

A Member of HVB Group

Bank Austria
Creditanstalt

Banking for success.

Annual Report
Bank Austria Creditanstalt

2003



The bank in the heart of Europe:
success without frontiers

heart

Cost Management

General administrative expenses and staff costs

In 2003, Bank Austria Creditanstalt again succeeded in achieving a moderate reduction in general administrative costs at a Group level, despite further integration measures (merger of Splitska banka and HVB Croatia) and acquisitions (Central profit banka in Bosnia and Herzegovina). Taking into consideration ongoing salary and price increases, this represents a significant decline in costs in real terms. The synergies resulting from completed integration measures (Bank Austria and Creditanstalt in Austria, BPH and PBK in Poland) were not one-off effects, but rather continue to have a dampening impact on general administrative expenses.

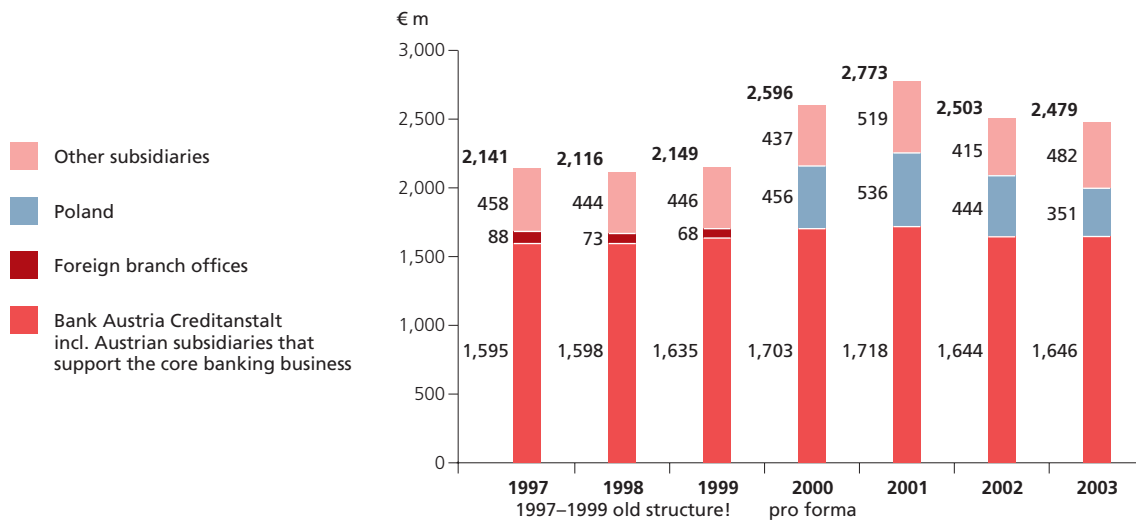
Altogether, it was possible to reduce general administrative expenses from € 2,503 m in 2002 to € 2,479 m in 2003. Staff costs accounted for 57 %

of these expenses, with "other administrative expenses" (mostly non-staff expenses) and depreciation on property and equipment accounting, respectively, for 34 % and 9 % of the total.

These cost reductions partly reflect exchange rate effects which reduced general administrative expenses on account of the depreciation experienced by most CEE currencies. At the level of CEE subsidiaries, we were able to cut general administrative expenses, in euro terms, by 7 %. Adjusted for exchange rates, i.e., translated at constant rates of exchange, general administrative expenses increased by 4 %. This increase reflects the consolidation of Biochim, which was not included in the previous year's calculations. Adjusted for exchange rates and eliminating the effect of consolidation, however, there was a decline which can be seen in the financial statements of individual local subsidiaries

General administrative expenses at Bank Austria Creditanstalt Group

1997–2003



(compare the table on pages 226 and 227 of this report). In short, despite the expansion, cost developments are under control at BA-CA.

Staffing levels at Bank Austria Creditanstalt, including all CEE subsidiaries and Austrian subsidiaries that support the core banking business, grew in 2003 by a mere nominal 2.0 % to 30,377 persons (full-time equivalent) – despite the initial consolidation of the Bulgarian subsidiary bank mentioned above and the strategy of expansion in Central and Eastern Europe (expansion of retail banking business).

Austria

Bank Austria Creditanstalt's domestic general administrative expenses (including subsidiaries that support the core banking business) remained virtually constant in 2003 at € 1,646 m. Despite the automatic increases in staff costs and the implementation of ongoing projects for the integration of Bank Austria and Creditanstalt, it was possible to reduce costs by more than 3 % in absolute terms during the 2000 to 2003 period.

Staff costs (Group)

In 2003, staff costs increased modestly as against 2002 to € 1,416 m. This was due largely to the initial consolidation of Biochim, and the expansion of the retail banking business in CEE. In Austria it was possible, through staffing level reductions, to compensate for regular annual increases resulting from collective bargaining agreements and automatic measures pursuant to internal staff regulations (increases of 4 % to 5 % per year).

Further reduction in staffing levels

Since the Group was created at the beginning of 1997, we have been steadily reducing staffing levels, commensurate with requirements, at Bank Austria Creditanstalt AG and its Austrian subsidiaries that support its core banking business. Since 1996, staffing levels have been reduced by 4,028 persons (full-time equivalent) or 26 %. In 2003, staffing levels were cut by 506 persons (full-time equivalent). This represents a reduction of 4.2 % with respect to 2002.

