ÖSTERREICHISCHE FMA · FINANZMARKTAUFSICHT

INTEGRATED BANKING DISTRIBUTION REPORT 2023

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1 INTRODUCTION

A developed financial market offers consumers a broad range of products covering different financial requirements – from classical banking products like savings and current accounts, across investment and insurance products through to personal pension products. Conduct rules for different types of consumer products have been increasingly harmonised since the Global Financial Crisis of 2008, for achieving as uniform as possible a level of protection for customers, following the introduction in recent years of the Insurance Distribution Directive (IDD), the Regulation on Packaged Retail and Insurance-based Investment Products (PRIIPs) and conduct requirements contained in the Austrian Banking Act (BWG; Bankwesengesetz). These new arrangements are strongly based on the conduct requirements for the distribution of securities in the European Markets in Financial Instruments Directive (MiFID II) that are considered as a “gold standard” in the field of conduct supervision.

The highly interconnected nature of the Austrian financial market means that banks traditionally assume a very important role as a distribution channel for financial products to consumers – banks are integrated providers of various products towards their customers. However, harmonised regulations alone are not sufficient for ensuring a consistent level of customer protection across all categories. A harmonised supervisory approach for all categories offered via banks as a distribution channel must go hand in hand with them. Ultimately consumers should not observe any difference based on the product or service they conclude through their bank. For consumers, the decisive factors are whether products or services are appropriate for their financial requirements and that they are informed in a transparent manner and given fair advice.

The FMA is an integrated financial market supervisory authority, which brings together prudential and conduct supervision. Within the scope of its commitment to collective consumer protection, the FMA focuses in particular on conduct supervision, especially at the point of sale. The conduct supervision approach known as “Integrated Conduct Supervision of Banks” is characterised by the FMA’s commitment to a harmonised level of supervisory measures in conjunction with the sales of services as well as banking, insurance, and securities-based products by banks.

The overarching objective of “Integrated Conduct Supervision of Banks” is to guarantee bank customers the same level of protection, irrespective of the service or product type (banking, insurance, or investment services or products). Its objective is the supervision and enforcement of different sectoral conduct regulations that intersect one another within a bank with the greatest possible level of convergence. Bearing in mind Austrian banks' significance in the distribution and provision of financial services, under the risk-based and integrated supervisory approach in the FMA, conduct supervision of banks has been conducted using the "one-stop shop principle" since 2018, by pooling the tasks and responsibilities in this regard being in the Integrated Supervision Department, in the Division for Integrated Conduct Supervision of Banks.

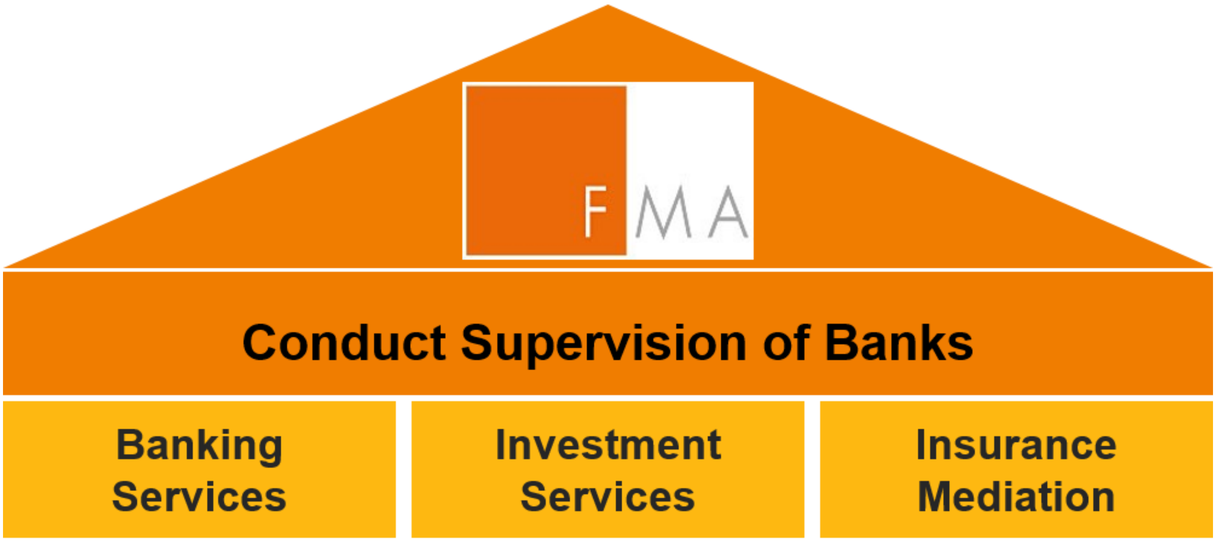

Figure 1

The "Integrated Banking Distribution Report" was created to illustrate the distribution activities of Austrian banks. This report provides an overview about Austrian credit institutions' distribution activities in Austria during the 2022 financial year based on the respective material legal bases. The data and key figures analysed show the significance of credit institutions in the distribution of lending, insurance and investment products, in particular to consumers or retail investors in Austria. The data used were collected with the utmost care. Nevertheless, errors, omissions and incomplete data cannot be excluded. The 2023 edition of the Integrated Banking Distribution Report (cut-off date: 31.12.2022) is the third consecutive financial year for which it has been published, with an English version appearing for the second time.

2 MATERIAL FINDINGS

2.1 INCREASED VOLUME OF MORTGAGE-BACKED AND REAL ESTATE LOANS MEDIATED IN H1 2022, LEVEL EXPECTED TO DROP IN 2023

Based on how the volume of mediated mortgage-backed and real estate loans has developed it is apparent that mediation activity has increased in 2022. Inter alia, the potential reasons for this are attributable to the general development of interest rates in 2022, which led to increased loan mediation to the building societies (Bausparkassen) because of the increase in demand for fixed interest rate loans. Generally, the origination and mediation of mortgage-backed and real estate loans increased noticeably in the first half of 2022 ahead KIM-V entering into force on 1 August 2022. During the 1st half of 2023, growth is still witnessed in the amount of outstanding loans at building societies (Bausparkassen), however the level of growth has weakened considerably. This development is also apparent from the "KIM-V data" that the FMA holds, with the outstanding loan volume at banks falling since the second half of 2022.
See Chapter 6.1 for further details.

2.2 NEW: NPL RATIOS IN 2022 CONSIDERABLY HIGHER FOR CONSUMER LOANS THAN FOR MORTGAGE-BACKED AND REAL ESTATE LOANS

The non-performing loans (NPL) ratios have been surveyed since 2022 and feature in the Integrated Banking Distribution Report for the first time in 2023. The distribution of NPL ratios for 2022 show that in the case of consumer loans, in contrast to mortgage-backed and real estate loans, on average there is a broader diversification as well as high NPL ratios. Most banks (ca. 72%) have an NPL ratio for consumer loans of less than 10%. Most banks have an NPL ratio of less than 4% for mortgage-backed and real estate loans. The higher NPL ratios for consumer loans are however in contrast to lower outstanding volumes.
See Chapter 6 for further details.

2.3 NUMBER OF RETAIL CUSTOMER RELATIONSHIPS INCREASES SLIGHTLY FOR THE FIRST TIME SINCE 2019

From the figures reported by the credit institutions about their retail customers it is apparent in contrast to recent years, there was a small increase in the number of retail customers in 2022.
The increase can be traced back to the following three sectors: savings banks (Sparkassen) (+116,000 retail customers), branches (+99,000 retail customers) as well as joint stock banks (+72,000 retail customers). The number of basic payment accounts also increased (2021: 4,809 cf. 2022: 11,263).

In contrast to this increase, the number of retail customer relationships at building societies (Bausparkassen) fell by approx. 220,000. It remains to be seen whether the trend among the building societies (Bausparkassen) with continue due to the increase in interest rates in 2022.
See Chapter 3.3 for further details.

2.4 INVESTMENT ACTIVITY FALLS IN 2022: BANKS' NET COMMISSION INCOME FROM SECURITIES DECLINES

When MiFID II entered into force at the beginning of 2018, the banking industry assumed that investment business could decline strongly due to the new (strict) framework. However, average net commission income of credit institutions between 2017 and 2019, commission earned during the 2022 financial year is far higher than the level for 2018, although this amount fell year-on-year in 2022 for the first time. The decrease occurred across all sectors except for special purpose banks.
A potential reason for this decrease might be the increased investment activity during the pandemic in 2020 and 2021, which was already reflected in the analysis of the MiFIR transaction data. The decline in 2022 is also observable from the analysis of MiFIR transactions. The aggregated net cash flows of Austrian investment funds and real estate funds were also negative in 2022 after two strong years (2020 & 2021). This development could also be attributable to geopolitical factors such as the war in Ukraine, but also e.g., to the change in interest rates and the increased inflation that may potentially have led to a reduction in the investment sector due to the associated arising uncertainties therewith.
See Chapter 4.2 for further details.

2.5 INCREASED DISTRIBUTION OF RISK INSURANCE (WITHOUT INVESTMENT), LEADING TO AN EVEN DISTRIBUTION BETWEEN INSURANCE PRODUCTS FOR INVESTMENT PURPOSES AND RISK INSURANCE IN 2022

In 2022, there was an increase in the premium volume written for the insurance of risks (without investment) e.g., insurance against the risk of death. This contrasts with the fall in the premium volume written for insurance-based investment products. As a result of this development, there is now an even distribution of mediation activities for insurance against risks compared with insurance-based investment products in 2022, whereas previously there was a slight surplus observed in the distribution of insurance-based investment products.
Apart from building societies (Bausparkassen) all sectors posted an increase in premium volume for the insurance of risk. This can be attributed to the current economic situation (energy crisis and high inflation) and the resulting change in demand for financial products. According to the FMA's observations, the need for capital generally increased (higher demand for credit) while customers'

tendency towards investment decreased, which also results in increased demand for products for hedging risks for loans with a lower demand for insurance-based investment products.
See Chapter 5 for further details.

2.6 NEW: FIGURES AND FINDINGS FROM THE PRIORITIES FOR SUPERVISION "CROSS-BORDER DISTRIBUTION ACTIVITIES OF AUSTRIAN BANKS"

The expansion of cross-border investment activities in recent years has also demonstrated the necessity of effective local supervision. The object is to ensure that the retail customers are afforded the same level of protection irrespective of the country in which the credit institution is domiciled.
Ongoing supervision was conducted based on data collections for ESMA as well as the FMA's risk classification. The focus included addressing the specific risks, in particular information to customers, complaints management, language or organisational requirements.

See Chapter 7 for further details.

2.7 NEW: FINDINGS FROM THE FMA-PRIIP MARKET REPORT

In its supervision in relation to the PRIIP-R, the FMA pursues a risk-based approach. The FMA produces an annual internal PRIIP market report to support its risk-based supervision. This investigation is restricted to PRIIP-KIDs that were drawn up by Austrian credit institutions as the manufacturer.
The packaged financial instruments offered in Austria, are both heterogeneous in their design and exceptionally numerous. A total of 11,680 PRIIP-KIDs published by Austrian credit institutions were analysed with a cut-off date of between 15-17 December 2022.
Overall, there are no anomalies in the major proportion of PRIIP-KIDs drawn up by Austrian credit institutions. The market situation has already improved substantially in recent years.
See Chapter 8 for further details.

3 AUSTRIA'S BANKING LANDSCAPE

520
Licensed Credit Institutions

3,292
Branches

21.74 mn
Customers serviced by Austrian credit institutions

100,345
Complaints to credit institutions

406
Credit institutions offering securities distribution

2.34 mn
Retail customer securities accounts

394
Credit institutions offering insurance distribution

1.84 bn
Premium volume of insurance products distributed through banks

37%
of retail customers advised by banks with a high conduct risk*

1,014.1 bn
Total balance sheet of conduct-relevant banks*

Reference date: 31.12.2022

* Conduct-relevant banks: excluding special purpose banks like investment fund management companies, real estate investment fund management companies and corporate provision funds

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3.1 OVERVIEW ABOUT CONDUCT-RELEVANT BANKS

Of the 520 banks in Austria holding a banking licence, as of year-end 2022, 462 credit institutions are classified by the FMA as being “conduct-relevant” banks. This figure covers credit institutions with a business model that is considered relevant for integrated conduct-based banking supervision, and which therefore are subject to the annual Conduct Risk Classification Survey. It excludes investment fund management companies, real estate investment fund management companies and corporate provision funds.

The sector breakdown of the credit institutions active in Austria in Figure 2 uses the same basic sectors regularly used in supervision. This breakdown is based on several relevant factors. It is important to differentiate between banks that have single-level or multi-level sectoral structures. Apart from the sectoral structure, the legal form and above all which respective Austrian trade association they belong to are also important for this classification. In addition, the scope of licence, the specific business model or membership of a deposit guarantee scheme also play a role. Branch of foreign banks active in Austria pursuant to Article 9 BWG are summarised in a separate sector. Using this logic, banks are subsumed under “special-purpose banks” that have such a business model that they do not fit into the other categories (e.g. Oesterreichische Kontrollbank (OeKB) or housing finance banks).

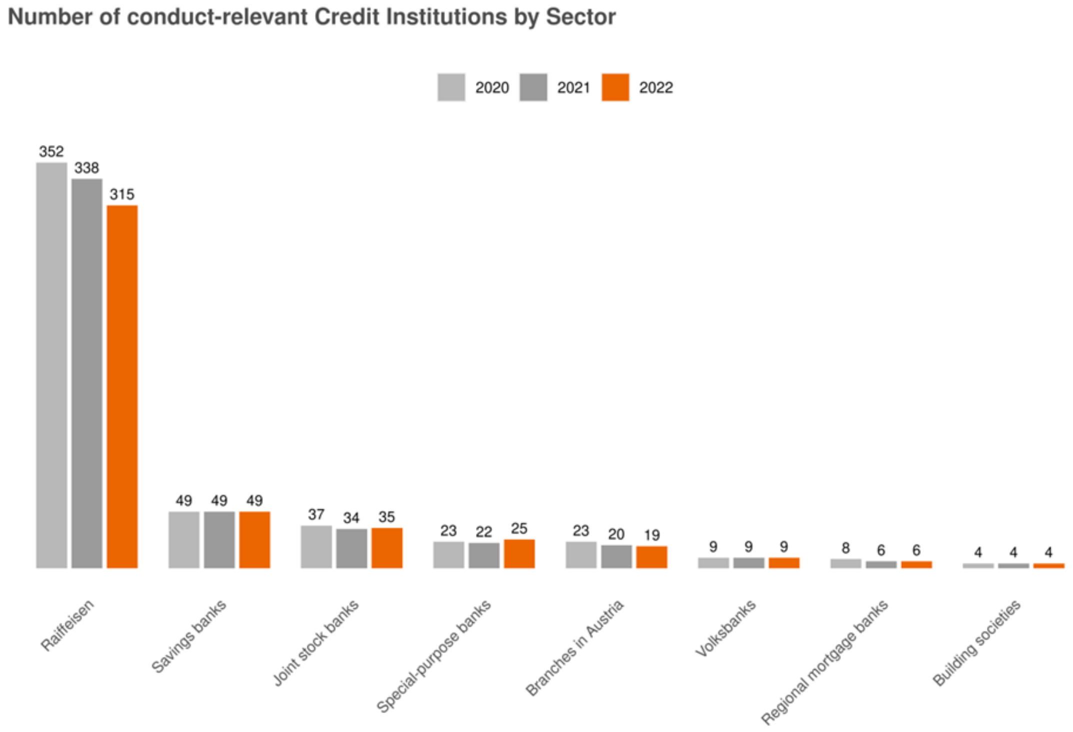

Figure 2

3.2 DISTRIBUTION ACTIVITIES OF CONDUCT-RELEVANT BANKS

An examination of the sales activities of the 462 conduct-relevant credit institution shows that 86% of them distribute mortgage-based loans, 91% consumer loans, 85% insurance, and 88% investment services.

