

INTEGRATED BANKING
DISTRIBUTION REPORT
2022

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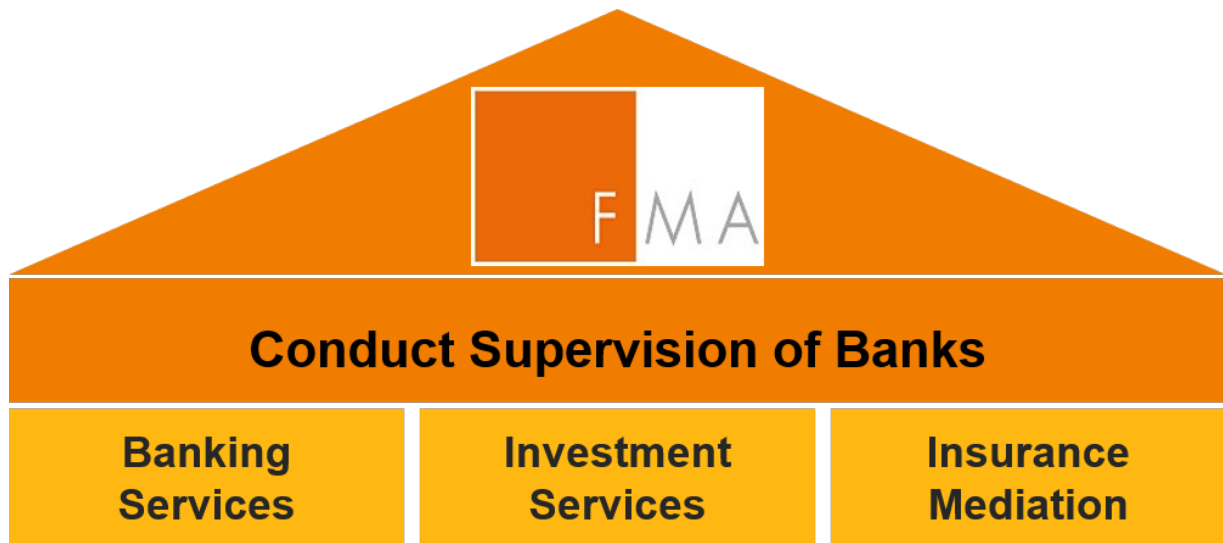
1 INTRODUCTION

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 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). 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”.

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 product categories. A harmonised supervisory approach to all product categories must go hand in hand with them, which are offered via banks as a distribution channel. Ultimately, there should be no difference for consumers based on which 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, in particular bringing together prudential and conduct supervision. Within the scope of its commitment to collective consumer protection, the FMA places particular focus 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 a uniform level of security, irrespective of the type of the service or the product (banking, insurance, or investment services or products). Its objectives are the supervision and enforcement of different sectoral conduct regulations that come together 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 “Report on Integrated Banking Sales” has been created to illustrate the distribution activities of Austrian banks. This report provides an overview about distribution activities of Austrian credit institutions in Austria during the 2021 financial year based on the respective material legal bases. The data and key figures analysed show the significance of credit institutions in 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, it is not possible to rule out errors, omissions and incomplete data. The 2022 edition of the Report on Integrated Banking Sales (reference date for data 31.12.2021) is published for a second consecutive financial year.

2 MATERIAL FINDINGS

2.1 INTEGRATED CONDUCT SUPERVISION OF BANKS IS THE MOST EFFECTIVE AND PRACTICAL SUPERVISORY APPROACH IN AUSTRIA

The significance of Conduct Supervision of Banks is clear from the data that is analysed:

- 87 % of Austrian banks provide mortgage-backed loans,
- 91 % of Austrian banks provide consumer loans,
- 85 % of Austrian banks sell insurance,
- 88 % of Austrian banks offer investment services.

The integrated approach to supervision pursued by the FMA is essential in this regard, as the majority of Austrian banks offer all the examined product ranges.

See Chapter 3.2 for further details.

2.2 CONTINUING PREVAILING TREND TOWARDS A DECREASING NUMBER OF RETAIL CUSTOMER RELATIONSHIPS

From the figures from Austrian banks about retail customer relationships from the 2020 and 2021 financial years, the number of customers has fallen by around 700,000. The continuing prevailing trend towards a falling number of retail customer relationships can be traced back to two primary sectors in 2021. On the one hand, customer numbers of building societies (Bausparkassen) have fallen by approx. 340,000 retail customer relationships, while on the other hand there is a visible decline in the customers of branches in Austria of foreign banks by approx. 500,000 customers.

See Chapter 3.3 for further details.

2.3 BANKS CONTINUE TO PROFIT FROM INCREASED INVESTOR ACTIVITY

From the transaction data analysed, it is apparent that investors have been increasingly active in the capital markets since the start of the COVID-19 pandemic and due to the low interest-rate environment. This increase has continued to positively affect Austrian banks' commission-based earnings during the 2021 financial year: with revenues from net securities commission business increasing by approximately 20 % to EUR 1.67 billion.

With regard to the entry into force of MiFID II at the beginning of 2018, the banking industry had assumed that investment business might decline strongly due to the new (stricter) framework. However, if the average net commission income of credit institutions since 2017 is considered, then commission earned during the 2021 financial year are far higher than the level for 2018, following a slight increase in 2019.

See Chapter 4.2 for further details.

2.4 INCREASED PREMIUM VOLUME FOR INSURANCE-BASED INVESTMENT PRODUCTS FROM DISTRIBUTION THROUGH BANKS DESPITE FALLING NUMBERS OF CUSTOMERS

The analysis shows that the premium volume insurance products mediated through bank distribution has increased by approx. EUR 100 million to EUR 1.83 billion (2020: EUR 1.71 billion), even though there was only a slight increase in the number of customers. For insurance-based investment products, the number of customers decreased by around 8,000 customers (by 10 %) to 68,582 (2020: 76,248), while the premium volume increased by EUR 82 million to EUR 1,040.66 million (2020: EUR 958.73 million).

See Chapter 5 for further details.

