

One Bank One UniCredit

2018

Interim Report
at 30 June 2018

Banking that matters.

 **Bank Austria**
Member of  **UniCredit**

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Economic environment – market developments

Monetary policy in Europe remains expansionary, but the first steps towards normalisation have been taken

Around 10 years after the start of the financial crisis, monetary policy slowly heads back towards normality. After ending its security purchasing programme in autumn 2014, in the first half of 2018 the Federal Reserve, as planned, continued the gradual reduction of its balance sheet, which it had begun in October 2017. Furthermore, as a result of the good economy, the favourable development of the labour market and the slight upwards trend in inflation above the target mark of 2%, it also continued its interest tightening cycle, which it began at the end of 2015. Jerome Powell, who replaced Janet Yellen as Chairman of the Fed in February, ensured continuity in US monetary policy with two interest rate hikes of 0.25% each. The US economy will start the second half of 2018 with a key interest margin of 1.75% to 2.0%. In contrast, key interest rates in Europe have remained unchanged since March 2016. The interest rate for the main refinancing instrument is 0%. The marginal lending rate is 0.25% and the deposit rate remains minus 0.4%. However, the ECB has now also taken the first steps to normalising monetary policy. Since the start of 2018, the monthly volume of the security purchasing programme has been limited to €30 billion and it has since been announced that the programme will end completely at the end of 2018 after a reduction of net purchases to €15 billion per month from October onwards. The ECB will therefore no longer continue to increase its portfolio of bonds from 2019 onwards, but will not reduce it for now either, i.e., it will replace maturing securities in full with a special focus on the particularly long terms. The ECB is therefore not only continuing to push long-term interest rates downwards, but is also extending the expansionary effect of its programme.

As a result of tightening the monetary policy reins, short-term interest rates continued their upwards trend in the US in the first half of 2018. The three-month LIBOR has increased by 65 basis points to over 2.3% since the start of the year. Long-term interest rates in the US also continued to rise. Ten-year US government bond yields increased by around 50 basis points to 2.9% at the end of June 2018. In contrast, the European interest rate environment only changed slightly in the first half of the year. Money market interest rates in the eurozone remained stable in negative territory. At the end of June 2018, the three-month Euribor remained unchanged compared to the start of the year at minus 0.32%. Long-term interest rates did not continue the upward trend that began in the first months of the year in the core countries of the eurozone due to increased risk aversion. The ten-year German government bond was quoted at 0.3% in the middle of the year, following over 0.4% at the start of 2018 and a temporary increase in the spring to up to 0.7%. The

decrease in yield reflects new uncertainties such as increasing protectionism in trade, the realignment of monetary policy direction by the ECB and political factors in the eurozone that are also reflected in the higher interest spread of Italian bonds to the German benchmark. The risk of an escalating trade war impacted prices on stock exchanges. The US Dow Jones index saw a decrease of 2% compared to the start of the year. Heavier losses can be seen on the European stock exchanges due to companies there on average focusing more on exports. The German DAX and Austrian ATX were therefore particularly heavily affected with a decline of approximately 5% each by the end of June 2018.

Global and European economic environment

In 2017, the banking business benefited from the strong upturn of the global economy, which increased by 3.8%, the highest amount for six years. The global economy was able to take the strong upturn at the start well into 2018 and the incoming economic data was mostly a positive surprise. It soon, however, became clear that the turn of 2017/18 had marked a temporary economic peak. Due to increasing geopolitical uncertainties and concern about increasing protectionism in global trade, economic momentum began to slow down over spring. However, even before US President Donald Trump's announcement that he was going to introduce and/or increase import taxes, global trade had shifted into a lower gear. Important leading indicators, such as the global purchasing managers' index for the manufacturing industry saw a steady downwards trend – starting from above-average levels. Emerging markets, which had previously created much tailwind for the international economy, are not only now feeling the increased uncertainties but also the increasing interest rates in the US, which result in fewer capital inflows into emerging economies. However, the growth momentum in emerging markets, supported by the domestic demand in the first half of 2018, increased somewhat, in particular with very robust growth in Asia led by China and India. In contrast, although industrial countries were affected by the global uncertainties, the US economy continues to maintain a high rate of growth, thanks to solid domestic demand, which is increasingly supported by fiscal measures as well as the favourable development on the labour market. With the stimulus from the tax reform, growth in the US even accelerated somewhat in the first half of the year and reached more than 2.5%. The first half of the year – in particular the first few months – was also characterised by strong economic performance in the Eastern European growth markets, which are important to the Austrian export economy. In addition to strong domestic demand, which benefited from employment growth and strong wage increases, foreign demand, including demand fed by the recovery in Russia, provided impetus.

● The upturn in the **European economy** continued in the first half of 2018, but with somewhat less momentum than in 2017. In view of the long phase with above-average growth rates, we understand

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the current trend to be a normalisation of the rate of growth. The upturn in the eurozone was again heavily supported by domestic demand. Consumption benefited from the improvement of the situation on the labour market, which was reflected in a reduction of the unemployment rate and is slowly bringing movement in wages. However, investment expanded more slowly despite the continuing support by the low interest rate level as a consequence of the ECB's expansionary monetary policy, and, in contrast to 2017, foreign trade could no longer be expected to make a contribution to growth in the face of greater uncertainty in global trade.

Economic situation and market developments in Austria

● In **Austria**, the economic boom continued in the first half of the year, but momentum has decreased since the strong start to the year. Increased geopolitical uncertainties and increasing global challenges have had an unfavourable effect on the export environment for some months and are now also reflected in a slight correction of the buoyant mood in the domestic economy. In all economic sectors, confidence slightly decreased, and both producers and consumers are somewhat less optimistic than at the start of the year. After the strong start to the year with GDP growth of 3.4% compared to the previous year, the rate of growth is likely to have been slightly lower in the second quarter, but again to have amounted to more than 3% year-on-year. Despite the growth rate decreasing somewhat compared to the very strong start to the year, the Austrian economy is expected to achieve GDP growth of more than 3% on average year-on-year in the first half of 2018. Even the growth for the whole of 2017 was thus exceeded.

Growth stimuli predominantly resulted from the domestic demand in the first half of 2018. The strong increase in employment and slightly increased wages kept private consumption going. Investment demand also developed very dynamically as the capacity utilisation of the domestic economy is noticeably above the long-term average and the order situation continues to be strong. In addition, the financing conditions in the existing monetary policy framework are very favourable. However, as the backlog of demand from the cautious investment policy until 2016 now appears to be covered and the focus has shifted from replacement investments to expansion investments, the investment momentum has slowed down somewhat in recent months. This dampened import demand. Even if the effects of previous customs policy measures in the US on domestic exports remain negligible, exports have recently not increased as strongly as at the start of 2018. However, foreign trade's contribution to economic growth remained positive.

In view of the favourable economy, the situation on the labour market in the first half of 2018 considerably improved in comparison

to the previous year. The unemployment rate reduced by 0.8 percentage points to an average of 8%. Behind this is strong employment growth of 2.6% or more than 90,000 people. Due to the labour supply continuing to increase significantly, the number of job seekers in the same period only reduced by slightly more than 30,000. However, the seasonally adjusted data shows that the situation on the Austrian labour market has only slowly improved since the start of 2018. Seasonally adjusted employment growth is slowing and the number of job seekers is only decreasing slightly, especially as the labour supply is increasing again somewhat more strongly. The seasonally adjusted unemployment rate was 7.8% at mid-year.

At an average of 1.9% in the first six months, the annual inflation rate in Austria is slightly lower than in the previous year. The comparably lower price rise in crude oil and the weakening of the US dollar against the euro contributed to this. There has since, however, been a trend reversal. In May, inflation began to rise and once more reached the 2% mark for the first time in June this year. In view of uncertainty in connection with the US's termination of the nuclear deal with Iran, the oil price is around 20% above the level at the start of the year. In addition, the previously considerably dampening effect of the exchange rate development has reduced, as the euro dropped around 5% against the US dollar in recent weeks.

● Demand for loans increased again slightly in Austria in the first half of the year. Corporate loans made the greatest contribution to the increase in growth rates. The construction and real estate sectors are the sectors that are de facto solely responsible for the corporate loan growth. Demand for loans from other sectors of the Austrian economy showed only slight growth due to the very good liquidity situation and the increasing significance of alternative financing in view of the excess liquidity of the corporate sector. In line with the structure of the Austrian economy, companies met a proportion of their funding requirements outside Austria in the form of intragroup financing arrangements as well as through commercial credit. Housing loans continued to perform well; however, growth rates in the first half of the year did not increase any further and although they are no longer as high as they have been since the start of the crisis, they remain considerably below the strong growth rates of before the crisis. After years of decreasing volumes, consumption financing and SME financing show a slightly increasing trend for the first time this year.

Despite the low interest rate environment, deposit volumes in Austria are increasing substantially and the rate of growth did not reduce either for investments by companies or by private households in the first half of 2018. Short-term deposits dominate in view of the low interest rate environment. The demand for funds also remained buoyant in the first half of 2018, whilst the attractiveness of life insurance tended to decrease.

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Bank Austria at a glance

Income statement figures

(€ million)	H1 2018	H1 2017 ¹⁾	+/-
Net interest margin	477	491	-2.8%
Dividend income and other income from equity investments	67	76	-10.9%
Net fees and commissions	355	352	0.9%
Net trading, hedging and fair value income/loss	71	36	98.4%
Operating income	1,003	1,005	-0.2%
Operating costs	-626	-669	-6.4%
Operating profit	377	336	12.3%
Net write-downs of loans	87	89	-2.2%
Net operating profit	464	425	9.3%
Profit or loss before tax	393	331	18.7%
Total profit or loss after tax from discontinued operations	14	58	-75.9%
Net profit or loss attributable to the owners of Bank Austria	354	357	-0.9%
Cost/income ratio	62.4%	66.6%	-4.2 PP
Cost of risk	-29 bp	-30 bp	1 bp

Volume figures

(€ million)	30 JUNE 2018	1 JAN. 2018 ²⁾	+/-
Total assets	100,118	102,148	-2.0%
Loans and receivables with customers	60,792	59,823	1.6%
Direct funding	69,515	70,487	-1.4%
Loan/direct funding ratio	87.5%	84.9%	+2.6 PP
Shareholders' equity	8,310	8,339	-0.3%
Risk-weighted assets (overall) ³⁾	33,023	33,205	-0.6%

Capital ratios ⁴⁾

	H1 2018	1 JAN. 2018	+/-
Common Equity Tier 1 capital ratio	19.2%	19.6%	-0.4 PP
Tier 1 capital ratio	19.4%	19.6%	-0.2 PP
Total capital ratio	22.3%	22.2%	0.1 PP
Leverage ratio	5.9%	5.8%	+0.1 PP

Employees in Austria

(Full-time equivalent)	30 JUNE 2018	31 DEC. 2017	+/-
Austria in total	5,381	5,532	-151

Branches

	30 JUNE 2018	31 DEC. 2017	+/-
BA AG – Retail customer branches	123	123	0

n.m. = not meaningful / PP = percentage point(s) / bp = basis point(s)

1) Comparative figures for 2017 recast to reflect the current structure and methodology.

2) 01/01/2018 recast to reflect the first-time application of IFRS 9 and an adjustment in the social capital.

3) Regulatory risk-weighted assets.

4) Pursuant to Basel 3/IFRS 9 according to the current state of the transitional provisions; capital ratios based on all risks; 01/01/2018 including the first-time application of IFRS 9 and an adjustment in the social capital; leverage ratio: 01/01/2018 including an adjustment in the social capital.

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Business developments in the first half of 2018

Major events

In the first half of 2018, as part of UniCredit Group's "Transform 2019" plan, consistent work continued on implementing the strategic reorientation of Bank Austria. Bank Austria relies on an excellent starting position as the largest individual institution in the country, which at the same time offers its customers all the opportunities of a major international bank through its membership in the UniCredit Group. **High-quality advice and services, the UniCredit banking network in Central and Eastern Europe, but also the global presence of UniCredit Group, are thus available to our customers.**

A cornerstone of the strategic reorientation is the reduction of complexity in line with the UniCredit Group approach of being a simple, successful pan-European commercial bank. The continued **digitalisation** and **streamlining of the product range** support this direction. In addition to external processes, Bank Austria's efforts also focus on **optimising internal processes**. Furthermore, work is also continuously undertaken on other initiatives relating both to income and costs.

In this context, moving all head-office employees to the new campus in the second quarter of 2018 was another optimisation

step. Bank Austria, together with other UniCredit Group companies, moved its new head office to the site of Vienna's former Northern Railway Station, probably the most important development area within the city centre of Vienna. The concentration of all areas of the bank, which were previously spread across various sites in Vienna, on the "Austria Campus" for the first time, together with the state-of-the-art standards of the new buildings, will lead to significant increases in efficiency and savings.

As part of Bank Austria's concentration on its core function as a leading financial services provider, there is a focus on reducing property assets that are not required for the bank's business operations. In line with this strategy, further parts of the real estate portfolio mainly held by Immobilien Holding were sold in the first half of 2018.

In the context of financial reporting, from 2018 onwards Bank Austria prepares its annual financial statements in accordance with **IFRS 9**, pursuant to regulatory requirements, which has led to changes to the applicable valuation approaches for many balance sheet items and required comprehensive preparations in accounting and other areas of the bank.

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Condensed income statement of Bank Austria¹⁾

(€ million)

	RECAST ²⁾		CHANGE		RECONCILIATION		BANK AUSTRIA GROUP	
	H1 2018	H1 2017	+/- €	+/- %	H1 2018	H1 2017 ³⁾	H1 2018	H1 2017
Net interest	477	491	-14	-2.8%	0	-9	477	481
Dividend income and other income from equity investments	67	76	-8	-10.9%	0	0	67	76
Net fees and commissions	355	352	+3	+0.9%	0	0	355	352
Net trading, hedging and fair value income	71	36	+35	+98.4%	0	0	71	36
Net other expenses/income	33	51	-18	-34.9%	0	0	33	51
Operating income	1,003	1,005	-2	-0.2%	0	-9	1,003	995
Payroll costs	-320	-349	+28	-8.2%	0	0	-320	-349
Other administrative expenses	-294	-306	+12	-4.1%	0	0	-294	-306
Amortisation, depreciation and impairment losses on intangible and tangible assets	-12	-14	+2	-14.8%	0	0	-12	-14
Operating costs	-626	-669	+43	-6.4%	0	0	-626	-669
Operating profit	377	336	+41	+12.3%	0	-9	377	326
Net write-downs of loans	87	89	-2	-2.2%	0	9	87	98
Net operating profit	464	425	+39	+9.3%	0	0	464	425
Provisions for risks and charges	0	12	-12	n.m.	0	0	0	12
Systemic charges	-114	-113	-1	+0.9%	0	0	-114	-113
Integration/restructuring costs	3	0	+3	n.m.	0	0	3	0
Net income/loss from investments	40	8	+32	>100%	0	0	40	8
Profit before tax	393	331	+62	+18.7%	0	0	393	331
Income tax for the period	-42	-25	-17	+67.5%	0	0	-42	-25
Total profit or loss after tax from discontinued operations	14	58	-44	-75.9%	0	0	14	58
Shareholders' equity minorities	-11	-7	-4	+61.0%	0	0	-11	-7
Net profit or loss⁴⁾	354	357	-3	-0.9%	0	0	354	357

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 2018.

3) Recasting differences due to IFRS 9.

4) Attributable to the owners of the parent company.

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Details of the income statement for the first half of 2018

The following commentary on Bank Austria's performance is based on the income statement structure used for segment reporting. The comparative figures for the first half of 2017 are recast to reflect the current structure and methodology.

Segment reporting covers four business segments: Retail Banking, Corporate Banking, Private Banking and Corporate & Investment Banking. Corporate Banking as used in this commentary is the sum of corporate customer business, leasing and factoring activities. Those parts of the bank that are not assigned to any business segment are reported in the Corporate Centre segment.

The item "Total profit or loss after tax from discontinued operations" reflects the results from Immobilien Holding companies which are still held by Bank Austria but are classified as held for sale.

Operating income in the first half of 2018 was de facto at the previous year's level at €1,003 million (€1,005 million), although net interest decreased, which is partially due to the planned expiry of the funding of the earlier CEE subsidiaries remaining in Bank Austria, but also by the current low interest rate environment. Net fees and commissions and in particular net trading, hedging and fair value income performed positively.

With a share of almost 50%, **net interest** remained the most significant income item. At €477 million, the item was below the previous year's level which, as previously mentioned, was partially due to the planned expiry of the CEE funding remaining in Bank Austria. However, the continuing environment of extremely low, and in some cases even negative, interest rates had a negative effect on interest income.

Net fees and commissions (€355 million) improved in the first half of 2018 by €3 million or 0.9% compared to the same period of 2017. About two fifths of the net fees and commissions were generated by asset management, which overall performed very well, and which was also in line with the strategic objectives in this area. Around half of net fees and commissions came from payment transactions, a business area which remained a very important generator of commissions. Here, too, income was further increased. Income from financing services was maintained at almost the previous year's level compared to the first half of 2017.

Net trading, hedging and fair value income (€71 million) performed excellently, almost doubling compared to the previous year.

The **net other expenses/income** item mainly includes various items that are not directly related to the banking business. Income

of €33 million (compared to €51 million in the same period of the previous year) was generated in the first half of 2018.

The development of costs continues to be an extremely important focus as part of ongoing activities. **Operating costs** were reduced significantly by –€43 million or –6.4% to €626 million (same period of previous year: €669 million). Cost reductions were achieved in all significant cost types.

Payroll costs were –€28 million or –8.2% below the previous year's level, which mainly reflected the reduction in staff capacities (FTE) introduced in line with the ongoing strategy. As part of the staff cuts made taking account of social responsibility, with attractive models for employees, a reduction of 492 FTEs compared to June 2017 was achieved. All areas of the bank contributed to this.

The decline in **administrative expenses** by –4.1% is also influenced by a one-off effect from the release of a provision in the second quarter of 2017; without this special effect, the reduction in costs would have been even more pronounced as the bank continues to apply very strict cost management representing a special focus by the bank as part of implementing the ongoing UniCredit Group "Transform 2019" strategy.

The development of **depreciation and amortisation** (–14.8%) also reflects the implementation of the planned savings measures, including branch closures and other reductions in fixed assets.

As a consequence of the developments and measures shown, the **cost/income ratio** (62.4%) improved further (previous year: 66.6%). It continues to be a key figure for the success of the restructuring activities.

The **operating result** shows growth of 12.3% based on the successful cost reduction measures.

As in the previous year, the development of net **write-downs of loans** in all segments is very satisfactory. Based on a positive environment and the bank's professional credit risk management, it was possible to reverse provisions formed in previous years and overall generate a positive amount of €87 million (a positive amount of €89 million was reported in the same period of the previous year).

The cost of risk ratio, expressed in basis points/bp as a ratio of the net write-downs of loans and the average lending volume

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(see also alternative performance indicators in the glossary), shows by definition a negative value of –29 bp for Bank Austria in the first half of 2018 due to the positive contribution of net write-downs of loans (–30 bp in the same period of the previous year). The divisions have the following cost of risk: Retail Banking –29 bp, Corporate Banking –17 bp and CIB Division –42 bp.

● The operating result (net operating profit) amounted to €464 million in the first half of 2018 and was therefore +9.3% higher than the previous year's figure of €425 million. From a division perspective, the Austrian customer business segments contributed to the operating performance as follows: Retail Banking +€75 million, Corporate Banking +€204 million, Private Banking +€21 million and CIB +€154 million.

Under the **provisions for risks and charges** item, in the first half of 2017 an amount of zero (previous year +€12 million) was reported. The previous year's figure was mainly a result of releasing a provision for a very old legal case.

Systemic charges were at the previous year's level at –€114 million (–€113 million in the same period in the previous year). Of the total amount, the bank levy accounted for €55 million (including a pro rata special payment of €46 million), and contributions to the deposit guarantee scheme and the resolution fund totalled €59 million. The pro rata special payment of the bank levy which is paid in four instalments in 2017–20 is based on the new regulation of the Austrian bank levy.

The **integration/restructuring costs** in the ongoing financial year show a positive balance of €3 million. A new formation is more than compensated for as a result of the release of a provision from a property transaction. The item was recorded as zero in the previous year.

A positive contribution of €40 million (previous year: €8 million) was achieved in the **net income/loss from investments**, which, inter alia, was a result of selling properties.

In total, **profit before tax** of €393 million was generated from the operating and non-operating items cited. In a comparison with the previous year, this shows a considerable increase of +€62 million, which in particular is due to an improved net operating profit and the considerable increase in net income/loss from investments.

Income tax amounted to €42 million, which is an increase in the amount of tax compared to the previous year (€25 million).

Total profit or loss after tax from discontinued operations includes the contribution of +€14 million (in the previous year: +€58 million) from the Immobilien Holding companies ("Immo Holding"), including the results from the sale of property companies and properties held by these companies. The majority of these assets not required for operations have now been sold off.

Shareholders' equity minorities (minority interests) amounted to –€11 million (previous year: –€7 million).

Overall, a net profit (**net profit or loss attributable to the owners of Bank Austria**) of €354 million was generated in the first half of 2018, following €357 million in the first half of 2017. The operating result (net operating profit) clearly improved whilst the contribution from the sale of Immo Holding properties decreased.

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Financial position and capital resources

Pursuant to regulatory requirements, from 2018 onwards Bank Austria prepares its financial statements in accordance with IFRS 9, which resulted in changes to the applicable valuation approaches for many balance sheet items. Overall, the first-time application of IFRS 9 led to a slight increase in total assets (+€10 million) and an insignificant reduction in shareholders' equity (–€3 million) in the balance sheet figures as at 31/12/2017 – see pages 36 and 37.

With regard to the provision for social capital (i. e., the provisions for pensions, severance pay and similar obligations), an adjustment was made as the contribution for health care provisions for former employees whose pension insurance provider is UniCredit Bank Austria AG and non-wage labour costs for certain retirement models to be paid by UniCredit Bank Austria AG previously were not included in the provision, but were considered as an ongoing expense in the income statement. This adjustment had a retroactive effect as of 31/12/2016 resp. 01/01/2017; together with an adjustment of the provision for work incapacity that was necessary due to the transfer of pension trusteeship for active employees to social security, this led – compared to the published figures as at 31/12/2017 – to an increase in the provision for pensions and other post-retirement benefit obligations (social capital) by

€101 million. Shareholders' equity was charged €80 million as a result of this adjustment taking account of a tax effect and a reclassification of a provision (31/12/2017).

Subsequently, the figures as at 01/01/2018 are shown pursuant to IFRS 9 and including the adjustment of the provision for social capital in order to ensure comparability with the 2018 half-year figures.

Generally, the Bank Austria Group's balance sheet at 30/06/2018 reflects the strategic target structure of an **Austrian universal bank** focused on traditional commercial banking business with customers. **Loans and receivables with customers** is the largest item on the asset side by far with a proportion of 60%. The Corporate Banking and Corporate & Investment Banking business segments accounted for approximately two-thirds of total lending volume, underscoring Bank Austria's leading position as a major lender to the Austrian business sector. Furthermore, the bank holds an important position in lending to Austrian retail customers. **Deposits from customers** represent more than half of liabilities. Approximately 60% consists of deposits from the Retail Banking and Private Banking divisions and constitutes a solid refinancing basis for Bank Austria.