The following figure shows the respective activities by sector, compared year-on-year, of the four product areas analysed in this report (mortgage-based loans under the scope of the Mortgage and Immovable Property Credit Act (HIKrG), consumer loans under the scope of the Consumer Credit Act (VKrG), insurance, or the provision of investment services).

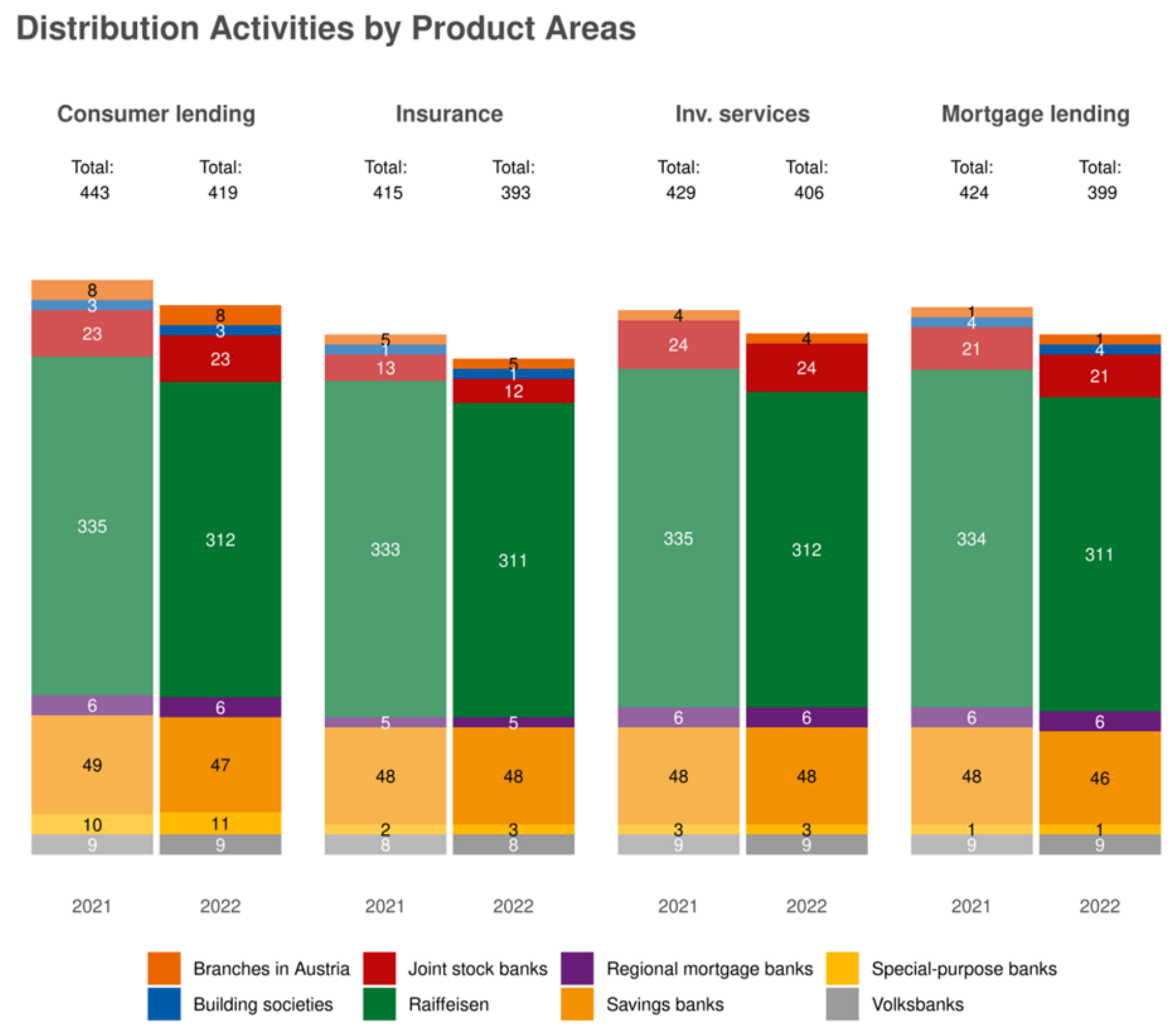

Figure 3

From the comparison, it emerges that almost all Raiffeisen banks, savings banks (Sparkassen), and Volksbanks are active in all four business areas, with over 95% per product area on average (however, only 89% of Volksbanks are active in insurance distribution).

All regional mortgage banks (Landeshypothekbanken or "Hypos") distribute mortgage-backed and consumer loans as well as investment services, while the majority also offer insurance (83%).

Joint stock banks have differentiated business models: around two-thirds distribute consumer loans and offer investment services, however only nearly 34% distribute insurance.
Of the branches of foreign banks in Austria, around 42% offer consumer loans. Investment services and insurance are now only offered by around a quarter. Only one branch (5%) distributes mortgage-backed loans.

Sector	Mortgage-backed loans	Consumer loans	Insurance	IS
Joint stock banks	60%	66%	34%	69%
Building societies (Bausparkassen)	100%	75%	25%	0%
Regional mortgage banks (Landeshypothekenbanken)	100%	100%	83%	100%
Raiffeisen	99%	99%	99%	99%
Special purpose banks	4%	44%	12%	12%
Savings banks (Sparkassen);	94%	96%	98%	98%
Volksbank	100%	100%	89%	100%
Branches in Austria	5%	42%	26%	21%

Table 1

3.3 NUMBER OF CUSTOMERS

In 2022, Austrian credit institutions had approx. 20.68 mn retail customers[1] (2021: 20.63 mn). In this context, retail customers cover investment, financing or the entity's other customer relationships, and include both retail and wholesale customers. In contrast to previous years, for the first time there was a slight increase in the number of retail customers (see Figure 4).

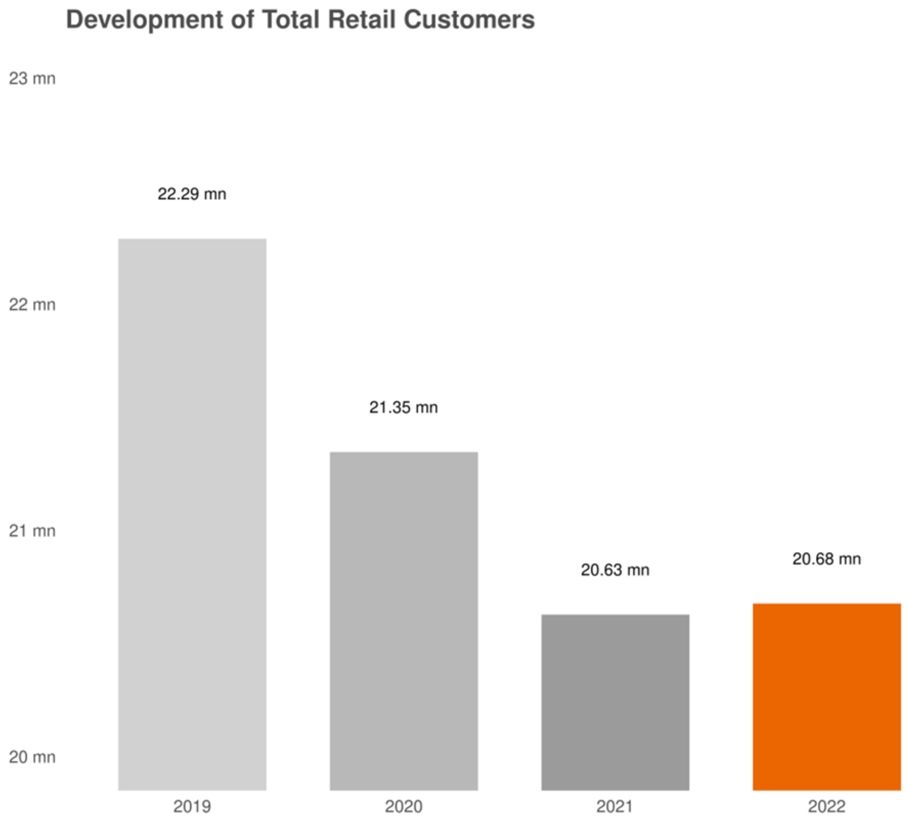

Figure 4

The majority of customers, 17.25 mn in total (2021: 17.26 mn), are split between the joint stock banks, Raiffeisen sector, building societies sector (Bausparkassen) and the savings bank sector (Sparkassen). In contrast with recent years, in 2022 there was a slight increase in the number of retail customers, which can be primarily traced back to the following three sectors: savings banks (Sparkassen) (+116,000 retail customers). branches (+99,000 retail customers) as well as joint stock banks (+72,000 retail customers). There was also an increase in the number of basic payment accounts in accordance with the VZKG (2021: 4,809, 2022: 11,263). It remains to be seen whether this trend also contains for the building societies sector (Bausparkassen) based on the increase in interest rates in 2022, especially considering the increased mediation of building savings loans in 2022 (see Chapter 6.1).

[1] *An individual natural customer may hold bank accounts at several credit institutions.*

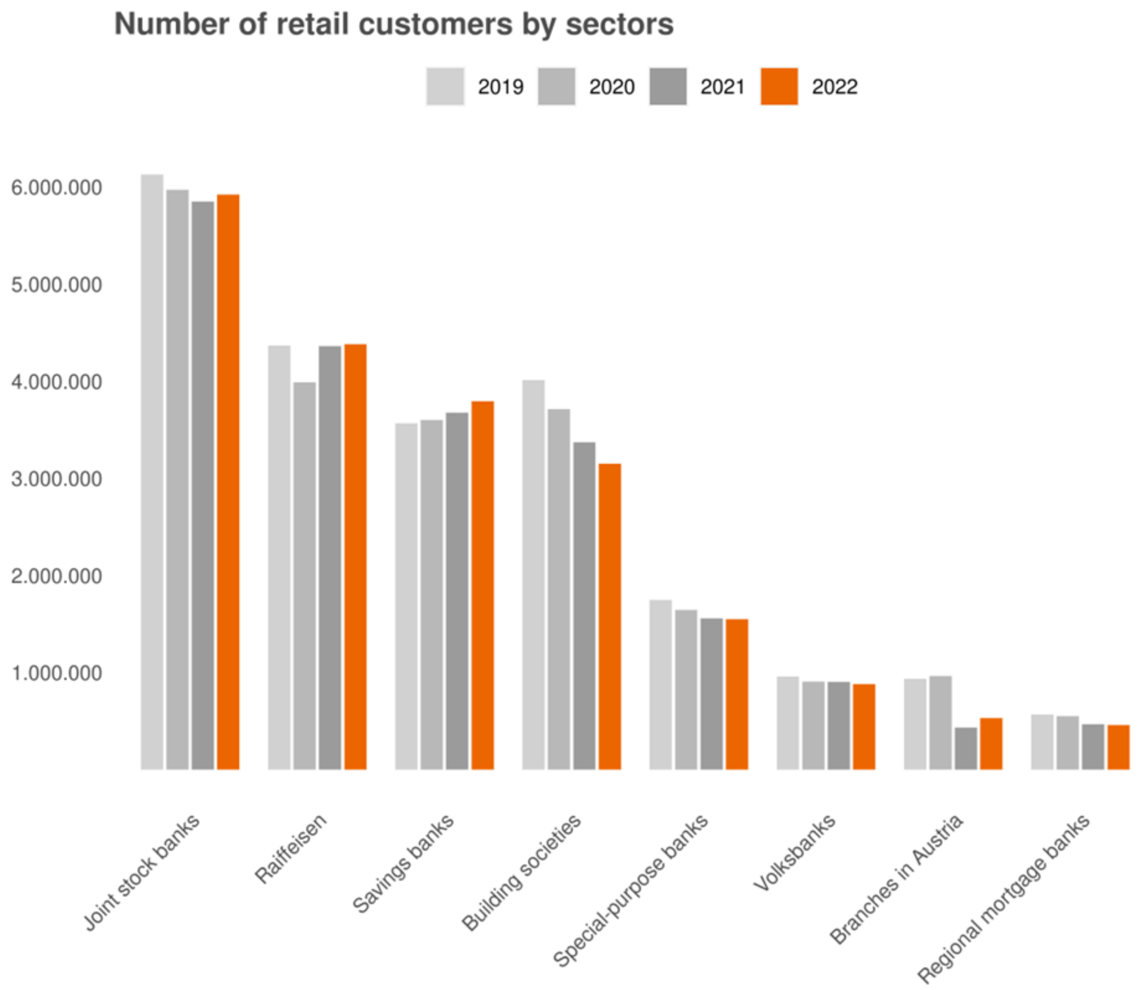

Figure 5

The bank with the highest number of retail customer relationships (3 mn) has around twice as many in comparison with the second largest bank. The five largest banks have a total of approximately 7.69 mn retail customers (2021: 7.68 mn). In other words, only one percent of the banks serve just under 37.19 % (2021: 37.23 %) of all retail customers.

The ranking of the five banks with the most retail customers remained unchanged between the 2021 and 2022 financial years. The ten largest banks collectively service more than half (ca. 51.09%) of all retail customers.

3.4 RISK LANDSCAPE OF CONDUCT-RELEVANT BANKS

The FMA adopts a risk-based approach to ensure effective and efficient conduct supervision. For this purpose, an annual conduct risk classification is performed for all conduct-relevant banks. Four risk categories exist (1 = low/green, 2 = moderate/yellow, 3 = increased/orange and 4 = high/red). By and large, this classification is based on the data and figures from the banks' distribution of insurance products and investment services as well as the distribution figures for the granting of loans by banks.

