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Interim Report at 30 June 2014

15 years UniCredit

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Bank Austria at a Glance

Income statement figures

(€ million)	H1 2014	H1 2013 [1]	+/–
Net interest	1,708	1,716	–0.5%
Net fees and commissions	675	671	+0.6%
Net trading, hedging and fair value income	250	313	–20.3%
Operating income	2,907	3,041	–4.4%
Operating costs	–1,657	–1,679	–1.3%
Operating profit	1,250	1,362	–8.2%
Net write-downs of loans and provisions for guarantees and commitments	–332	–514	–35.4%
Net operating profit	918	848	+8.2%
Profit before tax	935	743	+25.8%
Net profit attributable to the owners of the parent company	776	578	+34.3%

Volume figures

(€ million)	30 JUNE 2014	31 DEC. 2013 [1]	+/–
Total assets	183,124	177,857	+3.0%
Loans and receivables with customers	117,599	114,880	+2.4%
Primary funds (deposits from customers and debt securities in issue)	124,971	124,280	+0.6%
Equity	15,884	15,050	+5.5%
Risk-weighted assets (overall) [2]	125,895	118,510	+6.2%

Key performance indicators

	30 JUNE 2014	2013 [1]
Return on equity after tax (ROE)	10.9%	n.m.
Cost/income ratio [3]	53.7%	49.9%
Cost of risk (provisioning charge/avg. lending volume)	0.58%	1.11%
Loans and receivables with customers/primary funds	94.1%	92.4%
Leverage ratio [4]	11.6	11.9
Common Equity Tier 1 capital ratio (2013: Core Tier 1 capital ratio) [5]	11.0%	11.3%
Tier 1 capital ratio [5]	11.0%	11.6%
Total capital ratio [5]	13.8%	13.5%

n.m. = not meaningful

Staff

	30 JUNE 2014	31 DEC. 2013 [1]	+/–
Bank Austria (full-time equivalent)	36,752	37,753	
Central Eastern Europe business segment	24,305	24,453	–148
Ukraine (held for sale)	5,543	6,143	–600
Austria (other business segments)	6,903	7,157	–253

Offices

	30 JUNE 2014	31 DEC. 2013 [1]	+/–
Bank Austria	1,740	1,801	–61
Central Eastern Europe business segment	1,138	1,130	+8
Ukraine (held for sale)	350	402	–52
Austria (other business segments)	252	269	–17

1) Comparative figures for 2013 recast to reflect the current structure and methodology. / 2) Regulatory risk-weighted assets, 2013 not adjusted. / 3) Cost/income ratio without bank levies. / 4) Total assets/equity (without intangible assets). / 5) Capital ratios based on all risks; 2014 under Basel 3 (phase-in), 2013 under Basel 2.5; end of period.

The banking environment

● While the moderate upward trend in the **global economy** remained intact in the first half of 2014, actual developments were lagging behind the forecast scenario. The industrial countries still accounted for about half of world output. Growth in emerging markets, including China, weakened as expected, so that export demand did not provide any impetus. Economic recovery was therefore driven by domestic business activity. However, the growth momentum was hampered by unforeseeable influences, and developments from the first to the second quarter and among the major regions were characterised by mixed trends. The upswing in the US, though seen as being well supported, reflected the winter storms in the first quarter (annualised performance: –2.9 %) and subsequent inventory reduction. As a result, US economic growth in the first six months of 2014, though improving in the second quarter, was hardly stronger than in the (good) second half of 2013. For this reason we have lowered the full-year forecast for the US from +2.4 % to +1.6 %, with the path of growth remaining unchanged. In Japan, surprisingly strong growth in the first quarter of 2014 (+1.6 % over the preceding quarter) compared with an equally significant decline in the second quarter (–1.3 %), which was due to the fact that in April the rate of value-added tax was increased.

● **Europe** experienced an unusually mild winter, which favoured some sectors of the economy (construction industry) in the first quarter while dampening overall growth as energy production was at a low level. The recovery in Italy, and especially in France, slackened again. Soft indicators such as purchasing managers' surveys and consumer sentiment signalled an expansion in the spring; but hard facts including industrial output and incoming orders in April and May indicated a setback for all countries in the euro area; it should be noted, however, that the statistics reflect the concentration of public holidays and "bridging days" in these two months. Although the figures for June, which are not yet available, may show a positive movement, economic growth in the euro area in the first half of 2014 will fall short of expectations (+0.5 % compared with the second half of 2013 and close to +1 % year-on-year). Yet our economists maintain their scenario, expecting the moderate recovery to gain momentum and become sustainable in the coming quarters, and adjusting the growth path to the lower base. On this basis, the euro area will see moderate growth of +1.2 % (previous forecast: +1.4 %) in 2014 as a whole. The forecast for Germany was reduced by 0.3 percentage points to +2.2 %, and for France and Italy by 0.3 percentage points each, to +0.7 % and +0.2 %, respectively.

A more dramatic development was the continued decline in **inflation rates** in the first half of 2014. The increase in the harmonised index of consumer prices (HICP in the euro area) recently fell to 0.5 %, partly due to year-on-year appreciation of the euro and to developments in energy sources and food. The core inflation rate of 0.8 % (compared with 1.5 % a year earlier) shows that domestic business activity also contributed to the decline, also in those southern European countries which are undergoing structural adjustment (internal depreciation through wage / price restraint). The **European Central Bank**, with its **measures taken on 5 June 2014**, acted vigorously to prevent the risk of disinflation leading to a decline in long-term inflationary expectations and thus to rising real interest rates and changes in behaviour: key interest rates were reduced to historically low levels (main refinancing operations: 0.15 %, deposit facility: minus 0.10 %). The three-month fixed rate tenders are to be fully allotted until at least the end of 2016. The (restrictive) sterilisation of the Securities Market Programme is being suspended. The most important measure relates to the Targeted Long-Term Refinancing Operations (TLTROs) totalling €400 billion, which will be conducted starting in September 2014, with the individual volume being linked to bank loans (and new loans granted in 2015 and 2016) to the non-financial private sector (except housing construction loans). Moreover, a decision was made to intensify preparations for outright purchases of asset-backed securities (ABSs). The main purpose of the measures is to enhance the mechanism of monetary policy transmission to the real economy of peripheral countries. Current **monetary data** for the euro area show that in May 2014, M3 money supply rose by +1.0 % year-on-year, only slightly more strongly than in the preceding month (+0.7 %). Lending volume to the private sector was still significantly lower than a year earlier (adjusted for securitisations: –1.5 %). The decline in adjustment countries was even stronger, especially in corporate lending, whereas some signs of recovery were recently seen in core European countries. Companies and private households continued to focus on reducing debt and improving their financial position.

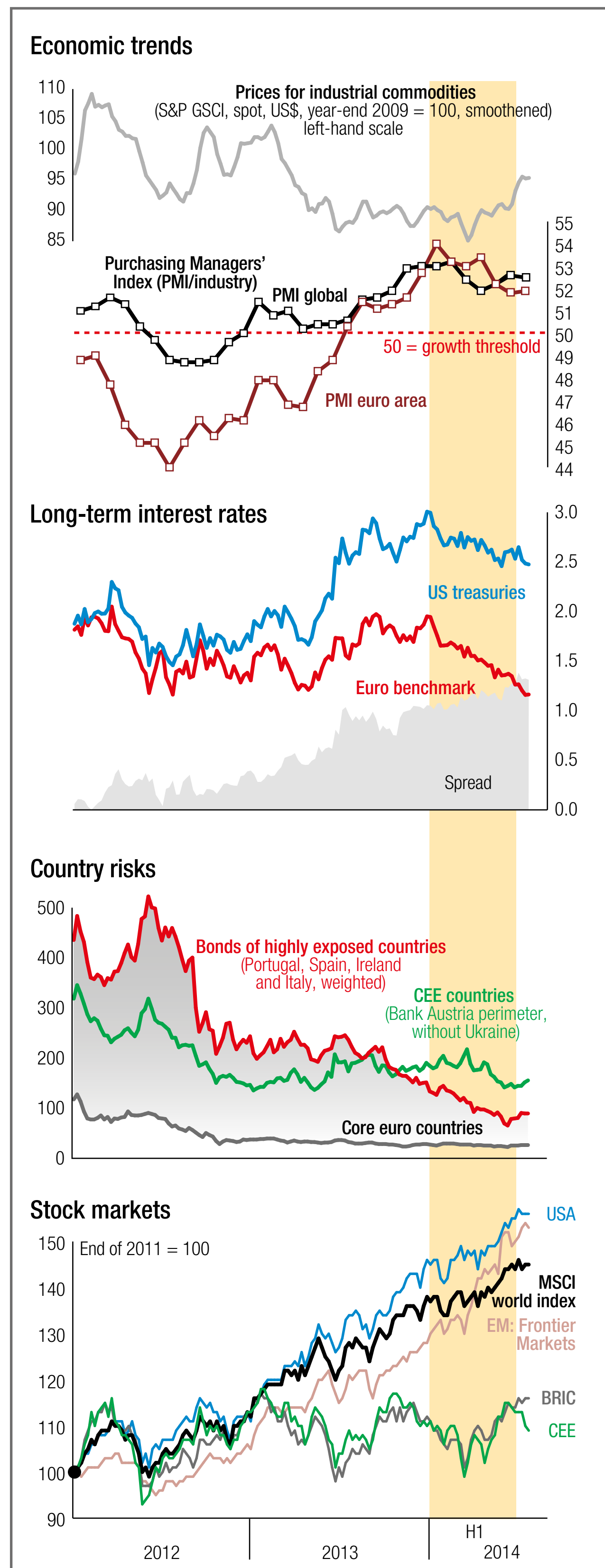
● The forthcoming monetary-policy divergence between the US (and the UK) and the euro area continued to have an influence on **financial markets**; in view of disinflation and the persistent interest rate environment close to zero, which reflects central bank guarantees, the search for yield led to a decline in risk premiums to record lows. Conflicts in centres of geopolitical crises intensified and resulted in an even more significant decline in benchmarks while leaving spreads more or less unchanged. Low volatility of prices in stock and bond markets suggested a decreasing awareness of risk. As a result, the first half of 2014 saw an outstanding performance across all investment categories (except cash). The **MSCI World Index** continued to rise, advancing by +7.2 % in euro terms from year-end 2013 to the end of June 2014, driven by increases in the US (+7.8 %) and the euro area (+6.2 %). The BRIC countries (+5.5 %) and CEE stock markets (Emerging Europe: +1.2 %; MSCI performance indices, price + dividends) were underperformers. "Frontier Markets" (+16.9 %) again showed a very strong performance, providing further evidence of a higher risk appetite. Stock market performance continued to advance after the end of the reporting period.

The banking environment (CONTINUED)

Bond performance (price and interest income) was even more remarkable across the entire spectrum. The performance of the 10-year euro-benchmark bond was +8.5%, compared with +6.1% for its US Treasury bond counterpart. In current yield terms, the 10-year euro benchmark yield declined by 68 basis points to 1.26% p.a. from the beginning of 2014 to the end of June (most recent figure: 1.19%); on the US side the decline was only 46bp to 2.55% p.a. (most recently: 2.54%). This means that long-term euro interest rates have fallen to a level last seen before the discussion on tapering started in May 2013, close to the all-time low. US interest rates are still fluctuating around the level to which they rose after the announcement of a turnaround a year ago. The USD/EUR yield differential on 10-year maturities widened from 76bp a year earlier to 107bp at the end of 2013 and 128bp at the end of June 2014. Towards the end of the reporting period, the increase may also have been due to a stronger attraction of safe havens, one of the reasons being temporary uncertainty in the Portuguese and Bulgarian banking systems, which was caused by isolated issues that were quickly resolved.

Spreads around the benchmark continued to fall: European **government bonds** including those of peripheral and crisis countries (iBoxx Total Return Indices) showed a performance of +9.2% in the first six months of 2014, compared with +7.1% for Emerging Markets bonds (EMBI+) and +4.9% for CEE bonds, which were held back by currency depreciation and the Ukraine crisis. This development was in line with the further decline in risk premiums (CDSs): the weighted CDS for four countries on the euro area periphery (IIPS) was recently as low as 74bp, down from 146bp at the end of 2013 and over 500bp two years earlier (in the middle of 2012); this matches the spread seen before the onset of the sovereign debt crisis. The weighted CDS spread for CEE countries (Bank Austria perimeter without Ukraine) was recently 136bp compared with 185bp at the end of 2013 and a peak level of 340bp at the beginning of 2012. In addition to government bonds, there was strong demand for **corporate bonds**, despite the boom in new issues. The return on an investment in European corporate bonds (iBoxx Total Return/BBB rating) from year-end 2013 to the end of June 2014 was +9.1%; this compares with +7.9% for euro covered bonds. According to some observers including the BIS, the narrower spreads are in many cases no longer in line with fundamental risk assessments. Commodities rose by only 5.6% (Rogers EUR hedged), and industrial commodities advanced even more slowly (S&P GS +2.5%). The price of gold rose by 10.1% from its year-end 2013 low (1,205 $/oz.) to 1,325 $/oz.

● **Economic trends in Austria** also showed a temporary downward deviation from the path of moderate growth in the industrial countries. After the recovery in the second half of 2013, growth in the first quarter of 2014 was disappointingly low, at +0.2% compared with the preceding quarter and +0.9% year-on-year. It should be noted that these rates also reflect special effects including weak



The banking environment (CONTINUED)

demand for, and production of, energy as a result of the mild weather; without this effect, growth would have reached double the actual figures. Austria's exports also lost some of their momentum, mainly due to developments in emerging markets, especially Russia, and exports to Asia and Latin America – a trend which may have intensified recently, superimposed on the highly positive trend in exports to the euro area and CEE countries. While industrial output was thus higher than in the same period of the previous year, growth was too weak to give any significant impetus to the labour market: on a seasonally adjusted basis, the rise in employment came to a standstill towards the middle of the year. The further increase in the labour force led to a rise in unemployment (recently 4.7 %, based on the Eurostat definition), and crowding-out competition in the labour market continued to intensify. There is widespread concern about potential deflation in the euro area; in Austria, however, various domestic factors (tax increases, rising labour costs, consequently higher prices for services) recently pushed consumer prices up by 1.7 %, giving the country a clear lead in inflation over most other euro area member states and also CEE countries. Consumer confidence in the first half of 2014 was slightly affected by the steady flow of news from crisis regions, returning to the level seen in summer 2013. Investment activity in the first six months fell significantly short of our expectations: companies waited with their plans for investment in equipment, in response to doubts about the sustainability of global recovery and uncertainty in various export markets. Among leading indicators, the Bank Austria Purchasing Managers' Index (PMI) has pointed to a clearly weaker trend since the spring, following an optimistic mood in the early part of the year; yet it still indicates positive growth. The Bank Austria Business Indicator has not improved to any significant extent since the beginning of 2014 but it was well above the level a year earlier, when Austria's economy stagnated. We believe that real GDP in the second quarter of 2014 expanded by about ½% compared with the preceding quarter, raising year-on-year growth in the first half of 2014 to over 1 %. For the remaining part of the year, we maintain our optimistic forecast of accelerated expansion under the base scenario (i.e. without any lasting deterioration in crisis areas): full-year growth may reach + 1.5 %.

Economic and monetary trends in the first half of 2014, not least continued debt reduction by customers, were not conducive to boosting demand for classic banking products. At mid-year, lending volume was unchanged compared with the year-end 2013 level and slightly down year-on-year (– 0.2 %). However, initial signs of improvement were seen in new loans in May / June. Growth of housing loans accelerated somewhat (to + 3.9 % over the previous year), and loans to small and medium-sized businesses grew for the first time in several years, though the increase was moderate. One of the reasons may be the record low of lending rates in Austria. Larger companies, on the other hand, continue to enjoy ample liquidity accumulated over the past years. On the deposit side, the weak inflow of deposits from private individuals is to be seen in the context of persistently low interest rates. Especially in May and June, investors were attracted by mutual funds (in addition to real estate investments); fund volume increased by about 5 % in the period since the beginning of 2014, reflecting both performance and net inflows. Corporate customers and public sector entities shifted their deposits from overnight money to longer maturities as banks made efforts to meet the forthcoming Basel 3 liquidity requirements.

● Making a general statement with regard to **Central and Eastern Europe (CEE)** is difficult. The upswing in the four Central European countries proved robust, with impetus starting to spread, according to the classic pattern, from export-driven industry to domestic business activity. In Romania and Bulgaria, output data were still favourable though there are doubts about their sustainability. Restrictive economic policies and efforts to create a reliable regulatory framework had a dampening effect. A strong disinflationary trend is seen in all EU member states in CEE: rates of general price increases are below 1 %; in countries where agriculture, a sector currently favoured by weather conditions, and regulated prices (energy) are of major importance, the rate of inflation is below zero. The dramatic floods in the middle of May wrought extensive destruction in Bosnia and Herzegovina, and Serbia was also badly hit. External financial aid (IMF, EU) is necessary. Finally, the escalating Ukraine crisis had an impact towards the end of the first half of 2014: in Russia, the combined effect of trade restrictions imposed under the sanctions and a business sector which has been weak for quite some time started (in Poland) to have indirect repercussions on CEE via foreign trade. The Turkish economy developed favourably, better than expected; after surprisingly strong growth in the first quarter of 2014, the currency depreciation trend was reversed in the second quarter.

Among the Central European countries, the **Czech Republic** became the top performer after one and a half years of recession. The strong upswing of 2013 continued (GDP up by 2.9 % in the first quarter, industrial output up by 6.4 % in the period from January to May), enabling us to raise the full-year forecast from + 2.5 % to + 2.9 %. Driven by exports (not only in the automotive industry), dynamic growth was seen in incomes, consumption and ultimately investment. With inflation at zero, the money supply is expanding by about 5 %, as is lending volume; since the currency depreciated in October 2013, intervention has aimed at keeping the Czech crown just below the target of 27 CZK / EUR, a level which still represents year-on-year depreciation (end of June 2014: – 5.2 %). The situation in **Slovakia** is similar: industrial output is accelerating (January to May: + 6.5 %), and investment activity is picking up after a long lull. Despite a restrictive financial policy (debt brake) consumption is growing; the inflation rate in June was negative for the first time (energy and food prices). For the year as a whole, real growth is expected to reach + 2.4 %. A recovery is also seen in **Slovenia**, where the economy is still affected by the repercussions

The banking environment (CONTINUED)

of the local banking crisis (state-owned banks): GDP was up by 1.9% in the first quarter, and industrial output rose by 3.5%; as domestic demand is weak, the recovery will remain fragile. The EU deficit procedure (EDP) has a strong restrictive effect on government spending and incomes/consumption, and lending volume is also declining; the consumer price index indicates that inflation is close to zero. A new political start after the mid-June elections should help to get reforms going, including overdue privatisation. In **Hungary** the growth momentum remained strong in the first half of 2014 (real GDP Q1: +3.5%, industrial output January/May: +10% yoy). Exports, public sector investment and government consumption were the main drivers, with expenditure and credit lines under the Funding for Growth Scheme (FGS) making an essential contribution. State intervention is already reaching the constitutional limit of debt (50% of GDP), leading to the creation of ever new ad-hoc taxes. The renationalisation of privatised utilities will probably result in negative direct investment this year. But this will be more than offset by the continued large surplus in the basic balance (6% of GDP in 2013 including EU funds). Despite slight depreciation of the Hungarian forint (–3.2% in the year to date), the central bank was able to significantly reduce key interest rates by six further small steps to 2.30% but the interest rate gap for bonds is still wide (+3.2 percentage points over the 5-year euro benchmark with zero inflation). In addition to a number of special levies, the banking sector is currently burdened by the retroactive correction of the settlement of old foreign currency loans (non-recognition of bid/offer spreads from FX swaps of foreign currency loans). Further intervention with retroactive effect is pending.

Romania is seen as a model of successful adjustment in the past years after the 2008/09 crisis, at least in macroeconomic terms (reduction of government deficits from 8% to below 3%, basic balance in equilibrium –most recently, slightly positive – and reduction of heavy dependence on consumption). Strong growth in 2013 was driven, on the supply side, by the putting into operation of new industrial capacity (including Ford), by exports of services and by the agricultural sector which is currently benefiting from favourable climatic conditions. Romania's economy shows the highest rates of growth in CEE (Q1: +3.7%, industrial output January/May: +10.1%). Infrastructure is lagging far behind on account of budget rigidity. However, the absorption of EU funds is gradually improving. The basic balance in a wider sense (including EU funds) is improving, more than offsetting the reduction of banks' foreign debt. Inflation below 1% made it possible to relax minimum reserve requirements (the most stringent in the EU) and lower interest rates. The RON was stable. Write-downs and derecognition of impaired loans were recently permitted, reducing the NPL ratio to a (still high) level of below 20%. **Bulgaria**'s currency board acts as an anchor of stability to discipline monetary and financial policies: the basic balance is positive, public debt is the lowest in CEE. Nevertheless, the Bulgarian economy's performance is the weakest among the five CEE countries which are EU member states. Weak growth is moreover accompanied by deflation: the rate of inflation has been negative since August 2013 (February 2014: –2.6%, June 2014: –1.9%). Credit demand is low in this environment. The expansionary policy (public consumption, social transfers and public investment) pursued by the outgoing government – parliamentary elections are scheduled for the beginning of October – boosted domestic demand, offsetting the decline in exports. The fiscal situation, which has so far been under control, has thus been stretched to its limit. EU transfers have repeatedly been partly frozen, this time in connection with the South Stream project. A lack of governance and opaque interlocking of banking and corporate conglomerates were responsible for the first run on banks since the 1996/97 banking crisis, hitting two local banks in June 2014: First Investment Bank, where deposits were guaranteed by the state, and Corporate Commercial Bank (Corpbank, KTB), which was nationalised but where details of the rescue plan (bail-in of depositors and recapitalisation) are still unclear. In these circumstances, banks which are majority-owned by international shareholders (69% of the banking sector) were able to perform their function and gained confidence.

Although **Croatia's** exports and manufacturing industry recently revived, a way out of six years of recession is not yet in sight. The country's export ratio is comparatively low and the construction industry is shrinking. The rate of inflation is just over zero, and lending volume was slightly down from the previous year. EU accession has so far brought a macroeconomic imbalance procedure (MIP) and an excessive deficit procedure (EDP), with the required adjustments impacting real incomes. The absorption of EU funds will not start before 2015. For 2014 as a whole we expect GDP to shrink by a further 1%. In **Bosnia and Herzegovina**, signs of declining production (especially energy) and deflationary tendencies had already become visible when a natural disaster struck in the middle of May. Floods destroyed private property, agricultural areas and infrastructure as well as impacting the mining and steel industries and power plants. The IMF stepped up its stand-by arrangement and European institutions (including the EBRD) launched aid programmes. Reconstruction will only lead to positive economic growth in 2015. **Serbia's** economic performance declined in the first half of 2014 (statistical base effect) after a strong increase in production in 2013 (GDP: +2.5%, industrial output: +9.0%). Floods in the second quarter caused serious damage to agriculture and mining; but Serbia has access to the EU Solidarity Fund, in addition to World Bank and EBRD loans. The new government is undertaking reforms and has started to make system changes through a large number of laws and the privatisation of 165 loss-making state-owned enterprises. These measures (including pension and wage cuts) are intended to pave the way for IMF loans. Lending is down, especially in the area of business loans, and companies' external indebtedness is at a high level. Private

The banking environment (CONTINUED)

individuals are reducing their foreign currency debt by means of swap arrangements. The inflation rate is 2.5%. Although interest rates were lowered (for 3-month money from 8.50% a year earlier to 6.70%), the dinar remained stable (–1.0% ytd). Further issues of euro bonds are likely in this situation.

Structural problems in **Russia** (insufficiently diversified production, inadequate capacity, labour market cleaned out) and the cyclical slowdown (underinvestment, overconsumption, credit boom) were aggravated by the escalation of the Ukraine crisis (Crimea crisis in March, Donetsk region in June), leading to larger capital exports, temporary weakness of the rouble, and higher interest rates. Until the end of June, however, sanctions had a limited direct impact. Exports and production were weaker than usual (also due to lower sales of energy products, reflecting favourable weather conditions). After a decline of 0.5% in the first quarter of 2014, real GDP in the second quarter probably matched the Q1 figure. As inflation rose further (to recently 7.75%) real incomes were down (–2.9%), retail sales stagnated and purchases (and imports) of cars fell significantly. Credit expansion continued, however, especially in corporate lending.
The monthly PMI levels were below the growth threshold of 50 in the past twelve months (with only one exception). Capital outflows again exceeded the current account surplus. At the beginning of March/end of April, the central bank raised its key interest rate by 2.0 percentage points to 6.50%; the interest rate on three-month money rose even more strongly (+3 percentage points) to 9.20%. When the Crimea crisis came to a head, the rouble fell to its low in 2014 (–10.8% since the end of 2013); it subsequently recovered – supported by higher oil prices – to reach a level that at the end of June 2014 was only 2.8% lower than at year-end 2013. The currency then depreciated again with the threat of further sanctions in July.

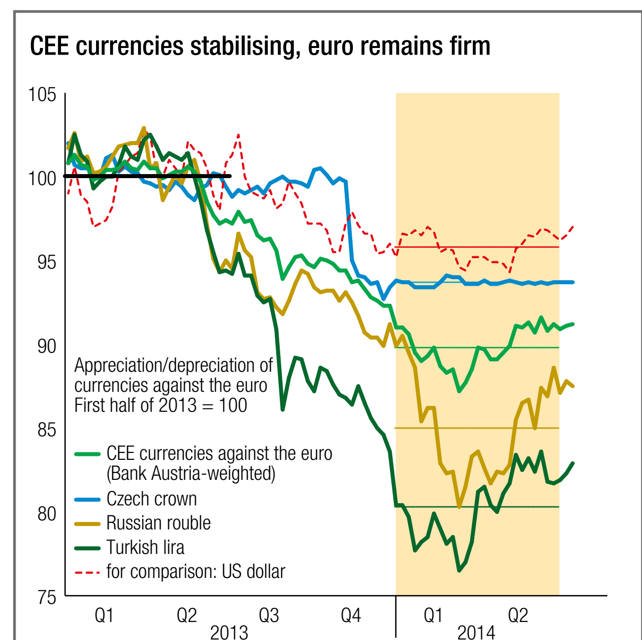
Although the adjustment process (especially to contain the current account deficit) dampened growth, **Turkey** achieved a surprisingly strong economic performance: real GDP rose by an annualised 7% in the first quarter of 2014 compared with the preceding quarter, and by 4.5% year-on-year, supported by a weakening pull of imports. Given the unexpectedly large overhang from the first quarter, we have raised our full-year forecast from zero to +2.5%. In the period from January to May, manufacturing industry grew by 4.3% compared with the same period of the previous year. This is a remarkable performance, given the restrictive monetary policy, which dampened credit expansion from an annual rate of over 40% in August 2013 to 23% in January and most recently to 14%, and the rise in lending rates to about 13%. As employment continued to increase, tax revenue rose and the additional funds were used for public consumption and investment. At the end of January 2014, when the Turkish lira fell to a low reflecting portfolio outflows and increasing shifts from TRL to foreign currency deposits, the key interest rate was raised from 4.50% to 10%; in the meantime, it has been reduced to 8.25% by three steps. The reduction of the current account deficit (January/May: – 39%) contributed to easing the situation. Portfolio capital returned and international investors took advantage of the interest rate spread and price advances.
As a result, the Turkish lira appreciated by 10.3% in the period to the end of June and exceeded the year-end 2013 level (+1.7%, depreciation of 14% compared with a year earlier). The negative real interest rate (about minus 1%, with inflation recently at 9.1%) will not keep the central bank from further reducing interest rates instead of accumulating reserves.

Although a number of **CEE currencies** appreciated again towards the end of the first half of 2014 (with the exception of the Ukrainian hryvnia), a comparison of half-year averages (used for converting local income statements into euro) still shows significant depreciation, especially of the Russian rouble (–15.1%), the Turkish lira (–19.8%) and the Czech crown (–6.4%):

Exchange rate trends (appreciation/depreciation against the euro)

	END OF JUNE 2014/ END OF DEC. 2013	H1 2014 AVERAGE H1 2013 AVERAGE
Czech Republic	–0.1%	–6.4%
Hungary	–4.0%	–3.6%
Romania	+2.0%	–1.6%
Croatia	+0.7%	–0.7%
Serbia	–0.9%	–3.2%
Russia	–2.3%	–15.1%
Turkey	+2.2%	–19.8%
Ukraine	–29.4%	–26.0%
CEE *)	**–0.3%**	**–8.6%**
US dollar	+1.0%	–4.2%

*) Bank Austria perimeter without Ukraine, weighted by CEE operating income in H1 2013



Bank Austria in the first half of 2014

Overview

● The year to date has seen a significant improvement in Bank Austria's earnings position and net profit. Following the far-reaching balance sheet measures in the fourth quarter of 2013 (full write-off of all goodwill, increase in net write-downs of loans and provisions for guarantees and commitments and higher coverage ratios) the bank's net profit returned to a normal level in the first quarter of 2014, although performance was burdened by slow economic recovery and the depreciation of several CEE currencies, especially the Turkish lira. The situation improved visibly in the **second quarter of 2014**. The burdens eased off and the underlying upturn became more pronounced. **Net profit** (attributable to the owners of the parent company) rose to **€426 million**, up by 21.3% on the first quarter of 2014 and by **43.9%** on Q2 2013.

Quarterly trends (€ million, 2013 recast)

	Q1 13	Q2 13	Q3 13 [2]	Q4 13 [3]	Q1 14	Q2 14
Operating income	1,471	1,570	1,747	1,715	1,376	1,531
Net operating profit	382	466	671	284	350	568
Profit before tax	316	428	618	–562	421	515
Net profit [1]	**282**	**296**	**547**	**–2,666**	**351**	**426**

1) Net profit attributable to the owners of the parent company. / 2) Including a positive one-off effect (gains of €191 million on the sale of insurance operations in Turkey). 3) Increase in the provisioning charge and full write-off of all goodwill.

The increase in net profit from the first to the second quarter largely came from the revenue side, with contributions from all revenue components: the increase amounted to 11.3%, all of which fed through to operating profit as costs declined slightly (–1.6%). Operating profit therefore rose by 31.3% and came close to the favourable result of the previous year (–3.4%). As in the preceding quarter, the provisioning charge declined markedly (–25.1%), especially in a comparison with Q2 2013 (–47.1%), with net operating profit consequently rising by €217 million or 62.0% to €568 million (+21.8% yoy). The increase in net profit was slightly curbed by higher provisions for risks and charges (including those for the retroactive calculation of Hungarian foreign currency loans, to the extent foreseeable) and by taxes, leaving a quarter-on-quarter improvement in net profit of €75 million or 21.3% to €426 million. Austrian customer business (+€51 million) and the Central Eastern Europe business segment (+€47 million) contributed to this result in more or less equal measure, despite the difficult environment in Turkey (restrictive economic and lending policies) and Russia (capital outflows, sanctions). In a year-on-year comparison, the income statement was however still significantly impacted by currency depreciation despite the favourable trend in the second quarter: while the net profit of the CEE business segment remained close to the previous year's level at current exchange rates (–0.3%), it was up by 9.3% at constant exchange rates.

● Bank Austria achieved a net profit of **€776 million for the first six months of 2014**, an increase of €198 million or over one-third (+34.3%) on the H1 2013 figure. Adjusted for exchange rate movements, the increase is 44.9%. The significant improvement is explained by a €70 million or 8.2% rise in net operating profit (adjusted for exchange rate movements: +17.6%). While operating profit did not match the performance of H1 2013 (–8.2%, adjusted for exchange rate movements: –1.3%), net write-downs of loans and provisions for guarantees and commitments in the first six months of 2014 were well below the H1 2013 level (–35.4% and –32.7%, respectively). Apart from the contribution from our bank in Turkey, which is accounted for using the equity method and declined by €104 million or 43.3% due to the irregular pattern of economic developments, net operating profit was up by €174 million or 28.5% (adjusted for currency movements: +37.3%). Contributions to this development came from Austrian customer business (+€51 million), CEE (+€75 million) and the Corporate Center (+€47 million). Total non-operating items improved by €129 million, especially as additions to provisions for risks and charges declined, despite the provisions required to take account of measures taken by the Hungarian government, and the sale of real estate in Vienna led to a positive net result from investments.

Profit performance in H1 2014 € million (2013 recast)

	H1 14	H1 13	CHANGE		*CONST*
Net operating profit	918	848	+70	+8.2%	*+17.6%*
Non-operating items [1]	17	–105	+122		
Profit before tax	935	743	+192	+25.8%	*+36.0%*
Non-operating items [2]	–159	–166	+7		
Net profit [3]	**776**	**578**	**+198**	**+34.3%**	**+44.9%**

1) Provisions for risks and charges, integration/restructuring costs and net income from investments / 2) Income tax, total profit or loss after tax from discontinued operations, non-controlling interests, Purchase Price Allocation effect (PPA), goodwill impairment charge. / 3) Net profit attributable to the owners of the parent company. / CONST = CEE translated into euro at constant exchange rates and reflected in overall results on this basis.

● At the end of June 2014, **total assets** were **€183.1 billion**, up by 3.0% on year-end 2013 (€177.9 billion) and more or less matching the figure a year earlier (30 June 2013: €182.2 billion), which still included goodwill written off in the meantime. Loans and receivables with customers rose by 2.4% to €117.6 billion in the first six months of 2014 and were funded by primary funds (deposits from customers and debt securities in issue) to the extent of 106%. Lending volume expanded from December 2013 to June 2014, both in Austrian customer business (+3.6%) and at the banking subsidiaries in CEE (+1.2%; adjusted for exchange rate movements: +2.0%). In the first six months of 2014, IFRS equity increased by 5.5% to €15.9 billion. On this basis the leverage ratio (without intangible assets) improved from 11.9 at the end of 2013 to 11.6 at the end of June 2014.