3 AUSTRIA'S BANKING LANDSCAPE



521

Licensed Credit Institutions



3,423

Branches



21.7 mn

Customer relationships



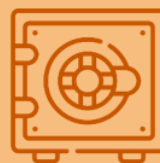
132,850

Complaints to credit institutions



429

Credit institutions offering securities distribution



2.23 mn

Retail client securities accounts



417

Credit institutions offering insurance distribution



1.83 bn

Premium volume of insurance products distributed through banks



37 %

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



1,002.93 bn

Balance sheet total of conduct-relevant banks*

Reference date of data: 31.12.2021

* 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 521 banks in Austria holding a banking licence as of 31.12.2021, 487 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 the "Integrated Conduct Supervision of Banks", 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. The Oesterreichische Kontrollbank (OeKB) or housing finance banks).

Number of conduct-relevant Credit Institutions by Sector

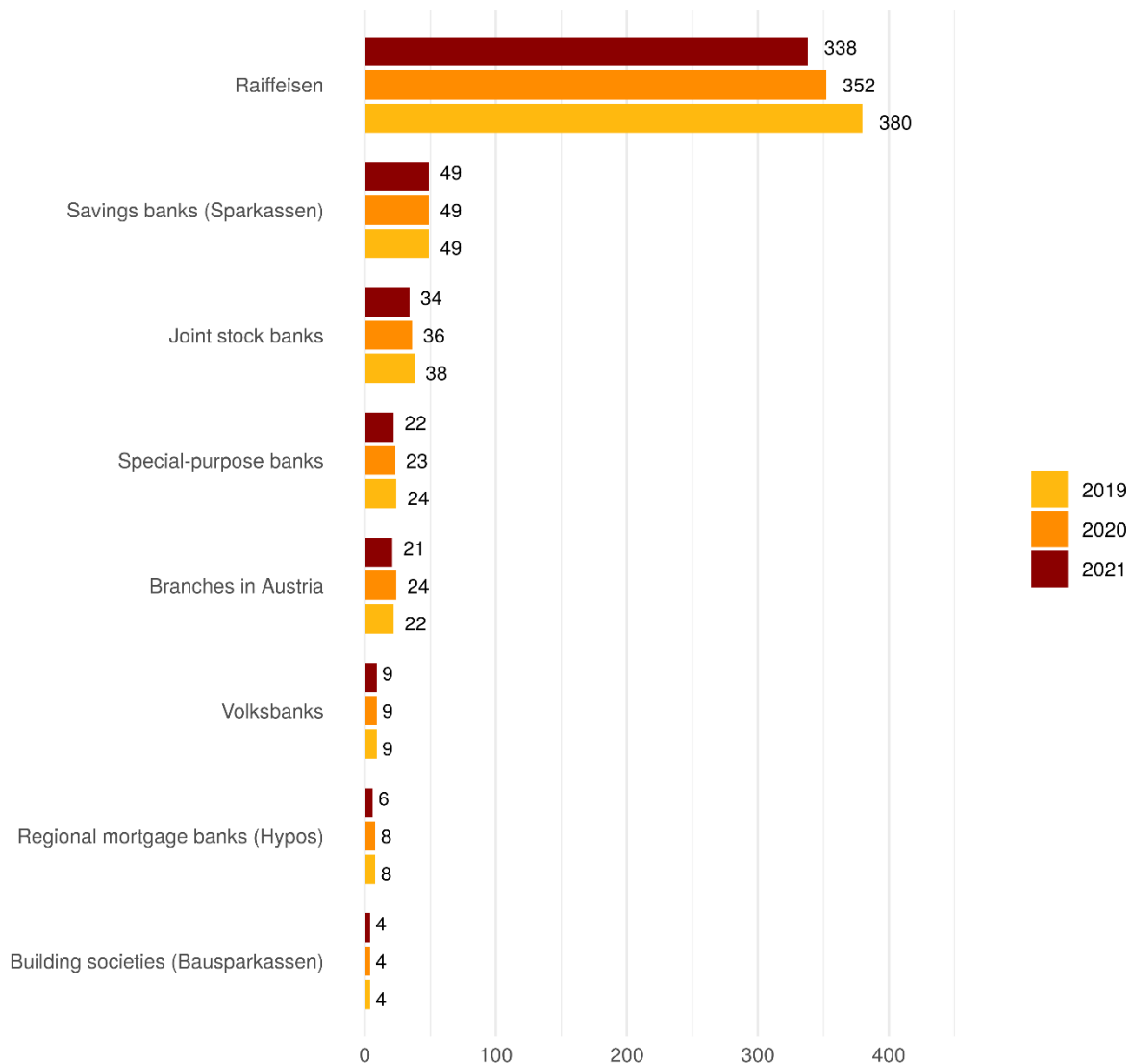


Figure 2¹

3.2 DISTRIBUTION ACTIVITIES OF CONDUCT-RELEVANT BANKS

An examination of the distribution activities of the 487 conduct-relevant credit institution shows that 87 % of them distribute mortgage-based loans, 91 % consumer loans, 85 % insurance, and 88 % investment services.

The following figure shows the respective activities of the four product areas analysed in this report (mortgage-based loans under the scope of the Mortgage and Immovable Property Credit Act (HJKrG),

¹ The difference of five banks for the total in figure 2 (this report generally assumes there to be 510 conduct-relevant banks) arises it not being possible to subsume individual conduct-relevant banks into the aforementioned supervisory categories.

consumer loans under the scope of the Consumer Credit Act (VKrG), insurance, or the provision of investment services) by sector compared year-on-year.

