INTERNATIONAL MONETARY FUND

IMF Country Report No. 26/225

AUSTRIA

FINANCIAL SECTOR ASSESSMENT PROGRAM

August 2026

TECHNICAL NOTE ON SELECTED ISSUES IN BANKING REGULATION AND SUPERVISION OF LESS-SIGNIFICANT INSTITUTIONS (LSIs)

This Technical Note on Selected Issues in Banking Regulation and Supervision of Less-Significant Institutions for the Austria Financial Sector Assessment Program was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on July 29, 2026.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

AUSTRIA

FINANCIAL SECTOR ASSESSMENT PROGRAM

July 29, 2026

TECHNICAL NOTE

SELECTED ISSUES IN BANKING REGULATION AND SUPERVISION OF LESS-SIGNIFICANT INSTITUTIONS (LSIs)

Prepared By
Monetary and Capital Markets Department

This Technical Note was prepared by IMF staff in the context of the Financial Sector Assessment Program in Austria. It contains technical analysis and detailed information underpinning the FSAP's findings and recommendations. Further information on the FSAP can be found at http://www.imf.org/external/np/fsap/fssa.aspx

CONTENTS

BOXES

TABLES

Glossary

AML/CFT	Anti-Money Laundering and Combatting the Financing of Terrorism
BCBS	Basel Committee on Banking Supervision
BCP	Basel Core Principles
BMF	*Bundesministeriums für Finanzen* – Ministry of Finance
BWG	*Bankwesengesetz* – Banking Act
CESEE	Central Eastern and South-Eastern Europe
CET1	Common Equity Tier 1
CRD	Capital Requirements Directive (EU)
CRR	Capital Requirements Regulation (EU)
DORA	Digital Operational Resilience Act (EU)
EA	Euro Area
EBA	European Banking Authority
ECB	European Central Bank
EEA	European Economic Area
EU	European Union
FMA	*Finanzmarktaufsicht* – Financial Market Authority
FMABG	*Finanzmarktaufsichtsbehördengesetz* – Financial Market Authority Act
FSAP	Financial Sector Assessment Program
FSSA	Financial Sector Stability Assessment
ICAAP	Internal Capital Adequacy Assessment Process
ICT	Information and Communication Technology
ILAAP	Internal Liquidity Adequacy Assessment Process
IT	Information Technology
LCR	Liquidity Coverage Ratio
LSI	Less Significant Institution
NCA	National Competent Authority
NPL	Non-performing loan
NSFR	Net Stable Funding Ratio
OeNB	*Oesterreichische Nationalbank* – Austrian National Bank
P2G	Pillar 2 Guidance
P2R	Pillar 2 Requirement
R-IPS	*Raiffeisen* Institutional Protection Scheme
SI	Significant Institution
SPoC	Special Point of Contact
SREP	Supervisory Review and Evaluation Process (EU)
SSM	Single Supervisory Mechanism
TCR	Total Capital Ratio

EXECUTIVE SUMMARY

This Technical Note (TN) summarizes the main conclusions of the targeted review of banking regulation and supervision in Austria. This targeted review mainly focuses on how effectively and adequately risk-based supervision of "Less Significant Institutions" (LSIs) is implemented in Austria, considering the proactive application of the principle of proportionality to the large number of LSIs. Based on the applicable international standards (the revised Basel Core Principles), in the institutional context of the Eurosystem, the 2026 Austria Financial Sector Assessment Program (FSAP) has leveraged the results of the 2025 Euro Area FSAP and is limited to LSIs. Significant legal and regulatory reforms have been implemented in Austria since the previous FSAP, and supervisory authorities have implemented strategic internal reforms adapted to their evolving supervisory needs. The partial implementation of the 2020 Austria FSAP recommendations on banking regulation and supervision has been assessed in that updated context.

A number of aspects affecting the effectiveness and quality of regulation and supervision of LSIs in Austria have improved since 2019. The Austrian institutional supervisory framework for LSIs relies on the Financial Market Authority (FMA) acting as the National Competent Authority (NCA), closely coordinating for operational work and decision-making with the Austrian National Bank (OeNB) which is responsible for "fact finding" through risk assessment and on-site inspection. The FMA and OeNB have strong credibility and demonstrated track record of effective use of moral suasion vis-à-vis LSIs. The overall strategy and objectives for LSIs supervision are adequate, with a priority focus on credit risk (especially exposures on commercial real estate which are still a source of concern and potential uncertainty), and operational resilience. Internal organization and efficiency have improved at the FMA and OeNB which have adapted their internal organization, processes, and tools to the continuous evolution of their supervisory needs, e.g., by improving efficiency, enhancing cross-fertilization of specialized expertise, and developing SupTech systems and applications to enhance automated data processing and analysis for risk-based supervision.

The FSAP found no major deficiencies in the implementation of risk-based supervision by the FMA and OeNB making extensive use of the principle of proportionality in order to adjust the intensity and granularity of their supervisory work to focus on highest priority risks. Risk-based supervision and proportionality are highly intertwined in Austria, because of resource constraints which mobilize supervisors' capacity on highest priority risk issues. In the context of limited resources, the FMA and OeNB have managed to significantly adjust supervisory intensity and granularity according to risk levels associated with individual LSIs or horizontal risk topics. For instance, "focus banks" are subject to enhanced scrutiny, credit risk is more closely monitored, while the supervisory review and evaluation process (SREP) and on-site inspection program have been streamlined for the smallest and non-complex LSIs, especially *Raiffeisen* primary banks. Nonetheless, unconsolidated supervision of the large three-layer *Raiffeisen* network has improved, with targeted investigations at regional level also covering key functions of primary banks, and supervisors' leverage of aggregated information shared by the *Raiffeisen* Institutional Protection Scheme (R-IPS).

LSI supervision in Austria has been operating under resource constraints, while the composition of the FMA Supervisory Board cannot ensure full supervisory independence. The FMA Supervisory Board features strong representation from the BMF and the industry, while international standards require there be no government nor industry interference (or possible interference) that might compromise (or be perceived as compromising) the operational independence of the supervisor. Out of a total of ten board members, the Ministry is represented by the chairperson and three BMF officials, and the banking and insurance industries each have a non-voting representative. It may be a concern that the FMA Supervisory Board approves the FMA's budget and the appointment of senior managers reporting to the FMA Executive Board, in a context where the legal cap on the FMA's budget was about to be reached in 2025. There is empirical evidence that supervisory staff must fulfill an increasing volume of complex and sensitive tasks while adapting to new regulations and assessment tools. The current number of on-site inspections, even if risk-based and tailored, is probably a minimum.

An amendment to the Banking Act[1] was published in February 2026, raising the legal cap on the FMA's budget by 20 percent, which has introduced some welcome flexibility for the FMA only, though not the OeNB. An objective and comprehensive forward-looking assessment of staffing and budget needs for LSI supervision at the FMA and OeNB should now be made to consolidate LSI supervisory effectiveness looking forward. Streamlining the number of supervisory staff might leave the authorities with a rather low "human capital buffer" to absorb crisis situations in a higher-risk environment.

Other attention points have been highlighted through the FSAP targeted review. There are ongoing gaps in prudential requirements and supervision applicable to major acquisitions by LSIs of non-financial undertakings, and transactions with related parties. There is no legal mandatory disclosure of the reasons for the dismissal of a member of the FMA Executive Board (which transposition of CRD VI should address in 2026). The FMA has no legal right to access the working papers of LSIs' external auditors. Besides, the authorities may want to consider the possible benefits of enlarging the composition of the FMA Executive Board (only two members) to make it more conducive to combining discussion and decision-taking. Finally, while the Austrian-specific framework of state commissioners appointed by the BMF to banks' boards of directors has been recently enhanced, the recommendation is reiterated that this system should be phased out.

[1] Amendment to the Banking Act (BWG) approved in the National Council on 21 January 2026 and published in the official journal on 18th February 2026 (Finanzmarktsammelgesetz (132/BNR) | Parlament Österreich).

Table 1. Austria: Key Recommendations		
Key Recommendations	**Authority**	**Timeline[1]**
1. Review existing legislation to narrow the BMF's role in oversight of the FMA and remove both ministry and industry participation in its Supervisory Board. *Paragraphs 33, 34, 78*	BMF	I
2. Introduce a legal obligation of public disclosure of reasons for the dismissal of a member of the FMA Executive Board, at least when CRD VI is transposed in 2026. *Paragraphs 35, 78*	BMF	I
3. Assess whether the FMA Executive Board would benefit from having more than two members and be extended to a larger committee structure. *Paragraphs 36, 78*	BMF	I
4. Review the overall budget and funding mechanism dedicated to LSI supervision at the FMA and OeNB, complete a comprehensive and forward-looking assessment of budget needs for LSI supervision, and reexamine OeNB's related budget in addition to the FMA's in order to ensure adequate resources for LSI supervision at the OeNB as well. *Paragraphs 37-39, 78*	BMF, FMA, OeNB	I
5. Introduce more flexibility in the staffing strategy for LSI supervision at the FMA and OeNB, complete a comprehensive and forward-looking assessment of human resource needs for LSI supervision, and determine appropriate staffing at the FMA and OeNB. *Paragraphs 40-43, 78*	FMA, OeNB	I
6. Substitute the state commissioner function with an enhanced FMA and OeNB engagement with LSIs' supervisory boards. *Paragraphs 44-45, 78*	BMF, FMA	ST
7. Introduce legal or regulatory provisions granting the FMA with the right to directly request access to the working papers of LSIs' external auditors. *Paragraphs 48, 78*	BMF	I
8. Introduce legal or regulatory provisions requiring supervisory approval or notification of major acquisitions of non-financial companies by LSIs, at least when CRD VI is transposed in 2026, and determine subsequent adapted supervisory implementation. *Paragraphs 53, 78*	BMF, FMA	I
9. Upgrade the prudential regulation on transactions with related parties and determine subsequent adapted supervisory implementation. *Paragraphs 54, 78*	BMF, FMA	I
10. Increase supervisory intensity of on-site inspection of LSIs. *Paragraphs 61, 62, 70-77, 78*	FMA	ST

[1] Immediate (I): less than one year; Short-term (ST): 1–2 years; and Medium-term (MT): 3–5 years.

INTRODUCTION

A. FSAP Context

1. This Technical Note (TN)[2] summarizes the main conclusions of the targeted review of banking regulation and supervision of "Less Significant Institutions" (LSIs) in Austria. This targeted review mainly focused on three topics, as developed in the following paragraphs: (i) implementation status of the 2020 FSAP recommendations; (ii) institutional governance set-up for LSI supervision; and (iii) implementation of risk-based supervision of LSIs, considering the principle of proportionality. This review is not a formal assessment of compliance with Basel Core Principles (BCPs). It does not aim to cover Austrian regulation and supervision of LSIs comprehensively. This review was performed from November 3 to 17, 2025 during the first mission of the 2026 Financial Sector Assessment Program (FSAP) in Vienna, Austria. Unless otherwise stated, this TN is based on information updated as of November 17, 2025, provided by Austrian authorities.

2. This 2026 FSAP in Austria takes place in a different context than the previous one in 2020. The Technical Note on "Banking Oversight" (March 2020) was based on information available when completed in September 2019. [3] Since then, the background environment of the Austrian banking system has been impacted by significant external change triggers, such as the COVID-19 pandemic, the subsequent macro-economic and financial turbulences (including sharp moves of global interest rates and adverse consequences on the real estate market), and the advancement of additional reforms to the European legal and regulatory framework for banking supervision (which is applicable to the whole banking sector, including LSIs that are directly supervised at national level).

3. Significant legal and regulatory reforms have been implemented in Austria since 2020, many of which deliver the international regulatory reform agenda, including the Basel Framework. The Austrian Banking Act has been amended more than ten times, primarily driven by the need to strengthen the financial system, align with EU requirements, and enhance supervisory processes. One of the most significant reforms impacting the banking sector, particularly for LSIs, was the implementation of the Capital Requirements Directive (EU) 2019/878 (CRD V), transposed into national law, and Capital Requirements Regulation (EU) 2019/879 (CRR II). This implementation introduced significant changes in prudential regulation that notably impacted Austrian LSIs, among which a clearer distinction between Pillar 2 Requirements (P2R) and Pillar 2 Guidance (P2G), stricter governance standards, and expanded supervisory powers for the Financial Market Authority. These reforms led to enhanced reporting, stronger governance structures, and revised capital planning for LSIs. Looking forward, the transposition of CRD VI is expected in 2026 in Austria, and the EU framework might even be subject to further changes depending on the outcome of the envisaged "simplification" agenda announced by the European Commission in 2025. Besides, legal powers of

[2] This Technical Note was prepared by Alexis Boher, Senior Financial Sector Expert at the Monetary and Capital Markets Department of the IMF.

[3] Source: https://www.imf.org/-/media/files/publications/cr/2020/english/1autea2020007.pdf.

oversight of EU financial sanctions enforcement will be transferred from the Austrian Central Bank (OeNB) to the FMA by January 1st, 2026.

4. The Austrian authorities have also recently implemented strategic internal reform plans to adapt to evolving supervisory needs. Both the FMA and OeNB have significantly adjusted their internal organization in 2025 to bolster supervisory efficiency and leverage synergies. Thus, the FMA has implemented the "Fit for Future – FMA 2025" transformation program, including the creation in 2024 of a dedicated division responsible for closer supervision of "focus banks" (fragile LSIs), while the OeNB has reorganized its supervisory units and, e.g., developed expert groups and pools in the division responsible for horizontal supervision and strategy, bundling horizontal knowledge on SI and LSI supervision.