Optimisation of cost structure

We do not believe that it is necessary for us to provide every service ourselves – especially when third parties can do a better job and provide these services at a lower cost. The sale of TSG EDV-Terminal-Service GmbH to Siemens Business Services, the IT services subsidiary of Siemens Austria, is a positive example of outsourcing. Siemens Business Services is now responsible for maintaining the decentralised IT infrastructure within Bank Austria Creditanstalt. We will further streamline production processes and strengthen cooperation within the Group and, where appropriate, with external partners as well, thereby optimising the use of resources.

Thanks to a consistent cost management policy, it was possible to reduce “other administrative expenses” (mostly non-staff expenses) by almost 4 % as against 2002 to € 838 m.

Poland

In Poland, where our largest CEE subsidiary bank operates, it was possible to reduce general administrative expenses in 2003 by some PLN 135 m or 8 % as against 2002 to PLN 1,648 m. On account of the 14 % depreciation in the value of the Polish zloty against the euro in 2003, the reduction actually amounted to 21 % in euro terms. It was possible to reduce both staff costs and “other administrative expenses” by a respective 21 % and 23 % (calculated in euro). In addition to the ongoing programme of staffing reductions agreed-upon pursuant to the merger between BPH and PBK, strict cost and investment management policies and the optimisation of the sales network also contributed to the reduction in general administrative expenses.

While staff costs as a percentage of total general administrative expenses stood at over 50 % within the Group as a whole during the 2001 to 2003 period, in Poland the figure remained constant at about 46 % during the same period. During the last three years, staffing levels in Poland were reduced by about 4,500 persons (full-time equivalent) or 29 %. This comparatively substantial reduction is

related to the above-mentioned merger and the complete reorientation of sales activities, as well as to the optimisation of both back-office and head-office structures. The continuation of these cost management policies and the implementation of measures to further optimise processes will also have a positive impact on general administrative expenses in 2004.

Other subsidiaries

General administrative expenses for other subsidiaries climbed in 2003 by € 67 m to € 482 m, mainly on account of the acquisition of leasing companies in Austria and in CEE. The number of employees (full-time equivalent) in Central and Eastern Europe (including other subsidiaries) rose in 2003 by 1,116 persons or 6.3 % as against 2002.

Investments

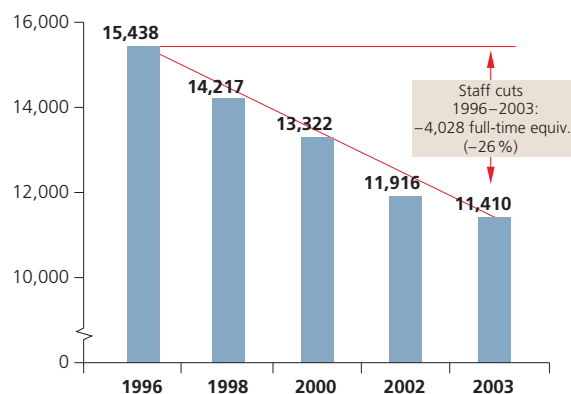
Investments are reflected in the bank's general administrative expenses via depreciation. Apart from the ongoing Organisation/IT expenses needed to maintain buildings and IT systems, in 2003 investments were made totalling € 94 m – a decline of 41 % as against 2002. Investments made to modernise IT systems accounted for 64 % of this amount and construction projects for 34 %, with purchases and services accounting for the remaining amount.

Particular mention should be made of the investments made in order to implement the requirements pursuant to the new capital adequacy framework ("Basel II") which is expected to come into effect in 2006, as well as GEOS-related investments. Basel II accounted for 22 %, and GEOS accounted for 26 % of the IT investments made in 2003. Together, these two items accounted for almost half of the IT investment budget.

GEOS is a securities settlement system which is used from the time the customer places a securities order, through the trading and settlement activities to the booking of securities to the customer's safe-custody account. The system allows the entire process to be represented on an online and real-time basis.

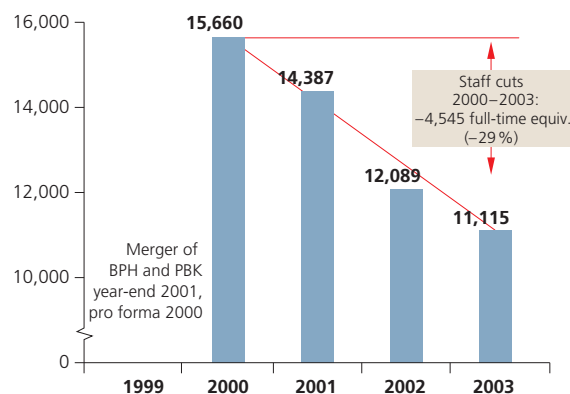
Reduction of staffing levels in Austria

Employees (full-time equivalent) of Bank Austria Creditanstalt incl. subsidiaries that support its core banking business and data-processing subsidiaries



Reduction of staffing levels in Poland

Employees (full-time equivalent) of BPH PBK and its subsidiaries



Organisation/IT and Internal Services

Organisation/IT

A key business task – and one which plays a decisive role in the bank's ability to achieve its goals – concerns the organisation of the entire settlement and production functions which back up customer advisory activities (as described in the chapter "Company Profile" on page 22 and subsequent pages). This involves far more than mere cost management. The bank's "operating model", i.e., the organisation of processes, settlement and administrative functions, must be arranged in a way which allows the bank to provide services efficiently and reliably to its core business area, the customer business in Austria and CEE, while making optimal use of its resources.