Distribution activities

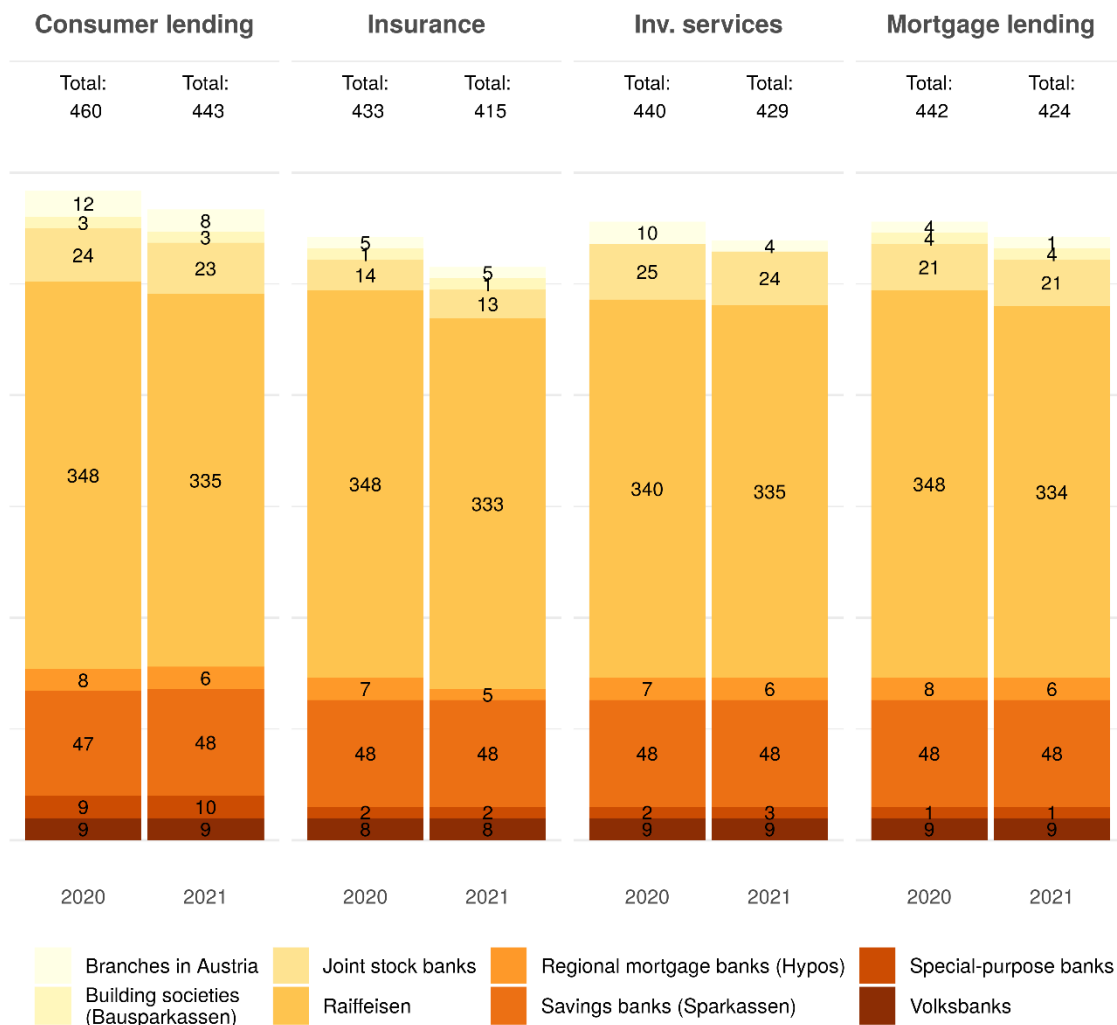


Figure 3

From the comparison, it emerges that almost all Raiffeisen banks, Sparkassen savings banks, and Volksbanks are active in all four business areas, with over 98 % per product area on average (however, only 89 % of Volksbanks are active in insurance distribution).

All the regional mortgage banks (Landeshypothekenbanken) distribute mortgage-based and consumer loans as well as investment services, while the majority also offer insurance (83 %).

Stock banks have differentiated business models: around two-thirds distribute consumer loans and offer investment services, while only just under 40 % of such banks also distribute insurance and around 60 % also offer mortgage-based loans.

In the case of branches of foreign banks active in Austria, around 40 % offer consumer loans, while less than one quarter distribute insurance products and investment services. Only one branch (5 %) distributes mortgage-backed loans.

Sector	Mortgage-backed loans	Consumer loans	Insurance	IS
Joint stock banks	62 %	68 %	38 %	71 %
Building societies (Bausparkassen)	100 %	75 %	25 %	0 %
Regional mortgage banks (Landeshypothekenbanken)	100 %	100 %	83 %	100 %
Raiffeisen	99 %	99 %	99 %	99 %
Special purpose banks	5 %	45 %	9 %	14 %
Savings banks (Sparkassen); Volksbanks	96 %	98 %	98 %	98 %
Branches in Austria	5 %	38 %	24 %	19 %

Table 1

3.3 NUMBER OF CUSTOMERS

In 2021, Austrian credit institutions had approx. 20.63 million retail customers² (2020: 21.35 million). In this context, retail customers covers investment, financing or the entity's other customer relationships, and include both retail and wholesale customers.

Number of customers by sectors

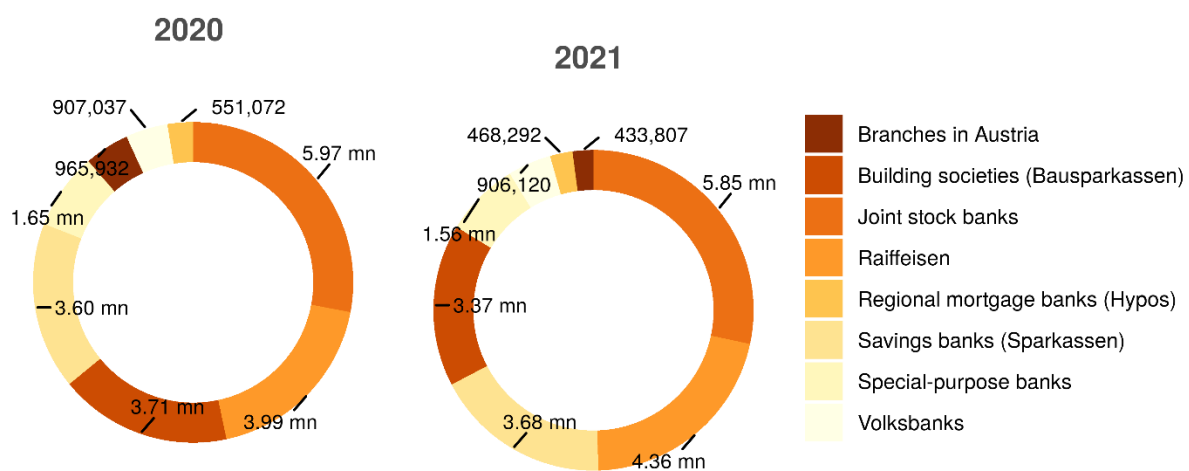


Figure 4

The majority of customers, 17.26 million in total (2020: 17.27 million), are split between the stock banks, Raiffeisen sector, building societies sector (Bausparkassen) and the savings bank sector (Sparkassen). The continuing trend of falling numbers of retail customer relationships can be traced back to two primary sectors in 2021. On the one hand, there is a clear decrease in building societies (Bausparkassen) customers, with approximately 340,000 fewer retail customer relationships. This decline was already analysed in 2021, and from the supervisor's perspective can be primarily attributed to the long-term low interest-rate environment, the nature of which has an impact on customers' savings behaviour. A visible decline is also seen in the number of customers of branches in Austria, of by around 500,000 that can be explained by the fact that various institutions have exited the Austrian market. The increase in the Raiffeisen sector is particularly attributable to the takeovers of two regional mortgage banks (Landes-Hypothekenbanken) in 2021.

