

Banks

Business Activity and Profitability

Total Assets of Austrian Banks Remain on the Rise

The unconsolidated total assets⁸ of Austrian banks rose by 7.0% year on year, peaking at EUR 640.9 billion in August 2004, which confirmed the upward trend observed since mid-2003. Both growth in the total assets of the ten largest banks (excluding special purpose banks) and the median came to approximately 6% in August 2004, thus ranking slightly below the growth rate for the entire Austrian banking sector.

Foreign assets and liabilities contributed to this growth trend again; the former increased by 12.0% and the latter by 9.4% year on year, each rising to approximately EUR 197 billion.⁹ With assets growing by 8.9% to EUR 119.8 billion and liabilities by 10.8% to EUR 123.8 billion, domestic interbank business also had an important share in the growth of total banking assets. This mirrors the international trend toward more interbank business.

In August 2004 loans to domestic nonbanks posted a year-on-year increase of 3.2% and reached EUR 244 billion; in August 2003 the growth rate had amounted to 1.1%. This trend, which can also be observed on an international level, reflects improving economic conditions. On the liabilities side, domestic nonbank deposits grew by 4.5% year on year to EUR 204 billion, this

growth rate being slightly higher than in the previous year (4.3%).

In recent years, the European trend of reducing banking offices (head as well as branch offices) has also been observed in Austria. Between year-end 1997 and September 2004, the number of banking offices in Austria dropped from 5,686 to 5,252 (–7.6%). This means that currently one banking office serves around 1,500 inhabitants, a ratio which is still relatively high by European comparison. In the period from December 1997 to September 2004, the number of head offices decreased from 995 to 891 (–10.5%) and that of branch offices (excluding post offices) from 4,691 to 4,361 (–7.0%). In particular reductions in the joint stock bank, savings bank and Raiffeisen sectors were responsible for this decline.

Nominal Volume of Derivatives Declines after a Peak in August 2003

Following its high in August 2003, the nominal value of special off-balance sheet financial operations¹⁰ dropped from EUR 2,652 billion to EUR 1,825.9 billion in August 2004 (–31.2%) and was thus only 2.8 times as high as the total assets of all Austrian banks (in August 2003 it had been 4.4 times as high). In August 2004, interest rate contracts decreased by 31.9% year on year to EUR 1,575.4 billion, and foreign exchange derivatives shrank by 29.4% to EUR 232.5 billion. The fact

⁸ Unless specified otherwise, the figures in the text are given on an unconsolidated basis.

⁹ On the assets side, the higher share of external business can be related to Austrian banks' increasing activities in Eastern Europe, while on the liabilities side, it can be attributed to refinancing transactions for foreign currency loans.

¹⁰ Pursuant to § 22, Annex 2, Austrian Banking Act, these include: interest rate contracts, contracts concerning foreign exchange rates and gold, contracts concerning equities and other securities related contracts, precious metal contracts not including contracts concerning gold, commodities contracts not including contracts concerning precious metals, other forward transactions, futures, options purchased and similar transactions.

that the volume of derivatives trading had strongly expanded up until August 2003 and then started to decline owing to changes to the positions can be traced back to the activities of a single Austrian major bank. If one disregards this particular bank's volume, Austrian banks' derivatives business can be said to have experienced continuous year-on-year growth since 1999.

The Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity in April 2004¹¹ organized by the Bank for International Settlements (BIS) revealed that both of these business areas, for quite a while, have been strongly expanding in Austria and worldwide. The average daily turnover in over-the-counter (OTC) derivatives in Austria grew from USD 4.9 billion to USD 14.8 billion between April 2001 and April 2004. The share of Austrian banks in the global OTC derivatives market thus amounted to approximately 1% in 2004 (2001: 0.7%). The average daily turnover on the Austrian foreign exchange market has also risen, expanding from USD 8 billion in April 2001 to USD 13.3 billion in April 2004. This corresponds to an increase of Austria's global market share from 0.5% in 2001 to 0.6% in 2004. All in all, Austria's foreign exchange and OTC derivatives business experienced above-average growth levels by international comparison between April 2001 and April 2004. Nevertheless,

its role in worldwide foreign exchange and derivatives markets remains minor.

Austrian Banks' Profit Growth Accelerates

Similarly to most international banking markets, Austrian banks' profits continued to grow at an accelerating pace in the first half of 2004.¹² The operating profits of banks in Austria increased by 10.3% year on year in the first half of 2004, as income grew faster than costs. Operating income rose by 3.6%, operating expenses by just 0.5%.

Although the interest margin fell from 1.29% to 1.23% between the first half of 2003 and the first half of 2004, net interest income rose by 0.9%, a development which can be attributed to the fact that loans to nonbanks increased more strongly than customer deposits. The slight rise in net interest income could, however, not make up for the decline experienced since end-2002. While in some countries the strong growth of mortgage loans, favored by booming real estate prices, has more than compensated for falling interest margins,¹³ this has not been the case in Austria. This, however, also means that the Austrian banking sector is less vulnerable to real estate price shocks,¹⁴ which could negatively affect the above-mentioned banking markets through an increase in required risk provisions and deteriorating interest income.

¹¹ In 2004 this survey involved 1,208 banks in 52 participating countries. The OeNB selected 13 Austrian banks which account for 98% of the entire derivatives trading volume in Austria for this year's survey. It included an analysis of the turnover (nominal value of all new business transactions concluded over a specified period) in foreign exchange markets and over-the-counter (OTC) derivatives for April 2004. Exchange-traded derivatives were not taken into account.

¹² Cf. e.g. IMF Global Financial Stability Report, September 2004, pp. 69–71.

¹³ Cf. BIS 74th Annual Report, pp. 129–131.

¹⁴ Cf. IMF World Economic Outlook, Chapter II, September 2004.

Net fee income, the most important source of revenue next to net interest income, grew by 7.6% in the second half of 2004. In particular securities transactions, the most significant area of fee-based income, experienced a strong surge. Since end-2003 the increased demand in the securities market has thus also had an impact on banks' profits. Fee-based income from payment systems and lending has also been on the rise.

Income from securities and participating interests which are not included in the trading portfolio rose by 22%. In particular Austrian banks' income from foreign securities and participating interest soared, having increased by EUR 114 million or 81.8% since the first half of 2003.

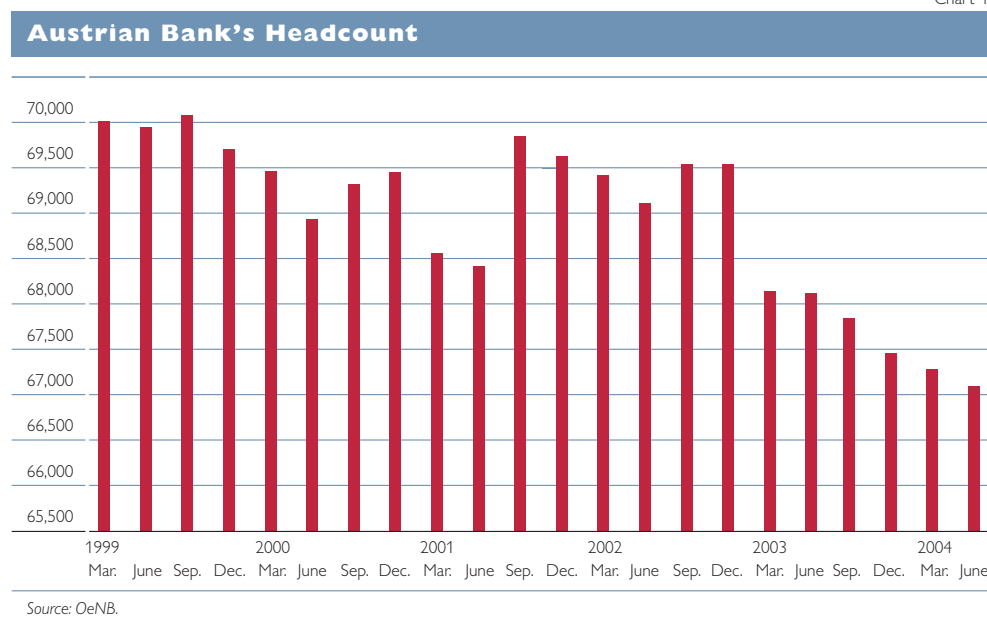
Following a pronounced upturn in 2003, net trading income has now dropped by 19.3%. Owing to a stock market boom and valuation gains in bond markets caused by interest rate cuts, the first half of 2003 saw exceptionally high profit growth. With a

share of 4% in total operating income, the significance of financial operations carried out on banks' own accounts remains small for Austrian banks. This also means that profit opportunities during upswings as well as risk exposure in times of adverse market movements are clearly limited.