In 2003, we bundled all of the responsibilities related to achieving the above tasks throughout the entire Bank Austria Creditanstalt Group, and placed them under the management of a Chief Operating Officer (COO) working at the Managing Board level. This comprises a comprehensive, systematic approach in the operations area, which extends from process and project management, organisation and IT to infrastructure management and procurement.

- ▶ The underlying operating model identifies, in particular, areas which harbour the potential for greater efficiency, and serves as the guiding principle for defining, developing and managing the entire value-added chain.
- ▶ A fundamental task in this regard is to improve the efficiency of key processes in the bank from "end to end", i.e., throughout all the various divisions, by establishing uniform guidelines for process models, through standards, methodology, interface management and benchmarking.
- ▶ In this connection, the bank examines the issue of "vertical production" (purchase or own production of services and products), with the objective of reducing fixed costs and achieving the highest possible level of cost variability.

- ▶ Process portfolio management should utilise available resources in a goal-oriented, effective manner, by bundling and prioritising all ORG/IT requirements according to the interests of the bank as a whole.
- ▶ In addition, one of the ongoing tasks involves the arrangement of Service Level Agreements (SLAs) between internal and external service providers, and in the event of deviations with regard to target/actual figures, to take corrective measures.
- ▶ The newly-structured division overseen by the COO is responsible for all settlement functions and services (payment transactions, banking operations, etc.), and for ensuring that the bank enjoys the most effective and efficient IT support possible, including the responsibility for corresponding investments.
- ▶ Thus the management of WAVE and iT-AUSTRIA, the bank's IT subsidiaries, and centralised assignment of tasks to subsidiaries which support the core banking business and to third-party providers are of particular significance.

Operations Management CEE was established on account of the different tasks in respect of the BA-CA Group in Austria and the CEE subsidiary banks.

The efficient bundling of these tasks resulted in synergies in the operations area equivalent to 20 employees (full-time equivalent). The bank also continued as scheduled with the implementation of rationalisation and cost-cutting measures with regard to information technology and settlement functions. With a reduction of 250 employees (–9%), the Organisation/IT division exceeded the target by 78 employees. Thus since 1998, staffing levels have been reduced by 1,187 employees (–32%). Since the technical merger between Bank Austria and Creditanstalt, the operating costs for computer centre operations and maintenance of applications have been reduced by 10%. An even greater reduction was achieved with regard to investments in 2003, which were reduced by 20%.

Sourcing – management of vertical production

The operating model is translated into numerous individual projects, all of which pursue the same goal – enabling the bank to focus on its core competencies and improving cost efficiencies. A key issue in this regard is vertical production. Various measures – ranging from minor to significant – have already been implemented. For example, purchasing and **inventory and delivery logistics** for standard office supplies have been assigned to a professional provider, resulting in considerable cost savings.

In December we signed a contract for the sale of the bank's subsidiary company **TSG (Terminal Service Gesellschaft)** to Siemens. TSG was responsible for the installation and maintenance of IT work stations and money-handling machines at the bank and was also active on third markets. As a result of this transaction, it is possible to reduce related costs at Bank Austria Creditanstalt by more than 30 %.

This is however just the beginning – further significant operations and settlement areas within the bank are being evaluated for outsourcing possibilities. For example, we have already completed the initial preparations necessary to outsource **facility management** functions. Even business processes which are more closely linked to the banking business, but which do not offer the possibility of significant differentiation in the customer business, such as securities settlement activities and payment transactions, are being evaluated.

In mid-2002, the bank decided to introduce the **GEOS securities settlement system**. The implementation project began in September 2002 and will be completed in March 2004. The GEOS system will allow Bank Austria Creditanstalt to settle its securities business via a market standard system which is used by a majority of banks in Austria and by banks in Germany and Switzerland (see below for further details on GEOS). But even after the GEOS system has been implemented, securities settlement will remain a cost-intensive process since the number of transactions, especially in international comparison, remains low.

By bundling the transaction volume of several banks using the same systems platform, however, significant synergy effects can be achieved. These synergies result from lower IT costs as maintenance and development expenses are spread among a broader user base, and from lower staff costs through productivity gains as well as the distribution of fixed costs among several partners.

In line with international trends, Bank Austria Creditanstalt no longer views the settlement of securities transactions as one of its core competencies, which are rather focused on areas such as trading, research, portfolio management and, above all, providing customers with advisory services. BA-CA is thus committed to further reducing settlement costs while maintaining the same level of service quality.