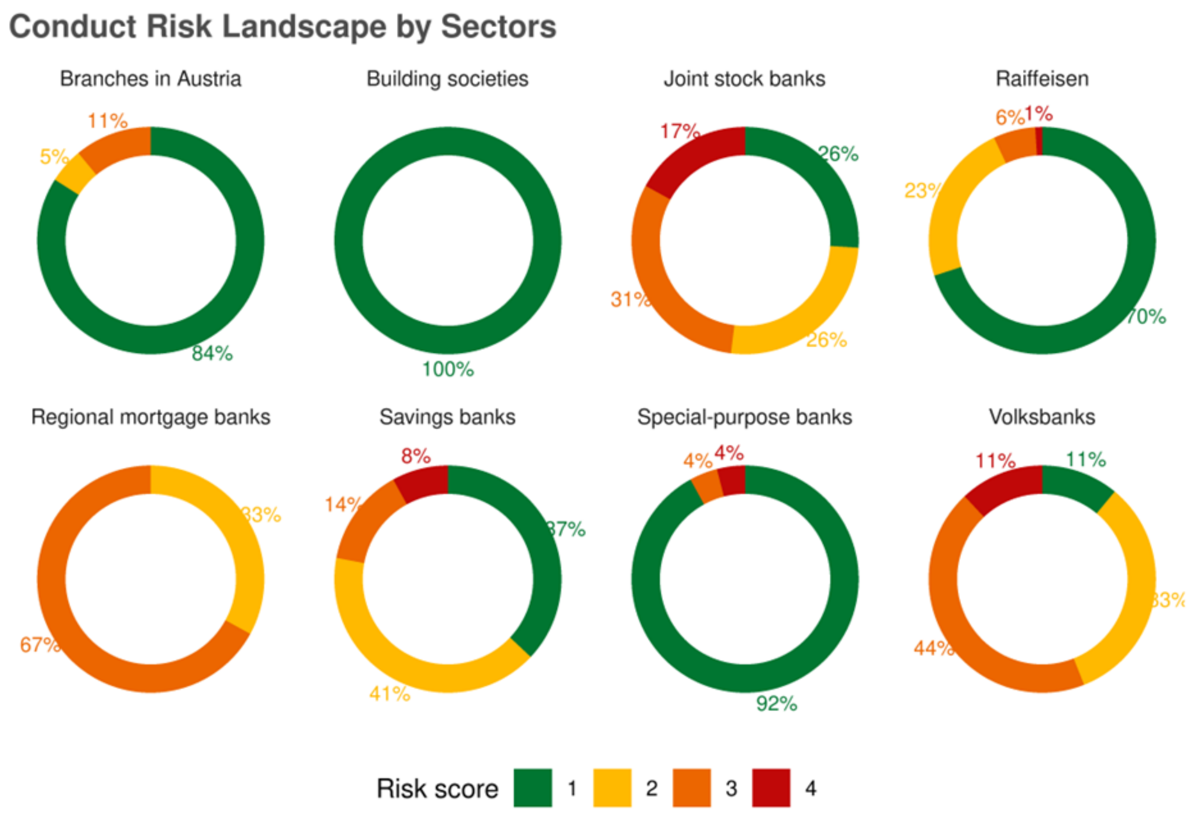

Figure 6

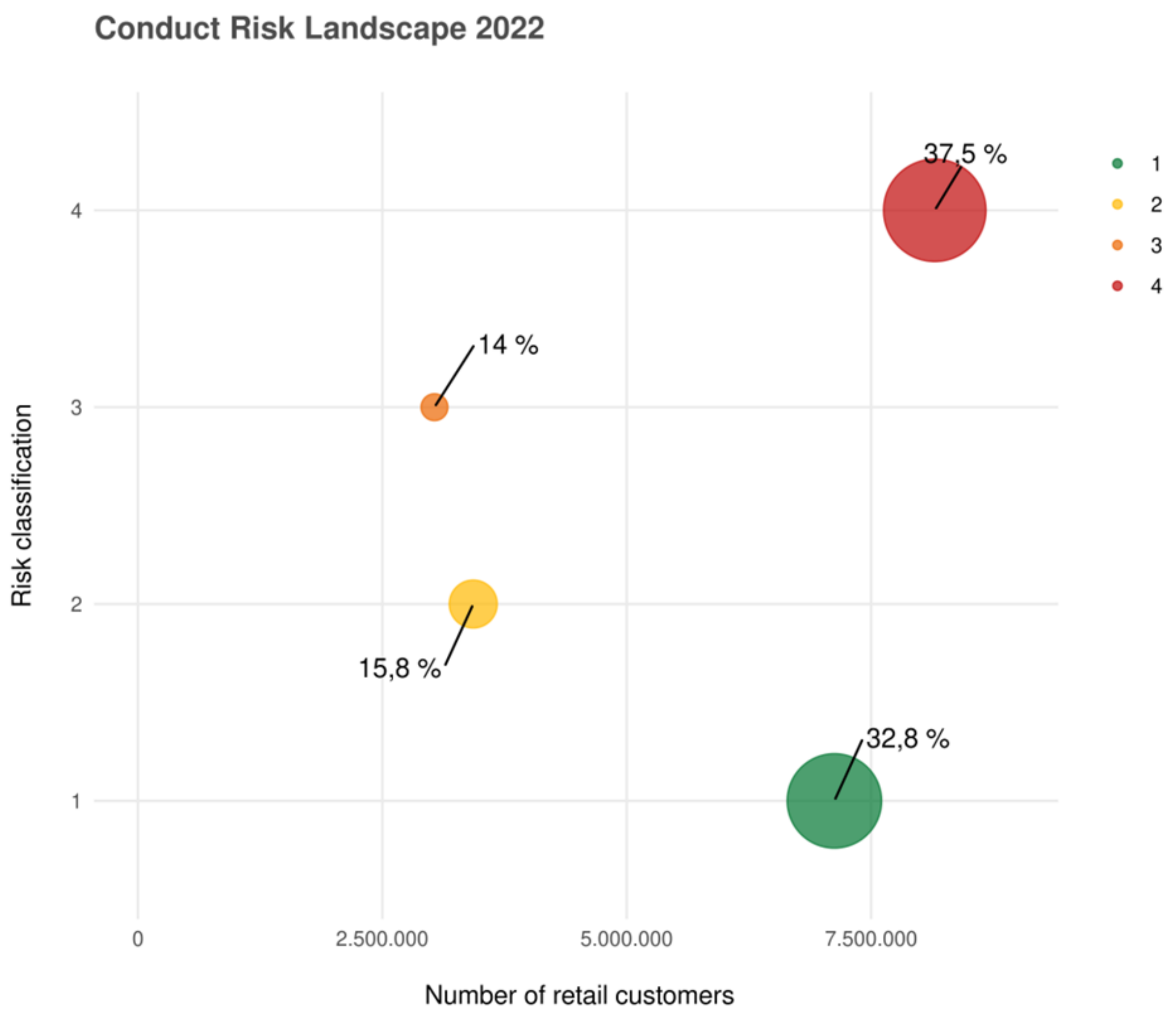

Figure 7

By comparing the results of the conduct risk classification for 2022 against the number of customers, it emerges that 37.0% of all customers are serviced by 15 conduct-relevant banks with a high risk profile (level 4).

Some 14% of customers fall into the increased risk category (level 3), serviced by 48 conduct-relevant credit institutions. 15.8 % of customers fall into the moderate risk category (level 2). The remaining 32.8% are customers of credit institutions in the lowest risk category (level 1).

4 BANKS AS A SIGNIFICANT PLAYER IN THE DISTRIBUTION OF FINANCIAL PRODUCTS

4.1 81 % OF AUSTRIAN PROVIDERS OF INVESTMENT SERVICES ARE BANKS

Investment advice, portfolio management and receiving and transmitting of orders are the main investment services (retail) investors receive from financial service providers. The provision of such investment services requires a licence, with credit institutions in Austria generally[2] holding a legal licence to do so. Other providers of investment services in Austria consist of investment firms, investment services providers as well as investment fund management companies (hereafter “MCs”) and alternative investment fund managers (hereafter “AIFMs”) holding an additional licence.

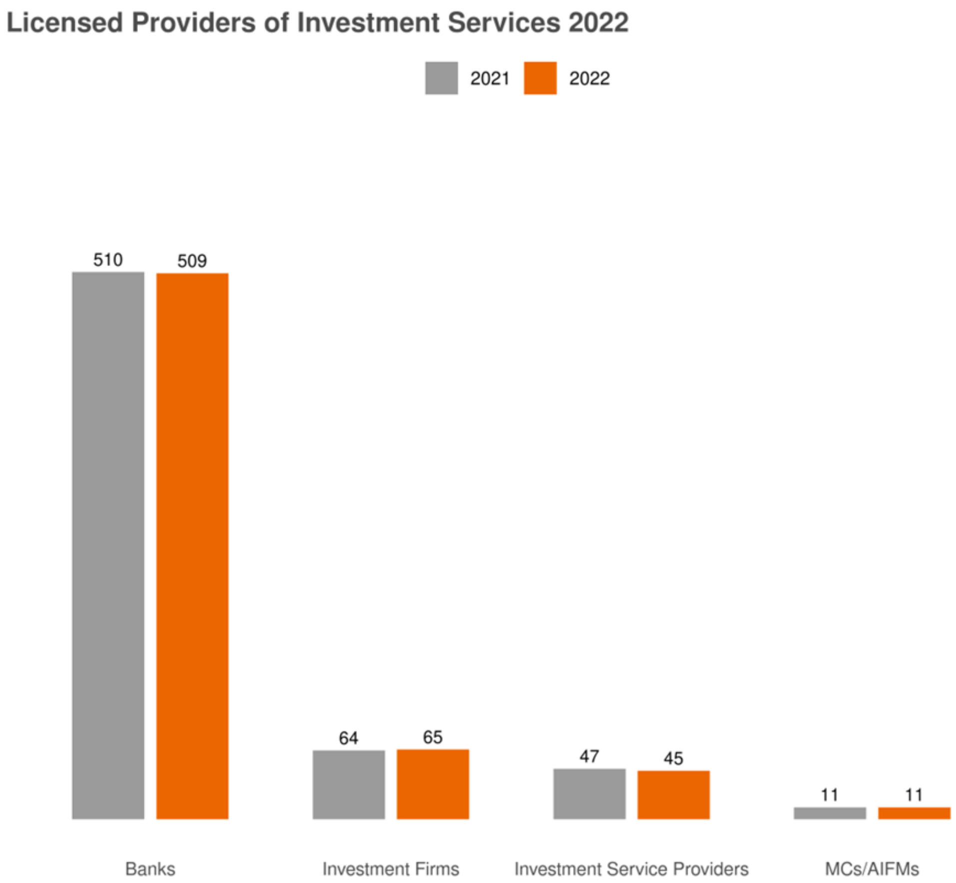

Figure 8

[2] *Some credit institutions are not authorised by means of a legal licence to provide investment services, for example investment fund management companies, and these therefore require an additional licence.*

In 2022, a total of 509 (2021: 510) banks[3] were authorised by way of a legal licence to provide investment services under WAG 2018. Of those, a total of 406 (2021: 429) banks (= 80 %, 2021: 84 %) stated that they actually offer investment services.
In 2022, a total of 65 (2021: 64) investment firms 45 (2021: 47) investment service providers and a total of 11 (2021: 11) MCs or AIFMs are authorised to offer investment services under WAG 2018 in addition to banks in Austria.

4.2 SECURITIES BUSINESS IS AN IMPORTANT BUSINESS SEGMENT FOR BANKS

In 2022, the net provision income from securities[4] of credit institutions from the provision of investment services stood at EUR 1.57 bn in total (2021: EUR 1.67 bn), a decrease of around 6 % year-on-year. On average this corresponds to around 9 % of total operating income.
Regarding the entry into force of MiFID II at the beginning of 2018, the banking industry assumed that investment business might decline strongly due to the new (strict) framework conditions. However, average net commission income of credit institutions between 2017 and 2019 (see the figure "Development of net commission from securities", Figure 9), commission earned during the 2022 financial year is far higher than the level for 2018, although a fall in this amount was observed for the first time in 2022.
A potential reason for this decrease might be due to the increased investment activity during the pandemic years of 2020 and 2021, as shown by analyses of MiFIR transaction data. The decline in 2022 is also apparent from the analysis of MiFIR transactions. The aggregated net cash flows of Austrian investment funds and real estate funds were also negative in 2022 after two strong years (2020 & 2021). This development could also be attributable to geopolitical factors such as the war in Ukraine, but also e.g., to the change in interest rates and the increased inflation that may potentially have led to a reduction in the investment sector due to the associated arising uncertainties therewith.

[3] Joint stock banks, savings banks (Sparkassen), Raiffeisen banks, Volksbanks, mortgage banks and EU branches. Not building societies (Bausparkassen), MCs, corporate provision funds and exchange bureaux/money remittance institutions.
[4] This amount is calculated using the (gross) commission income from securities minus the provision expenses from securities under the Regulation on Asset, Income and Risk Statements (VERA-V). In the case of provision income/expenses from securities, all commissions, and charges (including trading margins or brokerage commissions) occurring in securities trading, as well as in issuance business (issuance for third parties) as well as provisions for redemption of securities and coupons and other income or expenses from securities management (securities account fees etc.) are taken into account.

