

INTERNATIONAL SAVINGS BANKS

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The Savings Banks Organisation in Austria

The first savings bank was founded in 1819 when the First Austrian Savings Bank (Erste Österreichische Spar-Casse) was established in Vienna. The savings banks were founded by associations and were intended to counterbalance the banking houses that existed at the time. The savings banks were intended to be a preventive institution against the impoverishment of the population and also to enable the working population to accumulate assets.

Traditionally, the Austrian banking sector is divided into eight sectors according to the legal form and (historical) customer orientation of the respective institutions, with the boundaries between the sectors becoming increasingly blurred. A distinction is made between joint-stock banks, savings banks, building societies, Volksbanken, Landeshypothekenbanken, Raiffeisenbanken, special banks and branches of credit institutions from EU member states.

The majority of Austrian savings banks are public limited companies. Shareholders include foundations and share management savings banks (AVS), which use the income from their savings bank holdings for activities that are oriented towards the common good. The remaining institutions still exist in the traditional form of 3 municipal and 11 association savings banks.

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The Austrian banking market

In macroeconomic terms, the banking sector in Austria is of average importance compared to other European countries. In 2021, the balance sheet total of all banks was approximately 3 times the country's overall economic output. By comparison, the European average was 2.5 times GDP. The bank branch network in Austria has a population of 2,610 per branch. In comparison, the European average is 3,234 inhabitants per branch (see charts 1 and 2).

In 2021, the portfolio of loans at risk of default at Austrian banks stood at 3.1%, above the European average of 2%. The cost-income ratio of Austrian banks in 2021 was 62.1%, which was below the level of other European countries. Profitability, measured by return on equity, was 7.9% in 2021, above the level of other banks in Europe (see charts 3 and 4).

The IMF confirmed in its Article IV Mission that the Austrian financial system proved resilient during the pandemic, noting that the risks and vulnerabilities that existed before the pandemic need to be addressed.¹

The Austrian subsidiary banks in Central, Eastern and South-Eastern Europe (CESEE) made a significant contribution to the profitability of the sector. Consolidated profit for the period (after tax) amounted to EUR 1.4 billion in the first half of 2021, up 56% compared to the same period of the previous year, predominantly due to the decline in risk costs.²

In view of the war in Ukraine, Raiffeisenbank International (RBI), like many other companies, is planning to withdraw from Russia. However, the withdrawal process will take some time. Austria's second largest financial institution has been intensively invested in Russia for decades. Besides Russia, Ukraine and Belarus are among the very profitable areas for Raiffeisen, which has EUR 2.4 billion in equity in Russia alone.

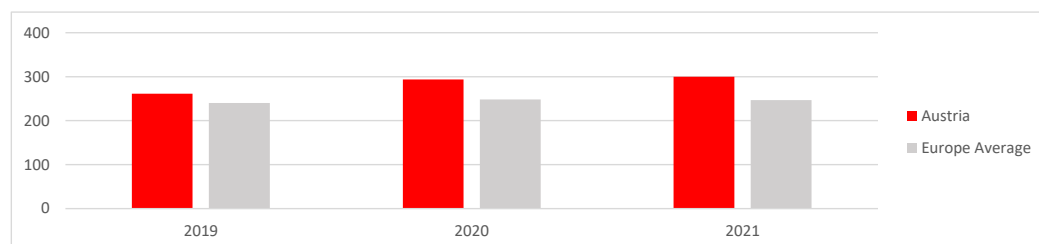
¹ Oesterreichische Nationalbank, Facts about Austria and its banks, Vienna October 2021, p. 8

² Cf., p. 7

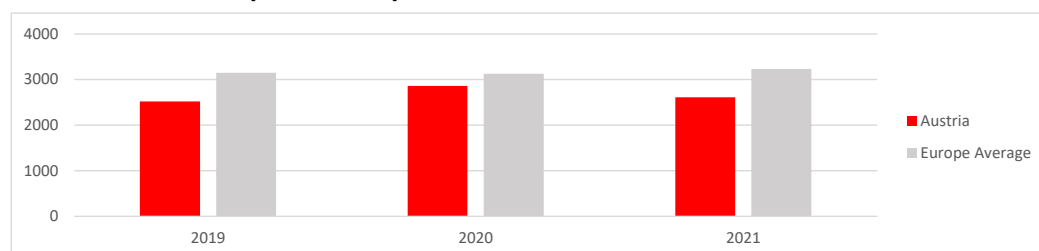
Table 1: The largest Austrian banks/banking groups

Group	2021	2020	2019	2018
Erste Group Bank	307	277	246	237
Raiffeisen Bank International (RBI)	192	166	152	140
UniCredit Bank Austria AG	118	119	102	99
BAWAG Group AG	56	53	46	45
Raiffeisenlandesbank Oberösterreich	48	48	44	36