With this in mind, Bank Austria Creditanstalt has actively pursued discussions with parties interested in the possibility of a common GEOS-based securities settlement platform, which, if fully developed, would comprise a GEOS data-processing centre with software support and a settlement company for a number of banks. Since, in addition to Austria, GEOS is also used in other European countries, BA-CA can also envisage a cross-border solution over the medium-term.

In 2003, Bank Austria Creditanstalt, BAWAG/PSK and Erste Bank / Austrian savings bank group carried out an evaluation study concerning the "mutual spin-off of payment transaction settlement activities". At the same time, the banks also applied for the approvals required in this regard at the competent Cartel Office, which granted the necessary approvals. While Bank Austria Creditanstalt, following the conclusion of this study, made a positive basic decision in this regard in mid-2003, this did not result in a firm decision to establish a spin-off on account of changed conditions.

Parallel to the above decision-making process, the Austrian National Bank (OeNB) picked up on the initiative of the above three institutions and presented an even more far-reaching proposal to establish a payment transaction settlement company which

would be open from the very onset to all Austrian credit institutions, with OeNB participation, including the simultaneous creation of a National Automated Clearing House (“NACH” – also with OeNB participation). Thus the future conditions for the possible implementation of such a plan under OeNB leadership are being evaluated, a process which Bank Austria Creditanstalt is actively supporting.

Operations Management CEE

Operations Management CEE (OPM CEE) is responsible for the technical and strategic management of settlement areas, IT and facilities in CEE.

This also includes investment oversight as well as the responsibility for integration and transformation projects for newly-acquired banks. The following projects were concluded in this regard during the reporting period:

- ▶ In Croatia, during the course of the successful integration of Splitska banka with HVB Croatia, IT systems were migrated to the CORE02 system used throughout CEE.
- ▶ In Bulgaria, a systems transformation took place at Commercial Bank Biochim, making this subsidiary bank state-of-the-art with regard to the mainframe and core banking applications.
- ▶ In Bosnia and Herzegovina, the acquisition of Central profit banka was completed and the integration project with HVB Banka Bosna i Hercegovina started. This includes the migration of the core banking application to the CEE system CORE02 and the spin-off of card settlement services to the Split-based service centre which forms part of the Group.
- ▶ In the Czech Republic, a card settlement centre was successfully set up and a transactions settlement project for Slovak credit cards was completed. A project for the settlement of Hungarian credit cards is nearing completion.
- ▶ Extensive use was made of e-banking solutions for corporate customers (MultiCash) throughout the entire region.

The following spin-offs were completed during the reporting period: in Poland, a contract was concluded for the sale of the ATM network, as well as the spin-off of related servicing activities, to Euronet, a strong international partner. In addition, the MCG subsidiary was sold, and thus cash handling services are now purchased from third parties.

WAVE: IS solution provider for A+CEE

WAVE, a wholly-owned subsidiary of Bank Austria Creditanstalt, is the IS solution provider for Austria and CEE. Its services comprise IS consulting and support in the areas of infrastructure, project handling and software evaluation. In addition, WAVE defines the systems architecture of banking software used throughout the BA-CA Group. WAVE's services are oriented to the objectives of its customers, and one of the company's greatest assets is its operating efficiency. WAVE thus makes a significant contribution to the success of the BA-CA Group.

Bank Austria Creditanstalt and its subsidiaries accounted for some 94 % of the company's revenues, which totalled € 134.5 m, with the remaining 6 % coming from HVB Systems and orders from third parties. In line with its cost-cutting programme, BA-CA reduced its level of orders to WAVE by about 21 %. This required the elimination of 172 positions. Of these positions, 80 were shifted to the ORG/IT Management division as a result of the centralisation process (primarily in connection with the concentration of project portfolio management and process management to unlock synergies). Another 40 positions were assumed by iT-AUSTRIA pursuant to the bundling of client-server activities.

Efficiency, quality and reliability were nonetheless ensured by the competence and high level of commitment demonstrated by WAVE employees. As at 31 December 2003, WAVE employed 741 employees at its operations in Vienna and London, and 46 at the subsidiary in Budapest.

WAVE's development priorities in Austria

In addition to boosting efficiency, WAVE also places a significant emphasis on achieving sustained reductions in data processing costs, and on closely targeting budgetary resources to new and ongoing development activities. This means that systems performance must be continually improved, operating costs stabilised, and, in the long run, reduced. Immediately following the successful conclusion of the "BzE" integration project, we launched the mainframe-based "Tuning" project.

The objective of this project is to curb rising mainframe-related costs. It was hoped to achieve savings of € 3 m, projected for the year as a whole, by year-end 2003. In fact, by the end of September 2003, cost savings actually amounted to € 5.3 m.

A tuning process was also introduced in BA-CA's e-business service area. High rates of growth in the bank's Internet business, on the one hand, combined with enormous cost pressure, on the other, made it necessary for the bank to act to reduce the consumption of resources. By tuning BA-CA online-banking services and communications with the EB server, it was possible to reduce consumption of resources in the online-banking sector by about 50 %. In addition, the consumption of mainframe resources in connection with the EB server was reduced, per-user session, from over 5,000 SU (Service Unit = CPU use) to about 3,800 SU. The systems management of decentralised systems was improved, and likewise reduced by 50 %. Through the scheduled spin-off of SUN development activities to iT-AUSTRIA, it was possible to prevent cost increases at WAVE for the next year while at the same time boosting service quality.