The bank with the highest number of retail customer relationships (3 million) has almost twice as many in comparison with the second largest bank. Four banks have over 1 million retail customers.

² An individual natural customer may hold a bank account at several credit institutions.

The five largest banks have approximately 7.68 million retail customers (2020: 8.11 million). Slight changes occurred in the ranking of the five banks with the most retail customers between the 2019 and 2020 financial years. The ten largest banks collectively service more than half (ca. 51.58 %) 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, 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 are the basis for this classification.

Conduct Risk Landscape by Sectors

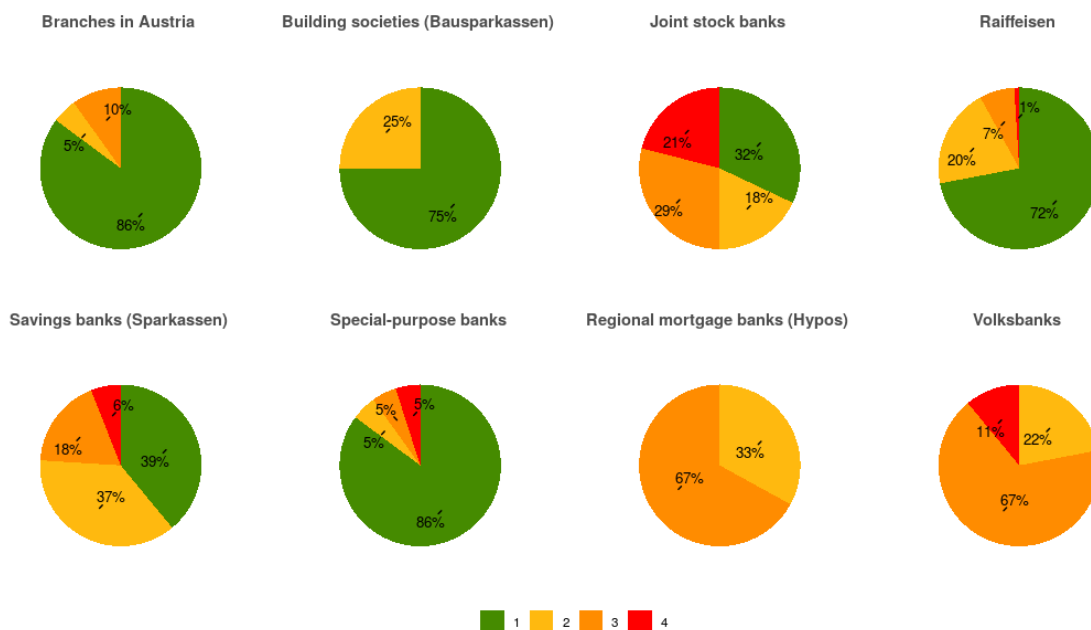


Figure 5

Conduct Risk Landscape 2021

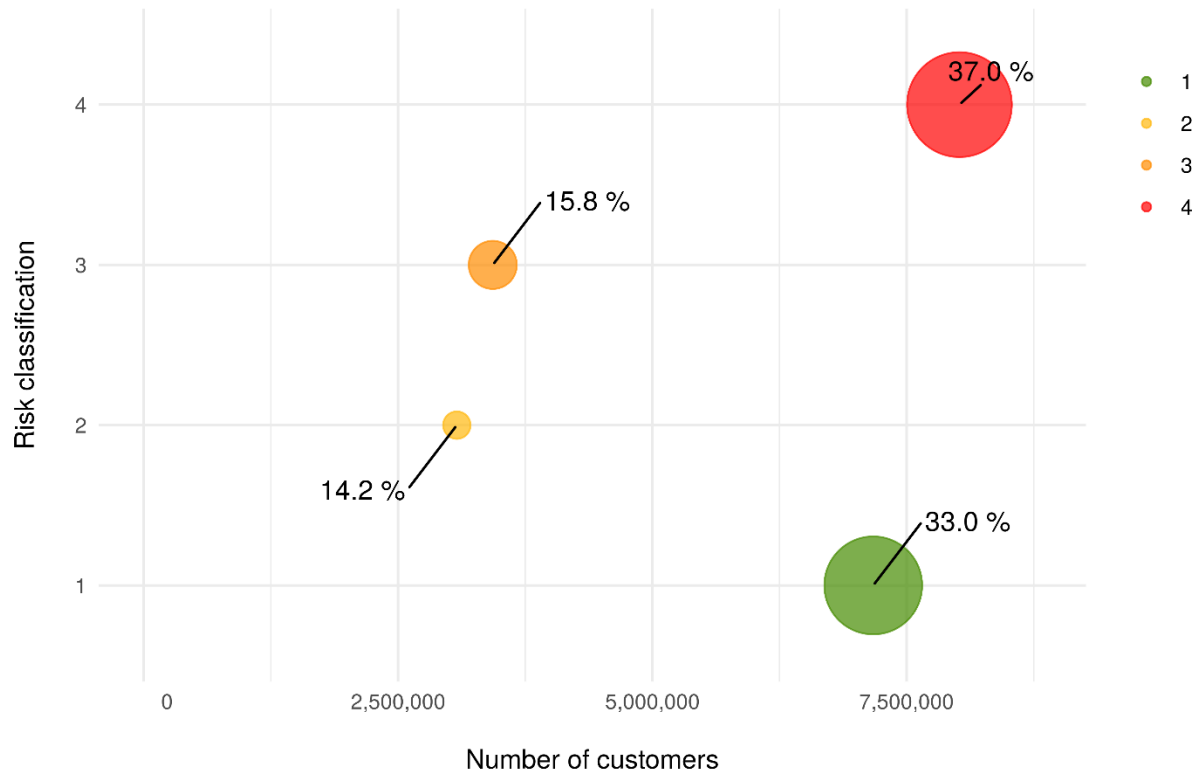


Figure 6

By comparing the results of the conduct risk classification for 2021 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).

