeem capital.

Minimum capital requirements are based on the CRR I and CRD IV. Additional capital requirements have been defined by regulators in some countries.

In addition to the minimum capital requirements, subordinated liabilities can only be repaid with the permission of the national regulator in line with the CRR.

The following table shows additional significant restrictions other than legal or regulatory minimum capital requirements (and restrictions that are based on such minimum capital requirements, such as limitations on large exposures).

NAME	SOURCE OF RESTRICTION (1)	TYPE OF RESTRICTION (2)	DESCRIPTION OF THE RESTRICTION	DESCRIPTION OF F/S ITEM	CARRYING AMOUNT, € THOUSAND
UNICREDIT BULBANK AD	1	Restriction on dividends and other capital distributions being paid	According to the Bulgarian Commercial Act the bank shall set up a reserve fund. At least one tenth of profit must be set aside until the fund's assets reach one tenth or more of the company's capital stock. Share premium reserve is part of this reserve fund. Disbursements from the reserve fund may be made only for covering losses for the current or for the previous year.	Share premium reserve	148,902
				Retained earnings	26,156
AO UNICREDIT BANK	2	Restriction on dividends and other capital distributions being paid	According to the Statutes of Closed Joint Stock Company UniCredit Bank: <ul style="list-style-type: none"> <li>• The Bank creates from its net profit a reserve fund in Roubles equal to 5% of the statutory capital, allocations to which shall be made each fiscal year in accordance with the resolutions of the general shareholders' meeting (GSM).</li> <li>• The general reserve fund shall be formed by annual contributions in the amount of 5% of the net profit until it reaches the above size. This fund may be used only to cover losses, to redeem bonds and shares if other resources to cover such expenses are not available for the Bank.</li> <li>• Upon resolution of the GSM, the Bank may create from its net profit social funds, as well as other funds utilisation of which does not diminish the capital of the Bank.</li> </ul>	Retained earnings	46,910

1 = legal requirement; 2 = statutory requirement



## B – Notes to the income statement

<b>B.1 – Interest income/Interest expense</b>	<b>154</b>
<b>B.2 – Fee and commission income/ Fee and commission expense</b>	<b>155</b>
<b>B.3 – Dividend income and similar revenue</b>	<b>156</b>
<b>B.4 – Gains and losses on financial assets and liabilities held for trading</b>	<b>156</b>
<b>B.5 – Fair value adjustments in hedge accounting</b>	<b>156</b>
<b>B.6 – Gains and losses on disposals/repurchases</b>	<b>157</b>
<b>B.7 – Net change in financial assets and liabilities at fair value through profit or loss</b>	<b>157</b>
<b>B.8 – Impairment losses</b>	<b>158</b>
<b>B.9 – Payroll</b>	<b>158</b>
<b>B.10 – Other administrative expenses</b>	<b>159</b>
<b>B.11 – Net provisions for risks and charges</b>	<b>159</b>
<b>B.12 – Impairment on property, plant and equipment</b>	<b>160</b>
<b>B.13 – Impairment on intangible assets</b>	<b>160</b>
<b>B.14 – Other net operating income</b>	<b>160</b>
<b>B.15 – Profit (Loss) of associates</b>	<b>161</b>
<b>B.16 – Gains and losses on disposal of investments</b>	<b>161</b>
<b>B.17 – Tax expense (income) related to profit or loss from continuing operations</b>	<b>162</b>
<b>B.18 – Total profit or loss after tax from discontinued operations</b>	<b>163</b>
<b>B.19 – Earnings per share</b>	<b>163</b>
<b>B.20 – Appropriation of profits</b>	<b>163</b>

## B – Notes to the income statement (CONTINUED)

## B.1 – Interest income/Interest expense

## Interest income and similar revenues

(€ million)

	2014				2013
	DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	TOTAL	TOTAL
Financial assets held for trading	16	–	514	530	83
Financial assets at fair value through profit or loss	3	–	–	3	4
Available-for-sale financial assets	569	–	–	569	580
Held-to-maturity investments	27	–	–	27	28
Loans and receivables with banks	62	225	–	288	227
Loans and receivables with customers	15	4,531	–	4,546	4,564
Hedging derivatives	X	X	398	398	440
Other assets	X	X	4	4	5
<b>TOTAL</b>	<b>692</b>	<b>4,757</b>	<b>916</b>	<b>6,365</b>	<b>5,931</b>

Within this item, total interest income from financial assets that are not at fair value through profit or loss was €5,434 million (2013: €5,404 million).

The total amount of interest income from impaired financial assets was €261 million (2013: €228 million). Of this total amount, €184 million (2013: €156 million) is included in interest income and similar revenues from loans which relate to interest actually paid. Interest income from the release of provisions as a result of the passage of time is presented in B.8.

## Interest expense and similar charges

(€ million)

	2014				2013
	DEPOSITS	SECURITIES	OTHER TRANSACTIONS	TOTAL	TOTAL
Deposits from central banks	–125	X	–	–125	–72
Deposits from banks	–341	X	–	–341	–367
Deposits from customers	–1,202	X	–	–1,202	–1,272
Debt securities in issue	X	–781	–	–781	–747
Financial liabilities held for trading	–	–	–467	–467	–55
Financial liabilities at fair value through profit or loss	–	–6	–	–6	–9
Other liabilities and funds	X	X	–4	–4	–2
Hedging derivatives	X	X	–7	–7	–7
<b>TOTAL</b>	<b>–1,668</b>	<b>–787</b>	<b>–477</b>	<b>–2,932</b>	<b>–2,531</b>

Within this item, total interest expense for liabilities that are not at fair value through profit or loss was €2,452 million (2013: €2,460 million).

## B – Notes to the income statement (CONTINUED)

## B.2 – Fee and commission income/Fee and commission expense

## Fee and commission income

(€ million)

	2014	2013
<b>Guarantees given</b>	<b>179</b>	<b>180</b>
<b>Credit derivatives</b>	<b>3</b>	<b>–</b>
<b>Management, brokerage and consultancy services:</b>	<b>521</b>	<b>491</b>
securities trading	2	2
currency trading	28	31
portfolio management	199	177
custody and administration of securities	73	75
custodian bank	39	38
placement of securities	21	18
reception and transmission of orders	20	28
advisory services	39	34
distribution of third party services	99	88
<b>Collection and payment services</b>	<b>769</b>	<b>755</b>
<b>Securitisation servicing</b>	<b>–</b>	<b>–</b>
<b>Factoring</b>	<b>6</b>	<b>5</b>
<b>Tax collection services</b>	<b>–</b>	<b>–</b>
<b>Management of multilateral trading facilities</b>	<b>–</b>	<b>–</b>
<b>Management of current accounts</b>	<b>183</b>	<b>176</b>
<b>Other services</b>	<b>135</b>	<b>140</b>
<b>Security lending</b>	<b>–</b>	<b>–</b>
<b>TOTAL</b>	<b>1,795</b>	<b>1,747</b>

## Fee and commission expense

(€ million)

	2014	2013
<b>Guarantees received</b>	<b>–89</b>	<b>–36</b>
<b>Credit derivatives</b>	<b>–9</b>	<b>–14</b>
<b>Management, brokerage and consultancy services:</b>	<b>–74</b>	<b>–70</b>
trading in financial instruments	–4	–4
currency trading	–1	–1
portfolio management	–15	–14
custody and administration of securities	–37	–38
placement of financial instruments	–1	–1
off-site distribution of financial instruments, products and services	–17	–12
<b>Collection and payment services</b>	<b>–230</b>	<b>–225</b>
<b>Other services</b>	<b>–25</b>	<b>–27</b>
<b>Security borrowing</b>	<b>–</b>	<b>–</b>
<b>TOTAL</b>	<b>–428</b>	<b>–373</b>

## B – Notes to the income statement (CONTINUED)

## B.3 – Dividend income and similar revenue

(€ million)

	2014			2013		
	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	15	1	17
Financial assets at fair value through profit or loss	–	–	–	–	–	–
Investments	2	X	2	7	X	7
<b>TOTAL</b>	<b>7</b>	<b>–</b>	<b>7</b>	<b>23</b>	<b>1</b>	<b>24</b>

## B.4 – Gains and losses on financial assets and liabilities held for trading

(€ million)

	2014					2013
	UNREALISED PROFITS	REALISED PROFITS	UNREALISED LOSSES	REALISED LOSSES	NET PROFIT	NET PROFIT
<b>Financial assets held for trading</b>	<b>6</b>	<b>242</b>	<b>–8</b>	<b>–33</b>	<b>207</b>	<b>20</b>
Debt securities	5	27	–8	–22	2	–1
Equity instruments	–	10	–	–11	–1	–3
Units in investment funds	–	–	–	–	–	–
Loans	–	7	–	–	7	–
Other	1	197	–	–	198	24
<b>Financial liabilities held for trading</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–4</b>	<b>–4</b>	<b>–</b>
Debt securities	–	–	–	–	–	–
Deposits	–	–	–	–3	–3	–
Other	–	–	–	–1	–1	–
<b>Other financial assets and liabilities: exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>522</b>	<b>317</b>
<b>Derivatives</b>	<b>807</b>	<b>110</b>	<b>–720</b>	<b>–169</b>	<b>–391</b>	<b>159</b>
Financial derivatives	788	110	–720	–169	–410	169
on debt securities and interest rates	648	85	–630	–143	–40	13
on equity securities and share indices	121	5	–68	–7	51	116
on currency and gold	X	X	X	X	–419	40
other	19	20	–22	–19	–1	1
Credit derivatives	19	–	–	–	19	–10
<b>TOTAL</b>	<b>813</b>	<b>352</b>	<b>–728</b>	<b>–207</b>	<b>332</b>	<b>496</b>

## B.5 – Fair value adjustments in hedge accounting

(€ million)

	2014	2013
<b>Gains on:</b>		
Fair value hedging instruments	230	28
Hedged asset items (in fair value hedge relationship)	61	–
Hedged liability items (in fair value hedge relationship)	3	6
Cash-flow hedging derivatives	29	9
Assets and liabilities denominated in currency	–	–
<b>Total gains on hedging activities</b>	<b>322</b>	<b>42</b>
<b>Losses on:</b>		
Fair value hedging instruments	–79	–19
Hedged asset items (in fair value hedge relationship)	–	–12
Hedged liability items (in fair value hedge relationship)	–222	–
Cash-flow hedging derivatives	–4	–
Assets and liabilities denominated in currency	–	–
<b>Total losses on hedging activities</b>	<b>–306</b>	<b>–32</b>
<b>NET HEDGING RESULT</b>	<b>17</b>	<b>10</b>

## B – Notes to the income statement (CONTINUED)

## B.6 – Gains and losses on disposals/repurchases

(€ million)

	2014			2013		
	GAINS	LOSSES	NET PROFIT	GAINS	LOSSES	NET PROFIT
<b>Financial assets</b>						
Loans and receivables with banks	–	–	–	–	–	–
Loans and receivables with customers	13	–9	4	10	–6	4
Available-for-sale financial assets	172	–43	129	268	–35	233
<i>Debt securities</i>	167	–43	124	110	–34	76
<i>Equity instruments</i>	3	–	3	155	–1	154
<i>Units in investment funds</i>	2	–	2	3	–	3
<i>Loans</i>	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	3	–	3
<b>TOTAL ASSETS</b>	<b>185</b>	<b>–52</b>	<b>132</b>	<b>281</b>	<b>–41</b>	<b>240</b>
<b>Financial liabilities</b>						
Deposits with banks	–	–	–	–	–	–
Deposits with customers	–	–	–	–	–	–
Debt securities in issue	1	–	1	11	–	11
<b>TOTAL LIABILITIES</b>	<b>1</b>	<b>–</b>	<b>1</b>	<b>11</b>	<b>–</b>	<b>11</b>
<b>TOTAL</b>	<b>186</b>	<b>–52</b>	<b>133</b>	<b>293</b>	<b>–42</b>	<b>251</b>

## B.7 – Net change in financial assets and liabilities at fair value through profit or loss

(€ million)

	2014					2013
	UNREALISED PROFITS	REALISED PROFITS	UNREALISED LOSSES	REALISED LOSSES	NET PROFIT	NET PROFIT
<b>Financial assets</b>	<b>2</b>	<b>23</b>	<b>–10</b>	<b>–</b>	<b>15</b>	<b>11</b>
Debt securities	–	–	–	–	–	–
Equity securities	–	–	–	–	–	–
Units in investment funds	2	23	–10	–	15	11
Loans	–	–	–	–	–	–
<b>Financial liabilities</b>	<b>14</b>	<b>1</b>	<b>–22</b>	<b>–</b>	<b>–7</b>	<b>–39</b>
Debt securities	14	1	–22	–	–7	–39
Deposits from banks	–	–	–	–	–	–
Deposits from customers	–	–	–	–	–	–
<b>Financial assets and liabilities in foreign currency: exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>–</b>	<b>–</b>
<b>Credit and financial derivatives</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>65</b>
<b>TOTAL</b>	<b>16</b>	<b>24</b>	<b>–32</b>	<b>–</b>	<b>8</b>	<b>37</b>

In 2014 changes in fair values resulting from changes in our own credit rating were –€7 million (2013: –€50 million).

## B – Notes to the income statement (CONTINUED)

## B.8 – Impairment losses

(€ million)

	2014						2013
	WRITE-DOWNS			WRITE-BACKS			TOTAL
	SPECIFIC		PORTFOLIO	SPECIFIC	PORTFOLIO	TOTAL	
WRITE-OFFS	OTHER	TOTAL					TOTAL
<b>Impairment losses on loans and receivables</b>	<b>-56</b>	<b>-1,294</b>	<b>-143</b>	<b>734</b>	<b>84</b>	<b>-675</b>	<b>-1,271</b>
Loans and receivables with banks	-	-	-	9	-	9	2
Loans and receivables with customers	-56	-1,294	-143	726	84	-684	-1,273
<b>Impairment losses on available-for-sale financial assets</b>	<b>-</b>	<b>-10</b>	<b>X</b>	<b>2</b>	<b>X</b>	<b>-8</b>	<b>-56</b>
Debt securities	-	-4	X	2	X	-2	-
Equity instruments	-	-4	X	X	X	-4	-53
Units in investment funds	-	-2	X	-	X	-2	-3
<b>Impairment losses on held-to-maturity investments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Debt securities	-	-	-	-	-	-	-
<b>Impairment losses on other financial transactions</b>	<b>-</b>	<b>-109</b>	<b>-8</b>	<b>92</b>	<b>4</b>	<b>-22</b>	<b>-19</b>
Guarantees given	-	-98	-6	79	2	-23	-20
Credit derivatives	-	-	-	-	-	-	-
Commitments to disburse funds	-	-11	-2	13	2	2	-3
Other transactions	-	-	-	-	-	-	4
<b>TOTAL</b>	<b>-56</b>	<b>-1,414</b>	<b>-151</b>	<b>828</b>	<b>87</b>	<b>-705</b>	<b>-1,347</b>

“Write-backs” also include the time-value interest component of impaired loans in the amount of €77 million (2013: €72 million). Details of impairment losses on loans and receivables with customers are given in the risk report.

## B.9 – Payroll

(€ million)

	2014	2013
<b>Employees</b>	<b>-1,568</b>	<b>-1,661</b>
Wages and salaries	-1,129	-1,129
Social charges	-251	-256
Provision for retirement payments and similar provisions	-244	-245
<i>Defined contribution</i>	-1	-2
<i>Defined benefit</i>	-243	-244
Payments to external pension funds	-21	-23
<i>Defined contribution</i>	-20	-22
<i>Defined benefit</i>	-1	-1
Costs related to share-based payments	-12	-2
Other employee benefits	-64	-163
Recovery of compensation	153	158
<b>Others</b>	<b>-52</b>	<b>-64</b>
<b>TOTAL</b>	<b>-1,620</b>	<b>-1,725</b>



## B – Notes to the income statement (CONTINUED)

**Defined-benefit company retirement funds: total costs**

(€ million)

	2014	2013
<b>Pension and similar funds allowances – with defined benefits</b>		
Current service cost	-74	-73
Settlement gains/losses	-	-
Past service cost	-	-3
Interest cost on the DBO	-169	-167
Interest income on plan assets	-	-
<b>TOTAL RECOGNISED IN PROFIT OR LOSS</b>	<b>-243</b>	<b>-244</b>

**Other employee benefits**

(€ million)

	2014	2013
Seniority premiums	-12	-7
Leaving incentives	-6	-111
Other	-45	-46
<b>TOTAL</b>	<b>-64</b>	<b>-163</b>

Further information on other employee benefits is given in C.25.

**B.10 – Other administrative expenses**

(€ million)

	2014	2013
<b>Indirect taxes and duties</b>	<b>-233</b>	<b>-228</b>
<b>Miscellaneous costs and expenses</b>	<b>-1,320</b>	<b>-1,280</b>
Advertising, marketing and communication	-106	-108
Expenses related to credit risk	-11	-12
Expenses related to personnel	-35	-37
Information and communication technology expenses	-405	-385
Consulting and professional services	-94	-77
Real estate expenses	-250	-244
Other functioning costs	-419	-417
<b>TOTAL</b>	<b>-1,553</b>	<b>-1,507</b>

The item "Indirect taxes and duties" includes the bank levy in Austria (€124 million; 2013: €97 million) and the bank levies in Slovenia (€3 million; 2013: €3 million), the Czech Republic and Slovakia (€7 million; 2013: €14 million), Romania (€3 million; 2013: €2 million) and Hungary (€77 million; 2013: €93 million).

**B.11 – Net provisions for risks and charges**

(€ million)

	2014			2013
	PROVISIONS	REALLOCATION SURPLUS	TOTAL	TOTAL
Legal disputes	-30	15	-15	-82
Staff costs	-	-	-	-
Other	-136	19	-117	55
<b>TOTAL</b>	<b>-166</b>	<b>33</b>	<b>-132</b>	<b>-27</b>

## B – Notes to the income statement (CONTINUED)

## B.12 – Impairment on property, plant and equipment

(€ million)

	2014				2013
	DEPRECIATION	IMPAIRMENT LOSSES	WRITE-BACKS	NET PROFIT	
<b>Property, plant and equipment</b>					
<b>Owned</b>	<b>-150</b>	<b>-12</b>	<b>9</b>	<b>-153</b>	<b>-183</b>
used in the business	-132	-2	9	-125	-130
held for investment	-18	-10	-	-28	-54
<b>Finance lease</b>	<b>-1</b>	<b>-</b>	<b>-</b>	<b>-1</b>	<b>-5</b>
used in the business	-1	-	-	-1	-5
held for investment	-	-	-	-	-
<b>Non-current assets and disposal groups classified as held for sale</b>	<b>X</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>-152</b>	<b>-12</b>	<b>9</b>	<b>-154</b>	<b>-188</b>

## B.13 – Impairment on intangible assets

(€ million)

	2014				2013
	AMORTISATION	IMPAIRMENT LOSSES	WRITE-BACKS	NET PROFIT	
<b>Intangible assets</b>					
<b>Owned</b>	<b>-48</b>	<b>-</b>	<b>-</b>	<b>-48</b>	<b>-98</b>
generated internally by the company	-6	-	-	-6	-7
other	-42	-	-	-42	-91
<b>Finance leases</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Non-current assets and disposal groups classified as held for sale</b>	<b>X</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>-48</b>	<b>-</b>	<b>-</b>	<b>-48</b>	<b>-98</b>

## B.14 – Other net operating income

## Other operating expenses

(€ million)

	2014	2013
Costs for operating leases	-	-
Reclassification of gains/losses associated with cash flow hedges of non-financial assets or liabilities from equity to profit or loss (IAS 39, paragraph 98a)	-	-
Non-deductible tax and other fiscal charges	-1	-1
Write-downs on improvements of goods owned by third parties	-4	-5
Costs related to the specific service of financial leasing	-5	-
Other	-101	-103
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>-110</b>	<b>-108</b>

## Other operating income

(€ million)

	2014	2013
<b>Recovery of costs</b>	<b>1</b>	<b>1</b>
<b>Other gains</b>	<b>231</b>	<b>198</b>
Revenue from administrative services	41	42
Reclassification of valuation reserve relating to cash-flow hedging of non-financial assets/liabilities	-	-
Revenues from rentals of investment property (net of operating direct costs)	12	13
Revenues from operating leases	40	12
Recovery of miscellaneous costs paid in previous years	3	3
Revenues on financial leases activities	8	-
Others	128	128
<b>TOTAL OTHER OPERATING INCOME</b>	<b>232</b>	<b>199</b>
<b>OTHER NET OPERATING INCOME</b>	<b>122</b>	<b>91</b>

## B – Notes to the income statement (CONTINUED)

## B.15 – Profit (Loss) of associates

(€ million)

	2014	2013
<b>Jointly owned companies – equity</b>		
<b>Income</b>	<b>336</b>	<b>392</b>
Profits of associates	336	392
<b>Companies subject to significant influence</b>		
<b>Income</b>	<b>186</b>	<b>133</b>
Profits of associates	163	122
Gains on disposal	23	11
Write-backs	–	–
Other gains	–	–
<b>Expense</b>	<b>–68</b>	<b>–304</b>
Losses of associates	–10	–64
Impairment losses	–33	–239
Losses on disposal	–24	–1
Other expenses	–	–
<b>Net profit</b>	<b>118</b>	<b>–171</b>
<b>TOTAL</b>	<b>454</b>	<b>222</b>

## B.16 – Gains and losses on disposal of investments

(€ million)

	2014	2013
<b>Property</b>		
Gains on disposal	63	6
Losses on disposal	–1	–
<b>Other assets</b>		
Gains on disposal	53	9
Losses on disposal	–3	–173
<b>TOTAL</b>	<b>113</b>	<b>–159</b>

## B – Notes to the income statement (CONTINUED)

## B.17 – Tax expense (income) related to profit or loss from continuing operations

(€ million)

	2014	2013
Current tax (-)	-216	-221
Adjustment to current tax of prior years (+/-)	4	-2
Reduction of current tax for the year (+)	34	2
Changes to deferred tax assets (+/-)	104	-234
Changes to deferred tax liabilities (+/-)	-212	41
<b>TAX EXPENSE FOR THE YEAR (-)</b>	<b>-287</b>	<b>-414</b>

As actuarial gains and losses on pension and severance-payment obligations were not recognised in income in the reporting year, deferred tax assets of €253 million (2013: €7 million) were offset against equity in UniCredit Bank Austria AG.

As a result of the first-time consolidation of the subsidiaries and sub-groups referred to in section A.9, and of foreign currency translation of deferred taxes and direct offsetting against reserves, part of the change in deferred taxes was not reflected in the expense in 2014.

## Reconciliation of theoretical tax charge to actual tax charge

(€ million)

	2014	2013
<b>Total profit or loss before tax from continuing operations</b>	<b>1,778</b>	<b>-825</b>
Applicable tax rate	25%	25%
<b>Theoretical tax</b>	<b>-445</b>	<b>206</b>
Different tax rates	85	67
Non-taxable income	25	50
Non-deductible expenses	-100	-102
Prior years and changes in tax rates	44	-99
a) effects on current tax	41	-3
b) effects on deferred tax	3	-96
Valuation adjustments and non-recognition of deferred taxes	112	-13
Amortisation of goodwill	-	-417
Non-taxable foreign income	-	-
Other differences	-8	-106
<b>RECOGNISED TAXES ON INCOME</b>	<b>-287</b>	<b>-414</b>

## B – Notes to the income statement (CONTINUED)

## B.18 – Total profit or loss after tax from discontinued operations

(€ million)

	2014	2013
<b>Ukraine</b>		
Net interest	84	169
Dividends and income from equity investments	–	–
Net fee and commission income	40	61
Net trading income	2	–12
Net other operating income/expenses	–4	5
<b>Operating income</b>	<b>123</b>	<b>223</b>
<b>Operating costs</b>	<b>–109</b>	<b>–141</b>
<b>Operating profit</b>	<b>14</b>	<b>82</b>
Net write-downs of loans	–262	–208
<b>Net operating profit</b>	<b>–248</b>	<b>–126</b>
Provisions for risks and charges	–	–1
Net income from investments	6	4
<b>Profit before tax</b>	<b>–242</b>	<b>–123</b>
Income tax	34	16
<b>Profit after tax/Ukraine</b>	<b>–208</b>	<b>–107</b>
Impairment Ukraine	–	–200
Consolidation effects	28	30
<b>Profit after tax/Ukraine</b>	<b>–180</b>	<b>–277</b>
<b>Other</b>		
<b>Profit after tax/Immobilien Holding group</b>	<b>48</b>	<b>–</b>
<b>Profit after tax/Kazakhstan</b>	<b>–</b>	<b>–115</b>
<b>TOTAL PROFIT OR LOSS AFTER TAX FROM DISCONTINUED OPERATIONS</b>	<b>–132</b>	<b>–392</b>

## B.19 – 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 (2014: 231.2 million shares; 2013: 231.2 million shares).

## B.20 – Appropriation of profits

After the release of reserves amounting to €1,963,902,533.37 the profit or loss of UniCredit Bank Austria AG for the financial year beginning on 1 January 2014 and ending on 31 December 2014 was zero. This means that there is no accumulated profit which may be distributed.



## C – Notes to the statement of financial position

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## C – Notes to the statement of financial position (CONTINUED)

## C.1 – Cash and cash balances

(€ million)

	31 DEC. 2014	31 DEC. 2013
Cash	1,204	1,037
Demand deposits with central banks	738	1,338
<b>TOTAL</b>	<b>1,942</b>	<b>2,375</b>

The fair values are equal to the carrying amounts.

## C.2 – Financial assets held for trading

(€ million)

	31 DEC. 2014				31 DEC. 2013			
	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
<b>Financial assets (non-derivatives)</b>	<b>224</b>	<b>54</b>	<b>2</b>	<b>281</b>	<b>288</b>	<b>238</b>	<b>10</b>	<b>537</b>
Debt securities	222	54	2	279	278	238	10	527
<i>Structured securities</i>	–	–	–	–	2	3	–	5
<i>Other debt securities</i>	222	54	2	279	276	235	10	521
Equity instruments	2	–	–	2	10	–	–	10
<b>Derivative instruments</b>	<b>1</b>	<b>3,181</b>	<b>69</b>	<b>3,252</b>	<b>1</b>	<b>1,666</b>	<b>3</b>	<b>1,670</b>
Financial derivatives	1	3,181	69	3,251	1	1,665	2	1,668
Credit derivatives	–	–	1	1	–	1	1	2
<b>TOTAL</b>	<b>225</b>	<b>3,236</b>	<b>72</b>	<b>3,533</b>	<b>290</b>	<b>1,904</b>	<b>13</b>	<b>2,207</b>

## C.3 – Financial assets at fair value through profit or loss

(€ million)

	31 DEC. 2014				31 DEC. 2013			
	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	–	39	38	77	4	236	31	271
Equity instruments	–	–	–	–	–	–	–	–
Units in investment funds	2	12	19	33	17	–	55	72
Loans	–	–	–	–	–	–	–	–
<b>TOTAL</b>	<b>2</b>	<b>52</b>	<b>57</b>	<b>110</b>	<b>21</b>	<b>236</b>	<b>86</b>	<b>343</b>
<b>COST</b>	<b>2</b>	<b>51</b>	<b>57</b>	<b>109</b>	<b>20</b>	<b>236</b>	<b>86</b>	<b>342</b>

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.



## C – Notes to the statement of financial position (CONTINUED)

## Financial assets at fair value through profit or loss: annual changes

(€ million)

	2013			TOTAL
	DEBT SECURITIES	EQUITY INSTRUMENTS	UNITS IN INVESTMENT FUNDS	
<b>Opening balance</b>	<b>317</b>	<b>–</b>	<b>109</b>	<b>426</b>
<b>Increases</b>	<b>256</b>	<b>–</b>	<b>20</b>	<b>276</b>
Purchases	255	–	14	270
Positive changes in fair value	1	–	5	6
Other increases	–	–	–	–
<b>Decreases</b>	<b>–303</b>	<b>–</b>	<b>–57</b>	<b>–360</b>
Sales	–48	–	–12	–61
Redemptions	–232	–	–20	–252
Negative changes in fair value	–	–	–24	–24
Other decreases	–22	–	–1	–24
<b>CLOSING BALANCE</b>	<b>271</b>	<b>–</b>	<b>72</b>	<b>343</b>
	2014			
	DEBT SECURITIES	EQUITY INSTRUMENTS	UNITS IN INVESTMENT FUNDS	TOTAL
<b>Opening balance</b>	<b>271</b>	<b>–</b>	<b>72</b>	<b>343</b>
<b>Increases</b>	<b>31</b>	<b>–</b>	<b>22</b>	<b>53</b>
Purchases	31	–	17	48
Positive changes in fair value	–	–	2	2
Other increases	–	–	2	2
<b>Decreases</b>	<b>–225</b>	<b>–</b>	<b>–60</b>	<b>–285</b>
Sales	–	–	–19	–19
Redemptions	–223	–	–31	–254
Negative changes in fair value	–1	–	–10	–11
Other decreases	–1	–	–	–1
<b>CLOSING BALANCE</b>	<b>77</b>	<b>–</b>	<b>33</b>	<b>110</b>

## C.4 – Available-for-sale financial assets

(€ million)

	31 DEC. 2014				31 DEC. 2013			
	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	15,974	4,960	1,037	21,970	12,454	5,846	689	18,990
<i>Structured securities</i>	–	–	19	19	–	–	19	19
<i>Other</i>	15,974	4,960	1,018	21,951	12,454	5,846	671	18,971
Equity instruments	6	–	124	130	25	–	591	616
<i>Measured at fair value</i>	6	–	96	102	25	–	530	555
<i>Carried at cost</i>	–	–	29	29	–	–	61	61
Units in investment funds	–	1	46	47	–	82	59	141
<i>Measured at fair value</i>	–	1	–	1	–	82	–	82
<i>Carried at cost</i>	–	–	46	46	–	–	59	59
<b>TOTAL</b>	<b>15,980</b>	<b>4,960</b>	<b>1,207</b>	<b>22,148</b>	<b>12,479</b>	<b>5,928</b>	<b>1,339</b>	<b>19,746</b>

## C – Notes to the statement of financial position (CONTINUED)

## C.5 – Held-to-maturity investments

(€ million)

	31 DEC. 2014					31 DEC. 2013				
	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	572	582	110	305	166	633	640	162	308	170
Loans	–	–	–	–	–	–	–	–	–	–
<b>TOTAL</b>	<b>572</b>	<b>582</b>	<b>110</b>	<b>305</b>	<b>166</b>	<b>633</b>	<b>640</b>	<b>162</b>	<b>308</b>	<b>170</b>

## Held-to-maturity investments: annual changes

(€ million)

	2014	2013
<b>Opening balance</b>	<b>633</b>	<b>882</b>
<b>Increases</b>	<b>358</b>	<b>298</b>
Purchases	336	280
Write-backs	–	–
Transfers from other portfolios	–	–
Other changes and positive exchange differences	22	19
<b>Decreases</b>	<b>–419</b>	<b>–547</b>
Sales	–	–4
Redemptions	–414	–523
Write-downs	–	–
Transfers to other portfolios	–	–
Other changes and negative exchange differences	–5	–19
<b>CLOSING BALANCE</b>	<b>572</b>	<b>633</b>

## C.6 – Loans and receivables with banks

(€ million)

	31 DEC. 2014	31 DEC. 2013
<b>Loans to central banks</b>	<b>8,795</b>	<b>6,499</b>
Time deposits	3,955	1,356
Compulsory reserves	4,828	4,315
Reverse repos	–	825
Other	12	3
<b>Loans to banks</b>	<b>21,747</b>	<b>16,442</b>
Current accounts and demand deposits	5,119	4,327
Time deposits	6,344	4,259
Other loans	6,318	4,410
Reverse repos	3,915	1,619 <sup>*)</sup>
Other	2,403	2,791
Debt securities	3,966	3,446
<b>TOTAL (CARRYING AMOUNT)</b>	<b>30,542</b>	<b>22,941</b>
<b>TOTAL (FAIR VALUE)</b>	<b>35,015</b>	<b>23,018</b>
Fair value – Level 1	–	–
Fair value – Level 2	28,633	18,687
Fair value – Level 3	6,382	4,332
Loan loss provisions deducted from loans and receivables	17	23

\*) Due to a change related to the sector to which a counterparty belongs, the previous year's figures for loans and debt towards banks and loans and debt towards customers have been restated to allow a meaningful comparison between periods.

## C – Notes to the statement of financial position (CONTINUED)

## C.7 – Loans and receivables with customers

(€ million)

	31 DEC. 2014			31 DEC. 2013		
	PERFORMING	IMPAIRED	TOTAL	PERFORMING	IMPAIRED	TOTAL
<b>Loans</b>	<b>108,190</b>	<b>4,913</b>	<b>113,103</b>	<b>108,586</b>	<b>4,916</b>	<b>113,502</b>
Current accounts	11,143	433	11,576	11,126	404	11,530
Reverse repos	391	–	391	769	–	769 *)
Mortgages	23,226	1,211	24,437	24,406	1,955	26,360
Credit cards and personal loans, including wage assignment loans	4,075	56	4,132	5,590	56	5,646
Finance leases	5,142	315	5,456	516	66	582
Factoring	1,349	16	1,365	1,119	19	1,138
Other loans	62,864	2,882	65,746	65,059	2,416	67,476
<b>Debt securities</b>	<b>615</b>	<b>14</b>	<b>629</b>	<b>733</b>	<b>21</b>	<b>754</b>
<b>TOTAL (CARRYING AMOUNT)</b>	<b>108,805</b>	<b>4,927</b>	<b>113,732</b>	<b>109,318</b>	<b>4,937</b>	<b>114,255</b>
<b>TOTAL (FAIR VALUE)</b>	<b>115,748</b>	<b>4,930</b>	<b>120,679</b>	<b>110,690</b>	<b>5,168</b>	<b>115,858</b>
Fair value – Level 1			–			–
Fair value – Level 2			68,454			65,009
Fair value – Level 3			52,225			50,849
Loan loss provisions deducted from loans and receivables	674	6,130	6,804	618	5,905	6,523

\*) Due to a change related to the sector to which a counterparty belongs, the previous year's figures for loans and debt towards banks and loans and debt towards customers have been restated to allow a meaningful comparison between periods.

## Finance leases: customers

(€ million)

	31 DEC. 2014		31 DEC. 2013	
	PRESENT VALUE OF MINIMUM LEASE PAYMENTS		PRESENT VALUE OF MINIMUM LEASE PAYMENTS	
<b>Amounts receivable under finance leases:</b>				
Up to 12 months		1,159		202
From 1 to 5 years		2,137		329
Over 5 years		2,161		52
<b>PRESENT VALUE OF MINIMUM LEASE PAYMENTS RECEIVABLE (NET INVESTMENT IN THE LEASE)</b>		<b>5,456</b>		<b>582</b>

## C.8 – Hedging derivatives

(€ million)

	31 DEC. 2014				31 DEC. 2013			
	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
<b>Financial derivatives</b>	–	3,932	20	3,952	–	2,837	2	2,839
Fair value hedge	–	3,476	17	3,493	–	551	–	551
Cash flow hedge	–	456	3	459	–	2,286	2	2,288
<b>Credit derivatives</b>	–	–	–	–	–	–	–	–
<b>TOTAL</b>	–	3,932	20	3,952	–	2,837	2	2,839

## C.9 – Changes in fair value of portfolio hedged items

(€ million)

	31 DEC. 2014	31 DEC. 2013
Positive changes	28	33
Negative changes	–128	–
<b>TOTAL</b>	<b>–99</b>	<b>33</b>

## C – Notes to the statement of financial position (CONTINUED)

## C.10 – Investments in associates and joint ventures

(€ million)

	2014	2013
<b>Opening balance</b>	<b>4,463</b>	<b>5,352</b>
<b>Increases</b>	<b>490</b>	<b>577</b>
Purchases	1	127
Write-backs	–	–
Profit/loss for the year	489	451
<b>Decreases</b>	<b>–310</b>	<b>–367</b>
Sales	–294	–128
Write-downs	–33	–239
<b>Other changes</b>	<b>18</b>	<b>–1,099</b>
<b>CLOSING BALANCE</b>	<b>4,644</b>	<b>4,463</b>

## C.11 – Property, plant and equipment

(€ million)

	31 DEC. 2014	31 DEC. 2013
<b>Assets for operational use</b>	<b>1,251</b>	<b>1,296</b>
<b>Owned</b>	<b>1,206</b>	<b>1,244</b>
Land	72	82
Buildings	642	865
Office furniture and fittings	145	138
Electronic systems	80	96
Others	268	63
<b>Leased</b>	<b>45</b>	<b>52</b>
Land	13	14
Buildings	31	37
Office furniture and fittings	–	–
Electronic systems	–	–
Others	1	1
<b>Held-for-investment assets</b>	<b>896</b>	<b>800</b>
<b>Owned</b>	<b>896</b>	<b>800</b>
Land	222	234
Buildings	675	566
<b>TOTAL</b>	<b>2,147</b>	<b>2,096</b>

## Property, plant and equipment held for investment

(€ million)

	31 DEC. 2014				31 DEC. 2013			
	BOOK VALUE	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	BOOK VALUE	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3
<b>Assets carried at cost</b>	<b>826</b>	<b>–</b>	<b>163</b>	<b>713</b>	<b>731</b>	<b>–</b>	<b>37</b>	<b>747</b>
<b>Owned</b>	<b>826</b>	<b>–</b>	<b>163</b>	<b>713</b>	<b>731</b>	<b>–</b>	<b>37</b>	<b>747</b>
Land	221	–	38	197	234	–	1	233
Buildings	604	–	126	516	498	–	36	514
<b>Assets measured at FV</b>	<b>70</b>	<b>–</b>	<b>–</b>	<b>70</b>	<b>69</b>	<b>–</b>	<b>–</b>	<b>69</b>
<b>Owned</b>	<b>70</b>	<b>–</b>	<b>–</b>	<b>70</b>	<b>69</b>	<b>–</b>	<b>–</b>	<b>69</b>
Land	–	–	–	–	–	–	–	–
Buildings	70	–	–	70	68	–	–	68
<b>TOTAL</b>	<b>896</b>	<b>–</b>	<b>163</b>	<b>784</b>	<b>800</b>	<b>–</b>	<b>37</b>	<b>816</b>

## C – Notes to the statement of financial position (CONTINUED)

## Property, plant and equipment used in the business

(€ million)

	2013					TOTAL
	LAND	BUILDINGS	OFFICE FURNITURE AND FITTINGS	ELECTRONIC SYSTEMS	OTHER	
<b>Gross opening balance</b>	<b>98</b>	<b>1,510</b>	<b>479</b>	<b>459</b>	<b>330</b>	<b>2,876</b>
Total net reduction in value	–	–415	–334	–343	–239	–1,331
<b>Net opening balance</b>	<b>98</b>	<b>1,095</b>	<b>145</b>	<b>116</b>	<b>91</b>	<b>1,545</b>
<b>Increases</b>	<b>49</b>	<b>106</b>	<b>29</b>	<b>55</b>	<b>30</b>	<b>270</b>
Purchases	1	47	25	44	22	139
Capitalised expenditure on improvements	–	1	–	–	–	1
Write-backs	–	1	–	–	–	1
Positive exchange differences	–	4	1	–	–	5
Transfer from property, plant and equipment held for investment	1	8	–	–	–	10
Other changes	47	45	3	11	9	114
<b>Reductions</b>	<b>–51</b>	<b>–299</b>	<b>–36</b>	<b>–75</b>	<b>–57</b>	<b>–519</b>
Disposals	–	–2	–	–	–3	–6
Depreciation	–	–42	–28	–39	–20	–129
Impairment losses	–	–6	–1	–	–	–6
Negative exchange differences	–2	–30	–1	–4	–2	–39
Transfers	–2	–171	–4	–25	–15	–216
<i>property, plant and equipment held for investment</i>	–	–18	–	–	–	–18
<i>assets held for sale</i>	–1	–153	–4	–25	–15	–198
Other changes	–47	–49	–4	–6	–17	–123
<b>NET FINAL BALANCE 31 DEC. 2013</b>	<b>96</b>	<b>902</b>	<b>138</b>	<b>96</b>	<b>64</b>	<b>1,296</b>
Total net reduction in value	–	–405	–333	–270	–212	–1,220
<b>GROSS CLOSING BALANCE</b>	<b>96</b>	<b>1,307</b>	<b>471</b>	<b>366</b>	<b>277</b>	<b>2,517</b>
	2014					TOTAL
	LAND	BUILDINGS	OFFICE FURNITURE AND FITTINGS	ELECTRONIC SYSTEMS	OTHER	
<b>Gross opening balance</b>	<b>96</b>	<b>1,307</b>	<b>471</b>	<b>366</b>	<b>277</b>	<b>2,517</b>
Total net reduction in value	–	–405	–333	–270	–212	–1,220
<b>Net opening balance</b>	<b>96</b>	<b>902</b>	<b>138</b>	<b>96</b>	<b>64</b>	<b>1,296</b>
<b>Increases</b>	<b>4</b>	<b>62</b>	<b>44</b>	<b>47</b>	<b>320</b>	<b>478</b>
Purchases	–	44	37	34	104	218
Capitalised expenditure on improvements	–	5	–	–	–	5
Write-backs	–	9	–	–	–	9
Positive exchange differences	–	–	–	–	–	–
Transfer from property, plant and equipment held for investment	–	–	–	–	–	–
Other changes	4	5	7	13	216	246
<b>Reductions</b>	<b>–15</b>	<b>–292</b>	<b>–37</b>	<b>–64</b>	<b>–115</b>	<b>–524</b>
Disposals	–13	–184	–1	–1	–19	–218
Depreciation	–	–39	–26	–35	–34	–134
Impairment losses	–	–1	–	–	–	–2
Negative exchange differences	–3	–52	–1	–8	–4	–67
Transfers	–	–1	–	–	–1	–2
<i>property, plant and equipment held for investment</i>	–	–	–	–	–	–
<i>assets held for sale</i>	–	–1	–	–	–1	–2
Other changes	–	–15	–9	–18	–58	–100
<b>NET FINAL BALANCE 31 DEC. 2014</b>	<b>85</b>	<b>672</b>	<b>145</b>	<b>80</b>	<b>269</b>	<b>1,251</b>
Total net reduction in value	–	–340	–324	–321	–212	–1,196
<b>GROSS CLOSING BALANCE</b>	<b>85</b>	<b>1,012</b>	<b>469</b>	<b>400</b>	<b>481</b>	<b>2,447</b>

## C – Notes to the statement of financial position (CONTINUED)

## Tangible assets held for investment: annual changes

(€ million)

	2013		
	LAND	BUILDINGS	TOTAL
<b>Opening balances</b>	<b>264</b>	<b>516</b>	<b>781</b>
<b>Increases</b>	<b>48</b>	<b>273</b>	<b>321</b>
Purchases	33	85	117
Capitalised expenditure on improvements	–	–	–
Increases in fair value	–	–	–
Write-backs	–	–	–
Positive exchange differences	–	1	1
Transfer from property, plant and equipment used in the business	–	18	18
Other changes	15	169	184
<b>Reductions</b>	<b>–78</b>	<b>–223</b>	<b>–301</b>
Disposals	–3	–14	–17
Depreciation	–	–14	–14
Reductions in fair value	–	–1	–1
Impairment losses	–20	–20	–40
Negative exchange differences	–2	–7	–9
Transfers to	–7	–152	–159
<i>properties used in the business</i>	–1	–8	–10
<i>non-current assets classified as held for sale</i>	–5	–144	–149
Other changes	–46	–16	–62
<b>CLOSING BALANCES</b>	<b>234</b>	<b>566</b>	<b>800</b>
<b>MEASURED AT FAIR VALUE</b>	<b>234</b>	<b>550</b>	<b>784</b>
	2014		
	LAND	BUILDINGS	TOTAL
<b>Opening balances</b>	<b>234</b>	<b>566</b>	<b>800</b>
<b>Increases</b>	<b>35</b>	<b>173</b>	<b>209</b>
Purchases	13	60	73
Capitalised expenditure on improvements	–	–	–
Increases in fair value	–	6	6
Write-backs	–	–	–
Positive exchange differences	–	3	3
Transfer from property, plant and equipment used in the business	–	–	–
Other changes	22	104	126
<b>Reductions</b>	<b>–48</b>	<b>–64</b>	<b>–112</b>
Disposals	–41	–6	–47
Depreciation	–	–18	–18
Reductions in fair value	–	–3	–3
Impairment losses	–2	–8	–10
Negative exchange differences	–4	–14	–18
Transfers to	–	–	–
<i>properties used in the business</i>	–	–	–
<i>non-current assets classified as held for sale</i>	–	–	–
Other changes	–1	–15	–16
<b>CLOSING BALANCES</b>	<b>222</b>	<b>675</b>	<b>896</b>
<b>MEASURED AT FAIR VALUE</b>	<b>235</b>	<b>642</b>	<b>877</b>

## C – Notes to the statement of financial position (CONTINUED)

## C.12 – Intangible assets

(€ million)

	31 DEC. 2014	31 DEC. 2013
<b>Goodwill</b>	–	–
<b>Other intangible assets</b>	<b>171</b>	<b>162</b>
Assets carried at cost	171	162
<i>Intangible assets generated internally</i>	35	26
<i>Other assets</i>	136	136
Assets valued at fair value	–	–
<b>TOTAL</b>	<b>171</b>	<b>162</b>

## Intangible assets – annual changes

(€ million)

	2013			
	GOODWILL	OTHER INTANGIBLE ASSETS		TOTAL
		GENERATED INTERNALLY	OTHER	
<b>Gross opening balance</b>	<b>4,871</b>	<b>65</b>	<b>1,160</b>	<b>6,097</b>
Net reductions	–3,094	–37	–924	–4,055
<b>Net opening balance</b>	<b>1,777</b>	<b>29</b>	<b>236</b>	<b>2,042</b>
<b>Increases</b>	<b>18</b>	<b>13</b>	<b>90</b>	<b>121</b>
Purchases	18	9	44	71
Increases in intangible assets generated internally	X	–	–	–
Write-backs	X	–	–	–
Positive exchange differences	–	–	10	10
Other changes	–	3	36	39
<b>Reductions</b>	<b>–1,795</b>	<b>–16</b>	<b>–191</b>	<b>–2,001</b>
Disposals	–17	–	–2	–20
Write-downs	–1,678	–7	–91	–1,776
Amortisation	X	–7	–75	–83
Write-downs	–1,678	–	–15	–1,694
Transfers to non-current assets held for sale	–	–2	–65	–67
Negative exchange differences	–100	–1	–20	–120
Other changes	–	–6	–12	–18
<b>NET CLOSING BALANCE</b>	<b>–</b>	<b>26</b>	<b>136</b>	<b>162</b>
Total net write down	–2,522	–42	–811	–3,375
<b>CLOSING BALANCE</b>	<b>2,522</b>	<b>67</b>	<b>947</b>	<b>3,536</b>
	2014			
<b>Gross opening balance</b>	<b>2,522</b>	<b>67</b>	<b>947</b>	<b>3,536</b>
Net reductions	–2,522	–42	–811	–3,375
<b>Net opening balance</b>	<b>–</b>	<b>26</b>	<b>136</b>	<b>162</b>
<b>Increases</b>	<b>–</b>	<b>26</b>	<b>99</b>	<b>125</b>
Purchases	–	23	55	77
Increases in intangible assets generated internally	X	–	–	–
Write-backs	X	–	–	–
Positive exchange differences	–	–	19	19
Other changes	–	4	25	29
<b>Reductions</b>	<b>–</b>	<b>–17</b>	<b>–99</b>	<b>–116</b>
Disposals	–	–	–1	–1
Write-downs	–	–6	–42	–48
Amortisation	X	–6	–42	–48
Write-downs	–	–	–	–
Transfers to non-current assets held for sale	–	–	–	–
Negative exchange differences	–	–7	–38	–45
Other changes	–	–4	–18	–22
<b>NET CLOSING BALANCE</b>	<b>–</b>	<b>35</b>	<b>136</b>	<b>171</b>
Total net write down	–2,161	–35	–824	–3,021
<b>CLOSING BALANCE</b>	<b>2,161</b>	<b>71</b>	<b>960</b>	<b>3,192</b>

## C – Notes to the statement of financial position (CONTINUED)

## C.13 – Deferred tax assets

(€ million)

	31 DEC. 2014	31 DEC. 2013
Assets/liabilities held for trading	27	38
Other financial instruments	149	106
Property, plant and equipment/intangible assets	10	17
Provisions	802	528
Write-downs on loans	36	38
Other assets/liabilities	159	83
Loans and receivables with banks and customers	49	44
Tax losses carried forward	44	52
Other	12	5
Effect of netting gross deferred tax position	-790	-391
<b>TOTAL</b>	<b>499</b>	<b>519</b>

The assets include deferred tax assets arising from the carry-forward of unused tax losses in the amount of €44 million (2013: €52 million). Most of the tax losses carried forward can be used without time restriction.

In respect of tax losses carried forward in the amount of €2,102 million (2013: €2,151 million), no deferred tax assets were recognised because, from a current perspective, a tax benefit is unlikely to be realised within a reasonable period.

Starting with the 2014 financial year, the Group offsets deferred tax assets and deferred tax liabilities if the conditions specified in IAS 12.74 are met. The previous year's figures were adjusted accordingly.



## C – Notes to the statement of financial position (CONTINUED)

## C.14 – Non-current assets and disposal groups classified as held for sale (€ million)

	31 DEC. 2014	31 DEC. 2013
<b>Individual assets</b>		
Financial assets	58	5
Equity investments	–	200
Tangible assets	9	101
Intangible assets	–	–
Non current – Other	25	1
<b>Total</b>	<b>91</b>	<b>307</b>
<i>of which at cost</i>	<i>8</i>	<i>102</i>
<i>of which fair value level 1</i>	<i>–</i>	<i>–</i>
<i>of which fair value level 2</i>	<i>84</i>	<i>205</i>
<i>of which fair value level 3</i>	<i>–</i>	<i>–</i>
<b>Asset groups</b>		
Financial assets held for trading	65	38
Financial assets designated at fair value	–	–
Available-for-sale financial assets	76	199
Held-to-maturity investments	–	–
Loans and receivables with banks	176	197
Loans and receivables with customers	1,699	2,477
Equity investments	60	–
Tangible assets	170	316
Intangible assets	45	67
Other assets	1,218	113
<b>Total</b>	<b>3,509</b>	<b>3,407</b>
<i>of which at cost</i>	<i>–</i>	<i>–</i>
<i>of which fair value level 1</i>	<i>–</i>	<i>–</i>
<i>of which fair value level 2</i>	<i>2,241</i>	<i>3,407</i>
<i>of which fair value level 3</i>	<i>1,268</i>	<i>–</i>
<b>ASSETS</b>	<b>3,600</b>	<b>3,714</b>

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 includes selected assets of the companies Vienna DC Tower 2 Liegenschaftsbesitz GmbH and UniCredit CAIB Poland S.A. AG, which were classified as held for sale. The latter company was sold to a UniCredit Group company on 2 January 2015.

### Asset groups classified as held for sale

Asset groups classified as held for sale include all assets and liabilities of the Immobilien Holding GmbH group, consolidated for the first time as at 30 September 2014, together with its subsidiaries as well as Wien Mitte Immobilien GmbH and its parent company Wien Mitte Holding GmbH. This is a disposal group acquired for resale. In accordance with IFRS 5.39, a disclosure of the major classes of the disposal group's assets is not required and they are therefore shown on a combined basis in the item "Other assets" of the table "Asset groups classified as held for sale".

Moreover, Public Joint Stock Company Ukrspotsbank and its subsidiaries continue to be classified as a disposal group held for sale as at 31 December 2014. The Management Board remains committed to its intention to sell the disposal group. The 12-month period defined in IFRS 5 was exceeded as a result of unforeseeable external circumstances (conflict in parts of Ukraine) which are beyond the bank's control and therefore, in accordance with IFRS 5.9, do not constitute grounds to discontinue the presentation in accordance with IFRS 5. The write-down of €200 million made in the previous year remains unchanged.

It should be noted that UniCredit Bank Austria AG's own share of the FX translation reserve (– €697 million as at 31 December 2014; – €517 million as at 31 December 2013) will have to be recycled to profit or loss upon the final sale of Ukrspotsbank. Moreover, it should be noted that as a result of the difficult economic environment and the unclear political situation in Ukraine, the local currency (UAH) has continued to weaken significantly against the euro and the US dollar since the beginning of 2015. Future developments are not yet foreseeable and it is therefore not possible to make any statement on the amount of the FX translation reserve which may be expected at the time of the sale. Further information on the development of the Ukrainian currency is given in section E.2.

## C – Notes to the statement of financial position (CONTINUED)

## C.15 – Other assets

(€ million)

	31 DEC. 2014	31 DEC. 2013
Margin with derivatives clearers (non-interest bearing)	6	4
Gold, silver and precious metals	17	12
Accrued income other than capitalised income	41	37
Cash and other valuables held by cashier	1	1
Interest and charges to be debited	8	7
Items in transit between branches not yet allocated to destination accounts	1	50
Items in processing	166	231
Items deemed definitive but not attributable to other items	146	146
Adjustments for unpaid bills and notes	106	8
Other taxes	25	11
Other items	1,039	597
<b>TOTAL</b>	<b>1,554</b>	<b>1,103</b>

As at 31 December 2014, the total amount of assets which are attributable to the "loans and receivables" category was €147,770 million (2013: €140,675 million).

## C.16 – Deposits from banks

(€ million)

	31 DEC. 2014	31 DEC. 2013
<b>Deposits from central banks</b>	<b>4,006</b>	<b>5,057</b>
<b>Deposits from banks</b>	<b>19,689</b>	<b>19,473</b>
Current accounts and demand deposits	2,367	2,134
Time deposits	5,739	5,641
Loans	11,578	11,587
<i>Repos</i>	120	890 *)
<i>Other</i>	11,458	10,697
Other liabilities	5	110
<b>TOTAL</b>	<b>23,696</b>	<b>24,530</b>
<b>TOTAL FAIR VALUE</b>	<b>24,365</b>	<b>24,567</b>
Fair value – Level 1	–	–
Fair value – Level 2	12,661	20,993
Fair value – Level 3	11,704	3,574

## C.17 – Deposits from customers

(€ million)

	31 DEC. 2014	31 DEC. 2013
Current accounts and demand deposits	55,186	54,245
Time deposits	42,825	40,277
Loans	474	897
<i>Repos</i>	324	766 *)
<i>Other</i>	149	131
Liabilities in respect of commitments to repurchase treasury shares	744	695
Other liabilities	3,042	478
<b>TOTAL</b>	<b>102,271</b>	<b>96,593</b>
<b>TOTAL FAIR VALUE</b>	<b>103,390</b>	<b>97,691</b>
Fair value – Level 1	–	–
Fair value – Level 2	33,570	69,772
Fair value – Level 3	69,820	27,918

\*) Due to a change related to the sector to which a counterparty belongs, the previous year's figures for loans and debt towards banks and loans and debt towards customers have been restated to allow a meaningful comparison between periods.

## C – Notes to the statement of financial position (CONTINUED)

## C.18 – Debt securities in issue

(€ million)

	31 DEC. 2014					31 DEC. 2013				
	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
<b>Securities</b>										
Bonds	29,867	31,425	9,004	22,296	124	27,138	27,590	7,686	19,786	118
<i>Structured</i>	702	705	–	705	–	182	192	–	192	–
<i>Other</i>	29,166	30,720	9,004	21,592	124	26,956	27,398	7,686	19,594	118
Other securities	146	159	–	159	–	164	164	–	164	–
<i>Structured</i>	–	–	–	–	–	–	–	–	–	–
<i>Other</i>	146	159	–	159	–	164	164	–	164	–
<b>TOTAL</b>	<b>30,014</b>	<b>31,583</b>	<b>9,004</b>	<b>22,455</b>	<b>124</b>	<b>27,302</b>	<b>27,754</b>	<b>7,686</b>	<b>19,949</b>	<b>118</b>

## C.19 – Financial liabilities held for trading

(€ million)

	31 DEC. 2014				31 DEC. 2013			
	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
<b>Financial liabilities</b>	28	–	–	28	31	–	–	31
Deposits from banks	–	–	–	–	–	–	–	–
Deposits from customers	28	–	–	28	31	–	–	31
<b>Derivative instruments</b>	–	3,308	117	3,426	–	1,467	7	1,474
Financial derivatives	–	3,308	107	3,415	–	1,447	7	1,455
Credit derivatives	–	–	10	11	–	19	–	19
<b>TOTAL</b>	<b>28</b>	<b>3,308</b>	<b>117</b>	<b>3,454</b>	<b>31</b>	<b>1,467</b>	<b>7</b>	<b>1,505</b>

## C.20 – Financial liabilities at fair value through profit or loss

(€ million)

	31 DEC. 2014				31 DEC. 2013			
	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
Deposits from banks	–	–	–	–	–	–	–	–
Deposits from customers	–	–	–	–	–	–	–	–
Debt securities	–	666	5	670	–	788	9	797
<i>Structured</i>	–	666	–	666	–	788	–	788
<i>Other</i>	–	–	5	5	–	–	9	9
<b>TOTAL</b>	<b>–</b>	<b>666</b>	<b>5</b>	<b>670</b>	<b>–</b>	<b>788</b>	<b>9</b>	<b>797</b>

Of the changes in fair values in 2014, an expense of €7 million (2013: an expense of €50 million) related to changes in our own credit risk. In the valuation as at 31 December 2014, the portion relating to changes in our own credit risk was cumulative income of €11 million (31 December 2013: cumulative income of €18 million). The repayable amount of liabilities as at 31 December 2014 was €620 million (31 December 2013: €750 million).

## C – Notes to the statement of financial position (CONTINUED)

## C.21 – Hedging derivatives

(€ million)

	31 DEC. 2014				31 DEC. 2013			
	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
<b>Financial derivatives</b>	–	3,290	12	3,302	–	2,218	1	2,220
Fair value hedge	–	2,580	10	2,591	–	171	–	171
Cash flow hedge	–	709	1	711	–	2,048	1	2,049
<b>Credit derivatives</b>	–	–	–	–	–	–	–	–
<b>TOTAL</b>	–	3,290	12	3,302	–	2,218	1	2,220

## C.22 – Changes in fair value of portfolio hedged items

(€ million)

	31 DEC. 2014	31 DEC. 2013
Positive changes to financial liabilities	329	–
Negative changes to financial liabilities	–246	–
<b>TOTAL</b>	<b>84</b>	–

## C.23 – Deferred tax liabilities

(€ million)

	31 DEC. 2014	31 DEC. 2013
<b>Deferred tax liabilities related to:</b>		
Loans and receivables with banks and customers	134	53
Assets/liabilities held for trading	148	45
Other financial instruments	240	196
Property, plant and equipment/intangible assets	21	35
Other assets/liabilities	324	169
Deposits from banks and customers	–	–
Other	29	26
Effect of netting gross deferred tax position	–790	–391
<b>TOTAL</b>	<b>107</b>	<b>133</b>

Pursuant to IAS 12.39, no deferred tax liabilities were recognised for temporary differences in connection with investments in domestic subsidiaries amounting to €1,044 million (2013: €911 million) because from a current perspective, they are not intended to be sold.

Starting with the 2014 financial year, the Group offsets deferred tax assets and deferred tax liabilities if the conditions specified in IAS 12.74 are met. The previous year's figures were adjusted accordingly.

## C – Notes to the statement of financial position (CONTINUED)

## C.24 – Liabilities included in disposal groups classified as held for sale

(€ million)

	31 DEC. 2014	31 DEC. 2013
<b>Liabilities associated with assets classified as held for sale</b>		
Deposits	16	1
Securities	–	–
Other liabilities	9	–
<b>Total</b>	<b>26</b>	<b>2</b>
<i>of which at cost</i>	1	2
<i>of which fair value level 1</i>	–	–
<i>of which fair value level 2</i>	24	–
<i>of which fair value level 3</i>	–	–
<b>Liabilities included in disposal groups classified as held for sale</b>		
Deposits from banks	291	307
Deposits from customers	1,207	1,906
Debt securities in issue	3	4
Financial liabilities held for trading	–	1
Financial liabilities designated at fair value	–	–
Reserve	–	–
Other liabilities	316	22
<b>Total</b>	<b>1,819</b>	<b>2,240</b>
<i>of which at cost</i>	–	–
<i>of which fair value level 1</i>	–	–
<i>of which fair value level 2</i>	1,516	2,240
<i>of which fair value level 3</i>	303	–
<b>LIABILITIES</b>	<b>1,845</b>	<b>2,242</b>

See comments on C.14. All disposal groups presented above are measured at cost.

## C.25 – Other liabilities

(€ million)

	31 DEC. 2014	31 DEC. 2013
Liabilities in respect of financial guarantees issued	–	–
Impairment of financial guarantees issued, of credit derivatives, of irrevocable commitments to distribute funds	737	657
Accrued expenses other than those to be capitalised for the financial liabilities concerned	85	90
Share-based payments classified as liabilities under IFRS 2	–	–
Other liabilities due to employees	308	302
Other liabilities due to other staff	7	5
Other liabilities due to directors and statutory auditors	1	–
Interest and amounts to be credited	42	49
Items in transit between branches and not yet allocated to destination accounts	–	–
Available amounts to be paid to others	41	48
Items in processing	587	545
Entries related to securities transactions	1	5
Items deemed definitive but not attributable to other lines	241	241
Liabilities for miscellaneous entries related to tax collection service	–	–
Tax items different from those included in tax liabilities	45	28
Other entries	521	155
<b>TOTAL</b>	<b>2,617</b>	<b>2,124</b>

As at 31 December 2014, the total amount of liabilities which are attributable to “deposits from banks/customers, debt securities in issue and other liabilities” was €158,597 million (2013: €150,549 million).

## C – Notes to the statement of financial position (CONTINUED)

## C.26 – Provisions for risks and charges

(€ million)

	31 DEC. 2014	31 DEC. 2013
<b>Pensions and other post-retirement benefit obligations</b>	<b>5,665</b>	<b>4,630</b>
<b>Other provisions for risks and charges</b>	<b>411</b>	<b>355</b>
Legal disputes	102	103
Staff expenses	58	135
Other	252	117
<b>TOTAL</b>	<b>6,076</b>	<b>4,985</b>

## Provisions for risks and charges: annual changes

(€ million)

	2013		
	PENSIONS AND POST-RETIREMENT BENEFIT OBLIGATIONS	OTHER PROVISIONS	TOTAL
<b>Opening balance</b>	<b>4,577</b>	<b>572</b>	<b>5,149</b>
<b>Increases</b>	<b>291</b>	<b>161</b>	<b>453</b>
Provisions for the year	79	154	233
Changes due to the passage of time	167	–	167
Other increases	46	7	53
<b>Decreases</b>	<b>–238</b>	<b>–379</b>	<b>–617</b>
Uses during the year	–234	–363	–598
Other decreases	–4	–15	–19
<b>CLOSING BALANCE</b>	<b>4,630</b>	<b>355</b>	<b>4,985</b>
	2014		
	PENSIONS AND POST-RETIREMENT BENEFIT OBLIGATIONS	OTHER PROVISIONS	TOTAL
<b>Opening balance</b>	<b>4,630</b>	<b>355</b>	<b>4,985</b>
<b>Increases</b>	<b>1,277</b>	<b>173</b>	<b>1,450</b>
Provisions for the year	75	145	220
Changes due to the passage of time	169	–	169
Increase resulting from changes in financial assumptions	1,020	–	1,020
Other increases	14	28	42
<b>Decreases</b>	<b>–243</b>	<b>–116</b>	<b>–359</b>
Uses during the year	–230	–67	–296
Differences due to discount-rate changes	–	–	–
Other decreases	–13	–49	–62
<b>CLOSING BALANCE</b>	<b>5,665</b>	<b>411</b>	<b>6,076</b>

## C.27 – Equity

The Company's share capital amounts to €1,681,033,521.40 (one billion six hundred and eighty-one million thirty-three thousand five hundred and twenty-one 40/100 euros). It is divided into 10,115 (ten thousand one hundred and fifteen) registered no-par value shares with voting rights and restricted transferability and 231,218,705 (two hundred and thirty-one million two hundred and eighteen thousand seven hundred and five) registered no-par value shares with voting rights, and each no-par value share participates in the share capital to the same extent.







## D – Segment reporting

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## D – Segment reporting (CONTINUED)

## D.1 – Reconciliation of reclassified accounts to mandatory reporting schedule (€ million)

	2014	2013
Net interest	3,433	3,400
Dividends and other income from equity investments	496	717
Dividend income and similar revenue	7	24
<i>minus: dividends from equity instruments held for trading</i>	0	0
Profit (loss) of associates – of which: income (loss) from equity investments valued at net equity	489	693
Net fees and commissions	1,367	1,374
Net trading, hedging and fair value income	487	791
Gains (losses) on financial assets and liabilities held for trading	332	496
<i>plus: dividends from equity instruments held for trading</i>	0	0
<i>Fair value adjustments in hedge accounting</i>	17	10
<i>Gains (losses) on disposal and repurchase of available-for-sale financial assets</i>	129	233
<i>Gains (losses) on disposal and repurchase of held-to-maturity investments</i>	0	3
<i>Gains (losses) on disposal or repurchase of financial liabilities</i>	1	11
<i>Gains (losses) on financial assets and liabilities designated at fair value through profit or loss</i>	8	37
Net other expenses/income	106	92
Gains (losses) on disposals/repurchases of loans and receivables – not impaired	0	-2
Other net operating income	122	91
<i>minus: other operating income – of which: recovery of expenses</i>	-7	-7
<i>plus: impairment on tangible assets – other operating leases</i>	-19	0
<i>minus: other operating expenses – write-downs on improvements of goods owned by third parties</i>	4	5
<b>OPERATING INCOME</b>	<b>5,890</b>	<b>6,375</b>
Payroll costs	-1,620	-1,619
Administrative costs – staff expenses	-1,620	-1,725
<i>minus: integration/restructuring costs</i>	0	106
Other administrative expenses	-1,546	-1,493
Administrative costs – other administrative expenses	-1,553	-1,507
<i>minus: integration/restructuring costs</i>	11	20
<i>plus: other operating expenses – write-downs on improvements of goods owned by third parties</i>	-4	-5
Recovery of expenses = Other net operating income – of which: other operating income – recovery of costs	1	1
Amortisation, depreciation and impairment losses on intangible and tangible assets	-170	-241
Impairment/Write-backs on property, plant and equipment	-154	-188
<i>minus: impairment losses/write-backs on property owned for investment</i>	10	40
<i>minus: impairment on tangible assets – other operating leases</i>	19	0
Impairment/Write-backs on intangible assets	-48	-98
<i>minus: integration/restructuring costs</i>	3	5
<b>OPERATING COSTS</b>	<b>-3,336</b>	<b>-3,351</b>
<b>OPERATING PROFIT</b>	<b>2,554</b>	<b>3,024</b>

## D – Segment reporting (CONTINUED)

	2014	2013
Net write-downs of loans and provisions for guarantees and commitments	-693	-1,285
Gains (losses) on disposal and repurchase of loans	4	6
Impairment losses on loans	-675	-1,271
Impairment losses on other financial assets	-22	-19
<b>NET OPERATING PROFIT</b>	<b>1,860</b>	<b>1,739</b>
Provisions for risks and charges	-133	-148
Net provisions for risks and charges	-132	-27
<i>minus: release of provision for FX reserve Kazakhstan</i>	0	-122
<i>minus: integration/restructuring costs</i>	0	7
Integration/restructuring costs	-13	-132
Net income from investments	64	-729
Impairment losses on available-for-sale financial assets	-8	-56
Impairment losses on held-to-maturity investments	0	0
<i>plus: impairment losses/write-backs on property owned for investment</i>	-10	-40
Profit (loss) of associates	454	222
<i>minus: profit (loss) of associates – income (loss) from equity investments valued at net equity</i>	-489	-693
Gains and losses on tangible and intangible assets	3	3
Gains (losses) on disposal of investments	113	-159
<b>PROFIT BEFORE TAX</b>	<b>1,778</b>	<b>731</b>
Income tax for the period	-287	-414
Total profit or loss after tax from discontinued operations	-132	-270
Profit or loss after tax from discontinued operations	-132	-392
<i>plus: release of provision for FX reserve Kazakhstan</i>	0	122
<b>PROFIT OR LOSS FOR THE PERIOD</b>	<b>1,360</b>	<b>47</b>
Non-controlling interests	23	27
<b>NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY BEFORE PPA</b>	<b>1,383</b>	<b>74</b>
Impairment of goodwill	0	-1,678
<b>NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY</b>	<b>1,383</b>	<b>-1,604</b>

## D – Segment reporting (CONTINUED)

### D.2 – 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 in 2014. 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.

Segment reporting covers the following business segments:

#### **Retail & Corporates**

The Retail & Corporates business segment comprises business with private individuals (Retail), including the Mass Market and Affluent customer segments except Private Banking customers, and thus encompasses the entire multi-channel distribution network. Also included in this Division are subsidiaries active in credit card business, FactorBank and now also leasing companies in Austria, which were taken over from UniCredit Leasing SpA as part of the realignment of leasing business in the fourth quarter of 2014. As 31 December 2014 was assumed to be the date of first-time consolidation of the Austrian leasing companies, these companies are reflected in consolidation only with their volume but not yet with their profit or loss. The Corporates subdivision covers the customer segments SMEs (small and medium-sized businesses) and corporate customers with an annual turnover of over €50 million, and Real Estate including various subsidiaries (e.g. Wohnbaubank, Bank Austria Real Invest Group) and the Public Sector customer segment.

#### **Private Banking**

Private Banking has responsibility for private customers with investments exceeding €500,000. Schoellerbank AG and various other small subsidiaries are also included in the Private Banking business segment.

#### **Corporate & Investment Banking (CIB)**

The Corporate & Investment Banking 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 continue to support commercial banking activities of the bank's other business segments.

#### **Central Eastern Europe (CEE)**

The CEE business segment includes the commercial banking units of the Bank Austria Group in the region of Central and Eastern Europe (including Turkey). On the basis of a strategic decision on risk reduction, the equity interest in Ukrsofsbank continued to be classified as a discontinued operation (held for sale). Profit or loss of Ukrsofsbank continues to be included in the CEE business segment in the income statement item "Total profit or loss after tax from discontinued operations"; figures for previous periods were adjusted accordingly. The companies of the Yapı Kredi Group were previously accounted for using proportionate consolidation or the equity method. As a result of first-time application of IFRS 11, these companies are accounted for as a consolidated group using the equity method starting with 2014; figures for previous periods were adjusted accordingly.

The Yapı Kredi Group companies continue to be included on a proportionate basis in the calculation of risk-weighted assets and capital resources for regulatory purposes.

Bank Austria took over from UniCredit Leasing SpA leasing companies in Russia, the Czech Republic, Slovakia, Romania and Serbia in 2014 and assigned these leasing companies to the CEE business segment.

#### **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. Funding costs relating to consolidated subsidiaries are also assigned to the Corporate Center. Also included are inter-segment eliminations, other items which are not to be assigned to the business segments, and impairment losses on goodwill.

The equity interest transactions made by Bank Austria also had effects on the Corporate Center.

In September 2014, the Bank Austria Group acquired 100% of the shares in Immobilien Holding GmbH and assigned the shareholding to the Corporate Center. All Immobilien Holding Group companies are classified as held for sale. The leasing companies in Hungary which were taken over in December 2014 were also assigned to the Corporate Center.

The item "Total profit or loss after tax from discontinued operations" in the Corporate Center's income statement in the fourth quarter of 2013 includes the other effects resulting from the classification of Ukrsofsbank as a discontinued operation. The previous periods include effects from the sale (including profit or loss until the sale) of JSC ATF Bank and its subsidiaries. The equity interest in UniCredit Leasing SpA, classified in the fourth quarter of 2013 as a disposal group held for sale, was sold in March 2014.

## D – 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 9% of risk-weighted assets.

### Recasting:

A number of structural changes took place within the business segments and in the group of consolidated companies. This means that results for 2014 are not fully comparable with those for 2013. For this reason, the segment results for 2013 have been adjusted to the new structure. The difference compared with Bank Austria's overall results is presented in a separate column showing "Recasting differences".

In respect of the leasing companies acquired in Austria, Hungary and Serbia, 31 December 2014 was assumed to be the date of first-time consolidation. The effect on profit or loss for 2014 is insignificant, the figures for previous periods (volume, profit or loss) were not recast.

### The main pro-forma adjustments are as follows:

- Companies were taken over from UniCredit Leasing SpA in Latvia in the second quarter of 2013 and in Bulgaria in the fourth quarter of 2013. These companies are included in the recast figures for all previous periods in 2013. Moreover, in the first quarter of 2014, further companies in the Czech Republic, Slovakia and Russia, and in the second quarter of 2014 in Romania, were taken over from UniCredit Leasing SpA and newly included in the group of consolidated companies of the Bank Austria Group. The companies were assigned to the CEE business segment; figures for previous periods were adjusted accordingly.
- Following the sale of the shareholding interest in UniCredit Leasing SpA in March 2014, the related contributions, which were accounted for using the equity method, were eliminated also in previous periods.
- Minor equity interests in the real estate sector previously held within the Retail & Corporates business segment were assigned to the Corporate Center. Figures for previous periods were adjusted accordingly.
- To enhance data comparability, further adjustments were made at segment level; these are mainly structural adjustments resulting from organisational changes.

## D – Segment reporting (CONTINUED)

## D.3 – Segment reporting 1–12 2014/1–12 2013

(€ million)

		RETAIL & CORPORATES	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CENTRAL EASTERN EUROPE (CEE)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST)	RECASTING DIFFER- ENCES <sup>1)</sup>	BANK AUSTRIA GROUP (PUBLISHED) <sup>2)</sup>
Net interest	1–12 2014	932	64	324	2,460	–347	3,433	–	3,433
	1–12 2013	911	49	342	2,422	–255	3,470	–70	3,400
Dividends and other income from equity investments	1–12 2014	40	–	–	345	111	496	–	496
	1–12 2013	36	–	5	648	75	763	–46	717
Net fees and commissions	1–12 2014	483	109	99	755	–78	1,367	–	1,367
	1–12 2013	480	100	109	731	–34	1,386	–12	1,374
Net trading, hedging and fair value income/loss	1–12 2014	24	2	52	254	154	487	–	487
	1–12 2013	33	3	54	563	141	792	–1	791
Net other expenses/income	1–12 2014	17	–	2	50	37	106	–	106
	1–12 2013	25	–	5	60	2	92	–	92
<b>OPERATING INCOME</b>	<b>1–12 2014</b>	<b>1,496</b>	<b>175</b>	<b>477</b>	<b>3,864</b>	<b>–122</b>	<b>5,890</b>	<b>–</b>	<b>5,890</b>
	<b>1–12 2013</b>	<b>1,484</b>	<b>153</b>	<b>515</b>	<b>4,423</b>	<b>–71</b>	<b>6,503</b>	<b>–129</b>	<b>6,375</b>
<b>OPERATING COSTS</b>	<b>1–12 2014</b>	<b>–1,131</b>	<b>–116</b>	<b>–253</b>	<b>–1,600</b>	<b>–235</b>	<b>–3,336</b>	<b>–</b>	<b>–3,336</b>
	<b>1–12 2013</b>	<b>–1,131</b>	<b>–110</b>	<b>–226</b>	<b>–1,697</b>	<b>–222</b>	<b>–3,387</b>	<b>36</b>	<b>–3,351</b>
<b>OPERATING PROFIT</b>	<b>1–12 2014</b>	<b>365</b>	<b>59</b>	<b>224</b>	<b>2,264</b>	<b>–357</b>	<b>2,554</b>	<b>–</b>	<b>2,554</b>
	<b>1–12 2013</b>	<b>353</b>	<b>43</b>	<b>289</b>	<b>2,726</b>	<b>–293</b>	<b>3,116</b>	<b>–93</b>	<b>3,024</b>
Net write-downs of loans and provisions for guarantees and commitments	1–12 2014	–43	–	3	–654	–	–693	–	–693
	1–12 2013	–136	–1	–53	–1,094	–29	–1,313	28	–1,285
<b>NET OPERATING PROFIT</b>	<b>1–12 2014</b>	<b>322</b>	<b>59</b>	<b>227</b>	<b>1,610</b>	<b>–358</b>	<b>1,860</b>	<b>–</b>	<b>1,860</b>
	<b>1–12 2013</b>	<b>217</b>	<b>42</b>	<b>235</b>	<b>1,631</b>	<b>–322</b>	<b>1,803</b>	<b>–64</b>	<b>1,739</b>
Provisions for risks and charges	1–12 2014	1	–1	–	–115	–18	–133	–	–133
	1–12 2013	–5	–2	–	–11	–129	–148	–	–148
Integration/restructuring costs	1–12 2014	–	–1	–	–7	–4	–13	–	–13
	1–12 2013	–	–	4	–33	–104	–133	1	–132
Net income/loss from investments	1–12 2014	–11	–	2	13	60	64	–	64
	1–12 2013	–34	–	–2	–53	–636	–725	–4	–729
<b>PROFIT BEFORE TAX</b>	<b>1–12 2014</b>	<b>312</b>	<b>56</b>	<b>230</b>	<b>1,500</b>	<b>–320</b>	<b>1,778</b>	<b>–</b>	<b>1,778</b>
	<b>1–12 2013</b>	<b>177</b>	<b>40</b>	<b>238</b>	<b>1,534</b>	<b>–1,191</b>	<b>797</b>	<b>–66</b>	<b>731</b>
Income tax for the period	1–12 2014	–64	–14	–57	–208	57	–287	–	–287
	1–12 2013	–43	–11	–58	–146	–171	–428	14	–414
Total profit or loss after tax from discontinued operations	1–12 2014	–	–	–	–206	75	–132	–	–132
	1–12 2013	–	–	–	–103	–163	–266	–4	–270
<b>PROFIT OR LOSS FOR THE PERIOD</b>	<b>1–12 2014</b>	<b>248</b>	<b>42</b>	<b>173</b>	<b>1,086</b>	<b>–189</b>	<b>1,360</b>	<b>–</b>	<b>1,360</b>
	<b>1–12 2013</b>	<b>135</b>	<b>29</b>	<b>180</b>	<b>1,285</b>	<b>–1,526</b>	<b>103</b>	<b>–56</b>	<b>47</b>
Non-controlling interests	1–12 2014	–8	–	–	12	20	23	–	23
	1–12 2013	–9	–	–	–20	61	33	–6	27
<b>NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY BEFORE PPA</b>	<b>1–12 2014</b>	<b>240</b>	<b>42</b>	<b>173</b>	<b>1,098</b>	<b>–169</b>	<b>1,383</b>	<b>–</b>	<b>1,383</b>
	<b>1–12 2013</b>	<b>126</b>	<b>29</b>	<b>180</b>	<b>1,265</b>	<b>–1,464</b>	<b>136</b>	<b>–62</b>	<b>74</b>
Purchase Price Allocation effect	1–12 2014	–	–	–	–	–	–	–	–
	1–12 2013	–	–	–	–	–	–	–	–
Goodwill impairment	1–12 2014	–	–	–	–	–	–	–	–
	1–12 2013	–	–	–	–9	–1,669	–1,678	–	–1,678
<b>NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY</b>	<b>1–12 2014</b>	<b>240</b>	<b>42</b>	<b>173</b>	<b>1,098</b>	<b>–169</b>	<b>1,383</b>	<b>–</b>	<b>1,383</b>
	<b>1–12 2013</b>	<b>126</b>	<b>29</b>	<b>180</b>	<b>1,256</b>	<b>–3,133</b>	<b>–1,542</b>	<b>–62</b>	<b>–1,604</b>

## D – Segment reporting (CONTINUED)

		RETAIL & CORPORATES	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CENTRAL EASTERN EUROPE (CEE)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST)	RECASTING DIFFER- ENCES <sup>1)</sup>	BANK AUSTRIA GROUP (PUBLISHED) <sup>2)</sup>
Risk-weighted assets (RWA) (avg.) <sup>3) 4)</sup>	1–12 2014	17,854	600	8,394	84,848	13,385	125,081	–	125,081
	1–12 2013	17,579	661	9,093	85,368	14,561	127,262	–1,766	125,496
Loans to customers (end of period) <sup>4)</sup>	1–12 2014	43,208	588	12,567	56,378	990	113,732	–	113,732
	1–12 2013	40,067	644	12,956	56,436	4,661	114,763	–508	114,255
Direct funding (end of period) <sup>4) 5)</sup>	1–12 2014	42,767	8,990	8,773	51,499	20,256	132,285	–	132,285
	1–12 2013	40,303	7,686	8,806	49,529	17,467	123,791	103	123,895
Cost/income ratio excl. bank levy in %	1–12 2014	72.4	64.6	46.4	40.3	n.m.	53.9	n.m.	53.9
	1–12 2013	73.6	71.8	38.9	37.2	n.m.	49.9	n.m.	50.3
Risk/earnings ratio in % <sup>6)</sup>	1–12 2014	4.4	n.m.	n.m.	23.3	n.m.	17.6	n.m.	17.6
	1–12 2013	14.4	1.6	15.4	35.6	n.m.	31.0	n.m.	31.2

1) The segment results have been recast. The difference compared to Bank Austria's results is presented in a separate column showing "Recasting differences", which for 2013 mainly relate to the transfer of Leasing subsidiaries in the Baltics and in Bulgaria, Russia, the Czech Republic, Slovakia and Romania to Bank Austria. Recasting differences in dividends and other income from equity investments also relate to the sale of the equity stake in UniCredit Leasing SpA.

2) The comparative figures 2013 and 2014 reflect the accounting figures, restatements included as described in the notes.

3) Turkey consolidated on a pro-rata basis. Corporate Center: including Kazakhstan (until disposal).

4) Year-end 2014 including Leasing Austria (Retail & Corporates), Leasing Hungary (Corporate Center) and some Leasing entities in Serbia (CEE).

5) Direct funding: deposits from customers and debt securities in issue.

6) 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

## D – Segment reporting (CONTINUED)

## D.4 – Segment reporting Q1 – Q4 2014/Q1 – Q4 2013

(€ million)

		RETAIL & CORPORATES	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CENTRAL EASTERN EUROPE (CEE)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST) <sup>1)</sup>
Net interest	Q4 2014	233	16	80	613	-101	841
	Q3 2014	232	16	77	651	-92	884
	Q2 2014	236	16	83	611	-80	866
	Q1 2014	231	15	85	584	-74	841
	Q4 2013	230	14	83	610	-64	873
	Q3 2013	225	12	81	616	-52	881
	Q2 2013	235	12	89	602	-77	861
	Q1 2013	221	11	89	595	-61	855
Dividends and other income from equity investments	Q4 2014	9	-	-	112	24	145
	Q3 2014	10	-	-	95	21	126
	Q2 2014	12	-	-	90	49	151
	Q1 2014	9	-	-	48	16	73
	Q4 2013	13	-	1	102	8	124
	Q3 2013	4	-	-	297	29	329
	Q2 2013	12	-	-	149	17	179
	Q1 2013	7	-	4	100	21	132
Net fees and commissions	Q4 2014	121	36	26	182	-20	345
	Q3 2014	118	24	25	197	-17	347
	Q2 2014	120	24	23	197	-18	346
	Q1 2014	123	25	24	180	-22	330
	Q4 2013	128	27	31	198	-6	379
	Q3 2013	111	22	20	184	-2	336
	Q2 2013	120	25	28	179	-5	348
	Q1 2013	120	25	30	169	-21	324
Net trading, hedging and fair value income/loss	Q4 2014	14	1	14	12	46	87
	Q3 2014	2	1	9	106	32	150
	Q2 2014	6	1	8	79	45	138
	Q1 2014	3	-	20	57	31	112
	Q4 2013	1	1	15	260	45	321
	Q3 2013	7	1	11	91	48	158
	Q2 2013	7	1	20	102	51	180
	Q1 2013	17	-	8	111	-4	133
Net other expenses/income	Q4 2014	6	-	1	-4	7	10
	Q3 2014	3	-	-	32	12	47
	Q2 2014	3	-	-	17	9	30
	Q1 2014	5	-	-	5	10	20
	Q4 2013	10	-	1	1	8	18
	Q3 2013	5	1	-	32	5	43
	Q2 2013	5	-	1	16	-19	2
	Q1 2013	6	-	3	11	8	28
<b>OPERATING INCOME</b>	<b>Q4 2014</b>	<b>383</b>	<b>53</b>	<b>121</b>	<b>916</b>	<b>-44</b>	<b>1,429</b>
	<b>Q3 2014</b>	<b>365</b>	<b>40</b>	<b>112</b>	<b>1,081</b>	<b>-44</b>	<b>1,554</b>
	<b>Q2 2014</b>	<b>377</b>	<b>41</b>	<b>115</b>	<b>993</b>	<b>5</b>	<b>1,531</b>
	<b>Q1 2014</b>	<b>371</b>	<b>40</b>	<b>130</b>	<b>875</b>	<b>-40</b>	<b>1,376</b>
	<b>Q4 2013</b>	<b>382</b>	<b>41</b>	<b>131</b>	<b>1,170</b>	<b>-10</b>	<b>1,715</b>
	<b>Q3 2013</b>	<b>352</b>	<b>36</b>	<b>112</b>	<b>1,219</b>	<b>28</b>	<b>1,747</b>
	<b>Q2 2013</b>	<b>378</b>	<b>38</b>	<b>138</b>	<b>1,048</b>	<b>-32</b>	<b>1,570</b>
	<b>Q1 2013</b>	<b>371</b>	<b>37</b>	<b>134</b>	<b>986</b>	<b>-57</b>	<b>1,472</b>
<b>OPERATING COSTS</b>	<b>Q4 2014</b>	<b>-297</b>	<b>-30</b>	<b>-72</b>	<b>-410</b>	<b>-57</b>	<b>-865</b>
	<b>Q3 2014</b>	<b>-268</b>	<b>-28</b>	<b>-59</b>	<b>-398</b>	<b>-61</b>	<b>-814</b>
	<b>Q2 2014</b>	<b>-283</b>	<b>-30</b>	<b>-62</b>	<b>-388</b>	<b>-59</b>	<b>-822</b>
	<b>Q1 2014</b>	<b>-283</b>	<b>-29</b>	<b>-61</b>	<b>-404</b>	<b>-58</b>	<b>-835</b>
	<b>Q4 2013</b>	<b>-293</b>	<b>-28</b>	<b>-58</b>	<b>-457</b>	<b>-58</b>	<b>-895</b>
	<b>Q3 2013</b>	<b>-269</b>	<b>-27</b>	<b>-55</b>	<b>-410</b>	<b>-53</b>	<b>-813</b>
	<b>Q2 2013</b>	<b>-288</b>	<b>-28</b>	<b>-57</b>	<b>-408</b>	<b>-55</b>	<b>-835</b>
	<b>Q1 2013</b>	<b>-282</b>	<b>-28</b>	<b>-57</b>	<b>-422</b>	<b>-56</b>	<b>-844</b>

1) Quarterly figures based on recast data only.