An analysis of consolidated data confirms the positive development of Austrian banks' profits. Consolidated interest income – including income from securities and participating interests – increased by more than 8% year on year. At 17%, the growth of consolidated fee income also clearly accelerated. Despite a decrease in trading income, which was due to the very high level of trading income in the previous year, consolidated operating income rose by more than 9%.

Having declined in the previous quarters, costs increased only moderately. Staff costs grew by 0.6% year on year, while administrative expenses have remained more or less constant, their growth being negli-

Chart 4

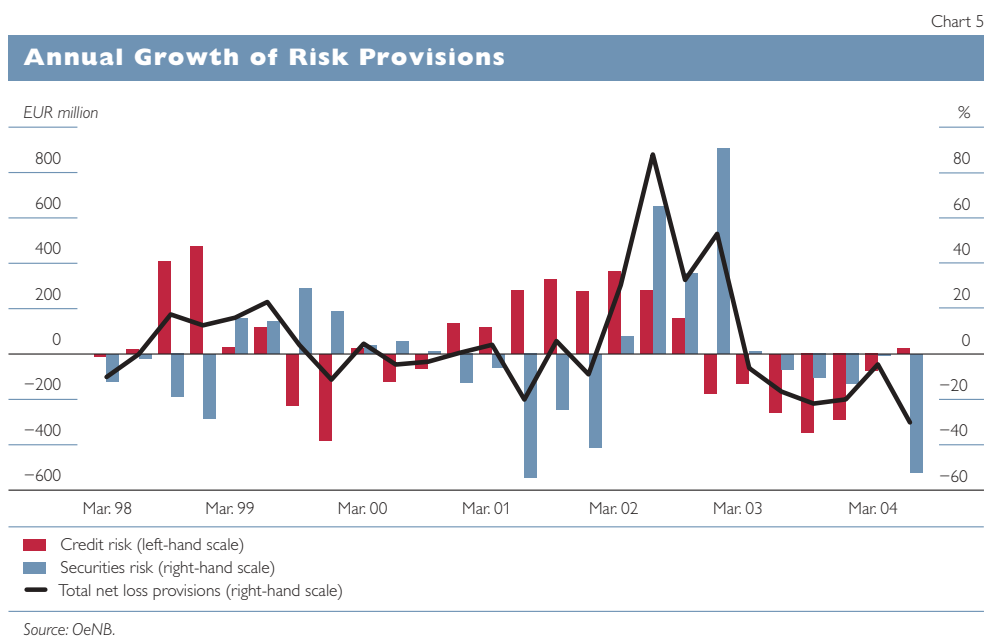


gible (0.2%). The headcount¹⁵ of the entire Austrian banking sector was cut by 1.5% between June 2003 and June 2004 (see chart 4), and wages and salaries were only slightly increased (+0.9%).

On a consolidated basis, expenses grew slightly year on year, which can be explained by the fact that Austrian banking groups have been expanding into CEE countries. Staff costs, administrative expenses and depreciation of fixed assets experienced

increases of between 5% and 7%. In relation to Austrian banks' total assets, however, these expenses decreased in comparison with the previous period.

While net credit risk provisions slightly expanded by 1.4%, loss provisions for securities were released. Through a one-off effect which materialized for some banks in the second quarter of 2004, the latter risk provisioning category showed an extremely positive development in comparison with the previous year (see chart 5).



Thanks to the favorable income and cost developments in the first half of 2004 and the above-mentioned special effects, which also had a beneficial impact, Austrian banks expect profits in the amount of EUR 2.8 billion for the entire year 2004, which would correspond to a year-on-year increase of more than one-third. On a consolidated basis, profits in the first half of 2004 have even risen by a little more

than half in comparison with results of the first half of 2003.

Despite these favorable developments, the profitability of Austrian banks remains humble by international standards owing to the fierce competition among Austrian banks, which results in low interest margins, and because of expenditures, which are relatively high by international comparison, in particular staff costs

¹⁵ "Headcount" refers to actual staff capacities, which means that part-time employees are only included proportionally to their working time.

and expenses caused by the dense network of banking offices. As far as the provision of banking services for Austrian businesses and households is concerned, this situation can be assessed positively. It is, however, necessary to continue raising profitability in order to strengthen Austria's position as a business location, to enable Austrian banks to react more flexibly to structural and cyclical changes, and to finance further expansion into CEE countries.

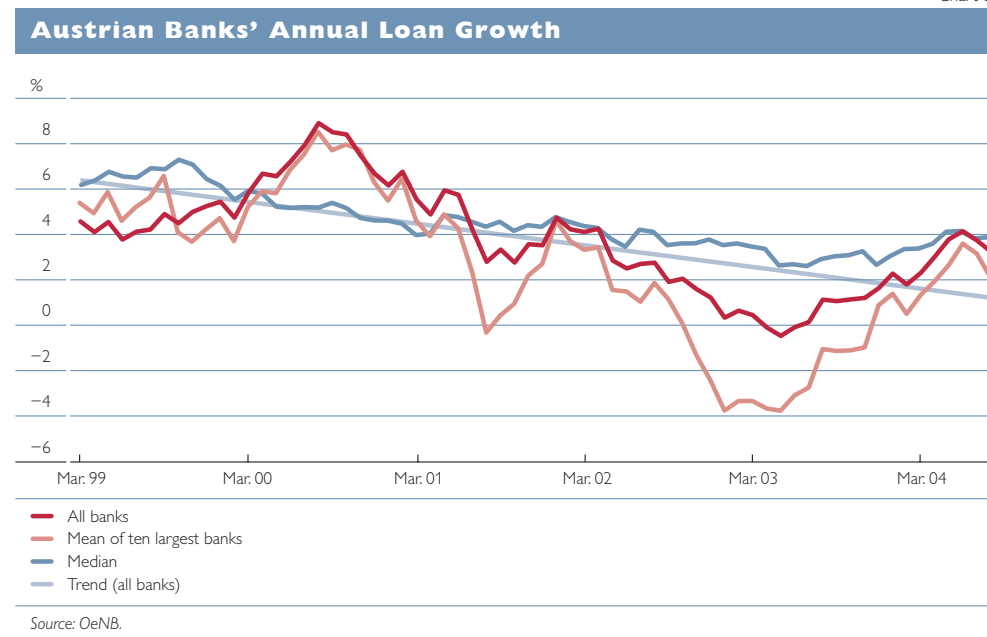
Credit Risk

Bank Lending Stabilizes

While loan growth was very subdued in 2003 owing to lackluster economic conditions, it turned positive in early

2004. In the past months, however, this upward trend has been subsiding a bit. Viewed over a longer period of time, i.e. the past three years, loan growth has remained below the average levels of the years 1999 and 2000 (see chart 6), when the loan growth rate sometimes exceeded 8%. While the annual loan growth rate of all Austrian banks still came to 4.1% in mid-2004, it dropped to 3.2% in August 2004. The loan growth levels of the ten largest Austrian banks (in terms of total assets) were similar to the entire banking sector, peaking at 3.6% in June 2004 and then declining to 2.1% in August 2004.