● **Risk-weighted assets and capital ratios** have been published under Basel 3 since the beginning of the year. The combined effect of regulatory requirements (current status in line with the phase-in over a number of years) and economic trends was an increase of €1.5 billion or **9.2%** in total regulatory capital, to €17.4 billion. The increase was mainly due to the issue of Tier 2 capital (+€1.0 billion/+41.3%). Risk-weighted assets (based on all risks) increased by **6.2%** to €125.9 billion in the first half of 2014. Risk-weighted lendings accounted for just over one-half of the increase, and the remaining portion related to market risk, operational risk and – new – counterparty risk. As total regulatory capital increased more strongly, the **total capital ratio** improved from 13.5% at year-end 2013 (under Basel 2.5) to 13.8% as at 30 June 2014. Most recently, the Tier 1 capital ratio was 11.0% (after 11.6% at the end of 2013).

Bank Austria in the first half of 2014 (CONTINUED)

Note: Starting with 2014 our equity investment in the joint venture in **Turkey** is no longer accounted for using proportionate consolidation but using the **equity method**. The comparative figures for the previous year have been adjusted. This reflects the implementation of IFRS 10 and IFRS 11, which came into force at the beginning of 2014. In the income statement, the contribution from Turkey is shown in a single item, with the share of profit being included in "Dividend income and other income from equity investments". This change in the accounting method has no effect on profit trends.

In the statement of financial position, the Turkish bank is no longer included with its pro-rata contributions to the various items but only with the carrying amount of the equity investment, shown in the item "Investments in associates and joint ventures". This has reduced total assets compared with previous periods, and also key volume figures derived from items in the statement of financial position, such as average lending volume. However, the operations in Turkey continue to be reflected in risk-weighted assets and capital ratios on a proportionate basis.

Condensed income statement of Bank Austria[1)]

(€ million)

RECAST [2)]	QUARTERLY FIGURES		HALF-YEAR FIGURES		CHANGE OVER PREVIOUS YEAR	
	Q1 2014	+ Q2 2014	= H1 2014	H1 2013	+/– €	+/– %
Net interest	841	866	1,708	1,716	–8	–0%
Dividend income and other income from equity investments	73	151	224	310	–86	–28%
Net fees and commissions	330	346	675	671	+4	+1%
Net trading, hedging and fair value income	112	138	250	313	–63	–20%
Net other expenses/income	20	30	50	31	+19	+61%
Operating income	1,376	1,531	2,907	3,041	–134	–4%
Payroll costs	–406	–404	–810	–834	+24	–3%
Other administrative expenses	–385	–381	–766	–741	–24	+3%
Recovery of expenses	0	0	0	1	–1	–89%
Amortisation, depreciation and impairment losses on intangible and tangible assets	–44	–37	–81	–104	+23	–22%
Operating costs	–835	–822	–1,657	–1,679	+22	–1%
Operating profit	541	710	1,250	1,362	–112	–8%
Net write-downs of loans and provisions for guarantees and commitments	–190	–142	–332	–514	+182	–35%
Net operating profit	**350**	**568**	**918**	**848**	**+70**	**+8%**
Provisions for risks and charges	–4	–28	–31	–97	+66	–68%
Integration/restructuring costs	–1	–6	–7	–6	–1	+19%
Net income from investments	75	–20	55	–2	+57	n.m.
Profit before tax	**421**	**515**	**935**	**743**	**+192**	**+26%**
Income tax for the period	–64	–63	–126	–117	–9	+8%
Total profit or loss after tax from discontinued operations	2	–27	–25	–23	–2	+10%
Profit for the period	359	425	784	604	+180	+30%
Non-controlling interests	–8	1	–8	–21	+13	–64%
Net profit before PPA [3)]	351	426	776	583	+193	+33%
Purchase Price Allocation effect	0	0	0	0	+0	n.m.
Goodwill impairment	0	0	0	–5	+5	–100%
Net profit [3)]	**351**	**426**	**776**	**578**	**+198**	**+34%**

n.m. = not meaningful. / 1) Bank Austria's income statement as presented in this table is a reclassified format corresponding to the format used for segment reporting. / 2) Recast to reflect the consolidation perimeter and business structure in 2014. / 3) Attributable to the owners of the parent company.

Bank Austria in the first half of 2014 (CONTINUED)

Quarterly trends

● In line with economic trends, Bank Austria's operating performance in the first six months of 2014 was characterised by stable commercial business in Austria and a moderate upturn in the CEE countries which are members of the EU; banking operations in Turkey and Russia were impacted by the irregular pattern of economic developments and by capital movements, factors which were reflected in the depreciation of these countries' currencies in the fourth quarter of 2013 and in the first quarter of 2014, as well as in temporary revenue losses in early 2014. The second quarter of 2014 was a successful quarter in which the bank made up for the temporary weakness of the first quarter of 2014.

	Q2 2014	+/– Q1 2014		+/– Q2 2013	
	€ MILLION	€ MILLION	%	€ MILLION	%
Operating income	1,531	+156	+11.3%	–39	–2.5%
Operating costs	–822	+14	–1.6%	+14	–1.6%
Operating profit	710	+169	+31.3%	–25	–3.4%
Net write-downs of loans	–142	+48	–25.2%	+126	–47.1%
Net operating profit	568	+217	+62.0%	+102	+21.8%
Profit before tax	515	+94	+22.3%	+87	+20.3%
Net profit	**426**	**+75**	**+21.3%**	**+130**	**+43.9%**

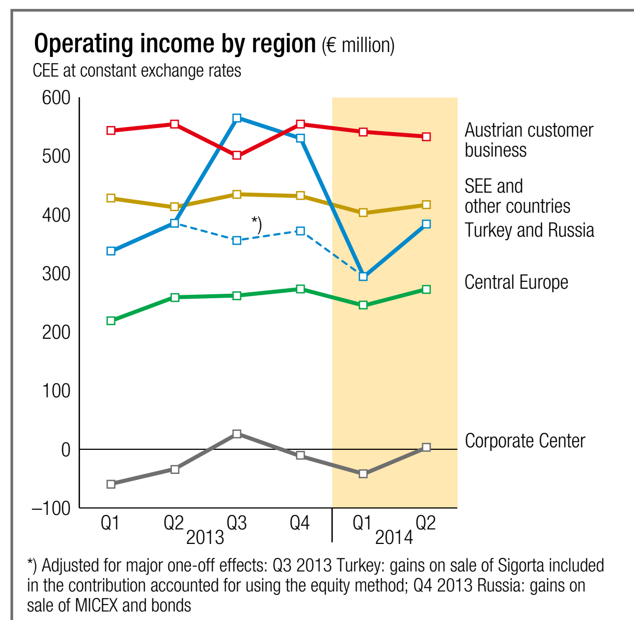
Operating income in the second quarter of 2014 was up 11.3% on the preceding quarter. The slight decline of 2.5% compared with the second quarter of 2013 was due to currency depreciation. Adjusted for exchange rate movements (CEE included at constant exchange rates), operating income rose by 1.8%. All revenue components improved compared with the preceding quarter. **Lending volume** again grew more strongly in the second quarter (+2.9% compared with the preceding quarter). In Austrian customer business (+2.8%), business with medium-sized companies picked up after a longer period of stagnation, coming close to the level of the previous year. In CEE, lending volume grew by 4.6% from the first to the second quarter. Adjusted for exchange rate movements, year-on-year total lending was up 2.4% and lending volume of local banking subsidiaries (without the Profit Center Vienna) rose by 5.6%. Compared with the previous year, loans continued to grow particularly strongly in Russia (adjusted for exchange rate movements: +14.2%) and at our banking subsidiary in the Czech Republic which also includes business in Slovakia (adjusted for exchange rate movements: +9.5%). Double-digit growth in lending was also seen in South-East Europe. This trend was reflected in **net interest**, which increased by 3.0% and offset the decline of the preceding quarter (+0.6% compared with the second quarter of 2013). **Net fees and commissions** experienced a similar trend (+4.9% and –0.6%, respectively). Since the new accounting rules took effect, the item "Dividend income and other income from equity investments" also includes the profit or loss from our Turkish joint venture, which is accounted for using the equity method. The contribution from the joint venture represents our share in the joint venture's profits and also reflects non-operating factors. The **contribution from our bank in Turkey** was €86 million, higher than in the preceding quarter (€50 million) but still well below the €142 million recorded in the second quarter of 2013. This is attributable to economic policy measures aimed at stabilisation in Turkey and to currency depreciation since the previous year.

Net trading, hedging and fair value income returned to normal levels in the second quarter of 2014 (up by 23.8% to €138 million) from a weak €112 million in the first quarter when it was impacted by valuation results and difficult market conditions in Russia.

Overall, the improvement in operating income fed through to operating profit because **costs** were down in a comparison with both the preceding quarter and the same period of the previous year (in each case by –1.6%). Net operating profit improved mainly on account of the **provisioning charge**: after the large additions to loan loss provisions at the end of 2014, net write-downs of loans and provisions for guarantees and commitments were reduced substantially in the first quarter of 2014, from €536 million to €190 million. In the second quarter they fell further, to €142 million. The cost of risk in Q2 2014 was 49 basis points. The provisioning charge was down in both Austria and CEE. **Net operating profit** consequently rose by **€217 million or 62.0% to €568 million**. This was an increase of 21.8% over the same period of the previous year (adjusted for exchange rate movements: +30.4%).

In the second quarter of 2014 **non-operating items** of the income statement between net operating profit and profit before tax came to –€53 million. In this context the most significant factor was the provisions for the foreseeable burdens resulting from foreign currency conversion in Hungary. In the first quarter of 2014 gains from the sale of real estate resulted in non-operating income of €70 million. **Profit before tax** was €515 million, €94 million or 22.3% up on the preceding quarter, and an increase of €87 million or 20.3% on the previous year. Total profit or loss after tax from discontinued operations (primarily Ukrsotsbank) was a loss of €27 million. After deduction of income tax and non-controlling interests the second quarter of 2014 closed with a net profit (attributable to the owners of the parent company) of **€426 million** after €351 million in the preceding quarter and €296 million in the second quarter of 2013.

Operating income by region (€ million)
CEE at constant exchange rates



*) Adjusted for major one-off effects: Q3 2013 Turkey: gains on sale of Sigorta included in the contribution accounted for using the equity method; Q4 2013 Russia: gains on sale of MICEX and bonds

Bank Austria in the first half of 2014 (CONTINUED)

Details of the income statement

● Bank Austria achieved **significant profit growth** in the first half of 2014: net profit was €776 million, up by over one-third (+34.3%) on the same period of the previous year. Contributions to the increase of €198 million came from net operating profit, which rose by €70 million (+8.2%), and from non-operating items, with a negative balance that was €129 million lower than for the first six months of 2013. Net operating profit was supported by three factors: first, stable operating income, which declined by €134 million or 4.4% only as a result of exchange rate movements (at constant exchange rates: 0.0%). Second, costs were almost unchanged (–€22 million/–1.3%; adjusted for exchange rate movements, +1.1%), despite a higher charge for bank levies. Third, and most importantly, net write-downs of loans and provisions for guarantees and commitments fell sharply, by €182 million or 35.4%, compared with the high provisioning charge in the first half of the previous year. While the stronger profit performance resulted mainly from lower burdening factors, reliable operating income of €2,907 million provided the basis for growth.

Operating income by component € million (2013 recast)

	H1 14	H1 13	CHANGE		*CONST*
Net interest	1,708	1,716	–8	–0.5%	*+4.3%*
Dividend income and other income from equity investments	224	310	–86	–27.6%	*–17.4%*
Net fees and commissions	675	671	+4	+0.6%	*+3.7%*
Net trading, hedging and fair value income	250	313	–63	–20.3%	*–18.2%*
Other	50	31	+19	+61.5%	
Operating income	**2,907**	**3,041**	**–134**	**–4.4%**	***+0.0%***
… without the contribution from Turkey	*2,771*	*2,802*	*–30*	*–1.1%*	*+2.8%*

The **analysis by income component** (see table) shows that two items in the income statement, i.e. dividend income and other income from equity investments (down by €86 million) and net trading, hedging and fair value income (down by €63 million), accounted for the decline in operating income at current exchange rates. Following a change in accounting rules (IFRS 11), the first item also includes the contribution from our joint venture in Turkey, which is accounted for using the equity method and represents our share in the joint venture's profit or loss, thus also reflecting non-operating factors. Given the economic adjustments in Turkey, which partly have a direct impact on the banking sector (restrictive monetary-policy measures to contain the current account deficit in view of volatile capital movements, increase in minimum reserve requirements, measures to dampen the credit card boom), and additionally affected by currency depreciation, the contribution from Turkey in the first half of 2014 was €136 million, down by €104 million or 43.3% from the same period of the previous year. Net trading, hedging and fair value income, the second item which led to the decline in operating income, was down by €63 million, mainly due to a lower net trading performance in Russia (down by €53 million or 74.4%). This development is also to be seen in the context of the difficult operating environment, especially in the first quarter of 2014, when capital outflows, currency depreciation and countermeasures (abrupt increase in interest rates) put pressure on valuations and trading positions, also in customer business. Apart from these two items of the income statement, the revenue components showed stable trends: in the first half of 2014, the sustainable income components (net interest and net fees and commissions), which together account for over four-fifths of total revenue, matched the combined figure for the same period of the previous year (–0.2%); adjusted for exchange rate movements, they rose by 4.1%.

A regional analysis makes it clear that operating income generated by Austrian customer business in the first half of 2014 came close to the comparative figure for 2013 (–2.1%). The negative figure in the Corporate Center, which results from the performance of numerous sub-holding company functions, was significantly lower than for the same period of the previous year. In CEE, the dip in Turkey's economic performance and exchange rate movements accounted for the decline in operating income; without the contribution from Turkey, accounted for using the equity method, it would have increased by 2.6% (at constant exchange rates). Even in Russia, operating income was up by 6.0% (adjusted for exchange rate movements) on the same period of the previous year. The banking subsidiaries in Central Europe achieved strong growth, mainly driven by our bank in the Czech Republic (including the network in Slovakia) and by Hungary, although currency depreciation also lopped a few points off revenue here, too. Operating income in the South-East European countries as a group more or less matched the previous year's level, though being weighed down mainly by the situation in Croatia.

Operating income / segments and regions € million (2013 recast)

	H1 14	H1 13	CHANGE		*CONST*
Austrian customer business	1,074	1,097	–23	–2.1%	
Central Eastern Europe (CEE)	1,868	2,034	–166	–8.1%	*–1.3%*
… of which contribution from Turkey	136	240	–104	–43.3%	*–29.9%*
… of which Russia	429	477	–48	–10.0%	*+6.0%*
… of which Central Europe	487	474	+14	+2.9%	*+8.2%*
… of which SEE	727	736	–9	–1.2%	*–0.4%*
… of which other countries and PCV	90	108	–19	–17.2%	*–17.5%*
Corporate Center	–35	–89	+55	–61.2%	
Bank Austria as a whole	**2,907**	**3,041**	**–134**	**–4.4%**	**+0.0%**

● **Net interest** was the most important revenue component in the first half of 2014. At €1,708 million or 59% of total operating income, it came close to the figure for the same period of the previous year (–0.5%); adjusted for exchange rate movements, it rose by 4.3%. The underlying average volume of loans in the first half of 2014 was 3.0% lower than in the previous year. But net interest was supported by the fact that average primary funds rose by 1.7% and market interest rates generally declined. The same applies to most CEE countries. In the first half of 2014, the net interest margin, measured by average interest-bearing assets, was 2.06%.

Bank Austria in the first half of 2014 (CONTINUED)

It should be noted that net interest generated by Austrian customer business – comprising three business segments: Retail & Corporates, Private Banking and Corporate & Investment Banking (CIB) – rose by a combined 1.5% compared with the same period of the previous year; the larger increase in Retail & Corporates and in Private Banking was partly offset by a decline in the CIB Division (caused by treasury business included in net interest). Economic recovery in Austria was still too weak to lead to any sustainable growth in demand; average lending volume was 2.1% lower than in the previous year. Initial signs of recovery in lending to small and medium-sized businesses were seen towards the end of the first half of 2014. Spreads in lending business remained stable, and the margin contribution (net interest) from the assets side declined slightly. Time deposits, on the other hand, increased strongly in the first half of 2014, though at the expense of sight deposits. The campaign launched at the end of 2013 to attract longer-term deposits by offering attractive interest rates in a low-interest environment was very successful, especially in corporate banking. These products are aimed at extending deposit maturities and are therefore a valuable factor in liquidity management under Basel 3 (Liquidity Coverage Ratio).

In the first half of 2014, the CEE business segment's contribution to net interest amounted to €1,195 million (70% of the total for the bank as a whole), matching the previous year's figure (–0.1%); adjusted for exchange rate movements, net interest in CEE grew by 6.6%. Again, currency depreciation detracted from a good performance in major countries: Russia, for example, still reported significant volume growth of 4.0% year-on-year, and net interest increased even more strongly (+19.6%). Yet translated at current exchange rates, such growth fed through in euro terms only to a small extent (net interest up by 1.6%). Our Czech banking subsidiary (covering the networks in the Czech Republic and Slovakia) presented a similar picture: credit expansion in local currency reached 10.9% and net interest rose by 8.4% while in euro terms, the increase in net interest was a mere 1.1%. Disproportionately strong growth in net interest was seen in Hungary (+10.9% in Hungarian forint) and also in Bulgaria (+7.9%), where our local banking subsidiary offered stability during the local banking crisis. Benefiting from their good reputation and strong market position, our banks in the Western Balkan countries also achieved growth in net interest. The concentration of commercial banking business in the Baltic countries to focus on leasing activities and the reduction of the cross-regional portfolio in the Profit Center Vienna significantly curbed volume and net interest.

Net fees and commissions in the first half of 2014 were **€675 million**, matching the previous year's level (+0.6%); adjusted for exchange rate movements (CEE translated at constant exchange rates and included on this basis), they rose by 3.7%. In the Austrian customer business segments, net fees and commissions totalled €339 million and were thus 3.0% lower than in the same period of the previous year; the decrease is due to the CIB Division's volatile securities business, which generated significant net fees and commissions in the first half of 2013. The Retail & Corporates Division achieved strong growth as sales of mutual funds, insurance products and the bank's own issues increased, more than offsetting structural declines in the payments sector. Private Banking benefited especially from a favourable development of asset management. Net fees and commissions in CEE rose strongly, and across the board, by 8.2% to €377 million; adjusted for exchange rate movements, the increase was 14.2%. The strongest growth in net fees and commissions was generated by our banks in the Central European countries (+11.4%; in local currency, +17.0%), including Hungary and the Czech Republic, and by Russia (+10.1% and +29.7%, respectively).

Net trading, hedging and fair value income in the first six months of 2014 was €250 million, lower than for the same period of the previous year (€313 million). The Austrian customer business segments generated €38 million, of which €29 million (+2.3%) was accounted for by the CIB Division. The decrease of €16 million compared with the previous year is due to a base effect in the Retail & Corporates business segment, where the comparative figure for H1 2013 included one-off income from the buyback of Wohnbaubank bonds. The net trading performance was mainly determined by developments in CEE, where net trading income in the first half of 2014 fell significantly in all countries except our Bulgarian bank, to a level that was down by €76 million or 36.0% from the figure for the same period of the previous year. As mentioned earlier, the strong decline of €53 million to €18 million in Russia was mainly caused by market developments in the first quarter of 2014, when capital movements, depreciation of the Russian rouble and interest rate increases surrounding the Crimea crisis had a negative impact on valuation results. In the second quarter of 2014, interest-rate and exchange-rate management generated higher net trading income in a highly volatile environment. The Corporate Center performs various functions in connection with liquidity and capital management and other sub-holding company functions including exchange rate hedging for expected CEE profit contributions; net trading income in the Corporate Center rose by €29 million to €76 million. The rise was partly due to the increase in the share in profits of the UniCredit Markets product line, to which Bank Austria is still entitled this year (under the terms and conditions of the sale of UniCredit CAIB).

● **Costs** remained under control thanks to numerous cost saving initiatives. Operating costs in the first six months of 2014 came to €1,657 million, down by 1.3% on the same period of the previous year. Even when adjusted for exchange rate movements, operating costs rose at a low 1.1%. Contributions to the decline came from payroll costs and from amortisation, depreciation and impairment losses on intangible and tangible assets, which were down by €24 million and €23 million, respectively. Only non-staff expenses increased (+€24 million), driven largely by bank levies and financial transaction taxes (+€17 million).

Bank Austria in the first half of 2014 (CONTINUED)

Costs € million (2013 recast)

	H1 2014	H1 2013	CHANGE		CONST
Austrian customer business	747	738	+9	+1.2%	
Central Eastern Europe (CEE)	793	830	–37	–4.5%	*+0.3%*
Corporate Center	117	111	+6	+5.6%	
Bank Austria as a whole	1,657	1,679	–22	–1.3%	*+1.1%*
… without bank levies and FTT	1,538	1,577	–39	–2.5%	
Cost/income ratio (without bank levies)					
Austrian customer business	65.7%	64.0%	+1.7 percentage points		
Central Eastern Europe (CEE)	40.5%	38.9%	+1.6 percentage points		
Bank Austria as a whole	53.7%	52.4%	+1.3 percentage points		
Types of costs					
Payroll costs	810	834	–24	–2.9%	
Other administrative expenses	766	741	+24	+3.3%	
… of which: bank levies/FTT	*119*	*102*	*+17*	*+17.0%*	
Amortisation, depreciation and impairment losses on intangible and tangible assets	81	104	–23	–22.3%	

FTT= financial transaction tax (Hungary and Slovenia), not deducted in the calculation of the adjusted cost/income ratio because it is a transitory item.

The bank levy has become the key cost-driving factor in Austria: including subsidiaries, it totalled €62 million, an increase of 27.0% on the same period of the previous year. The bank levy thus accounted for about 16% of other administrative expenses in Austria.

Payroll costs in Austrian customer business (Retail & Corporates, Private Banking and CIB) were reduced by 2.7% despite the wage drift. The decrease was particularly pronounced in the Retail (–4.3%) and Corporates (–2.2%) subdivisions, and the Corporate & Investment Banking Division also reduced staff expenses (–0.9%); payroll costs hardly changed in the expanding Private Banking Division (+1.3%). In average terms for the first half of 2014, the reduction in **staffing levels** in Austrian customer business by 194 FTEs compared with the previous year (–3.6%) had a positive impact on costs. The number of FTEs at the end of June 2014 was down by 269 FTEs on a year earlier (–5.1%). The reductions in FTEs were most pronounced in the Retail subdivision compared with the first half of 2013 (–197 FTEs/–6.1%), followed by Corporates (–60 FTEs/–6.3%), Private Banking (–10 FTEs/–1.8%) and CIB (–3 FTEs/–0.6%). In the Corporate Center, staffing levels were reduced by an additional 62 FTEs (–3.3%). This reflects an initial impact of the **Initiative 2020**: through the promotion of various part-time working models this is aimed at reducing the effective workforce and providing a more flexible working arrangement. The incentive phase ended in the middle of the year, 1,270 employees (Bank Austria including subsidiary companies) accepted one of the part-time working models. On account of the high acceptance rate and other measures such as not filling vacant positions, we are two-thirds of the way towards meeting our reduction targets; they will reduce payroll costs in the next few quarters.

While the cost reductions in the CEE business segment (–4.5%) are attributable to currency depreciation in the larger countries, costs increased only slightly, by 0.3%, when adjusted for exchange rate movements. Within the total figure, payroll costs remained stable despite the continued expansion in the strategic countries which are the focus of attention (at current exchange rates: –4.6%, adjusted for exchange rate movements: +0.9%). Operating costs in the first six months of 2014 (i.e. without FTE numbers for the bank in Ukraine, which is classified as held for sale and therefore included in the income statement item "total profit or loss after tax from discontinued operations" but not in operating costs, and without Kazakhstan in the comparable period) included an average 24,247 FTEs in CEE, a reduction of 203 FTEs compared with the first six months of 2013. Staffing levels increased mostly in Russia (+75 FTEs) and Romania (+146 FTEs); in Romania the increase was due to the acquisition of the retail portfolio of the Royal Bank of Scotland. FTE numbers were down in Hungary as a result of the streamlining of the branch network (–82 FTEs) and in Croatia (–70 FTEs); in the Baltic countries FTEs declined following the discontinuation of universal banking business (–104 FTEs). In the new banking subsidiary in the Czech Republic, created through the merger of Czech and Slovak units in 2013, staffing levels declined by an average 130 FTEs on a comparable basis. In view of wage rises and increases in FTEs, costs in Russia rose at a disproportionately strong rate (in euro terms: –8.8%/at constant exchange rates: + 7.5%), while the bank in the Czech Republic reduced operating costs in euro terms (–16.2%) and in local currency (–9.9%) although the bank levy in Slovakia continued to be payable following the merger of the two banks.

● **Net write-downs of loans and provisions for guarantees and commitments** returned to a normal level after the large additions to loan loss provisions in the second half of 2013. This development had a strong positive effect on the income statement for the first six months of 2014. The provisioning charge in H1 2014 was **€332 million**, down by €467 million from the H2 2013 figure and €182 million lower than in H1 2013. The cost of risk declined to 58 basis points (bp).

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

	PROVISIONING CHARGE € million (2013 recast)			COST OF RISK as a proportion of lending volume		
	H1 14	H2 13	H1 13	H1 14	H2 13	H1 13
Austria *)	32	105	114	11bp	35bp	37bp
Central Eastern Europe	300	694	400	108bp	241bp	141bp
Bank Austria as a whole	332	799	514	58bp	136bp	86bp

*) incl. Corporate Center

The provisioning charge in Austria (customer business including the Corporate Center) declined steadily: at €32 million, the figure was down by €82 million or 72.1% from the previous year. The cost of risk for the first six months of 2014 was as low as 11bp. A reduction was seen in all business segments. The Retail & Corporates business segment benefited from a particularly strong reduction of the provisioning charge, with

Bank Austria in the first half of 2014 (CONTINUED)

Lending volume and asset quality *)

(€ million)	30 JUNE 2014	31 DEC. 2013	30 JUNE 2013
Bank Austria as a whole			
Gross loans to customers	124,347	121,403	125,008
Total write-downs	–6,748	–6,523	–5,994
Net loans to customers	117,599	114,880	119,014
Gross impaired loans	11,187	10,842	10,738
… % of loans to customers	*9.0%*	*8.9%*	*8.6%*
Specific write-downs	–6,108	–5,905	–5,395
Coverage ratio	54.6%	54.5%	50.2%
Net impaired loans	5,079	4,937	5,342
… % of loans to customers	*4.3%*	*4.3%*	*4.5%*
Central Eastern Europe (CEE)			
Gross loans to customers	61,265	58,863	59,414
Total write-downs	–4,174	–3,934	–3,410
Net loans to customers	57,091	54,930	56,004
Gross impaired loans	7,614	7,270	7,006
… % of loans to customers	*12.4%*	*12.4%*	*11.8%*
Specific write-downs	–3,873	–3,657	–3,117
Coverage ratio	50.9%	50.3%	44.5%
Net impaired loans	3,741	3,613	3,888
… % of loans to customers	*6.6%*	*6.6%*	*6.9%*
Austria (incl. Corporate Center)			
Gross loans to customers	63,082	62,540	65,594
Total write-downs	–2,574	–2,589	–2,584
Net loans to customers	60,508	59,951	63,010
Gross impaired loans	3,573	3,572	3,732
… % of loans to customers	*5.7%*	*5.7%*	*5.7%*
Specific write-downs	–2,235	–2,248	–2,278
Coverage ratio	62.5%	62.9%	61.0%
Net impaired loans	1,338	1,324	1,454
… % of loans to customers	*2.2%*	*2.2%*	*2.3%*

*) Ukraine (classified as held for sale) and Turkey (accounted for using the equity method) are no longer included in the relevant items of the statement of financial position and the income statement. Comparative figures adjusted.

net write-downs of loans and provisions for guarantees and commitments falling to €47 million (H1 2013: €89 million). This decrease was mainly due to developments in the Retail subdivision, with a lower volume of additions to loan loss provisions and one-off effects resulting from methodological changes. The Corporate & Investment Banking (CIB) business segment benefited from the release of a provision for a major loan which was pending for a long time; this led to a net release of loan loss provisions of €15 million. In the same period of the previous year, the provisioning charge in CIB was €25 million.

In the CEE Division, net write-downs of loans and provisions for guarantees and commitments in the first half of 2014 were €300 million, down by one-quarter from the first half of 2013 (€400 million). A comparison with the second half of 2013 (€694 million) shows that the provisioning charge declined to less than one-half. The cost of risk in CEE fell to 108bp, almost returning to the level seen before the financial market crisis (2008: 90bp). Our Czech banking subsidiary reduced net write-downs of loans and provisions for guarantees and commitments by 16.7% (adjusted for exchange rate movements: –10.6%) to €39 million, with the cost of risk falling to 66bp, the lowest level in the CEE Division. The situation in South-East Europe also improved thanks to a stable development of the loan portfolio; the strongest improvement was achieved in Croatia (–41.0%), where the cost of risk fell to 82bp. Declines were also seen in Bulgaria (–17.9%/cost of risk: 152bp) and in Romania (–9.8%), where the cost of risk is 282bp, still the highest level of all CEE countries. The reduction of volume and associated risk at the CEE Profit Center Vienna also contributed significantly to the reduction of net write-downs of loans. The provisioning charge at our Russian banking subsidiary in euro terms rose by 7.7% to €46 million; adjusted for exchange rate movements, the increase was 26.8%. Nevertheless, the cost of risk in Russia, at 74bp, is far below the CEE average.

Impaired loans rose by 3.2% in the first six months of 2014 (30 June 2014 compared with 31 December 2013), increasing at a slightly higher rate than gross lending volume (+2.4%). As a result, the impaired loans ratio (impaired loans as a proportion of gross lending volume) remained almost unchanged at 9.0% (after 8.9%). Specific write-downs were increased by 3.4%, leading to a further slight rise in the coverage ratio to 54.6%, compared with 50.2% a year earlier. The large net addition to loan loss provisions at the end of 2013 marked a decisive improvement (all comparative figures have been put on a comparable basis after deduction of loans recorded in Ukraine (held for sale) and Turkey (accounted for using the equity method). In the CEE business segment, too, the rate of growth of lending volume (+4.1%) and impaired loans (+4.7%) was more or less the same, specific write-downs increased by 5.9%. On this basis the impaired loans ratio remained unchanged at 12.4% (on a net basis, 6.6%), and the coverage ratio continued to improve (50.9% after 50.3% at the end of 2013); a year earlier it was 6.4 percentage points lower (44.5%).

➔ As operating income held up well, costs were stable and the provisioning charge was substantially reduced, Bank Austria's **net operating profit** (operating profit less net write-downs of loans and

Net operating profit

€ million (2013 recast)

	H1 2014	H1 2013	CHANGE		*CONST*
Operating income without Turkey	2,771	2,802	–30	–1.1%	*+2.8%*
Operating costs	–1,657	–1,679	+22	–1.3%	*+1.1%*
Net write-downs of loans and provisions for guarantees and commitments	–332	–514	+182	–35.4%	*–32.7%*
Net operating profit without Turkey	782	608	+174	+28.5%	*+37.3%*
Contribution from Turkey (at equity)	136	240	–104	–43.3%	*–29.9%*
Net operating profit	**918**	**848**	**+70**	**+8.2%**	***+17.6%***

Bank Austria in the first half of 2014 (CONTINUED)

provisions for guarantees and commitments) for the first half of 2014 was €918 million, up by €70 million or 8.2%. Adjusted for exchange rate movements, net operating profit rose by 17.6%.

Following a change in accounting rules (IFRS 11), Turkey is included in operating profit with its contribution accounted for using the equity method, which also reflects non-operating items. This item has an influence on operating performance, given the large operations of our joint venture in Turkey and the irregular pattern of economic developments in that country. Without the contribution from Turkey, Bank Austria's net operating profit rose by 28.5% in euro terms; adjusted for exchange rate movements, the increase was 37.3% (table). This shows that Bank Austria, with its widely diversified geographical presence in nearly all CEE markets, is well placed to balance out divergent trends.

● The balance of **non-operating income/expenses** to be taken into account in calculating profit before tax on the basis of net operating profit was net income of €17 million in the first half of 2014, compared with a net expense of €105 million in the same period of the previous year. This includes net additions to provisions for risks and charges, which amounted to €31 million, one-third of the figure in the previous year, despite the provisions for the currently foreseeable effects of the new Hungarian Customer Loan Act (a law on retroactive rescheduling of foreign currency loans). The H1 2013 figure for this item was €97 million, including a charge which had to be recognised for the last time in connection with a legal dispute that lasted many years (Bank Austria Switzerland); the disposal of ATF Bank, Kazakhstan, also had an impact. Integration/restructuring costs (€7 million after €6 million) in the first half of 2014 related to the restructuring of the branch network in Hungary, and in the previous year to the merger of the banking networks in the Czech Republic and Slovakia. Net income from investments amounted to €55 million in the first six months of 2014, while the figure for the same period of the previous year was slightly negative, at –€2 million. This item includes gains on the sale of real estate (head office building in Vienna, Schottengasse, and other properties in Vienna).