## D – Segment reporting (CONTINUED)

		RETAIL & CORPORATES	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CENTRAL EASTERN EUROPE (CEE)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST) <sup>1)</sup>
<b>OPERATING PROFIT</b>	<b>Q4 2014</b>	<b>86</b>	<b>23</b>	<b>49</b>	<b>506</b>	<b>-101</b>	<b>563</b>
	<b>Q3 2014</b>	<b>97</b>	<b>13</b>	<b>53</b>	<b>682</b>	<b>-105</b>	<b>740</b>
	<b>Q2 2014</b>	<b>94</b>	<b>11</b>	<b>53</b>	<b>605</b>	<b>-54</b>	<b>710</b>
	<b>Q1 2014</b>	<b>87</b>	<b>12</b>	<b>68</b>	<b>471</b>	<b>-98</b>	<b>540</b>
	<b>Q4 2013</b>	<b>89</b>	<b>13</b>	<b>72</b>	<b>713</b>	<b>-68</b>	<b>820</b>
	<b>Q3 2013</b>	<b>84</b>	<b>9</b>	<b>57</b>	<b>809</b>	<b>-25</b>	<b>934</b>
	<b>Q2 2013</b>	<b>90</b>	<b>10</b>	<b>82</b>	<b>639</b>	<b>-87</b>	<b>735</b>
	<b>Q1 2013</b>	<b>89</b>	<b>10</b>	<b>78</b>	<b>564</b>	<b>-113</b>	<b>628</b>
Net write-downs of loans and provisions for guarantees and commitments	Q4 2014	16	-	-4	-203	-	-192
	Q3 2014	-12	-	-8	-150	-	-169
	Q2 2014	-5	-	28	-166	-	-142
	Q1 2014	-43	-	-13	-134	-	-190
	Q4 2013	-2	-	-15	-489	-30	-536
	Q3 2013	-45	-	-13	-205	-	-263
	Q2 2013	-45	-	-12	-213	1	-269
	Q1 2013	-45	-	-13	-188	-	-246
<b>NET OPERATING PROFIT</b>	<b>Q4 2014</b>	<b>102</b>	<b>23</b>	<b>45</b>	<b>302</b>	<b>-101</b>	<b>371</b>
	<b>Q3 2014</b>	<b>85</b>	<b>13</b>	<b>45</b>	<b>532</b>	<b>-104</b>	<b>571</b>
	<b>Q2 2014</b>	<b>90</b>	<b>11</b>	<b>82</b>	<b>439</b>	<b>-54</b>	<b>568</b>
	<b>Q1 2014</b>	<b>45</b>	<b>12</b>	<b>55</b>	<b>337</b>	<b>-98</b>	<b>350</b>
	<b>Q4 2013</b>	<b>87</b>	<b>13</b>	<b>57</b>	<b>224</b>	<b>-98</b>	<b>284</b>
	<b>Q3 2013</b>	<b>39</b>	<b>9</b>	<b>44</b>	<b>604</b>	<b>-25</b>	<b>671</b>
	<b>Q2 2013</b>	<b>46</b>	<b>10</b>	<b>69</b>	<b>427</b>	<b>-86</b>	<b>466</b>
	<b>Q1 2013</b>	<b>45</b>	<b>9</b>	<b>65</b>	<b>377</b>	<b>-113</b>	<b>382</b>
Provisions for risks and charges	Q4 2014	2	-1	-	-6	-1	-7
	Q3 2014	-	-	-	-77	-18	-95
	Q2 2014	-	-	-	-30	2	-28
	Q1 2014	-	-	-	-3	-	-4
	Q4 2013	-5	-1	-	-6	-22	-34
	Q3 2013	-	-1	-	-	-15	-17
	Q2 2013	-	-	-	-4	-31	-34
	Q1 2013	-	-	-	-1	-62	-63
Integration/restructuring costs	Q4 2014	-	-1	-	1	-4	-5
	Q3 2014	-	-	-	-1	-	-1
	Q2 2014	-	-	-	-6	-	-6
	Q1 2014	-	-	-	-1	-	-1
	Q4 2013	-	-	-	-13	-104	-117
	Q3 2013	-	-	4	-14	-	-10
	Q2 2013	-	-	-	-4	-	-4
	Q1 2013	-	-	-	-2	-	-2
Net income/loss from investments	Q4 2014	-10	-	-	8	-1	-4
	Q3 2014	-	-	-	6	5	12
	Q2 2014	-1	-	-	-1	-17	-20
	Q1 2014	-	-	2	-	73	75
	Q4 2013	-43	-	-2	-18	-635	-698
	Q3 2013	11	-	-1	-34	-2	-26
	Q2 2013	-2	-	3	-2	1	-
	Q1 2013	-	-	-2	-	-	-2
<b>PROFIT BEFORE TAX</b>	<b>Q4 2014</b>	<b>94</b>	<b>21</b>	<b>45</b>	<b>305</b>	<b>-108</b>	<b>356</b>
	<b>Q3 2014</b>	<b>86</b>	<b>12</b>	<b>46</b>	<b>461</b>	<b>-117</b>	<b>487</b>
	<b>Q2 2014</b>	<b>89</b>	<b>11</b>	<b>82</b>	<b>402</b>	<b>-69</b>	<b>515</b>
	<b>Q1 2014</b>	<b>44</b>	<b>12</b>	<b>58</b>	<b>332</b>	<b>-25</b>	<b>421</b>
	<b>Q4 2013</b>	<b>39</b>	<b>12</b>	<b>55</b>	<b>187</b>	<b>-858</b>	<b>-564</b>
	<b>Q3 2013</b>	<b>50</b>	<b>8</b>	<b>47</b>	<b>555</b>	<b>-43</b>	<b>618</b>
	<b>Q2 2013</b>	<b>44</b>	<b>10</b>	<b>72</b>	<b>417</b>	<b>-116</b>	<b>428</b>
	<b>Q1 2013</b>	<b>45</b>	<b>9</b>	<b>63</b>	<b>374</b>	<b>-175</b>	<b>316</b>

1) Quarterly figures based on recast data only.

## D – Segment reporting (CONTINUED)

		RETAIL & CORPORATES	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CENTRAL EASTERN EUROPE (CEE)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST) <sup>1)</sup>
Income tax for the period	Q4 2014	-21	-5	-11	-36	-14	-87
	Q3 2014	-16	-3	-11	-66	23	-73
	Q2 2014	-20	-3	-20	-55	35	-63
	Q1 2014	-7	-3	-15	-51	12	-64
	Q4 2013	-23	-4	-14	-15	-189	-245
	Q3 2013	-6	-2	-11	-51	4	-66
	Q2 2013	-7	-3	-18	-28	-23	-79
	Q1 2013	-6	-2	-15	-51	37	-38
Total profit or loss after tax from discontinued operations	Q4 2014	-	-	-	-126	13	-113
	Q3 2014	-	-	-	-41	47	6
	Q2 2014	-	-	-	-35	8	-27
	Q1 2014	-	-	-	-4	6	2
	Q4 2013	-	-	-	-52	-199	-251
	Q3 2013	-	-	-	2	6	8
	Q2 2013	-	-	-	-56	13	-43
	Q1 2013	-	-	-	3	17	20
<b>PROFIT (LOSS) FOR THE PERIOD</b>	<b>Q4 2014</b>	<b>73</b>	<b>15</b>	<b>34</b>	<b>143</b>	<b>-109</b>	<b>156</b>
	<b>Q3 2014</b>	<b>70</b>	<b>10</b>	<b>34</b>	<b>353</b>	<b>-47</b>	<b>420</b>
	<b>Q2 2014</b>	<b>69</b>	<b>8</b>	<b>62</b>	<b>313</b>	<b>-27</b>	<b>425</b>
	<b>Q1 2014</b>	<b>37</b>	<b>9</b>	<b>43</b>	<b>277</b>	<b>-7</b>	<b>359</b>
	<b>Q4 2013</b>	<b>16</b>	<b>9</b>	<b>42</b>	<b>120</b>	<b>-1,247</b>	<b>-1,061</b>
	<b>Q3 2013</b>	<b>44</b>	<b>6</b>	<b>37</b>	<b>506</b>	<b>-33</b>	<b>560</b>
	<b>Q2 2013</b>	<b>37</b>	<b>7</b>	<b>54</b>	<b>333</b>	<b>-125</b>	<b>306</b>
	<b>Q1 2013</b>	<b>39</b>	<b>7</b>	<b>47</b>	<b>326</b>	<b>-121</b>	<b>298</b>
Non-controlling interests	Q4 2014	-2	-	-	31	5	35
	Q3 2014	-3	-	-	-5	4	-4
	Q2 2014	-1	-	-	-2	4	1
	Q1 2014	-2	-	-	-13	8	-8
	Q4 2013	-3	-	-1	28	39	64
	Q3 2013	-3	-	-	-8	1	-10
	Q2 2013	-2	-	-	-21	15	-8
	Q1 2013	-2	-	1	-18	6	-13
<b>NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY BEFORE PPA</b>	<b>Q4 2014</b>	<b>71</b>	<b>15</b>	<b>34</b>	<b>175</b>	<b>-104</b>	<b>191</b>
	<b>Q3 2014</b>	<b>66</b>	<b>10</b>	<b>34</b>	<b>349</b>	<b>-43</b>	<b>416</b>
	<b>Q2 2014</b>	<b>68</b>	<b>8</b>	<b>62</b>	<b>311</b>	<b>-23</b>	<b>426</b>
	<b>Q1 2014</b>	<b>34</b>	<b>9</b>	<b>43</b>	<b>263</b>	<b>1</b>	<b>351</b>
	<b>Q4 2013</b>	<b>13</b>	<b>9</b>	<b>40</b>	<b>148</b>	<b>-1,207</b>	<b>-997</b>
	<b>Q3 2013</b>	<b>41</b>	<b>6</b>	<b>37</b>	<b>498</b>	<b>-32</b>	<b>550</b>
	<b>Q2 2013</b>	<b>35</b>	<b>7</b>	<b>54</b>	<b>312</b>	<b>-110</b>	<b>298</b>
	<b>Q1 2013</b>	<b>37</b>	<b>7</b>	<b>49</b>	<b>308</b>	<b>-115</b>	<b>285</b>
Purchase Price Allocation effect	Q4 2014	-	-	-	-	-	-
	Q3 2014	-	-	-	-	-	-
	Q2 2014	-	-	-	-	-	-
	Q1 2014	-	-	-	-	-	-
	Q4 2013	-	-	-	-	-	-
	Q3 2013	-	-	-	-	-	-
	Q2 2013	-	-	-	-	-	-
	Q1 2013	-	-	-	-	-	-
Goodwill impairment	Q4 2014	-	-	-	-	-	-
	Q3 2014	-	-	-	-	-	-
	Q2 2014	-	-	-	-	-	-
	Q1 2014	-	-	-	-	-	-
	Q4 2013	-	-	-	-9	-1,661	-1,670
	Q3 2013	-	-	-	-	-3	-3
	Q2 2013	-	-	-	-	-3	-3
	Q1 2013	-	-	-	-	-3	-3

1) Quarterly figures based on recast data only.

## D – Segment reporting (CONTINUED)

		RETAIL & CORPORATES	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CENTRAL EASTERN EUROPE (CEE)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST) <sup>1)</sup>
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	Q4 2014	71	15	34	175	-104	191
	Q3 2014	66	10	34	349	-43	416
	Q2 2014	68	8	62	311	-23	426
	Q1 2014	34	9	43	263	1	351
	Q4 2013	13	9	40	139	-2,869	-2,667
	Q3 2013	41	6	37	498	-34	547
	Q2 2013	35	7	54	312	-113	296
	Q1 2013	37	7	49	308	-118	282
Risk-weighted assets (RWA) (avg.) <sup>2) 3)</sup>	Q4 2014	18,489	558	8,487	89,099	11,399	128,031
	Q3 2014	17,735	617	8,461	85,503	13,487	125,803
	Q2 2014	17,938	623	8,227	83,515	14,543	124,846
	Q1 2014	17,255	604	8,401	81,274	14,111	121,645
	Q4 2013	17,280	600	8,608	81,274	13,147	120,910
	Q3 2013	17,424	597	8,529	84,482	13,519	124,550
	Q2 2013	17,631	615	9,291	87,429	15,072	130,040
	Q1 2013	17,981	833	9,946	88,284	16,504	133,548
Loans to customers (end of period) <sup>3)</sup>	Q4 2014	43,208	588	12,567	56,378	990	113,732
	Q3 2014	40,145	599	12,924	57,737	3,762	115,167
	Q2 2014	40,242	635	13,052	57,091	4,284	115,304
	Q1 2014	39,898	636	13,126	54,606	4,959	113,224
	Q4 2013	40,067	644	12,956	56,436	4,661	114,763
	Q3 2013	40,349	642	13,340	58,127	4,732	117,190
	Q2 2013	40,857	627	13,652	57,912	5,451	118,498
	Q1 2013	40,896	592	14,189	58,092	5,607	119,376
Direct funding (end of period) <sup>3) 4)</sup>	Q4 2014	42,767	8,990	8,773	51,499	20,256	132,285
	Q3 2014	42,007	9,163	8,885	50,070	20,411	130,536
	Q2 2014	40,483	8,352	8,527	48,398	19,211	124,971
	Q1 2014	40,522	8,585	8,811	47,452	18,658	124,028
	Q4 2013	40,303	7,686	8,806	49,529	17,467	123,791
	Q3 2013	39,217	7,969	8,327	46,020	16,637	118,170
	Q2 2013	41,208	7,821	8,476	45,857	16,481	119,842
	Q1 2013	42,442	7,761	8,623	46,303	16,179	121,308
Cost/income ratio excl. bank levy in %	Q4 2014	74.4	54.6	52.8	44.4	n.m.	58.3
	Q3 2014	70.2	67.0	45.4	36.3	n.m.	50.1
	Q2 2014	71.8	69.6	47.0	38.5	n.m.	51.3
	Q1 2014	73.3	70.2	40.9	42.8	n.m.	56.5
	Q4 2013	74.1	67.6	39.8	38.6	n.m.	50.5
	Q3 2013	73.5	73.4	43.1	33.2	n.m.	44.9
	Q2 2013	73.5	72.8	36.3	38.4	n.m.	51.3
	Q1 2013	73.3	73.8	37.4	39.4	n.m.	53.5
Risk/earnings ratio in % <sup>5)</sup>	Q4 2014	n.m.	n.m.	5.2	28.1	n.m.	19.5
	Q3 2014	4.8	0.3	10.0	20.1	n.m.	16.7
	Q2 2014	1.9	n.m.	n.m.	23.7	n.m.	14.0
	Q1 2014	17.8	0.7	15.7	21.2	n.m.	20.8
	Q4 2013	0.8	1.9	18.1	68.7	n.m.	53.8
	Q3 2013	19.6	1.7	15.8	22.5	n.m.	21.7
	Q2 2013	18.2	1.2	13.8	28.3	n.m.	25.8
	Q1 2013	19.6	1.7	14.1	27.0	n.m.	24.9

1) Quarterly figures based on recast data only.

2) Turkey consolidated on a pro-rata basis. Corporate Center: including Kazakhstan (until disposal).

3) Q4 2014 including Leasing Austria (Retail & Corporates), Leasing Hungary (Corporate Center) and some Leasing entities in Serbia (CEE).

4) Direct funding: deposits from customers and debt securities in issue.

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



## E – Risk report

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## E – Risk report (CONTINUED)

### E.1 – Overall risk management

UniCredit Bank Austria AG identifies, measures, monitors and manages all risks of Bank Austria. In performing these tasks, Bank Austria works closely with the risk control and risk management units of UniCredit. In this context, UniCredit Bank Austria AG supports UniCredit's ongoing projects which are aimed at establishing uniform group-wide risk controlling procedures.

UniCredit Bank Austria AG divides the monitoring and controlling processes associated with risk management into the following categories: market risk, liquidity risk, currency risk, counterparty risk, credit risk, operational risk, reputational risk, business risk, financial investment risk and real estate risk.

The Management Board determines the risk policy and approves the principles of risk management, the establishment of limits for all relevant risks, and the risk control procedures. A key element of this is the annual definition of the group's Risk Appetite (RA), in terms of a verbal Statement (RAS) and a Framework (RAF) of key metrics (targets, triggers, limits). RA defines risk types and the level of risk that the group is prepared to accept in pursuit of its strategic objectives and business plan, taking into account the interest of its customers and shareholders as well as capital and other requirements. RA is integrated in the budgeting process in the context of defining and selecting the desired risk-return profile. In performing these tasks, the Management Board is supported by specific committees and independent risk management units. All risk management activities of UniCredit Bank Austria AG are combined within a management function at Management Board level directed by the Chief Risk Officer (CRO):

Secondary lending decisions for corporate customers are made in the CIB Credit Operations, CEE Credit Operations and Market Risk departments, and for private customers and business customers in the Risk Management Family & SME Banking (including Private Banking) department. The Special Credit Austria and CEE Credit Operations departments deal with problem loans. These organisational units are supported by the Strategic Risk Management & Control department. Credit risk control of the CEE business units is performed by the Strategic Risk Management & Control and CEE Credit Operations departments. The unit for active credit portfolio management (Credit Treasury) reports to the Chief Financial Officer (CFO) indirectly via the Finance department.

#### Cross-divisional control

The Risk Committee (RICO) is responsible for the management of balance-sheet structure positions, it deals with cross-divisional risk management issues arising between sales units and overall bank management, and provides an overview of credit portfolio model results and of the IRB models while also preparing reports on economic capital (Pillar 2). Liquidity risk control is performed by a separate committee (Liquidity Committee – LICO) which meets once a week to deal with current liquidity-related topics. These include operational aspects of liquidity management including market monitoring; and compliance with the liquidity policy, with CEE banking subsidiaries also being covered in this context – Bank Austria acts as a regional liquidity centre of UniCredit Group. Control of market risk is ensured by the Market Risk Committee (MACO), which meets once a week. MACO deals with short-term business management issues relating to the presentation and discussion of the risk/earnings position of Markets & Corporate Treasury Sales and with limit adjustments, product approvals and positioning decisions in the area of market risk. Other topics discussed and decided include, for example, the replication portfolio and methods for funds transfer pricing. In addition, the general framework and limits for banking subsidiaries are defined by MACO. Credit risk is assessed by the Credit Committee. The Operational & Reputational Risk Committee (OpRRiCo) meets on a quarterly basis to deal with operational & reputational risk issues. Risk arising from derivative transactions is managed by the Derivative Committee (DECO). DECO deals with classic credit risk and counterparty risk issues and aspects of reputational risk in customer business.

The Management Board of UniCredit Bank Austria AG sets risk limits for market risk activities and liquidity positions of the entire Bank Austria at least once a year, in coordination with UniCredit Group. RICO performs analyses and makes decisions with regard to business activities closely connected with customer business (in particular, risk management issues arising between sales units and overall bank management, ICAAP). The decisions and results of these committees are reported directly to the bank's full Management Board. Risk Management, which is separate from the business divisions up to Management Board level, is in charge of preparing analyses and monitoring compliance with limits.

Beyond compliance with the regulatory capital rules pursuant to Section 39 of the Austrian Banking Act, economic capital (Pillar 2) is intended to reflect the bank's specific risk profile in a comprehensive and more consistent way. These unexpected losses over a period of one year are calculated with a confidence level of 99.93%.

Value-at-risk methodologies are used in Bank Austria for calculating or planning economic capital for various specified types of risk (credit risk, market risk, operational risk, business risk, financial investment risk and real estate risk). Under the risk-taking capacity concept, economic capital is compared with available financial resources and monitored on an ongoing basis. Bank Austria is included in the risk monitoring and risk management system of the entire UniCredit Group. This ensures overall risk management across the Group.

## E – Risk report (CONTINUED)

### Note on the presentation:

In the following risk report, unless explicitly stated otherwise, the exposure of our joint venture Yapı Kredi Group is included according to the regulatory view and the risk view. Sections E.8 (country risk) and E.9 (credit risk) focus mainly on reconcilability with the figures in the IFRS consolidated financial statements. For this reason the exposures of the Yapı Kredi Group, which is accounted for using the equity method in the IFRS consolidated financial statements in accordance with IFRS 11, are not included in the presentation.

## E.2 – Major risks in Central and Eastern Europe

### Russia

#### Country risk

The political crisis in Ukraine triggered major negative impacts on the Russian economy. Sanctions imposed in response to the Ukraine conflict are significantly restricting Russian companies' business and their access to Western capital markets.

Dramatic depreciation of the Russian rouble and falling crude oil prices in the past few months are driving inflation and putting additional pressure on the economy. Large Russian groups of companies and the banking sector are increasingly dependent on financial aid provided by the state.

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

#### Credit risk

The banking subsidiary in Russia accounts for about 15% (€11.7 billion) of lending volume in CEE. Measured by loans to customers, the bank in Russia is the largest bank in UniCredit's network in Central and Eastern Europe. The sanctions which have been imposed have so far not had any discernible impact on the loan portfolio. In 2014, the proportion of defaulted loans (3.7%) remained constant compared with year-end 2013 (4.2%). The provisioning charge rose only slightly in 2014, to €85 million (2013: €81 million) although the economic environment was deteriorating especially in the second half of the year. The increase is mainly explained by provisioning for corporate customers.

UniCredit Bank Austria AG has assumed an intra-group guarantee in the amount of €1.3 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.

Management's focus on management and restructuring activities in connection with companies which defaulted on their loans has proved successful, making it possible to reclassify loans to such companies as performing again. Risk-mitigating measures implemented additionally serve to monitor and assure asset quality and are aimed at preventing a default by borrowers or reducing losses in the event of default.

#### Currency risk

Currency depreciation and material interest rate increases during the first quarter of 2014 mainly led to valuation losses on the bond and interest rate positions of UniCredit Bank Russia. The massive 7% increase in central bank interest rates in December 2014 did not have the hoped-for positive effect of stabilising the RUB exchange rate. The currently inverted RUB yield curve accentuates the negative income contributions from Markets business of our bank in Russia.

Low oil prices and the impact of economic sanctions in 2014 led to strong appreciation of the euro against the Russian rouble (60%) with sharp temporary fluctuations.

#### Liquidity risk

UniCredit Bank Russia is currently 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

Demonstrations and rallies in support of the signing of a free-trade agreement with the EU in November 2013, to which the government responded by using force of arms, led to a government reshuffle a few weeks later and brought about the downfall of the President, who had enjoyed Russia's support.

## E – Risk report (CONTINUED)

After the annexation of Crimea by Russia in February 2014, the military conflict spread to eastern Ukraine, leading to economic recession and rising foreign debt. The Ukrainian economy and the country's independence can only be maintained if far-reaching structural reforms are carried out. Such reforms are a condition to be met for further aid payments from the IMF, the EU and the US. Unless such payments are made soon, the country will face insolvency, given the low level of its foreign exchange reserves and debt repayments due in 2015.

As UniCredit Group operates a banking subsidiary in Ukraine, political and economic developments in Ukraine are a focus of attention. Specific crisis strategies are used to manage and closely monitor the entire exposure.

The current situation in the country has a strong impact on commercial activity. Ukrspotsbank (USB) has closed its operations in Crimea. In the regions of Donetsk and Luhansk, 39 branches have been closed permanently and 3 branches have been closed at least temporarily.

The Ukrainian **banking sector** was strongly impacted in 2014 by the strained political and economic environment. Lending business fell sharply, non-performing loans increased and the banking sector's capitalisation deteriorated. Loans in local currency, which had grown by 16.9% in 2013, contracted by 9.1% in 2014. Growth of 22.4% in retail loans in the previous year was followed by a 12.4% decline in 2014, while an increase of 15.5% in corporate loans in 2013 was followed by a decrease of 9.1% in 2014. In the reporting year the volume of foreign currency loans rose by 53.5% (compared with 2.8% in 2013), but this growth was mainly due to substantial depreciation of the local currency.

Massive capital flight also had an impact on the banking sector. While 2013 had seen an increase of 17.1% in deposits in 2013, the rate of growth fell to a low 0.8% in 2014. In view of the deterioration in the loan portfolio, net write-downs of loans rose substantially and the Ukrainian banking sector as a whole closed 2014 with a loss of UAH 53 billion (€2.8 billion). (Without banks which are insolvent or were placed under central bank surveillance, the loss was UAH 33.1 billion (€1.7 billion).)

Current developments, especially renewed depreciation of the Ukrainian currency at the beginning of February 2015, will further weaken the banking sector and its capitalisation in particular. As official figures are only available as at the end of 2014, it is not yet possible to accurately quantify the effects.

The financial statements as at 31 December 2014 reflect a provision of €200 million (see comments on table C.14).

**Credit risk**

The general deterioration in the political and economic situation was also reflected in the quality of the Ukrainian banking subsidiary's loan portfolio, leading to a steady increase in defaults.

As at 31 December 2014, the portfolio at the Ukrainian banking subsidiary Ukrspotsbank (USB) amounted to €2.4 billion (€1.7 billion after deduction of loan loss provisions), accounting for about 3% of lending volume in CEE. Moreover, at the end of the reporting period, loans and receivables with internationally active Ukrainian borrowers booked directly in UniCredit Bank Austria AG (Profit Center Vienna, PCV) totalled about €0.8 billion (€0.5 billion after deduction of loan loss provisions), of which about €280 million is attributable to the immediate crisis region.

Within Ukraine, only €0.4 billion (€0.3 billion after deduction of loan loss provisions) is attributable to the eastern region (loans booked directly in Crimea and the Donbass region and loans booked in other regions to the extent that the borrower conducts the major part of its activities in the crisis region). The default ratio for the Ukrainian banking subsidiary is 67% (31 December 2013: 50%). At the end of the reporting period, the default ratio for volume with Ukrainian companies booked in the PCV was 55%. In the immediate crisis region, these ratios are higher, defaulted volume there is 74%.

The valuation of exposures in the eastern region of Ukraine (Crimea and Donbass) reflects collateral in the total amount of €192 million (of which €7 million was taken into account for the Profit Center Vienna and €185 million for volume booked at the local bank); the condition and soundness of such collateral cannot be assessed in a reliable manner.

**Loan portfolio data Ukraine**

(€ million)

	USB		PCV		TOTAL	
	2014	2013	2014	2013	2014	2013
Total Bank						
Loans to Customers (Gross)	2,413	3,149	768	699	3,181	3,848
Loans to Customers (Net)	1,699	2,477	463	452	2,162	2,929
Impaired Loans (Gross)	1,623	1,564	422	248	2,044	1,812
thereof East Region (Crimea, Donbass)						
Loans to Customers (Gross)	416		280		696	
Loans to Customers (Net)	285		230		515	
Impaired Loans (Gross)	376		139		515	



## E – Risk report (CONTINUED)

An assessment of potential impairment was made on the basis of information most recently available. This involves uncertainty especially with regard to the crisis region of Crimea and Donbass, with future management being largely dependent on further developments in the region.

Despite the difficult situation in Crimea and the armed conflict in Donbass, repayment and restructuring agreements tailored to the needs of corporate customers helped to achieve significant success in loan repayments. In the retail banking sector, the bank uses the services of specialised local collection agencies, in addition to the efforts of its own employees, to ensure that loans are serviced on an ongoing basis.

### **Asset Quality Reviews**

In 2014 an asset quality review and stress test was performed by PwC at the request of the National Bank of Ukraine within the scope of overall stress testing of capital needs of the largest Ukrainian banks in two economic development scenarios until the end of 2016. Additionally, an ordinary inspection by the National Bank was performed in the second half of the year; the results of the inspection are not yet available. Both the asset quality review and the inspection were performed in accordance with local accounting standards, not under IFRS.

### **Currency risk**

The political crisis in Ukraine led to material appreciation of the US dollar against Ukraine's currency (change USD against UAH of about 90% since the beginning of 2014) and an interest rate increase in funding rates. After substantial depreciation in March/April, the UAH exchange rate settled at about 17 against the euro. This was followed by further strong depreciation in November, to a level of about 19 hryvnias against the euro. This means that the euro gained about 70% against the Ukrainian currency in 2014.

The Ukrainian currency (UAH) has depreciated significantly since 5 February 2015. While the exchange rate had moved at a level of about 19 UAH per euro before 5 February 2015 (exchange rate as at 31 December 2014: 19.206 EUR/UAH), it rose to about 30 UAH per euro by the middle of February.

### **Liquidity risk**

The customer deposit base in UAH decreased by 17% in Q1 2014 (deposits in USD by 40%) but was subsequently stabilised.

UAH deposits subsequently rose again until the end of the year, reaching a year-end 2014 level which was 7% lower than a year earlier; USD deposits (mainly held by corporates) declined by about 37% in 2014.

### **Deposits USB**

	31 DEC. 2013	31 DEC. 2014	CHANGE
UAH (in UAH million)	13,672	12,714	-7.0%
USD (in USD million)	817	517	-36.7%

The bank holds collateral (Ukraine government bonds) which can be used in the amount of about UAH 1.5 billion for UAH refinancing with the local central bank. The Ukrainian government bonds are denominated in UAH but linked to the USD, thus partly closing the bank's open regulatory USD position. These bonds will be repaid in UAH at maturity and therefore have no influence on the bank's USD liquidity. In addition, there is a collateral-free National Bank of Ukraine (NBU) facility of UAH 0.4 billion. Central bank funds in the amount of available collateral are available to the bank unless local minimum capital ratios fail to be met. Bank Austria supports USB with a USD overnight facility, which is currently not used. Ukrspotsbank is currently not using any local central bank support.

Quite generally, considering the crisis, a strong focus on deposit retention and restrictive lending practice helped to keep the overall bank's liquidity position comparatively stable.

### **Operational risk**

Losses resulting from operational risk at Ukrspotsbank in connection with the current conflict amount to €3.3 million (as at 22 January 2015), mainly relating to cash, valuables, security vans and leased equipment.

### **Real estate**

The carrying amount of real estate held by the bank in the crisis region amounted to €9.1 million at the end of the reporting period. This amount reflects the most recent reliably available information. As some parts of the country are accessible only to a limited extent on account of the political crisis, there is considerable uncertainty over this amount in respect of holdings and value stability.

## E – Risk report (CONTINUED)

### **Recent developments after the end of the reporting period**

Current political developments in Ukraine led to strong depreciation of the local currency against the euro and the US dollar from 5 February 2015. This is having a strong impact on the Ukrainian economy and on the entire Ukrainian banking sector in particular.

As at 31 December 2014, the local bank in Ukraine reported loans and receivables denominated in foreign currency in the amount of €1.7 billion, which were affected by recent depreciation of the Ukrainian hryvnia. At present it is not possible to quantify the deterioration in the relevant borrowers' credit rating which is expected to result from the higher loan exposure/the higher loan repayment obligation in local currency.

Strong depreciation of the local currency (UAH) leads to the breach, throughout the Ukrainian banking sector, of some local regulatory requirements (minimum capital adequacy level, liquidity and open foreign exchange position) defined by the National Bank of Ukraine (NBU). This also affects Ukrspotsbank (USB). There are two reasons for non-compliance with minimum capital requirements:

- a) The open FX position (mainly resulting from foreign currency loans) causes valuation losses in the income statement according to the local accounting standards; under NBU regulations, these losses have to be deducted from Tier 1 capital. At the same time, eligibility of Tier 2 capital for the calculation of capital is limited to the amount of eligible Tier 1 capital. In the case of Ukrspotsbank, this leads to the erosion of Tier 1 capital and thus also to non-eligibility of qualifying Tier 2 capital for inclusion in the calculation of capital.
- b) The risk-weighted assets of the FX loans, translated into UAH, increase significantly because of exchange rate movements, whereas the UAH-denominated capital of USB remains unchanged.

Both effects together result in a substantial reduction below the minimum total capital ratio as defined by the NBU (currently 10%) in Ukrspotsbank. The NBU has asked the management of Ukrspotsbank to present an action plan to improve the total capital ratio, which is currently discussed with the National Bank of Ukraine. The action plan may include the following measures: capital increase, reduction of risk-weighted assets through sale of loan packages and/or risk assumption by third parties in and outside the Bank Austria Group.

After the reporting date, UniCredit Bank Austria AG has issued a letter of comfort to the National Bank of Ukraine stating that it intends to continue to operate Ukrspotsbank (USB) as a going concern also in the period before the future sale of USB and to support the plans of USB's management.

### E.3 – Market risk

Market risk management at Bank Austria encompasses all activities in connection with our Markets and Corporate Treasury Sales operations and management of the balance sheet structure in Vienna and at subsidiaries. Risk positions are aggregated at least daily, analysed by the independent risk management unit and compared with the risk limits set by the Management Board and the committees (including MACO) designated by the Management Board. At Bank Austria, market risk management includes ongoing reporting on the risk position, limit utilisation, and the daily presentation of results of all positions associated with market risk. Most of the positions held in Bank Austria are attributable to the banking book. Market risk of the banking book is an important factor also in other Divisions (the CEE banking subsidiaries, in particular). UniCredit Bank Austria uses uniform risk management procedures for all market risk positions throughout the Group. These procedures provide aggregate data and make available the major risk parameters for the various trading operations once a day. Besides Value at Risk (VaR), other factors of equal importance are stress-oriented sensitivity and position limits. Additional elements of the limit system are the loss-warning level (applied to accumulated results for a specific period), the stressed VaR (SVaR) limit (determined for the trading book with a separate observation period), incremental risk charge (IRC) limits, the stress test warning limit (limiting losses when a pre-defined stress event is applied) and granular market risk limits (GML).

As mentioned above, Bank Austria uses a standard measurement procedure which is also applied in UniCredit Group. The model, approved in 2011, is used for internal risk management and for reporting regulatory capital requirements for market risk. Bank Austria is embedded in the market risk governance framework of UniCredit Group and leverages on the group-wide risk management platform UGRM. Moreover, as part of the EuroMIB transformation programme, the group-wide Front-to-Back Office platform ("Murex"), which together with UGRM forms an integrated risk system, was introduced at Bank Austria in 2014.

The internal model (IMOD) is based on historical simulation with a 500-day market data time window for scenario generation. It is applied by Market Risk Management & Price Control within Bank Austria and is being further developed in cooperation with the UniCredit holding company. Further development includes reviewing the model as part of back-testing procedures, integrating new products, implementing requirements specified by the Management Board and the Market Risk Committee, and executing the Model Maintenance Report on a quarterly basis.

## E – Risk report (CONTINUED)

### Risk governance

A new product process (NPP) has been established for the introduction of new products in the area of market risk in which risk managers play a decisive role in approving products. When reviewing the implementation of requirements specified as part of the approval of the Group-wide UniCredit market risk model in 2011, the college of supervisors (Italy, Germany and Austria) reduced the VaR and SVaR multiplier from 3.5 to 3.2. The market risk model is used for UniCredit Bank Austria AG, as until now, and for Bank Austria. The risk model covers all major risk categories: interest rate risk and equity risk (both general and specific), credit spread risk, currency risk and commodity position risk. The IMOD is subject to an annual review by Group Internal Validation (GIV) and internal audit. The structure of the standard risk report presented at MACO's weekly meetings covers (stress) sensitivities in addition to VaR figures, and utilisation levels in the areas of IRC and SVaR (both for the regulatory trading books). Regular and specific stress scenario calculations complement the information provided to MACO and the Management Board.

### Stress testing

Bank Austria conducts a rigorous programme of stress testing and the results are reviewed and discussed in the MACO at least quarterly or on an ad-hoc basis given unfavourable market developments. In addition to the prevailing market risk stress test Bank Austria introduced an IRC stress test in 2014. Macro scenarios show the potential adverse impacts of global developments with specific effects on the respective risk categories, while stress sensitivities of individual risk factors or groups of risk factors show the potential adverse impacts on partial market segments. Stress scenarios are based on assumptions of extreme movements in individual market risk parameters. The bank analyses the effect of such fluctuations and a liquidity disruption in specific products and risk factors on the bank's results. These assumptions of extreme movements are dependent on currency, region, liquidity and the credit rating, and are set by Market Risk on a discretionary basis after consultation with experts in other areas of the bank (e.g. research, trading, and Market Risk UniCredit holding company). Bank Austria contributes to the UniCredit Group-wide open market risk forums (OMRF), which is the platform for CRO units to discuss stress test results and agree on further common group-wide scenario definitions; the "ICAAP Widespread Contagion" scenario is used for stress test analysis, stress test warning level monitoring, ICAAP stress test and the regulatory stress report throughout UniCredit Group.

### Fair value measurement

In addition to the IMOD results, the P/L is determined on a total return basis for both the trading and banking books and is communicated to senior management on a daily basis. The fair value measurement principles defined in IFRS 13 have been implemented. Fair value adjustments (FVA) are appropriate to the extent that they are consistent with the objective of a fair value measurement. Reporting covers the components reflected in IFRS-based profit and the marking to market of all investment positions regardless of their recognition in the IFRS-based financial statements ("total return"). The daily P/L explanation is supported by the Intranet application "ERCONIS"; results are available to UniCredit Bank Austria's trading and risk management broken down by portfolio, income statement item and currency.

### Prudent valuation

The regulatory approach to prudent valuation in the trading book is implemented primarily by Market Risk and further developed on an ongoing basis through cooperation within UniCredit Group in the same way as "independent price verification" (IPV), which establishes valuation processes and verification procedures on a harmonised Group-wide basis and is used in Bank Austria for fixed-income securities. UniCredit Bank Austria AG is responsible as global "EEMEA" Center of Competence for generating the official UniCredit closing price for valuation of all fixed-income securities issued in Central and Eastern Europe including Austria. Regarding OTC IPV Bank Austria has harmonised the end-of-day market data items according to the Group-wide official rate source document (ORSD) and participates in the asset class committees designed to address and resolve revaluation topics. The use of credit/debt valuation adjustments (CVA/DVA) for OTC derivatives in Bank Austria was further refined in 2014 and integrated in the presentation of results of market activities including Corporate Treasury Sales (CTS) on a quarterly basis. In addition, Bank Austria applies Additional Valuation Adjustments (AVA) in calculating regulatory Common Equity Tier 1 capital.

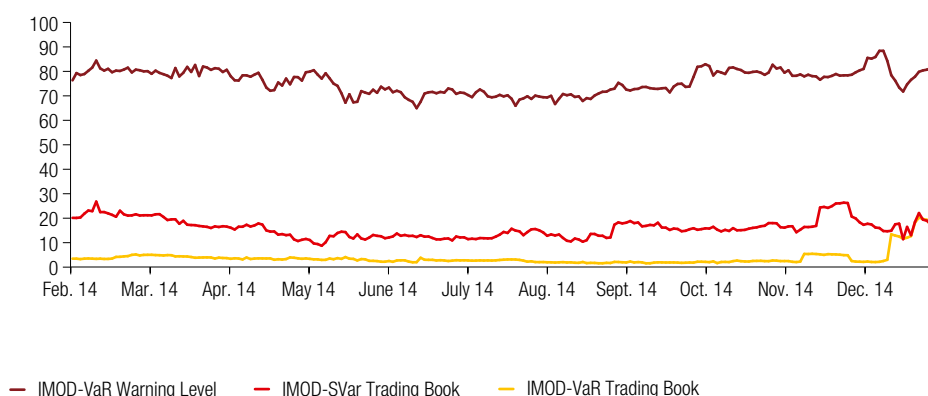
In Austria and all CEE subsidiaries the intranet platform "MARCONIS" is established as the group-wide standard for market conformity surveillance to systematically review the market conformity of its trading transactions. The scope of application of this tool has been further extended to include all CEE banking subsidiaries with market risk activities. Since 2010 the MARCONIS system has been extended to include another module, and the tool is also used to address the topic of price transparency (determining minimum margins and maximum hedging costs for Corporate Treasury Sales).

## E – Risk report (CONTINUED)

## Market risk metrics

The chart below shows the VaR time series for the trading book and the banking book in 2014, calculated on the basis of the internal market risk model (IMOD), which is also used for regulatory reporting of capital requirements for market risk.

## IMOD VaR and SVaR of Bank Austria in 2014 (€ million)



By year-end 2014, the total (overnight) VaR for the trading book and the banking book of the Bank Austria Group (top line, “VaR – Warning Level”) was about €81 million. The SVaR for the regulatory trading book (yellow line, “SVaR – Trading Book – Grp Report”) was €14 million at the end of 2014. The VaR for the trading book (light red line) amounted to €16 million at the end of 2014. Credit spread risk and interest rate risk account for most of the total risk in the trading and banking books of Bank Austria. Other risk categories are less significant by comparison. Since January 2007, commodity risk has only been assumed in Bank Austria on a back-to-back basis.

In addition to VaR, risk positions of the Bank Austria Group are limited through sensitivity-oriented limits. As part of daily risk reporting, detailed “Trader Reports” are prepared for a large number of portfolios, with updated and historical information made available to all risk-takers and the responsible senior management via the Intranet. These reports are now complemented by the UniCredit market risk platform, which enables trading and other units to perform analyses down to individual position level.

## E – Risk report (CONTINUED)

As of 31 December 2014, the entire interest rate position of Bank Austria (trading and investment) for major currencies was composed as follows:

**Basis point values (BPVs) of Bank Austria, 2014**

(in €) Granular Market Limits Warning Level

		AS AT 31 DECEMBER 2014						ANNUAL AVERAGE 2014, MINIMUM / MAXIMUM		
		0 TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 3 YEARS	3 TO 10 YEARS	OVER 10 YEARS	TOTAL	MAXIMUM	MINIMUM	ABSOLUTE AVERAGE
Europe	EUR	-64,489	-144,615	-471,787	-1,897,050	480,781	-2,097,160	388,395	-2,713,017	1,194,604
	CHF	54,297	2,196	27,590	-9,339	-4,582	70,162	281,351	-363,581	65,979
	GBP	815	3,411	-1,148	1,382	477	4,938	43,544	-18,203	4,417
	NOK	64	397	795	15	1	1,273	31,290	700	1,510
New EU countries	BGN	3,268	-13,851	-58,005	-187,726	-655	-256,969	-	-263,992	203,811
	CZK	-517	-47,117	-135,307	-72,301	-16,020	-271,262	473,741	-655,477	192,070
	HUF	5,930	-39,708	-87,807	-101,204	-3,158	-225,946	-153,411	-357,243	267,453
	PLN	-1,961	-1,849	-11	8	-	-3,813	29,759	-3,935	1,231
	RON	-1,474	-18,231	-22,721	-74,366	-10,167	-126,959	-19,675	-129,027	92,331
	HRK	-5,465	6,574	-14,982	10,952	-11,773	-14,693	51,242	-86,569	17,587
Central and Eastern Europe incl. Turkey	AZN	36	-203	-652	-50	-	-869	-130	-14,652	3,843
	BAM	-2,340	-8,143	-22,687	-31,476	60	-64,586	-9,964	-69,376	37,010
	RSD	-1,139	-19,701	-23,415	-10,133	-	-54,387	-	-67,655	58,705
	RUB	-7,205	-57,442	-132,442	-155,843	-29,209	-382,141	-287,252	-979,052	551,190
	TRY	31,545	-155,480	-304,373	-542,160	16	-970,452	-555,487	-1,512,948	700,506
	UAH	-688	-6,125	-19,155	-23,567	-2,985	-52,520	-270	-96,819	56,757
Overseas – highly developed countries	USD	-22,017	-97,880	-2,268	239,886	-369,183	-251,461	419,184	-1,056,759	184,746
	CAD	-178	1,446	517	86	-	1,871	8,105	143	1,355
	AUD	-63	2,979	4,734	1,144	58	8,852	9,364	5,910	8,098
	JPY	3,801	669	-356	2,368	9	6,492	102,637	-8,774	4,957
Other countries	XAU	4,427	166	-	-	-	4,593	6,962	1,184	3,542
	BPV<500	-27	715	-3,032	-134	3	-2,475	505,858	27,130	67,412
<b>TOTAL</b>		<b>-3,378</b>	<b>-591,791</b>	<b>-1,266,511</b>	<b>-2,849,507</b>	<b>33,673</b>	<b>-4,677,515</b>			<b>3,656,847</b>

## E – Risk report (CONTINUED)

## Basis point values (BPVs) of Bank Austria, 2013

(in €)

		AS AT 31 DECEMBER 2013						ANNUAL AVERAGE 2013, MINIMUM/MAXIMUM		
		0 TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 3 YEARS	3 TO 10 YEARS	OVER 10 YEARS	TOTAL	MAXIMUM	MINIMUM	ABSOLUTE AVERAGE
Europe	EUR	-213,267	-36,305	-60,494	-12,268	489,612	167,278	2,044,578	30,558	490,754
	CHF	90,789	40,756	-9,201	-28,751	-23,490	70,103	416,229	-103,821	-8,520
	GBP	392	-21,582	1,430	2,321	82	-17,356	10,213	-28,395	-1,417
	NOK	605	627	189	683	-	2,104	3,441	-129	1,031
New EU countries	BGN	9,311	-8,226	-15,723	-59,171	-845	-74,655	18,150	-126,334	-38,302
	CZK	13,431	-3,213	-15,302	108,431	-8,356	94,992	154,979	-68,772	34,731
	HUF	310	13,956	440	-53,610	-2,340	-41,244	70,592	-180,758	-33,530
	PLN	-1,447	-113	-254	-262	-5	-2,080	1,610	-3,996	-1,218
	RON	4,214	1,849	-52,143	-48,152	-11,346	-105,578	26,416	-173,119	-35,038
	HRK	9	3,220	-37,303	17,226	-6,010	-22,858	-22,272	-174,361	-63,939
Central and Eastern Europe incl. Turkey	AZN	-	187	-3,314	-1,329	-36	-4,492	-313	-17,044	-4,044
	BAM	-2,310	-835	-6,722	-12,272	41	-22,099	-13,349	-52,339	-22,864
	LTL	-	-	-	-	-	-	714	-4,199	-627
	LVL	-	-	-	-	-	-	3,713	-6,973	-2,017
	RSD	461	4,708	-9,134	683	-	-3,282	8,378	-37,486	-7,323
	RUB	18,229	20,681	-77,236	-259,244	-57,700	-355,270	-99,955	-1,528,266	-224,394
	TRY	2,788	-33,640	-28,556	-144,307	-89	-203,803	54,819	-1,051,485	-229,275
	UAH	3,343	-19,372	-16,145	-35,389	-12,431	-79,994	-65,537	-157,624	-81,812
Overseas – highly developed countries	USD	-12,394	-125,949	85,611	310,070	-307,092	-49,754	-35,587	-2,573,747	-520,659
	CAD	106	-1,558	1,520	42	-	109	3,270	-1,950	138
	AUD	-378	2,133	2,937	1,157	47	5,896	12,201	2,712	4,854
	NZD	1	141	-	-	-	142	282	12	93
	JPY	4,507	-91	-1,780	-3,667	-160	-1,191	673	-13,888	-3,026
Other countries	AED	-	-	-	-	-	-	33	-22	1
	XAU	3,727	775	-	-	-	4,502	8,163	1,804	4,430
	ZAR	16	7	-	-	-	23	152	1	75
	BPV<500	-190	9	27	49	-	-107	1,189	-747	243
<b>TOTAL</b>		<b>-77,748</b>	<b>-161,835</b>	<b>-241,154</b>	<b>-217,760</b>	<b>59,883</b>	<b>-638,614</b>			<b>1,895,385</b>

The changes in BPVs compared with the previous year were mainly due to modified modelling of interest rate positions and the buildup of a bond portfolio to reduce interest rate risk arising from pension obligations and to increase the bank's liquidity buffer (supporting the Liquidity Coverage Ratio).

## E – Risk report (CONTINUED)

By analogy to the detailed presentation of basis point positions in the interest rate sector, daily reporting presents details of credit spread by curve and maturity band.

**Credit spread basis-point values (CPVs) of the Bank Austria Group**

(in €)

CPVS IN €	SECTOR	MAXIMUM	MINIMUM	ABSOLUTE AVERAGE
Main sectors	ABSs and MBSs	-82,848	-323,591	298,479
	Financial	-137,077	-450,196	357,856
Corporates	Basic Materials	-2,996	-17,160	3,847
	Communications	-3,210	-23,020	4,403
	Consumer Cyclical	-920	-46,071	32,240
	Consumer Non cyclical	1,885	-33,377	23,973
	Diversified	-1,931	-3,633	918
	Energy	-10,579	-44,632	33,345
	Generic	-334	-97,546	2,217
	Industrial	-4,105	-46,071	40,492
	Technology	-2,742	-61,493	18,925
	Utilities	8,026	-7,257	1,063
	Others	8,026	-21,375	7,626
Treasury	Eastern Europe	-1,492,330	-2,211,623	1,800,068
	Emerging Markets	-18,756	-26,759	4,521
	Europe	-2,950,990	-5,335,270	4,110,354
	Middle East	-1,234,845	-1,423,728	375,590
	Northern America	74	-2,118	247
	Others	-111,801	-2,036,781	1,470,542
<b>TOTAL 2014</b>		<b>-7,423,597</b>	<b>-10,641,932</b>	<b>9,420,352</b>
<b>TOTAL 2013</b>		<b>-7,053,404</b>	<b>-9,099,782</b>	<b>8,446,272</b>

Measured by the total basis-point value, Bank Austria's credit spread position in 2014 ranged between -€7.4 million and -€10.6 million.

The increase in the CPV compared with the previous year was due to the buildup of the bond portfolio to cover pension obligations and to increase the bank's liquidity buffer (supporting the Liquidity Coverage Ratio).

Overall, Treasury-near instruments continue to account for the largest part of the credit spread positions, followed by financials. The corporates exposure is very low by comparison. The positions of asset-backed securities (ABSs) and mortgage-backed securities (MBSs) were further reduced in 2014, primarily through redemptions. The average CPV also continued to decline in this sector. Overall, the ABS book developed very favourably in 2014 in terms of total return in the year.

Measured by redemption behaviour, the entire ABS/MBS book is to be classified as performing in 2014.

## E – Risk report (CONTINUED)

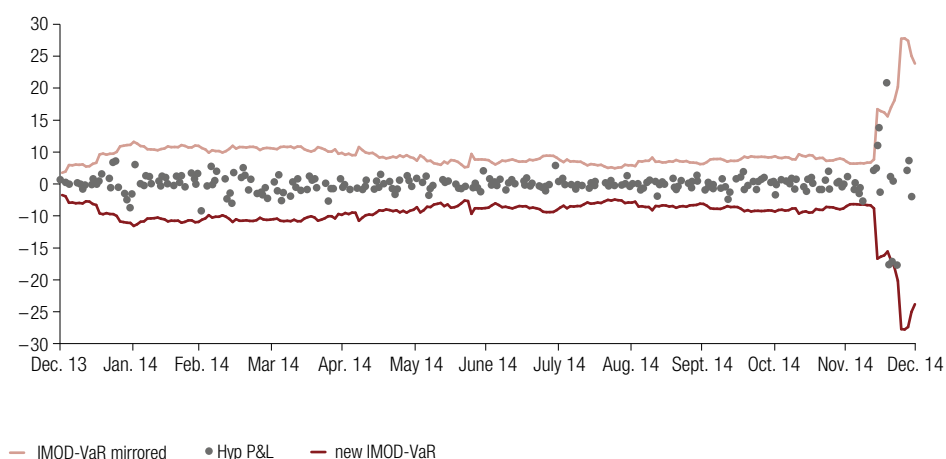
## Backtesting

UniCredit Bank Austria performs a daily back testing of both the hypothetical and actual (i.e. clean economic P/L excluding fees, commissions, and net interest income) changes in the portfolio's value in accordance with Art. 366 CRR. The number of back-testing overshootings (negative change in value larger than model result) for Bank Austria in both P/L dimensions has been within the "green zone" permitted by law ever since IMOD was introduced, thus the addend for the VaR multiplier for the number of overshootings is zero.

The chart below shows the hypothetical P/L backtesting time series for Bank Austria's regulatory trading book; the hypothetical P/L is based on hypothetical changes in the portfolio value assuming unchanged positions.

The backtesting overshootings in December occurred due to losses of the strategic FX hedges for CEE profits in connection with the Russia crisis; the impact of the Russia crisis is also reflected in the sharp rise in VaR in December. The overshootings were notified to OeNB and FMA on time.

## Backtesting time series for the regulatory trading book of the Bank Austria Group, 2014 (€ million)



## Capital requirements for market risk

The new model was used for the purposes of calculating capital requirements throughout 2014. The relevant parameters are a 10-day holding period, a confidence level of 99% and a multiplier of 3.2 set in respect of the Value-at-Risk figures which is used in determining the capital requirement for market risk. Under paragraph 3 of Article 325 of the CRR, capital requirements in third countries are additionally taken into account for Bank Austria.

As of 31 December 2014, the following capital requirements resulted for Bank Austria in connection with value at risk (VaR), stressed VaR (SVaR) and incremental risk charge (IRC):

- VaR: €92.3 million
- SVaR: €221.9 million
- IRC: €41.2 million



## E – Risk report (CONTINUED)

## Market risk management in CEE

At Bank Austria, market risk management covers the activities in Vienna and the positions at the subsidiaries, especially in Central and Eastern Europe. These subsidiaries have local risk management units with a reporting line to Risk Management in UniCredit Bank Austria AG. Uniform processes, methods, rules and limit systems ensure consistent Group-wide risk management adjusted to local market conditions.

All CEE units switched to the new risk management landscape (FRE and UGRM systems) as part of the EuroMIB project; this means that they continue to be subject to a standardised valuation and monitoring process.

Analyses of position structure and balance sheet structure are available to all banks in the Group via “ALMRisk”, a Group-wide web tool. Liquidity monitoring is also based on this instrument.

The web application “ERCONIS” records the daily business results of treasury activities in CEE. In line with a total-return approach, measurements of the performance of subsidiaries include income generated by the subsidiaries and the valuation results of the banking book.

To avoid risk concentrations in the market risk position, especially in tight market conditions, Bank Austria has implemented at its banking subsidiaries Value-at-Risk limits and position limits for exchange rate risk, interest rate risk and equity risk, which are monitored daily. The monitoring of income trends at banking subsidiaries by means of stop-loss limits provides an early indication of any accumulation of position losses.

The timely and continuous analysis of market risk and income is the basis for integrated risk-return management of treasury units at banking subsidiaries.

To meet stricter regulatory capital requirements for trading positions, an RWA optimisation project was carried out to reduce trading activities as far as possible and lower existing trading limits.

## Value at Risk of banks in CEE

(€ thousand)

	AVERAGE USAGE 2014	LIMIT	USAGE AS PER 31 DEC. 2014	FX RISK	INTEREST RATE RISK	CREDIT SPREAD RISK	EQUITY RISK	AVERAGE USAGE 2013	USAGE AS PER 31 DEC. 2013
Bulgaria, Group	4,094	9,000	3,599	88	2,513	3,000	1	3,188	3,269
Czech Republic, Group	5,974	17,000	3,945	84	1,842	4,284	12	6,401	5,591
Croatia, Group	1,310	8,000	1,171	158	749	1,017	165	1,890	1,422
Hungary	5,651	12,000	4,995	371	4,685	5,059	1	3,984	3,588
Bosnia *)	316	1,000	648	–	128	553	–	n. m.	n. m.
Romania	3,450	12,000	2,619	22	3,565	3,027	–	5,499	4,102
Russia	17,624	24,000	21,600	545	16,895	5,008	–	8,966	11,595
Serbia	2,660	4,500	2,168	58	1,355	1,575	–	1,907	2,964
Slovenia	3,212	5,500	2,340	29	233	2,365	20	2,974	3,115
Turkey	46,859	82,000	60,474	9	33,320	31,747	7	35,807	40,553
Ukraine	4,126	8,000	13,481	12,762	3,106	382	380	3,227	2,488
<b>TOTAL CEE</b>	<b>63,223</b>	<b>120,000</b>	<b>74,062</b>	<b>12,807</b>	<b>42,265</b>	<b>36,949</b>	<b>349</b>	<b>54,391</b>	<b>53,546</b>

\*) Value at Risk in Bosnia stated separately due to changes in risk governance (included in Croatia, group, in the previous year).

At the end of 2014, value at risk of all CEE banks was approximately €74 million (limit: €120 million), with open interest rate positions in the banking books and credit-spread positions of securities still accounting for the largest risk contributions. Our banking subsidiary in Ukraine exceeds the existing Value-at-Risk limit on account of significant market volatility and a market-related USD short position. The further expansion of the liquidity portfolio compared with year-end 2013 and increased volatility of market parameters led to higher Value-at-Risk contributions of the various banks (VaR: €53.5 million with limit of €95 million at year-end 2013). The VaR increase was particularly noticeable at the banks in Russia, Ukraine and Turkey.

## E – Risk report (CONTINUED)

### Management of balance sheet structure

The matched funds transfer pricing system applied throughout the Group and the principle of causation applied in attributing credit risk, market risk and liquidity risk enable the bank to determine contribution margins from customer transactions in the bank's business divisions. The risk committees of the bank ensure that the bank's overall liquidity and interest rate gap structure is optimised, with the results from interest maturity transformation being reflected in the Corporate & Investment Banking Division. Factors taken into account in this context include the costs of compensation for assuming interest rate risk, liquidity costs and country risk costs associated with foreign currency financing at CEE banking subsidiaries.

Products for which the material interest-rate and capital maturity is not defined, such as variable-rate sight and savings deposits, are modelled in respect of maturity and interest rate sensitivity by means of analyses of historical time series, and taken into account in the bank's overall risk position.

To assess its balance-sheet and profit structure, the bank uses the Value-at-Risk approach, complemented by a scenario analysis concerning the simulation of future net interest income under different interest rate scenarios ("earnings perspective").

The low interest rates in the Group's main currencies had a negative impact on interest margins as deposit rates were at or close to zero in many cases. In our simulation calculations, assuming that there are floor effects in lending business, we expect no further significant deterioration of net interest if interest rates move into negative territory as a result of further reductions.

Legal provisions require the measurement at Group level of "interest rate risk in the banking book" in relation to the bank's capital by comparing a change in the market value of the banking book after a 2% interest rate shock with the bank's net capital resources. In the event that such an interest rate shock absorbs more than 20% of a bank's net capital resources, the bank supervisory authority could require the bank to take measures to reduce risk.

A 2% interest rate shock absorbs about 5.4% of the Group's net capital resources as at the end of 2014. This means that the figure for Bank Austria is far below the outlier level of 20%.

### E.4 – Financial derivatives

Derivatives shown in the following tables are classified as financial derivatives and credit derivatives, according to the underlying financial instrument. In these categories, a distinction is made between trading book and banking book and between different counterparties. UniCredit Bank Austria AG's business volume in derivatives focuses on interest rate contracts.

Over-the-counter transactions are individual agreements concerning volume, maturities and underlying instrument. In large-volume interbank trading, these agreements reflect international practice, while in customer business they are usually adjusted to specific needs. Exchange-traded contracts are always standardised in respect of volume and maturity date.

Derivatives are mainly used by the bank itself for hedging market risk and credit spread risk arising from new issue activities. In customer business, market participants include banks, securities houses, mutual funds, pension funds and corporate customers.

Trading in derivatives at Bank Austria is primarily related to the hedging of positions entered into vis-a-vis customers.

For the purposes of portfolio and risk management, contracts are valued at current prices using recognised and tested models. Market values show the contract values as at the balance sheet date, positive market values indicate the potential default risk arising from the relevant activity.

For the purposes of portfolio management and risk limitation in the derivatives business with banks and customers, UniCredit Bank Austria AG uses an internal model used in the entire UniCredit Group (IMM), with a Monte Carlo path simulation to estimate the potential future exposure at portfolio level for each counterparty. The calculations are based on market volatility, correlations between specific risk factors, future cash flows and stress considerations. Netting agreements and collateral agreements are also taken into account for simulation purposes.

The simulation calculations are performed for all major types of transactions, e.g. forward foreign exchange transactions, commodity futures transactions, interest rate instruments, securities lending transactions and repurchase agreements, equity-related, commodity-related or inflation-related instruments and credit derivatives. Other (exotic) products are taken into account with an add-on factor (depending on volatility and maturity). The bank applies an expected shortfall method corresponding to a confidence interval of 95%.

## E – Risk report (CONTINUED)

In addition to determining the potential future exposure for the purpose of internal risk management, the path simulation also enables the bank to calculate the mean exposure and the Basel 3-modified mean exposure as well as the effective term of the exposure for each counterparty. In this way, counterparty risk can be taken into account in a Basel 3-compliant internal model for the calculation of capital requirements.

Line utilisation for derivatives business is available online in the central treasury system MLC (“Murex Limit Controller”) for the so-called EUROMIB countries. For those units which are not connected to the central system, separate lines are allocated and monitored in the local limit systems using a standardised method. Group-wide compliance with lines approved in the credit process is thus ensured at any time.

UniCredit Bank Austria AG additionally limits the credit risk arising from its derivatives business through strict use of master agreements, through collateral agreements and break clauses. In combination with the very good average credit rating of our business partners in the derivatives business, management takes proper account of default risk.

**Regulatory trading portfolio: end of period notional amounts**

(€ million)

DERIVATIVE INSTRUMENT TYPES/UNDERLYINGS	31 DEC. 2014		31 DEC. 2013	
	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE
<b>Debt securities and interest rate indexes</b>	<b>49,789</b>	<b>65</b>	<b>55,788</b>	<b>522</b>
Options	7,814	–	11,560	–
Swap	40,858	–	43,855	221
Forward	1,116	–	373	–
Futures	–	65	–	301
Others	–	–	–	–
<b>Equity instruments and stock indexes</b>	<b>3,027</b>	<b>1</b>	<b>869</b>	<b>8</b>
Options	2,904	–	714	–
Swap	–	–	–	–
Forward	118	–	150	–
Futures	–	1	–	8
Others	5	–	5	–
<b>Gold and currencies</b>	<b>30,361</b>	<b>13</b>	<b>23,851</b>	<b>42</b>
Options	3,901	–	3,026	–
Swap	11,241	–	8,771	–
Forward	15,220	–	12,054	–
Futures	–	13	–	42
Others	–	–	–	–
<b>Commodities</b>	<b>461</b>	<b>–</b>	<b>308</b>	<b>–</b>
<b>Other underlyings</b>	<b>37</b>	<b>–</b>	<b>30</b>	<b>–</b>
<b>TOTAL</b>	<b>83,675</b>	<b>79</b>	<b>80,846</b>	<b>572</b>

## E – Risk report (CONTINUED)

**Banking book: end of period notional amounts – Hedging derivatives**

(€ million)

DERIVATIVE INSTRUMENT TYPES/UNDERLYINGS	31 DEC. 2014		31 DEC. 2013	
	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE
<b>Debt securities and interest rate indexes</b>	<b>111,526</b>	<b>–</b>	<b>111,965</b>	<b>–</b>
Options	2,972	–	3,569	–
Swap	108,554	–	108,396	–
Forward	–	–	–	–
Futures	–	–	–	–
Others	–	–	–	–
<b>Equity instruments and stock indexes</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Options	–	–	–	–
Swap	–	–	–	–
Forward	–	–	–	–
Futures	–	–	–	–
Others	–	–	–	–
<b>Gold and currencies</b>	<b>27,721</b>	<b>–</b>	<b>29,294</b>	<b>–</b>
Options	–	–	–	–
Swap	27,351	–	27,784	–
Forward	370	–	1,510	–
Futures	–	–	–	–
Others	–	–	–	–
<b>Commodities</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Other underlyings</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>TOTAL</b>	<b>139,246</b>	<b>–</b>	<b>141,259</b>	<b>–</b>

For information on the presentation of hedging transactions see section A.5.3.3 Hedge accounting and sections B.5 and C.21.

**Banking book: end-of-period notional amounts – Other derivatives**

(€ million)

DERIVATIVE INSTRUMENT TYPES/UNDERLYINGS	31 DEC. 2014		31 DEC. 2013	
	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE
<b>Debt securities and interest rate indexes</b>	<b>35</b>	<b>–</b>	<b>34</b>	<b>–</b>
Options	35	–	34	–
Swap	–	–	–	–
Forward	–	–	–	–
Futures	–	–	–	–
Others	–	–	–	–
<b>Equity instruments and stock indexes</b>	<b>130</b>	<b>–</b>	<b>102</b>	<b>–</b>
Options	130	–	102	–
Swap	–	–	–	–
Forward	–	–	–	–
Futures	–	–	–	–
Others	–	–	–	–
<b>Gold and currencies</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>36</b>
Options	–	–	–	–
Swap	–	–	–	36
Forward	–	–	–	–
Futures	–	–	–	–
Others	–	–	–	–
<b>Commodities</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Other underlyings</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>TOTAL</b>	<b>165</b>	<b>–</b>	<b>136</b>	<b>36</b>

## E – Risk report (CONTINUED)

## Financial derivatives – breakdown by product

(€ million)

TRANSACTION TYPES/UNDERLYINGS	31 DEC. 2014				31 DEC. 2013			
	POSITIVE FAIR VALUE		NEGATIVE FAIR VALUE		POSITIVE FAIR VALUE		NEGATIVE FAIR VALUE	
	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE
<b>Regulatory trading portfolio</b>	<b>3,318</b>	<b>1</b>	<b>3,417</b>	<b>–</b>	<b>1,685</b>	<b>1</b>	<b>1,454</b>	<b>–</b>
Options	316	–	179	–	243	–	164	–
Interest rate swaps	1,350	–	1,424	–	888	–	878	–
Cross currency swap	952	–	1,125	–	284	–	282	–
Equity swaps	101	–	–	–	133	–	–	–
Forward	585	–	673	–	132	–	123	–
Futures	–	1	–	–	–	1	–	–
Others	15	–	16	–	4	–	6	–
<b>Banking book – Hedging derivatives</b>	<b>3,952</b>	<b>–</b>	<b>3,302</b>	<b>–</b>	<b>2,839</b>	<b>–</b>	<b>2,219</b>	<b>–</b>
Options	47	–	200	–	61	–	54	–
Interest rate swaps	3,757	–	2,553	–	2,497	–	1,932	–
Cross currency swap	145	–	549	–	266	–	232	–
Equity swaps	–	–	–	–	–	–	–	–
Forward	2	–	–	–	16	–	2	–
Futures	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–
<b>Banking book – Other derivatives</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2</b>
Options	–	–	–	–	–	–	–	–
Interest rate swaps	–	–	–	–	–	–	–	–
Cross currency swap	–	–	–	–	–	–	–	2
Equity swaps	–	–	–	–	–	–	–	–
Forward	–	–	–	–	–	–	–	–
Futures	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–
<b>TOTAL</b>	<b>7,269</b>	<b>1</b>	<b>6,719</b>	<b>–</b>	<b>4,524</b>	<b>1</b>	<b>3,673</b>	<b>2</b>

## OTC financial derivatives – residual life: notional amounts

(€ million)

UNDERLYING/RESIDUAL MATURITY	UP TO 1 YEAR	OVER 1 YEAR UP TO 5 YEARS	OVER 5 YEARS	TOTAL
<b>Regulatory trading book</b>	<b>32,336</b>	<b>29,863</b>	<b>21,475</b>	<b>83,675</b>
Financial derivative contracts on debt securities and interest rates	11,057	21,840	16,891	49,789
Financial derivative contracts on equity securities and stock indexes	579	1,572	876	3,027
Financial derivative contracts on exchange rates and gold	20,259	6,396	3,706	30,361
Financial derivative contracts on other values	442	54	2	498
<b>Banking book</b>	<b>46,306</b>	<b>57,544</b>	<b>35,561</b>	<b>139,412</b>
Financial derivative contracts on debt securities and interest rates	35,682	46,887	28,992	111,561
Financial derivative contracts on equity securities and stock indexes	130	–	–	130
Financial derivative contracts on exchange rates and gold	10,494	10,657	6,569	27,721
Financial derivative contracts on other values	–	–	–	–
<b>TOTAL 31 DEC. 2014</b>	<b>78,643</b>	<b>87,407</b>	<b>57,037</b>	<b>223,086</b>

UNDERLYING/RESIDUAL MATURITY	UP TO 1 YEAR	OVER 1 YEAR UP TO 5 YEARS	OVER 5 YEARS	TOTAL
<b>Regulatory trading book</b>	<b>31,267</b>	<b>32,938</b>	<b>16,641</b>	<b>80,846</b>
Financial derivative contracts on debt securities and interest rates	16,011	26,439	13,339	55,788
Financial derivative contracts on equity securities and stock indexes	119	492	258	869
Financial derivative contracts on exchange rates and gold	14,918	5,890	3,044	23,851
Financial derivative contracts on other values	219	118	–	337
<b>Banking book</b>	<b>39,791</b>	<b>67,918</b>	<b>33,686</b>	<b>141,395</b>
Financial derivative contracts on debt securities and interest rates	35,770	50,260	25,969	111,999
Financial derivative contracts on equity securities and stock indexes	–	102	–	102
Financial derivative contracts on exchange rates and gold	4,021	17,557	7,717	29,294
Financial derivative contracts on other values	–	–	–	–
<b>TOTAL 31 DEC. 2013</b>	<b>71,058</b>	<b>100,856</b>	<b>50,327</b>	<b>222,241</b>

## E – Risk report (CONTINUED)

**Credit derivatives: end of period notional amounts**

(€ million)

TRANSACTION CATEGORIES	31 DEC. 2014				31 DEC. 2013			
	REGULATORY TRADING BOOK		BANKING BOOK		REGULATORY TRADING BOOK		BANKING BOOK	
	WITH A SINGLE COUNTER-PARTY	WITH MORE THAN ONE COUNTER-PARTY (BASKET)	WITH A SINGLE COUNTER-PARTY	WITH MORE THAN ONE COUNTER-PARTY (BASKET)	WITH A SINGLE COUNTER-PARTY	WITH MORE THAN ONE COUNTER-PARTY (BASKET)	WITH A SINGLE COUNTER-PARTY	WITH MORE THAN ONE COUNTER-PARTY (BASKET)
<b>Protection buyer's contracts</b>								
Credit default products	13	5	–	–	13	5	–	–
Credit spread products	–	–	–	–	–	–	–	–
Total rate of return swaps	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
<b>TOTAL</b>	<b>13</b>	<b>5</b>	<b>–</b>	<b>–</b>	<b>13</b>	<b>5</b>	<b>–</b>	<b>–</b>
<b>Protection seller's contracts</b>								
Credit default products	637	5	–	–	746	5	–	–
Credit spread products	–	–	–	–	–	–	–	–
Total rate of return swaps	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
<b>TOTAL</b>	<b>637</b>	<b>5</b>	<b>–</b>	<b>–</b>	<b>746</b>	<b>5</b>	<b>–</b>	<b>–</b>

**Credit derivatives – residual life: notional amount**

(€ million)

UNDERLYING/RESIDUAL MATURITY	UP TO 1 YEAR	OVER 1 YEAR UP TO 5 YEARS	OVER 5 YEARS	TOTAL
<b>Regulatory trading book:</b>	<b>275</b>	<b>317</b>	<b>69</b>	<b>660</b>
Credit derivatives with qualified reference obligation	–	–	–	–
Credit derivatives with not qualified reference obligation	275	317	69	660
<b>Banking book:</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Credit derivatives with qualified reference obligation	–	–	–	–
Credit derivatives with not qualified reference obligation	–	–	–	–
<b>TOTAL 31 DEC. 2014</b>	<b>275</b>	<b>317</b>	<b>69</b>	<b>660</b>

UNDERLYING/RESIDUAL MATURITY	UP TO 1 YEAR	OVER 1 YEAR UP TO 5 YEARS	OVER 5 YEARS	TOTAL
<b>Regulatory trading book:</b>	<b>109</b>	<b>555</b>	<b>105</b>	<b>769</b>
Credit derivatives with qualified reference obligation	–	–	–	–
Credit derivatives with not qualified reference obligation	109	555	105	769
<b>Banking book:</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Credit derivatives with qualified reference obligation	–	–	–	–
Credit derivatives with not qualified reference obligation	–	–	–	–
<b>TOTAL 31 DEC. 2013</b>	<b>109</b>	<b>555</b>	<b>105</b>	<b>769</b>

## E – Risk report (CONTINUED)

## E.5 – Currency risk

## Assets and liabilities in foreign currency

(€ million)

	31 DEC. 2014				31 DEC. 2013			
	USD	JPY	CHF	OTHER	USD	JPY	CHF	OTHER
<b>Financial assets</b>	<b>17,216</b>	<b>471</b>	<b>11,856</b>	<b>42,087</b>	<b>21,273</b>	<b>19</b>	<b>13,093</b>	<b>45,567</b>
Debt securities	568	–	–	6,133	391	–	46	8,243
Equity securities	–	–	–	33	–	–	–	33
Loans to banks	5,177	121	548	7,930	9,893	10	1,094	7,576
Loans to customers	11,453	349	11,305	27,117	10,973	8	11,943	28,698
Other financial assets	17	–	4	875	15	–	11	1,018
<b>Other assets</b>	<b>28</b>	<b>–</b>	<b>2</b>	<b>631</b>	<b>79</b>	<b>–</b>	<b>3</b>	<b>1,110</b>
<b>Financial liabilities</b>	<b>13,708</b>	<b>182</b>	<b>460</b>	<b>31,919</b>	<b>15,969</b>	<b>203</b>	<b>1,480</b>	<b>33,713</b>
Deposits from banks	1,783	2	38	3,666	6,911	5	1,049	5,357
Deposits from customers	11,013	23	389	23,796	8,227	3	320	25,561
Debt securities in issue	909	157	–	2,211	829	195	78	2,760
Other financial liabilities	3	–	33	2,245	2	–	32	35
<b>Other liabilities</b>	<b>25</b>	<b>–</b>	<b>1</b>	<b>733</b>	<b>25</b>	<b>1</b>	<b>–</b>	<b>2,801</b>

**CHF risk**

About 90% (€10.7 billion) of Bank Austria's **CHF lending volume** (gross) is attributable to the Austrian portfolio. Of this amount, about 80% is in the Retail subdivision dominated by private customers (CHF volume 12/2014: €7.0 billion). In CEE (without the volume in Hungary, which is neutralised via derivatives), the CHF portion is as low as 1.6%, primarily booked in Croatia (€0.7 billion), Slovenia (€0.3 billion) and Serbia (€0.1 billion), and also mainly attributable to business with private customers in these countries.

In relation to Austrian **credit risk**, the assumptions and parameters for risk assessment of foreign currency loans were monitored in 2014. The existing portfolio write-down on the performing portfolio was increased by €17 million to €232 million.

**CHF exchange rate movements after the reporting date**

The fact that the Swiss National Bank discontinued the Swiss franc's link to the euro after the end of the reporting period would indicate a further provision of €2 million on the assumption of the exchange rate moving close to parity. This additional requirement results mainly from the difference between the increased total volume of loans with a bullet maturity (reflecting the exchange rate) and the relevant repayment vehicles (on a euro basis). The calculated increase in the portfolio-based loan loss provision (see also "Pauschale Einzelwertberichtigung" PEWB in section E.9) for CHF loans which are already assessed as defaulted amounts to €15 million.

Based on the calculated increase in lending volume, the theoretical increase in **risk-weighted assets** based on the Austrian portfolio is estimated at €1.6 billion (on the assumption of exchange rate parity)

The impact on the bank's **liquidity** results from increased margin calls of currently €2.2 billion, which must be met vis-à-vis our swap counterparties on account of the revaluation of the hedge swaps. These margin calls are an outflow of liquidity which has not led to any violations of limits or other negative impacts on our liquidity management because of the currently prevailing excess liquidity.

**Legal risks** associated with foreign exchange risks are discussed in detail in the "Legal risks" section.

**Other currency risks**

Almost all of the negative foreign currency translation reserve of –€3,980 million as at 31 December 2014 was accounted for by the currencies of Russia, Ukraine and Turkey. The change of –€1,403 million in 2014 was mainly due to the Russian rouble.

## E – Risk report (CONTINUED)

### E.6 – Liquidity risk

#### Qualitative information

Basel 3 sets liquidity standards under stressed conditions in the short-term maturity range (liquidity coverage ratio  $\geq 100\%$ , phasing in  $\geq 60\%$  from 2015) and in the medium-term and long-term range (net stable funding ratio, NSFR  $\geq 100\%$ ). Compliance with these rules will be mandatory from October 2015 and 2018, respectively. In a separate Basel 3 project, UniCredit Bank Austria AG established the technical infrastructure to meet all reporting requirements for all relevant entities in the Bank Austria Group starting from 2014. New deposit products and CEE funding optimisation have improved the structure of assets and liabilities of UniCredit Bank Austria AG and of Bank Austria so that the legal requirements are comfortably met. Bank Austria participated in 2014 and will also continue to participate in the Quantitative Impact Studies of the European Banking Authority (EBA) in 2015. The new liquidity requirements have been integrated in the planning and risk monitoring process to ensure compliance with the liquidity ratios at all times.

#### General information, processes and management model

In line with Group standards, Bank Austria deals with liquidity risk as a central risk in banking business by introducing and monitoring short- term and long-term liquidity requirements. In this context the liquidity situation for the next few days and months and also for longer periods is analysed against a standard scenario and stress scenarios. Methods and procedures of liquidity analysis, analyses of the degree of liquidity of customer positions, management responsibilities and reporting lines in this area have been laid down in the liquidity policy, which is also applicable at Bank Austria's CEE units and includes a contingency plan in the event of a liquidity crisis.

Liquidity management in UniCredit Bank Austria AG is an integral part of UniCredit Group liquidity management. In line with the Group-wide distribution of tasks, UniCredit Bank Austria AG ensures the consolidation of liquidity flows and the funding for subsidiaries in Austria and CEE. The flow of funds is thereby optimised and external funding is reduced to the necessary extent. Under the self-sufficiency principle, the banks in CEE essentially have to use local funding for their business activities and manage stress situations without recourse to the parent company. This is ensured through the availability of sufficient liquidity buffers and emergency plans.

#### Liquidity management methods and control

In medium-term and long-term liquidity management, assets must be covered by liabilities to a minimum extent of 90%/85%/80% over a period of 1/3/5 years. This limit must be observed at Group level and for each banking subsidiary. At individual currency level, absolute limits for cross-currency funding arrangements have been defined for each bank of the Group; these limits are largely geared to the above-mentioned liquidity ratios. At Bank Austria level, the liquidity ratio as at year-end 2014 was 1.08 for >1 year, 1.10 for >3 years and 1.04 for >5 years. This means that in effect, long-term assets are fully funded at Group level.

For the purpose of short-term liquidity management, volume limits have been implemented in Bank Austria at group level and at individual bank level for maturities up to three months, which limit all Treasury transactions and the securities portfolio of the respective bank. Liquidity fluctuations resulting from customers' investment decisions have also been taken into account via a liquidity buffer. Volume limits are also established for open maturities in various currencies to keep down the risk of a need for follow-up funding in the event that foreign currency markets dry up.

These limits were essentially observed at all levels. It was only the difficult liquidity situation in Ukraine that led to more frequent USD limit excesses. Sluggish credit demand, high deposit volume throughout 2014 and an increase in the liquidity bond portfolio holdings result in a comfortable liquidity position of the Group.

#### Liquidity stress test

UniCredit Bank Austria AG performs liquidity stress tests for Bank Austria and for individual banks on a regular basis, using a standardised Group-wide instrument and standardised Group-wide scenarios. These scenarios describe the effects of market-driven or name-driven crisis signals on liquidity inflows and outflows, with assumptions also being made about the behaviour of non-banks.

The liquidity outflows expected to occur in stress situations are compared with available collateral (essentially, securities and credit instruments eligible as collateral at the central bank) to examine the banks' risk-taking capability in the maturity range of up to one year.

Liquidity indicators reached conservative levels as a result of customer deposits attracted through a product initiative which started in 2013, the continued buildup of the liquid securities position, new issues launched according to plan, and the optimisation of CEE funding.

A simulated name and market crisis, with stringent assumptions regarding deposit renewals by customers, currently gives a "time-to-wall horizon" of over one year in terms of liquidity; the required minimum period is one month.



## E – Risk report (CONTINUED)

## Liquidity risks

Detailed information on Russia-related and Ukraine-related liquidity risk is given in section E.2 Major risks in Central and Eastern Europe.

**Bulgaria**

The banking crisis triggered in the middle of 2014 involved Commercial Corporate Bank and First International Bank (the no. 4 and no. 3 banks by total assets). With new management under a state commissioner at CCB and funding commitments given by the central bank, the crisis has so far not had any further negative impact on the financial services sector or on the local currency, which is pegged to the euro.

UniCredit Bulbank recorded substantial inflows of deposits from customers of the above-mentioned banks and invested the additional liquidity in sovereign bonds. UniCredit Bulbank's market and liquidity risk ratios are within a normal range. The Alert Task Force established at the onset of the local banking crisis has been wound up in the meantime. Day-to-day liquidity management of UniCredit Bulbank and communication with the competent functions within Bank Austria are subject to established standard processes.

## Quantitative information

**Banking group: breakdown by residual contractual maturity of financial assets and liabilities 2014**

(€ million)

	31 DEC. 2014								
	ON DEMAND	1 TO 7 DAYS	7 TO 15 DAYS	15 DAYS TO 1 MONTH	1 TO 3 MONTHS	3 TO 6 MONTHS	6 MONTHS TO 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS
<b>Assets</b>	<b>22,371</b>	<b>4,029</b>	<b>4,126</b>	<b>5,941</b>	<b>9,917</b>	<b>7,431</b>	<b>13,882</b>	<b>48,208</b>	<b>55,572</b>
Government securities	–	1	136	115	554	819	1,738	8,432	7,343
Other debt securities	–	22	2	3	326	575	1,815	3,437	2,512
Units in investment funds	3	–	–	–	–	–	–	–	–
Loans	22,368	4,006	3,988	5,822	9,037	6,037	10,328	36,339	45,717
<i>Banks</i>	9,278	2,985	3,314	1,650	4,115	779	927	1,250	2,522
<i>Customers</i>	13,091	1,021	674	4,172	4,921	5,259	9,401	35,088	43,195
<b>Liabilities</b>	<b>50,176</b>	<b>11,922</b>	<b>4,446</b>	<b>5,577</b>	<b>12,821</b>	<b>8,605</b>	<b>10,002</b>	<b>37,826</b>	<b>17,242</b>
Deposits and current accounts	48,948	11,772	3,494	5,211	6,674	5,891	8,291	14,813	1,506
<i>Banks</i>	2,161	871	251	397	601	181	454	2,019	1,082
<i>Customers</i>	46,787	10,901	3,243	4,814	6,072	5,710	7,837	12,794	424
Debt securities	–	83	32	43	1,530	2,414	1,237	15,438	9,962
Other liabilities	1,227	67	921	323	4,618	300	474	7,574	5,774
<b>Off-balance sheet transactions</b>	<b>1,373</b>	<b>3</b>	<b>84</b>	<b>202</b>	<b>382</b>	<b>193</b>	<b>452</b>	<b>22,664</b>	<b>43,826</b>
Physically settled financial derivatives									
long positions	–	609	143	1,510	1,113	1,549	2,895	3,042	118
short positions	–	609	143	1,510	1,113	1,549	2,895	3,042	118
Cash settled financial derivatives									
long positions	327	1,312	1,101	1,487	3,130	2,044	3,924	16,135	11,253
short positions	395	1,310	1,035	1,465	3,128	2,025	3,923	16,260	11,275
Deposits to be received									
long positions	–	–	–	–	–	–	–	–	–
short positions	–	–	–	–	–	–	–	–	–
Irrevocable commitments to disburse funds									
long positions	1,300	241	70	324	1,131	1,464	3,106	9,041	3,649
short positions	1,459	241	70	166	1,161	1,465	3,090	9,024	3,649
Written guarantees	79	–	18	13	261	88	278	886	878
Financial guarantees received	1,523	1	1	10	149	86	156	21,885	42,970
Physically settled credit derivatives									
long positions	–	–	–	–	–	–	275	317	69
short positions	–	–	–	–	–	–	275	317	69

The breakdown by maturity reflects items of companies within the group of banks which are subject to regulatory supervision. This distribution is made on the basis of the period between the balance sheet date and the first following yield review date. For fixed-rate transactions the residual life is the period from the balance sheet date to final maturity. On-balance sheet items are disclosed at their carrying value. Derivatives are shown, under the double entry method, at settlement value for those with underlying securities and at the notional value for those without underlying securities; options are shown at their delta equivalent value.