5. The partial implementation of the 2020 Austria FSAP recommendations on banking regulation and supervision has been assessed in this updated context. Several recommendations of the 2020 FSAP had not been implemented at the time when the first mission of this 2026 Austria FSAP was completed in November 2025. Of the eight key recommendations of the 2020 FSAP TN, [4] four were still open: (i) *"Review legislation to clarify and narrow the Federal Ministry of Finance (BMF)'s role in oversight of the FMA and remove industry participation in its Supervisory Board"*; (ii) and (iii) *"Strengthen related party risk framework and establish ex-ante approval for LSI significant investments in non-financial undertakings;"* and (iv) *"Phase-out the role of state commissioners in supervisory boards."* The Austrian authorities are reluctant to change the two highlighted elements of the institutional framework relating to the FMA Supervisory Board and the state commissioners, because they argue that supervisory independence is not impaired, and they do not want to amend Austrian banking legislation to address the two highlighted regulatory gaps on major acquisitions and transactions with related parties before these gaps are addressed at European level. In order to address these four open 2020 FSAP recommendations, this 2026 FSAP has reassessed them with regard to the revised 2024 Basel Core Principles in the context of the updated situation observed in Austria.

B. Scope: Targeted Review of Regulation and Supervision of LSIs

6. The scope of this 2026 Austria FSAP is limited to banking regulation and supervision of LSIs in the institutional context of the Euro Area. Since Austria is part of the Euro Area (EA), the main banks ("Significant Institutions" – SIs") are directly regulated and supervised at European level respectively by the European Banking Authority (EBA) and the Single Supervisory Mechanism operated under the leadership of the European Central Bank (ECB/SSM) jointly with National Competent Authorities (NCAs), while smaller banks (LSIs) are regulated at both European and national levels, and directly supervised by the FMA (which is the Austrian NCA) with the support of the OeNB. The ECB/SSM is responsible for the oversight of LSI supervision in EA member countries. Therefore, as agreed between the ECB/SSM and the IMF to avoid any duplication of FSAP coverage

[4] The eight key recommendations of the TN were incorporated into 4 items under the "Financial Sector Oversight" section of the overall table of FSAP key recommendations included in the 2020 Austria FSSA report: https://www.imf.org/-/media/files/publications/cr/2020/english/1autea2020001.pdf.

in the EA, SIs are excluded from the scope of the Austria FSAP, as is the case for FSAPs conducted in other EA member country.

7. Leveraging the results of the 2025 Euro Area FSAP, the 2026 Austria FSAP has performed a targeted review of banking regulation and supervision of LSIs. This mission has not performed any formal compliance assessment (so-called "full BCP assessment") against international standards on banking supervision ("Basel Core Principles" – BCPs), nor produced any "Detailed Assessment Report" that would include comprehensive developments under each essential criterion of every principle, associated with compliance gradings. Instead, this 2026 Austria FSAP has performed a targeted review of key components of the existing framework for regulation and supervision of LSIs in Austria, leveraging the conclusions of the recently completed Euro Area FSAP which included a full BCP assessment that focused on regulation and supervision of SIs as well as oversight of LSI supervision in EA member countries.[5] This TN is a qualitative summary of the main takeaways of the targeted review, without any grading.

Box 1. Austria: Main Takeaways of the 2025 Full BCP Assessment in the Euro Area

Banking supervision has significantly strengthened since the 2018 FSAP. The ECB, in cooperation with the NCAs, is exclusively responsible for the prudential supervision of credit institutions (banks) established in the participating EU Member States. Together the ECB and the NCAs form the SSM which became operational in 2014. The SSM has made significant progress in raising the quality of supervision of SIs and implementing the recommendations of the 2018 BCP assessment. Banking supervision is underpinned by a clear mandate and independence from government or industry interference in individual supervisory decisions. The SSM is a highly capable supervisor supported by excellent risk analysis and a robust skill set in all aspects of supervision. It conducts an intrusive approach to supervision, uses a broad range of tools, and relies on a fully articulated supervisory framework. Supervisory cooperation with third countries has improved. In areas where the SSM makes a priority (e.g., credit risk, liquidity risk, internal models, operational risk and resilience, and climate-related financial risk), it delivers a thorough assessment and has been effective in improving bank risk management. Banking systems, both globally and in the EA, have been exposed to a series of severe shocks and the SSM has been agile in responding to these events. On average, banks in the EA maintain solid capital and liquidity positions, well above regulatory requirements. The SSM is also transparent in its approach to supervising banks.

Nonetheless, the SSM continues to face several legal and operational challenges. Like many supervisors, SSM resources are stretched, with pressures in some key areas (e.g., information and communications technology (ICT risk) and internal models). The dependency on NCA staff is both a strength and a vulnerability that affects the planning and delivery of supervisory tasks, with more than half the NCAs being unable to meet their staffing commitments to the SSM. The banking supervision business lines' consultation on the budget seems pro-forma and late stage. Moreover, the governance of the SSM is complex and highly centralized, and the SSM must navigate a complex legal framework. The ECB must apply different national laws which may not be fully harmonized where there is no sufficiently detailed common EU-wide legal standard (e.g., in the areas of licensing and fit-and-proper assessments of banks' managers). This fragmentation can provide opportunities for regulatory arbitrage and lead to an unlevel playing field, thereby reducing the effectiveness of the SSM. To address these issues, the FSAP recommended further delegating decision-making, improving governance of budgetary processes, ensuring alignment of resources to current and expected future workload, and reducing reliance on national frameworks.

---

[5] International Monetary Fund (July 2025): Euro Area FSSA report, https://www.imf.org/-/media/files/publications/cr/2025/english/1eurea2025002.pdf; and Euro Area Detailed Assessment Report on observance of BCPs, https://www.imf.org/-/media/files/publications/cr/2025/english/1eurea2025012.pdf.

Box 1. Austria: Main Takeaways of the 2025 Full BCP Assessment in the Euro Area (Concluded)

Adoption of the EU banking package—the Capital Requirements Regulation 3 (CRR3) and the Capital Requirements Directive 6 (CRD6)—is a positive step, though gaps persist compared to international standards. Although it is not mandatory under the Basel standards, the application of the Basel capital requirements to all EU credit institutions (beyond the scope of internationally active banks) helps strengthen banks' safety and soundness and financial stability and eliminate the potential for regulatory arbitrage between banks. While the final elements of the Basel III reforms have been transposed into EU legislation, earlier deviations from the Basel prudential standards were not rectified (e.g., the Danish compromise as to the non-consolidation of insurance companies, the support factor for small and medium sized enterprises, the limited scope of credit valuation adjustments), new permanent and temporary deviations were introduced in CRR3 (e.g., transitional arrangements combined with a longer phase-in period for the output floor, allowing banks to apply reduced-risk weight for the calculation of the minimum level of capital requirements that banks using internal models must hold based on the standardized floor) and implementation of the fundamental review of the trading book proposals was postponed. While CRD6 will improve the supervision of third-country branches and acquisition of material holdings, several issues persist (e.g., narrow definition of related-party transactions, limited sanctioning powers). There is also a need to remain vigilant that the focus on banks' safety and soundness is not lost in the context of the current debate on the future of the EU economy, where there are some calls (both in in the private and public sectors) for financial regulators to explicitly consider the competitiveness of the EU financial sector in their decision making. Adopting and implementing robust prudential standards should remain the primary focus of financial regulators and gaps with international standards should be addressed.

The SSM operates with a strong risk-based approach and efficiency, but there is still potential to further refine and enhance its effectiveness. To ensure a level playing field and consistency in the supervisory assessment, the SSM adopted a highly codified approach to support convergence of supervisory processes. The SSM acknowledges that it needs to adapt and has started to take action to reduce the administrative burden and improve supervisors' agility. Some key initiatives, such as simplifying the supervisory review and evaluation process (SREP), including planning with a multi-year horizon and implementing a risk tolerance framework, are expected to foster risk-based supervision when fully implemented. Other supervisory processes such as those relating to fit and proper assessment and internal models' approval could be further streamlined and made more risk focused. The codified approach generates many findings and, consequently, presents a challenge for effective follow-up remediation. In this regard, the ECB intends to use its escalation policy more actively, including through enforcement actions. Supervision of concentration risk is based on an overall robust process, but further attention should be given to sovereign risk concentrations, which are not included in the concentration risk indicators of the SREP and only assessed if deemed relevant by SSM supervisors. Capital add-ons reflecting high sovereign concentration risks have only been imposed in a few instances. Regarding the ECB oversight of LSI supervision, the use of moral suasion vis-a-vis NCAs has been effective in disseminating best supervisory practices for LSIs, but more work is needed to improve supervisory convergence and the consistency of supervisory priorities across member states.

The ECB has been a leader in incorporating climate and nature-related financial risks in its supervisory approach. A wide range of initiatives to improve the supervision of climate and nature-related financial risks have been undertaken by the ECB, including climate stress tests, thematic reviews, and firm-specific work. The ECB has issued several binding supervisory decisions relating to management and governance of climate risks leading, in some cases, to the potential imposition of periodic penalty payments in cases where banks fail to meet the requirements set out in supervisory decisions. These are commendable efforts, and the ECB should ensure that, in a context of budget stabilization, it maintains sufficient supervisory focus on all aspects and drivers of traditional risk categories—in addition to climate risk.

8. The revised version in 2024 of the Basel Core Principles[6] has been used in this FSAP as the applicable international standard for banking supervision. The revised BCPs incorporate enhanced requirements on specific aspects of banking regulation and supervision (see Box 2). The BCPs fully apply to the supervision of LSIs in Austria and are subject to the principle of proportionality. Given that BCPs are international standards, the FSAP has not reviewed the compliance of Austrian banking regulation and supervision against applicable rules issued by EU institutions, but it has directly used BCPs as the reference for setting expectations.

Box 2. Austria: Main Points of Evolution of 2024 Basel Core Principles (BCPs)

The revised Core Principles reflect regulatory and supervisory developments, structural changes in banking, and lessons learnt from FSAP assessments since the last revision in 2012. The update took account of the lessons learned from: countries' implementation of the Core Principles as updated in 2012; the impact of, and policy responses to, the COVID-19 pandemic; and FSAP assessments completed since 2013. Several thematic topics also informed the revisions to the Core Principles, including evolving risk considerations related to: (i) financial risks; (ii) operational resilience, including cyber-security risks; (iii) systemic risk and macroprudential supervision; (iv) risks from structural transformations driven by climate change and the digitalization of finance; (v) the sustained growth of non-bank financial intermediation; and (vi) evolving corporate governance and risk management practices, including sound risk culture and sustainable business models.

There is a greater emphasis on systemic risk and sound risk management practices. Supervisors continue to be required to assess the risk profile of the banks not only in terms of the risks they run and the efficacy of their risk management, but also the risks they pose to the banking and the financial systems. Expectations regarding supervisory assessment of risk have been raised to incorporate more clearly the analysis of banks business models, and risks brought by the wider group, as well as considerations on how the macroeconomic environment, business trends, and the build-up and concentration of risk inside and outside the banking sector may affect the risk to which banks are exposed. Amendments were introduced to reinforce the need for group-wide approach to supervision, and requirements regarding operational risk and operational resilience have been significantly updated to ensure that banks are better able to withstand, adapt to and recover from severe operational risk-related events, such as pandemics, cyber incidents, technology failures and natural disasters.

The revised BCPs reinforce aspects that were already present in the previous methodology, highlighting their materiality for effective supervision. In particular, the BCPs continue to emphasize the powers that supervisors should have to address safety and soundness concerns, and the expectation on the actual use of the powers, in a forward-looking approach through early action. This includes a heightened focus on powers and independence, and expectations concerning capacity for timely, consistent, and conclusive supervisory actions; adequacy of liquidity arrangements; and the interface between daily supervisory practices and crisis management measures. As a reflection of the enhanced expectations, 6 additional criteria have been upgraded to essential criteria.

BCPs are universally applicable and accommodate a wide spectrum of banks and financial systems. The revised standard reinforces the concept of proportionality, in terms of both the expectations on supervisors for the discharge of their functions and the complexity of standards that supervisors impose on banks, and standards emphasize that proportionality should not be understood as dilution of standards, but as maintaining stringency of approach through proportionate methods and ensuring appropriate responses to the global diversity of banks and banking systems.

[6] Basel Committee on Banking Supervision, Core Principles for Effective Banking Supervision (April 2024): https://www.bis.org/bcbs/publ/d573.pdf.

9. In this FSAP, the targeted review mainly focuses on the implementation of risk-based supervision of LSIs in Austria, considering the principle of proportionality applied to the large number of small LSIs. In addition to the follow-up of the 2020 FSAP recommendations, the overall governance framework and supervisory independence of the Austrian NCA have been reviewed, and attention focused on regulatory areas for which there is some national latitude (e.g., fit-and-proper evaluation, transactions with related parties). In addition, the main focus of this review has been put on how effective and adequate risk-based supervision is implemented in Austria, focusing on most material risk domains, based on factual illustration and evidence shared by the authorities, and having in mind that the limited number of supervisory staff compared to the large number of LSIs makes Austria an outlier within the EA in terms of supervisory capacity.

10. The FSAP expert had access to useful documentation prepared by the NCA, supplemented by informative meetings with authorities and other stakeholders. Applicable legislation and regulations, as well as annual reports and other key strategic documents, are publicly available on the websites of the FMA and OeNB. In addition, upon his request, the IMF expert was provided with a comprehensive BCP self-assessment made by the NCA for this FSAP, detailed responses to an additional questionnaire, and selected supporting documents mostly aimed at illustrating supervisory practices.[7] During the first FSAP mission which took place from November 3 to 17, 2025, extensive technical meetings were held with the FMA, OeNB, BMF, several LSIs, the *Bankerverband* (Austrian Bankers' Association), the *Abschlussprüferaufsichtsbehörde* (Austrian Oversight Authority – APAB, responsible for the oversight of external auditors), and the *Kammer der Steuerberater:innen und Wirtschaftsprüfer:innen* (Austrian Chamber of Tax Advisors and Public Accountants – KSW).