Chart 6



A breakdown by banking sectors shows that lending by building and loan associations has remained weak. At -0.9%, however, the decrease in lending was much less pronounced in August 2004 than it had been at the beginning of the year (-3.3%). Lending in the other banking sectors

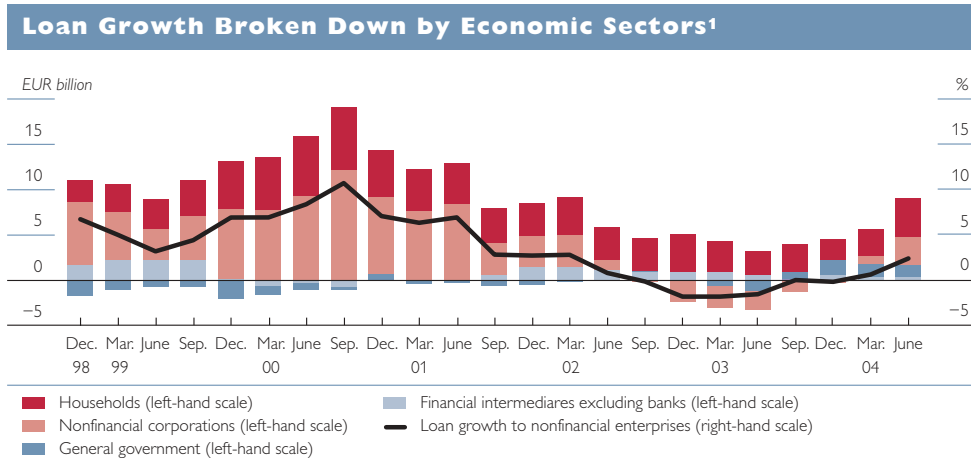
was within the normal range in the first half of 2004.

An analysis of loan growth by economic sector reveals that especially corporate lending picked up in the first half of 2004 following reluctant development in 2003. In May 2004 the annual growth of loans to non-

financial corporations was 2.4% (see chart 7), while at the end of 2003 loan growth had still been negative (−0.2%). Compared with the volume of new loans in other economic sectors, corporate borrowing still recorded the lowest growth rate,

however. With a 6.4% growth rate in May 2004, household demand¹⁶ for loans strongly increased in comparison with 2003, which reflects that consumer demand has somewhat recovered.

Chart 7



Source: OeNB.

¹ As the statistical reporting system for loans to nonfinancial corporations and households was changed in June 2004, the comparability of data relating to developments past June 2004 is limited. This means that currently only credit data up to May 2004 can be used for analysis.

With an annual growth rate of 5% in May 2004, loans to general government also experienced a marked year-on-year rise as the public sector relied more strongly on financing through bank loans. Loans to nonbank financial intermediaries grew by 2.5% in May 2004 year on year.

Credit Quality Remains Stable

For most Austrian banks, credit risk presents the most critical source of risk. The current credit risk exposure is assessed on the basis of the external auditor's annual prudential report for 2003 and intrayear analyses of specific loan loss provisions. Data re-

corded in the Major Loans Register are also used for this purpose, as credit quality assessment should particularly take into account large-volume loans.

Data from the external auditor's annual prudential report for 2003, which have been available since mid-2004, provide the framework for the assessment of credit quality and the associated credit risk of Austrian banks. The report distinguishes between *nonaccrual* and *nonearning* claims, *nonperforming* claims and *irrecoverable* claims on nonbanks.¹⁷ According to the report's results, Austrian banks' credit quality in

¹⁶ Growth in household borrowing can to a large part be attributed to foreign currency loans. For data-related reasons, repayment vehicles and accordingly 'hypothetical' installments could not be taken into account for the calculation of the loan volume.

¹⁷ *Nonaccrual and nonearning claims* are claims on nonbanks that are not expected to make payments in the near future. *Nonperforming claims* are claims that are expected to default, and *irrecoverable claims* are claims which have already defaulted at the time of data compilation.

Table 7

Credit Quality According to the External Auditor's Annual Prudential Report							
	1997	1998	1999	2000	2001	2002	2003
	As a percentage of total lending						
Nonaccrual and nonearning claims on nonbanks							
50% quantile (median)	0.11	0.19	0.16	0.12	0.10	0.11	0.13
Mean of ten largest banks	1.11	1.13	1.02	0.90	0.73	0.64	0.74
95% quantile	3.89	3.82	3.93	3.37	3.54	3.08	2.86
Nonperforming claims							
50% quantile (median)	2.28	2.43	2.30	2.44	2.34	2.30	2.23
Mean of ten largest banks	2.84	2.12	2.00	1.73	1.77	1.59	1.47
95% quantile	8.67	8.64	8.87	9.07	9.25	8.22	8.05
Irrecoverable claims							
50% quantile (median)	0.53	0.55	0.57	0.55	0.49	0.57	0.57
Mean of ten largest banks	0.40	0.43	0.46	0.44	0.42	0.60	0.63
95% quantile	4.17	4.15	4.11	4.01	4.04	3.83	3.91

Source: OeNB.

2003 was satisfactory on the whole; there were no developments that would have given cause for concern.

The average irrecoverable claims of Austria's ten largest banks (in terms of total assets), however, have been increasing in recent years. While the share of irrecoverable claims in total claims stood constantly at about 0.4% from 1997 to 2001, this percentage hovered around 0.6% in the past two years. This is an indicator of a minor deterioration of major banks' credit quality, as the share of nonaccrual and nonearning claims also grew slightly over the same period of time, rising from 0.64% in 2002 to 0.74% in 2003 (see table 7).

Also the 95% quantile's share of irrecoverable claims in the overall credit portfolio has increased, expanding from 3.8% in 2002 to 3.9% in 2003. The values for the median did not change significantly in comparison to the previous year.

Although irrecoverable claims have increased in the two above-mentioned categories, the overall develop-

ment of credit quality in 2003 gives no cause for concern.

Lower Level of Loan Loss Provisioning in the First Half of 2004

Since the external auditor's prudential report only contains annual data, in-trayear assessments of Austrian banks' credit quality must be based on the loan loss provisions as stated in banks' monthly reports to the OeNB. The ratio of specific loan loss provisions¹⁸ to claims on nonbanks is usually higher at the beginning of the year than toward the end owing to seasonal factors and is thus considered on a year-on-year basis. The majority of loan loss provisions result from claims on nonbanks. Loss provisions for loans to banks are usually low and are thus not taken into account in the following analysis.

In the first eight months of 2004 the ratio of specific loan loss provisions to claims on nonbanks improved slightly year on year. In August 2004 it was 3.3% as compared to 3.4% in August 2003. In particular the savings

¹⁸ Specific loan loss provisions for claims on nonbanks are included in banks' monthly reports; they show which risk provisions are in place for cases in which a borrower's solvency is doubtful.

bank, state mortgage bank and special purpose bank sectors reported lower ratios. In these sectors, the ratio stood at 3.7%, 2.0% and 0.7%, respectively in August 2004. By contrast, the ratio of specific loan loss provisions to claims on nonbanks in the Raiffeisen sector rose in 2004, reaching 4.3% in August 2004. In the joint stock bank sector, the picture was mixed. While at the beginning of 2004 the ratio of loan loss provisions to claims on nonbanks improved year on year, it deteriorated slightly in August 2004 and reached 2.8%.

For the purposes of the Major Loans Register of the Oesterreichische Nationalbank, banks have to report loans which exceed EUR 350,000, including their respective credit lines and the actual use thereof broken down by month and loan type. Moreover, banks have to indicate the value and total amount of collateral, the ratio of specific loan loss provisions to major loans as well as the internal credit ratings of the individual borrowers.

The risk and credit quality of major loans can be assessed through an analysis of collateral and specific loan loss provisions. The share of uncollateralized loans in total outstanding major loans was particularly high in the state mortgage bank sector. At 80.1%, it clearly exceeded that of other sectors, where the corresponding percentage ranged from 60% to 70% in June 2004. Measured against

uncollateralized loan volume, specific loan loss provisions, which are recorded in the Major Loans Register¹⁹, were highest in the Volksbanken sector (4.7%). In June 2004, this ratio, which is an indicator of the credit quality of uncollateralized loan volumes, was 2.5% for all Austrian banks, which meant a slight improvement in comparison with the previous year (2.6%).