## E – Risk report (CONTINUED)

## Breakdown by residual contractual maturity of financial assets and liabilities 2013

(€ million)

	31 DEC. 2013									
	ON DEMAND	1 TO 7 DAYS	7 TO 15 DAYS	15 DAYS TO 1 MONTH	1 TO 3 MONTHS	3 TO 6 MONTHS	6 MONTHS TO 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	
<b>Assets</b>	<b>21,685</b>	<b>3,248</b>	<b>3,620</b>	<b>4,664</b>	<b>8,363</b>	<b>6,580</b>	<b>11,479</b>	<b>49,409</b>	<b>52,770</b>	
Government securities	58	–	85	100	689	749	782	7,306	4,741	
Other debt securities	158	26	1,008	16	208	131	242	5,885	2,667	
Units in investment funds	–	–	–	–	–	–	–	–	–	
Loans	21,469	3,222	2,528	4,548	7,466	5,700	10,456	36,218	45,362	
<i>Banks</i>	<i>8,069</i>	<i>1,831</i>	<i>1,809</i>	<i>388</i>	<i>2,242</i>	<i>351</i>	<i>461</i>	<i>1,926</i>	<i>1,994</i>	
<i>Customers</i>	<i>13,401</i>	<i>1,391</i>	<i>719</i>	<i>4,160</i>	<i>5,223</i>	<i>5,349</i>	<i>9,995</i>	<i>34,292</i>	<i>43,368</i>	
<b>Liabilities</b>	<b>59,044</b>	<b>3,169</b>	<b>6,168</b>	<b>6,680</b>	<b>8,355</b>	<b>7,569</b>	<b>9,529</b>	<b>35,656</b>	<b>15,525</b>	
Deposits and current accounts	57,904	2,753	5,037	6,308	7,262	5,893	7,773	10,253	1,469	
<i>Banks</i>	<i>2,367</i>	<i>442</i>	<i>250</i>	<i>380</i>	<i>208</i>	<i>191</i>	<i>490</i>	<i>2,896</i>	<i>715</i>	
<i>Customers</i>	<i>55,537</i>	<i>2,312</i>	<i>4,787</i>	<i>5,928</i>	<i>7,054</i>	<i>5,702</i>	<i>7,284</i>	<i>7,357</i>	<i>754</i>	
Debt securities	–	48	–	35	274	1,353	1,378	17,261	7,858	
Other liabilities	1,139	368	1,131	337	819	324	377	8,142	6,199	
<b>Off-balance sheet transactions</b>	<b>8,001</b>	<b>14</b>	<b>84</b>	<b>172</b>	<b>181</b>	<b>810</b>	<b>483</b>	<b>112,466</b>	<b>40,728</b>	
Physically settled financial derivatives										
long positions	1	230	400	839	1,534	720	1,526	3,542	329	
short positions	1	231	400	839	1,534	720	1,526	3,546	329	
Cash settled financial derivatives										
long positions	158	1,969	973	1,583	2,974	2,493	4,776	14,613	9,522	
short positions	128	1,969	900	1,588	2,964	2,370	4,745	14,708	9,563	
Deposits to be received										
long positions	–	–	–	–	–	–	–	–	–	
short positions	–	–	–	–	–	–	–	–	–	
Irrevocable commitments to disburse funds										
long positions	1,085	30	46	210	570	1,046	1,959	2,413	1,963	
short positions	2,670	21	44	54	632	469	1,938	2,411	1,082	
Written guarantees	67	5	9	21	233	109	233	876	928	
Financial guarantees received	9,490	–	–	–	1	–	198	111,687	38,958	
Physically settled credit derivatives										
long positions	–	–	–	–	43	–	66	555	105	
short positions	–	–	–	–	43	–	66	555	105	

The breakdown by maturity reflects items of companies within the group of banks which are subject to regulatory supervision. This distribution is made on the basis of the period between the balance sheet date and the first following yield review date. For fixed-rate transactions the residual life is the period from the balance sheet date to final maturity. On-balance sheet items are disclosed at their carrying value. Derivatives are shown, under the double entry method, at settlement value for those with underlying securities and at the notional value for those without underlying securities; options are shown at their delta equivalent value.

## Funding

In the area of funding Bank Austria focused particularly on the self-sufficiency principle of its subsidiaries in Central Eastern Europe and safely managed the liquidity risk for those markets which were characterised by some volatility. Future liquidity requirements stemming from Basel 3 (e.g. Liquidity Coverage Ratio) have also been targets for Bank Austria as demonstrated by initiatives taken also in the Austrian market in order to reshape commercial funding, rebalancing its weight towards more stable longer term funding sources.

Funding provided to commercial business units in the Group is priced taking into account relevant cost aspects like own liquidity cost, country risk premiums and insurance cost.

## E – Risk report (CONTINUED)

### E.7 – Counterparty risk

Bank Austria implemented the changes in the area of counterparty credit risk resulting from the publications of the Basel Committee (Basel 3) and the Capital Requirements Regulation (CRR) in 2013. The requirements were implemented as part of a Group-wide project for joint management. The new regulatory requirements in connection with counterparty credit risk relate mainly to the calculation of a stressed counterparty exposure, comparable to the stressed VaR in market risk. Other new features are the capital backing for market risk in respect of credit valuation adjustments (CVA market risk) and stricter standards for collateral management and margining. There are also stricter requirements to be met in the area of stress testing and backtesting in respect of counterparty credit risk. Under the EMIR (European Market Infrastructure Regulation) project, UniCredit Bank Austria started implementing the central clearing obligation for OTC derivatives.

As part of the implementation of Basel 3 requirements, UniCredit Bank Austria AG further refined the risk management model for derivatives, securities lending and repurchase agreements in 2013. For the purposes of portfolio management and risk limitation in the derivatives and security financing business with banks and customers, the bank uses an internal counterparty risk model (IMM) based on a Monte Carlo path simulation to estimate the potential future exposure at portfolio level for each counterparty.

The bank is taking account of the growing importance of counterparty risk by having a separate unit for this purpose within the Market Risk & Liquidity Risk department since the beginning of 2010.

As part of Basel 3 implementation, the group-wide internal counterparty risk model was approved in UniCredit Group by the Austrian and Italian supervisory authorities. The new risk model thus replaced the original counterparty risk model (NORISK-CR), which was approved by the Austrian supervisory authority in 2009. In addition to UniCredit Bank Austria AG it also covers all relevant CEE countries for managerial risk management aspects. In this context the focus is on risk management and not on regulatory approval.

With the creation of a Group-wide counterparty risk model for regulatory capital requirements and internal risk management, the relevant aspects of Basel 3 were implemented. The project also involved work on refining the risk model (e.g. use of 52 gridpoints instead of 20, or 3,000 scenarios instead of 1,000, in the simulation). Additionally, the group-wide methodology has foreseen a switch from the previously used 97.5% confidence level to expected shortfall 87.5% (equals 95% quantile), a harmonisation of the margin period of risk and the implementation of a default conditional metric.

In 2013, within the framework of the EuroMIB project, UniCredit Bank Austria AG started implementing the group-wide IT systems (FRE – Full Revaluation Engine, AGE – Aggregation Engine) for counterparty risk calculation. At the end of 2013, only the valuation for selected countries and the aggregation for the full consolidation perimeter were performed with the Group-wide IT systems. With the conclusion of the EuroMIB project in November 2014, the adjustment at UniCredit Bank Austria AG to the Group-wide IT systems was complete. In addition to derivatives business, the “other risk types” were also integrated in the new Group-wide IT systems as part of the EuroMIB project. Since the end of November 2014, money-market risk, issuer risk and settlement risk have been covered, in addition to the pre-settlement exposure arising from derivatives, repurchase agreements and securities lending business. Moreover, country risk is taken into account separately for external and internal country risk.

The simulation calculations are performed for all major types of transactions, e.g. forward foreign exchange transactions, currency options, interest rate instruments, equity/bond-related instruments, credit derivatives and commodity derivatives. Other transactions are taken into account with an add-on depending on factors such as maturity. The calculations are based on market volatility, correlations between specific risk factors, future cash flows and stress considerations. Netting agreements and collateral agreements are also taken into account for simulation purposes. The bank applies a confidence interval of 95.0%.

Based on the calculation method of counterparty credit risk used in the group-wide risk systems, derivative transactions, repurchase agreements and securities lending transactions resulted in the following exposures for UniCredit Bank Austria AG and the CEE banking subsidiaries at the end of the year:

Exposures	(€ billion)	
	2014	2013
Austria	2.4	2.0
CEE	4.0	4.2
<b>TOTAL</b>	<b>6.4</b>	<b>6.2</b>

Separate reporting on counterparty risk is in place with a view to informing UniCredit Bank Austria AG's Market Risk Committee (MACO) and Derivative Committee (DECO) of current exposure trends, stress testing, collateral management and wrong way risk while also providing additional information relevant to risk management. Moreover, backtesting is performed at regular intervals, at the level of individual counterparties and at overall bank level, in order to check the quality of the model on an ongoing basis.

## E – Risk report (CONTINUED)

In 2014, the WSS (“Wallstreet”) limit system was replaced with the new Murex Limit Controller (MLC) limit system and related reporting. Line utilisation for derivatives and security financing business of customers is now available online in the MLC limit system, the central treasury system, on a largely group-wide basis. In addition to determining the potential future exposure, the path simulation also enables the bank to calculate the average exposure and the modified average exposure (exposure at default) and the effective maturity of the exposure as well as the “stressed EPE” pursuant to Basel 3 to each counterparty.

UniCredit Bank Austria AG additionally limits the credit risk arising from its derivatives business, repurchase agreements and securities lending business through strict use of master agreements, the definition and ongoing monitoring of documentation standards by legal experts, and through collateral agreements and break clauses. Management takes proper account of default risk, especially because the relevance of this risk category has increased and on the basis of experience gained in the international financial market crisis, despite the good average credit rating of our business partners.

### E.8 – 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 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.

Large 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.

Detailed information on Russia-related and Ukraine-related country risk is given in section E.2 Major risks in Central and Eastern Europe.

## E – Risk report (CONTINUED)

## Breakdown of sovereign debt securities by country and portfolio

(€ million)

COUNTRY/PORTFOLIO	31 DEC. 2014			31 DEC. 2013		
	NOMINAL VALUE	BOOK VALUE	FAIR VALUE	NOMINAL VALUE	BOOK VALUE	FAIR VALUE
<b>Austria</b>	<b>8,215</b>	<b>9,585</b>	<b>9,597</b>	<b>6,128</b>	<b>6,882</b>	<b>6,892</b>
HFT financial assets/liabilities (net exposures)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	8,096	9,465	9,465	6,001	6,755	6,755
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	118	119	132	126	127	137
<b>Czech Republic</b>	<b>1,898</b>	<b>1,939</b>	<b>1,939</b>	<b>1,836</b>	<b>1,966</b>	<b>1,966</b>
HFT financial assets/liabilities (net exposures)	72	73	73	93	96	96
Financial assets at FV through P&L	39	39	39	232	232	232
Available for sale	1,786	1,827	1,827	1,512	1,638	1,638
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
<b>Romania</b>	<b>1,270</b>	<b>1,365</b>	<b>1,365</b>	<b>1,162</b>	<b>1,213</b>	<b>1,213</b>
HFT financial assets/liabilities (net exposures)	29	34	34	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	1,241	1,331	1,331	1,162	1,213	1,213
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
<b>Croatia</b>	<b>851</b>	<b>859</b>	<b>859</b>	<b>758</b>	<b>826</b>	<b>826</b>
HFT financial assets/liabilities (net exposures)	4	4	4	8	8	8
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	847	856	856	750	818	818
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
<b>Bulgaria</b>	<b>793</b>	<b>835</b>	<b>835</b>	<b>494</b>	<b>532</b>	<b>535</b>
HFT financial assets/liabilities (net exposures)	3	3	3	6	7	7
Financial assets at FV through P&L	–	–	–	1	1	1
Available for sale	718	757	757	421	455	455
Loans and receivables	6	6	6	7	7	7
Held-to-maturity investments	67	69	69	59	63	66
<b>Hungary</b>	<b>704</b>	<b>808</b>	<b>808</b>	<b>1,900</b>	<b>1,949</b>	<b>1,949</b>
HFT financial assets/liabilities (net exposures)	10	11	11	74	74	74
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	688	791	791	1,811	1,859	1,859
Loans and receivables	–	–	–	7	7	7
Held-to-maturity investments	6	6	6	8	9	9
<b>Slovakia</b>	<b>609</b>	<b>693</b>	<b>693</b>	<b>491</b>	<b>516</b>	<b>516</b>
HFT financial assets/liabilities (net exposures)	14	15	15	12	9	9
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	588	670	670	473	499	499
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	7	7	7	7	7	7
<b>Spain</b>	<b>648</b>	<b>678</b>	<b>678</b>	<b>8</b>	<b>6</b>	<b>6</b>
HFT financial assets/liabilities (net exposures)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	640	672	672	–	–	–
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	8	6	6	8	6	6

## E – Risk report (CONTINUED)

COUNTRY/PORTFOLIO	31 DEC. 2014			31 DEC. 2013		
	NOMINAL VALUE	BOOK VALUE	FAIR VALUE	NOMINAL VALUE	BOOK VALUE	FAIR VALUE
<b>Luxembourg <sup>1)</sup></b>	<b>605</b>	<b>632</b>	<b>632</b>	–	–	–
HFT financial assets/liabilities (net exposures)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	605	632	632	–	–	–
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
<b>Italy</b>	<b>401</b>	<b>500</b>	<b>500</b>	<b>541</b>	<b>563</b>	<b>563</b>
HFT financial assets/liabilities (net exposures)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	400	499	499	540	563	563
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	1	1	1	1	1	1
<b>Other Countries</b>	<b>2,008</b>	<b>1,663</b>	<b>1,664</b>	<b>1,601</b>	<b>1,454</b>	<b>1,455</b>
HFT financial assets/liabilities (net exposures) <sup>2)</sup>	217	64	64	270	117	117
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	1,778	1,587	1,587	1,318	1,324	1,324
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	13	13	14	13	13	13
<b>TOTAL</b>	<b>18,000</b>	<b>19,555</b>	<b>19,569</b>	<b>14,920</b>	<b>15,908</b>	<b>15,921</b>
<i>thereof:</i>						
<b>Slovenia</b>	<b>289</b>	<b>318</b>	<b>318</b>	<b>179</b>	<b>188</b>	<b>189</b>
<b>Greece</b>	<b>273</b>	<b>1</b>	<b>1</b>	<b>153</b>	<b>2</b>	<b>2</b>
<b>Portugal</b>	<b>30</b>	<b>33</b>	<b>33</b>	<b>30</b>	<b>30</b>	<b>30</b>
<b>Ukraine</b>	<b>80</b>	<b>76</b>	<b>76</b>	<b>227</b>	<b>214</b>	<b>214</b>
<b>Russia</b>	<b>558</b>	<b>421</b>	<b>421</b>	<b>593</b>	<b>600</b>	<b>600</b>

1) All amounts relate to the European Financial Stability Facility (EFSF).

2) Including exposures in credit derivatives.

**Breakdown of sovereign debt securities by portfolio**

(€ million)

	31 DEC. 2014					
	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	204	39	19,085	6	221	19,555
Total portfolio of debt securities	250	77	21,970	629	572	23,498
% Portfolio	81.37 %	51.24 %	86.87 %	0.91 %	38.64 %	83.22 %
	31 DEC. 2013					
	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	312	233	15,124	14	226	15,908
Total portfolio of debt securities	495	271	18,990	754	633	21,143
% Portfolio	62.88 %	85.99 %	79.64 %	1.83 %	35.66 %	75.24 %

Sovereign exposures are bonds issued by and loans granted to central banks, governments and other public sector entities. ABSs are not included.

## E – Risk report (CONTINUED)

**Breakdown of sovereign loans by country**

(€ million)

COUNTRY	31 DEC. 2014	31 DEC. 2013
	BOOK VALUE	BOOK VALUE
Austria	5,754	4,888
Croatia	2,479	2,567
Bulgaria	680	167
Indonesia	395	468
Serbia	289	137
Slovenia	237	228
Gabon	169	–
Bosnia and Herzegovina	130	216
Romania	122	116
Philippines	108	118
Other	732	865
<b>TOTAL ON-BALANCE SHEET EXPOSURE</b>	<b>11,095</b>	<b>9,769</b>

Sovereign loans are loans granted to central and local governments and other public sector entities.

**E.9 – Credit risk****Current status of the application of the internal ratings-based approach (IRB approach) to credit risk in the Bank Austria Group**

UniCredit Bank Austria AG applies the internal ratings-based approach, using its own estimates of loss given default and of conversion factors for the major part of its loan portfolio (advanced IRB approach).

The bank is planning to further refine and develop local as well as Group-wide models while also introducing various other Group-wide models.

The European Central Bank (ECB), the home supervisor of UniCredit Group, has been responsible for all approvals at Group level since November 2014, while local supervisory authorities are responsible for local topics in the legal entities and for local on-site reviews, to the extent that the legal entities are not covered by the Single Supervisory Mechanism (SSM). Regulatory issues are being dealt with in close cooperation between home and host regulators (college of supervisors).

Implementation of the advanced IRB approach has been established as a Group-wide programme. Therefore UniCredit is responsible for Group-wide decisions and guidelines as well as for the development of Group-wide models. For example, Group-wide homogeneous portfolios have been defined for which uniform rating models are used across the Group, such as those for countries, banks and multinational companies.

Group standards have for the most part already been prepared and adopted by the UniCredit Group holding company in cooperation with the major IRB legal entities, and are used as an instrument for uniform Group-wide implementation, with a view to complying with local legal requirements – some of which differ from country to country – and safeguarding Group interests. These Group standards will continue to be gradually extended and complemented.

The Group standards continue to be integrated step by step in the processes and organisational set-up of all business areas and Group units, with account being taken of local features and legal requirements in ensuring Basel 3 compliance.

**Austrian subsidiaries**

All Austrian subsidiaries of UniCredit Bank Austria AG use the standardised approach. From a current perspective, for reasons of materiality, it is not planned to switch to one of the IRB approaches.

**CEE subsidiaries**

The CEE subsidiaries started to use the standardised approach to credit risk. Based on a detailed roll-out plan, there are plans to switch to the advanced IRB approach at most of the CEE banking subsidiaries in line with the Group's decision to use the advanced IRB approach. According to the detailed roll-out plan communicated to the supervisory authorities involved, the switch to the A-IRB approach takes place at the relevant CEE subsidiaries step by step. Most subsidiaries start with the Foundation IRB approach (F-IRB).

## E – Risk report (CONTINUED)

Regulatory approval for the application of the F-IRB approach had been received for 5 banking subsidiaries (UniCredit Bulbank AD, UniCredit Bank Slovenija d.d., UniCredit Bank Hungary Zrt., UniCredit Tiriak Bank S.A., and AO UniCredit Bank) by the end of 2014. UniCredit Bank Czech Republic has applied the A-IRB approach since 30 September 2014. Further approvals for the application of the A-IRB approach at the CEE subsidiaries UniCredit Bulbank AD and UniCredit Zagrebačka banka d.d. are expected for 2015.

### Credit risk

Net write-downs of loans and provisions for guarantees and commitments at **Bank Austria** were €693 million in 2014, substantially lower than in the previous year (2013: €1,313 million).

The provisioning charge in the **Retail & Corporates** business segment in **Austria** was €43 million, accounting for a major part of the improvement (2013: €136 million). Within this business segment, especially the Retail subdivision recorded a lower volume of additions to non-performing loans while benefiting from large recoveries on loans in respect of which provisions had previously been made.

The release of a provision for a major customer led to a net release of €3 million of provisions in the **Corporate & Investment Banking (CIB)** business segment. The comparative figure for the previous year was a charge of €53 million.

The significant decline to about €654 million (2013: €1,094 million) in net write-downs of loans and provisions for guarantees and commitments in **Central and Eastern Europe** is to be seen in the context of the previous year's increase in the coverage ratio (i.e. loan loss provisions for impaired loans expressed as a proportion of the gross volume of impaired loans).

The bank in the **Czech Republic** and **Slovakia** recorded net write-downs of loans and provisions for guarantees and commitments of about €76 million in 2014, down from €106 million in the previous year. The decline in the provisioning charge resulted from business with corporate customers and also from retail banking.

In **Croatia**, net write-downs of loans fell substantially, from €186 million in 2013 to €136 million in 2014. The decrease was due to loan loss provisions recognised already in 2013 and partly also to successful measures for more effective management of defaulted loans (recoveries, restructuring).

The bank in **Bulgaria** saw a significant decline, to €93 million, in the provisioning charge in 2014 (2013: €125 million). Loan loss provisions made already in 2013 had a favourable influence on these developments.

At €129 million in 2014, net write-downs of loans and provisions for guarantees and commitments in **Romania** were also significantly lower than in the previous year (€184 million).

In **Hungary**, the provisioning charge more than halved to €35 million, following the substantial provisioning charge in the previous year (2013: €89 million).

Net write-downs of loans in **Slovenia** were €36 million, significantly lower than the previous year's €60 million.

The provisioning charge in **Serbia** declined to €25 million in 2014 (2013: €42 million), mainly because the coverage ratio on impaired loans had been raised in the previous year.

Net write-downs of loans at the two banks in **Bosnia** totalled €15 million in 2014, more or less matching the level in 2013, while the **Baltic countries** (bank and leasing company) benefited from a slight improvement compared with the previous year, from €6 million in 2013 to €4 million in 2014.

Additions to loan loss provisions for the **CEE segment** in UniCredit Bank Austria AG in 2014 amounted to only €20 million, a sharp decline from the previous year's high level (2013: €201 million).

Detailed information on **Russia**-related credit risk is given in section E.2 Major risks in Central and Eastern Europe.



## E – Risk report (CONTINUED)

## Breakdown of financial assets by portfolio and credit quality (carrying value)

(€ million)

PORTFOLIO/QUALITY	BANKING GROUP						OTHER COMPANIES		TOTAL
	NON-PERFORMING LOANS	DOUBTFUL ASSETS	RESTRUCTURED EXPOSURES	IMPAIRED PAST-DUE	NOT IMPAIRED PAST-DUE	OTHER ASSETS	IMPAIRED	OTHER	
Financial assets held for trading	1	–	1	1	–	3,527	–	–	3,530
Available-for-sale financial assets	–	–	–	–	–	21,970	–	–	21,970
Held-to-maturity financial instruments	–	–	6	–	–	566	–	–	572
Loans and receivables with banks	5	1	–	–	–	30,529	–	6	30,542
Loans and receivables with customers	1,924	1,939	768	293	2,193	106,597	3	15	113,732
Financial assets at fair value through profit or loss	–	–	–	–	–	77	–	–	77
Financial instruments classified as held for sale	437	80	197	210	–	1,149	–	–	2,073
Hedging instruments	–	–	–	–	–	3,952	–	–	3,952
<b>TOTAL 31 DECEMBER 2014</b>	<b>2,367</b>	<b>2,021</b>	<b>972</b>	<b>503</b>	<b>2,193</b>	<b>168,366</b>	<b>3</b>	<b>22</b>	<b>176,448</b>
PORTFOLIO/QUALITY	BANKING GROUP						OTHER COMPANIES		TOTAL
	NON-PERFORMING LOANS	DOUBTFUL ASSETS	RESTRUCTURED EXPOSURES	IMPAIRED PAST-DUE	NOT IMPAIRED PAST-DUE	OTHER ASSETS	IMPAIRED	OTHER	
Financial assets held for trading	–	–	1	–	–	2,195	–	–	2,197
Available-for-sale financial assets	1	–	–	–	–	18,979	–	10	18,990
Held-to-maturity financial instruments	–	1	5	–	–	627	–	–	633
Loans and receivables with banks	–	17	–	–	–	22,291	–	8	22,316
Loans and receivables with customers	2,153	1,850	725	209	1	109,942	–	1	114,880
Financial assets at fair value through profit or loss	–	–	–	–	–	271	–	–	271
Financial instruments classified as held for sale	534	91	240	40	–	2,011	–	–	2,916
Hedging instruments	–	–	–	–	–	2,839	–	–	2,839
<b>TOTAL 31 DECEMBER 2013</b>	<b>2,688</b>	<b>1,959</b>	<b>971</b>	<b>249</b>	<b>1</b>	<b>159,155</b>	<b>–</b>	<b>19</b>	<b>165,043</b>

Impaired loans are divided into the following categories according to UniCredit Group rules:

- Non-performing loans – formally impaired loans, being exposure to insolvent borrowers, even if the insolvency has not been recognised in a court of law, or borrowers in a similar situation. Measurement is on a loan-by-loan basis or portfolio basis.
- Doubtful loans – exposure to borrowers experiencing temporary difficulties, which the Group believes may be overcome within a reasonable period of time. Doubtful loans are valued on a loan-by-loan basis or portfolio basis.
- Restructured loans – exposure to borrowers with whom a rescheduling agreement has been entered into including renegotiated pricing at interest rates below market, the conversion of loans/reduction of principal etc.; measurement is on a loan-by-loan basis or portfolio basis. From 2015, this category will be apportioned to the three categories then remaining.
- Past-due loans – total exposure to any borrower not included in the other categories, who at the balance-sheet date has expired facilities or unauthorised overdrafts that are more than 90 days past due.

Performing loans:

- Past-due loans which are not impaired: exposures to borrowers where past-due amounts or unauthorised overdrafts at the reporting date were between 1 and 90 days overdue.
- Other exposures: borrowers not included in the other categories.

In contrast to the presentation in the consolidated statement of financial position, equity investments and units in investment funds are not included in the presentation of credit risk. For this reason, the following table shows slight differences compared with the consolidated statement of financial position in the items financial assets held for trading, financial assets at fair value through profit or loss and available-for-sale financial assets.

## E – Risk report (CONTINUED)

**Breakdown of financial assets by portfolio and credit quality (gross and net values)**

(€ million)

PORTFOLIO/QUALITY	IMPAIRED ASSETS			PERFORMING			TOTAL (NET EXPOSURE)
	GROSS EXPOSURE	SPECIFIC WRITE-DOWNS	NET EXPOSURE	GROSS EXPOSURE	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	
Financial assets held for trading	3	–	3	3,527	X	3,527	3,530
Available-for-sale financial assets	2	2	–	21,970	–	21,970	21,970
Held-to-maturity financial instruments	9	2	6	566	–	566	572
Loans and receivables with banks	24	17	6	30,535	–	30,535	30,542
Loans and receivables with customers	11,056	6,130	4,927	109,479	674	108,805	113,732
Financial assets at fair value through profit or loss	–	–	–	77	X	77	77
Financial instruments classified as held for sale	1,623	699	924	1,164	15	1,149	2,073
Hedging instruments	–	–	–	3,952	X	3,952	3,952
<b>TOTAL 31 DECEMBER 2014</b>	<b>12,717</b>	<b>6,849</b>	<b>5,867</b>	<b>171,270</b>	<b>690</b>	<b>170,581</b>	<b>176,448</b>
PORTFOLIO/QUALITY	IMPAIRED ASSETS			PERFORMING			TOTAL (NET EXPOSURE)
	GROSS EXPOSURE	SPECIFIC WRITE-DOWNS	NET EXPOSURE	GROSS EXPOSURE	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	
Financial assets held for trading	1	–	1	2,195	X	2,195	2,197
Available-for-sale financial assets	5	5	1	18,989	–	18,989	18,990
Held-to-maturity financial instruments	9	2	6	627	–	627	633
Loans and receivables with banks	40	23	17	22,299	–	22,299	22,316
Loans and receivables with customers	10,842	5,905	4,937	110,561	618	109,943	114,880
Financial assets at fair value through profit or loss	–	–	–	271	X	271	271
Financial instruments classified as held for sale	1,577	672	905	2,021	10	2,011	2,916
Hedging instruments	–	–	–	2,839	X	2,839	2,839
<b>TOTAL 31 DECEMBER 2013</b>	<b>12,475</b>	<b>6,607</b>	<b>5,868</b>	<b>159,804</b>	<b>629</b>	<b>159,175</b>	<b>165,043</b>

**Banking group – On-balance sheet and off-balance sheet credit exposure by external rating class (book values)**

(€ million)

	BALANCE AT 31 DEC. 2014							
	EXTERNAL RATING CLASSES						NO EXTERNAL RATING	TOTAL
	CLASS 1	CLASS 2	CLASS 3	CLASS 4	CLASS 5	CLASS 6		
<b>On-balance sheet exposures</b>	<b>15,963</b>	<b>12,255</b>	<b>14,238</b>	<b>11,760</b>	<b>884</b>	<b>7,038</b>	<b>108,382</b>	<b>170,520</b>
<b>Derivative contracts</b>	<b>62</b>	<b>622</b>	<b>4,022</b>	<b>192</b>	<b>48</b>	<b>68</b>	<b>2,240</b>	<b>7,253</b>
Financial derivative contracts	62	622	4,022	192	48	68	2,240	7,253
Credit derivative contracts	–	–	1	–	–	–	–	1
<b>Guarantees given</b>	<b>42</b>	<b>458</b>	<b>761</b>	<b>1,422</b>	<b>130</b>	<b>949</b>	<b>12,611</b>	<b>16,373</b>
<b>Other commitments to disburse funds</b>	<b>473</b>	<b>765</b>	<b>2,868</b>	<b>1,084</b>	<b>569</b>	<b>88</b>	<b>17,287</b>	<b>23,133</b>
<b>TOTAL</b>	<b>16,540</b>	<b>14,100</b>	<b>21,889</b>	<b>14,458</b>	<b>1,631</b>	<b>8,143</b>	<b>140,519</b>	<b>217,279</b>
	BALANCE AT 31 DEC. 2013							
	EXTERNAL RATING CLASSES						NO EXTERNAL RATING	TOTAL
	CLASS 1	CLASS 2	CLASS 3	CLASS 4	CLASS 5	CLASS 6		
<b>On-balance sheet exposures</b>	<b>14,180</b>	<b>9,426</b>	<b>7,944</b>	<b>11,706</b>	<b>740</b>	<b>6,204</b>	<b>111,302</b>	<b>161,503</b>
<b>Derivative contracts</b>	<b>25</b>	<b>302</b>	<b>140</b>	<b>128</b>	<b>35</b>	<b>3</b>	<b>3,874</b>	<b>4,506</b>
Financial derivative contracts	25	302	140	128	35	3	3,871	4,504
Credit derivatives contracts	–	–	–	–	–	–	2	2
<b>Guarantees given</b>	<b>2</b>	<b>296</b>	<b>1,075</b>	<b>983</b>	<b>31</b>	<b>324</b>	<b>13,355</b>	<b>16,064</b>
<b>Other commitments to disburse funds</b>	<b>818</b>	<b>288</b>	<b>1,135</b>	<b>522</b>	<b>92</b>	<b>41</b>	<b>11,389</b>	<b>14,283</b>
<b>TOTAL</b>	<b>15,024</b>	<b>10,312</b>	<b>10,293</b>	<b>13,339</b>	<b>897</b>	<b>6,572</b>	<b>139,919</b>	<b>196,356</b>

Class 1 (AAA/AA–), 2 (A+/A–), 3 (BBB+/BBB–), 4 (BB+/BB–), 5 (B+/B–), 6 (impaired exposures are included in class 6)

68 % of rated counterparties were investment grade (from class 1 to 3),

64 % of customers were not rated due to the considerable share of customers in the segment comprising private individuals and SMEs.

The above presentation of external rating classes also includes investment fund volumes.

## E – Risk report (CONTINUED)

**Banking group – On-balance sheet and off-balance sheet exposure by internal rating class (book values) 2014**

(€ million)

	BALANCE AT 31 DEC. 2014					
	INTERNAL RATING CLASSES					
	1	2	3	4	5	6
<b>On-balance sheet exposures</b>	<b>7,316</b>	<b>14,871</b>	<b>32,151</b>	<b>41,071</b>	<b>26,086</b>	<b>18,701</b>
<b>Derivative contracts</b>	<b>108</b>	<b>349</b>	<b>4,765</b>	<b>1,106</b>	<b>329</b>	<b>206</b>
Financial derivative contracts	108	349	4,765	1,106	329	206
Credit derivative contracts	–	–	1	–	–	–
<b>Guarantees given</b>	<b>254</b>	<b>642</b>	<b>2,966</b>	<b>4,441</b>	<b>2,325</b>	<b>2,000</b>
<b>Other commitments to disburse funds</b>	<b>421</b>	<b>1,517</b>	<b>6,818</b>	<b>6,890</b>	<b>2,953</b>	<b>2,291</b>
<b>TOTAL</b>	<b>8,100</b>	<b>17,379</b>	<b>46,699</b>	<b>53,508</b>	<b>31,693</b>	<b>23,198</b>
	INTERNAL RATING CLASSES			IMPAIRED EXPOSURES	NO INTERNAL RATING	TOTAL
	7	8	9			
<b>On-balance sheet exposures</b>	<b>7,473</b>	<b>4,298</b>	<b>1,440</b>	<b>5,869</b>	<b>11,096</b>	<b>170,373</b>
<b>Derivative contracts</b>	<b>122</b>	<b>11</b>	<b>21</b>	<b>2</b>	<b>234</b>	<b>7,253</b>
Financial derivative contracts	122	11	21	2	234	7,253
Credit derivative contracts	–	–	–	–	–	1
<b>Guarantees given</b>	<b>861</b>	<b>1,013</b>	<b>175</b>	<b>305</b>	<b>1,392</b>	<b>16,374</b>
<b>Other commitments to disburse funds</b>	<b>760</b>	<b>298</b>	<b>92</b>	<b>33</b>	<b>1,060</b>	<b>23,133</b>
<b>TOTAL</b>	<b>9,217</b>	<b>5,621</b>	<b>1,728</b>	<b>6,210</b>	<b>13,782</b>	<b>217,134</b>

**Banking group – On-balance sheet and off-balance sheet exposure by internal rating class (book values) 2013**

(€ million)

	BALANCE AT 31 DEC. 2013					
	INTERNAL RATING CLASSES					
	1	2	3	4	5	6
<b>On-balance sheet exposures</b>	<b>299</b>	<b>14,392</b>	<b>31,418</b>	<b>39,751</b>	<b>27,933</b>	<b>17,420</b>
<b>Derivative contracts</b>	<b>2</b>	<b>65</b>	<b>3,444</b>	<b>416</b>	<b>235</b>	<b>155</b>
Financial derivative contracts	2	65	3,443	415	235	155
Credit derivatives contracts	–	–	1	1	–	–
<b>Guarantees given</b>	<b>6</b>	<b>436</b>	<b>3,272</b>	<b>4,896</b>	<b>3,096</b>	<b>1,834</b>
<b>Other commitments to disburse funds</b>	<b>17</b>	<b>1,134</b>	<b>2,769</b>	<b>4,006</b>	<b>2,973</b>	<b>1,885</b>
<b>TOTAL</b>	<b>324</b>	<b>16,027</b>	<b>40,904</b>	<b>49,068</b>	<b>34,238</b>	<b>21,295</b>
	INTERNAL RATING CLASSES			IMPAIRED EXPOSURES	NO INTERNAL RATING	TOTAL
	7	8	9			
<b>On-balance sheet exposures</b>	<b>8,902</b>	<b>3,487</b>	<b>1,201</b>	<b>5,849</b>	<b>10,574</b>	<b>161,226</b>
<b>Derivative contracts</b>	<b>68</b>	<b>25</b>	<b>–</b>	<b>3</b>	<b>93</b>	<b>4,506</b>
Financial derivative contracts	68	25	–	3	93	4,504
Credit derivatives contracts	–	–	–	–	–	2
<b>Guarantees given</b>	<b>844</b>	<b>637</b>	<b>54</b>	<b>322</b>	<b>666</b>	<b>16,064</b>
<b>Other commitments to disburse funds</b>	<b>591</b>	<b>213</b>	<b>62</b>	<b>34</b>	<b>599</b>	<b>14,283</b>
<b>TOTAL</b>	<b>10,405</b>	<b>4,362</b>	<b>1,318</b>	<b>6,207</b>	<b>11,932</b>	<b>196,079</b>

The mapping to the internal rating masterscale considers the PD ranges mentioned below:

INTERNAL RATING CLASSES	PD MIN	PD MAX
1	0.0000%	0.0036%
2	0.0036%	0.0208%
3	0.0208%	0.1185%
4	0.1185%	0.5824%
5	0.5824%	1.3693%
6	1.3693%	3.2198%
7	3.2198%	7.5710%
8	7.5710%	17.8023%
9	17.8023%	99.9999%
10	impaired	

## E – Risk report (CONTINUED)

### **AQR results of the Bank Austria Group**

#### ***AQR set-up***

For the AQR exercise UniCredit Bank Austria as part of UniCredit Group set up an interdivisional project team including Risk Management, Finance, IT, Sales and other affected competencies. The organisation was mirrored in legal entities which were involved in the AQR exercise. In the first phase (selection of the portfolios to be assessed) all geographies of the Bank Austria Group were involved; in the second phase the ECB put the focus on Austria, Croatia, Romania and Bulgaria, where detailed analyses were performed.

#### ***Subject of the assessment***

The AQR explicitly served only supervisory purposes with a view to determining any additional capital requirement in the course of the regulatory review and evaluation processes and on the basis of the subsequent stress tests. The role of Bank Austria as part of UniCredit Group was to manage all relevant legal entities affected by the assessment within the perimeter of Bank Austria.

The most important fields of activities within the AQR were:

- Phase 1 focused on the delivery of portfolio data for the regulator as a basis for the portfolio selection by ECB to be assessed in phase 2.
- Processes, policies & accounting review for Austria and CEE legal entities.
- Loan tape creation and data integrity verification.
- Credit file review with about 600 single cases to be assessed in UniCredit Bank Austria AG and about 660 single files in CEE within the selected portfolios Residential Real Estate, Real Estate, Large SMEs and Large Corporates (2 portfolios in each geography).
- Collateral and real estate valuation.
- Collective provisioning analysis.

#### ***Measures based on the AQR findings***

- Deep analysis of each single file with findings.
- The identified findings were closed within the year 2014, some through repayments by the customers, others on account of customers' improved creditworthiness. In the other cases the provisioning requirements were reflected in the specific write-downs in 2014.
- Additional provisions were booked for the identified loans in Austria (UniCredit Bank Austria AG and Austrian banking subsidiaries) and at three CEE banking subsidiaries (BG, RO, HR).

In addition to improved provisioning, the Bank Austria Group set up the PERDAR project – under the guidance of a UniCredit Group-wide project – to optimise the data stream for reporting and management purposes based on the principles of BCBS 239.

### **Information on forbore exposures**

In its document EBA/ITS/2013/03, the European Banking Authority (EBA) developed new requirements for reporting on forbearance. Under the EBA definition, forbearance measures are concessions made by a bank to a debtor facing or about to face difficulties in meeting its financial commitments. These may take the form of a modification of the terms and conditions of a contract that would not have been agreed if the debtor had not been in financial difficulties, or the form of total or partial refinancing. Debtors that are classified as “forborne” are subject to special monitoring requirements and are to be clearly marked as such. All measures classified as “forbearance” must continue to be reported as such for two years (probation period) after the forbearance criteria cease to apply. With regard to potential defaults and non-performing loans, the focus is on the following activities:

- Prompt action. With a solid and effective monitoring and reporting process, and on the basis of the early identification of possible credit quality deterioration, any necessary concessions (forbearance measures) as well as restrictive management measures will be initiated to reduce the risk of potential default.
- Proper assessment of the impaired loans, in order to define the strategies/actions to be taken and the applicable default classification.
- Initiating recovery procedures on the basis of the type and amount of the exposure and the specific borrower involved.
- Appropriate provisioning in line with recovery strategies and the type of exposure.
- Up-to-date reporting in order to monitor aggregate portfolio risk over time.

Forbearance measures include, for example, a rescheduling agreement, renegotiated pricing at interest rates below the market level, the conversion of a partial amount of the loan into shares, or a reduction of the principal amount.

Restructured loans are valued on a loan-by-loan basis and may be reclassified as “performing loans” if at least two years have passed since the restructuring agreement was concluded and the competent corporate bodies have decided that the debtor is again able to service its debt in accordance with the restructuring agreement.

## E – Risk report (CONTINUED)

When assessing and making provisions for loans subject to modifications as a result of forbearance practices, the bank must ascertain whether there is objective evidence that an impairment loss on loans or held-to-maturity investments (measured at amortised cost) has been incurred. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in the income statement under "Impairment losses" and the carrying amount of the asset is reduced.

In more detail, if the terms of a loan, receivable or held-to-maturity investment are renegotiated or otherwise modified because of the borrower's financial difficulties, this is considered to be objective evidence of impairment in accordance with IAS 39.

Apart from the impairment test, an examination must be performed to see if the modification of the contract results in a partial or full disposal of the financial instrument. In the case of financial assets, there is a disposal if a material change in contractual conditions leads to a situation in which the modified financial instrument, in substance, no longer corresponds to the instrument before the modification. In such a case the previously recognised financial instrument is to be derecognised and a new financial instrument is to be recognised, even if – in legal terms – the same contract continues to exist in an adjusted form. Derecognition in such cases also relates to any provision made in connection with the financial instrument.

### Forborne exposures – Loans and receivables with customers

(€ million)

	PERFORMING			IMPAIRED			RESTRUCTURED TOTAL		
	GROSS EXPOSURES	WRITE-DOWNS	NET EXPOSURE	GROSS EXPOSURES	WRITE-DOWNS	NET EXPOSURE	GROSS EXPOSURES	WRITE-DOWNS	NET EXPOSURE
General governments	9	–	9	56	10	46	65	10	55
Financial institutions	64	–	64	41	30	11	105	30	75
Non-financial institutions	865	13	852	3,008	1,283	1,725	3,873	1,296	2,577
Households	352	4	349	374	163	211	727	167	560
<b>TOTAL 31 DEC. 2014</b>	<b>1,291</b>	<b>17</b>	<b>1,274</b>	<b>3,479</b>	<b>1,486</b>	<b>1,994</b>	<b>4,770</b>	<b>1,503</b>	<b>3,268</b>

### Realisation of mortgage collateral

Mortgages are the main type of collateral accepted by UniCredit Bank Austria AG for real estate finance. The impact of international financial market turbulence on real estate markets in CEE often leads to further losses being incurred by UniCredit Bank Austria AG when realising collateral.

UniCredit Bank Austria AG has therefore established subsidiaries in Vienna and in major CEE countries (the Czech Republic, Russia, Bulgaria, Romania, ...) which concentrate on active workout management and optimum realisation of real estate. These companies act as potential buyers of real estate mortgaged to UniCredit Group when such real estate is sold at auction or on the basis of voluntary arrangements with borrowers.

A potential purchase of real estate mortgaged to UniCredit Group is preceded by intensive evaluation to ensure that the purchase of such real estate – as compared with immediate realisation – will lead to a significant reduction of the loss to the Group. Such transactions are considered especially for real estate which is run effectively or may be developed, and in respect of promising projects, which are to be liquidated because the owners are insolvent.

Via its subsidiaries established for this purpose, UniCredit Bank Austria AG can purchase and temporarily hold real estate or assume control of projects, complete or continue developing such projects if necessary, and subsequently sell the real estate through an orderly process.

### Credit risk mitigation techniques

UniCredit Bank Austria uses various credit risk mitigation techniques to reduce potential credit losses in case of obligor default.

With specific reference to credit risk mitigation, general guidelines issued by the parent company as well as UniCredit Bank Austria in its sub-holding function are in force, to lay down Group-wide rules and principles that should guide, govern and standardise credit risk mitigation management, in line with Group principles and best practice, as well as in accordance with the relevant regulatory requirements. Following the General Group and Subgroup Credit Risk Mitigation Guidelines all legal entities are developing internal regulations that specify processes, strategies and procedures for collateral management. In particular such internal regulations detail collateral eligibility, valuation and monitoring rules and ensure the soundness, legal enforceability and timely liquidation of valuable collateral according to each country's local legal system.

## E – Risk report (CONTINUED)

Collateral management assessments and credit risk mitigation compliance verifications have been performed by the legal entities, specifically as part of internal rating system applications, in order to assess the presence of adequate documentation and procedures concerning the credit risk mitigation instruments used for supervisory capital.

According to the credit policies, collateral or guarantees can be accepted only to support loans and they cannot serve as a substitute for the borrower's ability to meet obligations. For this reason, in addition to the overall analysis of the creditworthiness and of the repayment capacity of the borrower, they are subject to specific evaluation and analysis of the support role for the repayment of the exposure.

Collateral accepted in support of credit lines granted by the Group's legal entities, primarily includes real estate, both residential and commercial and financial collateral (including cash deposits, debt securities, equities, and units of undertakings for collective investment in transferable securities (UCITS)). Further types of collateral comprise pledged goods, receivables and insurance contracts as well as other types of funded protection. The Group also makes use of bilateral netting agreements for OTC derivatives (by means of ISDA and CSA agreements), repos and securities lending.

The management systems of credit risk mitigation techniques are targeted to be embedded in the credit approval process and in the credit risk monitoring process, and widely support the evaluation and data quality checks of collateral/guarantees and their appropriate linking to the categories defined for LGD estimation purposes. Controls and related responsibilities are duly formalised and documented in internal rules and job descriptions. Furthermore, processes are implemented to control that all the relevant information regarding the identification and evaluation of the credit protection is correctly registered in the system.

When accepting a credit risk mitigation technique, the Group and the sub-group emphasise the importance of processes and controls of the legal certainty requirements of the protection, as well as the assessment of the suitability of the collateral or guarantee. In case of personal guarantees, the protection provider (or the protection seller in case of credit default swap) has to be assessed in order to measure his/her solvency and risk profile.

In case of collateral, the process of valuation is based on precautionary principles, with reference to the use of "market values" and to the application of adequate haircuts to ensure that, in case of liquidation, there are no unexpected losses.

Monitoring processes of credit risk mitigation techniques ensure that general and specific requirements established by credit policies, internal and regulatory rules are met at all times.

## E – Risk report (CONTINUED)

**Banking group – Secured credit exposures to banks**

(€ million)

	BALANCE AT 31 DEC. 2014							
	NET EXPOSURES	TOTAL CREDIT RISK MITIGATION	COLLATERALS			GUARANTEES		
			MORTGAGES/ PLANTS	SECURITIES	OTHER ASSETS	GOVERNMENT AND CENTRAL BANKS	BANKS	OTHER ENTITIES
<b>Secured on-balance sheet credit exposures:</b>								
totally secured	1,753	1,811	6	709	58	1,038	–	–
<i>of which impaired</i>	–	1	1	–	–	–	–	–
partially secured	3,097	1,127	–	–	629	372	125	–
<i>of which impaired</i>	5	4	–	–	–	4	–	–
<b>Secured off-balance sheet credit exposures:</b>								
totally secured	22	22	–	–	8	14	–	–
<i>of which impaired</i>	–	–	–	–	–	–	–	–
partially secured	1,666	994	–	–	556	–	436	1
<i>of which impaired</i>	–	–	–	–	–	–	–	–
	BALANCE AT 31 DEC. 2013							
	NET EXPOSURES	TOTAL CREDIT RISK MITIGATION	COLLATERALS			GUARANTEES		
			MORTGAGES/ PLANTS	SECURITIES	OTHER ASSETS	GOVERNMENT AND CENTRAL BANKS	BANKS	OTHER ENTITIES
<b>Secured on-balance sheet credit exposures:</b>								
totally secured	2,103	3,642	2	1,025	1,560	1,056	–	–
<i>of which impaired</i>	–	–	–	–	–	–	–	–
partially secured	2,930	507	–	–	90	388	4	24
<i>of which impaired</i>	15	15	–	–	–	15	–	–
<b>Secured off-balance sheet credit exposures:</b>								
totally secured	1	2	–	–	1	–	1	–
<i>of which impaired</i>	–	–	–	–	–	–	–	–
partially secured	1,182	223	–	–	215	–	8	–
<i>of which impaired</i>	–	–	–	–	–	–	–	–

## E – Risk report (CONTINUED)

## Banking group – Secured credit exposures to customers

(€ million)

	BALANCE AT 31 DEC. 2014										
	NET EXPOSURES	TOTAL CREDIT RISK MITIGATION	COLLATERALS					GUARANTEES			
			MORTGAGES/ PLANTS	FINANCE LEASES/ PLANTS	SECURITIES	OTHER ASSETS	CREDIT DERIVATIVES	GOVERNMENT AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHER ENTITIES
<b>Secured on-balance sheet credit exposures:</b>											
totally secured	15,478	44,371	19,720	652	594	20,008	–	1,225	14	285	1,873
<i>of which impaired</i>	1,908	10,443	4,494	46	24	5,605	–	39	–	4	231
partially secured	54,863	35,924	23,550	–	812	5,759	–	3,769	–	1,400	634
<i>of which impaired</i>	2,811	2,230	1,757	–	23	283	–	131	–	22	14
<b>Secured off-balance sheet credit exposures:</b>											
totally secured	1,924	6,458	1,310	–	24	4,498	6	95	–	59	465
<i>of which impaired</i>	29	750	10	–	–	720	1	–	–	16	2
partially secured	4,705	1,503	317	–	57	466	41	111	–	282	229
<i>of which impaired</i>	192	90	43	–	1	25	–	13	–	8	–
	BALANCE AT 31 DEC. 2013										
	NET EXPOSURES	TOTAL CREDIT RISK MITIGATION	COLLATERALS					GUARANTEES			
			MORTGAGES/ PLANTS	FINANCE LEASES/ PLANTS	SECURITIES	OTHER ASSETS	CREDIT DERIVATIVES	GOVERNMENT AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHER ENTITIES
<b>Secured on-balance sheet credit exposures:</b>											
totally secured	17,850	49,207	24,199	–	791	22,018	–	1,681	36	80	401
<i>of which impaired</i>	2,077	9,375	5,149	–	29	4,160	–	3	–	2	31
partially secured	55,453	35,603	23,888	–	818	4,819	–	4,705	–	710	663
<i>of which impaired</i>	2,899	2,476	1,981	–	20	245	–	205	–	22	3
<b>Secured off-balance sheet credit exposures:</b>											
totally secured	2,002	5,671	1,336	–	40	3,936	–	6	–	22	331
<i>of which impaired</i>	26	102	57	–	–	31	–	–	–	14	–
partially secured	4,241	1,464	555	–	59	490	–	70	2	225	64
<i>of which impaired</i>	211	40	24	–	–	12	–	4	–	–	–

## Credit risk methods and instruments

Very important factors in the credit approval process are a detailed assessment of risk associated with each loan exposure, and the customer's credit rating in particular. Every lending decision is based on a thorough analysis of the loan exposure, including an evaluation of all relevant factors. Following the initial loan application, the bank's loan exposures are reviewed at least once a year. If the borrower's creditworthiness deteriorates substantially, shorter review intervals are obligatory.

For internal credit assessment in Austria and by Bank Austria's banking subsidiaries in CEE, the bank uses various rating and scoring models – for calculating the parameters PD (probability of default), LGD (loss given default) and EAD (exposure at default) – on the basis of models specifically developed for these purposes for the customer/business segments to be assessed, in line with the various asset classes pursuant to Article 147 of the CRR, Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions. There are country-specific or region-specific models (e.g. for corporate customers, private and business customers) and Group-wide models (e.g. for sovereigns, banks, multinational corporates). The assessment of a loan exposure is based on data from the respective company's financial statements and on qualitative business factors.

The various rating and scoring models provide the basis for efficient risk management of the Bank Austria Group and are embedded in all decision-making processes relating to risk management. They are also a key factor for capital required to be held against risk-weighted assets.

Great attention is given to consistency in the presentation for supervisory purposes and the requirements of internal control.



## E – Risk report (CONTINUED)

All internal rating and scoring systems are monitored on an ongoing basis. The systems are also subject to regular validation on an annual basis, including a review to verify if the rating/scoring system provides a correct representation of the risks to be measured. All model assumptions are based on multi-year statistical averages for historical defaults and losses, with appropriate attention being given to the potential impact of turbulence in international financial markets.

In this context, credit risk stress tests, which are required by banking supervisory authorities and are carried out on a regular basis, are an essential instrument for assessing future risks in an unfavourable economic environment. Such tests enable the Management Board to assess the adequacy of regulatory capital and economic capital on the basis of different stress scenarios. Credit risk stress calculations for the entire Group are based on a credit portfolio model developed in-house and are analysed for their impact on regulatory and economic capital.

Risk-adjusted pricing and proactive risk management constantly improve the diversification and the risk/earnings ratio of the portfolio.

For real estate customers, the customer-related rating is complemented by a transaction rating.

Bank Austria uses a retail scoring system. The automated rating tool is used for assessing, monitoring and managing the large number of loan exposures to private customers, small businesses, independent professionals and small non-profit organisations. Retail scoring comprises an application scoring procedure based on effective and recognised mathematical and statistical methods, and a behaviour scoring procedure taking into account such factors as amounts received in the account and customers' payment practices. The retail scoring system provides information that is updated on a monthly basis. This gives the bank an efficient tool for lending decisions and early recognition of risk. Automated data processing helps Bank Austria to reduce costs required for credit control while accelerating lending decisions.

Seven CEE banking subsidiaries had switched from the standardised approach to the Foundation IRB approach by the end of 2014. Moreover, in 2014, the first CEE banking subsidiary was granted approval for use of the Advanced IRB approach. The forecasting quality of rating models and underlying processes were optimised in close cooperation with specialists at UniCredit Bank Austria AG. In developing models and carrying out validations, attention is given to ensuring the consistent and quality-assured implementation of Group guidelines.

### Credit Treasury

Credit Treasury has two main tasks: preparing and monitoring the risk-adequate pricing of loans; and executing risk-transfer and capital-generating measures and transactions.

To ensure uniform pricing within UniCredit Group, the risk-adjusted spread is determined on the basis of multi-year probabilities of default (depending on the term of the loan), added as a price component and monitored on an ongoing basis. Such pricing rationale follows the approach defined in the Group Risk Adjusted Pricing Discipline, which was approved as a Policy in UniCredit Bank Austria AG in July 2014. The framework envisages the usage of a discounted cash flow model leveraging on multi-year probability of default as the target approach to be gradually extended across Bank Austria sub-group in accordance with the availability of multi-year risk figures and appropriate IT systems. The calculation of the risk-adjusted spread on the basis of 1 year risk figures has been approved as a valid interim approach under the supervision of UCBA Credit Treasury.

Moreover, Credit Treasury is responsible for risk transfers and capital-generating measures/transactions (via synthetic securitisations, CLNs, etc.) and liquidity-generating measures requiring portfolio structured transactions for the entire Bank Austria Group (including CEE).

The Credit Treasury Committee, which holds quarterly meetings, is responsible for strategic coordination and decisions on measures and transactions.

## E – Risk report (CONTINUED)

## Provisioning process

**Loans/bonds:**

Special Credit managers have to review all exposures at regular intervals to see if there is a requirement for recognising an impairment loss. The amount of the impairment loss is the difference between the carrying amount of the loan and the present value of estimated future cash flows. In cases where there is a low probability of restructuring, future cash flows are calculated using the liquidation scenario. The workout unit calculates any provisioning requirement on the basis of the estimated present value of the liquidation proceeds/recovery percentage.

**ABSs:**

As part of a structured watchlist and impairment process for ABSs, positions are identified which are reviewed for any provisioning requirement at regular intervals. This is usually done by applying specific models, especially cash flow models. These models map the individual transaction structure and calculate a present value of estimated future cash flows. The amount of the impairment loss is the difference between the carrying amount of the ABS position and the present value of estimated future cash flows.

**Enhancement of portfolio-based provisioning method**

UniCredit Bank Austria AG applies a portfolio-based provisioning method (“Pauschale Einzelwertberichtigung” – PEWB), refined in 2013, for defaulted assets grouped by similar credit risk characteristics and with no significant exposure at counterparty level.

In 2014, the provisioning requirement declined by €41.8 million, reflecting improvements in customers’ payment record and one-off effects of –€27.6 million (resulting from methodological adjustments and reassessment of parameters).

The following breakdowns of on-balance sheet and off-balance sheet exposures to banks and customers include not only loans and receivables but also exposures from the other IAS 39 categories and the disposal groups, for banks and customers without derivative exposures.

**Banking group – On-balance sheet and off-balance sheet exposure to banks: gross and net values**

(€ million)

EXPOSURE TYPES/AMOUNTS	GROSS EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE
<b>On-balance sheet exposure</b>				
Non-performing loans	22	17	X	5
Doubtful loans	1	–	X	1
Restructured exposures	–	–	X	–
Past due	–	–	X	–
Other assets	32,200	X	–	32,200
<b>Total</b>	<b>32,224</b>	<b>17</b>	<b>–</b>	<b>32,207</b>
<b>Off-balance sheet exposure</b>				
Impaired	535	520	X	15
Other	9,815	X	–	9,815
<b>Total</b>	<b>10,350</b>	<b>520</b>	<b>–</b>	<b>9,830</b>
<b>TOTAL 31 DECEMBER 2014</b>	<b>42,574</b>	<b>537</b>	<b>–</b>	<b>42,037</b>
EXPOSURE TYPES/AMOUNTS	GROSS EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE
<b>On-balance sheet exposure</b>				
Non-performing loans	22	21	X	–
Doubtful loans	19	2	X	17
Restructured exposures	–	–	X	–
Past due	–	–	X	–
Other assets	25,244	X	–	25,244
<b>Total</b>	<b>25,284</b>	<b>23</b>	<b>–</b>	<b>25,261</b>
<b>Off-balance sheet exposure</b>				
Impaired	473	471	X	2
Other	7,011	X	–	7,011
<b>Total</b>	<b>7,485</b>	<b>471</b>	<b>–</b>	<b>7,013</b>
<b>TOTAL 31 DECEMBER 2013</b>	<b>32,769</b>	<b>495</b>	<b>–</b>	<b>32,274</b>

## E – Risk report (CONTINUED)

**Banking group – On-balance sheet and off-balance sheet exposure to customers: gross and net values**

(€ million)

EXPOSURE TYPES/AMOUNTS	GROSS EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE
<b>On-balance sheet exposure</b>				
Non-performing loans	7,570	5,209	X	2,361
Doubtful loans	2,980	952	X	2,028
Restructured exposures	1,490	519	X	971
Past due	640	137	X	503
Other assets	132,992	X	689	132,303
<b>Total</b>	<b>145,672</b>	<b>6,817</b>	<b>689</b>	<b>138,166</b>
<b>Off-balance sheet exposure</b>				
<b>Banking group</b>				
Impaired	500	174	X	326
Other	36,648	X	44	36,604
<b>Total</b>	<b>37,147</b>	<b>174</b>	<b>44</b>	<b>36,930</b>
<b>TOTAL 31 DECEMBER 2014</b>	<b>182,819</b>	<b>6,991</b>	<b>733</b>	<b>175,096</b>
EXPOSURE TYPES/AMOUNTS	GROSS EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE
<b>On-balance sheet exposure</b>				
Non-performing loans	7,464	4,775	X	2,688
Doubtful loans	3,017	1,075	X	1,942
Restructured exposures	1,631	660	X	971
Past due	323	73	X	249
Other assets	130,743	X	629	130,115
<b>Total</b>	<b>143,178</b>	<b>6,584</b>	<b>629</b>	<b>135,965</b>
<b>Off-balance sheet exposure</b>				
<b>Banking group</b>				
Impaired	515	159	X	356
Other	27,512	X	29	27,484
<b>Total</b>	<b>28,027</b>	<b>159</b>	<b>39</b>	<b>27,840</b>
<b>TOTAL 31 DECEMBER 2013</b>	<b>171,206</b>	<b>6,743</b>	<b>668</b>	<b>163,805</b>

## E – Risk report (CONTINUED)

**Banking group – On-balance sheet exposure to customers: gross change in impaired exposures**

(€ million)

SOURCE/CATEGORIES	CHANGES IN 2014				TOTAL
	NON-PERFORMING LOANS	DOUBTFUL LOANS	RESTRUCTURED EXPOSURES	PAST-DUE EXPOSURES	
<b>Opening balance – gross exposure</b>	<b>7,464</b>	<b>3,017</b>	<b>1,631</b>	<b>323</b>	<b>12,435</b>
Sold but not derecognised	–	–	–	–	–
<b>Increases</b>	<b>2,577</b>	<b>1,938</b>	<b>714</b>	<b>709</b>	<b>5,939</b>
Transfers from performing loans	403	1,067	248	448	2,165
Transfers from other impaired exposure	1,151	536	156	24	1,866
Other increases	1,023	335	311	238	1,907
<b>Reductions</b>	<b>–2,470</b>	<b>–1,976</b>	<b>–855</b>	<b>–392</b>	<b>–5,693</b>
Transfers to performing loans	–193	–355	–92	–86	–726
Derecognised items	–703	–67	–89	–7	–866
Recoveries	–437	–226	–81	–41	–785
Sales proceeds	–23	–5	–	–1	–29
Losses on disposals	–11	–1	–	–	–12
Transfers to other impaired exposure	–308	–1,045	–323	–190	–1,866
Other reductions	–795	–278	–270	–67	–1,410
<b>Closing balance – gross exposure</b>	<b>7,570</b>	<b>2,980</b>	<b>1,490</b>	<b>640</b>	<b>12,680</b>
SOURCE/CATEGORIES	CHANGES IN 2013				TOTAL
	NON-PERFORMING LOANS	DOUBTFUL LOANS	RESTRUCTURED EXPOSURES	PAST-DUE EXPOSURES	
<b>Opening balance – gross exposure</b>	<b>7,945</b>	<b>4,484</b>	<b>1,755</b>	<b>600</b>	<b>14,784</b>
Sold but not derecognised	–	–	–	–	–
<b>Increases</b>	<b>2,945</b>	<b>1,764</b>	<b>747</b>	<b>433</b>	<b>5,889</b>
Transfers from performing loans	781	1,158	288	344	2,571
Transfers from other impaired exposure	1,838	489	349	33	2,709
Other increases	326	117	110	57	610
<b>Reductions</b>	<b>–3,426</b>	<b>–3,231</b>	<b>–871</b>	<b>–711</b>	<b>–8,239</b>
Transfers to performing loans	–113	–285	–145	–205	–747
Derecognised items	–502	–88	–32	–31	–653
Recoveries	–282	–186	–132	–43	–643
Sales proceeds	–35	–15	–2	–	–52
Losses on disposals	–1	–	–	–	–1
Transfers to other impaired exposure	–114	–1,839	–374	–381	–2,709
Other reductions	–2,380	–818	–186	–51	–3,434
<b>Closing balance – gross exposure</b>	<b>7,464</b>	<b>3,017</b>	<b>1,631</b>	<b>323</b>	<b>12,435</b>

## E – Risk report (CONTINUED)

## Banking group – On-balance sheet exposure to customers: changes in overall impairment

(€ million)

SOURCE/CATEGORIES	CHANGES IN 2014				TOTAL
	NON-PERFORMING LOANS	DOUBTFUL LOANS	RESTRUCTURED EXPOSURES	PAST-DUE EXPOSURES	
<b>Opening gross write-downs</b>	<b>4,775</b>	<b>1,075</b>	<b>660</b>	<b>73</b>	<b>6,584</b>
Sold but not derecognised	–	–	–	–	–
<b>Increases</b>	<b>2,197</b>	<b>735</b>	<b>250</b>	<b>173</b>	<b>3,354</b>
Write-downs	881	469	158	144	1,652
Losses on disposal	11	1	–	–	12
Transfers from other impaired exposure	521	187	24	2	734
Other increases	783	78	68	27	955
<b>Reductions</b>	<b>–1,763</b>	<b>–857</b>	<b>–391</b>	<b>–109</b>	<b>–3,120</b>
Write-backs from assessments	–137	–44	–23	–10	–214
Write-backs from recoveries	–329	–172	–37	–11	–549
Gains on disposal	–25	–1	–	–	–25
Write-offs	–703	–67	–89	–7	–866
Transfers to other impaired exposure	–117	–424	–142	–51	–734
Other reductions	–452	–150	–100	–30	–732
<b>Final gross write-downs</b>	<b>5,209</b>	<b>952</b>	<b>519</b>	<b>137</b>	<b>6,817</b>
SOURCE/CATEGORIES	CHANGES IN 2013				TOTAL
	NON-PERFORMING LOANS	DOUBTFUL LOANS	RESTRUCTURED EXPOSURES	PAST-DUE EXPOSURES	
<b>Opening gross write-downs</b>	<b>5,038</b>	<b>1,411</b>	<b>594</b>	<b>109</b>	<b>7,152</b>
Sold but not derecognised	–	–	–	–	–
<b>Increases</b>	<b>2,278</b>	<b>867</b>	<b>315</b>	<b>122</b>	<b>3,582</b>
Write-downs	1,399	615	159	89	2,261
Losses on disposal	4	–	–	–	5
Transfers from other impaired exposure	655	124	97	14	891
Other increases	219	127	60	20	426
<b>Reductions</b>	<b>–2,541</b>	<b>–1,202</b>	<b>–249</b>	<b>–158</b>	<b>–4,150</b>
Write-backs from assessments	–249	–42	–19	–13	–322
Write-backs from recoveries	–228	–145	–59	–38	–470
Gains on disposal	–8	–	–1	–	–10
Write-offs	–502	–88	–32	–31	–653
Transfers to other impaired exposure	–63	–651	–124	–53	–891
Other reductions	–1,490	–276	–14	–24	–1,804
<b>Final gross write-downs</b>	<b>4,775</b>	<b>1,075</b>	<b>660</b>	<b>73</b>	<b>6,584</b>

## E – Risk report (CONTINUED)

**Banking group – On-balance sheet and off-balance sheet credit exposure to customers by segment 2014**

(€ million)

COUNTERPARTS/EXPOSURES	GOVERNMENTS			OTHER PUBLIC ENTITIES			FINANCIAL COMPANIES		
	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS
<b>Cash exposure</b>									
Non-performing loans	–	–		47	11		21	67	
Doubtful loans	1	–		–	–		38	6	
Restructured exposures	1	–		6	2		22	22	
Impaired past-due exposures	–	–		–	–		–	–	
Other exposures	24,172		2	6,314		5	7,604		30
<b>Total</b>	<b>24,174</b>	<b>–</b>	<b>2</b>	<b>6,368</b>	<b>13</b>	<b>5</b>	<b>7,685</b>	<b>95</b>	<b>30</b>
<b>Off-balance sheet exposures</b>									
Non-performing loans	–	–		–	–		–	–	
Doubtful loans	–	–		–	–		–	–	
Other impaired assets	–	–		–	–		–	–	
Other exposures	231		–	290		–	1,838		5
<b>Total</b>	<b>231</b>	<b>–</b>	<b>–</b>	<b>290</b>	<b>–</b>	<b>–</b>	<b>1,839</b>	<b>–</b>	<b>5</b>
<b>TOTAL 31 DEC. 2014</b>	<b>24,405</b>	<b>–</b>	<b>2</b>	<b>6,658</b>	<b>13</b>	<b>5</b>	<b>9,523</b>	<b>95</b>	<b>35</b>
COUNTERPARTS/EXPOSURES	INSURANCE COMPANIES			OTHER ENTITIES			TOTAL		
	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS
<b>Cash exposure</b>									
Non-performing loans	–	–		2,293	5,131		2,361	5,209	
Doubtful loans	–	–		1,989	946		2,028	952	
Restructured exposures	–	–		943	495		971	519	
Impaired past-due exposures	–	–		503	137		503	137	
Other exposures	3		15	94,209		638	132,303		689
<b>Total</b>	<b>3</b>	<b>–</b>	<b>15</b>	<b>99,937</b>	<b>6,709</b>	<b>638</b>	<b>138,166</b>	<b>6,817</b>	<b>689</b>
<b>Off-balance sheet exposures</b>									
Non-performing loans	–	–		132	66		132	66	
Doubtful loans	–	–		118	69		118	69	
Other impaired assets	–	–		75	39		75	39	
Other exposures	44		–	34,200		39	36,604		44
<b>Total</b>	<b>44</b>	<b>–</b>	<b>–</b>	<b>34,526</b>	<b>174</b>	<b>39</b>	<b>36,930</b>	<b>174</b>	<b>44</b>
<b>TOTAL 31 DEC. 2014</b>	<b>47</b>	<b>–</b>	<b>15</b>	<b>134,463</b>	<b>6,883</b>	<b>677</b>	<b>175,096</b>	<b>6,991</b>	<b>733</b>

## E – Risk report (CONTINUED)

**Banking group – On-balance sheet and off-balance sheet credit exposure to customers by segment 2013**

(€ million)

COUNTERPARTS/EXPOSURES	GOVERNMENTS			OTHER PUBLIC ENTITIES			FINANCIAL COMPANIES		
	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS
<b>Cash exposure</b>									
Non-performing loans	–	–	–	–	5	–	10	84	–
Doubtful loans	–	–	–	2	1	–	28	6	–
Restructured exposures	1	–	–	6	2	–	13	8	–
Impaired past-due exposures	–	–	–	6	–	–	–	–	–
Other exposures	18,297	–	2	6,195	–	4	11,842	–	20
<b>Total</b>	<b>18,298</b>	<b>–</b>	<b>2</b>	<b>6,209</b>	<b>8</b>	<b>4</b>	<b>11,892</b>	<b>98</b>	<b>20</b>
<b>Off-balance sheet exposures</b>									
Non-performing loans	–	–	–	–	–	–	1	–	–
Doubtful loans	–	–	–	–	–	–	–	–	–
Other impaired assets	–	–	–	–	–	–	1	8	–
Other exposures	258	–	–	149	–	–	1,831	–	–
<b>Total</b>	<b>258</b>	<b>–</b>	<b>–</b>	<b>149</b>	<b>–</b>	<b>–</b>	<b>1,832</b>	<b>8</b>	<b>–</b>
<b>TOTAL 31 DEC. 2013</b>	<b>18,556</b>	<b>–</b>	<b>2</b>	<b>6,358</b>	<b>8</b>	<b>5</b>	<b>13,724</b>	<b>106</b>	<b>20</b>
COUNTERPARTS/EXPOSURES	INSURANCE COMPANIES			OTHER ENTITIES			TOTAL		
	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS
<b>Cash exposure</b>									
Non-performing loans	–	–	–	2,678	4,687	–	2,688	4,775	–
Doubtful loans	–	–	–	1,912	1,067	–	1,942	1,075	–
Restructured exposures	–	–	–	951	651	–	971	660	–
Impaired past-due exposures	–	–	–	243	73	–	249	73	–
Other exposures	438	–	–	93,344	–	603	130,115	–	629
<b>Total</b>	<b>438</b>	<b>–</b>	<b>–</b>	<b>99,128</b>	<b>6,478</b>	<b>603</b>	<b>135,965</b>	<b>6,584</b>	<b>629</b>
<b>Off-balance sheet exposures</b>									
Non-performing loans	–	–	–	243	100	–	244	100	–
Doubtful loans	–	–	–	69	35	–	69	35	–
Other impaired assets	–	–	–	43	16	–	43	24	–
Other exposures	70	–	–	25,177	–	28	27,484	–	29
<b>Total</b>	<b>70</b>	<b>–</b>	<b>–</b>	<b>25,531</b>	<b>151</b>	<b>28</b>	<b>27,840</b>	<b>159</b>	<b>29</b>
<b>TOTAL 31 DEC. 2013</b>	<b>508</b>	<b>–</b>	<b>–</b>	<b>124,660</b>	<b>6,629</b>	<b>631</b>	<b>163,805</b>	<b>6,743</b>	<b>657</b>

## E – Risk report (CONTINUED)

### Securitisation transactions

#### Qualitative information

The Group's main objectives in its securitization transactions (whether traditional or synthetic) are the optimisation of the loan portfolio by freeing up regulatory and economic capital and obtaining fresh liquidity together with greater diversification of its sources of funding.

The difficult economic environment of the last years suggested also the opportunity to improve, where possible, the usage of securitisation schemes as a tool to support the origination of new loans by leveraging on specialised investors, like supranationals, able to provide protection for newly originated portfolios complying with certain pre-agreed eligibility criteria.

Analysis and realisation of securitisation transactions are carried out within the parent in close cooperation with the legal entities involved and with UniCredit Bank AG as Arranger and Investment Bank. This process requires an economic feasibility study to assess the impact of transactions (according to their nature and aims), on regulatory and economic capital, on risk-adjusted profitability measures and on the level of the Group's liquidity. If this initial phase produces a positive result, a technical and operational feasibility study is carried out to identify the assets to be securitised and design the structure of the transaction. Once technical feasibility has been established, the transaction is realised.

No new securitisation transactions were conducted in 2014 involving the existing portfolio of the banks. On the contrary, concerning synthetic securitisations affecting loans to be newly originated, in two subsidiaries of the CEE Division (UniCredit Bulbank AD and UniCredit Tiriac Bank SA), similar initiatives originated in the past with the European Investment Fund under the so called JEREMIE programme; 2013 saw the affected portfolios reaching a relatively meaningful size.

Details of the transactions carried out in previous financial years are set out in the following tables.

Starting from H2 2007 the above-mentioned market conditions influenced sponsor and investor transactions, in that stricter monitoring of exposures was required.

In particular, in its role as sponsor the Group purchased Asset-Backed Commercial Paper issued by sponsored conduits. This meant that these vehicles were consolidated as from 2007.

With regard to investment in other parties' securitisations, i.e. structured credit products, these instruments were ring-fenced in a separate portfolio managed with a view to maximising future cash flow.

Given the asset quality of the underlyings, the best business strategy was considered to be retention in the bank's books.

In line with the above management principles, risk monitoring and maximising profit on securitisation transactions is achieved by:

- analysing the monthly or quarterly investor reports produced by the Trustee, paying special attention to the performance of the collateral;
- monitoring similar transactions' collateral performance and issues of similar paper;
- watching the market fundamentals of the underlying credit and
- staying in constant contact with the investors and, where collateral is managed, with the managers and analysts of the Collateral Manager.

Furthermore each portfolio is assigned a market VaR limit by Risk Management. This is monitored bearing in mind the correlations. The Group has spread curves for each rating and product (asset-backed securities, mortgage-backed securities, etc.) and uses them to calculate risk, in the same way as other instruments in its portfolio. The method used is in line with other sources of market risk, and enables us to estimate the possible effects of diversification and to aggregate the VaR with other sections of the portfolio.

Further details are given in the following section "Information on structured credit products and trading derivatives with customers".



## E – Risk report (CONTINUED)

**Originator: UniCredit Bulbank AD**

NAME	EIF JEREMIE	
Type of securitisation:	Synthetic – First loss Portfolio Guarantee	
Originator:	UniCredit Bulbank AD ("UniCredit Bulbank")	
Issuer:	European Investment Fund ("EIF")	
Servicer:	UniCredit Bulbank	
Arranger:	UniCredit Bulbank	
Target transaction:	Capital Relief and Risk Transfer	
Type of asset:	Highly diversified and granular pool of UniCredit Bulbank's SME loans	
Quality of asset:	Performing	
Closing date:	14 July 2011	
Nominal value of reference portfolio:	52,906,894 €	
Issued guarantees by the Bank:	–	
Issued guarantees by third parties:	First Loss Portfolio Guarantee issued by EIF	
Bank lines of credit:	–	
Third Parties lines of credit:	–	
Other credit enhancements:	–	
Other relevant information:	<ul style="list-style-type: none"> <li>• The portfolio is into the ramp-up period until 31 December 2015</li> <li>• The agreed portfolio maximum volume is equal to EUR 85,000,000</li> <li>• The guarantee covers 80% of each outstanding loan up to a total amount equal to 25% of the portfolio volume</li> </ul>	
Rating Agencies:	No rating agency, use of Standardized Approach <sup>*)</sup>	
Amount of CDS or other risk transferred:		
Amount and Condition of tranching:		
ISIN	n. a.	n. a.
Type of security	<b>Senior</b>	<b>Junior</b>
Class	A	B
Rating	n. r.	n. r.
Reference Position	31,744,136 €	10,581,379 €
Reference Position at the end of accounting period	31,744,136 €	10,581,379 €
Distribution of securitised assets by area:		
Italy – Northwest	–	
– Northeast	–	
– Central	–	
– South and Islands	–	
Other European Countries – EU countries	52,906,894 €	
– non-EU countries	–	
America	–	
Rest of the World	–	
<b>TOTAL</b>	<b>52,906,894 €</b>	
Distribution of securitised assets by business sector of the borrower:		
Governments	–	
Other government agencies	–	
Banks	–	
Finance companies	–	
Insurance companies	–	
Non-financial companies	52,906,894 €	
Other entities	–	
<b>TOTAL</b>	<b>52,906,894 €</b>	

\*) Synthetic securitisation carried out using the Standardised Approach as required under Basel 2.

Where there is no eligible external rating, the Bank that holds or guarantees such an exposure may determine the risk weight by applying the "look through" treatment, provided the composition of the underlying pool is known at all times. The unrated most senior position receives the average risk weight of the underlying exposures subject to supervisory review. Where the Bank is unable to determine the risk weights assigned to the underlying credit risk exposures, the unrated position must be deducted from regulatory capital.

## E – Risk report (CONTINUED)

**Originator: UniCredit Tiriac Bank SA**

NAME	EIF JEREMIE	
Type of securitisation:	Synthetic – First loss Portfolio Guarantee	
Originator:	UniCredit Tiriac Bank SA ("UniCredit Tiriac")	
Issuer:	European Investment Fund ("EIF")	
Servicer:	UniCredit Tiriac	
Arranger:	UniCredit Tiriac	
Target transaction:	Capital Relief and Risk Transfer	
Type of asset:	Highly diversified and granular pool of UniCredit Tiriac's SME loans	
Quality of asset:	Performing	
Closing date:	12 December 2011	
Nominal value of reference portfolio:	75,000,341 €	
Issued guarantees by the Bank:	–	
Issued guarantees by third parties:	First Loss Portfolio Guarantee issued by EIF	
Bank lines of credit:	–	
Third Parties lines of credit:	–	
Other credit enhancements:	–	
Other relevant information:	<ul style="list-style-type: none"> <li>• The portfolio is into the ramp-up period until 30 June 2015</li> <li>• The agreed portfolio maximum volume is equal to EUR 87,500,000</li> <li>• The guarantee covers 80% of each outstanding loan up to a total amount equal to 25% of the portfolio volume</li> </ul>	
Rating Agencies:	No rating agency	
Amount of CDS or other risk transferred:		
Amount and Condition of tranching:		
ISIN	n. a.	n. a.
Type of security	<b>Senior</b>	<b>Junior</b>
Class	A	B
Rating	n. r.	n. r.
Reference Position	45,000,205 €	15,000,068 €
Reference Position at the end of accounting period	45,000,205 €	15,000,068 €
Distribution of securitised assets by area:		
Italy – Northwest	–	
– Northeast	–	
– Central	–	
– South and Islands	–	
Other European Countries – EU countries	75,000,341 €	
– non-EU countries	–	
America	–	
Rest of the World	–	
<b>TOTAL</b>	<b>75,000,341 €</b>	
Distribution of securitised assets by business sector of the borrower:		
Governments	–	
Other government agencies	–	
Banks	–	
Finance companies	–	
Insurance companies	–	
Non-financial companies	75,000,341 €	
Other entities	–	
<b>TOTAL</b>	<b>75,000,341 €</b>	

## E – Risk report (CONTINUED)

**Originator: HVB AG – UniCredit BA AG**

NAME	EUROCONNECT ISSUER SME 2007	
Type of securitisation:	Synthetic	
Originator:	Bayerische Hypo- und Vereinsbank AG (66.09%) – Bank Austria Creditanstalt AG (33.91%)	
Issuer:	EuroConnect Issuer SME 2007 Limited, Bayerische Hypo- und Vereinsbank AG Bank Austria Creditanstalt AG	
Servicer:	Bayerische Hypo- und Vereinsbank AG UniCredit Bank Austria AG	
Arranger:	Bayerische Hypo- und Vereinsbank AG (UniCredit Markets & Investment Banking)	
Target transaction:	Capital Relief/Funding and risk transfer for concentration risks	
Type of asset:	Corporate SME loans	
Quality of asset:	Performing	
Closing date:	28 December 2007	
Nominal value of disposal portfolio:	3,089,092,363 €	
Guarantees issued by the Bank:	–	
Guarantees issued by Third Parties:	–	
Bank lines of credit:	–	
Third Parties lines of credit:	–	
Other credit enhancements:	Synthetic Excess Spread + Reserve Ledger	
Other relevant information:	Replenishing	
Rating agencies:	S & P/Fitch	
Amount of CDS or other supersenior risk transferred:	–	
Amount and Conditions of tranching:		
<b>Issuer</b>	<b>Bayerische Hypo- und Vereinsbank AG Bank Austria Creditanstalt AG</b>	
ISIN	n. a.	
Type of security	Senior	
Class	A	
Rating	n. r.	
Reference position at the end of accounting period	122,451,615 €	
ISIN	XS0337935968	XS0337936180
Type of security	Mezzanine	Mezzanine
Class	A2	B2
Rating	A–	A–
Nominal value issued	100,000 €	100,000 €
Nominal value at the end of accounting period	100,000 €	100,000 €
Reference position at the end of accounting period	20,450,000 €	40,850,000 €
<b>Issuer</b>	<b>Bank Austria Creditanstalt AG</b>	
ISIN	XS0337946221	XS0337946650
Type of security	Mezzanine	Mezzanine
Class	A2	B2
Rating	A–	BB+
Nominal value issued	100,000 €	100,000 €
Nominal value at the end of accounting period	100,000 €	100,000 €
Reference position at the end of accounting period	10,500,000 €	20,950,000 €
<b>Issuer</b>	<b>EuroConnect Issuer SME 2007 Ltd.</b>	
ISIN	XS0336039325	XS0336040331
Type of security	Mezzanine	Mezzanine
Class	A	B
Rating	A–	A–/BBB+
Nominal value issued	35,550,000 €	43,250,000 €
Nominal value at the end of accounting period	35,550,000 €	43,250,000 €
ISIN	XS0336040505	XS0336041222
Type of security	Mezzanine	Junior
Class	C	D
Rating	BBB–/BB+	n. r./n. r.
Nominal value issued	37,100,000 €	100,400,000 €
Nominal value at the end of accounting period	37,100,000 €	97,690,418 €

## E – Risk report (CONTINUED)

### E.10 – Operational risk

UniCredit Bank Austria AG has used the AMA since the beginning of 2008. A revised AMA model for operational risk capital calculation, approved in July 2014 by Banca d'Italia and all local regulators of UniCredit Group subsidiaries using the AMA, has been used since the third quarter of 2014.

#### Austrian subsidiaries

Schoellerbank and UniCredit Leasing Austria GmbH apply the AMA in the area of operational risk.

#### CEE subsidiaries

In the reporting period, approval for the use of the AMA in the area of operational risk was available for the banking subsidiaries in the Czech Republic and Slovakia, Hungary, Slovenia, Croatia, Bulgaria and Romania. In 2015, AMA preparations concentrate on ZAO UniCredit Bank Russia, Yapı Kredi Bankası AS and UniCredit Bank Serbia JSC.

#### Implementation of disclosure requirements pursuant to the Capital Requirements Regulation (CRR)

Within UniCredit Group, comprehensive disclosure (under the Pillar 3 disclosure requirements pursuant to the CRR) is carried out by the parent company UniCredit on its website, based on the consolidated financial position in its function as EEA parent bank of Bank Austria. Bank Austria is a significant subsidiary pursuant to Article 13 of the CRR and, for the 2014 financial year, discloses information regarding its capital resources ("own funds", Article 437 of the CRR), capital requirements (Article 438 of the CRR), credit risk adjustments (Article 442 of the CRR), remuneration policy (Article 450 of the CRR) and use of credit risk mitigation techniques (Article 453 of the CRR).

The disclosure by Bank Austria is available at its website [www.bankaustria.at/Investor Relations/Disclosure](http://www.bankaustria.at/Investor%20Relations/Disclosure) according to Basel 2 and 3 (CRR).

Operational risk (OpRisk) is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events (including legal risks). For example, compensation paid to customers for incorrect/inadequate product-related advice, IT system failures, damage to property, processing errors or fraud are subject to accurate and consolidated risk measurement and management (collection of loss data, external data, scenarios, indicators), on which the calculation of capital to be held for operational risk is based.