The most importance balance sheet items

(€ million)

	30 JUNE 2018	1 JAN. 2018 ¹⁾	CHANGE VS. 1 JAN. 2018	
			+/- € MILLION	+/- %
ASSETS				
Cash and cash balances	115	230	–115	–50.1%
Financial assets held for trading	777	992	–214	–21.6%
Loans and receivables with banks	16,657	18,933	–2,276	–12.0%
Loans and receivables with customers	60,792	59,823	+968	+1.6%
Other financial assets	18,289	18,181	+108	+0.6%
Hedging instruments	1,917	2,327	–410	–17.6%
Other assets	1,571	1,662	–91	–5.5%
Total assets	100,118	102,148	–2,029	–2.0%
LIABILITIES AND EQUITY				
Deposits from banks	14,767	15,126	–359	–2.4%
Deposits from customers	55,925	55,463	+462	+0.8%
Debt securities in issue	13,343	14,722	–1,379	–9.4%
Financial liabilities held for trading	783	1,004	–221	–22.0%
Hedging instruments	1,525	1,707	–182	–10.6%
Other liabilities	5,464	5,786	–322	–5.6%
Of which pensions and other post-retirement benefit obligations	3,634	3,726	–92	–2.5%
Shareholders' equity	8,310	8,339	–29	–0.3%
Total liabilities and equity	100,118	102,148	–2,029	–2.0%

1) Recast to reflect the first-time application of IFRS 9 and the adjustment in the social capital.

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Reconciliation of the short version of the balance sheet (as shown in the Management Report on page 11) to the balance sheet items of the consolidated interim financial statements

Assets

(€ million)

	30 JUNE 2018	1 JAN. 2018 ¹⁾
Cash and cash balances	115	230
Financial assets held for trading	777	992
Loans and receivables with banks	16,657	18,933
a) Financial assets at amortised cost	16,657	18,933
Loans and receivables with customers	60,792	59,823
a) Financial assets at amortised cost	59,518	58,479
b) Financial assets mandatorily at fair value	1,274	1,344
Other financial assets	18,289	18,181
a) Financial assets at amortised cost (banks)	500	750
b) Financial assets at amortised cost (customers)	354	393
c) Financial assets designated at fair value	–	–
d) Financial assets mandatorily at fair value	191	180
e) Financial assets at fair value through other comprehensive income	15,203	14,921
f) Investments in associates and joint ventures	2,041	1,937
Hedging instruments	1,917	2,327
a) Derivatives used for hedging	1,689	2,084
b) Fair value changes of the hedged items in portfolio hedge (+/–)	228	243
Other assets	1,571	1,662
a) Tangible assets	637	629
b) Intangible assets	9	9
of which goodwill	–	–
c) Tax assets	301	302
d) Non-current assets and disposal groups classified as held for sale	244	330
e) Other assets	380	391
TOTAL ASSETS	100,118	102,148

Liabilities and equity

(€ million)

	30 JUNE 2018	1 JAN. 2018 ¹⁾
Deposits from banks	14,767	15,126
Deposits from customers	55,925	55,463
Debt securities issued	13,343	14,722
Financial liabilities held for trading	783	1,004
Hedging instruments	1,525	1,707
a) Derivatives used for hedging	1,443	1,655
b) Fair value changes of the hedged items in portfolio hedge (+/–)	82	52
Other liabilities	5,464	5,786
a) Financial liabilities designated at fair value	246	301
b) Tax liabilities	47	34
c) Liabilities included in disposal groups classified as held for sale	52	56
d) Other liabilities	980	1,146
e) Provisions for risks and charges	4,139	4,250
of which pensions and other post-retirement benefit obligations	3,634	3,726
Shareholders' equity	8,310	8,339
a) Revaluation reserves	–1,053	–963
b) Other provisions	3,135	2,772
c) Share premium reserve	4,134	4,134
d) Share capital	1,681	1,681
e) Minority interests (+/–)	59	61
f) Net profit or loss	354	653
TOTAL LIABILITIES AND EQUITY	100,118	102,148

1) Recast to reflect the first-time adoption of IFRS 9 and the adjustment in the social capital.

Management Report (CONTINUED)

In comparison to 01/01/2018 (recast), there is a decrease in **total assets** of –€2.0 billion or –2.0%.

Loans and receivables with banks reduced by –€2.3 billion to €16.7 billion. This is caused by, inter alia, declining financing to UniCredit Group companies, in particular to earlier CEE subsidiaries.

Loans and receivables with customers increased by +€1.0 billion to €60.8 billion. A significant increase in volume was generated by the CIB division in particular.

Due to the excellent credit quality, gross non-performing loans reduced by €2.6 billion to €2.3 billion (–12%) compared to the end of 2017. This can be seen in a decreasing gross NPL ratio (4.2% to 3.6%).

Deposits from banks showed a slight decrease of –€0.4 billion compared to the end of 2017.

Deposits from customers reached €55.9 billion, a modest increase (+€0.5 billion) compared to the end of 2017. This is a result of, inter alia, higher deposits from retail customers on the reporting date, whilst large deposits in the CIB division showed a planned reduction.

Debt securities in issue amounted to €13.3 billion. In accordance with the bank's liquidity strategy and the resulting conservative issue activity, this results in a decrease (–€1.4 billion) compared to the end of 2017.

The excellent refinancing basis through non-banks is documented overall in the “**direct funding (avg.)**” item (customer deposits + debt securities in issue + financial liabilities valued at fair value), which amounted to €69.5 billion as at 30 June 2018. This means that loans to non-banks are covered by deposits from non-banks and debt securities in issue to the extent of about 114%.

Provisions for risks and charges totalled around €4.1 billion as at 30/06/2018. The largest item thereof is provisions for pensions and similar obligations, which amounted to €3.6 billion. An adjustment of the relevant discount rate from 1.80% to 1.85% was necessary in the first half of 2018, which also led to a positive effect on **shareholders' equity**.

Shareholders' equity amounted to €8.3 billion as at the reporting date of 30/06/2018. In contrast to 01/01/2018, shareholders' equity reduced by €29 million. Current annual profit of €354 million was slightly outweighed by the dividend payment of €379 million made in April 2018.

Capital resources and risk-weighted assets

Regulatory capital, capital requirements and regulatory capital ratios are calculated in accordance with the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV) to implement Basel 3 in the European Union. Under the Austrian CRR Supplementary Regulation and ECB Regulation 2016/445 on the exercise of options and discretions available in EU law, these provisions are not yet fully applicable, but will be gradually introduced over several years. The majority of these transitional provisions ended on 31/12/2017. The additional core capital instruments issued that do not meet all criteria for elements eligible for own funds pursuant to Basel 3 are eligible to the specified extent in the fifth year of the transition period (pursuant to the aforementioned regulations for 2018).

Bank Austria Group calculates its consolidated regulatory capital and consolidated regulatory capital requirements on an IFRS basis.

Subsequently, the figures as at 01/01/2018 are presented according to IFRS 9 and including the adjustment of the provision for social capital mentioned in the previous section, in order to ensure comparability with the 2018 half-year figures.

Capital resources of the Bank Austria Group remained almost unchanged in comparison to 01/01/2018 with **regulatory capital of €7.4 billion**. The overall performance of –€8 million results from a reduction of –€147 million to **Common Equity Tier 1 capital (CET1)** totalling **€6.4 billion**, which contrasts with an increase in Additional Tier 1 capital (AT1) of +€53 million and in Tier 2 capital of +€86 million to a total of €0.9 billion.

Items that are now to be directly and exclusively deducted from CET1 have decreased CET1 by –€110 million since the end of the transitional provisions as at 31/12/2017. The transition from IAS 39 to IFRS 9 had slightly negative effects on CET1 at –€3 million. The increase of the significant deductible equity participations due to higher carrying amounts, deductions from deferred tax assets and effects from additional valuation adjustments had a negative effect at –€30 million.

With the end of the transitional provisions for deductions from CET1, the Additional Tier 1 capital issued will no longer be fully depleted, but included in **AT1** at +€53 million taking account of the transitional provisions to be applied in this case for 2018.

In **Tier 2**, in particular amortisation and currency effects from eligible subordinated instruments of –€32 million reduce the positive effect of +€115 million after the end of the CRR transitional provisions as at 31/12/2017.

Management Report (CONTINUED)

● In comparison to the end of 2017, **total risk-weighted assets** (RWA) reduced by –€0.2 billion to **€33.0 billion**.

● The development in **credit risk** is characterised by an increase of +€0.5 billion as a result of the expiry of the transitional provisions on central governments and investments, which is almost fully compensated for by the decrease in the internal financing volume within the Group, rating improvements and further sales and currency effects.

● **Market risk and operational risk:** The market risk RWAs reduced due to an improvement in the parameters (value-at-risk) by –€117 million to €0.2 billion and the amount at risk from the operational risk reduced by €148 million to €3.0 billion.

● Despite the lower total amount at risk, this led to a worsening of the **Common Equity Tier 1 capital ratio** from 19.6% (end of 2017) to 19.2% as at 30 June 2018 as a result of the decrease in equity.

The **total capital ratio** improved from 22.2% to **22.3%**.

Capital ratios*) based on all risks

	30 JUNE 2018	1 JAN. 2018
Common Equity Tier 1 capital ratio	19.2%	19.6%
Tier 1 capital ratio	19.4%	19.6%
Total capital ratio	22.3%	22.2%

*) Based on all risks and in accordance with the CRR transitional provisions; figures as at 01/01/2018 including the first-time application of IFRS 9 and the adjustment in the social capital.

● Without taking the transitional provisions defined in the CRR into account, the Common Equity Tier 1 Ratio (fully loaded) was 19.2% and the total capital ratio (fully loaded) was 22.0%.

● The **leverage ratio** pursuant to the Delegated Regulation (EU) 2015/62, based on the current status of transitional arrangements, was 5.9% as at 30 June 2018. Without taking the transitional provisions defined in the CRR into account, the value is also 5.9%

Permanent establishments

There are no permanent establishments.

Management Report (CONTINUED)

Outlook

Economic scenario

In the first half of 2018, global economic performance was asynchronous. Differences in growth between regions and individual countries increased. At the same time, despite particularly favourable conditions that existed at the start of the year, the global economy lost momentum. Global growth nevertheless remained very solid and there are now signs of the economy stabilising, such as the development of UniCredit's global leading indicator, which combines economic data from many countries and various sectors in a figure and indicates that global trade momentum is bottoming out. The global economy could also achieve the high growth rate of the previous year of 3.8% in 2018. However, an increasing number of risks to a robust upturn are hiding beneath the surface of the favourable economic picture.

- The **US** is in the late phase of its economic boom, which is also documented by short-term interest rates rising rapidly, while at the same time long-term interest rates are not rising any further. However, the US economy is expected to continue its strong course of growth of the first half of the year. Crucial stimuli will come from domestic demand, which will be supported to an increasing extent by the considerable fiscal measures. The budget deficit will, however, therefore increase to over 5% of GDP. We continue to expect economic growth of 2.7% in the US and expect an average increase in the inflation rate of 2.6% in 2018 after 2.1% in the previous year. In this environment, the Federal Reserve is more confident with regard to the economic outlook and the possibility of achieving or exceeding its inflation target. The two increases in the key rate in March and June by 25 basis points each should therefore be followed by two further interest rate hikes in the second half of the year. The key rate should therefore be between 2.25 and 2.5% at the end of 2018.

- The economic momentum will be lower in the **eurozone** than in the US. Furthermore, due to a weaker start to the year, especially in Germany and France, we have adjusted our growth forecast from 2.3 to 2.2% for 2018. We continue to expect GDP growth of 1.9% for 2019. The economic outlook for the second half of 2018 and for 2019 is depressed by increasing risks; increasing protectionism in particular is a high factor of uncertainty. These indicators show a continuing strong industry dynamic, which has, however, lost considerable momentum compared to the record figures at the start of the year. However, the exchange rate works as a mitigating factor here. After the weakening of the euro in spring, we have decreased our forecast of the exchange rate against the US dollar to an average of 1.20 for 1 euro.

Core inflation has risen above the 1% mark and a further increase, in particular in the services sector, can be expected in view of dwindling spare capacity and higher wage increases. The higher oil price drove overall inflation and will stabilise it in the next few months at around 2%. We now expect inflation of 1.7% on annual average in 2018.

- In view of the slight upwards trend in inflation, the European Central Bank introduced a normalisation of monetary policy. The security purchasing programme will end at the end of 2018. From the start of 2019, although the ECB will no longer increase its inventories, it will replace maturing bonds in full with new securities and will therefore continue to considerably curb the interest rate level in Europe. The announcement of a first key rate increase in the eurozone by an expected 20 basis points is no longer expected in June, but in September 2019 at the earliest. The ECB is thus not likely to move on from the negative interest rate phase until the first few months of 2020.

- After the strong turn of the year, the **Austrian economy's** growth rate in the first half of 2018 started to slow. However, the economic sentiment and a series of leading indicators signal stabilisation. Most sentiment indicators are at a level that gives reason to expect very solid economic momentum of more than 2% in the second half of the year as well. Despite increased risks as a result of the escalation of trade conflict between the USA and China, we expect slightly lower economic growth of 2.8% for 2018 after 3% GDP growth in 2017. The continuing economic upturn in the second half of the year will be supported by still brisk domestic demand, which will be based on strong investment activity.

Growth in Austria remains broadly supported in 2019 as well, both domestic and foreign demand remain the pillars of economic momentum. However, there is a risk that the economic slowdown in global trade boosted by the consequences of an escalating trade war will reduce support for growth from exports. At 2%, we expect GDP growth to remain above the long-term average in 2019 and therefore to continue to exceed GDP growth both in the eurozone and Germany.

In view of the favourable economy, the situation on the labour market in the first half of 2018 eased considerably in comparison to the previous year. In the next few months, the situation in the labour market will only slightly improve due to the economy no longer being quite so strong. An unemployment rate of 7.7% is to be expected as the annual average for 2018 with only a slight reduction to 7.6% expected for 2019.

Management Report (CONTINUED)

Inflation in Austria has slightly increased since May after inflation figures remained stable below 2% in the first few months of 2018 compared to the previous year. Higher oil prices and the somewhat weaker euro exchange rate in comparison to spring are boosting inflation. In the second half of 2018, inflation will consistently be at more than 2%, particularly as the strong employment momentum and more rapidly rising wages will also lead to a stronger increase in prices due to demand. With an average of 2.2% in the whole year of 2018, we nevertheless expect moderate inflation for Austria, albeit the highest for six years.

- The ongoing favourable economic outlook should lead to further moderate corporate loan growth in Austria in the second half of 2018. In view of the optimistic mood of consumers, demand for consumer financing should also increase slightly again. Credit development in housing financing should remain buoyant as interest rates remain low, demand for housing is strong and property prices will continue to rise at least slightly. The trend towards fixed interest rates to hedge the historically low interest rate level should continue.

Private households' investment behaviour is determined by low interest rates. Later on in 2018, investments are again expected to focus on short-term deposits as deposits for longer periods and bonds do not offer attractive yields. We expect additional demand for investment in funds whilst the attraction of traditional life insurance should stay within limits.

Medium-term and long-term objectives

2018 and 2019 will see the implementation of the "Transform 2019" Group strategy put forward by UniCredit in December 2016. We have successfully concluded the first full year of the "Transform 2019" plan and have achieved all of its goals to date. We are part of UniCredit, a successful pan-European commercial bank with a simple business model, fully plugged-in Corporate & Investment Banking and a unique network in Western, Central and Eastern Europe that we make available to our broadly diversified customer base.

With "Transform 2019", we have laid the foundation to be a pan-European leader. In Bank Austria, to this end we have implemented clear measures for restructuring the Bank and completed the reorganisation as far as possible. The foundations for further success have been laid. We are expanding our existing competitive advantages in order to sustainably generate profits in future and, at the same time, become even more modern and more attractive to our customers. For Bank Austria, this specifically means:

- the further development of the business model with regard to focused customer service and a sustainably low-cost structure, with an increased focus on digitisation and corresponding investments in the IT structure,

- further exploiting potential with regard to the broad customer base and the Group's market leadership position in many business areas and regions by unlocking Group synergies and taking advantage of cross-selling opportunities,

- consistently reducing the cost base through a significantly leaner Corporate Centre.

- As an entrepreneurs' bank, we are the most important financial partner for corporate customers in Austria and are continuing to expand our number one position in Austrian corporate banking – as part of a leading European banking group – with a broad spectrum of expertise and competence and through UniCredit's international network. As a leading partner for private banking customers, we offer a recognised, excellent range of products and services – either directly at Bank Austria or at our subsidiary Schoellerbank.

- A new service model was implemented for retail customers that takes changing customer needs into account. It includes fewer, but significantly larger and modern branches with longer opening hours and improved consulting services for our customers. Our real estate experts and investment experts provide advice in person at our branches and via video. Expert consulting services can also be accessed from any location via SmartBanking.

We continuously adjust our services, internal organisational structures and processes to meet the changing needs of our customers. For this purpose, numerous initiatives in the customer area are in progress alongside income and cost initiatives. We are also continuing the expansion of our digital range of products and services, such as the successful introduction of photo transfers as the only bank in Austria or "sending money to phone contacts" as the first bank in Austria. Recently, selecting banknotes on your smart phone was introduced as a new function when making contactless withdrawals at cash machines. Further innovations for our digital product range are planned for the second half of the year.

On the revenue side, Bank Austria will further expand its leading market position in three business areas: Corporate Banking, Corporate & Investment Banking, and servicing wealthy individuals in Private Banking. In addition to efforts to win new corporate customers, Bank Austria will concentrate on leveraging more effectively existing customer business potential available to the bank as Austrian market leader. We see further opportunities for

Management Report (CONTINUED)

growth in Private Banking, but also in the segment of affluent retail customers where our high-value consultancy service is complemented by Premium asset management for wealthy individuals and the self-employed. Schoellerbank, which independent testers from the 2018 Elite Report named the best asset manager for the sixth time in a row, will pursue its growth strategy. On the Bank Austria side, we see great potential for new business with existing customers through increased cooperation between the individual customer divisions. Retail banking activities focus on consistently expanding branches and the digital marketplace – with the online shop and the online branch – giving them equal weight as channels for product sales and advisory services.

With the end of the first half of the year, the relocation of all central units to the new corporate centre on the Austria Campus was completed. The geographic concentration on one site and the changeover to SmartWorking will lead to a further increase in efficiency and cost reductions, among others also in the Corporate Centre.

Segment report

Development of business segments

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Segment report (CONTINUED)

Retail Banking

(€ million)	H1 2018	H1 2017 ¹⁾	CHANGE	
Operating income	376	404	-29	-7.1 %
Operating costs	-327	-354	+27	-7.7 %
Operating profit	49	50	-1	-2.9 %
Net write-downs of loans	26	42	-16	-37.9 %
Net operating profit	75	92	-17	-18.8 %
Profit before tax	40	64	-25	-38.6 %
Loans to customers	17,870	17,887	-18	-0.1 %
Deposits from customers	23,609	22,966	+643	+2.8 %
Risk-weighted assets (avg.) ²⁾	7,379	8,233	-854	-10.4 %
ROAC in % ³⁾	4.4	9.3	-4.9 PP	n. m.

n. m. = not meaningful / 1) In segment reporting the comparative figures for 2017 were recast to reflect the structure and methodology of the 2018 reporting period (see section on segment reporting in the notes to the consolidated interim financial statements (content of segment reporting) in this report). / 2) Average risk-weighted assets (all risks) under Basel 3. / 3) Calculation based on 12.5% allocated capital. / These comments also apply to the segment tables on the following pages.

● Operating profit

The Retail Division maintained operating profit in the first half of 2018 despite the still difficult market environment. Operating income reduced by -€29 million (-7.1%), partially due to positive one-off effects in the previous year and also because of a decrease in net interest (-7.9%). Strict cost management with a focus on realignment of the branch network and the implementation of measures to increase efficiency in sales led to a substantial reduction in operating costs to €327 million (-7.7% compared to the previous year).

● Net write-downs of loans

Thanks to excellent risk management and a continuing positive environment, a positive figure was posted in the first half of the year at €26 million, even though this was below the very high positive figure in the previous year (+€42 million).

● Profit before tax

After taking account of the positive net write-downs of loans and non-operating expenses of -€35 million (mostly systemic charges), the Retail Division's profit before tax was €40 million in the first half of 2018 and was therefore fully on track. The decline compared

to the previous year's comparative figure of €64 million is mainly based on the positive but lower contribution from credit risk and the positive one-off effects in the previous year.

● Loans and receivables with customers/customer deposits

The lending volume remained stable compared to the previous year at €17.9 billion. Customer deposits increased by €0.6 billion to €23.6 billion, partly due to seasonal effects.

Retail Banking also serves business customers and the independent professions with annual turnover of up to €3 million. Numerous growth initiatives were launched in the first half of 2018 in these business segments.

The branch network was also modernised on an ongoing basis in the reporting period. Our customers benefit from extended opening hours at numerous branches (9 a. m. – 6 p. m. or 8:30 a. m. – 5:30 p. m.). We also provide consulting services to retail and business customers and independent professionals in any location via video at the online branch (8 a. m. to 8 p. m.). In the investment area, we offer innovative investment solutions and benefit from our collaboration with strong partners here. Our high-quality advisory service is, moreover, complemented by Premium asset management for affluent retail customers and the self-employed (starting from a volume of €50,000). In investment and real-estate financing, we rely on our experts who support consultants either locally or via video.

As a result of our customers' growing need to carry out daily transactions via digital channels, Bank Austria also continues to rely on the gradual expansion of its digital product range and services. By doing this, Bank Austria demonstrates its innovation leadership in online services, such as the Bank Austria MobileBanking app or its mobile wallet. For example, as part of contactless withdrawal options at our cash machines, banknote selection on smartphones has been introduced. Our customers therefore have the option of withdrawing money contactlessly and with ease at any time either with their bank card or with the mobile bank card app. The strong focus on the expansion of our digital sales channels allows us to focus on our core business and simplify processes.

Segment report (CONTINUED)

Corporate Banking (including factoring and leasing units)

(€ million)	H1 2018	H1 2017	CHANGE	
Operating income	283	283	-0	-0.0%
Operating costs	-102	-109	+8	-7.2%
Operating profit	182	174	+8	+4.5%
Net write-downs of loans	23	12	+11	+89.5%
Net operating profit	204	186	+19	+10.0%
Profit before tax	173	168	+5	+3.2%
Loans to customers	26,028	26,563	-536	-2.0%
Deposits from customers	15,091	15,148	-57	-0.4%
Risk-weighted assets (avg.)	8,894	8,499	+395	+4.7%
ROAC in %	22.5	24.1	-1.6 PP	n. m.

● Operating profit

In the first half of 2018, operating income remained at the previous year's level at €283 million in a persistently difficult interest rate environment. Due to an again considerable reduction of operating costs by €8 million (-7.2%) to €102 million as a result of strict cost management and further cost cutting measures, at €182 million the operating profit improved by 4.5% compared to the previous year (€174 million).

● Net write-downs of loans

The high quality of the credit portfolio and a continuing positive environment are reflected in a positive contribution from credit risk of €23 million (previous year €12 million).

● Profit before tax

Non-operating expenses amounted to -€31 million (previous year -€18 million) and are in particular due to the systemic charges of -€24 million. After deduction of non-operating expenses, profit before tax of €173 million, 3.2% higher than the previous year (€168 million), remains.

● Loans and receivables with customers/customer deposits

The lending volume, at €26.0 billion (30/06/2017: €26.6 billion), was slightly down; customer deposits reached €15.1 billion as in the previous year.

In business with corporate customers, the first half of 2018 was shaped by the continuing strong economy in Austria. Willingness to invest remained high, although the first signs of a weakening are growing. Bank Austria's new business with financing Austrian companies therefore also remained positive, but appeared to be slightly weaker than in the second half of 2017. The good economic situation and the negative interest rate environment are motivating companies to use their cash to fund themselves more and more: short-term financing to provide liquidity remains stable, but does not show any growth, which is also the case for our corporate customers' deposits. In commercial real-estate financing, the focus continued to be successfully placed on large, experienced companies in the sector.

In international business, a strong signal was sent by participation in the great Austrian economic mission to China. With its presence in China as part of the UniCredit Group, Austrian companies can therefore use their trusted bank partner for their activities in the Far East and obtain their services from a single source in line with the Group's motto of "One Bank, One UniCredit". In the first half of 2018, business was continuously increased both with international customers in Austria and with the international subsidiaries of Austrian groups in the banks of the UniCredit network outside of Austria. A slight increase was also achieved in trade financing.