Foreign Currency Loans Remain Popular with Households

In June 2004, the total amount of foreign currency loans to domestic nonbanks peaked at EUR 47.6 billion. Their share in all loans granted to Austrian nonbanks was 19.3%, an unprecedented percentage though only slightly above the monthly average of 18.5% recorded between June 2000 and June 2004.²⁰

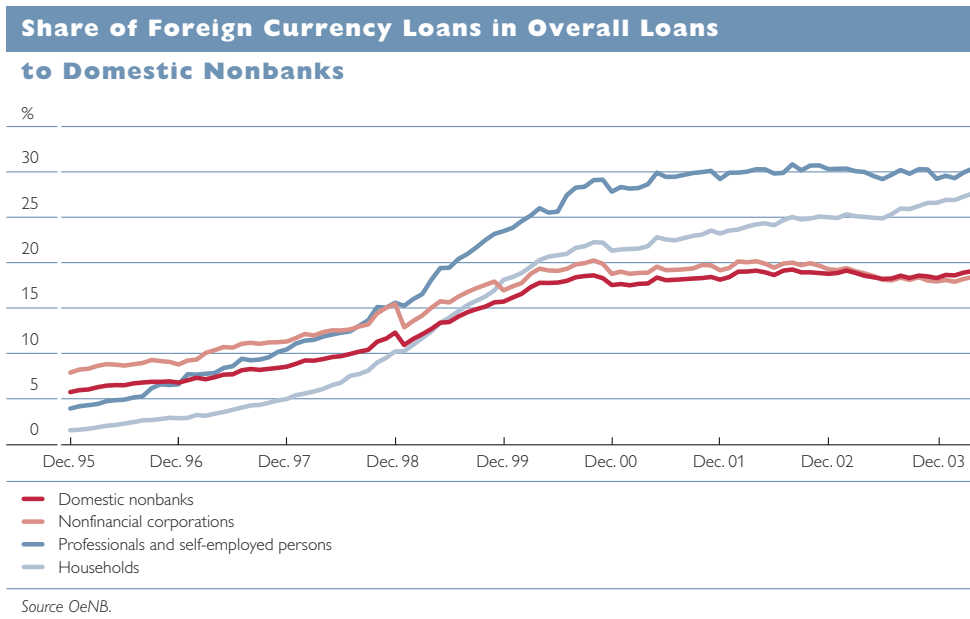
This development can once more be mainly attributed to household borrowing. After a period of stagnation in the first half of 2003, foreign currency loans for households experienced continuous growth again. In May 2004,²¹ 28.2% or EUR 19.5 billion of loans to domestic households were foreign currency-denominated. This marked increase led to a new peak in the period under review. A particularly high exposure to foreign currency loans was recorded among professionals and self-employed persons, where the share of foreign currency loans has been hovering around

¹⁹ The Major Loans Register records specific loan loss provisions for both claims on banks and nonbanks.

²⁰ As there is no information on repayment vehicles accumulated for paying these loans back, these figures represent an upper limit. What has to be considered, however, is that, although repayment vehicles in part reduce the credit risk of foreign currency loans, foreign exchange risk and the associated indirect credit risk is only reduced if the currency of the chosen repayment vehicle matches the currency in which the loan was issued.

²¹ As the supervisory reporting system for loans to nonfinancial corporations and households was changed in June 2004, the comparability of data relating to developments past June 2004 is limited. Therefore currently only credit data up to May 2004 can be used for analysis.

Chart 8



30% since mid-2001. At 18.3%, non-financial corporations' exposure to foreign currency loans has remained stable (see chart 8).

Nowadays the majority of foreign currency loans is denominated in Swiss francs. In August 2004 this was true for 87.2% of all foreign currency loans issued to nonbanks. As a consequence, the share of loans denominated in Japanese yen dropped to 6.7% in August 2004, close to the U.S. dollar's level (5%). This trend away from the Japanese yen and toward the Swiss franc is a welcome development with respect to financial stability, as the exchange rate of the euro against the Swiss franc is less volatile than that against the Japanese yen. Nevertheless, the absolute and

relative level of foreign currency borrowing should be monitored closely in the interest of financial stability.

Market Risk

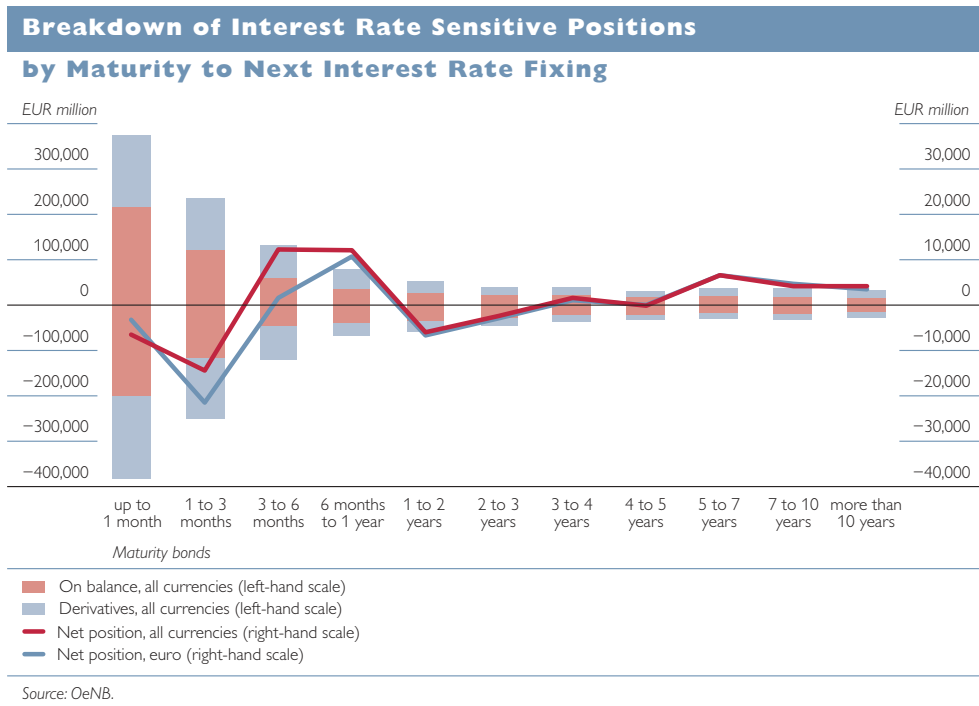
Interest Rate Risk Exposure Remains Moderate and Largely Limited to the Euro Area

Austrian banks' interest rate risk exposure resulting from maturity transformation remains moderate. In the aggregate, interest rate sensitive assets²² more or less equal liabilities within the same maturity bands; in other words, there is no danger of extraordinarily risky net positions arising within the individual maturity bands (see chart 9).²³

²² Including non-interest rate sensitive assets whose performance banks assess on the basis of market interest rates.

²³ This applies to the data of the interest rate risk statistics, which assign the positions in accordance with the next interest rate fixing to 13 maturity bands. These data do not comprise the trading book positions of banks running a so-called "large trading book." Derivatives are decomposed in synthetic assets and liabilities.

Chart 9



A breakdown of interest rate risk by currency reveals that the euro accounts for a large part of the exposure, as chart 9 also shows. In the maturity bands of more than six months, the net position comprising all currencies more or less equals the euro net position. The overwhelming amount of euro exposure corroborates the results of the stress tests for interest rate risk presented in this report's section on banks' risk-bearing capacity.

The Basel ratio for interest rate risk, which can be extracted from the data presented here, indicates the decline in a bank's value that would follow from an interest rate change in relation to its eligible regulatory capital. A parallel yield curve shift for the individual currencies by 200 basis points causes the average regulatory capital of Austrian banks to decrease by 10.9% for the first half

of 2004, compared with 10.1% at the beginning of the year. Since both this relatively high percentage and its increase are attributable to smaller banks, this development should not be regarded as a threat to systemic stability. After all, during the same period, the average of the Basel ratio for interest rate risk weighted by total assets shrank from 7.8% to 7.5%. Furthermore, the values are put into perspective when taking into account that the original level of the capital ratio was as high as 14.7% in August 2004.

Austrian banks' capital requirements for position risk of interest rate instruments of the trading book again increased slightly in the first half of 2004. The rise from EUR 470 million to EUR 515 million indicates an expansion of interest rate trading but still remained below historic highs.