Profit before tax — € million (2013 recast)

	H1 2014	H1 2013	CHANGE		*CONST*
Austrian customer business	296	243	+53	+21.8%	
Central Eastern Europe (CEE)	734	791	–57	–7.2%	*+3.4%*
… of which contribution from Turkey (at equity)	136	240	–104	–43.3%	*–29.9%*
… of which Russia	247	283	–37	–12.9%	*+2.5%*
… of which Central Europe	116	114	+2	+1.3%	*+7.7%*
… of which SEE	244	209	+35	+16.8%	*+17.7%*
… of which other *)	–9	–55	+47	–84.4%	*–83.6%*
Corporate Center	–94	–291	+196	–67.5%	
Bank Austria as a whole	**935**	**743**	**+192**	**+25.8%**	***+36.0%***

*) Baltic countries and Profit Center Vienna (PCV).

Net operating profit of €918 million and the balance of non-operating items of €17 million resulted in a **profit before tax** of **€935 million** for the first six months of 2014, an increase of €192 million or **25.8%** over the same period of the previous year (adjusted for exchange rate movements: +36.0%). The improvement was due to the turnaround in non-operating items, which are reflected in the Corporate Center. Nevertheless, this performance is remarkably stable when seen against the background of insufficient economic growth, a low interest rate environment and new burdens arising in some CEE regions, in addition to the bank levies. In Austria, cost stability and risk trends helped to improve performance despite persistently weak demand and low interest rates. Although profit before tax in Turkey and Russia declined, mainly as a result of special developments and currency depreciation mentioned above, the CEE business segment achieved a profit before tax of €734 million, which accounted for over 70% of total profit before tax generated by customer business. At constant exchange rates, profit before tax in CEE exceeded the figure for the same period of the previous year by 3.4%, thanks to good performance in the other regions of CEE. This confirms the soundness of Bank Austria's broadly based operations spanning various economic regions.

The income tax charge for the first half of 2014 was €126 million (H1 2013: €117 million). Total profit or loss after tax from discontinued operations (Ukraine) was a loss of €25 million for the first half of 2014, more or less matching the figure for the same period of the previous year (–€23 million). The amount attributable to non-controlling interests was €8 million (H1 2013: €21 million).

The first six months of 2014 thus closed with a **net profit** of **€776 million**, exceeding the figure for H1 2013 by over one-third (+34.3%; adjusted for exchange rate movements, +44.9%). Return on equity (ROE after tax) was 10.9%, up by 4.1 percentage points on the same period of the previous year.

Profit performance — € million (2013 recast)

	H1 2014	H1 2013	CHANGE		*CONST*
Net operating profit	918	848	+70	+8.2%	*+17.6%*
Provisions for risks and charges	–31	–97	+66	–68.0%	*–66.1%*
Integration/restructuring costs	–7	–6	–1	+19.1%	*+23.9%*
Net income from investments	55	–2	+57	n.m.	*n.m.*
Profit before tax	935	743	+192	+25.8%	*+36.0%*
Other non-operating items 1)	–159	–166	+7	–4.0%	*+5.0%*
Net profit 2)	**776**	**578**	**+198**	**+34.3%**	***+44.9%***

1) Income tax, total profit or loss after tax from discontinued operations, non-controlling interests, Purchase Price Allocation effect, goodwill impairment charge. / 2) Net profit attributable to the owners of the parent company. / CONST= CEE translated into euro at constant exchange rates.
n.m. = not meaningful

Bank Austria in the first half of 2014 (CONTINUED)

Financial position

Note: *In conformity with changes in accounting rules (implementation of IFRS 10 and IFRS 11), we are required to account for our investment in Yapı Kredi ve Bankasi (a joint venture with our partner Koç Group in Turkey) using the equity method rather than proportionate consolidation for periods beginning on 1 January 2014. This means that in the statement of financial position, the Turkish bank is no longer included with its pro-rata contributions to the various items but only with the carrying amount of the investment, included in the item "Investments in associates and joint ventures". Given the large size of the operations in Turkey, as a result of this change in the accounting method, total assets declined by €18.4 billion or 9.4% compared with the figure determined as at year-end 2013. This also had a significant influence on key indicators of customer business: loans and receivables with customers were down by €14.2 billion or 11.0%, and primary funds – i.e. the sum total of deposits from customers and debt securities in issue – declined by €13.9 billion or 9.9%. For comparability purposes, the figures in the statement of financial position as at the end of 2013 and as at 30 June 2013 were recast.*

● As at 30 June 2014, Bank Austria's **total assets** were **€183.1 billion**, up by **€5.3 billion or 3.0%** on the year-end 2013 level. They were also slightly higher than at 30 June 2013 (+€946 million/+0.5%) although the previous year's figure included goodwill which was fully written off in the consolidated financial statements for the 2013 financial year. Exchange rate effects are an important factor as major currencies (Russian rouble, Turkish lira and Czech crown) depreciated in the second half of 2013. The Russian rouble and the Turkish lira have stabilised in the year to date, and the Czech crown has been constant – while there was only slight further depreciation, the year-on-year gap remained. Despite the concentration on core business and the sale of marginal activities and real estate investments, total assets **expanded**.

● On the **assets side, loans and receivables with customers** amounted to €117.6 billion, accounting for over 64% of total assets. Customer loans were thus up by 2.4% on year-end 2013. A year-on-year comparison shows a decline of €1.4 billion or 1.2%, all of which was due to exchange rate movements. Lending volume in

Major items in the statement of financial position

	30 JUNE 2014	31 DEC. 2013 ADJUSTED 1)	CHANGE OVER YEAR-END 2013		30 JUNE 2013 ADJUSTED 1)	CHANGE OVER PREVIOUS YEAR	
ASSETS							
Financial market investments 2)	23,852	20,722	+3,129	+15.1%	20,075	+3,776	+18.8%
Loans and receivables with banks	22,173	22,316	–143	–0.6%	20,574	+1,600	+7.8%
Loans and receivables with customers	117,599	114,880	+2,719	+2.4%	119,014	–1,415	–1.2%
Investments in associates and joint ventures	4,409	4,463	–54	–1.2%	5,270	–861	–16.3%
Intangible assets	167	162	+5	+3.1%	1,914	–1,747	–91.3%
Non-current assets and disposal groups classified as held for sale 3)	3,002	3,714	–712	n.m.	3,746	–744	–19.9%
Other asset items	11,921	11,598	+323	+2.8%	11,584	+337	+2.9%
Total assets	**183,124**	**177,857**	**+5,267**	**+3.0%**	**182,178**	**+946**	**+0.5%**
LIABILITIES AND EQUITY							
Deposits from banks	26,635	24,145	+2,489	+10.3%	28,307	–1,672	–5.9%
Deposits from customers	95,842	96,978	–1,136	–1.2%	93,898	+1,944	+2.1%
Debt securities in issue	29,129	27,302	+1,828	+6.7%	26,829	+2,300	+8.6%
… Primary funds (deposits from customers and debt securities in issue)	*124,971*	*124,280*	*+692*	*+0.6%*	*120,727*	*+4,244*	*+3.5%*
Liabilities included in disposal groups classified as held for sale 3)	1,545	2,242	–697	n.m.	2,103	–558	–26.5%
Provisions for risks and charges	5,368	4,985	+383	+7.7%	4,873	+383	+10.2%
Equity	15,884	15,050	+833	+5.5%	18,007	–2,123	–11.8%
Other liability items	8,720	7,154	+1,567	+21.9%	8,161	+559	+6.9%
Total liabilities and equity	**183,124**	**177,857**	**+5,267**	**+3.0%**	**182,178**	**+946**	**+0.5%**
KEY RATIOS							
Customer loans/total assets	64.2%	64.6%			65.3%		
Primary funds/total liabilities and equity	68.2%	69.9%			66.3%		
Customer loans/primary funds	94.1%	92.4%			98.6%		
Total assets/equity (leverage ratio) 4)	11.6	11.9			11.2		

1) Equity investment in the Turkish Koç Group accounted for using the equity method (previously: proportionate consolidation) and included in the item "Investments in associates and joint ventures". / 2) Financial assets at fair value through profit or loss + available-for-sale financial assets + held-to-maturity investments. / 3) Mainly Ukrsotsbank, Ukraine, which is classified as a disposal group held for sale. / 4) Without intangible assets. / n.m. = not meaningful

Bank Austria in the first half of 2014 (CONTINUED)

Austrian customer business grew by 3.6% in the first six months of 2014. Loans to small and medium-sized businesses showed initial signs of recovery (+0.8%) after a long period of weak credit demand. FactorBank recorded strong growth (+17%). Loans and receivables with customers in the Central Eastern Europe (CEE) business segment increased by 1.2% in the first six months of 2014 and were thus slightly lower (–1.4% at current exchange rates) than a year earlier. The exposure at the Vienna-based CEE headquarters, which includes the cross-regional structured finance portfolio, was reduced substantially, by €1.6 billion. Without this reduction, total customer loans at the local banks in CEE grew by 2.9% compared with year-end 2013 and were up by 1.4% on June 2013; at constant exchange rates, total customer loans in CEE expanded by 3.7% and 5.7%, respectively. In this context one should note the limitation of commercial banking business with customers in the Baltic countries to focus on leasing activities. Particularly strong growth continued to be seen in Russia (+5.5% year-on-year; adjusted for exchange rate movements, +14.2%) and at our Czech banking subsidiary, which also includes business in Slovakia (+3.0%; adjusted for exchange rate movements, +9.5%). The pronounced monetary expansion experienced in the past few years, by the younger CEE markets in particular, has slowed, not least due to economic-policy measures taken with a view to stabilising developments. Inflation rates declined significantly, in some countries to zero (see the section on the banking environment).

Among the other major items on the assets side, **financial market investments** rose strongly (+€3.1 billion or +15.1%), mainly as a result of liquid funds being invested in sovereign debt securities (+€3.2 billion/+19.9%), predominantly Austrian government bonds, which are classified as available-for-sale financial assets (AfS). The three largest positions of government bonds – Austrian (47.2%), Hungarian (10.4%) and Czech (9.8%) sovereign bonds – accounted for a combined 67% of the total portfolio (€19.1 billion). Holdings of Russian sovereign bonds amounted to 4.0% of the portfolio, Italian government bonds totalled 2.7% and Spanish government bonds accounted for 2.8% of the total.

● On the **liabilities side, primary funds** (the sum total of deposits from customers and debt securities in issue) were up by 0.6% on December 2013 and 3.5% higher than at the end of June 2013. Of the total volume of primary funds, €76.6 billion or 61% came from Austria (customer business plus Corporate Center) while loans in Austria totalled €60.5 billion. An analysis of components shows that **debt securities in issue** increased at a disproportionately strong rate (+6.7% and +8.6%, respectively, to €29.1 billion); three large new issues (two mortgage bond issues and a public-sector covered bond issue) totalling €1.5 billion, which were very successfully placed, and issues of Tier 2 capital totalling €1 billion accounted for a significant proportion of this growth. **Deposits from customers**, at €95.8 billion, were slightly below the level at year-end 2013 (–1.2%) but up by 2.1% on a year earlier. This reflects mixed trends: within Austrian customer business as a whole (+0.4%/–1.7%), efforts to attract time deposits from business customers with a view to extending maturities ("Basel 3 products" ahead of new liquidity requirements) were successful; this growth was, however, offset by a decline in business with large corporates. In CEE, deposits from customers as at the end of the reporting period were slightly lower than at the end of 2013 (–2.7%) but up by a substantial 7.1% on June 2013; adjusted for exchange rate movements, the increase was 11.7%. The local banking operations in all CEE countries except the Hungarian banking subsidiary achieved significantly higher growth in deposits than in loans in a year-on-year comparison. A disproportionately strong increase in deposits was seen in Russia (up by 25.5% in local currency) although growth was weakening in the course of the first six months. The 10.7% expansion of customer deposits at our Czech banking subsidiary also reflected the acquisition of customer portfolios from a third party. Bank Austria's banking subsidiary in Bulgaria recorded a strong inflow of deposits (+9.7% compared with year-end 2013, +15.1% year-on-year) as two local banks experienced serious difficulties. Customer deposits in Serbia and in Bosnia and Herzegovina also grew at double-digit rates, underlining the bank's good reputation. Among the **other** items on the liabilities side, interbank deposits (€26.6 billion) rose by 10.3% in the first six months of 2014, reflecting larger amounts of central bank funding in several countries. Financial liabilities held for trading, financial liabilities at fair value through profit or loss and hedging derivatives increased by 16.6% (in line with the corresponding items on the assets side) in the first six months of 2014.

From the end of 2013 to the end of June 2014, IFRS **equity** rose by 5.5% to **€15.9 billion**. The leverage ratio – total assets/equity (based on the cash concept, without intangible assets) – was 11.6 as at 30 June 2014, after 11.9 at the end of 2013 and 11.2 at the end of June 2013. Equity declined by €2.1 billion year-on-year (end of June 2014/end of June 2013), reflecting the goodwill impairment charge of €2.0 billion at the end of 2013. The increase of €833 million from year-end 2013 to 30 June 2014 was mainly due to the net effect of changes in the consolidation perimeter (+€136 million), the inclusion of net profit of €784 million for the first half of 2014 (including non-controlling interests) and items within other comprehensive income totalling –€81 million. Within these items, the foreign currency translation reserve had a negative impact of –€266 million in the first six months of 2014, which resulted mainly from strong depreciation of the Ukrainian hryvnia (reflected in the valuation of Ukrsotsbank, which is classified as held for sale); recent appreciation of other CEE currencies has in the meantime largely offset depreciation of these currencies in the first few months of 2014. A positive effect of +€380 million after tax in the first half of 2014 resulted from reserves in accordance with IAS 39, which directly reflect market price volatility of financial market instruments (cash flow hedges, available-for-sale financial assets). In connection with the further adjustment of the discount rate to the low interest rate environment, the impact on equity of actuarial losses in accordance with IAS 19 amounted to –€274 million.

Bank Austria in the first half of 2014 (CONTINUED)

Capital resources pursuant to the Austrian Banking Act

Regulation 2013/575/EU (Capital Requirements Regulation – CRR) and Directive 2013/36/EU (Capital Requirements Directive IV) to implement Basel 3 in the European Union came into force on 1 January 2014. The Austrian CRR Supplementary Regulation of 11 December 2013 defines the implementation of transition provisions of the CRR for Austria. During the transition period, the effects of Basel 3 implementation are less significant. The following comments compare Basel 2.5 as at 31 December 2013 with Basel 3 as at 30 June 2014.

● **Risk-weighted assets** (RWAs) rose by €7.4 billion or 6.2% to €125.9 billion in the course of the first half of 2014.

The increase was mainly accounted for by the switch from Basel 2.5 to Basel 3. The main factors behind the increase were the 250% weighting of significant investments (mandatory deduction from capital under Basel 2.5), new risk positions relating to the Asset Value Correlation (AVC) multiplier and the regulatory Credit Value Adjustment (CVA). The introduction of the SME supporting factor reduced RWAs.

Credit risk RWAs rose by €4.2 billion. The increase resulted from Basel 3 implementation effects, effects related to the transfer of leasing companies to Bank Austria, and from growth in CEE (primarily in Russia and Turkey). These factors were partly offset by currency effects in Russia and Ukraine. Compared with the end of 2013, the portfolios under the standardised approach rose by €1.4 billion and the portfolios under the internal ratings-based approach were up by €2.7 billion.

Market risk RWAs rose by €1.8 billion from the end of 2013 to 30 June 2014. An increase in the first quarter of 2014 which mainly resulted from the limitation on offsetting market risk to EU countries under Basel 3 was partly offset by maturing foreign currency hedging positions (RUB and TRY in particular) and partly by the closing of risk positions until the end of June. RWAs from operational risk were up by €0.4 billion from year-end 2013.

➔ From year-end 2013 to 30 June 2014, **total capital requirements** arising from credit risk increased by 4.1% to €8.6 billion, while capital requirements for all types of risk rose by 6.2% to €10.1 billion.

● **Total regulatory capital** was €17.4 billion, up by €1.5 billion on year-end 2013. Despite more stringent Basel 3 requirements, Tier 1 capital increased slightly because large deductions were no longer applicable, and due to applicable transitional adjustments. Tier 2 capital increased by a total of €1.5 billion, reflecting new issues of qualifying Tier 2 capital in the amount of €1.0 billion and the fact that Basel 2 deductions were no longer applicable. Tier 3 capital, which was eligible for inclusion under Basel 2, is no longer eligible for inclusion under Basel 3, leading to a reduction of €0.2 billion.

➔ Although RWAs rose, a further increase in total regulatory capital since the end of 2013 resulted in the **total capital ratio** rising from 13.5% to **13.8%**. Given the RWA increase, the Tier 1 capital ratio declined from 11.6% to 11.0%. As at 30 June 2014, the Common Equity Tier 1 capital ratio was 11.0%; this figure is not directly comparable with the Core Tier 1 capital ratio (excluding hybrid capital) as at the end of 2013 because of different calculation methods.

Capital ratios based on all risks

	30 JUNE 2014 BASEL 3	31 DEC. 2013 BASEL 2.5
Common Equity Tier 1 capital ratio	11.0%	–
Core Tier 1 capital ratio (excl. hybrid capital)	–	11.3%
Tier 1 capital ratio	11.0%	11.6%
Total capital ratio	13.8%	13.5%

Development of business segments

Retail & Corporates

Business segment as a whole (incl. FactorBank)					**of which: Retail**				**of which: Corporates**			
(€ million)	H1 2014	H1 2013 [1]	CHANGE		H1 2014	H1 2013 [1]	CHANGE		H1 2014	H1 2013 [1]	CHANGE	
Operating income	747	749	−2	−0.2%	382	382	−0	−0.0%	361	363	−2	−0.5%
Operating costs	−565	−569	+5	−0.8%	−374	−385	+12	−3.1%	−187	−180	−7	+3.8%
Operating profit	183	180	+3	+1.7%	8	−4	+12	n.m.	174	183	−9	−4.8%
Net write-downs of loans	−47	−89	+42	−47.1%	11	−32	+43	n.m.	−58	−57	−1	+2.3%
Net operating profit	136	91	+45	+49.8%	19	−36	+55	n.m.	116	126	−10	−8.0%
Profit before tax	**134**	**89**	**+46**	**+51.6%**	**19**	**−37**	**+56**	**n.m.**	**115**	**126**	**−10**	**−8.3%**
Loans to customers (avg.)	40,026	41,103	−1,076	−2.6%	13,672	14,234	−562	−4.0%	25,942	26,552	−611	−2.3%
Primary funds (avg.)	40,457	42,423	−1,966	−4.6%	21,466	22,807	−1,341	−5.9%	18,960	19,600	−639	−3.3%
Risk-weighted assets (avg.) [2]	17,596	17,806	−210	−1.2%	7,831	7,897	−66	−0.8%	9,439	9,645	−206	−2.1%
Average equity [3]	1,744	1,826	−82	−4.5%	718	811	−94	−11.5%	991	996	−4	−0.4%

1) For segment reporting purposes, the comparative figures for 2013 were recast to reflect the structure and methodology of the 2014 reporting period (see the segment reporting section in the notes to the consolidated financial statements on pages 61 to 62 of this report. / 2) Average risk-weighted assets (all risks) under Basel 3 (2014) and Basel 2.5 (2013), respectively. / 3) Standardised capital; capital allocation to subsidiaries reflects actual IFRS capital. The difference compared with the consolidated IFRS equity of Bank Austria is included in the Corporate Center. / This information applies to all business segment tables.

The Retail & Corporates business segment covers two large subdivisions: Retail, which comprises customer segments ranging from mass-market to affluent customers; and Corporates, the subdivision serving the entire range of business customers, SMEs and medium-sized and large companies which do not access capital markets (including Real Estate and Public Sector). Retail & Corporates also includes the specialised FactorBank AG (0.6% of revenues).

● Weak demand and low interest rates continued to affect retail and corporate banking operations in Austria. While initial signs of improvements were seen in the second quarter of 2014 in credit demand from corporate customers, the decline in market interest rates continued (reduction of the ECB's key interest rates at the beginning of June). Customer behaviour still focused on debt reduction but persistently low interest rates prompted increased activity in financial investments, at a late stage of the stock market cycle.

In this environment Bank Austria's Retail & Corporates business segment achieved a **profit before tax** of **€134 million** in the first half of 2014, up by about one-half **(+51.6%)**. Despite a continued erosion of income from payment transactions, operating income remained stable at the previous year's level, reflecting a rise in the net interest contribution from deposit business with corporate customers and reviving securities business with private customers. Both developments were due to successful product and marketing initiatives. Cost reductions were the main factor contributing to profit improvement; this reflects initial effects resulting from determined staff-related measures and, above all, improved portfolio quality thanks to stringent risk management over many years, which led to a sharp decline in net write-downs of loans in retail banking.

● **Operating income** in the first half of 2014 was €747 million, almost matching the figure for the previous year (–0.2%). Without the one-off effect in net trading income in the same period of the previous year (gains on the buyback of Wohnbaubank bonds), operating income rose by 1.3%. The sustainable income components, i.e. net interest and net fees and commissions, totalled €710 million, an increase of €15 million or 2.1%.

Net interest rose by 2.6% to €467 million although average lending volume was down by 2.6% from the same period of the previous year. All of the improvement in net interest resulted from deposit business, primarily with corporate customers. A major contribution came from a successful marketing campaign launched to attract longer-term deposits: for fixed deposit periods between 6 and 24 months we offered interest rates exceeding other offers available in the market, with a view to attracting deposits with longer maturities ahead of new Basel 3 rules including the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Our offer met with a strong response from corporate customers. Time deposits in the Retail & Corporates Division rose by more than 60%, though this growth was partly due to a shift from sight deposits to time deposits. This was the main reason for the increase in net interest while interest rates were significantly lower than in the same period of the previous year. On the lending side, overdraft and consumer loans – quite generally those with short maturities – declined whereas medium-term and long-term loans remained stable as demand from corporate customers picked up.

The moderate increase in **net fees and commissions** (+1.2% to €243 million) reflects trends which moved in opposite directions: all components of securities business developed favourably in the first six months of 2014, and even better from the first to the second quarter of the current year. This favourable trend was seen in both

Development of business segments (CONTINUED)

subdivisions, Retail and Corporates (placement of mutual funds, management fees and safe-custody business). The underlying volume of fund products was up by 4.3 %, assets under custody (including new issues) increased by 5.4 %. Net fees and commissions from financial services made a contribution to growth in the Corporates subdivision, mainly reflecting guarantee business. However, the increase was largely offset by a decline in income from services (except card business); export finance and cash management were affected by sluggish foreign trade.

Strict **cost management** is beginning to pay off: operating costs in the first half of 2014 were €565 million, slightly lower (–0.8 %) than in the same period of the previous year, despite the extensive reshaping of sales operations (SmartBanking, new branch concept) and IT expenses associated with new product initiatives in corporate banking; without the higher charge for the bank levy (+27.4 %), the decrease would have been even stronger (–1.8 %). The most pronounced decline was seen in payroll costs, which were down by 3.6 % from the first half of the previous year. At the end of June 2014, staff employed in Retail & Corporates numbered 3,942 FTEs, down by 256 FTEs or 6.1 % from a year earlier. This reflects the high level of acceptance of our offers of part-time working arrangements as part of the Initiative 2020 and other measures such as not filling vacant positions. The cost/income ratio has nevertheless remained high, at 72.3 % (without the bank levy, 47.5 % in the Corporates subdivision); in cost-intensive retail banking it is beginning to decline (H1 2014: down by 3.6 percentage points to 95.8 %).

Net write-downs of loans and provisions for guarantees and commitments amounted to €47 million in the first half of 2014, a decrease of almost one-half (–€42 million or –47.1 %) from the same period of the previous year. The cost of risk in the Retail & Corporates Division (measured against average lending volume) declined to a very low level of 24 basis points (H1 2013: 43 bp, full year 2013: 33 bp). The volume of additions to loan loss provisions in retail banking was low and one-off effects from methodological adjustments permitted the release of provisions. In the corporate banking sector, the risk profile showed a stable development as expected (cost of risk: 45 bp after 43 bp). A slight improvement in operating profit and lower net write-downs of loans led to an increase of €45 million or 49.8 % in **net operating profit** of Retail & Corporates to €136 million. As the balance of non-operating items remained low, at –€1 million, **profit before tax** rose by €46 million, more or less the same amount as net operating profit, to €134 million. Return on equity (ROE before tax) improved from 9.7 % to 15.4 % in the first half of 2014, also reflecting declines in risk-weighted assets and equity capital allocated to the business segment. The Retail & Corporates business segment generated an Economic Value Added (beyond the cost of capital) of €20 million (marginal RARORAC: 32.5 %).

● We made good progress in the first six months of 2014 with the implementation of the new **business model** described in the 2013 Annual Report. Efforts focusing on our SmartBanking offer were followed by the conversion of branches and the differentiation into a basic services bank and an advisory bank. May 2014 saw the opening of the first new-style branch (intensive customer advisory services in addition to self-service foyers offering high-technology devices). This was the first of ten further openings planned for 2014. More flexible opening hours (e.g. 9 a.m. to 6 p.m. at the new pilot branch) proved to be very attractive to customers, SmartBanking at the virtual branch is available from 8 a.m. to 10 p.m. As part of network optimisation we combined 15 branches in the first half of 2014 (6 in Vienna and 9 in other Austrian regions), two were converted into self-service branches. With a view to relieving the workload on staff at the branches, we are currently establishing customer service centres independent of location to service low-income customer portfolios more effectively and on a profitable basis. In this context we are using experience from the Business Service Center in corporate banking, where the concept is being rolled out to all Austrian regions. In corporate banking we aim to enhance international business by more intensively marketing our Group's network not only in CEE and Europe but also in Asia.

Private Banking

(€ million)	H1 2014	H1 2013	CHANGE	
Operating income	82	75	+6	+8.2 %
Operating costs	–59	–56	–3	+6.1 %
Operating profit	23	20	+3	+14.0 %
Net write-downs of loans	0	0	+1	n.m.
Net operating profit	23	19	+3	+17.5 %
Profit before tax	**23**	**19**	**+4**	**+18.2 %**
Total financial assets (avg.)	20,059	18,753	+1,306	+7.0 %
Primary funds (avg.)	8,302	7,765	+538	+6.9 %
Loans to customers (avg.)	638	602	+35	+5.9 %
Risk-weighted assets (avg.)	613	724	–111	–15.3 %
Average equity	165	159	+6	+3.9 %

n.m. = not meaningful

The Private Banking business segment, with the two well-known brands Bank Austria Private Banking and Schoellerbank, is the undisputed market leader in Austria's private banking market. With a presence in 24 locations throughout Austria, the Private Banking Division's 542 employees (FTEs, end of June 2014) serve about 36,000 high net worth individuals and some 1,200 of the 3,000 Austrian private foundations.

● Private Banking maintained its growth path in the first half of 2014: in average terms for the first six months of 2014, total financial assets were €20.1 billion, up by 7.0 % on the same period of the previous year; at the end of June 2014 they totalled **€20.3 billion.**

Development of business segments (CONTINUED)

Profit before tax rose by **18.2%** to €23 million. On this basis the Private Banking business segment made a positive contribution to overall results (ROE before tax: 28.0%) and as a successful **premium bank** it also served as a flagship for Bank Austria.

Total financial assets rose by 5.8% in the period from the end of 2013 to the end of June 2014 and were 7.4% up on the level of the previous year. The Private Banking Division made good progress in expanding its leading market position in **asset management**, its strategic core objective: assets under management have been showing a steady, sustainable upward trend since early 2012; in the first half of 2014 they increased by 7.0% to €6.7 billion, a level which was 12% higher than a year earlier. Equal contributions to this increase came from the positive performance and from strong net inflows of funds, even if monthly figures regularly reflect temporary uncertainty by investors coinciding with the geopolitical periods of crisis, especially in light of the advanced stage of the stock market cycle. Partly for this reason, but primarily on account of attractive products offered in an environment of zero interest rates, direct deposits were up 9.4% to €7.6 billion in the first half of 2014 (year-on-year: +7.8%). Time deposits with long maturities and competitive terms (Basel 3 products) met with a strong response also from Private Banking customers seeking a liquidity investment. This was reflected in significant fluctuations, partly at the expense of sight deposits. Assets under custody (€6.0 billion) stagnated at the previous year's level in line with the long-term structural trend.

● **Operating income** rose by 8.2% to €82 million, in parallel with volume expansion. Net interest grew at a disproportionately strong rate due to the strong growth in deposits at lower market rates. Given the nature of private banking business, net fees and commissions remained the largest income component (59%). Fees and commissions from asset management increased by 4.8%, while the other components (fund sales and custody) were slightly below the level of the previous year. **Operating costs** in the first six months of 2014 rose by 6.1% compared with the same period of the previous year, largely due to growth of non-staff expenses, especially the higher bank levy payable by Schoellerbank. Payroll costs remained stable. After deduction of costs, **profit before tax** came to **€23 million** (with virtually no net write-downs of loans and provisions for guarantees and commitments), an increase of **18.2%** on the figure recorded for the first half of the previous year. Capital allocated to this business segment is typically low. On account of Private Banking's good profitability, ROE before tax was a disproportionately high 28.0% and marginal Economic Value Added was €14 million, with a RARORAC of 50.8%.

Corporate & Investment Banking (CIB)

(€ million)	H1 2014	H1 2013	CHANGE	
Operating income	245	273	–28	–10.2%
Operating costs	–124	–113	–10	+9.2%
Operating profit	121	159	–38	–24.0%
Net write-downs of loans	15	–25	+41	–159.6%
Net operating profit	136	134	+2	+1.8%
Profit before tax	**139**	**135**	**+4**	**+2.8%**
Loans to customers (avg.)	14,312	14,443	–130	–0.9%
Primary funds (avg.)	8,873	9,282	–409	–4.4%
Risk-weighted assets (avg.)	8,314	9,619	–1,305	–13.6%
Average equity	898	988	–90	–9.1%

Corporate & Investment Banking (CIB) focuses on serving multinational companies and large international customers, providing them with capital market services and/or investment banking solutions tailored to their specific needs. CIB also serves banks, asset managers, institutional customers, insurance companies and selected real estate customers and funds. Within the international network of UniCredit's CIB Division, and based on the financial market expertise of a major international market player, CIB also performs important functions as a product provider for other Divisions.

● While the year had started in a confident mood, geopolitical crises caused new uncertainty in the international environment and large companies hesitated to implement their plans for expansion. The business cycle in the first half of 2014 was still far from the stage at which international trade in our region intensifies, turnover accelerates significantly, and capacity utilisation and investment activity increase, thereby also stimulating demand for banking services. Large companies continued to enjoy ample liquidity. The banking environment was additionally characterised by a renewed decline in interest rates and a flattening yield curve. The ECB is pursuing a new course with targeted longer-term tenders (TLTRO). It is to be hoped that lower-cost funding will lead to higher lending volume, providing an impetus to growth of the real economy.

● The CIB business segment achieved a sound performance in the first half of 2014. Profit before tax was €139 million, up by 2.8% on the same period of the previous year, with a favourable development of the credit risk profile offsetting the decline in operating income. As risk-weighted assets declined, equity allocated to the business segment was lower than in the same period of the previous year; on this basis CIB generated a return on equity of 30.9%, an increase of 3.6 percentage points over a year earlier.

Development of business segments (CONTINUED)

Within the revenue components, **net interest** was €168 million, down by 5.9% yet rising in commercial banking business, despite pressure on margins. Average lending volume held up well, and margins were maintained thanks to continued repricing. On the liabilities side, the campaign to attract longer-term deposits also led to a shift from sight deposits to time deposits in CIB, which is a welcome development from the bank's overall point of view, with a year-on-year improvement in margins (promotion of "Basel 3 products"). Lower transformation income generated by treasury was the main reason for the decline in net interest. **Net fees and commissions** amounted to €47 million, down by 18.8% from the same period of the previous year. The decline reflects customers' restraint in securities business (primarily in trading activities and safe-custody business and also in CAIB Poland) and lower guarantee commissions. Foreign trade-related services were impacted by the sluggish market. **Net trading income** was €29 million, slightly higher than in the first half of the previous year (€28 million).

Operating costs rose by 9.2% to €124 million compared with the same period of the previous year. Within the total figure, payroll costs remained unchanged at €40 million; the average number of employees (full-time equivalents) was 564 FTEs, down by 19 FTEs (–4.4%) from the previous year due to organisational streamlining. Other administrative expenses, which include the bank levy, rose significantly, mainly as a result of IT costs associated with the development of new products and analysis tools for customer advisory services. The cost/income ratio was 44.1%. In the first half of 2014, **portfolio quality** continued to develop favourably, and a positive one-off effect was the release of provisions for a legacy burden which had been pending for years; overall, this resulted in an improvement of €41 million reflected in the income statement compared with the same period of the previous year. CIB generated a **profit before tax** of **€139 million**, accounting for close to one-half (47%) of profit before tax generated by Bank Austria's customer business in Austria. As risk-weighted assets declined and allocated equity was therefore lower, ROE before tax rose to 30.9% (H1 2013: 27.3%) and marginal Economic Value Added (mEVA) amounted to €51 million (mRARORAC: 12.8%).