Development of Net Commission Income from Securities by Sectors

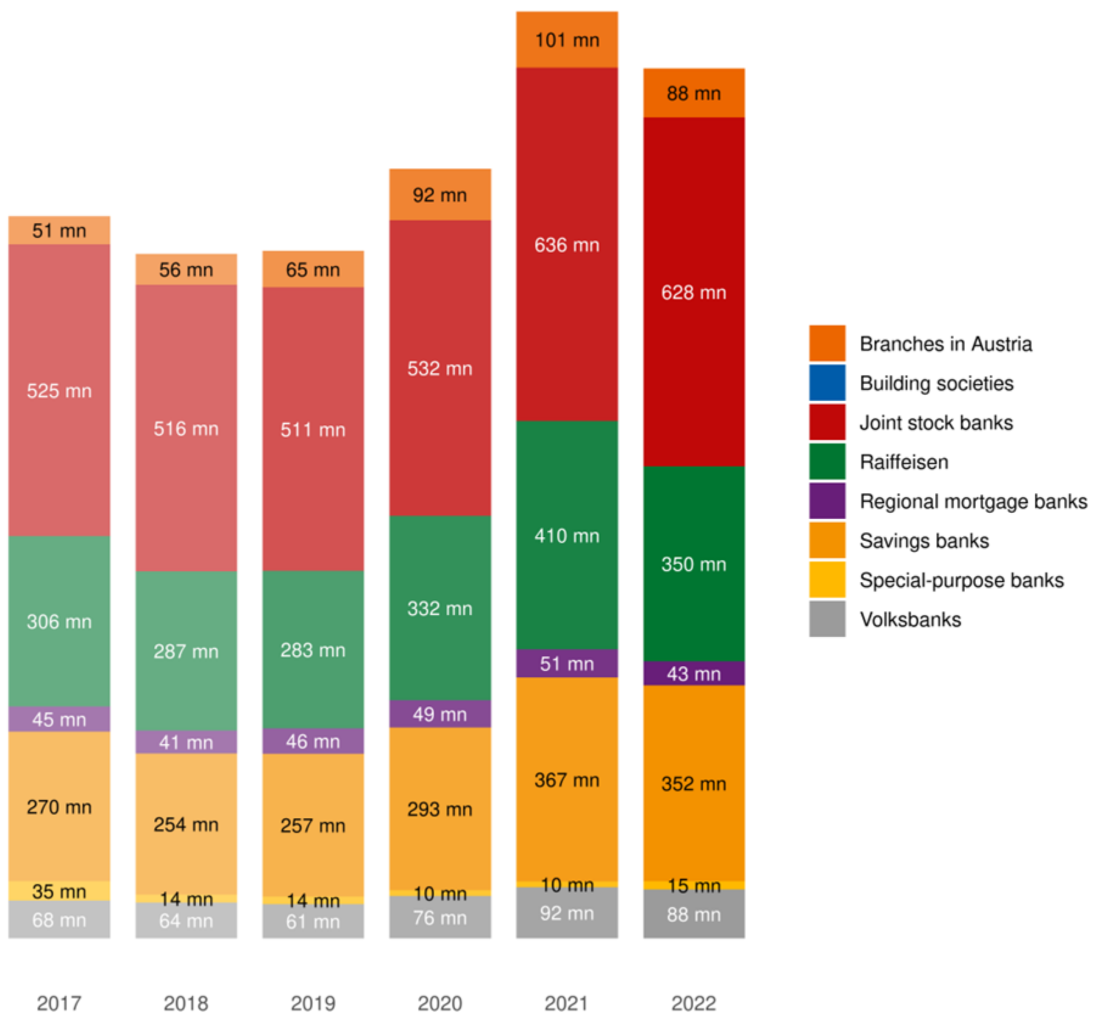

Figure 9

4.3 RETAIL CUSTOMERS PLAY A DOMINANT ROLE FOR BANKS IN INVESTMENT SERVICES

In 2022, a total of 2.34 mn (2021: 2.23 mn) securities accounts were held at Austrian banks. Of those, approx. 98% (2.29 mn) were securities accounts held by retail clients in accordance with the Securities Supervision Act 2018 (WAG 2018). The remaining 44,939 securities accounts (ca. 2%) are held by professional clients and eligible counterparties. Within the scope of individual portfolio management, credit institutions managed a total of 45,339 securities accounts with a total volume of EUR 17.37 bn. In 2021, 44,798 securities accounts with a total volume of EUR 19.4 bn were managed.

In total, the top five institutions in the ranking manage 903,334 securities accounts, or almost 39% of all securities accounts of retail customers. This shows that credit institutions that are also active in online brokerage business are well represented.

A sectoral examination shows the following picture regarding securities accounts of retail customers (see Figure 10): The joint stock banks sector manages 30% (2021: 32%), the Raiffeisen sector 29% (2021: 28%) and the savings bank (Sparkassen) sector 23% (2021: 21%) of retail customer securities accounts, with the other 18% (2021: 19%) split across the remaining sectors. Despite an increase in the total number of securities accounts of retail customers, the distribution was by and large unchanged.

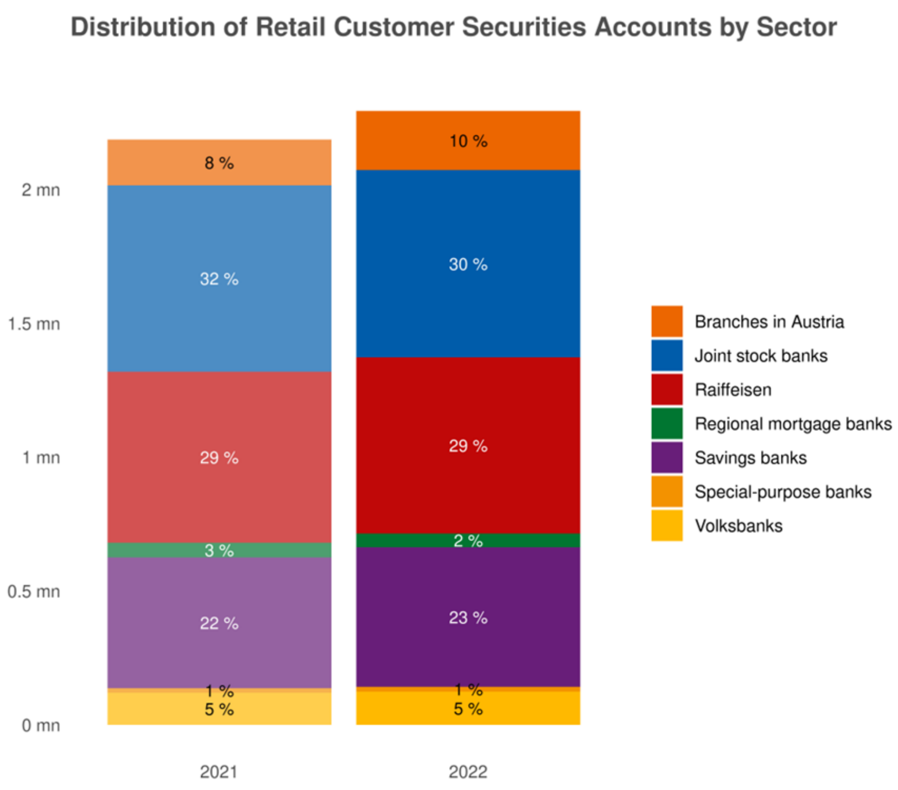

Figure 10

5 THE DISTRIBUTION OF INSURANCE PRODUCTS IS PART OF THE BUSINESS MODEL OF MOST AUSTRIAN BANKS

During the 2022 calendar year, 78.29% of all Austrian credit institutions (393) distributed insurance, corresponding to 85.06% of all conduct-relevant credit institutions. A premium volume of EUR 1.84 bn (2021: EUR 1.86 bn)[5] was distributed by banks to 342,193 (2021: 367,961) customers. Of these, 55,670 (2021: 69,008) were insurance-based investment product customers with a premium volume of EUR 936.09 mn (2021: EUR 1,036.33 mn).

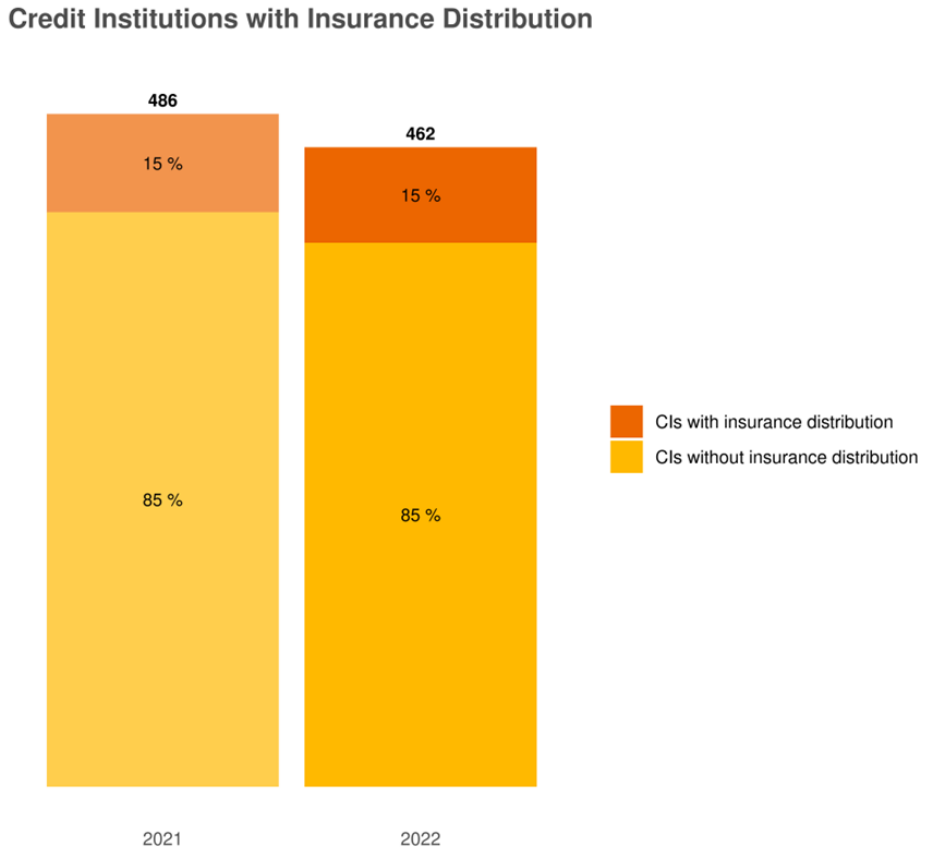

Figure 11

Insurance products	Volume underwritten in 2021 in EUR mn	Volume underwritten in 2022 in EUR mn	Number of customers 2021	Number of customers 2022
Insurance of risk (without investment)	827.46	904.6	298,953	286,523
Insurance-based investment	1,036.33	936.09	69,008	55,670
Total insurance mediation	1,863.79	1,840.69	367,961	342,193

Table 2

[5] *This comprises the total received premium volume (i.e., both from existing products as well as premium volume from new sales).*

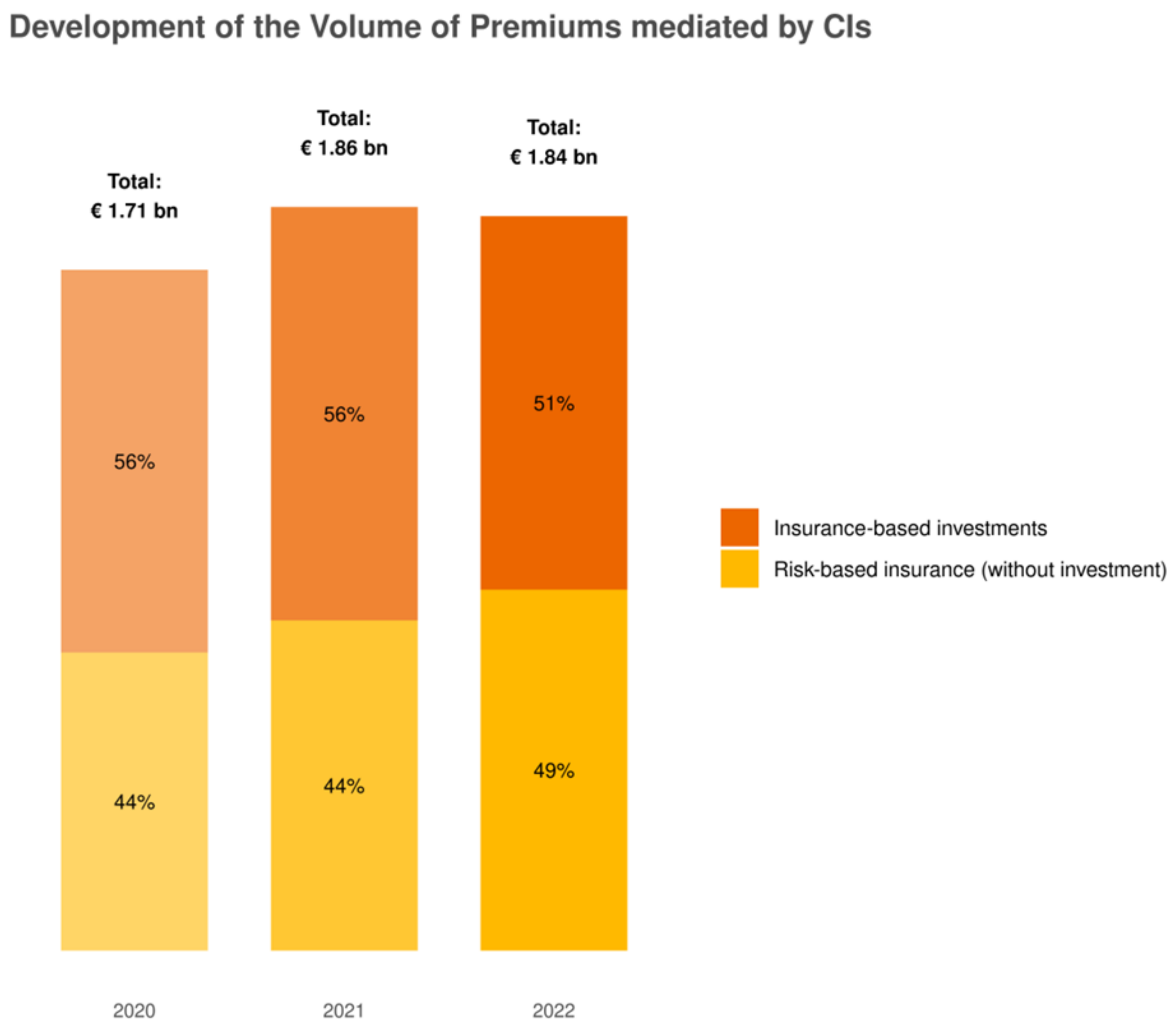

Figure 12

These statements show that while the total number of insurance customers (number of insurance contracts) has fallen, the mediated premium volume has remained stable. In particular, this can be traced back to the insurance of risk (without investment) e.g., insurance against the risk of death. Apart from building societies (Bausparkassen) all sectors posted an increase in premium volume for the insurance of risk. Following further enquiries, this can be attributed to the current economic situation (energy crisis and high inflation) and the resulting change in demand for financial products. According to the information provided, the need for capital generally increased (higher demand for credit) while customers' tendency towards investment decreased, which also results in increased demand for products for hedging risks for loans with a lower demand for insurance-based investment products. It is apparent from this development, that the distribution of mediation activities for insurance against risks compared with insurance-based investment products has remained the same in 2022, whereas previously there was a slight surplus observed in the distribution of insurance-based investment products.

During the 2022 financial year ca. 8 % of premiums written (EUR 1.8 bn) were through the bank distribution channel, compared to other distribution channels (e.g., direct distribution by insurance companies and insurance intermediaries).