Segment report (CONTINUED)

Private Banking

(€ million)	H1 2018	H1 2017	CHANGE	
Operating income	80	77	+4	+4.8%
Operating costs	-61	-62	+2	-3.0%
Operating profit	20	14	+6	+39.2%
Net write-downs of loans	1	0	+1	n.m.
Net operating profit	21	14	+6	+46.2%
Profit before tax	16	10	+6	+63.0%
Total financial assets	24,424	24,363	+61	+0.3%
Loans to customers	660	638	+22	+3.5%
Deposits from customers	9,143	8,970	+173	+1.9%
Risk-weighted assets (avg.)	469	594	-125	-21.0%
ROAC in %	38.6	18.6	+20.0PP	n.m.

● Operating profit

The Private Banking Division recorded a very positive performance in the first half of 2018. Despite the continuing low interest rate environment, operating income increased from €77 million to €80 million (+4.8%) with increases both in interest and commission income. Operating costs of €61 million showed a decrease of -3.0% which led to a significant increase in operating profit to €20 million (+39.2% compared to the previous year).

● Profit before tax

Profit before tax reached €16 million and was therefore up +€6 million (+63.0%) over the previous year's figure. The systemic charges of €5 million were the only significant deduction among non-operating items.

● Volumes

The volume of total financial assets has grown slightly by +0.3% in comparison to the previous year to €24.4 billion. Assets under Management also contributed to the increase, increasing +€291 million (+3.1%) to €9.8 billion.

The Private Banking business division comprises the two well-known brands Bank Austria Private Banking – the private banking arm of a major bank – and Schoellerbank – a traditional private banking institution. These operations make the Private Banking business segment the undisputed market leader in services

provided to affluent private customers with €500,000 or more to invest in Austria. Bank Austria Private Banking's unique selling point is the personalised 360-degree service approach that is based on specific customer needs and covers all banking services.

Investors trust the investment models managed by the BA Private Banking experts in the ongoing low interest-rate environment and volatile markets caused by geopolitical tensions. As a result, in 2018, Private Banking had a specific business focus on the sustained growth of the successful asset management programme Vermögens-Management 5Invest and the further successful development of the flexible investment consulting model UNIVERS Exklusiv with a lump-sum expenses agreement. The consulting model UNIVERS Exklusiv currently serves customers with a total investment volume of over €1.3 billion.

Furthermore, the investment experts of BA Private Banking pay particular attention to reviewing investment decisions that have been made at regular intervals in order to identify any need for adjustment in the portfolio structure or composition and therefore to always optimally adjust the portfolio to the current market situation.

Schoellerbank, established in 1833, is one of the leading private banks in Austria that specialises in sophisticated investments. The traditional bank's core competences include investment advice, retirement provision management and, in particular, asset management. The bank's investment philosophy follows the motto "Invest, don't speculate". According to this principle, experts choose only the best investments for their customers – who have already entrusted the bank with some €11.4 billion – in accordance with strict selection criteria. For exactly a quarter of a century, Schoellerbank asset management has stood for quality without compromise. And it has been worth it: As a result of the continuous good performance and constant perfectionism, it makes a significant contribution to the wealth of its customers. This has not only brought a large number of satisfied and loyal customers to Schoellerbank, but also all the finance industry's important awards. The company's own investment company and its innovative products also contribute considerably to its success. With 10 locations, Schoellerbank – a fully-owned subsidiary of UniCredit Bank Austria AG – is also the only private bank represented throughout Austria.

Segment report (CONTINUED)

Corporate & Investment Banking (CIB)

(€ million)	H1 2018	H1 2017	CHANGE	
Operating income	209	203	+6	+2.7%
Operating costs	-87	-99	+12	-12.5%
Operating profit	122	104	+18	+17.3%
Net write-downs of loans	32	15	+17	>100%
Net operating profit	154	119	+35	+29.5%
Profit before tax	147	98	+49	+50.4%
Loans to customers	15,935	13,827	+2,109	+15.3%
Deposits from customers	8,350	7,529	+821	+10.9%
Risk-weighted assets (avg.)	9,629	7,618	+2,011	+26.4%
ROAC in %	18.1	15.3	+2.8 PP	n.m.

● Operating profit

Operating profit increased in the CIB business area by 17.3% to €122 million in the first half of 2018. Operating income showed growth of €6 million or 2.7% to €209 million. Despite the difficult market and interest rate environment, interest income in particular improved. At the same time, operating costs were reduced by 12.5% to €87 million thanks to strict cost management and efficiency-increasing measures.

● Net write-downs of loans

Due to the excellent quality in the credit portfolio, a positive contribution from credit risk was recorded in the first half of 2018. The positive balance was +€32 million (first half year of 2017: +€15 million).

● Profit before tax

The CIB business area recorded growth of 50.4% to €147 million in profit before tax, an increase of €49 million compared to the previous year, based on clear operating improvements and partly also on positive special effects.

● Loans and receivables with customers/customer deposits

In comparison to the reporting date of the previous year, lending volume considerably increased by 15.3% to €15.9 billion. With growth of 10.9% to €8.4 billion, customer deposits also show very dynamic performance.

Development in the first half of 2018 once more shows the strength of the CIB business area as part of UniCredit, a simple pan-European commercial bank with fully plugged-in Corporate & Investment Banking and a unique network in Western, Central and Eastern Europe.

The CIB business area further expanded its leading market position in multinational companies in this reporting period as well. In addition to providing intensive services to Austrian multinational companies, CIB continued to service the extended core markets such as Scandinavia on a sustainable basis. Business developed positively despite a persistently challenging and highly competitive market environment. In particular, the successful conclusion of structured financing resulted in significant growth.

We use our leading position in capital market transactions (no. 2 Corporate Bonds Austria), syndicated loans (no. 1 Syndicated Loans Austria), and within the UniCredit Group (no. 2 All EMEA Bonds) to secure diversified liquidity for our customers and continuously expand the bank's position in our markets. Business with institutional customers also continued to perform satisfactorily, and business with large real estate customers or funds remained stable under persistently high competitive pressure.

Our leading market position in cash management (no. 1 Cash Management House in Austria 2017 – Euromoney and no. 1 Bank for Cash Management in Austria in 2018 – Global Finance), trade finance (no. 1 Bank for Trade Finance in Austria 2018 – Global Finance), supply chain finance and foreign exchange (no. 1 Foreign Exchange Provider in Austria 2018 – Global Finance) enabled CIB to acquire considerable mandates from Austrian and multinational customers. Despite the challenging macroeconomic environment, persistently low interest rates and negative government bond yields in the core eurozone countries, the Treasury made a significant contribution to the CIB result in the first half of 2018 as well. Demand from companies for currency hedges remained high due to the volatility on currency markets.

Consolidated Financial Statements

in accordance with International Financial Reporting Standards (IFRSs)

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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.

Consolidated Income Statement

of the Bank Austria Group for the first half of 2018

Income statement

(€ million)

	1 JAN. – 30 JUNE 2018	1 JAN. – 30 JUNE 2017
Interest income and similar revenues	742	777
Interest expenses and similar charges	-265	-296
Net interest margin	477	481
Fees and commissions income	450	452
Fees and commissions expenses	-95	-100
Net fees and commissions	355	352
Dividend income and similar revenues	3	9
Net gains (losses) on trading	48	-
Gains (Losses) on financial assets and liabilities held for trading (IAS 39)	-	38
Net gains (losses) on hedge accounting	-1	-2
Gains (Losses) on disposal and repurchase of:	6	-
a) financial assets at amortised cost	-	-
b) financial assets at fair value through other comprehensive income	6	-
c) financial liabilities	-	-
Gains (Losses) on disposal and repurchase of: (IAS 39)	-	-1
a) loans	-	-
b) available-for-sale financial assets	-	4
c) held-to-maturity investments	-	-
d) financial liabilities	-	-5
Net gains (losses) on other financial assets/liabilities at fair value through profit or loss:	18	-
a) financial assets/liabilities designated at fair value	2	-
b) other financial assets mandatorily at fair value	16	-
Gains (Losses) on financial assets/liabilities at fair value through profit or loss (IAS 39)	-	1
OPERATING INCOME	906	878
Net losses/recoveries on credit impairment relating to:	85	-
a) financial assets at amortised cost	85	-
b) financial assets at fair value through other comprehensive income	-	-
Net losses/recoveries on impairment: (IAS 39)	-	104
a) loans	-	89
b) available-for-sale financial assets	-	-
c) held-to-maturity investments	-	6
d) other financial assets	-	10
Gains/Losses from contractual changes with no cancellations	-	-
Net profit from financial activities	991	982
Administrative expenses:	-732	-762
a) staff costs	-330	-349
b) other administrative expenses	-402	-413
Net provisions for risks and charges:	19	12
a) commitments and financial guarantees given	19	-
b) other net provisions	-	12
Net value adjustments/write-backs on property, plant and equipment	-17	-25
Net value adjustments/write-backs on intangible assets	-1	-3
Other operating expenses/income	42	58
OPERATING COSTS	-689	-720

Consolidated Income Statement (CONTINUED)

of the Bank Austria Group for the first half of 2018

	1 JAN. – 30 JUNE 2018	1 JAN. – 30 JUNE 2017
Gains (Losses) of equity investments	64	67
Net gains (losses) on property, plant and equipment and intangible assets measured at fair value	–1	–1
Goodwill impairment	–	–
Gains (Losses) on disposals on investments	28	4
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	393	331
Tax expenses (income) for the period from continuing operations	–42	–25
Profit (Loss) after tax from continuing operations	351	306
Profit (Loss) after tax from discontinued operations	14	58
PROFIT (LOSS) FOR THE PERIOD	365	364
Minority profit (loss) for the period	–11	–7
PROFIT (LOSS) FOR THE PERIOD – ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	354	357

Consolidated Statement of Comprehensive Income

of the Bank Austria Group for the first half of 2018

Earnings per share (in €, basic and diluted)

(€)

	1 JAN.– 30 JUNE 2018	1 JAN.– 30 JUNE 2017
Earnings per share from profit (loss) after taxes from continuing operations	1.52	1.29
Earnings per share from profit (loss) after taxes from discontinued operations	0.06	0.25

Statement of comprehensive income

(€ million)

	1 JAN.– 30 JUNE 2018	1 JAN.– 30 JUNE 2017
PROFIT (LOSS) FOR THE PERIOD	365	364
Other comprehensive income after tax not reclassified to profit or loss	–	–
Equity instruments designated at fair value through other comprehensive income	–	–
Financial liabilities designated at fair value through profit or loss (own creditworthiness changes)	–	–
Hedge accounting of equity instruments designated at fair value through other comprehensive income	–	–
Property, plant and equipment	–	–
Intangible assets	–	–
Defined-benefit plans	14	86
Non-current assets and disposal groups classified as held for sale	–	–
Portion of valuation reserves from investments valued at equity method	–	–
Other comprehensive income after tax reclassified to profit or loss	–	–
Foreign investments hedging	–	–
Foreign exchange differences	–	–1
Cash flow hedging	–33	–11
Hedging instruments (non-designated items)	–	–
Financial assets (different from equity instruments) at fair value through other comprehensive income	–53	–
Available-for-sale financial assets:(IAS 39)	–	–117
Non-current assets and disposal groups classified as held for sale	–	–
Part of valuation reserves from investments valued at equity method	5	8
Total other comprehensive income after tax	–67	–35
COMPREHENSIVE INCOME	298	329
Minority consolidated comprehensive income	–13	–6
Parent Company's consolidated comprehensive income	285	323
Earnings per share (in €, basic and diluted)	1.29	1.42

Statement of Financial Position

of the Bank Austria Group at 30 June 2018

Assets

(€ million)

	30 JUNE 2018	31 DEC. 2017 ADJUSTED ¹⁾	31 DEC. 2016 ADJUSTED ²⁾
Cash and cash balances	115	230	165
Financial assets at fair value through profit or loss:	2,242	–	–
a) financial assets held for trading	777	–	–
b) financial assets designated at fair value	–	–	–
c) other financial assets mandatorily at fair value	1,465	–	–
Financial assets held for trading (IAS 39)	–	1,008	1,113
Financial assets at fair value through profit or loss (IAS 39)	–	6	14
Financial assets at fair value through other comprehensive income	15,203	–	–
Available-for-sale financial assets (ex IAS 39 Item N. 40)	–	15,057	15,791
Financial assets at amortised cost:	77,029	–	–
a) loans and advances to banks	17,157	–	–
b) loans and advances to customers	59,872	–	–
Held-to-maturity investments (ex IAS 39 Item N. 50)	–	216	236
Loans and receivables with banks (ex IAS 39 Item N. 60)	–	19,688	20,762
Loans and receivables with customers (ex IAS 39 Item N. 70)	–	60,032	60,926
Hedging derivatives	1,689	2,084	2,661
Changes in fair value of portfolio hedged items (+/–)	228	243	–36
Equity investments	2,041	1,937	1,777
Property, plant and equipment	637	629	695
Intangible assets	9	9	11
Tax assets:	301	279	332
a) current	29	43	55
b) deferred	272	236	277
Non-current assets and disposal groups classified as held for sale	244	330	900
Other assets	380	391	450
TOTAL ASSETS	100,118	102,138	105,797

1) Figures as published as at 31.12.2017, incl. adjustment in deferred taxes of 10 million € from 226 million € to 236 million € (social capital).

2) Figures as published as at 31.12.2016, incl. adjustment in deferred taxes of 12 million € from 265 million € to 277 million € (social capital).

Statement of Financial Position (CONTINUED)

of the Bank Austria Group at 30 June 2018

Liabilities and shareholders' equity

(€ million)

	30 JUNE 2018	31 DEC. 2017 ADJUSTED ¹⁾	31 DEC. 2016 ADJUSTED ²⁾
Financial liabilities at amortised cost:	84,036	–	–
a) deposits from banks	14,767	–	–
b) deposits from customers	55,925	–	–
c) debt securities in issue	13,343	–	–
Deposits from banks (IAS 39)	–	15,126	13,939
Deposits from customers (IAS 39)	–	55,463	56,239
Debt securities in issue (IAS 39)	–	14,722	17,394
Financial liabilities held for trading	783	–	–
Financial liabilities held for trading (IAS 39)	–	1,004	1,107
Financial liabilities designated at fair value	246	–	–
Financial liabilities at fair value through profit or loss (IAS 39)	–	301	399
Hedging derivatives	1,443	1,655	2,153
Value adjustment of hedged financial liabilities (+/–)	82	52	–196
Tax liabilities:	47	34	54
a) current	38	27	33
b) deferred	8	7	21
Liabilities associated with assets classified as held for sale	52	56	123
Other liabilities	980	1,321	2,458
Provisions for risks and charges:	4,139	4,063	4,321
a) commitments and guarantees given	161	–	–
b) post-retirement benefit obligations	3,634	3,726	3,963
c) other provisions for risks and charges	344	337	357
Valuation reserves	–1,053	–899	–785
Reserves	3,135	2,711	2,047
Share premium	4,134	4,134	4,133
Share capital	1,681	1,681	1,681
Minority shareholders' equity (+/–)	59	62	88
Profit (Loss) of the year (+/–)	354	653	641
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	100,118	102,138	105,797

1) Figures as published as at 31.12.2017, including adjustment of post-retirement benefit obligations of 101 million € from 3,625 m € to 3,726 m €; this includes a reclassification of 11 m € from other liabilities to post-retirement benefit obligations. The valuation reserves were adjusted by –67 m € from –831 million € to –899 million €.

2) Figures as published as at 31.12.2016, including adjustment of post-retirement benefit obligations of 108 million € from 3,855 m € to 3,963 m €; this includes a reclassification of 11 m € from other liabilities to post-retirement benefit obligations. The valuation reserves were adjusted by –73 m € from –712 million € to –785 million €.

Statement of Changes in Equity

of the Bank Austria Group for the first half of 2018 and

	BALANCE AS AT 31 DEC. 2017	ADJUSTMENT OF SOCIAL CAPITAL	BALANCE AS AT 31 DEC. 2017 *)	FIRST-TIME ADOPTION IFRS 9	BALANCE AS AT 1 JAN. 2018 INCL. ADJUSTMENT OF SOCIAL CAPITAL & IFRS 9 IMPACT	ALLOCATION OF PROFIT FROM PREVIOUS YEAR	
						RESERVES	DIVIDENDS AND OTHER ALLOCATIONS
Issued capital:							
a) ordinary shares	1,681		1,681		1,681		
b) other shares	0		0		0		
Share premium	4,135		4,135		4,135		
Reserves:							
a) other reserve	2,710	0	2,711	62	2,773	653	-379
b) foreign currency reserve	0		0		0		
Cashflow Hedge Reserve	149		149		149		
Revaluation Reserve FA @FVTOCI	500		500	-64	436		
Cashflow Hedge and Revaluation Reserve FA @FVTOCI associates and joint ventures	36		36		36		
Pension and similar liabilities IAS 19	-1,589	6	-1,584		-1,584		
Net profit or loss for the period"	653		653		653	-653	
Shareholders' Equity Group	8,275	6	8,281	-3	8,278	0	-379
Shareholders' Equity minorities	62		62	0	61	-16	0
Total Shareholders' Equity	8,336	6	8,342	-3	8,339	-16	-379

*) Adjustment of social capital

	BALANCE AS AT 31 DEC. 2016	DBO RESTATEMENT	BALANCE AS AT 31 DEC. 2016 ADJUSTED *)	ALLOCATION OF PROFIT FROM PREVIOUS YEAR
Issued capital:				
a) ordinary shares	1,681		1,681	
b) other shares	0		0	
Share premium	4,133		4,133	
Reserves:				
a) other reserve	2,059	-13	2,047	641
b) foreign currency reserve	1		1	
Cashflow Hedge Reserve	192		192	
Available-for-sale Reserve	638		638	
Cashflow Hedge and AFS Reserve associates and joint ventures	36		36	
Pension and similar liabilities IAS 19	-1,577	-73	-1,650	
Net profit or loss for the period	641		641	-641
Shareholders' Equity Group	7,804	-86	7,718	0
Shareholders' Equity minorities	88		88	-50
Total Shareholders' Equity	7,892	-86	7,806	-50

*) Adjustment of social capital

Statement of Changes in Equity (CONTINUED)

for the first half of 2017

CHANGES DURING THE PERIOD						SHAREHOLDERS' EQUITY GROUP AS AT 30 JUNE 2018
SHAREHOLDERS' EQUITY TRANSACTIONS				TOTAL	COMPREHENSIVE INCOME	
CHANGES IN RESERVES	CHANGES IN CONSOLIDATION SCOPE	OTHER				
				0		1,681
				0		0
		0		0		4,135
65	-3	27		24		3,136
				0	0	-1
				0	-33	116
				0	-55	380
6		3		3	5	51
		-30		-30	14	-1,600
354				0		354
425	-3	0		-3	-70	8,252
11	-1	0		-1	2	59
437	-4	0		-3	-67	8,310

(€ million)

CHANGES DURING THE PERIOD						SHAREHOLDERS' EQUITY GROUP AS AT 30 JUNE 2017 *)
SHAREHOLDERS' EQUITY TRANSACTIONS				TOTAL	COMPREHENSIVE INCOME	
CHANGES IN RESERVES	CHANGES IN CONSOLIDATION SCOPE	OTHER				
				0		1,681
				0		0
		1		1		4,135
	18			18		2,706
	0			0	-1	0
				0	-11	181
				0	-118	520
				0	8	43
				0	91	-1,559
357				0		357
357	18	1		19	-31	8,063
7	0	0		0	1	47
364	18	1		19	-30	8,110

*) Adjustment of social capital

Statement of Cash Flows

of the Bank Austria Group for the first half of 2018

(€ million)

	1 JAN. – 30 JUNE 2018	1 JAN. – 30 JUNE 2017
NET PROFIT OR LOSS	365	364
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	-77	-61
Increase in staff-related provisions and other provisions	30	25
Interest income/interest expenses from investing activities ³⁾	-	-36
Gains/losses on disposal of intangible assets, property, plant and equipment, and investments	-70	-2
Increase/decrease in other non-cash items	-225	-136
SUB-TOTAL	23	154
Increase/decrease in operating assets and liabilities after adjustment for non-cash components		
Financial assets held for trading	214	150
Loans and receivables with banks and customers	-	2,356
Financial assets at amortized cost	1,673	-
Financial assets designated at fair value	1	-
Financial assets mandatorily at fair value	75	-
Financial assets at fair value through other comprehensive income	-345	-
Other asset items	410	178
Financial liabilities held for trading	-221	-179
Deposits from banks and customers	-	-147
Financial liabilities at amortized cost	-1,187	-
Financial liabilities designated at fair value	-55	-
Debt securities in issue	-	-1,282
Other liabilities items	-379	-744
CASH FLOWS FROM OPERATING ACTIVITIES ¹⁾	209	486
Proceeds from		
disposal of investments	0	0
disposal of property, plant and equipment, intangible assets and investment property	-	-
sales (less cash disposed of) of subsidiaries	77	131
dividends received	38	39
Payments for investments in		
equity instruments	0	0
plants, intangible assets	-130	-36
subsidiaries	0	0
CASH FLOWS FROM INVESTING ACTIVITIES ²⁾	55	165
Proceeds from capital increase	0	0
Dividends paid	-379	0
Proceeds from issues of subordinated liabilities	0	0
Payments for repayment of subordinated liabilities	0	-682
CASH FLOWS FROM FINANCING ACTIVITIES	-379	-682

Statement of Cash Flows (CONTINUED)

of the Bank Austria Group for the first half of 2018

	1 JAN.– 30 JUNE 2018	1 JAN.– 30 JUNE 2017
CASH AND CASH EQUIVALENTS AT END OF PREVIOUS PERIOD	230	165
Cash flows from operating activities	209	486
Cash flows from investing activities	55	165
Cash flows from financing activities	–379	–682
Effects of changes in scope of consolidation	0	0
Effects of exchange rate changes	0	0
CASH AND CASH EQUIVALENTS AT END OF PERIOD ³⁾	115	134
PAYMENTS FOR TAXES, INTEREST AND DIVIDENDS		
Income taxes received (+)/paid (–) from operating activities	–6	–15
Interest received from operating activities	660	574
Interest received from investing activities	–	93
Interest paid from operating activities	–358	–95
Interest paid from investing activities	–	–266
Dividends received from investing activities	38	39

1) Due to the entry into force of IFRS 9, the structure of cash flows from operating activities was changed. Previous year not adjusted.

2) Calculation method and structure of cash flows from investing activities were changed in 2018. Previous year not adjusted.

3) Cash and cash equivalents consists of cash in the amount of 83 million € (2017: 89 m €) and cash with central banks in the amount of 32 m € (2016: 45 m €).

Notes to the Consolidated Financial Statements

Basis for the preparation of the financial statements

The interim consolidated financial statements for the first half of 2018 (January 2018 to June 2018) include the financial statements of UniCredit Bank Austria AG and its subsidiaries and the Group's interests in associates and jointly controlled entities (collectively referred to as Bank Austria). The interim consolidated financial statements were prepared in Euro, the reporting currency of the Group.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU), using IAS 34 "Interim Financial Reporting".

The interim consolidated financial statements of Bank Austria for the first half of 2018 are unaudited and have not been reviewed by the auditors. It comprises the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement, the segment reporting and selected explanatory notes. The selected explanatory notes describe events and transactions that are relevant to understanding the changes in the financial position, the results of operations and the cash flows of the Group since the consolidated financial statements for the financial year ended 31 December 2017.

The interim financial statements do not contain all the information and data required for the consolidated financial statements for a financial year. The interim consolidated financial statements are to be read in conjunction with the audited 2017 consolidated financial statements of Bank Austria. It should be noted that the provisions in accordance with IFRS 9 were applied for the first time in the interim consolidated financial statements as at 30 June 2018 and that no retrospective adjustments were made here. With the exception of IFRS 9, the interim consolidated financial statements as at 30 June 2018 were prepared using the accounting principles applicable to the 2017 financial year.