Central Eastern Europe (CEE)

(€ million)	H1 2014	H1 2013	CHANGE		CONST[1]
Operating income	1,868	2,034	–166	–8.1%	*–1.3%*
Operating costs	–793	–830	+37	–4.5%	*+0.3%*
Operating profit	1,075	1,204	–128	–10.6%	*–2.3%*
Net write-downs of loans	–300	–400	+100	–24.9%	*–21.5%*
Net operating profit	775	803	–28	–3.5%	*+7.1%*
Profit before tax	**734**	**791**	**–57**	**–7.2%**	***+3.4%***
Loans to customers (avg.)	55,684	56,860	–1,175	–2.1%	*+1.7%*
Primary funds (avg.)	48,208	46,823	+1,385	+3.0%	*+11.2%*
Risk-weighted assets (avg.)[2]	82,394	87,857	–5,462	–6.2%	. . .
Average equity	13,882	14,405	–524	–3.6%	. . .

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

Bank Austria with its CEE business segment is UniCredit's sub-holding company for operations in Central and Eastern Europe, managing the leading banking network in CEE in 13 countries. The consolidated banks in CEE (end of June 2014, including Ukraine) have 29,848 employees (FTEs), who work in 1,488 branches; added to this are 18,486 employees (FTEs at 100%) and 1,007 branches in our Turkish joint venture. Following changes in accounting rules (IFRS 11), the investment in the Turkish joint venture has been accounted for using the equity method instead of proportionate consolidation since the beginning of 2014. In the first half of 2014, the CEE business segment accounted for 71.3% of profit before tax generated by Bank Austria's customer business (Bank Austria without the Corporate Center).

Business developments in CEE in the past one and a half years reflected the economic **environment**, which has had widely varying influences on the regions in CEE. Our banking subsidiaries in the Central European countries and, to a lesser extent, also those in other CEE countries which are members of the European Union and are closely integrated in the industrial network, benefited from the moderate upswing and signs of revival of domestic business activity. They also benefited from a stable financing environment characterised by a significant decline in interest rates (and inflation rates), while credit expansion was weaker. The banking subsidiaries in these countries achieved the strongest growth of operating profit. The Western Balkan countries are still focusing on structural changes as part of their integration process. Nevertheless, our local banking subsidiaries were able to take advantage of their strong market position and top reputation as international banks; overall, these banks achieved double-digit improvements in their operating performance. Our Turkish joint venture, on the other hand, operating in the economy which records the strongest growth, was affected by a restrictive economic policy aimed at containing the current account deficit, volatile capital movements and currency depreciation tendencies; these measures partly had a direct impact on the banking sector (interest rate policy, increase in minimum reserve requirements, measures to dampen the credit card boom). The burdening factors

Development of business segments (CONTINUED)

increased until the first quarter of 2014 but the local joint venture coped well. In Russia, uncertainty and the impacts of the Crimea crisis and the subsequently escalating Ukraine conflict hit the economy, which was already affected by cyclical and structural weakness. However, our banking subsidiary successfully performed its function as an international bank and continued to expand; results in local currency more or less matched those achieved in the same period of the previous year.

● **Quarterly trends:** Overall, the CEE Division's profit before tax for the second quarter of 2014 was €402 million, up by €70 million or 21.1% on the first quarter. Operating income rose by €119 million or 13.6%, with all components improving. As operating costs declined by €15 million or 3.8%, operating profit in Q2 2014 increased by €134 million or 28.5% to €605 million compared with the preceding quarter. Net write-downs of loans and provisions for guarantees and commitments were slightly higher in the second quarter of 2014 than in the preceding quarter (€166 million after €134 million), but 39% lower than the quarterly average in 2013 and only about one-third of the Q4 2013 figure (€489 million), which reflected large additions to loan loss provisions. Net operating profit (operating profit less net write-downs of loans) for the second quarter of 2014 therefore rose by €102 million or 30.2% to €438 million. It should be noted that the base figures for Q1 2014 were disproportionately low; compared with the second quarter of 2013, net operating profit rose by 2.7%. While currency depreciation resulting from exchange rate movements from the first to the second quarter (in implicit terms, based on the average for all countries and the period average) was no longer a significant factor, a year-on-year comparison shows a strong exchange rate effect. Adjusted for currency movements (i.e. at constant exchange rates prevailing at the end of 2012), growth of net operating profit from the first to the second quarter of 2014 was +30.7%, more or less the same rate as growth at current exchange rates (+30.2%). Year-on-year, however, net operating profit improved by 13.4% when adjusted for exchange rate movements, instead of 2.7% growth in euro terms (implicit depreciation: –9.4%). Revenue and profit trends were supported by **volume developments**: lending volume in CEE rose by 3.2% (adjusted for exchange rate movements) from the end of March to the end of June, after stagnating in the first quarter. A comparison with the previous year shows volume growth of 2.4%, with total lending volume at the local banking subsidiaries (without the Profit Center Vienna, where the exposure was reduced) up by 5.6%. Particularly strong growth continued to be seen in Russia (+14.2%) and at our Czech banking subsidiary, which also includes business in Slovakia (+9.5%). The banking subsidiaries in South-East European countries also expanded at double-digit rates.

● **Developments in the first half of 2014:** The weaker first quarter and the better performance in the second quarter resulted in a profit before tax of **€734 million** for the first half of 2014, down by 7.2% from the same period of the previous year. Adjusted for exchange rate movements, profit before tax rose by **3.4%**.

CEE: results for the first half of 2014

€ million	H1 2014	H1 2013	CHANGE		*CONST*
Net interest	1,195	1,197	–2	–0.1%	*+6.6%*
Dividend income and other income from equity investments	138	249	–111	–44.6%	*–31.7%*
Net fees and commissions	377	348	+29	+8.2%	*+14.2%*
Net trading, hedging and fair value income	136	212	–76	–36.0%	*–32.9%*
Operating income	1,868	2,034	–166	–8.1%	*–1.3%*
Operating costs	–793	–830	+37	–4.5%	*+0.3%*
Net write-downs of loans and provisions for guarantees and commitments	–300	–400	+100	–24.9%	*–21.5%*
Net operating profit	**775**	**803**	**–28**	**–3.5%**	***+7.1%***
Non-operating deductions	–41	–12	–29	>100%	*>100%*
Profit before tax	**734**	**791**	**–57**	**–7.2%**	***+3.4%***
Loans to customers (eop)	*57,091*	*57,911*	*–820*	*–1.4%*	*+2.4%*
Primary funds (eop)	*48,398*	*45,857*	*+2,540*	*+5.5%*	*+10.2%*

● In the first half of 2014, **net interest** in euro terms came close to the figure for the same period of the previous year (–0.1%); adjusted for exchange rate movements, net interest grew by 6.6%. Credit expansion amounted to 2.4% (June 2014/June 2013, adjusted for exchange rate movements), a modest rate by CEE standards, with particularly strong growth in the Czech Republic (+9.5%) and Russia (+14.2%). On the other hand, deposit growth accelerated strongly (+10.2%), with disproportionately high rates of growth in the Czech Republic (+10.7%) and Russia (+25.5%) but also in Bulgaria, where our banking subsidiary underlined its position as a stable bank during the Bulgarian banking crisis, and in Bosnia and Herzegovina as well as in Serbia. As a result the loan/direct-funding ratio improved (by 8.2 percentage points to 118.1%) and interest margins widened. Net interest generated in Russia continued to grow strongly, rising by 19.6% compared with the same period of the previous year. At our Czech banking subsidiary (covering the networks in the Czech Republic and in Slovakia) net interest increased by 8.4%. Disproportionately strong growth of net interest was also seen in Hungary (+10.9%) and in Bulgaria (+7.9%) (all growth rates based on figures adjusted for exchange rate movements). Benefiting from their very good reputation and strong market position, our banks in the Western Balkan countries also achieved growth in net interest. But the concentration of commercial banking business in the Baltic countries to focus on leasing activities and the reduction of the cross-regional portfolio in the Profit Center Vienna significantly curbed volume and net interest generated by the CEE Division.

Net fees and commissions in CEE rose strongly, and across the board, by 8.2% to €377 million; adjusted for exchange rate movements, the increase was 14.2%. The strongest growth in net fees and commissions was achieved by our banks in the Central European countries (+11.4%; in local currency, +17.0%), including Hungary and the Czech Republic, and by Russia (+10.1% and +29.7%, respectively).

Development of business segments (CONTINUED)

In addition to loan-related commissions (including guarantees), payment services and card business were significant factors in many countries, and growth was also recorded in Financial Advisory and investment advisory services (assets under management).

In past years, **net trading, hedging and fair value income** made relatively steady contributions to operating income, particularly through interest-rate and exchange-rate management in an environment of flexible exchange rates. These contributions have recently become more volatile. Trading performance in the first half of 2014 fell significantly in all countries except our Bulgarian bank, to a level that was down by €76 million or 36.0% from the good figure for the same period of the previous year. The strong decline of €53 million to €18 million in Russia in the first six months of 2014 was mainly caused by market developments in the first quarter, when capital movements, depreciation of the Russian rouble and interest rate increases surrounding the Crimea crisis had a negative impact on valuation results. In the second quarter of 2014, interest-rate and exchange-rate management generated higher net trading income in a highly volatile environment.

➔ **Operating income** in CEE totalled €1,868 million in the first half of 2014, down by 8.1% from the same period of the previous year. Following a change in accounting rules (IFRS 11), our joint venture in Turkey is accounted for using the equity method instead of proportionate consolidation, and is included in operating income on this basis. The contribution from Turkey, representing our share in the Turkish bank's profit or loss and thus also reflecting costs and non-operating items, declined by €104 million to €136 million compared with the previous year. Without this contribution, operating income in CEE was 3.4% lower; adjusted for exchange rate movements, the figure was up by 2.6% on the same period of the previous year.

● Performance of the CEE Division was supported by a 4.5% **decline in costs**. The cost reductions in CEE are attributable to currency depreciation in the larger countries; when adjusted for exchange rate movements, operating costs remained stable at +0.3%. Within the total figure, payroll costs remained more or less unchanged (+0.9%) despite continued expansion in the strategic countries which are the focus of attention. Operating costs in the first six months of 2014 (i.e. without staff of the bank in Ukraine, which is classified as held for sale and therefore included in the income statement item "total profit of loss after tax from discontinued operations", and without Kazakhstan in the comparable period) reflected an average 24,247 FTEs in CEE, a reduction of 203 FTEs compared with the first six months of 2013. Staffing levels increased mostly in Russia (+75 FTEs) and Romania (+146 FTEs); in Romania the increase was due to the acquisition of the retail portfolio of the Royal Bank of Scotland. FTE numbers were down in Hungary as a result of the streamlining of the branch network (–82 FTEs), in Croatia (–70 FTEs) and in the Baltic countries, where staff numbers declined following the discontinuation of universal banking business (–104 FTEs). In the new banking subsidiary in the Czech Republic, created through the merger of Czech and Slovak units in 2013, staffing levels declined by an average 130 FTEs. In view of wage rises and increases in FTEs, costs in Russia rose at a disproportionately strong rate (+7.5%), while the bank in the Czech Republic reduced operating costs in local currency (–9.9%) not least as a result of synergies unlocked through the merger. Overall, the cost/income ratio in the CEE Division was 40.5% (without bank levies), a slight increase of 1.6 percentage points yet still more than 13 percentage points below the average for the bank as a whole (53.7%).

The provisioning charge for the first six months of 2014 was substantially lower than in the same period of the previous year. In the CEE Division, **net write-downs of loans and provisions for guarantees and commitments** in the first half of 2014 were €300 million, down by one-quarter from the first half of 2013 (€400 million). A comparison with the second half of 2013 (€694 million) shows that the provisioning charge declined to less than one-half. The cost of risk in CEE fell to 108bp, almost returning to the level seen before the financial market crisis (2008: 90bp). Our Czech banking subsidiary reduced net write-downs of loans and provisions for guarantees and commitments by 16.7% (adjusted for exchange rate movements: –10.6%) to €39 million, with the cost of risk falling to 66bp, the lowest level in the CEE Division. The situation in South-East Europe also improved thanks to a stable development of the loan portfolio; the strongest improvement was achieved in Croatia (–41.0%), where the cost of risk fell to 82bp. Declines were also seen in Bulgaria (–17.9%/ cost of risk: 152bp) and in Romania (–9.8%), where the cost of risk is 282bp, still the highest level of all CEE countries. The reduction of volume and associated risk at the CEE Profit Center Vienna also contributed significantly to the reduction of net write-downs of loans. The provisioning charge at our Russian banking subsidiary in euro terms rose by 7.7% to €46 million; adjusted for exchange rate

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

€ million	H1 2014	H1 2013	CHANGE		*CONST*
Czech Republic [1]	111	83	+28	+33.5%	*+42.2%*
Hungary	48	33	+15	+44.4%	*+49.6%*
Slovenia	0	3	–3	n.m.	*n.m.*
Bulgaria	84	68	+16	+24.3%	*+24.3%*
Romania	30	29	+0	+1.1%	*+2.8%*
Croatia	83	68	+15	+21.4%	*+22.2%*
Bosnia and Herzegovina	22	24	–2	–9.2%	*–9.2%*
Serbia	25	24	+0	+0.9%	*+4.3%*
Russia	245	283	–37.9	–13.4%	*+2.0%*
Other incl. PCV [2]	–8	–52	+44		
Contribution from Turkey [3]	*136*	*240*	*–104*	*–43.3%*	*–29.9%*
CEE	**775**	**803**	**–28**	**–3.5%**	***+7.1%***
Without Turkey	*639*	*567*	*+75*	*+13.4%*	*+22.9%*

1) Including Slovakia. / 2) Baltic countries and CEE Profit Center Vienna. / 3) Turkish joint venture accounted for using the equity method instead of proportionate consolidation in accordance with IFRS 11; also reflects non-operating items.

Development of business segments (CONTINUED)

movements, the increase was 26.8 %. Nevertheless, the cost of risk in Russia, at 74 bp, is far below the CEE average. Net write-downs of loans and provisions for guarantees and commitments returned to a normal level after the large additions to loan loss provisions in the 2013 consolidated financial statements. Asset quality hardly changed in the first six months of 2014: lending volume (+ 4.1 %) and impaired loans (+ 4.7 %) developed at more or less the same rate, specific write-downs rose more strongly (+ 5.9 %). As a result, the impaired loans ratio remained unchanged at 12.4 % (in net terms, 6.6 %), and the coverage ratio continued to improve (50.9 % after 50.3 % at the end of 2013); a year earlier it was 6.4 percentage points lower (44.5 %).

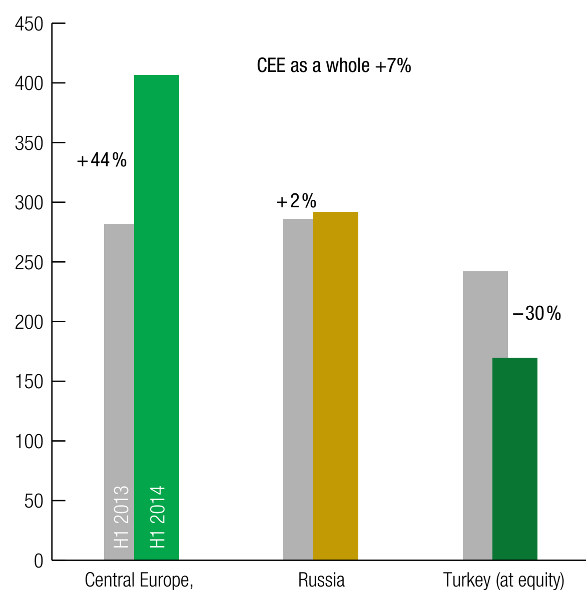
➔ **Net operating profit** of the CEE Division in the first half of 2014 declined by 3.5 % to **€ 775 million** on account of specific local developments in Turkey and Russia and exchange rate effects. At constant exchange rates, it rose by 7.1 %. The chart on this page shows that the decline in Turkey – on the basis of figures adjusted for exchange rate movements – was more than offset by increases in Central Europe (CE) and South-East Europe (SEE) (including the other units). Considering the difficult circumstances, Russia's contribution was significant and even higher than in the previous year.

● The balance of **non-operating items** in the first half of 2014 was a **net expense of € 41 million**, an increase of € 29 million over the previous year, to be deducted from net operating profit to arrive at profit before tax. All of the increase was due to provisions for the currently foreseeable effects of the new Hungarian Customer Loan Act (a law on retroactive rescheduling of foreign currency loans). Integration and restructuring costs (€ 7 million after € 6 million) in the first half of 2014 related to the restructuring of the branch network in Hungary, and in the previous year mainly to the merger of the banking networks in the Czech Republic and Slovakia.

The CEE Division achieved a **profit before tax** of **€ 734 million** after € 791 million (– 7.2 %; adjusted for exchange rate movements, + 3.4 %), accounting for 71 % of profit before tax generated by Bank Austria's customer business. Return on equity (ROE before tax) in the first half of 2014 was 10.6 %, almost matching the figure for the same period of the previous year (H1 2013: 11.0 %). Despite the large amount of allocated equity and the relatively high cost of capital, the CEE Division generated a marginal Economic Value Added of € 92 million and a risk-adjusted return on risk-adjusted capital (mRARORAC) of 2.5 %.

All banking subsidiaries (except the bank in Ukraine, which is classified as held for sale) operated profitably. In Central Europe, a significant contribution came especially from the Czech banking subsidiary (including the branch network in Slovakia) with an improvement in its performance – see the table showing the income statement of CEE banks on the following pages); Hungary also reported a profit despite various regulatory and fiscal burdens. Half-year results of the SEE banks improved, too, with significant increases in Bulgaria and Croatia. As mentioned before, profit before tax in Russia and Turkey declined, on account of the irregular pattern of economic developments and currency depreciation against the euro. Developments over the past twelve months have enhanced the weight of CEE countries which are EU members in the business portfolio. Yet it should be noted that Turkey and Russia currently account for over one-half of profit before tax (52.1 %); this compares with two-thirds (66.1 %) in the same period of the previous year. On the basis of broader diversification and the focus on core business and strategic core markets, implemented in the past two years, especially CEE countries which are EU member states are well placed to take advantage of a recovery of foreign demand while weathering some volatility of foreign capital flows. This should have positive effects on domestic business activity and on monetary expansion and the banking sector. As in Western Europe, we will continue refining our regional service model in CEE and adapting it to changes in customer behaviour. Events in Ukraine have served to highlight Russia's structural growth challenge as well as its reliance on foreign capital. The hardening of the situation could have a tangible impact also on CEE countries via direct (trade links) and indirect transmission channels (financial markets). Geopolitical risks are likely to persist over the course of the next couple of quarters. But we hope that this conflict will come to a peaceful solution.

Net operating profit in H1 2014 compared with H1 2013
At exchange rates prevailing at year-end 2012



*) and the Baltic countries and the Profit Center Vienna

Development of business segments (CONTINUED)

Income statement of the banks in CEE [1]

(€ million)

	CEE BUSINESS SEGMENT		CZECH REPUBLIC, SLOVAKIA		HUNGARY	
	H1 2014	H1 2013	H1 2014	H1 2013	H1 2014	H1 2013
Net interest	1,195	1,197	170	168	104	97
Dividends and income from equity investments	138	249	1	1	0	0
Net fee and commission income	377	348	62	61	59	47
Net trading income	136	212	27	35	18	21
Net other operating income/expenses	22	27	5	3	2	2
Operating income	**1,868**	**2,034**	**265**	**267**	**183**	**168**
Operating costs	**–793**	**–830**	**–115**	**–137**	**–109**	**–107**
Operating profit	**1,075**	**1,204**	**150**	**130**	**75**	**61**
Net write-downs of loans	–300	–400	–39	–47	–26	–27
Net operating profit	**775**	**803**	**111**	**83**	**48**	**33**
Provisions for risks and charges	–33	–5	–3	1	–32	–1
Integration/restructuring costs	–7	–6	–1	–3	–5	0
Net income from investments	–2	–1	–3	–1	1	–1
Profit before tax	**734**	**791**	**103**	**80**	**12**	**32**
Net profit [2]	**574**	**619**	**85**	**61**	**10**	**25**
Customer loans (end of period)	57,091	57,911	11,958	11,615	3,033	3,215
Primary funds (end of period)	48,398	45,857	12,210	11,818	3,131	3,426
Exchange rate (period average)			27.444	25.700	306.93	296.01
Appreciation/depreciation against the euro	–7.0% [3]		–6.4%		–3.6%	

(€ million)

	SLOVENIA		BULGARIA		ROMANIA	
	H1 2014	H1 2013	H1 2014	H1 2013	H1 2014	H1 2013
Net interest	24	25	131	122	93	93
Dividends and income from equity investments	0	0	1	0	0	0
Net fee and commission income	14	13	47	46	33	34
Net trading income	1	1	14	10	42	45
Net other operating income/expenses	0	0	0	6	–1	0
Operating income	**39**	**39**	**194**	**184**	**167**	**172**
Operating costs	**–20**	**–21**	**–72**	**–71**	**–81**	**–80**
Operating profit	**19**	**18**	**121**	**113**	**86**	**92**
Net write-downs of loans	–19	–15	–37	–45	–57	–63
Net operating profit	**0**	**3**	**84**	**68**	**30**	**29**
Provisions for risks and charges	0	0	1	–4	0	–1
Integration/restructuring costs	0	0	0	0	0	0
Net income from investments	0	0	0	0	0	0
Profit before tax	**0**	**3**	**85**	**63**	**30**	**29**
Net profit	**0**	**2**	**76**	**56**	**13**	**23**
Customer loans (end of period)	1,882	2,083	4,963	4,761	4,454	4,244
Primary funds (end of period)	1,474	1,364	4,784	4,157	3,011	2,833
Exchange rate (period average)	1.0000	1.0000	1.9558	1.9558	4.4643	4.3912
Appreciation/depreciation against the euro	0.0%		0.0%		–1.6%	

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

Development of business segments (CONTINUED)

(€ million)

	RUSSIA		BALTICS		TURKEY AT EQUITY [4]		FOR INFORMATION: TURKEY PRO QUOTA [4]	
	H1 2014	H1 2013	H1 2014	H1 2013	H1 2014	H1 2013	H1 2014	H1 2013
Net interest	337	332	7	10			317	421
Dividends and income from equity investments	0	4	0	0	136	240	3	4
Net fee and commission income	70	63	0	1			140	170
Net trading income	18	72	0	1			29	63
Net other operating income/expenses	3	5	1	–1			2	22
Operating income	**429**	**477**	**8**	**12**	**136**	**240**	**491**	**680**
Operating costs	**–138**	**–151**	**–3**	**–8**			**–241**	**–274**
Operating profit	**291**	**326**	**5**	**5**	**136**	**240**	**250**	**406**
Net write-downs of loans	–46	–42	–1	0			–73	–86
Net operating profit	**245**	**283**	**4**	**5**	**136**	**240**	**177**	**320**
Provisions for risks and charges	0	0	0	0			–5	–23
Integration/restructuring costs	0	0	–1	–3			0	0
Net income from investments	1	0	0	0			3	2
Profit before tax	**247**	**283**	**3**	**2**	**136**	**240**	**175**	**299**
Net profit	**197**	**222**	**3**	**1**	**136**	**240**	**136**	**240**
Customer loans (end of period)	13,374	12,681	392	662			16,291	15,028
Primary funds (end of period)	12,470	11,358	0	120			15,350	13,994
Exchange rate (period average)	47.9924	40.7539	0.7015 [5]	0.7002	2.9678	2.3809	2.9678	2.3809
Appreciation/depreciation against the euro	–15.1%		–0.2%		–19.8%		–19.8%	

(€ million)

	CROATIA		BOSNIA		SERBIA	
	H1 2014	H1 2013	H1 2014	H1 2013	H1 2014	H1 2013
Net interest	162	158	46	47	44	44
Dividends and income from equity investments	4	4	0	0	0	0
Net fee and commission income	61	56	17	16	9	8
Net trading income	6	26	2	3	5	5
Net other operating income/expenses	11	13	0	0	0	0
Operating income	**243**	**258**	**65**	**65**	**57**	**57**
Operating costs	**–121**	**–124**	**–36**	**–37**	**–22**	**–21**
Operating profit	**122**	**134**	**29**	**28**	**35**	**37**
Net write-downs of loans	–39	–65	–8	–5	–11	–12
Net operating profit	**83**	**68**	**22**	**24**	**25**	**24**
Provisions for risks and charges	1	0	0	0	0	0
Integration/restructuring costs	0	0	0	0	0	0
Net income from investments	0	1	0	0	0	0
Profit before tax	**84**	**69**	**21**	**24**	**24**	**24**
Net profit	**56**	**47**	**16**	**18**	**21**	**21**
Customer loans (end of period)	9,432	9,691	1,588	1,468	1,353	1,331
Primary funds (end of period)	8,328	8,307	1,747	1,520	1,054	858
Exchange rate (period average)	7.6247	7.5701	1.9558	1.9558	115.61	111.90
Appreciation/depreciation against the euro	–0.7%		0.0%		–3.2%	

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

Outlook

Recovery amid uncertainty

● At the moment it is easier to assess the outlook for the global economy than the European environment. Following weather-induced erratic influences and economic-policy intervention (e.g. in Japan and China) which partly moved in opposite directions in the first and second quarters of 2014, the **global economy** now presents a picture which is very similar to the basic scenario outlined in our 2013 Annual Report: in the developed economies (OECD countries) the upswing is progressing, at an accelerated pace around the middle of the year. The global Purchasing Managers' Index continues to indicate growth (52.5 in July). Monetary policy and the financial environment around the world are accommodating and fiscal burdens are diminishing now that the debt and budget crises have eased. Low inflation continues to support purchasing power and previously postponed investment projects are gradually being realised. Buoyant domestic business activity in the world's major regions is beginning to support economic recovery.

The **US** economy is acting as a pacemaker again, for the first time after a long interval. US growth should accelerate to +3.5% p.a. in the summer months and thereafter continue at rates between +2.5% and +2.8%. (The relatively modest growth rate of +1.6% for 2014 as a whole is due to the low base level at the beginning of the year.) Private consumption is driving growth and benefiting from a sustained improvement in the labour market, a recovery of the housing market and the related effects on net assets, and from a decline in the savings ratio. Investment activity is growing, though modestly. The Federal Reserve sees these developments as sufficient grounds for gradually reversing its highly expansionary **monetary policy**, all the more so as positive labour market data and reports on inflation in the past few weeks have shifted the lines of argumentation. The securities purchasing programme will probably be terminated in the coming autumn. We expect to see an initial rise in interest rates in the middle of next year, somewhat earlier than currently anticipated by markets. However, expectations may lead to volatility in bond markets ahead of any actual moves.

The **European Central Bank** (ECB) will continue to vigorously oppose the tightening of the financial environment in the US and the UK, and market expectations and tendencies to raise interest rates. The ECB will pursue its objective of providing ample liquidity to banks and companies, reactivate the monetary-policy transmission mechanism and counteract disinflationary tendencies. At the beginning of June 2014, the ECB took unexpectedly extensive steps including interest rate reductions and unconventional measures. In particular, the ECB will conduct targeted longer-term refinancing operations which are subject to specific conditions to stimulate bank lending to the private sector and thereby reactivate the transmission of its monetary-policy intentions beyond the banking sector to the real economy.

The sustained provision of liquidity in line with monetary policy suggests that moderate growth in the **euro area** will strengthen. The results of sentiment surveys in July (e.g. PMI, business climate) indicate a setback, which can be traced to the geopolitical risks and the tangible sanctions imposed on Russia; if the setback persists, it may have an influence on corporate planning. But the surveys continue to indicate growth, also for Spain and Italy. The fundamentals point upwards, too. Exports are benefiting from a revival of the world economy as the environment in which companies operate has been favourable for quite some time. Pent-up demand for capital goods suggests that investment activity will pick up, while a diminishing need for budget consolidation and a very low rate of inflation (without any genuine risk of deflation) should benefit private consumption. For this reason our GDP forecast for the euro area for 2014 is +1.2%, at the upper end of the forecast range.

Forecasts – base scenario at the middle of 2014

% over previous year	REAL GDP			CONSUMER PRICES		
	2013	2014	2015	2013	2014	2015
USA	1.9	1.6	2.7	1.5	2.0	2.6
Japan	1.5	1.5	1.2	0.4	2.7	1.8
China	7.7	7.1	6.9	2.6	2.6	2.9
Euro area	–0.4	1.2	1.7	1.4	0.6	1.2
Germany	0.5	2.2	2.5	1.5	1.2	2.3
Italy	–1.8	0.2	1.4	1.2	0.4	1.0
Spain	–1.2	1.1	1.4	1.5	0.1	0.7
Austria	0.3	1.5	2.1	2.0	1.7	1.9
Czech Republic	–0.9	2.8	3.0	1.4	0.8	2.2
Hungary	1.1	2.9	2.0	1.6	0.5	3.0
Turkey	4.0	2.5	2.3	7.5	8.3	5.8
Russia	1.3	–0.7	0.8	6.8	7.3	5.6

● While developments in the year to date have confirmed our base scenario, **risks** are difficult to assess but have increased – primarily the possible impacts of a further escalation of the Ukraine conflict and of the recently imposed sanctions on the Russian economy. This could trigger a wave of repatriation of international investments to safe havens. Independently of any such moves, a conceivable risk scenario is an abrupt reversal of interest rate expectations coupled with a sharp decline in stock markets and worldwide disruptions of currency markets.

Outlook (CONTINUED)

The **sanctions** imposed by the US on 16 July 2014 and by the European Union on 29 July 2014 are targeted at a number of Russian state-owned or state-controlled banks and major companies as well as private individuals. As mentioned before, the sanctions hit a Russian economy which is in a cyclical downturn and needs to overcome structural problems. As a consequence of the sanctions lists, individual companies could find it more difficult to access Western capital markets, making it difficult for them to roll over their large foreign debt. The economic consequences of trade restrictions would be felt not only in Russia, they would also have **repercussions** on neighbouring countries which maintain close trade links and on more distant West European countries. Surveys among Polish industrial companies in July, for example, indicated a severe setback. There are three transmission channels, which are interconnected: first, direct trade relations with West European trading partners; in this context, the risk associated with export demand is significantly lower than the dependence on energy imports. Second, indirect trade links with the CEE region acting as intermediary. (In the case of Austria, third-party market effects are a significant factor because of its close trade relations with CEE.) Third, the response in financial markets, beginning with a phase of system-wide uncertainty, possibly followed by the withdrawal of investments including longer-term investments (direct investment, international banking relations). From a current perspective, the impact of the sanctions appears to be costly but manageable, for both Russia and Europe, unless there is a downward spiral of retortion measures.

● What has been said with regard to the euro area applies to an even greater extent to the **CEE region**: the underlying economic trend points upwards, but any deviation in the event that risks materialise is difficult to assess. In **Russia** the hard economic data (industrial output, GDP) in the past two quarters were a positive surprise (even the PMI is above the growth threshold). However, a strong dependence on consumption and structural problems suggest that the country will experience at least a mild recession in 2014 as a whole, reflecting the prevailing uncertainty. We maintain our forecast of –0.7% for 2014 for the time being. Moreover, the Russian economy is highly vulnerable in view of the high level of foreign debt and a dependence on capital inflows. If the outflows of domestic capital are taken into account, the trade surplus based on energy exports turns into a deficit of –6% of GDP. It should also be noted that net foreign capital flows turned negative for the first time in the second quarter of 2014. Foreign exchange reserves are still very high and currency depreciation would make it more difficult for companies to service their debt; for this reason, interest rates were recently increased. Ultimately, however, Russia could accept a weaker rouble. For **Ukraine** – in respect of which forecasts are very difficult to make – we expect GDP to shrink by 6% in 2014. While depreciation of the Ukrainian currency peaked at close to –40%, the currency was stabilised after Ukraine signed an ad hoc agreement with the IMF at the end of April (in the year to date, i.e. 4 August 2014, the Ukrainian currency depreciated by 29.7% against the euro and by 33.3% against the US dollar). Negotiations on the need for further IMF support are currently underway.

The **Central European** countries, which are closely integrated in Western Europe's value creation chains, are benefiting to a disproportionately large extent from economic recovery, and domestic demand is beginning to pick up. The PMI index for the Czech manufacturing sector (56.5) leads the global survey results. Inflation rates in a number of countries are still below the central bank targets but they will gradually increase. Interest rate convergence has reached an advanced stage; in some countries, e.g. Hungary, monetary policy may already be excessively relaxed. The (GDP-weighted) growth forecast for Central Europe (CE) for 2014 is +2.6% after zero growth in the previous year. As far as the country group of **South-East Europe** (SEE) is concerned, it is important for these countries to better absorb funds available under EU assistance programmes. Structural changes are proceeding too slowly, and budget targets are limiting the scope for economic policy measures. The growth forecast for SEE for 2014 is +1.5% (after +2.2% in the previous year). **Credit expansion** in the CEE countries which are EU member states should revive moderately, thanks to stronger demand from companies, especially in the Czech Republic and in Slovakia. Banks will probably not reduce their foreign liabilities as strongly as in 2013, as international liquidity will remain abundant, not least on account of the ECB's expansionary policy. Inflows of portfolio investments will also be larger, though this involves a higher risk of volatility.

Turkey's ability to adjust its economy came as a surprise in the first half of 2014, prompting us to raise the forecast from zero to growth of +2.5%. The gradual reduction of the high current account deficit and of external financing requirements is making progress (the overall picture is improved by gold exports). However, industrial companies do not take a confident view (most recently, the PMI was at 48.5, far below the growth threshold). After restrictive measures taken to curb developments (e.g. in the banking sector to contain the credit boom) credit expansion has slowed to about +15%. The defensive move of raising interest rates to 10% in February was reversed by several steps to a level of 8.25%; this compares with an inflation rate of 9.3%. The improvement of one-third in the current account, the higher level of interest rates and renewed inflows of portfolio investments have stabilised the Turkish lira: after its weakness in January 2014 (peaking at –9.8% against the euro) the Turkish lira gradually appreciated (most recently by +3.3% to 2.8652 EUR/TRY). Despite the economic adjustment process, the long-term outlook for local banking business remains good, given the fact that the population is young and financial intermediation and penetration with banking products are progressing.