Securities process chain

New securities settlement software was introduced at Bank Austria Creditanstalt with the implementation of GEOS. For WAVE, this had particular significance since the acquired software had to be integrated into BA-CA's existing systems environment. WAVE manages the design and implementation of new and modified securities-related processes, creating

and implementing interfaces, data layers and new programmes. WAVE is also responsible for systems environment management, the setting up of GEOS operations and managing all systems tests. Thanks to its experience with various merger projects in recent years, WAVE is able to carry out projects of this magnitude without the assistance of external consultants.

This important project cuts across divisions at both BA-CA and WAVE: for example, sales, securities back office and controlling are just as affected as WAVE units for securities business, securities trading systems, core systems and electronic banking. The main tasks comprise process adjustments within the bank, the corresponding parameterisation, interfacing GEOS with the bank's core systems, data migration, testing and also the introduction of a new user interface. GEOS will replace some two-thirds of all existing securities systems, new interfaces will be developed and significant aspects of the securities "job net" will be reorganised. The start of GEOS will take place on 20 March 2004.

Basel II

HVB Group has decided to implement the strictest of all possible Basel II approaches: the internal ratings-based advanced approach. Basel II is a major project of the same magnitude as the merger between Bank Austria and Creditanstalt ("BzE" 2002 project), with the difference that the scope and concrete shape of project objectives will only be finalised following the issuance of Basel II guidelines. In 2003, Basel II was subjected to an assessment in order to evaluate the thoroughness of the project portfolio and verify the various master plans and estimates related to the project.

LE390

Project LE390 is a technical necessity. Since 1996, IBM has required a run-time environment. Many new releases of third-party software (including GEOS) run exclusively under LE390. This means that all HOST modules (proprietary and third-party software) must be converted to this environment.

On account of its involvement in major projects in recent years, WAVE has not yet completed the conversion to LE390. The advantage of a late project start is that WAVE can benefit from the experience of others who have made the necessary LE conversions. LE390 meets the prerequisites necessary for "state of the art" systems at BA-CA which can be easily expanded, and which allow for the effortless installation of third-party products. Technical risks and maintenance/ support costs are reduced.

BusinessNet

With the development of BusinessNet, an Internet portal for corporate customers, WAVE succeeded in giving Bank Austria Creditanstalt, in the form of greater technical competence, a lead of 18 to 24 months over its competitors. The BusinessNet web portal represents a new TIP-based approach (technical Internet platform) taken by BA-CA. BusinessNet is both an integral part of the existing customer service and sales strategy as well as an alternative sales channel. A subsequent performance upgrade has given this portal even more powerful features which benefit BA-CA customers. Since 8 June 2003, BusinessNet has included multi-bank capabilities. This means that corporate customers of BA-CA can now call up account information from any Austrian bank, and also issue instructions to these banks. This occurs via an authorisation system for third-party financial institutions. There were additional portal improvements benefiting securities (advising and ordering) and foreign trade activities (guarantees, documentary credits, collections).

WAVE in Central and Eastern Europe (CEE) Splitska banka

The integration project, a merger of technical systems in Croatia, was finished in a record time period of only nine months, and concluded at the end of June 2003. In the course of the project, HVB Croatia, Splitska banka and WAVE all worked together to integrate the IT systems of HVB Croatia and Splitska banka. The new IT platform, the CORE02 system, is thus the most modern and secure banking IT system in Croatia. In addition to meeting

corporate business requirements, with the CORE02 core banking system, WAVE also succeeded in addressing the needs of a high-volume, retail-oriented bank.

Central profit banka

The objective of this project is the merger between two major banks in Bosnia: HVB Banka Bosna i Hercegovina and Central profit banka (CPB). After the merger, the new bank will be the fourth largest bank in Bosnia. CPB's national branch office network covers a significant portion of the country, making the integration with HVB Banka Bosna i Hercegovina a very attractive prospect.

The particular challenge facing WAVE concerns the integration of IT systems. The target systems for both banks are those used by HVB Banka Bosna i Hercegovina. When selecting the core banking system, the proven CORE02 system was chosen in order to ensure a uniform, modern and secure IT platform.

IBI – Internet Banking International

IBI is a technical infrastructure solution for Internet-based retail banking business. IBI is unique on account of its high security and access standards, as well as the continuous product improvements which are made in response to user needs. For example, a built-in logging and reporting system allows the bank to review customer transactions and assess which data were actually entered by the bank's customers.

The IBI product, which is offered in Romania under the product name Online B@nking, was named "Best E-Banking Product" in Romania in 2003 by the Bucharest magazine "Business Week", pursuant to the presentation of "Financial Awards of Excellence".

This past October, the IBI system was successfully implemented by HVB Banka Jugoslavija. IBI in Serbia/ Montenegro likewise now includes the following functionality which is already in use in other countries: presentation of account balances, turnover queries, domestic transfers, foreign transfers, standing

orders, direct debiting agreements, time deposits, logging & reporting (for review purposes) and free form submissions (allowing the bank to freely create forms).

