

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 above-average importance compared to other European countries. In 2022, the balance sheet total of all banks was as large as 2.8 times the country's overall economic output. By comparison, the European average was 2.4 times the GDP. The bank branch network in Austria is well developed with 2,624 inhabitants per branch. In comparison, the European average is 3,228 inhabitants per branch (see figures 1 and 2).

In 2022, the portfolio of loans at risk of default at Austrian banks was at the same level as the European average with a value of 1.8%. The cost-income ratio of Austrian banks in 2022 was 50.2%, which was below the level of other European countries. Profitability, measured by return on equity, was 12.8% in 2022, above the level of other banks in Europe (see figures 3 and 4).

The COVID 19 pandemic led to economic turmoil that curtailed private consumption, especially in the service sector. As a result, household savings rose to unprecedented levels in 2020. However, the savings rate fell to 8.8% in 2022 (12% in 2021), approaching the pre-crisis level of 8.6% in 2019.

Household financial assets reached an impressive EUR 788.3 billion or 176% of GDP in 2022. The household sector debt ratio was 49.5% of GDP in the fourth quarter of 2022, while corporate debt was 103.9% of GDP. Both debt ratios were thus lower than the euro area average.

More than half of Austria's foreign trade was with euro area countries in 2022, thus avoiding direct exchange rate risks. Germany remains Austria's most important export market with a share of over 30% in 2022, followed by CESEE as the second most important export market¹

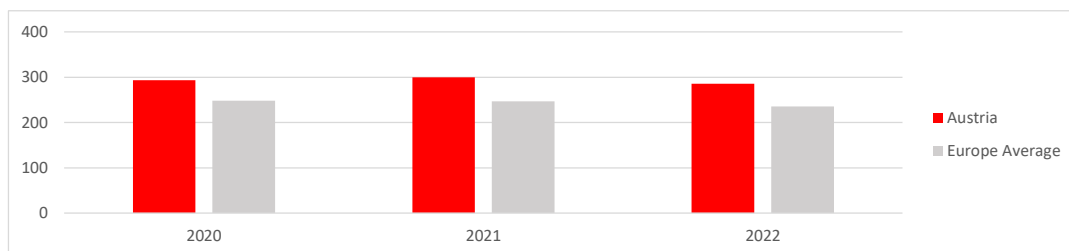
¹ Oesterreichische Nationalbank, Facts about Austria and its banks, Vienna April 2023, p. 7

Table 1: The largest Austrian banks/banking groups

Group	2022	2021	2020	2019
Erste Group Bank	324	307	277	246
Raiffeisen Bank International (RBI)	207	192	166	152
UniCredit Bank Austria AG	107	118	119	102
BAWAG Group AG	57	56	53	46
Raiffeisenlandesbank Oberösterreich	47	48	48	44

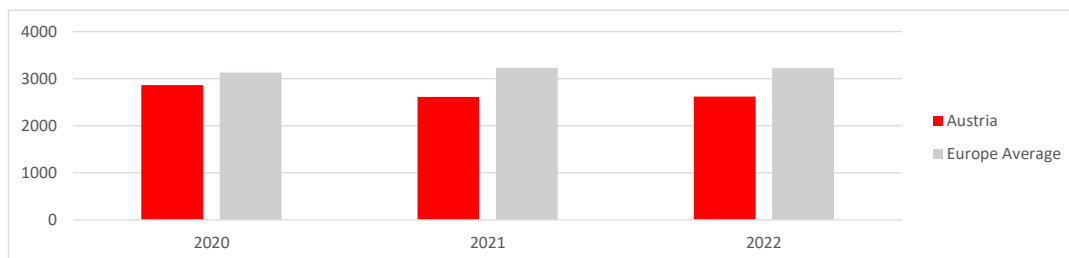
Source: Financial Report 2022 of the respective group, balance sheet total in EUR billion

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



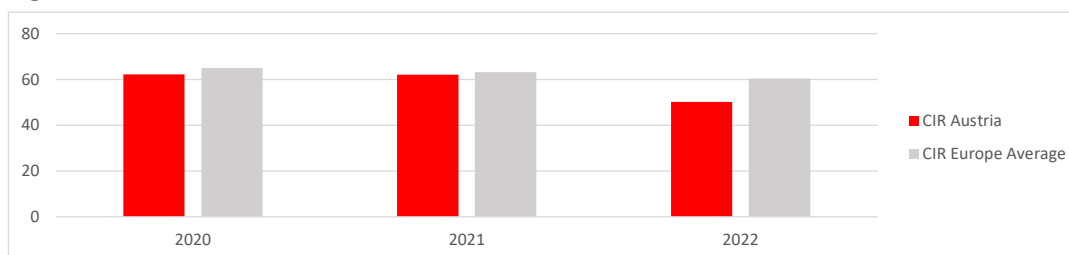
Source: European Central Bank 2023, own calculations