Outlook (CONTINUED)

● The economic outlook for the **Austrian economy** is characterised by restrained optimism. The prospects for an acceleration of the moderate growth path in the second half of the year are intact, based on stronger demand from abroad. After rising to 50.9 points, the current Purchasing Managers' Index is pointing slightly upwards in July, prompting expectations of a revival of economic activity via exports. The escalation in the centres of conflict (Middle East, Ukraine) presents a higher growth risk, but this should be offset by a recovery in emerging markets. While the negative impact of budget consolidation measures on consumption in the euro area will continue to weaken in the next few months, and the labour market in many countries has experienced a turnaround, which in turn supports a positive trend in Austria, developments in Austria are actually moving in the opposite direction. There is a continued need for government austerity measures in view of specific burdens, and the deterioration of the labour market situation, which is partly due to structural factors, will continue. Consumer sentiment is therefore well below the multi-year average. Nevertheless, the low interest rate environment and slight growth in employment should provide a basis for moderate growth of private consumption. Investment activity will continue to recover in the second half of the year, but in light of the geopolitical situation recovery is likely to be slower than previously expected. In 2014, economic growth will amount to 1.5 per cent, which is below expectations. In 2015, growth will again be in the region of two per cent. In the event of negative surprises, or if current risks should materialise, resulting in a renewed slowdown of the recovery process, the Austrian government will need to provide a swift response in fiscal policy and monetary policy terms.

In an economic environment characterised by low inflation (under 2 %) and moderate growth, the next few months are unlikely to see any significant change in demand in commercial banking business. Short-term interest rates are only likely to change towards the end of next year, long-term rates a little earlier. For the time being, the market will therefore continue to be determined by a low interest rate environment and excess liquidity. Credit growth is still stagnating, with credit demand by private households improving slightly. Loans to SMES could benefit from assistance programmes through the combined effect of lower benchmark interest rates and an easing of lending policy. Interest rates paid on deposits are at a record low and thus increase investors' risk appetite. For this reason, and given the risk of price losses on long-term bonds when interest rates are expected to rise, investors are likely to continue to focus on real estate and other alternative investments.

Outlook for Bank Austria's performance

In the current circumstances we expect Bank Austria's performance to move sideways in the second half of 2014. We are thereby confirming the scenario described in the outlook section of our 2013 Annual Report. Meanwhile, uncertainty has increased as geopolitical risks have materialised.

● As far as commercial banking business is concerned, despite recent improvements, economic recovery in Austria has not yet reached the stage where demand for finance starts to increase significantly. Corporate liquidity is still at a high level, and restructuring and strategic projects require stronger confidence and more certainty for planning. Even if the anticipation of a turnaround in US interest rates later in the year should lead to an increase in medium-term and long-term US interest rates, the European Central Bank will oppose such trends. For this reason, interest rates will remain low and will continue to determine customer behaviour. Moreover, the flat yield curve will keep maturity transformation income at a low level. CEE will probably continue to see divergent trends: business in Central Europe is gathering momentum, especially in the Czech Republic, but this compares with a slower pace in SEE and the irregular pattern of economic developments in Turkey will also have an adverse impact. Russia is in a difficult situation, even under the base scenario of the political status quo, despite the resilience of our successful local banking subsidiary in the first six months of 2014. Quite generally, monetary expansion in CEE has slowed, not least on account of strong disinflation, and interest rate convergence has reached an advanced stage.

Under the **base scenario** for 2014, we expect net operating profit to remain stable and feed through to the bottom line to a larger extent than in previous years. The 2013 financial year benefited from exceptional gains on sales, including the Turkish insurance operations (Sigorta) in the third quarter of 2013 and MICEX and an available-for-sale bond portfolio in Russia in the fourth quarter of 2013; such gains cannot be repeated in the current year. But following the full write-off of all goodwill in the 2013 financial statements, no further burdens are to be expected from non-operating items.

● The Ukraine conflict is the **most serious risk** to the moderate business development in the second half of 2014 described above. A further escalation cannot be ruled out. It is difficult to assess the impact of the sanctions already imposed on Russia by the EU and the US, potential countermeasures (reduction of gas deliveries) and a spiral of mutual boycotting measures with an indirect impact via

Outlook (CONTINUED)

European trade links and the response in financial markets. Our **Russian** banking subsidiary operates at a high level of profitability and its strong market position is mainly based on the customer segment of large companies. With the current economic slowdown and the sanctions as well as resulting changes in behaviour, there is a likelihood that there will be a shortfall of operating income, but no direct burdens. The local bank, with a loan/direct-funding ratio of 107% (as at the end of June), benefits from a strong local funding base and a strong equity capital base (total capital ratio: 13.7%; March 2014). Loans amount to €13.4 billion, accounting for 11% of Bank Austria's total lending volume.

Ukrsotsbank, our banking subsidiary in **Ukraine**, was classified as held for sale already before the conflict broke out, with a view to focusing on defined core markets in line with strategy and optimising capital employment. Bank Austria has a shareholding interest of about 72% in the bank. Ukrsotsbank is currently concentrating on retaining deposits and attracting new deposits, lending business has been more or less frozen. The branches in Crimea have been closed. Of the 56 branches in the crisis regions of Donetsk and Luhansk in the eastern part of Ukraine, more than one-half have been closed at least temporarily and the other branches operate depending on local security considerations. In the other regions of Ukraine, the bank has maintained business operations in an orderly fashion, relying to a large extent on local deposits.

Geopolitical risks are likely to persist over the course of the next couple of quarters. But we hope that this conflict will come to a peaceful solution.

● Over the past years Bank Austria has disposed of marginal activities in its business portfolio, focused on core markets, improved the structure of its financial position, and reduced leverage. Ahead of the gradual implementation of Basel 3 we have been giving attention at our CEE banking subsidiaries to strengthening the local deposit base and thereby reducing the loans/direct-funding ratio in most countries and in the entire CEE Division. In Austria, competing for deposits which help meet Basel 3 rules ahead of the introduction of the Liquidity Coverage Ratio and the Net Stable Funding Ratio, we have extended the maturities of deposits held at Bank Austria. Moreover, we very successfully placed capital market instruments with a very good rating to expand our direct funding base. Our total capital ratio has improved to 13.8%. Having made the structure of our operations leaner and strengthened the risk-bearing capacity, we are prepared for the asset quality review and stress tests of the European Central Bank and the European Banking Authority, whose results will be published in October 2014.

● The results for the first half of 2014 are mainly due to strict cost management and excellent risk management. But they should not obscure the fact that we are still facing major structural challenges. The total charge for bank levies and financial transaction taxes has risen by 17 per cent, increasingly offsetting our cost-saving measures. At the same time, the persistently low market interest rate environment and restrained credit demand continue to present us with challenges on the income side. The charge for bank levies and financial transaction taxes currently accounts for 16% of Bank Austria's non-staff expenses; additional burdens will result from future contributions to the resolution and deposit guarantee funds.

We are making strong efforts to redesign our business model to move closer to customers and respond to significant changes in customer expectations while performing our economic function as lender and financial services provider. A strong impetus to growth would come from an economic policy which takes determined action to carry out reforms that are long overdue and thereby creates the basis for greater optimism among the general public and in the business sector. In this context it would be helpful to recognise Austrian banks' operations in Central and Eastern Europe – despite all the challenges which we are currently facing – as a success story which has strongly benefited, and will continue to benefit, our neighbouring countries in Central and Eastern Europe and Austria's economy.

Consolidated Income Statement

of the Bank Austria Group for the first half of 2014

Income statement (€ million)

	1 JAN.– 30 JUNE 2014	1 JAN.– 30 JUNE 2013 1)
Interest income and similar revenues	3,133	3,051
Interest expense and similar charges	–1,425	–1,366
Net interest margin	**1,708**	**1,685**
Fee and commission income	884	854
Fee and commission expense	–209	–187
Net fees and commissions	**675**	**667**
Dividend income and similar revenue	4	15
Gains and losses on financial assets and liabilities held for trading	184	238
Fair value adjustments in hedge accounting	–2	2
Gains and losses on disposal of:	79	56
a) loans	5	3
b) available-for-sale financial assets	74	38
c) held-to-maturity investments	–	3
d) financial liabilities	–	11
Gains and losses on financial assets/liabilities at fair value through profit or loss	–7	20
OPERATING INCOME	**2,642**	**2,683**
Impairment losses on:	–341	–505
a) loans	–375	–499
b) available-for-sale financial assets	–3	–2
c) held-to-maturity investments	–	–
d) other financial assets	38	–3
Net income from financial activities	**2,302**	**2,178**
Administrative costs:	–1,579	–1,562
a) staff expense	–811	–829
b) other administrative expense	–768	–733
Provisions for risks and charges	–31	25
Impairment/write-backs on property, plant and equipment	–65	–69
Impairment/write-backs on intangible assets	–24	–36
Other net operating income	53	26
OPERATING COSTS	**–1,645**	**–1,615**
Profit (loss) of associates	200	277
Gains and losses on tangible and intangible assets measured at fair value	–	–1
Impairment of goodwill	–	–5
Gains and losses on disposal of investments	79	9
TOTAL PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**935**	**843**
Tax expense (income) related to profit or loss from continuing operations	–126	–116
Total profit or loss after tax from continuing operations	**809**	**727**
Total profit or loss after tax from discontinued operations	–25	–146
NET PROFIT OR LOSS FOR THE PERIOD	**784**	**580**
Attributable to:		
Owners of the parent company from continuing operations	801	712
from discontinued operations	–25	–146
Owners of the parent company	**776**	**566**
Non-controlling interests from continuing operations	18	17
from discontinued operations	–11	–2
Non-controlling interests	**8**	**15**
Earnings per share (in €, basic and diluted) from continuing operations	3.47	3.08
from discontinued operations	–0.11	–0.63

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

Consolidated Statement of Comprehensive Income

of the Bank Austria Group for the first half of 2014

Statement of comprehensive income

(€ million)

	1 JAN.– 30 JUNE 2014	1 JAN.– 30 JUNE 2013 [1]
Total profit or loss after tax from continuing operations	**809**	**727**
Total profit or loss after tax from discontinued operations	**–25**	**–146**
NET PROFIT OR (–) LOSS FOR THE PERIOD	**784**	**581**
OTHER COMPREHENSIVE INCOME	**–81**	**–721**
Items that will not be reclassified to profit or loss	**–274**	**–2**
Actuarial gains or (–) losses on defined benefit plans	–365	–2
Income tax relating to items that will not be reclassified	91	–
Items that may be reclassified to profit or loss	**193**	**–720**
Foreign currency translation	–266	–317
Cash flow hedges [effective portion]	238	–176
Valuation gains or (–) losses taken to equity	*235*	*–169*
Transferred to profit or loss	*3*	*–7*
Available-for-sale financial assets	283	–186
Valuation gains or (–) losses taken to equity	*313*	*–179*
Transferred to profit or loss	*–30*	*–6*
Non-current assets and disposal groups held for sale	–3	3
Share of other recognised income and expense of investments in subsidaries and joint ventures	82	–150
Income tax relating to items that may be reclassified to profit or (–) loss	–140	106
Gains/losses on assets available for sale (available-for-sale reserve)	*–66*	*39*
Gains/losses on assets available for sale (available-for-sale reserve) of associates	*–24*	*25*
Gains/losses on cash flow hedges (cash flow hedge reserve)	*–55*	*41*
Gains/losses on cash flow hedges (cash flow hedge reserve) of associates	*6*	*–*
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**703**	**–141**
Comprehensive income after tax from continuing operations	**951**	**–123**
Comprehensive income after tax from discontinued operations	**–248**	**–17**
Attributable to:		
Owners of the parent company from continuing operations	930	–145
from discontinued operations	–168	–15
Owners of the parent company	**762**	**–160**
Non-controlling interests from continuing operations	21	21
from discontinued operations	–80	–2
Non-controlling interests	**–59**	**19**

Earnings per share (in €, basic and diluted)

(€)

	1 JAN.– 30 JUNE 2014	1 JAN.– 30 JUNE 2013
Earnings per share from comprehensive income after tax from continuing operations	4.02	–0.63
Earnings per share from comprehensive income after tax from discontinued operations	–0.73	–0.07

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

Statement of Financial Position

of the Bank Austria Group at 30 June 2014

Assets

(€ million)

	30 JUNE 2014	31 DEC. 2013 [1]
Cash and cash balances	1,780	2,375
Financial assets held for trading	2,278	2,207
Financial assets at fair value through profit or loss	162	343
Available-for-sale financial assets	23,110	19,746
Held-to-maturity investments	580	633
Loans and receivables with banks	22,173	22,316
Loans and receivables with customers	117,599	114,880
Hedging derivatives	3,262	2,839
Changes in fair value of portfolio hedged items (+/–)	–	33
Investments in associates and joint ventures	4,409	4,463
Property, plant and equipment	2,177	2,096
of which held for investment	*844*	*800*
Intangible assets	167	162
Tax assets	1,055	945
a) current tax assets	86	72
b) deferred tax assets	969	872
Non-current assets and disposal groups classified as held for sale	3,002	3,714
Other assets	1,369	1,103
TOTAL ASSETS	**183,124**	**177,857**

Liabilities and equity

(€ million)

	30 JUNE 2014	31 DEC. 2013 [1]
Deposits from banks	26,635	24,145
Deposits from customers	95,842	96,978
Debt securities in issue	29,129	27,302
Financial liabilities held for trading	1,785	1,505
Financial liabilities at fair value through profit or loss	748	797
Hedging derivatives	2,741	2,220
Changes in fair value of portfolio hedged items (+/–)	20	–
Tax liabilities	692	508
a) current tax liabilities	38	21
b) deferred tax liabilities	655	487
Liabilities included in disposal groups classified as held for sale	1,545	2,242
Other liabilities	2,733	2,124
Provisions for risks and charges	5,368	4,985
a) post-retirement benefit obligations	5,011	4,630
b) other provisions	357	355
Equity	15,884	15,050
of which non-controlling interests (+/–) [2]	*258*	*340*
TOTAL LIABILITIES AND EQUITY	**183,124**	**177,857**

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

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

Statement of Changes in Equity

of the Bank Austria Group for the first half of 2014

(€ million)

	SUB-SCRIBED CAPITAL	CAPITAL RESERVES	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION	CASH FLOW HEDGE RESERVE	AVAILABLE-FOR-SALE RESERVE	CASH FLOW HEDGE AND AFS RESERVE ASSOCIATES	ACTUARIAL LOSSES IN ACCORDANCE WITH IAS 19	SHARE-HOLDERS' EQUITY	NON-CON-TROLLING INTERESTS	EQUITY
As at 1 January 2013 [1)]	**1,681**	**7,100**	**10,805**	**–1,735**	**350**	**582**	**212**	**–1,332**	**17,662**	**530**	**18,192**
Changes in the group of consolidated companies									0	–42	–42
Shares in controlling companies		7							7		7
Net profit for the period			566						566	15	581
Other comprehensive income			–3	–323	–135	–142	–124	–2	–727	4	–723
Dividend paid									0	–9	–9
AS AT 30 JUNE 2013	**1,681**	**7,106**	**11,368**	**–2,058**	**215**	**441**	**88**	**–1,334**	**17,508**	**498**	**18,006**
	SUB-SCRIBED CAPITAL	**CAPITAL RESERVES**	**RETAINED EARNINGS [2)]**	**FOREIGN CURRENCY TRANSLATION[2)]**	**CASH FLOW HEDGE RESERVE**	**AVAILABLE-FOR-SALE RESERVE**	**CASH FLOW HEDGE AND AFS RESERVE ASSOCIATES**	**ACTUARIAL LOSSES IN ACCORDANCE WITH IAS 19**	**SHARE-HOLDERS' EQUITY[2)]**	**NON-CON-TROLLING INTERESTS [2)]**	**EQUITY**
As at 1 January 2014 [1)]	**1,681**	**6,052**	**10,287**	**–2,577**	**194**	**400**	**25**	**–1,351**	**14,710**	**340**	**15,050**
Changes in the group of consolidated companies			148						148	–12	136
Shares in controlling companies		4							4	0	4
Net profit for the period			776						776	8	784
Other comprehensive income				–200	181	215	64	–274	–14	–67	–81
Dividend paid									0	–10	–10
AS AT 30 JUNE 2014	**1,681**	**6,056**	**11,211**	**–2,777**	**375**	**615**	**88**	**–1,625**	**15,625**	**258**	**15,884**

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

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

Statement of Cash Flows

of the Bank Austria Group for the first half of 2014

(€ million, 2013 restated)

	1 JAN.– 30 JUNE 2014	1 JAN.– 30 JUNE 2013
CASH AND CASH EQUIVALENTS AT END OF PREVIOUS PERIOD AS REPORTED	**2,375**	**2,458**
Cash and cash equivalents from discontinued operations	**191**	**293**
CASH AND CASH EQUIVALENTS AT END OF PREVIOUS PERIOD	**2,566**	**2,751**
Cash flows from operating activities	718	731
of which: cash flows from operating activities of discontinued operations	*11*	*–68*
Cash flows from investing activities	–2,318	–931
of which: cash flows from investing activities of discontinued operations	*7*	*42*
Cash flows from financing activities	965	–262
of which: cash flows from financing activities of discontinued operations	–	*5*
Effects of exchange rate changes	1	–2
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,932**	**2,286**
of which: cash and cash equivalents from discontinued operations	*152*	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD FROM CONTINUED OPERATIONS	**1,780**	**2,286**

Notes to the Consolidated Financial Statements

Basis for the preparation of the financial statements

The consolidated interim financial statements for the first six months of 2014 (January 2014 to June 2014), which include the financial statements of UniCredit Bank Austria AG and its subsidiaries, the Group's interests in associates and jointly controlled entities (collectively "Bank Austria"), are presented in euros, the presentation currency of the Group.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU) and are presented in accordance with the requirements of IAS 34 "Interim Financial Reporting".

The consolidated interim financial statements of the Bank Austria Group for the first six months of 2014 are unaudited and not reviewed. They include a statement of financial position, an income statement and a statement of comprehensive income, a statement of changes in equity, a condensed statement of cash flows, segment reporting and selected explanatory notes. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at 31 December 2013.

The interim financial statements do not include all the information and disclosures required in the annual consolidated financial statements, they should be read in conjunction with the audited consolidated financial statements of the Bank Austria Group for which the same accounting policies have been applied.

The preparation of financial statements under IFRS requires management to make estimates and assumptions for certain categories of assets and liabilities. These assumptions and estimates affect the reported revenues and expenses during the reporting period, and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the end of the reporting period. Actual results could differ from management's estimates and the results reported should not be regarded as necessarily indicative of the results that may be expected for the entire year.

Accounting policies

Except for new standards and amendments as described below, the accounting policies applied by the Group in this interim financial report are the same as those applied by the Group in its consolidated financial statements for the year 2013.

Effects from the adoption of new standards

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

In May 2011 the IASB issued IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, a revised IAS 27 Separate Financial Statements, which was amended as IFRS 10 was issued, while leaving the existing rules for separate financial statements unchanged, and a revised IAS 28 Investments in Associates and Joint Ventures, which was adjusted as IFRS 10 and IFRS 11 were issued. These Standards were endorsed by the EU in December 2012. The amendments to IFRS 10, IFRS 11 and IFRS 12 with regard to transition provisions and the amendments to IFRS 10, IFRS 12 and IAS 27 with regard to investment entities were also endorsed by the EU in 2013. The Group has applied IFRS 10, IFRS 11, IFRS 12, the amended IAS 27, the amended IAS 28, and the consequential amendments since 1 January 2014.

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

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

Notes (CONTINUED)

This has a substantial effect on our consolidated financial statements and led to a reduction of about €16,082 million in total assets as at 31 December 2013. The comparative figures of the income statement for the previous year were also adjusted accordingly. This led to a shift within the income statement as the profit-or-loss components of subsidiaries belonging to Yapı Kredi Group are no longer included in the various items of the income statement but are presented on a combined basis in the item “Profit (loss) of associates”.

IFRS 12 requires an entity to disclose the nature, associated risks, and financial effects of interests in subsidiaries, associates and joint arrangements and of unconsolidated structured entities. IFRS 12 requires more comprehensive disclosures in the notes than IAS 27 or SIC-12. As a preparation for the new and extended disclosure requirements resulting from IFRS 12, the Group invests in database modules for the consolidation software in order to be able to meet the new requirements with the first annual financial statements as at 31 December 2014.

Introduction of IFRIC 21 Levies

IFRIC Interpretation 21 Levies contains new rules for accounting for levies in the financial statements. The Interpretation is applicable for annual periods beginning on or after 1 January 2014 and was endorsed by the EU on 14 June 2014. This Interpretation is of relevance for our Group in the context of accounting for bank levies in various countries. The first-time application of IFRIC Interpretation 21 does not result in any changes with regard to the method of accounting for bank levies which has been used so far.

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

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

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

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

IFRS 14 Regulatory Deferral Accounts

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

IFRS 15 – Revenue from Contracts with Customers

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

Amendments to IAS 19 concerning employee contributions

These amendments to IAS 19 clarify the accounting for contributions from employees, in addition to those from the employer, to a defined-contribution plan. The amendments became effective on 1 July 2014, their endorsement by the EU is expected for the fourth quarter of 2014. These amendments will have no effect on our Group.

Amendments to IFRS 11 Joint Arrangements

These amendments clarify the accounting for acquisitions of interests in joint operations. The amendments were issued in May 2014 and will be effective from 1 January 2016. Their endorsement by the EU is expected for the first quarter of 2015. From a current perspective, these amendments will have no effect on our Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

In May 2014, the IASB issued amendments to IAS 16 and IAS 38, clarifying that the use of revenue-based depreciation methods for property, plant and equipment is not appropriate, and significantly limiting the use of revenue-based depreciation methods for intangible assets. An initial analysis shows that these amendments will have no effect on our Group. They will be effective from 1 January 2016, their endorsement by the EU is expected for the first quarter of 2015.

Effects from the change in material calculation parameters

Post-employment benefits

The interest rate used in the calculation of the defined benefit obligation for our pension and severance pay plan was reduced compared to the previous year to 3.25% as of 30 June 2014 (31 December 2013: 3.75%) in order to reflect the reduced interest rate levels. All other valuation parameters remained unchanged. The resulting measurement effect of the DBO in the amount of –€274 million (net of tax) was recognised in other comprehensive income in equity in line with IAS 19.

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 methods of determining the fair values of different categories of financial instruments in the consolidated financial statements were disclosed in detail as at 31 December 2013 and are still applicable.

For the purpose of classifying instruments in the fair value hierarchy (Level 2 or Level 3), an analysis is performed to determine to what extent the estimated risk premiums have a significant influence on fair value. If the fair value determined in this way does not differ significantly from the risk-free present value, the instrument is assigned to Level 2. The limit above which the influence is seen as significant has been reduced from 10% to 5% across the Group. In some areas, this change in assessment resulted in an increase in Level 3 fair values as at 30 June 2014 compared with 31 December 2013.

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

Accounting portfolios – Breakdown by fair value levels (€ million)

FINANCIAL ASSETS/LIABILITIES MEASURED AT FAIR VALUE	30 JUNE 2014			31 DEC. 2013		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial assets held for trading	234	2,026	19	290	1,904	13
Financial assets at fair value through profit or loss	15	62	85	21	236	86
Available-for-sale financial assets	16,302	5,080	1,615	12,479	5,928	1,219
Hedging derivative assets	–	3,256	6	–	2,837	2
Tangible assets	–	–	66	–	–	69
TOTAL	**16,551**	**10,424**	**1,791**	**12,789**	**10,905**	**1,389**
Financial liabilities held for trading	25	1,754	6	31	1,467	7
Financial liabilities at fair value through profit or loss	–	742	6	–	788	9
Hedging derivative liabilities	–	2,740	1	–	2,218	1
TOTAL	**25**	**5,236**	**13**	**31**	**4,473**	**17**

Notes (CONTINUED)

Annual changes in financial assets at fair value level 3

(€ million)

	1 JAN.–30 JUNE 2014				
	FINANCIAL ASSETS				
	HELD FOR TRADING	AT FAIR VALUE THROUGH P&L	AVAILABLE FOR SALE	HEDGING DERIVATIVES	TANGIBLE ASSETS
Opening balances	**13**	**86**	**1,220**	**2**	**69**
Increases	**257**	**4**	**615**	**4**	**2**
Purchases	248	–	156	–	–
Profits recognised in:					
Income statement	8	4	–	–	1
of which unrealised gains[1]	*4*	*4*	–	–	*1*
Equity[2]	*x*	x	22	–	–
Transfers from other levels	1	–	–	–	1
Other increases	1	–	437	4	–
Decreases	**–252**	**–6**	**–219**	**–**	**–4**
Sales	–246	–	–119	–	–2
Redemptions	–4	–5	–26	–	–
Losses recognised in:					
Income statement	–1	–	–	–	–1
of which unrealised losses[3]	–	–	–	–	–
Equity[4]	x	x	–49	–	–
Transfers to other levels	–	–	–13	–	–
Other decreases	–	–	–12	–	–2
Closing balances	**19**	**85**	**1,615**	**6**	**66**

1), 3) Increases/decreases in financial assets are recognised in the income statement in the following items:
- Gains and losses on financial assets held for trading;
- Fair value adjustments in hedge accounting;
- Gains and losses on financial assets at fair value through profit or loss.

2), 4) Gains or losses arising out of changes in fair value are recognised in the equity item “Revaluation reserves” – except losses due to impairment and exchange rate gains or losses on monetary items (debt instruments) which are recognised under “Impairment losses on available-for-sale financial assets” and “Gains and losses on financial assets and liabilities held for trading”, respectively – until the financial asset is sold, at which time cumulative gains and losses presented in revaluation reserves are recognised in profit or loss in “Gains (losses) on disposal or repurchase of available-for-sale financial assets”.

Annual changes in financial liabilities at fair value level 3

(€ million)

	1 JAN.–30 JUNE 2014		
	FINANCIAL LIABILITIES		
	HELD FOR TRADING	AT FAIR VALUE THROUGH PROFIT OR LOSS	HEDGING DERIVATIVES
Opening balances	**7**	**9**	**1**
Increases	**8**	**–**	**1**
Issuance	–	–	1
Losses recognised in:			
Income statement	7	–	–
of which unrealised losses[1]	*4*	–	–
Equity	X	X	–
Transfers from other levels	–	–	–
Other increases	1	–	–
Decreases	**–10**	**–3**	**–**
Redemptions	–9	–	–
Purchases	–	–	–
Profits recognised in:			
Income statement	–1	–	–
of which unrealised gains[2]	–	–	–
Equity	X	X	–
Transfers to other levels	–	–	–
Other decreases	–	–3	–
Closing balances	**6**	**6**	**1**

1), 2) Increases/decreases in financial liabilities are recognised in the income statement in the following items:
- Gains and losses on financial liabilities held for trading;
- Fair value adjustments in hedge accounting;
- Gains and losses on financial liabilities at fair value through profit or loss.

Notes (CONTINUED)

Accounting portfolios measured at fair value: transfers between Levels of the fair value hierarchy (Level 1 and Level 2)

(€ million)

	30 JUNE 2014	
	LEVEL 1	LEVEL 2
Financial assets		
Financial assets held for trading		
Transfer from Level 1	X	9
Transfer from Level 2	1	X
Financial assets at fair value through profit or loss		
Transfer from Level 1	X	–
Transfer from Level 2	–	X
Available-for-sale financial assets		
Transfer from Level 1	X	147
Transfer from Level 2	–	X
Hedging derivatives assets		
Transfer from Level 1	X	–
Transfer from Level 2	–	X
Financial liabilities		
Financial liabilities held for trading		
Transfer from Level 1	X	–
Transfer from Level 2	–	X
Financial liabilities at fair value through profit or loss		
Transfer from Level 1	X	–
Transfer from Level 2	–	X
Hedging derivatives liabilities		
Transfer from Level 1	X	–
Transfer from Level 2	–	X

Notes (CONTINUED)

Accounting portfolios measured at fair value: sensitivity analysis for Fair Value Level 3

The sensitivity analysis for Level 3 positions measured at fair value on a recurring basis with respect to the unobservable model input is based on the following categories of model inputs:

Credit Spreads (SP): For instruments exposed to issuer risk the unobservable input is mainly the issuer credit spread.

Interest Rates (IR): In the absence of liquid interest rate swap markets the term structure of the yield curve is proxied.

Equity (EQ): In the absence of active markets equity prices are proxied.

The reasonable alternative estimate for the model input is disclosed in the column “Variation range”.

The sensitivity analysis for the Bank Austria Group shows that the Level 3 position consists mainly of fixed income securities, which are predominantly booked as available for sale and relate to the regulatory banking book (BB). Most of the derivatives listed in the table also relate to the banking book and are mainly used for hedge accounting. As the portfolio in the Bank Austria Group is rather plain by nature, there are materially no more complex unobservable model inputs applied (e.g. volatilities).

(€ million)

PRODUCT CATEGORIES				VARIATION RANGE OF THE FAIR VALUE BASED ON REASONABLY POSSIBLE ALTERNATIVE ASSUMPTIONS IN THE CALCULATION
Derivatives				
	Financial			
		Commodities	+/–	
		Equity	+/–	1.56
		Foreign Exchange	+/–	0.99
		Interest Rate	+/–	0.45
		Hybrid	+/–	
	Credit		+/–	
Debt Securities and Loans				
		Corporate/Government/Other	+/–	22.41
		Mortgage & Asset Backed Securities	+/–	
Equity Securities				
		Unlisted Equity & Holdings	+/–	1.39
Units in Investment Funds				
		Real Estate & Other Funds	+/–	1.90
TOTAL				**28.70**

Notes (CONTINUED)

Transfer between portfolios

In accordance with the amendments to IAS 39 and IFRS 7, Reclassification of Financial Assets, published in October 2008, and in response to the rare circumstances presented by the financial market crisis, we had reclassified asset-backed securities (ABSs/specific securitised assets) from financial assets held for trading into loans and receivables with customers with effect from 1 July 2008 at the fair values determined at that date.

In accordance with IAS 39.50E, bonds included in the available-for-sale category had been reclassified into loans and receivables with banks with effect from 1 August 2011. There is the intention to hold these reclassified bonds until maturity.

The following table shows the effects of this reclassification by item in the statement of financial position and by income statement item as at 30 June 2014:

Reclassified financial assets: carrying amount, fair value and effects on comprehensive income (€ million)

TYPES OF INSTRUMENTS	ACCOUNTING PORTFOLIO BEFORE RECLASSIFICATION	ACCOUNTING PORTFOLIO AFTER RECLASSIFICATION	CARRYING AMOUNT AS AT 30 JUNE 2014	FAIR VALUE AS AT 30 JUNE 2014	INCOME/EXPENSES ABSENT RECLASSIFICATION (BEFORE TAXES)		INCOME/EXPENSES RECOGNISED DURING THE PERIOD (BEFORE TAXES)	
					FROM MEASUREMENT	OTHER	FROM MEASUREMENT	OTHER
Debt securities								
	HFT	AFS	–9	–9	1	–	–	–
	HFT	HTM	–18	–19	–	1	–	–
	HFT	Loans to banks	–	–	–	–	–	–
	HFT	Loans to customers	–539	–543	33	7	2	6
	AFS	Loans to banks	–2,956	–3,017	61	25	–	35
TOTAL			**–3,522**	**–3,588**	**94**	**34**	**2**	**42**

Impairment test for cash-generating units

In Bank Austria, the most recent impairment test in respect of cash-generating units and goodwill allocated to them was performed as at 31 December 2013 and led to the full write-off of all goodwill.

As at 30 June 2014, the Group examined its cash-generating units for indications of impairment. Those units where such indications were found were tested for impairment. This did not lead to any need for valuation adjustments.

Notes (CONTINUED)

Consolidated companies and changes in consolidated companies of the Bank Austria Group in the first half of 2014

	CONSOLIDATED COMPANIES	COMPANIES ACCOUNTED FOR UNDER THE PROPORTIONATE CONSOLIDATION METHOD	COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD	TOTAL
Opening balance	**149**	**15**	**27**	**191**
Additions	**30**	**–**	**1**	**31**
Newly established companies	1	–	–	1
Changes in UniCredit Group	29	–	1	30
Disposals	**–8**	**–**	**–2**	**–10**
Companies sold or liquidated	–6	–	–1	–7
Mergers	–2	–	–	–2
Changes in UniCredit Group	–	–	–1	–1
Changes as a result of IFRS 10 and IFRS 11	**1**	**–15**	**–2**	**–16**
Addition based on IFRS 10 and IFRS 11	**1**	**–**	**1**	**2**
Reduction based on IFRS 10 and IFRS 11	**–**	**–15**	**–3**	**–18**
CLOSING BALANCE	**172**	**–**	**24**	**196**

Application of IFRS 10 and IFRS 11 for the first time resulted in the following changes in the group of companies included in consolidation:

The companies of the Yapı Kredi Group, which were previously accounted for using the proportionate consolidation method or the equity method, have been accounted for as a consolidated group using the equity method since 1 January 2014; this has reduced the total number of companies directly contributing to our group by 18, while instead the consolidated entity has been added to the companies accounted for using the equity method.