11. The FSAP mission team thanks the Austrian authorities for their excellent cooperation to this FSAP workstream on LSI regulation and supervision.

MARKET STRUCTURE OF LSIs

A. Overview of LSIs within the Banking Sector

12. Austria is among the few countries within the Euro Area that still have a large domestically rooted LSI sector with a significant market share, dominated by *Raiffeisen* banks (89 percent of the number of LSIs). As of July 31, 2025, there were 431 banking institutions operating in Austria including 7 SIs (banking groups comprising 75 individual banks), 314 LSIs (all individual banks), 19 EU bank branches, and 23 non-CRR (non-deposit taking) credit institutions. The banking sector comprised 35 joint-stock banks, 25 special-purpose banks, 281 *Raiffeisen* credit cooperatives (incl. *Landesbanken*), 49 *Sparkassen* saving banks, 9 *Volksbanken* credit cooperatives, 6 mortgage banks, 4 building societies, and 19 bank branches of institutions licensed in other member countries of the European Economic Area (EEA). No third-country (non-EEA) bank branch operated

[7] Documentation on the FMA Supervisory Board (e.g., agenda, minutes, papers, membership information) was too limited, however, and the FSAP team did not meet the Chairman of the FMA Supervisory Board during the mission.

in Austria. Non-EEA banks operated in Austria only through subsidiaries subject to full licensing requirements. LSIs' market share stands around 30 percent of the banking sector's total assets.

13. Since the 2020 FSAP, the number of LSIs has continued to decline, with many small institutions merging, mostly within the *Raiffeisen* network, from 416 on December 31, 2019 to 314 as of July 31, 2025. This trend reflects the ongoing collective effort to improve efficiency and ensure regulatory compliance among LSIs, but diversity remains high, with still a significant number of very small banks (most of them being *Raiffeisen* primary banks).

14. For historical reasons, the Austrian banking system includes a number of sectors, with many small- and medium-size cooperative banks. This structure is still in place although there are only a few differences in the business models of individual banks nowadays. The sectors of joint-stock banks, housing banks, and specialized credit institutions, as well as the sector of mortgage banks are single-tier corporate structure. *Sparkassen* savings banks and *Volksbanken* credit cooperatives have a two-tier structure, and *Raiffeisen* credit cooperatives have a three-tier structure. *Sparkassen* and *Volksbanken* are banking groups supervised on a consolidated basis and classified as SIs. Yet, in addition to that, all LSIs that are part of these groups are directly supervised on an individual basis in Austria. *Raiffeisen* banks are not structured as a banking group and are therefore supervised by the NCA on an individual basis, given their specific inverse ownership structure: as of July 2025, 284 *Raiffeisen* primary banks controlled 8 regional *Raiffeisen Landesbanken* (nearly one per state), which together controlled *Raiffeisen Bank International AG* at the third corporate tier of the *Raiffeisen* network. Three *Raiffeisen* institutions are classified as SIs and subject to direct supervision by the ECB/SSM on an individual basis. All other Raiffeisen entities are LSIs and supervised by the NCA, and the Raiffeisen network is not subject to consolidated supervision by any supervisor because of the bottom-up ownership structure. In all, five of the seven Austrian SIs belong to one of the three traditional networks of savings banks and credit cooperatives: Erste Group Bank AG (*Sparkassen*); *Raiffeisen Bank International AG*, *Raiffeisenlandesbank Oberösterreich Aktiengesellschaft*, and *Raiffeisen-Holding NiederÖsterreich-Wien registrierte Genossenschaft mit beschränkter Haftung*; and *Volksbank Wien AG*.

15. The three traditional banking networks (*Sparkassen*, *Volksbanken*, and *Raiffeisen*) operate their own internal support schemes. All three networks have set up their own Institutional Protection Scheme (IPS) providing affiliated institutions with liquidity support and safeguard mechanisms. The *Raiffeisen* Institutional Protection Scheme (R-IPS) covers all *Raiffeisen* banks (which was not the case in 2019) and plays an instrumental role in ensuring sound risk management of *Raiffeisen* primary banks, many of which are too small to establish their own risk management framework and must get support from *Raiffeisen Landesbanken* (uniform risk management specifications, standardized ICAAP/ILAAP calculations, centralized IT services, audit and accounting support, marketing coordination, training programs, etc.). The R-IPS is classified as a hybrid IPS subject to joint supervision by the ECB/SSM and the NCA. In all, given that the *Raiffeisen* network is not supervised on a consolidated basis, only the Austrian NCA may get an overall view of the financial soundness of the whole *Raiffeisen* entities, including the R-IPS, at the cost of a complex supervisory implementation policy that makes an extensive use of the principle of proportionality.

B. Financial Soundness Indicators for LSIs

16. As for the whole Austrian banking sector,[8] average Financial Soundness Indicators (FSIs) are quite good for LSIs, following highly profitable years in 2023 and 2024, yet the impact of deteriorating credit quality in the commercial real estate (CRE) sector is a source of concern. On average, Austrian LSIs have significantly improved cost efficiency and reduced cost-to-income ratios to levels unseen before. However, changes in the macro-financial environment in recent years have led to a slight reversal of this development. Operating results are impacted by declining net interest income and increasing operating expenses, which are driven by inflation and IT investment needs. LSIs are mostly exposed to credit risk. Non-performing loans (NPLs) have been increasing since the turn of 2023, albeit from historically low levels. The NPL coverage by loan-loss provisions is decreasing close to 30 percent, which looks rather low in absolute terms and might reflect some possible under-provisioning of potential loan losses, depending on the accuracy of real estate collateral valuation.[9] Credit quality may deteriorate further due to higher risks in the economy (e.g., rising insolvencies, visible risks in CRE lending, weak economic growth). Reassuring is that the share of sustainable loans (i.e., loan-to-collateral ratio less than 90 percent, debt-service-to-income ratio less than 40 percent, and maturity less than 35 years) in new lending in Austria has continued to increase up to 87 percent in the second half of 2024. Capital ratios have also increased, due to profit retention, but have slightly deteriorated since 2023. The FMA and OeNB recommend that banks pursue prudent dividend distribution policies and further strengthen their capital base in the wake of rising risks in the current challenging environment. Besides, key liquidity metrics stand at sufficient levels despite the full repayment of the outstanding TLTRO III ("targeted longer-term refinancing operations") to the ECB.

Table 2. Austria: Key Financial Soundness Indicators for LSIs in Austria

Key FSI	12/2023	03/2025
Core Equity Tier 1 ratio (CET1)	18.83	18.35
Tier 1 ratio	19.04	18.48
Total Capital ratio (TCR)	20.50	19.91
Leverage ratio (LR)	10.32	10.74
Cost-to-Income ratio	54.33	58.99
Return-on-Equity ratio (RoE)	8.01	6.37
Return-on-Assets ratio (RoA)	0.77	0.63
Non-Performing-Loans to Total Loans ratio (EBA definition)	2.63	3.65
NPL Coverage ratio (EBA definition)	33.16	31.06

[8] For detailed information on the Austrian banking sector (SIs and LSIs are not differentiated), see: the FMA Annual Report, 2024, https://www.fma.gv.at/wp-content/plugins/dw-fma/download.php?d=7396&nonce=f8bb5aed541c3fef; the FMA's annual publication "Facts and Figures, Trends and Strategies", 2025, https://www.fma.gv.at/wp-content/plugins/dw-fma/download.php?d=360&nonce=614050146ed80ca9; and the OeNB's Financial Stability Report https://www.oenb.at/dam/jcr:d6cb5710-f731-4cc6-bf38-4fa2f22dc825/FSR-50.pdf (November 2025).

[9] As rightly noted by the OeNB (Financial Stability Review, June 2025, page 21): *"The coverage of NPLs with specific loan-loss provisions has shown a downward trend since 2019 and declined further to 37 percent in 2024. Although this development partly reflects collateralization levels, it poses a risk as low specific NPL coverage will increase losses for banks if collateral values or loan recovery values come under pressure."*

Table 2. Austria: Key Financial Soundness Indicators for LSIs in Austria (Continued)

Liquidity Coverage ratio (LCR)	186.08	200.28
Net Stable Funding ratio (NSFR)	125.78	129.10
Loan-to-Deposit ratio	106.21	98.59

Source: OeNB, unconsolidated data, in percentage.

17. On the qualitative side, Austrian LSIs are mainly exposed to credit and operational risks, and potential uncertainty of business model sustainability in the long-term. Austrian banks have benefited from strong profitability generated by their cross-border activities in Central, Eastern and South-Eastern European (CESEE) countries. No LSI currently has any Austrian majority shareholding in any foreign subsidiary. A small number of Austrian LSIs is offering services abroad via branches in the EEA, but none of those branches is considered of material importance by the NCA. In the domestic market, LSIs are exposed to sectoral and geographical concentration risks, with significant impact on credit quality, especially on commercial real estate. For most LSIs, the business model is not complex, largely based on traditional financial and payment services (credit, deposit, wealth management, etc.) offered to retail and corporate customers. Yet LSIs may face increasing competition from neo-banks or digital banks in the future which may question the sustainability of their business models and development strategies in the long-term. LSIs are not heavily exposed to market risks because of the low volume of market activities operated on their own account. Operational risks are quite similar to those of EA banks in general, with increased exposure to the various aspects of ICT risks, including cyber-threats. In addition, LSIs are more or less exposed to climate-related financial risks, either physical or transition risks, notably if their sectoral and geographical exposures are concentrated on areas that are materially impacted by climate change (e.g., the tourism sector in mountains where snow has become less abundant in the winter season).

INSTITUTIONAL FRAMEWORK FOR REGULATION AND SUPERVISION OF LSIs

A. Respective Responsibilities of the ECB/SSM and the National Competent Authority

18. In the Single Supervisory Mechanism (SSM), the Financial Market Authority acting as the National Competent Authority is responsible for direct supervision of Austrian LSIs under the oversight of the European Central Bank. Under the EU framework, the FMA has a legal mandate to undertake direct supervision of LSIs.[10] The ECB has shared powers on several specific components of LSI supervision, e.g., on licensing. In addition, the ECB has the legal oversight mandate of LSI supervision performed by the NCAs in EA member countries. The ECB's oversight powers include defining the classification system for LSIs, authorizing common procedures, and ensuring consistency in supervisory standards across the Euro Area. The ECB can also initiate the

[10] Under the same EU rules, the FMA also contributes to the direct supervision of Austrian SIs operated by Joint Supervisory Teams (JSTs) placed under the ECB's leadership.

withdrawal of a banking license, decide to lead or participate in on-site inspections for LSIs, and even take over direct supervisory responsibility from the NCA on a specific LSI.[11] In practice, this has not happened in Austria.[12]

Box 3. Austria: Oversight of LSI Supervision in Austria by the ECB/SSM

The ECB has dedicated "Country Desks" to operate the oversight of LSI supervision implemented in each EA member country. Approximately 1.5 full-time employees (FTE) are allocated by the ECB to Austria. The ECB considers this is sufficient for oversight of Austrian LSI supervision, given the large number of small and non-complex *Raiffeisen* primary banks and the existing *Raiffeisen*-IPS. In crisis times, when there may be higher workload, the ECB is able to reallocate additional staff from other country desks to Austria.

The ECB monitors key performance indicators (KPIs) benchmarking NCAs within the EA which clearly highlight that Austria is an outlier.[1] For instance, as of December 31, 2023. Austria stood last compared to other countries for the following KPIs: number of staff dedicated to LSI supervision (per LSI); frequency of on-site inspection of LSIs; and number of supervisors' meetings with LSIs' boards of directors. Yet the concerns that such indicators may produce should be nuanced with consideration of the Austrian specificity of the LSI sector, especially the dominant share of *Raiffeisen* banks, most of which are small and non-complex institutions (yet the lack of consolidated supervision resulting from the existing *Raiffeisen* legal structure certainly adds some complexity), and the overall effectiveness of LSI supervision in Austria.

The ECB conducts periodic reviews of NCA supervision and has assessed the overall quality of LSI supervision in Austria as good. Periodic meetings are organized between the ECB and the NCA (usually the FMA and OeNB together) to discuss issues of common interest in the context of the ECB/SSM's oversight of LSI supervision. Mutual cooperation between the two sides is excellent, and Austrian supervisory authorities have long played a proactive role within the SSM, sharing experience and offering various kinds of technical contributions to enhance supervisory framework and practices. The FSAP was able to consult the review papers.

[1]The MoU concluded between the FMA and the OeNB is only available in German: https://www.oenb.at/dam/jcr:55013237-8716-4d80-a0c0-d0fc35b3fb7c/MoU_FMA_OeBN.pdf.

B. Allocation of Responsibilities between National Authorities

19. In Austria, the Financial Market Authority (FMA) is the National Competent Authority responsible for the supervision of LSIs, and this duty is performed with the operational support of the Austrian Central Bank (OeNB). The institutional supervisory framework is set up in the Banking Act, FMA Act, and OeNB Act, supplemented by a Memorandum of Understanding (MoU) concluded between the FMA and OeNB (2020).[13] The FMA is the sole authority responsible for banking supervision in Austria, among other legal duties specified in the FMA Act. The FMA fulfils its legal duties in close cooperation with the OeNB, as specified in the Banking Act. The OeNB contributes to the FMA's legal mandate by providing supervisory information, analysis, and reports

[11] For more information on the ECB's oversight role on LSI supervision by the EA NCAs, see the ECB/SSM's website: https://www.bankingsupervision.europa.eu/framework/lsi/html/index.en.html.