WAVE is proud that IBI already operates with great success in seven different countries within CEE, and remains focused on further technical developments for the countries of Romania, the Czech Republic, Slovenia, Slovakia, Croatia, Hungary and Serbia/Montenegro. Preparations are currently in place for installing the software at offices in Bulgaria and Macedonia.

- ▶ managing local networks at locations in Austria
- ▶ telephone services: iT-AUSTRIA is the telephone services provider for the Bank Austria Creditanstalt Group
- ▶ consulting and support services for projects

iT-AUSTRIA GmbH

Informations-Technologie Austria GmbH (iT-AUSTRIA) was established in 1998. The company operates the data processing centre for Bank Austria Creditanstalt and other institutions of the Austrian savings bank sector.

The services provided by iT-AUSTRIA comprise:

- ▶ data processing centre operations, and systems development for individual computing systems for all significant system platforms
- ▶ managing the national network in Austria
- ▶ managing the international network for both the Bank Austria Creditanstalt Group and HVB Group

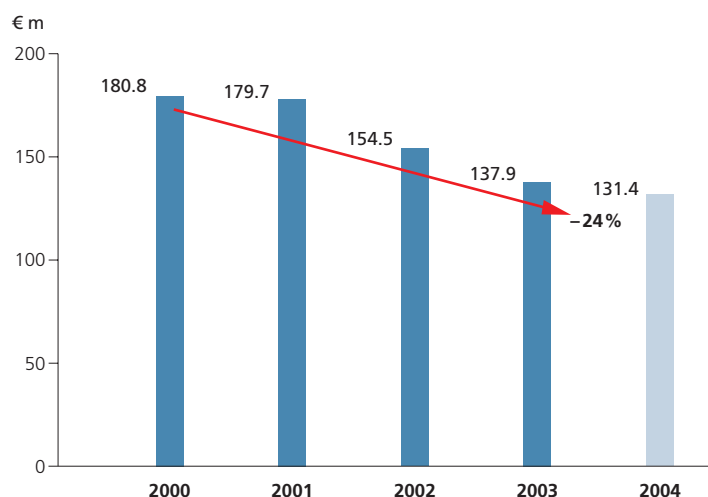
Informations-Technologie Austria GmbH

Owners:	Bank Austria Creditanstalt	61.4 %
	Erste Bank	25.3 %
	S-Sparkassenholding GmbH	12.6 %
	Subsidiaries supporting the core banking business & other	0.7 %
2003 turnover: total		€ 223.1 m
of which BA-CA and HVB Group		€ 143.7 m

Cost reductions

In line with Group requirements, iT-AUSTRIA also continued to pursue a strict cost-management programme. Despite the assumption of Windows system development responsibilities from WAVE, and despite the expansion in the scope of services offered, iT-AUSTRIA was able to significantly reduce its volume of billing to the Bank Austria Creditanstalt Group due to a variety of measures which were implemented in-house.

iT-AUSTRIA data processing centre costs for Bank Austria Creditanstalt



“New Phone” project

New telephone systems have now been installed at all of Bank Austria Creditanstalt’s branch offices. Altogether, some 420 networked systems were converted in Austria during a 16 month period, making it possible to reach any branch in Austria by dialling “050505”, the Group’s uniform telephone number.

New mainframe generation

iT-AUSTRIA began converting its mainframe computers to the latest mainframe generation, called “T-Rex”, beginning in September 2003. This measure not only ensures that future user requirements can be met, it also offers a significant cost reduction per processing unit.

Virus protection

Viruses increasingly became a problem in 2003. On peak days, up to 68,000 virus-infected e-mails were registered. It was possible in every instance to prevent these viruses from breaching the Bank Austria Creditanstalt network. A greater emphasis will also be placed on this topic in the future. In this connection, a number of security-related system modifications were installed on all Windows servers at short notice during the autumn following security warnings issued by Microsoft.