Figure 2: Inhabitants per office



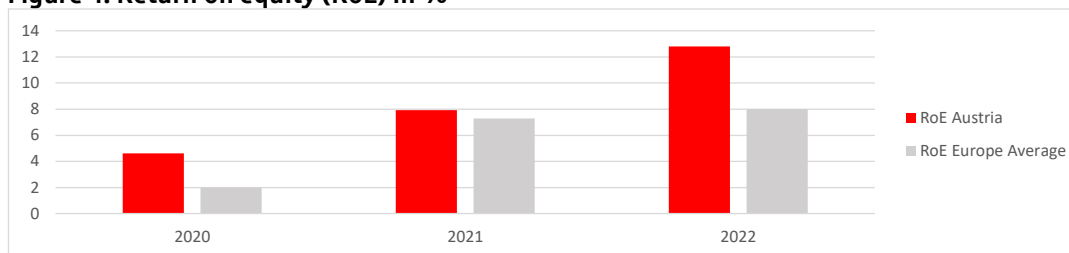
Source: European Central Bank, Eurostat 2023, own calculations

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



Source: EBA Dashboard, 2022

Figure 4: Return on equity (RoE) in %



Source: EBA Dashboard, 2022

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 added 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, and operationally for the central functions of treasury, large corporates and international business. Erste Bank Oesterreich is responsible for the entire Austrian business including the joint liability scheme.

In 2022, 279,270 new customers were acquired. Loans to customers of the savings banks group increased from EUR 90.9 billion to EUR 97.6 billion, which represents a plus of 7.4%.

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 established 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 structure, the Vereinsparkassen 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 an **Anteilsverwaltungssparkasse** (AVS), i.e. its function now solely comprises the management of the shares it holds 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-Aktiengesellschaften include 36 foundations and the remaining share management savings banks. This means that the shares of some the Sparkassen-Aktiengesellschaften 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.

Business activities 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.

Regional principle/-market place adjustment 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.

Public welfare/corporate social responsibility Within their catchment area, the savings banks also perform charitable tasks, particularly social and cultural tasks. The social and community involvement is voluntary. In 2022, Erste Bank and the savings banks supported a total of EUR 27.7 million to support a wide range of charitable activities such as regional, social, cultural, youth and educational projects throughout Austria.

Joint liability scheme 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.

The joint liability scheme acts as a safety net in addition to the statutory deposit guarantee and investor compensation. It is a subsidiary instrument that comes into force after the statutory deposit guarantee in the event of default (opening of bankruptcy proceedings against a member of the joint liability scheme).

The joint liability scheme 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 all² Austrian savings banks belong, contains an early recognition system to enable a prompt response to the 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.

² 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

	2022	2021
Employees	15,790	14,879
Customers	4 M	3.9 M
Offices	797	867

Source: Factsheet Erste Bank und Sparkassen 2023

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

	2022	2021
Net interest income	1,931	1,727
Operating result	1,262	1,136
Pre-tax result	1,108	1,078
Loans to customers	97,679	90,909
Deposits from customers	109,749	106,539
Loans/Deposits ratio	89%	85%

Source: Factsheet Erste Bank und Sparkassen 2023, 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

	2022	2021
Employees	45,485	44,596
Customers	16.1 M	16.1 M
Offices	2,029	2,091
Total assets	324	307
Total equity	25.3	23.5
Operating result	4	3.4
Net result	2.2	1.92
CET1 capital ratio	14%	15%
Cost-income-ratio	53%	56%
Cash return on equity	13%	12%

Source: Annual Report Erste Group 2022, in EUR billion

Figure 5: Overview Group structure Erste Group Bank AG



Source: <https://www.erstegroup.com/de/ueber-uns>, 2022

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 agreement responsibility• Consultation and services relevant to the Savings Banks in the areas of law, economic policy, data management and press and public relations work• 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 e.V., and a member of the German Sparkassenstiftung for International Cooperation (Bonn).

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Note

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