[12] For a view of ECB supervision and oversight, please see Box 3, above and: Euro Area Detailed Assessment Report of Basel Core Principles for Effective Banking Supervision (July 2025).

[13] For more information on LSI sectors within the EA and the outcome of the ECB's oversight of LSI supervision by NCAs, see the ECB LSI Supervision Report 2024: https://www.bankingsupervision.europa.eu/ecb/pub/pdf/LSIreport/ssm.LSIreport2024~b8dd7cda4f.en.pdf.

to the FMA which has the sole decision-making power on LSIs. Concretely, in application of the Banking Act, the OeNB performs several key supervisory workstreams which the FMA does not do itself, notably: (i) collection, quality control, and processing of regulatory reporting data submitted by LSIs; (ii) management of a joint banking database; (iii) off-site supervision and analysis with the FMA bearing the responsibility for the assessment of overall governance aspects in the SREP; and (iv) on-site inspections, except for AML/CFT (in the FMA's scope). The FMA, in turn and within the cooperation framework described below, carries out its own analysis of information and data, takes any relevant supervisory decisions (e.g., on supplementary capital driven by SREP) and determines the overall supervisory strategy for LSIs. The Federal Ministry of Finance (*Bundesministeriums für Finanzen*–BMF) is responsible for drafting government bills and converting EU legal acts into Austrian legislation.

20. In practice, institutional and operational cooperation of the OeNB with the FMA is working well. The OeNB continuously supports the FMA on supervisory matters through a structured framework made of various committees, procedures and processes which make the two institutions closely work together, even if the FMA is ultimately the official NCA. Since the OeNB is legally and effectively independent, this kind of "joint" but integrated supervisory model with a *primus inter pares* has proven effective in Austria. This FSAP mission found evidence that good coordination between the FMA and OeNB is real in practice on all fronts, thanks to the constructive supervisory culture in both institutions, including close cooperation between their respective staff. Some additional synergies could possibly be improved even further, for instance in IT development projects in order to optimize the mutualization of supervisory tools, yet no material duplication of supervisory work has been identified during the FSAP mission.

21. The Federal Ministry of Finance is responsible for banking regulation and ensures overall oversight of the FMA. The BMF is responsible for drafting laws and conducting public consultations. The FMA and OeNB are consulted as part of the legislative process. The FMA issues FMA regulations if the laws enacted by the Parliament contain respective empowerments. Regarding FMA regulations the FMA is responsible for conducting the whole regulatory production process, from drafting to public consultation and enactment of FMA regulations. The BMF and OeNB provide substantial input on drafts of FMA prudential regulations during public consultations. Additionally, the BMF has a legal oversight mandate over the FMA per the FMA Act aimed at ensuring that the FMA fulfils its own legal mandate appropriately, which includes the right to request information from the FMA and to request the FMA to conduct audits (on-site inspections of regulated financial institutions), both limited to exceptional cases. Furthermore, certain empowerments to issue FMA regulations in federal law provided by the Parliament are legally subject to the approval of the BMF (e.g., on the exercise of national discretions or national reporting requirements). The BMF also has the legal power to appoint a state commissioner and a deputy state commissioner at each bank (including LSIs) with a total balance sheet exceeding EUR 1 billion.

22. Beyond banking supervision, the legal duties of the FMA cover a broader scope: the FMA is also responsible for insurance supervision,[14] pension fund supervision, oversight of securities markets, macroprudential supervision, banking resolution, and will obtain full sanctioning powers in 2026. The FMA also supervises payment service providers, financial institutions' compliance with AML/CFT Act, and consumer protection related to financial services. The FMA is the National Resolution Authority. The OeNB monitors financial stability in Austria in general, it contributes to macroprudential supervision, and it is responsible for the oversight of payment and settlement systems.

C. Internal Organization of the National Authorities

23. The FMA has implemented internal structural reforms to make the most efficient use of its limited human resources, notably for LSI supervision.[15] The FMA reforms include the "Fit-for-Future – FMA 2025" transformation program completed in 2024, and the ongoing "360 Degree Supervisory Strategy" project aimed at modernizing supervisory processes. Among the main changes that have directly impacted LSI supervision, the creation in 2024 of a specialized division responsible for "Focus Banks" (9 high-risk LSIs are classified as such by the FMA) and early intervention is commendable, as well as the creation of cross-departmental hubs (e.g., on the Digital Operational Resilience Act, and Sustainable Finance) whose purpose is to support supervisory units with specific expertise. At the time of the first FSAP mission in November 2025, the FMA's organization chart[16] included a Banking Supervision Department headed by a Managing Director with six divisions: (i) Horizontal Banking Supervision; (ii) Supervision of Significant Banks; (iii) Supervision of Focus Banks; (iv) Supervision of Decentralized Credit Institutions; (v) Supervision of Joint Stock and Mortgage Banks; and (vi) Conduct and IT Risk Supervision of Banks. The FSAP targeted review highlighted that, overall, the FMA's internal organizational framework is now well adapted to LSI supervision, especially with the most recent changes (enhanced supervision of problem banks, and horizontal expertise support).

24. The OeNB also reorganized its supervisory units in July 2025 aimed at making LSI supervision more efficient. The OeNB has concentrated LSI supervision within the department for Financial Stability and the Supervision of Less Significant Institutions[17] headed by a director and consisting of four divisions: (i) Off-Site Supervision of LSIs; (ii) On-Site Supervision of LSIs; (iii) Financial Stability and Macroprudential Supervision; and (iv) Horizontal Supervision and Strategy. Within this department, the organization follows a matrix principle: on the one hand, LSIs are supervised at individual level; on the other hand, cross-cutting issues and thematic reviews that affect several or all banks including LSIs are analyzed. Additionally, regulatory stress tests (both on capital and liquidity) are conducted in this department, regulatory and strategic issues are also

[14] Please refer to the FSAP TN on Insurance regulation and supervision for further details.

[15] More specific information is accessible on the FMA's website, including the 2024 FMA Annual Report: https://www.fma.gv.at/wp-content/plugins/dw-fma/download.php?d=7396&nonce=f8bb5aed541c3fef.

[16] The FMA's organization chart is public: https://www.fma.gv.at/en/organisation/.

[17] The OeNB's organization chart is public: https://www.oenb.at/en/About-Us/Organization.html.

assessed, and the stability of the financial market is monitored separately from a macroprudential perspective. The FSAP targeted review also highlighted that the OeNB's internal organizational framework is now better adapted to LSI supervision, especially with the segregation of off-site supervision and on-site inspection, and the enhanced horizontal support of expert groups.

25. The BMF has dedicated units responsible for banking regulation and overall oversight of banking sector issues. The Directorate General III for Economic Policy and Financial Markets[18] is headed by a Director General who is also the Chairman of the FMA Supervisory Board. Directorate III/C for Financial Markets and Financial Market Regulation comprise of the following departments: (i) Financial Markets and Supervision of Financial Market Authority; (ii) Legal Matters of Banks; (iii) Legal Matters of Insurance, Pension Funds and Auditor Oversight; and (iv) Legal Matters of the Capital Market and FinTech.

26. Supervisory decision-making is the sole responsibility of the FMA Executive Board, which relies on the structured cooperation framework established between the FMA and OeNB. The FMA Supervisory Board has no legal power to approve the overall supervisory strategy and planning, nor to decide any supervisory measure on any regulated financial institution. Only the FMA Executive Board (EB) has such legal power. The FMA EB may - notwithstanding its responsibility for the activities of the FMA - delegate decision-making power internally. Any delegation has to be laid down in the Rules of Procedure[19] which must be approved by the FMA Supervisory Board. Since the FMA Executive Board only comprises two members (the two FMA Executive Directors), two joint FMA/OeNB committees have been established to provide a platform for LSI information exchange and coordination as well as the opportunity to consult senior staff before making decisions on essential LSI supervisory issues: (i) the "National supervisory body at the division head level" (NAG-AL) that discusses specific and generic topics with regard to LSI supervision at head of division level; and (ii) the "National supervisory body at management level" (NAG-MA) that discusses essential specific or generic topics with regard to LSI supervision at top management level (heads of divisions, heads of departments, and EB members). The FMA and OeNB have also enhanced their mutual cooperation arrangements with the appointment of one "Single Point of Contact" (SPoC) for each LSI at both the FMA and the OeNB, which facilitates internal cooperation as well as external interaction with LSIs. The OeNB has also set up a structured internal delegation of responsibilities in order to fulfill its legal supervisory mandate, which includes several layers of internal review for key off-site and on-site supervisory processes handled by the OeNB (e.g., SREP conclusions, or on-site inspection reports).

---

[18] The BMF's organization chart is not public, but a high-level description of the responsibilities of the Directorates is: https://www.bmf.gv.at/en/the-ministry/internal-organisation/Central-Management.html.

[19] The FMA Rules of Procedures (internal delegation system for supervisory decision-making) has been updated in January 2025 (available in German only): https://www.fma.gv.at/wp-content/plugins/dw-fma/download.php?d=5613&nonce=f2f26cfcd799acc6.

D. Supervisory Independence

27. The principle of supervisory independence is enshrined in the banking law and protected by the Austrian Constitutional Law.[20] This essential principle is explicitly and clearly stated in the Banking Act, the FMA Act, and the OeNB Act for both the FMA and OeNB. They cannot receive any instruction pertaining to their supervisory mandate from the government or any other authority or external entity, except from the ECB in application of EU rules within the ECB/SSM framework (including for LSI oversight). This notwithstanding, and as noted earlier, the FMA Act (Article 16 para 4) contains a legal provision authorizing the BMF to order the FMA to carry out examinations.

28. The Banking Act assigns a clear supervisory mandate to the FMA, though the national economic interest must be considered. The FMA's legal mandate clearly states that its primary objective is to promote the safety and soundness of banks and the banking system. The Banking Act explicitly requests the FMA to use a risk-based approach for banking supervision. Nonetheless, per Article 69 (1) last sentence of the Banking Act relating to the FMA's responsibilities, *"[…] the FMA must monitor compliance with the provisions of this federal act […] using a risk-based supervisory approach, and in this context must consider the national economic interest in maintaining a functioning banking system and financial market stability."* Depending on the definition given to, or implications of the "national economic interest", it might potentially interfere with the financial stability mandate in case of any conflict of objectives. This might happen in a situation where deciding supervisory measures on a bank facing serious difficulties would be necessary to preserve financial stability but would be considered as not aligned with the national economic interest. Such situation may be seen as theoretical, and not relevant for LSIs given their non-systemic nature, yet there might be some slight ambiguity in Article 69 (1) should be used in a way that the safety and soundness of the banks and the banking system take priority over the national economic interest.

29. Legal protection of supervisors is ensured. The FMA Act states that the bodies and employees of the FMA entrusted with supervisory activities shall be granted legal protection if claims for damages are made against them as a consequence of their supervisory activities. The Federal State is liable for all damage that might be generated by the FMA when performing its duties. If the violation of law was committed or caused intentionally or through gross negligence, compensation may be claimed from the FMA employees. However, the FMA has also taken out a liability insurance policy. As the OeNB in the field of banking supervision solely acts as an auxiliary body of the FMA (Austrian Constitutional Court, G224/2021 ua), all its actions in the exercise of its related legal duties are attributable to the FMA (Austrian Supreme Court, 1Ob91/22x). Therefore, legal protection applies to the OeNB and its employees in the exercise of their banking supervision duties.

[20] FMA Act, Article 1 (1), Constitutional Law provision: *"For the purpose of conducting banking supervision, insurance supervision, securities supervision, and pension funds supervision an institution under public law with its own legal personality shall be established bearing the name of the "Financial Market Authority" (FMA). It shall not be bound by any instructions in the performance of its duties."*

30. The BMF has implemented its oversight role over the FMA in a way that has respected supervisory independence. As mentioned before in this TN (paragraphs 21,25 and 27), the BMF has legal prerogatives to enact prudential regulations, ensure that the FMA operates within its mandate, request information from the FMA, and order the FMA to undertake examinations. Effectively, this right of the BMF could potentially set the priorities for undertaking onsite inspections and therefore endanger the FMA's operational independence, though in practice this right has only been used once in 2006. Also, according to the authorities, the BMF has not objected to any regulatory suggestion made by the FMA or interfered with the prudential objectives pursued by the FMA through amendments to existing banking regulations. In addition, as indicated by the authorities, the oversight role played by the BMF over the FMA is limited to ensuring that the FMA is not acting beyond its scope of duty nor out of its legal powers, and the BMF has not made any concrete request or action that has undermined the FMA's supervisory independence. The authorities have further noted that the BMF has made few queries for information, mainly in case of complaints against the FMA. Vis-à-vis the OeNB, the BMF has no oversight role. Per the OeNB Act, Article 40, the Federal Minister of Finance appoints a state commissioner and a deputy state commissioner who participate in an advisory capacity in the meetings of the OeNB's General Council which has no executive power over LSI supervision. However, pursuant to the FMA Act, Article 16 para. 4, the BMF is authorized to commission the FMA with conducting audits (i.e. supervisory engagements in banks). Effectively, although this power has only been exercised once, this right of the BMF could potentially set the priorities for undertaking such "audit" activities and thereby endanger the FMA's operational independence.

31. Based on information provided by the authorities during the FSAP mission, there is no evidence of any breach of supervisory independence against the FMA nor the OeNB. The mission's documentation review and meetings with managers and staff employees at the FMA, OeNB, and BMF highlighted that the Austrian supervisory culture is based on understanding and respect by the government of supervisory independence, at least for micro-prudential supervision of LSIs which was the topic under review. Supervisors overall appear to have an excellent reputation for professionalism, and they have not faced unusual challenging tactics from supervised banks that would result from any form of institutional weakness.