55 conduct-relevant credit institution in the increased risk category (level 3) service 15.8 % of customers, with 14.2 % of customers serviced by conduct-relevant banks in the moderate risk category (level 2) and 33.0 % of customers by conduct-relevant banks from the lowest risk category (level 1).

4 BANKS PLAY A SIGNIFICANT ROLE IN THE DISTRIBUTION OF FINANCIAL PRODUCTS

4.1 80 % 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 generally³ 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 and AIFMs holding the relevant additional licence.

Licensed Providers of Investment Services 2021

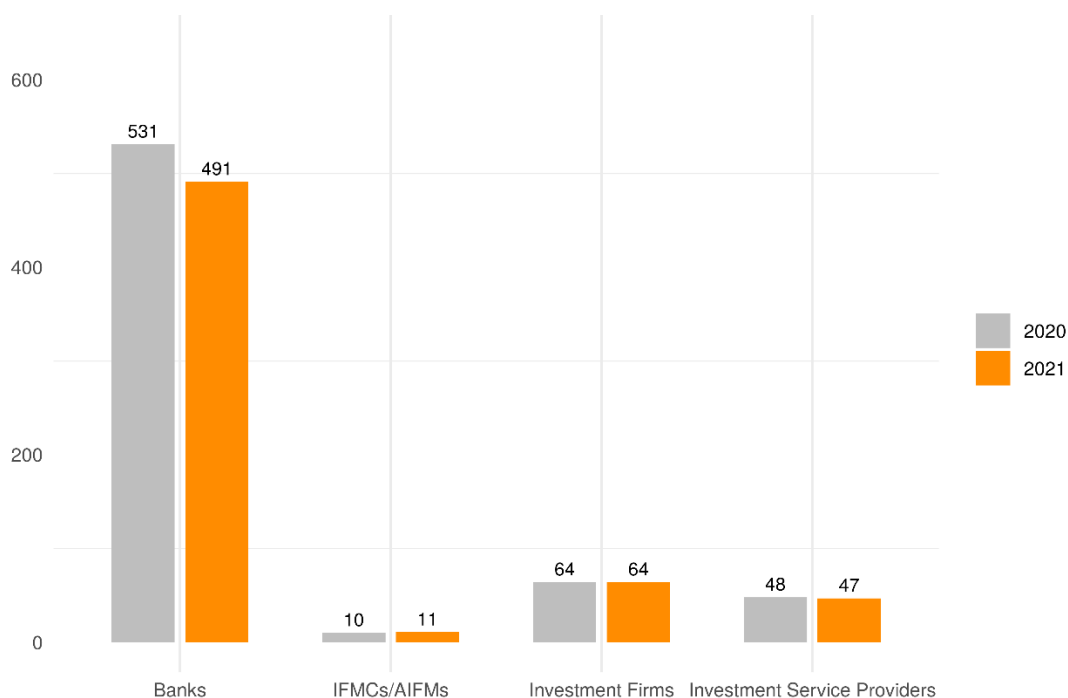


Figure 7

In 2021, a total of 490 (2020: 531) banks⁴ were authorised by way of a legal licence to provide investment services under WAG 2018. Of those, a total of 429 (2020: 440) banks (= 88 %, 2020: 83 %) stated that they actually offer investment services.

³ 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.

⁴ 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.

In addition to banks, as of 31.12.2021, there are 64 (2020: 64) investment firms, 47 (2020: 48) ISPs as well as 11 (2020: 10) MCs or AIFMs are authorised to offer investment services in Austria under the Securities Supervision Act 2018 (WAG 2018).

4.2 SECURITIES BUSINESS IS AN IMPORTANT BUSINESS SEGMENT FOR BANKS

In 2021, the net provision income from securities⁵ of credit institutions from the provision of investment services stood at EUR 1.67 billion in total (2020: EUR 1.39 billion), an increase of around 20 % year-on-year. On average, this is equivalent to around 11 % of total operating income. The following figure shows the increase in net commission income from securities that is apparent for joint stock banks, for the Raiffeisen sector as well for savings banks (Sparkassen). In absolute terms, stock banks increased their commission by around EUR 103 million, the Raiffeisen sector by EUR 78 million, and the Sparkassen sector by EUR 74 million.

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 2021 (see the figure “Development of net commission from securities”), commission earned during the 2021 financial year is far higher than the level for 2018, following a slight increase in 2019. As MiFIR transaction data analyses also show, after the start of the COVID-19 pandemic more investors were active in the capital market, and the overall situation shows that this also had a positive impact on commission-based results for Austrian banks: in the 2021 financial year, net commission from securities increased by EUR 280 million to EUR 1.67 billion compared with the previous year.