With regard to the provision for social capital (i. e., the provisions for pensions, severance pay and similar obligations), an adjustment was made as the contribution for health care provisions and non-wage labour costs for certain retirement models to be paid by UniCredit Bank Austria AG for former employees whose pension insurance provider is UniCredit Bank Austria AG were not previously included in the provision, but were considered as an ongoing expense in the income statement. This adjustment had a retroactive effect as of 31/12/2016 resp. 01/01/2017; together with an adjustment of the provision for work incapacity that was necessary due to the transfer of pension trusteeship for active employees to social security, this led – compared to the published figures as at 31/12/2017 – to an increase in the provision for pensions and other post-retirement benefit obligations (social capital) and to an adjustment in the shareholders' equity.

In preparing financial statements in accordance with IFRS, estimates and assumptions by management are required for certain categories of assets and liabilities. These assumptions and estimates affect reported income and expense during the period, as well as the reported amounts of assets and liabilities, and contingent assets and contingent liabilities as of the balance sheet date. Actual results may differ from management's estimates and the reported results should not necessarily be considered as an indication of the full-year results to be expected.

Accounting and valuation methods

Compared to the consolidated financial statements of Bank Austria as at 31 Dec. 2017, the first-time adoption of IFRS 9 resulted in changes in the accounting principles for financial instruments and the introduction of new disclosures in the notes.

Application of amended and new IFRS or IAS

First-time application of amended and new financial reporting standards and accounting methods

IFRS 9 Financial Instruments (entry into force 1 January 2018)

1. Summary of impact from IFRS 9 application

Since 1 January 2018, the new accounting and reporting rules of IFRS 9 "Financial Instruments" have been in force in the Bank Austria for the first time.

The implementation of the requirements of the new accounting standard was carried out in a comprehensive project in coordination with the UniCredit Group to ensure the Group-wide introduction of uniform accounting and risk monitoring methods for all Group companies.

Notes (CONTINUED)

The group-wide project was divided into two major areas:

- **“Classification and Measurement”**, with the aim of ensuring the classification of financial instruments in accordance with the new IFRS 9 criteria, and
- **“Impairment”**, with the aim of developing and implementing models and methods for the calculation of impairment.

The whole project was carried out with the involvement of all relevant departments of the Bank and with the active participation of the Board and the top management levels.

The changes resulting from the first-time application of IFRS 9 can be summarised as follows:

- The classification and measurement of **commitments and debt instruments** according to IFRS 9 is governed by
 - a) the “business model” in which the financial instrument is held; and
 - b) the characteristics of the cash flows of the financial instrument. The decisive factor here is whether the cash flows of the financial instrument comprise “Solely Payments of Principal and Interests” (SPPI).
- Under IFRS 9, **equity instruments** are classified either as “at fair value through profit or loss” or, if the option has been selected (FVOCI option), as “at fair value through other comprehensive income”. If the FVOCI option has been selected, all valuation results are recognised in other comprehensive income. In addition, the cumulative valuation results on the disposal of an equity instrument recognised directly in equity are no longer transferred to the profit and loss account (no “recycling”), but only reclassified to the reserves within shareholder’s equity.
- Compared to IAS 39, which has been based on incurred credit losses, the expected credit losses are to be recognised as an **impairment** in accordance with IFRS 9.
- The **hedge accounting provisions** have changed with respect to the dedication of hedge accounting or the determination of the effectiveness of hedge accounting. The new standard provides the option for the user to continue to adhere to the previous hedge accounting rules of IAS 39 until the IASB completes the project to define the new rules for macro hedges. Bank Austria is making use of this option and will continue to apply IAS 39 for the hedge accounting until the mandatory application of the new macro-hedge accounting.
- The Bank Austria Group has used the option for voluntary valuation at fair value for selected financial liabilities (“fair value option”). The changes in the fair value attributable to fluctuations in the company’s own credit risk (“own credit risk”) would in principle therefore have to be recognised in other comprehensive income (without recycling). As the bank has hedged its own credit risk with credit default swaps, which are required to be recognised in profit or loss, and since the recognition of own credit risk in equity would result in a so-called “accounting mismatch”, i. e. in an unbalanced accounting treatment, in accordance with an exemption clause, own credit risk may continue to be recognised in the income statement despite the new requirements of IFRS 9.

Notes (CONTINUED)

In accordance with the transitional provisions of IFRS 9, Bank Austria, in the same way as UniCredit Group, decided not to adjust any comparative figures from the 2017 consolidated financial statements and thus not to carry out a retrospective application to earlier reporting periods. The effects resulting from the reconciliation to IFRS 9 are therefore presented in the opening balance sheet for the financial year 2018:

ASSETS

(€ million)

	31 DEC. 2017 ADJUSTED ¹⁾	RECLASSIFICATION	REMEASUREMENT	1 JAN. 2018 ADJUSTED FOR SOCIAL CAPITAL & IFRS
Cash and cash balances	230			230
Financial assets at fair value through profit or loss:		2,505	10	2,515
a) financial assets held for trading		1,008	-16	992
b) financial assets designated at fair value				-
c) other financial assets mandatorily at fair value		1,497	26	1,523
Financial assets held for trading (IAS 39)	1,008	-1,008		
Financial assets at fair value through profit or loss (IAS 39)	6	-6		
Financial assets at fair value through other comprehensive income		14,899	22	14,921
Available-for-sale financial assets (ex IAS 39 Item N. 40)	15,057	-15,057		
Financial assets at amortised cost:		78,603	-46	78,556
a) loans and advances to banks		19,688	-5	19,683
b) loans and advances to customers		58,915	-41	58,873
Held-to-maturity investments (ex IAS 39 Item N. 50)	216	-216		
Loans and receivables with banks (ex IAS 39 Item N. 60)	19,688	-19,688		
Loans and receivables with customers (ex IAS 39 Item N. 70)	60,032	-60,032		
Hedging derivatives	2,084			2,084
Changes in fair value of portfolio hedged items (+/-)	243			243
Equity investments	1,937			1,937
Property, plant and equipment	629			629
Intangible assets	9			9
Tax assets:	279		23	302
a) current	43			43
b) deferred	236		23	259
Non-current assets and disposal groups classified as held for sale	330			330
Other assets	391			391
TOTAL ASSETS	102,138	-	9	102,148

1) Figures as published as at 31.12.2017, including adjustment of deferred taxes of 10 million € from 226 million € to 236 million € (social capital).

Notes (CONTINUED)

LIABILITIES AND SHAREHOLDERS' EQUITY

(€ million)

	31 DEC. 2017 ADJUSTED ¹⁾	RECLASSIFICATION	REMEASUREMENT	1 JAN. 2018 ADJUSTED FOR SOCIAL CAPITAL & IFRS
Financial liabilities at amortised cost:				85,311
a) deposits from banks		15,126		15,126
b) deposits from customers		55,463		55,463
c) debt securities in issue		14,722		14,722
Deposits from banks (IAS 39)	15,126	-15,126		-
Deposits from customers (IAS 39)	55,463	-55,463		-
Debt securities in issue (IAS 39)	14,722	-14,722		-
Financial liabilities held for trading		1,004		1,004
Financial liabilities held for trading (IAS 39)	1,004	-1,004		-
Financial liabilities designated at fair value		301		301
Financial liabilities at fair value through profit or loss (IAS 39)	301	-301		-
Hedging derivatives	1,655			1,655
Value adjustment of hedged financial liabilities (+/-)	52			52
Tax liabilities:	34			34
a) current	27			27
b) deferred	7			7
Liabilities associated with assets classified as held for sale	56			56
Other liabilities	1,321	-187	12	1,146
Provisions for risks and charges:	4,063	187		4,250
a) commitments and guarantees given		187		187
b) post-retirement benefit obligations	3,726			3,726
c) other provisions for risks and charges	337			337
Valuation reserves	-899		-64	-963
Reserves	2,711		61	2,772
Share premium	4,134			4,134
Share capital	1,681			1,681
Minority shareholders' equity (+/-)	62		0	62
Profit (Loss) of the year (+/-)	653			653
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	102,138	0	9	102,148

1) Figures as published as at 31.12.2017, including adjustment in post-retirement benefit obligations of 101 million € from 3,625 m € to 3,726 m €; this includes a reclassification of 11 m € from other liabilities to post-retirement benefit obligations. Valuation reserves were adjusted by -67 m € from -831 m € to -899 m €.

The application of IFRS 9 led to a decrease in equity of EUR 3 million after tax (EUR -26 million before taxes). The first-time adoption of IFRS 9 has an effect on the regulatory CET1 of -8 bp ("fully loaded")

The effects of IFRS 9 must also be taken into account in the calculation of the regulatory capital ratios (CRD/CRR). In this regard, EU Regulation No. 2017-2395, issued on 27 December 2017, provides a choice to mitigate the "phase-in" of additional risk management in CET1 over a five-year transitional period, starting in 2018. Bank Austria is not making use of this transitional arrangement.

2. Classification and evaluation:

In relation to the topic of "classification and valuation", Bank Austria

- has identified criteria for the classification of financial instruments into the new categories defined by the accounting standard, which are based on the business model and the asset's contractual cash flow characteristics
- and used these criteria to classify the existing portfolio.

The definition of the business model was effected at the level of the business areas of the Bank Austria Group.

Portfolios for the core business of the Bank Austria Group are assigned to either a "hold" or a "hold and sell" business model, depending on the specific portfolio strategy and the expectations relating to the future sales activities of the portfolio.

Those portfolios the Bank Austria Group holds for trading are assigned to an "Other" business model, to reflect the underlying trading intention.

Notes (CONTINUED)

An analysis of the asset's cash flow characteristics (SPPI-Test) is also needed for classifying financial assets into the corresponding valuation categories of IFRS 9, as well as defining the "business model" criterion.

To determine the cash flows for loans and debt instruments, the Bank Austria Group has developed processes and systems, in order to determine subsequently whether the asset's contractual cash flow permits a later revaluation "at amortised cost" (in the "hold" business model) or "at fair value through other comprehensive income" (under the "hold and sell" business model).

The valuation of this SPPI criterion is done either at the level of an individual contract or for clusters, depending on the relevant product and contract characteristics. The analysis is done with the help of both a software solution developed by UniCredit Holding (the "SPPI-Tool") and also using information from external data providers.

In applying the classification rules described, the financial assets and financial liabilities of Bank Austria were classified as follows:

Financial assets held for trading:

A financial asset is classified in the "Held for Trading" category if it:

- was acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- was 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;
- is a derivative (except for derivatives which constitute financial guarantees and derivatives designated as hedging instruments).

Like other financial instruments a held-for-trading financial asset is measured on initial recognition at its fair value on the settlement date. This is 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 financial assets are measured at their fair value through profit or loss.

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, 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.

Where a hybrid contract includes a host contract which is an asset within the scope of IFRS 9, classification criteria shall apply to the entire hybrid contract (i.e. no split-off of the embedded derivative).

- If a hybrid contract contains a host contract that is not an asset within the scope of IFRS 9, an embedded derivative must be separated from the host contract and only accounted for as a derivative in accordance with that standard.

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 contract has to be treated as a financial asset or financial liability at fair value through profit or loss.

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

Notes (CONTINUED)

Financial assets at fair value through profit or loss:

A financial asset may be irrevocably designated at fair value through profit or loss upon initial recognition ("fair value option") if this eliminates or significantly reduces mismatches in the valuation or recognition ("accounting mismatch"). Inconsistencies can arise if the valuation of assets or liabilities or the recognition of profits and losses is based on different grounds.

Financial assets that are required to be recognised at fair value through profit or loss under the fair value option are accounted for in the same way as instruments in the category "Financial assets held for trading".

Other financial assets mandatorily at fair value:

A financial asset is required to be classified at fair value if the classification rules are not satisfied for measurement at amortised cost or at fair value through profit or loss.

This includes in particular the following financial assets:

- loans and bond issues that are not assigned to a "hold" or "hold and sell" business model
- loans and bond issues that do not meet the SPPI criterion
- shares in a mutual fund
- equity instruments for which Bank Austria does not exercise the option of accounting as at fair value through profit or loss

Financial assets that are required to be recognised at fair value through profit or loss are accounted for in the same way as instruments in the category "Financial assets held for trading".

Financial assets at fair value through other comprehensive income:

A financial asset is measured at fair value through profit or loss if the instrument is both assigned to the "hold and sell" business model and the SPPI criterion is met and the cash flows therefore represent only repayments and interest payments on the outstanding principal amount.

This balance sheet item also includes equity instruments for which Bank Austria exercises the option of accounting as at fair value through other comprehensive income.

On initial recognition, at settlement date, financial assets at fair value through other comprehensive income are 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 the case of debt instruments, the collection of interest income takes place using the effective interest method and thus analogous to the treatment of instruments recognised at amortised cost. Gains and losses arising from changes in fair value are recognised in the statement of comprehensive income ("other comprehensive income") and shown in the statement of financial position in the balance sheet under accumulated other comprehensive income. Furthermore, the impairment rules in accordance with IFRS 9 must also be taken into account for these instruments. Impairment losses or expenses are recognised in the income statement and reported in the balance sheet in the equity reserve "revaluation reserve". Upon de-recognition of the financial asset, the amount previously accumulated in other comprehensive income is reclassified in the income statement ("recycling").

For equity instruments, gains and losses arising from changes in fair value are recognised in the statement of comprehensive income ("other comprehensive income") and shown in the statement of financial position in the balance sheet under accumulated other comprehensive income. The cumulative amount recognised in other comprehensive income (as opposed to debt instruments) is never reclassified to the income statement and reclassified to other comprehensive income at the time of de-recognition. Dividends received from these instruments are reported in the income statement.

Financial assets at amortised cost:

A financial asset is measured at amortized cost if the instrument is both part of the "hold" business model and the SPPI criterion is met, and the cash flows therefore represent only principal and interest payments on the outstanding principal amount.

This balance sheet item also includes receivables from finance leases.

Upon initial recognition, at the settlement date, financial assets are subsequently recognised at amortised cost at fair value. This usually corresponds to the amount paid, taking into account directly attributable transaction costs.

Notes (CONTINUED)

The amortised cost of a financial asset is the amount at which the asset is initially recognised, less principal repayments and adjusted for the amortisation of premiums or discounts (differences between initial recognition and repayment), which is calculated using the effective interest method; less value adjustments.

Financial liabilities at amortised cost:

Financial liabilities are measured at amortised cost, with the exception of financial liabilities designated as at fair value through profit or loss under the fair value option or held for trading.

Upon initial recognition, at the settlement date, financial liabilities are carried at amortised cost at fair value. This usually corresponds to the amount paid, taking into account directly attributable transaction costs. Subsequent measurement is at amortised cost using the effective interest method.

Hybrid financial liabilities the payments of which are linked to variables such as equity or equity prices, foreign exchange, credit risk of third parties or (commodity) indices are considered as structured instruments. Embedded derivatives that are separated from the host contract are measured as a stand-alone derivative at fair value through profit or loss and reported under the item "asset or liability held for trading".

The equity portion is initially recognised at its residual value. The financial liability is recognised at amortised cost using the effective interest method.

Financial liabilities held for trading:

Financial liabilities held for trading include:

- derivatives, with the exception of derivatives designated as hedging instruments
- delivery obligations from short sales
- financial liabilities with short-term resale intent
- 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 financial liability held for trading is measured at fair value through profit or loss both on initial recognition and subsequent measurement.

Financial liabilities at fair value through profit or loss:

Financial liabilities can be irrevocably designated as at fair value through profit or loss upon initial recognition (fair value option), provided that mismatches arising from the classification in the valuation of liabilities or in the recognition of profits and losses on different bases are eliminated or significantly reduced, as well as the liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Financial liabilities in this category are measured at fair value through profit or loss both on initial recognition and in subsequent measurement.

For instruments designated under the fair value option, the changes in fair value arising from the credit risk of the financial liability are recognised in the statement of comprehensive income and recognised in the "revaluation reserve" item in the statement of financial position, unless mismatches in valuation or recognition ("Accounting Mismatch") were hereby caused or increased. In the latter case, all fair value changes are recognised in profit or loss.

3. Impairment:

3.1. Overview

The new impairment model for showing expected credit losses is to be applied to all debt instruments that are shown at either "amortised cost" or "at fair value through other comprehensive income" and also to off-balance sheet instruments such as guarantees and lending commitments.

Notes (CONTINUED)

Instruments under the scope of the new impairment rules are therefore allocated in a consideration of the ratio of the change in credit risk between the date of initial recognition and the current credit risk at the measurement date, either Level 1, Level 2, or Level 3:

- Level 1 includes all newly acquired financial instruments for which no significant increase in credit risk has been identified since first-time recognition, as well as low-credit-risk exemption instruments.
- Level 2 contains tools for which a significant increase in credit risk has been identified since first-time adoption but is not yet impaired.
- Level 3 includes instruments with impaired creditworthiness.

The amount of expected credit losses to be recognised depends on the level of allocation. For Level 1 instruments, a credit loss equal to the expected 12-month credit loss ("1 year ECL") is recognised. For Level 2 and 3 instruments, on the other hand, a credit loss amounting to the lifetime expected credit loss ("lifetime ECL") is recognised.

In order to meet the new requirements of IFRS 9, Bank Austria has developed specific methods to determine the expected credit losses based on the PD, LGD and EAD parameters as well as a scenario-based consideration of forward-looking macroeconomic information.

The tiered-transfer logic is a central and elementary component of the new impairment rules. Bank Austria uses both relative and absolute criteria for the transfer of levels. The essential criteria include:

- a transaction-based relative comparison between default probability (PD) at the reporting date and that at initial recognition using internal models. The determination of the threshold values takes place taking into account all relevant information with regard to the expectation of the probability of default (e.g. age, PD level at initial recognition, historical default behaviour per segment)
- absolute criteria, in accordance with regulatory requirements (i.e. 30 days overdue)
- other internal criteria (e.g. forbearance measures, foreign currency loans in the retail segment, taking into account the inherent risks since the initial recognition)

For loans and receivables, the expected credit losses to be recognised are determined on the basis of the present value of future expected repayments and interest payments. In determining the present value, the payments to be expected and their dates must be identified and the discount rate (fair value of the money) must be determined.

The amount of the loan loss provisions for impaired instruments classified as bad loans or unlikely to pay is determined by the difference between the carrying amount and the present value of future expected cash flows, discounted with the original effective interest rate.

For instruments with a fixed interest rate, the underlying interest rate is thus constant over the term, while instruments with a variable interest rate are recalculated depending on the contractual conditions.

If the original effective interest rate cannot be determined, or if the determination would result in unreasonably high costs, the value is approximated. The application of this practical expediency does not result in any material changes and is in line with the underlying framework of international accounting standards.

Recovery periods are estimated based on business and economic plans as well as historical considerations and observations for similar business cases. This takes into account the respective customer segment, type of credit contract or security as well as other relevant factors that are useful for the determination.

For impaired instruments, the new requirements are also taken into account with regard to i) the adaptation of a point-in-time calibration and forward-looking information; and ii) applying multiple scenarios, including sales scenarios, to Bank Austria's non-performing asset strategy for the period 2018–2020.

3.2. Parameter and risk definition

Specific methods have been developed at Bank Austria to determine expected credit losses. The methods are based essentially on the input parameters PD, LGD and EAD as well as the effective interest rate:

- PD (Probability of Default): Likelihood of a loan default during a defined period, e.g. 1 year)
- LGD (Loss Given Default): Loss rate of outstanding loan amount in case of loan default
- EAD (Exposure at Default): Estimate of the loan amount at the time of the loan default
- The effective interest rate is the discount rate that reflects the fair value of the money.

Notes (CONTINUED)

Based on the PD, LGD and EAD values already used for regulatory purposes, these parameters are adjusted to take into account the requirements of IFRS 9. The essential adjustments include

- an elimination of regulatory conservative factors,
- a “point in time” calibration instead of the regulatory “through the cycle” adaptation,
- the consideration of forward-looking, macro-economic information (“forward looking information”) as well as
- the modelling of credit risk parameters over the life of the instrument (multi-year perspective).

The modelling of the multi-year PDs includes a “point in time” adjustment of the observed cumulative default rates with consideration of future-oriented macroeconomic information.

Margins of conservatism in the recovery rates contained in the regulatory through-cycle regulatory framework are adjusted in accordance with IFRS 9 requirements to reflect current expectations of forward-looking macroeconomic information when discounting the effective interest rate.

The EAD is modelled on the expected lifetime (“lifetime EAD”) based on the regulatory (one-year) EADs, adjusting the required maturity consideration, disregarding conservatism factors, and considering forward-looking macroeconomic information.

Classification of asset quality:

Non-performing exposures are divided into the following categories according to UniCredit Group rules:

- **“Bad Loans” (defaulted loans):** credit exposures, considered uncollectible, to insolvent borrowers, even if insolvency has not been judicially ascertained. A realisation procedure is usually applied to borrowers in this class. The impairment loss assessment is performed in general on an analytical basis resp. on a lump-sum basis for homogeneous instruments.
- **“Unlikely to pay” (low repayment probability):** risk exposures which do not meet the conditions to be classified as “bad loans” but with the debtor’s unlikelihood, without actions such as realisation of collateral, to fully repay his/her credit obligation (principal and/or interest) regardless of days in arrears. The classification within the “unlikely to pay” category is not necessarily related to the explicit presence of a default (failure to repay) but rather is tied to the existence of evidence of a debtor’s risk of default. The impairment loss assessment is performed in general on an analytical basis resp. on a lump-sum basis for homogeneous instruments.
- **“Past due” (overdue loans):** on-balance sheet exposures other than those classified among “bad loans” or “unlikely to pay”, which at the reference date have amounts that are 90 days past due or over limits. Such amounts are determined by reference to the individual debtor.

3.3. Consideration of forward-looking information

The determination of expected credit losses takes macroeconomic projections into account by applying a multiple scenario view of future-oriented components to counteract the partial non-linearity in the correlation between macroeconomic changes and credit risk. In particular, non-linearity was taken into account by estimating certain factors (“overlay factor”) and direct application to the expected credit losses of the portfolio.

The inclusion of forward-looking macroeconomic information using multiple scenarios is consistent with other macroeconomic forecasting techniques used in the UniCredit Group (e.g. taking into account macroeconomic forecasts of expected credit losses within the EBA Stress Test and the ICAAP), using independent functionalities of UniCredit Research. This results in the creation of a unified starting point, which is adjusted to meet each of the sometimes divergent regulatory requirements, using internally developed scenarios.

Another key factor in determining the expected credit losses under IFRS 9 is the modelling of the tiered-transfer logic, with regard to the step transfer between Level 1 and Level 2; Level 3 corresponds to the impaired instruments. Level 1 financial assets comprise primarily (i) newly issued instruments, (ii) instruments without a significant increase in credit risk since initial recognition or (iii) instruments with a low default risk at the reporting date.

In accordance with the requirements of IFRS 9, it can be determined that the credit risk of a financial asset has not increased significantly if the asset has a low credit risk exemption on the balance sheet date. Bank Austria applies this exemption to investment grade credit securities.

The calculation of expected credit losses for impaired assets has also been restated to reflect the new requirements of IFRS 9 in that adjustments have been made to both portfolio and specific allowances and scenarios have been considered.

Notes (CONTINUED)

With regard to the definition of impaired assets, the current default definition of Bank Austria has been adopted.

With regard to hedge accounting, Bank Austria is making use of the option to continue to use the existing hedge accounting rules of IAS 39 until the IASB has completed the project to define the new rules for macro hedges.

Bank Austria will make use of the exception to not adjust comparative information for previous periods in the consolidated financial statements for 2018.

3.4. Gross exposure, risk provisioning and net exposure depending on value adjustment as at 1 Jan. 2018

The following tables show a reconciliation of the gross book values to the net book values, showing the corresponding impairment level, and separately according to the IFRS 9 valuation categories, as at 1 Jan. 2018.