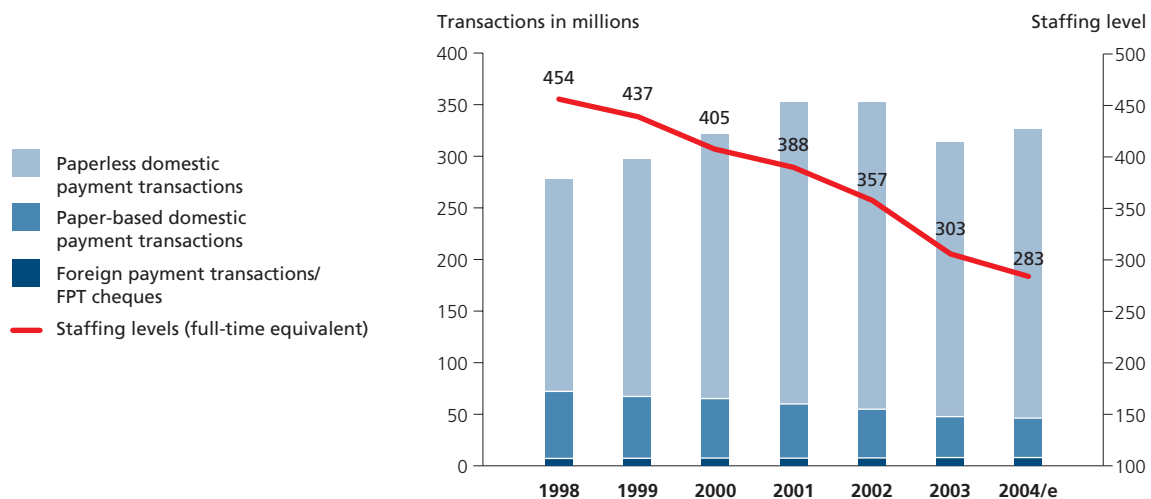
Group Payment Transactions

In 2003, 303 employees settled 313 million paperless and paper-based foreign and domestic payment transactions (see chart below). Based on the decline in the number of employees, this represents a productivity gain of about 5 %. Since the integration of Bank Austria and Creditanstalt in 1998, staffing levels have been reduced by 40 % (33 % in the transactions settlement area). The decline in the number of transactions from 2002 to 2003 reflects the end of the “two brand” strategy.

A new, state-of-the-art scanner system for paper-based foreign payment transactions was successfully installed in 2003 in order to boost settlement efficiency.

On account of EU Regulation 2560/2001, banks in the European Union are forced to settle cross-border transfers within the EU for amounts up to € 12,500 at the same price as a corresponding domestic transfer. In order to reduce costs, the Euro Banking Association (EBA) developed the STEP2 (= Straight Through Euro Payments) initiative, which Bank Austria Creditanstalt joined in 2001. As a pilot bank for STEP2, Bank Austria Creditanstalt made a substantial contribution to the successful imple-

Payment transactions/settlement



mentation of the initiative (now operational on a real-time basis since spring 2003). The objective of this initiative is to standardise cross-border payments within the EU in order to realise a fully-automated settlement system.

The most recent release of BusinessNet (the Internet portal for corporate customers) is now able to access images of (paper-based) data in a customer-friendly manner.

For the Organisation/IT division, the reporting system for Service Level Agreements (SLAs) was standardised pursuant to an ad hoc project, and a complementary "stoplight" indicator was introduced. This results in a monthly, cumulative list and thus in better transparency for the division. In order to strengthen the general understanding of quality requirements, employees, and particularly those with sales responsibilities, were invited to an information event to learn more about production processes, new payment transaction technologies/strategies, and to meet competent contact persons within the division.

Treasury & Securities Services

In 2003, the Treasury and Securities Services division continued to focus on the further implementation of quality improvement measures, and also, as one of the most strongly affected areas within the bank, on the GEOS and ISIN projects. In addition, thanks to a strict cost-management programme, the division succeeded in reducing operating costs by 7 % as against the previous year, thereby helping the bank to meet its cost objectives.

The quality criteria focused primarily on reducing the number of reversals of accounting entries for customer transactions, as well as ensuring the timeliness of settlements, with significant improvements being achieved on both counts. This was reflected in the "Award for Excellence" awarded to the bank for its US dollar settlement activities by the Bank of New York.

On 22 April 2003, the new ISIN (International Securities Identification Number) primary key was introduced with binding effect on all securities. As a result, all previous 6-digit securities identification numbers lost their validity, which made necessary a comprehensive analysis and adaptation of externally-used slips and interfaces. This conversion was performed successfully and without having any impact on the bank's customers.

The key project for the year, however, concerned GEOS, where technical staff faced challenges largely in the areas of processes, testing and training. For example, for the back office area alone, some 1,400 test cases were defined and executed in the course of several testing cycles. By year-end, 80 employees were trained on the new system, both through interactive self-study programmes and through in-house day seminars designed and held by the division. The successful implementation of the system in 2004 will establish the foundation for ensuring the bank's long-term competitive ability in the securities business, both in terms of quality and productivity improvements, as well as future cooperation in securities settlement.

The GEOS project

Immediately following the successful conclusion of several major integration projects (most recently the "BzE" project), we commenced work on implementing GEOS (Global Entity Online System).

GEOS is a modern, real-time/online system for securities settlement, which, together with systems in the Treasury division, currently allows the bank to trade securities on some fifty exchanges. This settlement system supports the increasingly complex securities business through significant quality improvements affecting securities settlement/safe-custody and customer services. Rapid processing times and greater operational security, together with process optimisation in work procedures and sales support, indicate potential for significant quality improvements and simultaneous cost benefits.

Bank Austria Creditanstalt's progress towards becoming the key player in CEE will be given further impetus through the use of GEOS. Thus the next step in BA-CA's overall banking strategy is the changeover to this product which sets the current market standard. This is because GEOS will be able to satisfy the tremendous demands which are placed on the system – primarily to the benefit of our customers.

Group Security Office

The Group Security Office was integrated into the overall bank organisation in line with BA-CA's responsibility for Austria and the CEE region. The key responsibility of this new unit comprises the creation of appropriate conditions for the planning, implementation and maintenance of security at Bank Austria Creditanstalt and in CEE countries (security of information, premises and persons).