Level of Equity Price Risk and Direct Exchange Rate Risk Increases but Remains Low

Banks stepped up their equity trading activities more strongly than interest rate trading. The capital requirement for equity position risk in the trading book went up from EUR 28 million to EUR 52 million in the first half of 2004. This value, however, is still below the historic high of EUR 110 million recorded in mid-1999. Despite stepped-up equity trading, the risk potential in equity trading continues to be small due to Austrian banks' limited exposure. Stress tests carried out for traded equity positions at the aggregate industry level support this conclusion.

Capital requirements for open foreign exchange positions indicate that Austrian banks' exposure to direct exchange rate risk increased only slightly in the first half of 2004, from EUR 55 million to EUR 66 million, which is still a little below the average of the last two years.

Payment Systems

The smooth functioning of payment systems is essential for financial stability. Hence, the European System of Central Banks is entrusted with payment systems oversight. In performing this task, which is set down in law at the national level through Article 44a Federal Act on the Oesterreichische Nationalbank, on January 1, 2004, the OeNB began to compile data on the type and volume of transactions processed through electronic payment systems as well as disturbances in these systems.²⁴

The following systems are subject to oversight by the OeNB: ARTIS, the payment system operated by the OeNB which links Austria to the pan-European central bank payment system TARGET, Wiener Börse AG's and Oesterreichische Kontrollbank AG's securities trading, clearing and settlement systems as well as 14 payment systems for processing retail payments. In addition, the OeNB is responsible for overseeing providers of infrastructure which is relevant to the smooth functioning of payment systems as well as Austrian banks' participation in international payment systems.

In the first half of 2004, a total of 183.4 million transactions were processed through Austrian systems (this amount equals around 24% of bilateral payments, i.e. interbank payments, in Austria²⁵). 1% of transactions were processed through ARTIS, 0.3% through securities trading, clearing and settlement systems and 98.7% through retail payment systems. Austrian banks processed around 3 million transactions through international payment systems.

In terms of value, the transactions processed through payment systems totaled EUR 4,279.8 billion in the period under review (this amount is about 2.8 times the value of bilateral payments settled in Austria). ARTIS accounted for 97.5% of transactions processed, securities trading, clearing and settlement systems for 2.1% and retail payment systems for 0.4%. Austrian banks processed transactions representing a value of EUR 578 billion through international payment systems.

²⁴ Defined as any system standstill exceeding 30 minutes during operating hours or any standstill due to system disruption during the last 30 minutes preceding settlement cut-off.

²⁵ Comparable data extracted from ECB, Blue Book 2003.

System disturbances observed in the first half of 2004 were of minor significance. All in all, the level of

system availability was very high in the period under review.

Table 8

Payment Systems (Period under Review: January to June 2004)¹

	Volume (million)	Value (EUR billion)	System disturbances
ARTIS	1.8	4,174.50	4
Securities trading systems	0.5	89.8	0
Retail payment systems	181.1	15.4	12
Participation in international payment systems	3	578	11
Interbank payments	763.3	1,511.60	..

Source: OeNB.

¹ Number and value of bilateral payments correspond to the average half-year figures of 2003.

Risks Incurred Through Business in Central and Eastern European Countries²⁶

CEECs Continue to Offer Growth Potential for Austrian Banks

Leading the way in investment in Central and Eastern Europe, Austrian banks started to expand into the region years ago; today, their subsidiaries hold substantial market shares in the region. As early as in the mid-1980s, the first Austrian banks ventured into the market. In the meantime, a total of 11 Austrian banks operate subsidiaries and branches in 14 CEECs. Domestic credit institutions have come to view the region as an “enlarged home market.” The major banks seek to further strengthen their foothold in the CEE market – first and foremost by expanding their branch networks, but there are also signs that they may be willing to make new acquisitions. The CEE markets still hold enormous growth potential, which is highlighted by the small share of personal loans

(7% of GDP). By comparison, the ratio of personal loans to GDP in the euro area is as high as 49%. In any case, business continues to flourish thanks to the bright economic environment and rising middle class incomes, which in turn boost demand for banking products (mortgage loans, private pension plans).

Business and Profitability Continue to Increase²⁷

Austrian banks’ business activities in the CEECs continue to expand at a stable rate, both in terms of total assets and profitability.

The aggregate total assets of Austrian banks’ subsidiaries in these markets came to EUR 89.3 billion at the end of June 2004, up 25.5% or EUR 18.1 billion against the previous year. By comparison, the increase recorded between June 30, 2002, and June 30, 2003, had amounted to 13% or EUR 8.1 billion. Since CEE comprises both new EU Member States²⁸ and countries that are due to

²⁶ This section covers developments in the 14 Central and Eastern European countries in which Austrian banks operated fully consolidated subsidiaries as at June 30, 2004.

²⁷ On the basis of quarterly reports on condition and income, which Austrian banking groups have submitted since early 2002. These reports comprise selected positions taken from the consolidated annual accounts of the parent banks and their fully consolidated subsidiaries abroad.

²⁸ The Czech Republic, Hungary, Poland, Slovenia, Slovakia.

join the EU in a second enlargement round²⁹ as well as other countries³⁰ and because growth dynamics in the region thus vary, it appears reasonable to differentiate accordingly when describing developments in the region: The new EU Member States accounted for 55% of total asset growth posted by Austrian subsidiaries in CEE between June 30, 2003, and June 30, 2004 (compared with 22% one year earlier). The countries joining the EU in the second round of enlargement, by contrast, contributed almost 62% (one year later: 23%) to total asset growth of EUR 8.1 billion between June 2002 and June 2003. Furthermore, total asset growth of the subsidiaries in the new Member States was 17.6% between June 30, 2003, and June 30, 2004, while the countries of the second round of enlargement recorded an increase of 37.7% and the other markets doubled their total asset growth rate (which had been very low, however).

At 33% year on year, Austrian CEE subsidiaries' claims on non-banks³¹ expanded more rapidly than total assets (+25%) in the first half of 2004. In the same period of the previous year, the growth rates were 23% and 13%, respectively.

The operating profits of Austrian subsidiaries in CEE went up 33% to EUR 855 million between June 30, 2003, and June 30, 2004. During the same period, the cost/income ratio improved from 62.6% to

58.9% (in the first half of 2002, it had been as high as 63.3%). This positive trend is essentially attributable to the fact that operating income increased more sharply than operating expenses. The subsidiaries accounted for 20% of their 11 parent banks' total assets and earned 40% of their operating profits.

Stepped-Up Competition

May Diminish Margins

International banking activities have facilitated and fostered the development of the CEE banking market, thereby enhancing stability in international banking. Furthermore, by contributing to the stability of banking systems, EU enlargement also adds to their sustainability. While for the time being, the operating income earned in these markets continues to make positive contributions to Austrian banks' business results, fiercer competition, especially in the new EU Member States, will drive down margins in these markets and local market conditions will increasingly resemble those in Austria.

Risk-Bearing Capacity

Capital Ratio Remains High

Austrian banks' capital ratios, a key indicator of banks' risk provisions, continued at a highly satisfactory level over the past few months. After reaching a high of 14.98% towards the end of 2003, the unconsolidated capital ratio³² of all Austrian banks

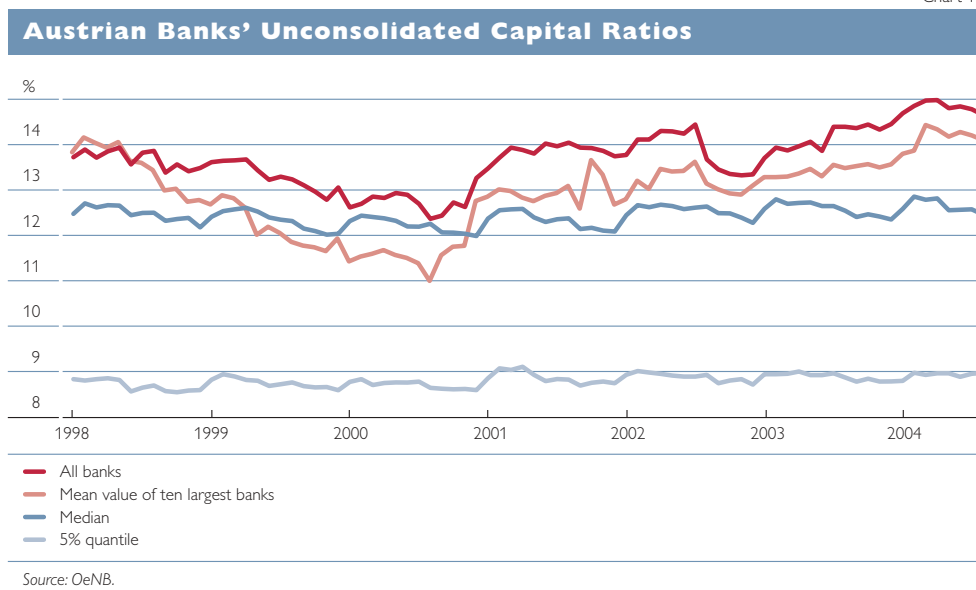
²⁹ Bulgaria, Croatia and Romania.