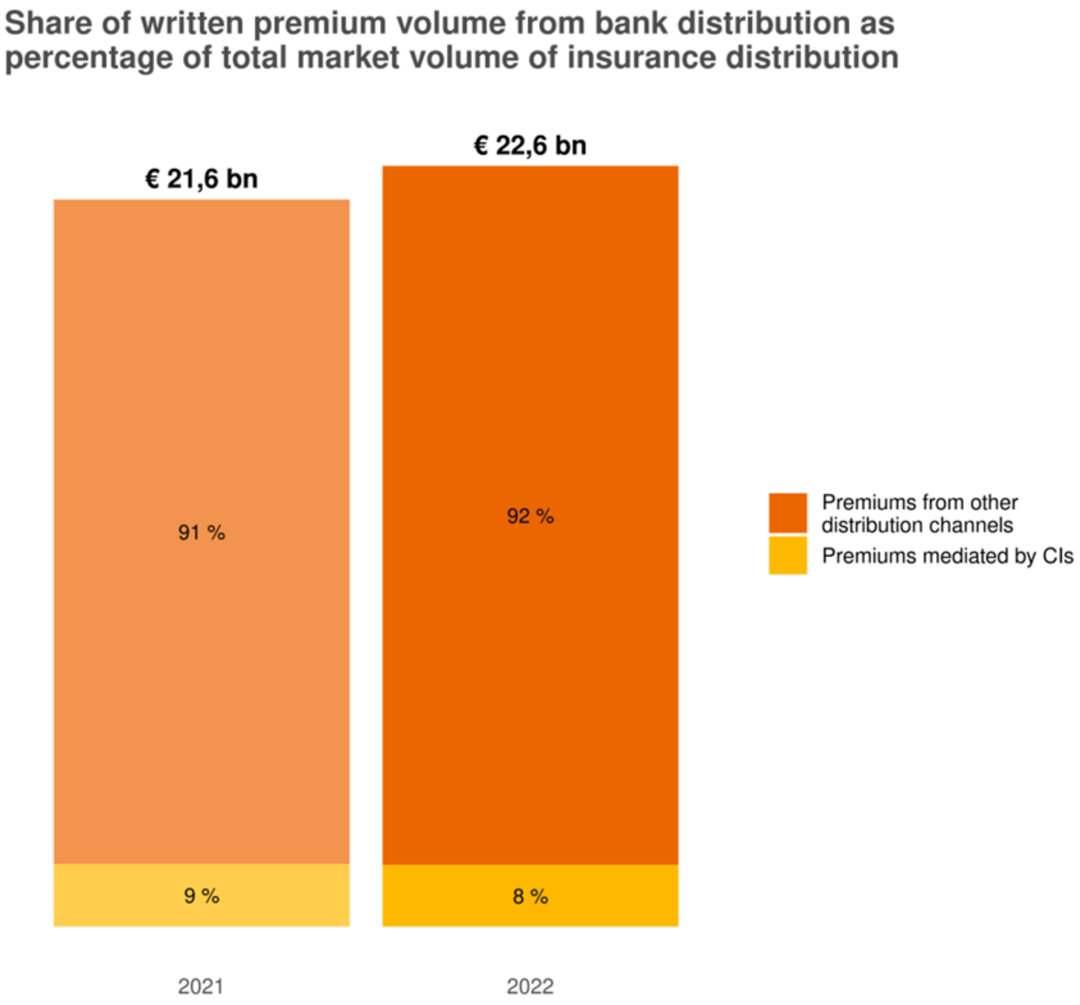

Figure 13

Regarding the premiums from insurance-based investment products, the share of distribution through banks stands at approximately 16%.

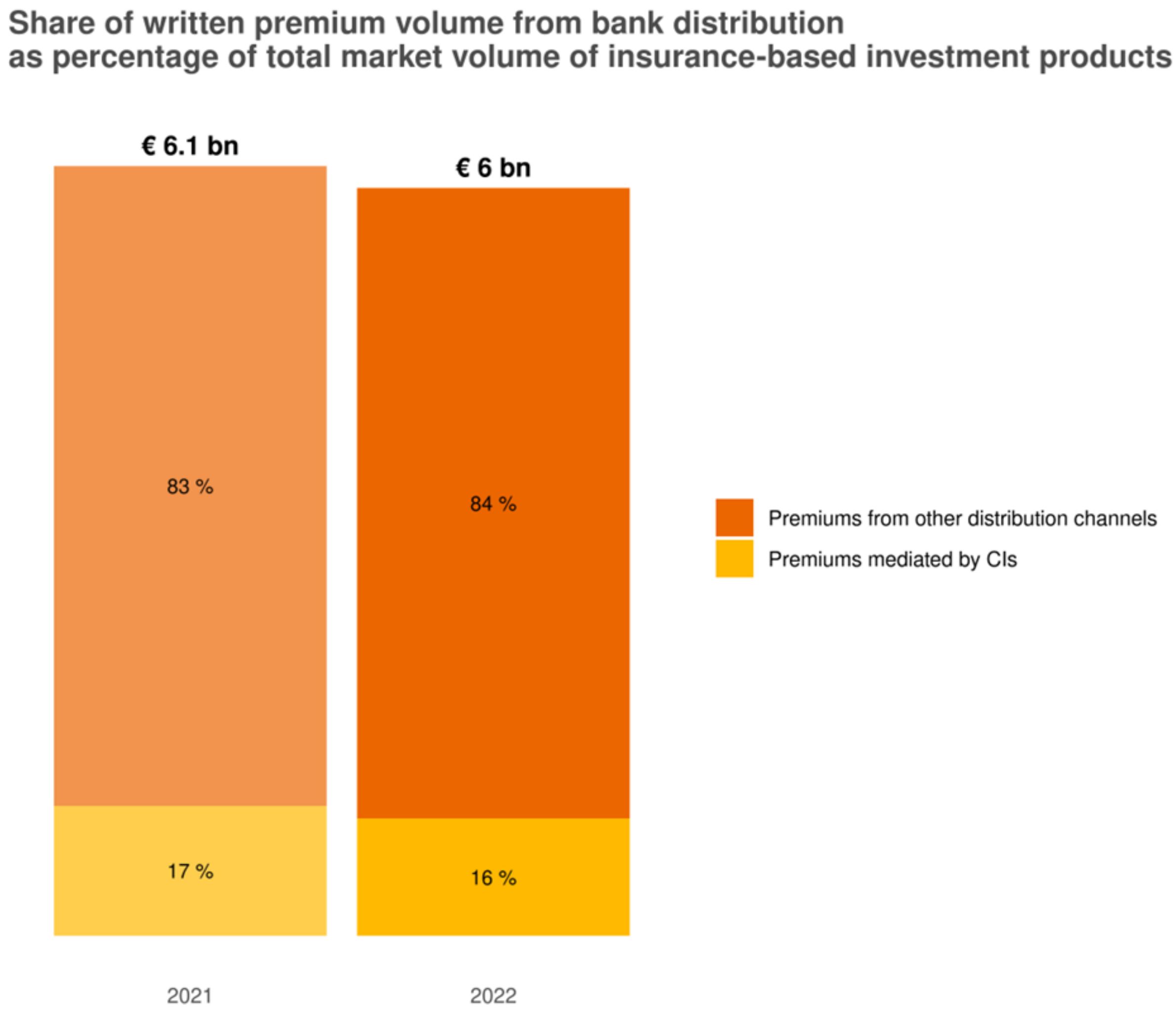

Figure 14

6 LOAN ORIGINATION

The figures obtained regarding the distributed (in the sense of granted) and mediated loan agreements, regarding both mortgage-backed and real estate loans as well as consumer loans, prove the importance of conduct supervision in this area. Since 2022, it has been possible, by means of a market survey as well as setting a priority for supervision, especially regarding the information to consumers in payment difficulties, to initiate somewhat improved dunning letters in two sectors. EBA is currently also placing a conduct focus on these topics. Furthermore, the Consumer Credit Directive (hereafter "CCD II") is also being extended to cover requirements for consumer loans.

6.1 MORTGAGE-BACKED AND REAL ESTATE LOANS

The following figure shows that well more than half of Austrian credit institutions both offer (distribute) and intermediate mortgage-backed and/or real estate loans. 13% of the credit institutions grant mortgage-backed and/or real estate loans but do not intermediate them. For approximately 14% of credit institutions, mortgage-backed or real estate loans do not form any part of their business model. It is apparent over the course of time that the number of banks intermediating mortgage-backed and real estate loans has increased slightly.

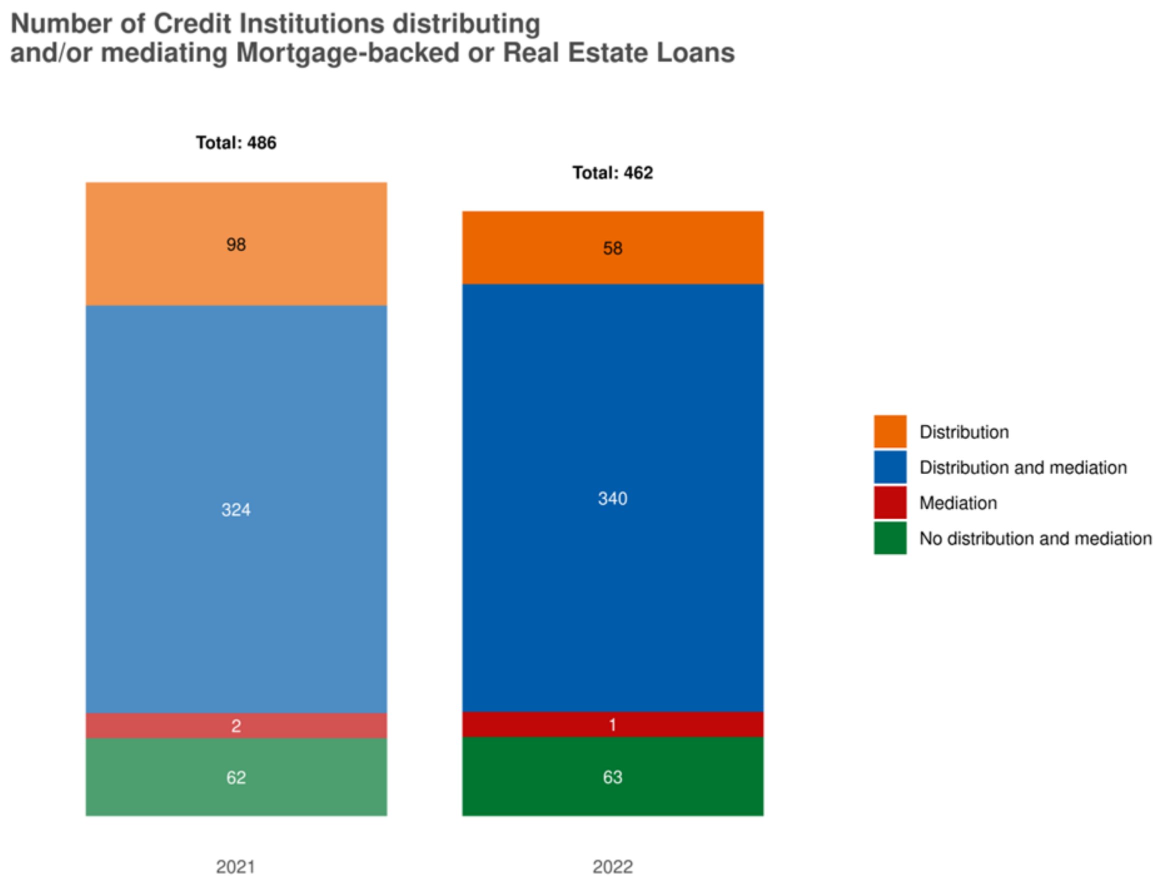

Figure 15

The figure below shows the distribution[6] of non-performing loan (NPL) ratios for 2022. The overwhelming proportion of banks have an NPL ratio of less than 4%, with only a few credit institutions having a higher NPL ratio.

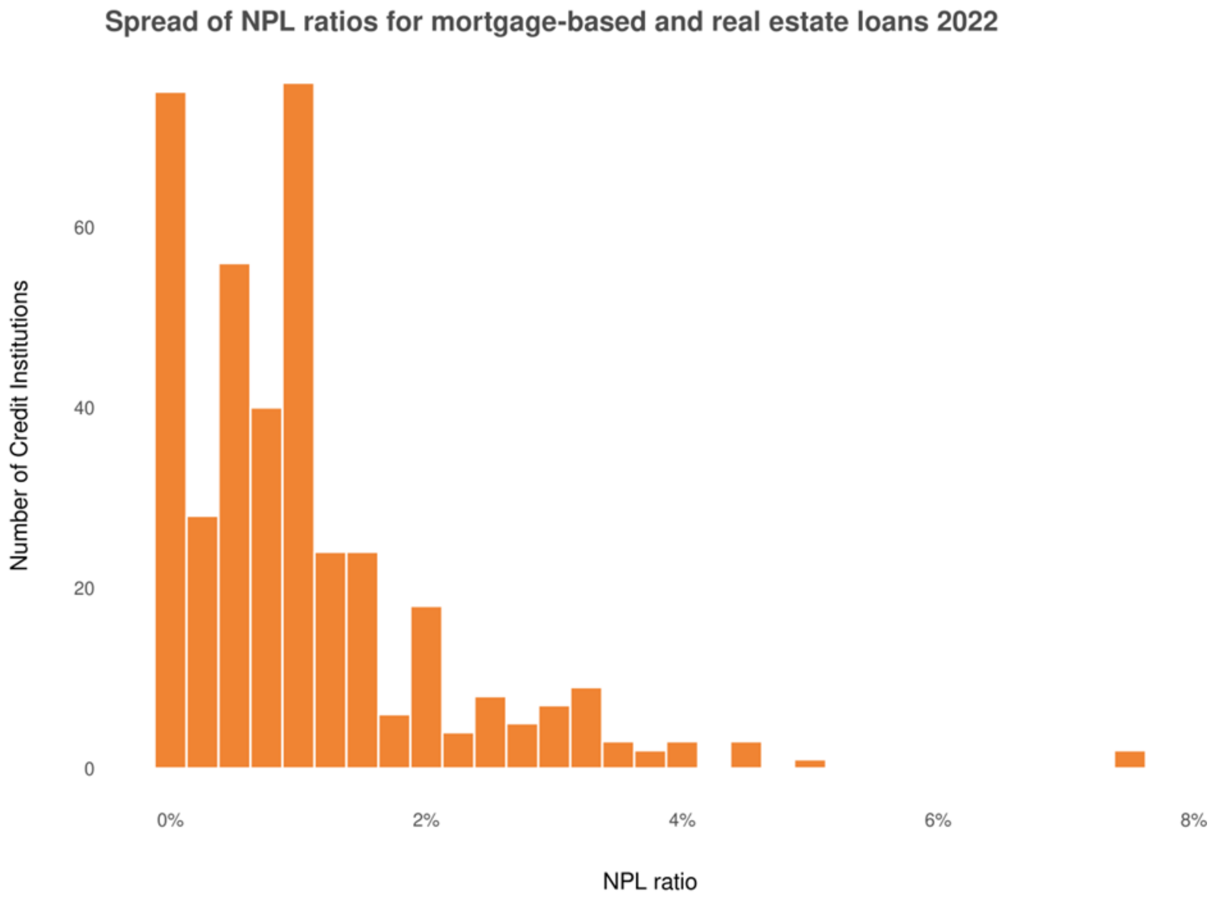

Figure 16

Based on the general development of volume (see Figure 17) is it clear that the intermediation of mortgage-backed and real estate loans has increased. This can be traced back to the general development of interest rates in 2022. Due to the increased demand for fixed-rate loans, this has led to increase loan intermediation to building societies (Bausparkassen).