32. Yet several factors may potentially undermine supervisory independence, may impact supervisory independence going forward, or may be perceived as possible threats to supervisory independence: (i) the governance framework of the FMA, (ii) supervisory budget and funding for LSIs; (iii) supervisory staffing for LSIs; and (iv) state commissioners appointed in LSIs. These factors are discussed below.

Governance Framework of the FMA

33. The composition of the FMA Supervisory Board[21] is sub-optimal for ensuring perceived supervisory independence. Per the FMA Act, Article 8 (1), the FMA's Supervisory Board

[21] The list of the FMA's Supervisory Board members is public: https://www.fma.gv.at/en/organisation/.

(SB) consists of the chairperson, the deputy chairperson, six additional members, and two co-opted members. The chairperson, the deputy chairperson, and the additional members are appointed by the BMF. The deputy chairperson and half of these (three) additional members are nominated by the OeNB, then appointed by the BMF. In addition, the SB co-opts two members named by the Austrian Economic Chambers. Co-opted members have no voting rights. Supervisory Board members are subject to suitability rules. Their term of office is five years, with possible re-appointment. At the time of the first FSAP mission, the Chairman of the FMA Supervisory Board was the BMF Director General for Economic Policy and Financial Markets, two SB members were BMF senior managers, and one co-opted member was the Managing Director of the Federal Division for Banks and Insurance at the Austrian Economic Chambers. This composition of the FMA Supervisory Board, with leadership and half membership positions held by high-ranking BMF representatives, and one member representing the banking business community, may potentially undermine the FMA's supervisory independence, or at least may be perceived as a potential threat to supervisory independence. However, such potential threat to supervisory independence should be put into perspective with the fact that it is explicitly stated in a constitutional provision in the FMA Act, Article 1 (1) that the FMA is independent and not bound by any instructions whatsoever. Authorities inform that after the conclusion of the mission an amendment to the FMA Act, Article 8 (1) was approved, explicitly stating that SB members are not bound by any instructions from the institutions that appoint them in the exercise of their mandate.[22] This notwithstanding, SB members still have power of influence due to their professional backgrounds.

34. Even though the FMA Supervisory Board has no legal executive power, it has several specific legal powers over the FMA's funding, staffing, and appointment of senior managers that might impact supervisory independence, given the Supervisory Board's composition. The FMA Supervisory Board cannot intervene into micro-prudential banking supervision; only the FMA Executive Board has full decision-making power. In that regard, as per the FMA Act, Article 10 (2), the Supervisory Board's approval is required on: (i) the FMA's budget and staffing plans; (ii) the FMA Rules of Procedure; and (iii) the appointment of the FMA's senior managers (staff members directly reporting to the Executive Directors). Depending on the way the Supervisory Board uses these specific powers, given its composition, it could potentially undermine supervisory effectiveness and independence, formally or informally, now or in the future, for example by objecting to budget and/or staffing plans proposed by the FMA Executive Board aimed at increasing supervisory resources, or to the promotion of an FMA staff member at a senior manager position for any reason. Such concern about the composition of the FMA Supervisory Board was expressed in the previous

[22] According to the authorities, the FMA Act has been amended to upgrade the duty of independence of SB members. The amended FMA Act was adopted in the National Council on January 21, 2026 and published in the official journal by February 2026 (Finanzmarktsammelgesetz (132/BNR) | Parlament Österreich). Source: https://www.parlament.gv.at/dokument/XXVIII/BNR/132/fname_1735475.pdf.

2020 FSAP but remains unaddressed.[23] The amendment to the FMA Act approved and published in February 2026 does not address the root issue that is the FMA SB composition.

35. Members of the FMA Executive Board are legally independent from the government, yet the Banking Act has not yet included any legal obligation to publicly disclose the reasons for the dismissal of an Executive Director. As noted above in the report, the law explicitly prohibits the Executive Board from receiving any instruction from the government. The two FMA Executive Directors are appointed by the BMF, one of them being nominated by the OeNB, the other one by the BMF. However, the legal obligation to disclose the reasons for the dismissal of an Executive Director was missing in the FMA Act at the time of the FSAP mission in 2025, but it will be implemented in Austrian law by an amendment to the FMA Act as a part of the national transposition of the CRD VI.

36. The FMA Executive Board has only two members with no collective body associated to decision-making. Given the current breadth of the FMA mandate (banking, insurance, pension funds, securities markets), adequately delivering on the full scope of its duties could be challenging for a two-person Executive Board with no official executive committee (only internal committees). The existing framework for supervisory decision-making at the Executive Board level may lack some form of structured collegiality, possibly with input from independent members, to ensure in-depth discussion and transparency of EB decisions which are also components of sound supervisory governance.

Supervisory Budget and Funding for LSIs

37. The FMA's budget is subject to a legal cap and a funding mechanism that would have limited financial resources for LSI supervision - until the authorities approved an increase of the legal cap in February 2026.[24] Per the FMA Act, the FMA Executive Board draws up a financial plan for every financial year including an investment and staff plan, which is submitted to the FMA Supervisory Board for approval and forms a binding basis for budget and staff management. The FMA's funding mechanism is based on three pillars whose details, including amounts, are enshrined in law. At end-year 2025: (i) the FMA receives an annual lump sum of EUR 4.6 million from the federal budget, of which 52 percent is allocated to SI and LSI supervision; (ii) acting as the NCA, the FMA may levy fees for particular services as defined by law (e.g., licensing fees); and (iii) the remaining amount is divided between banking supervision, insurance supervision, securities supervision, and pension fund supervision according to the directly attributable share of costs of each field of supervision. Banks' supervisory fees are based on proportionate unconsolidated risk-weighted assets (or own-fund requirements) with a legal cap, and not on the actual supervisory

[23] For the SB to better fulfil its role in the accountability framework, moving forward, the FMA SB could have independent non-executive members who do not represent industry or government in the scrutiny or decision making. Separate meetings could be held with any and all interest groups in order to facilitate transparency and the ability of all parties to express arguments and concerns.

[24] According to the authorities, after the mission, the legal cap on financial resources was increased in an amendment to the Banking Act (BWG) in the National Council on 21 January 2026 and published in the official journal by February 2026 (RIS - Finanzmarktaufsichtsbehördengesetz - Bundesrecht konsolidiert, Fassung vom 15.04.2026).

costs incurred by the FMA. The methodology used for calculating supervisory contributions could become an additional constraint on the downside if banks engaged in deleveraging strategies which would reduce the calculation basis of their contributions. Following the preliminary findings of the FSAP mission in November 2025, amendments were introduced in the Banking Act, which increased the lump sum up to EUR 6.1 million, and determined a gradual subsequent increase of the legal cap of 20 percent by 2029. As acknowledged by the FMA during the FSAP mission in 2025, there was high pressure on the resource situation of the FMA resulting from the "resource bottleneck". From 2026, pressure on the resource is reduced by the legal amendments introduced after the FSAP mission, as mentioned before. Yet tangible effects on supervisory capacity – i.e. recruiting, training, seasoning - may take time. Overall, the FMA's budget has increased in recent years. The evolution of financial resources dedicated to LSI supervision cannot be evaluated without specific data, but the authorities have taken action by early 2026 to review the FMA costs and funding of banking supervision in 2027 and evaluate synergies within the banking supervision departments of FMA and OeNB.[25]

38. Though the OeNB has limited external funding for banking supervision, the authorities have decided to reduce the OeNB's budget allocation in February 2026, and a systematic cost reduction plan is envisaged by the OeNB, potentially impacting LSI supervision. The central bank's budget, including for banking supervision, is left at the discretion of the OeNB, it does not require any *ex-ante* approval of the BMF, and it is not integrated into the overall budget of the public sector. While the OeNB spends roughly EUR 62 million on banking supervision(with no specific details for LSI supervision), the reimbursement by the industry (via the FMA) was capped at EUR 8 million in 2025, at the time of the FSAP mission in November 2025, and it will decrease by EUR 1 million down to EUR 7 million in 2026 and 2027, according to the amendments introduced to the Banking Act in February 2026 while at the same time the FMA's budget is increased by EUR 1.5 million up to EUR 6.1 million as mentioned above. Under the new law, the OeNB's budget allocation can be reduced due to exceptional circumstances further to EUR 6.5 million by the FMA. As reported during the first FSAP mission in November 2025, a uniform cost reduction plan of 5 percent has been envisaged at the OeNB in order to contribute to the country-wide efforts to control public spending. Without any information available about the OeNB's budget reduction modalities or impact analysis, potential incidence on current supervisory resources dedicated to LSI supervision could not be evaluated during the FSAP mission. Even if the negative equity of the OeNB[26] is not viewed by the central bank as a threat to supervisory independence, the potential implications of the financial situation of a central bank having no more own funds could be

[25] According to the authorities, amended provisions of the FMA Act, Article 26g are the following: *"By 30 November 2027, the Federal Minister of Finance shall evaluate and report on the relevant national legislation on banking supervision with a view to identifying any additional synergies that may exist. This evaluation shall also collect and assess the current and projected costs of banking supervision, taking into account in particular the number of credit institutions and their balance sheet total. In addition, the report shall identify possible synergies, in particular with the FMA and OeNB, as well as potential cost savings, if any, and report on possible legislative adjustments for 2027."*

[26] 2024 OeNB Annual Report, page 87: *"As of December 31, 2024, the OeNB's own funds had decreased by EUR 2,122.011 million to -EUR 723.909 million (2023: EUR 1,398.102 million). On December 31, 2024, the OeNB for the first time recorded negative own funds, given that the loss for the year (including the loss carried forward from the previous year) exceeded its capital and reserves."*

misunderstood by people who are not familiar with central banking accounting (most of the public) and potentially generate reputational risk.

39. Financial resources available for LSI supervision are approaching limits, and this has started to weigh on LSI supervision. In recent years, the FMA and the OeNB have introduced internal reforms to streamline risk-based supervisory work, considering the principle of proportionality, and developed new supervisory systems and instruments to improve the efficiency of supervisory processes.[27] The FSAP mission found that supervisory staff is working intensively with a great sense of dedication and team cohesion, internally and jointly between the FMA and the OeNB, in order to achieve assigned objectives, make LSI supervision impactful, and continuously improve efficiency. Yet it appears that the overall supervisory strategy developed by the FMA is structured around the constraint of limited financial resources available for LSI supervision. The extensive use of the principle of proportionality, even though it makes sense from a risk-based perspective, is one key illustration of this strategy, with the multi-year full SREP cycle for LSIs not classified in the high-impact, high-risk, or focus bank categories. The low number of on-site inspections also reflects the OeNB's limited financial resources for LSI supervision. No assessment of financial resources needed for LSI supervision has been made recently by the FMA Executive Board in a systematic and forward-looking manner, including the estimated impact of recently completed and ongoing internal reforms and IT projects, also incorporating the input of the OeNB for LSI supervision. The quarterly and annual reports of the FMA EB to the SB reviewed during the FSAP mission lacked strategic multi-year budget planning in this area. After the mission, in February 2026 the authorities decided, with the newly amended FMA Act, Article 17a, to foresee a multi-year budget plan to enable strategic and forward-looking resource management.

Supervisory Staffing for LSIs

40. The aggregated number of staff dedicated to LSI supervision at the FMA and OeNB has slightly increased but is still low compared to the high number of LSIs, making Austria an outlier within the SSM. Of course, the FMA and OeNB are separated authorities and have independent staffing strategies. The FMA increased the overall number of full-time employees (FTEs) from 381 FTEs in 2019 to 426 FTEs in 2024 (data available at the time of the FSAP mission). The OeNB increased the overall number of banking supervisors by 11.5 FTEs in 2022, based on lessons learned from a problem bank case and on a study on future staffing needs. In comparison, the FMA has fewer staff than the OeNB for LSI supervision. Based on data provided by the authorities during the FSAP mission, the overall number of staff directly assigned to prudential supervision of LSIs was 128.2 FTEs planned in 2025 (42.3 at the FMA and 85.9 at the OeNB), against 126.1 FTEs in 2024 and 123.7 FTEs in 2023. At the same time, the number of LSIs has decreased from 446 in 2023 to 431 in 2025. On average, a single supervisor was fully responsible for 3.3 LSIs in 2025, making Austria an outlier within the SSM, and being a source of concern about the adequacy of supervisory staffing.

[27] For illustration: those reforms include the implementation of the multi-year-assessment (MYA) within the LSI SREP, enhanced use of AI and machine-learning tools for on-site and off-site supervision, extension of the interval for recovery plan assessments, etc.

41. Several indicators suggest potential understaffing for LSI supervision. As noted above, no overall assessment of the level of human resources needed (especially in terms of headcount) for LSI supervision has been made recently in a systematic and forward-looking manner. Yet several signs warn of possible understaffing for LSI supervision: (i) as a result of budget limits (see above), reforms of the internal organization, allocation of supervisory staff, and IT projects have been partly implemented with the objective to optimize supervisory efficiency (i.e. to deliver more workload with no additional staffing), not only to enhance supervisory effectiveness; (ii) although adhering as much as possible to a risk based approach, supervisory intensity has been adapted in the light of the limited number of staff;[28] (iii) situations requiring urgent supervisory response, such as emergency bank problems, are addressed by the FMA and OeNB by mobilizing staff in a way that may weigh on regular supervisory activities and workplans, and highlight the low "human capital buffer" to address simultaneous banking crisis situations.