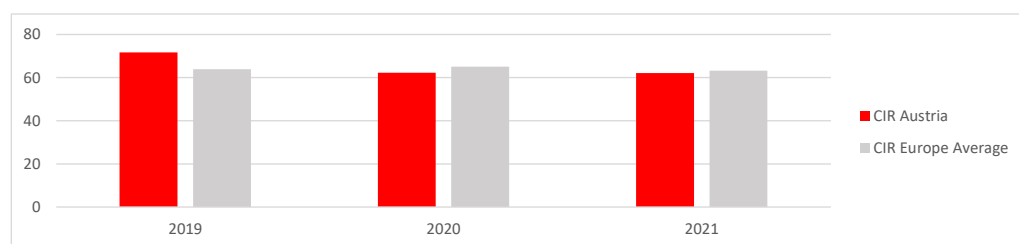
Source: Financial Report 2021 of the respective group, balance sheet total in EUR billion

Chart 1: Banks' balance sheet total to GDP in %

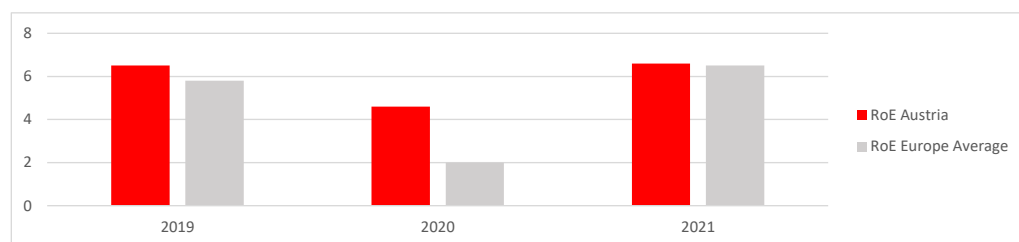
Source: European Central Bank 2022, own calculations

Chart 2: Inhabitants per office (EpG)

Source: European Central Bank, Eurostat 2022, own calculations

Chart 3: Cost-income ratio (CIR) in %

Source: European Central Bank, 2022

Chart 4: Return on equity (RoE) in %

Source: EBA Dashboard, 2021

The Austrian Savings Banks

The Austrian savings bank group consists of 48 institutions: 46 savings banks in the federal provinces, as well as "Erste Bank der oesterreichischen Sparkassen AG" (Erste Bank Oesterreich) and "Die Zweite Wiener Vereins-Sparcasse" (Zweite Sparkasse). In some statements, Erste Group Bank AG, which acts as a holding company and central institution, is also included as the 49th institution. Erste Bank and the savings banks are represented in all nine federal provinces of Austria. A de facto regional principle applies, with the market areas of the savings banks being defined by the cross-guarantee system agreement.

Erste Group Bank AG, as the holding company, is responsible for the strategic orientation of its subsidiary banks in Austria, the Czech Republic, Slovakia, Romania, Hungary, Serbia and Croatia, as well as operationally for the central functions Treasury, Large Corporates and international business. Erste Bank Oesterreich is responsible for the entire Austrian business including the cross-guarantee system.

In 2021, 227,329 new customers were acquired. Loans to customers of the savings banks group increased from EUR 85.7 billion to EUR 90.9 billion, which corresponds to a plus of 6.1%.

Table 2: Structural characteristics of the Austrian savings banks

Legal form	In the 1979 Savings Bank Act, which is still in force, the Austrian savings banks are defined in Section 1 (1) as " <i>legal persons under private law founded by municipalities or savings bank associations</i> ". Municipal savings banks are institutions supported by one or more municipalities, whereby the municipalities were fully liable for the liabilities of the savings bank until the beginning of 2003. In terms of their structures, the Vereinssparkassen roughly correspond to the German independent savings banks.
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Since 1987, the Austrian savings banks have had the option of transferring their banking business to a stock corporation. The original savings bank remains as a **Anteilsverwaltungssparkasse** (AVS), i.e. its function now comprises only the management of the shares held by it in the Sparkassen-Aktiengesellschaft (savings banks cooperation) as well as charitable activities.

35 savings banks (including Erste Bank Oesterreich and Erste Group) have outsourced their business operations to a public limited company. The remaining 14 institutions still exist in the traditional form of three municipal and 11 association savings banks.

**Ownership
structure**

The shareholders of the total of 35 Sparkassen-Aktiengesellschaft include 36 foundations and the remaining share management savings banks. This means that the shares of some the Sparkassen-Aktiengesellschaft are held by several foundations or share management savings banks .

**Savings Banks
Foundations**

Since 1.1.1999, share management savings banks can be converted into private foundations. In the case of municipal savings banks, the municipality is only liable for the liabilities existing at the time of conversion into the foundation, but not for newly entered liabilities, so that the liability is reduced to almost zero over time and thus the state aid element accepted by the EU loses its significance. So far, 35 Anteilsverwaltungssparkassen have been converted into a savings banks foundation pursuant to Section 27a of the Savings Banks Act.