(€ million)

	GROSS BOOK VALUE		
	L1	L2	L3
Item 30. Financial assets at fair value through other comprehensive income	14,712	109	–
- Debt instruments	14,712	109	–
- Loans and advances to banks	–	–	–
- Loans and advances to customers	–	–	–
Item 40. Financial assets at amortized cost	57,175	20,638	2,603
- Debt instruments	1,059	84	25
- Loans and advances to banks	18,150	788	4
- Loans and advances to customers	37,966	19,767	2,575

(€ million)

	PROVISIONS		
	L1	L2	L3
Item 30. Financial assets at fair value through other comprehensive income	1	2	–
- Debt instruments	1	2	–
- Loans and advances to banks	–	–	–
- Loans and advances to customers	–	–	–
Item 40. Financial assets at amortized cost	68	393	1,399
- Debt instruments	0	19	5
- Loans and advances to banks	5	0	4
- Loans and advances to customers	63	374	1,391

(€ million)

	NET EXPOSURE		
	L1	L2	L3
Item 30. Financial assets at fair value through other comprehensive income	14,712	108	–
- Debt instruments	14,712	108	–
- Loans and advances to banks	–	–	–
- Loans and advances to customers	–	–	–
Item 40. Financial assets at amortized cost	57,107	20,245	1,204
- Debt instruments	1,058	65	20
- Loans and advances to banks	18,145	787	0
- Loans and advances to customers	37,903	19,393	1,184

Notes (CONTINUED)

3.5. Write-off

The UniCredit Group's non-performing loans strategy – as communicated in the multi-year plan – envisages a targeted reduction, right down to the complete winding down of portfolios of non-performing loans.

With respect to the first-time adoption of IFRS 9 and the targeted wind-down strategy, portfolios of non-performing loans were analysed and the following characteristics were identified for depreciation events:

- no factual expectation regarding the recovery due to the high credit age
- waiver of credit management measures due to the low credit volume and economic aspects
- guaranteed amount of zero or non-collectable
- substantial difficulties in the execution of the guarantee with respect to the debtor as well as the legal framework

IFRS 9 requires the gross book value of a financial asset to be reduced directly if it is reasonably estimated that a financial asset cannot be fully or partially realised. A depreciation represents a write-off procedure. Full or partial depreciation does not represent a loss of legal title to the recoverability of the credit.

In order to ensure the implementation of the accounting requirements and compliance with the ECB guidelines from “Guidance on banks on non-performing loans”, corresponding guidelines for the analysis of non-performing loans have been developed in Bank Austria:

- legal claim and factual possibilities for the recoverability of outstanding claims
- credit class or exposure class
- age of loans resp. receivables
- existence and evaluation of guarantees and collateral

3.6. Governance

The development of the methodological framework conditions for determining expected credit losses in accordance with IFRS 9 was carried out on the basis of group-wide models, specifications and standards. The inclusion of forward-looking macroeconomic information using multiple scenarios is therefore consistent with other macroeconomic forecasting techniques used in the UniCredit Group (e.g. taking into account macroeconomic forecasting of expected credit losses within the EBA Stress Test and the ICAAP). The models were independently validated by the Group Internal Validation Department and subsequently approved by the Group Risk & Internal Control Committee. Subsequent changes and adaptations are therefore also the subject of the approval process in the Group Risk & Internal Control Committee.

The application of the new requirements under IFRS 9 also resulted in adjustments to the organisational structure and the internal procedural rules. In particular, this relates to the process of determining expected credit losses and the related accounting treatment of provisioning for impairment losses.

The adjustments to the expected credit loss calculation process included, in particular, the previously described adjustments to the input parameters for the multi-year view of credit losses and the inclusion of forward-looking macroeconomic information using multiple scenarios. In addition, specific processes have been developed for targeted group coordination and application of forward-looking macroeconomic information, in particular to coordinate and synchronise the management of those loans and receivables administered by multiple group entities.

4. Further topics from the IFRS 9 conversion

4.1. Contractual modifications

If, as part of renegotiations of loans and receivables, the contractual cash flows are changed, an assessment as to the significance of the change is required.

In the case of a non-significant change in the contractual cash flows, the gross carrying amount of the instrument is adjusted on the basis of a present value consideration of the new contractual cash flows, discounted at the original effective interest rate. The difference between the old gross book value and the new gross book value after the renegotiation is recognised in profit or loss, taking into account the impact on expected credit losses, as a change in gain or loss.

In this context, changes in the contractual cash flows triggered by changes in the original contract or by (simultaneous) conclusion of a new contract are significant if the contractual right to cash flows is thereby transferred to the new contract. The contractual right to cash flows expires in particular if the renegotiations lead to changes in the classification of the instrument or result in a change in the credit currency.

Notes (CONTINUED)

4.2. Instruments with credit standing already impaired in access (“POCI”)

Loans and receivables measured at amortised cost or at fair value through profit or loss and classified as distressed at the date of acquisition have to be classified as impaired or credit impaired (“Purchased or Originated Credit Impaired” – “POCI”) instruments.

For these financial assets, the effective interest rate and the interest received are to be applied to the amortised cost of the financial asset. Thus, the expected credit losses are taken into account over the entire remaining term. Expected credit losses are to be reassessed on an ongoing basis in order to record positive and negative changes in the impairment requirement.

Instruments with impaired creditworthiness upon initial recognition are assigned to Level 3. If the quality of the credit risk improves over the lifetime of the instrument and the instrument is no longer classified as non-performing, it will be transferred to Level 2. However, a transfer into Level 1 is not possible for these instruments, as the credit risk provisions to be recognised must be taken into account taking into account the total residual maturity.

In addition, within Bank Austria, those instruments are classified as instruments with impaired creditworthiness (“POCI”) whose contractual cash flows are significantly changed as part of restructuring or the renegotiation of impaired instruments.

5. Impact on regulatory capital

In the following summary table, the capital adequacy figures as at 1 January 2018, taking into account IFRS 9, are compared with the IAS 39 values published as at 31 December 2017:

(€ million)

	1 JAN. 2018 ¹⁾ (IFRS 9)		31 DEC. 2017 ADJUSTED ²⁾ (IAS 39)	
	UNWEIGHTED ASSETS	WEIGHTED ASSETS/ REQUIREMENTS	UNWEIGHTED ASSETS	WEIGHTED ASSETS/ REQUIREMENTS
A. RISK ASSETS				
A1. Credit and counterparty risk	114,981	29,679	114,978	29,677
1. Standard approach	42,642	8,751	42,668	8,779
2. IRB approach	71,137	20,803	71,109	20,772
3. Securitizations	1,153	122	1,153	123
4. CCP	48	3	48	3
B. CAPITAL REQUIREMENTS				
B1. Credit and counterparty risk		2,374		2,374
B2. Credit valuation adjustment risk		2		2
B3. Settlement risk		0		0
B4. Market risk		24		24
1. Standard approach		2		2
2. Internal model		22		22
3. Concentration risk		–		–
B5. Operational risk		256		256
1. Basic indicator approach		–		–
2. Traditional standardized approach		54		54
3. Advanced measurement approach		201		201
B.6 Other calculation elements				
B.7 Total capital requirements		2,656		2,656
C. RISK ASSETS AND CAPITAL RATIO				
C.1 Risk weighted assets		33,205		33,203
C.2 Common equity Tier 1 Capital/Risk weighted assets (CET1 capital ratio) ³⁾		19.6%		19.6%
C.3 Tier 1 Capital/Risk weighted assets (Tier 1 capital ratio) ³⁾		19.6%		19.6%
C.4 Total Own Funds/Risk weighted assets (Total capital ratio) ³⁾		22.2%		22.2%

1) Recast to reflect the first-time adoption of IFRS 9 and the adjustment in the social capital

2) figures as at 31/12/2017 including adjustment in the social capital

3) based on all risks

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

On 8 December 2016 the IASB issued IFRIC 22, which clarified the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation came into force on 1 January 2018 and the adoption of the standard into EU law took place in the first quarter of 2018. The Interpretation has no significant effects on the Group as it is of relevance only for advance payments in a foreign currency for non-monetary items.

Notes (CONTINUED)

Amendments to IAS 40 Investment Property

On 8 December 2016 the IASB also issued amendments to IAS 40 which contain clarifications with regard to cases where the classification as “investment property” may be changed, especially if property is under construction. The interpretation came into force on 1 January 2018 and the adoption of the standard into EU law took place in the first quarter of 2018. The impact on the group is negligible.

Amendments to IFRS 2 Share-based Payment

On 20 June 2016 the IASB issued amendments relating to IFRS 2 to clarify the classification and measurement of share-based payment transactions. These amendments include clarifications of the treatment of vesting conditions for cash-settled share-based payment transactions and a clarification concerning modifications of such payment transactions from cash-settled to equity-settled. The amendments are effective for financial years beginning on or after 1 January 2018. Earlier application is permitted. The adoption of the standard into EU law took place in the first quarter of 2018. The changes have no material effect.

Amendments resulting from “Annual Improvements to IFRS (2014–2016 Cycle)”

On 8 December 2016 the IASB issued amendments under the Annual Improvements to IFRS project. These amendments relate to the deletion of exemptions in IAS 1 which are no longer relevant, a clarification of disclosure requirements in accordance with IFRS information regarding the Disclosure of Interests in Other Entities and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, and clarifications with regard to the election by certain investment companies to measure at fair value certain equity investments in accordance with IAS 28 Investments in Associates and Joint Ventures. The adoption of the standard into EU law took place in the first quarter of 2018. The impact on the Group is limited to case-related individual cases when applying IFRS 5.

Amendments to IFRS 4 Insurance Contracts

On 12 September 2016 the IASB issued amendments to IFRS 4, the existing standard regarding insurance contracts. The objective of the amendments is to reduce the effects resulting from different dates of first-time application of IFRS 9 and IFRS 17, the Standard which will supersede IFRS 4, primarily for companies with extensive insurance activities. The adoption of the standard into EU law took place in November 2017. This has no effect on Bank Austria.

IFRS 15 Revenue from Contracts with Customers (entry into force 1 January 2018)

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. All IFRS users are required to apply IFRS 15, which applies to almost all contracts with customers; the main exceptions are lease contracts, financial instruments and insurance contracts. The IASB deferred the date of first-time mandatory application to 1 January 2018. On 12 April 2016 it issued clarifications concerning various requirements of IFRS 15 and providing additional transition relief for companies implementing the new Standard. IFRS 15 was endorsed by the EU in September 2016; the clarifications were endorsed in October 2017. At Bank Austria, net fee and commission income falls within the scope of IFRS 15. There are no relevant effects with regard to the allocation of income to the individual periods or items in the income statement. The first-time application of IFRS 15 has no significant impact on Bank Austria.

New and amended financial reporting standards not yet adopted by the Group

IFRS 16 Leases (entry into force 1 January 2019)

The main idea behind the IFRS 16 Standard is to recognise in the lessee’s statement of financial position all leases and the related contractual rights and obligations. In the future the lessee will not need to make a distinction between finance leases and operating leases, which has so far been required under IAS 17. The new regulations are mandatory for financial years ending on or after 1 January 2019 when they will begin to be applied and replace IAS 17 leases and related interpretations. Earlier application is permitted if IFRS 15 is also applied. The adoption of the standard into EU law took place in October 2017.

Taking into account the number of leases within Bank Austria, the application of IFRS 16 will result in an increase in assets and liabilities resulting from the recognition of rights of use and related lease liabilities.

Notes (CONTINUED)

Amendments to IFRS 9: Prepayment arrangements with negative compensation (published on 12 October 2017)

On 12 October 2017, the IASB issued prepayment rules with negative compensation (amendments to IFRS 9). For financial instruments that include a prepayment amount that results in negative compensation, the proposed amendment provides that if B4.1.11 (b) and B4.1.12 (b) of IFRS 9 are applied, such an asset will be carried at amortised cost, depending on the business model allocation or at fair value in other comprehensive income. As a result, paragraphs B4.1.11 (b) and B4.1.12 (b) of IFRS 9 (as issued in 2014) have been amended to allow appropriate mitigation of negative premature termination benefits.

The amendment is effective for annual periods beginning on or after 1 January 2019, one year after the first application of IFRS 9. Earlier application is permitted, meaning that the standard adjustment can be considered as part of the first-time adoption of IFRS 9. However, for companies in the EU, early adoption is dependent on the endorsement.

Information on fair value

This section presents a disclosure of reclassified financial instruments according to IAS 39 and information on fair value as required by IFRS 13.

The determination of the fair values for the various holdings of financial instruments in the consolidated financial statements was disclosed in detail as at 31 December 2017 and remains valid.

The following tables show a breakdown of financial assets and liabilities designated at fair value, as well as the annual changes of Level 3 assets or liabilities.

Accounting portfolios at fair value – Breakdown by fair value levels

(€ million)

	30 JUNE 2018 IFRS 9			31 DEC. 2017 IAS 39		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial assets at fair value through profit or loss	7	1,497	737			
Financial assets held for trading	–	758	20	–	977	31
Financial assets designated at fair value	–	–	–	–	–	–
Financial assets mandatorily at fair value	7	739	718	–	–	–
Financial assets at fair value through other comprehensive income	13,517	1,570	117	–	–	–
Financial assets at fair value through P&L (IAS 39)	–	–	–	–	–	6
Available-for-sale financial assets (IAS 39)	–	–	–	13,678	1,238	97
Hedging derivatives	–	1,686	3	–	2,082	2
Property, plant and equipment	–	–	13	–	–	14
Intangible assets	–	–	–	–	–	–
TOTAL	13,524	4,753	871	13,678	4,297	150
Financial liabilities held for trading	–	777	6	–	1,000	4
Financial liabilities designated at fair value	–	245	1	–	299	2
Hedging derivatives	–	1,443	–	–	1,655	–
TOTAL	–	2,465	8	–	2,954	6

Notes (CONTINUED)

In the first half year 2018, there were no transfers from Level 1 or Level 2 for financial assets or for financial liabilities valued at fair value.

Assets valued at fair value: Sensitivity Analysis Fair Value Level 3

The sensitivity analysis for recurring fair value level 3 positions in relation to the unobservable model input factor is based on the following categories of model input factors:

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 used.

Equity (EQ): in the absence of active markets, approximate values are used.

The reasonable alternative estimate for the model input is disclosed in the column "Range".

The sensitivity analysis for Bank Austria shows that the key level 3 positions are equities, equity funds and stock options, which are mainly recorded in the banking book.

Notes (CONTINUED)

Consolidated companies and changes in consolidated companies of the Bank Austria Group in the first half of 2018

	CONSOLIDATED COMPANIES	COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD	TOTAL
Opening balance	248	21	269
Additions	0	0	0
Newly established companies	0	0	0
Other changes	0	0	0
changes of consolidation method	0	0	0
Disposals	-10	-1	-11
Companies sold or liquidated	-6	-1	-7
Mergers	0	0	0
changes of consolidation method	-4	0	-4
CLOSING BALANCE	238	20	258

The number of Bank Austria companies declined from 269 to 258 in the first half of the year.

In the 2018 financial year no companies were founded or acquired.

The scope of consolidation decreased due to sales, liquidations and de-consolidations due to immateriality.

The following de-consolidations have been carried out so far in 2018:

CONSOLIDATED COMPANIES
BA BETRIEBSOBJEKTE PRAHA, SPOL.S.R.O.
Garage Am Hof Gesellschaft m. b. H.
HVB-Leasing Rubin Kft.
IVONA Beteiligungsverwaltung GmbH
"JOHA" GEBÄUDE-ERRICHTUNGS- UND -VERMIETUNGSGESELLSCHAFT M. B. H. IN LIQU.
MARTIANEZ COMERCIAL, SOCIEDAD ANONIMA
RAMSES IMMOBILIEN GESELLSCHAFT M. B. H. & CO OG
Treuconsult Property Epsilon GmbH
UNO-EINKAUFSZENTRUM-VERWALTUNGSGESELLSCHAFT M. B. H.
Wohnpark Brandenburg-Görden GmbH
COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD
OBJEKT-LEASE GRUNDSTÜCKSVERWALTUNGS-GESELLSCHAFT M. B. H.

Notes to the income statement

Interest income/interest expense

Interest income and similar revenues

(€ million)

	1 JAN. – 30 JUNE 2018			1 JAN. – 30 JUNE 2017
	DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	TOTAL
Financial assets at fair value through profit or loss	1	26	–	27
Financial assets held for trading	–	–	–	–
Financial assets designated at fair value	–	–	–	–
Other financial assets mandatorily at fair value	1	26	–	27
Financial assets at fair value through other comprehensive income	91	–	X	91
Financial assets at fair value through profit or loss	–	–	–	–
Available-for-sale financial assets	–	–	–	102
Held-to-maturity investments	–	–	–	2
Financial assets at amortised cost	2	507	X	509
Loans and advances to banks	–	22	X	22
Loans and advances to customers	2	484	X	487
Hedging derivatives	X	X	79	79
Other assets	X	X	6	6
Other financial liabilities	X	X	X	28
TOTAL	95	533	86	777

Interest expense and similar charges

(€ million)

	1 JAN. – 30 JUNE 2018			1 JAN. – 30 JUNE 2017
	DEPOSITS	SECURITIES	OTHER TRANSACTIONS	TOTAL
Financial liabilities at amortised cost	–104	–147	X	–251
Deposits from central banks	–1	X	X	–6
Deposits from banks	–53	X	X	–57
Deposits from customers	–50	X	X	–55
Debt securities in issue	X	–147	X	–176
Financial liabilities held for trading	–	–	–1	–1
Financial liabilities designated at fair value through profit or loss	–	–1	–	–1
Other liabilities and funds	X	X	–1	–1
Hedging derivatives	X	X	–	–
Financial assets	X	X	X	–10
TOTAL	–104	–147	–3	–265

Notes to the income statement (CONTINUED)

Fee and commission income/Fee and commission expense

Fee and commission income

(€ million)

	1 JAN. – 30 JUNE 2018	1 JAN. – 30 JUNE 2017
Guarantees given	19	21
Credit derivatives	1	1
Management, brokerage and consultancy services	182	186
Collection and payment services	47	58
Securitisation servicing	–	–
Factoring	1	2
Tax collection services	–	–
Management of multilateral trading facilities	–	–
Management of current accounts	67	68
Other services	133	116
TOTAL	450	452

Fee and commission expense

(€ million)

	1 JAN. – 30 JUNE 2018	1 JAN. – 30 JUNE 2017
Guarantees received	–7	–10
Credit derivatives	–	–
Management, brokerage and consultancy services	–29	–34
Collection and payment services	–56	–55
Other services	–3	–1
TOTAL	–95	–100

Notes to the income statement (CONTINUED)

Dividend income and similar revenue

(€ million)

	1 JAN. – 30 JUNE 2018	
	DIVIDENDS	SIMILAR REVENUES
Financial assets held for trading	–	–
Other financial assets mandatorily at fair value	–	–
Financial assets at fair value through other comprehensive income	3	–
Equity investments	–	–
TOTAL	3	–

(€ million)

	1 JAN. – 30 JUNE 2017		
	DIVIDENDS	INCOME FROM UNITS IN INVESTMENT FUNDS	TOTAL
Financial assets held for trading	–	–	–
Available-for-sale financial assets	1	8	9
Financial assets at fair value through profit or loss	–	–	–
Investments	–	X	–
TOTAL	1	8	9

Gains and losses on financial assets and liabilities held for trading

(€ million)

	1 JAN. – 30 JUNE 2018				1 JAN. – 30 JUNE 2017	
	UNREALISED PROFITS	REALISED PROFITS	UNREALISED LOSSES	REALISED LOSSES	NET PROFIT	NET PROFIT
Financial assets held for trading	1	–	–	–	1	3
Debt securities	–	–	–	–	–	1
Equity instruments	–	–	–	–	–	–
Units in investment funds	–	–	–	–	–	–
Loans	–	–	–	–	–	–
Other	1	–	–	–	1	2
Financial liabilities held for trading	1	–	–	–1	–	–
Debt securities	–	–	–	–	–	–
Deposits	–	–	–	–	–	–
Other	1	–	–	–1	–	–
Financial assets and liabilities: exchange differences	X	X	X	X	13	20
Derivatives	34	–	–	–	35	15
Financial derivatives	34	–	–	–	34	15
- On debt securities and interest rates	34	–	–	–	34	15
- On equity securities and share indices	–	–	–	–	–	–
- On currency and gold	X	X	X	X	–	–
- Other	–	–	–	–	–	–
Credit derivatives	–	–	–	–	–	–
TOTAL	36	–	–	–1	48	38

Notes to the income statement (CONTINUED)

Fair value adjustments in hedge accounting

(€ million)

	1 JAN. – 30 JUNE 2018	1 JAN. – 30 JUNE 2017
Gains on		
Fair value hedging instruments	310	244
Hedged financial assets (in fair value hedge relationship)	68	75
Hedged financial liabilities (in fair value hedge relationship)	–	–
Cash-flow hedging derivatives	–	–
Assets and liabilities denominated in currency	–	–
Total gains on hedging activities	378	319
Losses on		
Fair value hedging instruments	–334	–323
Hedged financial assets (in fair value hedge relationship)	–	–
Hedged financial liabilities (in fair value hedge relationship)	–44	2
Cash-flow hedging derivatives	–	–
Assets and liabilities denominated in currency	–	–
Total losses on hedging activities	–379	–321
NET HEDGING RESULT	–1	–2

Gains and losses on disposals/repurchases of financial assets and financial liabilities

(€ million)

	1 JAN. – 30 JUNE 2018			1 JAN. – 30 JUNE 2017		
	GAINS	LOSSES	NET PROFIT	GAINS	LOSSES	NET PROFIT
Financial assets						
Financial assets at amortised cost	–	–	–	–	–	–
Loans and advances to banks	–	–	–	–	–	–
Loans and advances to customers	–	–	–	–	–	–
Financial assets at fair value through other comprehensive income	6	–	6	–	–	–
Debt securities	6	–	6	–	–	–
Loans	–	–	–	–	–	–
Available-for-sale financial assets (IAS 39)	–	–	–	7	–3	4
Debt securities	–	–	–	7	–3	4
Equity instruments	–	–	–	–	–	–
Units in investment funds	–	–	–	–	–	–
Loans	–	–	–	–	–	–
Held-to-maturity investments (IAS 39)	–	–	–	–	–	–
TOTAL ASSETS	6	–	6	7	–3	4
Financial liabilities at amortised cost						
Deposits from banks	–	–	–	–	–	–
Deposits from customers	–	–	–	–	–	–
Debt securities in issue	–	–	–	–	–5	–5
TOTAL LIABILITIES	–	–	–	–	–5	–5
TOTAL FINANCIAL ASSETS AND LIABILITIES			6			–1

Notes to the income statement (CONTINUED)

Gains and losses on financial assets and liabilities designated at fair value through profit or loss

(€ million)

	1 JAN. – 30 JUNE 2018				NET PROFIT
	UNREALISED PROFITS	REALISED PROFITS	UNREALISED LOSSES	REALISED LOSSES	
Financial assets	–	–	–	–	–
Debt securities	–	–	–	–	–
Loans	–	–	–	–	–
Financial liabilities	6	–	–4	–	2
Debt securities	5	–	–	–	5
Deposits from banks	–	–	–4	–	–4
Deposits from customers	–	–	–	–	–
Financial assets and liabilities in foreign currency: exchange differences	X	X	X	X	–
TOTAL	6	–	–4	–	2

Gains and losses from financial assets mandatorily at fair value through profit or loss

(€ million)

	1 JAN. – 30 JUNE 2018				NET PROFIT
	UNREALISED PROFITS	REALISED PROFITS	UNREALISED LOSSES	REALISED LOSSES	
Financial assets	27	1	–12	–	16
Debt securities	–	–	–1	–	–1
Equity securities	9	–	–	–	9
Units in investment funds	9	1	–4	–	6
Loans	9	–	–6	–	2
Financial assets: exchange differences	X	X	X	X	–
TOTAL	27	1	–12	–	16

Gains and losses from financial assets and liabilities at fair value through profit or loss (IAS 39)

(€ million)

	1 JAN. – 30 JUNE 2017				NET PROFIT
	UNREALISED PROFITS	REALISED PROFITS	UNREALISED LOSSES	REALISED LOSSES	
Financial assets	–	–	–	–	–
Debt securities	–	–	–	–	–
Equity securities	–	–	–	–	–
Units investment funds	–	–	–	–	–
Loans	–	–	–	–	–
Financial liabilities	–	–	–7	–1	–7
Debt securities	–	–	–7	–1	–7
Deposits from banks	–	–	–	–	–
Deposits from customers	–	–	–	–	–
Credit and financial derivatives	11	–	–3	–	8
TOTAL	11	–	–10	–1	1

Notes to the income statement (CONTINUED)

Impairments

Impairments on financial assets at amortized cost

(€ million)

	1 JAN. –30 JUNE 2018					TOTAL
	WRITE-DOWNS			WRITE-BACKS		
	LEVEL 1 AND LEVEL 2	LEVEL 3		LEVEL 1 AND LEVEL 2	LEVEL 3	
		WRITE-OFF	OTHER			
Loans and advances to banks	–	–	–	4	–	3
Loans	–	–	–	2	–	1
Debt securities	–	–	–	2	–	2
<i>of which: impaired related to purchase agreements</i>	–	–	–	–	–	–
Loans and advances to customers	–101	–16	–75	158	115	81
Loans	–101	–16	–75	144	115	67
Debt securities	–	–	–	15	–	14
<i>of which: impaired related to purchase agreements</i>	–	–	–	–	–	–
TOTAL	–101	–16	–75	162	115	85

Impairments (IAS 39)

(€ million)

	1 JAN. –30 JUNE 2017					TOTAL
	WRITE-DOWNS			WRITE-BACKS		
	SPECIFIC			SPECIFIC	PORTFOLIO	
	WRITE-OFFS	OTHER	PORTFOLIO			
Impairment losses on loans and receivables	–8	–81	–5	141	42	89
Loans to banks	–	–	–	–	–	–
Loans to customers	–8	–81	–5	141	42	89
Impairment losses on available-for-sale financial assets	–	–	X	–	X	–
Debt securities	–	–	X	–	X	–
Equity instruments	–	–	X	–	X	–
Units in investment funds	–	–	X	–	X	–
Impairment losses on held-to-maturity investments	–	–	–	6	–	6
Debt securities	–	–	–	6	–	6
Impairment losses on other financial transactions	–	–19	–	22	6	9
Guarantees given	–	–7	–	12	1	6
Credit derivatives	–	–	–	–	–	–
Commitments to disburse funds	–	–12	–	10	5	3
Other transactions	–	–	–	–	–	–
TOTAL	–8	–100	–5	169	48	104

Notes to the income statement (CONTINUED)

Staff expenses

(€ million)

	1 JAN. – 30 JUNE 2018	1 JAN. – 30 JUNE 2017
Employees	-325	-344
Wages and salaries	-248	-276
Social charges	-62	-75
Provision for retirements and similar provisions	-38	-37
- <i>Defined contribution</i>	-	-
- <i>Defined benefit</i>	-38	-37
Payments to external pension funds	-7	-8
- <i>Defined contribution</i>	-6	-8
- <i>Defined benefit</i>	-1	-
Costs related to share-based payments	-1	-1
Other employee benefits	-20	-8
Recovery payments seconded employees *)	51	62
Other staff	-5	-5
TOTAL	-330	-349

*) This includes recovery of staff costs relating to Bank Austria employees who are not active within the Group.