Generally, an increased origination and mediation of mortgage-backed and real estate loans was also determined in the first half of 2022 ahead of the entry into force of the KIM-V on 1 August 2022. During the first half of 2023, growth is still witnessed in the amount of outstanding loans at building societies (Bausparkassen), however the level of growth has weakened considerably. This development is also apparent from the KIM-V data[7] that the FMA holds, with the outstanding loan volume at banks falling since the second half of 2022.

[6] *Covers all credit institutions that have granted at least one contract according to the risk classification tool for mortgage-based or real estate loans*

[7] *Loan volume portfolio (own use and rental) for the financing of private residential real estate*

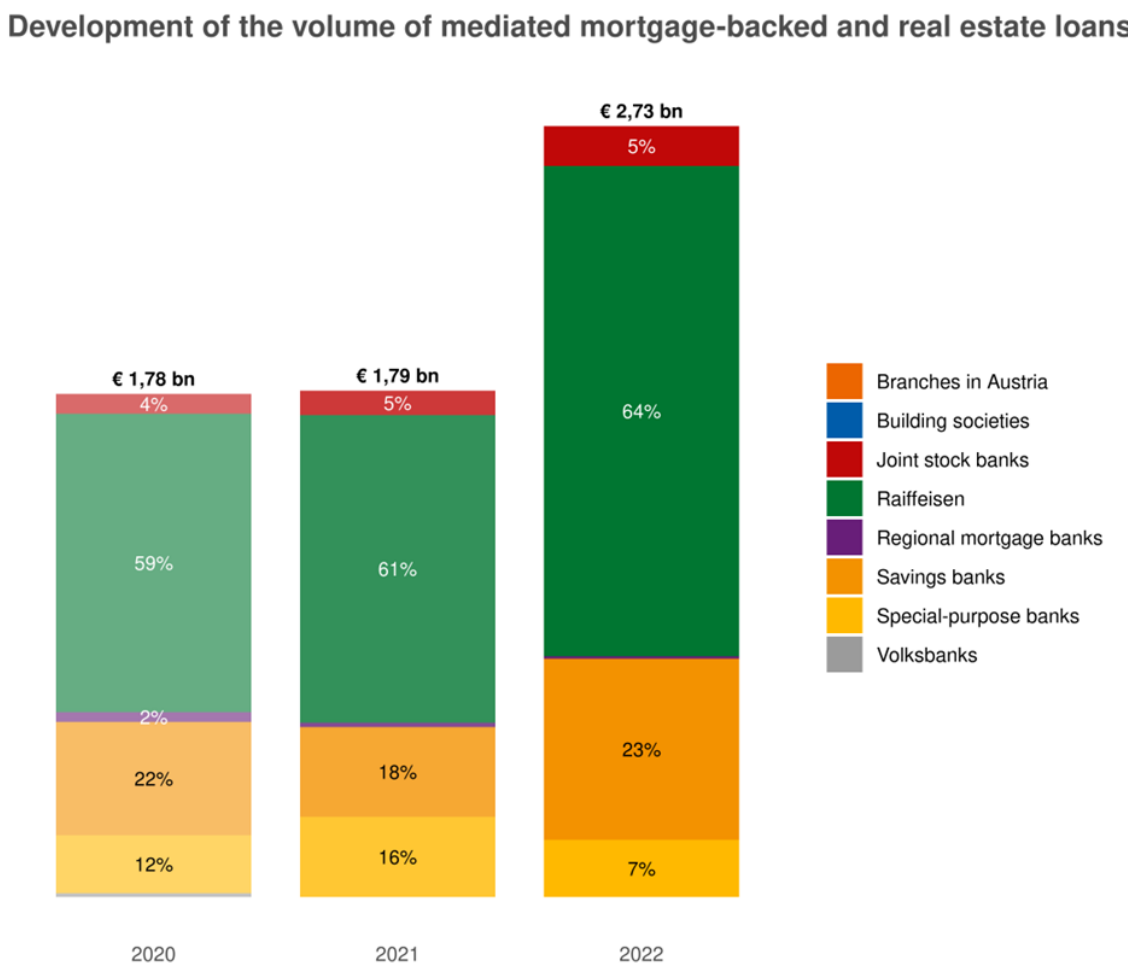

Figure 17

6.2 CONSUMER CREDIT AGREEMENTS

If the different rankings of the top providers are compared, consumer lending business differs significantly from mortgage-backed and real estate lending business. The analysis of credit institutions that offer consumer loans shows that different banks focus on consumer lending business than those banks with a focus on mortgage-backed and real estate loans. 9% of banks (43) stated that they neither granted consumer loans themselves, nor did they intermediate loans by other banks. For 56 % of the banks (258), the granting of consumer loans is part of their business model, while mediation of such loans is not. While over two-thirds of banks both grant mortgage-based or real estate loans themselves or intermediate them, this is only the case for around a third (159) regarding consumer loans. One sector predominantly distributes consumer loans by means of intermediation.

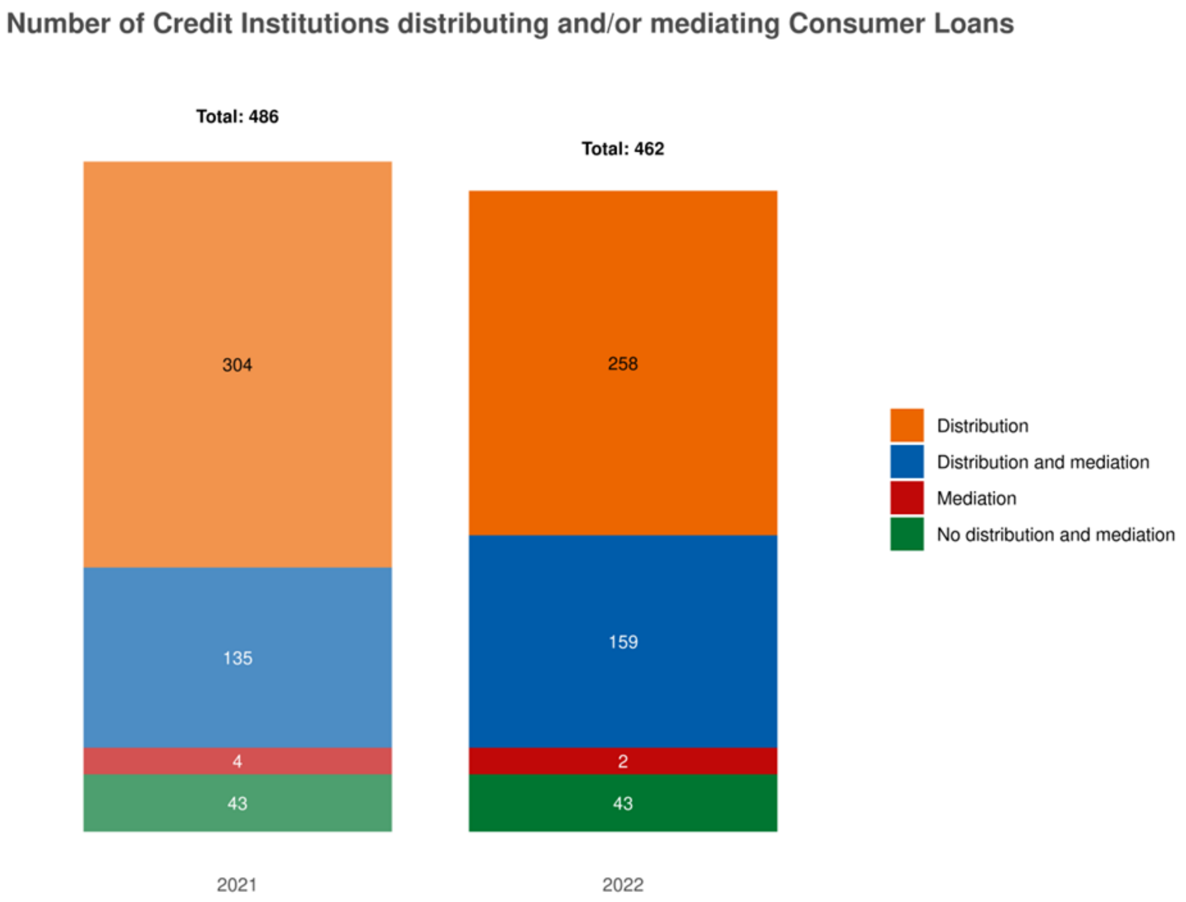

Figure 18

The following figure shows the non-performing loans (NPL ratios) of banks for consumer loans. It should in any case be noted that the NPL ratios are on average significantly higher than for mortgage-backed and real estate loans. The distribution[8] of NPL ratios in 2022 shows, in contrast to mortgage-backed and real estate loans, that on average there is a slightly larger distribution as well as higher NPL ratios as already mentioned. Independent of this fact, the majority of banks (ca. 72%) have an NPL ratio of under 10%. The higher NPL ratios are however contrasted by lower outstanding volumes.

[8] *Covers all credit institutions that have granted at least one contract according to the risk classification tool for consumer loans*

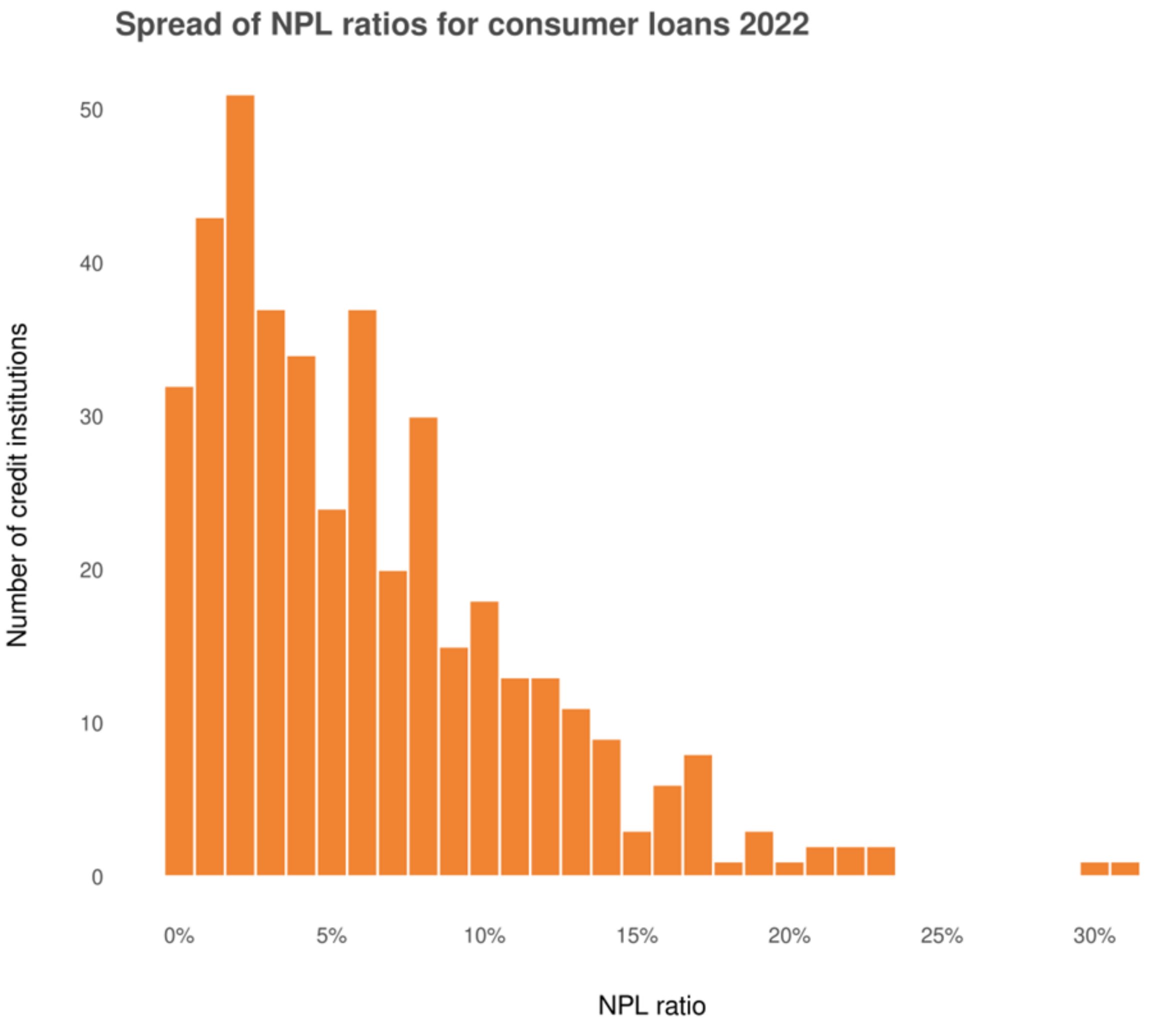
Spread of NPL ratios for consumer loans 2022
Number of credit institutions
50
40
30
20
10
0
0%
5%
10%
15%
20%
25%
30%
NPL ratio

Figure 19

7 CROSS-BORDER ACTIVITY OF AUSTRIAN BANKS

The effect supervision of cross-border activities in the area of securities supervision (hereafter: cross-border activities) by the home NCAs is of particular importance for the European Securities and Markets Authority (ESMA) in order to ensure that retail customers enjoy a comparable (high) level of protection irrespective of the domicile of the credit institution that is performing the activities. There is a particular focus here on retail customers, as well as selected professional clients.

In addition to the regular data collection on credit institutions' cross-border activities, home NCAs should also conduct ongoing supervision, in order in particular to uncover specific risks in this regard. It should be ensured, among other things, that such risks are addressed in the credit institutions in an adequate and risk-based manner.