42. Staff dedicated to LSI supervision at the FMA and OeNB have demonstrated proven expertise. The supervisory authorities have developed a structured training program for their employees, including LSI supervisors, including modules on new regulations and evolving supervisory processes, such as the SREP (a recommendation of the past 2020 FSAP). The training strategy combined with internal supervisory procedures supports the supervisory experience accumulated by practicing supervisory work. The recent development of horizontal supervision units and expert groups helps to continuously improve and maintain overall supervisory expertise. Staff turnover appears rather low, which is an asset for the NCA. Information collected throughout the FSAP mission highlighted the excellent level of overall expertise demonstrated by the FMA and OeNB, which is confirmed by the strong "soft power" of supervisors on LSIs who usually enforce supervisory requirements without being obliged to activate more cumbersome formal legal proceedings.

43. Overall, the current low human resources at the FMA and OeNB have impacted LSI supervision and might ultimately undermine supervisory effectiveness. Since supervisory authorities should have adequate human resources, according to international standards, insufficient staffing resulting from existing and potential budget constraints may result in overall insufficient intensity of LSI supervision and be a source of concern for supervisory capacity, especially in crisis times and going forward. Even though the authorities are doing their best to deliver the most effective and quality supervisory work with stretched resources, resource limitation may potentially result in unintended hard choices which might ultimately undermine supervisory effectiveness.

[28] FSAP documentation and meetings highlighted many examples of such combination, especially for the supervision of the network of *Raiffeisen* banks (89 percent of the total number of LSIs), e.g., the specific SREP for *Raiffeisen* primary banks, the limited number (9) of "Focus Banks", the frequency of supervisory meetings with LSIs at board level, the limited number as well as the selective and targeted scope of on-site inspections, etc.

State Commissioners Appointed at LSIs

44. The appointment of a state commissioner and a deputy state commissioner in every bank with balance sheet over EUR 1 billion is an Austrian-specific framework. Most state commissioners are BMF employees appointed by the BMF for a 5-year renewable mandate at around 130 LSIs. Professional qualification in accordance with the Austrian Banking Act and FMA guidelines is required, though not all of them have experience or expertise in banking supervision. A training program covering recurring and pertinent supervisory topics and key areas has been developed jointly by the BMF and the FMA, with attendance being monitored but not mandatory. Enhanced fit-and-proper requirements are applied to state commissioners in the selection process. State commissioners are paid by the banks to which they are appointed (sometimes, more than one). They legally report to the FMA under 2023 FMA guidelines, are bound by instructions from the FMA, are subject to strict confidentiality obligations, and must not receive any instruction from the BMF pertaining to their mandate. State commissioners attend LSI general meetings and meetings at LSIs' board of directors and other governance committees (e.g., audit committee, risk committee). Their duties include the right to object to any decision that would breach applicable laws and regulations, which postpones the effectiveness of the board resolution until the supervisory authority's decision. They formally report quarterly and annually to the FMA, sometimes with a delay[29], on their activities, which overall is considered a valuable source of useful information by the FMA In case of serious risks also ad-hoc reporting is required.

45. Although it appears to be well-accepted, the Austrian framework of banks' state commissioners may raise questions about supervisory independence. From the authorities' viewpoint (the FMA and BMF), state commissioners are an integral component of banking supervision in Austria, they play a vital role in enhancing LSIs' governance through their participation in their board meetings, they act as a source of useful information, their involvement supports the early detection of risks and generally hazardous circumstances in an efficient and proportionate manner, they contribute to the cost-effective use of supervisory resources, and therefore they can be regarded as an additional safeguard within the banking supervision framework. The authorities consider the commissioners could not be replaced by any enhanced engagement of the FMA and OeNB with LSIs' boards of directors, given scarce supervisory resources. During the FSAP mission, meetings with various stakeholders expressed the view that it would be counterproductive to remove the Austrian-specific framework of state commissioners. Some changes have been made to improve this framework since then (e.g., FMA circular, training modules, fit-and-proper).[30] Even so, the state commissioner framework is not yet fully structured in a rigorous manner: (i) initial and periodic training is not mandatory; (ii) thorough testing of expertise of state commissioners in banking regulation and risk-based supervision is missing at the appointment stage and after training sessions are completed; (iii) the FMA has no legal veto power to object to the appointment

[29] This finding was highlighted by the Austrian Court of Audit in its 2024 report on "Banking supervision by the FMA and OeNB" (in German only): https://www.rechnungshof.gv.at/rh/home/home/2024_3_Bankenaufsicht.pdf.

[30] See the FMA's information page: https://www.fma.gv.at/en/financial-market-supervision-in-austria/co-operation-with-state-commissioners/.

of a state commissioner or dismiss a state commissioner that would underperform; (iv) moreover, appointing state commissioners with multiple mandates can have negative effects from the ethical viewpoint (especially regarding impartiality, and the protection of confidential information). Therefore, the current framework of state commissioners can still be perceived as having a limited potential impact on supervisory independence. Notwithstanding the improvement observed in the state commissioner's framework and practice since the last FSAP, which recommended the removal of state commissioners, it would be more appropriate to leave interactions with banks' board of directors entirely to supervisors without the interference of state commissioners.

E. Accountability

46. Supervisory disclosure by the FMA and OeNB on banking regulation and supervision is extensive, although the part on LSI supervision is not very specific. Information published on the FMA's website includes abundant documentation on the applicable legal and regulatory framework, including FMA circulars and guidelines, as well as annual reports, strategic supervisory objectives, and analytical views based on facts and figures for the banking sector. The OeNB also contributes with useful documentation and analysis, including annual reports and financial stability reviews. Nonetheless, developments on banking supervision do not always include information and data specific to LSI supervision, for which the NCA is directly responsible. Supervisory authorities are also subject to audit by the Austrian Court of Audit, whose latest comprehensive audit report on banking supervision was disclosed in 2024.

F. Institutional Cooperation

47. Cross-border cooperation agreements are in place between the NCA and the "home" or "host" supervisory authorities, regarding Austrian LSIs controlled by a foreign bank or operating outside Austria through a branch or a subsidiary, except for non-material entities (one case discussed during the mission of a branch in Switzerland). Since no third-country bank branch is operating in Austria for the time being, there is no need for the NCA to sign any MoU with peer supervisory authorities outside the EEA.

48. Institutional cooperation between the FMA and OeNB and APAB, the oversight body of banks' external auditors should be further enhanced. APAB has a legal oversight mandate over external auditors of most important Austrian companies, including banks. This oversight framework is well structured with fit-and-proper requirements, performance evaluations, and on-site inspections of external auditors performed directly by APAB's teams. The APAB has legal power to request external auditors improve their audit practices, and sanction external auditors who fail to deliver on their mandate. The APAB adds value to LSI supervision by performing oversight on LSIs' external auditors. Communication channels exist between the APAB and the FMA, that has legal powers to request information from LSIs' external auditors. The FMA also has the legal right to object to the appointment of the external auditor of a bank. Nevertheless, the existing legal framework has one weak point: the FMA has no legal power to directly request LSIs' external auditors to share their working papers on a need-to-know basis, with the FMA being subject to strict confidentiality rules. At the time of the FSAP mission in November 2025, the APAB also had no legal power to formally notify the FMA of any finding on any LSI external auditor resulting from its oversight work. A draft law was under preparation to address this point. This reform has been completed soon afterwards: the exchange of information between the APAB and the FMA is now possible, based on the amendment to the Audit Oversight Act (APAG), Article 80 (6), adopted in the National Council on 21 January 2026, published in the official journal by February 2026.

PRUDENTIAL REGULATION OF LSIs

A. Application of EU Norms for LSI Supervision

49. Rules issued by the European Institutions applicable to SIs within the Euro Area also apply to LSIs. "Level 1" rules include the Capital Requirements Directive (EU) 2024/1619 (CRD VI) that must be transposed by January 10, 2026 (ongoing process in Austria), and the Capital Requirements Regulation (EU) 2024/1623 (CRR III) that applies from January 1st, 2025.[31] "Level 2" rules include guidelines of the European Banking Authority (EBA) and Commission Implementing and Delegated Regulations based on drafts developed by the EBA,[32] as well as supervisory guidance, methodology, and orientations published by the ECB/SSM. The Austrian authorities apply European banking rules for all banking institutions, SIs as well as LSIs, and have enforced these EU rules in national legislation (the Banking Act[33]) accordingly. The EBA regularly assesses the NCAs' compliance with applicable EBA guidelines. The FMA has self-reported full compliance without any material deviation regarding Austria, nor use of any national discretion or non-harmonized implementation of EU rules.[34] The legal and regulatory framework applicable to banking supervision in Austria is therefore aligned with European norms, which reflects the strategy implemented by Austrian authorities to fully comply with EU rules. Selected approval procedures by the NCA (e.g., on an LSI's derogation request to the application of liquidity requirements) are based on the CRR.[35] As a reminder, this targeted review which scope focuses on LSI regulation and supervision in Austria

[31] For comprehensive information on EU banking rules, see the European Commission's website: https://finance.ec.europa.eu/regulation-and-supervision_en; the ECB/SSM's website: https://www.bankingsupervision.europa.eu/framework/legal-framework/html/index.en.html.

[32] To access banking regulations applicable in the EA, see the EBA's website: https://www.eba.europa.eu/regulation-and-policy/single-rulebook/interactive-single-rulebook.

[33] The Austrian Banking Act (*Bankwesengesetz* – BWG) was last modified in September 1st, 2025: https://www.fma.gv.at/wp-content/plugins/dw-fma/download.php?d=468&nonce=97e5b99cdcffb5c0.

[34] The FMA mentioned during the FSAP mission that Austria is not in a legal position to comply with the EBA governance requirement to have independent members on the nomination committees in G-SIIs and O-SIIs (EBA GL, para. 51): according to a decision by the National Assembly, the independence requirement has not been adopted in the Banking Act for the nomination committee.

[35] FMA webpage on approval procedures: https://www.fma.gv.at/en/banks/approval-procedures/.

has not reassessed the compliance of EU banking rules against BCPs which were assessed in the context of the 2025 EA FSAP, including a full BCP assessment.[36]

50. Banking legislation and regulation of LSIs have been made public and accessible in English.[37] Even though banking legislation and regulation is quite integrated within the Eurosystem, NCAs still have specific regulatory and supervisory powers that should be used at national level, for instance on: (i) regulating risk domains that are not currently covered at European level, such as transactions with related parties, country risk, and major acquisitions (this gap is addressed with CRD VI, awaiting transposition in Austria); (ii) co-assessing with the ECB licensing applications submitted by LSIs, and compliance with fit-and-proper requirements of LSIs' board members and senior management; (iii) full supervision of third-country bank branches (not applicable in Austria); and (iv) sanctioning. In Austria, the banking legislation and regulation framework comprises three layers: (i) legislation, including e.g., the Banking Act, the FMA Act, the OeNB Act, and several specific laws on specialized domains or bank categories; (ii) prudential regulations issued in application of the laws, including e.g., FMA Regulation on Risk Management, or Capital Holdings; and (iii) FMA Minimum Standards (e.g., on Compliance) and FMA Circulars (e.g., on Risk Assessment, or Assessment of Suitability). Legal documents are disclosed in English.

B. Licensing Criteria, Fit-and-Proper Requirements

51. Licensing criteria applicable to LSIs require the examination of a range of quantitative and qualitative data from a risk-based perspective. Common uniform procedures now apply to both significant and less significant institutions in relation to licensing issues and qualifying holdings (SSM common procedure with the ECB responsible for decision taking on the basis of a NCA proposal). Not many applications for licensing new LSIs have been received in Austria since the 2020 FSAP. The FMA has had to deal more with mergers of *Raiffeisen* primary banks than openings of new banks. Nevertheless, applicable regulations require candidate banks to submit all information requested by the FMA in order to assess not only the business plan and financial soundness prospects based on estimated data, but also the adequacy of envisaged corporate governance, risk management, and internal control frameworks, including outsourcing arrangements, based on qualitative documentation. The bank licensing process includes the identification of the bank's ultimate beneficial owner (UBO). In addition, any transfer of significant capital ownership or major change of corporate structure requires prior approval of the FMA. There is no yearly updated assessment of the financial soundness of LSIs' shareholders.

[36] For a comprehensive assessment of the compliance of EU banking rules with international standards, see the 2025 EA FSSA report and FSAP TNs and DAR disclosed on the IMF's website (op. cit.). The Basel Committee Regulatory Consistency Assessment Programme (RCAP) determines whether regional and national standards meet the international standards: https://www.bis.org/bcbs/implementation.htm?m=89.

[37] To access Austrian banking legislation and prudential regulation, see the FMA's website (English translation available): https://www.fma.gv.at/en/national/. More specifically on: supervisory laws for banks, see https://www.fma.gv.at/en/national/supervisory-laws/#49; FMA Regulations for banks, see https://www.fma.gv.at/en/national/fma-regulations/#49; and FMA Minimum Standards and Circulars, see https://www.fma.gv.at/en/fma/.

52. Fit-and-proper requirements on LSIs' board members, senior management, and key function holders have been improved. The FMA has upgraded the evaluation process of fit-and-proper criteria. Candidates are required to pass thorough examination tests designed by the FMA including multiple questions on banking regulation and supervision as well as risk management before starting their first appointment as board member. Those who fail the test (rare cases) may reapply once. The FSAP mission was able to review a sample of fit-and-proper assessments, including examination tests.

C. Major Acquisitions, Transactions with Related Parties

53. Major acquisitions of non-financial companies planned by LSIs are not subject to supervisory approval or pre-notification. As pointed out by the last 2020 FSAP, referring to international standards (BCPs, Principe 7, Essential Criterion 1), the FMA has no legal power in that matter. This situation was left aligned with the previous European framework (CRR II) which did not require any supervisory approval or pre-notification in such cases. The authorities have taken no action since then, awaiting the modification of the EU legislation which was finally made with the CRD VI. Therefore, once the CRD VI is legally transposed in Austria, planned for the first half of the year 2026, this gap would be addressed.