Loss data are collected, and processes are optimised, in close coordination and cooperation with other departments and units including Internal Audit, the Compliance Office, Legal Affairs, ICT & Security Management and the insurance sector. Over the years, UniCredit Bank Austria AG has taken numerous measures in the various divisions to manage and reduce operational risk. Thus data security measures, measures to ensure the confidentiality and integrity of stored data, access authorisation systems, the two-signatures principle, and a large number of monitoring and control processes as well as staff training programmes have been implemented among other measures.

In line with other types of risk, UniCredit Bank Austria AG – like UniCredit – has built up a decentralised operational risk management framework based on representatives within divisions and at banking subsidiaries – Divisional OpRisk Managers (DORM) and OpRisk Managers – in addition to central operational risk management. While the main task of central risk management is to define the methods used and to perform risk measurement and analysis, decentralised risk managers are responsible for taking measures to reduce, prevent, or take out insurance against, risks.

- The following areas were a focus of activities in 2014: extended scenario process with detailed documentation of underlying risks and the potential impact of losses and risk-mitigating measures as a basis for the adapted AMA approach, which has been used in UniCredit Group since it was approved in 2014; supporting the units in accordance with the AMA rollout plan in preparing and carrying out regulatory reviews in cooperation with UniCredit Group; intensifying and further expanding the Permanent Work Group with regard to actions to mitigate operational risk in UniCredit Bank Austria AG and at strategically relevant CEE banking subsidiaries, taking into account the objectives and measures described in the global Operational Risk Strategy for 2014; analysing, collecting and classifying operational risk events relating to credit risk, and reporting them at meetings of the Bank Austria Operational & Reputational Risk Committee.
- In CEE, the focus was on performing local AMA reviews at subsidiaries in the first half of 2014 and further expanding the PWG at all strategically relevant banking subsidiaries to identify and implement possible measures in respect of existing and potential operational risks on the basis of analyses of loss events, KRIs, scenarios, projects and new products. Moreover, the relevant CEE units were integrated in the Group-wide strategy process for operational risk, which is aimed at specifically reducing existing core risks.

## E – Risk report (CONTINUED)

Overall, the organisation of operational risk management at UniCredit Bank Austria AG is well established at a high level of quality. A network of independent functions and teams are involved in managing and controlling risks, providing the Management Board with sufficient information on the risk situation and enabling the Management Board to manage risk. The analysis of the general ledger for operational risk relevance confirmed the extensive and complete operational risk data collection.

The task of dealing with operational risk issues is performed by a separate Operational & Reputational Risk Committee (OpRiCo), whose meetings are held on a quarterly basis and are attended by the Chief Risk Officer, the Head of Strategic Risk Management & Control, the Head of Operational Risk Management, Compliance, Internal Audit, the Divisional Operational Risk Managers and OpRisk representatives of CEE banking subsidiaries. The Committee is a major step towards integrating operational risk in the bank's processes; its main tasks are to report on current operational risk issues and developments, to approve operational risk-relevant documents, to report losses and serve as a body to which unresolved issues are referred.

In 2015 activities with regard to operational risk will focus on:

- integrating OpRisk risk strategy issues for 2015 and monitoring by reference to key performance indicators in the Permanent Work Group.;
- integrating the new approach to monitoring OpRisk exposure on the basis of Expected Loss on Revenues (ELOR), a key indicator which will replace the OpRisk Warning Levels from 2015;
- developing a risk-sensitive approach to apportioning the OpRisk capital requirement within the Bank Austria sub-group;
- supporting the units in accordance with the AMA rollout plan in preparing and carrying out regulatory reviews in cooperation with UniCredit Group;
- developing an approach to implementing the UniCredit Group OpRisk ICT Assessment process for UniCredit Bank Austria AG and providing support for implementation at the relevant Bank Austria sub-group legal entities;
- analysing the collection and classification of operational risk events relating to credit risk.

Detailed information on operational risk in Russia and Ukraine is given in section E.2 Major risks in Central and Eastern Europe.

### E.11 – Reputational risk

UniCredit Group has identified reputational risk as the current or future risk of a decline in profits as a result of a negative perception of the Bank's image by customers, counterparties, shareholders, investors, employees or regulators.

Operational & Reputational Risk, a separate unit within the CRO management function, has been entrusted with strategic management and monitoring of reputational risk since 2012.

Reputational risk activities in 2014 focused mainly on the continuation of providing support to CEE legal entities in further implementing and expanding structures, policies and training, on monitoring and reporting cases of reputational risk and trends with regard to relevant topics, and on enhancing awareness of reputational risk management through training activities within UniCredit Bank Austria AG and in CEE.

In 2015, activities with regard to reputational risk will focus on:

- implementing new reputational risk policies within UniCredit Bank Austria AG and rolling them out at CEE subsidiaries;
- supporting reputational risk activities at CEE legal entities with regard to structures, policies and training;
- monitoring and reporting cases of reputational risk and trends with regard to relevant topics;
- enhancing awareness of reputational risk management through further training activities within UniCredit Bank Austria AG and in CEE.

### E.12 – Business risk

Business risk is defined as unexpected adverse changes in business volume and/or margins which cannot be attributed to other types of risk. Adverse changes result mainly from a significant deterioration in market conditions, changes in the competitive position or customer behaviour, and from changes in the legal environment.

Business risk measurement thus measures the influence of external factors on a decline in profits and the effect on the market value.

As part of general income and cost management, operational management of business risk is the responsibility of the individual business units.

## E – Risk report (CONTINUED)

### E.13 – Financial investment risk and real estate risk

In dealing with risks arising from the bank's shareholdings and equity interests, Bank Austria takes into account potential market price fluctuations in its equity holdings in listed and unlisted companies.

Not included are equity interests in consolidated subsidiaries of the Group because risks associated with such companies are determined and recorded under the various other risk types. The portfolio includes various strategic investments; real estate holding companies are taken into account in real estate risk.

Financial investment risk and real estate risk are covered by a value-at-risk approach under the ICAAP.

The respective risk is determined by market risk value-at-risk and/or PD/LGD models considering the availability of appropriate indices and the quality of market quotations.

### E.14 – 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.

#### 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

###### Background

In March 2009 Bernard L. Madoff ("Madoff"), former chairman of the NASDAQ Exchange and owner of Bernard L. Madoff Investment Securities LLC ("BLMIS"), pled guilty to operating what has been described as a Ponzi scheme, for which he was sentenced to 150 years in prison. In December of 2008, a bankruptcy administrator (the "SIPA Trustee") for the liquidation of BLMIS was appointed in accordance with the U.S. Securities Investor Protection Act of 1970.

UniCredit Bank Austria AG ("BA") and certain of its affiliates and indirect subsidiaries have been sued or investigated in the wake of a Ponzi scheme perpetrated by Bernard L. Madoff ("Madoff") through his company Bernard L. Madoff Investment Securities LLC ("BLMIS"), and which was exposed in December 2008. Madoff or BLMIS and BA and its affiliates and subsidiaries were principally connected as follows:

- UniCredit Bank Austria AG was, from inception until mid-2007, the owner of founder shares of the Primeo Fund Ltd., a Cayman fund now in Official Liquidation ("Primeo"), which had an account at BLMIS.
- BA Worldwide Fund Management Ltd ("BAWFM"), an indirect subsidiary of BA, had been Primeo's investment advisor. BAWFM also performed for some time investment advisory functions for Thema International Fund plc ("Thema"), and Alpha Prime Fund Ltd. ("Alpha Prime"), both non-U.S. funds that had accounts at BLMIS.
- Some BA customers purchased shares in Primeo funds that were held in their accounts at BA.
- BA owned a 25 percent stake in Bank Medici AG ("Bank Medici"), a defendant in certain proceedings described below.
- BA acted in Austria as the "prospectus controller" under Austrian law in respect of Primeo and the Herald Fund SPC ("Herald"), a non-U.S. fund that had an account at BLMIS.
- UniCredit Bank AG (then Hypo- und Vereinsbank AG ("HVB")) issued notes whose return was to be calculated by reference to the performance of a synthetic hypothetical investment in Primeo.

###### Austrian civil proceedings

Investors in the Primeo and Herald Madoff feeder funds have brought numerous civil proceedings, of which 212 with a claimed amount totaling €128 million plus interest remain. The claims in these proceedings are either that BA breached certain duties regarding its function as prospectus controller, or that BA improperly advised certain investors (directly or indirectly) to invest in those funds or a combination of these claims. The Austrian Supreme Court has issued 8 final decisions with respect to prospectus liability claims asserted in the legal proceedings. With respect to claims related to the Primeo feeder funds, all 6 final Austrian Supreme Court decisions have been in favour of BA. With respect to the Herald feeder funds, the Austrian Supreme Court has ruled twice with respect to prospectus liability, once in favour of BA and once in favour of the claimant. At this stage, it is not possible to forecast what effect these decisions may have on other cases.

## E – Risk report (CONTINUED)

In respect of the Austrian civil proceedings pending as against BA related to Madoff's fraud, BA has made provisions for an amount considered appropriate to the current risk.

### **Austrian criminal proceedings**

BA has been named as a defendant in criminal proceedings in Austria which concern the Madoff case. These complaints allege, amongst other things, that BA breached provisions of the Austrian Investment Fund Act as prospectus controller of the Primeo fund and certain tax issues. These criminal proceedings are still at the pre-trial stage.

### ***Proceedings in the United States***

#### **Purported Class Actions**

BA, UniCredit S.p.A., PAI and Pioneer Global Asset Management S.p.A. ("PGAM"), a UniCredit S.p.A. subsidiary, were named among some 70 defendants in three putative class action lawsuits filed in the United States District Court for the Southern District of New York (the "Southern District") between January and March 2009 by purported representatives of investors in the Herald fund, the Primeo funds and the Thema fund, which were invested, directly or indirectly, in BLMIS. Plaintiffs principally alleged that the defendants should have discovered Madoff's fraud, and the Herald case asserted violations of the United States Racketeer Influenced and Corrupt Organizations Act ("RICO"), demanding some \$2 billion in damages, which plaintiffs sought to treble under RICO. Plaintiffs in the three class actions also sought damages in unspecified amounts and other relief.

On November 29, 2011, the Southern District dismissed all three putative class actions on grounds, with respect to UniCredit S.p.A., PGAM, PAI and BA, that the United States was not a convenient forum for resolution of plaintiffs' claims. That decision was upheld on appeal by the United States Court of Appeals for the Second Circuit (the "Second Circuit"). Currently, plaintiffs in the Thema and Herald cases have requested that the United States Supreme Court (the "Supreme Court") review the Second Circuit's ruling, which request remains pending before the Supreme Court.

#### **Claims by the SIPA Trustee**

In December 2008, a bankruptcy administrator (the "SIPA Trustee") for the liquidation of BLMIS was appointed in accordance with the U.S. Securities Investor Protection Act of 1970 (SIPA). In December 2010, the SIPA Trustee filed two cases (the "HSBC" and the "Kohn" case) in the United States Bankruptcy Court in the Southern District of New York (the "Bankruptcy Court") against several dozen defendants, including BA, UniCredit S.p.A., PAI, PGAM, BAWFM, Bank Austria Cayman Islands, and certain currently or formerly affiliated persons, as well as Bank Medici. Both cases were later removed to the non-bankruptcy federal trial court, i.e., the Southern District.

#### **Kohn Case**

In the Kohn case, the SIPA Trustee made claims against more than 70 defendants, including BA, UniCredit S.p.A., PGAM, BAWFM, Bank Austria Cayman Islands, certain current or formerly affiliated persons and Bank Medici. Three categories of claims were advanced: "claw-back" or avoidance claims, common law claims and RICO violations. On November 26, 2014, the SIPA Trustee voluntarily dismissed without prejudice and effective immediately certain defendants (and all claims against them) from the Kohn case, including UniCredit S.p.A., BA, PGAM, BAWFM, Bank Austria Cayman Islands and the current or formerly affiliated persons. The case remains pending against certain other defendants not affiliated with UniCredit S.p.A. or its affiliated entities.

#### **HSBC Case**

In the HSBC case, the SIPA Trustee made claims against some 60 defendants, including BA, UniCredit S.p.A., BAWFM, PAI, certain current or formerly affiliated persons and Bank Medici. Two categories of claims were advanced: "claw-back" or avoidance claims against certain defendants on a joint and several basis, including the abovementioned, alleged to be in excess of \$2 billion; and common law claims in unspecified amounts (said to exceed several billion dollars), including aiding and abetting BLMIS's breach of fiduciary duty and BLMIS's fraud.

The common law claims were dismissed by the Southern District on July 28, 2011. That decision was upheld on appeal by the Second Circuit, a further request for review by the Supreme Court was also rejected, and no further appeals are pending.

The avoidance claims remain pending in the Bankruptcy Court, and are currently subject to a request that they be dismissed in accordance with a ruling that such claims cannot be made in respect of transfers outside the United States between foreign transferors and foreign transferees because the relevant provisions of United States law do not apply extraterritorially.

The current or formerly affiliated persons named as defendants in the HSBC case, who had not been previously served, have now been served. The current or formerly affiliated persons may have similar defenses to the claims as BA and its affiliated entities, and may have rights to indemnification from those parties.

## E – Risk report (CONTINUED)

**Claims by SPV Optimal SUS Ltd. and by SPV OSUS Ltd.**

BA and certain of its affiliates – UniCredit S.p.A., BAWFM, PAI – have been named as defendants, together with approximately 40 other defendants, in a lawsuit filed in the Supreme Court of the State of New York, County of New York, on December 12, 2014, by SPV OSUS Ltd. The complaint asserts common law based claims in connection with the Madoff Ponzi scheme, principally that defendants aided and abetted and/or knowingly participated in Madoff's scheme. The case is brought on behalf of investors in BLMIS and claims damages in an unspecified amount. The action filed by SPV OSUS Ltd. is in the initial stages.

**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. This is resulting in litigation against subsidiaries of UniCredit Bank Austria AG in a number of countries including Hungary, Serbia and Croatia.

In **Hungary**, a Supreme Court decision on 16 June 2014 to ensure uniformity of judicial decisions regarding loans made to consumers in a foreign currency established the following principles:

- foreign currency exchange rate risk is to be borne by the consumer unless the consumer was misinformed about the risk
- whether a unilateral change (e. g. to a rate) is unfair and therefore invalid must be assessed on a case by case basis
- applying a different exchange rate for repayments of the loan from that used when the loan was made is unfair and therefore unenforceable and the difference must be repaid to consumers

In addition, on 4 July 2014 legislation was passed which amended the above decision and also extended it to apply not only to foreign currency based loans but also to domestic currency consumer loans and leasing contracts. Building on the above Supreme Court decision, the legislation established a rebuttable presumption that terms allowing unilateral changes to consumer contracts are unfair and therefore unenforceable. It is for the lender to rebut the presumption. In addition, for loans based on foreign currency, the law requires the substitution of the foreign exchange rate applied by the lender with the midmarket rate of the Hungarian Central Bank (unless the lender used its own midmarket rate). UniCredit Bank Hungary Zrt – just like any other of its peers having the final court decision on the case – was not able to rebut the presumption of unfairness.

The financial settlement with clients has to be executed gradually based on the detailed regulations of the Hungarian Central Bank. In November 2014 Hungary's parliament approved further laws in relation to the comprehensive settlement of households' loans. The act on conversion forces banks to convert foreign-currency home loans to forint and impose pricing limits for fresh lending. The bill on "fair banking" prescribes criteria under which banks can offer household credit in future.

The conversion of foreign-currency mortgages will be based on the central bank's official forint rate on 7 November 2014 which was 308.97 forints per euro and 256.6 forints per Swiss franc, or the average exchange rate between 16 June and 7 November 2014. The new forint loans, tied to the three-month Budapest interbank rate, or Bubor, may carry a margin of as much as 4.5 percentage points for mortgages and a maximum of 6.5 percentage points for home equity loans.

Under the fair banking bill, banks can only extend retail credit that carries fixed interest rates or fixed interest-rate margins over a set benchmark, for loans with a maximum maturity of three years.

In **Serbia** the association of users of banking services "Currency" has filed a class action against three banks in connection with up to 10,000 contracts on loans in CHF. UniCredit Bank Serbia JSC is not among the three defendants. The Primary Court has rejected this claim as inadmissible. On 22 October 2014 the Appeal Court issued a decision confirming the partial decision of the first instance court by which an article of the banks' loan agreement is null. In further court proceedings the first instance court will decide on the amount of money which the banks will be obliged to return to the clients (the plaintiff). Even though this court decision is not a precedent for other cases, it might influence other judges to decide in the same way.

In **Croatia**, a consumer association sued 8 of the largest banks in 2012 (including Zagrebačka banka) claiming that: for loans linked to Swiss francs, consumers had not been given adequate information prior to taking out the loan and had not therefore been able to make a fully informed decision about the risks of such loans; and a variable interest rate was unlawful, as it was set by reference to a unilateral decision of the relevant bank and without the factors affecting the setting of the rate being clearly defined.



## E – Risk report (CONTINUED)

On 4 July 2013 the first instance court in Zagreb upheld the complaint of the consumer association. The court required the banks, within 60 days, to offer the customers amended terms, converting the outstanding principal amount to Croatian kuna (HRK) at the CHF/HRK rate prevailing on the date the loan agreement was signed and substituting the variable interest rate with the fixed rate applicable at the date the loan in question was drawn down (the 60 Day Order). The decision was not binding as it was appealed by all 8 banks. On 13 June 2014, the Croatian appeal court varied the first instance decision and ruled that the foreign currency clause was lawfully agreed. The appeal court upheld, however, the first instance judgment regarding the unfairness of contractual terms permitting the banks to make unilateral changes to the floating rate of interest and ruled such terms null and void. The court annulled the 60 Day Order. The court stated that its decision does not give individual customers a direct entitlement to damages but individual consumers could seek a revision of their contract or compensation in individual actions before the courts. Zagrebačka banka has lodged an appeal before the Supreme Court of Croatia against the part of the judgment of the appeal court (High Commercial Court) where a contractual provision enabling unilateral changes to the interest rate was determined unfair. Just in case the Supreme Court would find the appeal inadmissible for procedural reasons, which does not seem to be a probable legal outcome, Zagrebačka banka has in parallel lodged a constitutional complaint against the appeal court judgment.

The Constitutional Court has confirmed receipt of the constitutional complaint and advised Zagrebačka banka that the proceedings before the Constitutional Court are stayed and will be opened in case the Supreme Court dismisses the appeal.

It is not easy to say when the Supreme Court will decide, as all of the sued banks have lodged their appeals and also the plaintiff has lodged an appeal against the part of the judgment rejecting the part of the claim related to validity of the currency clause. Further, the plaintiff appealed against the judgment in its part related to interest rate variability, where the claim against one of the sued banks was rejected.

Having in mind the complexity of the case, where the Supreme Court shall have to decide on ten different appellate argumentations, it would not be reasonable to expect that the judgment will be handed down before the end of 2015, despite the existing general public interest.

On 26 January 2015, following the decision of the Swiss National Bank to discontinue the minimum exchange rate of CHF 1.20 per euro, the Croatian government passed a law fixing the HRK/CHF rate at 6.39 and thereby aiming to protect individuals affected by this development against an increase in monthly instalments in the next 12 months.

The Group has made provisions for these risks in various countries in the total amount of € 107 million.

### 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, the following other proceedings and the following other legal risks. Due to the uncertain nature of litigation, however, we cannot exclude that the following may result in losses to the bank:

#### **Valauret S.A.**

Action brought by the Belgian company Valauret S.A. in Paris on the grounds of alleged involvement of Creditanstalt AG (now UniCredit Bank Austria AG) in wilful deception in connection with a French joint stock company as a result of which the plaintiffs incurred losses through a loss in value of shares acquired by it in the joint stock company.

#### **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.

## E – Risk report (CONTINUED)

### 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 (with the claimed amount totalling about €2.3 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 pending in the first instance. No judgments 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 by investors and/or a consumer protection agency/the Chamber of Labour. 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.

### Other proceedings

Recently, violations of US sanctions 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. 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. 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.

### Other legal risks

#### 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 Bank Austria for charging interest 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, Bank Austria will not apply that rate but a debit interest rate of 0.00001% – in line with Bank Austria'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 announced that it would bring a class action against this practice.

## E.15 – Information on the squeeze-out pursuant to the Austrian Federal Act on the Squeeze-out of Minority Shareholders (Gesellschafterausschlussgesetz) of the holders of bearer shares in UniCredit Bank Austria AG

The company's Annual General Meeting on 3 May 2007 adopted a resolution concerning the planned squeeze-out. The legal actions for rescission and declaration of nullity brought against various resolutions adopted at the Annual General Meeting on 3 May 2007 were terminated in spring 2008. The squeeze-out was entered in the Register of Firms on 21 May 2008. After that date, former minority shareholders initiated proceedings for a review of the cash compensation offered by UniCredit. An expert has been appointed in these proceedings to review the amount of the cash compensation paid; the expert report is now available and essentially confirms the adequacy of the cash compensation paid in connection with the squeeze-out. A decision by the court of first instance in this case is not yet available.

## E – Risk report (CONTINUED)

### E.16 – Report on key features of the internal control and risk management systems in relation to the financial reporting process

The Management Board is responsible for establishing and designing internal control and risk management systems which meet the company's requirements in relation to the financial reporting process. The purpose of this report is to provide an overview of how internal controls are organised in relation to the financial reporting process.

The objective of the internal control system is to assist management in assuring internal controls in relation to financial reporting which are effective and are improved on an ongoing basis. The system is geared to complying with rules and regulations and creating conditions which are conducive to performing specific controls in key accounting processes.

Following the integration of the Bank Austria Group in UniCredit Group, the Italian Savings Law, Section 262 (detailed descriptions of processes, risk and control for minimising risk in preparing financial statements) in particular, must be complied with in addition to the existing internal control system.

Pursuant to the "262 Savings Law", the CEO and the CFO delegated by UniCredit S.p.A. are liable, under civil and criminal law, for any violation of the legal provisions. They are also responsible for subsidiaries defined by UniCredit S.p.A. within the group of consolidated companies.

Internal Audit performs independent and regular reviews of compliance with internal rules also in the area of accounting. The Head of Internal Audit reports directly to the Management Board and provides the Chairman of the Supervisory Board with quarterly reports.

#### Control environment

The basic aspect of the control environment is the corporate culture in which management and all employees operate.

UniCredit S.p.A., the parent company of UniCredit Bank Austria AG, works to maintain effective communication and convey the corporate values defined in the Integrity Charter. The Integrity Charter embodies the UniCredit Group's identity and is based on the following shared values: fairness, transparency, respect, reciprocity, freedom to act, and trust.

The implementation of the internal control system in relation to the financial reporting process is also set out in the internal rules and regulations.

All accounting entries are made within the guidelines established in the Accounting Policy, and release follows defined instruction and control criteria. For each general ledger account there is a responsible person who reconciles the general ledger accounts in accordance with existing rules. This internal reconciliation process is interrogated by Financial Accounting and reviewed by Internal Audit.

#### Risk assessment

In the course of the "262 Savings Law" project, the persons having process responsibility identified risks in relation to the financial reporting process and described them in detail using the method defined by UniCredit S.p.A. These risks are monitored on an ongoing basis and checked for up-to-dateness at least on a half-yearly basis. The focus is on those risks which are typically considered to be material.

To meet the "262 Savings Law" requirements, controls pursuant to the methodology used by UniCredit S.p.A. are required to be performed at least on a half-yearly basis (for full-year and half-year reporting). Such control evidence must be kept on file for 10 years by the person having process responsibility. Any controls that do not meet the relevant criteria are identified under this method and reported to management together with a proposal for a solution.

## E – Risk report (CONTINUED)

### Controls

All controls are applied in the current business process to ensure that potential errors or deviations in financial reporting are prevented or detected and corrected. Controls range from a management review of results for the various periods to specific reconciliation of accounts and the analysis of continuous accounting processes.

The levels of hierarchy are designed so that an activity and the control of that activity is not performed by the same person (four-eyes principle). In the course of the preparation of financial reports, the general ledger accounts are reconciled with business and front-end systems.

IT security controls are a cornerstone of the internal control system. Defined IT controls are documented under “262 Savings Law” and audited by external auditors pursuant to “International Standards for Assurance Engagements” (ISAE) No. 3402.

### Information and communication

Management regularly updates rules and regulations for financial reporting and communicates them to all employees concerned.

Moreover, regular discussions on financial reporting and on the rules and regulations applicable in this context take place in various bodies and are repeatedly communicated to UniCredit Bank Austria AG. Employees in Financial Accounting receive regular training in new methods of international financial reporting in order to identify risks of unintended misreporting at an early stage.

To perform monitoring and control functions with a view to proper financial accounting and reporting, extensive financial information is made available at key levels of the bank. Relevant information is not only provided to the Supervisory Board and the Management Board, middle management levels also receive detailed reports.

### Monitoring

As part of the implementation of the internal control system pursuant to the “262 Savings Law”, instruments were introduced to monitor the effectiveness of controls. In connection with the compulsory half-yearly certification process for the preparation of the management report, the persons having process responsibility are required to carry out tests to check the up-to-dateness of descriptions and the effectiveness of controls. It must be ascertained whether the controls work according to their design and whether the persons who perform controls have the competence/authority and qualifications required to perform the controls effectively.

All persons having process responsibility confirm by means of certification that their processes are adequately documented, risks have been identified and controls have been evaluated with a view to deriving measures to minimise risk.

The Chief Financial Officer of UniCredit Bank Austria AG receives the certifications of UniCredit Bank Austria AG and of the subsidiaries defined by UniCredit S. p. A. within the group of consolidated companies, in the form of a consolidated management report on a half-yearly basis, and provides UniCredit S. p. A. and the public with confirmation of the reliability and effectiveness of the internal control system pursuant to the “262 Savings Law” in the context of the financial statements for the first six months and the annual financial statements.





## F – Additional disclosures

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## F – Additional disclosures (CONTINUED)

### F.1 – Supervisory Board and Management Board

#### The following persons were members of the Management Board of UniCredit Bank Austria AG in 2014:

**Chairman and Chief Executive Officer:** Willibald CERNKO

**Deputy Chairman:** Gianni Franco PAPA

**Members:** Helmut BERNKOPF, Francesco GIORDANO, Dieter HENGL, Jürgen KULLNIGG, Doris TOMANEK, Robert ZADRAZIL

Carlo Vivaldi assumed responsibility for the CEE Banking Division with effect from 16 February 2015, succeeding Gianni Franco Papa in this function. At the same time he was appointed Deputy Chairman of the Management Board of UniCredit Bank Austria AG.

#### The following persons were members of the Supervisory Board of UniCredit Bank Austria AG in 2014:

**Chairman:** Erich HAMPEL

**Deputy Chairman:** Paolo FIORENTINO

**Members:** Alessandro DECIO, Olivier Nessime KHAYAT, Alfredo MEOCCI, Roberto NICASTRO, Vittorio OGLIENGO, Franz RAUCH, Karl SAMSTAG, Wolfgang SPRISLER, Ernst THEIMER, Wolfgang HEINZL (until 26 June 2014), Adolf LEHNER, Johannes KOLLER, Emmerich PERL (until 26 June 2014), Josef REICHL (from 27 June 2014), Robert TRAUNWIESER, Michaela VRZAL (from 27 June 2014), Barbara WIEDERNIG

As at 31 December 2014, there were the following interlocking relationships with UniCredit S.p.A.:

- Three members of the Supervisory Board of UniCredit Bank Austria AG were members of the Executive Management Committee of UniCredit.
- Two members of the Management Board of UniCredit Bank Austria AG were members of the Executive Management Committee of UniCredit.

### F.2 – Related party disclosures

#### Related party disclosures as at 31 December 2014

(€ million)

	PARENT COMPANY	UNCONSOLIDATED SUBSIDIARIES	ASSOCIATES	JOINT VENTURES	KEY MANAGEMENT OF ENTITY OR ITS PARENT	OTHER RELATED PARTIES	TOTAL
Loans and advances	5,886	7,725	1,125	1,630	5	246	16,618
Equity instruments	–	–	7	–	–	–	7
Other receivables	423	3,977	54	1,028	–	–	5,482
<b>TOTAL ASSETS</b>	<b>6,309</b>	<b>11,702</b>	<b>1,186</b>	<b>2,658</b>	<b>5</b>	<b>246</b>	<b>22,106</b>
Deposits	10,261	3,147	8,276	10,214	15	199	32,112
Other financial liabilities	4	4,921	–	899	–	–	5,824
Other liabilities	31	8	–	21	–	–	61
<b>TOTAL LIABILITIES</b>	<b>10,295</b>	<b>8,076</b>	<b>8,276</b>	<b>11,134</b>	<b>15</b>	<b>200</b>	<b>37,997</b>
Guarantess issued by the group	138	464	576	544	1	7	1,731
Guarantess received by the group	2,162	374	–	60	–	2	2,598

#### F.2.1 – Information on members of the Management Board, the Supervisory Board and the Employees' Council of UniCredit Bank Austria AG

##### F.2.1.1 – Emoluments of members of the Management Board and the Supervisory Board

The emoluments paid by UniCredit Bank Austria AG to Management Board members in the 2014 financial year (excluding payments into pension funds) totalled €2,870,732.78 (comparable emoluments in 2013 totalled €2,946 thousand). Of this total, €2,134,738.02 (2013: €2,088 thousand) related to fixed salary components and €735,994.36 were variable salary components (2013: €858 thousand). The changes resulted mainly from cash deferrals from previous years pursuant to legal requirements. Moreover, a provision was made for variable remuneration for 2013 (subject to malus) in the amount of €1,059,291.00, which may be paid in subsequent years pursuant to the same legal provisions governing compensation. Several members of the Management Board receive their emoluments from companies which are not included in the group of consolidated companies of Bank Austria. These emoluments granted to Management Board members for activities in UniCredit Bank Austria AG and in subsidiaries in the 2014 financial year amounted to €3,003,083.80 (2013: €2,757 thousand) and are partly (2014: €1,905,890.55; 2013: €1,812 thousand) charged to UniCredit Bank Austria AG. These Management Board members also received emoluments for activities which are not connected with the Bank Austria Group but are in the interest of UniCredit Group.



## F – Additional disclosures (CONTINUED)

Payments to former members of the Management Board and their surviving dependants (excluding payments into pension funds) totalled €8,622,433.80. (Of this total, €5,290,514.99 was paid to former Management Board members of Creditanstalt AG, which merged with Bank Austria in 2002, and their surviving dependants; €1,579,909.11 was paid to former Management Board members of Österreichische Länderbank AG, which merged with Zentralsparkasse in 1991, and their surviving dependants.) The comparative figure for 2013 was €8,773 thousand. Emoluments paid to this group of persons for activities in subsidiaries amounted to €3,633.64 (2013: €15 thousand).

The emoluments of the Supervisory Board members active in the 2014 business year totalled €337,928.98 (2013: €330 thousand) for UniCredit Bank Austria AG, and €1,860.00 (2013: €2 thousand) for the two credit associations.

### F.2.1.2 – Loans to members of the Management Board and of the Supervisory Board

Loans to members of the Management Board amounted to €1,732,675.96 (2013: €1,779 thousand), overdrafts granted to them were €44,354.15 (2013: €48 thousand). Repayments during the business year totalled €55,295.98 (2013: €55 thousand).

Loans to members of the Supervisory Board amounted to €462,865.63 (2013: €357 thousand). Overdrafts granted to Supervisory Board members totalled €121,155.51 (2013: €4 thousand). Repayments during the business year totalled €53,420.66 (2013: €35 thousand).

Loans to the Supervisory Board include those made to members of the Employees' Council who are members of the Supervisory Board. The maturities of the loans range from five to twenty-five years. The rate of interest payable on these loans is the rate charged to employees of UniCredit Bank Austria AG.

## F.2.2 – Related party disclosures

In order to ensure full compliance with legislative and regulatory provisions currently in effect as regards disclosure of transactions with related parties, UniCredit has adopted procedures for identifying related-party transactions designed to ensure that appropriate information is provided to enable compliance with the obligations of the Directors of UniCredit, as a listed company and the parent company of the Group.

Transactions carried out within the Group and/or generally with Austrian and foreign related parties are executed as a rule on an arm's length basis, on the same terms and conditions as those applied to transactions entered into with independent third parties.

Intra-group transactions were carried out based on assessments of a mutual economic advantage, and the determination of applicable terms and conditions took place in compliance with substantial correctness, keeping in mind the common goal of creating value for the entire Group. The same principle was also applied to the provision of services, combined with the principle of charging for such services at minimal rate solely to recover related production costs.

Pursuant to IAS 24, Bank Austria's related parties include:

- companies belonging to UniCredit Group and companies controlled by UniCredit but not consolidated;
- associates and joint ventures;
- UniCredit's "key management personnel";
- close family members of key management personnel and companies controlled (or jointly controlled) by key management personnel or their close family members;
- Group employee post-employment benefit plans.

### Restated Bank of the Regions Agreement (ReBoRA)

In the Restated Bank of the Regions Agreement, "AV-Z Stiftung" and "Betriebsratsfonds" have given an undertaking to UniCredit to the effect that if they want to sell UniCredit Bank Austria shares, they will first offer such shares held by them to UniCredit. If UniCredit does not accept the offer, the relevant contracting party could sell the UniCredit Bank Austria shares to a third party. In this case UniCredit has a right of preemption.

For the duration of this agreement (10 years), "AV-Z Stiftung" has a right to nominate two members of the Supervisory Board of UniCredit Bank Austria AG, and thereafter one member of the Supervisory Board for the duration of the guarantee issued by "AV-Z Stiftung" and the Municipality of Vienna.

As at 31 December 2014, UniCredit held a direct interest of 99.996% in UniCredit Bank Austria AG.

### Compensation agreement

In connection with the "Restated Bank of the Regions Agreement", UniCredit S.p.A. and UniCredit Bank Austria AG signed a contract valid from 1 January 2010 to 1 January 2015 which includes a commitment by UniCredit S.p.A. to pay 13.8% (2010–2012: 14.5%) of profit before tax of UniCredit's Markets subdivision in return for the commitment by UniCredit's Markets subdivision to pay 12M Euribor + 200bps recorded annually on a notional value of €1.28 billion.

## F – Additional disclosures (CONTINUED)

### Cooperation agreement

In the course of the integration of HVB (now UniCredit Bank AG) into the UniCredit group of companies, HVB has been assigned the role of centre of competence for markets and investment banking for the entire corporate group. Among other things, UniCredit Bank AG acts as counterparty for derivative transactions conducted by UniCredit companies in this role. For the most part, this involves hedge derivatives that are externalised on the market via UniCredit Bank AG. UniCredit Bank Austria AG and UniCredit Bank AG signed a corresponding cooperation agreement for 10 years in 2010.

### Guarantee of Bank Austria for a portfolio of non-performing loans of Ukrsotsbank

The terms of the guarantee were set out in 2010 according to the rules of the National Bank of Ukraine; they are not at arm's length from a non-Ukrainian point of view. The main purpose of the guarantee transaction was to enable Ukrsotsbank to fulfil the statutory capital requirements. On 27 December 2011, Ukrsotsbank and Bank Austria had signed a replacement of the guarantee, which expired at 10 January 2013. For the replacement of this guarantee a significant part of the portfolio was transferred to UniCredit Bank Austria by means of a sub-participation agreement.

### F.2.3 – Other information on related party relationships

Under Section 92 (9) of the Austrian Banking Act, "Privatstiftung zur Verwaltung von Anteilsrechten" ("AV-Z Stiftung", a private foundation under Austrian law) serves as deficiency guarantor for all liabilities of UniCredit Bank Austria AG in the event of the company's insolvency. The board of trustees of the private foundation has 13 members. These included three members of the Supervisory Board of UniCredit Bank Austria AG.

After the change in the legal form of Anteilsverwaltung Zentralsparkasse into a private foundation ("AV-Z Stiftung") in 2001, the Municipality of Vienna serves as deficiency guarantor for all outstanding liabilities, and obligations to pay future benefits, of UniCredit Bank Austria AG (then Bank Austria Aktiengesellschaft) which were entered into prior to and including 31 December 2001.

The board of trustees of Immobilien Privatstiftung has three members. One of them is a member of the Supervisory Board of UniCredit Bank Austria AG.

## F.3 – Share-based payments

### Description of payment agreements based on own equity instruments

#### Outstanding instruments

Group Medium & Long Term Incentive Plans for selected employees include the following categories:

- **Equity-Settled Share Based Payments;**
- **Cash Settled Share Based Payments<sup>1)</sup>**

The first category includes the following:

- **Stock Options** allocated to selected Top & Senior Managers and Key Talents of the Group;
- **Performance Stock Options** allocated to selected Top & Senior Managers and Key Talents of the Group and represented by UniCredit Options that the Parent Company undertakes to grant, conditional upon achieving performance targets approved by the Parent Company's Board of Directors;
- **Share Plan for Talent** that offers free UniCredit ordinary shares that the Parent Company undertakes to grant, conditional upon achieving performance targets approved by the Parent Company's Board of Directors.
- **Group Executive Incentive System** that offers to eligible Group Executive a variable remuneration. 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 marked conditions) stated in the Plan Rules.
- **Group Executive Incentive System 2014 (Bonus Pool)** that offers to eligible Group Executives and relevant employees identified following regulatory rules, a bonus structure composed of upfront (following the moment of performance evaluation) and deferred payments in cash and in shares, to be paid over a period of up to 6 years (first year upfront and 5 years deferred). This payment structure will guarantee alignment with 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)** that offers to eligible Group employees the possibility to buy UniCredit ordinary shares with the following advantages: granting of free ordinary shares ("Discount Shares" and "Matching Shares" or, for the second category, 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.

The second category includes synthetic "Share Appreciation Rights" linked to the share value and performance results of some Group companies.<sup>2)</sup>

1) Linked to the economic value of instruments representing a subsidiary's shareholders' equity.

2) Mainly related to Pioneer Global Asset Management.

## F – Additional disclosures (CONTINUED)

### Measurement model

#### Stock Options and Performance 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.

#### Other equity instruments (Share Plan for Talent)

The plan offers three "Free UniCredit Shares" instalments, having subsequent annual vesting, to selected beneficiaries.

The economic value of Shares is measured considering the share market price at the grant date less the present value of the future dividends during the performance period. Parameters are estimated by applying the same model used for Stock Options measurement.

The economic and equity effects will be accrued during the instrument's vesting period.

#### Group Executive Incentive System

The amount of the incentive is determined on the 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 equity effects will be accrued on the basis of the instrument's vesting period.

#### Group Executive Incentive System 2013 – 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.

	SHARES GRANTED GROUP EXECUTIVE INCENTIVE SYSTEM 2013		
	1ST INSTALMENT (2016)	2ND INSTALMENT (2017)	3RD INSTALMENT (2018) *)
Date of granting Board resolution (Grant Date)	29 January 2013	29 January 2013	29 January 2013
Date of Board resolution	11 March 2014	11 March 2014	11 March 2014
Vesting Period start-date	1 January 2013	1 January 2013	1 January 2013
Vesting Period end-date	31 December 2015	31 December 2016	31 December 2017
UniCredit Share market price (€)	5.862	5.862	5.862
Economic value of vesting conditions (€)	-0.20	-0.299	-0.427
<b>Performance Shares' fair value per unit at the grant date (€)</b>	<b>5.662</b>	<b>5.563</b>	<b>5.435</b>

\*) refers only to Executive Vice President assignments

#### Group Executive Incentive System 2014 (bonus pool):

The New Group Incentive system 2014 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 at 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); payments 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.

## F – Additional disclosures (CONTINUED)

### **Employee Share Ownership Plan (Let's Share 2014)**

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 2013.

#### **Measurement of Free Shares ESOP for 2014**

	FREE SHARES	FREE SHARES
Date of Free Shares delivery to Group employees	31 January 2014	31 July 2014
Vesting Period start-date	31 January 2014	31 July 2014
Vesting Period end-date	31 January 2015	31 July 2015
Discount Shares' fair value per unit (€)	5.774	5.972

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 UniCredit free ordinary shares assigned in plan rules applications had been acquired on the market.

### **Other information**

#### **Let's Share 2015 (ex 2014) – Employee Share Ownership Plan for 2015**

In May 2014 the Ordinary Shareholders' Meeting approved the "UniCredit Group Employee Share Ownership Plan 2015" ("Let's Share for 2015") that offers to eligible Group employees the opportunity to purchase UniCredit ordinary shares at favourable conditions, starting from January 2015, in order to reinforce employees' sense of belonging and commitment to achieve the corporate goals.

Let's Share for 2015 was launched on 27 November 2014 in 12 countries across the Group (Austria, Bulgaria, Czech Republic, Germany, Hungary, Italy, Poland, Serbia, UK, Slovakia, Luxembourg and France) with a participation rate of between 3% and 4% of the eligible employees.

Let's Share for 2015 is a broad-based share plan under which:

- during the "Enrolment Periods" (from January 2015 to December 2015 for the first enrolment period and/or from July 2015 to December 2015 for the second enrolment period) the Participants can buy UniCredit ordinary shares ("Investment Shares") by means of monthly or one-off contributions (via one instalment in January or July 2015) taken from their current account. In case, during this Enrolment Period, a Participant leaves the Plan, he/she will lose the right to receive any free ordinary shares at the end of the Enrolment Period except in the case of termination of service for reasons allowed by the regulatory plan;
- at the first month of the Enrolment Period (January 2015/July 2015), each Participant will receive a discount equal to 25% on the overall amount of shares purchased; the Free Shares will be locked up for one year. The Participant will lose the entitlement to the Free Share if, during the holding period, he/she will no longer be an employee of a UniCredit Group Company unless the employment has been terminated for one of the specific reasons stated in the Rules of the Plan. In some countries, for fiscal reasons, it will not be possible to grant the Free Shares at the beginning of the Enrolment Period: in that case an alternative structure is offered that provides to the Participants of those countries the right to receive the Free Shares at the end of the Holding Period ("Alternative Structure");
- during the "Holding Period" (from January 2015 to January 2016 and/or from July 2015 to July 2016), the Participants can sell the Investment Shares purchased at any moment, but they will lose the corresponding Free Shares (or right to receive them).

The Free Shares are qualified as "Equity Settled Share-based Payments" as Participants, according to Plan's Rules, will receive UniCredit Equity Instruments as consideration for the services rendered to the legal entity where they are employed. The fair value will be measured at the beginning of the Enrolment Period according to the price paid by Participants to acquire the first instalment of the Investment Shares on the market.

All profit-or-loss and net equity effects related to Let's Share for 2015 will be booked during the holding period.

Let's Share for 2015 did not have any effect on 2014 consolidated financial statements.

### **Effects on profit or loss**

All share-based payments granted after 7 November 2002 for which the vesting period ends after 1 January 2005 are included within the scope of the IFRS 2.

Payroll costs in 2014 included share-based payments of €12 million.

## F – Additional disclosures (CONTINUED)

### F.4 – Employees

In 2014 and 2013, the Bank Austria Group employed the following average numbers of staff (full-time equivalents):

#### Employees

	2014	2013 <sup>2)</sup>
Salaried staff	37,087	38,946
Other employees	42	66
<b>TOTAL <sup>1)</sup></b>	<b>37,129</b>	<b>39,012</b>
<i>of which: in Austria</i>	<i>7,171</i>	<i>7,306</i>
<i>of which: abroad</i>	<i>29,958</i>	<i>31,706</i>

1) Average full-time equivalents of staff employed in the Bank Austria Group, excluding employees on unpaid sabbatical or maternity/paternity leave.

2) Figures for the previous year were reduced by the number of employees of the Yapı Kredi Group to enhance comparability.

### F.5 – Auditors' fees

(pursuant to Section 237 no. 14a and Section 266 no. 11 of the Austrian Business Code)

The following table shows the fees charged by the auditors of the consolidated financial statements for the 2014 financial year in the following categories:

#### Auditors' fees

(€ thousand)

	2014	2013
<b>Fees for the audit of the financial statements and the consolidated financial statements</b>	<b>4,796</b>	<b>3,784</b>
Deloitte Austria	3,678	2,263
Austrian Savings Bank Auditing Association	1,118	1,521
<b>Other services involving the issuance of a report</b>	<b>1,013</b>	<b>522</b>
Deloitte Austria	982	522
Austrian Savings Bank Auditing Association	31	–
<b>Tax consulting services</b>	<b>368</b>	<b>440</b>
Deloitte Austria	368	440
Austrian Savings Bank Auditing Association	–	–
<b>Other services</b>	<b>1,674</b>	<b>2,088</b>
Deloitte Austria	566	963
Austrian Savings Bank Auditing Association	1,108	1,125
<b>TOTAL</b>	<b>7,851</b>	<b>6,834</b>

## F – Additional disclosures (CONTINUED)

## F.6 – Geographical distribution

**Disclosures pursuant to Section 64 no. 18 of the Austrian Banking Act (“country-by-country reporting”)**

Section 64 no. 18 of the Austrian Banking Act requires disclosure of specific information on a country-by-country basis. Information on the country in which each of our subsidiaries in the Group has its registered office is given in section A.9. In addition, the following information is required to be given on a consolidated basis, broken down by country:

COUNTRY	NET INTEREST INCOME (€ million)	OPERATING INCOME (€ million)	TOTAL PROFIT OR LOSS BEFORE TAX FROM CON- TINUING OPERATIONS (€ million)	TAX EXPENSE (INCOME) RELATED TO PROFIT OR LOSS FROM CONTINUING OPERATIONS (€ million)	EMPLOYEES (FTE)
Austria	972	1,817	285	-78	7,302
Bosnia and Herzegovina	96	137	45	-5	1,614
Bulgaria	283	416	159	-17	4,136
Czech Republic	347	530	209	-38	3,257
Croatia	387	538	146	-40	4,059
Hungary	215	401	64	-12	1,818
Latvia	20	21	4	5	90
Romania	253	393	51	-8	3,369
Serbian Republic	98	127	46	1	1,029
Russia	692	792	447	-93	3,984
Slovenia	55	87	-	-	517
Slovakia	17	22	9	-2	36
Ukraine	-1	-1	-27	-	4,830
Other countries	-2	17	328	-1	98
	<b>3,433</b>	<b>5,298</b>	<b>1,778</b>	<b>-287</b>	<b>36,139</b>

The following Bank Austria Group companies received subsidies from public sector entities in 2014:

**UniCredit Bank Austria AG, Austria**

The Municipality of Vienna serves as deficiency guarantor for the following items in the statement of financial position under a guarantee totalling €7,265 million:

**Item in the statement of financial position**

(€ million)

	2014
Deposits from banks	425
Deposits from customers	600
Debt securities in issue	1,905
<i>of which: subordinated</i>	<i>1,876</i>
Other liabilities	70
Provisions for post-retirement benefit obligations	4,265
<b>Total</b>	<b>7,265</b>

**AO UniCredit Bank, Russia**

AO UniCredit Bank, like other Russian banks, participates in a state programme organised by the Ministry of Industry and Trade of the Russian Federation aimed at supporting the local car industry. Under this programme, loans for the purchase of certain cars can be granted at lower rates compared with the market rate; the difference in interest rates is subsidised by the Ministry of Industry and Trade. The subsidy amount of RUB 577 million (€11 million) was recorded as interest income for 2014.

## F – Additional disclosures (CONTINUED)

## F.7 – Effects of netting agreements on the statement of financial position

## Assets and liabilities subject to accounting offsetting or under master netting agreements and similar ones

(€ million)

	31 DEC. 2014					
	GROSS AMOUNTS OF FINANCIAL ASSETS	FINANCIAL LIABILITIES OFFSET IN THE STATEMENT OF FINANCIAL POSITION	NET AMOUNTS OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	RELATED AMOUNTS NOT RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION		
				FINANCIAL INSTRUMENTS	CASH COLLATERAL RECEIVED	NET AMOUNTS
<b>Assets</b>						
1) Derivatives	4,212	–	4,212	–4,028	–	184
2) Repos	–	–	–	–	–	–
3) Securities lending	–	–	–	–	–	–
4) Others	–	–	–	–	–	–
<b>TOTAL 31 DEC. 2014</b>	<b>4,212</b>	<b>–</b>	<b>4,212</b>	<b>–4,028</b>	<b>–</b>	<b>184</b>
<b>Liabilities</b>						
1) Derivatives	4,426	–	4,426	–4,028	–309	90
2) Repos	–	–	–	–	–	–
3) Securities lending	–	–	–	–	–	–
4) Others	–	–	–	–	–	–
<b>TOTAL 31 DEC. 2014</b>	<b>4,426</b>	<b>–</b>	<b>4,426</b>	<b>–4,028</b>	<b>–309</b>	<b>90</b>
	31 DEC. 2013					
	GROSS AMOUNTS OF FINANCIAL ASSETS	FINANCIAL LIABILITIES OFFSET IN THE STATEMENT OF FINANCIAL POSITION	NET AMOUNTS OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	RELATED AMOUNTS NOT RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION		
				FINANCIAL INSTRUMENTS	CASH COLLATERAL RECEIVED	NET AMOUNTS
<b>Assets</b>						
1) Derivatives	3,081	–	3,081	–2,702	–190	190
2) Repos	–	–	–	–	–	–
3) Securities lending	–	–	–	–	–	–
4) Others	191	–	191	–191	–	–
<b>TOTAL 31 DEC. 2013</b>	<b>3,272</b>	<b>–</b>	<b>3,272</b>	<b>–2,893</b>	<b>–190</b>	<b>190</b>
<b>Liabilities</b>						
1) Derivatives	2,842	–	2,842	–2,702	–	140
2) Repos	–	–	–	–	–	–
3) Securities lending	–	–	–	–	–	–
4) Others	1,232	–	1,232	–191	–	1,041
<b>TOTAL 31 DEC. 2013</b>	<b>4,074</b>	<b>–</b>	<b>4,074</b>	<b>–2,893</b>	<b>–</b>	<b>1,181</b>

The above table shows the potential netting of derivatives (recognised financial assets and liabilities) which are subject to an enforceable ISDA Master Netting Agreement and Cash Settlement Agreement, which cannot be offset in the statement of financial position and for which the entity currently has the right, legally enforceable, to offset the recognised amounts in case of insolvency or termination.

## F.8 – Assets pledged as security

## Assets used to guarantee own liabilities and commitments

(€ million)

	31 DEC. 2014	31 DEC. 2013
Financial instruments held for trading	4	21
Financial instruments designated at fair value	–	–
Financial instruments available for sale	7,483	5,529
Financial instruments held to maturity	280	269
Loans and receivables with banks	1,318	567
Loans and receivables with customers	26,677	24,305
Property, plant and equipment	–	–
<b>TOTAL</b>	<b>35,763</b>	<b>30,691</b>

## F – Additional disclosures (CONTINUED)

### F.9 – Transfer of financial assets

In the ordinary course of business, the Group enters into transactions that result in the transfer of financial assets, primarily debt and equity securities and loans and advances to customers. The transferred financial assets continue either to be recognised in their entirety, or are derecognised in their entirety.

The Group transfers financial assets primarily through the following transactions:

- Sale and repurchase of securities
- Securities lending
- Securitisation activities in which loans and advances to customers or investment securities are transferred to special-purpose entities or to investors in the notes issued by special-purpose entities. Every special-purpose entity is assessed in order to evaluate whether consolidation is required in accordance with IFRS 10.

#### **Transferred financial assets that are not derecognised in their entirety**

##### ***Sale and purchase agreements***

Sale and purchase agreements are transactions in which the Group sells a financial asset and simultaneously agrees to repurchase it at a fixed date in the future. The Group continues to recognise the financial asset in its entirety in the statement of financial position because it retains all the risks and rewards of ownership. The cash consideration received is recognised as a financial asset and a financial liability is recognised for the obligation to pay the repurchase price. Because the Group sells the contractual rights to the cash flows of the securities it does not have the ability to use the transferred assets during the term of the arrangement.

Under repurchase agreements, financial assets were sold to third parties with a commitment to repurchase the financial instruments at a price specified when the assets were sold. The assets transferred are either securities held by the bank or borrowed from other parties. In those cases where Bank Austria is the transferor, securities held by the bank continue to be recognised as assets in its statement of financial position. In those cases where Bank Austria is the transferee, the bank does not recognise the assets in its statement of financial position.

##### ***Securities lending***

Securities lending agreements are transactions in which the Group lends equity securities for a fee and receives cash as collateral. The Group continues to recognise the securities in their entirety in the statement of financial position because it retains substantially all the risks and rewards of ownership.

The cash received is recognised as a financial asset and a financial liability is recognised for the obligation to repay this collateral. Because the Group sells the contractual rights to the cash flows of the securities it does not have the ability to use the transferred assets during the term of the arrangement.

Securities in the amount of €28 million lent in 2014 (2013: €31 million) were sold to banks, of which €25 million (2013: €26 million) under a repo transaction.



## F – Additional disclosures (CONTINUED)

**Sales transactions relating to financial liabilities with repayment exclusively based on assets sold and not derecognised: fair value**

(€ million)

TYPE/PORTFOLIOS	31 DEC. 2014						TOTAL
	FINANCIAL ASSETS HELD FOR TRADING		AVAILABLE-FOR-SALE FINANCIAL ASSETS		HELD-TO-MATURITY INVESTMENTS		
	A	B	A	B	A	B	
<b>Balance-sheet assets</b>	<b>18</b>	<b>–</b>	<b>762</b>	<b>81</b>	<b>68</b>	<b>–</b>	<b>929</b>
Debt securities	18	–	762	81	68	–	929
<b>Derivatives</b>	<b>–</b>	<b>–</b>					<b>–</b>
<b>Associated financial liabilities</b>	<b>18</b>	<b>–</b>	<b>743</b>	<b>75</b>	<b>63</b>	<b>–</b>	<b>898</b>
Deposits from customers	14	–	310	–	–	–	324
Deposits from banks	3	–	433	75	63	–	574
<b>TOTAL 31 DEC. 2014</b>	<b>–</b>	<b>–</b>	<b>20</b>	<b>5</b>	<b>6</b>	<b>–</b>	<b>31</b>
TYPE/PORTFOLIOS	31 DEC. 2013						TOTAL
	FINANCIAL ASSETS HELD FOR TRADING		AVAILABLE-FOR-SALE FINANCIAL ASSETS		HELD-TO-MATURITY INVESTMENTS		
	A	B	A	B	A	B	
<b>Balance-sheet assets</b>	<b>78</b>	<b>–</b>	<b>1,911</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,989</b>
Debt securities	78	–	1,911	–	–	–	1,989
<b>Derivatives</b>	<b>–</b>	<b>–</b>					<b>–</b>
<b>Associated financial liabilities</b>	<b>76</b>	<b>–</b>	<b>1,825</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,901</b>
Deposits from customers	–	–	602	–	–	–	602
Deposits from banks	76	–	1,223	–	–	–	1,299
<b>TOTAL 31 DEC. 2013</b>	<b>2</b>	<b>–</b>	<b>86</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>88</b>

A= Financial assets sold and fully recognised

B= Financial assets sold and partially recognised

The carrying amounts are equal to the fair values.

**Securitisations**

The Group sells loans and advances to customers and investment securities to special-purpose entities (SPEs) that in turn issue notes to investors that are collateralised by the purchased assets. If the Group sells assets to a consolidated SPE then the transfer is in the form of the Group assuming an obligation to pass cash flows from the underlying assets to investors in the notes. Derecognition of the transferred assets is prohibited because either the cash flows that it collects from the transferred assets on behalf of the investors are not passed through to them without material delay or the majority of risks and rewards of such assets has not been substantially transferred. In these cases, the consideration received from the investors in the notes in the form of cash is recognised as a financial asset and a corresponding financial liability is recognised. The investors of the notes have recourse only to the cash flows of the transferred financial assets.

## F – Additional disclosures (CONTINUED)

**Securitisation exposures: breakdown by quality of underlying assets**

(€ million)

QUALITY OF THE UNDERLYING ASSETS/EXPOSURES	AMOUNTS AT 31 DEC. 2014					
	ON BALANCE-SHEET					
	SENIOR		MEZZANINE		JUNIOR	
	GROSS EXPOSURE	NET EXPOSURE	GROSS EXPOSURE	NET EXPOSURE	GROSS EXPOSURE	NET EXPOSURE
<b>With own underlying assets:</b>	<b>892</b>	<b>43</b>	<b>57</b>	<b>61</b>	<b>–</b>	<b>–</b>
Impaired	–	–	–	–	–	–
Other	892	43	57	61	–	–
<b>With third-party underlying assets:</b>	<b>557</b>	<b>472</b>	<b>128</b>	<b>125</b>	<b>–</b>	<b>–</b>
Impaired	17	13	–	–	–	–
Other	540	459	128	125	–	–
QUALITY OF THE UNDERLYING ASSETS/EXPOSURES	AMOUNTS AT 31 DEC. 2013					
	ON BALANCE-SHEET					
	SENIOR		MEZZANINE		JUNIOR	
	GROSS EXPOSURE	NET EXPOSURE	GROSS EXPOSURE	NET EXPOSURE	GROSS EXPOSURE	NET EXPOSURE
<b>With own underlying assets:</b>	<b>1,552</b>	<b>280</b>	<b>82</b>	<b>92</b>	<b>–</b>	<b>–</b>
Impaired	–	–	–	–	–	–
Other	1,552	280	82	92	–	–
<b>With third-party underlying assets:</b>	<b>682</b>	<b>546</b>	<b>226</b>	<b>224</b>	<b>–</b>	<b>–</b>
Impaired	6	6	–	–	–	–
Other	676	540	226	224	–	–

**Transferred financial assets that are derecognised in their entirety**
**Securitisations**

When the Group transfers substantially all the risks and rewards of ownership of financial assets to an unconsolidated SPE and retains a relatively small interest in the SPE or a servicing arrangement in respect of the transferred financial assets, the transferred assets are derecognised in their entirety. If the financial assets are derecognised in their entirety, then the interest received as part of the transfer and the servicing arrangement represent continuing involvement with those assets according to IFRS 7.

**F.10 – Subordinated assets/liabilities**

(€ million)

	31 DEC. 2014	31 DEC. 2013
Financial assets held for trading	1	–
Financial assets designated at fair value	–	–
Available-for-sale financial assets	42	77
Held to maturity investments	–	–
Loans and receivables with banks	1,029	924
Loans and receivables with customers	255	287
Non-current assets and disposal groups classified as held for sale	–	9
<b>Subordinated assets</b>	<b>1,326</b>	<b>1,297</b>
Deposits from banks	15	15
Deposits from customers	98	85
Debt securities in issue	4,240	2,727
Liabilities included in disposal groups classified as held for sale	83	71
<b>Subordinated liabilities</b>	<b>4,436</b>	<b>2,898</b>

## F – Additional disclosures (CONTINUED)

## F.11 – Trust assets and trust liabilities

(€ million)

	31 DEC. 2014	31 DEC. 2013
Loans and receivables with banks	1	–
Loans and receivables with customers	607	543
Equity securities and other variable-yield securities	6,641	7,749
Debt securities	18,685	15,894
Other assets	926	692
<b>TRUST ASSETS</b>	<b>26,860</b>	<b>24,877</b>
Deposits from banks	8,333	8,890
Deposits from customers	18,263	15,872
Debt securities in issue	–	–
Other liabilities	264	115
<b>TRUST LIABILITIES</b>	<b>26,860</b>	<b>24,877</b>

## F.12 – Guarantees given and commitments

(€ million)

	31 DEC. 2014	31 DEC. 2013
<b>Financial guarantees given to:</b>	<b>4,398</b>	<b>4,506</b>
Banks	460	520
Customers	3,938	3,986
<b>Commercial guarantees given to:</b>	<b>11,973</b>	<b>11,524</b>
Banks	2,687	1,845
Customers	9,287	9,679
<b>Other irrevocable commitments to disburse funds</b>	<b>20,314</b>	<b>9,371</b>
Banks	1,563	1,164
<i>Usage certain</i>	1,364	1,114
<i>Usage uncertain</i>	199	50
Customers	18,751	8,207
<i>Usage certain</i>	13,865	5,366
<i>Usage uncertain</i>	4,886	2,841
<b>Underlying obligations for credit derivatives: sales of protection</b>	<b>–</b>	<b>–</b>
<b>Assets used to guarantee others' obligations</b>	<b>10</b>	<b>–</b>
<b>Other commitments</b>	<b>2,803</b>	<b>4,893</b>
<b>TOTAL</b>	<b>39,498</b>	<b>30,294</b>

## F – Additional disclosures (CONTINUED)

### F.13 – Consolidated capital resources and regulatory capital requirements

#### Capital management

Bank Austria, as part of UniCredit Group, places a high priority on capital management and capital allocation. The Bank's capital management strategy is characterised by a strong commitment to maintaining a sound capital base; the strategy is based on a risk-oriented and earnings-oriented allocation of capital to achieve the highest possible shareholder value.

From 2013 Bank Austria's internal capital is set at a level that will cover adverse events with a probability of 99.93% (confidence interval).

At the same time regulatory capital ratio targets (Common Equity Tier 1 and capital adequacy ratio) are set so as to be consistent with regulatory expectations and the Risk Appetite Framework defined by the bank.

Capital management activities form a major part of the Group's planning and budgeting process as well as within ICAAP processes. Bank Austria is regularly monitoring capital evolution and regulatory trends at country level and at Group level.

Capital management activities comprise:

- planning and budgeting processes:
  - proposals as to risk propensity, development and capitalisation objectives
  - analysis of RWA development and changes in the regulatory framework
  - proposals for the financial plan and an appropriate dividend policy
- monitoring processes
  - analysis and monitoring of limits for Pillar 1 and Pillar 2
  - analysis and monitoring of the capital ratios of the Bank Austria Group as well as at single entity level

Capital is managed dynamically which means that Bank Austria prepares the financial plan, monitors capital ratios for regulatory purposes on an ongoing basis and anticipates the appropriate steps required to achieve the goals set.

#### Capital requirements

The capital requirements pursuant to the Capital Requirements Regulation comprise requirements resulting from credit risk, all types of risk in the trading book, commodities risk and foreign-exchange risk outside the trading book, operational risk and the CVA risk.

#### Regulatory developments – Basel 3/CRD IV, CRR

The final Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV) for the implementation of Basel 3 in the European Union were published in the EU Official Journal on 27 June 2013. The new legal framework replaces Capital Requirements Directives 2006/48/EC and 2006/49/EC and came into force in Austria on 1 January 2014.

After the framework is fully implemented (2019), Basel 3 will consist of stricter requirements for regulatory capital with a minimum of Common Equity Tier 1 Capital of 4.5% of RWA, Total Tier 1 Capital of 6% and Total Capital of 8%.

In addition, all banks will be required to hold a capital conservation buffer consisting of Common Equity Tier 1 Capital of 2.5% on top of the new minimum requirements. This will lead to an effective minimum capital requirement of 7% Common Equity Tier 1 Capital, 8.5% Tier 1 Capital and 10.5% Total Capital.

Furthermore, Member States can set a buffer requirement to dampen excess lending growth (counter-cyclical buffer up to 2.5%). In addition, systemic risk buffers and capital surcharges for systemically important banks can be set by the authorities. Overall, including all buffers, the total capital requirement may be set at a level of up to 22%. Where an authority imposes the systemic risk buffer and the systemic bank surcharge is applicable, the higher of the two should apply.

In 2014 the total capital ratio was kept at a level similar to that in the previous year. This gives Bank Austria a sound capital base to meet the capital requirements pursuant to Article 92 of the CRR in conjunction with Article 129 ff of the CRD IV (capital requirements, Pillar I). Tier 2 capital totalling €1.5 billion was issued in 2014.

## F – Additional disclosures (CONTINUED)

## Consolidated capital resources

(€ million)

	BASEL 3		BASEL 2	
	31 DEC. 2014	31 DEC. 2013		
Paid-in capital instruments (excl. own Common Equity Tier 1 instruments)	1,681	1,681	Paid-in capital	
Reserves (incl. profit) and minority interests	13,183	13,243	Reserves and minority interests	
Adjustments to Common Equity Tier 1	-860	-419	Intangible assets	
		-787	Deductions from Tier 1	
Transitional adjustments to Common Equity Tier 1 <sup>*)</sup>	-539			
<b>Common Equity Tier 1 (CET1)</b>	<b>13,465</b>			
Additional Tier 1 capital and qualifying Additional Tier 1 instruments issued by subsidiaries	154			
Adjustments to Additional Tier 1	-			
Transitional adjustments to Additional Tier 1 <sup>*)</sup>	-154			
<b>Additional Tier 1 (AT1)</b>	<b>-</b>			
<b>Tier 1 capital (T1=CET1+AT1)</b>	<b>13,465</b>	<b>13,718</b>	<b>Original own funds (Tier 1)</b>	
Tier 2 capital and qualifying Tier 2 instruments issued by subsidiaries	4,080	2,510	Subordinated liabilities eligible for inclusion	
		239	Revaluation reserves and undisclosed reserves	
Adjustments to Tier 2 capital	96	-678	Deductions from Tier 2	
Transitional adjustments to Tier 2 capital <sup>*)</sup>	-113			
<b>Tier 2 capital (T2)</b>	<b>4,062</b>	<b>2,071</b>	<b>Tier 2 (T2)</b>	
-	-	169	Tier 3 (T3)	
<b>Total regulatory capital (TC=T1+T2)</b>	<b>17,527</b>	<b>15,958</b>	<b>Total regulatory capital (TC=T1+T2+T3)</b>	

<sup>\*)</sup> according to the Austrian CRR Supplementary Regulation (CRR-Begleitverordnung) of 11 December 2013

## Risk-weighted assets

(€ million)

	31 DEC. 2014 BASEL 3	31 DEC. 2013 BASEL 2
a) Credit risk pursuant to standardised approach	68,896	57,478
b) Credit risk pursuant to internal ratings-based (IRB) approach	43,879	46,120
c) Other (contribution to default fund of a central counterparty [CCP])	220	-
Credit risk	112,995	103,598
Position, foreign exchange and commodity risk	4,643	2,114
Operational risk	12,068	12,798
Risk positions for credit value adjustments (CVA)	644	-
<b>TOTAL RWAS</b>	<b>130,351</b>	<b>118,510</b>

## Capital ratios

	31 DEC. 2014 BASEL 3	31 DEC. 2013 BASEL 2
Common Equity Tier 1 ratio <sup>*)</sup>	10.3%	-
Core Tier 1 ratio (excl. hybrid capital) <sup>*)</sup>	-	11.3%
Tier 1 ratio <sup>*)</sup>	10.3%	11.6%
Total capital ratio <sup>*)</sup>	13.4%	13.5%

<sup>\*)</sup> based on all risks

By deviation 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 consolidated capital requirements for regulatory purposes.

The calculation of consolidated regulatory capital and consolidated regulatory capital requirements as at 31 December 2014 is based, in conformity with the CRR, on International Financial Reporting Standards (IFRS); the calculation of the relevant data as at 31 December 2013 was based on the Austrian Business Code and the Austrian Banking Act.

## F – Additional disclosures (CONTINUED)

### F.14 – Events after the reporting period

The equity interest in UniCredit CAIB Poland S.A. was sold to a fellow UniCredit Group subsidiary, the closing of the transaction took place on 2 January 2015. UniCredit CAIB Poland S.A. was classified as held for sale in the Bank Austria Group as at 31 December 2014, valued at the expected sales proceeds.

On 20 January 2015, UniCredit Bank Czech Republic and Slovakia a.s. acquired 100% of the shares in Transfinace a.s.

In the middle of January the Swiss National Bank surprisingly discontinued the Swiss franc's link to the euro, which it had previously maintained at an exchange rate of 1.2 CHF/EUR (exchange rate as at 31 December 2014: 1.2024 CHF/EUR). This resulted in strong appreciation of the Swiss franc against the euro after 16 January 2015, with the exchange rate temporarily moving below 1 CHF/EUR but slightly recovering by the middle of February and settling at around 1.06 CHF/EUR. The potential future effects of this exchange rate movement on the Bank Austria Group are described in the risk report in section E.5.

Short-term interest rates in CHF fluctuated around zero in 2014, temporarily becoming slightly negative during the year (for example, for 1M CHF LIBOR). From the middle of January 2015, CHF interest rates became significantly negative in some cases (1M CHF LIBOR on 16 February 2015: -0.925%). The effects of this development on the Bank Austria Group are described in the risk report in the "Legal risks" section in E.14.

On 26 January 2015, following the decision of the Swiss National Bank to discontinue the minimum exchange rate of CHF 1.20 per euro, the Croatian government passed a law fixing the HRK/CHF rate at 6.39 and thereby aiming to protect individuals affected by this development against an increase in monthly instalments in the next 12 months.

The Ukrainian currency (UAH) has depreciated significantly since 5 February 2015. While the UAH had moved at a level of about 18 UAH per euro before 5 February 2015 (exchange rate as at 31 December 2014: 19.206 UAH/EUR), it rose to just under 30 UAH per euro by the middle of February. The potential future effects of this exchange rate movement on the Bank Austria Group are described in the risk report in section E.2.







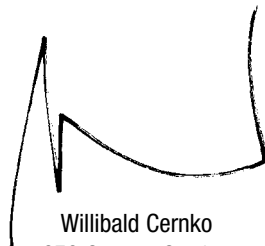
# Concluding Remarks of the Management Board

## of UniCredit Bank Austria AG

The Management Board of UniCredit Bank Austria AG has prepared the consolidated financial statements for the financial year beginning on 1 January 2014 and ending on 31 December 2014 in accordance with International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board as adopted by the European Union. The management report of the Group was prepared in accordance with the Austrian Business Code and is consistent with the consolidated financial statements.

The consolidated financial statements and the management report of the Group contain all required disclosures; in particular, events of special significance which occurred after the end of the financial year, and other major circumstances that are significant for the future development of the Group have been appropriately explained.

Vienna, 2 March 2015



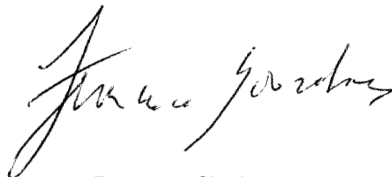
**Willibald Cernko**  
CEO Support Services  
(Chief Executive Officer)



**Carlo Vivaldi**  
CEE Banking Division  
(Deputy CEO)



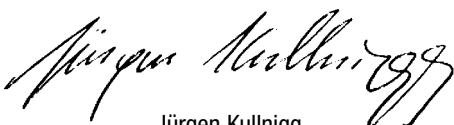
**Helmut Bernkopf**  
Commercial Banking Division  
(Retail & Corporates)



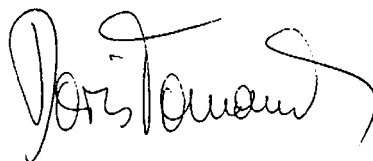
**Francesco Giordano**  
CFO Finance



**Dieter Hengl**  
Corporate & Investment  
Banking Division



**Jürgen Kullnigg**  
CRO Risk Management



**Doris Tomanek**  
Human Resources Austria & CEE



**Robert Zadrazil**  
Private Banking Division

# Report of the Auditors

## Auditors' report\*)

### Report on the consolidated financial statements

The Auditing Board of the Austrian Savings Bank Auditing Association and Deloitte Audit Wirtschaftsprüfungs GmbH have audited the accompanying consolidated financial statements of UniCredit Bank Austria AG, Vienna, for the financial year from 1 January 2014 to 31 December 2014. These consolidated financial statements comprise the statement of financial position at 31 December 2014, the consolidated income statement, the statement of cash flows and the statement of changes in equity for the year ended 31 December 2014, and the notes to the consolidated financial statements.

### Management's responsibility for the consolidated financial statements and for the consolidated accounting

UniCredit Bank Austria AG's management is responsible for the consolidated accounting as well as the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and in accordance with the additional requirements of Section 59a of the Austrian Banking Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' responsibility and description of the type and scope of the statutory audit

The responsibility of the Austrian Savings Bank Auditing Association and of Deloitte Audit Wirtschaftsprüfungs GmbH is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws, regulations and principles governing an audit of financial statements which are applicable in Austria and in accordance with International Standards on Auditing (ISAs), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

Our audit did not give rise to any objections. Based on the results of our audit in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2014, and its financial performance and its cash flows for the financial year from 1 January 2014 to 31 December 2014 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Without qualifying our audit opinion, we refer to the comments of the company's Management Board in the notes to the consolidated financial statements, in the part containing the risk report, under note "E.2 – Major risks in Central and Eastern Europe", sub-item "Ukraine", namely

- that in respect of assets recognised at a carrying amount of €285 million (after deduction of loan loss provisions) of the Ukrainian subsidiary PJSC UkrSotsbank, especially loans and receivables as well as real estate recognised at a carrying amount of €9 million in the eastern region (Donbass, Crimea), there is considerable uncertainty over measurement;
- that at the Profit Center Vienna of UniCredit Bank Austria AG, loans and receivables with borrowers in the amount of €230 million (after deduction of loan loss provisions) are recognised which are partly affected by events in the above-mentioned region and in respect of which there is also considerable uncertainty over measurement;
- that a negative development of economic conditions and/or of real estate markets and a further aggravation or prolonged duration of the conflict in this region after the end of the reporting period may

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## Report of the Auditors (CONTINUED)

have a significant impact on the carrying amounts of loans and receivables with customers in the consolidated financial statements and on loan loss provisions and real estate of the Ukrainian subsidiary PJSC Ukrspotsbank;

- that there is significant uncertainty over the Management Board's assessment of the disposability, and the price realisable upon disposal, of the shares in the Ukrainian subsidiary PJSC Ukrspotsbank;
- that a negative development of economic conditions and/or of the Ukrainian currency UAH and a further aggravation or prolonged duration of the conflict in this region may have a significant impact on compliance with local regulatory requirements – with regard to minimum capital requirements in particular – of the Ukrainian subsidiary PJSC Ukrspotsbank;
- that UniCredit Bank Austria has issued a letter of comfort in favour of the Ukrainian subsidiary PJSC Ukrspotsbank to support its continuation as a going concern.

### Statement on the consolidated management report

Laws and regulations require us to perform audit procedures to determine whether the consolidated management report is consistent with the consolidated financial statements and whether the other disclosures made in the consolidated management report are not misleading to the group's position. The audit report must also include a statement as to whether the consolidated management report is consistent with the consolidated financial statements and whether the disclosures pursuant to section 243a of the Austrian Business Code are appropriate.

In our opinion, the consolidated management report is consistent with the consolidated financial statements. The disclosures pursuant to section 243a of the Austrian Business Code are appropriate.

Consolidated financial statements for 2014  
UniCredit Bank Austria AG, Vienna

Vienna, 2 March 2015

Austrian Savings Bank Auditing Association  
Auditing Board

**Gerhard Margetich**  
Certified Accountant

**Herwig Hierzer**  
Certified Accountant

Deloitte Audit Wirtschaftsprüfungs GmbH

**Gottfried Spitzer**  
Certified Accountant

**Wolfgang Wurm**  
Certified Accountant

\*) The report (in the German language, or translations into another language, including shortened or amended versions) may not be made public or used by third parties, when reference is made in part or in whole to the auditors' report, without the express written consent of the auditors.

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# Report of the Supervisory Board for 2014

In the dialogue maintained with the Management Board in 2014, the Supervisory Board performed its duties as defined by law and in the Articles of Association and the rules of procedure, committed to good corporate governance based on responsible and sustainable management. The Supervisory Board held five meetings and passed ten resolutions by circular vote. For the efficient performance of its duties, the Supervisory Board created four committees from among its members. The Supervisory Board was directly involved in decisions on issues which are of fundamental importance to the bank, and it passed resolutions on matters within its competence after in-depth analyses. In addition to periodic meetings, the Chairman of the Management Board and the Chairman of the Supervisory Board discussed current business developments and issues of particular relevance in regular talks.

## Focus of the Supervisory Board's activity

In the reporting period, the Management Board regularly provided information to the Supervisory Board, in writing and orally and in a timely and comprehensive manner, on business policy, financial developments, results, changes in regulatory requirements, and on risk management, liquidity management and capital management. The Supervisory Board in this way performed its advisory and supervisory functions.

Periodical discussions focused on Internal Audit reports, the performance of the company "Special Assets Holding for Repossession of Assets and Equities" (UCTAM) and on findings and measures in connection with the review of credit risk performed by Oesterreichische Nationalbank, Austria's central bank, pursuant to Section 70 of the Austrian Banking Act. Specific issues discussed by the Supervisory Board were IT stability, Bank Austria 2020, the Madoff case, large loans pursuant to Section 28b of the Austrian Banking Act, the status of the Ramius exposure and the report of the Credit/Risk Committee concerning the structure of the loan portfolio and the fundamental principles of the bank's risk policy.

The Supervisory Board also discussed a letter of the auditors pursuant to Section 63 of the Austrian Banking Act and the report providing information on the extent to which use had been made of advance approval of loans to members of the Supervisory Board and of the Management Board as well as other related parties for 2013 as defined in Section 28 (1) and (4) of the Austrian Banking Act, and in this context it also discussed such advance approval to be given for 2015. The members of the Supervisory Board were personally provided with information regarding the restriction of the number of supervisory board positions and the reporting requirements in the event of any changes in such positions.

The Supervisory Board examined in detail the leasing business reorganisation project, the acquisition of Immobilien Holding GmbH (Apollo project) and extensive measures relating to the relocation of the bank's headquarters (Campus project), and in each case passed the relevant resolutions.

Besides giving attention to all measures relating to the separate financial statements and the consolidated financial statements and the audit reports, the Supervisory Board took a decision on the election of the auditors for the separate financial statements and for the consolidated financial statements for the 2015 financial year, and on the Bank Austria Group's funding plan and the ceiling applicable for 2014, as well as on the implementation of a new Internal Audit Charta and the 2014 Audit Plan.

Further decisions taken by the Supervisory Board concerned Ukrsofsbank, the sale of UniCredit CAIB Poland, the merger of the AWT group with Universale International Realitäten GmbH, the restructuring of the shareholder structure of Romania UniCredit Tiriac Bank S.A. and the sale of CA Immobilien Anlagen AG.

In view of recent developments, the Supervisory Board discussed Austrian group taxation and the extension of, and conclusion of new, profit and loss transfer agreements and tax compensation agreements, and the revocation of voluntary compliance with the Austrian Code of Corporate Governance.

Finally, the activities of the Supervisory Board included taking decisions on a change in the rules of procedure of the Audit Committee, approving letters of comfort, and appointing persons authorised to represent and act on behalf of the bank.

The Supervisory Board was constantly provided with information, through written and oral presentations, on the main issues dealt with by the Supervisory Board Committees and on the result of their meetings.

## Committee activities

The **Credit/Risk Committee** held five meetings and passed fifty resolutions by written circular vote. All loans approved under the Management Board's approval authority were brought to the Credit/Risk Committee's notice and the Committee passed resolutions on loan applications requiring its approval.

In periodic discussions, close attention was paid to the risks that were discernible in Austria and Central and Eastern Europe in the context of the loan portfolio, market risk and liquidity risk, and in

# Report of the Supervisory Board for 2014 (CONTINUED)

particular to the ECB's Asset Quality Review and the risk situation in Russia and Ukraine. The presentations were supplemented by reports on operational risk, reputational risk, ICAAP and risk appetite, and by the resolutions passed in this context. The activities of the committee moreover included timely reports on specific risk exposures and current information on regulatory capital, funding and liquidity management. Finally, the committee also dealt with the 2014 risk strategy, the recovery and resolution plan, and large loans pursuant to Section 28b of the Austrian Banking Act.

The **Audit Committee** held four meetings, which were also regularly attended by representatives of the auditors. The committee closely discussed the separate financial statements and the consolidated financial statements as well as the audit reports, including the report on the effectiveness of risk management, and provided the Supervisory Board with information on these topics. The management letter of the auditors and the status report on measures taken in this connection were subject to detailed analysis. The Audit Committee also dealt with the proposal concerning the election of the auditors for the 2015 financial year, and with the engagement letter of the auditors. Internal Audit documented the effectiveness of the internal control and audit system in its report for 2013 and subsequent quarterly reports. Close attention was paid to evaluating the quality assurance review (QAR) of the audit activities performed by Internal Audit.

The Audit Committee also focused on the Corporate Governance Report for 2013, the external Corporate Governance Report on the evaluation of compliance with the provisions of the Austrian Code of Corporate Governance in the 2013 financial year, and on the Governance Rule Book reports. The Committee moreover gave close attention to the results of the Managerial ICS Assessment in 2014, the report of Complaint Management for 2013, hacker attacks on the bank's Internet services, and to the report on EuroSIG and the progress made in implementing the relevant measures recommended by Internal Audit. The Audit Committee is also responsible for monitoring the financial reporting process with due regard to the "262 Savings Law" together with the relevant considerations for quality assurance measures. Besides the 2013 annual report, compliance-related information focused on quarterly reports on the results of compliance assessment mapping, status information on anti-money laundering activities, compliance in securities business, FATCA, regulatory issues and OFAC sanctions, and on the 2014 Compliance Activities Plan.

The **Strategic and Nomination Committee** held one meeting and passed two resolutions by written circular vote, which in each case dealt with the extension of the terms of Management Board members and new appointments to the Management Board. The committee meeting focused on approving task descriptions and applicant

profiles for persons to be appointed to the Management Board or the Supervisory Board, an appraisal of aptitude and defining the target quota and strategy for the underrepresented sex, as well as on a review of the procedure for selecting senior management and for preparing a list of recommendations. In line with its authority to approve strategies, the committee discussed the Strategic Roadmap Private & Corporates.

The **Remuneration Committee** held one meeting and passed one resolution by written circular vote. Its discussions focused on general information regarding the implementation of the regulatory remuneration framework. Finally, the committee passed resolutions on incentive payments relating to previous annual plans, on the 2014 Group Remuneration Policy, and on a recommendation regarding the relationship between fixed and variable remuneration components of specific employees entitled to such remuneration components.

## Supervisory Board and Management Board changes

Wolfgang Heinzl and Emmerich Perl left the Supervisory Board and were replaced by Josef Reichl and Michaela Vrzal, in each case with effect from 27 June 2014, in accordance with the decision taken by the Employees' Council.

The Supervisory Board thanks the members who have left the Board for their constructive contributions to the bank over the past years.

The term of office of Willibald Cernko, in his capacity as member and chairman of the Management Board, was renewed until 30 September 2018 by resolution passed by the Supervisory Board.

Gianni Franco Papa, deputy chairman of the Management Board, resigned from the Management Board with effect from 15 February 2015. The Supervisory Board appointed Carlo Vivaldi to succeed him as member of the Management Board and deputy chairman with effect from 16 February 2015 until 15 February 2018.

In the reporting year the term of office of Dieter Hengl, member of the Management Board, was renewed until 31 July 2017, and the term of office of Robert Zadrazil, member of the Management Board, was renewed until 30 September 2017.

Details of the composition of the Supervisory Board and the Supervisory Board Committees and of the Management Board in the past financial year are given in the "Supervisory Board and Management Board of UniCredit Bank Austria AG" section of the annual report.

# Report of the Supervisory Board for 2014 (CONTINUED)

## Audit of the separate financial statements and consolidated financial statements

The accounting records, the 2014 separate financial statements and the management report were audited by the Auditing Board of the Austrian Savings Bank Auditing Association and by Deloitte Audit Wirtschaftsprüfungs GmbH. As the audit did not give rise to any objections and the legal requirements were fully complied with, the auditors' report was expressed without qualification. Without qualifying their audit opinion, the auditors included in their report specific references to the risks in connection with the special situation in Ukraine.

The Supervisory Board endorsed the findings of the audit, agreed with the separate financial statements and management report presented by the Management Board, and approved the 2014 separate financial statements, which were thereby adopted pursuant to Section 96 (4) of the Austrian Joint Stock Companies Act.

The 2014 consolidated financial statements were audited by the Auditing Board of the Austrian Savings Bank Auditing Association and by Deloitte Audit Wirtschaftsprüfungs GmbH for consistency with International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board as adopted by the European Union, and the management report of the Group was audited for consistency with the Austrian legal provisions. The audit did not give rise to any objections and the legal requirements were fully complied with. In the opinion of the auditors, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2014, and of the results of

the Group's operations and its cash flows for the financial year beginning on 1 January 2014 and ending on 31 December 2014, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The auditors certified that the management report of the Group was consistent with the consolidated financial statements, and that the legal requirements for exemption from the obligation to prepare also separate consolidated financial statements pursuant to Austrian law were met, and they expressed their unqualified opinion.

The Supervisory Board has endorsed the findings of the audit.

## A word of thanks

The Supervisory Board thanks the Management Board, the Employees' Council and all employees in Austria and all other countries for their performance and sustained commitment in the 2014 business year, in markets characterised by strong competition and regulatory and geopolitical challenges.

Vienna, 9 March 2015

The Supervisory Board

**Erich Hampel**  
Chairman of the Supervisory Board







# Statement by Management

We state to the best of our knowledge that the consolidated financial statements prepared in accordance with the applicable financial reporting standards provide a true and fair view of the financial position and performance of the Group, and that in the management report of the Group the business trends including business

results and the position of the Group have been presented in such a way as to provide a true and fair view of the financial position and performance of the Group, and that the management report of the Group describes the material risks and uncertainties to which the Group is exposed.