³⁰ Albania, Bosnia and Herzegovina, Belarus, Serbia and Montenegro, Russian Federation and Ukraine.

³¹ Loans extended by Austrian subsidiaries operating in CEE (indirect loans).

³² The capital ratio discussed in the following refers to the capital eligible as credit risk cover under the Austrian Banking Act (tier 1 capital plus tier 2 capital minus deductible items) as a percentage of the assessment base (according to Article 22 paragraph 2 Austrian Banking Act). The result of this calculation may differ from the capital ratios quoted in other OeNB publications, which usually also include tier 3 capital and are therefore obviously higher. However, as tier 3 capital is subordinated capital that may only be used as capital charge for market risk, it was not included here for the purpose of assessing capital adequacy primarily in relation to credit risk.

Chart 10



went down slightly in the first half of 2004. At 14.7% in August 2004, it still stood at a very high level, however, clearly above the required minimum capital ratio of 8% (see chart 10).

Especially the ten largest banks have tended to hold more capital. The mean capital ratio of the ten largest banks (in terms of total assets) also stood at record levels during the past few months compared with previous periods; in August 2004, it came to 14.1%. At 12.5% in August 2004, the capital ratio of the median was below that of the major banks.

Little has changed for the 5% quantile, which represent the banks with comparatively low capital ratios. In August 2004, the capital ratio of the

5% quantile came to 9%, which is in line with the long-term average. Put differently, by mid-2004, 95% of Austrian banks reported unconsolidated capital ratios of more than 9%.

Also, there is no evidence that capital adequacy levels differed substantially across sectors.

As to the core capital ratio, which by relating tier 1 capital (core capital) to the assessment base also provides information about banks' capital adequacy, the industry total of all Austrian banks was also comparatively high. Contrary to previous periods, Austrian banks' core capital ratio was continuously above the 10% mark in the first half of 2004.

All in all, Austrian banks have a strong risk-bearing capacity.

The European Supervisory Framework

Prudential supervision in the EU is currently based on the principle of national responsibility for banking supervision, the regulatory harmonization of certain minimum standards (in conjunction with the principle of mutual recognition) as well as bilateral and multilateral supervisory cooperation. This framework *inter alia* implies that banking groups which operate internationally are supervised by various supervisory institutions (which may pursue different approaches of supervision).

Against this background – in particular in light of the increase in cross-border activities, growing centralization of certain functions at group level and the upcoming introduction of more complex and more risk-sensitive capital adequacy requirements (Basel II) – in recent months major banks have repeatedly called for the establishment of a lead supervisor. The idea of a lead supervisor entrusted with key supervisory powers and responsibilities is based on the aim to facilitate a kind of one-stop shopping for banking groups and to reduce the costs of cross-border activities by applying the same supervisory rules to the entire group. For many, however, establishing a lead supervisor is only a possible intermediate step to the ultimate goal of creating a single European (banking) supervisory authority, which could, for example, be modeled along the lines of the European System of Central Banks.

Viewed from the perspective of regulation and financial stability, these alternative ideas, especially the concept of a lead supervisor, give rise to a number of questions as regards, for instance, the precise delimitation of powers (including liability), accountability, market proximity, the possibility of taking into account local data, ensuring a level playing field for all institutions in the same market, crisis management (e.g. the use of tax money, deposit insurance), etc. Furthermore, before taking a further step towards the centralization of prudential supervision it should be considered whether the Single Market has already been realized to an extent deemed sufficient both in banking and finance and as regards the general (legal) framework.

Supervisors and central banks have therefore suggested that, at least for the medium term, the established consolidated supervisor model should be refined: the tasks and responsibilities of the consolidated supervisor could be enhanced where necessary and cooperation among supervisors could be stepped up. Furthermore, the newly created Committee of European Banking Supervisors (CEBS), which performs the tasks of a so-called “level 3 Lamfalussy committee” for the banking sector, should play a key role and help ensure increased convergence of supervisory practices.

Stress Tests Confirm Austrian Banks’ Adequate Resilience to Shocks

The OeNB’s Financial Stability Report 7 for the first time presented the results of standardized stress tests for the quantitative assessment of the aggregate Austrian banking system’s risk-bearing capacity as regards credit and market risk. The OeNB conducted these stress tests for the reference date June 30, 2004, applying the same methodology and the same stress scenarios as last time.³³ Table 9 provides a summary of the stress test results.

Most importantly, the results show that the negative impact of the shocks applied on the capital ratio of the entire banking system increased only slightly in the stress test for credit risk and remained broadly unchanged in the stress test for market risk in comparison with early 2004. The small increase in the potential loss due to credit risk is more than offset by banks’ higher capital ratios, however. In other words, the Austrian banking system improved its shock resilience in the first half of 2004.

³³ For details on the methodology and scenarios applied, see the box “Stress Tests for the Quantitative Assessment of the Banking System’s Risk-Bearing Capacity” in Financial Stability Report 7 (pp. 37–38).

Table 9

Stress Test Results for the Aggregate Austrian Banking System

	%			Capital ratio
Current capital ratio				14.84
Credit risk				
Domestic credit exposure				
Increase in the ratio of loan loss provisions to loans outstanding by	+30			13.88
Credit exposure in Central and Eastern Europe				
Increase in the ratio of loan loss provisions to loans outstanding by	+40			14.55
Foreign currency loans				
Appreciation of the Swiss franc against the euro by	+10			14.54
Appreciation of the Japanese yen against the euro by	+20			14.75
Accumulated credit risk				
Aggregate analysis of all three credit risk components ¹				13.23
Market Risk				
	Basis points			Capital ratio
Interest rate risk	short-term	medium-term	long-term	
EUR Upward parallel shift of the yield curve	130	130	130	14.36
USD Upward parallel shift of the yield curve	110	110	110	14.78
CHF Upward parallel shift of the yield curve	150	150	150	14.83
JPY Downward shift of the yield curve ²	-20	-40	-130	14.83
	%			Capital ratio
Equity price risk				
Crash of the Austrian stock market, ATX falling by	-30			14.69
International stock market crash, international stock indices falling by	-35			14.61
Exchange rate risk				
Worst case estimation ³ appreciation/depreciation of the euro by	±10			14.76

Source: Own calculations based on data reported to the OeNB.

¹ Increase in the ratio of loan loss provisions to loans outstanding by 30% for claims on domestic nonbanks in euro and by 40% for direct and indirect claims on CEE nonbanks as well as an appreciation of the Swiss franc by 10% and of the Japanese yen by 20%.

² The Japanese yen was assumed not to have undergone a parallel downward shift to avoid a scenario with negative interest rates.

³ Decline in absolute values of all banks' open foreign exchange positions in the twelve most important currencies (excluding CEE currencies).

Credit risk continues to have the largest influence on capital ratios. In the aggregate scenario, in which all three credit risk components – i.e. an economic slowdown in Austria and in the CEECs as well as increased credit risk in foreign currency loans due to an appreciation of the Swiss franc and the Japanese yen – materialize, the capital ratio drops by 1.61 percentage points. The impact is thus 0.23 percentage point higher than at the beginning of the year. Since the actual capital ratio rose by 0.40 percentage point to 14.84% in the first half of 2004, though, the capital ratio in the stress scenario only falls to 13.23% (against 13.06% at the beginning of the year).