Other administrative expenses

(€ million)

	1 JAN. – 30 JUNE 2018	1 JAN. – 30 JUNE 2017
Indirect taxes and duties	-48	-57
Contributions to Resolution Funds and Deposit Guarantee Schemes (DGS)	-60	-56
Miscellaneous costs and expenses	-294	-300
TOTAL	-402	-413

Notes to the income statement (CONTINUED)

Provisions for loan commitments and financial guarantees given

(€ million)

	1 JAN. – 30 JUNE 2018		TOTAL
	PROVISIONS	REALLOCATION SURPLUS	
Loan commitments	-18	29	11
Financial guarantees given	-10	18	8
TOTAL	-28	47	19

Provisions for risk and charges

(€ million)

	1 JAN. – 30 JUNE 2018			1 JAN. – 30 JUNE 2017
	PROVISIONS	REALLOCATION SURPLUS	TOTAL	TOTAL
Other provisions				
Legal disputes	-1	1	-	12
Staff costs	-	-	-	-
Other	-	-	-	-
TOTAL	-1	1	-	12

Other net operating income

Other operating expenses

(€ million)

	1 JAN. – 30 JUNE 2018	1 JAN. – 30 JUNE 2017
Costs for operating leases	-	-
Non-deductible tax and other fiscal charges	-	-
Write-downs on leasehold improvements	-6	-6
Costs related to the specific service of financial leasing	-	-1
Other	-12	-20
TOTAL OTHER OPERATING EXPENSES	-19	-27

Other operating income

(€ million)

	1 JAN. – 30 JUNE 2018	1 JAN. – 30 JUNE 2017
Recovery of costs	-	-
Other revenues	61	85
Revenues from administrative services	16	23
Revenues on rentals Real Estate investments (net of operating direct costs)	5	3
Revenues from operating leases	20	15
Recovery of miscellaneous costs paid in previous years	5	4
Revenues on Financial Leases activities	-	-
Others	15	40
TOTAL OPERATING INCOME	61	85

Notes to the income statement (CONTINUED)

Gains and losses on disposal of investments

(€ million)

	1 JAN. – 30 JUNE 2018	1 JAN. – 30 JUNE 2017
Property		
Gains on disposal	14	1
Losses on disposal	–	–
Other assets		
Gains on disposal	–	3
Losses on disposal	–1	–
Equity investments		
Gains on disposal	18	–
Losses on disposal	–3	–
TOTAL	28	4

Total profit or loss after tax from discontinued operations

(€ million)

	1 JAN. – 30 JUNE 2018	1 JAN. – 30 JUNE 2017
Income	8	43
Expense	–13	–24
Gains and losses from valuations of the group of assets and associated liabilities	–	–
revaluations	–	–
depreciation	–	–
Realised gains (losses)	21	54
Realised gains	21	55
Losses gains	–	–1
Tax expenses	–2	–15
PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	14	58

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 (231.2 million shares).

Notes to the statement of financial position

Assets held for trading

(€ million)

	30 JUNE 2018			31 DEC. 2017		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial assets (non-derivatives)						
Debt securities	–	1	–	–	2	–
<i>Structured securities</i>	–	–	–	–	–	–
<i>Other debt securities</i>	–	1	–	–	2	–
Equity instruments	–	–	–	–	–	–
Units in investment funds	–	–	–	–	–	–
Loans	–	–	–	–	–	–
<i>Reverse Repos</i>	–	–	–	–	–	–
<i>Other</i>	–	–	–	–	–	–
Total (non-derivatives)	–	1	–	–	2	–
Derivative instruments						
Financial derivatives	–	757	19	–	975	29
<i>Trading</i>	–	624	2	–	–	–
<i>Related to fair value option</i>	–	133	17	–	–	–
<i>Other</i>	–	–	–	–	–	–
Credit derivatives	–	–	–	–	–	2
<i>Trading</i>	–	–	–	–	–	–
<i>Related to fair value option</i>	–	–	–	–	–	–
<i>Other</i>	–	–	–	–	–	–
Total (derivatives)	–	757	19	–	975	31
TOTAL	–	758	20	–	977	31
Total Level 1, Level 2 and Level 3			777			1,008

Financial assets mandatorily at fair value

(€ million)

	30 JUNE 2018		
	LEVEL 1	LEVEL 2	LEVEL 3
Debt securities	–	123	–
<i>Structured securities</i>	–	–	–
<i>Other debt securities</i>	–	123	–
Equity instruments	–	–	36
Units in investment funds	7	–	23
Loans	–	616	658
<i>Structured</i>	–	–	–
<i>Other</i>	–	616	658
TOTAL	7	739	718
Total Level 1, Level 2 and Level 3			1,465

Financial assets at fair value through other comprehensive income

(€ million)

	30 JUNE 2018		
	LEVEL 1	LEVEL 2	LEVEL 3
Debt securities	13,517	1,544	41
<i>Structured securities</i>	–	–	–
<i>Other</i>	13,517	1,544	41
Equity instruments	–	25	76
Loans	–	–	–
TOTAL	13,517	1,570	117
Total Level 1, Level 2 and Level 3			15,203

Notes to the statement of financial position (CONTINUED)

Financial assets at fair value through profit or loss (IAS 39)

(€ million)

	31 DEC. 2017			TOTAL
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	
Debt securities	–	–	–	–
Equity instruments	–	–	–	–
Units in investment funds	–	–	6	6
Loans	–	–	–	–
TOTAL	–	–	6	6
COST	–	–	6	6

Available-for-sale financial assets (IAS 39)

(€ million)

	31 DEC. 2017			TOTAL
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	
Debt securities	13,677	1,202	49	14,928
<i>Structured securities</i>	–	–	15	15
<i>Other</i>	13,677	1,202	34	14,913
Equity instruments	–	36	72	108
<i>Measured at fair value</i>	–	36	48	84
<i>Carried at cost</i>	–	–	24	24
Units in investment funds	–	1	20	21
TOTAL	13,677	1,239	141	15,057

Held-to-maturity investments (IAS 39)

(€ million)

	31 DEC. 2017				
	BOOK VALUE	FAIR VALUE	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3
Debt securities	216	219	3	179	37
Loans	–	–	–	–	–
TOTAL	216	219	3	179	37

Notes to the statement of financial position (CONTINUED)

Financial assets at amortized cost

a) Loans and receivables with banks

(€ million)

	30 JUNE 2018			31 DEC. 2017
	BOOK VALUE			BOOK VALUE
	STAGE 1 AND STAGE 2	STAGE 3	OF WHICH: PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS	
Loans to Central Banks	1,589	–	–	8,366
Time deposits	–	–	–	X
Compulsory reserves	1,587	–	–	8,364
Reverse Repos	–	–	–	X
Other	2	–	–	2
Loans to Banks	15,568	–	–	11,322
Loans	15,068	–	–	10,572
Current accounts and demand deposits	1,138	–	–	654
Time deposits	8,487	–	–	7,541
Other loans	5,443	–	–	2,377
Reverse Repos	4,301	–	–	1,037
Finance leases	–	–	–	–
Other	1,142	–	–	1,340
Debt securities	500	–	–	750
Structured instruments	–	–	–	–
Other instruments	500	–	–	–
TOTAL (BOOK VALUE)	17,157	–	–	19,688
TOTAL (FAIR VALUE)	17,279	–	–	19,758
Fair value – Level 1	–	–	–	–
Fair value – Level 2	1,862	–	–	11,022
Fair value – Level 3	15,417	–	–	8,736

b) Loans and receivables with customers

(€ million)

	30 JUNE 2018			31 DEC. 2017
	BOOK VALUE			BOOK VALUE
	STAGE 1 AND STAGE 2	STAGE 3	OF WHICH: PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS	
Loans	58,496	1,021	–	59,847
Current accounts	6,300	–	–	7,013
Reverse Repos	–	–	–	–
Mortgages	11,278	18	–	12,352
Credit cards and personal loans, including wage assignment loans	992	45	–	976
Finance leases	2,345	103	–	2,477
Factoring	1,420	5	–	1,479
Other transactions	36,161	850	–	35,550
Debt securities	337	18	–	185
Structured securities	–	–	–	–
Other debt securities	337	18	–	–
TOTAL (BOOK VALUE)	58,833	1,039	–	60,032
TOTAL (FAIR VALUE)	60,353	–	–	60,320
Fair value – Level 1	3	–	–	–
Fair value – Level 2	28,946	–	–	22,422
Fair value – Level 3	31,404	–	–	37,898

Notes to the statement of financial position (CONTINUED)

Assets and disposal groups classified as held for sale

(€ million)

	30 JUNE 2018	31 DEC. 2017
Assets available for sale		
Financial assets	–	1
Equity investments	16	–
Property, Plant and Equipment	170	233
Intangible assets	–	–
Other non-current assets	–	3
Total	186	237
<i>of which: carried at cost</i>	<i>77</i>	<i>169</i>
<i>of which: designated at fair value – level 1</i>	<i>–</i>	<i>–</i>
<i>of which: designated at fair value – level 2</i>	<i>–</i>	<i>–</i>
<i>of which: designated at fair value – level 3</i>	<i>109</i>	<i>68</i>
Discontinued operations		
Financial assets at fair value through profit and loss	–	–
Financial assets held for trading	–	–
Financial assets designed at fair value	–	–
Other financial assets mandatorily at fair value	–	–
Financial assets at fair value through other comprehensive income	–	–
Financial assets at amortised cost	–	–
<i>Financial assets designated at FV (IAS 39)</i>	<i>–</i>	<i>–</i>
<i>Available-for-sale financial assets (IAS 39)</i>	<i>–</i>	<i>–</i>
<i>Held to maturity investments (IAS 39)</i>	<i>–</i>	<i>–</i>
<i>Loans and receivables with banks (IAS 39)</i>	<i>–</i>	<i>–</i>
<i>Loans and receivables with customers (IAS 39)</i>	<i>–</i>	<i>–</i>
Equity investments	–	–
Property, Plant and Equipment	–	–
Intangible assets	–	–
Other assets	57	93
Total	57	93
<i>of which: carried at cost</i>	<i>–</i>	<i>–</i>
<i>of which: designated at fair value – level 1</i>	<i>–</i>	<i>–</i>
<i>of which: designated at fair value – level 2</i>	<i>–</i>	<i>–</i>
<i>of which: designated at fair value – level 3</i>	<i>57</i>	<i>93</i>
Total (Assets available-for-sale and discontinued operations)	244	330

This balance sheet item contains individual assets and groups of assets, the sale of which is highly probable. They are recognised at the lower of their carrying amount and fair value less costs to sell and reported in a separate item in the consolidated financial statements.

Individual assets

This item mainly comprises the company Lassallestraße Bau-, Planungs-, Erricht.- u. Verw.ges.m.b.H. (€ 109 million) as well as individual assets of Zapadni Trgovacki Centar d.o.o. (€ 56 million).

Discontinued operations

Most of the assets held for sale are attributable to Immobilien Holding GmbH (€ 43 million).

Notes to the statement of financial position (CONTINUED)

Deposits from banks

(€ million)

	30 JUNE 2018	31 DEC. 2017
	BOOK VALUE	BOOK VALUE
Deposits from central banks	4,047	4,050
Deposits from banks	10,720	11,076
Current accounts and demand deposits	1,222	1,618
Time deposits	8,789	2,012
Loans	84	7,009
Repos	84	120
Other *)	–	6,890
Liabilities relating to commitments to repurchase treasury shares	–	–
Other liabilities	626	437
Total (Book value)	14,767	15,126
Total (Fair value)	14,778	15,237
Fair value – Level 1	–	–
Fair value – Level 2	7,110	7,517
Fair value – Level 3	7,668	7,720

*) In 2018, deposits at sight are shown in item Time deposits (previous year: item "Other")

Deposits from customers

(€ million)

	30 JUNE 2018	31 DEC. 2017
	BOOK VALUE	BOOK VALUE
Current accounts and demand deposits	47,706	41,306
Time deposits	7,435	7,525
Loans	762	6,581
Repos	756	832
Other *)	6	5,749
Liabilities relating to commitments to repurchase treasury shares	–	–
Other liabilities	22	52
Total (Book value)	55,925	55,463
Total (Fair value)	56,146	55,790
Fair value – Level 1	–	–
Fair value – Level 2	739	1,892
Fair value – Level 3	55,407	53,898

*) In 2018, sight deposits are shown in item Current accounts and demand deposits (previous year: item "Other")

Notes to the statement of financial position (CONTINUED)

Debt securities

(€ million)

	30 JUNE 2018				31 DEC. 2017			
	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
Debt securities								
Bonds	13,196	6,527	6,755	122	14,575	6,983	7,995	–
<i>Structured</i>	708	–	695	–	721	–	720	–
<i>Other</i>	12,487	6,527	6,060	122	13,854	6,983	7,275	–
Other securities	148	–	146	–	148	–	148	–
<i>Structured</i>	–	–	–	–	–	–	–	–
<i>Other</i>	148	–	146	–	148	–	148	–
TOTAL	13,343	6,527	6,901	122	14,722	6,983	8,143	–
Total Level 1, Level 2 and Level 3				13,550				15,126

Financial liabilities held for trading

(€ million)

	30 JUNE 2018		
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3
Total financial liabilities	–	–	–
Derivative instruments			
Financial derivatives	–	777	3
Trading	–	652	2
Related to fair value option	–	125	1
Other	–	–	–
Credit derivatives	–	–	3
Trading derivatives	–	–	–
Related to fair value option	–	–	3
Other	–	–	–
Total Derivative instruments	–	777	6
TOTAL	–	777	6
Total Level 1, Level 2 and Level 3			783

Financial liabilities held for trading (IAS 39)

(€ million)

	31 DEC. 2017			TOTAL
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	
Financial liabilities	–	–	–	–
Derivative instruments	–	1,000	4	1,004
Financial derivatives	–	1,000	3	1,003
Credit derivatives	–	–	1	1
TOTAL	–	1,000	4	1,004

Notes to the statement of financial position (CONTINUED)

Financial liabilities designated at fair value through profit or loss

(€ million)

	30 JUNE 2018			
	NOMINAL VALUE	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3
Deposits from banks	13	–	–	1
Structured	–	–	–	–
Other	13	–	–	1
Deposits from customers	–	–	–	–
Structured	–	–	–	–
Other	–	–	–	–
Bonds	201	–	245	–
Structured	201	–	245	–
Other	–	–	–	–
TOTAL	214	–	245	1
Total Level 1, Level 2 and Level 3				246

Financial liabilities designated at fair value through profit or loss (IAS 39)

(€ million)

	31 DEC. 2017			TOTAL
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	
Deposits from banks	–	–	–	–
Deposits from customers	–	–	–	–
Bonds	–	300	1	301
Structured	–	300	–	300
Other	–	–	1	1
TOTAL	–	300	1	301

Notes to the statement of financial position (CONTINUED)

Liabilities included in disposal groups classified as held for sale

(€ million)

	30 JUNE 2018	31 DEC. 2017
Liabilities associated with assets classified as held for sale		
Deposits	–	–
Securities	–	–
Other liabilities	5	2
Total	5	2
<i>of which at cost</i>	–	2
<i>of which Fair Value Level 1</i>	–	–
<i>of which Fair Value Level 2</i>	2	–
<i>of which Fair Value Level 3</i>	2	–
Liabilities included in disposal groups classified as held for sale		
Financial liabilities at amortized cost	–	–
<i>Deposits from banks (IAS 39)</i>	–	–
<i>Deposits from customers (IAS 39)</i>	–	–
<i>Debt securities in issue (IAS 39)</i>	–	–
Liabilities held for trading	–	–
Financial liabilities designated at fair value	–	–
Reserve	–	–
Other liabilities	47	54
Total	47	54
<i>of which at cost</i>	–	–
<i>of which Fair Value Level 1</i>	–	–
<i>of which Fair Value Level 2</i>	–	–
<i>of which Fair Value Level 3</i>	47	54
TOTAL	52	56

Provisions

(€ million)

	30 JUNE 2018	31 DEC. 2017 *)
Provisions for credit risk on commitments and financial guarantees given	161	–
Provisions for other commitments and other guarantees given	–	–
Pensions and other post-retirement benefit obligations	3,634	3,726
Other provisions for risks and charges	344	337
Legal and tax disputes	221	218
Staff expenses	40	42
Other	83	77
TOTAL	4,139	4,063

*) Adjustment in social capital

Segment reporting

The table on the following two pages presents the income statement in the format used for controlling purposes and permits a reconciliation to the interim results and key indicators used for segment reporting.

Reconciliation of reclassified accounts to mandatory reporting schedule

(€ million)

	1 JAN. – 30 JUNE 2018	1 JAN. – 30 JUNE 2017
Net interest	477	481
Dividends and other income from equity investments	67	76
<i>Dividend income and similar revenue</i>	3	9
<i>Profit (loss) on equity investments – of which: Profits (losses) of joint ventures and associates</i>	64	67
Net fees and commissions	355	352
Net trading, hedging and fair value income	71	36
<i>Gains (losses) on financial assets and liabilities held for trading</i>	48	38
<i>Gains (losses) on disposals/repurchases on OCI financial assets</i>	6	–
<i>Gains (losses) on disposals/repurchases on securities in issue</i>	0	–
<i>Fair value adjustments in hedge accounting</i>	–1	–2
<i>Gains (losses) on disposal and repurchase of available-for-sale financial assets</i>	–	4
<i>Gains (losses) on disposal or repurchase of financial liabilities</i>	–	–6
<i>Gains (losses) on financial liabilities designated at fair value through profit and loss</i>	2	1
<i>Gains (losses) on financial assets mandatorily at fair value through profit and loss</i>	16	
Net other expenses/income	33	51
<i>Other net operating income</i>	42	58
<i>plus: Impairment on tangible and intangible assets – other operating leases</i>	–15	–13
<i>less: Other operating expenses – amortization on leasehold improvements</i>	6	6
OPERATING INCOME	1,003	995
Payroll costs	–320	–349
<i>Administrative costs – staff expenses</i>	–330	–349
<i>less: Integration costs</i>	10	0
Other administrative expenses	–294	–306
<i>Administrative costs – other administrative expenses</i>	–402	–413
<i>less: Ex-ante contributions to resolution funds and deposit guarantee schemes and bank levies</i>	114	113
<i>plus: Other operating expenses – amortization on leasehold improvements</i>	–6	–6
Recovery of expenses = Other net operating income – of which: Operating income – recovery of costs	0	0
Amortisation, depreciation and impairment losses on intangible and tangible assets	–12	–14
<i>Impairment/Write-backs on property, plant and equipment</i>	–17	–25
<i>less: Impairment losses/Write-backs on property owned for investment</i>	3	1
<i>less: Impairment on tangible and intangible assets – other operating leases</i>	15	13
<i>less: Integration costs</i>	–13	0
<i>Impairment/Write-backs on intangible assets</i>	–1	–3
OPERATING COSTS	–626	–669
OPERATING PROFIT	377	326

Segment reporting (CONTINUED)

	1 JAN. – 30 JUNE 2018	1 JAN. – 30 JUNE 2017
Net writedowns on loans and provisions for guarantees and commitments	87	98
<i>Provisions for risks and charges reserves – Other commitments</i>	19	–
<i>Impairment losses/write-backs on impairment on loans</i>	68	89
<i>Impairment losses on other financial assets</i>	–	10
NET OPERATING PROFIT	464	425
Provisions for risk and charges	19	12
<i>Net provisions for risks and charges</i>	19	12
Systemic charges	–114	–113
<i>plus: Ex-ante contributions to resolution funds and deposit guarantee schemes and bank levies</i>	–114	–113
Integration/restructuring costs	3	0
Net income from investments	40	8
<i>Impairment losses on held-to-maturity investments</i>	–	6
<i>plus: Impairment losses/write-backs on property owned for investment</i>	–3	–1
<i>Profit (loss) on equity investments</i>	64	67
<i>less: Profits (losses) of associates – Profits (losses) of joint ventures and associates</i>	–64	–67
<i>Gains and losses on tangible and intangible assets</i>	–1	–1
<i>Gains (losses) on disposal of investments</i>	28	4
<i>Financial assets at amortised cost – Impairment losses/writebacks on impairment on debt securities</i>	17	–
PROFIT BEFORE TAX	393	331
Income tax for the period	–42	–25
Total profit or loss after tax from discontinued operations	14	58
PROFIT (LOSS) FOR THE PERIOD	365	364
Non-controlling interests	–11	–7
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	354	357

Segment reporting (CONTINUED)

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. 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.

In order to ensure comparability of 2018 data with 2017, adjustments at segment level were required in the prior-year periods. On the one hand, the reference interest rate system was further refined in line with market conditions. On the other hand, adjustments were made on the basis of IFRS9 and the cost allocation was changed on the basis of restructuring as part of the strategic realignment of Bank Austria (project BA Reloaded).

Segment reporting covers the following business segments (divisions):

Retail Banking

The "Private Customers" division consists of the previous customer segment "Retail", "Independent Professionals" and "Business Customers" (with an annual turnover of up to €3 million). Also included in Retail Banking are subsidiaries active in credit card business.