54. As pointed out by the 2020 FSAP, regulatory requirements on transactions with related parties are impaired by the incomplete definition of the latter. The authorities have taken no action, arguing that the definition of related parties has not been modified in the European framework and should be upgraded first before any change is decided at national level. Nonetheless, international standards (BCPs, Principle 20, Footnote 56) require that related parties should include four categories of entities, among which: *"(a) the bank's subsidiaries and affiliates (including their subsidiaries, affiliates and special purpose entities) and any other party that the bank exerts control over or that exerts control over the bank; (b) the bank's major shareholders, including beneficial owners."* The Banking Act, Article 28 (1) does not include the above-mentioned two categories in the definition of related parties. Such a "grey zone" in the regulatory framework impact off-site and on-site supervisory practices which appear to be limited with respect to transactions with related parties.

D. Consolidated Supervision

55. Consolidated supervision of LSIs is effective in Austria. All LSIs that are part of a banking group are supervised on a consolidated basis at group level as well as on individual unconsolidated basis. Around half of LSIs outside the Raiffeisen sector are part of such a banking group and are therefore additionally supervised on a consolidated basis. Only one LSI was supervised on a consolidated, cross-border basis in 2025 and will not be subject to consolidated supervision from 2026 because of a planned change of structure. Responsibility for supervision of compliance with national law (e.g., on covered bonds, building societies, housing) on an individual basis lies with the NCA and covers also banks classified as SI, like *Sparkassen* and *Volksbanken*, without prejudice to their prudential supervision on a consolidated basis by the ECB. LSIs affiliated with *Raiffeisen* are not supervised on a consolidated basis, given the inverse ownership structure of this network. Nevertheless, aggregated supervision of *Raiffeisen* has been improved since 2019 with the R-IPS now fully covering *Raiffeisen* banks. Even if they are part of a banking group, LSIs are subject to individual supervision.

RISK-BASED SUPERVISION OF LSIs

A. Supervisory Approach, Techniques and Tools, Reporting

56. The supervisory strategy, policies, and processes implemented by the NCA for LSI supervision in Austria are based on EU rules applicable to banks and closely integrated into the framework set by the ECB/SSM for LSI supervision. The FMA and OeNB have used the flexibility available to NCAs at the national level for LSI supervision in terms of strategic planning, internal organization, and processing, but the overall supervisory approach in Austria follows the common guidance and methodology defined by the ECB/SSM to ensure consistency of LSI supervision within the Euro Area.

57. LSIs are classified into the SSM risk categories, plus a national special-monitoring category. According to the SSM classification methodology, Austrian LSIs are classified into four categories: "high-impact" (HI), "high-risk (HR), "small and non-complex" (SNCI), and "non-high impact and non-SNCI". In November 2025, there were 10 HI LSIs and 2 HR LSIs for a total number of 314 LSIs. Classification criteria follow the ECB's guidance. In addition, the FMA has put nine LSIs under special surveillance in a dedicated category ("focus bank") including the 2 HR LSIs, based on the conclusions of the SREP or any other supervisory concern requiring special attention. The targeted review of this FSAP mission has not assessed whether the classification policy into the focus bank category is adequate or restrictive from a risk-based viewpoint, considering the risk profile of LSIs.

58. The FMA and OeNB have made an extensive use of the principle of proportionality for streamlining the heavy supervisory workload generated by the large number of LSIs, while keeping LSI supervision risk-based and aligned with the ECB/SSM's expectations. Risk-focus and proportionality are two essential drivers of the Austrian approach for LSI supervision that are proactively combined with the objective to maximize supervisory effectiveness and efficiency in the context of limited resources. The documentation reviewed and meetings held during the first FSAP mission illustrated that these two principles are embedded into the overall LSI supervisory structure, including supervisory objectives, reforms, processes, planning and action. For example, this approach is implemented regarding the *Raiffeisen* network to identify most material risk issues and avoid any systematic and comprehensive SREP and/or on-site inspection of each *Raiffeisen* primary bank every year. Such specific strategy for *Raiffeisen* supervision may make sense in principle, given the large number of very small *Raiffeisen* primary banks with simple business models, but it needs to be carefully structured and fine-tuned given the lack of consolidated supervision. In that regard, the FMA and OeNB have developed supervisory interaction with *Raiffeisen Landesbanken* which play a support role for *Raiffeisen* primary banks at the regional level (e.g., for liquidity risk management), as well as with the *Raiffeisen*-IPS, in order to leverage the outcome of internal oversight performed at various layers of the *Raiffeisen* network. On-site inspections of *Raiffeisen* LSIs are not subject to a pre-determined examination cycle but are mostly planned when issues or concerns have been highlighted by off-site supervisors or key data/indicators highlight outliers. Yet a simplified multi-year SREP has been designed for each Raiffeisen primary bank to maintain minimum direct supervisory interaction at least every three years. Another example is the increased supervisory intensity implemented for HI and "focus bank" (FB) LSIs, for which a full SREP is performed annually (HI), and more thorough and frequent risk assessment is made by a dedicated unit (FB) at the FMA.

59. Overall, the LSI supervision framework appears to be objectively risk-based and risk-focused in Austria, yet supervisory intensity has probably been streamlined as much as it could reasonably be for non-high priority areas. The application of the principle of proportionality for LSI supervision has resulted in varying intensity of tangible supervisory action. Average activity indicators are not always meaningful, given the heterogeneity of the LSI sector (314 LSIs, among which 281 *Raiffeisen (incl. Landesbanken)* and 33 other LSIs), without available activity indicators that would be more granular (at least segregate *Raiffeisen* from other LSIs). Based on the FMA report to the ECB on "Off-site LSI supervision activities" (in 2023, confidential, without data on FB LSIs), off-site supervisory intensity (e.g., meetings) appears notably higher for HI and HR LSIs than for SNCI LSIs, but the total number of on-site inspections (26) looks rather low in absolute terms. Besides, activity indicators related to individual supervision do not fully reflect the diversity and added value of supervisory work, especially horizontal supervision and thematic reviews, that contribute to risk-based supervision of LSIs. In all, it has been challenging during the FSAP mission to get a fair sense of the adequacy of supervisory intensity on LSIs from a risk-based perspective.

60. Off-site supervision of LSIs at the FMA and OeNB is structured around a mix of individual and horizontal supervision. The major component of the off-site supervision framework is the SREP, whose methodology is aligned with the SSM Manual and supplemented by detailed questionnaires. An annual full SREP is performed for HI LSIs only. The off-site supervision workstreams comprise meetings with LSIs, including at the level of board of directors, senior management, key function holders, and external auditors, and meeting frequency is risk-adjusted. Individual analysis of LSIs' financial and prudential data is supplemented by thematic reviews supported by horizontal supervision and expert group units. For instance, 18 such reviews were done in 2023 (source: confidential report to the ECB) on various aspects of credit risk, operational risk, and liquidity risk. The FMA and OeNB coordinate off-site supervision work through their respective SPoCs.

61. On-site inspection of LSIs is performed by the OeNB.[38] On-site inspection planning is integrated and aligned with overall supervisory strategy planning. The annual inspection program mostly aims at investigating material risk areas highlighted by off-site supervision. The OeNB performs various kinds of on-site inspection (e.g., targeted, follow-up, etc.). It has not been usual practice to extend the scope of any on-site inspection to an essential outsourced service provider so

[38] Except for AML/CFT: the FMA is legally responsible for on-site inspection of LSIs in this domain.

far, yet such practice was introduced in the course of the European DOR Act implementation in Austrian law (effected 2025), and a first direct on-site examination of an ICT third party provider is planned for 2026. On-site inspection methodology is aligned with good practices, thorough and factual inspection reports are drafted and reviewed internally before follow-up of findings is processed by the FMA. The scope of on-site inspection of LSIs has focused on most high-risk institutions and material risk domains, including credit risk (e.g., real estate exposures), and operational risk. The FSAP mission could review and determine the good quality of a sample of on-site inspection reports of LSIs completed by the OeNB in various risk domains.

62. The current inspection strategy is based on a combination of strategic inspection cycles and risk-based supervisory pools: (i) strategic inspection cycles are differentiated for HI LSIs (every 3–5 years), SNCI LSIs excluding *Raiffeisen* banks (every 10–12 years, and non-SNCI LSIs (every 5–7 years); (ii) supervisory pools are dedicated to *Raiffeisen* banks, non-CRR credit institutions, follow-up inspections, risk pool (focus banks, ad-hoc inspections, and ad hoc mandate extensions), multi-module inspections, data centers/system operators, and IT-focused on-site inspections. The authorities are confident that, considering the structure of the Austrian banking market, the existing on-site inspection strategy, based on the principles of risk orientation and proportionality, ensures adequate coverage of the relevant risk areas. Even so, if quality and risk-focus of on-site inspections are essential, quantity is another component of supervisory effectiveness which is probably sub-optimal, because in the end the number of on-site inspections stands below 30 per year for 314 LSIs (281 Raiffeisen (incl. *Landesbanken*), and 33 other LSIs).Increasing the number of on-site inspections would help to keep supervisory effectiveness on the safe side, because global supervisory experience has demonstrated that on-site inspection is the ultimate way to identify misreported information or governance problems that would not be reflected in regulatory reporting or short meetings, given that on-site inspection can access root sources of information and assess the inspected bank's risk management practices thoroughly from the inside.

63. Regulatory reporting is based on the common requirements applicable in the Euro Area. New reporting requirements are discussed at the national level with the banking community. Data collection from banks is instrumental for the FMA and OeNB whose supervisory work increasingly relies on automated data processing. Though assessing the adequacy and proportionality of the regulatory reporting dedicated to risk-based supervision of LSIs was not part of the scope of this FSAP, some counterparts noted that the reporting workload could be challenging for smallest LSIs, due to the quantity and granularity of data requirements. There are currently no special or additional regulatory reporting requirements for HI LSIs nor HR LSIs in Austria. However, there is a gradation of reporting requirements for SNCIs and non-SNCIs in application of proportionality. Regulatory reporting is subject to automated screening and quality control.

64. The FMA and OeNB are actively upgrading their IT systems with supervisory technology (SupTech) to develop automated supervisory tools and processes. Several reforms of the IT system have been implemented or are planned to bolster automation and improve efficiency (e.g., dashboards, templates). For instance, the FMA has launched an Innovation Lab and the 360° Project (that uses data from the OeNB MARS tool), a supervisory data analysis system helping make peer group comparisons and simulations), while the OeNB has developed several systems, such as the Banking Analysis and Surveillance System (BASS) integrated with the Data and Analysis Platform (DAP) and the Questionnaire Innovation Tool (QUIT), and the Bank On-Site Supervision (BOSS) tool for on-site inspections. Most IT projects are carried out internally by the FMA or the OeNB, which is understandable given their respective roles in LSI supervision. It was not in the scope of the FSAP to assess whether there would be room for enhanced synergies and co-development plans between the FMA and OeNB. They already share a common bank database.

B. Preventive Supervisory Action, Early Intervention

65. The FMA and OeNB have developed an early warning system. The supervisory system and tools in place include a set of early warning indicators that are generated automatically to flag potential issues and that must be ultimately analyzed and cleared by supervisors. In addition to horizontal analyses covering different banking sectors, there are different types of early warning indicators for LSIs in Austria, which are monitored based on regulatory reporting data: (i) ABBA (Austrian Banking Business Analysis), including total score flags and warning flags; (ii) signal warning flags (preliminary stage to early intervention or recovery warning flags); (iii) ECB's "Phase 2 Scores" (requiring attention) for LSIs; (iv) early intervention or recovery warning flags; and (v) insolvency warning flags. For the *Raiffeisen* primary banks, covered by the specific *Raiffeisen* Basis SREP, these five kinds of early warning indicators are also used. In addition, the OeNB has defined a set of key risk indicators that describe the risk situation of a typical *Raiffeisen* bank. In all, the overall supervisory approach used for early detection of LSIs' actual or potential fragilities mainly relies on the automated alert system based on quantitative data and triggers. The lower frequency of supervisory interaction with LSIs that are not classified as HI, HR, or FB may put the FMA and OeNB at risk of delayed detection of regulatory compliance or risk issues resulting from qualitative triggers, but such risk may be mitigated by the warning signals coming from the LSIs themselves, external auditors, and state commissioners (which all have the legal duty to alert the FMA).

66. Legal powers or early intervention powers are mainly used if remediation of findings cannot be achieved with less formal supervisory requests, which are usually effective in Austria. According to the Banking Act (BWG) and the Federal Act on the Recovery and Resolution of Banks (BaSAG), the FMA has full legal powers to order remediation action to address regulatory infringements. These legal powers include a large range of actions including, e.g., limitations of banking activities, restriction of dividend distribution, removal of the bank's board members or senior management, etc. The formal early intervention powers (BaSAG) may be activated once a dedicated trigger has been breached (e.g., the LSI's total capital falls below its own capital requirement plus 1.5 percent). Before the financial condition of an LSI deteriorates to that extent, the FMA may use the legal powers granted by the Banking Act (BWG) at an earlier stage. This range of powers is appropriate to take preventive or corrective action in order to address actual or emerging risk issues, as well as regulatory infringements. In practice, it appears that the FMA and the OeNB have enough authority vis-à-vis LSIs to get them to implement remediation action once they have been notified of any concern (e.g., inspection report, SREP rating, etc.), without being challenged by excessive non-constructive complication that would require that more formal legal enforcement procedures be used. The FMA has a good track record of correcting bank weaknesses without resorting to formal powers.

67. Sanctioning LSIs is not common practice in Austria. Financial penalties can be used as part of LSI supervision. In the procedure for restoring a lawful situation, coercive penalties may be imposed, but these do not constitute sanctions in the administrative penalty law sense. The penalty for administrative offences is of relatively minor relevance in practice as regulatory compliance is mostly achieved through corrective actions.