⁵ 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 2021

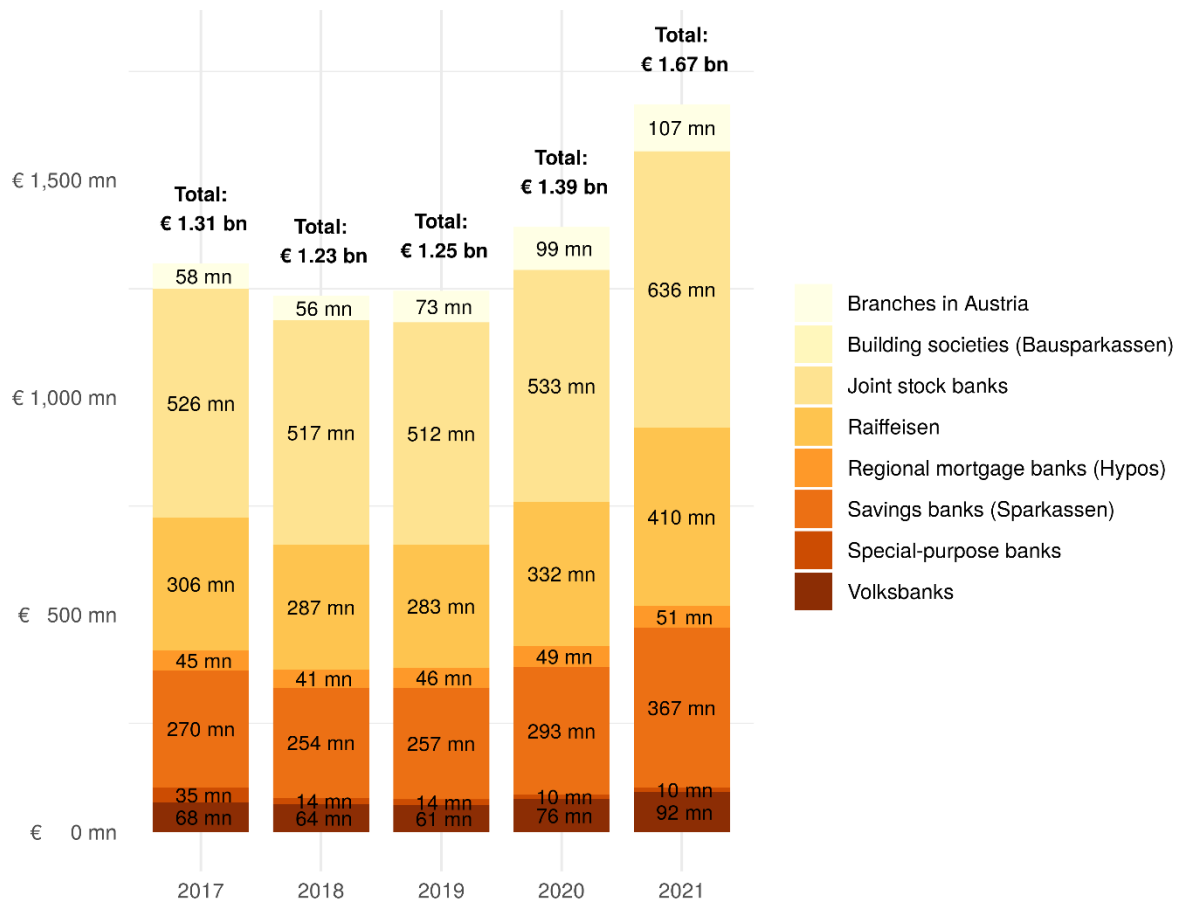


Figure 8

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

In 2021, 2.23 million (2020: 2.12 million) securities accounts were held at Austrian banks. Of those, approx. 98 % (2.19 million) were securities accounts held by retail clients in accordance with the Securities Supervision Act 2018 (WAG 2018). The remaining 46,805 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 44,798 securities accounts with a total volume of EUR 19.4 billion. In 2020, 41,764 securities accounts were managed, with a total volume of EUR 16.86 billion.

In total, the top five institutions in the ranking manage 843,672 securities accounts, or almost 39 % of all securities accounts of retail customers. This shows that credit institutions also active in online brokerage business are well represented.

A sectoral examination shows the following picture with regard to securities accounts of retail customers: the stock bank sector has the most retail customer securities accounts with a share of 31.8 % (2020: 28.4 %), followed by the Raiffeisen sector with 29.2 % (2020: 29.5 %) and the Sparkassen (savings bank) sector with 22.3 % (2020: 22.9 %). The remaining 16.7 % (2020: 19.2 %) is distributed across the remaining sectors.

Share of Retail Customer Securities Accounts by Sector 2021

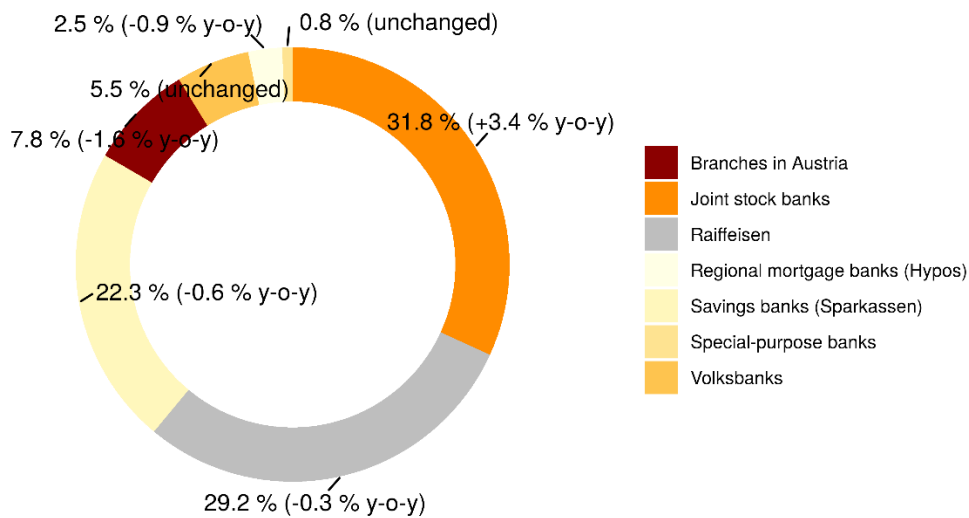


Figure 9

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

During the 2021 calendar year, 82.67 % of all Austrian credit institutions (415) distributed insurance, corresponding to 85 % of all conduct-relevant credit institutions. A premium volume of EUR 1.83 billion (2020: EUR 1.71 billion)⁶ was generated by banks from 370,198 (2020: 370,012) customers. Of these 68,582 (2020: 76,248) were insurance-based investment product customers with a premium volume of EUR 1,040.66 million (2020: EUR 958.73 million).