<i>Business activities</i>	As universal banks, the Savings Banks have been on an equal footing with all other credit institutions since 1979. The traditional focus is on private customers, small and medium-sized enterprises and asset management.
<i>Regional principle/ - market place adjustment</i>	Abolished in 1979. In fact, the regional principle has been reintroduced, as the central institution Erste Bank Oesterreich has largely transferred its branches to the Bundesländer-sparkassen in exchange for savings bank holdings as part of the market place streaming process. In total, about 100 Erste Bank branches have been transferred to the savings banks since 1998. Market areas of the savings banks are defined by the cross-guarantee system agreement. In Burgenland, the savings bank group is represented by branches of Erste Bank and Sparkasse Hainburg-Bruck-Neusiedl, which is a member of the the Association of Savings Banks in Lower Austria.
<i>Public welfare/ corporate social responsibility</i>	Within their catchment area, the savings banks also perform charitable tasks, particularly social and cultural tasks. The social and community involvement is voluntary. In 2021, Erste Bank and the savings banks supported a total of EUR 18.9 million to support a wide range of charitable activities such as regional, social, cultural, youth and educational projects throughout Austria.
<i>Joint liability scheme</i>	<p>Since 2002, Erste Bank and the savings banks have been liable under mutual liability agreements for the payment of customer deposits far in excess of the amounts guaranteed by law.</p> <p>The Joint Liability Scheme acts as an additional safety net to the statutory deposit insurance and investor compensation. It is a subsidiary instrument that comes into force after the statutory deposit guarantee in the event of insured event (opening of bankruptcy proceedings against a member of the Joint Liability Scheme).</p>

The cross-guarantee system is borne by s-Haftungs GmbH, in which Erste Bank Oesterreich holds the majority stake. In 2007, it was expanded by an "economic merger" of its members (effective since January 2008). The objectives of the development of an effective production network, the uniform market presence and the advertising line, a uniform risk policy, coordinated liquidity management and common standards in controlling, which should expand the market position.

In addition, the basic agreement on the Joint Liability Scheme, to which all³ Austrian savings banks belong, contains an early recognition system to enable a prompt reaction to economic difficulties of a savings bank. In 2014, Joint Liability Scheme 3 came into force, which contains a contractual group structure .

Second Savings Bank

In 2006, the Second Savings Bank was founded on the initiative of the Erste Bank Foundation. It provides a credit account for people who no longer have access to banking services. The Second Savings Bank, which works closely with charities and debt counselling services, is now active throughout Austria (except Vorarlberg). The Second Savings Bank is mainly represented in the branches of the local savings banks. It has its own branches in Vienna, Graz, Innsbruck, Klagenfurt, Linz, Salzburg and Villach.

³ One exception is Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft, which concluded a trilateral liability agreement with Erste Group Bank AG and Erste Bank Oesterreich in 2009.

Table 3: Key structural indicators of the Austrian savings banks

	2021	2020
Employees	14,879	15,300
Customers	3.9 M	3.8 M
Offices	867	845

Source: Factsheet Erste Bank and Savings Banks 2021

Table 4: Key balance sheet and income statement ratios of the Austrian savings banks

	2021	2020
Net interest income	1,727	1,708
Operating result	1,136	957
Pre-tax result	1,078	541
Loans to customers	90,909	85,691
Deposits from customers	106,539	98,724
Loans/Deposits ratio	85%	87%

Source: Factsheet Erste Bank und Sparkassen 2021, in EUR million

The central institution: Erste Group Bank AG (group holding)

Founded in 1819 as the "Erste österreichische Spar-Casse", Erste Group went public in 1997 with the strategy of expanding its retail business into the growth markets of Central and Eastern Europe (CEE). Through numerous acquisitions and organic growth, Erste Group has become one of the largest financial services providers in the eastern part of the EU, measured by customer numbers and total assets.

Table 5: Key figures of Erste Group Bank AG

	2021	2020
Employees	44,596	45,690
Customers	16.1 M	16.1 M
Offices	2,091	2,193
Total assets	307	277
Total equity	23.5	22.4
Operating result	3.4	2.93
Net result	1.92	0.78
CET1 capital ratio	14.5%	14.2%
Cost-income-ratio	55.6%	59.0%
Cash return on equity	11.6%	4.7%

Source: Erste Group 2021 annual Report, in EUR billion

Chart 5: Overview Group structure Erste Group Bank AG



Source: <https://www.erstegroup.com/de/ueber-uns>, 2021

The umbrella organisation: Austrian Savings Banks Association



Table 6: Structural features of the Austrian Savings Banks Association

Members	The seven regional associations of the Austrian savings banks and the 49 Austrian savings banks (including Erste Group Bank). Cooperation partners according to the articles of association are the Anteilsverwaltungssparkassen, Sparkassenstiftungen, the Sparkassen-Prüfungsverband and the association partners of the savings bank group.
Legal form	Incorporated association
Tasks	<ul style="list-style-type: none">• Representation of interests (national and EU)• Strategic discussion platform of the Savings Banks Group• Collective bargaining responsibility• Consultation and services relevant to the Savings Banks in the areas of law, economic policy, data management and press and public relations• Reconciliation of interests within the savings banks group

The Austrian Savings Banks Association is a member of the World Savings and Retail Banking Institute (WSBI) and the European Savings and Retail Banking Group (ESBG) as well as an associate member of the German Savings Banks Association (DSGV), and a member of the German Sparkassenstiftung for International Cooperation (Bonn).

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Note

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