Corporate Banking

The Corporate Banking business segment covers customers with an annual turnover of over €3 million, Real Estate, the Public Sector customer segment, leasing business including subsidiaries, FactorBank, Wohnbaubank and the Bank Austria Real Invest Group.

Private Banking

Private Banking has responsibility for private banking customers with investments exceeding €500,000. Schoellerbank AG and various other smaller subsidiaries are also included in the Private Banking business segment.

Corporate & Investment Banking (CIB)

The Corporate & Investment Banking business 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 also support commercial banking activities of the bank's other business segments.

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 and other items.

The Immobilien Holding Group companies assigned to the Corporate Center have partly been sold in the meantime; the remaining companies continue to be classified as held for sale.

Segment reporting (CONTINUED)

Segment reporting 1–6 2018/1–6 2017

(€ million)

		RETAIL	CORPORATES (INCL. FACTORING AND LEASING)	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CORPORATE CENTER	AUSTRIA GROUP (RECAST) ¹⁾	IFRS 9 RECLAS- SIFICATION/ RECAST DIF- FERENCES	BANK AUSTRIA GROUP ²⁾
Net interest	1–6 2018	168	173	19	143	–27	477	0	477
	1–6 2017	183	187	17	132	–28	491	–9	481
Dividends and other income from equity investments	1–6 2018	1	11	0	0	55	67	0	67
	1–6 2017	6	12	0	8	50	76	0	76
Net fees and commissions	1–6 2018	188	62	59	43	3	355	0	355
	1–6 2017	189	64	58	44	–3	352	0	352
Net trading, hedging and fair value income/loss	1–6 2018	10	29	2	22	8	71	0	71
	1–6 2017	4	18	2	19	–7	36	0	36
Net other expenses/income	1–6 2018	8	7	0	1	17	33	0	33
	1–6 2017	23	1	0	1	26	51	0	51
OPERATING INCOME	1–6 2018	376	283	80	209	55	1,003	0	1,003
	1–6 2017	404	283	77	203	38	1,005	–9	995
OPERATING COSTS	1–6 2018	–327	–102	–61	–87	–50	–626	0	–626
	1–6 2017	–354	–109	–62	–99	–44	–669	0	–669
OPERATING PROFIT	1–6 2018	49	182	20	122	5	377	0	377
	1–6 2017	50	174	14	104	–6	336	–9	326
Net write-downs of loans and provisions for guarantees and commitments	1–6 2018	26	23	1	32	6	87	0	87
	1–6 2017	42	12	0	15	20	89	9	98
NET OPERATING PROFIT	1–6 2018	75	204	21	154	11	464	0	464
	1–6 2017	92	186	14	119	14	425	0	425
Provisions for risks and charges	1–6 2018	1	0	0	0	–1	0	0	0
	1–6 2017	–1	–1	0	0	14	12	0	12
Systemic charges	1–6 2018	–26	–24	–5	–22	–38	–114	0	–114
	1–6 2017	–26	–24	–4	–21	–37	–113	0	–113
Integration/restructuring costs	1–6 2018	–10	0	0	0	13	3	0	3
	1–6 2017	0	0	0	0	0	0	0	0
Net income/loss from investments	1–6 2018	0	–7	0	14	32	40	0	40
	1–6 2017	0	7	0	0	1	8	0	8
PROFIT OR LOSS BEFORE TAX	1–6 2018	40	173	16	147	17	393	0	393
	1–6 2017	64	168	10	98	–8	331	0	331
Income tax for the period	1–6 2018	–9	–41	–5	–37	50	–42	0	–42
	1–6 2017	–11	–37	–3	–24	51	–25	0	–25
Total profit or loss after tax from discontinued operations	1–6 2018	0	0	0	0	14	14	0	14
	1–6 2017	0	2	0	0	56	58	0	58
PROFIT OR LOSS FOR THE PERIOD	1–6 2018	30	132	11	110	81	365	0	365
	1–6 2017	53	132	7	73	98	364	0	364
Non-controlling interests	1–6 2018	–11	–1	0	0	0	–11	0	–11
	1–6 2017	–7	0	0	0	0	–7	0	–7
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	1–6 2018	19	132	11	110	81	354	0	354
	1–6 2017	46	132	7	73	99	357	0	357
Risk-weighted assets (RWA) (avg.) ³⁾	1–6 2018	7,379	8,894	469	9,629	6,887	33,257	0	33,257
	1–6 2017	8,233	8,499	594	7,618	8,821	33,765	0	33,765
Loans to customers (end of period)	1–6 2018	17,870	26,028	660	15,935	299	60,792	0	60,792
	1–6 2017	17,887	26,563	638	13,827	1,002	59,917	240	60,158
Deposits from customers (end of period)	1–6 2018	23,609	15,091	9,143	8,350	–268	55,925	0	55,925
	1–6 2017	22,966	15,148	8,970	7,529	–1,041	53,571	0	53,571
Cost/income ratio in %	1–6 2018	87.0	35.9	75.3	41.6	n.m.	62.4	n.m.	62.4
	1–6 2017	87.5	38.6	81.4	48.9	n.m.	66.6	n.m.	67.2

1) For segment reporting purposes, the comparative figures for 2017 have been recast to reflect the consolidation perimeter and the segment structure used in segment reporting for 2018.

2) Reconciliation to the overall results of Bank Austria Group according (accounting figures) is shown in the column "recasting differences" relate to IFRS 9. Due to the insignificant effect, no adjustment regarding social capital was done in the P&L.

3) For the calculation of the average RWA, neither an adjustment in social capital nor for IFRS 9 impact were done – due to immateriality.

n.a. = not available

n.m. = not meaningful

Segment reporting (CONTINUED)

Segment reporting Q1 – Q2 2018/Q1 – Q4 2017

(€ million)

		RETAIL	CORPORATES (INCL. FACTORING AND LEASING)	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST) ¹⁾
Net interest	Q2 2018	83	85	10	71	-13	236
	Q1 2018	85	88	9	73	-14	241
	Q4 2017	88	93	8	77	-17	250
	Q3 2017	89	109	8	70	-19	257
	Q2 2017	92	95	8	66	-16	246
	Q1 2017	91	92	8	66	-12	244
Dividends and other income from equity investments	Q2 2018	0	5	0	0	34	39
	Q1 2018	2	7	0	0	21	29
	Q4 2017	0	9	0	0	29	38
	Q3 2017	0	4	0	0	36	40
	Q2 2017	1	6	0	8	30	45
	Q1 2017	5	6	0	0	19	30
Net fees and commissions	Q2 2018	93	32	31	21	1	178
	Q1 2018	95	31	29	21	1	177
	Q4 2017	98	32	34	24	-1	188
	Q3 2017	92	32	26	21	2	172
	Q2 2017	92	34	28	22	-1	176
	Q1 2017	97	30	29	22	-3	175
Net trading, hedging and fair value income/loss	Q2 2018	8	19	1	13	7	47
	Q1 2018	3	10	1	9	1	23
	Q4 2017	2	12	1	8	3	26
	Q3 2017	2	4	1	9	0	16
	Q2 2017	2	8	1	8	-1	18
	Q1 2017	2	10	1	11	-6	17
Net other expenses/income	Q2 2018	1	3	0	1	8	13
	Q1 2018	6	4	0	0	8	20
	Q4 2017	4	1	0	0	11	15
	Q3 2017	2	3	0	0	10	15
	Q2 2017	21	3	0	0	12	37
	Q1 2017	2	-2	0	0	14	14
OPERATING INCOME	Q2 2018	185	143	42	106	38	514
	Q1 2018	190	140	39	103	17	489
	Q4 2017	192	148	43	109	25	517
	Q3 2017	184	152	35	100	29	500
	Q2 2017	207	147	38	105	25	523
	Q1 2017	197	136	39	98	12	482
OPERATING COSTS	Q2 2018	-160	-50	-30	-43	-25	-308
	Q1 2018	-166	-51	-31	-44	-25	-318
	Q4 2017	-164	-52	-30	-41	-30	-316
	Q3 2017	-162	-51	-29	-41	-25	-307
	Q2 2017	-178	-55	-31	-51	-16	-330
	Q1 2017	-176	-55	-32	-48	-28	-339
OPERATING PROFIT	Q2 2018	25	93	12	63	13	206
	Q1 2018	24	89	8	59	-8	171
	Q4 2017	28	96	13	68	-5	201
	Q3 2017	22	101	6	59	4	193
	Q2 2017	29	93	8	54	10	193
	Q1 2017	21	81	7	50	-16	143
Net write-downs of loans and provisions for guarantees and commitments	Q2 2018	15	-3	2	30	4	47
	Q1 2018	11	26	-1	2	2	40
	Q4 2017	5	-43	-1	-40	-1	-79
	Q3 2017	-21	3	0	-2	0	-20
	Q2 2017	21	-5	0	17	10	43
	Q1 2017	21	17	0	-2	10	46
NET OPERATING PROFIT	Q2 2018	39	90	13	94	17	252
	Q1 2018	36	115	7	60	-6	212
	Q4 2017	33	53	12	29	-5	122
	Q3 2017	1	104	6	58	4	173
	Q2 2017	50	88	8	71	20	237
	Q1 2017	42	98	6	48	-6	188

Segment reporting (CONTINUED)

		RETAIL	CORPORATES (INCL. FACTORING AND LEASING)	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST) ¹⁾
Provisions for risks and charges	Q2 2018	0	0	0	0	-1	-1
	Q1 2018	1	0	0	0	0	1
	Q4 2017	-2	-6	0	-3	3	-7
	Q3 2017	-1	0	0	0	0	-1
	Q2 2017	-1	-1	0	0	14	12
	Q1 2017	-1	0	0	0	0	-1
Systemic charges	Q2 2018	-1	-2	-1	-2	-3	-8
	Q1 2018	-25	-23	-4	-20	-35	-106
	Q4 2017	-1	-1	0	-1	-2	-5
	Q3 2017	-1	-1	0	-1	20	17
	Q2 2017	-1	-1	0	-1	-2	-5
	Q1 2017	-25	-23	-4	-20	-36	-108
Integration/restructuring costs	Q2 2018	-10	0	0	0	0	-10
	Q1 2018	0	0	0	0	13	13
	Q4 2017	0	0	0	0	-39	-39
	Q3 2017	0	0	0	0	-26	-26
	Q2 2017	0	0	0	0	0	0
	Q1 2017	0	0	0	0	0	0
Net income/loss from investments	Q2 2018	0	-3	0	0	28	25
	Q1 2018	0	-3	0	14	5	16
	Q4 2017	0	1	0	-5	9	5
	Q3 2017	0	0	0	0	0	0
	Q2 2017	0	1	0	0	1	2
	Q1 2017	0	6	0	0	0	6
PROFIT OR LOSS BEFORE TAX	Q2 2018	28	84	13	92	41	258
	Q1 2018	11	89	3	55	-23	135
	Q4 2017	31	47	12	20	-33	76
	Q3 2017	0	103	5	57	-2	163
	Q2 2017	48	87	8	70	33	246
	Q1 2017	16	81	2	27	-41	85
Income tax for the period	Q2 2018	-6	-21	-4	-23	39	-16
	Q1 2018	-3	-20	-1	-14	11	-26
	Q4 2017	-4	-8	-2	-5	28	9
	Q3 2017	2	-23	-2	-14	42	4
	Q2 2017	-10	-19	-2	-18	36	-13
	Q1 2017	-1	-18	0	-7	15	-12
Total profit or loss after tax from discontinued operations	Q2 2018	0	0	0	0	14	14
	Q1 2018	0	0	0	0	0	0
	Q4 2017	0	0	0	0	-1	-1
	Q3 2017	0	0	0	0	58	58
	Q2 2017	0	2	0	0	32	33
	Q1 2017	0	0	0	0	24	24
PROFIT OR LOSS FOR THE PERIOD	Q2 2018	22	63	9	69	94	257
	Q1 2018	8	69	2	41	-13	108
	Q4 2017	27	39	10	15	-6	84
	Q3 2017	1	79	3	43	98	224
	Q2 2017	38	69	5	53	101	266
	Q1 2017	15	63	2	21	-2	98
Non-controlling interests	Q2 2018	-5	0	0	0	0	-6
	Q1 2018	-5	0	0	0	0	-6
	Q4 2017	-8	0	0	0	0	-9
	Q3 2017	-3	0	0	0	0	-4
	Q2 2017	-3	0	0	0	0	-3
	Q1 2017	-4	0	0	0	0	-4
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	Q2 2018	17	63	9	69	94	252
	Q1 2018	3	69	2	41	-13	102
	Q4 2017	19	38	10	15	-7	76
	Q3 2017	-2	79	3	43	98	221
	Q2 2017	35	69	5	53	101	263
	Q1 2017	11	63	2	21	-2	94

Segment reporting (CONTINUED)

		RETAIL	CORPORATES (INCL. FACTORING AND LEASING)	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST) ¹⁾
Risk-weighted assets (RWA) (avg.) ²⁾	Q2 2018	7,393	9,002	463	9,593	6,751	33,203
	Q1 2018	7,365	8,787	475	9,664	7,023	33,312
	Q4 2017	7,463	8,734	547	8,922	7,604	33,270
	Q3 2017	7,901	8,635	579	8,065	7,933	33,113
	Q2 2017	8,153	8,448	587	7,652	8,296	33,136
	Q1 2017	8,314	8,549	600	7,584	9,347	34,395
Loans to customers (end of period)	Q2 2018	17,870	26,028	660	15,935	299	60,792
	Q1 2018	17,608	25,771	642	15,667	465	60,154
	Q4 2017	17,756	25,957	650	14,880	603	59,846
	Q3 2017	17,811	26,084	659	14,685	893	60,132
	Q2 2017	17,887	26,563	638	13,827	1,002	59,917
	Q1 2017	18,225	26,645	642	12,838	1,266	59,617
Deposits from customers (end of period)	Q2 2018	23,609	15,091	9,143	8,350	-268	55,925
	Q1 2018	22,798	15,248	8,981	8,274	-299	55,001
	Q4 2017	22,517	15,118	8,958	9,580	-711	55,463
	Q3 2017	22,428	15,583	9,100	7,598	-799	53,909
	Q2 2017	22,966	15,148	8,970	7,529	-1,041	53,571
	Q1 2017	22,604	16,059	9,110	7,080	-1,451	53,401
Cost/income ratio in %	Q2 2018	86.7	35.1	71.9	40.3	n.m.	60.0
	Q1 2018	87.3	36.7	79.0	43.0	n.m.	65.0
	Q4 2017	85.2	35.1	69.2	37.4	n.m.	61.1
	Q3 2017	87.9	33.8	82.9	40.7	n.m.	61.5
	Q2 2017	85.8	37.2	79.9	48.8	n.m.	63.1
	Q1 2017	89.4	40.3	82.9	49.0	n.m.	70.4

1) Quarterly figures based on recast data. IFRS9 effect considered (except for RWA). Due to the insignificant effect, social capital-related adjustment not reflected in P&L.

2) Adjustment in social capital as well as IFRS 9 effect in 2017 are not reflected in the calculation of the average RWA, as not material.

n.a. = not available

n.m. = not meaningful

Risk report

Credit risk

Provisioning process

With the mandatory application of IFRS 9 standards and the related replacement of the IAS 39 approach, the rules for the impairment of loans were adjusted by Bank Austria on 1 January 2018. The transition from the Incurred Loss Model to the Expected Loss Model in the determination and creation of value adjustments changed above all the risk assessment of the “performing” portfolio. The risk provisioning logic of the distressed portfolio remained largely unchanged.

As per 1 January 2018 Bank Austria has thus applied the following 3 methods:

- Provisions for performing assets (This risk provision replaces the provisions for IBNR losses previously applied and the portfolio-based specific provision for foreign currency loans and loans with repayment vehicles)
- Specific write-downs for non-performing assets
- Portfolio-based specific write-downs for non-performing assets

Provisions for performing assets

The IFRS 9 provisioning logic provides 2 levels for the “living portfolio”. A third level records the defaulted volume.

Level 1 (performing)

Upon initial recognition, the loans are assigned to Level 1, regardless of the assessment of their loss potential. The risk allowance is calculated on the basis of the **1-year expected loss** using IFRS9-compliant parameters (probability of default PD, estimated outstanding at the time of the EAD outage and LGD loss ratio).

Level 2 (performing)

If the creditworthiness of a debtor deteriorates “significantly” compared to the initial recognition of the transaction, the transaction is transferred to Level 2. For the purposes of assessing whether there is a “significant” deterioration in creditworthiness, both quantitative features such as a rating downgrade and qualitative triggers such as 30-day delays and granted forbearance measures are used.

The application of a **lifetime-expected loss** instead of a 1-year expected loss at Level 1 results in a significantly higher provisioning requirement. The substantially higher risk assessment results from the considerably higher probability of default, which is considered over a significantly longer period of time.

Provisions for non-performing assets

Level 3 is assigned to the defaulted portfolio, the non-performing assets. The provisions are formed on a customer-by-customer basis, depending on the amount of the customer’s obligation, as follows:

Specific write-downs

Customers with a total exposure of over €2 million – on a GCC (group of connected customers) basis – are transferred to restructuring management (Monitoring & Special Credit Corporate/CIB) whenever there is initial concrete evidence of potential default. In these commitments, which are also described as “significant” on the basis of the loan amount, the responsible restructuring manager calculates the provisioning requirement on an analytical basis on a case-by-case basis, for the first time in the course of taking over the case and subsequently every three months. 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.

Portfolio-based specific provisioning method

UniCredit Bank Austria AG applies a parameter-based method for the calculation of a flat-rate individual value adjustment (“Pauschale Einzelwertberichtigung” – PEWB) for defaulted assets grouped by similar credit risk characteristics and with no significant exposure (lower than €2 million) at the GCC (group of connected customers) level. Upon the decision of the restructuring management, customers belonging to a GCC of over 2 million can be assigned to this method, as long as the individual customer obligation does not exceed €1 million. Depending on the customer segment, the amount of the exposure and collateral, the credit rating and the duration of the default are determined and recognised. The parameters used to calculate the loss rate are validated and back-tested annually.

Development of non-performing loan volume and risk costs

Bank Austria’s customer lending volume has increased over the past year by €0.7 billion to €62.4 billion (before deduction of loan provisioning totalling €1.6 billion).

The volume of non-performing loans was reduced by 13.4% to €2.3 billion over the same period. Their share of total lending volume thus decreased to 3.6% (30 June 2017: 4.3%). The coverage ratio remained nearly stable at 55.1% (30 June 2017: 55.3%).

Risk report (CONTINUED)

Risk costs once again allowed for a net surplus of €87.1 million for the first half of 2018. Of this amount, around 46 million are attributable to reversals for the “Performing Portfolio”. The noticeable increase in the impact of the “Performing Portfolio” on risk costs is a consequence of the newly implemented IFRS 9 standards.

In terms of segments, the most significant revenues came from Corporate & Investment Banking (€32.3 million), private customers (Retail and PB €26.5 million), corporate customers (€22.6 million) and the Corporate Centre at € 5.7 million.

In the first half of 2017, a net surplus of €89.0 million was achieved on a similar scale.

CHF loan volume

The CHF loan volume again fell in the first half of 2018 by around €0.7 billion to €6.0 billion in 2018 (after deducting provisions). In terms of gross claims, around 91 % of the CHF loan volume is attributable to the Retail segment.

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 UniCredit 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 financial reporting standards.

Risk report (CONTINUED)

Breakdown of sovereign debt securities by country and portfolio

(€ million)

COUNTRY/PORTFOLIO	30 JUNE 2018			31 DEC. 2017		
	NOMINAL VALUE	BOOK VALUE	FAIR VALUE	NOMINAL VALUE	BOOK VALUE	FAIR VALUE
AUSTRIA	6,280	6,969	6,975	6,938	7,694	7,703
Financial assets/liabilities held for trading (net exposures)	–	–	–	–	–	–
Financial assets mandatorily at FV through P&L	35	36	36			
Financial assets at FV through OCI	6,152	6,838	6,838			
Financial assets at amortized cost	93	95	101			
Financial assets at FV through P&L				–	–	–
Available for sale				6,842	7,597	7,597
Loans and receivables				–	–	–
Held-to-maturity investments				96	98	106
SPAIN	3,187	3,474	3,474	2,807	3,065	3,065
Financial assets/liabilities HFT (net exposures)	–	–	–	–	–	–
Financial assets mandatorily at FV through P&L	–	–	–			
Financial assets at FV through OCI	3,179	3,467	3,467			
Financial assets at amortized cost	8	7	7			
Financial assets at FV through P&L				–	–	–
Available for sale				2,799	3,058	3,058
Loans and receivables				–	–	–
Held-to-maturity investments				8	7	7
ITALY	845	942	942	775	912	912
Financial assets/liabilities HFT (net exposures)	–	–	–	–	–	–
Financial assets mandatorily at FV through P&L	–	–	–			
Financial assets at FV through OCI	845	942	942			
Financial assets at amortized cost	–	–	–			
Financial assets at FV through P&L				–	–	–
Available for sale				775	912	912
Loans and receivables				–	–	–
Held-to-maturity investments				–	–	–
LUXEMBOURG	671	688	688	686	705	705
Financial assets/liabilities HFT (net exposures)	–	–	–	–	–	–
Financial assets mandatorily at FV through P&L	–	–	–			
Financial assets at FV through OCI	671	688	688			
Financial assets at amortized cost	–	–	–			
Financial assets at FV through P&L				–	–	–
Available for sale				686	705	705
Loans and receivables				–	–	–
Held-to-maturity investments				–	–	–
JAPAN	465	469	469	–	–	–
Financial assets/liabilities HFT (net exposures)	–	–	–	–	–	–
Financial assets mandatorily at FV through P&L	–	–	–			
Financial assets at FV through OCI	465	469	469			
Financial assets at amortized cost	–	–	–			
Financial assets at FV through P&L				–	–	–
Available for sale				–	–	–
Loans and receivables				–	–	–
Held-to-maturity investments				–	–	–

Risk report (CONTINUED)

COUNTRY/PORTFOLIO	30 JUNE 2018			31 DEC. 2017		
	NOMINAL VALUE	BOOK VALUE	FAIR VALUE	NOMINAL VALUE	BOOK VALUE	FAIR VALUE
POLAND	434	484	484	349	398	398
Financial assets/liabilities HFT (net exposures)	-	-	-	-	-	-
Financial assets mandatorily at FV through P&L	-	-	-	-	-	-
Financial assets at FV through OCI	434	484	484	-	-	-
Financial assets at amortized cost	-	-	-	-	-	-
Financial assets at FV through P&L	-	-	-	-	-	-
Available for sale	-	-	-	349	398	398
Loans and receivables	-	-	-	-	-	-
Held-to-maturity investments	-	-	-	-	-	-
FRANCE	280	283	283	425	431	431
Financial assets/liabilities HFT (net exposures)	-	-	-	-	-	-
Financial assets mandatorily at FV through P&L	-	-	-	-	-	-
Financial assets at FV through OCI	280	283	283	-	-	-
Financial assets at amortized cost	-	-	-	-	-	-
Financial assets at FV through P&L	-	-	-	-	-	-
Available for sale	-	-	-	425	431	431
Loans and receivables	-	-	-	-	-	-
Held-to-maturity investments	-	-	-	-	-	-
ROMANIA	165	184	184	115	129	129
Financial assets/liabilities HFT (net exposures)	-	-	-	-	-	-
Financial assets mandatorily at FV through P&L	-	-	-	-	-	-
Financial assets at FV through OCI	165	184	184	-	-	-
Financial assets at amortized cost	-	-	-	-	-	-
Financial assets at FV through P&L	-	-	-	-	-	-
Available for sale	-	-	-	115	129	129
Loans and receivables	-	-	-	-	-	-
Held-to-maturity investments	-	-	-	-	-	-
BELGIUM	15	17	17	140	142	142
Financial assets/liabilities HFT (net exposures)	-	-	-	-	-	-
Financial assets mandatorily at FV through P&L	-	-	-	-	-	-
Financial assets at FV through OCI	15	17	17	-	-	-
Financial assets at amortized cost	-	-	-	-	-	-
Financial assets at FV through P&L	-	-	-	-	-	-
Available for sale	-	-	-	140	142	142
Loans and receivables	-	-	-	-	-	-
Held-to-maturity investments	-	-	-	-	-	-
Other countries	468	392	392	346	256	256
Financial assets/liabilities HFT (net exposures)	115	-	-	115	1	1
Financial assets mandatorily at FV through P&L	-	-	-	-	-	-
Financial assets at FV through OCI	353	392	392	-	-	-
Financial assets at amortized cost	-	-	-	-	-	-
Financial assets at FV through P&L	-	-	-	-	-	-
Available for sale	-	-	-	230	256	256
Loans and receivables	-	-	-	-	-	-
Held-to-maturity investments	-	-	-	-	-	-
TOTAL	12,810	13,902	13,908	12,581	13,733	13,742

Risk report (CONTINUED)

Breakdown of Sovereign Debt securities by portfolio

(€ million)

	30 JUNE 2018					TOTAL
	HELD FOR TRADING (NET EXPOSURES)	FINANCIAL ASSETS MANDATORILY AT FAIR VALUE	FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI	FINANCIAL ASSETS AT AMORTIZED COST		
Book value of sovereign portfolio	0	36	13,764	102		13,902
Total Portfolio of debt securities	1	123	15,100	854		16,078
% Portfolio	49.77%	29.27%	91.15%	11.94%		86.47%
	31 DEC. 2017					TOTAL
	HELD FOR TRADING (NET EXPOSURES)	FINANCIAL ASSETS AT FAIR VALUE	AVAILABLE-FOR-SALE FINANCIAL ASSETS	LOANS	HELD TO MATURITY INVESTMENTS	
Book value of sovereign portfolio	1	0	13,628	0	105	13,733
Total Portfolio of debt securities	2	0	14,928	186	216	15,332
% Portfolio	50.00%	0.00%	91.29%	0.00%	48.61%	89.57%

Sovereign exposures include bonds issued by and loans granted to central banks governments and other public sector entities. ABS are not included.