Credit Institutions with Insurance Distribution 2021

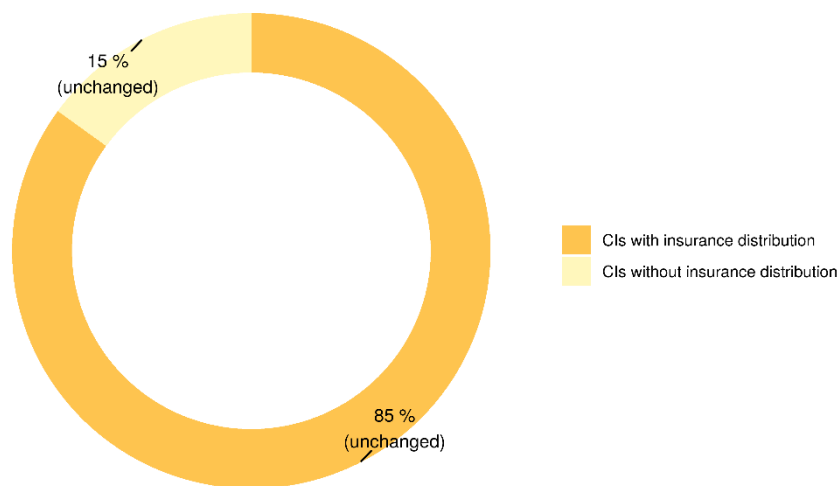
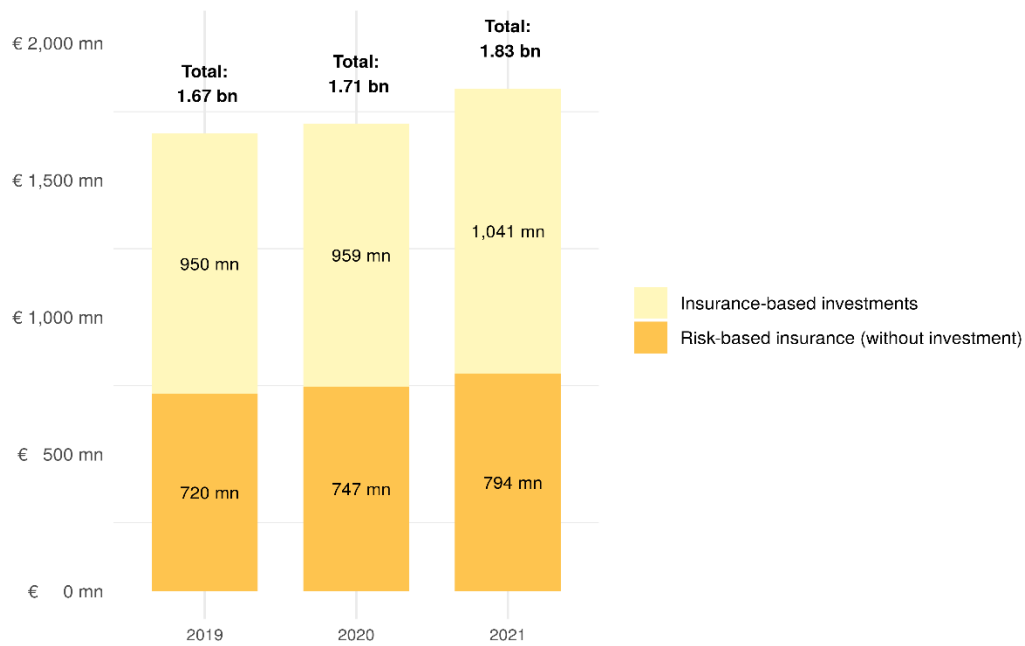


Figure 10

Comparison to the preceding year	Volume underwritten in 2020 in EUR mn	Volume underwritten in 2021 in EUR mn	Number of customers 2020	Number of customers 2021
Insurance of risk (within investment)	747.04	793.86	293,764	301,616
Insurance-based investment	958.73	1,040.66	76,248	68,582
Total insurance mediation	1,705.77	1,834.52	370,012	370,198

Table 2

⁶ This is made up of the total received premium volume (i.e. both from existing products as well as premium volume from new sales).

Development of the Volume of Premiums mediated by CIs*Figure 11*

These statements show that both the total number of insurance customers (number of insurance contracts) as well as the mediated premium volume has increased. In contrast, for insurance-based investment products, the number of customers (insurance contracts) fell by around 10 % in 2021, although the premium volume has increased accordingly.

During the 2021 financial year ca. 9 % of premiums written (EUR 2 billion) were through the bank distribution channel, compared to other distribution channels (e.g. direct distribution by insurance companies and insurance intermediaries).

Share of Bank Distribution in Insurance Premiums written in 2021

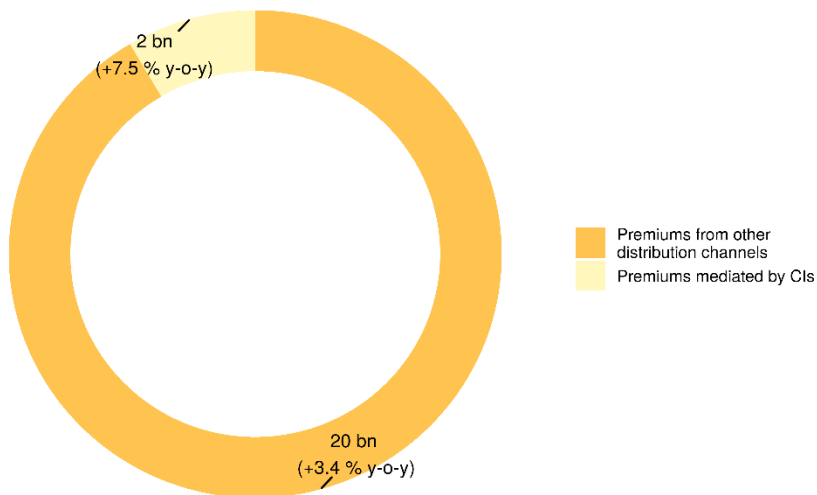


Figure 12

With regard to the premiums from insurance-based investment products, the share of distribution through banks stands at approximately 17 %.

Share of Premium Volume mediated by CIs compared against Market Volume

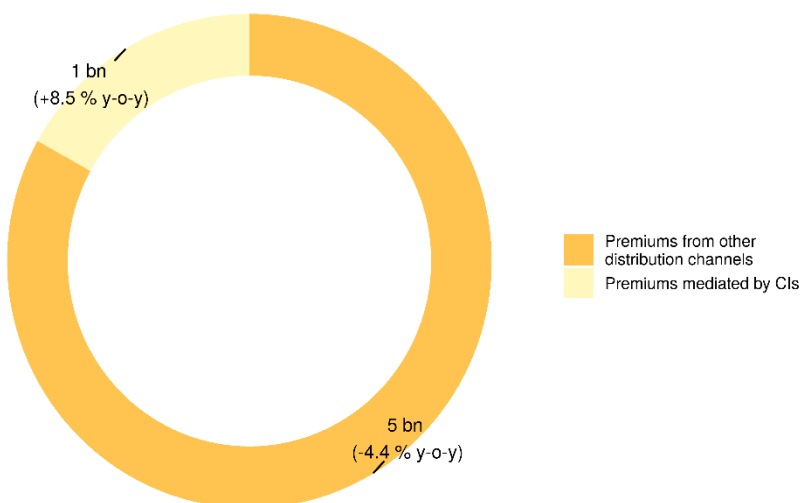


Figure 13

6 LOAN ORIGINATION

6.1 MORTGAGE-BACKED AND REAL ESTATE LOANS

The following figure shows that more than half of Austrian credit institutions (324) both grant and mediate mortgage-backed and/or real estate loans in 2021. 20 % of the credit institutions (98) grant mortgage-backed and/or real estate loans, but do not mediate them. For around 13 % of the credit institutions (68) mortgage-backed or real estate loans do not form part of their business model.