Vienna, 2 March 2015

The Management Board



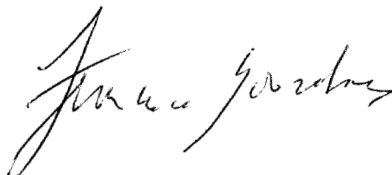
Willibald Cernko  
CEO Support Services  
(Chief Executive Officer)



Carlo Vivaldi  
CEE Banking Division  
(Deputy CEO)



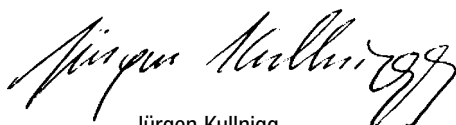
Helmut Bernkopf  
Commercial Banking Division  
(Retail & Corporates)



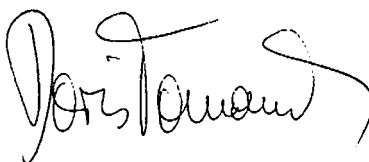
Francesco Giordano  
CFO Finance



Dieter Hengl  
Corporate & Investment  
Banking Division



Jürgen Kullnigg  
CRO Risk Management



Doris Tomanek  
Human Resources Austria & CEE



Robert Zadrazil  
Private Banking Division







## II. UniCredit Bank Austria AG

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# Preliminary remarks on the financial statements

## of UniCredit Bank Austria AG for 2014

UniCredit Bank Austria Aktiengesellschaft, the parent company of the Bank Austria Group, presents its balance sheet as at 31 December 2014 and its profit and loss account for the year ended 31 December 2014, as well as the management report and the notes pursuant to Austrian law.

The consolidated financial statements of the Bank Austria Group for the financial year beginning on 1 January 2014 and ending on 31 December 2014 were prepared in accordance with International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board as adopted by the European Union. The annual report of the UniCredit Bank Austria Group, which includes, inter alia, the consolidated financial statements, as well as the Group's management report and notes may be downloaded from the Investor Relations/Financial Reports site of Bank Austria's website (<http://ir-en.bankaustria.at> → Financial Reports).

The two reporting formats – under IFRSs and under the Austrian Business Code/Austrian Banking Act (UGB/BWG) – cannot be compared with one another because the operations covered by the financial statements differ (consolidated financial statements versus separate financial statements of the Group's parent company), and the valuation and accounting principles are also different.

The annual report of the Group gives readers information on the status of the group of companies controlled by UniCredit Bank Austria AG. The consolidated financial statements provide international comparability, a fair value-based presentation of the financial position and performance, and more detailed information, for example through segment reporting.

UniCredit Bank Austria AG's separate financial statements, prepared in accordance with Austrian rules, fulfil other important functions, especially under supervisory aspects. They are also the basis for determining the profit available for distribution under Austrian law and the dividend of UniCredit Bank Austria AG. In making an economic evaluation of the bank, users of the separate financial statements should take into account especially the extensive financial relations between the parent company and its banking subsidiaries. For this reason the financial statements of the Group provide more comprehensive information.

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# Management Report (CONTINUED)

## 1. Report on business developments and the economic situation

### 1.1. Business developments

#### Economic situation and banking environment in our core markets

● The moderate recovery seen in the euro area in the first few months came to a standstill in early summer 2014. Industrial output and real GDP hardly rose further from the levels reached by then. Uncertainty over the global economic outlook, which was also reflected in declining commodity prices, and the slowdown in emerging markets were important factors in this context. Geopolitical crises (in the Middle East and in the Black Sea region) were major factors influencing developments in 2014. Upheaval in Ukraine on 22 February 2014 was followed by the occupation of Crimea by separatists. Since the middle of March 2014, the so-called Republic of Crimea and Sevastopol have been regarded by Russia as a federal subject of Russia, but this is not recognised by the international community of states. In April 2014 separatists occupied the regions of Donetsk, Luhansk and Kharkiv, and the subsequent months saw an escalation of the conflict. When a Malaysian airliner was shot down in July 2014, the US and the EU imposed economic sanctions against Russian companies, individuals and institutions. The sanctions were tightened in September 2014.

→ The geopolitical factors – initially the Crimea crisis, followed by the escalating conflict in eastern Ukraine, and then mutually imposed sanctions – did not have any major direct impact via trade flows but indirectly acted as a brake on business climate and investment plans in the European business sector. In a comparison of year-end levels, oil prices were down by 48.3% to 57.3 US\$/bl, despite the crises in the Middle East, as demand was weak and the US became increasingly self-sufficient, but especially because Saudi Arabia expanded its oil production volume. Capital inflows to emerging markets declined in a volatile movement. Sharply lower export revenues and mutually imposed sanctions in the conflict of the West with Russia led to rouble depreciation of 37.3% against the euro (fourth quarter of 2014: – 31.2%).

The trend reinforced itself with the sharp fall in new orders and production in Germany, whose economy previously functioned as an engine of growth, in August/September 2014. This coincided with recessionary tendencies in France and Italy, where the reform process faltered and economic performance declined again. The strong recovery – based on determined adjustment measures – in Spain and also in other countries which had experienced problems during the sovereign debt crisis, was not sufficient to offset this unfavourable effect. Recovery came to a halt across Europe just

when domestic demand was gathering momentum. Therefore economic accelerators, investment in particular, failed to produce their expected effects.

In the course of 2014 inflation rates in many countries of the euro area dropped to levels close to or even below zero, fuelling fears of a general deflationary trend (HICP/euro area December 2014: –0.2%, annual average: +0.4%). This prompted the European Central Bank (ECB) to further reduce key interest rates in early June while also deciding to conduct additional targeted longer-term refinancing operations (TLTROs), subject to the proviso that these are used for banks' lending activities to improve the transmission of the ECB's expansionary monetary policy to the real economy (mainly in countries on the euro area periphery). In September the ECB lowered its key interest rates a second time, reducing them to 0.05% (repo) and minus 0.20% (deposit facility). Moreover, the ECB announced that it would purchase covered bonds and asset-backed securities to relieve banks' balance sheets, thereby moving to counteract initial signs of hardening expectations that inflation would stay below the 2% target threshold.

→ Some of the geopolitical and economic risks mentioned in our 2013 Annual Report thus materialised. Economic forecasts for 2014 which were published at that time had to be revised downward during the year. Estimated GDP growth rates for 2014 are +0.8% for the euro area (compared with +1.5% forecast a year ago), +0.9% for CEE (Bank Austria perimeter without Ukraine; +1.1% forecast a year ago), and on this basis +0.6% for Austria (forecast: +2.0%). Within the heterogeneous group of CEE countries, on the other hand, the growth forecasts for Central Europe (+2.6% vs. 2.4%) and for Turkey (+2.9% vs. +0.0%) were significantly exceeded.

● Unlike the real economy, financial markets were surprisingly unimpressed by the numerous crises for a long time in 2014. Supported by central banks' guarantee of low interest rates and high liquidity, share prices continued to rise although valuation levels were high already. Stock markets soon made up for ground lost during periods of correction at the beginning of October and in the middle of December. At the end of 2014, the MSCI world index showed a year-on-year rise of 7.4% (in local currency), the S&P500 was up by 11.4% and the EuroStoxx had gained a meagre 1.7% (see table below). The bull market in bonds continued across all risk classes. The 10-year euro benchmark yield fell to a level well below the 1% mark in August and ended 2014 at a very low 0.54%. All benchmark yields for maturities up to 5 years were negative at the end of 2014. As a result of the search for pick-ups, yields on corporate bonds and government bonds of euro periphery countries decreased further. As the European sovereign debt crisis was overcome, CDS spreads for the former problem countries had fallen to a low of 60bp by the end of 2014 (compared with 146bp at year-end 2013).



# Management Report (CONTINUED)

The yield differential between US dollar and euro started to widen in spring 2014 due to **asymmetrical monetary policies**. However, it was not until September that the **US dollar** exchange rate began to rise strongly against the euro. A comparison of year-end levels shows US dollar appreciation of 13.6% to 1.2147 USD/ EUR.

## Financial markets – key figures

		END OF 2014	END OF 2013	CHANGE
<b>Currencies</b>	(appreciation/depreciation in %) US dollar per euro	1.2147	1.3791	+13.6%
	Swiss franc per euro	1.2024	1.2276	+2.1%
	Czech crown per euro	27.735	27.427	-1.1%
	Hungarian forint per euro	315.54	296.87	-5.9%
	Turkish lira per euro	2.8320	2.9605	+4.5%
	Russian rouble per euro	72.337	45.325	-37.3%
	Ukrainian hryvnia per euro	19.206	11.3292	-41.0%
<b>Interest rates, yields</b>	Euro three-month money (Euribor)	0.07%	0.29%	-22bp
	10-year euro benchmark bond	0.54%	1.94%	-140bp
	10-year US Treasury benchmark	2.17%	3.01%	-83bp
<b>Risk premiums</b>	Austria (CDS, five-year)	13bp	28bp	-15bp
	Italy (CDS, five-year)	107bp	143bp	-36bp
	Spain (CDS, five-year)	74bp	124bp	-50bp
	CESEE+ (Central/South East Europe + Turkey)	140bp	196bp	-56bp
	Russia	442bp	143bp	+299bp
	Ukraine	2,357bp	760bp	+1,597bp
<b>Stock indices</b>	MSCI World	471.9	439.2	+7.4%
	MSCI BRIC	525.0	512.7	+2.4%
	MSCI Emerging Europe	4,433	4,849	-8.6%
	USA (S&P500)	2,059	1,848	+11.4%
	EuroStoxx	319.7	314.3	+1.7%
	ATX	2,160	2,547	-15.2%
<b>Crude oil price</b>	(US\$/bl, Brent)	57.3	110.8	-48.3%
	Industrial commodities (S&P GS, spot)	329.2	349.8	-5.9%
<b>Gold</b>	(US\$/oz)	1,184	1,205	-1.8%

Increased foreign exchange inflows to **Switzerland** were taken out of the market at the intervention threshold in 2014, which led to an increase in currency reserves to almost CHF 500 billion in the fourth quarter (CHF/EUR at year-end 2014: 1.2024, +2.1%). On 15 January 2015, the Swiss National Bank surprisingly ended its policy of containing appreciation of the Swiss franc. After brief

overshooting, the Swiss franc's exchange rate against the euro has since then settled down at 1.05 CHF/EUR. The price of gold remained more or less unchanged in US dollar terms, at 1,184 US\$/oz as at year-end 2014 (-1.8% in US dollar terms compared with year-end 2013; in euro terms +11.6%).

● In **Austria** the moderate growth trend seen in the second half of 2013 continued in the early part of 2014. Supported by the economic recovery in the euro area and favoured by a mild winter, real GDP rose once more in the first quarter of 2014, exceeding the figure for the same period of the previous year by 0.9%. However, recovery started to falter at the beginning of spring 2014. As the year progressed, economic performance stagnated at the level reached before and annual average growth in 2014 matched the low +0.2% recorded in the preceding year.

Leading indicators such as the Bank Austria Business Indicator and the Bank Austria Purchasing Managers' Index showed significant declines from the spring onwards. The expected stronger growth, driven by stronger foreign demand, failed to materialise. The escalating Ukraine crisis was a new source of uncertainty. Sentiment in Austria's export-oriented industrial sector deteriorated sharply, and to an even greater extent in autumn 2014, when the US and the EU imposed sanctions on Russia. Contrary to original expectations, exports declined in the latter part of the year as they became less competitive on price. Real exports fell in 2014 while imports rose, so that the external contribution curbed Austria's economic performance. Although financing terms were favourable and Austrian companies enjoyed a strong internal funding position, low export demand and the economic risks associated with the geopolitical situation did not provide the necessary incentives for the originally expected strong rise in investment activity (2014: a low +1.0%). Investment in equipment grew moderately, and investment in construction also lost momentum after a strong start to the year. Private consumption was the only component which grew slightly throughout 2014, by +0.3%, after a slight decline in the preceding year.

Employment continued to grow in 2014 (+0.9%) as in previous years, but the volume of work did not match this growth. The unemployment rate (Eurostat) deteriorated from an average 4.9% to 5.1%. Private consumption in 2014 was supported by the downward trend in inflation, which fell from 2.1% to 1.5% on an annual average, reflecting falling crude oil prices. Nevertheless, Austria recorded the highest inflation rate in the euro area in

# Management Report (CONTINUED)

2014, for the first time since the harmonised price index was introduced in the middle of the 1990s. The higher inflation rate in Austria was mainly driven by increases in taxes and fees and also by rising labour costs. The savings ratio of private households rose to 7.7% (+0.4 percentage points compared with 2013).

Credit demand remained moderate in the second half of 2014 as economic trends were weak. As a result, lending volume hardly rose during the reporting year (December 2014: +0.3% on the previous year). Loans to non-financial companies increased only slightly (November: +1.7%). Within loans to private households (+1.5%), housing loans showed the strongest growth (+3.6%) while short-term consumer loans continued to decline (-4.4%). Low growth was also recorded in total deposits held by private customers at banks (+1.5%), with liquidity maintained in the form of sight and savings deposits. Investments in bank bonds continued to decrease in 2014 whereas mutual funds recorded net inflows. Overall, monetary wealth formation was again disproportionately low in 2014, a development which may be explained with the weak trend in incomes and with investment in real assets (including real estate).

● In **Central and Eastern Europe** (with the exception of the conflict parties Russia and Ukraine) the export-oriented industrial sector performed well in the early part of 2014 and thus gave impetus to domestic demand. Growth was thereby put on a broader basis, strengthening the economy's resilience to external uncertainty. The CESEE countries (Bank Austria perimeter without Russia and Ukraine) achieved combined economic growth of 2.5%, more than twice the rate seen in Western Europe. Export performance and sound growth rates of the industrial sector were often driven by additional capacity which came on stream in the international production context. Besides foreign direct investment, investment in several countries was also supported by more intensive use of EU financial assistance schemes. CEE countries were affected by special factors (e.g. floods in the Western Balkan countries), by the temporary economic lull in Western Europe and by mutual sanctions imposed by the West and by Russia. At the same time monetary conditions improved and this was mainly reflected in interest rate reductions. Private consumption rose substantially in most economies, supported by increases in real incomes as inflation rates fell significantly.

The reduction of (foreign) debt is still an important factor also in CEE. In 2014, combined **lending volume** in Central Europe (CE) and South-East Europe (SEE) expanded by a low 2.6% (= CESEE) while **deposits** grew at double that rate (+5.3%). In Turkey, Russia and Ukraine, lending volume continued to rise strongly in 2014 (by between 15% and 22%), with deposits increasing somewhat more slowly (+9.6%); inflation rates remained high. After a period of

weakness resulting from currency depreciation in the fourth quarter of 2013 and the first quarter of 2014, **capital inflows** to CEE countries resumed, relieving pressure on countries with external financing deficits. It was only towards the end of 2014 that international investors became more risk-averse again.

A comparison of **country groups** and **countries** shows that the four **Central European countries** (CE = Czech Republic, Slovakia, Hungary and Slovenia) performed better than expected. All CE countries achieved significant real economic growth (rising from a combined +0.3% in 2013 to an estimated +2.6% in 2014); the turnaround in the Czech Republic from -0.7% to +2.3%, driven by strong domestic demand, was the major factor in this context. Hungary with its unorthodox policy mix recorded the strongest growth in CEE (+3.3%, matching the figure for Poland). Interest rates in this country group continued to decline (or were already at the level of euro interest rates, e.g. in the Czech crown). However, overall credit expansion in this country group remained moderate, due to high liquidity (Czech Republic), progressing restructuring of the banking sector (Slovenia) or on account of the reduction of foreign currency loans (Hungary).

The **South-East European countries (SEE)** presented a mixed economic picture. In Romania and Bulgaria, GDP and domestic demand increased significantly, mainly supported by public spending, though with a focus on consumption (real GDP +2.7% and +1.5%, respectively). Inflation rates and interest rates continued to decline. Lending business in Romania was weighed down by the foreign currency problem, and lending activities in Bulgaria also showed a weak trend – the country is close to experiencing deflation. Bank deposits grew strongly in both countries. In Bulgaria, where two local banks became distressed, the increase in deposits mainly benefited banks with an international background. The Western Balkan countries saw recessionary trends, aggravated by floods in the middle of the year (impacting large areas in Croatia, Bosnia and Herzegovina, and also Serbia); as a result, GDP shrank in 2014. The impaired loans ratio continued to rise. Conditionality of agreements with the IMF and with European institutions and development banks aims to put pressure on countries to reduce governance deficits.

After a difficult start to the year, with capital outflows and strong currency depreciation, **Turkey** managed to reduce the large current account deficit, its main problem, as the year progressed. Contributions to this reduction came from the dampening of the import pull through a more restrictive monetary policy (increase of key interest rate, higher minimum reserve requirement) and various measures to directly curb credit expansion (credit card boom). Finally, the sharp fall in oil prices eased pressure on the current account. Higher exports and especially public consumption contributed to GDP growth

# Management Report (CONTINUED)

of 2.3%. Credit expansion weakened in the first half of 2014, reflecting measures to curb growth; but subsequently, credit expansion accelerated again (2014: +16% after +32% in the preceding year). Deposits showed a similar trend (+9% after +23%). The Turkish lira appreciated by 4.5% against the euro in 2014, but in average annual terms it depreciated by 12.9%.

In **Russia**, structural problems impacted the economy even before it was hard hit by the sharp fall in oil prices in the second half of 2014 (–51.2% for Ural crude oil in US dollar terms, –16.0% in Russian rouble terms), by trade and financial market sanctions in response to the Ukraine conflict and by the falling rouble (exchange rate basket: –35.5%). Our economists believe that the Russian economy grew slightly, by 0.4%, in 2014, due to developments in the first six months; but for 2015 they expect real GDP to shrink by 3.4%. Losses on assets following currency depreciation, indebted companies faced with heavier repayment burdens, foreign exchange bottlenecks due to financial sanctions and interest rate increases (3-month money at the end of December: 21%, 10-year benchmark bond: 14.0%) were recently weighing on the financial sector. Lending volume in 2014 still increased by 22%, with disproportionately strong growth of corporate loans (+26%). Deposits at banks also rose significantly (+14%, compared with an annual average inflation rate of 7.7%). The proportion of impaired loans started to rise (from 13% to 18% of gross lending volume in 2014).

The **conflict in eastern Ukraine**, the mutual trade embargo with Russia, uncertainty about gas deliveries and the sharp fall in energy prices have plunged **Ukraine** into deep recession, a development which was foreseeable even before the conflict escalated. The hotly contested regions of Donetsk and Luhansk account for 15% of nominal GDP and 28% of industrial output. In 2014, GDP probably contracted by 6.7%, with all demand aggregates declining. Currency reserves have fallen sharply. Repayments, trade accounts payable and the unfavourable redemption profile of outstanding foreign currency bonds are not manageable without further IMF and EU support. The proportion of impaired loans has risen to over 30%. The Ukrainian hryvnia (UAH) depreciated by 40.7% against the euro and could not be kept at that level in 2015. Ukraine's ratings are CCC/Caa3-/CCC-.

● The **European banking union** continued to take shape in 2014. A major milestone was the implementation of the Basel 3 framework through the Capital Requirements Directive (**CRD IV/CRR**), introducing new and stricter requirements with regard to banks' capital and liquidity step by step until 2019; this had an effect on capital management and issuing activity already in 2014. Moreover, despite the multi-year transitional arrangements, the rules for liquidity management – including those concerning the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) – and the leverage ratio initiated adjustments to the structure of assets and liabilities. The European **Bank Recovery and Resolution Directive (BRRD)** was also issued in 2014; under the BRRD, regulatory authorities are authorised, in the case of resolution of a bank, to apply a bail-in tool in respect of the bank's shareholders and specific creditors. 2014 also saw preparations for **direct supervision of systemically important banks by the European Central Bank System** as of November 2014. A Comprehensive Assessment carried out in the first few months of 2014 to examine banks' balance sheets was followed by a **stress test** conducted by the European Banking Authority (EBA).

2014 was another year of **adjustment** for the European banking sector. Demand did not provide any significant impetus to banking business. Although commercial transactions and securities turnover increased slightly, weak volume trends and low interest rates **did not allow any significant recovery of income**. As external factors failed to stimulate business activity, banks increasingly implemented internal adjustments and structural changes to maintain their profitability in the medium term while meeting tighter regulatory requirements, especially with regard to **funding and capital resources**. With banks **focusing on core business**, their aggregate total assets did not show any significant growth. Faced with a number of detailed rules in the area of banking regulation, and also in response to accelerating **changes in customer behaviour**, banks are **reviewing their business models**.

# Management Report (CONTINUED)

## Development of total assets in 2014

In the environment described above, the development of total assets reflected the following factors: **credit demand was weak** as the business sector enjoyed ample liquidity, and companies and private individuals made significant efforts to reduce debt and adjust their balance sheets. As a consequence, the total volume of loans and advances to customers declined. This compared with an **increase in direct funding** (i.e. the sum total of amounts owed to customers and debts evidenced by certificates), due to the bank's efforts to attract new deposits and launch new bond issues. **Liquidity management** of UniCredit Bank Austria AG (for its own business and the business of its banking subsidiaries) had a significant influence on balance sheet developments: the relevant balance sheet items – i.e. cash in hand and balances with central banks and postal giro offices, loans and advances to credit institutions, and holdings of government bonds – rose strongly; this was the main factor explaining the increase in total assets. The escalation of the crisis surrounding Russia and Ukraine, and the related currency depreciation, required **adjustments to the carrying amounts** of equity interests in subsidiaries. On the liabilities side, a significantly lower discount rate required a higher allocation to **pension provisions**.

## Structure and changes – 2014 balance sheet

(overview of combined balance sheet items)

	END OF 2014 € BILLION	PRO- PORTION %	CHANGE	
			+/- € BILLION	+/- %
<b>Assets</b>				
Cash in hand, balances with central banks and postal giro offices; Treasury bills and other bills eligible for refinancing at central banks; loans and advances to credit institutions (items 1+2+3) <sup>*)</sup>	34.8	27.8%	+6.7	+23.8%
Loans and advances to customers <sup>*)</sup>	64.1	51.3%	-1.7	-2.5%
Bonds and other fixed-income securities; shares and other variable-yield securities (items 5+6)	9.7	7.8%	-0.0	-0.2%
Equity interests; shares in group companies (items 7+8)	12.9	10.3%	-1.5	-10.7%
Other assets items	3.4	2.7%	+1.4	+68.1%
<b>Total assets</b>	<b>125.0</b>	<b>100.0%</b>	<b>+4.8</b>	<b>+4.0%</b>
<b>Liabilities and shareholders' equity</b>				
Amounts owed to credit institutions (item 1) <sup>*)</sup>	25.1	20.1%	-1.7	-6.3%
Direct funding (amounts owed to customers and debts evidenced by certificates, items 2+3) <sup>*)</sup>	76.5	61.2%	+4.2	+5.8%
Provisions (item 6)	6.5	5.1%	+1.5	+29.7%
Other liabilities items	2.7	2.1%	+1.2	+76.2%
Tier 2 capital (item 7)	4.1	3.3%	+1.6	+63.9%
Capital and reserves (items 9 to 13)	10.2	8.2%	-1.9	-15.8%
<b>Total liabilities and shareholders' equity</b>	<b>125.0</b>	<b>100.0%</b>	<b>+4.8</b>	<b>+4.0%</b>

<sup>\*)</sup> Due to a change related to the sector to which a counterparty belongs, the previous year's figures for loans and debt towards credit institutions and loans and debt towards customers have been restated to allow a meaningful comparison between periods

## Major balance sheet items – comparison of year-end 2014/2013 levels

As at 31 December 2014, **total assets** were €125.0 billion, up by €4.8 billion or 4.0% on the previous year.

● On the **assets side**, **cash in hand and balances with central banks and postal giro offices** increased by €662.6 million or 44.4% to a total of about €2.1 billion. All of the increase was due to balances held with Oesterreichische Nationalbank, which account for 93% of the total amount. **Treasury bills and other bills eligible for refinancing at central banks** rose by €2.8 billion or 41.7% to €9.6 billion; almost all of the increase was due to the purchase and increases in value of Republic of Austria bonds (which account for 85% of total holdings).

**Loans and advances to credit institutions** were €23.0 billion, up by €3.2 billion or 16.2%. Interbank business largely reflects funding of foreign subsidiaries and strongly depends on reporting dates. More than one-half (€13.8 billion or 57%) of loans and advances to credit institutions are loans to foreign banks, which also grew at a disproportionately high rate of 34.1%. In addition, this item reflects a structural factor: the involvement of central clearing houses in trading activities, e.g. in hedging products used for interest rate management, has recently become mandatory.

**Loans and advances to customers** declined by €1.7 billion or 2.5% to €64.1 billion as at the end of 2014, accounting for 51.3% of total assets (on a net basis, i.e. after deduction of loan loss provisions, which were slightly lower than at the end of 2013). Within the total figure, retail loans in Austria (private individuals and business customers) were more or less maintained, based on lively new business; short-term loans including consumer loans were reduced while medium-term and long-term loans such as housing loans rose slightly, based on double-digit growth rates of new business. A slight decline in export finance reflects the lower volume of foreign trade transactions in line with general economic trends. The decline in loans to large customers was more significant; this group of customers was characterised by ample liquidity, a defensive balance sheet policy and use of capital market products.

**Bonds and other fixed-income securities** (year-end 2014: €9.6 billion) were more or less unchanged compared with 2013 (+0.5%). Securities held as financial fixed assets accounted for two-thirds (67%) of the total amount and rose slightly, by €0.6 billion to €6.3 billion; this increase was offset by a €0.5 billion decline to €2.9 billion in securities held as current assets. The trading portfolio is a low €0.1 billion.

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**Equity interests** amounted to €3.0 billion at the end of 2014, down by €0.2 billion or 7.4% on year-end 2013. The decline is due to the sale and derecognition of shares in CA Immobilien Anlagen Aktiengesellschaft (–€255 million). Holdings and carrying amounts of other equity interests hardly changed; the largest item, €2.9 billion, is our Turkish joint venture Koç Finansal Hizmetler AS. **Shares in group companies** are shown at €9.9 billion in the balance sheet as at 31 December 2014, after €11.2 billion in the previous year. Most of the €1.3 billion decrease (–11.6%) is largely explained by the carrying amounts of shareholdings in our banking subsidiaries in Russia and Ukraine, which had to be reduced in view of the sustained change in economic conditions and exchange rate movements (AO UniCredit Bank in Russia down by €371 million, Ukrspotsbank including Privat JSC "Ferrotrade International", Ukraine, down by €333 million. Write-downs on shareholdings in other banking subsidiaries in Central and Eastern Europe (Croatia, Bulgaria; restructuring in the Baltic countries) were lower, at a combined –€287 million. Of the total amount of the decrease in this item, €0.2 billion related to non-financial group companies, with disposals (including Bank Austria's head office in 6-8 Schottengasse, Vienna, and the equity interest in UniCredit Leasing S.p.A.) being partly offset by additions (primarily the purchase of UniCredit Leasing (Austria) GmbH).

The increase of €1.1 billion to a total of €2.7 billion (+67.9%) in **other assets** resulted mainly from gains in market value due to interest-rate and exchange-rate movements observed until recently.

● On the **liabilities side**, amounts owed to credit institutions were €25.1 billion, down by €1.7 billion or 6.3%, mainly because inter-bank business (with foreign banks) decreased; the overhang on the liabilities side thus continued to decline.

The largest movement on the liabilities side was seen in **amounts owed to customers**, which rose by €3.2 billion or 6.5% to €51.9 billion. This development is mainly the result of efforts to attract deposits. The relevant products aim at extending maturities and are important for liquidity management under Basel 3, namely meeting the liquidity coverage ratio (LCR), which relates to short-term liquidity with a 30-day time horizon. The "Dispo+" account product with a longer minimum maturity, introduced by the bank in corporate banking at the beginning of 2014, met with a favourable response from customers on account of its attractive terms and conditions. The bank also attracted **time deposits** from public sector entities, institutional customers active in money markets, and large customers, although this was partly at the expense of sight deposits. Time deposits (shown in the sub-item "other liabilities with agreed maturity dates or periods of notice") increased by €5.2 billion or 60.1% to €14.0 billion; overall, other liabilities within amounts owed to customers rose by €3.3 billion or 10.2% to €35.6 billion. Savings deposits were more or less constant, at €16.3 billion (–0.8%),

compared with the previous year. This reflects a significant turnover, i.e. a substantial amount of new business, because "Kapitalsparbuch" savings accounts totalling several billion euros had to be replaced at maturity.

**Debts evidenced by certificates** increased by €1.0 billion (+4.5%) to €24.6 billion. In the reporting year we launched four benchmark issues in Austria (on favourable terms and conditions) totalling €2.0 billion and placed them very successfully: three mortgage bond issues and one public-sector covered bond issue. The total amount of mortgage bonds rose by only €0.9 billion or 23.0% to €4.8 billion because of large redemptions. The total amount of other bonds increased by €0.9 billion or 6.4%, and the total volume of local-authority bonds declined by €0.7 billion or 14.5%. Money market paper (CP and CD) is no longer a significant factor.

**Other liabilities** include a number of settlement accounts relating to banking operations and the derivatives position; the latter rose significantly, in line with other assets, as a result of general changes in market values. Overall, other liabilities increased from €1.4 billion at the end of 2013 to €2.6 billion at the end of 2014.

In the reporting year, net additions to **provisions** amounted to €1.5 billion; the total amount of provisions thus increased by 29.7% to €6.5 billion. The major part (73.0%) of the total figure and almost the entire increase (87%) related to provisions for severance payments and pensions. The additions were necessary because the underlying discount rate had to be adjusted to the significantly lower market interest rates, in order to make adequate provision for defined benefit plans. Other provisions rose €0.2 billion to €1.7 billion, including provisions for taxes, for pending losses on lending and securities business, for risks associated with equity interests, for litigation risks and guarantee obligations, and restructuring provisions in connection with the "SmartBanking" project.

**Subordinated liabilities** increased by €1.6 billion or 63.9% to €4.1 billion, reflecting three new issues of Tier 2 capital totalling €1.5 billion, which were launched to strengthen the capital base.

As a result of the release of capital reserves and untaxed reserves, the sum total of **capital and reserves** – subscribed capital, capital reserves, revenue reserves and the reserve pursuant to Section 57 (5) of the Austrian Banking Act – declined by €1.9 billion to €10.2 billion (representing 8.2% of the balance sheet total); the comparative figure for 2013 was €12.1 billion (10.1% of the balance sheet total).

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## Profit and loss account for 2014

As in 2013, UniCredit Bank Austria AG's profit and loss account for 2014 reflects a stable trend in core commercial banking business: operating income held up well (+1.9%) despite weak demand and the low level of interest rates; current expenses – without the allocation to provisions, which is included in general administrative expenses – were significantly reduced, even in absolute terms. On this sound basis we made adjustments to the valuation of shareholdings in group companies, in view of crises in the economic and political environment of specific countries. Moreover, the continued and unexpectedly strong decline in market interest rates required an adjustment of the discount rate and, consequently, a substantial addition to pension provisions to be able to meet defined benefit obligations under past commitments. Given the large amounts involved in these two “non-operating” adjustment measures, the profit and loss account for 2014 shows a deficit of €1.9 billion.

### Profit and loss account for 2014 – overview

	2014 € MILLION	2013 € MILLION	CHANGE	
			+/- € MILLION	+/- %
Operating income	2,459	2,413	+46	+1.9%
Operating expenses	2,955	2,178	+778	+35.7%
... of which: allocation to pension provision	1,228	278	+950	>100%
Operating results	-496	236	-732	n. m.
... without allocation to pension provision	732	514	+218	+42.4%
Net income/expenses from the disposal and valuation of loans and advances and securities (mainly charge for loan loss provisions)	-48	-321	-274	-85.1%
Net income/expenses from the disposal and valuation of securities valued as financial fixed assets, and of shares in group companies and equity interests	-1,305	-1,455	-150	-10.3%
Results from ordinary business activities	-1,849	-1,541	-308	-20.0%
Annual surplus / annual deficit	-1,964	-1,633	-331	-20.3%

n. m. = not meaningful, swing from positive to negative figure

### Major items of the profit and loss account for 2014 compared with 2013

● **Operating income** for 2014 amounted to €2,459 million, up by €45.8 million or 1.9%. Within the total figure, **net interest income** was €1,152 million, the largest income component (46.9%). The decline of €96.7 million or 7.7% in net interest income compared with 2013 resulted mainly from interbank business and higher funding costs arising from the larger amount of the bank's own issues (debts evidenced by certificates).

The balance of interest income/expenses from loans and advances / amounts owed to **credit institutions** decreased by €67.4 million (-23.9%), mainly as a result of lower interest income. In view of growing volume on the assets side, this development reflects the continued decline in interest rates in 2014; this is a very significant factor, given the large proportion of balances with central banks and money market lendings, on which interest rates are particularly low. Loans and advances to credit institutions also include collateral provided to clearing houses, which rose strongly in 2014. The structurally low interest margin (net interest income measured against the mean value of interest-bearing volume on the assets side and on the liabilities side (annual averages) continued to decline in interbank business (from 1.18% to 0.92%).

**Net interest income from customer business** in 2014 amounted to €1,218 million, almost matching the previous year's figure (-€14.5 million / -1.2%). Interest income from **lending business** (€1,505 million) in 2014 was down by €77.6 million or 4.9% on the previous year; the decrease was not fully offset by the decline of €68.5 million (-5.0%) in interest expenses (€1,300 million). The situation improved during 2014 as large amounts of maturing loans and deposits were renewed or replaced at lower interest rates / terms and conditions. In retail banking, new business rose significantly in the area of consumer finance, and very significantly in housing loans, but total volume was lower than in the previous year, and margins continued to narrow. The same applies to the corporate banking sector: as companies enjoyed ample liquidity and their propensity to invest declined further, no significant loan growth was achieved in the entire banking industry, including UniCredit Bank Austria AG, although financing terms and conditions were very favourable. We maintained our initiative for medium-sized companies and again financed a number of projects under the Risk Sharing Instrument (RSI), a joint initiative of the European Investment Bank and the European Commission. Persistently weak demand from large customers led to a significant decline in business volume; spreads narrowed on the assets side, also because financing arrangements at higher interest rates matured and intense competition put pressure on margins in the case of renewals.

**Deposits** business was also characterised by significant movements: interest expenses for sight deposits and savings deposits declined by a combined €75.0 million (-30%), and interest expenses for time deposits rose by €12.0 million or 11.6%. This trend reflects the fact that in retail banking a large volume of “Kapitalsparbuch” savings accounts which carried comparatively high interest rates reached

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maturity; this was offset by new business (including the “Regionalsparbuch” lead product with an interest rate of 1.25% and a deposit period of 24 months) at lower interest rates reflecting the market environment. The increase in time deposits is explained by our “Basel 3 products” campaign conducted to achieve our balance sheet policy objectives ahead of regulatory changes. In the corporate banking sector we developed the “Dispo+” account, a “Basel 3 product” with a term of 31 days which we introduced at the beginning of 2014 and which has met with a favourable response from customers on account of its attractive terms and conditions. Public sector entities and large customers also showed interest in the products presented as part of our campaign. Interest expenses for debts evidenced by certificates rose by €30.3 million (+5.8%) due to higher volume as the funding base was strengthened. This compared with an increase of €14.6 million (+4.6%) in interest income from fixed-income securities.

**Income from securities and equity interests rose** by €276.2 million or 74.8% to €645.7 million in 2014. The increase resulted from higher **dividend income from shares in group companies** (up by €281.8 million to €573.3 million). Within this item, dividend income from our banking subsidiaries in Central and Eastern Europe (including income from the winding up of the CAIB brokerage firms in Poland and Romania) was €262.3 million (2013: €220.3 million), with significant contributions coming from our particularly successful subsidiary in the Czech Republic/Slovakia and from our banks in Croatia, Bulgaria and Hungary. Income from shares in group companies also includes contributions totalling €354.2 million (2013: €51.1 million) from other companies, partly as a result of special effects at the companies AS UniCredit Finance (on account of a capital repayment), MC Marketing GmbH and MY Drei Handels GmbH (on account of the release of a capital reserve), the real estate companies ZETA Fünf Handels GmbH and the sale of Nordbahnhof Projekte Holding GmbH. The latter is part of the financing structure for the establishment of our new Campus headquarters.

**Net fee and commission income** was €449.0 million, down by €48.1 million or 9.7%. While fee and commission income hardly changed compared with 2013, fee and commission expenses rose by 26.3% to €206.7 million. All of the decline in net fee and commission income was due to a commission expense for a guarantee outside commercial banking business. Apart from this factor, net fee and commission income developed favourably, mainly reflecting an increase in **securities business with customers**; in this area, net fee and commission income rose by €11.5 million (+7.7%) to €161.3 million. This was due to satisfactory levels of mutual fund business with private individuals and business customers, a focus of investment advisory services in our retail banking operations, while classic safe-custody business and the related trading activities stagnated. Commission income from **asset management** also rose

strongly; the increase was mainly achieved by Bank Austria Private Banking, where asset management products have been promoted for quite a long time. Assets under management in Austrian customer business increased by 6.0% to €16.4 billion in 2014, with Private Banking recording growth of 16.4% in this area. Net fee and commission income from account-related services and payment transactions was slightly higher than in the previous year (€194.6 million / +0.8%), driven by card business. Foreign exchange trading and other services including sales-related agency fees weighed on net fee and commission income.

**Net profit/loss on trading activities** was €133.2 million, slightly down by €2.7 million (–2.0%). Trading performance in all product segments was a double-digit net profit (except a low net loss on commodity trading activities). A comparison with the previous year shows that an increase in bond trading more or less offset a decrease in equity trading, matching the performance profile of 2014. The participation in profits of UniCredit’s Markets product line, to which Bank Austria was entitled (under the terms and conditions of the sale of UniCredit CAIB) for the last time in 2014, was lower than in the previous year.

● **Operating expenses** in 2014 totalled €2,955.2 million, an increase of €777.6 million or 35.7% over the previous year.

The item “General administrative expenses” rose by €946.3 million or 49.4% to €2,860.9 million in 2014; the increase is mainly explained by the allocation of €1,228.2 million to pension provisions, up by €949.9 million. The present value of pension and severance payment obligations and of anniversary payments was determined using actuarial methods in accordance with internal service agreements and adjusted to recent interest rate trends; the discount rate, which is the main factor of change, was reduced from 3.75% in the previous year to 2.1% in 2014. Without the allocation to pension provisions, general administrative expenses declined slightly, by €3.6 million or 0.2%. Within the total figure, wages and salaries decreased by €92.6 million to €499.2 million. This movement is to be seen mainly in the context of our Initiative 2020, by which we are reducing staffing levels in a socially compatible manner, primarily via the introduction of various part-time working arrangements (for more detailed information, see the Human Resources section in this report). In terms of full-time equivalents (FTEs), average staff numbers were 5,958 FTEs in 2014, down by 320 FTEs on the previous year. (A comparison of year-end levels 2014/2013 shows a decline of 438 FTEs). Non-staff costs, i. e. other administrative expenses including those for services provided by Group-internal service companies, rose by €61.7 million or 9.3% to €724.4 million, mainly as a result of increases in the area of ICT (Information and Communications Technology) and higher expenses for consultancy services. **Depreciation**

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and amortisation as well as other operating expenses were down by a combined €168.7 million. The cost/income ratio (121.5% after 87.5% in the previous year) is not meaningful in view of the exceptionally large allocation to pension provisions; if that is deducted from operating expenses, the cost/income ratio improved by 4.2 percentage points (69.9% compared with 74.0%).

The balance of operating income and operating expenses shows that **operating results** for 2014 were negative, at –€495.9 million (2013: a positive figure of €235.8 million). Without the allocation to pension provisions, operating results would have been a positive figure of €732.2 million, a strong increase of €218.1 million or 42.4% over the previous year.

● Among the items to be taken into account to calculate results from ordinary business activities, net income/expenses from the **disposal and valuation of loans and advances and securities** developed favourably, improving from –€321.4 million to –€47.9 million, with a positive change of +€273.6 million reflected in the profit and loss account. The main factor in this context was the reduction of the charge for loan loss provisions from €420.3 million in 2013 to €88.1 million in the reporting year (charge for loan loss provisions = sum total of direct write-offs/write-backs and net additions to loan loss provisions for loans and advances to credit institutions and customers including contingent liabilities). In the retail banking sector, lower additions to problem loans and large recoveries on loans for which provisions had previously been made resulted in a net release of loan loss provisions. In corporate banking, the charge for loan loss provisions was significantly lower than in the previous year; business with large customers also benefited from the release of a provision

for a legacy burden. The cost of risk based on the average volume of customer loans was a low 13 basis points (2013: 63 basis points).

The escalating crisis in the conflict regions within the perimeter of our CEE network was one of the reasons why the valuation result from financial fixed assets was again the largest factor burdening the profit and loss account in 2014. The net expense from the **disposal and valuation of securities valued as financial fixed assets, and of shares in group companies and equity interests** was –€1,305.0 million, reflecting a change of –€150.2 million on the previous year. This is mainly due to **valuation adjustments** while gains/losses on sales of securities investments and equity interests more or less offset each other. The carrying amounts of the shareholdings in our subsidiaries in Russia and Ukraine in particular had to be reduced (by €370.7 million and €333.8 million, respectively). Valuation losses had to be absorbed also in Austria (–€200 million), in connection with various companies including special purpose entities in the real estate sector.

● While operating income and current expenses remained stable, a large allocation had to be made to pension provisions and results from the valuation of group companies were negative. For these reasons **results from ordinary business activities** were again **negative** in 2014, amounting to –€1,848.8 million after –€1,540.8 million in 2013.

After deduction of taxes other than those on income (€119.8 million) and after the release of reserves, the profit/loss for the year was zero (2013: –€2.5 million). Without any profit brought forward from the previous year, the **accumulated profit/loss** shown in UniCredit Bank Austria AG's profit and loss account was **zero** (2013: zero).



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## 1.2. Structural changes at Bank Austria

### Consolidated companies and changes in consolidated companies of the Bank Austria Group in 2014

	CONSOLIDATED COMPANIES	COMPANIES ACCOUNTED FOR UNDER THE PROPORTIONATE CONSOLIDATION METHOD	COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD	TOTAL
<b>Opening balance</b>	<b>149</b>	<b>15</b>	<b>27</b>	<b>191</b>
<b>Additions</b>	<b>278</b>	<b>0</b>	<b>16</b>	<b>294</b>
Newly established companies	1	0	0	1
Acquired companies	35	0	9	44
Changes in UniCredit Group	242	0	7	249
<b>Disposals</b>	<b>-15</b>	<b>0</b>	<b>-3</b>	<b>-18</b>
Companies sold or liquidated	-9	0	-1	-10
Mergers	-6	0	0	-6
Changes in UniCredit Group	0	0	-2	-2
<b>Changes as a result of IFRS 10 and IFRS 11</b>	<b>1</b>	<b>-15</b>	<b>-2</b>	<b>-16</b>
Addition based on IFRS 10 and IFRS 11	1	0	1	2
Reduction based on IFRS 10 and IFRS 11	0	-15	-3	-18
<b>Closing balance</b>	<b>413</b>	<b>0</b>	<b>38</b>	<b>451</b>

#### Changes in the group of companies included in consolidation as a result of first-time application of IFRS 10 and IFRS 11

Application of IFRS 10 and IFRS 11 for the first time resulted in the following changes in the group of companies included in consolidation: The companies of the Yapı Kredi Group, which were previously accounted for using the proportionate consolidation method or the equity method, have been accounted for as a consolidated group using the equity method since 1 January 2014; this has reduced the total number of companies directly contributing to our group by 18, while instead the consolidated entity has been added to the companies accounted for using the equity method.

Moreover, Real Invest Europe, a real estate investment fund managed by Bank Austria Real Invest Immobilien-Kapitalanlage GmbH, has been included in consolidation since 1 January 2014.

The newly established company is UCTAM Hungary Kft.

Additions resulting from acquired companies relate to the acquisition of the Immobilien Holding group comprising 33 consolidated companies and 9 companies accounted for using the equity method. Moreover, two other companies (Nordbahnhof Baufeld sechs Projektentwicklung GmbH and Nordbahnhof Baufeld 39 Projektentwicklung GmbH) were acquired which hold land in connection with the planned construction of the new Bank Austria Campus in the area of the former Northern Railway Station in Vienna.

#### Acquisition of Immobilien Holding group

With the closing dated 18 September 2014 the Bank Austria Group acquired 100% of the shares in Immobilien Holding GmbH.

Immobilien Holding GmbH is the holding company of Immobilien Holding group, which comprises 56 legal entities. Due to this acquisition, 34 entities have been included in the scope of consolidation as fully consolidated entities since 30 September 2014, amongst them Wien Mitte Immobilien GmbH, in which Bank Austria Group had already had an indirect 50% stake and which had therefore already been included in the group using the equity method until 30 September 2014. Nine further entities have been included in the scope of consolidation at equity based on the fact that the Bank Austria Group has significant influence over them; the 13 remaining entities have not been included in the scope of consolidation based on materiality reasons.

#### Restructuring of leasing business

As part of the restructuring of leasing business, one company accounted for under the equity method and 33 consolidated leasing and insurance brokerage companies in Russia, Romania, Slovakia, Slovenia, Ukraine and Austria were taken over from UniCredit Leasing SpA.

Moreover, with the closing dated 10 December 2014, all 164 Austrian leasing companies were taken over from UniCredit Leasing SpA and have since been included in consolidation. Additionally, six Austrian leasing companies are accounted for using the equity method. Also as part of this transaction, one Bosnian leasing company, two Serbian and three Hungarian leasing companies and one Spanish leasing company were added to the group of consolidated companies of Bank Austria.

In a transaction equally completed on 10 December 2014, 35 Hungarian leasing companies were taken over from UniCredit Leasing SpA and integrated as consolidated companies into the Bank Austria Group.

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## 1.3. Branches

On 29 December 2006, UniCredit Bank Austria AG set up a permanent establishment in Milan, Via Tortona 33, which is exclusively engaged in the management of equity interests of UniCredit that were transferred by way of contribution in kind. Therefore these activities are not banking activities.

## 1.4. Financial and non-financial performance indicators

### Financial performance indicators

	2014	2013	2012 <sup>2)</sup>	2011	2010
Eligible capital (until 2013: Tier 1 capital ratio) <sup>1)</sup>	19.7%	17.7%	19.2%	21.3%	21.0%
Return on equity before taxes	-15.6%	-11.9%	-1.8%	-2.7%	0.3%
Return on equity after taxes	-16.6%	-12.6%	-2.3%	-3.4%	0.0%
Cost/income ratio	120.7%	89.3%	64.5%	66.5%	57.2%
Risk/earnings ratio	4.9%	26.0%	20.4%	27.6%	33.7%
Risk/earnings ratio (without dividends)	7.6%	33.7%	25.6%	37.7%	51.6%

1) Tier 1 capital ratio: from 2012, the calculation is based on the total book (previously based on the banking book).

2) In 2013, the method of reporting swaps in the trading book was changed from a net basis to a gross basis. For comparison purposes, the figure for total assets in 2012, on which the calculation was based, was adjusted by €1.2 billion.

### Definitions of performance indicators

**Eligible capital ratio (from 2014):** eligible capital divided by capital requirements in accordance with Article 92 of Regulation (EU)

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**Tier 1 capital ratio (until 2013):** regulatory Tier 1 capital divided by risk-weighted assets of the total book pursuant to the Austrian Banking Act (Bankwesengesetz – BWG); until 2011, the calculation was based on risk-weighted assets of the banking book

**Return on equity before taxes:** annual surplus before taxes divided by average equity

**Return on equity after taxes:** annual surplus divided by average equity

**Equity:** subscribed capital, capital reserves, revenue reserves, reserve pursuant to Section 57 (5) of the Austrian Banking Act, untaxed reserves

**Average equity:** equity as at 1 January of the reporting year + equity as at 31 December of the reporting year divided by 2

**Cost/income ratio:** general administrative expenses (including depreciation) divided by operating income including the balance of other operating income/expenses

**Risk/earnings ratio:** net income/expenses from the disposal and valuation of loans and advances divided by net interest income including income from securities and equity interests

## Non-financial performance indicators

### Branch network

	2014	2013	2012	2011	2010
Domestic branches	217	253	271	273	281
Foreign branches (without banking business)	1	1	1	1	1
Outlets at companies	0	1	1	1	1
<b>Total</b>	<b>218</b>	<b>255</b>	<b>273</b>	<b>275</b>	<b>283</b>

### Employees

Under the place-of-work principle applied to UniCredit Bank Austria AG and its subsidiaries, staffing levels and staff costs are recorded by those companies in which the employees work.

	AVER-AGE FOR					
	31 DEC. 2014	31 DEC. 2014	31 DEC. 2013	31 DEC. 2012	31 DEC. 2011	31 DEC. 2010
Headcount <sup>*)</sup>	6,597	6,678	6,841	6,996	6,935	7,054
<i>of which workers other than salaried staff</i>	0	0	0	0	0	0
Full-time equivalents <sup>*)</sup>	5,769	5,958	6,207	6,364	6,540	6,469
<i>of which workers other than salaried staff</i>	0	0	0	0	0	0

\*) excluding employees on unpaid maternity/paternity leave but including workers other than salaried staff and delegated employees under the "place-of-work principle"

### Further development of business model

The focal areas of Bank Austria's strategy are the concentration of its business portfolio on customer business in the core countries and the realignment of the service approach, the sales network and the range of products and services to meet customers' specific needs. Based on optimum employment of capital, and supported by professional risk management, these efforts are designed to assure the bank's development on a sustainable basis.

● In 2014 we vigorously pursued the transformation of Bank Austria's business model to create a **modern multi-channel bank**. We are working to put in place a fully-fledged hybrid business model bundling the very best physical and digital channels. The multi-channel target model leverages on strong links of branches with remote sales channels. We are thereby moving closer to customers.

Milestones on this way in Austria in 2014 were the opening of the first eight new-style branches and the introduction of extended opening hours, from 9 a.m. to 6 p.m., at 30 branches in Vienna. In the "online branch" we have expanded our innovative SmartBanking service approach with personal advisory services via video telephony, telephone, SMS and e-mail, accessible via OnlineBanking and MobileBanking with extended opening hours from 8 a.m. to 8 p.m. A wide range of Bank Austria's key products is available at our new OnlineShop around the clock. We have opened SmartBanking to all of our 1.6 million customers, lowering the age limit from 18 to 14 years. At the end of 2014 we also opened multi-channel banking for

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corporate customers. Companies can now apply for products online at any time and from any place. The offering ranges from accounts, investments and finance all the way to leasing.

● In our sales network we pursued a multi-year project focusing on a universal banking concept with a differentiated approach:

One approach is the **basic services bank**, which offers services such as deposits and consumer loans, cash deposits and withdrawals as well as transfers with substantial technical support, in an efficient and dependable manner and at very competitive prices, which customers can use at any time and wherever they are. For this purpose we are expanding our product offering in the virtual world (Bank Austria website, self-service areas/branches, call centre, OnlineBanking & OnlineShop also for new customers). New technologies have enabled us to introduce SmartBanking Private & Smart-Banking Business (for business customers with a turnover of up to €3 million). Our RetailCenter and BusinessCenter 24 are additional components of our strategy of offering financial services via channels which are less dependent on branches and customer services centres. In the future customers can use many services via telephone which have so far only been provided at branches.

The other approach is the **advisory bank** offering its customers genuine added value through specialised advice. Unlike simple online banking, SmartBanking offers advisory services in personal contact with customers, who can use these services according to their preferences. While being able to use personal advisory services until 8 p. m., customers can benefit from SmartBanking Private and SmartBanking Business also by settling almost all types of banking transactions via digital channels and using advisory services via video telephony, at any time and wherever they are. Drawing on expert know-how is also possible via video call.

The **premium bank** provides complex solutions tailored to specific needs. Services are provided by relationship managers and specialised experts. In addition, the services of external specialists including lawyers and tax consultants may also be used when needed. This type of service is available to customers of the Private Banking and Corporate & Investment Banking divisions. Asset management is a key product of the premium bank.

● The **branch network** is fully integrated in this service approach, with new types of branches.

At a **self-service branch**, customers can conveniently use our basic services at any time they want: cash deposits and withdrawals, transfers, account statements. In 2014 we invested in a technology upgrade. New machines including cash recyclers, cash managers, interactive screens, digital signage, service managers etc. enable us to process day-to-day business in a highly efficient manner around

the clock, seven days a week. Our **pop-up branch**, a transportable branch with a floor area of seven square metres and innovative design is aimed at winning customers at major events and in highly frequented locations. This type of branch proved successful in 2014.

The new **branch** with a modern design is focused on customer needs, with a welcome manager, use of a queuing system and adjustment of opening hours. Modern technology enhances advisory services, and specialists (finance, investments) are increasingly involved in services provided by teams at branches; new technology makes it possible for experts to be involved in customer talks via video telephony.

The **advisory services centre** provides services in densely populated areas, across business segments and divisions. This unit offers an extensive range of banking services for all customer groups: retail and corporate customers, Private Banking clients, bundling of experts (foundations, ...). Multi-media equipment makes the advisory services centre a suitable place for events arranged for customers and employees.

● The new business model will enable us to make significantly better use of earnings opportunities. In 2014 we also launched the **Bank Austria 2020** initiative, drawing up innovative working time models and actually achieving the planned reduction of jobs by promoting part-time working arrangements. This efficiency enhancement programme was accompanied by human resources development measures and mobility management; in 2014, we opened MoveOn, an innovative online job platform – detailed information is given in the following section on Human Resources. The “Bank of the Future” also needs a simpler structure and more efficient processes. We have launched the **Streamlining** initiative to screen all areas of the bank, as part of workload reduction measures, to make our internal processes leaner and remove inefficient procedures. These measures are another step, also in terms of quality, towards a new and modern **working world**, which we are preparing with the planning and construction of our new Campus headquarters (see the report in this section).

● Similar initiatives were also launched in Central and Eastern Europe in 2014 under the name of **CEE2020** and they have led to revenue growth already in their first year. The programme currently comprises 31 cross-border initiatives to identify new ways of creating value. The underlying idea is to transfer solutions which have become best practice in the countries where they originated (design/pilot countries) to countries (customisation/rollout countries) where the experience gained is adopted and adjusted to local conditions. About 10 countries are involved in these activities in one way or another. In the CIB Division's business with large companies, these activities include the “capital-light business model”, which encompasses quantitative methods of customer relationship management, reference pricing and RWA optimisation; this has already been imple-

# Management Report (CONTINUED)

mented in Russia, Bulgaria, the Czech Republic / Slovakia. It is important in this area to take advantage of referrals of business opportunities in the entire UniCredit Group. A specific IT application (Babel) bundles information required by relationship managers for the optimum allocation of capital to their portfolio in terms of region and industry as well as rating.

In retail banking we are pursuing 15 initiatives with a view to increasing the share of wallet of existing customers, winning new customers, enhancing sales efficiency and broadening know-how through training. The new branch concept, with a structure that is similar to that in Austria, is currently being implemented in Bulgaria, Romania and Hungary, with a focus on mobile banking and the internet banking platform. In Private Banking we have established the PB Academy, a training platform, and an initiative for needs-oriented advisory services (Investment Advisory 2.0), which will raise competence in offering solutions which take account of clients' needs in specific areas (transfer of assets across generations, investments and risk/liquidity management etc.). The initiative is being implemented in Russia, Bulgaria, Romania and Hungary.

All these initiatives and activities benefit from the advantages of a cross-regional network of banks with strong local roots.

### **Customer satisfaction – a focal point of our business model**

In our business model, customer centricity is a reference point in an environment characterised by profound change. The further development of our service approach – digitalisation, multi-channel bank, OnlineBanking and MobileBanking – is mainly guided by changes in our customers' preferences. Our ambition is clearly reflected in our promise to customers – “Wir möchten die Besten für Sie sein!” (We want to be the best for you) – and in the slogan “Life is full of ups and downs – we're there for both”. The promise to our customers encompasses four dimensions: “Focused on your future” (complete range of services, simple, easy and forward-looking); “Round the clock” (availability via modern communication channels); “Your needs” (satisfaction and relationship management); “All-round advice” (listening, lucidity, active information). These are the guiding principles in shaping our relations with customers.

We use the TRI\*M index to measure satisfaction of Bank Austria's customers with services, reliability and quality of advice. This is an important factor in scorecards used at all levels of hierarchy, from top management to all managers. In the course of the year under review, Bank Austria's aggregated TRI\*M improved by 2 points, reaching a level of 72 in the fourth quarter of 2014.

Service Rating GmbH, Germany, and the University of St. Gallen elected Bank Austria as the “Most customer-oriented services provider in Austria” in 2014, for the fourth time in succession and in a comparison covering all sectors. Their choice was based on a survey

of customer perception and an audit of various factors including involvement of our customers in reshaping our service model, our complaint management processes, the “klipp&klar” initiative aimed at ensuring that our communications are written in plain language, and our activities focusing on sustainability and the community.

In measuring customer satisfaction we take advantage of technological progress: a few years ago, telephone interviews were the only method employed to obtain feedback. In the meantime, we use a combination of telephone interviews (about 25,000 calls per year) and online questionnaires (about 10,000 responses per year). This reflects the advance of digitalisation and gives added weight to the results. The analyses are conducted among all of the bank's core target groups (Retail, Corporates, Private Banking), including a comparison within UniCredit Group.

Our “@Feedback Kundenerlebnis” (customer experience feedback) tool continued to develop favourably in 2014: immediately after an advisory talk with a customer – e.g. on finance, the 360-degree investment analysis or Willkommens @-Mail for new customers – we send our customer a short electronic questionnaire. Since the tool was launched in 2010, the rate of response to 280,000 e-mails inviting feedback has reached almost 39%. Quite generally, the results show a high level of satisfaction (91%) with the quality of advisory talks. In 2014 we became the first financial services provider in Austria to complete an exclusive pilot project with @Honestly for giving direct electronic feedback to Bank Austria branches via QR code, tablet, smartphone and online. Overall, within a few weeks, we received almost 5,000 responses via this channel. Starting in the first quarter of 2015, we will use this instrument under the name of “myFeedback” at all branches of Bank Austria and also via electronic channels (website, Bank Austria app, OnlineBanking etc.).

To identify customer preferences and help us to make the right strategic decisions, we developed Bank Austria Mitarbeiterforum (for internal use) and www.kundenforum.at (available to customers) in 2013, thereby creating a social media platform for surveys, forum discussions, quick polls and votings. Since the two platforms were launched, they have been used to discuss about 35 topics, with 15,000 responses via questionnaires and 600 forum contributions from about 3,000 customers and employees; the topics included the “Bank of the Future”, the “Branch of the Future”, electronic information services, contactless payments, MobileBanking apps and our new “Wirtschaft Online” service platform.

We measured internal customer satisfaction again in 2014 with a view to enhancing internal service quality. The services provided by employees in 41 head office units were evaluated by their colleagues via 14,000 questionnaire responses, supplemented by 5,000 free-text comments. The Group-wide People Survey will again be launched at the beginning of 2015, giving our employees an oppor-

# Management Report (CONTINUED)

tunity to let us know what they think about such topics as leadership, clarity of strategy and objectives, commitment to the company, customer orientation and contributions to the community. The high participation rate of recently 71 % underlines the importance of this regular survey and the related action plans.

With the *BeschwerdeExzellenz* project launched in 2013 we take a critical look at all internal and external complaint management processes with a view to further optimising them for our customers at all points of contact (branch, @mail, CallCenter etc.) and setting a benchmark in the financial sector. Moreover, we have bundled specific competencies in the ombudsperson's office for persons experiencing social hardship, where customers in financial difficulty receive assistance in reducing their debt, or are granted additional time for payment, etc. In 2014 we again maintained close contact with consumer protection organisations, the Chamber of Labour, debtor associations and special interest groups in order to live up to our claim of acting responsibly within society.

## Human Resources

Human Resources Management supports the ongoing change processes in the company and acts as **strategic partner and change agent for all business units**. These activities also make a significant contribution to creating the best possible environment for all employees on our way to the "Bank of the Future". Creating optimal conditions to identify and use potential, investing in education and supporting employees in all areas with a view to establishing a work-life balance, are key requirements met by HR Management in living up to its claim to be a leading player in the banking sector.

● The strategic projects which we launched in 2013 – primarily **SmartBanking** and the **Bank Austria 2020** initiative – are our dynamic response to rapid changes in customer behaviour, demographic changes, technological progress and new communication media, in banking and in the working environment quite generally. The implementation of these projects relies on the qualifications and flexibility of our employees, i. e. on intensive HR support.

The new job-related challenges presented by these changes require new approaches to **staff development**. The UniCredit Academy established in 2013 supports all employees on their way into the future. Numerous initiatives dispel any fears of facing new situations – these initiatives include team coaching; seminars for managers focusing on learning partnerships for mutual support; internships and job rotation for young employees. To implement flexible work arrangements at branches with longer opening hours (9 a. m. to 6 p. m. at selected branches in Vienna and other Austrian regions) within the framework of variable working hours, an internal service agreement was concluded

between HR and the Employees' Council. We also launched a pilot operation to test IT-supported working time planning and accounting. Specific multi-media training programmes are making our employees fit for serving customers online, via video or personally at a branch. Training for new products is provided on "power days" to enable employees to offer advisory services to customers at all stages of their lives. Professional welcome management improves processes at branches in order to more effectively attend to customers' wishes.

The **reorientation of the business model**, continued in 2014, was accompanied by measures to reduce payroll costs and other administrative expenses. Of the €70 million staff-related cost reductions which the bank aims to achieve over a two-year period, 70% was already implemented through measures taken in 2014. These reductions were made, as planned, without operational layoffs, by offering employees attractive HR instruments, primarily part-time working arrangements, which were accepted by 1,140 employees. This translated into a reduction of 309 FTEs while retaining the necessary know-how in the bank. As a result, the proportion of part-time employees rose by 40% within a single year, to 35% across the bank. Special attention is being given to making processes leaner so that service quality for our customers can be further enhanced with reduced staff numbers. Overall, the number of employees declined by 423 FTEs in 2014, with 20% of this reduction resulting from normal staff turnover and retirement. The declared objective is to achieve the remaining reduction target of about 230 FTEs by the end of 2015, again in a socially acceptable manner.

The **Movement Management** initiative has been an integral part of HR strategy since 2012. Against the background of the new HR instruments and the related impact on the internal job market, we have adjusted and expanded this initiative. All vacant positions in the bank are now offered internally via the new **"Move On" job platform**, an innovative approach. The objective of this cloud-based recruiting solution is to show employees new perspectives through the automated analysis of their personality and subsequent job matching. Several hundred employees make daily use of Move On and appreciate the opportunities which the platform offers, including direct availability of a personal assessment report. Finding the right job no longer depends on employees' curriculum vitae and training alone but on their personality. This brings the internal job market to life, with employees being able to view new job opportunities with ease. These activities are aimed at supporting a more effective use of employee potential and raising employee satisfaction.

# Management Report (CONTINUED)

● **Award-winning HR activities.** The first HR Innovation Congress at the St. Martin Therme spa in Austria's easternmost province of Burgenland focused on analysing current and future challenges faced by HR managers, and presenting strategies, trends and visions in human resources management; a high-calibre jury of specialists selected the most innovative HR projects. In this context, "Move On" won the "HR Innovation Award Gold 2014", being recognised as the most innovative human resources project.

Bank Austria employs persons who differ from one another in their background, culture, language, religion, training, state of health and sexual orientation. With our **diversity management** activities we want to use opportunities in this context and unlock underlying potential for the bank. The corporate culture of Bank Austria therefore encompasses mutual respect, openness, recognition and appreciation. This enables us to benefit greatly from the manifold qualities, talents and personality facets of our employees in all their diversity. Implementing these objectives is facilitated by an innovative design of the work environment. With the "Job and Family" audit we use assessments by external auditors to make further improvements. Key topics in this context in 2014 included expanding part-time working arrangements, giving support to part-time employees who hold management positions, and specifically enhancing managers' awareness of the need for a work-life balance.

UniCredit has launched a **Gender Balance Programme** at an international level. The objective is to create jobs for men and women which are characterised by equal rights and respect. Looking at current developments at all levels of management is key to the success of these efforts. Qualitative and quantitative targets are defined and measured for (almost) any activity. Women are seen as a key resource in UniCredit Group and are provided with support already at middle-management level through targeted measures including seminars which focus on identifying one's own strengths and weaknesses, self-marketing and networking.

● The pleasure of learning – **UniCredit Academy Austria.** Sharing knowledge and experience – in an entertaining, informal and timely manner – is an essential feature of the "Bank of the Future". Against this background we created the UniCredit Academy Austria in autumn 2013, which bundles all Learning & Development activities of UniCredit in Austria. The UniCredit Academy Austria offers our employees a wide range of programmes to acquire and develop know-how required for an employee's sphere of activities by using the appropriate learning method. Seminars, eLearning, podcasts (audio files), coaching, mentoring, shadowing and internships are among the methods used for promoting and sup-

porting a person's individual learning style. This gives the learner a more active role in his/her learning process. We have created a new way of learning – new in terms of architecture and advanced learning environment, such as UniCredit Center Am Kaiserwasser; and new with regard to knowledge transfer. The changes are also noticeable in the virtual Academy, a different type of learning space. Virtual learning space helps the bank to respond at short notice to market requirements with a suitable learning programme, thereby enhancing the return on learning for everyone – in line with the motto: higher earnings through effective learning. [www.unicredit-academy.at](http://www.unicredit-academy.at)

● Our human resources activities are based on and guided by the **Global Job Model**, the Group-wide job evaluation system used for describing and categorising all roles and activities within UniCredit, and the **UniCredit Competency Model**, which defines essential skills and employee conduct in our company.

Our **Executive Development Plan (EDP)** and **Talent Management** programme support our managers in developing the relevant qualities and skills for the "Bank of the Future". We focus on the development of management potential from within the bank, in line with the motto "Investing in People", while giving special attention to raising the percentage of female managers on a sustainable basis. We thereby ensure forward-looking and effective personnel planning for managers and talents who can get along well in a changing digitalised society and who can make sustainable contributions to shaping the "Bank of the Future". Uniform Group-wide quality criteria are applied in the evaluation process, with a focus on feedback exchange. Moreover, as part of UniCredit, Bank Austria offers the opportunity to gain and use international experience in a Group-wide process of filling vacancies.

**UniCredit Performance Management** is a modern, fair and transparent performance evaluation and development system for all employees of Bank Austria. It offers effective guidance to staff members, especially during periods of profound change. All employees can easily view their evaluation and the feedback documentation in their personal electronic archives. Performance Management thus makes an essential contribution to a feedback culture. The goals of each employee are discussed between the employee and the manager and then captured in the Performance Management tool. The employee's performance is evaluated after a maximum period of 12 months and feedback on development is provided. The information obtained from feedback and evaluation serves as a basis for personal development measures and further steps in Bank Austria.

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● The proper mix: our **Total Compensation** system. Our Group-wide remuneration system provides for a balanced mix of fixed and variable monetary and non-monetary components. Regular communication to our employees and information available on “myHR”, the HR Intranet site, provide an overview of all components of compensation while linking this to the related compensation processes including the merit review and the bonus.

Remuneration of top management is determined within UniCredit by way of a Group Compensation System, which has been in place for several years and has also been implemented at Bank Austria. Parts of the variable components of compensation are withheld in line with regulatory requirements, and deferred payments are made subject to sustainability. This may also be in the form of UniCredit shares. The bonus pool method introduced across the Group in 2014 ensures that variable components of remuneration are subject to the achievement of sustainable, long-term financial and non-financial performance criteria. The introduction of this method further strengthens the link between variable remuneration and risk-weighted results of Bank Austria.

● More than 2 years ago, within UniCredit Group, we entered into a **strategic partnership with hp** and founded the Enterprise Services Shared Service Center (ES SSC). This is a joint venture which settles **HR services** for Bank Austria at an international shared service centre of hp in Poland. At the end of 2014 we reached a further milestone in this cooperation by migrating our HR tools for travel management and time management to a modern state-of-the-art IT systems landscape. With effect from the beginning of 2015 we will also switch the payroll for our employees to this IT platform. These new HR tools have enabled us to use opportunities for efficiency enhancement of our HR processes, and they will serve as the basis for clear and simple HR processes also in the future.

### ***Creating a new working environment: Austria Campus***

The groundbreaking ceremony in December 2014 represented the first step in the realisation of plans for the construction of Bank Austria's new headquarters. The new buildings will cut costs and offer us the opportunity to benefit from a new working environment. Extensive programmes have been launched to ensure that the changeover is successfully implemented. The programmes involve employees with whom we prepare the future users of the “Austria Campus” for state-of-the-art offices and new working methods.

**Austria Campus** ... The historic representational buildings of banks are now out-of-date. We are in the process of creating a new location for Bank Austria's headquarters and 15 Group companies of UniCredit in Austria at Vienna's former Northern Railway Station, one of the city's key development areas. For this purpose we have developed the “Austria Campus”, a project which encompasses office space covering a gross area of about 200,000 square metres, infrastructure facilities and shops. In line with our

plans, we sold this project in October 2014, together with the land earmarked for development and the building permits. It was acquired by SIGNA, an Austrian company specialising in real estate, which is now responsible for the construction work following the closing of the contracts in November. Construction commenced in early 2015 and is scheduled for completion in 2019. During this time the real estate company will be in constant touch with the authorities of Vienna's second district and will maintain an information office where it will answer questions of residents.

Two of the buildings on the Austria Campus will be used by the bank through a long-term rent agreement. This office landscape for about 6,000 employees accounts for about 45 per cent of the Austria Campus and is scheduled for completion in 2018. Bank Austria itself will be responsible for the interior of the buildings so that it can design the headquarters in line with its own plans.

... **more than a construction project:** The new headquarters are intended to unlock synergies totalling an annual €25 million from 2020, through time savings and shorter distances, more efficient use of space and lower operating and maintenance costs. Besides strengthening the team spirit among employees, the new design of our headquarters will result in efficient and attractive working methods for head office banking functions. This modernisation project is being implemented hand in hand with the reorganisation of our branch network, where the working environment and working methods of employees in the innovative branch premises are also changing.

The new working world will be realised through transparent office architecture that can be used on an individual basis, state-of-the-art technology and low paper consumption, and by offers for greater work flexibility in terms of time and location. A test office, which simulates the most recent plans for the Austria Campus, provides employees with an insight into the new working methods. More than 1,000 visitors have so far been guided through these premises. The space is moreover permanently used as an office by two teams of employees; their feedback is also used for the planning process. Acceptance and readiness for change are further enhanced by the involvement of employees acting on behalf of future users, the development of a multiplier network, various surveys and a web-based information platform.

### ***Communication using digital channels***

● Bank Austria's “Wirtschaft Online” portal, introduced in January 2014, was named the most innovative financial service by participants at the 28th Alpbach Finance Symposium. Unlike other online portals, “Wirtschaft Online” contains sound analyses by experts, mainly those from Economic Research and Private Banking Research of Bank Austria, in addition to facts and figures on current economic developments.

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Bank Austria's **security portal** "Sicherheit Online" offers extensive information, revised in 2014, on Internet fraud. Notices warning against phishing attacks, i.e. attempted fraud in online banking, are particularly important in this context. Both "Sicherheit Online" and "Wirtschaft Online" are available in versions optimised for all mobile devices.

**Bank exklusiv**, Bank Austria's customer magazine, appeared as an eMagazine for the first time in 2014. All eMagazines published by Bank Austria can be viewed via the eMagazine app (for iOS and Android).

● Our **social media** presence covers the interests of a wide range of customer groups. The company's Facebook site focuses on service and edutainment while Twitter offers information on banking business and all press releases. Pictures of Bank Austria are presented via videos and images on YouTube and Pinterest, with the content ranging from branch openings and the "Acting together for a respectful society" initiative all the way to the most recent advertising spots. Bank Austria maintains company profiles on XING, LinkedIn, Watchado and Kununu, which concentrate on jobs and training. The BusinessForum on XING is a platform offered by Bank Austria for dialogue between its customers and employees. A selection of about 100 eBooks comprising specialised literature and guides (job applications, career, software) has been available for download free of charge since early 2014.

## Sustainability management

Sustainability and responsibility are key values guiding our day-to-day activities. The balance between economic, ecological and social objectives has been a highly significant factor at Bank Austria for many years. **Stakeholder** management plays a crucial role in Bank Austria's sustainability activities. It is a question of identifying, within and outside the bank, the needs of important stakeholders and including them in the measures to improve corporate sustainability. This also requires a meaningful and open communication of topics on corporate social responsibility. Bank Austria's sustainability report, which can be viewed in the "Sustainability" section at [www.bankaustria.at](http://www.bankaustria.at), provides an overview of our commitment to society and the environment.

**Social commitment** is an essential component of our sustainability strategy. In 2014 we launched the "Acting together for a respectful society" initiative to make a broader public familiar with our social commitment and stimulate discussion on such important topics as tolerance, respect and social interaction.

In our **social sponsoring** activities we pursue a clear strategy by primarily supporting initiatives which help children and young peo-

ple in need, and which also focus on integration/migration. Every year, we present the Bank Austria Social Prize, with prize money of €10,000, in each of Austria's federal provinces to award outstanding initiatives in the social sphere. The €30,000 Bank Austria Social Innovation Award was presented for the first time in 2013. It focuses on innovations in the social sector, with a different target region selected every year. The region chosen in 2013 was the Tyrol with its capital Innsbruck, and in 2014 the bank invited participants to present innovative ideas for Lower Austria's capital St. Pölten. The two prizes were made possible by generous support provided by UniCredit Foundation.

Long-term partnerships which we have developed over many years with well-known **social care organisations** are a particularly important aspect of our activities in the social sector. Focusing on continuity, this strategy has been pursued in our cooperation with SOS Children's Villages, where we act as house sponsor in Children's Villages throughout Austria. Caritas is another partner with which we have maintained close and professional cooperation in Vienna and throughout Austria for many years. This covers proven projects such as young Caritas Käfig League, the Bank Austria Volunteers Day, cooperation in disaster relief activities, and the Bank Austria Familienfonds, with which Caritas has been able, over the past 20 years, to help over 600 families in need who have faced crises through no fault of their own. The 20th anniversary of the Bank Austria Familienfonds provided an occasion to jointly celebrate the long-standing cooperation with Caritas.

Bank Austria's **"Gift Matching Programme"**, probably unique in Austria, is an annual initiative which promotes the social commitment of the bank's employees. The idea is simple: private donations are increased by funds held by UniCredit Foundation if the initiating employees succeed in inspiring at least 15 colleagues to donate to the same charity and exceed a threshold. There are no limits to creativity, and employees are motivated to engage in stimulating exchange of ideas on social issues. The Gift Matching Programme 2014 raised over €290,000 for 76 projects, an amount which will now be increased by the Foundation.

In line with the **"Financial Education"** initiative, our website [www.finanz-bildung.at](http://www.finanz-bildung.at) has been created to provide young people, students and teachers with information on various aspects of money. With a renowned partner, the Austrian Museum for Social and Economic Affairs, we offer interested schools free workshops. The topics discussed range from money, the role of banks and banking products to distributive justice. The objective is to give young people an overview of the various types of financial transactions, to draw their attention to opportunities and risks, and to inform them of their rights



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and duties as consumers of financial products. In addition to passing on knowledge, the workshops are aimed at encouraging young people to critically examine how they themselves handle money and the significance of money in their social environment. Some 10,000 schoolchildren attend the workshops every year.

For an international and diverse company like Bank Austria, **diversity management** is not simply an integral component of its corporate culture but something which also promotes productivity, creativity and innovation. Our employees differ from one another in their gender, the colour of their skin, in their language, ethnic, cultural and religious values, marital status, age, disabilities, social status and sexual orientation. We see the diversity of our employees as a major asset for the company. Numerous initiatives are being implemented to promote a **work-life balance** and **equal opportunities** for men and women. Looking at current developments, at all levels of management, is key to the success of these efforts. Qualitative objectives and quantitative targets are defined and measured with regard to (almost) any activity.

Consideration for **disabled persons** is a key factor for us, both within and outside the bank. Two disability managers are responsible for planning and implementing numerous disability-related measures. They are supported by a network of about 60 disability employees, and awareness of this issue is raised by employee training programmes. In pilot projects we are testing various possibilities for helping disabled persons to settle their banking business. Measures that have already been implemented include a special bank card for visually impaired persons, sections of Bank Austria's website which enable customers to listen to spoken information and watch videos in sign language or read texts in simple language, and a shuttle service introduced in 2010 for customers with limited mobility, which is steadily being expanded to cover the whole of Austria. The bank plans to complete the adaptation of its buildings and branches to make them barrier-free by 2016. We are also creating a pool of employees who are skilled in disability-related communication techniques such as sign language.

## Environmental management

In May 2011, Bank Austria's environmental management system (EMS) was certified in accordance with **ISO 14001**, an internationally recognised standard. Re-certification took place in 2014. By complying with ISO 14001, a company can prove that it operates in harmony with the environment. Environmental management benefits the community while also involving advantages for the company in the form of cost savings resulting from more efficient use of resources. Environmental and climate protection covers the head office buildings and all branches, and involves all employees. The company thus makes an important contribution to reducing CO<sub>2</sub>. The great importance given to ecological sustainability and a sparing use of resources is also reflected in the **organisation**: the steering commit-

tee is headed by the Chief Executive Officer and the EMS team coordinates the measures and ensures that environmental and climate protection issues are implemented in all operations.

In **CEE** we enhance environmental awareness through the cross-regional **UniCredit sustainability network** of central and local contacts. Specific CEE initiatives are described in the UniCredit Sustainability Report, which corresponds to the highest Global Reporting Initiative (GRI) standard.

**Bank Austria** is reducing its ecological footprint by drawing up an annual environmental programme. In regard to operational climate protection considerations, Bank Austria, as one of the six founding members, has since November 2011 been a partner of **klima:aktiv pakt2020**, which was created by the Austrian Ministry of Life. The participating companies undertake, through a voluntary agreement on objectives, to meet the Austrian climate-related targets for 2020. Bank Austria has additionally committed itself to reducing CO<sub>2</sub> emissions by 45% and achieving a 51% share of renewable energies. In its **fleet management** Bank Austria has switched to low-consumption cars and reduced the number of pool cars. Bank Austria further reduced **business travel** through the use of video conferencing facilities and the trend towards digitalisation in the working world. A positive secondary effect of the gradual expansion of teleworking is that it reduces environmental pollution, especially the pollution caused by commuters who use cars.

## Key environmental indicators <sup>1)</sup>

	2014	2013
CO <sub>2</sub> emissions in t <sup>2)</sup>	20,567	21,896
Electricity consumption in MWh	68,243 <sup>3)</sup>	68,900
Heating in MWh	43,954 <sup>3)</sup>	52,000
Business travel in thsd km	11,620	12,935
<i>of which: air travel</i>	8,461	8,334
<i>by car <sup>4)</sup></i>	1,478	2,702
<i>by train <sup>4)</sup></i>	1,680	1,899
Water consumption in m <sup>3</sup>	217,429	215,358
Waste in kg	1,376,126	1,427,095
Paper consumption in kg	517,682	591,958
<i>of which: copying paper</i>	317,225	390,343

1) All branches, head office buildings and subsidiaries located therein. / 2) Since 2010, all electricity supplied to Bank Austria has come from renewable sources of energy. / 3) Projection. / 4) UniCredit Bank Austria AG only.

Measures aimed at improving **energy efficiency** focus on reducing consumption of electricity (which accounts for about 60% of overall energy consumption); these include the areas of refrigeration and IT. All electricity supplied to Bank Austria comes from renewable sources of energy, which is guaranteed by a certificate issued by the bank's energy supplier confirming that 100% of the electricity supplied is hydroelectric power. As a contribution to increasing the proportion of renewable energy, the bank has installed **photovoltaic systems** at branches in Innsbruck and Hirschstetten/Vienna and a **solar power**

# Management Report (CONTINUED)

**installation** in Vienna's second district, on the roof of the Lassallestrasse 5 office building, which enables Bank Austria to save a CO<sub>2</sub> equivalent of about 35 tonnes annually. The aforementioned projects aimed at bundling and modernising the central administrative buildings and at adapting the branches offer the bank the opportunity to implement its ecological targets as well as its operational and social objectives. The Austria Campus, in particular, is expected to result in a significant improvement in energy efficiency.

## Research and development

Bank Austria's business purpose is to provide banking services. The production process of a bank does not involve research and development in an industrial sense. But day-to-day business operations continuously benefit from **development activities**. Generally, Bank Austria aims to meet the needs of different customer groups with simple products. Expenditure on product development, methodological progress in risk management or on the continuous expansion of the bank's reporting system is included in current expenses.

In the area of **information and communication technology (ICT)**, **investment planning** takes place at UniCredit level. It is based on local requests and considers synergies which may be unlocked by the cross-regional approach. Expenditure on information and communication technology (investment budgets) which can be capitalised represents cash outflows at UBIS. This is different to the current expenses which are charged to the bank and the individual business segments (via Global Banking Services, which is part of the Corporate Center).

If the workstreams of the three-year plan are broken down by functional aspects, the investment amount of the immediate **business-related ICT projects** is much higher than in previous years, both in absolute and proportionate terms. This is explained by the numerous retail banking initiatives with a view to stepping up the digitalisation of banking business. Expenses for development work as a result of **regulatory requirements** has risen significantly in a longer term comparison. In the current three-year plan about 30% of the overall project budget is earmarked for regulatory requirements. The implementation of these projects is also responsible for a large portion of the budget for external consulting services (regulatory projects account for almost 50% of the cost of consulting services).

In 2014, over €83 million was invested in numerous strategic projects, most of them IT projects (this includes Bank Austria's share of UniCredit projects managed on a cross-regional basis). This corresponds to almost two-fifths of UniCredit Bank Austria AG's current IT expenses. Close to one-quarter (24%) were key projects that focused on the Retail business segment in Austria

and included SmartBanking, the upgrading of the online banking system, and, to a lesser extent, on the preparations for the Austria Campus. Software upgradings and process optimisation in customer business, including an IT platform of the CIB business segment that can be employed on a cross-regional basis, accounted for the highest proportion of investment expenses with over two-fifths (41%). Adjustments for meeting the new regulatory requirements in settlement and accounting procedures absorbed 17% of the investment amount. This increases to 35% or about one-third if one includes adjustments of Group Transaction Banking (GTB) services to the new SEPA regime.

## Operations, ICT, infrastructure

One of UniCredit's strategic objectives focuses on the development of a cross-regional infrastructure for settlement, IT and internal services which will provide optimum support to the bank's customer service units with a view to creating value, bundling technical expertise, strengthening the bank's innovative power and improving cost efficiency. The need for such measures is partly underlined by the growing relevance of IT and back office activities (taxation of securities, reporting requirements, regulatory requirements etc.). A general cross-regional service model is moreover consistent with the logic of an international banking group. This function of a global service company is performed by UniCredit Business Integrated Solutions S. C. p. A. (UBIS S. C. p. A.), a wholly-owned company of UniCredit.

## UBIS and UBIS Austria

● **UniCredit Business Integrated Solutions S.C.p.A.** (UBIS) offers its customers flexible and integrated banking services with end-to-end logic control. The company's objective is to provide a timely response to its customers' needs, thus assuring innovation, transparency, flexibility and time-to-market. With this service model, which is unique in the banking sector, UBIS is positioning itself among the most important service providers in Europe.

In Austria, UBIS is represented through its wholly-owned subsidiary **UniCredit Business Integrated Solutions Austria GmbH** (UBIS Austria). Its main customer is UniCredit Bank Austria AG (Bank Austria), which uses services in the areas of Information and Communication Technology (ICT), Back Office and Middle Office, Real Estate, Security and Procurement.

At the end of 2014, **UBIS Austria** had 2,156 employees, including branches in Poland and Romania. Overall, **UBIS** has around 10,000 employees, who work in two legal entities and several branches in nine European countries and in two branches, located in New York and Singapore, of UGBS (UniCredit Global Business Services GmbH), an associated company of UniCredit Bank AG.

# Management Report (CONTINUED)

● Cooperation between Bank Austria and UBIS in 2014 focused on **IT stabilisation**. Measures were taken jointly with the UBIS partner V-TServices (Value Transformation Services) to further stabilise infrastructure. Other focal areas were Internet banking and security. To be mentioned in this context are server updates with new versions and application improvements. UBIS implemented organisational measures such as the introduction of release management, and test environment management.

UBIS acts as a hub for **coordination and control of outsourced services** in Blue IT, V-TServices and the ES Shared Service Center. This task is performed by UBIS Retained Organisation in Italy, Germany and Austria.

In 2014, UBIS used **EuroMIB** for Bank Austria and eight other banks in CEE countries. The newly implemented end-to-end trading platform serves the entire value creation chain: from trading to accounting and risk processing. Outdated IT platforms will be replaced with a global architecture, leading to IT harmonisation and significant cumulative cost savings and economies of scale.

**CEE 2020** is the name of projects launched within UBIS in 2014 to update IT systems at UniCredit's banking subsidiaries in Central and Eastern Europe, with local customer needs being taken into account. These projects will continue in 2015.

Issues of relevance to IT and Real Estate are implemented by UBIS in Bank Austria's projects relating to **SmartBanking**, the **new-style branches** and the **new current account packages**. UBIS Austria also made a contribution to project management for **CashBack**: from feasibility study to concept design and support for procurement and contract management.