Of the individual credit risk components, a slowdown of the

domestic economy has the largest impact (–0.96 percentage point), followed by a slowdown in the CEECs and the appreciation of the Swiss franc (around –0.3 percentage point each). The stress tests for foreign currency loans reflect the ongoing rebalancing of Japanese yen-denominated loans to Swiss franc-denominated loans observed in the first half of 2004. Accordingly, an appreciation of the yen currently affects the capital ratio much less severely than at the beginning of the year (reduction in the capital ratio by 10 basis points against 16 basis points in early 2004), whereas the appreciation of the Swiss franc has a somewhat larger effect (with the capital ratio declining by 30 basis points against 28 basis points at the beginning of the year).

Furthermore, the stress tests revealed that the interest rate risk within the euro area, or, more precisely, an upward shift of the yield curve, remained the component of market risk which is likely to cause the largest (if limited) losses. The imputed parallel shift by 130 basis points reduces the capital ratio of the aggregate Austrian banking system by 48 basis points. In an aggregate

scenario of stock market crashes (with international stock prices falling by 35% and domestic stock prices by 30%), the capital ratio drops by 38 basis points. The worst case scenario for direct exchange rate risk shows that the potential loss resulting from open foreign exchange positions remains limited, with the capital ratio falling by no more than 8 basis points.

New Austrian CAMEL Ranking of Banks

This box provides a first overview of the Austrian CAMEL ranking of banks, a key element of bank examination in Austria.³⁴ Already several years ago, some key elements of the Federal Reserve's rating system CAMEL, under which examiners assign a rating for each of the five components described below to derive a composite rating, were implemented in bank examination in Austria; this approach has now been reviewed and revised to allow a quarterly update of rankings. A ratio for each of the five areas outlined below is calculated for all banks on the basis of the reports provided by the banks; then, the banks are ranked according to these ratios. In a final step, the ranks of the banks for each component – based on the overall relevance and the distribution of the individual ratios – are weighted and added, which yields an average weighted composite rank. If certain ratios cannot be calculated (for instance because a new bank lacks data on the previous year) these ratios will be replaced by the corresponding median values of all banks. These more or less "neutral" values are used to ensure an undistorted assessment of such banks based on the remaining ratios. The table below shows the five components, the corresponding ratios and their weights in the Austrian CAMEL framework.

C	Capital	Solvency ratio	0.5
A	Asset Quality	Risk-weighted loans/total loans	2.0
M	Management	Profitability ratio: quarterly report 3 to quarterly report 5	1.0
E	Earnings	Annual result/core capital	2.0
L	Liquidity	Maturity transformation	0.5

The capital ratio is based on the data from the monthly report and calculates a type of solvency ratio by taking into account market risk. Asset quality is assessed by multiplying the loans as recorded in the Major Loans Register adjusted for collateral and specific loan loss provisions by the probabilities of default of the respective OeNB ratings and adding these together. The risk exposure thus obtained, which also covers the approximate amount of small loans recorded in the monthly reports, is then related to the total amount of loans. While all other indicators are updated on a quarterly basis, the ratio approximating the qualitative criterion of management quality can only be calculated on an annual basis, since it is defined as the percentage deviation between the projected income from ordinary activities according to the third quarterly report of a year and the actual income from ordinary activities. To reflect a bank's profitability, the annual result before risk provisions as reported quarterly is related to the core capital, which yields a return on equity ratio. Finally, liquidity is based on the report of residual maturities and serves as a measure of the transformation of capital lockup periods.

Austrian Major Banks' Ratings Remain Stable
Moody's Investors Service assigns not only conventional ratings for savings,

sight and time deposits and bank deposit ratings but also Bank Financial Strength Ratings (BFSR).³⁵ Unlike

³⁴ A detailed publication is scheduled for spring 2005.

³⁵ The ratings range from A to E, and + is used to further refine the rating.

deposit ratings, the BFSR reflects banks' individual fundamental financial strength, regardless of whether the banks rated are supported by third parties (e.g. parent banks, guarantees, etc.). The BFSR for the twelve Austrian banks rated by Moody's currently ranges between B– and C–. During the past one and a half years, two Austrian banks were upgraded in this category: Erste Bank der oesterreichischen Sparkassen AG (Erste Bank) in June 2004 and Kommunalcredit Austria AG in June 2003, both from C+ to B–.³⁶ The upgrading of Erste Bank is attributable mainly to the ongoing integration and cooperation with the savings bank sector, whereas the better rating of Kommunalcredit can be traced to its strategic positioning in the public sector and the extension of its product range.

Both rating categories – deposit rating and BFSR – are supplemented by the additional “outlook” rating, which can be either “positive,” “stable” or “negative.” The outlook rating reflects the medium-term perspective of deposit and BFS ratings. The BFSR outlook of the Austrian banks concerned is generally stable, except for the ones assigned to Raiffeisen Zentralbank Österreich AG and Raiffeisenlandesbank Oberösterreich AG, which are both negative. These negative outlook ratings can be attributed to the banks' strategic orientation and the risks resulting therefrom.

Furthermore, both the deposit rating outlook and the long- and short-term ratings were stable. The withdrawal of Bayerische Landesbank from Bank für Arbeit und Wirtschaft AG in June 2004³⁷ triggered the only downgradings in the long-term range, from A1 to A2 and from A2 to A3 (subordinate debt).

Austrian Banks' Stock Prices Outperform Dow Jones EURO STOXX Banks Index

The ATX Prime Market, which consists of 36 securities, includes three bank stocks (Bank Austria Creditanstalt AG, Erste Bank and Investkredit) with a joint market capitalization of EUR 16.9 billion as at September 30, 2004. Compared with the previous year, this amount increased by EUR 7 billion or 70%. The aggregate market capitalization of the ATX Prime index expanded by EUR 14.6 billion or 43.5% to EUR 48.2 billion between September 30, 2003, and September 30, 2004. Also, the surge of the Bank Austria Creditanstalt AG and Erste Bank stocks by 85% and 57%, respectively, between September 30, 2003, and September 30, 2004, was far more impressive than the performance of the Dow Jones EURO STOXX Banks³⁸ index, which recorded an 18% rise during the same period.

³⁶ B–: Bank Austria Creditanstalt AG, Erste Bank, Raiffeisenlandesbank Oberösterreich AG, Kommunalcredit Austria AG.

C+: Raiffeisen Zentralbank Österreich AG, Österreichische Volksbanken-AG, Bank für Arbeit und Wirtschaft AG, Österreichische Postsparkasse AG, Hypo Alpe-Adria-Bank AG.

C: Landes-Hypothekenbank Vorarlberg AG.

C–: Investkredit Bank AG.

³⁷ Moody's changed BAWAG's rating from Aa3 to A1 as early as at the end of 2003, arguing that the ownership situation was uncertain.

³⁸ The Dow Jones EURO STOXX Banks index comprises 48 European banks.

Other Financial Intermediaries

Insurance Companies

More Favorable Conditions Foster Business Activity and Profitability

The developments in the insurance industry observed in 2003 continued into 2004. The more favorable conditions, both in international financial markets and in individual European insurance markets, had a positive impact on the business activities of insurance companies. Across Europe, shares issued by insurance companies developed broadly in line with the market, with prices moving sideways, following the stronger upward trend that prevailed during the second half of 2003. By comparison, insurance company shares listed (in the prime segment) on the Vienna stock market developed positively, reflecting the positive development of profits on the one hand, and the momentum of Austrian shares on the other. Profitability benefited mainly from better financial results, the strong performance of Central and Eastern European markets and tighter cost management. Austrian insurance companies continue to consider Central and Eastern European markets to be growth markets. In the domestic market, life insurance business continued to be the most important segment in 2004, but premium income from the property insurance business is expected to have grown faster than the overall economy again, as in 2003.