Moreover, Real Invest Europe, a real estate investment fund managed by Bank Austria Real Invest Immobilien-Kapitalanlage GmbH, has been included in consolidation since 1 January 2014.

The newly established company is UCTAM Hungary Kft.

Additions resulting from changes in UniCredit Group relate to additions of one leasing company accounted for using the equity method and 29 consolidated leasing companies in Russia, the Czech Republic, Slovakia and Romania, which were taken over from UniCredit Leasing SpA as part of the restructuring of leasing business. One of the newly added leasing companies (OOO "UniCredit Leasing", Russia) was previously accounted for using the equity method and is therefore shown within disposals resulting from changes in UniCredit Group.

The disposal of the company which was previously accounted for using the equity method relates to the sale of our interest in UniCredit Leasing SpA to UniCredit SpA.

Previously consolidated companies which are no longer part of the group of consolidated companies relate to the sale of Domus Clean Reinigungs GmbH, Mezzanin Finanzierungs AG and Schottengasse 6–8 Immobilien GmbH und Co KG. UCTAM RK Limited Liability Company, Kazakhstan, and two subsidiaries in Romania, UniCredit CAIB Securities Romania SA and UniCredit CAIB Romania SRL, were liquidated.

M.A.I.L Finanzberatung Gesellschaft m.b.H. was merged into Treuconsult Beteiligungsgesellschaft m.b.H., and AWT International Trade GmbH was merged into Universale International Realitäten GmbH.

Notes to the income statement

Interest income / Interest expense

Interest income and similar revenues

(€ million)

	1 JAN.–30 JUNE 2014				1 JAN.–30 JUNE 2013
	DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	TOTAL	TOTAL
Financial assets held for trading	8	–	247	255	47
Financial assets at fair value through profit or loss	1	–	–	1	2
Available-for-sale financial assets	294	–	–	294	293
Held-to-maturity investments	14	–	–	14	15
Loans and receivables with banks	32	91	–	123	124
Loans and receivables with customers	7	2,247	–	2,254	2,340
Hedging derivatives	X	X	189	189	228
Other assets	X	X	3	3	3
TOTAL	**356**	**2,338**	**439**	**3,133**	**3,051**

Interest expense and similar charges

(€ million)

	1 JAN.–30 JUNE 2014				1 JAN.–30 JUNE 2013
	DEPOSITS	SECURITIES	OTHER TRANSACTIONS	TOTAL	TOTAL
Deposits from central banks	–53	X	–	–53	–38
Deposits from banks	–171	X	–	–171	–201
Deposits from customers	–584	X	–	–584	–713
Debt securities in issue	X	–379	–	–379	–373
Financial liabilities held for trading	–	–	–230	–230	–31
Financial liabilities at fair value through profit or loss	–	–4	–	–4	–5
Other liabilities	X	X	–1	–1	–1
Hedging derivatives	X	X	–3	–3	–5
TOTAL	**–809**	**–382**	**–234**	**–1,425**	**–1,366**

Notes to the income statement (CONTINUED)

Fee and commission income / Fee and commission expense

Fee and commission income

(€ million)

	1 JAN.– 30 JUNE 2014	1 JAN.– 30 JUNE 2013
Guarantees given	**88**	**85**
Credit derivatives	**1**	**–**
Management, brokerage and consultancy services:	**263**	**246**
securities trading	1	1
currency trading	14	18
portfolio management	96	88
custody and administration of securities	38	38
custodian bank	19	19
placement of securities	11	9
reception and transmission of orders	10	14
advisory services	24	19
distribution of third party services	50	39
Collection and payment services	**374**	**353**
Factoring	**3**	**3**
Management of current accounts	**92**	**89**
Other services	**64**	**78**
TOTAL	**884**	**854**

Fee and commission expense

(€ million)

	1 JAN.– 30 JUNE 2014	1 JAN.– 30 JUNE 2013
Guarantees received	**–45**	**–19**
Credit derivatives	**–7**	**–8**
Management, brokerage and consultancy services:	**–36**	**–41**
trading in financial instruments	–2	–2
currency trading	–1	–1
portfolio management	–8	–7
custody and administration of securities	–18	–19
placement of financial instruments	–	–
off-site distribution of financial instruments, products and services	–7	–12
Collection and payment services	**–111**	**–106**
Other services	**–11**	**–13**
TOTAL	**–209**	**–187**

Dividend income and similar revenue

(€ million)

	1 JAN.–30 JUNE 2014			1 JAN.–30 JUNE 2013		
	DIVIDENDS	INCOME FROM UNITS IN INVESTMENT FUNDS	TOTAL	DIVIDENDS	INCOME FROM UNITS IN INVESTMENT FUNDS	TOTAL
Financial assets held for trading	–	–	–	–	–	–
Available-for-sale financial assets	3	–	3	9	–	9
Financial assets at fair value through profit or loss	1	–	1	–	–	–
Investments	1	X	1	6	X	6
TOTAL	**4**	**–**	**4**	**15**	**–**	**15**

Notes to the income statement (CONTINUED)

Gains and losses on financial assets and liabilities held for trading

(€ million)

	1 JAN.–30 JUNE 2014					1 JAN.– 30 JUNE 2013
	UNREALISED PROFITS	REALISED PROFITS	UNREALISED LOSSES	REALISED LOSSES	NET PROFIT	NET PROFIT
Financial assets held for trading	**3**	**34**	**–2**	**–29**	**6**	**–17**
Debt securities	2	15	–2	–13	2	–2
Equity instruments	–	6	–	–6	–	–2
Units in investment funds	–	–	–	–	–	–
Loans	–	–	–	–	–	–
Other	1	13	–	–10	4	–13
Financial liabilities held for trading	**–**	**–**	**–**	**–**	**–**	**–**
Debt securities	–	–	–	–	–	–
Deposits	–	–	–	–	–	–
Other	–	–	–	–	–	–
Other financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**98**	**195**
Derivatives	**515**	**70**	**–464**	**–93**	**80**	**60**
Financial derivatives	497	70	–464	–93	61	48
on debt securities and interest rates	*418*	*58*	*–389*	*–80*	*7*	*18*
on equity securities and share indices	*71*	*3*	*–65*	*–4*	*5*	*33*
on currency and gold	*X*	*X*	*X*	*X*	*51*	*–3*
other	*7*	*10*	*–10*	*–9*	*–2*	*–1*
Credit derivatives	19	–	–	–	19	12
TOTAL	**518**	**104**	**–466**	**–122**	**184**	**238**

Fair value adjustments in hedge accounting

(€ million)

	1 JAN.– 30 JUNE 2014	1 JAN.– 30 JUNE 2013
Gains on:		
Fair value hedging instruments	16	16
Hedged asset items (in fair value hedge relationship)	10	–
Hedged liability items (in fair value hedge relationship)	1	5
Cash-flow hedging derivatives (ineffectiveness)	–	1
Total gains on hedging activities	**26**	**22**
Losses on:		
Fair value hedging instruments	–27	–13
Hedged asset items (in fair value hedge relationship)	–	–8
Hedged liability items (in fair value hedge relationship)	–	–
Cash-flow hedging derivatives (ineffectiveness)	–1	1
Total losses on hedging activities	**–28**	**–20**
NET HEDGING RESULT	**–2**	**2**

Notes to the income statement (CONTINUED)

Gains and losses on disposals/repurchases

(€ million)

	1 JAN.–30 JUNE 2014			1 JAN.–30 JUNE 2013		
	GAINS	LOSSES	NET PROFIT	GAINS	LOSSES	NET PROFIT
Financial assets						
Loans and receivables with banks	–	–	–	–	–	–
Loans and receivables with customers	6	–1	5	4	–1	3
Available-for-sale financial assets	86	–13	74	66	–28	38
Debt securities	*84*	*–13*	*71*	*63*	*–27*	*36*
Equity instruments	*1*	–	*1*	*1*	*–1*	–
Units in investment funds	*1*	–	*1*	*2*	–	*2*
Loans	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	3	–	3
TOTAL ASSETS	**93**	**–14**	**79**	**74**	**–29**	**45**
Financial liabilities						
Deposits from banks	–	–	–	–	–	–
Deposits from customers	–	–	–	–	–	–
Debt securities in issue	–	–	–	11	–	11
TOTAL LIABILITIES	**–**	**–**	**–**	**11**	**–**	**11**
TOTAL	**93**	**–14**	**79**	**85**	**–30**	**56**

Net change in financial assets and liabilities at fair value through profit or loss

(€ million)

	1 JAN.–30 JUNE 2014					1 JAN.–30 JUNE 2013
	UNREALISED PROFITS	REALISED PROFITS	UNREALISED LOSSES	REALISED LOSSES	NET PROFIT	NET PROFIT
Financial assets	**4**	**3**	**–1**	**–**	**7**	**11**
Debt securities	2	–	–	–	2	–
Equity instruments	–	–	–	–	–	–
Units in investment funds	2	3	–	–	5	11
Loans	–	–	–	–	–	–
Financial liabilities	**11**	**–**	**–24**	**–**	**–13**	**21**
Debt securities	11	–	–24	–	–13	21
Deposits from banks	–	–	–	–	–	–
Deposits from customers	–	–	–	–	–	–
Credit and financial derivatives	**–**	**–**	**–**	**–**	**–**	**–13**
TOTAL	**15**	**3**	**–25**	**–**	**–7**	**20**

Notes to the income statement (CONTINUED)

Impairment losses

(€ million)

	1 JAN.–30 JUNE 2014						1 JAN.–30 JUNE 2013
	WRITE-DOWNS			WRITE-BACKS			
	SPECIFIC						
	WRITE-OFFS	OTHER	PORTFOLIO	SPECIFIC	PORTFOLIO	TOTAL	TOTAL
Impairment losses on loans and receivables	**–26**	**–659**	**–38**	**324**	**24**	**–375**	**–499**
Loans and receivables with banks	–	–	–	2	–	2	–
Loans and receivables with customers	–26	–659	–38	322	24	–377	–499
Impairment losses on available-for-sale financial assets	**–**	**–4**	**X**	**1**	**X**	**–3**	**–2**
Debt securities	–	–4	X	1	X	–3	–
Equity instruments	–	–	X	X	X	–	–1
Units in investment funds	–	–	X	–	X	–	–1
Impairment losses on held-to-maturity investments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Debt securities	–	–	–	–	–	–	–
Impairment losses on other financial transactions	**–**	**–31**	**–1**	**68**	**2**	**38**	**–3**
Guarantees given	–	–25	–	57	1	33	–5
Credit derivatives	–	–	–	–	–	–	–
Commitments to disburse funds	–	–6	–1	11	1	5	1
Other transactions	–	–	–	1	–	–	2
TOTAL	**–26**	**–695**	**–40**	**393**	**26**	**–341**	**–505**

Payroll

(€ million)

	1 JAN.–30 JUNE 2014	1 JAN.–30 JUNE 2013
Employees	**–783**	**–799**
Wages and salaries	–565	–576
Social charges	–130	–132
Provision for retirement payments and similar provisions	–122	–121
Payments to external pension funds	–11	–11
Costs/recoveries related to share-based payments	–4	–5
Other employee benefits	–30	–34
Recovery of compensation*)	78	81
Others	**–28**	**–31**
TOTAL	**–811**	**–829**

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

Notes to the income statement (CONTINUED)

Other administrative expenses

(€ million)

	1 JAN.–30 JUNE 2014	1 JAN.–30 JUNE 2013
Indirect taxes and duties	**–129**	**–110**
Miscellaneous costs and expenses	**–639**	**–622**
Advertising, marketing and communication	–53	–50
Expenses related to credit risk	–5	–7
Expenses related to personnel	–17	–18
Information and communication technology expenses	–198	–188
Consulting and professional services	–34	–37
Real estate expenses	–125	–122
Other functioning costs	–207	–200
TOTAL	**–768**	**–733**

Net provisions for risks and charges

(€ million)

	1 JAN.–30 JUNE 2014			1 JAN.–30 JUNE 2013
	PROVISIONS	REALLOCATION SURPLUS	TOTAL	TOTAL
Other provisions				
Legal disputes	–15	4	–11	–71
Staff costs	–	–	–	–
Other	–36	16	–20	96
TOTAL	**–51**	**20**	**–31**	**25**

Impairment on property, plant and equipment

(€ million)

	1 JAN.–30 JUNE 2014				1 JAN.–30 JUNE 2013
	DEPRECIATION	IMPAIRMENT LOSSES	WRITE-BACKS	NET PROFIT	NET PROFIT
Property, plant and equipment					
Owned	**–73**	**–**	**9**	**–64**	**–68**
used in the business	–64	–	9	–55	–62
held for investment	–9	–	–	–9	–6
Finance lease	**–1**	**–**	**–**	**–1**	**–1**
used in the business	–1	–	–	–1	–1
held for investment	–	–	–	–	–
TOTAL	**–74**	**–**	**9**	**–65**	**–69**

Impairment on intangible assets

(€ million)

	1 JAN.–30 JUNE 2014				1 JAN.–30 JUNE 2013
	AMORTISATION	IMPAIRMENT LOSSES	WRITE-BACKS	NET PROFIT	NET PROFIT
Intangible assets					
Owned	**–24**	**–**	**–**	**–24**	**–36**
generated internally by the company	–3	–	–	–3	–3
other	–21	–	–	–21	–32
Finance leases	**–**	**–**	**–**	**–**	**–**
TOTAL	**–24**	**–**	**–**	**–24**	**–36**

Notes to the income statement (CONTINUED)

Other net operating income

Other operating expenses

(€ million)

	1 JAN.– 30 JUNE 2014	1 JAN.– 30 JUNE 2013
Costs for operating leases	–	–
Non-deductible tax and other fiscal charges	–	–
Write-downs on improvements of goods owned by third parties	–2	–2
Costs related to the specific service of financial leasing	–2	–
Other	–42	–56
TOTAL OTHER OPERATING EXPENSES	**–46**	**–58**

Other operating income

(€ million)

	1 JAN.– 30 JUNE 2014	1 JAN.– 30 JUNE 2013
Recovery of costs	**–**	**1**
Other income	**99**	**83**
Revenue from administrative services	21	21
Revenues from rentals of real estate investments (net of direct operating costs)	5	9
Revenues from operating leases	15	5
Recovery of miscellaneous costs paid in previous years	2	2
Revenues from finance lease activities	5	–
Others	51	46
TOTAL OTHER OPERATING INCOME	**99**	**84**
OTHER NET OPERATING INCOME	**53**	**26**

Profit (Loss) of associates

(€ million)

	1 JAN.– 30 JUNE 2014	1 JAN.– 30 JUNE 2013
Jointly owned companies – equity		
Companies subject to significant influence		
Income	**227**	**306**
Revaluations	227	306
Gains on disposal	–	–
Writebacks	–	–
Expense	**–26**	**–29**
Writedowns	–6	–22
Impairment losses	–6	–6
Losses on disposal	–13	–1
Net profit	**200**	**277**
TOTAL	**200**	**277**

Gains and losses on disposal of investments

(€ million)

	1 JAN.– 30 JUNE 2014	1 JAN.– 30 JUNE 2013
Property		
Gains on disposal	38	1
Losses on disposal	–	–
Other assets		
Gains on disposal	43	8
Losses on disposal	–2	–1
TOTAL	**79**	**9**

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

Financial assets held for trading

(€ million)

	30 JUNE 2014				31 DEC. 2013			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Financial assets (non-derivatives)	**233**	**108**	**12**	**353**	**288**	**238**	**10**	**537**
Debt securities	229	108	12	349	278	238	10	527
Equity instruments	4	–	–	4	10	–	–	10
Units in investment funds	–	–	–	–	–	–	–	–
Derivative instruments	**1**	**1,918**	**7**	**1,926**	**1**	**1,666**	**3**	**1,670**
Financial derivatives	1	1,916	7	1,924	1	1,665	2	1,668
Credit derivatives	–	1	–	1	–	1	1	2
TOTAL	**234**	**2,026**	**19**	**2,278**	**290**	**1,904**	**13**	**2,207**

Financial assets at fair value through profit or loss

(€ million)

	30 JUNE 2014				31 DEC. 2013			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Debt securities	–	62	33	95	4	236	31	271
Equity instruments	–	–	–	–	–	–	–	–
Units in investment funds	15	–	51	66	17	–	55	72
TOTAL	**15**	**62**	**85**	**162**	**21**	**236**	**86**	**343**

This item shows assets in respect of which Bank Austria used the option to designate financial instruments as at fair value through profit or loss in order to avoid inconsistencies in the valuation of assets and liabilities which are connected with each other. Most of these assets are complex structures with embedded derivatives.

Available-for-sale financial assets

(€ million)

	30 JUNE 2014				31 DEC. 2013			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Debt securities	16,276	5,080	1,080	22,436	12,454	5,846	689	18,990
Structured securities	*–*	*–*	*19*	*19*	*–*	*–*	*19*	*19*
Other	*16,276*	*5,080*	*1,061*	*22,417*	*12,454*	*5,846*	*671*	*18,971*
Equity instruments	26	–	593	619	25	–	591	616
Measured at fair value	*26*	*–*	*536*	*562*	*25*	*–*	*530*	*555*
Carried at cost	*–*	*–*	*58*	*58*	*–*	*–*	*61*	*61*
Units in investment funds	–	–	55	55	–	82	59	141
Loans	–	–	–	–	–	–	–	–
TOTAL	**16,302**	**5,080**	**1,727**	**23,110**	**12,479**	**5,928**	**1,339**	**19,746**

Held-to-maturity investments

(€ million)

	30 JUNE 2014					31 DEC. 2013				
	BOOK VALUE	FAIR VALUE	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	BOOK VALUE	FAIR VALUE	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3
Debt securities	580	590	103	473	14	633	640	162	308	170
Loans	–	–	–	–	–	–	–	–	–	–
TOTAL	**580**	**590**	**103**	**473**	**14**	**633**	**640**	**162**	**308**	**170**

Notes to the statement of financial position (CONTINUED)

Loans and receivables with banks

(€ million)

	30 JUNE 2014	31 DEC. 2013
Loans to central banks	**5,279**	**6,499**
Time deposits	569	1,356
Compulsory reserves	3,960	4,315
Reverse repos	746	825
Other	3	3
Loans to banks	**16,894**	**15,817**
Current accounts and demand deposits	4,672	4,327
Time deposits	5,566	4,259
Other loans	3,200	3,785
Reverse repos	*832*	*994*
Finance leases	–	–
Other	*2,368*	*2,791*
Debt securities	3,457	3,446
Structured	–	–
Other	*3,457*	*3,446*
TOTAL (CARRYING AMOUNT)	**22,173**	**22,316**
TOTAL (FAIR VALUE)	**21,455**	**22,393**
Loan loss provisions deducted from loans and receivables	22	23

Loans and receivables with customers

(€ million)

	30 JUNE 2014			31 DEC. 2013		
	PERFORMING	IMPAIRED	TOTAL	PERFORMING	IMPAIRED	TOTAL
Loans	**111,880**	**5,062**	**116,942**	**109,211**	**4,916**	**114,127**
Current accounts	11,654	434	12,089	11,126	404	11,530
Reverse repos	2,930	–	2,930	1,394	–	1,394
Mortgages	24,696	1,909	26,605	24,406	1,955	26,360
Credit cards and personal loans, including wage assignment loans	5,557	61	5,619	5,590	56	5,646
Finance leases	2,144	196	2,340	516	66	582
Factoring	1,105	20	1,125	1,119	19	1,138
Other loans	63,795	2,441	66,236	65,059	2,416	67,476
Debt securities	**640**	**17**	**657**	**733**	**21**	**754**
Structured securities	–	–	–	–	–	–
Other	*640*	*17*	*657*	*733*	*21*	*754*
TOTAL (CARRYING AMOUNT)	**112,521**	**5,079**	**117,599**	**109,943**	**4,937**	**114,880**
TOTAL (FAIR VALUE)	**112,120**	**7,576**	**119,696**	**111,664**	**4,937**	**116,601**
Loan loss provisions deducted from loans and receivables	640	6,108	6,748	618	5,905	6,523

Hedging derivatives

(€ million)

	30 JUNE 2014				31 DEC. 2013			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Financial derivatives	**–**	**3,256**	**6**	**3,262**	**–**	**2,837**	**2**	**2,839**
Fair value hedge	–	668	–	668	–	551	–	551
Cash flow hedge	–	2,588	6	2,594	–	2,286	2	2,288
Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL	**–**	**3,256**	**6**	**3,262**	**–**	**2,837**	**2**	**2,839**

Notes to the statement of financial position (CONTINUED)

Property, plant and equipment

(€ million)

	30 JUNE 2014	31 DEC. 2013
Assets for operational use	**1,333**	**1,296**
Owned	**1,287**	**1,244**
Land	82	82
Buildings	859	865
Office furniture and fittings	129	138
Electronic systems	78	96
Others	139	63
Leased	**46**	**52**
Land	13	14
Buildings	32	37
Office furniture and fittings	–	–
Electronic systems	–	–
Others	1	1
Held-for-investment assets	**844**	**800**
Owned	**844**	**800**
Land	239	234
Buildings	605	566
Leased	**–**	**–**
TOTAL	**2,177**	**2,096**

Intangible assets

(€ million)

	30 JUNE 2014	31 DEC. 2013
Goodwill	**–**	**–**
Other intangible assets	**167**	**162**
Assets carried at cost	167	162
Intangible assets generated internally	*25*	*26*
Other assets	*142*	*136*
Assets valued at fair value	–	–
TOTAL	**167**	**162**

Notes to the statement of financial position (CONTINUED)

Non-current assets and disposal groups classified as held for sale

(€ million)

	30 JUNE 2014	31 DEC. 2013
Individual assets		
Financial assets	65	5
Equity investments	270	200
Tangible assets	11	101
Intangible assets	–	–
Other non-current assets	19	1
Total	**365**	**307**
Asset groups classified as held for sale		
Financial assets held for trading	73	38
Financial assets designated at fair value	–	–
Available-for-sale financial assets	150	199
Held-to-maturity investments	–	–
Loans and receivables with banks	141	197
Loans and receivables with customers	1,959	2,477
Equity investments	–	–
Tangible assets	219	316
Intangible assets	50	67
Other assets	45	113
Total	**2,637**	**3,407**
ASSETS	**3,002**	**3,714**

This item includes non-current assets and disposal groups whose sale is highly probable. They are recognised at the lower of their carrying amount and fair value less costs to sell and are stated separately in the consolidated financial statements.

The item includes the companies Vienna DC Tower 2 Liegenschaftsbesitz GmbH and UniCredit CAIB Poland S.A. AG, which are intended to be sold pursuant to a resolution passed by the Management Board.

Moreover, Public Joint Stock Company Ukrsotsbank and its subsidiaries continue to be classified as a disposal group held for sale as at 30 June 2014.

In June 2014, the Management Board of Bank Austria passed a resolution to sell the equity interest in CA Immobilien Anlagen Aktiengesellschaft (“CA Immo AG”). A sales process has been initiated, and the equity interest is therefore classified as held for sale in the interim consolidated financial statements as at 30 June 2014.

Notes to the statement of financial position (CONTINUED)

Deposits from banks

(€ million)

	30 JUNE 2014	31 DEC. 2013
Deposits from central banks	**7,758**	**5,057**
Deposits from banks	**18,877**	**19,088**
Current accounts and demand deposits	1,368	2,134
Time deposits	6,286	5,641
Loans	11,030	11,202
Other liabilities	193	110
TOTAL	**26,635**	**24,145**
TOTAL FAIR VALUE	**26,588**	**24,182**

Deposits from customers

(€ million)

	30 JUNE 2014	31 DEC. 2013
Current accounts and demand deposits	51,280	54,245
Time deposits	40,324	40,277
Loans	394	1,282
Liabilities in respect of commitments to repurchase treasury shares	719	695
Other liabilities	3,125	478
TOTAL	**95,842**	**96,978**
TOTAL FAIR VALUE	**97,840**	**98,076**

Debt securities in issue

(€ million)

	30 JUNE 2014				31 DEC. 2013			
	CARRYING AMOUNT	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	CARRYING AMOUNT	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3
Securities								
Bonds	28,977	7,958	21,616	121	27,138	7,686	19,786	118
Structured	*229*	–	*227*	–	*182*	–	*192*	–
Other	*28,749*	*7,958*	*21,389*	*121*	*26,956*	*7,686*	*19,594*	*118*
Other securities	152	–	158	–	164	–	164	–
Structured	–	–	–	–	–	–	–	–
Other	*152*	–	*158*	–	*164*	–	*164*	–
TOTAL	**29,129**	**7,958**	**21,775**	**121**	**27,302**	**7,686**	**19,949**	**118**

Financial liabilities held for trading

(€ million)

	30 JUNE 2014				31 DEC. 2013			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Financial liabilities	**25**	**–**	**–**	**25**	**31**	**–**	**–**	**31**
Deposits from banks	–	–	–	–	–	–	–	–
Deposits from customers	25	–	–	25	31	–	–	31
Derivative instruments	**–**	**1,754**	**6**	**1,760**	**–**	**1,467**	**7**	**1,474**
Financial derivatives	–	1,745	6	1,751	–	1,447	7	1,455
Credit derivatives	–	9	–	9	–	19	–	19
TOTAL	**25**	**1,754**	**6**	**1,785**	**31**	**1,467**	**7**	**1,505**

Notes to the statement of financial position (CONTINUED)

Financial liabilities at fair value through profit or loss

(€ million)

	30 JUNE 2014				31 DEC. 2013			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Deposits from banks	–	–	–	–	–	–	–	–
Deposits from customers	–	–	–	–	–	–	–	–
Debt securities	–	742	6	748	–	788	9	797
Structured	*–*	*742*	*–*	*742*	*–*	*788*	*–*	*788*
Others	*–*	*–*	*6*	*6*	*–*	*–*	*9*	*9*
TOTAL	**–**	**742**	**6**	**748**	**–**	**788**	**9**	**797**

This item shows liabilities in respect of which Bank Austria used the option to designate financial instruments as at fair value through profit or loss in order to avoid inconsistencies in the valuation of assets and liabilities which are connected with each other. Most of these liabilities are debt securities and complex structures with embedded derivatives.

Hedging derivatives

(€ million)

	30 JUNE 2014				31 DEC. 2013			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Financial derivatives	**–**	**2,740**	**1**	**2,741**	**–**	**2,218**	**1**	**2,220**
Fair value hedge	–	175	–	175	–	171	–	171
Cash flow hedge	–	2,565	1	2,566	–	2,048	1	2,049
Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL	**–**	**2,740**	**1**	**2,741**	**–**	**2,218**	**1**	**2,220**

Liabilities included in disposal groups classified as held for sale

(€ million)

	30 JUNE 2014	31 DEC. 2013
Deposits from banks	293	307
Deposits from customers	1,225	1,907
Debt securities in issue	4	4
Financial liabilities held for trading	–	1
Other liabilities	22	23
LIABILITIES	**1,545**	**2,242**

Provisions for risks and charges

(€ million)

	30 JUNE 2014	31 DEC. 2013
Pensions and other post-retirement benefit obligations	**5,011**	**4,630**
Other provisions for risks and charges	**357**	**355**
Legal disputes	107	103
Staff expenses	120	135
Other	130	117
TOTAL	**5,368**	**4,985**

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 2014	1 JAN.– 30 JUNE 2013
Net interest	1,708	1,685
Dividends and other income from equity investments	224	299
Dividend income and similar revenue	4	15
minus: dividends from equity instruments held for trading	*0*	*0*
Profit (loss) of associates – of which: income (loss) from equity investments valued at net equity	220	284
Net fees and commissions	675	667
Net trading, hedging and fair value income	250	313
Gains (losses) on financial assets and liabilities held for trading	184	238
plus: dividends from equity instruments held for trading	*0*	*0*
Fair value adjustments in hedge accounting	*–2*	*2*
Gains (losses) on disposal and repurchase of available-for-sale financial assets	*74*	*38*
Gains (losses) on disposal and repurchase of held-to-maturity investments	*0*	*3*
Gains (losses) on disposal or repurchase of financial liabilities	*0*	*11*
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss	*–7*	*20*
Net other expenses/income	50	30
Gains (losses) on disposals/repurchases of loans and receivables – not impaired	0	3
Premiums earned (net)	0	0
Other income (net) from insurance activities	0	0
Other net operating income	53	26
minus: other operating income – of which: recovery of expenses	*0*	*–1*
plus: impairment on tangible assets – other operating leases	*–5*	*0*
minus: Other operating expenses – write-downs on improvements of goods owned by third parties	*2*	*2*
plus: Gains on disposals of investments – other assets leasing operation	*0*	*0*
OPERATING INCOME	**2,907**	**2,994**
Payroll costs	–810	–828
Administrative costs – staff expenses	–811	–829
minus: integration/restructuring costs	*1*	*2*
Other administrative expenses	–766	–731
Administrative costs – other administrative expenses	–768	–733
minus: integration/restructuring costs	*5*	*3*
plus: Other operating expenses – write-downs on improvements of goods owned by third parties	*–2*	*–2*
Recovery of expenses = Other net operating income – of which: Other operating income – recovery of costs	0	1
Amortisation, depreciation and impairment losses on intangible and tangible assets	–81	–104
Impairment/Write-backs on property, plant and equipment	–65	–69
minus: impairment losses/write-backs on property held for investment	*0*	*0*
minus: impairment on tangible assets – other operating leases	*5*	*0*
Impairment/Write-backs on intangible assets	–24	–36
minus: integration/restructuring costs	*2*	*1*
minus: Purchase Price Allocation effect	*0*	*0*
OPERATING COSTS	**–1,657**	**–1,661**
OPERATING PROFIT	**1,250**	**1,333**

Segment reporting (CONTINUED)

	1 JAN.– 30 JUNE 2014	1 JAN.– 30 JUNE 2013
Net write-downs of loans and provisions for guarantees and commitments	–332	–502
Gains (losses) on disposal and repurchase of loans	5	0
Impairment losses on loans	–375	–499
Impairment losses on other financial assets	38	–3
NET OPERATING PROFIT	**918**	**831**
Provisions for risks and charges	–31	–97
Net provisions for risks and charges	–31	25
minus: release of provision for FX reserve Kazakhstan	*0*	*–122*
minus: integration/restructuring costs	*0*	*0*
Integration/restructuring costs	–7	–6
Net income from investments	55	–2
Impairment losses on available-for-sale financial assets	–3	–2
Impairment losses on held-to-maturity investments	0	0
plus: impairment losses/write-backs on property held for investment	*0*	*0*
Profit (loss) of associates	200	277
minus: profit (loss) of associates – income (loss) from equity investments valued at net equity	*–220*	*–284*
Gains and losses on tangible and intangible assets	0	–1
Gains (losses) on disposal of investments	79	9
minus: Gains on disposals of investments – other assets leasing operation	*0*	*0*
PROFIT BEFORE TAX	**935**	**726**
Income tax for the period	–126	–116
Tax expense (income) related to profit or loss from continuing operations	–126	–116
minus: taxes on Purchase Price Allocation effect	*0*	*0*
Total profit or loss after tax from discontinued operations	–25	–24
Profit or loss after tax from discontinued operations	–25	–146
plus: release of provision for FX reserve Kazakhstan	*0*	*122*
PROFIT (LOSS) FOR THE PERIOD	**784**	**586**
Non-controlling interests	–8	–15
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY BEFORE PPA	**776**	**571**
Purchase Price Allocation effect	0	0
Impairment of goodwill	0	–5
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	**776**	**566**

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 in 2014. The business segments are presented as independent units with responsibility for their own results. The definition of business segments is primarily based on organisational responsibility for customers.

Segment reporting covers the following business segments:

Retail & Corporates

The Retail & Corporates business segment comprises business with private individuals (Retail), including the Mass Market and Affluent customer segments except Private Banking customers, and thus encompasses the entire multi-channel distribution network. Also included in this Division are subsidiaries active in credit card business and FactorBank. The Corporates subdivision covers the customer segments SMEs (small and medium-sized businesses) and corporate customers with an annual turnover of over €50 million, and Real Estate including various subsidiaries (e.g. Wohnbaubank, Bank Austria Real Invest Group) and the Public Sector customer segment.

Private Banking

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

Corporate & Investment Banking (CIB)

The Corporate & Investment Banking segment covers the customer segment of multinational companies and large international customers using capital market services and investment banking solutions. Corporate & Investment Banking also serves financial institutions including banks, asset managers, institutional customers and insurance companies. The product lines offered by CIB to these customers are Financing & Advisory (classic and structured lending business and capital market advisory services), Global Transaction Banking (including payment transactions, trade finance, cash management) and within Markets & Corporate Treasury Sales the services relating to customer-driven trading activities. The product specialists continue to support commercial banking activities of the bank's other business segments.

Central Eastern Europe (CEE)

The CEE business segment includes the commercial banking units of the Bank Austria Group in the region of Central and Eastern Europe (including Turkey). On the basis of a strategic decision on risk reduction, the equity interest in Ukrsotsbank was classified as a discontinued operation (held for sale) at the end of 2013. Profit or loss of Ukrsotsbank continues to be included in the CEE business segment in the income statement item "Total profit or loss after tax from discontinued operations"; figures for previous periods were adjusted accordingly. The companies of the Yapı Kredi Group were previously accounted for using proportionate consolidation or the equity method. As a result of first-time application of IFRS 11, these companies are accounted for as a consolidated group using the equity method starting with 2014; figures for previous periods were adjusted accordingly.

The Yapı Kredi Group companies continue to be included on a proportionate basis in the calculation of risk-weighted assets and capital resources for regulatory purposes.