For example, ESMA names the following risk indicators:

- Type of customer (retail customers, professional clients) – focuses on the targeting of the customer level.
- Types of product (e.g., vanilla products vs. complex products, products with a high degree of risk, such as CFDs (contracts for difference)
- Breakdown of customers between the domestic market and the freedom to provide services/freedom of establishment (e.g., the credit institution does not actively target customers in its domestic market)
- Marketing activities and strategies (e.g., aggressive advertising, advertising only in the language of the country of its head office, etc.)
- Distribution activities (e.g., using tied agents)
- Complaint in relation to cross-border activities

In this case, ESMA particularly highlights the combination of the risk of (un)suitability and the financial (under)performance risk. In addition to structural factors, like taxation law, competition, regulation, financial literacy etc.) the following facts remain particularly relevant:

- Information-based problems (misselling, inadequate information to customers)
- Cognitive traps (e.g., bait, fear),

which may lead to psychological disadvantages, or

- The risk of (particularly) high fees
- Market risk
- Counterparty risk,

which may lead to financial disadvantages.

ESMA analyses show that Austrian investment firms (including credit institutions) are in the top 5 in Europe in terms of cross-border activities, which emphasises the necessity of effective supervision.

The following information was collected in 2023 about cross-border activities in 2022:

7.1 FREEDOM TO PROVIDE SERVICES

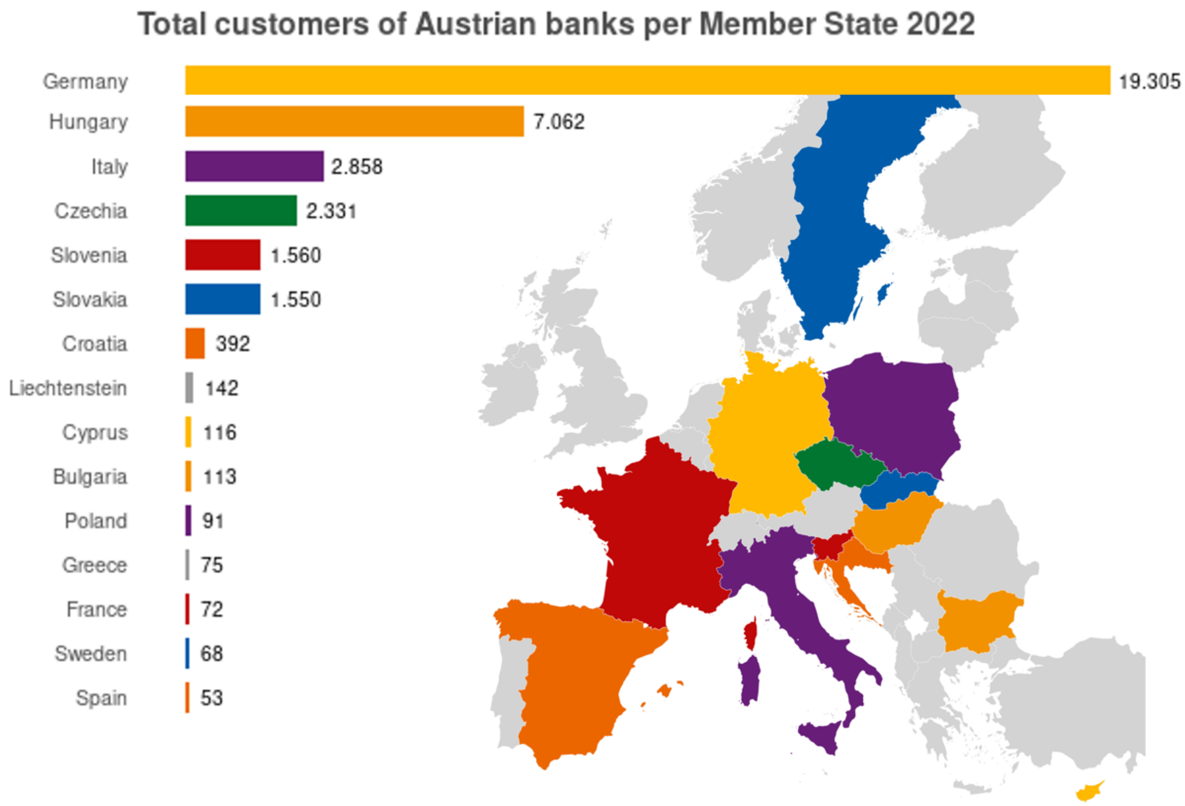

Figure 20

The survey related to the number of customers in other EU Member States and shows that Austrian banks have a higher number of customers in the border areas around Austria.

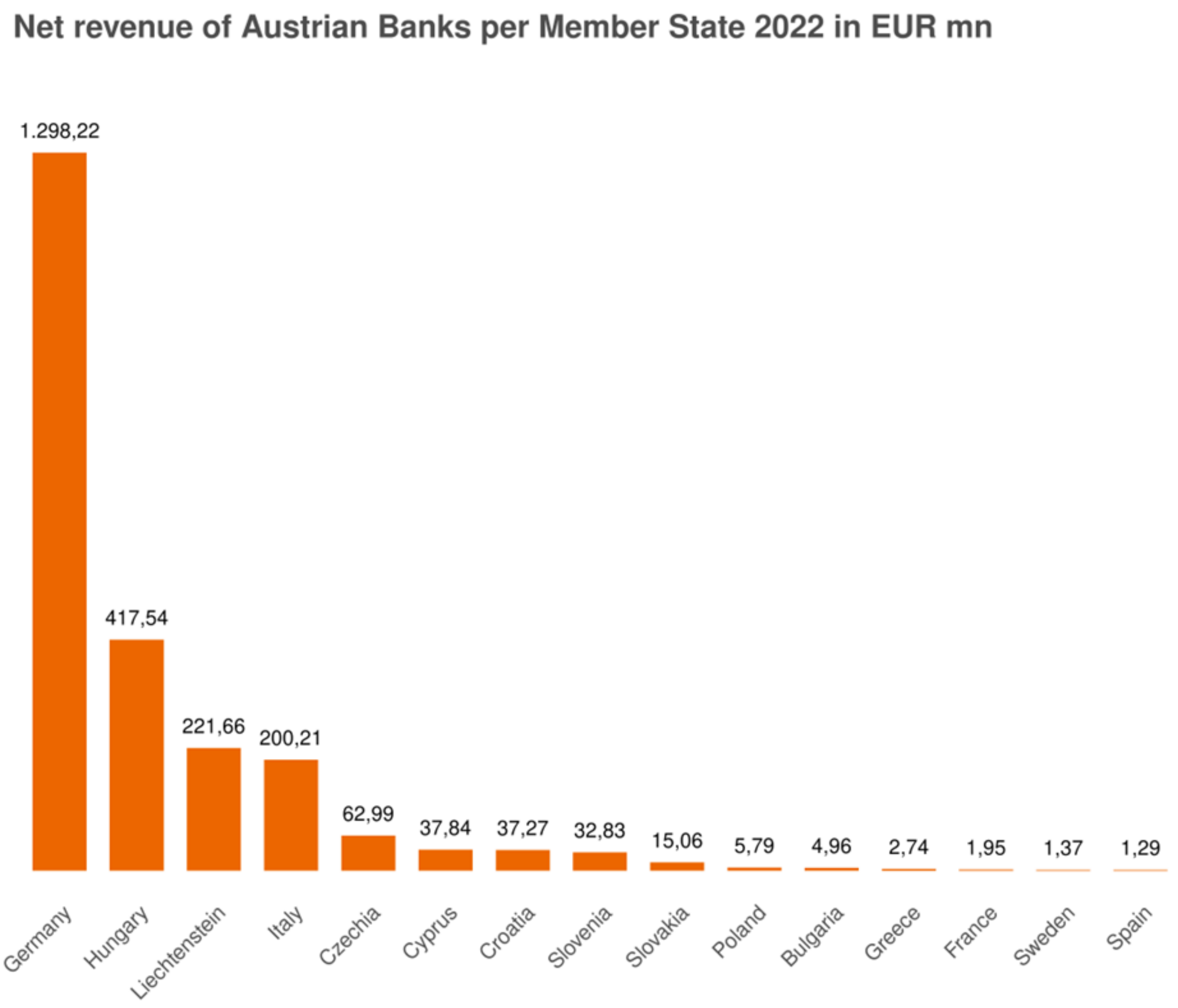
Net revenue of Austrian Banks per Member State 2022 in EUR mn
1.298,22
417,54
221,66
200,21
62,99
37,84
37,27
32,83
15,06
5,79
4,96
2,74
1,95
1,37
1,29
Germany
Hungary
Liechtenstein
Italy
Czechia
Cyprus
Croatia
Slovenia
Slovakia
Poland
Bulgaria
Greece
France
Sweden
Spain

Figure 21

At product level, the majority of securities transactions conducted within cross-border activities are in shares, bonds and UCITS funds.

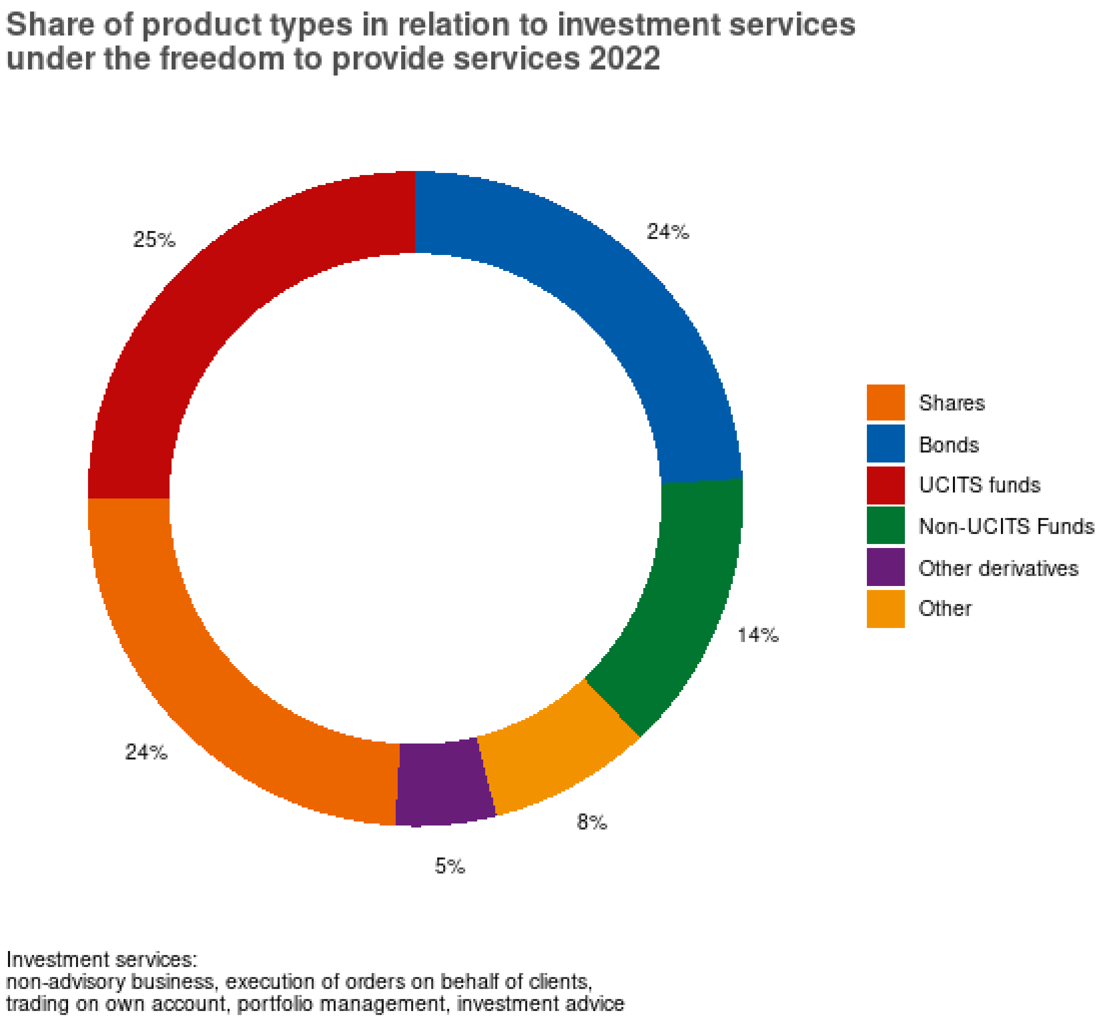

Figure 22

In investment advice, most transactions are also conducted in these financial instrument classes:

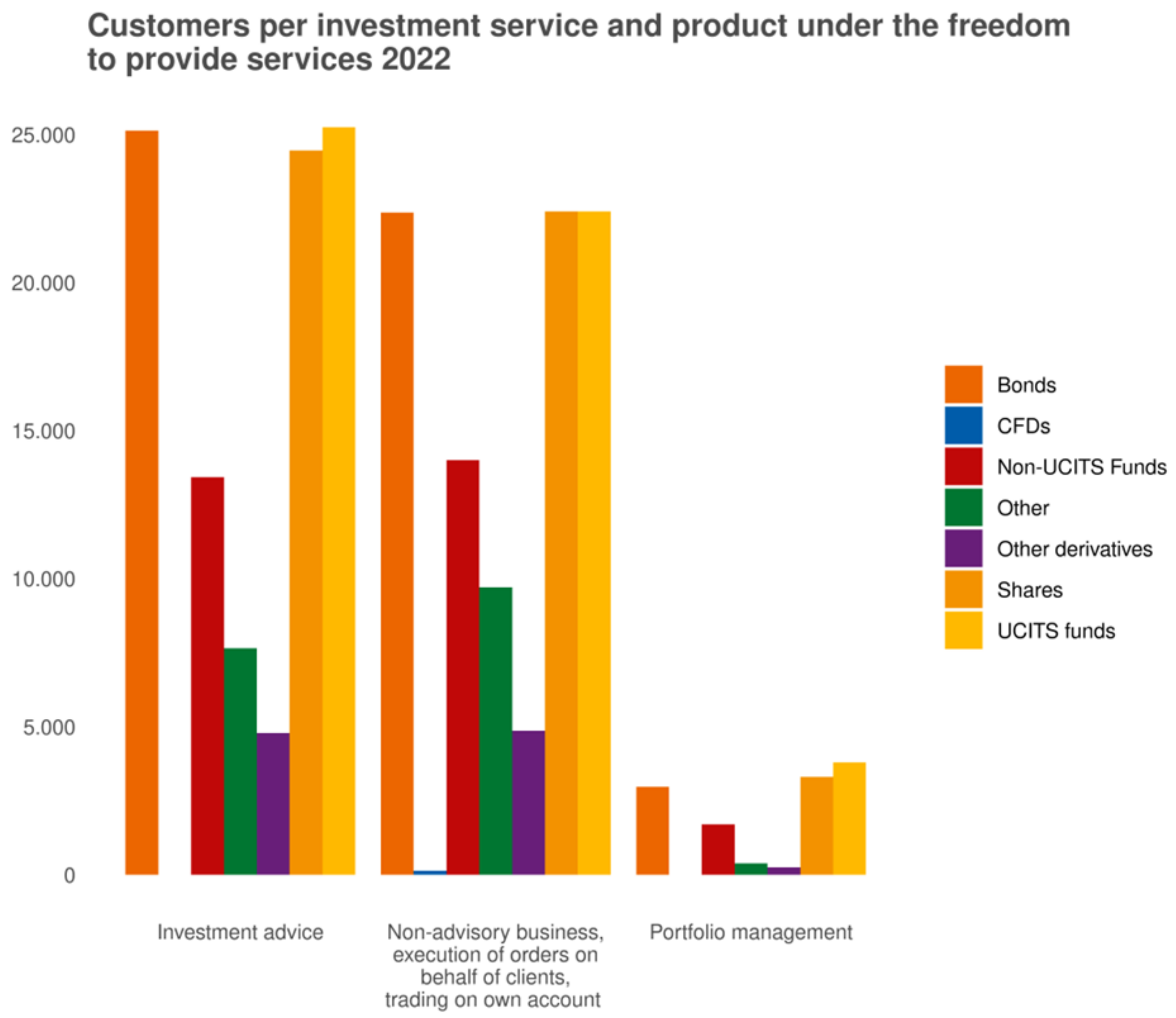

Figure 23

7.2 PRIORITY FOR INSPECTIONS 2023

Due to the results from analyses from both ESMA and the analyses from the FMA's risk classification for 2022 and 2023 (by the department of "Integrated Conduct Supervision of Banks") a priority for supervision for 2023, a priority for inspections in 2023 as part of routine supervisory measures in relation to Austrian credit institutions with cross-border activities (under the freedom to provide services and the freedom of establishment) in other EU Member States.