Continued Uptrend for Investment in Foreign Debt Instruments

In the first half of 2004, insurance companies' assets (excluding reinsurance transactions) increased by EUR 3.1 billion to EUR 65.9 billion. As in 2003, this increase is essentially attributable to the rise in external

assets, notably investment in foreign debt instruments. Further reasons for the rise in total assets are, albeit to a lesser extent, the increase in domestic equities and other domestic securities as well as the increase in debt instruments issued by domestic credit institutions. In the first half of 2004, the foreign debt instrument holdings expanded by EUR 2.1 billion to EUR 15 billion, surpassing the results of June 2003 by EUR 3.2 billion. At EUR 16 billion, domestic equity securities and other domestic securities, which posted the second largest rise on the assets side (EUR 819 million), remain the most important balance sheet items. After a cumulative decline by EUR 498 million in the first two quarters of 2004, the loans hit a new record low in terms of value on the assets side since 1996 at EUR 6.7 billion. This is mainly traceable to a decline in lending to the public sector by EUR 519 million to a new low of EUR 5.3 billion. A more favorable investment climate prevailing since the first quarter of 2003 accounted for the decline in deposits of insurers' assets with Austrian banks; at EUR 1.7 billion they decreased by 51.8% year on year. Given that investments by insurance companies correspond to just 1.4% of the total assets of Austrian banks and as this share is trending downward, the insurance industry continues not to pose any contagion risk for the domestic banking sector.

With regard to the liabilities side of the balance sheet, insurance technical reserves accounted for the largest part of liabilities, widening by EUR 3.1 billion (from June 2003) and EUR 2.6 billion (from January 2004) respectively to EUR 58.7 billion as of end June 2004.

Solvency II

During the past few years, large claim payments, weaker capital markets as well as a reduced inflow of new capital (life insurance segment) entailed considerable changes in the conditions under which the insurance industry operates. At the beginning of 2000, the European Commission together with the EU Member States established the Solvency II project, which focuses on reforming the existing supervisory structure of the insurance industry. By mid-2003, the first project phase was concluded, which had been dedicated to define the framework for a new supervisory structure. The new supervisory framework is modeled on the rules and regulations adopted for the banking sector (Basel II); i.e. it is based on a three-pillar approach. This approach comprises financial requirements (first pillar), risk management, internal control procedures and supervisory review (second pillar) as well as regulations on market discipline (third pillar). Solvency II thus basically provides for capital requirements with respect to economic capital³⁹ (target capital) and minimum capital (minimum capital requirements) and set up solvency control levels at which the supervisory authority can or must intervene. As an alternative to the internal models for determining capital requirements, which the supervision reviewed and consequently approved, a risk-based standardized approach shall apply to smaller insurance companies. In this second and last phase, the project has gained particular momentum. The purpose of this stage is to clarify the actual design of the new system and to draft a framework Directive.

The main objectives of Solvency II are to review existing solvency regulations in light of current developments in the fields of risk management, actuarial theory and financial reporting as well as to establish a comprehensive, realistic solvency system that can better match the true risks of insurance companies. Other goals include the harmonization of supervisory frameworks and the creation of a level playing field which does not allow for regulatory arbitrage opportunities between the banking and the insurance industry. To secure coherence between the financial services industries, the general structure of the new system should be in line, to the extent necessary, with Basel II. The idea is that products which involve comparable risks should be supervised in the same way and be subject to the same capital and solvency requirements.

The new solvency system will lead to a paradigm shift in the insurance industry; they will not only impose additional requirements, but they are also expected to help achieve the desired objectives and to promote financial stability.

Pension Funds

Total Assets under Management by Pension Funds Increase

In the second quarter of 2004, 12 single-employer occupational pension funds and eight multi-employer occupational pension funds were active in Austria. In September 2004, two multi-employer occupational pension funds merged and one single-employer occupational pension fund was newly established. Total assets under management by pension funds augmented from EUR 8.56 billion in the second quarter of 2003 to EUR 9.56 billion in the second quarter of

2004, which corresponds to an increase of 11.7%. The pension funds outsourced asset management and asset allocation decision-making by investing in mutual funds shares (EUR 9 billion or 94.1% of total assets). Claims on pension funds amounted to approximately 3% of households' financial assets totaling EUR 311.3 billion.

With a view to securing benefits accrued by active and retired beneficiaries and to creating incentives for pension funds and their shareholders, a law was passed in 1990 which required pension funds to guarantee

³⁹ Depending on the respective corporate strategy, this may be economic capital, rating capital or solvency capital.

a minimum yield on pension contributions. This framework implied that pension funds had to top up contributions if the minimum yield was not reached. However, when an actual need for supplementary contributions materialized for the first time, the rules on the guaranteed minimum yield were amended. The amendment of the Austrian Pension Fund Act adopted as part of the budget trailer bill in 2003 abolished supplementary contributions for future pensioners and significantly reduced these contributions for current pensioners.⁴⁰ This amendment was made because pension funds had argued that they did not have sufficient own funds to cover the risks incurred.⁴¹ The 2003 amendment of the Austrian Pension Fund Act stipulates that only actual payouts (but not the assets themselves) are guaranteed under the guaranteed minimum yield provision. Furthermore, if the investment returns are below the guaranteed minimum yield, the initial averaging period (60 months) will be extended by successive periods of 12 months (Article 2 paragraph 3 of the Pension Fund Act), until active beneficiaries retire or until the investment returns increase to a level above the guaranteed minimum yield. Both active and retired beneficiaries thus face a potential financial loss, because credits initially guaranteed through a supplementary contribution regime were abolished. In addition, they also

forgo the interest they could have earned with those supplementary contributions. The extent of respective losses results from the positive difference between the respective investment return and the guaranteed minimum yield.

On the one hand, the 2003 amendment contributed to the stability of financial intermediaries because the latter are now transferring a larger degree of capital market risk to both active and retired beneficiaries, while earning steadily increasing returns, which after all are primarily dependant on the contributions and not on capital market developments. On the other hand, the 2003 amendment might have negative implications on financial stability, because such ad-hoc legislation creates moral hazard problems and has adverse implications for the reputation of financial governance.

With respect to the stability of financial intermediaries, proposals for waiving the minimum yield guarantee⁴² are generally welcome, as such guarantees have already proved unreliable and as associated administrative costs are eliminated.⁴³ However, unilateral adjustments, without the explicit agreement of the affected beneficiaries, must be avoided with a view to maintaining confidence both in financial intermediaries and the financial system.

⁴⁰ Federal Law Gazette No. 71/2003.

⁴¹ See the draft evaluation of the finance ministry on the federal law amending the Pension Fund Act (GZ. 040010/7-Pr.4/03) of March 28, 2003, Explanatory Notes – General Provisions.

⁴² See the draft evaluation of the finance ministry on the federal law amending the Pension Fund Act and the Company Pension Act (GZ. 23 3700/28-III/5/04) of June 30, 2004, Article 2 paragraph 1.

⁴³ The explanatory notes on the 2004 draft amendment of the Pension Fund Act thus suggest that waiving the minimum yield guarantee would diminish administrative costs. The only cost savings that will actually be passed on retrospectively are contributions to the minimum yield reserve, to be built up since 2003, which becomes irrelevant when beneficiaries opt out of the minimum yield guarantee (to be made possible by the current draft amendment to the Pension Fund Act).

In September 2004, market transparency was significantly increased by joint initiative of Austria's pension funds and the Oesterreichische Kontrollbank (OeKB). Henceforth, the OeKB will publish a quarterly report on average yields and yield volatilities of the various investment and risk-sharing groups in which pension fund members are grouped. Taking into account the long-term investment horizons, these performance indicators are calculated over several periods (six months, three, five and seven years). The indicators refer to five investment and risk-sharing groups reflecting different asset allocation

choices (i.e. the percentage invested in stocks). To enhance long-term financial stability, it would be advisable to further increase market transparency by publishing the corresponding measures for the various multi-employer occupational pension funds as well. The disclosure of such information, in addition to administrative costs and asset management costs, would enable interested parties to make informed decisions about private pension provision. This would help maintain Austria's economic interest in a sound occupational pension fund system.