Breakdown of sovereign loans by country

(€ million)

COUNTRY	30 JUNE 2018	31 DEC. 2017
	BOOK VALUE	BOOK VALUE
Austria	5,021	5,052
Indonesia	199	219
Gabun	151	158
Angola	98	94
Ghana	97	96
Laos	95	93
Philippines	90	96
Vietnam	74	70
Sri Lanka	69	74
Honduras	58	59
Bosnia and Herzegovina	28	30
Serbia	7	7
Other	326	367
TOTAL SOVEREIGN LOANS	6,313	6,415

Risk report (CONTINUED)

Legal risks

In general, provisions are made for those procedures where imminent losses are probable or certain, but where the amount or timing of the occurrence of such losses is uncertain. In such cases, provisions are made in the amount deemed appropriate in the light of circumstances and in accordance with the accounting principles, respecting both the principle of prudence and the principle of reasonable, reliable estimation.

Legal risks for which provisions have been formed

In accordance with the principles described above provisions were formed for the following pending legal disputes and other proceedings in the amount of the assessed risk. In accordance with IAS 37, information does not have to be provided in case it would seriously compromise the position of the company in the legal dispute:

Madoff

Background

UniCredit Bank Austria AG ("Bank Austria") and some of its affiliates and indirect subsidiaries have been sued or investigated as a result of the Ponzi scheme operated by Bernard L. Madoff ("Madoff") through his company Bernard L. Madoff Investment Securities LLC ("BLMIS"), which was uncovered in December 2008.

Civil law procedures in Austria

Investors in the Primeo and Herald Madoff Feeder Funds have filed numerous civil suits, of which 39 are still open, with interest amounting to €11 million plus interest. The asserted claims in these proceedings are either that Bank Austria committed certain breaches of duty in its capacity as prospectus controller or that Bank Austria advised certain investors (directly or indirectly) to invest in these funds or a combination of these claims. The Austrian Supreme Court has handed down twenty-three final decisions with regard to the prospectus liability claims asserted in the proceedings. Regarding the proceedings concerning the Primeo Feeder funds, thirteen final decisions of the Austrian Supreme Court were taken in favour of Bank Austria. In two proceedings, the Supreme Court rejected Bank Austria's extraordinary appeal and therefore made the decision of the Court of Appeal, which had been issued in favour of the plaintiffs, final. With regard to the Herald Feeder Fund, the Austrian Supreme Court has ruled on the prospectus liability claims five times, twice in favour of Bank Austria and three times in favour of the plaintiffs. In a prospectus liability case where investments were made in Primeo and Herald, the Supreme Court ruled in favour of Bank Austria; in two further prospectus liability cases where investments were made in Primeo and Herald, the Supreme Court rejected the plaintiffs' extraordinary appeals, thereby ruling the decisions of the Court of Appeal to be legally binding in favour of Bank Austria.

The impact of these decisions on the remaining procedures cannot be predicted with certainty; future decisions could be detrimental to Bank Austria.

Concerning the Austrian civil proceedings pending against Bank Austria in connection with Madoff's fraud, Bank Austria has established provisions to the extent that it considers appropriate for the current risks.

Criminal proceedings in Austria

Bank Austria is being prosecuted in criminal proceedings in Austria in connection with the Madoff case. The allegations relate, among other things, to the fact that Bank Austria, as the prospectus controller of the Primeo fund, violated provisions of the Austrian Investment Fund Act and certain tax issues. The preliminary proceedings for the tax issues were stopped in September 2016 as the tax authorities confirmed in a final report that all taxes have been duly paid. In the past, investigations into criminal prospectus liability were discontinued in relation to the bank's role as the prospectus controller of the Primeo Fund. As regards the other allegations, the preliminary proceedings are still at the investigative stage.

Risk report (CONTINUED)

Proceedings in the United States

Actions by the SIPA trustee

In December 2010, the insolvency administrator (the "SIPA Trustee") brought an action for the liquidation of BLMIS as well as other actions against dozens of defendants, including HSBC, UniCredit S.p.A., Bank Austria and certain affiliates, to a United States Federal Court (the "HSBC Proceedings").

In the HSBC Proceedings, the SIPA Trustee filed civil claims and avoidance claims (also known as "clawback claims") worth several billion US dollars. The civil claims were dismissed in 2011 and no further appeals are pending against this decision. In 2015, the SIPA Trustee dropped the avoidance claims against UniCredit S.p.A and the Alternative Investments Division of Pioneer ("PAI") in the HSBC Proceedings, waiving the claims, as well as the avoidance claims against Bank Austria, without waiving the claims; this was done following claim adjustments that did not concern UniCredit S.p.A., PAI or Bank Austria and were considered by the SIPA trustee to satisfy the relevant claims. A judgement was issued by the Bankruptcy Court on 22 November 2016 which ordered the avoidance claims against BA Worldwide Fund Management Ltd ("BAWFM") to be rejected. On 9 March 2017, the SIPA Trustee commented on the rejection of the avoidance claims against BAWFM in writing. On 16 March 2017, the SIPA Trustee appealed against the dismissal of the claims. The appeal is currently pending. Even if this appeal were successful, there is no significant potential claim for damages and therefore no significant risk profile for the UniCredit Group. Certain current or former related persons named as defendants in the HSBC Proceedings may be granted rights to indemnification by UniCredit S.p.A. and its affiliates.

Action by SPV OSUS Ltd.

Bank Austria and some of its affiliates – UniCredit S. p.A., BAWFM, PAI – were named as defendants, together with some 40 other defendants, in an action filed with the Supreme Court of the State of New York, County of New York on 12 December 2014 by SPV OSUS Ltd. The action pursues civil claims in connection with the Madoff Ponzi scheme, namely that the defendants generally supported or assisted the Madoff Ponzi scheme and/or knowingly participated therein. The action was filed on behalf of investors in BLMIS and seeks damages of an unspecified amount. The action brought by SPV OSUS Ltd. is in the initial stages. The statement of claim was sent to Bank Austria. On 20 April 2018, the case was transferred from a state court to a federal court.

Possible ramifications

In addition to the aforementioned proceedings and investigations against UniCredit Bank Austria AG, its affiliates and some of their employees and former employees in connection with the Madoff case, additional actions may be brought in connection with this case in the future in the United States, Austria or other countries. Such possible future actions could be brought against UniCredit Bank Austria AG, its affiliates and their employees and former employees. The pending proceedings and possible future actions may have a negative impact on UniCredit Bank Austria AG.

UniCredit Bank Austria AG and its affiliates intend to use all available means to defend themselves against the claims and allegations in connection with the Madoff case. Apart from the aforementioned issues, it is currently not possible to reliably estimate the time horizon and the outcomes of the various actions or to determine the level of responsibility – should responsibility be proven.

Risk report (CONTINUED)

Alpine Holding GmbH

Alpine Holding GmbH issued one bond in 2010, one in 2011 and one in 2012. In 2010 and 2011, UniCredit Bank Austria AG acted as joint lead manager together with another bank. In June/July 2013, Alpine Holding GmbH and Alpine Bau GmbH became insolvent and bankruptcy proceedings followed. Numerous bondholders then wrote to the banks involved in the bond issues to assert claims. At least as far as UniCredit Bank Austria AG is concerned, the bondholders largely based their claims on the prospectus liability of the joint lead managers and, in fewer cases, also on flawed investment advice provided by the banks that sold the bonds to their customers. Investors have filed civil proceedings, including three class actions by the Federal Chamber of Labour (with claims amounting to some €20.26 million), in which UniCredit Bank Austria AG is named as a defendant in addition to other banks. The significant aspect is the prospectus liability. These civil proceedings are predominantly still pending at first instance. To date, no final decisions have been issued by the Supreme Court against UniCredit Bank Austria AG. In addition to the aforementioned proceedings against UniCredit Bank Austria AG resulting from the insolvency of Alpine, there are threats of further actions in connection with Alpine which could be brought in the future. Pending or future actions may negatively affect UniCredit Bank Austria AG. UniCredit Bank Austria AG intends to use all available means to defend itself against these claims. At present, it is not possible to estimate the timing and outcome of the various proceedings or to assess the level of responsibility, if any is proven.

Criminal proceedings in Austria

A number of accused persons are being prosecuted in Austria in connection with the Alpine bankruptcy case. UniCredit Bank Austria AG has joined the criminal proceedings as a private party. The criminal proceedings are in the investigative stages. The preliminary proceedings were conducted by the Public Prosecutor's Office also against unknown responsible persons of the issuing banks. In May 2017, the Public Prosecutor's Office against Economic Crimes and Corruption terminated this part of the investigative proceedings, while requests for continuation were rejected in January 2018.

Financial sanctions

Recently, violations of US sanctions and certain practices involving USD payments at specific financial institutions resulted in the conclusion of settlements and the payment of significant fines, depending on the specific circumstances of the case, to various US authorities, notably 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").

UniCredit Bank Austria AG has launched a voluntary investigation into its compliance with applicable US financial sanctions in the past and has identified certain non-transparent practices undertaken in the past.

UniCredit Bank Austria AG has recently begun to conduct settlement negotiations with the relevant US authorities mentioned above on this issue. The respective negotiations are in an early phase and UniCredit Bank Austria AG has not concluded any agreements with the authorities. Therefore, it is not possible to report on any schedules, terms, amounts or liabilities that may be related to an agreement. It seems possible that settlement talks could be terminated by the end of this year.

Initiation of administrative penalty proceedings in connection with measures to combat money laundering

During an on-site audit carried out in 2014, the FMA identified four weaknesses in the strategies and procedures used by UniCredit Bank Austria AG to combat money laundering and the financing of terrorism. In connection with two of these weaknesses, the FMA has initiated proceedings in which it accuses UniCredit Bank Austria AG of not having had the appropriate strategies and procedures in place until the relevant corrective measures were completed. At first instance, the FMA imposed a fine of EUR 66,000 on UniCredit Bank Austria AG for one of the two weaknesses identified. The proceedings have been suspended as regards the second weakness. As the FMA did not consider all the arguments put forward by UniCredit Bank Austria AG, UniCredit Bank Austria AG filed an appeal against the FMA's decision.

Risk report (CONTINUED)

Legal risks for which no provisions have previously been formed

In accordance with the principles described above, no provisions have been formed for the below pending legal disputes. Due to the uncertain circumstances surrounding legal disputes, we cannot rule out that the following proceedings will result in losses for the bank:

Valauret SA

In 2001, plaintiffs Valauret S.A. and Hughes de Lasteyrie du Saillant acquired shares in the French company Rhodia S.A. The plaintiffs allege that they suffered losses as a result of a decline in the Rhodia share price between 2002 and 2003. This was allegedly caused by fraudulent activity on the part of the members of the company's Board of Directors, which the plaintiffs claim resulted in false and misleading annual financial statements.

In 2004, the plaintiffs lodged an action for damages against the Board of Directors, the auditors and Aventis S.A. (the supposed majority shareholder of Rhodia S.A.). They subsequently extended their claim to include other parties – a total of 14 defendants – including UniCredit Bank Austria AG as the legal successor of Creditanstalt AG, against which an action was filed towards the end of 2007. The plaintiffs allege that Creditanstalt AG was involved in the alleged fraudulent activity mentioned above because it served as the bank of one of the companies involved in said activity. Valauret S.A. demands compensation in the amount of €129.8 million in addition to legal costs, and Hughes de Lasteyrie du Saillant seeks compensation in the amount of €4.39 million.

According to UniCredit Bank Austria AG, the allegation of Creditanstalt AG's involvement in fraudulent activity is wholly without foundation. The civil proceedings were suspended following the initiation of criminal proceedings in 2006, even before the action was extended to include UniCredit Bank Austria AG. In December 2008, the Commercial Court of Paris also suspended the civil proceedings against UniCredit Bank Austria AG.

Additional disclosures

Full-time equivalents

	H1 2018 ²⁾	2017 ²⁾
Salaried staff	5,414	5,874
Other employees	–	–
TOTAL¹⁾	5,414	5,874
<i>of which: in Austria</i>	<i>5,325</i>	<i>5,775</i>
<i>of which: abroad</i>	<i>90</i>	<i>99</i>

1) Average full-time equivalents of staff employed in Bank Austria Group, excluding employees on maternity/paternity leave.

2) Excluding FTE relating to the companies of Immobilien Holding (held for sale)

Events after the reporting period

As of July 2018, Bank Austria has sold its equity interests in the following companies:

- MARINA CITY Entwicklungs GmbH
- MARINA TOWER Holding GmbH
- Megapark OOD

Additional disclosures (CONTINUED)

Consolidated capital resources and risk-weighted assets

Consolidated capital resources

(€ million)

	30 JUNE 2018	1 JAN. 2018 ADJUSTED FOR SOCIAL CAPITAL & IFRS 9 ¹⁾	31 DEC. 2017 ADJUSTED ²⁾
Paid-in capital instruments (excl. own Common Equity Tier 1 instruments)	1,681	1,681	1,681
Reserves and minority interests	6,244	6,250	6,250
Adjustments to Common Equity Tier 1	-1,568	-1,539	-1,512
Transitional adjustments to Common Equity Tier 1 ³⁾	0	111	98
Common Equity Tier 1 (CET1)	6,357	6,504	6,517
Additional Tier 1 capital and qualifying Additional Tier 1 instruments issued by subsidiaries	0	0	0
Adjustments to Additional Tier 1	-5	46	46
Transitional adjustments to Additional Tier 1 ³⁾	58	-46	-46
Additional Tier 1 (AT1)	53	0	0
Tier 1 capital (T1=CET1+AT1)	6,409	6,504	6,517
Tier 2 capital and qualifying Tier 2 instruments issued by subsidiaries	835	867	867
Adjustments to Tier 2 capital	71	69	69
Transitional adjustments to Tier 2 capital ³⁾	35	-81	-81
Tier 2 capital (T2)	942	855	855
Total regulatory capital (TC=T1+T2)	7,351	7,359	7,372

1) Recast to reflect the first-time application of IFRS 9 and the adjustment in the social capital

2) Figures as published as of 31.12.2017 but incl. adjustment in the social capital

3) According to the Austrian CRR Supplementary Regulation (CRR-Begleitverordnung) of 11 Dec. 2013

Risk-weighted assets

(€ million)

	30 JUNE 2018	1 JAN. 2018 ADJUSTED FOR SOCIAL CAPITAL & IFRS 9 ¹⁾	31 DEC. 2017 ADJUSTED ²⁾
a) Credit risk pursuant to standardised approach	7,901	8,751	8,779
b) Credit risk pursuant to internal ratings-based (IRB) approach	21,836	20,925	20,895
c) Other (contribution to default fund of a central counterparty [CCP])	3	3	3
Credit risk	29,740	29,679	29,677
Settlement risk	0	0	0
Position, foreign exchange and commodity risk	185	302	302
Operational risk	3,048	3,196	3,196
Additional risk exposure amount due to fixed overheads	0	0	0
Risk positions for credit value adjustments (CVA)	51	28	28
TOTAL RWAS	33,023	33,205	33,203

1) Recast to reflect the first-time application of IFRS 9 and the adjustment in the social capital

2) Figures as published as of 31.12.2017 but incl. adjustment in the social capital

Capital ratios

	30 JUNE 2018	1 JAN. 2018 ADJUSTED FOR SOCIAL CAPITAL & IFRS 9 ¹⁾	31 DEC. 2017 ADJUSTED ²⁾
Common Equity Tier 1 ratio ^{*)}	19.2%	19.6%	19.6%
Tier 1 ratio ^{*)}	19.4%	19.6%	19.6%
Total capital ratio ^{*)}	22.3%	22.2%	22.2%

1) Recast to reflect the first-time application of IFRS 9 and the adjustment in the social capital

2) Figures as published as of 31.12.2017 but incl. adjustment in the social capital

*) Based on all risks

Calculation of consolidated regulatory capital and consolidated regulatory capital requirements as at 30 June 2018 is based, in conformity with the CRR, on International Financial Reporting Standards (IFRS).

Statement by Management

on the Interim Report

We confirm to the best of our knowledge that the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the interim report of the group for the first six months gives a true and fair view of important events that occurred during the first six months of the financial year and their impact on the interim consolidated financial statements, and of the principal risks and uncertainties for the remaining six months of the financial year.

The Management Board

Robert Zadrazil	CEO Business Areas & Support Services (Chairman)
Romeo Collina	COO Chief Operating Officer (Deputy Chairman)
Dieter Hengl	Corporate & Investment Banking Division
Gregor Hofstätter-Pobst	CFO Finance
Jürgen Kullnigg	CRO Risk Management
Doris Tomanek	Human Capital

Vienna, 24 July 2018



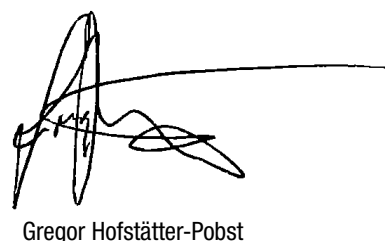
Robert Zadrazil



Romeo Collina



Dieter Hengl



Gregor Hofstätter-Pobst



Jürgen Kullnigg



Doris Tomanek

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Additional Information

Glossary of alternative performance measures

The following list contains definitions of key financial indicators (alternative performance measures, APMs) used in addition to the applicable financial reporting framework.

Cost/income ratio: operating costs divided by operating income.

Cost of risk: net write-downs of loans and provisions for guarantees and commitments measured against loans and receivables with customers (average for the period), usually expressed in basis points (1 bp = 1/100% = 0.01%). If the cost of risk is calculated for a period of less than a full year, net write-downs of loans and provisions for guarantees and commitments are annualised.

Coverage ratio: specific write-downs of loans measured as a percentage of non-performing exposures at the reference date.

Credit Value Adjustments (CVA): adjustment to the valuation of a portfolio of transactions reflecting the counterparties' credit risk, which is the risk that the counterparty to a transaction involving financial instruments might default prior to completing all agreed cash-flow exchanges.

Direct funding: sum total of deposits from customers, debt securities in issue and financial liabilities at fair value.

Direct funding ratio: direct funding measured against loans and receivables with customers as reflected in the statement of financial position.

Effective tax rate: income tax in the consolidated income statement measured against profit before tax.

FTE (full-time equivalent): number of full-time employees, with part-time employees being counted on the basis of effective working hours.

Funding Value Adjustments cover the funding cost/benefit stemming from hedging the market risk of OTC derivatives.

Loans/direct funding ratio: loans and receivables with customers measured against direct funding.

Net operating profit: operating profit less net write-downs of loans and provisions for guarantees and commitments.

Non-performing exposures include (1) "bad loans", i.e. credit exposures, formally considered uncollectible, to insolvent borrowers, even if insolvency has not been judicially ascertained; (2) "unlikely to pay", i.e. on-balance sheet and off-balance sheet exposures which do not meet the conditions to be classified as "bad loans". The classification as "unlikely to pay" derives from the assessment of the debtor's unlikeliness, without actions such as realisation of collateral, to fully repay the credit obligation (principal and/or interest); (3) "past due": on-balance sheet exposures other than those classified among "bad loans" or "unlikely to pay", which at the reference date have amounts that are more than 90 days past due or over limits.

NPE ratio: non-performing exposures as a percentage of loans to customers before deduction of loan loss provisions (NPE ratio in gross terms) and after deduction of loan loss provisions (loans to customers as reflected in the IFRS statement of financial position; NPE ratio in net terms) at the reference date.

Period averages: quarterly averages based on figures at reference dates are calculated as the mean value of the figure at the end of the preceding quarter and the figure at the end of the reporting period. The calculation of averages for longer reporting periods (first six months, first nine months or full year) is based on the averages for the quarters included in the reporting period.

ROAC (return on allocated capital): net profit measured against allocated capital (12.5% of risk-weighted assets). If the return on allocated capital is calculated for a period of less than a full year, net profit is annualised.

Systemic charges: bank levies and other systemic charges, including contributions to bank resolution funds and deposit guarantee schemes established on the basis of European or local regulations.

Total financial assets (TFA): sum of total financial assets held by customers, i.e. sum of deposits from customers, assets under management (fund and asset management products) and assets under custody (direct capital market investments/safe-custody business).

Investor Relations

UniCredit Bank Austria AG/Corporate Relations

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Ratings

	LONG-TERM	SUBORDINATED LIABILITIES	SHORT-TERM
Moody's ¹⁾	Baa1	Ba1	P-2
Standard & Poor's ²⁾	BBB+	BBB-	A-2

Public-sector covered bonds and mortgage bonds of Bank Austria are rated Aaa by Moody's.

1) Grandfathered senior debt is rated A2, grandfathered subordinated debt is rated Baa2.

2) Grandfathered senior debt is rated BBB+, grandfathered subordinated debt is rated BBB-.

Information and disclosure pursuant to Sections 24 and 25 of the Austrian Media Act (Mediengesetz):

Publisher and media owner:

UniCredit Bank Austria AG
 Rothschildplatz 1, 1020 Vienna, Austria
 Tel.: + 43 (0) 5 05 05-0
 Internet: www.bankaustria.at
 e-mail: info@unicreditgroup.at
 BIC: BKAUATWW
 Austrian bank routing code: 12000
 Register of Firms: FN 150714p
 Data Processing Register number: 0030066
 VAT number: ATU 51507409

Editor:

Accounting, Reporting, Tax & Corporate Relations

Cover and introduction creative definition: UniCredit S.p.A.

Sorter pages creative definition: M&C Saatchi

Design, graphic development and production: UniCredit S.p.A.

Graphics: 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:

Robert Zadrazil (Chairman of the Management Board), Romeo Collina (Deputy Chairman of the Management Board), Dieter Hengl, Gregor Hofstätter-Pobst, Jürgen Kullnigg, Doris Tomanek.

Supervisory Board of the media owner:

Erich Hampel (Chairman of the Supervisory Board), Ranieri de Marchis (Deputy Chairman of the Supervisory Board), Livia Aliberti Armidani, Christine Buchinger, Adolf Lehner, Marina Natale, Gianni Franco Papa, Mario Pramendorfer, Eveline Steinberger-Kern, Ernst Theimer, Andrea Umberto Varese, Karin Wisak-Gradinger.

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 this report 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.