The four candidates for inspection in 2023 were selected in accordance with a risk-based approach:

- Based on the results of the annual query of credit institutions from the FMA's risk classification tool and ESMA's questionnaire
- taking into consideration the maximum values (securities volume, number of customers etc.) or
- taking into consideration any anomalies (e.g., complaints).

The following thematic areas formed the primary focus of on-site inspections about this priority:

- organisational requirements
  - licences
  - policies, reports, reviews, risk assessment
  - training of relevant staff members
  - complaints management
- language
  - when providing investment services
  - in marketing communications, publicity
- type of services
  - direct/indirect distribution
  - investment advice– non-advisory business - asset management

7.3 MATERIAL FINDINGS IN CONJUNCTION WITH THE CROSS-BORDER PRIORITY FOR SUPERVISION AND INSPECTIONS

In summary, both the organisational and language requirements of the inspected credit institutions have generally been well implemented, although there were some findings in isolated cases, such as:

- inadequate consideration of cross-border activities in the credit institution's risk assessment,
- inadequate documentation for a train plan for relevant staff members in cross-border activities,
- inadequate organisational structure,
- inadequate documentation of decision-making processes,
- inadequate reporting or reporting lines and processes,
- inadequate determination of persons responsible for cross-border activities,
- lack of or insufficient control mechanisms to avoid conflicts of interest,
- inadequate language skills for the provision of cross-border activities or checks.

The division "Integrated Conduct Supervision of Banks" has defined the following steps to be taken next:

- ongoing communication to market participants
  - addressing of issues by means of presentations
  - addressing of anomalies by way of supervisory measures
- observation of developments at international level, in particular the Retail Investment Strategy, ESMA, etc.
- active further legislative development based on data analyses

8 MARKET OVERVIEW OF AUSTRIAN CREDIT INSTITUTIONS' PRIIP-KIDS

In its supervision in relation to the PRIIP-R, the FMA pursues a risk-based approach. The FMA produces an annual internal PRIIP market report to support its risk-based supervision. For market monitoring purposes, a "screening" of the packaged retail investment products (PRIPs) manufactured and distributed in Austria by Austrian credit institutions pursuant to Art. 4 para. 4 PRIIP-R is conducted regarding compliance with the obligations for manufacturers. This is conducted without any involvement of the credit institutions in question (and therefore without any burden for them, thereby enabling a broad market overview. A brief overview as well as the material findings of this screening are presented below.

The packaged financial instruments offered in Austria, are simultaneously heterogeneous in their design, as well as being exceptionally numerous. With a cut-off date of between 15-17 December 2022, a total of 11,680 PRIIP-KIDs published by Austrian credit institutions were analysed.

The analyses show that the number of issuers in Austria of financial products required to produce a PRIIP-KID compared to the number of conduct-relevant credit institutions in Austria is low (36 out of 462).

Measured in terms of the number of products examined, leveraged products, derivatives and certificates are dominant. This statement only applies to the number of different products for which the KIDs were to be produced. On this basis, it is not possible to make any state about the volumes invested.

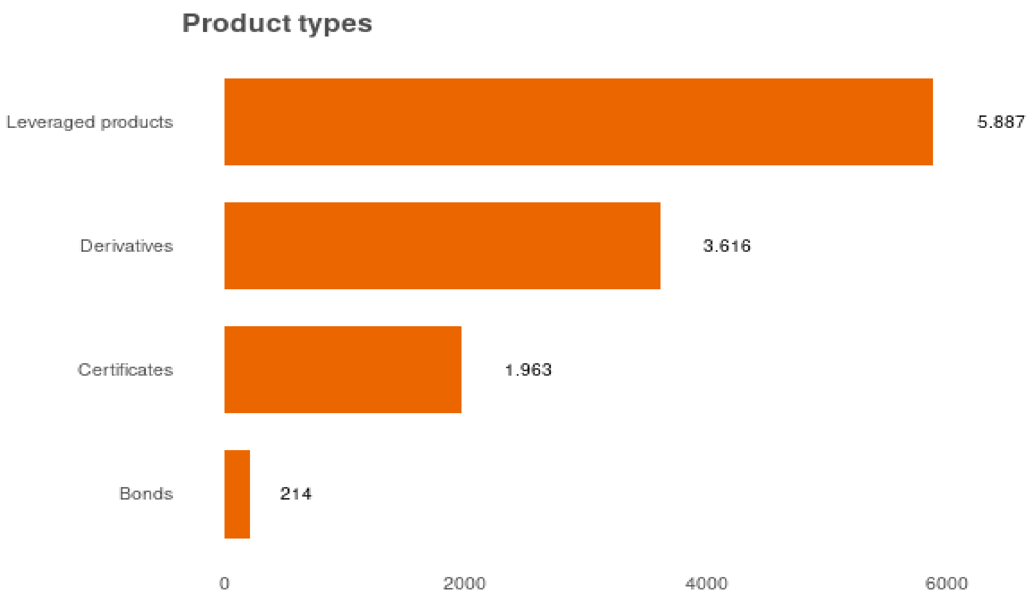

Figure 24

The large number of PRIIP-KIDs for leveraged products (50%), certificates (17%) and derivatives (31%) can be explained by the wide range of designs of such product types. In contrast, generally far less complex products were allocated to bonds (2%) than for example in the certificates group.

The majority of the products examined are denominated in EUR (81%). Along with EUR, both PLN (12%) and GBP (3%) - a newcomer - are strongly represented. Apart from a few issuances denominated in USD (2 issuances or 0.9%) it is especially noticeable in the bonds sector that issuances are exclusively denominated in EUR.

Product type	**CHF**	**EUR**	**USD**	**CZK**	**GBP**	**HRK**	**HUF**	**PLN**	**RON**	**RUB**	**Total**
Bonds		212	2								214
Derivatives	28	3,017	99	29	407			16		20	3,616
Leveraged products		4,412		9				1,315	151		5,887
Certificates		1,833	32	36		1	17	25	19		1,963
Total	**28**	**9,474**	**133**	**74**	**407**	**1**	**17**	**1,356**	**170**	**20**	**11,680**

Table 3

The risk indicator is a value from between 1 (“very low”) and 7 (“very high”) and is derived from the product’s issuer risk and market risk (volatility). It specifies how high the risk of potential losses from future performance is. Overall, most PRIIP-KIDs issued have a risk indicator of 5 (“medium-high”) or higher (91%).

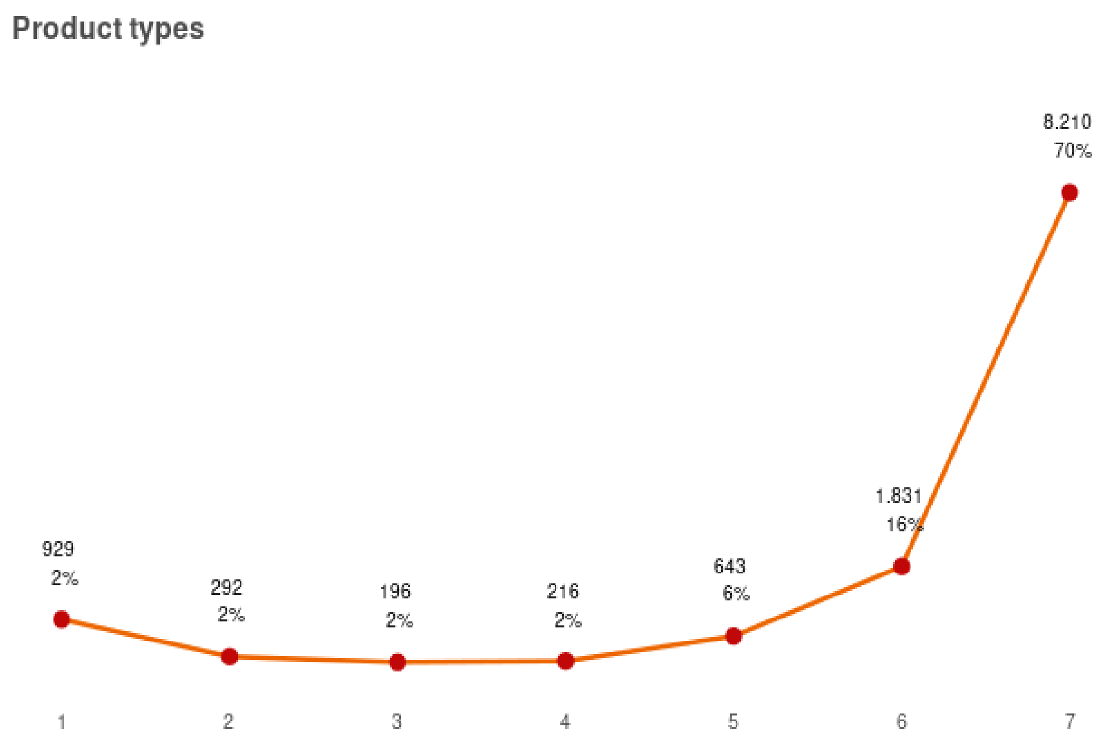

Figure 25

Considering the comparatively high number of complex products this is in line with the expected distribution.

8.1 RESULTS FROM THE ANALYSIS OF THE SCREENING

The substantive focuses of this screening are:

- the availability of PRIIP KIDs on the PRIIP manufacturers' websites.
- their formally correct design (in line with legal standards) and
- The plausibility of the stated information (risk indicator, performance, and costs).

This investigation is restricted to PRIIP-KIDs that were drawn up by Austrian credit institutions as the manufacturer. Consequently insurance-based investment products as well as products by manufacturers domiciled abroad are not covered.

Overall it is apparent that the major proportion of PRIIP-KIDs drawn up by Austrian credit institutions do not contain any anomalies. This demonstrates that the FMA's efficient risk-based approach to supervision, and previous dialogue with the market have proven effective in ensuring the legal compliance and collective consumer protection, without intervening in a disproportionate manner in the market. The market situation has already improved substantially in recent years. In 2022, the quality of PRIIP-KIDs in the Austrian market remains in general very high. The identified anomalies are usually borderline cases regarding the interpretation or for product types that have been particularly complicated or problematic to implement in the PRIIP delegated Regulation.

To summarise, the follow anomalies arose:

- No anomalies regarding the availability of PRIIP-KIDs on the manufacturer's website.
- In 60 cases, there were potentially too few stated performance scenarios, of which 34 cases originate from a single manufacturer, with the reason not being traced back to the calculation of the scenarios, but attributable to the scenario being wrongly labelled. This anomaly was able to be rectified in January 2023.
- In a total of 15 KIDs (2021: 89) overall across all product groups, all performance values were identical across the different scenarios and points in time (all derivatives, for which this is plausible) and a total of 58 KIDs (2021: 166) (43 bonds as well as 15 derivatives) in which the same performance values were stated over different time frames. Compared with the previous year, these values have shown a considerable improvement.
- In some 170 cases, performance values are stated that display both a statistical as well as an absolute anomaly. This corresponds to 1.4% of all KIDs.
- In 7 cases (2021: 9 cases) negative costs were stated at the end of the recommended holding period. 446 KIDs (2021: 397 KIDs) displayed statistically anomalous costs. The number of anomalies in relation to costs have remained constant in comparison to the preceding year, 2021.
- No derivatives showed anomalously low risk indicators.

The further assessment of anomalies under supervisory law is conducted by the division "Integrated Conduct Supervision of Banks" within the scope of risk-based measures. A communication will be made to the market where appropriate.

9 LIST OF ABBREVIATIONS

AIFM	Alternative Investment Fund Manager
bn	billion
BWG	Austrian Banking Act (BWG; Bankwesengesetz)
CI	Credit institution
ESMA	European Securities and Markets Authority
GewO	Commercial Code (GewO; Gewerbeordnung)
HIKrG	Federal Act on Mortgage and Property Loan Agreements and other forms of credit for the benefit of consumers (HIKrG; Hypothekar- und Immobilienkreditgesetz)
IDD	Directive (EU) 2016/97 of 20 January 2016 on Insurance Distribution (Insurance Distribution Directive)
IF	investment firm
IS	investment service
ISP	investment service provider
KID	Key Information Document
KIM-V	Regulation of the Financial Market Authority (FMA) on measures for the limitation of systemic risk in real estate financing at credit institutions (KIM-V; Kreditinstitute-Immobilienfinanzierungsmaßnahmen-Verordnung)
MC	Investment fund management company
MiFID II	Directive 2014/65/EU of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (Markets in Financial Instruments Directive)
MiFIR	Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012
mn	million
PRIIPs	Packaged Retail and Insurance-based Investment Products
PRIIPs-R	Regulation (EU) No 1286/2014 of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs)
SCI	special credit institution
VKrG	Federal Act on Consumer Credit Agreements and other forms of credit for the benefit of consumers (VKrG; Verbraucherkreditgesetz)
WAG 2018	Securities Supervision Act 2018 (WAG 2018; Wertpapieraufsichtsgesetz 2018)
ZaDiG	Federal Act on the Provision of Payment Services 2018 (ZaDiG 2018; Zahlungsdienstegesetz 2018)