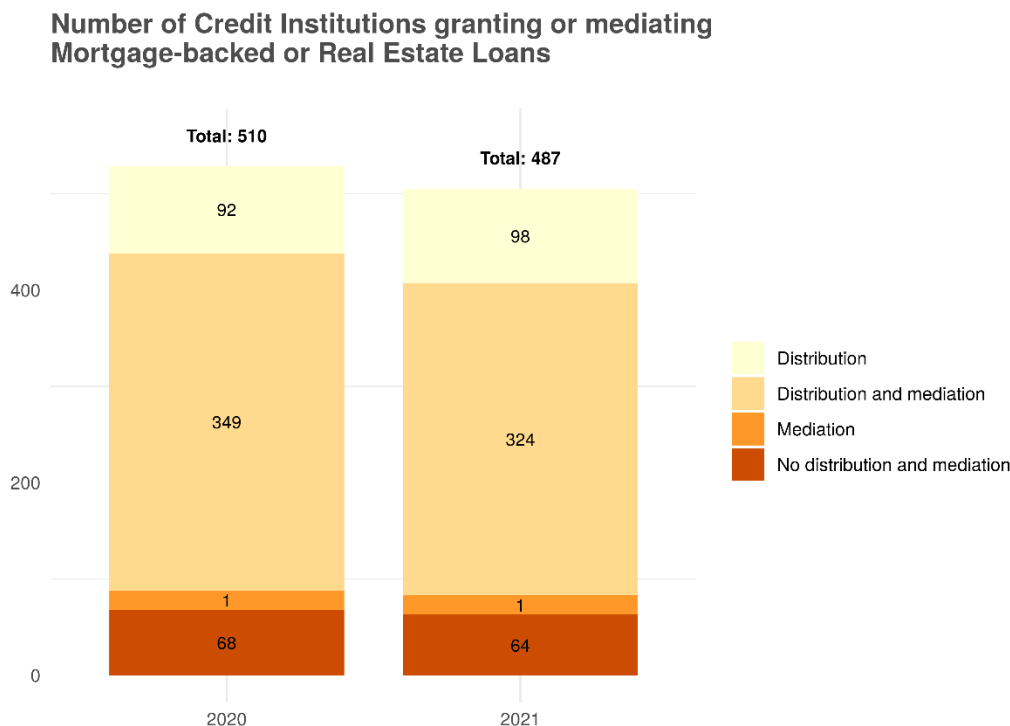


Figure 14

6.2 CONSUMER CREDIT AGREEMENTS

Consumer lending business differs significantly from mortgage-backed and real estate lending business. The analysis of the 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 (45) stated that they neither granted consumer loans themselves, nor did they mediate loans by other banks. For 62 % of the banks (304), the granting of consumer loans is part of their business model, while the mediation of such loans is not. While over two-thirds of banks both grant mortgage-based or real estate loans themselves or mediate them, this is only the case for around a quarter (135) regarding consumer loans. One sector predominantly distributes consumer loans by means of mediation.

Number of Credit Institutions granting or mediating Consumer Credit Agreements

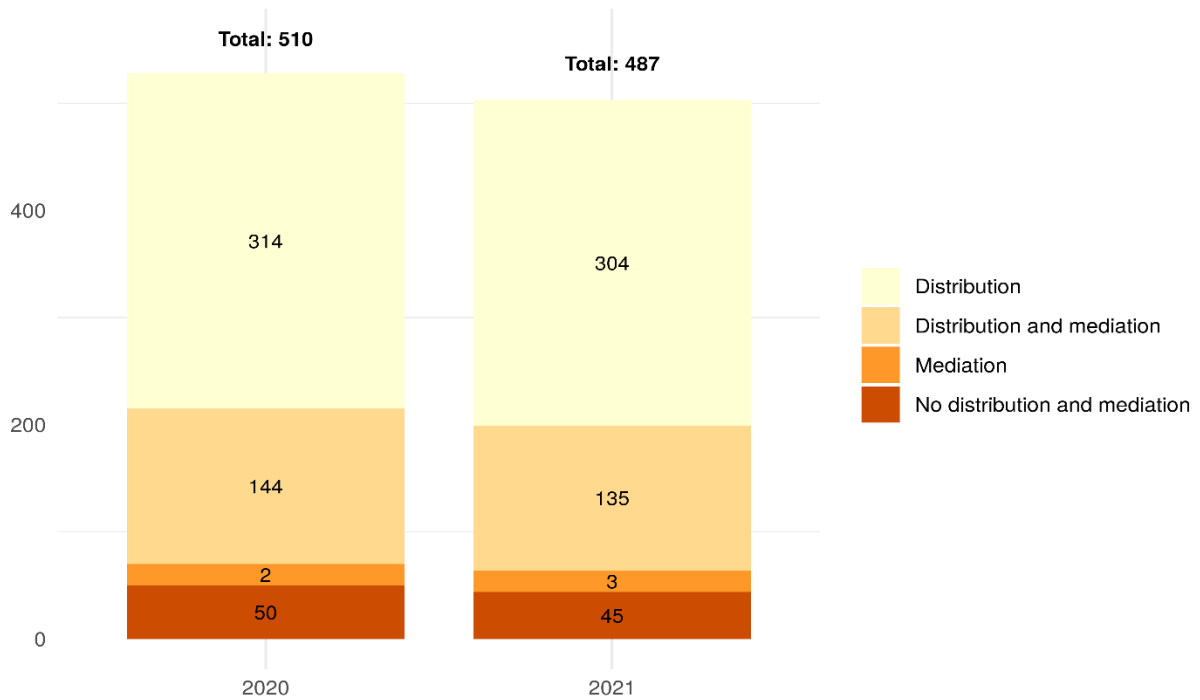


Figure 15

7 LIST OF ABBREVIATIONS

AIFM	Alternative Investment Fund Manager
bn	billion
BWG	Austrian Banking Act (BWG; Bankwesengesetz)
CI	Credit institution
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
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)