● In connection with the construction of the **Austria Campus**, the location of the new headquarters, UBIS Austria is primarily involved in the areas of real estate and infrastructure. As central archiving space needs to be reduced ahead of the relocation, the **dIPS** (digital Initiation Processing Storage) project was launched, which will result in cost reductions for paper, printers, toner and copiers. State-of-the-art technology – developed under the name of Operations Virtual Factory (OVF) through a global UBIS initiative in cooperation with the UniCredit holding company – is used to achieve this objective.

Given the growing flexibility and mobility of employees, it makes sense to create standardised workplace systems. This will be implemented with the standard EuroPC workplace. In 2014, UBIS Austria started preparations for the changeover in Bank Austria in 2015.

## 1.5. Capital resources and capital requirement of UniCredit Bank Austria AG

Capital resources as at 31 December 2013 were calculated pursuant to the provisions of Section 23 of the Austrian Banking Act (Basel 2). Capital resources as at 31 December 2014 were calculated in accordance with Basel 3 rules [Regulation (EU) No 575/2013].

The bank's capital resources of €13,568 million are composed of Common Equity Tier 1 capital (CET1) and Tier 2 capital (T2).

The bank has not issued any AT1 instruments.

The amounts of items which may be deducted from Additional Tier 1 capital (AT1) in accordance with transitional arrangements have been deducted from Common Equity Tier 1 capital as they exceeded Additional Tier 1 capital.

Tier 1 capital (Common Equity Tier 1 capital + Additional Tier 1 capital) is equal to 74.1 per cent of eligible capital. Tier 2 capital is equal to 25.9 per cent of eligible capital.

(Amounts in € million)

	AS AT 31 DEC. 2014
Paid-up capital	1,681
Share premium (capital reserves)	6,366
Other reserves	2,158
plus/less profit or loss	0
Value adjustments based on prudent valuation	-1
less intangible assets	-7
less IRB shortfall	-198
less amount which exceeds Additional Tier 1 capital	-108
less free deliveries with a risk weight of 1,250%	0
Other transitional adjustments to Common Equity Tier 1 capital	164
<b>Common Equity Tier 1 capital (CET1)</b>	<b>10,055</b>
Other transitional adjustments to Additional Tier 1 capital	-108
Amount which exceeds Additional Tier 1 capital	108
<b>Additional Tier 1 capital (AT1)</b>	<b>0</b>
Paid-up capital instruments and subordinated loans	3,441
Transitional adjustments due to grandfathered instruments	212
less own Tier 2 instruments	-26
less Tier 2 instruments of financial sector entities in which the institution has a significant investment	-58
Other transitional adjustments to Tier 2 capital	-56
<b>Tier 2 capital (T2)</b>	<b>3,513</b>
<b>Eligible capital under Regulation (EU) No 575/2013</b>	<b>13,568</b>
Eligible capital under Basel 2 as at 31 December 2013	13,029

# Management Report (CONTINUED)

## Capital requirements

(Amounts in € million)

	AS AT 31 DEC. 2014	AS AT 31 DEC. 2013
Risk-weighted exposure amounts for credit risk, counterparty risk and dilution risk as well as free deliveries	5,105	5,099
Risk exposure amount for settlement and delivery risk	0	0
Risk exposure amount for position risk, foreign exchange risk and commodities risk under internal models	97	51
Total risk exposure amount for operational risk (OpR)	293	342
Total risk exposure amount on account of credit valuation adjustments (CVA)	11	0
<b>Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013</b>	<b>5,506</b>	<b>5,492</b>

Eligible capital composed of Tier 1 capital and Tier 2 capital (€13,568 million) exceeds the total capital requirement (€5,506 million) by 146.4%.

Common Equity Tier 1 capital (CET1) amounts to €10,055 million. It alone exceeds the total capital requirement (€5,506 million) by 82.6%.

## 1.6. Information on the share capital and the exercise of special rights

The subscribed capital of UniCredit Bank Austria AG as at 31 December 2014 amounted to €1,681,033,521.40 and consisted solely of registered ordinary shares.

As at 31 December 2014, UniCredit S.p.A. held a direct interest of 99.996% in UniCredit Bank Austria AG.

The registered shares with restricted transferability held by “Privatstiftung zur Verwaltung von Anteilsrechten” (“AVZ Stiftung”, a private foundation under Austrian law) and by “Betriebsratsfonds des Betriebsrats der Angestellten der UniCredit Bank Austria AG Region Wien” (“Betriebsratsfonds”) [the Employees’ Council Fund of the Employees’ Council of UniCredit Bank Austria AG for the Vienna area (the Employees’ Council Fund)] have a long tradition and carry special rights for historical reasons: for specific important resolutions to be adopted at a general meeting of shareholders, the holders of registered shares with restricted transferability have to be present when the resolutions are adopted. The relevant resolutions are specified in Article 20 (13) and (14) of the bank’s Articles of Association.

There is a syndicate agreement – the Restated Bank of the Regions Agreement (ReBORA) – between UniCredit, “AVZ Stiftung” and “Betriebsratsfonds”. In the Restated Bank of the Regions Agreement,

“AVZ Stiftung” and “Betriebsratsfonds” have given an undertaking to UniCredit to the effect that if they want to sell UniCredit Bank Austria AG shares, they will first offer such shares held by them to UniCredit. If UniCredit does not accept the offer, the relevant contracting party could sell the UniCredit Bank Austria AG shares to a third party. In this case UniCredit has a right of preemption.

For the duration of this agreement (10 years), which was made in 2006, “AVZ Stiftung” has a right to nominate two members of the Supervisory Board of UniCredit Bank Austria AG, and thereafter one member of the Supervisory Board for the duration of the guarantee issued by “AVZ Stiftung” and the Municipality of Vienna.

There are no agreements on compensation between UniCredit Bank Austria AG and the members of its Management Board and its Supervisory Board or its staff members in the event of a public takeover bid.

## 1.7. Proposal for the appropriation of profits for the 2014 financial year

After the release of reserves amounting to €1,963,902,533.37 the profit or loss of UniCredit Bank Austria AG for the financial year beginning on 1 January 2014 and ending on 31 December 2014 was €0.00. This means that there is no accumulated profit which may be distributed.

## 1.8. Information on the squeeze-out pursuant to the Austrian Federal Act on the Squeeze-out of Minority Shareholders (Gesellschafterausschlussgesetz) of the holders of bearer shares in UniCredit Bank Austria AG

The company’s Annual General Meeting on 3 May 2007 adopted a resolution concerning the planned squeeze-out. The legal actions for rescission and declaration of nullity brought against various resolutions adopted at the Annual General Meeting on 3 May 2007 were terminated in spring 2008. The squeeze-out was entered in the Register of Firms on 21 May 2008. After that date, former minority shareholders initiated proceedings for a review of the cash compensation offered by UniCredit. An expert was appointed in these proceedings to review the amount of the cash compensation paid; the expert report is now available and essentially confirms the adequacy of the cash compensation paid in connection with the squeeze-out. A decision by the court of first instance in this case is not yet available.

# Management Report (CONTINUED)

## 2. Report on risk management, risks and third-party guarantees

### 2.1. Risk management

UniCredit Bank Austria AG identifies, measures, monitors and manages all risks of Bank Austria. In performing these tasks, the bank works closely with the risk control and risk management units of UniCredit. In this context, UniCredit Bank Austria AG supports UniCredit's ongoing projects which are aimed at establishing uniform group-wide risk controlling procedures.

UniCredit Bank Austria AG divides the monitoring and controlling processes associated with risk management into the following categories: market risk, liquidity risk, currency risk, counterparty risk, credit risk, operational risk, reputational risk, business risk, financial investment risk and real estate risk.

The Management Board determines the risk policy and approves the principles of risk management, the establishment of limits for all relevant risks, and the risk control procedures. A key element of this is the annual definition of the group's Risk Appetite (RA), in terms of a verbal Statement (RAS) and a Framework (RAF) of key metrics (targets, triggers, limits). RA defines risk types and the level of risk that the group is prepared to accept in pursuit of its strategic objectives and business plan, taking into account the interest of its customers and shareholders as well as capital and other requirements. RA is integrated in the budgeting process in the context of defining and selecting the desired risk-return profile. In performing these tasks, the Management Board is supported by specific committees and independent risk management units. All risk management activities of UniCredit Bank Austria AG are combined within a management function at Management Board level directed by the Chief Risk Officer (CRO):

Secondary lending decisions for corporate customers are made in the CIB Credit Operations, CEE Credit Operations and Market Risk departments, and for private customers and business customers in the Risk Management Family & SME Banking (including Private Banking) department. The Special Credit Austria and CEE Credit Operations departments deal with problem loans. These organisational units are supported by the Strategic Risk Management & Control department. The unit for active credit portfolio management (Credit Treasury) reports to the Chief Financial Officer (CFO) indirectly via the Finance department.

#### Cross-divisional control

The Risk Committee (RICO) is responsible for the management of balance-sheet structure positions, it deals with cross-divisional risk management issues arising between sales units and overall

bank management, and provides an overview of credit portfolio model results while also preparing reports on economic capital (Pillar 2). Liquidity risk control is performed by a separate committee (Liquidity Committee – LICO) which meets once a week to deal with current liquidity-related topics. These include operational aspects of liquidity management including market monitoring; and compliance with the liquidity policy – Bank Austria acts as a regional liquidity centre of UniCredit Group. Control of market risk is ensured by the Market Risk Committee (MACO), which meets once a week. MACO deals with short-term business management issues relating to the presentation and discussion of the risk/earnings position of Markets & Corporate Treasury Sales and with limit adjustments, product approvals and positioning decisions in the area of market risk. Other topics discussed and decided include, for example, the replication portfolio and methods for funds transfer pricing. Credit risk is assessed by the Credit Committee. The Operational & Reputational Risk Committee (OpRRiCo) meets on a quarterly basis to deal with operational & reputational risk issues. Risk arising from derivative transactions is managed by the Derivative Committee (DECO). DECO deals with classic credit risk and counterparty risk issues and aspects of reputational risk in customer business.

The Management Board of UniCredit Bank Austria AG sets risk limits for market risk activities and liquidity positions of the entire Bank Austria at least once a year, in coordination with UniCredit Group. RICO performs analyses and makes decisions with regard to business activities closely connected with customer business (in particular, risk management issues arising between sales units and overall bank management). The decisions and results of these committees are reported directly to the bank's full Management Board. Risk Management, which is separate from the business divisions up to Management Board level, is in charge of preparing analyses and monitoring compliance with limits.

Beyond compliance with the regulatory capital rules pursuant to Section 39 of the Austrian Banking Act, economic capital (Pillar 2) is intended to reflect the bank's specific risk profile in a comprehensive and more consistent way. These unexpected losses over a period of one year are calculated with a confidence level of 99.93%.

Value-at-risk methodologies are used in UniCredit Bank Austria AG for calculating or planning economic capital for various specified types of risk (credit risk, market risk, operational risk, business risk, financial investment risk and real estate risk). Under the risk-taking capacity concept, economic capital is compared with available financial resources and monitored on an ongoing basis. UniCredit Bank Austria AG is included in the risk monitoring and risk management system of the entire UniCredit Group. This ensures overall risk management across the Group.

# Management Report (CONTINUED)

## Current status of the application of the internal ratings-based approach (IRB approach) to credit risk in UniCredit Bank Austria AG

UniCredit Bank Austria AG applies the internal ratings-based approach, using its own estimates of loss given default and of conversion factors for the major part of its loan portfolio (advanced IRB approach).

The bank is planning to further refine and develop local as well as Group-wide models while also introducing various other Group-wide models.

The European Central Bank (ECB), the home supervisor of UniCredit Group, has been responsible for all approvals at Group level since November 2014, while local supervisory authorities are responsible for local topics in the legal entities and for local on-site reviews, to the extent that the legal entities are not covered by the Single Supervisory Mechanism (SSM). Regulatory issues are being dealt with in close cooperation between home and host regulators (college of supervisors).

Implementation of the advanced IRB approach has been established as a Group-wide programme. Therefore UniCredit is responsible for Group-wide decisions and guidelines as well as for the development of Group-wide models. For example, Group-wide homogeneous portfolios have been defined for which uniform rating models are used across the Group, such as those for countries, banks and multinational companies.

Group standards have for the most part already been prepared and adopted by the UniCredit Group holding company in cooperation with the major IRB legal entities, and are used as an instrument for uniform Group-wide implementation, with a view to complying with local legal requirements – some of which differ from country to country – and safeguarding Group interests. These Group standards will continue to be gradually extended and complemented.

The Group standards continue to be integrated step by step in the processes and organisational set-up of all business areas and Group units, with account being taken of local features and legal requirements in ensuring Basel 3 compliance.

## Current status of the application of the advanced measurement approach (AMA) to operational risk in UniCredit Bank Austria AG

UniCredit Bank Austria AG has used the AMA since the beginning of 2008. A revised AMA model for operational risk capital calculation, approved in July 2014 by Banca d'Italia and all local regulators of UniCredit Group subsidiaries using the AMA, has been used since the third quarter of 2014.

## Implementation of disclosure requirements pursuant to the Capital Requirements Regulation (CRR)

Within UniCredit Group, comprehensive disclosure (under the Pillar 3 disclosure requirements pursuant to the CRR) is carried out by the parent company UniCredit on its website, based on the consolidated financial position in its function as EEA parent bank of Bank Austria. Bank Austria is a significant subsidiary pursuant to Article 13 of the CRR and, for the 2014 financial year, discloses information regarding its capital resources ("own funds", Article 437 of the CRR), capital requirements (Article 438 of the CRR), credit risk adjustments (Article 442 of the CRR), remuneration policy (Article 450 of the CRR) and use of credit risk mitigation techniques (Article 453 of the CRR). The disclosure by Bank Austria is available at its website [www.bankaustria.at / Investor Relations / Disclosure](http://www.bankaustria.at/Investor_Relations/Disclosure) according to Basel 2 and 3 (CRR).

## Liquidity

Basel 3 sets liquidity standards under stressed conditions in the short-term maturity range (liquidity coverage ratio  $\geq 100\%$ , phasing in  $\geq 60\%$  from 2015) and in the medium-term and long-term range (net stable funding ratio, NSFR  $\geq 100\%$ ). Compliance with these rules will be mandatory from October 2015 and 2018, respectively. In a separate Basel 3 project, UniCredit Bank Austria AG established the technical infrastructure to meet all reporting requirements for all relevant entities in the Bank Austria Group starting from 2014. New deposit products and CEE funding optimisation have improved the structure of assets and liabilities of UniCredit Bank Austria AG and of Bank Austria so that the legal requirements are comfortably met. Bank Austria participated in 2014 and will also continue to participate in the Quantitative Impact Studies of the European Banking Authority (EBA) in 2015. The new liquidity requirements have been integrated in the planning and risk monitoring process to ensure compliance with the liquidity ratios at all times.

## 2.2. Risks

### Market risk

Market risk management at Bank Austria encompasses all activities in connection with our Markets and Corporate Treasury Sales operations and management of the balance sheet structure in Vienna and at subsidiaries of UniCredit Bank Austria AG. Risk positions are aggregated at least daily, analysed by the independent risk management unit and compared with the risk limits set by the Management Board and the committees (including MACO) designated by the Management Board. At UniCredit Bank Austria AG, market risk management includes ongoing reporting on the risk position, limit utilisation, and the daily presentation of results of all positions associated with market risk. Most of the positions held in UniCredit Bank Austria AG are attributable to the banking book. Market risk of the banking book is an important factor also in other Divisions (the CEE banking sub-

# Management Report (CONTINUED)

subsidiaries, in particular). UniCredit Bank Austria AG uses uniform risk management procedures for all market risk positions throughout the Group. These procedures provide aggregate data and make available the major risk parameters for the various trading operations once a day. Besides Value at Risk (VaR), other factors of equal importance are stress-oriented sensitivity and position limits. Additional elements of the limit system are the loss-warning level (applied to accumulated results for a specific period), the stressed VaR (SVaR) limit (determined for the trading book with a separate observation period), incremental risk charge (IRC) limits, the stress test warning limit (limiting losses when a pre-defined stress event is applied) and granular market risk limits (GML).

As mentioned above, Bank Austria uses a standard measurement procedure which is also applied in UniCredit Group. The model, approved in 2011, is used for internal risk management and for reporting regulatory capital requirements for market risk. UniCredit Bank Austria AG is embedded in the market risk governance framework of UniCredit Group and leverages on the group-wide risk management platform UGRM. Moreover, as part of the EuroMIB transformation programme, the group-wide Front-to-Back Office platform ("Murex"), which together with UGRM forms an integrated risk system, was introduced at Bank Austria in 2014.

The internal model (IMOD) is based on historical simulation with a 500-day market data time window for scenario generation. It is applied by Market Risk Management & Price Control within UniCredit Bank Austria AG and is being further developed in cooperation with the UniCredit holding company. Further development includes reviewing the model as part of back-testing procedures, integrating new products, implementing requirements specified by the Management Board and the Market Risk Committee, and executing the Model Maintenance Report on a quarterly basis.

### **Risk governance**

A new product process (NPP) has been established for the introduction of new products in the area of market risk in which risk managers play a decisive role in approving products. When reviewing the implementation of requirements specified as part of the approval of the Group-wide UniCredit market risk model in 2011, the college of supervisors (Italy, Germany and Austria) reduced the VaR and SVaR multiplier from 3.5 to 3.2. The market risk model is used for UniCredit Bank Austria AG, as until now, and for Bank Austria. The risk model covers all major risk categories: interest rate risk and equity risk (both general and specific), credit spread risk, currency risk and commodity position risk. The IMOD is subject to an annual review by Group Internal Validation (GIV) and Internal Audit. The structure of the standard risk report presented at MACO's weekly meetings covers (stress) sensitivities in addition to VaR figures, and utilisation levels in the areas of IRC and SVaR (both for the regulatory trading books). Regular and

specific stress scenario calculations complement the information provided to MACO and the Management Board.

### **Stress testing**

UniCredit Bank Austria AG conducts a rigorous programme of stress testing and the results are reviewed and discussed in the MACO at least quarterly or on an ad-hoc basis given unfavourable market developments. In addition to the prevailing market risk stress test UniCredit Bank Austria AG introduced an IRC stress test in 2014. Macro scenarios show the potential adverse impacts of global developments with specific effects on the respective risk categories, while stress sensitivities of individual risk factors or groups of risk factors show the potential adverse impacts on partial market segments. Stress scenarios are based on assumptions of extreme movements in individual market risk parameters. The bank analyses the effect of such fluctuations and a liquidity disruption in specific products and risk factors on the bank's results. These assumptions of extreme movements are dependent on currency, region, liquidity and the credit rating, and are set by Market Risk on a discretionary basis after consultation with experts in other areas of the bank (e.g. research, trading, and Market Risk of the UniCredit holding company). UniCredit Bank Austria AG contributes to the UniCredit Group-wide open market risk forums (OMRF), which is the platform for CRO units to discuss stress test results and agree on further common group-wide scenario definitions; the "ICAAP Widespread Contagion" scenario is used for stress test analysis, stress test warning level monitoring, ICAAP stress test and the regulatory stress report throughout UniCredit Group.

### **Prudent valuation**

The regulatory approach to prudent valuation in the trading book is implemented primarily by Market Risk and further developed on an ongoing basis through cooperation within UniCredit Group in the same way as "independent price verification" (IPV), which establishes valuation processes and verification procedures on a harmonised Group-wide basis and is used in UniCredit Bank Austria AG for fixed-income securities. UniCredit Bank Austria AG is responsible as global "EEMEA" Center of Competence for generating the official UniCredit closing price for valuation of all fixed-income securities issued in Central and Eastern Europe including Austria. Regarding OTC IPV UniCredit Bank Austria AG has harmonised the end-of-day market data items according to the Group-wide official rate source document (ORSD) and participates in the asset class committees designed to address and resolve revaluation topics. The use of credit/debit valuation adjustments (CVA/DVA) for OTC derivatives in UniCredit Bank Austria AG was further refined in 2014 and integrated in the presentation of results of market activities including Corporate Treasury Sales (CTS) on a quarterly basis. In addition, UniCredit Bank Austria AG applies Additional Valuation Adjustments (AVA) in calculating regulatory Common Equity Tier 1 capital.

# Management Report (CONTINUED)

In Austria and all CEE subsidiaries the intranet platform "MARCONIS" is established as the group-wide standard for market conformity surveillance to systematically review the market conformity of trading transactions. The scope of application of this tool has been further extended to include all CEE banking subsidiaries with market risk activities. Since 2010 the MARCONIS system has been extended to include another module, and the tool is also used to address the topic of price transparency (determining minimum margins and maximum hedging costs for Corporate Treasury Sales).

## Backtesting

UniCredit Bank Austria performs a daily back testing of both the hypothetical and actual (i. e. clean economic P/L excluding fees, commissions, and net interest income) changes in the portfolio's value in accordance with Article 366 of the CRR. As at 31 December 2014, there were 10 back-testing overshootings (negative change in value larger than model result) for UniCredit Bank Austria AG; for this reason an addend of 1 was applied to the VaR and SVaR multiplier to determine capital requirements.

## Capital requirement for market risk

The new model was used for the purposes of calculating capital requirements throughout 2014. The relevant parameters are a 10-day holding period, a confidence level of 99% and an overall multiplier of 4.2 which is used in determining the capital requirement for market risk. The backtesting overshootings occurred due to losses of the strategic FX hedges for profits of CEE banking subsidiaries, mainly in connection with the Ukraine crisis at the beginning of the year and the Russia crisis at the end of the year.

As of 31 December 2014, the following capital requirements resulted for UniCredit Bank Austria AG in connection with value at risk (VaR), stressed VaR (SVaR) and incremental risk charge (IRC):

VaR	€68.4 million
SVaR	€27.7 million
IRC	€1.3 million

## Management of balance sheet structure

The matched funds transfer pricing system applied throughout the Group and the principle of causation applied in attributing credit risk, market risk and liquidity risk enable the bank to determine contribution margins from customer transactions in the bank's business divisions. The risk committees of the bank ensure that the bank's overall liquidity and interest rate gap structure is optimised. Factors taken into account in this context include the costs of compensation for assuming interest rate risk, liquidity costs and country risk costs associated with foreign currency financing at CEE banking subsidiaries.

Products for which the material interest-rate and capital maturity is not defined, such as variable-rate sight and savings deposits, are modelled in respect of maturity and interest rate sensitivity by means of analyses of historical time series, and taken into account in the bank's overall risk position.

To assess its balance-sheet and profit structure, the bank uses the Value-at-Risk approach, complemented by a scenario analysis concerning the simulation of future net interest income under different interest rate scenarios ("earnings perspective").

The low interest rates in the Group's main currencies had a negative impact on interest margins as deposit rates were at or close to zero in many cases. In our simulation calculations, assuming that there are floor effects in lending business, we expect no further significant deterioration of net interest if interest rates move into negative territory as a result of further reductions.

Legal provisions require the measurement at Group level of "interest rate risk in the banking book" in relation to the bank's capital by comparing a change in the market value of the banking book after a 2% interest rate shock with the bank's net capital resources. In the event that such an interest rate shock absorbs more than 20% of a bank's net capital resources, the bank supervisory authority could require the bank to take measures to reduce risk.

A 2% interest rate shock absorbs about 2.7% of net capital resources. This means that the figure for UniCredit Bank Austria AG is far below the outlier level of 20%.

## Liquidity risk

### General information, processes and management model

In line with Group standards, UniCredit Bank Austria AG deals with liquidity risk as a central risk in banking business by introducing and monitoring short-term and long-term liquidity requirements. In this context the liquidity situation for the next few days and months and also for longer periods is analysed against a standard scenario and stress scenarios. Methods and procedures of liquidity analysis, analyses of the degree of liquidity of customer positions, management responsibilities and reporting lines in this area have been laid down in the liquidity policy, which is also applicable at Bank Austria's CEE units and includes a contingency plan in the event of a liquidity crisis.



# Management Report (CONTINUED)

Liquidity management in UniCredit Bank Austria AG is an integral part of UniCredit Group liquidity management. In line with the Group-wide distribution of tasks, UniCredit Bank Austria AG ensures the consolidation of liquidity flows and the funding for subsidiaries. The flow of funds is thereby optimised and external funding is reduced to the necessary extent. Under the self-sufficiency principle, the banks in CEE essentially have to use local funding for their business activities and manage stress situations without recourse to the parent company. This is ensured through the availability of sufficient liquidity buffers and emergency plans.

### **Liquidity management methods and control**

In medium-term and long-term liquidity management, assets must be covered by liabilities to a minimum extent of 90%/85%/80% over a period of 1/3/5 years. This limit must be observed at Group level and for each banking subsidiary. At individual currency level, absolute limits for cross-currency funding arrangements have been defined for each bank of the Group; these limits are largely geared to the above-mentioned liquidity ratios. At UniCredit Bank Austria AG level, the liquidity ratio as at year-end 2014 was 1.07 for > 1 year, 1.07 for > 3 years and 0.99 for > 5 years. This means that in effect, long-term assets are fully funded at Group level.

For the purpose of short-term liquidity management, volume limits have been implemented in UniCredit Bank Austria AG and at all individual banks for maturities up to three months, which limit all Treasury transactions and the securities portfolio of the respective bank. Liquidity fluctuations resulting from customers' investment decisions have also been taken into account via a liquidity buffer. Volume limits are also established for open maturities in various currencies to keep down the risk of a need for follow-up funding in the event that foreign currency markets dry up.

These limits at UniCredit Bank Austria AG level were essentially observed at all levels. Sluggish credit demand, high deposit volume throughout 2014 and an increase in the liquidity bond portfolio holdings result in a comfortable liquidity position of the Group.

### **Liquidity stress test**

UniCredit Bank Austria AG performs liquidity stress tests for Bank Austria and for individual banks on a regular basis, using a standardised Group-wide instrument and standardised Group-wide scenarios. These scenarios describe the effects of market-driven or name-driven crisis signals on liquidity inflows and outflows, with assumptions also being made about the behaviour of non-banks.

The liquidity outflows expected to occur in stress situations are compared with available collateral (essentially, securities and credit instruments eligible as collateral at the central bank) to examine the banks' risk-bearing capacity in the maturity range of up to one year.

Liquidity indicators reached conservative levels as a result of customer deposits attracted through a product initiative which started in 2013, the continued buildup of the liquid securities position, new issues launched according to plan, and the optimisation of CEE funding.

A simulated name and market crisis, with stringent assumptions regarding deposit renewals by customers, currently gives a "time-to-wall horizon" of over one year in terms of liquidity; the required minimum period is one month.

### **Counterparty risk**

As part of the implementation of Basel 3 requirements, UniCredit Bank Austria AG further refined the risk management model for derivatives, securities lending and repurchase agreements in 2013. For the purposes of portfolio management and risk limitation in the derivatives and security financing business with banks and customers, the bank uses an internal counterparty risk model (IMM) based on a Monte Carlo path simulation to estimate the potential future exposure at portfolio level for each counterparty.

The bank is taking account of the growing importance of counterparty risk by having a separate unit for this purpose within the Market Risk & Liquidity Risk department since the beginning of 2010.

As part of Basel 3 implementation, the group-wide internal counterparty risk model was approved in UniCredit Group by the Austrian and Italian supervisory authorities. The new risk model thus replaced the original counterparty risk model (NORISK-CR), which was approved by the Austrian supervisory authority in 2009. In addition to UniCredit Bank Austria AG it also covers all relevant CEE countries for managerial risk management aspects. In this context the focus is on risk management and not on regulatory approval.

With the creation of a Group-wide counterparty risk model for regulatory capital requirements and internal risk management, the relevant aspects of Basel 3 were implemented. The project also involved work on refining the risk model (e.g. use of 52 grid points instead of 20, or 3,000 scenarios instead of 1,000, in the simulation). Additionally, the group-wide methodology has foreseen a switch from the previously used 97.5% confidence level to an expected shortfall of 87.5% (equals 95% quantile), a harmonisation of the margin period of risk and the implementation of a default conditional metric.

In 2013, within the framework of the EuroMIB project, UniCredit Bank Austria AG started implementing the group-wide IT systems for counterparty risk calculation. At the end of 2013, only the valuation for selected countries and the aggregation for the full consolidation perimeter were performed with the Group-wide IT sys-

# Management Report (CONTINUED)

tems. With the conclusion of the EuroMIB project in November 2014, the adjustment at UniCredit Bank Austria AG to the Group-wide IT systems (FRE – Full Revaluation Engine, AGE – Aggregation Engine) was complete.

In addition to derivatives business, the “other risk types” were also integrated in the new Group-wide IT systems as part of the EuroMIB project. Since the end of November 2014, money market risk, issuer risk and settlement risk have been covered, in addition to the pre-settlement exposure arising from derivatives, repurchase agreements and securities lending business. Moreover, country risk is taken into account separately for external and internal country risk.

The simulation calculations are performed for all major types of transactions, e.g. forward foreign exchange transactions, currency options, interest rate instruments, equity/bond-related instruments, credit derivatives and commodity derivatives. Other transactions are taken into account with an add-on depending on factors such as maturity. The calculations are based on market volatility, correlations between specific risk factors, future cash flows and stress considerations. Netting agreements and collateral agreements are also taken into account for simulation purposes. The bank applies a confidence interval of 95.0%.

Derivative transactions, repurchase agreements and securities lending transactions resulted in the following exposures at the end of 2014:

<b>Exposures</b>	<small>(€ billion)</small>
Austria	2.4
CEE	4.0
<b>Total</b>	<b>6.4</b>

Separate reporting on counterparty risk is in place with a view to informing UniCredit Bank Austria AG's Market Risk Committee (MACO) and Derivative Committee (DECO) of current exposure trends, stress testing, collateral management and wrong way risk while also providing additional information relevant to risk management. Moreover, backtesting is performed at regular intervals, at the level of individual counterparties and at overall bank level, in order to check the quality of the model on an ongoing basis.

In 2014, the WSS (“Wallstreet”) limit system was replaced with the new Murex Limit Controller (MLC) limit system and related reporting.

Line utilisation for derivatives and security financing business of customers is now available online in the MLC limit system, the central treasury system, on a largely group-wide basis.

In addition to determining the potential future exposure, the path simulation also enables the bank to calculate the average exposure and the modified average exposure (exposure at default) and the effective maturity of the exposure as well as the “stressed EPE” pursuant to Basel 3 to each counterparty.

UniCredit Bank Austria AG additionally limits the credit risk arising from its derivatives business, repurchase agreements and securities lending business through strict use of master agreements, the definition and ongoing monitoring of documentation standards by legal experts, and through collateral agreements and break clauses. Management takes proper account of default risk, especially because the relevance of this risk category has increased and on the basis of experience gained in the international financial market crisis, despite the good average credit rating of our business partners.

## **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 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.

### ***Ukraine and Russia:***

In this connection we refer to the commentary in “4.34 Major risks in Central and Eastern Europe” in the notes to the financial statements.

# Management Report (CONTINUED)

## Credit risk

Risk costs of UniCredit Bank Austria AG were €88.1 million in 2014, substantially lower than in the previous year (2013: €420.3 million).

The provisioning charge in the Retail & Corporates business segment in Austria was €69.0 million, accounting for a significant part of the overall improvement (2013: €138.5 million). Within this business segment, especially the Retail subdivision recorded a lower volume of additions to non-performing loans while benefiting from large recoveries on loans in respect of which provisions had previously been made.

The release of a provision for a major customer led to a net release of €1.4 million of provisions in the Corporate & Investment Banking (CIB) business segment. The comparative figure for the previous year was a charge of €53.3 million.

After the exceptionally large net write-downs of loans in the CEE business segment in the previous year (2013: €198.5 million), the provisioning charge in this business segment was significantly lower (2014: €20.9 million).

The mapping to the internal rating master scale considers the PD (probability of default) ranges mentioned below:

INTERNAL RATING CLASSES	PD MINIMUM	PD MAXIMUM
1	0.00%	0.00%
2	0.00%	0.02%
3	0.02%	0.12%
4	0.12%	0.58%
5	0.58%	1.37%
6	1.37%	3.22%
7	3.22%	7.57%
8	7.57%	17.80%
9	17.80%	100.00%
10	impaired	

## Asset Quality Review (AQR) results

### AQR set-up

For the AQR exercise UniCredit Bank Austria AG as part of UniCredit Group set up an interdivisional project team including Risk Management, Finance, IT, Sales and other affected competencies.

### Subject of the assessment

The AQR explicitly served only supervisory purposes with a view to determining any additional capital requirement in the course of the regulatory review and evaluation processes and on the basis of the subsequent stress tests. The role of Bank Austria as part of UniCredit Group was to manage all relevant legal entities affected by the assessment within the perimeter of Bank Austria.

The most important fields of activities within the AQR were:

- Phase 1 focused on the delivery of portfolio data for the regulator as a basis for the portfolio selection by ECB to be assessed in phase 2.
- Processes, policies & accounting review for Austria and CEE legal entities.
- Loan tape creation and data integrity verification.
- Credit file review with about 600 single cases to be assessed in UniCredit Bank Austria AG and about 660 single files in CEE within the selected portfolios Residential Real Estate, Real Estate, Large SMEs and Large Corporates (2 portfolios in each geography).
- Collateral and real estate valuation.
- Collective provisioning analysis.

### Measures based on the AQR findings

- Deep analysis of each single file with findings.
- The identified findings were closed within the year 2014, some through repayments by the customers, others on account of customers' improved creditworthiness. In the other cases the provisioning requirements were reflected in the specific write-downs in 2014.
- Additional provisions were booked for the identified loans in Austria (UniCredit Bank Austria AG and Austrian banking subsidiaries) and at three CEE banking subsidiaries (BG, RO, HR).

In addition to improved provisioning, the Bank Austria Group set up the PERDAR project – under the guidance of a UniCredit Group-wide project – to optimise the data stream for reporting and management purposes based on the principles of BCBS 239.

### Information on forbore exposures

In its document EBA/ITS/2013/03, the European Banking Authority (EBA) developed new requirements for reporting on forbearance. Under the EBA definition, forbearance measures are concessions made by a bank to a debtor facing or about to face difficulties in meeting its financial commitments. These may take the form of a modification of the terms and conditions of a contract that would not have been agreed if the debtor had not been in financial difficulties, or the form of total or partial refinancing. Debtors that are classified as “forborne” are subject to special monitoring requirements and are to be clearly marked as such. All measures classified as “forbearance” must continue to be reported as such for two years (probation

# Management Report (CONTINUED)

period) after the forbearance criteria cease to apply. With regard to potential defaults and non-performing loans, the focus is on the following activities:

- Prompt action. With a solid and effective monitoring and reporting process, and on the basis of the early identification of possible credit quality deterioration, any necessary concessions (forbearance measures) as well as restrictive management measures will be initiated to reduce the risk of potential default.
- Proper assessment of the impaired loans, in order to define the strategies/actions to be taken and the applicable default classification.
- Initiating recovery procedures on the basis of the type and amount of the exposure and the specific borrower involved.
- Appropriate provisioning in line with recovery strategies and the type of exposure.
- Up-to-date reporting in order to monitor aggregate portfolio risk over time.

Forbearance measures include, for example, a rescheduling agreement, renegotiated pricing at interest rates below the market level, the conversion of a partial amount of the loan into shares, or a reduction of the principal amount.

Restructured loans are valued on a loan-by-loan basis and may be reclassified as “performing loans” if at least two years have passed since the restructuring agreement was concluded and the competent corporate bodies have decided that the debtor is again able to service its debt in accordance with the restructuring agreement.

When assessing and making provisions for loans subject to modifications as a result of forbearance practices, the bank must ascertain whether there is objective evidence that an impairment loss on loans or held-to-maturity investments (measured at amortised cost) has been incurred. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in the income statement under “Impairment losses” and the carrying amount of the asset is reduced.

In more detail, if the terms of a loan, receivable or held-to-maturity investment are renegotiated or otherwise modified because of the borrower's financial difficulties, this is considered to be objective evidence of impairment in accordance with IAS 39.

Apart from the impairment test, an examination must be performed to see if the modification of the contract results in a partial or full disposal of the financial instrument. In the case of financial assets,

there is a disposal if a material change in contractual conditions leads to a situation in which the modified financial instrument, in substance, no longer corresponds to the instrument before the modification. In such a case the previously recognised financial instrument is to be derecognised and a new financial instrument is to be recognised, even if – in legal terms – the same contract continues to exist in an adjusted form. Derecognition in such cases also relates to any provision made in connection with the financial instrument.

### **Realisation of mortgage collateral**

Mortgages are the main type of collateral accepted by UniCredit Bank Austria AG for real estate finance. The impact of international financial market turbulence on real estate markets in CEE often leads to further losses being incurred by UniCredit Bank Austria AG when realising collateral.

UniCredit Bank Austria AG has therefore established subsidiaries in Vienna and in major CEE countries (the Czech Republic, Russia, Bulgaria, Romania, ...) which concentrate on active workout management and optimum realisation of real estate. These companies act as potential buyers of real estate mortgaged to UniCredit Group when such real estate is sold at auction or on the basis of voluntary arrangements with borrowers.

A potential purchase of real estate mortgaged to UniCredit Group is preceded by intensive evaluation to ensure that the purchase of such real estate – as compared with immediate realisation – will lead to a significant reduction of the loss to the Group. Such transactions are considered especially for real estate which is run effectively or may be developed, and in respect of promising projects, which are to be liquidated because the owners are insolvent.

Via its subsidiaries established for this purpose, UniCredit Bank Austria AG can purchase and temporarily hold real estate or assume control of projects, complete or continue developing such projects if necessary, and subsequently sell the real estate through an orderly process.

### **Credit risk mitigation techniques**

UniCredit Bank Austria uses various credit risk mitigation techniques to reduce potential credit losses in case of obligor default.

With specific reference to credit risk mitigation, general guidelines issued by the parent company as well as UniCredit Bank Austria AG in its sub-holding function are in force, to lay down Group-wide rules and principles that should guide, govern and standardise

# Management Report (CONTINUED)

credit risk mitigation management, in line with Group principles and best practice, as well as in accordance with the relevant regulatory requirements. Following the General Group and Subgroup Credit Risk Mitigation Guidelines all legal entities are developing internal regulations that specify processes, strategies and procedures for collateral management. In particular such internal regulations detail collateral eligibility, valuation and monitoring rules and ensure the soundness, legal enforceability and timely liquidation of valuable collateral according to each country's local legal system.

Collateral management assessments and credit risk mitigation compliance verifications have been performed by the legal entities, specifically as part of internal rating system applications, in order to assess the presence of adequate documentation and procedures concerning the credit risk mitigation instruments used for supervisory capital.

According to the credit policies, collateral or guarantees can be accepted only to support loans and they cannot serve as a substitute for the borrower's ability to meet obligations. For this reason, in addition to the overall analysis of the creditworthiness and of the repayment capacity of the borrower, they are subject to specific evaluation and analysis of the support role for the repayment of the exposure.

Collateral accepted in support of credit lines granted by the Group's legal entities primarily includes real estate, both residential and commercial and financial collateral (including cash deposits, debt securities, equities, and units of undertakings for collective investment in transferable securities (UCITS)). Further types of collateral comprise pledged goods, receivables and insurance contracts as well as other types of funded protection. The Group also makes use of bilateral netting agreements for OTC derivatives (by means of ISDA and CSA agreements), repos and securities lending.

The management systems of credit risk mitigation techniques are targeted to be embedded in the credit approval process and in the credit risk monitoring process, and widely support the evaluation and data quality checks of collateral/guarantees and their appropriate linking to the categories defined for LGD estimation purposes. Controls and related responsibilities are duly formalised and documented in internal rules and job descriptions. Furthermore, processes are implemented to control that all the relevant information regarding the identification and evaluation of the credit protection is correctly registered in the system.

When accepting a credit risk mitigation technique, UniCredit Bank Austria AG emphasises the importance of processes and controls of the legal certainty requirements of the protection, as well as the assessment of the suitability of the collateral or guarantee. In case of personal guarantees, the protection provider (or the protection seller in case of credit default swaps) has to be assessed in order to measure his/her solvency and risk profile.

In case of collateral, the process of valuation is based on precautionary principles with reference to the use of "market values" and to the application of adequate haircuts to ensure that, in case of liquidation, there are no unexpected losses.

Monitoring processes of credit risk mitigation techniques ensure that general and specific requirements established by credit policies, internal and regulatory rules are met at all times.

### ***Credit risk methods and instruments***

Very important factors in the credit approval process are a detailed assessment of risk associated with each loan exposure, and the customer's credit rating in particular. Every lending decision is based on a thorough analysis of the loan exposure, including an evaluation of all relevant factors. Following the initial loan application, the bank's loan exposures are reviewed at least once a year. If the borrower's creditworthiness deteriorates substantially, shorter review intervals are obligatory.

For internal credit assessment in Austria and by Bank Austria's banking subsidiaries in CEE, the bank uses various rating and scoring models – for calculating the parameters PD (probability of default), LGD (loss given default) and EAD (exposure at default) – on the basis of models specifically developed for these purposes for the customer/business segments to be assessed, in line with the various asset classes pursuant to Article 147 of the CRR, Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions. There are country-specific or region-specific models (e.g. for corporate customers, private and business customers) and Group-wide models (e.g. for sovereigns, banks, multinational corporates). The assessment of a loan exposure is based on data from the respective company's financial statements and on qualitative business factors.

The various rating and scoring models provide the basis for efficient risk management of the Bank Austria Group and are embedded in all decision-making processes relating to risk management. They are also a key factor for capital required to be held against risk-weighted assets.

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Great attention is given to consistency in the presentation for supervisory purposes and the requirements of internal control.

All internal rating and scoring systems are monitored on an ongoing basis. The systems are also subject to regular validation on an annual basis, including a review to verify if the rating/scoring system provides a correct representation of the risks to be measured. All model assumptions are based on multi-year statistical averages for historical defaults and losses, with appropriate attention being given to the potential impact of turbulence in international financial markets.

In this context, credit risk stress tests, which are required by banking supervisory authorities and are carried out on a regular basis, are an essential instrument for assessing future risks in an unfavourable economic environment. Such tests enable the Management Board to assess the adequacy of regulatory capital and economic capital on the basis of different stress scenarios. Credit risk stress calculations for the entire Group are based on a credit portfolio model developed in-house and are analysed for their impact on regulatory and economic capital.

Risk-adjusted pricing and proactive risk management constantly improve the diversification and the risk/earnings ratio of the portfolio.

For real estate customers, the customer-related rating is complemented by a transaction rating.

Bank Austria uses a retail scoring system. The automated rating tool is used for assessing, monitoring and managing the large number of loan exposures to private customers, small businesses, independent professionals and small non-profit organisations. Retail scoring comprises an application scoring procedure based on effective and recognised mathematical and statistical methods, and a behaviour scoring procedure taking into account such factors as amounts received in the account and customers' payment practices. The retail scoring system provides information that is updated on a monthly basis. This gives the bank an efficient tool for lending decisions and early recognition of risk. Automated data processing helps Bank Austria to reduce costs required for credit control while accelerating lending decisions.

### **Credit Treasury**

Credit Treasury has two main tasks: preparing and monitoring the risk-adequate pricing of loans; and executing risk-transfer and capital-generating measures and transactions.

To ensure uniform pricing within UniCredit Group, the risk-adjusted spread is determined on the basis of multi-year probabilities of default (depending on the term of the loan), added as a price compo-

nent and monitored on an ongoing basis. Such pricing rationale follows the approach defined in the Group Risk Adjusted Pricing Discipline, which was approved as a Policy in UniCredit Bank Austria AG in July 2014. The framework envisages the usage of a discounted cash flow model leveraging on multi-year probability of default as the target approach to be gradually extended across Bank Austria sub-group in accordance with the availability of multi-year risk figures and appropriate IT systems. The calculation of the risk-adjusted spread on the basis of 1 year risk figures has been approved as a valid interim approach under the supervision of UniCredit Bank Austria Credit Treasury.

Moreover, Credit Treasury is responsible for risk transfers and capital-generating measures/transactions (via synthetic securitisations, CLNs, etc.) and liquidity-generating measures requiring portfolio structured transactions for the entire Bank Austria Group.

The Credit Treasury Committee, which holds quarterly meetings, is responsible for strategic coordination and decisions on measures and transactions.

### **Provisioning process**

#### **Loans/bonds:**

Special Credit managers have to review all exposures at regular intervals to see if there is a requirement for recognising an impairment loss. The amount of the impairment loss is the difference between the carrying amount of the loan and the present value of estimated future cash flows. In cases where there is a low probability of restructuring, future cash flows are calculated using the liquidation scenario. The workout unit calculates any provisioning requirement on the basis of the estimated present value of the liquidation proceeds / recovery percentage.

#### **ABSs:**

As part of a structured watchlist and impairment process for ABSs, positions are identified which are reviewed for any provisioning requirement at regular intervals. This is usually done by applying specific models, especially cash flow models. These models map the individual transaction structure and calculate a present value of estimated future cash flows. The amount of the impairment loss is the difference between the carrying amount of the ABS position and the present value of estimated future cash flows.

#### **Enhancement of portfolio-based provisioning method**

UniCredit Bank Austria AG applies a portfolio-based provisioning method ("Pauschale Einzelwertberichtigung" – PEWB), refined in 2013, for defaulted assets grouped by similar credit risk characteristics and with no significant exposure at counterparty level.

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In 2014, the provisioning requirement declined by €41.8 million, reflecting improvements in customers' payment record and one-off effects of –€27.6 million (resulting from methodological adjustments and reassessment of parameters).

## **Securitisation transactions**

### **Qualitative information**

The Group's main objectives in its securitisation transactions (whether traditional or synthetic) are the optimisation of the loan portfolio by freeing up regulatory and economic capital and obtaining fresh liquidity together with greater diversification of its sources of funding.

The difficult economic environment of the last years suggested also the opportunity to improve, where possible, the usage of securitisation schemes as a tool to support the origination of new loans by leveraging on specialised investors, like supranationals, able to provide protection for newly originated portfolios complying with certain pre-agreed eligibility criteria.

Analysis and realisation of securitisation transactions are carried out within the parent in close cooperation with the legal entities involved and with UniCredit Bank AG as Arranger and Investment Bank. This process requires an economic feasibility study to assess the impact of transactions (according to their nature and aims) on regulatory and economic capital, on risk-adjusted profitability measures and on the level of the Group's liquidity. If this initial phase produces a positive result, a technical and operational feasibility study is carried out to identify the assets to be securitised and design the structure of the transaction. Once technical feasibility has been established, the transaction is realised.

No new securitisation transactions were conducted in 2014 involving the existing portfolio of the banks.

In its role as sponsor the Group purchased Asset-Backed Commercial Paper issued by sponsored conduits. This meant that these vehicles were consolidated as from 2007.

With regard to investment in other parties' securitisations, i.e. structured credit products, these instruments were ring-fenced in a separate portfolio managed with a view to maximising future cash flow.

Given the asset quality of the underlyings, the best business strategy was considered to be retention in the bank's books.

In line with the above management principles, risk monitoring and maximising profit on securitisation transactions is achieved by:

- analysing the monthly or quarterly investor reports produced by the Trustee, paying special attention to the performance of the collateral;
- monitoring similar transactions' collateral performance and issues of similar paper;
- watching the market fundamentals of the underlying credit and
- staying in constant contact with the investors and, where collateral is managed, with the managers and analysts of the Collateral Manager.

Furthermore each portfolio is assigned a market VaR limit by Risk Management. This is monitored bearing in mind the correlations. The Group has spread curves for each rating and product (asset-backed securities, mortgage-backed securities, etc.) and uses them to calculate risk, in the same way as other instruments in its portfolio. The method used is in line with other sources of market risk, and enables us to estimate the possible effects of diversification and to aggregate the VaR with other sections of the portfolio.

## **Operational risk**

Operational risk (OpRisk) is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events (including legal risks). For example, compensation paid to customers for incorrect/inadequate product-related advice, IT system failures, damage to property, processing errors or fraud are subject to accurate and consolidated risk measurement and management (collection of loss data, external data, scenarios, indicators), on which the calculation of capital to be held for operational risk is based.

Loss data are collected, and processes are optimised, in close coordination and cooperation with other departments and units including Internal Audit, Compliance, Legal Affairs, ICT & Security Management and the insurance sector. Over the years, UniCredit Bank Austria AG has taken numerous measures in the various divisions to manage and reduce operational risk. Thus data security measures, measures to ensure the confidentiality and integrity of stored data, access authorisation systems, the two-signatures principle, and a large number of monitoring and control processes as well as staff training programmes have been implemented among other measures.

In line with other types of risk, UniCredit Bank Austria AG – like UniCredit – has built up a decentralised operational risk management framework based on representatives within divisions and at banking subsidiaries – Divisional OpRisk Managers (DORM) and OpRisk Managers – in addition to central operational risk management. While the

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main task of central risk management is to define the methods used and to perform risk measurement and analysis, decentralised risk managers are responsible for taking measures to reduce, prevent, or take out insurance against, risks.

● The following areas were a focus of activities in 2014: extended scenario process with detailed documentation of underlying risks and the potential impact of losses and risk-mitigating measures as a basis for the adapted AMA approach, which has been used in UniCredit Group since it was approved in 2014; supporting the units in accordance with the AMA rollout plan in preparing and carrying out regulatory reviews in cooperation with UniCredit Group; intensifying and further expanding the Permanent Work Group with regard to actions to mitigate operational risk in UniCredit Bank Austria AG and at strategically relevant CEE banking subsidiaries, taking into account the objectives and measures described in the global Operational Risk Strategy for 2014; analysing, collecting and classifying operational risk events relating to credit risk, and reporting them at meetings of the Bank Austria Operational & Reputational Risk Committee.

Overall, the organisation of operational risk management at UniCredit Bank Austria AG is well established at a high level of quality. A network of independent functions and teams are involved in managing and controlling risks, providing the Management Board with sufficient information on the risk situation and enabling the Management Board to manage risk. The analysis of the general ledger for operational risk relevance confirmed the extensive and complete operational risk data collection.

The task of dealing with operational risk issues is performed by a separate Operational & Reputational Risk Committee (OpRiCo), whose meetings are held on a quarterly basis and are attended by the Chief Risk Officer, the Head of Strategic Risk Management & Control, the Head of Operational Risk Management, Compliance, Internal Audit, the Divisional Operational Risk Managers and OpRisk representatives of CEE banking subsidiaries. The Committee is a major step towards integrating operational risk in the bank's processes; its main tasks are to report on current operational risk issues and developments, to approve operational risk-relevant documents, to report losses and serve as a body to which unresolved issues are referred.

In 2015 activities with regard to operational risk will focus on:

- integrating OpRisk risk strategy issues for 2015 and monitoring by reference to key performance indicators in the Permanent Work Group;
- integrating the new approach to monitoring OpRisk exposure on the basis of Expected Loss on Revenues (ELOR), a key indicator which will replace the OpRisk Warning Levels from 2015;

- developing a risk-sensitive approach to apportioning the OpRisk capital requirement within the Bank Austria sub-group;
- supporting the units in accordance with the AMA rollout plan in preparing and carrying out regulatory reviews in cooperation with UniCredit Group;
- developing an approach to implementing the UniCredit Group OpRisk ICT Assessment process for UniCredit Bank Austria AG and providing support for implementation at the relevant Bank Austria sub-group legal entities;
- analysing the collection and classification of operational risk events relating to credit risk.

## Reputational risk

UniCredit Group has identified reputational risk as the current or future risk of a decline in profits as a result of a negative perception of the Bank's image by customers, counterparties, shareholders, investors, employees or regulators.

Operational & Reputational Risk, a separate unit within the CRO management function, has been entrusted with strategic management and monitoring of reputational risk since 2012.

Reputational risk activities in 2014 focused mainly on the continuation of providing support to CEE legal entities in further implementing and expanding structures, policies and training, on monitoring and reporting cases of reputational risk and trends with regard to relevant topics, and on enhancing awareness of reputational risk management through training activities within UniCredit Bank Austria AG and in CEE.

In 2015, activities with regard to reputational risk will focus on:

- implementing new reputational risk policies within UniCredit Bank Austria AG and rolling them out at CEE subsidiaries;
- supporting reputational risk activities at CEE legal entities with regard to structures, policies and training;
- monitoring and reporting cases of reputational risk and trends with regard to relevant topics;
- enhancing awareness of reputational risk management through further training activities within UniCredit Bank Austria AG and in CEE.

## Business risk

Business risk is defined as unexpected adverse changes in business volume and/or margins which cannot be attributed to other types of risk. Adverse changes result mainly from a significant deterioration in market conditions, changes in the competitive position or customer behaviour, and from changes in the legal environment.



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Business risk measurement thus measures the influence of external factors on a decline in profits and the effect on the market value.

As part of general income and cost management, operational management of business risk is the responsibility of the individual business units.

## Financial investment risk and real estate risk

In dealing with risks arising from the bank's shareholdings and equity interests, Bank Austria takes into account potential market price fluctuations in its equity holdings in listed and unlisted companies.

Not included are equity interests in consolidated subsidiaries of the Group because risks associated with such companies are determined and recorded under the various other risk types. The portfolio includes various strategic investments; real estate holding companies are taken into account in real estate risk.

Financial investment risk and real estate risk are covered by a value-at-risk approach under the ICAAP.

The respective risk is determined by market risk value-at-risk and/or PD/LGD models considering the availability of appropriate indices and the quality of market quotations.

## 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.

### *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**

##### **Background**

In March 2009 Bernard L. Madoff ("Madoff"), former chairman of the NASDAQ Exchange and owner of Bernard L. Madoff Investment Securities LLC ("BLMIS"), pled guilty to operating what has been described as a Ponzi scheme, for which he was sentenced to 150 years in prison. In December of 2008, a bankruptcy administrator

(the "SIPA Trustee") for the liquidation of BLMIS was appointed in accordance with the U.S. Securities Investor Protection Act of 1970.

UniCredit Bank Austria AG ("BA") and certain of its affiliates and indirect subsidiaries have been sued or investigated in the wake of a Ponzi scheme perpetrated by Bernard L. Madoff ("Madoff") through his company Bernard L. Madoff Investment Securities LLC ("BLMIS"), and which was exposed in December 2008. Madoff or BLMIS and BA and its affiliates and subsidiaries were principally connected as follows:

- UniCredit Bank Austria AG was, from inception until mid-2007, the owner of founder shares of the Primeo Fund Ltd., a Cayman fund now in Official Liquidation ("Primeo"), which had an account at BLMIS.
- BA Worldwide Fund Management Ltd ("BAWFM"), an indirect subsidiary of BA, had been Primeo's investment advisor. BAWFM also performed for some time investment advisory functions for Thema International Fund plc ("Thema"), and Alpha Prime Fund Ltd. ("Alpha Prime"), both non-U.S. funds that had accounts at BLMIS.
- Some BA customers purchased shares in Primeo funds that were held in their accounts at BA.
- BA owned a 25 percent stake in Bank Medici AG ("Bank Medici"), a defendant in certain proceedings described below.
- BA acted in Austria as the "prospectus controller" under Austrian law in respect of Primeo and the Herald Fund SPC ("Herald"), a non-U.S. fund that had an account at BLMIS.
- UniCredit Bank AG (then Hypo- und Vereinsbank AG ("HVB")) issued notes whose return was to be calculated by reference to the performance of a synthetic hypothetical investment in Primeo.

#### **Austrian civil proceedings**

Investors in the Primeo and Herald Madoff feeder funds have brought numerous civil proceedings, of which 212 with a claimed amount totaling €128 million plus interest remain. The claims in these proceedings are either that BA breached certain duties regarding its function as prospectus controller, or that BA improperly advised certain investors (directly or indirectly) to invest in those funds or a combination of these claims. The Austrian Supreme Court has issued 8 final decisions with respect to prospectus liability claims asserted in the legal proceedings. With respect to claims related to the Primeo feeder funds, all 6 final Austrian Supreme Court decisions have been in favour of BA. With respect to the Herald feeder funds, the Austrian Supreme Court has ruled twice with respect to prospectus liability, once in favour of BA and once in favour of the claimant. At this stage, it is not possible to forecast what effect these decisions may have on other cases.

# Management Report (CONTINUED)

In respect of the Austrian civil proceedings pending as against BA related to Madoff's fraud, BA has made provisions for an amount considered appropriate to the current risk.

## Austrian criminal proceedings

BA has been named as a defendant in criminal proceedings in Austria which concern the Madoff case. These complaints allege, amongst other things, that BA breached provisions of the Austrian Investment Fund Act as prospectus controller of the Primeo fund and certain tax issues. These criminal proceedings are still at the pre-trial stage.

## Proceedings in the United States

### *Purported Class Actions*

BA, UniCredit S.p.A., PAI and Pioneer Global Asset Management S.p.A. ("PGAM"), a UniCredit S.p.A. subsidiary, were named among some 70 defendants in three putative class action lawsuits filed in the United States District Court for the Southern District of New York (the "Southern District") between January and March 2009 by purported representatives of investors in the Herald fund, the Primeo funds and the Thema fund, which were invested, directly or indirectly, in BLMIS. Plaintiffs principally alleged that the defendants should have discovered Madoff's fraud, and the Herald case asserted violations of the United States Racketeer Influenced and Corrupt Organizations Act ("RICO"), demanding some \$2 billion in damages, which plaintiffs sought to treble under RICO. Plaintiffs in the three class actions also sought damages in unspecified amounts and other relief.

On November 29, 2011, the Southern District dismissed all three putative class actions on grounds, with respect to UniCredit S.p.A., PGAM, PAI and BA, that the United States was not a convenient forum for resolution of plaintiffs' claims. That decision was upheld on appeal by the United States Court of Appeals for the Second Circuit (the "Second Circuit"). Currently, plaintiffs in the Thema and Herald cases have requested that the United States Supreme Court (the "Supreme Court") review the Second Circuit's ruling, which request remains pending before the Supreme Court.

### *Claims by the SIPA Trustee*

In December 2008, a bankruptcy administrator (the "SIPA Trustee") for the liquidation of BLMIS was appointed in accordance with the U.S. Securities Investor Protection Act of 1970 (SIPA). In December 2010, the SIPA Trustee filed two cases (the "HSBC" and the "Kohn" case) in the United States Bankruptcy Court in the Southern District of New York (the "Bankruptcy Court") against several dozen defendants, including BA, UniCredit S.p.A., PAI, PGAM, BAWFM, Bank Austria

Cayman Islands, and certain currently or formerly affiliated persons, as well as Bank Medici. Both cases were later removed to the non-bankruptcy federal trial court, i.e., the Southern District.

### *Kohn Case*

In the Kohn case, the SIPA Trustee made claims against more than 70 defendants, including BA, UniCredit S.p.A., PGAM, BAWFM, Bank Austria Cayman Islands, certain current or formerly affiliated persons and Bank Medici. Three categories of claims were advanced: "claw-back" or avoidance claims, common law claims and RICO violations. On November 26, 2014, the SIPA Trustee voluntarily dismissed without prejudice and effective immediately certain defendants (and all claims against them) from the Kohn case, including UniCredit S.p.A., BA, PGAM, BAWFM, Bank Austria Cayman Islands and the current or formerly affiliated persons. The case remains pending against certain other defendants not affiliated with UniCredit S.p.A. or its affiliated entities.

### *HSBC Case*

In the HSBC case, the SIPA Trustee made claims against some 60 defendants, including BA, UniCredit S.p.A., BAWFM, PAI, certain current or formerly affiliated persons and Bank Medici. Two categories of claims were advanced: "claw-back" or avoidance claims against certain defendants on a joint and several basis, including the abovementioned, alleged to be in excess of \$2 billion; and common law claims in unspecified amounts (said to exceed several billion dollars), including aiding and abetting BLMIS's breach of fiduciary duty and BLMIS's fraud.

The common law claims were dismissed by the Southern District on July 28, 2011. That decision was upheld on appeal by the Second Circuit, a further request for review by the Supreme Court was also rejected, and no further appeals are pending.

The avoidance claims remain pending in the Bankruptcy Court, and are currently subject to a request that they be dismissed in accordance with a ruling that such claims cannot be made in respect of transfers outside the United States between foreign transferors and foreign transferees because the relevant provisions of United States law do not apply extraterritorially.

The current or formerly affiliated persons named as defendants in the HSBC case, who had not been previously served, have now been served. The current or formerly affiliated persons may have similar defenses to the claims as BA and its affiliated entities, and may have rights to indemnification from those parties.

## Management Report (CONTINUED)

### *Claims by SPV Optimal SUS Ltd. and by SPV OSUS Ltd.*

BA and certain of its affiliates – UniCredit S.p.A., BAWFM, PAI – have been named as defendants, together with approximately 40 other defendants, in a lawsuit filed in the Supreme Court of the State of New York, County of New York, on December 12, 2014, by SPV OSUS Ltd. The complaint asserts common law based claims in connection with the Madoff Ponzi scheme, principally that defendants aided and abetted and/or knowingly participated in Madoff's scheme. The case is brought on behalf of investors in BLMS and claims damages in an unspecified amount. The action filed by SPV OSUS Ltd. is in the initial stages.

### **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, the following other proceedings and the following other legal risks. Due to the uncertain nature of litigation, however, we cannot exclude that the following may result in losses to the bank:

#### **Valauret S.A.**

Action brought by the Belgian company Valauret S.A. in Paris on the grounds of alleged involvement of Creditanstalt AG (now UniCredit Bank Austria AG) in wilful deception in connection with a French joint stock company as a result of which the plaintiffs incurred losses through a loss in value of shares acquired by it in the joint stock company.

#### **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 (with the claimed amount totalling about €2.3 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 pending in the first instance. No judgments 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 by investors and/or a consumer protection agency/the Chamber of Labour. 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.

### **Other proceedings**

Recently, violations of US sanctions 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. 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. 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.

### **Other legal risks**

#### **Negative interest rates CHF**

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 Bank Austria for charging interest 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, Bank Austria will not apply that rate but a debit interest rate of 0.00001% – in line with Bank Austria'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

# Management Report (CONTINUED)

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 announced that it would bring a class action against this practice.

## Financial derivatives

Derivatives shown in the following tables are classified as financial derivatives and credit derivatives, according to the underlying financial instrument. In these categories, a distinction is made between trading book and banking book and between different counterparties. UniCredit Bank Austria AG's business volume in derivatives focuses on interest rate contracts.

Over-the-counter transactions are individual agreements concerning volume, maturities and underlying instrument. In large-volume inter-bank trading, these agreements reflect international practice, while in customer business they are usually adjusted to specific needs. Exchange-traded contracts are always standardised in respect of volume and maturity date.

Derivatives are mainly used by the bank itself for hedging market risk and credit spread risk arising from new issue activities. In customer business, market participants include banks, securities houses, mutual funds, pension funds and corporate customers.

Information on the use of derivatives is given in item 2.2.9 Derivatives of the notes to the financial statements.

Trading in derivatives at UniCredit Bank Austria AG is primarily related to the hedging of positions entered into vis-à-vis customers.

For the purposes of portfolio and risk management, contracts are valued at current prices using recognised and tested models. Market values show the contract values as at the balance sheet date, positive market values indicate the potential default risk arising from the relevant activity.

For the purposes of portfolio management and risk limitation in the derivatives business with banks and customers, UniCredit Bank Austria AG uses an internal model used in the entire UniCredit Group (IMM), with a Monte Carlo path simulation to estimate the potential future exposure at portfolio level for each counterparty. The calculations are based on market volatility, correlations between specific risk factors, future cash flows and stress considerations. Netting agreements and collateral agreements are also taken into account for simulation purposes.

The simulation calculations are performed for all major types of transactions, e.g. forward foreign exchange transactions, commodity futures transactions, interest rate instruments, securities lending transactions and repurchase agreements, equity-related, commodity-related or inflation-related instruments and credit derivatives. Other (exotic) products are taken into account with an add-on factor (depending on volatility and maturity). The bank applies an expected shortfall method corresponding to a confidence interval of 95%.

In addition to determining the potential future exposure for the purpose of internal risk management, the path simulation also enables the bank to calculate the mean exposure and the Basel 3-modified mean exposure as well as the effective term of the exposure for each counterparty. In this way, counterparty risk can be taken into account in a Basel 3-compliant internal model for the calculation of capital requirements.

Line utilisation for derivatives business is available online in the central treasury system MLC ("Murex Limit Controller") for the so-called EUROMIB countries. For those units which are not connected to the central system, separate lines are allocated and monitored in the local limit systems using a standardised method. Group-wide compliance with lines approved in the credit process is thus ensured at any time.

UniCredit Bank Austria AG additionally limits the credit risk arising from its derivatives business through strict use of master agreements, through collateral agreements and break clauses. In combination with the very good average credit rating of our business partners in the derivatives business, management takes proper account of default risk.

## 2.3. Third-party guarantees

Under Section 92 (9) of the Austrian Banking Act, "Privatstiftung zur Verwaltung von Anteilsrechten" ("AV-Z Stiftung", a private foundation under Austrian law) serves as deficiency guarantor for all liabilities of UniCredit Bank Austria AG in the event of the company's insolvency.

After the change in the legal form of Anteilsverwaltung Zentralsparkasse into a private foundation ("AV-Z Stiftung") in 2001, the Municipality of Vienna serves as deficiency guarantor for all outstanding liabilities, and obligations to pay future benefits, of UniCredit Bank Austria AG (then Bank Austria Aktiengesellschaft) which were entered into prior to and including 31 December 2001.

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## 3. Outlook for 2015

### Economic scenario

● Following the difficult economic stretch in the second half of 2014, at least in our immediate environment, economic prospects brightened in early 2015 – and for a number of reasons, these expectations are supported by sounder data than was the case a year ago. On the other hand, the geopolitical risks mentioned at the time have materialised, developing into regional crises. Future developments are viewed with greater confidence from a global perspective than currently still in Europe.

In 2015/16 the **global economy** will grow at a rate of about 3½% p. a., the multi-year average and the highest growth rate seen in three years. Growth will be driven primarily by the decline in oil prices (unlike the scenario one year ago), which will provide a strong global impetus from both the supply and demand sides. In most countries, the primary source of economic growth will be domestic demand and not exports, a development not seen in many years. The industrial countries will be the growth drivers in 2015/16, in particular the **US**, which is expected to see sound growth of up to 3%. A significant rise in employment, higher increases in incomes and an improvement in purchasing power make private consumption the most important growth component. The forecasts for the **euro area** have most recently been raised by one-half of a percentage point to 1.4% in 2015 and 1.7% in 2016. In the fourth quarter of 2014, growth was stronger than expected, leading to a current positive overhang. These developments are further supported by a growth impetus from an expansive monetary policy, depreciation of the euro and the easing of effects resulting from fiscal measures. The survey performed by the ECB in January shows that credit standards have also eased in Europe. It indicates a revival in demand from companies, suggesting that the backlog in investment may be coming to an end.

● The **Austrian economy** started 2015 with low expectations. Following a disappointing trend in demand from emerging markets and Europe, and the outbreak of several geopolitical crises in the previous year, discussions aimed at resolving Greece's debt and the repeated flaring up of the conflict of the West with Russia had a negative impact on sentiment in the Austrian economy at the beginning of 2015. The confidence indicators in industry and among consumers were well below the multi-year average at the beginning of the current year. The Bank Austria Purchasing Managers' Index has been moving below the growth threshold of 50 points for a number of months.

But 2015 holds out the prospect of a moderate recovery of the Austrian economy. The 0.3% economic growth recorded in 2014 could accelerate to 0.9% in the current year, driven by five factors:

- ▶ First, the global economy will probably provide a stronger impetus. While growth rates in emerging markets are declining (yet still high), this development is offset by an upturn in industrial countries. The Austrian economy is also benefiting from the stronger momentum of economic recovery in Europe. This is based on the performance of the German economy, which is expected to expand by about 2%, the moderate upturn experienced in Italy, and on growth prospects in Central and Eastern Europe, which are in the region of 3% without Russia. We consequently look for a turnaround in Austria's net exports, from a decline of about 0.5 percentage points in the previous year to a moderate contribution to economic growth beginning in 2015. Stronger global demand makes Austria's export-oriented industry an important driver of recovery. After almost stagnating in the past year, industrial output will experience a slight upward trend and may grow by an average of about 3% in 2015.
- ▶ Second, the adverse impact of fiscal austerity programmes on growth, which was very much in evidence in past years, will ease in the forthcoming years, enabling demand from other European countries to pick up.
- ▶ Third, the decline of oil prices as an impetus to economic growth. In 2015, oil prices will average about 60 US dollars per barrel, well below the level of the previous year. In Austria, inflation will consequently decline to about 0.5% by the middle of the year. It is expected to fall to an average level of 0.9% in 2015, from 1.7% in the previous year. These two factors together will probably result in an increase in real incomes, which in turn will provide a stronger impetus to private consumption.
- ▶ Fourth, the weaker euro will support economic growth in Austria. Compared with an average rate of 1.33 US dollars per euro in 2014, we look for an average exchange rate of 1.09 in 2015, almost 20% less than in the previous year. More competitive pricing in many export markets will also boost export growth in the course of 2015, thereby helping to clear the investment backlog. On account of the time lag before investment in plant and equipment takes effect, gross fixed capital formation will amount to no more than +½% in 2015 before expanding to 3.5% in 2016.
- ▶ Fifth, Austria's industry will also benefit from the ECB's monetary policy. While the further easing of monetary policy as part of the ECB's policy of quantitative easing – its new securities acquisition programme that is to commence in March 2015 – is expected to provide only little direct economic stimulus, the impetus is likely to come from the subsequent effect of a weaker euro. Low interest rates in Europe are assured for some time to come, while the US

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could launch a cycle of interest rate rises in a few months. On this basis, the weaker euro as a means of stimulating exports will probably be maintained for a longer time.

→ The slight improvement in economic conditions will support employment which is expected to pick up slightly in 2015/2016 compared with 2014 (+0.6%). Unemployment will nevertheless rise to 5.1% in 2015 (2014: 5.0%) due to an increase in the labour supply. Disposable nominal incomes will therefore grow only moderately, and the savings ratio will continue to rise slightly in 2015.

Debt reduction of companies and private households has reached an advanced stage. In combination with very low interest rates, this will support growth of lending volume in the course of 2015, to a level of +2% by year-end 2015. Within the total volume, loans to private households will continue to show disproportionately strong growth, reflecting trends in housing loans. Lending to SMEs, primarily relating to working capital, will probably also pick up (+1.5%). Deposits reflect the weak creation of monetary wealth and the shift to other types of investment such as real estate, as well as the very low interest levels. In 2014, deposits by private customers grew at an average rate close to zero. On the other hand, deposit volume of non-bank financial intermediaries and of the public sector rose significantly, resulting in overall deposit growth. Demand for deposits from private households is expected to remain weak in 2015, and, as in 2014, the current year will probably see a further net reduction of fixed income investments. Demand for mutual funds continues to be relatively strong; private households will probably again make net purchases in 2015. Creation of monetary wealth will remain moderate as the trend to assets in real terms, such as real estate, continues due to the current uncertainty.

● Data for the CEE region for the fourth quarter of 2014 confirm that accelerated growth of domestic demand is sustainable although impetus from exports is weakening. In CESEE, low inflation rates and an improved labour market situation will probably lead to increases in real incomes and consumption. The high levels of capacity utilisation and profitability in the industrial sector suggest that investment will pick up, especially in Poland, the Czech Republic and Hungary. Surveys of business sentiment have also indicated improvements, reflecting reviving growth in Germany and the resulting demand for exports. Local central banks take advantage of this situation to reduce interest rates. Debt reduction of private households is gradually receding, and there are signs of a recovery of credit demand. Overall, we expect steady growth of 2.4% for the Central European countries in 2015, rising to +2.8% in 2016. The South-East European countries will achieve lower growth of 1.5% and 2.3%, respectively (see table), as recession in Croatia and Serbia continues in 2015.

Turkey benefits from a better outlook for growth and inflation while facing the risk of stronger dependence on external capital inflows. The economy is set to experience a demand-driven upswing on the back of accelerating credit demand in the past months. Moreover, demand in the areas of consumption and investment may be expected to become stronger ahead of the elections in June. The inflation rate, at over 7%, is high by international standards. This will probably prompt Turkey's central bank to take a cautious approach to any further interest rate reductions so as not to jeopardise the valuation of the Turkish lira, all the more so as capital inflows are necessary – despite the decline in the current account deficit, which reflects oil prices – and companies hold large foreign currency positions. Growth forecasts for Turkey are +3.4% in 2015 and +4.2% in 2016, the highest in CEE.

Although the Russian economy grew by 0.6% in 2014, performing better than expected, the most recent indicators suggest that the domestic mainstays of growth are weakening. Moreover, recent commodity price developments and geopolitical tensions are impacting

## Economic growth (Real GDP, % over previous year)

	2012	2013	2014e	2015f	2016f
World (IMF, PPP)	+3.4	+3.3	+3.3	+3.5	+3.7
China	+7.8	+7.7	+7.4	+7.0	+6.6
USA	+2.3	+2.2	+2.2	+2.4	+3.0
Euro area	-0.6	-0.4	+0.9	+1.4	+1.7
... Austria	+0.9	+0.3	+0.3	+0.9	+1.5
Czech Republic	-0.7	-0.7	+2.0	+2.4	+2.8
Slovakia	+1.6	+1.4	+2.3	+2.5	+3.1
Hungary	-1.7	+1.5	+3.5	+2.4	+2.5
Slovenia	-2.6	-1.0	+2.5	+1.8	+2.8
Poland	+1.8	+1.7	+3.3	+3.3	+3.4
Bulgaria	+0.5	+1.1	+1.5	+1.5	+2.0
Romania	+0.6	+3.5	+2.7	+2.5	+3.0
Croatia	-2.2	-0.9	-0.7	-0.2	+0.8
Bosnia and Herzegovina	-1.2	+2.1	+0.0	+2.0	+3.5
Serbia	-1.5	+2.5	-2.1	-0.7	+1.0
Turkey	+2.1	+4.1	+2.9	+3.4	+4.2
Russia	+3.4	+1.3	+0.6	-3.4	+0.0
Ukraine	+0.3	+0.2	-6.7	...	...
<b>Bank Austria market <sup>1)</sup></b>	<b>+2.1</b>	<b>+1.7</b>	<b>+1.3</b>	<b>-0.5</b>	<b>+1.5</b>
<b>CEE (Bank Austria perimeter in 2014)<sup>2)</sup></b>	<b>+2.2</b>	<b>+1.9</b>	<b>+1.4</b>	<b>-0.7</b>	<b>+1.5</b>
Central Europe (CZ, SK, H, SLO)	-0.7	+0.3	+2.5	+2.4	+2.8
South-East Europe (ROM, BG, CRO, BIH, SRB)	-0.2	+2.2	+1.2	+1.5	+2.3
Turkey	+2.1	+4.1	+2.9	+3.4	+4.2
CEE without Russia	+0.8	+2.6	+2.4	+2.7	+3.4
Russia	+3.4	+1.3	+0.6	-3.4	+0.0

Country groups weighted by nominal GDP for 2012. Source of original figures: UniCredit Research (forecast applicable as at December 2014, partly revised in February 2015); world: IMF at PPP (WEO update of January 2015). / 1) Bank Austria market = Austria (10%) and CEE (90%). / 2) CEE, Bank Austria perimeter in 2014 = CZ, SK, H, SLO; ROM, BG, CRO, BIH, SRB; TK, RUS.

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the economy. Our scenario is based on an annual average oil price of about US\$60 per barrel, significantly lower than in 2014 (99.5 US\$/b), putting pressure on export revenues and public finances. A continued reduction of imports (after strong currency depreciation) will partly offset capital exports, which are mainly connected with the rollover of foreign debt. Appreciation of the rouble (target for year-end 2015: 70 RUB/USD with peaks of up to 75) is unlikely, given the US dollar's strength and the low oil price. With the effects of currency depreciation being felt throughout the economy, inflation will remain high, probably peaking at 18% in the first half of 2015 and then subsiding. Interest rates have already been lowered to 15%. Real GDP will shrink by 3.6% in 2015.

**Economic risks** include underestimating the effects of the turnaround in the **US interest rate cycle** and its impact on emerging markets which have current account deficits. As the year progresses, this may lead to phases of intense financial market volatility in 2015, entailing stronger risk aversion and the repatriation of portfolio investments. Even after the recent extension of the assistance programme, the **Greek debt crisis** could flare up again and again in the course of negotiations surrounding public sector consolidation until the end of April, causing irritation in financial markets. A new aid package could become inevitable at the end of June.

**Geopolitical risks** – including the situation in the Middle East and a potential spreading of international terrorism – are again a significant factor, and hard to quantify, in 2015. Future developments in **Ukraine** and the related conflict of the West with **Russia** are difficult to assess and may at best be contained within the region. While the situation could escalate further, a freezing of the conflict is equally conceivable.

## Outlook for Bank Austria's performance

● Even if the expected improvement in the overall economic environment leads to a stronger growth momentum, conditions in the European banking sector will improve only gradually and moderately.

▶ Credit demand will remain weak for several quarters to come as impetus to economic growth takes a relatively **long time to feed through** to the financing cycle. Moreover, the currently low level of interest rates will not change in the foreseeable future. And finally, banks' flexibility will be restricted by the requirement to further raise their capital ratios, by the implementation of liquidity requirements and, last but not least, by excessive and detailed regulatory intervention.

▶ It became clear in 2014 that a deterioration in sentiment can halt a recovery that is in progress. Whether improvements in our market environment are sustainable will therefore depend on future developments in **crisis spots**. The renewed flaring up of the Greek debt crisis could entail increased volatility in financial markets and new uncertainty. A further escalation of the armed conflict in Ukraine or a financial collapse of the country would have a strong impact on our local operations and would also have indirect repercussions via sanctions/countersanctions and restrictions of international financial flows.

● Our plans for **Austrian** customer business envisage continued growth in new business in 2015, which will also lead to a slight increase in volume. Our efforts to gain market share will support growth. There will be persistent pressure on margins on existing business, and income from maturity transformation will remain moderate in the foreseeable future. We do not expect trading-induced interest income to reach high levels. The outlook for net fees and commissions is better than for net interest: the continued period of low interest rates, in combination with the end of the boom in bond markets and growing volatility in stock markets, should lead to stronger demand for suitable investment products and sound advice; on this basis, we should see growth in commission income from securities business, from the placement of investment products and mutual funds, and from asset management activities, which we have significantly expanded. Foreign trade-related services should also overcome their temporary weakness as external trade picks up later in the year. Our risk management activities have considerably reduced net write-downs of loans and provisions for guarantees and commitments over the past years. This applies also in a multi-year comparison, even if the cost of risk was exceptionally low in 2014, also reflecting one-off effects.

We introduced SmartBanking successfully in 2014 and started to implement our new branch concept. In 2015 we will vigorously pursue the transformation of our **business model** to create a modern multi-channel bank. SmartBanking is being further developed on an ongoing basis and will penetrate our sales operations. With our differentiated branch concept we meet customers' specific needs: both as a basic services bank, where we will launch a new online service offering in early 2015, and as an advisory bank and premium bank. We are making these highly visible efforts in response to trends in consumer behaviour. We thereby also want to win new customers while additionally benefiting from the positive side-effect of significant efficiency enhancement, not least a reduction of the structurally high cost/income ratio in Austrian retail banking in particular. In cor-

# Management Report (CONTINUED)

porate banking we aim to expand our market position in business with medium-sized companies, e.g. by using funding advantages of the ECB's targeted longer-term refinancing operations (TLTROs) and cooperating with banks which operate financial assistance schemes. "BusinessCenter24", our customer service centre, and the expansion of online services in this segment, too, will further improve efficiency. The economic recovery should prompt large companies to carry out investment projects and capital market measures which they had previously postponed (bond issues, loans against borrowers' notes, syndicated finance, classic loans). Being the top contact in Austria for financial market activities, and backed by UniCredit's placement power, we are ready to support companies.

Overall, we expect Austrian customer business to strengthen the bank's market position and generate a sound net operating profit in the near future.

● In the **CEE** business segment we believe that the upward trend in operating performance in the Central European and South-East European countries (CESEE) will continue. Growth in lending business will accelerate in this region, driven by a stronger momentum in corporate banking and with demand from retail customers remaining at a sound level. This overall picture is based on economic trends. The recovery in the European industrial network is supporting business with large companies in the Czech Republic, in Hungary and also in Romania. While the situation in the Western Balkan countries is more difficult, our local banks have demonstrated that based on their reputation and market position, they are able to achieve further growth in volume and profits even in a stagnating environment. **Turkey** continues to be a model of a growth market. Volume expansion and the advance of fee-based business generate rising income even during periods when funding presents difficulties. Therefore continued investment in the branch network and in staff is paying off. As a result, the contribution from Turkey, which is accounted for using the equity method, should increase. Exchange rate movements could become more volatile in the coming quarters, impacting local business in highly exposed countries and profit performance in euro terms.

Our **Russian** banking subsidiary made a significant contribution to profits also during difficult market phases: focusing on the large corporates segment, the bank has so far proved to be robust and profitable. With a loan/direct-funding ratio of 110.1% the bank has a strong local funding base and a strong capital base. It remains to be seen how the impact of strong currency depreciation at the end of 2014 will be absorbed in 2015 and how the rollover of international financings of our main target group can be effected in view of continuing, possibly even further tightened sanctions and the most recent downgrade of the country's rating. Current business is additionally impacted by the inverted yield curve and currency risk. We

believe our Russian banking subsidiary is robust, given its focus on large internationally active companies and its good standing in financial markets. In **Ukraine**, Bank Austria holds a direct equity interest of about 72% in Ukrspotsbank, which continues to be classified as held for sale. The current situation in the country is having a strong impact on business activity. Ukrspotsbank has closed its branches in Crimea, most of the branches in the Donetsk and Luhansk regions have been closed permanently. The Ukrainian banking sector and thus also our local banking subsidiary continue to be exposed to significant default risk; more detailed information is given in the notes (item 4.34) to the financial statements.

Geopolitical tensions and hesitant recovery in the euro area are certainly going to be the major challenges to be met in the next few quarters. In this difficult environment, the CEE Division is strongly positioned for future growth to remain a key contributor to our banking group. With our ongoing investments in Central and Eastern Europe we have gained market shares in most countries and will continue to do so in the future while competitors are deleveraging. 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.

● All in all, the cross-regional **diversification of Bank Austria's business portfolio**, which includes the mature Austrian market, stable and well-integrated EU member countries in CEE and highly profitable growth markets, continues to provide a sound basis for bearing local risks.

## 4. Events after the balance sheet date

The equity interest in UniCredit CAIB Poland S.A. was sold to a fellow UniCredit Group subsidiary, the closing of the transaction took place on 2 January 2015.

In the middle of January the Swiss National Bank surprisingly discontinued the Swiss franc's link to the euro, which it had previously maintained at an exchange rate of 1.2 CHF/EUR (exchange rate as at 31 December 2014: 1.21462 CHF/EUR). This resulted in strong appreciation of the Swiss franc against the euro after 16 January 2015, with the exchange rate temporarily moving below 1 CHF/EUR but slightly recovering by the middle of February and settling at around 1.06 CHF/EUR.

The Ukrainian currency (UAH) has depreciated significantly since 5 February 2015. While the UAH had moved at a level of about 18 UAH per euro before 5 February 2015 (exchange rate as at 31 December 2014: 15.8643 UAH/EUR), it rose to just under 30 UAH per euro by the middle of February.



# Management Report (CONTINUED)

Short-term interest rates in CHF fluctuated around zero in 2014, temporarily becoming slightly negative during the year (for example, for 1M CHF LIBOR). From the middle of January 2015, CHF interest rates became significantly negative in some cases (1M CHF LIBOR on 16 February 2015: -0.925%).

Carlo Vivaldi assumed responsibility for the CEE Banking Division with effect from 16 February 2015, succeeding Gianni Franco Papa in this function. At the same time he was appointed Deputy Chairman of the Management Board of UniCredit Bank Austria AG.

## 5. Report on key features of the internal control and risk management systems in relation to the financial reporting process

The Management Board is responsible for establishing and designing internal control and risk management systems which meet the company's requirements in relation to the financial reporting process. The purpose of this report is to provide an overview of how internal controls are organised in relation to the financial reporting process.

The objective of the internal control system is to assist management in assuring internal controls in relation to financial reporting which are effective and are improved on an ongoing basis. The system is geared to complying with rules and regulations and creating conditions which are conducive to performing specific controls in key accounting processes.

Following the integration of the Bank Austria Group in UniCredit Group, the Italian Savings Law, Section 262 (detailed descriptions of processes, risk and control for minimising risk in preparing financial statements) in particular, must be complied with in addition to the existing internal control system.

Pursuant to the "262 Savings Law", the CEO and the CFO delegated by UniCredit S.p.A. are liable, under civil and criminal law, for any violation of the legal provisions. They are also responsible for subsidiaries defined by UniCredit S.p.A. within the group of consolidated companies.

Internal Audit performs independent and regular reviews of compliance with internal rules also in the area of accounting. The Head of Internal Audit reports directly to the Management Board and provides the Chairman of the Supervisory Board with quarterly reports.

### Control environment

The basic aspect of the control environment is the corporate culture in which management and all employees operate.