C. Capital Adequacy

68. The applicable capital regulation demands that each LSI must fulfill capital requirements on an individual basis, even within a group; No capital waivers are granted to LSIs in Austria. Since none of the LSIs apply internal models for regulatory capital requirements, supervisory validation of internal models is not applicable in Austria.

69. LSIs are subject to tailored Pillar 2 requirements. In compliance with the EBA SREP guidelines, the FMA sets additional capital requirements based on SREP assessments (including ICAAP analysis and the results of supervisory stress tests) done by the OeNB and own governance assessments. These include binding requirements (total SREP capital requirement, TSCR) as well as thresholds for supervisory action (Pillar 2 guidance, P2G). Capital requirements are adjusted for each LSI according to its risk profile. Additional Pillar 2 capital requirements are calculated for each material risk domain that is not adequately covered by Pillar 1 capital requirements. The applicable Basel requirements are considered as the absolute minimum. Almost all LSIs are subject to higher overall capital adequacy standards, and in the vast majority of cases by a substantial amount. Average capital surpluses are well above 5 percent. Surplus capital, beyond any legal requirement, contributes substantially to the stability of the LSI sector. The FSAP mission saw several illustrations of SREP performed on LSIs and subsequent application of Pillar 2 additional capital requirements on specific risk domains.

D. Risk-Based Supervision of Main Risk Areas

70. Supervision of LSIs' corporate governance, risk management, and internal control frameworks is mainly performed thoroughly through the SREP, based on detailed EBA guidelines. The FMA and OeNB have incorporated business model analysis into the assessment methodology of the adequacy of governance. Supervisors also examine key risk-sensitive topics pertaining to the overall corporate governance frameworks and the sustainability of business strategies (e.g., digitalization, climate-related risks) of LSIs. The downside is that such thorough review may not take place every year for smallest LSIs that are not classified as "focus banks" and do not have any state commissioner. The specific on-site inspection modules on governance and risk management have been examined only a few times recently in LSIs: six in 2023, three in 2024, and three in 2025 for governance, as well as one in 2023, and one in 2024 for risk management, but the OeNB usually includes these topics within the scope of any thematic on-site inspection.

71. LSIs' credit risk management, problem exposures, and coverage of potential loan losses by provisions and reserves have been a top priority for both off-site and on-site supervision in the past years, but the matter would probably require even more scrutiny to verify adequate classification and provisioning of non-performing exposures (NPEs). The FMA has issued several regulations (notably "Minimum Standards") on credit risk management that are a useful legal base for targeted supervision. Credit risk management is examined not only through the SREP, but also through various other supervisory processes, with the added value of expert pools. Supervisors benefit from the Austrian credit registry, which offers the possibility to make thorough and granular risk-based examinations and analysis of individual and sectoral bank exposures. With that database, the role of off-site supervision is quite strategic on credit risk. LSIs having a high NPE ratio are subject to closer and more frequent monitoring and must implement a mitigation plan. Besides the macroprudential dimension, cross-sectional issues on credit risk, such as problem exposures, are assessed in off-site banking supervision.

72. The OeNB produces a quarterly LSI credit risk report which gives an overview of key risk indicators and is also used to identify credit risk-related LSI outliers in order to discuss and set further supervisory measures. On-site inspections have specific modules on various components of credit risk management, including a direct review of a selected sample of credit files. The inspection program has prioritized credit risk in recent years (22 LSIs inspected in four years). The FMA has the power to request reclassification of problem loans in appropriate categories, as well as additional provisioning of potential loan losses for specific exposures that would be overvalued, based on the conclusions of supervisory examinations. For each LSI, external auditors must confirm the adequacy of the value of all balance sheet items in their annual review of financial statements and report on the asset quality and the provisions levels in the Annex of the Audit Report on the LSI's financial statements. In all, the FMA and OeNB have significantly increased supervisory intensity and scrutiny on credit risk on a system-wide and individual basis since the last FSAP. Nonetheless, the overall current situation of LSIs highlights that their credit risk exposure has increased, especially in the commercial real estate sector, which is a source of concern from a risk perspective. Notably, smaller LSIs with total assets below EUR 10 billion are significantly impacted by the rise in NPLs, and they typically have limited capacity and strained workout resources to reduce NPLs. The rising volume of forborne loans and falling NPL coverage ratio may also indicate further loan loss provisions in the future. Such situation would probably justify stronger supervisory response (using legal powers and needing more resources) to require effective remediation by LSIs and avoid further deterioration of the credit risk.

73. LSIs' management of concentration risks and large exposure limits are subject to supervisory attention. As part of the SREP (especially as part of credit risk assessment), concentration risks are regularly assessed, including single-name, sectoral, collateral, and product concentrations. The materiality of these risks is evaluated using an approximative estimate and by benchmarking. Based on the benchmarking results, an additional capital surcharge may be imposed (and regularly is) if the analysis reveals that potential concentration risks are not adequately covered by the applicable capital requirements. Other aspects of concentration risks are monitored, such as the level of concentration of liabilities on the funding side. Regarding the supervision of large exposures, the FMA implements strict regulatory compliance: (i) in case of infringement of large exposure limits, a two percent interest is imposed on the maximum amount by which the LSI exceeded the large exposure limits calculated on an annual basis, for 30 days; and (ii) no exceptions are granted to the large exposure framework by the FMA.

74. LSIs' management of operational risks, including ICT risk and cybersecurity, has been a supervisory priority. A risk-based and proportional supervisory approach with particular focus on ICT risks, cybersecurity, business continuity, and operational resilience is applied by the FMA and OeNB working closely together with in-house specialized IT experts (a limited resource) performing off-site examinations and on-site inspections.

75. The FMA and OeNB have taken action to enhance LSIs' management of climate-related financial risks. This priority has been aligned with the proactive stance taken by the EBA and ECB in this domain, in application of the EU agenda on climate change, and it has mobilized dedicated off-site supervision resources of the FMA and OeNB (respectively one full-time and seven part-time employees work on ESG topics – Environment, Social, and Governance). The FMA disclosed its supervisory expectations initially in 2020 (updated in 2025). Tangible results have been achieved, including a materiality assessment of LSIs' exposure to climate-related financial risks, which highlighted that physical and transition risks may be significant in specific cases, depending on LSIs' concentration of geographical and sectoral exposures. Two ESG-related on-site inspections are planned for 2026.

76. LSIs' management of interest rate risk in the banking book (IRRBB) has been a higher priority than market, country, and transfer risks. LSIs are not significantly exposed to market risks. Therefore, supervisory priority has been put on IRRBB, which notably included: supervisory dialogue on IRRBB management (hedging policy, risk appetite, governance, etc.); quantitative off-site horizontal analyses on modelling aspects (non-maturity deposits, prepayment, and early redemptions) and hedging activities; and on-site inspections (in 2 or 3 LSIs each year). IRRBB is a Pillar 2 risk that is not covered by Pillar 1 capital requirements. Hence, for all Austrian LSIs an additional Pillar 2 capital requirement is determined applying a standardized approach based on supervisory reporting data. Country risk is monitored through regulatory reporting analysis and addressed on a case-by-case basis. Since the exposures on countries involved in the war in Ukraine have been reduced, country risk has been of lower priority. But the FMA did order an LSI to reduce the overall amount of its massive exposures on a non-EEA member country. Transfer risk is considered as not material for LSIs.

77. LSIs' management of liquidity and funding risks is subject to focused supervisory attention, in addition to regulatory compliance with LCR and NSFR requirements. In addition to the SREP, ILAAP analysis, and liquidity stress-testing, off-site supervision activities have recently included, for instance, monitoring (i) the evolution of LSIs' funding costs in the context of geopolitical uncertainties; (ii) the impact on LSIs of the ECB's unwinding of the TLTRO program; (iii)

LSIs' funding structure and funding plans. On-site inspections on liquidity risk management (e.g., on HQLA) were conducted in LSIs (two in 2023 and three in 2024).

RECOMMENDATIONS[39]

78. Based on the targeted review performed during the mission, the FSAP has the following recommendations to further enhance the independence and effectiveness of regulation and supervision of LSIs.[40]

- **Review existing legislation to narrow the BMF's role in oversight of the FMA and remove both ministry and industry participation in its Supervisory Board.** A recommendation to remove industry representatives from the FMA Supervisory Board was given by the previous 2020 and 2013 FSAPs.[41] Improving the composition of the FMA Supervisory Board, including by removing both ministry and industry participation, and restricting the BMF's role, would improve the perceived supervisory independence of the FMA. [42] *Paragraphs 33-34*

- **Introduce a legal obligation of public disclosure of reasons for the dismissal of a member of the FMA Executive Board, at least when CRD VI is transposed in 2026.** This recommendation would align the Banking Act with BCPs. *Paragraph 35*

- **Assess whether the FMA Executive Board would benefit from having more than two members and be extended to a larger committee structure.** This recommendation would improve the combination of discussion and decision-making at the highest level of the FMA, notwithstanding the existing internal committee structure and formal delegations of powers to FMA staff reporting to the FMA Executive Board. *Paragraph 36*

- **Review the budget and funding mechanism dedicated to LSI supervision at both the FMA and OeNB, complete a comprehensive and forward-looking assessment of budget needs for LSI supervision, and reexamine OeNB's related budget in addition to the FMA's.** This recommendation would introduce some flexibility in the budget process, so that the FMA and OeNB can deliver on their supervisory mandate in the medium- to long-term without facing political constraints. Such budget reform would be grounded on a formal assessment by the FMA and OeNB of their respective supervisory funding needs which would be comprehensive, thorough, forward-looking, and objective, while keeping it risk-based and considering

[39] As indicated in the Introduction, the purpose of this TN is not to make a detailed assessment of compliance of LSI regulation and supervision with BCPs, nor any comprehensive description of existing gaps. FSAP recommendations focus on most strategic and material issues that have been highlighted based on available information.

[40] A draft version of these recommendations has been presented to the FMA, OeNB, and BMF at the technical closing meeting of the FSAP workstream on LSI regulation and supervision, on November 17, 2025.

[41] 2020 FSAP Recommendation 1: "Review existing legislation to clarify and narrow the BMF's role in oversight of the FMA and remove industry participation in its Supervisory Board, as recommended in the 2013 FSAP."

[42] At the very least, in order to preserve independence, decision making powers over the FMA's budget and appointment of senior staff should not include any element where potential or perceived interference from the government and the banking sector could take place.

proportionality, with the purpose of ensuring supervisory independence in a sustainable manner. Such an assessment would consider funding needs for regular supervisory work as well as for developing relevant SupTech projects and IT tools. *Paragraphs 37-39*

- **Introduce more flexibility in the staffing strategy for LSI supervision at the FMA and OeNB, complete a comprehensive and forward-looking assessment of human resource needs for LSI supervision, and determine appropriate staffing at the FMA and OeNB.** This recommendation would introduce additional flexibility for increasing the number of human resources dedicated to LSI supervision and the "human capital buffer" available at the FMA and OeNB for challenging times. Such staffing reform would be grounded on a formal assessment by the FMA and OeNB of their supervisory staffing needs that would be comprehensive, thorough, forward-looking, and objective, while keeping it risk-based and considering proportionality, with the purpose to ensure supervisory independence in a sustainable manner. Such assessment would consider staffing needs for regular supervisory work as well as for developing relevant SupTech projects and IT tools. Coordination between the FMA and OeNB would be welcome, in compliance with their respective legal regime. *Paragraphs 40-43*

- **Substitute the state commissioner function with an enhanced supervisory engagement of the FMA and OeNB with banks' boards of directors.** This recommendation was provided by the 2020 FSAP[43] and remains unaddressed.[44] *Paragraphs 44-45*

- **Introduce legal or regulatory provisions granting the FMA with the right to directly request access to the working papers of LSIs' external auditors.** This recommendation would facilitate direct information sharing on a need-to-know basis. *Paragraph 48*

- **Introduce legal or regulatory provisions requiring supervisory approval or notification of major acquisitions of non-financial companies by LSIs, at least when CRD VI is transposed in 2026, and determine subsequent adapted supervisory implementation.** This recommendation reiterates the previous 2020 FSAP recommendation[45] on the same topic, which has been left unaddressed awaiting the transposition of CRD VI into Austrian law. It would align the Banking Act or FMA Regulations with BCPs. *Paragraph 53*

- **Upgrade the prudential regulation on transactions with related parties and determine subsequent adapted supervisory implementation.** This recommendation comes after no consideration has been given to the previous 2020 FSAP recommendation[46] on the same topic.

[43] 2020 FSAP Recommendation 7: "Substitute state commissioner function with an enhanced FMA and OeNB engagement with supervisory boards."

[44] Authorities have maintained the current state commissioner system and have not in the meantime taken any measures for enhancing their formal oversight and accountability, therefore the issues highlighted in 2020 remain.

[45] 2020 FSAP Recommendation 2: "Establish an ex-ante approval or notification requirement for significant investments outside the financial sector."

[46] 2020 FSAP Recommendation 4: "Strengthen the framework for identifying and monitoring related-party transactions and extend requirements to sister companies."

It would align the legal definition of related parties with the BCPs (CP20, footnote 56), even if the existing EU requirements may be perfectible in that regard. *Paragraph 54*

- **Increase supervisory intensity of on-site inspection of LSIs.** This recommendation would improve the capacity of the OeNB (and the FMA, acting as the NCA) to perform more direct examinations on essential risk domains (e.g., corporate governance, risk management, credit risk, operational resilience, outsourcing) in addition to the highest on-site inspection priorities, while keeping on-site supervision planning, scope, and granularity risk-based and proportionate. *Paragraphs 61, 62, 70-77*