In the context of the realignment of leasing business, UniCredit Leasing SpA transferred leasing companies in Russia, the Czech Republic, Slovakia and Romania to Bank Austria in the first half of 2014.

Corporate Center

The item "Total profit or loss after tax from discontinued operations" in the Corporate Center's income statement in the fourth quarter of 2013 included the other effects resulting from the classification of Ukrsotsbank as a discontinued operation. The previous periods included effects from the sale (including profit or loss until the sale) of JSC ATF Bank and its subsidiaries. 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. The equity interest in UniCredit Leasing SpA, classified in the fourth quarter of 2013 as a disposal group held for sale, was sold in March 2014.

Funding costs relating to consolidated subsidiaries are also assigned to the Corporate Center. Also included are inter-segment eliminations, other items which are not to be assigned to the business segments, and impairment losses on goodwill.

Segment reporting (CONTINUED)

Methods

Net interest is split up according to the market interest rate method. Costs are allocated to the individual business segments from which they arise. The result of each business segment is measured by the profit earned by the respective segment. The interest rate applied to investment of equity allocated to the business segments is determined for one year in advance as part of the budgeting process. Essentially, it is composed of the 1-month EURIBOR and a liquidity cost margin based on the average term of balance sheet volume.

Overhead costs are allocated to the business segments according to a key of distribution applied within the Group on a uniform basis (50% costs, 20% revenues, 20% FTEs and 10% proportionately).

Capital allocated to the business segments in UniCredit Bank Austria AG, based on the Tier 1 capital ratio, is 9% of risk-weighted assets.

Recasting:

A number of structural changes took place within the business segments and in the group of consolidated companies. This means that results for 2014 are not fully comparable with those for 2013. For this reason, the segment results for 2013 have been adjusted to the new structure. The difference compared with Bank Austria's overall results is presented in a separate column showing "Recasting differences".

The main pro-forma adjustments are as follows:

- As part of the restructuring of leasing business, companies were taken over from UniCredit Leasing SpA in Latvia in the second quarter of 2013 and in Bulgaria in the fourth quarter of 2013. These companies are included in the recast figures for all previous periods in 2013. Moreover, in the first quarter of 2014, further companies in the Czech Republic, Slovakia and Russia, and in the second quarter of 2014 in Romania, were taken over from UniCredit Leasing SpA and newly included in the group of consolidated companies of the Bank Austria Group. The companies were assigned to the CEE business segment; figures for previous periods were adjusted accordingly.
- Following the sale of the shareholding interest in UniCredit Leasing SpA in March 2014, the related contributions, which were accounted for using the equity method, were eliminated also in previous periods.
- Minor equity interests in the real estate sector previously held within the Retail & Corporates business segment were assigned to the Corporate Center. Figures for previous periods were adjusted accordingly.
- To enhance data comparability, further adjustments were made at segment level; these are mainly structural adjustments resulting from organisational changes.

Segment reporting (CONTINUED)

Segment reporting 1–6 2014/1–6 2013

(€ million)

		RETAIL & CORPORATES	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CENTRAL EASTERN EUROPE (CEE)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST)	RECASTING DIFFER-ENCES [1]	BANK AUSTRIA GROUP (PUBLISHED) [2]
Net interest	1–6 2014	467	32	168	1,195	–154	1,708	–	1,708
	1–6 2013	455	23	179	1,197	–138	1,716	–31	1,685
Dividends and other income from equity investments	1–6 2014	21	–	–	138	65	224	–	224
	1–6 2013	19	–	4	249	38	310	–11	299
Net fees and commissions	1–6 2014	243	48	47	377	–40	675	–	675
	1–6 2013	240	51	58	348	–26	671	–4	667
Net trading, hedging and fair value income/loss	1–6 2014	8	1	29	136	76	250	–	250
	1–6 2013	24	1	28	212	48	313	–	313
Net other expenses/income	1–6 2014	8	1	1	22	18	50	–	50
	1–6 2013	11	–	4	27	–11	31	–1	30
OPERATING INCOME	**1–6 2014**	**747**	**82**	**245**	**1,868**	**–35**	**2,907**	**–**	**2,907**
	1–6 2013	**749**	**75**	**273**	**2,034**	**–89**	**3,041**	**–47**	**2,994**
OPERATING COSTS	**1–6 2014**	**–565**	**–59**	**–124**	**–793**	**–117**	**–1,657**	**–**	**–1,657**
	1–6 2013	**–569**	**–56**	**–113**	**–830**	**–111**	**–1,679**	**18**	**–1,661**
OPERATING PROFIT	**1–6 2014**	**183**	**23**	**121**	**1,075**	**–152**	**1,250**	**–**	**1,250**
	1–6 2013	**180**	**20**	**159**	**1,204**	**–200**	**1,362**	**–30**	**1,333**
Net write-downs of loans and provisions for guarantees and commitments	1–6 2014	–47	–	15	–300	–	–332	–	–332
	1–6 2013	–89	–	–25	–400	1	–514	12	–502
NET OPERATING PROFIT	**1–6 2014**	**136**	**23**	**136**	**775**	**–152**	**918**	**–**	**918**
	1–6 2013	**91**	**19**	**134**	**803**	**–199**	**848**	**–18**	**831**
Provisions for risks and charges	1–6 2014	–	–	–	–33	2	–31	–	–31
	1–6 2013	–	–	–	–5	–92	–97	–	–97
Integration/restructuring costs	1–6 2014	–	–	–	–7	–	–7	–	–7
	1–6 2013	–	–	–	–6	–	–6	–	–6
Net income/loss from investments	1–6 2014	–1	–	2	–2	56	55	–	55
	1–6 2013	–2	–	1	–1	–	–2	–	–2
PROFIT BEFORE TAX	**1–6 2014**	**134**	**23**	**139**	**734**	**–94**	**935**	**–**	**935**
	1–6 2013	**89**	**19**	**135**	**791**	**–291**	**743**	**–18**	**726**
Income tax for the period	1–6 2014	–28	–6	–35	–105	47	–126	–	–126
	1–6 2013	–13	–5	–33	–80	14	–117	1	–116
Total profit or loss after tax from discontinued operations	1–6 2014	–	–	–	–39	14	–25	–	–25
	1–6 2013	–	–	–	–53	30	–23	–2	–24
PROFIT OR LOSS FOR THE PERIOD	**1–6 2014**	**107**	**17**	**104**	**589**	**–33**	**784**	**–**	**784**
	1–6 2013	**75**	**14**	**102**	**658**	**–246**	**604**	**–18**	**586**
Non-controlling interests	1–6 2014	–3	–	–	–15	11	–8	–	–8
	1–6 2013	–4	–	1	–39	21	–21	6	–15
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY BEFORE PPA	**1–6 2014**	**103**	**17**	**104**	**574**	**–22**	**776**	**–**	**776**
	1–6 2013	**72**	**14**	**103**	**619**	**–225**	**583**	**–12**	**571**
Purchase Price Allocation effect	1–6 2014	–	–	–	–	–	–	–	–
	1–6 2013	–	–	–	–	–	–	–	–
Goodwill impairment	1–6 2014	–	–	–	–	–	–	–	–
	1–6 2013	–	–	–	–	–5	–5	–	–5
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	**1–6 2014**	**103**	**17**	**104**	**574**	**–22**	**776**	**–**	**776**
	1–6 2013	**72**	**14**	**103**	**619**	**–230**	**578**	**–12**	**566**

Segment reporting (CONTINUED)

		RETAIL & CORPORATES	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CENTRAL EASTERN EUROPE (CEE)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST)	RECASTING DIFFER-ENCES [1]	BANK AUSTRIA GROUP (PUBLISHED) [2]
Risk-weighted assets (RWA) (avg.) [3]	**1–6 2014**	**17,596**	**613**	**8,314**	**82,394**	**14,327**	**123,245**	**–**	**123,245**
	1–6 2013	**17,806**	**724**	**9,619**	**87,857**	**15,788**	**131,794**	**–2,103**	**129,690**
Loans to customers (end of period)	**1–6 2014**	**40,242**	**635**	**15,347**	**57,091**	**4,284**	**117,599**	**–**	**117,599**
	1–6 2013	**40,857**	**627**	**14,757**	**57,911**	**5,451**	**119,603**	**–588**	**119,014**
Primary funds (end of period) [4]	**1–6 2014**	**40,483**	**8,352**	**8,527**	**48,398**	**19,211**	**124,971**	**–**	**124,971**
	1–6 2013	**41,208**	**7,821**	**9,186**	**45,857**	**16,481**	**120,552**	**175**	**120,727**
Cost/income ratio excl. bank levy in %	*1–6 2014*	*72.3*	*70.1*	*44.1*	*40.5*	*n.m.*	*53.7*	*n.m.*	*53.7*
	1–6 2013	*73.5*	*73.4*	*35.5*	*38.9*	*n.m.*	*52.4*	*n.m.*	*52.6*
Risk/earnings ratio in % [5]	*1–6 2014*	*9.7*	*0.9*	*9.0*	*22.5*	*n.m.*	*17.2*	*n.m.*	*17.2*
	1–6 2013	*18.9*	*1.5*	*14.0*	*27.7*	*n.m.*	*25.4*	*n.m.*	*25.3*

1) The segment results have been recast. The difference compared to Bank Austria's results is presented in a separate column showing "Recasting differences", which for 2013 mainly relate to the transfer of Leasing subsidiaries in Baltics, Bulgaria, Russia, Czech Republic, Slovakia and Romania to Bank Austria. Recasting differences in dividends and other income from equity investments also relate to the sale of the equity stake in UniCredit Leasing SpA.

2) The comparative figures for 2013 and 2014 reflect the accounting figures, restatements are included as described in the notes.

3) Turkey consolidated using the proportionate method. Corporate Center: including Kazakhstan (until disposal).

4) Primary funds: deposits from customers and debt securities in issue.

5) Risk/earnings ratio: net write-downs of loans and provisions for guarantees and commitments measured against net interest and dividends and other income from equity investments.

n.m. = not meaningful

Segment reporting (CONTINUED)

Segment reporting H1 2014/Q1–Q4 2013

(€ million)

		RETAIL & CORPORATES	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CENTRAL EASTERN EUROPE (CEE)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST) [1]
Net interest	Q2 2014	236	16	83	611	–80	866
	Q1 2014	231	15	85	584	–74	841
	Q4 2013	231	14	83	610	–64	873
	Q3 2013	225	12	81	616	–52	881
	Q2 2013	235	12	89	602	–77	861
	Q1 2013	221	11	89	595	–61	855
Dividends and other income from equity investments	Q2 2014	12	–	–	90	49	151
	Q1 2014	9	–	–	48	16	73
	Q4 2013	13	–	1	102	8	124
	Q3 2013	4	–	–	297	29	329
	Q2 2013	12	–	–	149	17	179
	Q1 2013	7	–	4	100	21	132
Net fees and commissions	Q2 2014	120	24	23	197	–18	346
	Q1 2014	123	25	24	180	–22	330
	Q4 2013	128	27	31	198	–6	379
	Q3 2013	111	22	20	184	–2	336
	Q2 2013	120	25	28	179	–5	348
	Q1 2013	120	25	30	169	–21	324
Net trading, hedging and fair value income/loss	Q2 2014	6	1	8	79	45	138
	Q1 2014	3	–	20	57	31	112
	Q4 2013	1	1	15	260	45	321
	Q3 2013	7	1	11	90	48	158
	Q2 2013	7	1	20	102	51	180
	Q1 2013	17	–	8	111	–4	133
Net other expenses/income	Q2 2014	3	–	–	17	9	30
	Q1 2014	5	–	–	5	10	20
	Q4 2013	9	–	1	1	8	18
	Q3 2013	5	1	–	32	5	43
	Q2 2013	5	–	1	16	–19	2
	Q1 2013	6	–	3	11	8	28
OPERATING INCOME	**Q2 2014**	**377**	**41**	**115**	**993**	**5**	**1,531**
	Q1 2014	**371**	**40**	**130**	**875**	**–40**	**1,376**
	Q4 2013	**382**	**41**	**131**	**1,170**	**–10**	**1,715**
	Q3 2013	**352**	**36**	**112**	**1,219**	**28**	**1,747**
	Q2 2013	**378**	**38**	**138**	**1,048**	**–32**	**1,570**
	Q1 2013	**371**	**37**	**134**	**986**	**–57**	**1,471**
OPERATING COSTS	**Q2 2014**	**–282**	**–30**	**–62**	**–389**	**–59**	**–822**
	Q1 2014	**–283**	**–29**	**–62**	**–404**	**–58**	**–835**
	Q4 2013	**–293**	**–28**	**–58**	**–457**	**–58**	**–894**
	Q3 2013	**–269**	**–27**	**–55**	**–410**	**–53**	**–813**
	Q2 2013	**–288**	**–28**	**–57**	**–408**	**–55**	**–835**
	Q1 2013	**–282**	**–28**	**–57**	**–422**	**–56**	**–844**
OPERATING PROFIT	**Q2 2014**	**95**	**11**	**53**	**605**	**–54**	**710**
	Q1 2014	**88**	**12**	**68**	**471**	**–98**	**541**
	Q4 2013	**89**	**13**	**72**	**714**	**–68**	**821**
	Q3 2013	**84**	**9**	**57**	**809**	**–25**	**934**
	Q2 2013	**90**	**10**	**82**	**639**	**–87**	**735**
	Q1 2013	**89**	**10**	**78**	**564**	**–113**	**628**
Net write-downs of loans and provisions for guarantees and commitments	Q2 2014	–5	–	28	–166	–	–142
	Q1 2014	–43	–	–13	–134	–	–190
	Q4 2013	–2	–	–15	–489	–30	–536
	Q3 2013	–45	–	–13	–205	–	–263
	Q2 2013	–45	–	–12	–213	1	–269
	Q1 2013	–45	–	–13	–188	–	–246
NET OPERATING PROFIT	**Q2 2014**	**90**	**11**	**82**	**438**	**–54**	**568**
	Q1 2014	**45**	**12**	**55**	**337**	**–98**	**350**
	Q4 2013	**88**	**13**	**57**	**225**	**–98**	**284**
	Q3 2013	**39**	**9**	**44**	**604**	**–25**	**671**
	Q2 2013	**46**	**10**	**69**	**427**	**–86**	**466**
	Q1 2013	**45**	**9**	**65**	**377**	**–113**	**382**

Segment reporting (CONTINUED)

		RETAIL & CORPORATES	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CENTRAL EASTERN EUROPE (CEE)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST) [1]
Provisions for risks and charges	Q2 2014	–	–	–	−30	2	−28
	Q1 2014	–	–	–	−3	–	−4
	Q4 2013	−5	−1	–	−6	−22	−34
	Q3 2013	–	−1	–	–	−15	−17
	Q2 2013	–	–	–	−4	−31	−34
	Q1 2013	–	–	–	−1	−62	−63
Integration/restructuring costs	Q2 2014	–	–	–	−6	–	−6
	Q1 2014	–	–	–	−1	–	−1
	Q4 2013	–	–	–	−13	−104	−117
	Q3 2013	–	–	4	−14	–	−10
	Q2 2013	–	–	–	−4	–	−4
	Q1 2013	–	–	–	−2	–	−2
Net income/loss from investments	Q2 2014	−1	–	–	−1	−17	−20
	Q1 2014	–	–	2	–	73	75
	Q4 2013	−41	–	−2	−18	−635	−696
	Q3 2013	11	–	−1	−34	−2	−26
	Q2 2013	−2	–	3	−2	1	–
	Q1 2013	–	–	−2	–	–	−2
PROFIT BEFORE TAX	**Q2 2014**	**89**	**11**	**82**	**402**	**−69**	**515**
	Q1 2014	**45**	**12**	**57**	**332**	**−25**	**421**
	Q4 2013	**41**	**12**	**55**	**188**	**−858**	**−562**
	Q3 2013	**50**	**8**	**47**	**555**	**−43**	**618**
	Q2 2013	**44**	**10**	**72**	**417**	**−116**	**428**
	Q1 2013	**45**	**9**	**63**	**374**	**−175**	**316**
Income tax for the period	Q2 2014	−20	−3	−20	−54	35	−63
	Q1 2014	−8	−3	−15	−51	12	−64
	Q4 2013	−23	−4	−14	−15	−189	−245
	Q3 2013	−6	−2	−11	−51	4	−66
	Q2 2013	−7	−3	−18	−28	−23	−79
	Q1 2013	−6	−2	−15	−51	37	−38
Total profit or loss after tax from discontinued operations	Q2 2014	–	–	–	−35	8	−27
	Q1 2014	–	–	–	−4	6	2
	Q4 2013	–	–	–	−52	−199	−251
	Q3 2013	–	–	–	2	6	8
	Q2 2013	–	–	–	−56	13	−43
	Q1 2013	–	–	–	3	17	20
PROFIT (LOSS) FOR THE PERIOD	**Q2 2014**	**69**	**8**	**61**	**313**	**−27**	**425**
	Q1 2014	**37**	**9**	**43**	**277**	**−7**	**359**
	Q4 2013	**17**	**9**	**42**	**120**	**−1,247**	**−1,059**
	Q3 2013	**44**	**6**	**37**	**506**	**−33**	**560**
	Q2 2013	**37**	**7**	**54**	**333**	**−125**	**306**
	Q1 2013	**39**	**7**	**47**	**326**	**−121**	**298**
Non-controlling interests	Q2 2014	−1	–	–	−2	4	1
	Q1 2014	−2	–	–	−13	8	−8
	Q4 2013	−3	–	−1	28	39	63
	Q3 2013	−3	–	–	−9	1	−10
	Q2 2013	−2	–	–	−21	15	−8
	Q1 2013	−2	–	1	−18	6	−13
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY BEFORE PPA	**Q2 2014**	**68**	**8**	**61**	**311**	**−23**	**426**
	Q1 2014	**35**	**9**	**43**	**263**	**1**	**351**
	Q4 2013	**14**	**9**	**40**	**148**	**−1,207**	**−996**
	Q3 2013	**41**	**6**	**37**	**498**	**−32**	**550**
	Q2 2013	**35**	**7**	**54**	**312**	**−110**	**298**
	Q1 2013	**37**	**7**	**49**	**308**	**−115**	**285**
Purchase Price Allocation effect	Q2 2014	–	–	–	–	–	–
	Q1 2014	–	–	–	–	–	–
	Q4 2013	–	–	–	–	–	–
	Q3 2013	–	–	–	–	–	–
	Q2 2013	–	–	–	–	–	–
	Q1 2013	–	–	–	–	–	–

Segment reporting (CONTINUED)

		RETAIL & CORPORATES	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CENTRAL EASTERN EUROPE (CEE)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST) [1]
Goodwill impairment	Q2 2014	–	–	–	–	–	–
	Q1 2014	–	–	–	–	–	–
	Q4 2013	–	–	–	–9	–1,661	–1,670
	Q3 2013	–	–	–	–	–3	–3
	Q2 2013	–	–	–	–	–3	–3
	Q1 2013	–	–	–	–	–3	–3
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	**Q2 2014**	**68**	**8**	**61**	**311**	**–23**	**426**
	Q1 2014	**35**	**9**	**43**	**263**	**1**	**351**
	Q4 2013	**14**	**9**	**40**	**139**	**–2,869**	**–2,666**
	Q3 2013	**41**	**6**	**37**	**498**	**–34**	**547**
	Q2 2013	**35**	**7**	**54**	**312**	**–113**	**296**
	Q1 2013	**37**	**7**	**49**	**308**	**–118**	**282**
Risk-weighted assets (RWA) (avg.) [2]	**Q2 2014**	**17,938**	**623**	**8,227**	**83,515**	**14,543**	**124,846**
	Q1 2014	**17,255**	**604**	**8,401**	**81,274**	**14,111**	**121,645**
	Q4 2013	**17,280**	**600**	**8,608**	**81,274**	**13,147**	**120,910**
	Q3 2013	**17,424**	**597**	**8,529**	**84,482**	**13,519**	**124,550**
	Q2 2013	**17,631**	**615**	**9,291**	**87,429**	**15,072**	**130,040**
	Q1 2013	**17,981**	**833**	**9,946**	**88,284**	**16,504**	**133,548**
Loans to customers (end of period)	**Q2 2014**	**40,242**	**635**	**15,347**	**57,091**	**4,284**	**117,599**
	Q1 2014	**39,898**	**636**	**14,161**	**54,606**	**4,959**	**114,259**
	Q4 2013	**40,067**	**644**	**13,581**	**56,436**	**4,656**	**115,384**
	Q3 2013	**40,349**	**642**	**14,145**	**58,127**	**4,732**	**117,995**
	Q2 2013	**40,857**	**627**	**14,757**	**57,911**	**5,451**	**119,603**
	Q1 2013	**40,896**	**592**	**14,864**	**58,090**	**5,607**	**120,049**
Primary funds (end of period) [3]	**Q2 2014**	**40,483**	**8,352**	**8,527**	**48,398**	**19,211**	**124,971**
	Q1 2014	**40,522**	**8,585**	**8,886**	**47,452**	**18,658**	**124,103**
	Q4 2013	**40,303**	**7,686**	**9,191**	**49,530**	**17,463**	**124,173**
	Q3 2013	**39,217**	**7,969**	**8,872**	**46,020**	**16,637**	**118,715**
	Q2 2013	**41,208**	**7,821**	**9,186**	**45,857**	**16,481**	**120,552**
	Q1 2013	**42,442**	**7,761**	**9,776**	**46,303**	**16,179**	**122,461**
Cost/income ratio excl. bank levy in %	*Q2 2014*	*71.6*	*69.8*	*47.4*	*38.5*	*n.m.*	*51.3*
	Q1 2014	*73.1*	*70.3*	*41.2*	*42.8*	*n.m.*	*56.5*
	Q4 2013	*74.2*	*67.7*	*38.3*	*38.6*	*n.m.*	*50.5*
	Q3 2013	*73.6*	*73.5*	*41.4*	*33.2*	*n.m.*	*44.9*
	Q2 2013	*73.6*	*73.0*	*34.9*	*38.5*	*n.m.*	*51.3*
	Q1 2013	*73.4*	*73.9*	*36.0*	*39.5*	*n.m.*	*53.5*
Risk/earnings ratio in % [4]	*Q2 2014*	*1.9*	*2.3*	*34.1*	*23.7*	*n.m.*	*14.0*
	Q1 2014	*17.8*	*0.7*	*15.7*	*21.2*	*n.m.*	*20.8*
	Q4 2013	*0.8*	*1.9*	*18.1*	*68.7*	*n.m.*	*53.8*
	Q3 2013	*19.6*	*1.7*	*15.8*	*22.5*	*n.m.*	*21.7*
	Q2 2013	*18.2*	*1.2*	*13.8*	*28.3*	*n.m.*	*25.8*
	Q1 2013	*19.6*	*1.7*	*14.1*	*27.0*	*n.m.*	*24.9*

1) Quarterly figures based on unaudited recast data only.
3) Turkey consolidated using the proportionate method. Corporate Center: including Kazakhstan (until disposal).
3) Primary funds: deposits from customers and debt securities in issue.
4) Risk/earnings ratio: net write-downs of loans and provisions for guarantees and commitments measured against net interest and dividends and other income from equity investments.
n.m. = not meaningful

Risk report

Liquidity risks in Ukraine, Russia and Bulgaria

Ukraine

The political crisis in Ukraine led to material **depreciation of Ukraine's currency (UAH, until the low in the middle of April by about –40% against USD and EUR)** and an **interest rate increase in funding rates**. The currency was stabilised in May and June (–29% against the euro by the end of June).

The current situation in the country has a strong impact on commercial activity. Ukrsotsbank (USB) has closed its operations in Crimea and a number of branches in the regions of Donetsk and Luhansk have been closed at least temporarily.

The customer **deposit base in UAH** decreased by 17% in Q1 2014 (deposits in USD by 40%) but was subsequently stabilised in the second quarter. UAH deposits rose until the middle of July and are currently about 11% below the previous year's level. Ukrsotsbank is currently using local central bank support of about UAH 450 million, but the bank intends to return a portion of this amount as deposits have stabilised.

The bank holds about UAH 2.2 billion of collateral (Ukraine government bonds) which can be used for UAH refinancing with the local central bank beyond an eligible corporate bond portfolio of UAH 0.5 billion and a collateral free National Bank of Ukraine (NBU) facility of UAH 0.2 billion. NBU has extended the eligible collateral definition to certain loan categories, the positive impact on the eligible collateral is assessed at about UAH 1 billion. Central bank funds in the amount of available collateral are available to the bank unless local minimum capital ratios fail to be met. Bank Austria supports USB with a USD overnight facility, which amounted to USD 73 million as at 30 June 2014; subsequent developments permitted this to be reduced by a significant amount.

A strong focus on deposit retention and restrictive lending practice helped to keep the overall **bank's liquidity position** stable.

Russia

The political **crisis in Ukraine** triggered major negative impacts on the Russian economy. **Currency depreciation and material rate increases** during the first quarter of 2014 led to (mainly) revaluation losses on the bond and interest rate positions of UniCredit Bank Russia. In the second quarter, the situation gradually eased at least in financial markets, leading to a countermovement in indices with an improvement in the earnings position of Markets operations in UniCredit Bank Russia.

The additional US sanctions recently imposed on Russian companies in the energy and financial sectors led to a renewed significant weakening of the rouble and of share indices, and to a strong increase in interest rates.

UniCredit Bank Russia is currently still **not experiencing deposit outflows which exceed normal fluctuations**, just the usual short-term deposit seasonal outflows of corporate customers. The additional economic sanctions which have been imposed (especially with regard to the oil industry) could potentially change the situation.

The bank is **compliant** with all external and internal **liquidity limits and liquidity ratios**. Severe outflow assumptions in a stress test can be covered with the existing counterbalancing capacity.

Bulgaria

The banking crisis triggered in the middle of 2014 involved Commercial Corporate Bank and First International Bank (the no. 4 and no. 3 banks by total assets). With new management under a state commissioner at CCB and funding commitments given by the central bank, the crisis has so far not had any further negative impact on the financial services sector or on the local currency, which is pegged to the euro. UniCredit Bulbank recorded substantial inflows of deposits from customers of the above-mentioned banks and invested the additional liquidity in sovereign bonds.

UniCredit Bulbank's market and liquidity risk ratios are within a normal range. In response to the local banking crisis, an Alert Task Force was established to organise day-to-day liquidity management and maintain contact with the competent functions within Bank Austria.

Country risk and sovereign risk

Risk associated with cross-border transactions with all customer groups is reflected in country risk ("transfer and convertibility risk"; country risk includes, for example, loans to foreign corporate customers or banks). Risk associated with the state itself (e.g. the purchase of government bonds) is reflected in sovereign risk, irrespective of whether such risk is cross-border or local risk. Both risks are assessed via a group-wide credit process. Country limits and sovereign limits are assessed by the responsible risk management team, approved by the relevant body having approval authority, and assigned to UniCredit subsidiaries according to business needs. In general, cross-border business is not limited for countries which are presumed less risky, e.g. the US, Japan, core EU countries; for all other countries, cross-border business is limited via the assigned country limit. Sovereign risk is in each case limited via counterparty limits. The overall bond exposure is monitored via nominal credit risk limits and market risk limits. Any impairment losses are recognised according to international standards.

Central and Eastern Europe / Ukraine and Russia

Political and economic developments in Ukraine are a particular focus of attention. The entire exposure is controlled via specific crisis strategies and closely monitored. Risk-mitigating measures have also been taken with regard to the portfolio relating to Russian customers, in the context of the sanctions which have been imposed.

A quick response by the Bulgarian central bank with ECB support (provision of additional liquidity, temporary administration of a bank by the BNB) helped to get the liquidity crisis in the Bulgarian banking system under control within a relatively short time.

Large sovereign exposures for countries in Central and Eastern Europe (e.g. Russia, Hungary, Romania, Croatia) mainly result from excess liquidity management of Bank Austria banking subsidiaries or guarantees from the respective sovereign provided to support local (i.e. Bank Austria banking subsidiaries in e.g. Serbia, Croatia) corporate business. Both are monitored and limited within the framework of credit risk management.

Risk report (CONTINUED)

Within the Group's sovereign exposures as at 30 June 2014, the carrying amount of sovereign debt securities was €19,066 million, of which about 95% concentrated on ten countries. For each of the ten countries, the table below shows the carrying amount of the exposures broken down by portfolio as at 30 June 2014.

Breakdown of sovereign debt securities by country and portfolio (€ million)

	30 JUNE 2014			31 DEC. 2013		
COUNTRY/PORTFOLIO	NOMINAL VALUE	BOOK VALUE	FAIR VALUE	NOMINAL VALUE	BOOK VALUE	FAIR VALUE
Austria	**7,800**	**9,004**	**9,015**	**6,128**	**6,882**	**6,892**
HFT financial assets/liabilities (net exposures) *)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	7,678	8,882	8,882	6,001	6,755	6,755
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	122	122	133	126	127	137
Hungary	**1,892**	**1,980**	**1,981**	**1,900**	**1,949**	**1,949**
HFT financial assets/liabilities (net exposures) *)	61	61	61	74	74	74
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	1,825	1,913	1,913	1,811	1,859	1,859
Loans and receivables	–	–	–	7	7	7
Held-to-maturity investments	6	6	6	8	9	9
Czech Republic	**1,712**	**1,873**	**1,873**	**1,836**	**1,966**	**1,966**
HFT financial assets/liabilities (net exposures) *)	89	90	90	93	96	96
Financial assets at FV through P&L	55	55	55	232	232	232
Available for sale	1,569	1,728	1,728	1,512	1,638	1,638
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
Romania	**1,062**	**1,109**	**1,109**	**1,162**	**1,213**	**1,213**
HFT financial assets/liabilities (net exposures) *)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	1,062	1,109	1,109	1,162	1,213	1,213
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
Croatia	**873**	**879**	**879**	**758**	**826**	**826**
HFT financial assets/liabilities (net exposures) *)	16	17	17	8	8	8
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	857	862	862	750	818	818
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
Bulgaria	**806**	**848**	**849**	**494**	**532**	**535**
HFT financial assets/liabilities (net exposures) *)	11	13	13	6	7	7
Financial assets at FV through P&L	–	–	–	1	1	1
Available for sale	729	767	767	421	455	455
Loans and receivables	6	6	6	7	7	7
Held-to-maturity investments	59	62	64	59	63	66
Russia	**789**	**767**	**767**	**593**	**598**	**598**
HFT financial assets/liabilities (net exposures) *)	–	–	–	83	82	82
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	789	767	767	510	516	516
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–

*) Including exposures in credit derivatives.

Risk report (CONTINUED)

COUNTRY/PORTFOLIO	30 JUNE 2014			31 DEC. 2013		
	NOMINAL VALUE	BOOK VALUE	FAIR VALUE	NOMINAL VALUE	BOOK VALUE	FAIR VALUE
Slovakia	**509**	**551**	**551**	**491**	**516**	**516**
HFT financial assets/liabilities (net exposures) *)	41	20	20	12	9	9
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	462	524	524	473	499	499
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	7	7	7	7	7	7
Spain	**508**	**526**	**526**	**8**	**6**	**6**
HFT financial assets/liabilities (net exposures) *)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	500	519	519	–	–	–
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	8	6	6	8	6	6
Italy	**436**	**517**	**517**	**541**	**563**	**563**
HFT financial assets/liabilities (net exposures) *)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	435	516	516	540	563	563
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	1	1	1	1	1	1
Other Countries	**1,147**	**1,013**	**1,014**	**1,008**	**856**	**857**
HFT financial assets/liabilities (net exposures) *)	230	45	45	187	35	35
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	905	955	955	808	808	809
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	13	13	14	13	13	13
TOTAL	**17,535**	**19,066**	**19,080**	**14,920**	**15,908**	**15,921**
thereof:						
Slovenia	**253**	**275**	**276**	**179**	**188**	**189**
Greece	**153**	**2**	**2**	**153**	**2**	**2**
Portugal	**30**	**33**	**33**	**30**	**30**	**30**
shown under held for sale:						
Ukraine	**171**	**162**	**162**	**227**	**214**	**214**

*) Including exposures in credit derivatives.

Risk report (CONTINUED)

Breakdown of sovereign debt securities by portfolio

(€ million)

	30 JUNE 2014					
	HELD FOR TRADING (NET EXPOSURES)	FINANCIAL ASSETS AT FAIR VALUE	AVAILABLE-FOR-SALE FINANCIAL ASSETS	LOANS	HELD-TO-MATURITY INVESTMENTS	TOTAL
Book value of sovereign portfolio	247	55	18,541	6	217	19,066
Total portfolio of debt securities	324	95	22,436	657	580	24,092
% Portfolio	76.33%	57.81%	82.64%	0.97%	37.36%	79.14%
	31 DEC. 2013					
	HELD FOR TRADING (NET EXPOSURES)	FINANCIAL ASSETS AT FAIR VALUE	AVAILABLE-FOR-SALE FINANCIAL ASSETS	LOANS	HELD-TO-MATURITY INVESTMENTS	TOTAL
Book value of sovereign portfolio	312	233	15,124	14	226	15,908
Total portfolio of debt securities	495	271	18,990	754	633	21,143
% Portfolio	62.88%	85.99%	79.64%	1.83%	35.66%	75.24%

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

In addition to the exposures to sovereign debt securities, loans to central and local governments and other governmental bodies must be taken into account.

The table below shows the total amount of loans to countries where the overall exposure exceeded €100 million as at 30 June 2014; these countries accounted for 92% of the total.