UniCredit S.p.A., the parent company of UniCredit Bank Austria AG, works to maintain effective communication and convey the corporate values defined in the Integrity Charter. The Integrity Charter embodies UniCredit Group's identity and is based on the following shared values: fairness, transparency, respect, reciprocity, freedom to act, and trust.

The implementation of the internal control system in relation to the financial reporting process is also set out in the internal rules and regulations.

All accounting entries are made within the guidelines established in the Accounting Policy, and release follows defined instruction and control criteria. For each general ledger account there is a responsible person who reconciles the general ledger accounts in accordance with existing rules. This internal reconciliation process is interrogated by Financial Accounting and reviewed by Internal Audit.

### Risk assessment

In the course of the "262 Savings Law" project, the persons having process responsibility identified risks in relation to the financial reporting process and described them in detail using the method defined by UniCredit S.p.A. These risks are monitored on an ongoing basis and checked for up-to-dateness at least on a half-yearly basis. The focus is on those risks which are typically considered to be material.

To meet the "262 Savings Law" requirements, controls pursuant to the methodology used by UniCredit S.p.A. are required to be performed at least on a half-yearly basis (for full-year and half-year reporting). Such control evidence must be kept on file for 10 years by the person having process responsibility. Any controls that do not meet the relevant criteria are identified under this method and reported to management together with a proposal for a solution.

### Controls

All controls are applied in the current business process to ensure that potential errors or deviations in financial reporting are prevented or detected and corrected. Controls range from a management review of results for the various periods to specific reconciliation of accounts and the analysis of continuous accounting processes.

# Management Report (CONTINUED)

The levels of hierarchy are designed so that an activity and the control of that activity is not performed by the same person (four-eyes principle). In the course of the preparation of financial reports, the general ledger accounts are reconciled with business and front-end systems. IT security controls are a cornerstone of the internal control system. Defined IT controls are documented under "262 Savings Law" and audited by external auditors pursuant to "International Standards for Assurance Engagements" (ISAE) No. 3402.

## Information and communication

Management regularly updates rules and regulations for financial reporting and communicates them to all employees concerned.

Moreover, regular discussions on financial reporting and on the rules and regulations applicable in this context take place in various bodies and are repeatedly communicated to UniCredit Bank Austria AG. Employees in Financial Accounting receive regular training in new methods of international financial reporting in order to identify risks of unintended misreporting at an early stage.

To perform monitoring and control functions with a view to proper financial accounting and reporting, extensive financial information is made available at key levels of the bank. Relevant information is not only provided to the Supervisory Board and the Management Board, middle management levels also receive detailed reports.

## Monitoring

As part of the implementation of the internal control system pursuant to the "262 Savings Law", instruments were introduced to monitor the effectiveness of controls. In connection with the compulsory half-yearly certification process for the preparation of the management report, the persons having process responsibility are required to carry out tests to check the up-to-dateness of descriptions and the effectiveness of controls. It must be ascertained whether the controls work according to their design and whether the persons who perform controls have the competence/authority and qualifications required to perform the controls effectively.

All persons having process responsibility confirm by means of certification that their processes are adequately documented, risks have been identified and controls have been evaluated with a view to deriving measures to minimise risk.

The Chief Financial Officer of UniCredit Bank Austria AG receives the certifications of UniCredit Bank Austria AG and of the subsidiaries defined by UniCredit S.p.A. within the group of consolidated companies, in the form of a consolidated management report on a half-yearly basis, and provides UniCredit S.p.A. and the public with confirmation of the reliability and effectiveness of the internal control system pursuant to the "262 Savings Law" in the context of the financial statements for the first six months and the annual financial statements.

Vienna, 2 March 2015

The Management Board:

Willibald Cernko  
(Chief Executive Officer)

Carlo Vivaldi  
(Deputy CEO)

Helmut Bernkopf

Francesco Giordano

Dieter Hengl

Jürgen Kullnigg

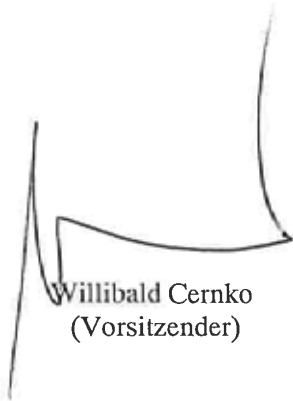
Doris Tomanek

Robert Zadrazil

# Management Report (CONTINUED)

Wien, den 02. März 2015

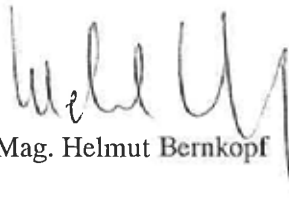
Der Vorstand:



Willibald Cernko  
(Vorsitzender)



Dr. Carlo Vivaldi  
(Vorsitzender Stellvertreter)



Mag. Helmut Bernkopf



Francesco Giordano, MSc



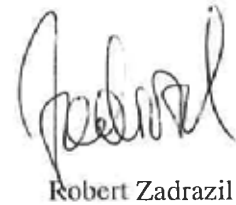
Mag. Dieter Hengl



Dr. Jürgen Kullnigg



Mag. Doris Tomanek



Robert Zadrazil

# Financial Statements of UniCredit Bank Austria AG

## Balance Sheet at 31 December 2014

### Assets

(€ thousand)

	31 DEC. 2014	31 DEC. 2013	CHANGE	
			IN € 1,000	IN %
<b>1. Cash in hand, balances with central banks and postal giro offices</b>	<b>2,153,506</b>	<b>1,490,873</b>	<b>662,633</b>	<b>44.4</b>
<b>2. Treasury bills and other bills eligible for refinancing at central banks</b>	<b>9,589,278</b>	<b>6,765,883</b>	<b>2,823,395</b>	<b>41.7</b>
a) treasury bills and similar securities	9,589,278	6,765,883	2,823,395	41.7
b) other bills eligible for refinancing at central banks	–	–	–	–
<b>3. Loans and advances to credit institutions</b>	<b>23,048,133</b>	<b>19,840,279</b>	<b>3,207,854</b>	<b>16.2</b>
a) repayable on demand	5,673,515	3,725,259	1,948,256	52.3
b) other loans and advances	17,374,618	16,115,020	1,259,598	7.8
<b>4. Loans and advances to customers</b>	<b>64,142,312</b>	<b>65,816,326</b>	<b>–1,674,014</b>	<b>–2.5</b>
<b>5. Bonds and other fixed-income securities</b>	<b>9,608,270</b>	<b>9,558,414</b>	<b>49,856</b>	<b>0.5</b>
a) issued by public borrowers	483,909	472,970	10,939	2.3
b) issued by other borrowers	9,124,361	9,085,444	38,917	0.4
of which: own bonds	2,188,400	2,582,445	–394,045	–15.3
<b>6. Shares and other variable-yield securities</b>	<b>124,985</b>	<b>193,310</b>	<b>–68,325</b>	<b>–35.3</b>
<b>7. Equity interests</b>	<b>2,987,299</b>	<b>3,226,076</b>	<b>–238,777</b>	<b>–7.4</b>
of which: in credit institutions	153,984	153,445	539	0.4
<b>8. Shares in group companies</b>	<b>9,914,810</b>	<b>11,220,146</b>	<b>–1,305,336</b>	<b>–11.6</b>
of which: in credit institutions	7,566,836	8,403,832	–836,996	–10.0
<b>9. Intangible fixed assets</b>	<b>7,040</b>	<b>9,254</b>	<b>–2,214</b>	<b>–23.9</b>
<b>10. Tangible fixed assets</b>	<b>199,888</b>	<b>188,881</b>	<b>11,007</b>	<b>5.8</b>
of which: land and buildings used by the credit institution for its own business operations	51,696	53,759	–2,063	–3.8
<b>11. Own shares and shares in a controlling company</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
of which: par value	–	–	–	–
<b>12. Other assets</b>	<b>2,721,215</b>	<b>1,621,128</b>	<b>1,100,087</b>	<b>67.9</b>
<b>13. Prepaid expenses</b>	<b>466,620</b>	<b>195,947</b>	<b>270,673</b>	<b>&gt;100</b>
<b>TOTAL ASSETS</b>	<b>124,963,356</b>	<b>120,126,517</b>	<b>4,836,839</b>	<b>4.0</b>

# Financial Statements (CONTINUED)

## Liabilities and Shareholders' Equity

(€ thousand)

	31 DEC. 2014	31 DEC. 2013	CHANGE	
			IN € 1,000	IN %
<b>1. Amounts owed to credit institutions</b>	<b>25,076,093</b>	<b>26,753,722</b>	<b>-1,677,629</b>	<b>-6.3</b>
a) repayable on demand	4,158,282	4,301,108	-142,826	-3.3
b) with agreed maturity dates or periods of notice	20,917,811	22,452,614	-1,534,803	-6.8
<b>2. Amounts owed to customers</b>	<b>51,908,660</b>	<b>48,754,122</b>	<b>3,154,538</b>	<b>6.5</b>
a) savings deposits	16,316,694	16,444,094	-127,400	-0.8
aa) repayable on demand	5,630,100	5,128,616	501,484	9.8
bb) with agreed maturity dates or periods of notice	10,686,594	11,315,478	-628,884	-5.6
b) other liabilities	35,591,966	32,310,028	3,281,938	10.2
aa) repayable on demand	21,640,877	23,597,700	-1,956,823	-8.3
bb) with agreed maturity dates or periods of notice	13,951,089	8,712,328	5,238,761	60.1
<b>3. Debts evidenced by certificates</b>	<b>24,556,951</b>	<b>23,509,695</b>	<b>1,047,256</b>	<b>4.5</b>
a) bonds issued	21,125,352	19,591,365	1,533,987	7.8
b) other debts evidenced by certificates	3,431,599	3,918,330	-486,731	-12.4
<b>4. Other liabilities</b>	<b>2,570,477</b>	<b>1,369,317</b>	<b>1,201,160</b>	<b>87.7</b>
<b>5. Deferred income</b>	<b>62,845</b>	<b>63,503</b>	<b>-658</b>	<b>-1.0</b>
<b>6. Provisions</b>	<b>6,517,959</b>	<b>5,026,690</b>	<b>1,491,269</b>	<b>29.7</b>
a) provisions for severance payments	343,956	288,569	55,387	19.2
b) pension provisions	4,423,135	3,179,180	1,243,955	39.1
c) provisions for taxes	13,214	214	13,000	>100.0
d) other	1,737,654	1,558,727	178,927	11.5
<b>6a. Special fund for general banking risks</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>7. Tier 2 capital pursuant to Chapter 4 of Title I of Part Two of Regulation (EU) No 575/2013</b>	<b>4,065,196</b>	<b>2,480,391</b>	<b>1,584,805</b>	<b>63.9</b>
<b>8. Additional Tier 1 capital pursuant to Chapter 3 of Title I of Part Two of Regulation (EU) No 575/2013</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>8a. Contingent convertible bonds pursuant to Section 26 of the Austrian Banking Act</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>8b. Instruments without voting right pursuant to Section 26a of the Austrian Banking Act</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>9. Subscribed capital</b>	<b>1,681,034</b>	<b>1,681,034</b>	<b>-</b>	<b>-</b>
<b>10. Capital reserves</b>	<b>6,366,354</b>	<b>8,280,918</b>	<b>-1,914,564</b>	<b>-23.1</b>
a) subject to legal restrictions	6,366,354	7,913,947	-1,547,593	-19.6
b) other	-	366,971	-366,971	-100.0
<b>11. Revenue reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) for own shares and shares in a controlling company	-	-	-	-
b) statutory reserve	-	-	-	-
c) reserves provided for by the bye-laws	-	-	-	-
d) other reserves	-	-	-	-
<b>12. Reserve pursuant to Section 57 (5) of the Austrian Banking Act (BWG)</b>	<b>2,129,748</b>	<b>2,129,748</b>	<b>-</b>	<b>-</b>
<b>13. Accumulated profit/loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>14. Untaxed reserves</b>	<b>28,039</b>	<b>77,377</b>	<b>-49,338</b>	<b>-63.8</b>
a) valuation reserve resulting from special depreciation	28,039	77,377	-49,338	-63.8
b) other untaxed reserves	-	-	-	-
aa) investment reserve pursuant to Section 9 of the Austrian Income Tax Act (EStG) 1988	-	-	-	-
bb) investment allowance pursuant to Section 10 of the Austrian Income Tax Act 1988	-	-	-	-
cc) rent reserve pursuant to Section 11 of the Austrian Income Tax Act 1988	-	-	-	-
dd) reserve transferred pursuant to Sec. 12 of the Austrian Income Tax Act 1988	-	-	-	-
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>124,963,356</b>	<b>120,126,517</b>	<b>4,836,839</b>	<b>4.0</b>

# Financial Statements (CONTINUED)

## Items shown below the Balance Sheet

### Assets

(€ thousand)

	31 DEC. 2014	31 DEC. 2013	CHANGE	
			IN € 1,000	IN %
<b>1. Foreign assets</b>	<b>58,382,412</b>	<b>55,749,677</b>	<b>2,632,735</b>	<b>4.7</b>

### Liabilities and Shareholders' Equity

(€ thousand)

	31 DEC. 2014	31 DEC. 2013	CHANGE	
			IN € 1,000	IN %
<b>1. Contingent liabilities</b>	<b>12,063,565</b>	<b>11,179,438</b>	<b>884,127</b>	<b>7.9</b>
of which:				
a) acceptances and endorsements	–	–	–	–
b) guarantees and assets pledged as collateral security	12,063,565	11,179,438	884,127	7.9
<b>2. Commitments</b>	<b>11,729,048</b>	<b>2,341,934</b>	<b>9,387,114</b>	<b>&gt;100.0</b>
of which: commitments arising from repurchase agreements				
<b>3. Liabilities arising from transactions on a trust basis</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>4. Eligible capital pursuant to Part Two of Regulation (EU) No 575/2013</b>	<b>13,567,771</b>	<b>13,029,282</b>	<b>538,489</b>	<b>4.1</b>
*) of which: Tier 2 capital pursuant to Chapter 4 of Title I of Part Two of Regulation (EU) No 575/2013	3,513,094		3,513,094	100.0
<b>5. Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013</b>	<b>5,506,168</b>	<b>5,491,963</b>	<b>14,205</b>	<b>0.3</b>
of which: capital requirements pursuant to points (a) to (c) of Article 92 (1) of Regulation (EU) No 575/2013				
*) a) a Common Equity Tier 1 capital ratio of 14.61 %	10,054,677			
*) b) a Tier 1 capital ratio of 14.61 %	10,054,677			
*) c) a total capital ratio of 19.71 %	13,567,771			
<b>6. Foreign liabilities</b>	<b>24,854,123</b>	<b>25,485,161</b>	<b>–631,038</b>	<b>–2.5</b>

\*) Due to lack of comparability no figures for the comparative period.

# Financial Statements (CONTINUED)

## Profit and Loss Account for the year ended 31 December 2014

(€ thousand)

	2014	2013	CHANGE	
			IN € 1,000	IN %
<b>1. Interest and similar income</b>	<b>2,452,615</b>	<b>2,617,808</b>	<b>-165,193</b>	<b>-6.3</b>
of which: from fixed-income securities	332,291	317,620	14,671	4.6
<b>2. Interest and similar expenses</b>	<b>-1,300,298</b>	<b>-1,368,834</b>	<b>68,536</b>	<b>-5.0</b>
<b>I. NET INTEREST INCOME</b>	<b>1,152,317</b>	<b>1,248,974</b>	<b>-96,657</b>	<b>-7.7</b>
<b>3. Income from securities and equity interests</b>	<b>645,668</b>	<b>369,480</b>	<b>276,188</b>	<b>74.8</b>
a) income from shares, other ownership interests and variable-yield securities	881	2,991	-2,110	-70.5
b) income from equity interests	71,520	75,058	-3,538	-4.7
c) income from shares in group companies	573,267	291,431	281,836	96.7
<b>Net fee and commission income (sub-total of items 4 and 5)</b>	<b>448,956</b>	<b>497,097</b>	<b>-48,141</b>	<b>-9.7</b>
<b>4. Fee and commission income</b>	<b>655,652</b>	<b>660,698</b>	<b>-5,046</b>	<b>-0.8</b>
<b>5. Fee and commission expenses</b>	<b>-206,696</b>	<b>-163,601</b>	<b>-43,095</b>	<b>26.3</b>
<b>6. Net profit/loss on trading activities</b>	<b>133,205</b>	<b>135,898</b>	<b>-2,693</b>	<b>-2.0</b>
<b>7. Other operating income</b>	<b>79,136</b>	<b>162,027</b>	<b>-82,891</b>	<b>-51.2</b>
<b>II. OPERATING INCOME</b>	<b>2,459,282</b>	<b>2,413,476</b>	<b>45,806</b>	<b>1.9</b>
<b>8. General administrative expenses</b>	<b>-2,860,936</b>	<b>-1,914,614</b>	<b>-946,322</b>	<b>49.4</b>
a) staff costs	-2,136,549	-1,251,891	-884,658	70.7
wages and salaries	-499,228	-591,836	92,608	-15.6
expenses for statutory social-security contributions and compulsory contributions related to wages and salaries	-100,609	-106,079	5,470	-5.2
other employee benefits	-12,860	-14,827	1,967	-13.3
expenses for retirement benefits	-216,240	-221,897	5,657	-2.5
allocation to the pension provision	-1,228,150	-278,253	-949,897	>100.0
expenses for severance payments and payments to severance-payment funds	-79,462	-38,999	-40,463	>100.0
b) other administrative expenses	-724,387	-662,723	-61,664	9.3
<b>9. Depreciation and amortisation of asset items 9 and 10</b>	<b>-30,789</b>	<b>-55,820</b>	<b>25,031</b>	<b>-44.8</b>
<b>10. Other operating expenses</b>	<b>-63,499</b>	<b>-207,231</b>	<b>-143,732</b>	<b>-69.4</b>
<b>III. OPERATING EXPENSES</b>	<b>-2,955,224</b>	<b>-2,177,665</b>	<b>-777,559</b>	<b>35.7</b>
<b>IV. OPERATING RESULTS</b>	<b>-495,942</b>	<b>235,811</b>	<b>-731,753</b>	<b>&gt;-100.0</b>

# Financial Statements (CONTINUED)

(€ thousand)

	2014	2013	CHANGE	
			IN € 1,000	IN %
11./12. Net income/expenses from the disposal and valuation of loans and advances, securities as well as contingent liabilities and commitments	-47,871	-321,444	273,573	-85.1
13./14. Net income/expenses from the disposal and valuation of securities valued as financial fixed assets, and of shares in group companies and equity interests	-1,304,990	-1,455,162	150,172	-10.3
<b>V. RESULTS FROM ORDINARY BUSINESS ACTIVITIES</b>	<b>-1,848,803</b>	<b>-1,540,795</b>	<b>-308,008</b>	<b>20.0</b>
15. Extraordinary income	-	-	-	-
of which: releases from the special fund for general banking risks	-	-	-	-
16. Extraordinary expenses	-	-	-	-
of which: allocations to the special fund for general banking risks	-	-	-	-
17. Extraordinary results (sub-total of items 15 and 16)	-	-	-	-
18. Taxes on income	4,676	231	4,445	>100.0
19. Other taxes not included under item 18	-119,775	-92,335	-27,440	29.7
<b>VI. ANNUAL SURPLUS/ANNUAL DEFICIT</b>	<b>-1,963,902</b>	<b>-1,632,899</b>	<b>-331,003</b>	<b>20.3</b>
20. Movements in reserves	1,963,902	1,630,385	333,517	20.5
<b>VII. PROFIT/LOSS FOR THE YEAR</b>	<b>-</b>	<b>-2,514</b>	<b>2,514</b>	<b>-100.0</b>
21. Profit/loss brought forward from previous year	-	2,514	-2,514	-100.0
<b>VIII. ACCUMULATED PROFIT/LOSS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>



# Notes to the Financial Statements

## of UniCredit Bank Austria AG

### 1. General information

The financial statements of UniCredit Bank Austria AG for the 2014 financial year were prepared pursuant to the provisions of the Austrian Business Code (Unternehmensgesetzbuch – UGB) in its currently applicable version and in compliance with the rules of the Austrian Banking Act (Bankwesengesetz – BWG) and the Austrian Joint Stock Companies Act (Aktengesetz – AktG) that are applicable to credit institutions. The formats of the balance sheet and of the profit and loss account comply with the forms in Annex 2 to Section 43 of the Austrian Banking Act. Annex 2 to Article I of Section 43 of the Austrian Banking Act was adapted to reflect the introduction of the Capital Requirements Regulation (CRR). For this reason the presentation of subordinated liabilities, Tier 2 capital and items of capital and reserves in the financial statements in accordance with the Austrian Banking Act changed in 2014. The comparative figures for the previous year were adjusted accordingly.

As the securities issued by UniCredit Bank Austria AG are admitted to trading on a regulated exchange in the European Union, UniCredit Bank Austria AG prepares its consolidated financial statements as a credit institution in accordance with International Financial Reporting Standards (IFRSs). The consolidated financial statements are published on the Internet ([www.bankaustria.at](http://www.bankaustria.at)).

UniCredit Bank Austria AG is a subsidiary included in the consolidated financial statements of UniCredit S.p.A.

The consolidated financial statements prepared by the Group's parent company are published at the following address: UniCredit S.p.A., registered office: Via A. Specchi 16, 00100 Rome, Italy. They are published on the Internet at [www.unicreditgroup.eu](http://www.unicreditgroup.eu).

#### **Disclosure (“Pillar 3”) according to Regulation (EU) No. 575/2013 (“CRR”)**

UniCredit Bank Austria AG (“Bank Austria”) is a part of UniCredit Group. The EU parent credit institution of UniCredit Group is UniCredit S.p.A. Within UniCredit Group, a comprehensive disclosure is carried out by UniCredit S.p.A. on its website, based on the consolidated financial position in its function as EU parent credit institution of Bank Austria ([www.unicreditgroup.eu](http://www.unicreditgroup.eu)).

The Austrian Financial Market Authority (“FMA”) classified Bank Austria as a significant subsidiary pursuant to Section 26a (4) and (5) of the Austrian Banking Act and Bank Austria fulfils its disclosure requirements on a sub-consolidated basis.

Significant subsidiaries of EU parent institutions disclose the following information pursuant to Article 13 (1) of Regulation (EU) No. 575/2013 (“CRR”):

- Article 437 CRR: Own funds (according to the transitional rules of Article 492 CRR)
- Article 438 CRR: Capital requirements
- Article 440 CRR: Capital buffers (starting in 2016)
- Article 442 CRR: Credit risk adjustments
- Article 450 CRR: Remuneration policy
- Article 451 CRR: Leverage (starting in 2015, pursuant to Article 521 (2) (a) CRR)
- Article 453 CRR: Use of credit risk mitigation techniques

Disclosure is made semi-annually with data as of 30 June and 31 December on the website of Bank Austria ([www.bankaustria.at](http://www.bankaustria.at)).

#### **Size classification pursuant to Section 221 of the Austrian Business Code**

According to the size classification pursuant to Section 221 of the Austrian Business Code, UniCredit Bank Austria AG is classified as a large company.

## Notes (CONTINUED)

**2. Accounting and valuation methods****2.1. General rule**

The financial statements were prepared on the basis of generally accepted accounting principles and in compliance with the general requirement of giving a true and fair view of the company's assets and liabilities, its financial position and results. Assets and liabilities were valued in accordance with the principle of individual valuation on a going concern basis. The principle of prudence was observed with due regard to the special characteristics of banking business operations.

**2.2. Accounting and valuation methods****2.2.1. Foreign currency translation**

Assets and liabilities denominated in foreign currencies were stated in the balance sheet at the European Central Bank's reference rates as at 31 December 2014. Expenses and income in foreign currencies were translated at the ECB's end-of-month reference rates. Forward transactions that had not been settled at the balance sheet date were translated at the forward rate.

**2.2.2. Fair value**

In UniCredit Bank Austria AG, financial instruments measured at fair value and stated at their fair values in the balance sheet are classified according to a three-level fair value hierarchy based on the significance and liquidity of input parameters used for valuation purposes:

- Level 1: the fair value of instruments classified in this level is determined based on quotation prices observed in active markets.
- Level 2: the fair value of instruments classified in this level is determined based on valuation models that use inputs that can be observed in active markets.
- Level 3: the fair value of instruments classified in this level is determined based on valuation models that primarily use inputs that cannot be observed in active markets.

The best evidence of fair value is a quoted price in an actively traded market. The judgement as to whether a market is active may include the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which a market participant would be willing to sell.

If the market for a financial instrument is not active, fair value is calculated by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the bank uses that technique.

**2.2.3. Loans and advances**

Provisions were made for identifiable lending risks. To the extent that it was possible to combine individual risk assets into groups, provisions were made on a portfolio basis.

**2.2.4. Securities**

Securities intended to be held as long-term investments were valued at cost.

Use was made of the optional rule contained in Section 56 (2) and (3) of the Austrian Banking Act (spreading premiums/discounts in the profit and loss account over the period to maturity). The relevant amounts of premiums and discounts are indicated in item 4 of the notes to the balance sheet (4.7. Differences between cost and repayable amount of bonds and other fixed-income securities).

Securities held in the trading book were marked to market. Other securities held as current assets were valued at cost or market, whichever was lower. Own issues that were repurchased were stated in the balance sheet at average cost. Details are given in item 4 of the notes to the balance sheet (4.8. Differences between cost and market value of securities admitted to trading on an exchange which are not held as financial fixed assets).

## Notes (CONTINUED)

### 2.2.5. Equity interests and shares in group companies

Equity interests and shares in group companies were stated at cost.

In the case of a permanent decline in value, write-downs were made in respect of listed and unlisted companies.

#### **Impairment test**

For the impairment test of **CEE subsidiaries** the Standard UniCredit Group Discounted Cash Flow Valuation Model (3-phase model) was employed throughout the Group:

- Phase 1 – planning period (2015 – 2018):  
the 2015 budget figures for net profit and risk-weighted assets were used for 2015 and multi-year plan figures updated at the beginning of 2014 were used for subsequent years.
- Phase 2 (2019 – 2023):  
in this phase the growth rates of net profit and risk-weighted assets converge towards 2%. The discount rate in the form of cost of equity (Ke) declines to the corresponding terminal value level.
- Phase 3 – perpetual annuity:  
calculation of the present value of a perpetual annuity on the assumption of a long-term growth rate which takes the sustained long-term economic growth expected by UniCredit Bank Austria AG for the euro area into account (2%). The required CET1 ratios were set on a country-specific basis, at levels between 10% and 12.4%.

Phase 1 is the result of a detailed planning process. The purpose of phase 2 is to illustrate the expected long-term convergence of growth rates in these markets to 2%.

Calculation of cost of equity:

The expected cash flows are discounted at the country-specific rate of cost of capital, which is determined on the basis of the long-term risk-free interest rate of the local currency, the debt risk premium and the UniCredit equity risk premium. The discount rate is a nominal rate, net of taxes.

- Risk-free rate: Calculation is based on the historical average (6 years) of the 5-year swap rate in local currency. If no swap rate is available, the most liquid and comparable interbank rate (with a 3-month tenor) is used.
- Risk premium for debt: This is the country risk premium calculated as the historical average (6 years) of the 5-year credit default swap paid by the country (if no time series is available, the calculation was based on a CDS for a similar risk).
- Risk premium for equity: This is calculated using the option pricing model and is based on the historical volatility of the UniCredit share price over the last six years.
- Terminal value cost of equity: The cost of capital used in discounting cash flows converges to a specific value for each company in which an equity interest is held. This value is determined taking into account the market's risk perception concerning the ability of the banking sector to generate returns in the long-term and the level of capitalisation that UniCredit Bank Austria AG hopes to achieve in the long term. The terminal value cost of capital used differs depending on whether a company in which an equity interest is held is located in the euro area (10%), in an Eastern European country that would in the medium term enter the euro area (10.5%) or in another country (11.85%). An exception is Ukraine, where the terminal value cost of equity was set at 13%.

Valuation models used for **equity interests in other companies** are adapted to the business purpose.

It should also be noted that the parameters and the information used to test the carrying amounts for impairment are significantly influenced by the macroeconomic environment and market conditions, which can be subject to rapid unforeseeable changes, possibly leading to very different results as compared to those used for the 2014 financial statements.

### 2.2.6. Intangible assets

Intangible assets were valued at cost. The rate of amortisation applied to computer software was between 16.67% p.a. and 25% p.a., in line with its ordinary useful life.

### 2.2.7. Tangible fixed assets

Land, buildings and office furniture and equipment were stated at cost. The rate of depreciation applied to buildings was between 2% p.a. and 5% p.a. and for furniture and equipment between 10% p.a. and 25% p.a., in line with their ordinary useful lives.

### 2.2.8. Low-value assets

Low-value assets were fully depreciated in the year of acquisition.

## Notes (CONTINUED)

**2.2.9. Derivatives**

In line with the relevant FMA circular of December 2012, functional units were formed, on the basis of the relevant currencies, for derivatives used for interest rate risk management in the banking book. The derivatives are allocated according to the fixed-leg currency. Positive and negative market values are offset within these functional units. UniCredit Bank Austria AG also includes cross-currency swaps in derivatives used for interest rate risk management.

As a matter of principle, UniCredit Bank Austria AG may enter into open interest rate risk positions in the banking book only within narrow limits. Most of the derivatives for interest rate risk management are therefore used as part of a macro hedge.

An excess of negative market values per functional unit is therefore compared with the items hedged by these derivatives and is offset against unrecognised reserves from interest rate risk assessment.

(in € million)

	CLEAN MARKET VALUES OF DERIVATIVES, NET AMOUNTS	CLEAN MARKET VALUES OF DERIVATIVES, NET AMOUNTS	UNRECOGNISED RESERVES FROM HEDGED ITEMS OFFSET UNDER A MACRO HEDGE	PROVISION REQUIRED FOR PENDING LOSSES	PROVISION MADE FOR PENDING LOSSES	PROVISION MADE FOR PENDING LOSSES	LONGEST TERM OF DERIVATIVES
	2014	2013	2014	2014	FROM 2013	2014	2014
EUR	624.6	251.8	not relevant			0.0	1 July 2055
CHF	-68.8	-21.7	0.0	-68.8		-68.8	15 June 2031
CZK	-4.6		0.0	-4.6		-4.6	31 Mar. 2026
GBP	-1.8	-2.8	0.0	-1.8	-1.0	-0.8	31 Mar. 2016
HRK	0.0	-26.4	7.0			0.0	12 Jan. 2015
HUF	0.0		0.4			0.0	29 Jan. 2015
JPY	-2.9		0.0	-2.9		-2.9	31 May 2020
PLN	0.0		not relevant			0.0	20 Jan. 2015
RON	-1.0		0.0	-1.0		-1.0	30 June 2019
RUB	1.3		not relevant			0.0	8 Sept. 2018
TRY	1.3		not relevant			0.0	31 Dec. 2018
USD	-75.8		500.0			0.0	25 Dec. 2032
	<b>472.3</b>	<b>200.9</b>		<b>-79.1</b>	<b>-1.0</b>	<b>-78.2</b>	
Other	-9.8	-13.7	-	-9.8	-13.7	3.9	30 June 2020
	<b>462.5</b>	<b>187.2</b>		<b>-88.9</b>	<b>-14.7</b>	<b>-74.3</b>	

The negative net amounts of market values compare with unrecognised reserves from the hedged items. As there is no excess of negative market values for the functional units of EUR, PLN, RUB and TRY, unrecognised reserves were not allocated/offset.

Unrecognised reserves in CHF, CZK, GBP, JPY and RON do not reach the required amount. For this reason a provision for pending losses was made in the amount of the difference. After taking into account the effects of any other ineffectiveness from micro valuation units, the allocation to the provision for pending losses totalled € 74.3 million in 2014 (2013: € 14.7 million). The provision is included in the item "Other provisions".

Effectiveness is regularly tested as part of interest rate risk management on the basis of interest rate sensitivities (present value-based, basis point value). Moreover, regular stress tests are performed for the banking book as part of interest rate risk management; in addition to parallel shifts in the yield curve across the various currencies, yield curve turns (clockwise and counter-clockwise) and money market shocks are also simulated.

Regardless of the question of whether a provision is to be made for pending losses, accrued interest on derivatives for interest rate risk management in the banking book continues to be recognised and the result is included in net interest income.

Securities held as assets, loans and advances, debts evidenced by certificates and other debts are hedged against interest rate risk and currency risk by means of interest rate derivatives, cross-currency swaps and forward foreign exchange transactions.

The main instruments used for hedging are interest rate swaps, caps and floors. Retrospective effectiveness is tested by using the dollar-offset method. The hedging period starts at the inception of the hedge and ends with the final maturity of the relevant hedged item.

For hedges at individual transaction level (micro valuation units), the fair values of the derivatives used as at the balance sheet date were € 427,205,444.94 (2013: € 478,658 thousand). Of this total, market values of € 432,167,712.88 (2013: € 486,512 thousand) were accounted for by hedging instruments for the above-mentioned hedged items on the liabilities side. Net market values of hedging instruments for the above-mentioned hedged items on the assets side were -€ 4,962,267.94 (2013: -€ 7,854 thousand).

## Notes (CONTINUED)

### 2.2.10. Liabilities

Liabilities were stated in the balance sheet at the repayable amount. Premiums and discounts in connection with own issues are spread over the period to maturity. Capital savings accounts were stated at the relevant pro-rata value.

### 2.2.11. Provisions

Provisions were recognised in the amount required pursuant to generally accepted accounting principles.

#### *Provisions for severance payments and pensions*

Provisions for pension obligations and severance-payment obligations are recognised pursuant to the Austrian Chamber of Public Accountants' expert opinions KFS/RL 2 and 3, using the projected unit credit method in accordance with IAS 19.

As at 1 May 2007, the internal service agreement on the Bank Austria pension equivalent (ASVG equivalent) was adjusted to changes in the legal environment – in particular, by raising the minimum retirement age, introducing specific reductions and reducing widows' pensions.

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 insurance scheme pursuant to Section 5 of the Austrian General Social Security Act (ASVG).

The following are also covered by the provision:

- disability risk and rights to future benefits based on early retirement and pension entitlements of surviving dependants, less reimbursement from the pension funds,
- pension entitlements based on direct benefit commitments contained in individual employment contracts, and
- rights to future benefits relating to additional pension payments for employees performing manual work.

The present value of pension obligations and severance-payment obligations and of anniversary bonuses is determined with due regard to internal service regulations, on the basis of the following actuarial assumptions:

- Discount rate: 2.10 % p. a. (2013: 3.75 % p. a.)  
This interest rate corresponds to the rounded interest rate based on the Mercer Yield Curve (MYC) as at 31 December 2014 and on the cash flows determined for the pension plan for active employees and pensioners. The duration for the pension plan is 17.84 years; the weighted duration for the pension plan, severance payment plan and anniversary bonus plan is 17 years.
- Increases under collective bargaining agreements: 2.05 % p. a. (2013: 2.45 % p. a.)  
(assumption of increases for employees and for pensioners not covered by the mandatory insurance scheme pursuant to the ASVG (non-BA-ASVG); the interest rate applied to BA-ASVG was 1.4 % after 1.8 % in the previous year)
- Career trends including regular salary increases under the current collective bargaining agreement for employees of Austrian banks and the effects of the transitional rules under the 2005 reform of the bank's service regulations. The rate applied in calculating non-regular salary increases was 0.25 % p. a. (2013: 0.25 % p. a.). (Assumption of increases for employees.)
- No discount for staff turnover
- Retirement age: for employees enjoying "permanent tenure" status under the internal service regulation on the payment of a Bank Austria pension equivalent to a mandatory social-security pension, dated 30 December 1999 (as amended on 1 May 2007), the retirement age is 60 for men and 55 for women, with the transition to the retirement age of 65 being taken into account. For all other staff members the new retirement age of 65 – for both men and women – under the applicable rules (2003 Pension Reform) was taken into account, with the transitional rules of the 2003 Pension Reform. If the corridor pension rule results in a lower retirement age, the lower age was used as retirement age.
- 2008 P statistical tables for salaried staff (Aktuarverein Österreich, life expectancy tables for salaried staff)

No provisions are made for defined-contribution plans. Payments agreed to be made to a pension fund for defined-contribution plans are recognised as an expense.

## Notes (CONTINUED)

(Amounts in € thousand)

	2014		2013	
	PENSION	SEVERANCE PAYMENT	PENSION	SEVERANCE PAYMENT
Discount rate	2.10 %	2.10 %	3.75 %	3.75 %
Salary increase incl. career trends	2.30 %	2.30 %	2.70 %	2.70 %
Pension increase (BA-ASVG)	1.40 %	0.00 %	1.80 %	0.00 %
Pension increase (others)	2.05 %	0.00 %	2.45 %	0.00 %
Present value of the obligation as at 31 December 2014	5,193,390	390,930	4,206,186	351,201
Expected present value as at 31 December 2015	5,184,979	384,105	4,221,691	350,967
Sensitivity *) – discount rate +/-	0.25 %	0.25 %	0.25 %	0.25 %
Discount rate –	5,425,290	399,836	4,377,038	359,185
Discount rate +	4,976,724	382,338	4,045,951	343,495
Sensitivity *) – salary increase +/-	0.25 %	0.25 %	0.25 %	0.25 %
Salary increase rate –	5,141,436	382,332	4,166,502	343,399
Salary increase rate +	5,247,002	399,799	4,247,178	359,248
Sensitivity *) – pension increase +/-	0.25 %	–	0.25 %	–
Pension increase rate –	5,025,071	–	4,081,491	–
Pension increase rate +	5,370,354	–	4,336,866	–
Duration	17.84	9.20	16.35	9.27
Active employees	3,602	8,404	3,783	8,683
Average age	48.62	46.08	47.93	45.48
Retired employees	6,821	–	6,884	–
Average age	71.07	–	70.55	–

\*) Sensitivity data reflect the total amount of the obligation upon a change in the parameter.

### 3. Changes in accounting and valuation methods, reclassifications

As a result of application of the balance sheet format to be used as at 31 December 2014 for the first time, the amounts of subordinated and supplementary capital previously shown as items 7 and 8 on the liabilities side of the balance sheet are now shown as item 7 "Tier 2 capital pursuant to Chapter 4 of Title I of Part Two of Regulation (EU) No 575/2013". Other changes compared with the previous year include reclassifications from liabilities item 7 "Supplementary capital" to liabilities item 2 "Amounts owed to customers" for Tier 2 capital deposits in the amount of €392,000 thousand which do not meet the criteria of Article 63 of Regulation (EU) No 575/2013 and are therefore governed by the transitional provisions of Article 484 of Regulation (EU) No 575/2013.

Due to a change related to the sector to which a counterparty belongs, the previous year's figure for assets item 3 "Loans and advances to credit institutions" was increased by €625,180 thousand and the previous year's figure for liabilities item 1 "Amounts owed to credit institutions" was increased by €385,059 thousand; the previous year's figure for assets item 4 "Loans and advances to customers" was reduced by €625,180 thousand and the previous year's figure for liabilities item 2 "Amounts owed to customers" was reduced by €385,059 thousand, to allow a meaningful comparison between periods.

In 2014, six zero coupon bonds issued by the bank and included in liabilities item 3 "Debts evidenced by certificates" were stated at the repayable amount. This increased the figures stated for liabilities item 3 and for assets item 13 "Prepaid expenses" by €183,087,598.27.

## Notes (CONTINUED)

## 4. Notes to the balance sheet

## 4.1. Breakdown by maturity – not repayable on demand

## Breakdown by maturity

	31 DEC. 2014 (IN €)	31 DEC. 2013 (IN € THOUSAND)
<b>Loans and advances to credit institutions</b>		
up to three months	5,801,983,173.32	2,856,861
over three months and up to one year	3,150,051,235.83	2,678,238
over one year and up to five years	5,313,026,540.54	7,844,921
over five years	3,109,557,274.99	2,735,000
<b>Loans and advances to customers</b>		
up to three months	7,253,773,284.39	6,622,003
over three months and up to one year	4,562,244,681.16	4,639,573
over one year and up to five years	15,311,283,341.99	16,641,414
over five years	35,725,291,993.69	36,175,144
<b>Amounts owed to credit institutions</b>		
up to three months	2,444,725,087.72	5,027,690
over three months and up to one year	2,510,088,912.00	1,317,413
over one year and up to five years	9,851,565,897.14	10,039,800
over five years	6,111,431,010.93	6,067,711
<b>Amounts owed to customers</b>		
a) <b>Savings deposits *)</b>		
up to three months	963,398,868.10	1,893,078
over three months and up to one year	2,406,403,995.20	4,187,452
over one year and up to five years	5,189,838,077.17	2,613,006
over five years	2,126,952,875.35	2,621,942
b) <b>Other amounts owed to customers</b>		
up to three months	5,874,853,754.55	2,758,300
over three months and up to one year	4,600,344,051.06	2,573,873
over one year and up to five years	2,566,670,255.88	2,128,038
over five years	909,220,652.50	1,252,116
<b>Other debts evidenced by certificates</b>		
up to three months	125,334,848.95	34,641
over three months and up to one year	147,648,556.36	714,521
over one year and up to five years	1,680,137,951.29	1,953,388
over five years	1,478,477,377.98	1,215,780

\*) For savings deposits, the expected deposit period was used as the remaining period pursuant to Section 25 of the Austrian Banking Act. Recognised statistical methods were used for the calculation.

## 4.2. Assets and liabilities denominated in foreign currencies

As at 31 December 2014, foreign currency assets amounted to €26,253,966,179.27 or 21.01% of total assets (31 December 2013: €25,722,909 thousand or 21.41% of total assets). Foreign currency liabilities amounted to €26,329,609,007.01 or 21.07% of the balance sheet total (31 December 2013: €25,798,551 thousand or 21.48% of the balance sheet total).

## Notes (CONTINUED)

## 4.3. Loans and advances to, and amounts owed to, group companies and companies in which an equity interest is held

	GROUP COMPANIES		COMPANIES IN WHICH AN EQUITY INTEREST IS HELD		KEY MANAGEMENT PERSONNEL	
	31 DEC. 2014 (IN €)	31 DEC. 2013 (IN € THOUSAND)	31 DEC. 2014 (IN €)	31 DEC. 2013 (IN € THOUSAND)	31 DEC. 2014 (IN €)	31 DEC. 2013 (IN € THOUSAND)
<b>Loans and advances</b>						
Loans and advances to credit institutions	12,769,299,581.00	15,519,653	2,226,476,912.00	671,866	0.00	0
Loans and advances to customers	7,658,803,609.00	8,831,949	1,700,982,873.00	1,085,026	3,645,728.00	2,030
Bonds and other fixed-income securities	6,753,215,722.44	6,471,591	3,135,513.03	61,916	0.00	0
<b>Amounts owed</b>						
Amounts owed to credit institutions	11,041,734,039.00	11,478,141	8,764,277,478.00	9,017,018	0.00	0
Amounts owed to customers	1,624,673,053.00	1,271,823	290,099,903.00	536,017	8,615,981.00	7,031

## 4.4. Group companies and companies in which an equity interest is held

Those companies in which UniCredit Bank Austria AG holds at least 20% of the share capital – directly or through group companies – are listed at the end of the notes to the financial statements pursuant to Section 238, item 2, of the Austrian Business Code.

Most of the business relations with group companies were customary banking relationships. Equity capital substitutes were used for some financings.

At the balance sheet date, UniCredit Bank Austria AG maintained single entity agreements for tax purposes with the following companies:

- BA Immobilien Entwicklungs- und Verwertungs GmbH
- BA-CA Markets & Investment Beteiligung GmbH
- Bank Austria Finanzservice GmbH
- Bank Austria Real Invest Immobilien-Management GmbH
- Bank Austria Wohnbaubank AG
- CABET Holding GmbH
- card complete Service Bank AG
- Human Resources Service and Development GmbH
- MC Marketing GmbH
- MY Beteiligungs GmbH
- Nordbahnhof Projekte Holding GmbH
- RE St. Marx Holding GmbH
- UniCredit Turn-Around Management GmbH
- ZETA Fünf Handels GmbH

## 4.5. Related party transactions

**Compensation agreement**

In connection with the "Restated Bank of the Regions Agreement", UniCredit S. p. A. and UniCredit Bank Austria AG signed a contract valid from 1 January 2010 to 1 January 2015 which includes a commitment by UniCredit S. p. A. to pay 13.8% (2010–2012: 14.5%) of profit before tax of UniCredit's Markets subdivision in return for the commitment by UniCredit's Markets subdivision to pay 12M Euribor + 200bps recorded annually on a notional value of €1.28 billion.

**Cooperation agreement**

In the course of the integration of HVB into the UniCredit group of companies, HVB (now UniCredit Bank AG) has been assigned the role of centre of competence for markets and investment banking for the entire corporate group. Among other things, UniCredit Bank AG acts as counterparty for derivative transactions conducted by UniCredit companies in this role. For the most part, this involves hedge derivatives that are externalised on the market via UniCredit Bank AG. UniCredit Bank Austria AG and UniCredit Bank AG signed a corresponding cooperation agreement for 10 years in 2010.

**Guarantee to the banking subsidiary AO UniCredit Bank, Russia**

UniCredit Bank Austria AG has assumed an intra-group guarantee in the amount of €1,322,341,984.00 in favour of its Russian banking subsidiary for a portfolio of corporate loans to enable the subsidiary to meet local regulatory requirements.



## Notes (CONTINUED)

## 4.6. Securities

Of UniCredit Bank Austria AG's total holdings of securities as at 31 December 2014, financial fixed assets accounted for €15,073,428,474.42 (31 December 2013: €12,298,485 thousand) and current assets including the trading portfolio accounted for €4,671,178,331.51 (31 December 2013: €4,659,776 thousand).

## 4.6.1. The following breakdown shows securities admitted to trading on an exchange:

	LISTED		NOT LISTED	
	31 DEC. 2014 (IN €)	31 DEC. 2013 (IN € THOUSAND)	31 DEC. 2014 (IN €)	31 DEC. 2013 (IN € THOUSAND)
Bonds and other fixed-income securities	4,366,100,983.74	3,373,584	5,242,168,449.20	6,184,830
Shares and other variable-yield securities	30,514,845.50	30,727	566,384.70	444
Equity interests	94,077,261.01	349,283	0.00	0
Shares in group companies	1,916,572,013.09	2,298,660	0.00	0
<b>TOTAL</b>	<b>6,407,265,103.34</b>	<b>6,052,254</b>	<b>5,242,734,833.90</b>	<b>6,185,274</b>

## 4.6.2. The following table shows securities admitted to trading on an exchange, broken down into fixed (long-term) and current assets:

	FIXED ASSETS		CURRENT ASSETS	
	31 DEC. 2014 (IN €)	31 DEC. 2013 (IN € THOUSAND)	31 DEC. 2014 (IN €)	31 DEC. 2013 (IN € THOUSAND)
Bonds and other fixed-income securities	6,463,267,723.83	5,918,390	3,145,001,709.11	3,640,024
Shares and other variable-yield securities	0.00	0	31,081,230.20	31,171
<b>TOTAL</b>	<b>6,463,267,723.83</b>	<b>5,918,390</b>	<b>3,176,082,939.31</b>	<b>3,671,195</b>

The classification pursuant to Section 64 (1) 11 of the Austrian Banking Act is based on resolutions adopted by the Management Board.

## 4.6.3. Financial instruments carried as financial fixed assets for which the carrying amounts are higher than their fair values (Section 237a (1) 2 of the Austrian Business Code):

	BOOK VALUE	UNRECOGNISED LOSSES	BOOK VALUE	UNRECOGNISED LOSSES
	31 DEC. 2014 (IN €)	31 DEC. 2014 (IN €)	31 DEC. 2013 (IN € THOUSAND)	31 DEC. 2013 (IN € THOUSAND)
Treasury bills and similar securities	0.00	0.00	2,290,120	-11,501
Bonds and other fixed-income securities	959,159,111.45	-25,467,675.87	628,770	-34,897
Shares and other variable-yield securities	0.00	0.00	0	0
Equity interests	25,337,083.70	-1,646,376.45	280,543	-53,406
Shares in group companies	0.00	0.00	0	0

A regular impairment test was performed for these financial instruments. Within the items "Bonds and other fixed-income securities" and "Shares and other variable-yield securities", write-downs of €4,536,878.21 were made in the reporting year. Analyses performed in respect of the other holdings did not provide any indication of impairment and therefore no further write-downs were required for 2014.

## 4.7. Differences between cost and repayable amount of bonds and other fixed-income securities

In the case of bonds and other fixed-income securities which are held as financial fixed assets and for which cost exceeds the amount repayable, the difference is amortised over the period to maturity pursuant to Section 56 (2) of the Austrian Banking Act. At year-end, the difference to be amortised over the remaining maturity amounted to €388,767,342.89 (31 December 2013: €348,310 thousand).

In the case of bonds and other fixed-income securities which are held as financial fixed assets and for which cost is lower than the amount repayable, a write-up is made for the difference over the period to maturity pursuant to Section 56 (3) of the Austrian Banking Act. Until the balance sheet date, write-ups made in respect of such differences amounted to €121,251,879.79 (31 December 2013: €102,993 thousand). As at 31 December 2014, the difference between cost and repayable amount was €247,454,883.63 (31 December 2013: €296,116 thousand).

## Notes (CONTINUED)

**4.8. Differences between cost and market value of securities admitted to trading on an exchange which are not held as financial fixed assets**

As at 31 December 2014, the market value of securities held in the trading portfolio pursuant to Section 56 (5) of the Austrian Banking Act was €3,632.24 (31 December 2013: €58 thousand) higher than cost.

At the balance sheet date, the market value of listed securities held to comply with liquidity requirements pursuant to Section 56 (4) of the Austrian Banking Act was €78,517,604.57 (31 December 2013: €68,481 thousand) higher than the carrying amount.

**4.9. Bonds becoming due in the subsequent year**

Assets held in the form of bonds and other fixed-income securities in the amount of €3,690,021,396.27 (31 December 2013: €2,234,440 thousand) will become due in 2015. Of the bonds issued, securities in the amount of €6,111,460,451.64 (31 December 2013: €4,999,601 thousand) will become due in 2015.

**4.10. Trading book**

In the 2014 financial year, UniCredit Bank Austria AG maintained a trading book pursuant to Section 64 (1) 15 of the Austrian Banking Act. Within the trading book, securities carried in the balance sheet accounted for €2,546,240.17 (31 December 2013: €36,151 thousand), money market instruments were €8,691,540.00 (31 December 2013: €1,254,570 thousand) and the notional amount of derivatives totalled €45,579,915,776.78 (31 December 2013: €41,006,967 thousand).

**4.11. Own shares**

There were no sales or purchases of UniCredit Bank Austria AG ordinary shares in 2014 (2013: no sales or purchases). As at 31 December 2014, UniCredit Bank Austria AG did not hold any of its own shares (31 December 2013: 0).

**4.12. Shares in a controlling company**

In the reporting year, sales or purchases of UniCredit S.p.A. ordinary shares as part of customer business involved 7,786,713 shares (2013: 6,273 thousand shares). At the balance sheet date, UniCredit Bank Austria AG did not hold any UniCredit S.p.A. shares (31 December 2013: 0).

**4.13. Repurchased own subordinated bonds and Tier 2 capital**

As at 31 December 2014, UniCredit Bank Austria AG's own portfolio included subordinated bonds issued by the bank itself with a total carrying amount of €32,889,779.97 (31 December 2013: €32,045 thousand) and no Tier 2 capital (31 December 2013: €0 thousand). UniCredit Bank Austria AG holds issues of hybrid instruments of two subsidiaries with a total nominal value of €254,711,000.00 (31 December 2013: €254,711 thousand).

**4.14. Trust transactions**

**The book values of the following assets items and liabilities items include trust transactions pursuant to Section 48 (1) of the Austrian Banking Act**

	31 DEC. 2014 (IN €)	31 DEC. 2013 (IN € THOUSAND)
Loans and advances to customers	408,984,049.84	397,516
<b>Total assets items</b>	<b>408,984,049.84</b>	<b>397,516</b>
Amounts owed to credit institutions	146,898,600.00	132,665
Amounts owed to customers	262,085,449.84	264,851
<b>Total liabilities items</b>	<b>408,984,049.84</b>	<b>397,516</b>

**4.15. Assets sold under repurchase agreements and securities lending transactions**

As at the balance sheet date, the book value of assets transferred under repurchase agreements was €11,842,000.00 (31 December 2013: €987,209 thousand). The assets continue to be recognised as assets in the balance sheet, the consideration received is included in liabilities.

As at 31 December 2014, UniCredit Bank Austria AG did not borrow any securities (2013: €59,141 thousand) and the bank lent securities in the total amount of €122,048,316.59 (2013: €840,645 thousand).

## Notes (CONTINUED)

## 4.16. Subordinated assets

	31 DEC. 2014 (IN €)	31 DEC. 2013 (IN € THOUSAND)
<b>Loans and advances to credit institutions</b>	<b>1,438,106,548.78</b>	<b>1,530,341</b>
of which: equity interests	15,000,000.00	15,000
of which: group companies	1,423,106,548.78	1,515,341
<b>Loans and advances to customers</b>	<b>272,176,583.30</b>	<b>283,203</b>
of which: equity interests	0.00	0
of which: group companies	272,176,583.30	268,413
<b>Bonds and other fixed-income securities</b>	<b>170,219,966.25</b>	<b>171,832</b>
of which: equity interests	0.00	0
of which: group companies	162,149,791.50	162,864

## 4.17. Intangible fixed assets and tangible fixed assets

The item "Intangible fixed assets" does not include any software (2013: €0) that was acquired from a group company.

At the balance sheet date, the land value of property was €14,874,528.47 (31 December 2013: €15,030 thousand).

## 4.18. Movements in fixed assets

**Movements in fixed assets of UniCredit Bank Austria AG**

(in €)

	31 DEC. 2013	ADDITIONS	DISPOSALS	TRANSFERS	31 DEC. 2014
<b>Cost</b>					
Treasury bills and similar securities	6,235,370,109.68	4,675,562,581.91	2,347,702,594.58	0.00	8,563,230,097.01
Loans and advances to credit institutions	58,980,950.32	2,680,231.21	51.03	0.00	61,661,130.50
Loans and advances to customers	214,508,615.72	0.00	79,094,804.08	0.00	135,413,811.64
Bonds and other fixed-income securities	5,849,286,028.37	1,191,822,559.98	665,566,765.85	0.00	6,375,541,822.50
Shares and other variable-yield securities	0.00	0.00	0.00	0.00	0.00
Equity interests	3,365,666,483.74	16,800,435.02	294,142,745.10	-17,500.00	3,088,306,673.66
Shares in group companies	20,806,017,598.32	612,785,089.29	744,464,885.74	17,500.00	20,674,355,301.87
Intangible fixed assets	485,696,482.96	1,080,000.00	476,829.89	0.00	486,299,653.07
Tangible fixed assets					
a) Land and buildings	116,167,478.71	1,783,660.69	4,613,101.23	-2,595,713.98	110,742,324.19
b) Other tangible fixed assets	473,071,985.89	38,984,288.90	19,666,058.81	2,595,713.98	494,985,929.96
<b>TOTALS</b>	<b>37,604,765,733.71</b>	<b>6,541,498,847.00</b>	<b>4,155,727,836.31</b>	<b>0.00</b>	<b>39,990,536,744.40</b>
	<b>WRITE-UPS</b>	<b>ACCUMULATED WRITE-DOWNS/ DEPRECIATION</b>	<b>CARRYING VALUE 31 DEC. 2014</b>	<b>CARRYING VALUE 31 DEC. 2013</b>	<b>WRITE-DOWNS/ DEPRECIATION IN YEAR UNDER REVIEW</b>
<b>Carrying value and write-downs/depreciation</b>					
Treasury bills and similar securities	-150,122,756.69	0.00	8,413,107,340.32	6,168,259,297.45	0.00
Loans and advances to credit institutions	-24,610.00	0.00	61,636,520.50	58,956,340.32	0.00
Loans and advances to customers	3,078.14	0.00	135,416,889.78	152,879,531.58	0.00
Bonds and other fixed-income securities	98,081,072.92	9,855,129.60	6,463,267,723.82	5,918,389,521.36	0.00
Shares and other variable-yield securities	0.00	0.00	0.00	0.00	0.00
Equity interests	0.00	101,007,839.01	2,987,298,834.65	3,226,075,400.62	20,000.00
Shares in group companies	4,819,636.00	10,764,365,031.39	9,914,809,906.48	11,220,145,857.27	1,288,794,213.96
Intangible fixed assets	0.00	479,259,251.07	7,040,402.00	9,254,346.00	3,293,944.00
Tangible fixed assets					
a) Land and buildings	0.00	49,598,671.73	61,143,652.46	65,822,133.76	2,045,764.86
b) Other tangible fixed assets	7,425.93	356,248,854.93	138,744,500.96	123,058,568.32	25,449,299.04
<b>TOTALS</b>	<b>-47,236,153.70</b>	<b>11,760,334,777.73</b>	<b>28,182,465,770.97</b>	<b>26,942,840,996.68</b>	<b>1,319,603,221.86</b>

## Notes (CONTINUED)

**4.19. Leasing activities**

While UniCredit Bank Austria AG was not directly active as lessor in the leasing business in 2014, its activities included the extension of loans to leasing companies.

**4.20. Total expenses for the use of tangible fixed assets not carried as assets**

Obligations arising from the use of tangible fixed assets not carried as assets in the balance sheet (under leasing and rent agreements) which will become due in the subsequent period and in the subsequent five years are indicated in the table below:

**Obligations under leasing and rent agreements**

	31 DEC. 2014 (IN €)	31 DEC. 2013 (IN € THOUSAND)
for the subsequent business year	64,254,168.11	66,004
for the subsequent five business years	330,964,043.26	340,378

**4.21. Other assets****4.21.1. Other assets**

This item includes valuation components, both reflected and not reflected in income, of €2,219,037,576.71 (31 December 2013: €1,383,407 thousand) from derivative products.

Dividends receivable from group companies with which there are profit pooling arrangements totalled €301,481,763.46 (31 December 2013: €69,717 thousand).

Claims against the Austrian tax office for companies (Finanzamt für Körperschaften) totalled €42,800,759.75 (31 December 2013: €32,183 thousand).

Other assets also include accrued interest and fee and commission income in the amount of €20,925,121.00 (31 December 2013: €15,407 thousand).

**4.21.2. Prepaid expenses**

This item includes an advance rent payment of €26,944,313.20 (31 December 2013: €28,846 thousand) for the property in Lassallestrasse 5, 1020 Vienna, and advance rent payments of €4,316,497.59 (31 December 2013: €5,103 thousand) for various properties.

This balance sheet item also includes discounts of €425,378,863.46 (31 December 2013: €150,111 thousand) in respect of the bank's own issues.

**4.22. Other liabilities**

This item includes valuation components, both reflected and not reflected in income, in the amount of €2,446,512,781.11 (31 December 2013: €1,205,535 thousand) from derivative products.

Liabilities resulting from the settlement of Austrian capital yields tax (Kapitalertragsteuer – KEST) totalled €11,380,189.65 (31 December 2013: €23,354 thousand).

Other liabilities also include accrued expenses in the amount of €4,362,563.00 (31 December 2013: €24,324 thousand).

The item also comprises liabilities of €1,058,751.22 (31 December 2013: €1,500 thousand) from the assumption of losses.

**4.23. Deferred income**

This balance sheet item includes premiums of €30,190,296.62 (31 December 2013: €26,823 thousand) in respect of the bank's own issues.

**4.24. Provisions****4.24.1. Provisions for pensions and severance payments**

The discount rate applied in 2014 was 2.10%. The valuation of provisions results in a deficit of €770,255,000.00 (31 December 2013: €1,027,006 thousand) compared with the amount of pension provisions stated in the balance sheet, and a deficit of €46,974,000.00 (31 December 2013: €62,632 thousand) compared with the amount of provisions for severance payments stated in the balance sheet.

## Notes (CONTINUED)

The deficit resulting from the discontinuation of the corridor method, which was calculated as at 31 December 2012, has been spread over five years starting on 1 January 2013 and is recognised as an expense on this basis [2015: €256,751,200.00 (pensions) and €15,657,800.00 (severance payments)]. The amounts recognised as expenses in 2014 were €256,751,200.00 (pensions) and €15,657,800.00 (severance payments).

In the financial year, **pension provisions** increased by €1,243,955,000.00 (2013: €294,579 thousand). The regular allocation to pension provisions was €987,204,000.00 (2013: €37,828 thousand). In the balance sheet at 31 December 2014, pension provisions were stated at €4,423,134,607.19 (31 December 2013: €3,179,180 thousand).

In the financial year, **provisions for severance payments** rose by €55,386,679.76 (2013: €14,608 thousand). In the balance sheet at 31 December 2014, provisions for severance payments were stated at €343,956,067.40 (31 December 2013: €288,569 thousand).

**4.24.2. Other provisions**

	31 DEC. 2014 (IN €)	31 DEC. 2013 (IN € THOUSAND)
Provisions for credit risks	661,014,409.34	594,834
Provisions for pending losses	679,436,901.95	576,077
Provisions for indeterminate liabilities	331,698,164.98	268,569
Restructuring provisions	65,504,951.35	119,247
<b>TOTAL</b>	<b>1,737,654,427.62</b>	<b>1,558,727</b>

Provisions for indeterminate liabilities include provisions related to payroll accounting and provisions for legal costs and experts' fees.

In December 2013, UniCredit Bank Austria AG launched the Bank Austria 2020 initiative in response to changes in customer behaviour and market environment as well as rising costs. The goal of the initiative is to put Bank Austria's business model on a more sustainable basis, to be optimally positioned in the forthcoming transformation of the Austrian banking industry. The implementation of the required restructuring processes at UniCredit Bank Austria AG and its subsidiaries is planned for 2014 and 2015. A restructuring provision was made in 2013 for the expected costs of €104,000,000.00. As at 31 December 2014, the provision amounted to €58,302,755.48. Obligations in respect of those employees who have already made agreements with the employer were transferred to provisions for indeterminate liabilities.

**4.25. Tier 2 capital**

As a result of application of the balance sheet format to be used as at 31 December 2014 for the first time, the amounts of subordinated and supplementary capital previously shown as items 7 and 8 on the liabilities side of the balance sheet are now shown as item 7 "Tier 2 capital pursuant to Chapter 4 of Title I of Part Two of Regulation (EU) No 575/2013". Other changes compared with the previous year include reclassifications from liabilities item 7 "Supplementary capital" to liabilities item 2 "Amounts owed to customers" for Tier 2 capital deposits in the amount of €392,000 thousand which do not meet the criteria of Article 63 of Regulation (EU) No 575/2013 and are therefore governed by the transitional provisions of Article 484 of Regulation (EU) No 575/2013.

Tier 2 capital pursuant to Chapter 4 of Title I of Part Two of Regulation (EU) No 575/2013, including accrued interest payable and interest allocated to zero coupon bonds, stated in the balance sheet at 31 December 2014 amounts to €4,065,196,247.55 (31 December 2013: €2,480,391 thousand).

Three subordinated bond issues of €500,000,000.00 each were launched in the year under review. Each of these bond issues has a term of ten years.

As at 31 December 2014, subordinated liabilities included 38 bonds and 4 time deposits, most of which have maturities exceeding five years. The bonds and time deposits are denominated in US\$, JPY and €.

The concept of subordination is defined in Section 51 (9) of the Austrian Banking Act.

## Notes (CONTINUED)

## 4.26. Equity

## 4.26.1. Subscribed shared capital

The share capital of UniCredit Bank Austria AG as at 31 December 2014 was €1,681,033,521.40, unchanged compared with the previous year. The share capital is divided into 10,115 registered no-par value shares with voting rights and restricted transferability and 231,218,705 registered no-par value shares with voting rights, and each no-par value share participates in the share capital to the same extent.

## 4.26.2. Capital reserves

As at 31 December 2014, capital reserves were stated at €6,366,354,199.40 (31 December 2013: €8,280,919 thousand).

## 4.26.3. Revenue reserves

No revenue reserves are shown as at 31 December 2014.

## 4.26.4. Reserve pursuant to Section 57 (5) of the Austrian Banking Act

As at 31 December 2014, the reserve pursuant to Section 57 (5) of the Austrian Banking Act (BWG) was €2,129,748,409.45, unchanged compared with the previous year.

## 4.26.5. Untaxed reserves

As at 31 December 2014, the valuation reserve resulting from special depreciation was €28,039,207.30 (31 December 2013: €77,377 thousand).

## Movements in valuation reserve and other untaxed reserves as at 31 December 2014

(in €)

	31 DEC. 2013	TRANSFERS	ALLOCATIONS	RELEASES	31 DEC. 2014
<b>1. Valuation reserve resulting from special depreciation</b>					
<b>Reserve pursuant to Section 12 of the Austrian Income Tax Act (EStG)</b>					
Securities	0.00	0.00	0.00	0.00	0.00
Equity interests	83,153.22	0.00	0.00	0.00	83,153.22
Shares in group companies	77,210,933.06	0.00	0.00	-49,338,202.45	27,872,730.61
Land and buildings	7,114.67	0.00	0.00	0.00	7,114.67
Other tangible fixed assets	76,208.80	0.00	0.00	0.00	76,208.80
	77,377,409.75	0.00	0.00	-49,338,202.45	28,039,207.30
<b>Valuation reserve pursuant to Sections 8 and 122 of the Austrian Income Tax Act (EStG)</b>					
Land and buildings	0.00	0.00	0.00	0.00	0.00
Other tangible fixed assets	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00	0.00
<b>Total 1</b>	<b>77,377,409.75</b>	<b>0.00</b>	<b>0.00</b>	<b>-49,338,202.45</b>	<b>28,039,207.30</b>
<b>2. Untaxed reserves</b>					
Untaxed reserves	0.00	0.00	0.00	0.00	0.00
<b>Total 2</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>AGGREGATE TOTAL</b>	<b>77,377,409.75</b>	<b>0.00</b>	<b>0.00</b>	<b>-49,338,202.45</b>	<b>28,039,207.30</b>

## Notes (CONTINUED)

## 4.27. Tier 1 capital and Tier 2 capital

## Item 4 shown below the balance sheet on the liabilities side

(in €)

Eligible capital pursuant to Part Two of Regulation (EU) No 575/2013		31 Dec. 2014	13,567,770,994.08
		31 Dec. 2013	13,029,282,083.00
<b>UNICREDIT BANK AUSTRIA AG</b>			
<b>1</b>	<b>CAPITAL</b>		<b>13,567,770,994.08</b>
<b>1.1</b>	<b>TIER 1 CAPITAL (T1)</b>		<b>10,054,676,947.54</b>
<b>1.1.1</b>	<b>COMMON EQUITY TIER 1 CAPITAL (CET1)</b>		<b>10,054,676,947.54</b>
1.1.1.1	Capital instruments qualifying as Common Equity Tier 1 capital	8,047,387,720.80	
1.1.1.1.1	Paid-up capital instruments	1,681,033,521.40	
1.1.1.1.3	Share premium <sup>1)</sup>	6,366,354,199.40	
1.1.1.1.4	Other reserves	2,157,787,616.75	
1.1.1.9	Deductions due to adjustments to Common Equity Tier 1 capital (prudential filters)	-1,021,971.00	
1.1.1.9.5	(-) Write-downs resulting from requirements for prudent valuation	-1,021,971.00	
1.1.1.11	(-) Other intangible assets	-7,040,402.00	
1.1.1.11.1	(-) Gross amount of other intangible assets	-7,040,402.00	
1.1.1.13	(-) IRB shortfall arising from credit risk adjustments to expected losses	-197,904,216.18	
1.1.1.16	(-) Items to be deducted from Additional Tier 1 items that exceed Additional Tier 1 capital	-108,038,559.91	
1.1.1.19	(-) Free deliveries to which a risk weight of 1.250% may be assigned as an alternative	-448,935.46	
1.1.1.26	Other transitional adjustments to Common Equity Tier 1 capital	163,955,694.54	
<b>1.1.2</b>	<b>ADDITIONAL TIER 1 CAPITAL (AT1)</b>		<b>0.00</b>
1.1.2.9	Other transitional adjustments to Additional Tier 1 capital	-108,038,559.91	
1.1.2.10	Items to be deducted from Additional Tier 1 items that exceed Additional Tier 1 capital (deduction from Common Equity Tier 1 capital)	108,038,559.91	
<b>1.2</b>	<b>TIER 2 CAPITAL (T2)</b>		<b>3,513,094,046.54</b>
<b>1.2.1</b>	<b>Capital instruments and subordinated loans qualifying as Tier 2 capital</b>		<b>3,415,406,960.77</b>
1.2.1.1	Paid-up capital instruments and subordinated loans	3,441,600,831.96	
1.2.1.2*	Additional information: capital instruments and subordinated loans that do not qualify	593,298,962.72	
1.2.1.4	(-) Own Tier 2 instruments	-26,193,871.19	
1.2.1.4.1	(-) Direct positions in Tier 2 capital instruments	-26,193,871.19	
<b>1.2.2</b>	<b>Transitional adjustments to Tier 2 capital instruments and subordinated loans (grandfathering)</b>		<b>211,715,600.00</b>
<b>1.2.9</b>	<b>(-) Tier 2 capital instruments of financial sector entities in which the institution has a significant investment</b>		<b>-58,111,379.60</b>
<b>1.2.10</b>	<b>Other transitional adjustments to Tier 2 capital</b>		<b>-55,917,134.63</b>

1) The item "1.1.1.1.3. Share premium" reflects the loss for 2014.

The adoption of the financial statements is scheduled for the Supervisory Board meeting on 9 March 2015.

## Notes (CONTINUED)

**Item 5 shown below the balance sheet on the liabilities side**

(in €)

Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013		31 Dec. 2014	5,506,167,674.25
		31 Dec. 2013	5,491,963,372.00
<b>UNICREDIT BANK AUSTRIA AG</b>			
<b>1</b>	<b>TOTAL RISK EXPOSURE AMOUNT</b>		<b>68,827,095,928.10</b>
<b>1.1</b>	<b>RISK-WEIGHTED EXPOSURE AMOUNTS FOR CREDIT RISK, COUNTERPARTY RISK AND DILUTION RISK AND FOR FREE DELIVERIES</b>		<b>63,809,093,965.05</b>
<b>1.1.1</b>	<b>Standardised approach</b>		<b>23,277,191,311.35</b>
1.1.1.1	Exposure classes under the standardised approach excluding securitisation positions	23,277,191,311.35	
1.1.1.1.01	Central governments or central banks	1,437,654.03	
1.1.1.1.02	Regional governments or local authorities	37,988,685.95	
1.1.1.1.03	Public sector entities	54,099,840.88	
1.1.1.1.06	Institutions	1,103,815,665.20	
1.1.1.1.07	Corporates	6,552,868,224.06	
1.1.1.1.08	Retail exposures	127,083,507.45	
1.1.1.1.09	Exposures secured by mortgages on immovable property	11,328,907.04	
1.1.1.1.10	Exposures in default	404,232,483.91	
1.1.1.1.11	Exposures associated with particularly high risk	67,180,838.06	
1.1.1.1.12	Covered bonds	0.00	
1.1.1.1.15	Equity exposures	13,859,632,945.31	
1.1.1.1.16	Other items	1,057,522,559.46	
<b>1.1.2</b>	<b>Internal ratings-based (IRB) approach</b>		<b>40,311,837,304.20</b>
1.1.2.2	IRB approaches if the institution uses its own estimates of LGD and conversion factors	36,787,633,068.90	
1.1.2.2.01	Central governments and central banks	61,721,864.97	
1.1.2.2.02	Institutions	8,938,023,957.19	
1.1.2.2.03	Corporates – SMEs	2,948,599,421.22	
1.1.2.2.04	Corporates – specialised lending exposures	975,190,893.74	
1.1.2.2.05	Corporates – other	18,438,018,085.12	
1.1.2.2.06	Retail exposures – secured by mortgages on immovable property, SMEs	80,263,395.03	
1.1.2.2.07	Retail exposures – secured by mortgages on immovable property, non-SME	2,141,714,650.80	
1.1.2.2.08	Retail exposures – qualifying revolving	352,433,698.13	
1.1.2.2.09	Retail exposures – other, SMEs	328,256,500.17	
1.1.2.2.10	Retail exposures – other, non-SME	2,523,410,602.53	
1.1.2.3	Equity exposures under the IRB approach	2,939,810,196.50	
1.1.2.4	Securitisation positions under the IRB approach	584,394,038.80	
1.1.2.4'	Of which: re-securitisation	15,055,382.25	
<b>1.1.3</b>	<b>Risk exposure amount for contributions to the default fund of a central counterparty</b>		<b>220,065,349.50</b>
<b>1.2</b>	<b>RISK EXPOSURE AMOUNT FOR SETTLEMENT AND DELIVERY RISKS</b>		<b>11,409.92</b>
<b>1.2.1</b>	<b>Settlement and delivery risk in the non-trading book</b>		
<b>1.2.2</b>	<b>Settlement and delivery risk in the trading book</b>		<b>11,409.92</b>
<b>1.3</b>	<b>TOTAL RISK EXPOSURE AMOUNT FOR POSITION RISK, FOREIGN EXCHANGE RISK AND COMMODITIES RISK</b>		<b>1,219,010,630.00</b>
<b>1.3.2</b>	<b>Risk exposure amount for position risk, foreign exchange risk and commodities risk under internal models</b>		<b>1,219,010,630.00</b>
<b>1.4</b>	<b>TOTAL RISK EXPOSURE AMOUNT OF EXPOSURES FOR OPERATIONAL RISK</b>		<b>3,658,166,710.00</b>
<b>1.4.3</b>	<b>Advanced measurement approaches (AMA) for operational risk</b>		<b>3,658,166,710.00</b>
<b>1.6</b>	<b>TOTAL RISK EXPOSURE AMOUNT DUE TO CREDIT VALUATION ADJUSTMENTS (CVA)</b>		<b>140,813,213.13</b>
<b>1.6.1</b>	<b>Advanced method</b>		<b>140,813,213.13</b>
Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013			5,506,167,674.25
of which: capital requirements pursuant to Article 92 (1) points (a) to (c) and to the transitional arrangement pursuant to Article 465 of Regulation (EU) No 575/2013 in conjunction with Section 1 of the Austrian CRR Supplementary Regulation			
	a) a Common Equity Tier 1 capital ratio of		14.61 %
	b) a Tier 1 capital ratio of		14.61 %
	c) a total capital ratio of		19.71 %



## Notes (CONTINUED)

The following table includes the qualifying profit for 2014. It should be noted that the financial statements of various subsidiaries have not yet been adopted by their respective supervisory boards and that resolutions concerning the appropriation of profits have not yet been passed by their respective general meetings.

**Item 4 shown below the balance sheet on the liabilities side**

(in €)

Eligible capital pursuant to Part Two of Regulation (EU) No 575/2013		31 Dec. 2014	17,527,096,854.66
		31 Dec. 2013	15,958,224,117.68
<b>UNICREDIT BANK AUSTRIA SUB-GROUP</b>			
<b>1</b>	<b>CAPITAL</b>		<b>17,527,096,854.66</b>
<b>1.1</b>	<b>TIER 1 CAPITAL (T1)</b>		<b>13,464,877,722.20</b>
<b>1.1.1</b>	<b>COMMON EQUITY TIER 1 CAPITAL (CET1)</b>		<b>13,464,877,722.20</b>
1.1.1.1	Capital instruments qualifying as Common Equity Tier 1 capital	7,739,329,521.40	
1.1.1.1.1	Paid-up capital instruments	1,681,033,521.40	
1.1.1.1.3	Share premium	6,058,393,000.00	
1.1.1.1.4	(-) Own Common Equity Tier 1 capital instruments	-97,000.00	
1.1.1.1.4.1	(-) Direct positions in Common Equity Tier 1 capital instruments	-97,000.00	
1.1.1.2	Retained earnings	4,662,055,000.00	
1.1.1.2.1	Retained earnings of previous years	3,279,010,000.00	
1.1.1.2.2	Qualifying profit or loss	1,383,045,000.00	
1.1.1.2.2.1	Profit or loss attributable to the owners of the parent company	1,383,045,000.00	
1.1.1.2.2.2	(-) Non-qualifying portion of interim or year-end profit	0.00	
1.1.1.3	Accumulated other comprehensive income	-2,347,990,000.00	
1.1.1.4	Other reserves	4,680,263,000.00	
1.1.1.7	Minority interests that qualify as Common Equity Tier 1 capital	129,987,495.56	
1.1.1.8	Transitional arrangements concerning additional minority interests	21,298,803.56	
1.1.1.9	Deductions and filters due to adjustments to Common Equity Tier 1 capital (prudential filters)	-421,307,778.71	
1.1.1.9.2	Cash flow hedge reserves	-304,545,000.00	
1.1.1.9.3	Gains or losses on own liabilities valued at fair value that result from changes in the institution's own credit standing	-10,868,888.71	
1.1.1.9.4	Gains and losses arising from the institution's own credit risk related to derivative liabilities	-91,623,652.00	
1.1.1.9.5	(-) Write-downs resulting from requirements for prudent valuation	-14,270,238.00	
1.1.1.10	(-) Goodwill	-4,000.00	
1.1.1.10.1	(-) Goodwill recognised as an intangible asset	-4,000.00	
1.1.1.11	(-) Other intangible assets	-284,877,298.39	
1.1.1.11.1	(-) Gross amount of other intangible assets	-284,877,298.39	
1.1.1.12	(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences, less associated deferred tax liabilities	-17,822,829.44	
1.1.1.13	(-) IRB shortfall arising from credit risk adjustments to expected losses	-3,389,841.94	
1.1.1.16	(-) Items to be deducted from Additional Tier 1 items that exceed Additional Tier 1 capital	-131,937,126.64	
1.1.1.19	(-) Free deliveries to which a risk weight of 1,250% may be assigned as an alternative	-448,935.46	
1.1.1.26	Other transitional adjustments to Common Equity Tier 1 capital	-560,278,287.74	
<b>1.1.2</b>	<b>ADDITIONAL TIER 1 CAPITAL (AT1)</b>		<b>0.00</b>
1.1.2.2	Transitional adjustments to Additional Tier 1 capital instruments (grandfathering)	116,231,200.00	
1.1.2.3	Instruments issued by subsidiaries that qualify as Additional Tier 1 capital	21,670,003.42	
1.1.2.4	Transitional arrangements concerning instruments issued by subsidiaries that are additionally recognised as Additional Tier 1 capital	-17,336,002.73	
1.1.2.9	Other transitional adjustments to Additional Tier 1 capital	-252,502,327.33	
1.1.2.10	Items to be deducted from Additional Tier 1 items that exceed Additional Tier 1 capital (deduction from Common Equity Tier 1 capital)	131,937,126.64	
<b>1.2</b>	<b>TIER 2 CAPITAL (T2)</b>		<b>4,062,219,132.46</b>
<b>1.2.1</b>	<b>Capital instruments and subordinated loans qualifying as Tier 2 capital</b>		<b>3,889,153,182.76</b>
1.2.1.1	Paid-up capital instruments and subordinated loans	3,889,153,182.76	
1.2.1.2*	Additional information: capital instruments and subordinated loans that do not qualify for inclusion	592,066,626.87	

## Notes (CONTINUED)

1.2.2	Transitional adjustments to Tier 2 capital instruments and subordinated loans (grandfathering)	17,296,435.82
1.2.3	Instruments issued by subsidiaries which qualify as Tier 2 capital	190,690,358.23
1.2.4	Transitional arrangements concerning instruments issued by subsidiaries that are additionally recognised as Tier 2 capital	-152,552,286.59
1.2.5	Qualifying provisions under the IRB approach that exceed the expected losses (IRB excess)	53,632,121.80
1.2.6	General credit risk adjustments under the standardised approach	100,222,084.98
1.2.9	(-) Tier 2 capital instruments of financial sector entities in which the institution has a significant investment	-58,111,379.60
1.2.10	Other transitional adjustments to Tier 2 capital	21,888,615.06

**Item 5 shown below the balance sheet on the liabilities side**

(in €)

Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013		31 Dec. 2014	10,428,061,330.06
		31 Dec. 2013	9,480,772,413.00
<b>UNICREDIT BANK AUSTRIA SUB-GROUP</b>			
<b>1</b>	<b>TOTAL RISK EXPOSURE AMOUNT</b>		<b>130,350,766,625.76</b>
<b>1.1</b>	<b>RISK-WEIGHTED EXPOSURES FOR CREDIT RISK, COUNTERPARTY RISK AND DILUTION RISK, AND FOR FREE DELIVERIES</b>		<b>112,994,682,043.34</b>
<b>1.1.1</b>	<b>Standardised approach</b>		<b>68,895,499,827.63</b>
1.1.1.1	Exposure classes under the standardised approach excluding securitisation positions	68,878,538,188.40	
1.1.1.1.01	Central governments or central banks	7,296,484,592.32	
1.1.1.1.02	Regional governments or local authorities	340,993,468.00	
1.1.1.1.03	Public sector entities	221,665,338.95	
1.1.1.1.06	Institutions	1,428,276,592.17	
1.1.1.1.07	Corporates	32,509,462,756.95	
1.1.1.1.08	Retail exposures	12,921,827,392.00	
1.1.1.1.09	Exposures secured by mortgages on immovable property	2,540,910,160.59	
1.1.1.1.10	Exposures in default	4,870,601,482.09	
1.1.1.1.11	Exposures associated with particularly high risk	166,296,317.21	
1.1.1.1.12	Covered bonds	40.90	
1.1.1.1.13	Exposures to institutions and corporates with a short-term credit assessment	401,486,856.85	
1.1.1.1.14	Units or shares in collective investment undertakings (CIUs)	14,566,298.97	
1.1.1.1.15	Equity exposures	3,220,106,986.99	
1.1.1.1.16	Other items	2,945,859,904.41	
1.1.1.2	Securitisation positions under the standardised approach	16,961,639.23	
<b>1.1.2</b>	<b>Internal ratings-based approach (IRB)</b>		<b>43,879,095,104.85</b>
1.1.2.1	IRB approaches if the institution does not use its own estimates of LGD or conversion factors	12,539,508,397.98	
1.1.2.1.01	Central governments or central banks	24,348,215.40	
1.1.2.1.02	Institutions	532,263,055.50	
1.1.2.1.03	Corporates – SMEs	4,142,808,418.02	
1.1.2.1.04	Corporates – specialised lending exposures	951,602,373.18	
1.1.2.1.05	Corporates – other	6,888,486,335.88	
1.1.2.2	IRB approaches if the institution uses its own estimates of LGD and conversion factors	29,916,479,998.39	
1.1.2.2.01	Central governments and central banks	281,824,258.86	
1.1.2.2.02	Institutions	3,748,242,731.02	
1.1.2.2.03	Corporates – SMEs	5,220,617,710.22	
1.1.2.2.04	Corporates – specialised lending exposures	2,114,199,797.39	
1.1.2.2.05	Corporates – other	12,594,399,338.43	
1.1.2.2.06	Retail exposures – secured by mortgages on immovable property, SMEs	89,850,112.43	
1.1.2.2.07	Retail exposures – secured by mortgages on immovable property, non-SME	2,317,816,517.55	
1.1.2.2.08	Retail exposures – qualifying revolving	379,017,283.34	
1.1.2.2.09	Retail exposures – other, SMEs	355,474,829.86	
1.1.2.2.10	Retail exposures – other, non-SME	2,815,037,419.29	
1.1.2.3	Equity exposures under the IRB approach	784,086,507.60	
1.1.2.4	Securitisation positions under the IRB approach	639,020,200.88	
1.1.2.4*	of which: re-securitisation	16,070,191.37	
<b>1.1.3</b>	<b>Risk exposure amount for contributions to the default fund of a central counterparty</b>		<b>220,087,110.86</b>

## Notes (CONTINUED)

1.2	<b>RISK EXPOSURE AMOUNT FOR SETTLEMENT AND DELIVERY RISKS</b>	<b>11,409.92</b>
1.2.1	Settlement and delivery risk in the non-trading book	
1.2.2	Settlement and delivery risk in the trading book	11,409.92
1.3	<b>TOTAL RISK EXPOSURE AMOUNT FOR POSITION RISK, FOREIGN-EXCHANGE RISK AND COMMODITIES RISK</b>	<b>4,643,394,838.88</b>
1.3.1	<b>Risk exposure amount for position risk, foreign exchange risk and commodities risk under standardised approaches</b>	<b>131,084,766.88</b>
1.3.1.1	Exchange-traded debt instruments	8,974,896.25
1.3.1.2	Equity instruments	956,415.63
1.3.1.3	Foreign exchange	121,153,455.00
1.3.2	<b>Risk exposure amount for position risk, foreign exchange risk and commodities risk under internal models</b>	<b>4,512,310,072.00</b>
1.4	<b>TOTAL RISK EXPOSURE AMOUNT OF EXPOSURES FOR OPERATIONAL RISK</b>	<b>12,068,210,430.88</b>
1.4.1	Basic indicator approach for operational risk	2,267,557,028.75
1.4.2	Standardised approach or alternative standardised approach (ASA) for operational risk	3,251,943,027.13
1.4.3	Advanced measurement approach (AMA) for operational risk	6,548,710,375.00
1.6	<b>TOTAL RISK EXPOSURE AMOUNT DUE TO CREDIT VALUATION ADJUSTMENTS (CVA)</b>	<b>644,467,902.75</b>
1.6.1	Advanced method	140,813,213.13
1.6.2	Standardised method	503,654,689.62
	<b>Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013</b>	<b>10,428,061,330.06</b>
	<b>of which: capital requirements pursuant to Article 92 (1) points (a) to (c) and to the transitional arrangement pursuant to Article 465 of Regulation (EU) No 575/2013 in conjunction with Section 1 of the Austrian CRR Supplementary Regulation</b>	
	a) a Common Equity Tier 1 capital ratio of	10.33%
	b) a Tier 1 capital ratio of	10.33%
	c) a total capital ratio of	13.45%

## Notes (CONTINUED)

## 4.28. Cross-holdings

There are no cross-holdings within the meaning of Section 240, item 9, of the Austrian Business Code.

## 4.29. Assets pledged as security

**Assets pledged as security for liabilities pursuant to Section 64 (1) 8 of the Austrian Banking Act**

ASSETS	31 DEC. 2014 (IN €)	DESCRIPTION OF THE LIABILITIES	BALANCE SHEET ITEM
<b>Cover fund for deposits held in trust for wards:</b>			
Fixed-income securities	140,897,268.71	Deposits held in trust for wards	Liabilities item 2
<b>Cover fund for funded bank bonds:</b>			
Loans and advances to customers	1,651,330,591.97	Funded Bank Austria bonds	Liabilities item 3
Fixed-income securities	15,069,341.81	Funded Bank Austria bonds	Liabilities item 3
<b>Total</b>	<b>1,666,399,933.78</b>		
<b>Cover fund for mortgage bonds and public-sector covered bonds:</b>			
Loans and advances to customers	13,696,128,796.96	Mortgage bonds and public-sector covered bonds	Liabilities item 3
Loans and advances to credit institutions	474,400,000.00	Mortgage bonds and public-sector covered bonds	Liabilities item 3
Fixed-income securities	1,781,936,895.64	Mortgage bonds and public-sector covered bonds	Liabilities item 3
<b>Total</b>	<b>15,952,465,692.60</b>		
<b>Collateral pool OeNB (tender):</b>			
Loans and advances to customers	3,350,727,436.14	OeNB/ECB funding	Liabilities item 1
Fixed-income securities	5,023,650,262.51	OeNB/ECB funding	Liabilities item 1
<b>Total</b>	<b>8,374,377,698.65</b>		
<b>Collateral EIB and KfW:</b>			
Loans and advances to customers	948,506,830.37	Supranational funding	Liabilities item 1
Fixed-income securities	418,162,841.19	Supranational funding	Liabilities item 1
<b>Total</b>	<b>1,366,669,671.56</b>		
<b>Collateral for trading transactions in securities and derivatives:</b>			
Cash collateral	843,902,345.17	Margin requirements	
Securities collateral	19,791,065.60	Margin requirements	
<b>Total</b>	<b>863,693,410.77</b>		
<b>Collateral for clearing systems:</b>			
Loans and advances to credit institutions	94,611,109.05	Security provided in favour of OeKB, Euroclear, Clearstream Banking	
Fixed-income securities	107,455,298.73	Security provided in favour of OeKB, Euroclear, Clearstream Banking	
<b>Total</b>	<b>202,066,407.78</b>		
<b>Collateral for amounts owed to credit institutions:</b>			
Loans and advances to customers	4,423,691,803.27	Claims assigned in favour of OeKB	Liabilities item 1
Loans and advances to customers	2,080,830,050.15	Earmarked deposit Wohnbaubank AG	Liabilities item 1
<b>Total</b>	<b>6,504,521,853.42</b>		
<b>Assets pledged in favour of foreign credit institutions and financial institutions which are group companies</b>			
Loans and advances to credit institutions	93,622,854.70	Pledge agreements with CEE banks	
Fixed-income securities	23,332,624.72	Pledge agreements with CEE banks	
<b>Total</b>	<b>116,955,479.42</b>		
<b>AGGREGATE TOTAL</b>	<b>35,188,047,416.69</b>		

The sub-item "Savings deposits" (2a) includes deposits held in trust for wards in the amount of € 122,464,020.36 (31 December 2013: € 118,448 thousand).

## Notes (CONTINUED)

**4.30. Derivatives business**

Derivatives shown in the relevant tables are classified as financial derivatives and credit derivatives, according to the underlying financial instrument. In these categories, a distinction is made between trading book and banking book and between different counterparties. UniCredit Bank Austria AG's business volume in derivatives focuses on interest rate contracts.

Over-the-counter transactions are individual agreements concerning volume, maturities and underlying instrument. In large-volume interbank trading, these agreements reflect international practice, while in customer business they are usually adjusted to specific needs. Exchange-traded contracts are always standardised in respect of volume and maturity date.

Derivatives are mainly used by the bank itself for hedging market risk and credit spread risk arising from new issue activities. In customer business, market participants include banks, securities houses and corporate customers. Trading in derivatives at UniCredit Bank Austria AG is primarily related to the hedging of positions entered into vis-à-vis customers.

For the purposes of portfolio and risk management, contracts are valued at current prices using recognised and tested models. Market values show the contract values as at the balance sheet date, positive market values indicate the potential default risk arising from the relevant activity. For the purposes of portfolio management and risk limitation in the derivatives business with banks and customers, UniCredit Bank Austria AG uses a Monte Carlo path simulation to estimate the potential future exposure at portfolio level for each counterparty. The calculations are based on market volatility, correlations between specific risk factors, future cash flows and stress considerations. Netting agreements and collateral agreements are also taken into account for simulation purposes.

The simulation calculations are performed for all major types of transactions, e.g. forward foreign exchange transactions, commodity futures transactions, interest rate instruments, securities lending transactions and repurchase agreements, equity-related, commodity-related or inflation-related instruments and credit derivatives. Other (exotic) products are taken into account with an add-on factor (depending on volatility and maturity). The bank applies an expected shortfall of 87.5% (equals a 95% quantile).

In addition to determining the potential future exposure for the purpose of internal risk management, the path simulation also enables the bank to calculate the average exposure and the Basel 3-modified average exposure as well as the effective maturity of the exposure for each counterparty. In this way, counterparty risk can be taken into account in a Basel 3-compliant internal model for the calculation of capital requirements. In 2009, the bank obtained approval from the Austrian regulatory authorities for the use of the relevant model.

WSS ("Wallstreet"), the central treasury system, was replaced by the new limit system MLC ("Murex Limit Controller") and related reporting on 22 November 2014. Line utilisation for a customer's derivatives and security financing transactions is now available online in the central limit system MLC, on a largely Group-wide basis. For smaller units which are not connected to the central system, separate lines are allocated and monitored. Group-wide compliance with lines approved in the credit process is thus ensured at any time.

UniCredit Bank Austria AG additionally limits the credit risk arising from its derivatives business, repurchase agreements and securities lending transactions through strict use of master agreements, through the definition and monitoring of documentation standards by legal experts, and through collateral agreements and break clauses. In combination with the very good average credit rating of our business partners in the derivatives business, management takes proper account of default risk.

Details of derivatives transactions and of the uniform Group-wide method of recording them for risk measurement and risk management purposes are given in the following tables.

Information pursuant to Section 64 (1) 3 of the Austrian Banking Act may also be derived from the tables.

## Notes (CONTINUED)

(in €)

	31 DEC. 2014			31 DEC. 2013		
	NOTIONAL AMOUNT	POSITIVE MARKET VALUE	NEGATIVE MARKET VALUE	NOTIONAL AMOUNT	POSITIVE MARKET VALUE	NEGATIVE MARKET VALUE
<b>Trading book</b>	<b>45,579,915,777</b>	<b>1,812,288,693</b>	<b>1,695,360,823</b>	<b>41,006,966,693</b>	<b>865,350,877</b>	<b>914,761,809</b>
<b>Financial derivatives on debt instruments and interest rates</b>	<b>27,350,682,054</b>	<b>967,688,036</b>	<b>949,373,496</b>	<b>29,190,215,834</b>	<b>582,721,442</b>	<b>609,680,119</b>
Options	6,895,111,722	107,086,114	87,198,704	9,755,342,312	84,402,576	84,445,948
Swaps	20,455,570,331	860,601,922	862,174,792	19,172,373,522	498,318,866	525,234,171
Forwards	0	0	0	0	0	0
Futures	0	0	0	262,500,000	0	0
Other	0	0	0	0	0	0
<b>Financial derivatives on equity instruments and share indices</b>	<b>2,340,556,225</b>	<b>147,076,537</b>	<b>4,865,052</b>	<b>274,714,166</b>	<b>5,522,262</b>	<b>1,461,387</b>
Options	2,222,330,130	46,467,888	4,865,052	274,714,166	5,522,262	1,461,387
Swaps	118,226,096	100,608,649	0	0	0	0
Forwards	0	0	0	0	0	0
Futures	0	0	0	0	0	0
Other	0	0	0	0	0	0
<b>Financial derivatives on exchange rates and gold</b>	<b>14,884,555,325</b>	<b>670,863,969</b>	<b>706,363,145</b>	<b>10,652,157,206</b>	<b>259,581,088</b>	<b>269,219,562</b>
Options	1,460,132,270	28,916,883	24,416,535	1,173,594,247	26,210,238	26,210,238
Swaps	5,547,936,487	428,671,190	475,739,953	4,120,505,824	162,368,131	189,925,036
Forwards	7,876,486,568	213,275,896	206,206,657	5,358,057,135	71,002,719	53,084,288
Futures	0	0	0	0	0	0
Other	0	0	0	0	0	0
<b>Financial derivatives on other underlying transactions</b>	<b>344,022,173</b>	<b>25,877,680</b>	<b>24,159,466</b>	<b>153,779,488</b>	<b>15,392,340</b>	<b>15,392,340</b>
Options	47,291,068	7,825,412	6,125,637	38,881,053	11,963,393	11,963,393
Forwards	296,731,105	18,052,268	18,033,829	114,898,435	3,428,947	3,428,947
Futures	0	0	0	0	0	0
Other	0	0	0	0	0	0
<b>Credit derivatives</b>	<b>660,100,000</b>	<b>782,470</b>	<b>10,599,664</b>	<b>736,100,000</b>	<b>2,133,745</b>	<b>19,008,400</b>
Credit default swaps	660,100,000	782,470	10,599,664	736,100,000	2,133,745	19,008,400
Other	0	0	0	0	0	0

## Notes (CONTINUED)

(in €)

	31 DEC. 2014			31 DEC. 2013		
	NOTIONAL AMOUNT	POSITIVE MARKET VALUE	NEGATIVE MARKET VALUE	NOTIONAL AMOUNT	POSITIVE MARKET VALUE	NEGATIVE MARKET VALUE
<b>Banking book – hedging derivatives</b>	<b>119,571,512,135</b>	<b>3,467,143,238</b>	<b>2,790,543,695</b>	<b>123,652,099,259</b>	<b>2,768,725,150</b>	<b>1,895,152,845</b>
<b>Financial derivatives on debt instruments and interest rates</b>	<b>94,997,111,810</b>	<b>3,333,899,123</b>	<b>2,482,600,670</b>	<b>96,790,292,265</b>	<b>2,362,917,712</b>	<b>1,759,196,737</b>
Options	2,971,559,328	47,145,782	199,955,590	4,137,489,840	115,837,210	54,689,894
Swaps	92,025,552,482	3,286,753,341	2,282,645,079	92,652,802,425	2,247,080,502	1,704,506,842
Forwards	0	0	0	0	0	0
Futures	0	0	0	0	0	0
Other	0	0	0	0	0	0
<b>Financial derivatives on equity instruments and share indices</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>252,219,037</b>	<b>136,090,294</b>	<b>0</b>
Options	0	0	0	102,560,000	4,019,387	0
Swaps	0	0	0	149,659,037	132,070,907	0
Forwards	0	0	0	0	0	0
Futures	0	0	0	0	0	0
Other	0	0	0	0	0	0
<b>Financial derivatives on exchange rates and gold</b>	<b>24,574,400,325</b>	<b>133,244,116</b>	<b>307,943,025</b>	<b>26,536,587,956</b>	<b>267,631,418</b>	<b>135,674,813</b>
Options	0	0	0	0	0	0
Swaps	24,109,563,635	130,824,870	307,670,991	24,612,808,659	251,738,535	132,787,885
Forwards	464,836,690	2,419,246	272,034	1,923,779,297	15,892,883	2,886,928
Futures	0	0	0	0	0	0
Other	0	0	0	0	0	0
<b>Financial derivatives on other underlying transactions</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>40,000,000</b>	<b>1,981,733</b>	<b>0</b>
Options	0	0	0	40,000,000	1,981,733	0
Forwards	0	0	0	0	0	0
Futures	0	0	0	0	0	0
Other	0	0	0	0	0	0
<b>Credit derivatives</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>33,000,000</b>	<b>103,993</b>	<b>281,295</b>
Credit default swaps	0	0	0	33,000,000	103,993	281,295
Other	0	0	0	0	0	0
<b>TOTAL</b>	<b>165,151,427,912</b>	<b>5,279,431,931</b>	<b>4,485,904,518</b>	<b>164,659,065,952</b>	<b>3,634,076,027</b>	<b>2,809,914,653</b>

## Notes (CONTINUED)

## Derivatives by residual maturity

(in €)

	31 DEC. 2014			
	UP TO 1 YEAR	OVER 1 YEAR UP TO 5 YEARS	OVER 5 YEARS	TOTAL
<b>Trading book</b>	<b>13,120,946,317</b>	<b>17,093,545,817</b>	<b>15,365,423,642</b>	<b>45,579,915,777</b>
Financial derivative contracts on debt instruments and interest rates	3,370,262,272	12,070,817,020	11,909,602,762	27,350,682,054
Financial derivative contracts on equity instruments and share indices	478,461,036	1,042,704,754	819,390,434	2,340,556,225
Financial derivative contracts on exchange rates and gold	8,665,947,157	3,650,777,722	2,567,830,446	14,884,555,325
Financial derivative contracts on other underlying transactions	331,275,852	12,746,321	0	344,022,173
Credit derivatives	275,000,000	316,500,000	68,600,000	660,100,000
<b>Banking book</b>	<b>41,294,817,642</b>	<b>47,195,231,263</b>	<b>31,081,463,230</b>	<b>119,571,512,135</b>
Financial derivative contracts on debt instruments and interest rates	31,900,545,295	37,850,931,966	25,245,634,549	94,997,111,810
Financial derivative contracts on equity instruments and share indices	0	0	0	0
Financial derivative contracts on exchange rates and gold	9,394,272,347	9,344,299,297	5,835,828,682	24,574,400,325
Financial derivative contracts on other underlying transactions	0	0	0	0
Credit derivatives	0	0	0	0
<b>TOTAL</b>	<b>54,415,763,959</b>	<b>64,288,777,080</b>	<b>46,446,886,873</b>	<b>165,151,427,912</b>

	31 DEC. 2013			
	UP TO 1 YEAR	OVER 1 YEAR UP TO 5 YEARS	OVER 5 YEARS	TOTAL
<b>Trading book</b>	<b>11,232,461,005</b>	<b>17,747,052,227</b>	<b>12,027,453,461</b>	<b>41,006,966,693</b>
Financial derivative contracts on debt instruments and interest rates	5,351,058,308	14,238,329,969	9,600,827,557	29,190,215,834
Financial derivative contracts on equity instruments and share indices	103,689,806	19,160,243	151,864,117	274,714,166
Financial derivative contracts on exchange rates and gold	5,557,225,847	2,925,269,571	2,169,661,787	10,652,157,206
Financial derivative contracts on other underlying transactions	139,487,045	14,292,443	0	153,779,488
Credit derivatives	81,000,000	550,000,000	105,100,000	736,100,000
<b>Banking book</b>	<b>32,818,541,528</b>	<b>60,169,894,653</b>	<b>30,663,663,077</b>	<b>123,652,099,259</b>
Financial derivative contracts on debt instruments and interest rates	29,593,962,585	43,428,002,557	23,768,327,124	96,790,292,265
Financial derivative contracts on equity instruments and share indices		252,219,037		252,219,037
Financial derivative contracts on exchange rates and gold	3,196,578,944	16,444,673,059	6,895,335,954	26,536,587,956
Financial derivative contracts on other underlying transactions		40,000,000		40,000,000
Credit derivatives	28,000,000	5,000,000		33,000,000
<b>TOTAL</b>	<b>44,051,002,534</b>	<b>77,916,946,880</b>	<b>42,691,116,538</b>	<b>164,659,065,952</b>

## 4.31. Contingent liabilities

Contingent liabilities of UniCredit Bank Austria AG shown below the line in item 1 on the liabilities side amounted to €12,063,564,782.87, an increase of €884,126,527.53 or 7.91 % compared with the previous year.

	31 DEC. 2014 (IN €)	31 DEC. 2013 (IN € THOUSAND)
Acceptances and endorsements	0.00	0
Guarantees and assets pledged as collateral security	12,063,564,782.87	11,179,438

### Guarantees in connection with retirement planning products benefiting from a state premium pursuant to Section 108 h (1) 3 and subsequent sections of the Austrian Income Tax Act (Einkommensteuergesetz – EStG)

In connection with retirement planning products benefiting from a state premium, UniCredit Bank Austria AG has incurred nominal capital guarantee obligations defined by law. Under the "VorsorgePlus-Plan" product (a mutual fund managed by Pioneer Investments Austria GmbH), the bank guarantees the investor that in the case of repayment through regular payments to the investor, the amount available for repayment will not be lower than the sum of amounts paid in plus premiums (variable in a range between 8.5 % and 13.5 %, and index-linked) credited to the account pursuant to Section 108 g of the Austrian Income Tax Act.

As at 31 December 2014, amounts paid in for retirement planning products benefiting from a state premium totalled €45,431,618.74 (including state premiums credited for the years 2003 to 2013 in the amount of €9,050,871.62, but excluding premiums for 2014); this compares with the fund's net asset value of €46,103,447.78. This means that the guarantee obligation, which amounted to €45,431,618.74, was covered as at the relevant date.



## Notes (CONTINUED)

Risk management is based on a CPPI model reflecting the stochastic characteristics of the proportions of equity and bond investments. Daily marking to market of the related options carried in the bank's trading book ensures that, if necessary, a sufficient provision is made immediately for any losses. The valuation functions are integrated in the MUREX system. Risk indicators are determined by the Credit Structured Products unit.

### 4.32. Letters of comfort and undertakings

In addition to the contingent liabilities shown below the balance sheet in item 1 on the liabilities side, there are the following letters of comfort and undertakings:

For six subsidiaries of UniCredit Bank Austria AG, guarantees were issued in favour of S. W. I. F. T.

Letters of comfort for a total amount of €512,453,344.04 were issued in connection with international leasing transactions; given the nature of collateral for these transactions, it is not expected that claims will be lodged against UniCredit Bank Austria AG because the rights to payment undertaking amounts serving as collateral and held with the leasing companies or with UniCredit Bank Austria AG, or the rights to other security of stable value, have been transferred to the leasing companies.

The following five letters of comfort are included at a value of €1 in the item below the balance sheet:

A letter of comfort was issued for BA-CA Wien Mitte GmbH/Salima Wien-Mitte Projektentwicklung GmbH in favour of the Austrian Federal Railways (ÖBB) in connection with the redesign of the former Wien Mitte bus terminal.

We issued a letter of comfort to the Republic of Austria (Federal Ministry of Finance) in connection with the renting of business premises in the area of the Wien-Mitte railway station.

Two letters of comfort were issued for the floating of hybrid capital of BA-CA Finance (Cayman) Limited as well as of BA-CA Finance (Cayman 2) Limited.

We also issued a letter of comfort for borrowings by some of our units in Central and Eastern Europe from the European Bank for Reconstruction and Development, London.

Furthermore, a commitment has been imposed on UniCredit Bank Austria AG under its membership, as prescribed in Sections 93 and 93a of the Austrian Banking Act, in Sparkassen Haftungs AG, a company which is the deposit insurance institution of the Austrian savings bank sector.

We refer to item 4.34 for information on a letter of comfort issued for Ukrspotsbank after the balance sheet date.

### 4.33. Commitments

	31 DEC. 2014 (IN €)	31 DEC. 2013 (IN € THOUSAND)
Liabilities arising from sales with an option to repurchase pursuant to Section 50 (3) and (5) of the Austrian Banking Act	0.00	0
Underwriting commitments in respect of securities	764,293,097.51	304,156
Call/put options sold (pursuant to Annex 1 to Section 22, item 1 j)	426,712,237.69	320,176
Irrevocable loan commitments not yet utilised (credit facilities, commitments to lend, obligations to purchase securities, obligations to provide guarantees or acceptance facilities)	10,473,743,286.38	1,592,412
Securities borrowed – own account	0.00	59,141
Obligations under rent and lease agreements	64,254,168.11	66,004
Any other irrevocable transactions that may give rise to credit risk and have not been mentioned above	45,420.52	45
<b>TOTAL</b>	<b>11,729,048,210.21</b>	<b>2,341,934</b>

### 4.34. Material risks in Central and Eastern Europe

#### RUSSIA

##### Country risk

The political crisis in Ukraine triggered major negative impacts on the Russian economy. Sanctions imposed in response to the Ukraine conflict are significantly restricting Russian companies' business and their access to Western capital markets.

Dramatic depreciation of the Russian rouble and falling crude oil prices in the past few months are driving inflation and putting additional pressure on the economy. Large Russian groups of companies and the banking sector are increasingly dependent on financial aid provided by the state.

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

## Notes (CONTINUED)

### **Credit risk**

The banking subsidiary in Russia accounts for about 15% (€11.7 billion) of lending volume in CEE. Measured by loans to customers, the bank in Russia is the largest bank in UniCredit's network in Central and Eastern Europe. The sanctions which have been imposed have so far not had any discernible impact on the loan portfolio. In 2014, the proportion of defaulted loans (3.7%) remained constant compared with year-end 2013 (4.2%). The provisioning charge rose only slightly in 2014, to €85 million (2013: €81 million) although the economic environment was deteriorating especially in the second half of the year. The increase is mainly explained by provisioning for corporate customers.

UniCredit Bank Austria AG has assumed an intra-group guarantee in the amount of €1.3 billion in favour of its Russian banking subsidiary for a portfolio of corporate loans to enable the subsidiary to meet local regulatory requirements.

Management's focus on management and restructuring activities in connection with companies which defaulted on their loans has proved successful, making it possible to reclassify loans to such companies as performing again. Risk-mitigating measures implemented additionally serve to monitor and assure asset quality and are aimed at preventing a default by borrowers or reducing losses in the event of default.

### **Currency risk**

Currency depreciation and material interest rate increases during the first quarter of 2014 mainly led to valuation losses on the bond and interest rate positions of AO UniCredit Bank, Russia. The massive 7% increase in central bank interest rates in December 2014 did not have the hoped-for positive effect of stabilising the RUB exchange rate. The currently inverted RUB yield curve accentuates the negative income contributions from Markets business of our bank in Russia.

Low oil prices and the impact of economic sanctions in 2014 led to strong appreciation of the euro against the Russian rouble (60%) with sharp temporary fluctuations.

### **Liquidity risk**

AO UniCredit Bank, Russia, is currently 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 UniCredit Bank Austria AG. Severe outflow assumptions in a stress test can be covered with the existing counterbalancing capacity.

### **Operational risk**

In AO UniCredit Bank, Russia, no direct operational risk losses have occurred so far in connection with the current crisis in Ukraine.

## **UKRAINE**

### **Country risk**

Demonstrations and rallies in support of the signing of a free-trade agreement with the EU in November 2013, to which the government responded by using force of arms, led to a government reshuffle a few weeks later and brought about the downfall of the President, who had enjoyed Russia's support.

After the annexation of Crimea by Russia in February 2014, the military conflict spread to eastern Ukraine, leading to economic recession and rising foreign debt. The Ukrainian economy and the country's independence can only be maintained if far-reaching structural reforms are carried out. Such reforms are a condition to be met for further aid payments from the IMF, the EU and the US. Unless such payments are made soon, the country will face insolvency, given the low level of its foreign exchange reserves and debt repayments due in 2015.

As UniCredit Group operates a banking subsidiary in Ukraine, political and economic developments in Ukraine are a focus of attention. Specific crisis strategies are used to manage and closely monitor the entire exposure.

The current situation in the country has a strong impact on commercial activity. Ukrspotsbank (USB) has closed its operations in Crimea. In the regions of Donetsk and Luhansk, 39 branches have been closed permanently and 3 branches have been closed at least temporarily.

The Ukrainian banking sector was strongly impacted in 2014 by the strained political and economic environment. Lending business fell sharply, non-performing loans increased and the banking sector's capitalisation deteriorated. Loans in local currency, which had grown by 16.9% in 2013, contracted by 9.1% in 2014. Growth of 22.4% in retail loans in the previous year was followed by a 12.4% decline in 2014, while an increase of 15.5% in corporate loans in 2013 was followed by a decrease of 9.1% in 2014. In the reporting year the volume of foreign currency loans rose by 53.5% (compared with 2.8% in 2013), but this growth was mainly due to substantial depreciation of the local currency.

Massive capital flight also had an impact on the banking sector. While 2013 had seen an increase of 17.1% in deposits in 2013, the rate of growth fell to a low 0.8% in 2014. In view of the deterioration in the loan portfolio, net write-downs of loans rose substantially and the Ukrainian banking

## Notes (CONTINUED)

sector as a whole closed 2014 with a loss of UAH 53 billion (€2.8 billion). (Without banks which are insolvent or were placed under central bank surveillance, the loss was UAH 33.1 billion (€1.7 billion).)

Current developments, especially renewed depreciation of the Ukrainian currency at the beginning of February 2015, will further weaken the banking sector and its capitalisation in particular. As official figures are only available as at the end of 2014, it is not yet possible to accurately quantify the effects.

### **Credit risk**

The general deterioration in the political and economic situation was also reflected in the quality of the Ukrainian banking subsidiary's loan portfolio, leading to a steady increase in defaults.

As at 31 December 2014, the portfolio at the Ukrainian banking subsidiary Ukrspotsbank amounted to €2.4 billion (€1.7 billion after deduction of loan loss provisions), accounting for about 3% of lending volume in CEE. Moreover, at the end of the reporting period, loans and advances to internationally active Ukrainian borrowers booked directly in UniCredit Bank Austria AG totalled about €0.8 billion (€0.5 billion after deduction of loan loss provisions), of which about €280 million is attributable to the immediate crisis region.

Within Ukraine, only €0.4 billion (€0.3 billion after deduction of loan loss provisions) is attributable to the eastern region (loans booked directly in Crimea and the Donbass region and loans booked in other regions to the extent that the borrower conducts the major part of its activities in the crisis region). The default ratio for Ukrspotsbank is 67% (31 December 2013: 50%). In the immediate crisis region, these ratios are higher, defaulted volume there is 90%.

At the end of the reporting period, the default ratio for volume with Ukrainian companies booked in UniCredit Bank Austria AG was 50%.

The valuation of exposures in the eastern region of Ukraine (Crimea and Donbass) reflects collateral in the total amount of €132 million (of which €7 million was taken into account for volume booked in UniCredit Bank Austria AG and €125 million for volume booked in Ukrspotsbank); the condition and soundness of such collateral cannot be assessed in a reliable manner.

The circumstances described above were taken into consideration in the valuation of the shareholding interest in Ukrspotsbank by making appropriate provisions. There is nevertheless considerable uncertainty with regard to the value stated for the shareholding interest.

### **Loan portfolio data Ukraine**

(in € million)

	LOANS AND ADVANCES TO CUSTOMERS		LOANS AND ADVANCES TO CREDIT INSTITUTIONS WHICH ARE GROUP COMPANIES	
	2014	2013	2014	2013
Gross volume	768	699	657	793
Net volume	463	452	657	793
Gross volume of impaired loans	422	248	0	0
Contingent liabilities <sup>*)</sup>	0	0	120	123
<b>Of which: eastern Ukraine (Crimea, Donbass)</b>				
Gross volume	280	n. a.		
Net volume	230	n. a.		
Gross volume of impaired loans	139	n. a.		

<sup>\*)</sup> There are no contingent liabilities relating to customers

An assessment of potential impairment was made on the basis of information most recently available. This involves considerable uncertainty especially with regard to the crisis region of Crimea and Donbass, with future management being largely dependent on further developments in the region.

### **Currency risk**

The political crisis in Ukraine led to material depreciation of Ukraine's currency (change USD against UAH of about 90% since the beginning of 2014) and an interest rate increase in funding rates. After substantial depreciation in March/April, the UAH exchange rate settled at about 17 against the euro. This was followed by further strong depreciation in November, to a level of about 19 hryvnias against the euro. This means that the value of the Ukrainian currency declined by about 70% against the euro in 2014.

The Ukrainian currency (UAH) has depreciated significantly since 5 February 2015. While the exchange rate had moved at a level of about 19 UAH per euro before 5 February 2015 (exchange rate as at 31 December 2014: 19.206 UAH/EUR), it rose to about 30 UAH per euro by the middle of February.

## Notes (CONTINUED)

### **Liquidity risk**

The customer deposit base in UAH decreased by 17% in Q1 2014 (deposits in USD by 40%) but was subsequently stabilised.

UAH deposits subsequently rose again until the end of the year, reaching a year-end 2014 level which was 7% lower than a year earlier. USD deposits (mainly held by corporates) declined by about 37% in 2014.

Ukrsotsbank holds collateral (Ukraine government bonds) which can be used in the amount of about UAH 1.5 billion for UAH refinancing with the local central bank. The Ukrainian government bonds are denominated in UAH but linked to the USD, thus partly closing the bank's open regulatory USD position. These bonds will be repaid in UAH at maturity and therefore have no influence on the bank's USD liquidity. In addition, there is a collateral-free National Bank of Ukraine (NBU) facility of UAH 0.4 billion. Central bank funds in the amount of available collateral are available to the bank unless local minimum capital ratios fail to be met. UniCredit Bank Austria AG supports USB with a USD overnight facility, which is currently not used. Ukrsotsbank is currently not using any local central bank support.

Quite generally, considering the crisis, a strong focus on deposit retention and restrictive lending practice helped to keep Ukrsotsbank's liquidity position comparatively stable.

### **Operational risk**

Losses resulting from operational risk at Ukrsotsbank in connection with the current conflict amount to €3.3 million (as at 22 January 2015), mainly relating to cash, valuables, security vans and leased equipment.

### **Recent developments after the end of the reporting period**

Current political developments in Ukraine led to strong depreciation of the local currency against the euro and the US dollar from 5 February 2015. This is having a strong impact on the Ukrainian economy and on the entire Ukrainian banking sector in particular.

As at 31 December 2014, Ukrsotsbank in Ukraine reported loans and advances denominated in foreign currency in the amount of €1.7 billion, which were affected by recent depreciation of the Ukrainian hryvnia. At present it is not possible to quantify the deterioration in the relevant borrowers' credit rating which is expected to result from the higher loan exposure / the higher loan repayment obligation in local currency.

Strong depreciation of the local currency (UAH) leads to the breach, throughout the Ukrainian banking sector, of some local regulatory requirements (minimum capital adequacy level, liquidity and open foreign exchange position) defined by the National Bank of Ukraine (NBU). This also affects Ukrsotsbank. There are two reasons for non-compliance with minimum capital requirements:

- a) The open FX position (mainly resulting from foreign currency loans) causes valuation losses in the income statement according to the local accounting standards; under NBU regulations, these losses have to be deducted from Tier 1 capital. At the same time, eligibility of Tier 2 capital for the calculation of capital is limited to the amount of eligible Tier 1 capital. In the case of Ukrsotsbank, this leads to the erosion of Tier 1 capital and thus also to non-eligibility of qualifying Tier 2 capital for inclusion in the calculation of capital.
- b) The risk-weighted assets of the FX loans, translated into UAH, increase significantly because of exchange rate movements, whereas the UAH-denominated capital of USB remains unchanged.

Both effects together result in a substantial reduction below the minimum total capital ratio as defined by the NBU (currently 10%) in Ukrsotsbank. The NBU has asked the management of Ukrsotsbank to present an action plan to improve the total capital ratio, which is currently discussed with the National Bank of Ukraine. The action plan may include the following measures: capital increase, reduction of risk-weighted assets through sale of loan packages and/or risk assumption by third parties in and outside the Bank Austria Group.

After the reporting date, UniCredit Bank Austria AG has issued a letter of comfort to the National Bank of Ukraine stating that it intends to continue to operate Ukrsotsbank (USB) as a going concern also in the period before the future sale of USB and to support the plans of USB's management.

## 4.35. Return on assets

The return on assets, which is the ratio of profit after tax ("annual surplus") to total assets as at the balance sheet date, was -1.57% for the reporting year (2013: -1.36%).

## Notes (CONTINUED)

**5. Notes to the profit and loss account****5.1. Breakdown of income at foreign establishments**

On 29 December 2006, UniCredit Bank Austria AG set up a permanent establishment in Milan, Via Tortona 33, which is exclusively engaged in the management and controlling of the equity interests of UniCredit that were transferred by way of contribution in kind. Therefore these activities are not banking activities.

In 2014, net interest income amounted to €10,069.73 (2013: €10 thousand) and other operating income was €0 (2013: €0 thousand).

**5.2. Income from equity interests and group companies**

The item "Income from shares in group companies" included income from profit-pooling arrangements in the amount of €287,869,392.02 (2013: €55,750 thousand).

Within income and expenses arising from the valuation and disposal of shares in group companies and equity interests, group companies accounted for a balance of minus €1,274,108,462.66 (2013: minus €1,433,054 thousand).

No income was realised on the sale of shares in profit-pooling arrangements.

**5.3. Income from administrative and agency services provided to third parties**

In 2014, income from safe-custody services and from intermediary services relating to insurance, building-society savings agreements and real estate totalled €66,801,859.57 (2013: €68,096 thousand).

**5.4. Other operating income**

Other operating income included compensation for group services, releases of provisions for litigation risks, gains on other assets and rent income from real estate as well as all income not directly related to banking operations. The total amount of this item in 2014 was €79,136,265.44 (2013: €162,027 thousand).

**5.5. Expenses for subordinated liabilities**

In the reporting year, the total amount of expenses for subordinated liabilities and Tier 2 capital was €134,584,368.48 (2013: €105,189 thousand).

**5.6. Expenses for severance payments**

The item "Expenses for severance payments and payments to severance-payment funds" included mainly expenses for severance payments under the old severance payments scheme in the amount of €77,920,835.56 (2013: €37,526 thousand).

**5.7. Other operating expenses**

Other operating expenses related primarily to expenses on banking operations not arising from lending business, and expenses arising from provisions for risks. In the reporting year, other operating expenses amounted to €63,498,762.47 (2013: €207,232 thousand).

**5.8. Write-downs on equity interests and on shares in group companies**

In the reporting year, write-downs totalled €1,289,035,749.96 (2013: €1,490,639 thousand). The write-downs related mainly to our banking subsidiaries in Ukraine (€333,776,754.20), Russia (€370,649,618.75) and Croatia (€212,362,597.35).

**5.9. Write-ups omitted**

In 2014, no write-ups (2013: €0 thsd) were omitted to avoid tax consequences.

**5.10. Effects of the movements in untaxed reserves**

The release of valuation reserves resulted in a tax expense of €3,083,638.00 in the 2014 financial year (2013: €0 thousand).

## Notes (CONTINUED)

### 5.11. Taxes on income

The item "Taxes on income" shows net income of €4,676,013.16 for the 2014 financial year (2013: net income of €231 thousand). This figure includes expenses of €12,158,596.67 (2013: €318 thousand) for corporation tax, expenses of €7,181,641.02 (2013: €12,580 thousand) for foreign taxes on income, and income of €24,016,251.85 (2013: €13,130 thousand) resulting from amounts charged to individual group companies under tax compensation agreements.

Pursuant to the provisions on group taxation in Section 9 of the Austrian Corporation Tax Act (Körperschaftsteuergesetz – KStG), a group of companies existed as at 31 December 2014 which consisted of UniCredit Bank Austria AG as group holding company and 81 companies as group members all of which are Austrian companies (25 companies with profit and loss transfer agreements and 56 companies with tax compensation agreements) as well as one group member in Austria included via a joint control arrangement.

Under the tax compensation agreements, payments are made to UniCredit Bank Austria AG for taxable profits in the amount of corporation tax payable on such profits, after deduction of an interest benefit shared by the group holding company and the group member. There is no obligation to make tax compensation payments to the group holding company to the extent that tax losses from previous years are offset at the group member level. Moreover, UniCredit Bank Austria AG undertakes to make a compensation payment to group members leaving the group for tax losses which have been used. A provision was made for future tax obligations resulting from this undertaking.

### 5.12. Deferred tax

The amount of deferred tax which results from temporary differences and may be carried as an asset, calculated pursuant to Section 198 (9) and (10) of the Austrian Business Code, is €529,543,000.00 (2013: €288,831 thousand). The amount of deferred tax is not recognised as an asset.

### 5.13. Movements in reserves

In the 2014 financial year, the amount of €49,338,202.45 (2013: €0 thousand) was released from the valuation reserve. The amount of €1,914,564,330.92 (2013: €1,051,210 thousand) was released from capital reserves to cover the deficit for the year.

### 5.14. Audit costs

Information on the costs of the audit of the financial statements (pursuant to Section 237, item 14, of the Austrian Business Code) is provided in the notes to the consolidated financial statements.

## Notes (CONTINUED)

**6. Information on staff, Management Board and Supervisory Board****6.1. Staff**

The average number of salaried staff (full-time equivalent) employed in 2014 was 5,958 (2013: 6,278) and the average number of other employees was 0 (2013: 0).

**6.2. Expenses for severance payments and pensions**

Expenses for severance payments and pensions relate to the items “expenses for retirement benefits”, “allocation to the pension provision” and “expenses for severance payments and payments to severance-payment funds”.

In the 2014 financial year, allocations and payments for members of the Management Board and former members of the Management Board as well as their surviving dependants totalled €9,888,045.91 (2013: €10,056 thousand); allocations and payments for other employees and their surviving dependants totalled €1,513,964,222.69 (2013: €529,093 thousand). The amounts include payments to pension funds amounting to €317,256.24 (2013: €305 thousand) for active members of the Management Board and no such payments (2013: €24 thousand) for former members of the Management Board.

**6.3. Emoluments of Management Board members and Supervisory Board members**

The emoluments paid by UniCredit Bank Austria AG to Management Board members in the 2014 financial year (excluding payments into pension funds) totalled €2,870,732.38 (comparable emoluments in 2013 totalled €2,946 thousand). Of this total, €2,134,738.02 (2013: €2,088 thousand) related to fixed salary components and €735,994.36 were variable salary components (2013: €858 thousand). The changes resulted mainly from cash deferrals from previous years pursuant to legal requirements. Moreover, a provision was made for variable remuneration for 2013 (subject to malus) in the amount of €1,059,291.00, which may be paid in subsequent years pursuant to the same legal provisions governing compensation. Several members of the Management Board receive their emoluments from companies which are not included in the group of consolidated companies of Bank Austria; these emoluments granted to Management Board members for activities in UniCredit Bank Austria AG and in subsidiaries in the 2014 financial year amounted to €3,003,083.80 (2013: €2,757 thousand) and are partly (2014: €1,905,890.55; 2013: €1,812 thousand) charged to UniCredit Bank Austria AG. These Management Board members also received emoluments for activities which are not connected with the Bank Austria Group but are in the interest of UniCredit Group.

Payments to former members of the Management Board and their surviving dependants (excluding payments into pension funds) totalled €8,622,433.80. (Of this total, €5,290,514.99 was paid to former Management Board members of Creditanstalt AG, which merged with Bank Austria in 2002, and their surviving dependants; €1,579,909.11 was paid to former Management Board members of Österreichische Länderbank AG, which merged with Zentralsparkasse in 1991, and their surviving dependants.) The comparative figure for 2013 was €8,773 thousand. Emoluments paid to this group of persons for activities in subsidiaries amounted to €3,633.64 (2013: €15 thousand).

The emoluments of the Supervisory Board members active in the 2014 business year totalled €337,928.98 (2013: €330 thousand) for UniCredit Bank Austria AG, and €1,860.00 (2013: €2 thousand) for the two credit associations.

**6.4. Loans and advances to Management Board members and Supervisory Board members**

Loans to members of the Management Board amounted to €1,732,675.96 (2013: €1,779 thousand), overdrafts granted to them were €44,354.15 (2013: €48 thousand). Repayments during the business year totalled €55,295.98 (2013: €55 thousand).

Loans to members of the Supervisory Board amounted to €462,865.63 (2013: €357 thousand). Overdrafts granted to Supervisory Board members totalled €121,155.51 (2013: €4 thousand). Repayments during the business year totalled €53,420.66 (2013: €35 thousand).

Loans to the Supervisory Board include those made to members of the Employees' Council who are members of the Supervisory Board. The maturities of the loans range from five to twenty-five years. The rate of interest payable on these loans is the rate charged to employees of UniCredit Bank Austria AG.

**6.5. Share-based payments**

The Management Board and selected executives of UniCredit Bank Austria AG participate in the UniCredit share-based payment scheme of UniCredit Group. The share-based payment arrangements relate to Stock Options and Performance Shares for activities in UniCredit Bank Austria AG, based on shares in the parent company UniCredit S.p.A.

UniCredit calculates the economic value of the share-based payment arrangements on a uniform basis for the entire Group (Hull & White evaluation model) and provides the Group companies with relevant information. In UniCredit Bank Austria AG, the total amount recognised in the profit and loss account as at 31 December 2014 was €5,454,729.18 (2013: €390 thousand).

## Notes (CONTINUED)

The number and distribution of Stock Options granted to Management Board members in the respective financial years, the exercise price, the maturity, the periods during which Stock Options may be exercised, the transferability of Stock Options, the minimum holding period (blocking period), the conditions of transferability and exercise, and the estimated value as at 31 December 2014 are shown in the tables below.

**1.a) Stock Options – Management Board members**

MANAGEMENT BOARD	YEAR IN WHICH STOCK OPTIONS WERE GRANTED*	NUMBER OF OPTIONS GRANTED	NUMBER OF SHARES THAT MAY BE PURCHASED	EXERCISE PRICE OR BASIS OR FORMULA	SHARE PRICE	MATURITY	PERIOD DURING WHICH STOCK OPTIONS MAY BE EXERCISED	TRANSFERABILITY	BLOCKING PERIOD	ESTIMATED VALUE AS AT 31 DEC. 2014 IN EUR <sup>2)</sup>
	2004	55,500	9,947	4.018	22.42	03/09/08	9 years	<sup>1)</sup>	no	55,389.00
	2005	337,000	60,397	4.817	26.88	25/11/09	9 years	<sup>1)</sup>	no	355,467.60
	2006	300,600	53,874	5.951	33.21	28/06/10	9 years	<sup>1)</sup>	no	381,461.40
	2007	404,077	72,419	7.094	39.58	13/07/11	6 years	<sup>1)</sup>	no	537,099.15
	2008	1,010,823	181,160	4.185	23.35	25/06/12	6 years	<sup>1)</sup>	no	662,291.23
	2009	0	0	–	–	–	–	–	–	0.00
	2010	0	0	–	–	–	–	–	–	0.00
	2011 <sup>3)</sup>	620,184	620,184	4.01	4.01	01/07/16	6 years	<sup>1)</sup>	no, after maturity	1,159,744.08
	2012	0	0	–	–	–	–	–	–	0.00
	2013	0	0	–	–	–	–	–	–	0.00
	2014	0	0	–	–	–	–	–	–	0.00
<b>Total Management Board</b>	<b>2004–2014</b>	<b>2,728,184</b>	<b>997,980</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3,151,452.46</b>

\*) Date of resolution passed by the Group's Board of Directors

In 2014, no new Stock Options were issued to Management Board members; no Stock Options were exercised by members of the Management Board.

**1.b) Stock Options – executives and other employees**

	YEAR IN WHICH STOCK OPTIONS WERE GRANTED*	NUMBER OF OPTIONS GRANTED	NUMBER OF SHARES THAT MAY BE PURCHASED	EXERCISE PRICE OR BASIS OR FORMULA	SHARE PRICE	MATURITY	PERIOD DURING WHICH STOCK OPTIONS MAY BE EXERCISED	TRANSFERABILITY	BLOCKING PERIOD	ESTIMATED VALUE AS AT 31 DEC. 2014 IN EUR <sup>3)</sup>
Executives	2007	639,648	114,433	7.094	39.58	13/07/11	6 years	<sup>1)</sup>	no	850,220.12
Executives	2008	1,504,195	269,100	4.185	23.35	25/06/12	6 years	<sup>1)</sup>	no	985,548.56
Executives	2010	0	0	–	–	–	–	–	–	0.00
<b>Total executives</b>	<b>2007–2010</b>	<b>2,143,843</b>	<b>383,534</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,835,768.69</b>
Other employees	2007	231,495	41,414	7.094	39.58	13/07/11	6 years	<sup>1)</sup>	no	307,703.15
Other employees	2008	451,947	80,853	4.185	23.35	25/06/12	6 years	<sup>1)</sup>	no	296,115.67
Other employees	2010	0	0	–	–	–	–	–	–	0.00
<b>Total other employees</b>	<b>2007–2010</b>	<b>683,442</b>	<b>122,268</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>603,818.83</b>
<b>TOTAL STOCK OPTIONS</b>	<b>2004–2010</b>	<b>5,555,469</b>	<b>1,503,781</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>5,591,039.97</b>

\*) Date of resolution passed by the Group's Board of Directors

The 2010 Plan was evaluated in 2014. All rights have lapsed. No new Stock Options were issued to executives and other employees in the years from 2011 to 2014; no Stock Options were exercised.



## Notes (CONTINUED)

### 2. Performance Shares

The 2010 Plan was evaluated in 2014. All rights have lapsed. No Performance Shares were allocated to Management Board members in 2014.

#### Conditions of transferability and exercise

1) Stock Options are restricted to the beneficiary's name and cannot be sold, assigned, pledged or transferred in any way. In the event of the beneficiary's death, claims under Stock Options may be transferred in full or in part to the beneficiary's heirs.

2) The estimated value of the Long Term Incentive Plans (LTIP) was determined on the basis of fair value as at 31 December 2014:

YEAR	FAIR VALUE STOCK OPTION	FAIR VALUE PERFORMANCE SHARE
LTIP 2004	0.998	–
LTIP 2005	1.0548	–
LTIP 2006	1.269	Plan expired
LTIP 2007	1.3292	Plan expired
LTIP 2008	0.6552	Plan expired
LTIP 2010 (2011–2013)	Rights lapsed	Rights lapsed
LTIP 2011 (2012–2015)	1.87	–

3) Stock Options for Management Board members in 2011 are a part of the deferred bonus of the year 2011 (payout in 2012 and subsequent years). These rights become vested depending on the degree to which 2 internal key indicators of UniCredit Group are met during the entire performance period of the plan (2012–2015).

These key indicators are rTSR (relative Total Shareholder Return) and EP (Economic Profit). The payout ratio (0-150%) is calculated by the proportion of rTSR to EP versus budget (see table):

		Σ EP VS BUDGET			
		< 90%	90% ≥ < 100%	100% ≥ < 110%	≥ 110%
r TSR	≥ Q3	50%	75%	125%	150%
	≥ med	25%	50%	100%	125%
	< med	0%	25%	75%	100%
	≤ Q1	0%	0%	50%	75%

## 6.6. Names of Management Board members and of Supervisory Board members

A list of the members of the Supervisory Board and of the members of the Management Board is given on page 371.

# Shares in group companies and equity interests

## of UniCredit Bank Austria AG

### List of shares in group companies and equity interests pursuant to Section 238 of the Austrian Business Code (UGB)

#### Shares in group companies (consolidated)

NAME AND DOMICILE OF COMPANY	TOTAL INTEREST IN %	EQUITY (IN €)	NET INCOME/LOSS (IN €)	TOTAL ASSETS (IN €)	BALANCE SHEET DATE
AI Beteiligungs GmbH, Vienna, AT	100.00	1,745,297.00	-5,397.00	2,122,046.00	31 Dec. 2014 <sup>2)</sup>
Alpine Cayman Islands Ltd., Grand Cayman, KY	100.00	94,584,804.38	6,513,447.00	419,721,748.62	31 Dec. 2014 <sup>2)</sup>
AO UniCredit Bank, Moscow, RU	100.00	1,945,608,522.11	185,638,704.73	18,799,152,122.63	31 Dec. 2014 <sup>2)</sup>
BA Alpine Holdings, Inc., Wilmington County, New Castle, US	100.00	4,100,820.36	-723,516.18	17,976,862.70	31 Dec. 2014 <sup>2)</sup>
BA Betriebsobjekte GmbH, Vienna, AT	100.00	15,841,182.00	-106,483.00	25,330,282.00	31 Dec. 2014 <sup>2)</sup>
BA-CA Markets & Investment Beteiligung Ges. m. b. H., Vienna, AT <sup>1)</sup>	100.00	229,878,316.00	21,767,274.00	229,884,518.00	31 Dec. 2014 <sup>2)</sup>
BA-CA Wien Mitte Holding GmbH, Vienna, AT	100.00	53,010,823.00	-4,531,508.00	53,021,289.00	31 Dec. 2014 <sup>2)</sup>
BA GVG-Holding GmbH, Vienna, AT	100.00	1,248,312.00	10,027.00	1,300,936.00	31 Dec. 2014 <sup>2)</sup>
Bank Austria Finanzservice GmbH, Vienna, AT <sup>1)</sup>	100.00	3,087,642.00	54,211.00	5,088,843.00	31 Dec. 2014 <sup>2)</sup>
Bank Austria Real Invest Immobilien-Management GmbH, Vienna, AT <sup>1)</sup>	94.95	104,850,497.00	7,268,967.00	113,557,928.00	31 Dec. 2014 <sup>2)</sup>
Bank Austria Wohnbaubank AG, Vienna, AT <sup>1)</sup>	100.00	55,292,222.00	2,746,553.00	2,265,141,375.00	31 Dec. 2014 <sup>2)</sup>
BA Private Equity GmbH in Liqu., Vienna, AT	100.00	1,666,060.00	-199,153.00	1,675,896.00	31 Dec. 2014 <sup>2)</sup>
bareal Immobilienverhandlung GmbH, Vienna, AT	100.00	734,479.99	-368,940.00	1,588,798.60	31 Dec. 2014 <sup>2)</sup>
Buchstein Immobilienverwaltung GmbH und Co OG, Vienna, AT	100.00	-1,445,047.64	-1,152,545.59	30,023,223.79	31 Dec. 2014 <sup>2)</sup>
CABET-Holding GmbH, Vienna, AT <sup>1)</sup>	100.00	683,099,577.00	28,305,709.00	683,107,344.00	31 Dec. 2014 <sup>2)</sup>
card complete Service Bank AG, Vienna, AT <sup>1)</sup>	50.10	47,293,051.97	12,246,246.80	584,213,379.77	31 Dec. 2014 <sup>2)</sup>
Cards & Systems EDV-Dienstleistungs GmbH, Vienna, AT	58.00	9,130,239.00	2,507,852.00	14,374,489.00	31 Dec. 2014 <sup>2)</sup>
DC Bank AG, Vienna, AT	99.94	18,320,635.44	670,808.44	66,195,027.55	31 Dec. 2014 <sup>2)</sup>
FactorBank Aktiengesellschaft, Vienna, AT	100.00	35,147,064.00	1,522,477.81	490,974,203.80	31 Dec. 2014 <sup>2)</sup>
GUS Consulting GmbH in Liqu., Vienna, AT	100.00	6,887,070.00	6,854,144.00	7,202,455.00	31 Dec. 2014 <sup>2)</sup>
Human Resources Service and Development GmbH, Vienna, AT <sup>1)</sup>	100.00	-6,919.21	-7,496,090.90	1,810,978.79	31 Dec. 2014 <sup>2)</sup>
Immobilien Rating GmbH, Vienna, AT	99.00	731,362.00	58,330.00	1,597,139.00	31 Dec. 2014 <sup>2)</sup>
Kaiserwasser Bau- und Errichtungs GmbH und Co OG, Vienna, AT	99.80	-803,781.00	553,277.00	20,206,196.00	31 Dec. 2014 <sup>2)</sup>
KLEA ZS-Immobilienvermietung G. m. b. H., Vienna, AT	99.80	2,834,392.08	128,133.08	4,185,217.72	31 Dec. 2014 <sup>2)</sup>
KLEA ZS-Liegenschaftsvermietung G. m. b. H., Vienna, AT	99.80	2,020,665.21	61,780.21	4,411,456.82	31 Dec. 2014 <sup>2)</sup>
Lassallestraße Bau-, Planungs-, Errichtungs- und Verwertungsgesellschaft m. b. H., Vienna, AT	99.00	-7,753,958.38	-2,460,554.78	130,967,478.98	31 Dec. 2014 <sup>2)</sup>
MC Marketing GmbH, Vienna, AT <sup>1)</sup>	100.00	2,376,367.00	1,314,511.00	142,314,545.00	31 Dec. 2014 <sup>2)</sup>
MY Beteiligungs GmbH, Vienna, AT <sup>1)</sup>	100.00	676,671.00	1,394,282.00	60,587,189.00	31 Dec. 2014 <sup>2)</sup>
Nordbahnhof Baufeld 39 Projektentwicklung GmbH & Co KG, Vienna, AT	100.00	14,680,822.62	-31,354.77	15,145,988.45	31 Dec. 2014 <sup>2)</sup>
Nordbahnhof Baufeld Sechs Projektentwicklung GmbH & Co KG, Vienna, AT	100.00	14,360,615.09	1,672,792.88	15,107,150.00	31 Dec. 2014 <sup>2)</sup>
Nordbahnhof Projekte Holding GmbH, Vienna, AT <sup>1)</sup>	100.00	40,613,927.25	11,033,531.25	41,006,083.00	31 Dec. 2014 <sup>2)</sup>
PIRTA Verwaltungs GmbH, Vienna, AT	100.00	53,401,384.00	-101,268.00	53,408,052.00	31 Dec. 2014 <sup>2)</sup>
POLLUX Immobilien GmbH, Vienna, AT	99.80	4,630,773.26	579,265.26	9,587,940.80	31 Dec. 2014 <sup>2)</sup>
Private Joint Stock Company "Ferrotrade International", Kiev, UA	100.00	84,613,012.81	42,481.35	84,620,863.33	31 Dec. 2014 <sup>2)</sup>
Public Joint Stock Company "Ukrsofsbank", Kiev, UA	72.91	273,913,195.68	-171,218,177.97	2,450,814,935.94	31 Dec. 2014 <sup>2)</sup>
RAMSES Immobilien Gesellschaft m. b. H. & Co OG, Vienna, AT	99.50	20,097,884.00	1,838,583.00	45,745,859.00	31 Dec. 2014 <sup>2)</sup>
RIGEL Immobilien GmbH, Vienna, AT	99.80	30,507,192.34	27,076,297.34	37,855,411.66	31 Dec. 2014 <sup>2)</sup>
Schoellerbank Aktiengesellschaft, Vienna, AT	100.00	141,521,492.15	26,074,461.30	3,709,719,473.68	31 Dec. 2014 <sup>2)</sup>
Schottengasse 6-8 Immobilien GmbH, Vienna, AT	100.00	6,379.15	6,716.15	23,729.00	31 Dec. 2014 <sup>2)</sup>
SIA "UniCredit Leasing", Riga, LV	100.00	25,016,085.62	7,513,564.39	398,485,839.25	31 Dec. 2014 <sup>2)</sup>
SIRIUS Immobilien GmbH, Vienna, AT	99.80	724,129.89	505,147.89	8,148,740.82	31 Dec. 2014 <sup>2)</sup>
UniCredit Bank a. d. Banja Luka, Banja Luka, BA	98.39	82,709,997.95	8,843,214.54	559,219,715.72	31 Dec. 2014 <sup>2)</sup>
UniCredit Banka Slovenija d. d., Ljubljana, SI	99.99	244,000,178.82	2,117,744.79	2,578,732,281.53	31 Dec. 2014 <sup>2)</sup>
UniCredit Bank Czech Republic and Slovakia, a. s., Praha 4 – Michle, CZ	99.94	2,034,384,614.39	134,123,080.66	17,346,113,290.46	31 Dec. 2014 <sup>2)</sup>
UniCredit Bank d. d., Mostar, BA	89.98	325,499,358.32	31,262,964.00	2,024,883,867.47	31 Dec. 2014 <sup>2)</sup>

# Shares in group companies and equity interests (CONTINUED)

NAME AND DOMICILE OF COMPANY	TOTAL INTEREST IN %	EQUITY (IN €)	NET INCOME/LOSS (IN €)	TOTAL ASSETS (IN €)	BALANCE SHEET DATE
UniCredit Bank Hungary Zrt., Budapest, HU	100.00	663,905,635.99	26,554,529.17	7,215,843,908.49	31 Dec. 2014 <sup>2)</sup>
UniCredit Bank Serbia JSC, Belgrade, RS	100.00	451,755,506.96	48,331,287.30	2,186,859,817.12	31 Dec. 2014 <sup>2)</sup>
UniCredit Bulbank AD, Sofia, BG	99.45	1,145,684,942.22	124,441,329.89	7,589,626,191.84	31 Dec. 2014 <sup>2)</sup>
UniCredit CAIB Poland S.A., Warsaw, PL	100.00	58,617,397.73	-959,756.15	83,071,080.92	31 Dec. 2014 <sup>2)</sup>
UniCredit Center am Kaiserwasser GmbH, Vienna, AT	100.00	13,769.00	0.00	244,983.00	31 Dec. 2014 <sup>2)</sup>
UniCredit Leasing (Austria) GmbH, Vienna, AT	99.98	200,445,914.45	14,145,008.31	643,934,432.55	31 Dec. 2014 <sup>2)</sup>
UniCredit Tiriac Bank S.A., Bucharest, district 1, RO	50.61	639,497,076.80	24,932,035.11	6,386,667,643.36	31 Dec. 2014 <sup>2)</sup>
UniCredit Turn-Around Management GmbH, Vienna, AT <sup>1)</sup>	100.00	35,222,550.00	-8,470,653.00	36,273,969.00	31 Dec. 2014 <sup>2)</sup>
UNIVERSALE International Realitäten GmbH, Vienna, AT	100.00	353,372,530.00	7,778,550.00	402,357,832.00	31 Dec. 2014 <sup>2)</sup>
WED Holding Gesellschaft m. b. H., Vienna, AT	53.83	9,269,966.00	963.00	9,458,660.00	31 Dec. 2014 <sup>2)</sup>
WED Wiener Entwicklungsgesellschaft für den Donauraum Aktiengesellschaft, Vienna, AT	100.00	13,077,799.00	-5,118,192.00	14,304,388.00	31 Dec. 2014 <sup>2)</sup>
Zagrebacka Banka d. d., Zagreb, HR	84.47	2,198,784,910.29	134,261,022.85	13,408,534,795.38	31 Dec. 2014 <sup>2)</sup>
ZETA Fünf Handels GmbH, Vienna, AT <sup>1)</sup>	100.00	508,987,911.00	10,491,748.00	514,168,270.00	31 Dec. 2014 <sup>2)</sup>

## Interests in companies accounted for under the equity method

NAME AND DOMICILE OF COMPANY	TOTAL INTEREST IN %	EQUITY (IN €)	NET INCOME/LOSS (IN €)	TOTAL ASSETS (IN €)	BALANCE SHEET DATE
Bank für Tirol und Vorarlberg Aktiengesellschaft, Innsbruck, AT	47.38	975,949,000.00	71,857,000.00	9,388,703,000.00	31 Dec. 2014 <sup>2)</sup>
BARN B.V., Amsterdam, NL	40.00	109,719,089.00	-14,223,119.00	532,685,212.00	31 Dec. 2014 <sup>2)</sup>
BKS Bank AG, Klagenfurt, AT	32.76	793,468,000.00	43,006,000.00	6,859,235,000.00	31 Dec. 2014 <sup>2)</sup>
Koc Finansal Hizmetler AS, Istanbul, TR	50.00	1,521,874,924.79	112,093,926.55	1,522,108,363.35	31 Dec. 2014 <sup>2)</sup>
NOTARTREUHANDBANK AG, Vienna, AT	25.00	25,532,301.00	6,844,000.00	1,379,752,301.00	31 Dec. 2014 <sup>2)</sup>
Oberbank AG, Linz, AT	33.33	1,528,029,000.00	132,626,000.00	18,038,640,000.00	31 Dec. 2014 <sup>2)</sup>
Oesterreichische Kontrollbank Aktiengesellschaft, Vienna, AT	49.15	710,292,000.00	65,280,000.00	27,965,000,000.00	31 Dec. 2014 <sup>2)</sup>
Österreichische Hotel- und Tourismusbank Gesellschaft m. b. H., Vienna, AT	50.00	27,118,396.00	2,330,000.00	1,068,682,396.00	31 Dec. 2014 <sup>2)</sup>
Österreichische Wertpapierdaten Service GmbH, Vienna, AT	29.30	60,856.00	7,499.00	1,695,680.00	31 Dec. 2014 <sup>2)</sup>
SP Projektentwicklung Schönefeld GmbH & Co. KG, Schönefeld, DE	50.00	17,264,537.00	-479,440.00	19,059,620.00	31 Dec. 2014 <sup>2)</sup>
WKBG Wiener Kreditbürgschafts- und Beteiligungsbank AG, Vienna, AT	22.73	28,318,009.00	-356,091.00	32,403,590.00	31 Dec. 2014 <sup>2)</sup>
WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m. b. H., Vienna, AT	25.00	2,791,000.00	0.00	2,845,670.00	31 Dec. 2014 <sup>2)</sup>

# Shares in group companies and equity interests (CONTINUED)

## Unconsolidated companies

NAME AND DOMICILE OF COMPANY	TOTAL INTEREST IN %	EQUITY (IN €)	NET INCOME/LOSS (IN €)	TOTAL ASSETS (IN €)	BALANCE SHEET DATE
<b>A) Group companies</b>					
Alfa Holding Ingatlanszolgaltato Kft., Győr, HU	95.00	-9,276.16	-1,413.45	1,489.51	31 Dec. 2012
Bank Austria-CEE BeteiligungsgmbH, Vienna, AT	100.00	35,685.16	-2,891.41	37,075.96	31 Dec. 2013
Bank Austria Immobilien Entwicklungs- und VerwertungsgmbH, Vienna, AT <sup>1)</sup>	100.00	17,500.00	-616.91	20,033.21	31 Dec. 2013
MY Drei Handels GmbH, Vienna, AT	100.00	27,088.47	3,480.28	28,048.47	31 Dec. 2013
Paytria Unternehmensbeteiligungen GmbH, Vienna, AT	100.00	263,758.73	-2,632.52	264,739.61	31 Dec. 2013
RAMSES-Immobilienholding GmbH, Vienna, AT	99.80	30,106.64	854.44	32,606.64	31 Dec. 2013
Real(e)value Immobilien BewertungsGmbH, Vienna, AT	100.00	203,349.14	11,444.48	237,203.76	31 Dec. 2013
RE-St. Marx Holding GmbH, Vienna, AT <sup>1)</sup>	100.00	20,955.18	-2,295.40	22,975.98	31 Dec. 2013
Sigma Holding Ingatlanszolgaltato Kft., Budapest, HU	95.00	-341,468.59	-28,883.82	405,596.75	31 Dec. 2012
Sinera AG in Liquidation, Zug, CH	100.00	14,126.52	-13,454.92	21,807.58	31 Dec. 2013
THETA Fünf Handels GmbH, Vienna, AT	100.00	-33,793.60	-4,472.31	1,000,000.00	31 Dec. 2013
Wirtschaftsverein der MitarbeiterInnen der UniCredit Bank Austria e. Gen., Vienna, AT	52.99	262,348.56	-707,128.69	3,678,238.26	31 Dec. 2013
<b>B) Associated companies</b>					
"Gesfö" Gemeinnützige Bau- und Siedlungsgesellschaft m. b. H., Regau, AT	25.00	5,306,897.99	-2,198,958.85	13,733,675.87	31 Dec. 2013
"Sparkassen-Haftungs Aktiengesellschaft", Vienna, AT	28.26	197,767.31	-5,553.11	200,657.31	31 Dec. 2013
Mizuho Corporate Bank – BA Investment – Consulting GmbH, Vienna, AT	50.00	1,007,438.62	696.17	1,150,354.62	31 Dec. 2013
MY Fünf Handels GmbH, Vienna, AT	50.00	4,443.01	-3,198.10	53,071.97	31 Dec. 2013
Projektentwicklung Schönefeld Verwaltungsgesellschaft mbH, Schönefeld, DE	50.00	28,328.11	229.45	29,295.14	31 Dec. 2012
<b>C) Other companies</b>					
2020 Medici GmbH, Vienna, AT	25.00	423,060.45	-498,233.97	1,051,261.38	31 Dec. 2012

The total percentage held comprises all shares held by consolidated companies and other group companies but not shares held on a trust basis.

Equity: equity pursuant to Section 229 of the Austrian Business Code.

1) Profit pooling arrangements with UniCredit Bank Austria AG

2) Figures in accordance with IFRSs

# Supervisory Board and Management Board

Supervisory Board and Management Board 1 January 2014 – 31 December 2014

## Supervisory Board

**Chairman:**

Erich HAMPEL

**Deputy Chairman:**

Paolo FIORENTINO

**Members:**

Alessandro DECIO

Olivier Nessime KHAYAT

Alfredo MEOCCI

Roberto NICASTRO

Vittorio OGLIENGO

Franz RAUCH

Karl SAMSTAG

Wolfgang SPRISLER

Ernst THEIMER

**Delegated by the Employees' Council:**

**Adolf LEHNER**

from 27 June 2014

Chairman of the Employees' Council

Wolfgang HEINZL

Chairman of the Employees' Council

until 26 June 2014

**Michaela VRZAL**

from 27 June 2014

First Deputy Chairman of the Employees' Council

**Barbara WIEDERNIG**

Second Deputy Chairman of the Employees' Council

Johannes KOLLER

until 1 February 2015

Third Deputy Chairman of the Employees' Council

**Josef REICHL**

from 27 June 2014

Member of the Employees' Council

Emmerich PERL

until 26 June 2014

Member of the Employees' Council

**Robert TRAUWIESER**

Member of the Employees' Council

## Management Board

**Chairman/Chief Executive Officer:**

Willibald CERCKO

**Deputy Chairman:**

Carlo VIVALDI

from 16 February 2015

Gianni Franco PAPA

until 15 February 2015

**Members:**

Helmut BERNKOPF

Francesco GIORDANO

Dieter HENGL

Jürgen KULLNIGG

Doris TOMANEK

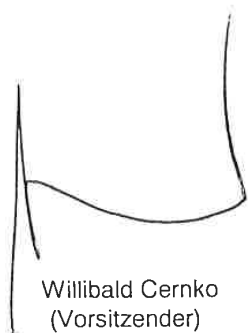
Robert ZADRAZIL

# Financial Statements for 2014

UniCredit Bank Austria AG  
Jahresabschluss 2014

Wien, 2. März 2015

Der Vorstand:



Willibald Cernko  
(Vorsitzender)



Dr. Carlo Vivaldi  
(Vorsitzender-Stellvertreter)



Mag. Helmut Bernkopf



Francesco Giordano, MSc



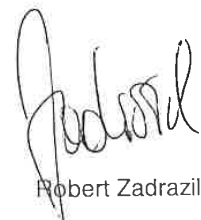
Mag. Dieter Hergl



Dr. Jürgen Kullnigg



Mag. Doris Tomanek



Robert Zadrazil

# Auditors' Report

## Translation of the facsimile on pages 376 to 377

### UniCredit Bank Austria AG Financial Statements for 2014

#### Auditors' Report

##### Report on the Financial Statements

Austrian Savings Bank Auditing Association and Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna, have audited the accompanying financial statements, including the accounting system, of UniCredit Bank Austria AG, Vienna, for the financial year from 1 January 2014 to 31 December 2014. These financial statements comprise the balance sheet as of 31 December 2014, the income statement for the financial year ended 31 December 2014, and the notes.

##### Management's Responsibility for the Financial Statements and for the Accounting System

UniCredit Bank Austria AG's management is responsible for the accounting as well as the preparation and fair presentation of the financial statements in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory provisions for credit institutions. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

##### Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

The responsibility of Austrian Savings Bank Auditing Association and Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna, is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations and principles governing an audit of financial statements which are applicable in Austria and Austrian Standards on Auditing. Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

##### Opinion

Our audit did not give rise to any objections. Based on the results of our audit in our opinion, the financial statements comply with legal requirements and give a true and fair view of the financial position of UniCredit Bank Austria AG as of 31 December 2014 and of its financial performance for the fiscal year from 1 January 2014 to 31 December 2014 in accordance with Austrian Generally Accepted Accounting Principles.

Without qualifying our opinion, we refer to the remarks by the management board in the notes to the financial statements, chapter "4.34. Material risks in Central and Eastern Europe",

- that there are severe valuation uncertainties regarding the book value of the Ukrainian subsidiary PJSC Ukrsootsbank, as well as loans and receivables from the Ukrainian subsidiary;
- that furthermore in Profit Center Vienna of UniCredit Bank Austria AG there are severe valuation uncertainties regarding claims against debtors, amounting to EUR 230 million (after deduction of provisions), which are partly affected by events in the eastern region of Ukraine (Donbass, Crimea);
- that a negative development of the economic conditions and/or the real estate markets, as well as a further aggravation or a longer duration of the armed conflict in this region after the reporting date could have a material impact on the valuation of customer receivables included in the financial statements, as well as on loan loss provisions and real estate of the Ukrainian subsidiary PJSC Ukrsootsbank;
- that the assessment of the management board on the realisability and the achievable selling price of the shares of the Ukrainian subsidiary PJSC Ukrsootsbank is associated with material uncertainties;

## Auditors' Report (CONTINUED)

- that a negative development of the economic conditions or the Ukrainian currency UAH, as well as an aggravation or a longer duration of the armed conflict in this region can have a material impact on compliance with local regulatory requirements – especially with regard to the capital requirements – of the Ukrainian subsidiary PJSC Ukrspotsbank;
- that UniCredit Bank Austria AG has issued a comfort letter in favour of the Ukrainian subsidiary PJSC Ukrspotsbank, to support the continuing operation.

### Statement on the management report

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the other disclosures are not misleading with respect to the position of UniCredit Bank Austria AG, Vienna. The auditor's report also has to contain a statement as to whether the management report is consistent with the financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the management report is consistent with the financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

### Financial Statements for 2014 UniCredit Bank Austria AG, Vienna

Vienna, 2 March 2015  
Austrian Savings Bank Auditing Association  
Auditing Board  
(Bank Auditor)

Gerhard Margetich  
Certified Accountant

Herwig Hierzer  
Certified Accountant

Deloitte Audit Wirtschaftsprüfungs GmbH

Gottfried Spitzer  
Certified Accountant

Wolfgang Wurm  
Certified Accountant

The report (in the German language, or translations into another language, including shortened or amended versions) may not be made public or used by third parties, when reference is made in part or in whole to the auditors' report, without the express written consent of the auditors.



# Auditors' Report (CONTINUED)

## Prüfung des Jahresabschlusses 2014 UniCredit Bank Austria AG



Sparkassen-Prüfungsverband  
Grimmelhausengasse 1  
1030 Wien  
AUSTRIA



Deloitte Audit Wirtschaftsprüfungs GmbH  
Rennngasse 1/Freyung  
1010 Wien  
AUSTRIA

# Auditors' Report (CONTINUED)

## UniCredit Bank Austria AG Jahresabschluss 2014

### Bestätigungsvermerk

#### Bericht zum Jahresabschluss

Die Prüfungsstelle des Sparkassen-Prüfungsverbandes und die Deloitte Audit Wirtschaftsprüfung GmbH haben den beigefügten Jahresabschluss der UniCredit Bank Austria AG, Wien, für das Geschäftsjahr vom 1. Jänner bis zum 31. Dezember 2014 unter Einbeziehung der Buchführung geprüft. Dieser Jahresabschluss umfasst die Bilanz zum 31. Dezember 2014, die Gewinn- und Verlustrechnung für das am 31. Dezember 2014 endende Geschäftsjahr sowie den Anhang.

#### Verantwortung der gesetzlichen Vertreter für den Jahresabschluss und für die Buchführung

Die gesetzlichen Vertreter der UniCredit Bank Austria AG, Wien, sind für die Buchführung sowie für die Aufstellung eines Jahresabschlusses verantwortlich, der ein möglichst getreues Bild der Vermögens-, Finanz- und Ertragslage der UniCredit Bank Austria AG, Wien, in Übereinstimmung mit den österreichischen unternehmensrechtlichen Vorschriften und den sondergesetzlichen Bestimmungen vermittelt. Diese Verantwortung beinhaltet: Gestaltung, Umsetzung und Aufrechterhaltung eines internen Kontrollsystems, soweit dieses für die Aufstellung des Jahresabschlusses und die Vermittlung eines möglichst getreuen Bildes der Vermögens-, Finanz- und Ertragslage der UniCredit Bank Austria AG, Wien, von Bedeutung ist, damit dieser frei von wesentlichen Fehldarstellungen ist, sei es auf Grund von beabsichtigten oder unbeabsichtigten Fehlern; die Auswahl und Anwendung geeigneter Bilanzierungs- und Bewertungsmethoden; die Vornahme von Schätzungen, die unter Berücksichtigung der gegebenen Rahmenbedingungen angemessen erscheinen.

#### Verantwortung des Abschlussprüfers und Beschreibung von Art und Umfang der gesetzlichen Abschlussprüfung

Die Verantwortung des Sparkassen-Prüfungsverbandes und der Deloitte Audit Wirtschaftsprüfung GmbH besteht in der Abgabe eines Prüfungsurteils zu diesem Jahresabschluss auf der Grundlage unserer Prüfung. Wir haben unsere Prüfung unter Beachtung der in Österreich geltenden gesetzlichen Vorschriften und Grundsätze ordnungsgemäßer Abschlussprüfung durchgeführt. Diese Grundsätze erfordern, dass wir die Standesregeln einhalten und die Prüfung so planen und durchführen, dass wir uns mit hinreichender Sicherheit ein Urteil darüber bilden können, ob der Jahresabschluss frei von wesentlichen Fehldarstellungen ist.

Eine Prüfung beinhaltet die Durchführung von Prüfungshandlungen zur Erlangung von Prüfungsnachweisen hinsichtlich der Beträge und sonstigen Angaben im Jahresabschluss. Die Auswahl der Prüfungshandlungen liegt im pflichtgemäßen Ermessen des Abschlussprüfers unter Berücksichtigung seiner Einschätzung des Risikos eines Auftretens wesentlicher Fehldarstellungen, sei es auf Grund

von beabsichtigten oder unbeabsichtigten Fehlern. Bei der Vornahme dieser Risikoeinschätzung berücksichtigt der Abschlussprüfer das interne Kontrollsystem, soweit es für die Aufstellung des Jahresabschlusses und die Vermittlung eines möglichst getreuen Bildes der Vermögens-, Finanz- und Ertragslage der UniCredit Bank Austria AG, Wien, von Bedeutung ist, um unter Berücksichtigung der Rahmenbedingungen geeignete Prüfungshandlungen festzulegen, nicht jedoch um ein Prüfungsurteil über die Wirksamkeit der internen Kontrollen der UniCredit Bank Austria AG, Wien, abzugeben. Die Prüfung umfasst ferner die Beurteilung der Angemessenheit der angewandten Bilanzierungs- und Bewertungsmethoden und der von den gesetzlichen Vertretern vorgenommenen wesentlichen Schätzungen sowie eine Würdigung der Gesamtaussage des Jahresabschlusses.

Wir sind der Auffassung, dass wir ausreichende und geeignete Prüfungsnachweise erlangt haben, sodass unsere Prüfung eine hinreichend sichere Grundlage für unser Prüfungsurteil darstellt.

#### Prüfungsurteil

Unsere Prüfung hat zu keinen Einwendungen geführt. Auf Grund der bei der Prüfung gewonnenen Erkenntnisse entspricht der Jahresabschluss nach unserer Beurteilung den gesetzlichen Vorschriften und vermittelt ein möglichst getreues Bild der Vermögens- und Finanzlage der UniCredit Bank Austria AG, Wien, zum 31. Dezember 2014 sowie der Ertragslage der UniCredit Bank Austria AG, Wien, für das Geschäftsjahr vom 1. Jänner bis zum 31. Dezember 2014 in Übereinstimmung mit den österreichischen Grundsätzen ordnungsmäßiger Buchführung.

Ohne unseren Bestätigungsvermerk einzuschränken, weisen wir auf die Anmerkungen des Vorstandes der Gesellschaft im Anhang des Jahresabschlusses, Kapitel „4.34. Wesentliche Risiken in Zentral- und Osteuropa“ hin,

- dass im Hinblick auf die Bewertung des Beteiligungsansatzes der ukrainischen Tochtergesellschaft PJSC Ukrsootsbank sowie der Forderungen gegenüber der ukrainischen Tochtergesellschaft erhebliche Bewertungsunsicherheiten bestehen;
- dass im Profit Center Vienna der UniCredit Bank Austria AG Forderungen gegenüber Kreditnehmern in Höhe von 230 Mio € (nach Abzug von Wertberichtigungen), die zum Teil von den Ereignissen in der Ostregion der Ukraine (Donbass und Krim) betroffen sind, ausgewiesen werden, für die ebenfalls erhebliche Bewertungsunsicherheiten bestehen;
- dass eine negative Entwicklung der wirtschaftlichen Rahmenbedingungen bzw. der Immobilienmärkte sowie eine weitere Verschärfung oder ein längeres Andauern des bewaffneten Konflikts in dieser Region nach dem Bilanzstichtag einen wesentlichen Einfluss auf die im Jahresabschluss enthaltenen Wertansätze von Kundenforderungen sowie Kreditvorsorgen bzw. Immobilien der ukrainischen Tochtergesellschaft PJSC Ukrsootsbank haben kann;
- dass die Einschätzung des Vorstandes über die Veräußerbarkeit und den erzielbaren Veräußerungspreis der Anteile an der ukrainischen Tochtergesellschaft PJSC Ukrsootsbank mit wesentlichen Unsicherheiten behaftet ist;

# Auditors' Report (CONTINUED)

- dass eine negative Entwicklung der wirtschaftlichen Rahmenbedingungen bzw. der ukrainischen Landeswährung UAH sowie eine weitere Verschärfung oder ein längeres Andauern des bewaffneten Konflikts in dieser Region einen wesentlichen Einfluss auf die Einhaltung lokaler aufsichtsrechtlicher Bestimmungen – insb. im Hinblick auf die erforderlichen Eigenmittel – der ukrainischen Tochtergesellschaft PJSC Ukrsootsbank haben kann;
- dass UniCredit Bank Austria AG gegenüber der ukrainischen Tochtergesellschaft PJSC Ukrsootsbank eine Patronatserklärung abgegeben hat, um den Fortbetrieb zu unterstützen.

## Aussagen zum Lagebericht

Der Lagebericht ist auf Grund der gesetzlichen Vorschriften darauf zu prüfen, ob er mit dem Jahresabschluss in Einklang steht und ob die sonstigen Angaben im Lagebericht nicht eine falsche Vorstellung von der Lage der UniCredit Bank Austria AG, Wien, erwecken. Der Bestätigungsvermerk hat auch eine Aussage darüber zu enthalten, ob der Lagebericht mit dem Jahresabschluss in Einklang steht und ob die Angaben nach § 243a UGB zutreffen. Der Lagebericht steht nach unserer Beurteilung in Einklang mit dem Jahresabschluss. Die Angaben gemäß § 243a UGB sind zutreffend.

### Jahresabschluss 2014

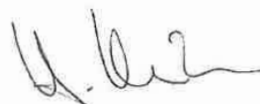
UniCredit Bank Austria AG, Wien

Wien, den 2. März 2015

Prüfungsstelle des  
Sparkassen-Prüfungsverbandes  
(Bankprüfer)



Mag. Gerhard Margetich  
Wirtschaftsprüfer



MMag. Herwig Hierzer  
Wirtschaftsprüfer

Deloitte Audit Wirtschaftsprüfungs GmbH



Dr. Gotthard Spitzer  
Wirtschaftsprüfer



ppa. Mag. Wolfgang Wurm  
Wirtschaftsprüfer

Bei Veröffentlichung oder Weitergabe des Jahresabschlusses in einer von der bestätigten Fassung abweichenden Form bedarf es zuvor unserer erneuten Stellungnahme, sofern hierbei unser Bestätigungsvermerk zitiert oder auf unsere Prüfung hingewiesen wird.

# Statement by Management

Translation of the facsimile on page 379

## UniCredit Bank Austria AG Financial Statements for 2014

### Statement by Management

We state to the best of our knowledge that the financial statements prepared in accordance with the relevant financial reporting standards provide a true and fair view of the financial position and performance of the issuer, and that in the Management Report the

business trends including business results and the position of the issuer have been presented in such a way as to provide a true and fair view of the financial position and performance of the issuer, and that it describes the material risks and uncertainties to which the issuer is exposed.

Vienna, 2 March 2015

The Management Board:

Willibald Cernko  
CEO Support Services  
(Chairman)

Carlo Vivaldi  
CEE Banking Division  
(Deputy Chairman)

Helmut Bernkopf  
Commercial Banking Division

Francesco Giordano  
CFO Finance

Dieter Hengl  
Corporate & Investment  
Banking Division

Jürgen Kullnigg  
CRO Risk Management

Doris Tomanek  
Human Resources Austria & CEE

Robert Zadrazil  
Private Banking Division

# Statement by Management (CONTINUED)

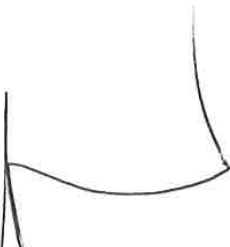
UniCredit Bank Austria AG  
Jahresabschluss 2014

## Erklärung der gesetzlichen Vertreter

Wir versichern nach bestem Wissen, dass der im Einklang mit den einschlägigen Rechnungslegungsstandards aufgestellte Jahresabschluss ein möglichst getreues Bild der Vermögens-, Finanz- und Ertragslage des Emittenten vermittelt und im Lagebericht der Geschäftsverlauf einschließlich des Geschäftsergebnisses und die Lage des Emittenten so dargestellt sind, dass ein möglichst getreues Bild der Vermögens-, Finanz- und Ertragslage des Emittenten entsteht, und dass er die wesentlichen Risiken und Ungewissheiten, denen der Emittent ausgesetzt ist, beschreibt.

Wien, 2. März 2015

Der Vorstand:



Willibald Cernko  
CEO Support Services  
(Vorsitzender)



Dr. Carlo Vivaldi  
CEE Banking Division  
(Vorsitzender-Stellvertreter)



Mag. Helmut Bernkopf  
Commercial Banking Division



Francesco Giordano, MSc  
CFO Finance



Mag. Dieter Hengl  
Corporate & Investment  
Banking Division



Dr. Jürgen Kullnigg  
CRO Risk Management



Mag. Doris Tomanek  
Human Resources Austria & CEE



Robert Zadrazil  
Private Banking Division

# 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: <a href="http://ir-en.bankaustria.at">http://ir-en.bankaustria.at</a>
Günther Stromenger	
Tel: (+43) (0)5 05 05-57232	
Erich Kodon	
Tel: (+43) (0)5 05 05-54999	

## Ratings

	LONG-TERM	SUBORDINATED LIABILITIES	SHORT-TERM
Moody's <sup>1)</sup>	Baa2	Ba2	P-2
Standard & Poor's <sup>2)</sup>	BBB+	BB+	A-2
Fitch Ratings	A	–	F1

Public-sector covered bonds of Bank Austria are rated Aaa by Moody's and mortgage bonds of Bank Austria are rated Aa1 by Moody's.

- 1) Grandfathered debt is rated Baa1, grandfathered subordinated debt is rated Ba2.  
2) Grandfathered debt is rated BBB+, grandfathered subordinated debt is rated BB+.

## Financial calendar

13 May 2015	Publication of the results as of 31 March 2015
6 August 2015	Publication of the half-year results as of 30 June 2015
12 November 2015	Publication of the results as of 30 September 2015
All information is available electronically at <a href="http://ir.bankaustria.at">http://ir.bankaustria.at</a>	

## 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](http://www.bankaustria.at)  
e-mail: [info@unicreditgroup.at](mailto: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:** Milk adv

**Layout concept and design:** Mercurio GP – Milan

**Graphics:** [www.horvath.co.at](http://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:

Willibald Cernko (Chairman of the Management Board), Carlo Vivaldi (Deputy Chairman of the Management Board), Helmut Bernkopf, Francesco Giordano, Dieter Hengl, Jürgen Kullnigg, Doris Tomanek, Robert Zadrazil.

### Supervisory Board of the media owner:

Erich Hampel (Chairman of the Supervisory Board), Paolo Fiorentino (Deputy Chairman of the Supervisory Board), Alessandro Decio, Olivier Nessime Khayat, Adolf Lehner, Alfredo Meocci, Roberto Nicastro, Vittorio Ogliengo, Franz Rauch, Josef Reichl, Karl Samstag, Wolfgang Sprißler, 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 Annual Financial Statements 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.