Breakdown of sovereign loans by country

(€ million)

	30 JUNE 2014	31 DEC. 2013
COUNTRY	BOOK VALUE	BOOK VALUE
Austria	4,981	4,888
Croatia	2,554	2,567
Indonesia	431	468
Bosnia and Herzegovina	232	216
Slovenia	221	228
Bulgaria	174	167
Hungary	147	187
Serbia	140	137
Gabon	129	–
Other	746	795
TOTAL ON-BALANCE SHEET EXPOSURE	**9,880**	**9,769**
shown under held for sale:		
Ukraine	21	33

Sovereign loans are loans granted to central and local governments and other public sector entities.

Credit risk

In the first half of 2014 (H1 2014), risk costs of **Bank Austria** were €332 million, significantly lower than for the same period of the previous year (H1 2013: €514 million).

The provisioning charge in **Austria** declined substantially, especially in the **Retail & Corporates** business segment, where net write-downs of loans and provisions for guarantees and commitments amounted to €47 million (H1 2013: €89 million). This decrease was mainly due to developments in the Retail subdivision, with a lower volume of additions to loan loss provisions and one-off effects resulting from methodological changes in the amount of +€10 million.

The **Corporate & Investment Banking (CIB)** business segment benefited from a net release of loan loss provisions of €15 million, reflecting the release of the provision for a major customer. In the same period of the previous year, the provisioning charge in CIB was €25 million.

Net write-downs of loans and provisions for guarantees and commitments in the **CEE Division** in the first half of 2014 amounted to €300 million (H1 2013: €400 million). The most significant improvements compared with the first half of 2013 were seen in Croatia, Bulgaria, the Czech Republic and Romania, mainly reflecting the stable development of the loan portfolio. The CEE business segment in UniCredit Bank Austria AG also made a strong contribution to the improvement.

The provisioning charge at the banking subsidiary in Russia was €46 million, only slightly higher than in the same period of the previous year (€42 million). To keep the future impact of current events on the loan portfolio to a minimum, the credit risk strategy was adjusted to reflect the current situation.

The credit risk strategy in respect of the Ukrainian banking subsidiary (held for sale) was also adjusted through restrictive requirements for all customer groups and products, and lending in regions or cities which are very strongly affected has been frozen.

Operational risk

Measures are being taken at Ukrsotsbank to limit the impact of the current crisis and minimise operational risks. Opening hours of local branches are adjusted to the current situation on a day-to-day basis, and the number of employees is being reduced. By the middle of July 2014, 40 regional branches had been closed and/or activities were suspended.

In UniCredit Bank Russia, no direct operational risk losses have occurred so far in connection with the current crisis in Ukraine.
The impact of national legislation on foreign currency loans in Hungary and Croatia is described in the following section on legal risks.

Legal risks

We generally do not make provisions to the extent it is not possible to reliably predict the outcome of proceedings or to quantify possible losses. In cases where it is possible to estimate in a reliable manner the amount of the possible loss and such loss is deemed probable, we have made provisions in amounts we deem appropriate in light of the particular circumstances and in accordance with applicable accounting principles.

In line with the above policy, provisions have been made in the amount of the estimated risk for the following pending legal proceedings. In accordance with IAS 37 information which would seriously prejudice the relevant company's position in the dispute may be omitted:

The Madoff fraud

Background

In March 2009 Bernard L. Madoff ("Madoff"), former chairman of the NASDAQ Exchange and owner of Bernard L. Madoff Investment Securities LLC ("BLMIS"), pled guilty to operating what has been described as a Ponzi scheme, for which he was sentenced to 150 years in prison. In December of 2008, a bankruptcy administrator (the "SIPA Trustee") for the liquidation of BLMIS was appointed in accordance with the U.S. Securities Investor Protection Act of 1970.

UniCredit Bank Austria AG was, until mid-2007, the owner of founder shares of the Primeo Fund Ltd., a Cayman fund now in Official Liquidation ("Primeo"), which had an account at BLMIS. UniCredit Bank Austria AG issued several tranches of notes whose potential return was to be calculated by reference to the performance of a synthetic hypothetical investment in Primeo. Some UniCredit Bank Austria AG customers purchased shares in Primeo funds that were held in their accounts at UniCredit Bank Austria AG. In addition, an indirectly owned subsidiary of UniCredit Bank Austria AG, known as BA Worldwide Fund Management Ltd. ("BAWFM") served as an investment adviser to the Primeo from Primeo's inception until mid-2007, and also provided investment advisory functions for Thema International Fund plc, a non-U.S. fund that had an account at BLMIS. UniCredit Bank Austria AG also owned a 25% stake in Bank Medici AG ("Bank Medici"), a defendant in certain proceedings described below. Bank Medici is alleged to be connected, inter alia, to the Herald Fund SPC, a non-U.S. fund that had an account at BLMIS.

Risk report (CONTINUED)

Several customers addressed enquiries and complaints against UniCredit Bank Austria AG in connection with certain funds related to the fraudulent actions by Mr. Bernard L. Madoff. The following proceedings are relevant:

Austrian criminal proceedings: UniCredit Bank Austria AG has been named as a defendant in criminal proceedings in Austria which concern the Madoff case. These proceedings were initiated by a complaint filed by the FMA (the Austrian Financial Market Authority) to the Austrian prosecutor. Subsequently complaints were filed by purported investors in funds which were invested, either directly or indirectly, in Bernard L. Madoff Investments Securities LLC and Bernard L. Madoff Securities LLC (collectively referred to as "BMIS"). These complaints allege, amongst other things, that UniCredit Bank Austria AG breached provisions of the Austrian Investment Fund Act as prospectus controller of the Primeo Fund. These criminal proceedings are still at the pre-trial stage. In addition, the fee-structure and the prospectuses themselves have been examined by an expert appointed by the prosecution.

Austrian civil proceedings: Numerous civil proceedings (with the claimed amount totaling about €135 million) have been initiated in Austria by numerous investors related to Madoff's fraud in which UniCredit Bank Austria AG, among others, has been named as defendant; different types of claims are asserted, including prospectus liability claims. The plaintiffs invested in investment funds that, in turn, invested directly or indirectly with BMIS. Several judgments have been issued in favour of UniCredit Bank Austria AG in various instances, some are already legally binding. Other judgments have been handed down against UniCredit Bank Austria AG, but none of them is final so far as appeals are pending. With respect to those cases currently on appeal no estimate can be made as to their potential outcomes nor the effects, if any, which the appeal decisions may have on other cases pending against UniCredit Bank Austria AG. In five Supreme Court cases, different senates of the Austrian Supreme Court have held in favour of UniCredit Bank Austria AG and rejected claims based on various theories of liability and related to prospectus liability. At this stage, it is not possible to forecast what effect these decisions may have on other cases.

Proceedings in the United States

Purported class actions

UniCredit Bank Austria AG, UniCredit S.p.A., Pioneer Alternative Investments ("PAI") and Pioneer Global Asset Management S.p.A. ("PGAM"), a UniCredit S.p.A. subsidiary, were named among some 70 defendants in one or more of three putative class action lawsuits filed in the United States District Court for the Southern District of New York (the "Southern District") between January and March 2009, purporting respectively to represent investors in three investment fund groups (the "Herald" funds, the "Primeo" and the "Thema" funds) which were invested, either directly or indirectly, in BLMIS. It was principally alleged that the defendants breached common law duties misrepresenting the monitoring that would be done of Madoff and plaintiffs' investments, and disregarding purported "red flags" of Madoff's fraud, failing to exercise due care in connection with the plaintiffs' investments, and, in the Herald case, that the defendants, including UniCredit Bank Austria AG, violated the United States Racketeer Influenced and Corrupt Organizations Act ("RICO"), causing the class some US$2 billion in damages, which plaintiffs sought to treble under RICO. Plaintiffs sought damages in unspecified amounts (other than under RICO, as noted above) and other relief.

On 29 November 2011, the Southern District dismissed all three purported class action complaints on grounds, with respect to UniCredit Bank Austria AG, UniCredit S.p.A., PGAM and PAI, that the United States is not the most convenient forum for resolution of plaintiffs' claims. On 16 September 2013, the United States Court of Appeals for the Second Circuit (the "Second Circuit") affirmed the dismissal of the cases brought by the Thema and Herald investors (the Primeo litigants did not appeal and agreed to follow the results of Herald appeal). On 30 September 2013, the plaintiffs in the Thema and in the Herald action requested that the decision to affirm the dismissal be reheard by the same panel (a "panel rehearing") or reviewed by the plenary court ("a rehearing en banc"). On 28 May 2014, the panel that heard the original appeal denied plaintiffs' request for a panel rehearing. On 30 July 2014, the Second Circuit denied plaintiffs' request for rehearing en banc.

Claims by the SIPA Trustee

In December 2010, the SIPA Trustee filed two cases (the "HSBC" and the "Kohn" case, respectively) in the United States Bankruptcy Court in the Southern District of New York (the "Bankruptcy Court") against several dozen defendants. Both cases were later removed to the non-bankruptcy federal trial court, i.e., the Southern District.

In the HSBC case, the SIPA Trustee sought to recover from some 60 defendants, including UniCredit Bank Austria AG, UniCredit S.p.A., BAWFM, PAI, certain current or formerly affiliated persons, and Bank Medici amounts to be determined at trial, allegedly representing so-called avoidable transfers to initial transferees of funds from BLMIS, subsequent transfers of funds originating from BLMIS (including alleged management, performance, advisory, administrative and marketing fees, said to exceed US$400 million in aggregate for all defendants), and compensatory and punitive damages against certain defendants on a joint and several basis, including the abovementioned, alleged to be in excess of US$2 billion. In addition to avoidable transfers, the SIPA Trustee sought to recover in the HSBC case unspecified amounts (said to exceed several billion dollars) for common law claims, including aiding and abetting BLMIS's breach of fiduciary duty and BLMIS's fraud, and contribution. The common law and contribution claims were dismissed on 28 July 2011, while certain claims (primarily avoidance claims) remained pending in the Bankruptcy Court. On 20 June 2013, the Second Circuit affirmed the Southern District's dismissal. On 9 October 2013, the SIPA Trustee petitioned the United States Supreme Court ("Supreme Court") to review the decision by the Second Circuit. The Supreme Court denied the SIPA Trustee's petition on 30 June 2014.

Risk report (CONTINUED)

In the Kohn case, the SIPA Trustee seeks to recover from more than 70 defendants, including UniCredit Bank Austria AG, UniCredit S.p.A., PGAM, BAWFM, Bank Austria Cayman Islands, certain current or formerly affiliated persons, and Bank Medici unspecified avoidable transfers from UniCredit Bank Austria AG as initial transferee from BLMIS, and from UniCredit Bank Austria AG, UniCredit S.p.A., and other affiliated individual defendants as subsequent transferees of funds likewise originating from BLMIS. The complaint further asserts common law claims and RICO violations, and seeks under RICO three times the reported net US$19.6 billion losses allegedly suffered by all BLMIS investors, as well as fees received, compensatory, exemplary and punitive damages, and costs of suit as against the defendants on a joint and several basis. On 21 February 2012, the Southern District dismissed the RICO and common law claims in respect of UniCredit Bank Austria AG, UniCredit S.p.A., PGAM, and the former CEO of UniCredit (who had also been named as a defendant). Certain claims (primarily avoidance claims) remain pending in the Bankruptcy Court. On 21 March 2012, the SIPA Trustee appealed the Southern District's dismissal of the RICO and common law claims to the Second Circuit. On 15 May 2014, the SIPA Trustee procedurally withdrew his appeal to the Second Circuit, but reserved the right to reinstate the appeal when the remainder of the case concludes in the lower court.

On 6 June 2014, the Southern District ruled at the request of a number of defendants, including UniCredit Bank Austria AG, UniCredit, PGAM and PAI, that avoidance claims based on subsequent transfers made abroad between a foreign transferor and a foreign transferee could not be maintained because the provisions of the United States law on which the SIPA Trustee relied may not be applied extraterritorially. The Southern District directed that the proceedings be returned to the Bankruptcy Court so that this ruling could be applied to all relevant cases, including the HSBC and Kohn cases.

The current or formerly affiliated persons named as defendants in the HSBC and Kohn cases, who had not been previously served, have now been served. These current or formerly affiliated persons may have similar defenses to the claims as UniCredit Bank Austria AG and its affiliated entities, and may have rights to indemnification from those parties.

Certain potential consequences

In addition to the foregoing proceedings stemming from the Madoff case against UniCredit Bank Austria AG, its subsidiaries and some of their respective employees and former employees, additional Madoff-related actions have been threatened and are in the process of being and may be filed in the future in said countries or in other countries by private investors or local authorities. The pending or future actions may have negative consequences for UniCredit Bank Austria AG.

UniCredit Bank Austria AG and its subsidiaries intend to defend themselves vigorously against the Madoff-related claims and charges.

Save as described above, for the time being it is not possible to estimate reliably the timing and results of the various actions, nor determine the level of responsibility, if any responsibility exists.

Certain legal developments in CEE arising out of disputes relating to foreign currency loans

In Central and Eastern Europe, in the last decade, a significant number of customers took out loans and mortgages denominated in a foreign currency (FX). In a number of instances customers – or consumer associations acting on their behalf – have sought to renegotiate the terms of such FX loans and mortgages, including having the loan principal and associated interest payments redenominated in the local currency at the time the loan was taken out, and floating rates retrospectively changed to fixed rates. This is resulting in litigation against subsidiaries of UniCredit Bank Austria AG in a number of countries including Croatia, Hungary and Serbia.

Specifically in **Croatia**, a consumer association sued 8 of the largest banks in 2012 (including Zagrebačka banka) claiming that: for loans linked to Swiss francs, consumers had not been given adequate information prior to taking out the loan and had not therefore been able to make a fully informed decision about the risks of such loans; and a variable interest rate was unlawful, as it was set by reference to a unilateral decision of the relevant bank and without the factors affecting the setting of the rate being clearly defined.

On 4 July 2013 the first instance court in Zagreb upheld the complaint of the consumer association. The court required the banks, within 60 days, to offer the customers amended terms, converting the outstanding principal amount to Croatian kuna (HRK) at the CHF/HRK rate prevailing on the date the loan agreement was signed and substituting the variable interest rate with the fixed rate applicable at the date the loan in question was drawn down (the 60 Day Order). The decision was not binding as it was appealed by all 8 banks. On 13 June 2014, the Croatian appeal court varied the first instance decision and ruled that the foreign currency clause was lawfully agreed. The appeal court upheld, however, the first instance judgment regarding the unfairness of contractual terms permitting the banks to make unilateral changes to the floating rate of interest and ruled such terms null and void. The court annulled the 60 Day Order. The court stated that its decision does not give individual customers a direct entitlement to damages but individual consumers could seek a revision of their contract or compensation in individual actions before the courts.The court's decision may be challenged by any of the parties before the Croatian supreme court.

Risk report (CONTINUED)

In **Hungary**, a Supreme Court decision on 16 June 2014 to ensure uniformity of judicial decisions regarding loans made to consumers in a foreign currency established the following principles:
- foreign currency exchange rate risk is to be borne by the consumer unless the consumer was misinformed about the risk
- whether a unilateral change (e.g. to a rate) is unfair and therefore invalid must be assessed on a case by case basis
- applying a different exchange rate for repayments of the loan from that used when the loan was made is unfair and therefore unenforceable and the difference must be repaid to consumers

In addition, on 4 July 2014 legislation was passed which extended the above decision to apply not only to foreign currency based but also to domestic currency consumer loans and leasing contracts. Building on the above Supreme Court decision, the legislation establishes a rebuttable presumption that terms allowing unilateral changes to consumer contracts are unfair and therefore unenforceable. It is for the lender to rebut the presumption. In addition, for loans based on foreign currency, the law requires the substitution of the foreign exchange rate applied by the lender with the midmarket rate of the Hungarian Central Bank (unless the lender used its own midmarket rate). Further legislation is expected in September 2014 regulating the settlement of lenders' obligations to consumers.

Except for the mandatory provisions of Hungarian law requiring the substitution of the lenders' FX rate with that of the Hungarian Central Bank, for which UniCredit Bank Hungary has built a provision in the equivalent amount of about €31 million, it is not possible at this time to reliably assess the impact of the above developments, the timing of any final court decisions, how successful any litigation may ultimately be or what financial impact it or any associated legislative or regulatory initiatives, might ultimately have on the individual subsidiaries or UniCredit Bank Austria AG.

In line with the above policy, no provision has been made for the following pending legal proceedings. Due to the uncertain nature of litigation, however, we cannot exclude that the following may result in losses to the bank:

- Action brought by the Belgian company **Valauret S.A.** in Paris on the grounds of alleged involvement of Creditanstalt AG (now UniCredit Bank Austria AG) in wilful deception in connection with a French joint stock company as a result of which the plaintiffs incurred losses through a loss in value of shares acquired by it in the joint stock company.

- **Istraturist Umag d.d.**
  Several court proceedings involving the Nova Ljubljanska Banka dd ("NLJB"), the Ljubljanska Banka d.d. ("LJB") and Istraturist Umag d.d. ("Istraturist") are pending. These arise out of the fact that in 1993 Istraturist notified LJB that it was setting off its own credit commitments to LJB in the sum of €15.8 million (originally DEM 31 million) against LJB's commitments to it in the same amount, effectively reducing the position to zero.

  NLJB, to whom all assets of LJB had been transferred, rejected the set-off and, between 1994 and 1998, sued Istraturist before the court in Slovenia, demanding payment of €15.8 million (originally DEM 31 million) plus interest. Other legal proceedings are also pending.

  Due to various legal reasons (different laws applicable during the long period of the interest calculation, different proceedings pending with the Courts of Slovenia and Croatia, information prejudicing Istraturist's position in the ongoing dispute) Istraturist cannot estimate and disclose any reliable interest figure at this stage.

  At the current time, it is not possible to estimate when the legal disputes will finally be resolved and what the ultimate resolution might be.

Additional disclosures

Guarantees given and commitments

(€ million)

	30 JUNE 2014	31 DEC. 2013
Financial guarantees given to:	**4,340**	**4,506**
Banks	200	520
Customers	4,140	3,986
Commercial guarantees given to:	**11,298**	**11,524**
Banks	2,456	1,845
Customers	8,843	9,679
Other irrevocable commitments to disburse funds	**13,050**	**9,371**
Banks	818	1,164
Usage certain	*773*	*1,114*
Usage uncertain	*45*	*50*
Customers	12,232	8,207
Usage certain	*9,308*	*5,366*
Usage uncertain	*2,924*	*2,841*
Underlying obligations for credit derivatives: sales of protection	**–**	**–**
Assets used to guarantee others' obligations	**–**	**–**
Other commitments	**5,020**	**4,893**
TOTAL	**33,708**	**30,294**

Employees

Description of payment agreements based on own equity instruments

Outstanding instruments

Group Medium & Long Term Incentive Plans for selected employees include the following instruments:

- **Stock Options** allocated to selected Top & Senior Managers and Key Talents of the Group;
- **Performance Stock Options & Performance Shares** allocated to selected Top & Senior Managers and Key Talents of the Group and represented respectively by Options and free UniCredit ordinary shares that the Parent Company undertakes to grant, conditional upon achieving performance targets approved by the Parent Company's Board;
- **Employee Share Ownership Plan (ESOP)** that offers to eligible Group employees the possibility to buy UniCredit ordinary shares with the following advantages: granting of free ordinary shares (so called "Free Shares" or rights to receive them) measured on the basis of the shares purchased by each Participant ("Investment Shares") during the "Enrolment Period". The granting of free ordinary shares is subordinated to vesting conditions (other than market conditions) stated in the Plan Rules;
- **Group Executive Incentive System** that offers to eligible Group Executives a variable remuneration for which payment will be made within five years. For the first two years the beneficiary will receive the payment by cash and for the next years they will receive the payment by UniCredit shares; the payments are related to the achievement of performance conditions (other than marked conditions) stated in the Plan Rules;
- **Share Plan for Talent** that offers free UniCredit ordinary shares that the Parent Company undertakes to grant, conditional upon achieving performance targets approved by the Parent Company's Board.
- **Group Executive Incentive System 2014 (Bonus Pool)** that offers to eligible Group Executives and relevant employees identified following regulatory rules, a bonus structure composed of upfront (following the moment of performance evaluation) and deferred payments in cash and in shares, to be paid over a period of up to 6 years (first year upfront and 5 years deferred). This payment structure will guarantee the alignment to shareholder interest and will be subjected to malus (which applies in case specific profitability, capital and liquidity thresholds are not met at both Group and Country/Division level) and claw back conditions (as legally enforceable) as defined in Plan Rules (both non-market vesting conditions).

Measurement model

Stock Options and Performance Stock Options

The Hull and White Evaluation Model has been adopted to measure the economic value of Stock Options.
This model is based on a trinomial tree price distribution using the Boyle's algorithm and estimates the early exercise probability on the basis of a deterministic model connected to:

- reaching a Market Share Value equal to an exercise price-multiple (M);
- probability of beneficiaries' early exit (E) after the end of the vesting period.

No new Stock Options' Plans have been granted during 2014.

Additional disclosures (CONTINUED)

Other equity instruments (Performance Shares) – Share Plan for Talent
The plan offers three "Free UniCredit Shares" installments, having subsequent annual vesting, to selected beneficiaries.
The economic value of Performance Shares is measured considering the share market price at the grant date less the present value of the future dividends during the performance period. Parameters are estimated by applying the same model used for Stock Options measurement.

No new Performance Shares' Plans have been granted during 2014.

Group Executive Incentive System
The amount of the incentive will be determined on a basis of the achievement of quantitative and qualitative goals stated by the plan. In particular, the overall evaluation of the employee's relevant manager shall be expressed as a percentage, from a minimum of 0% to a maximum of 150% (non-market vesting conditions).
This percentage, adjusted by the application of a risk/opportunity factor – Group Gate – at first payment, multiplied by the Bonus Opportunity will determine the effective amount that will be paid to the beneficiary.
The economic and equity effects will be recognised on the basis of the instrument's vesting period.

Group Executive Incentive System 2013 – Shares

The economic value of Performance Shares is measured considering the share market price at the grant date less the present value of the future dividends during the vesting period.

	SHARES GRANTED GROUP EXECUTIVE INCENTIVE SYSTEM 2013		
	1ST INSTALMENT (2016)	2ND INSTALMENT (2017)	3RD INSTALMENT (2018) *)
Date of granting Board resolution (Grant Date)	29 January 2013	29 January 2013	29 January 2013
Date of Board resolution	11 March 2014	11 March 2014	11 March 2014
Vesting Period start-date	1 January 2013	1 January 2013	1 January 2013
Vesting Period end-date	31 December 2015	31 December 2016	31 December 2017
UniCredit Share market price [€]	5.862	5.862	5.862
Economic value of vesting conditions [€]	–0.200	–0.299	–0.427
Performance Shares' fair value per unit at the Grant Date [€]	**5.662**	**5.563**	**5.435**

*) refers only to Executive Vice President assignations

Group Executive Incentive System 2014 (Bonus Pool)
The new Group Incentive System 2014 is based on a bonus pool approach, aligned with regulatory requirements and market practices. It defines:
- sustainability, through a direct link with entity results and alignment with relevant risk categories, using specific indicators linked to risk appetite;
- link between bonuses and organisation structure, defining the pool at country/division level with further consolidation at Group level;
- bonuses allocated to Executives and other relevant employees, on the basis of European Bank Association rules and local regulations;
- the payment structure has been defined in accordance with regulatory provisions; payments will be divided over a period of six years (the first one immediately and the others in the remaining 5 years) and will be in shares and cash.

All profit-and-loss and net equity effects related to the plan will be booked during the vesting period

Additional disclosures (CONTINUED)

Employee Share Ownership Plan (Let's Share 2014)

The following table shows the measurements and parameters used in relation to Free Shares (or rights to receive them) connected to the "Employee Share Ownership Plan" approved in 2013.

Measurement of Free Shares ESOP 2014

	FREE SHARES 1ST ELECTION WINDOW	FREE SHARES 2ND ELECTION WINDOW
Date of Free Shares delivery to Group employees	5 February 2014	To be defined
Vesting Period start-date	1 January 2014	31 July 2014
Vesting Period end-date	1 January 2015	31 July 2015
Discount Shares' fair value per unit [€]	5.774	To be defined

All profit-and-loss effects related to free shares had been booked during the vesting period (except adjustments, according to Plan Rules, that will be booked during the next closing after the vesting period).

Payroll costs in the first half of 2014 include share-based payments of €4 million.

Full-time equivalents

	H1 2014	2013 2)
Salaried staff	37,577	38,946
Other employees	43	66
TOTAL 1)	**37,620**	**39,012**
of which: in Austria	*7,230*	*7,306*
of which: abroad	*30,391*	*31,706*

1) Average full-time equivalents of staff employed in the Bank Austria Group, excluding employees on unpaid sabbatical or maternity/paternity leave.
2) Figures for the previous year were reduced by the number of employees of the Yapı Kredi Group to enhance comparability.

Events after the reporting period

UniCredit Bank Austria AG intends to buy Immobilien Holding GmbH Group, which has so far been wholly owned by Immobilien Privatstiftung.
The purchase agreement was signed on 25 July 2014, subject to consent by Bank Austria's Supervisory Board and subject to approval by the Austrian competition authorities. The profit- and liquidation-sharing rights in Immobilien Holding GmbH which Bank Austria has held so far will be extinguished as part of the transaction. The closing of the transaction is expected to take place before the end of 2014.

Additional disclosures (CONTINUED)

Consolidated capital resources and risk-weighted assets

(€ million)

BASEL 3		BASEL 2	
	30 JUNE 2014	31 DEC. 2013	
Paid-in capital instruments (excl. own Common Equity Tier 1 instruments)	1,681	1,681	Paid-in capital
Reserves and minority interests	11,890	13,243	Reserves and minority interests
Adjustments to Common Equity Tier 1	–515	–419	Intangible assets
		–787	Deductions from Tier 1
Transitional adjustments to Common Equity Tier 1 *)	795		
Common Equity Tier 1 (CET1)	**13,851**		
Additional Tier 1 capital and qualifying Additional Tier 1 instruments issued by subsidiaries	207		
Adjustments to Additional Tier 1	–		
Transitional adjustments to Additional Tier 1 *)	–207		
Additional Tier 1 (AT1)	**–**		
Tier 1 capital (T1=CET1+AT1)	**13,851**	**13,718**	**Original own funds (Tier 1)**
Tier 2 capital and qualifying Tier 2 instruments issued by subsidiaries	3,547	2,510	Subordinated liabilities eligible for inclusion
		239	Revaluation reserves and undisclosed reserves
Adjustments to Tier 2 capital	–130	–678	Deductions from Tier 2
Transitional adjustments to Tier 2 capital *)	152		
Tier 2 capital (T2)	**3,569**	**2,071**	**Tier 2 (T2)**
–	–	169	Tier 3 (T3)
TOTAL REGULATORY CAPITAL (TC=T1+T2)	**17,420**	**15,958**	**TOTAL REGULATORY CAPITAL (TC=T1+T2+T3)**

*) according to the Austrian CRR Supplementary Regulation (CRR-Begleitverordnung) of 11 December 2013

Risk-weighted assets

(€ million)

	30 JUNE 2014 BASEL 3	31 DEC. 2013 BASEL 2
a) Credit risk pursuant to standardised approach	58,902	57,478
b) Credit risk pursuant to internal ratings-based (IRB) approach	48,804	46,120
c) Other (contribution to default fund of a CCP)	138	–
Credit risk	107,844	103,598
Position, foreign exchange and commodity risk	3,955	2,114
Operational risk	13,208	12,798
Risk positions for credit value adjustments (CVA)	888	–
TOTAL RWAS	**125,895**	**118,510**

Capital ratios

	30 JUNE 2014 BASEL 3	31 DEC. 2013 BASEL 2
Common Equity Tier 1 ratio *)	11.0%	–
Core Tier 1 ratio (excl. hybrid capital) *)	–	11.3%
Tier 1 ratio *)	11.0%	11.6%
Total capital ratio *)	13.8%	13.5%

*) based on all risks

By deviation from IFRS 11, the Yapı Kredi sub-group companies continue to be included on a proportionate basis in the calculation of risk-weighted assets and capital resources for regulatory purposes.

Statement by Management

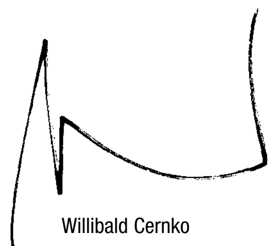
on the Interim Report

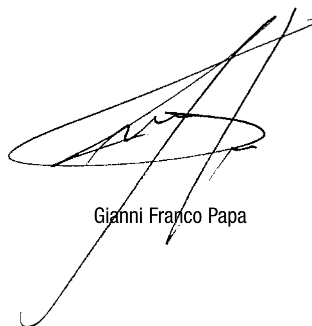
We confirm to the best of our knowledge that the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the interim report of the group for the first 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

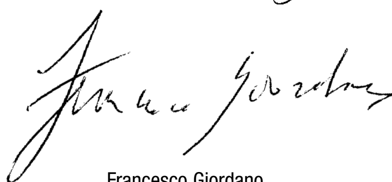
Willibald Cernko	**CEO Support Services (Chairman)**
Gianni Franco Papa	**CEE Banking Division (Deputy Chairman)**
Helmut Bernkopf	**Commercial Banking Division (Retail & Corporates)**
Francesco Giordano	**CFO Finance**
Dieter Hengl	**Corporate & Investment Banking Division**
Jürgen Kullnigg	**CRO Risk Management**
Doris Tomanek	**Human Resources Austria & CEE**
Robert Zadrazil	**Private Banking Division**

Vienna, 28 July 2014


Willibald Cernko

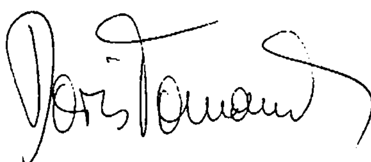

Gianni Franco Papa

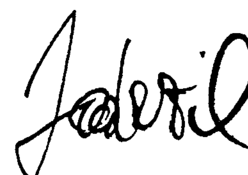
Helmut Bernkopf


Francesco Giordano

Dieter Hengl

Jürgen Kullnigg


Doris Tomanek


Robert Zadrazil

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Ratings

	LONG-TERM	SUBORDINATED LIABILITIES	SHORT-TERM
Moody's[1)]	Baa2	Ba2	P-2
Standard & Poor's[2)]	A–	BBB–	A-2

Public-sector covered bonds of Bank Austria are rated Aaa by Moody's and mortgage bonds of Bank Austria are rated Aa1 by Moody's.

1) Grandfathered debt is rated Baa1, grandfathered subordinated debt is rated Ba2.
2) Grandfathered debt is rated AA–, grandfathered subordinated debt is also rated AA–.

Financial calendar

12 November 2014	Publication of the results as of 30 September 2014
All information is available electronically at http://ir.bankaustria.at	

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

Publisher and media owner:
UniCredit Bank Austria AG
A-1010 Vienna, Schottengasse 6–8
Tel.: + 43 (0)5 05 05-0
Fax: + 43 (0)5 05 05-56155
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 registration number: ATU 51507409

Editor: Planning & Controlling Austria
External Reporting, Michael Trischler

Creative concept: Orange 021

Design, graphic development and composition: Mercurio GP© – Milan

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:
Willibald Cernko (Chairman of the Management Board), Gianni Franco Papa (Deputy Chairman of the Management Board), Helmut Bernkopf, Jürgen Kullnigg, Francesco Giordano, Dieter Hengl, Doris Tomanek, Robert Zadrazil.

Supervisory Board of the media owner:
Erich Hampel (Chairman of the Supervisory Board), Paolo Fiorentino (Deputy Chairman of the Supervisory Board), Alessandro Decio, Olivier Nessime Khayat, Johannes Koller, Adolf Lehner, Alfredo Meocci, Roberto Nicastro, Vittorio Ogliengo, Franz Rauch, Josef Reichl, Karl Samstag, Wolfgang Sprißler, Ernst Theimer, Robert Traunwieser, Michaela Vrzal, Barbara Wiedernig.

Interests held in the media owner pursuant to Section 25 of the Austrian Media Act:
UniCredit S.p.A. holds 99.996% of the shares in the media owner (information on the shareholder structure of UniCredit S.p.A. is available at https://www.unicreditgroup.eu/en/governance/shareholder-structure.html).

"Betriebsratsfonds des Betriebsrats der Angestellten der UniCredit Bank Austria AG, Region Wien" (the Employees' Council Fund of the Employees' Council of employees of UniCredit Bank Austria AG in the Vienna area) and "Privatstiftung zur Verwaltung von Anteilsrechten" (a private foundation under Austrian law; founder: Anteilsverwaltung-Zentralsparkasse; beneficiary: WWTF – Wiener Wissenschafts-, Forschungs- und Technologiefonds) have a combined interest of 0.004% in the media owner.

Notes

This report contains forward-looking statements relating to the future performance of Bank Austria. These statements reflect estimates which we have made on the basis of all information available to us at present. Should the assumptions underlying forward-looking statements prove incorrect, or should risks – such as those mentioned in this report – materialise to an extent not anticipated, actual results may vary from those expected at present. Market share data are based on the most recent information available at the editorial close of this report.

"Bank Austria" as used in this report refers to the group of consolidated companies. "UniCredit Bank Austria AG" as used in this report refers to the parent company.

In adding up rounded figures and calculating the percentage rates of changes, slight differences may result compared with totals and rates arrived at by adding up component figures which have not been rounded off.

Disclaimer

This edition of our Interim 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.