This includes, in particular, the responsibility for implementing security policies through the creation, maintenance and quality control of security operations and architecture, through the initiation of necessary security measures/projects as well as the execution of security audits. Thus for all BA-CA divisions, as well as for the bank's domestic and foreign subsidiaries, the Group Security Office is the competent liaison partner, acting as coordinator on all security-related issues.

DOMUS Facility Management

In 2003, this subsidiary company of BA-CA gave itself the task of being the best facility management service provider for Bank Austria Creditanstalt, offering a comprehensive range of bundled products and services covering every aspect of facility management. Since the efficient use of available resources is playing an increasingly important role, especially in the banking industry, BA-CA continues to streamline and fine-tune its use of resources. Thus in order to compete successfully on the market, concentrating on core competencies is of growing importance in this connection.

Professional facility management allows the Bank Austria Creditanstalt Group to concentrate fully on its core business activities, ensure a transparent cost and service structure, and, in the final analysis, achieve significant cost savings.

The integration of the wholly-owned subsidiary Domus Plan into DOMUS FM represents a milestone with regard to the streamlining and optimisation of structures and processes, particularly in the area of construction and real estate. The legal and organisational integration of Domus Plan occurred with retroactive effect on 1 January 2003. In the areas of gastronomy, copying, archival and storage services, personnel, structural and organisational measures have already been successfully introduced. Parallel to these developments, DOMUS FM launched its "domus bistro" gastronomy project, an innovative, customer-oriented strategy based on up-to-date nutritional findings which provides employees with in-house catering for their midday meals. Optimal use was made of synergies based on reductions in office space resulting from the merger of twenty-four branch offices.

During the 2003 business year, it was possible to reduce administrative expenses, including core expenditure for office space, by € 7.1 m as against the previous year.

The goals announced by DOMUS FM for 2004 include a high level of entrepreneurial flexibility, the optimisation of work processes, reductions of vertical production, the determined pursuit of further cost reductions, strategic cooperative efforts and thus a greater concentration on core management and controlling activities.

Human Resources

After the bank's successful integration efforts of the last few years, the activities of Human Resources in **Austria** in 2003 focused on further reducing staffing levels and cutting costs in a consistent manner (see also "Cost Management" on pages 128 to 130), as

Focus on cost reduction and productivity increase

steady gains are achieved in productivity. These goals were realised in two ways: firstly, by not replacing employees who either left the bank or went into retirement, and through the selective employment of socially acceptable instruments to adjust staffing levels to the bank's requirements (e.g. special part-time arrangement for older employees, and early retirement), and secondly by always ensuring a sufficient supply of personnel, selective training and employee loyalty.

The work of Human Resources in **Central and Eastern Europe (CEE)** was in 2003 again targeted at improving economic efficiency and cutting costs. The challenges for the Human Resources division were to reduce personnel expenses in the entire region while increasing staffing levels in defined growth markets on a selective basis.

The reduction of an additional 1,460 or so employees through integration projects in Poland, Bulgaria and Croatia lowered the bank's personnel expenses in CEE. These integration and reorganisation projects were accompanied by change management measures.

An example of particularly successful teamwork is the cooperation between Bulgaria's Biochim and Bank Austria Creditanstalt in Austria. Under the motto "best of both worlds", expertise from Austria was used and adapted to meet local needs. In order to ensure that the employees of Biochim could continue to devote all their energy to the bank's operations and to meeting customer needs they were provided with comprehensive information to prepare them for the changes.

The following measures were initiated with a view to further strengthening the cooperation and interaction of personnel managers within the CEE network: uniform standards and guidelines were established for the group-wide activities of Human Resources, and more emphasis was placed on the exchange of ideas through regular Human Resources conferences and meetings of training managers, as well as on exchange visits to broaden the professional experience of employees.

Staffing

Besides adapting personnel capacity to the changing economic conditions it is necessary to assure that the bank's personnel needs are also met in the future both in Austria and in Central and Eastern Europe.

Recruiting

In 2003, the bank's recruiting policy focused on selecting young university and technical college graduates for our challenging trainee programmes in Austria and in Central and Eastern Europe. In particular, the trainee programme "International Career" was successfully implemented for the purpose of building up and securing management capacity to meet the bank's future needs for its CEE operations.

The trainees receive special technical and selective management training to prepare them for the duties in the subsidiary banks for which they will later assume full responsibility as expatriates. In 2004, the first employees to complete the trainee programme will assume operative functions in the subsidiary banks in CEE.

Securing management capacity to meet the bank's future needs

Besides young school-leavers who will be directly assigned positions within the bank's sales operations, a class of apprentices also commenced their training at Bank Austria Creditanstalt in 2003.

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The bank introduced an entirely new web-based job application system with a view to processing the growing number of applications more quickly and more efficiently on a group-wide basis. All recruiting processes, from online applications on the bank's website through to the drafting of contracts, are electronically processed and recorded by this system.

Personnel marketing – focus on CEE

In 2003, Bank Austria Creditanstalt's personnel marketing activities continued to concentrate on the bank's image as employer in the growth market of Central and Eastern Europe. Through selective sponsoring of the "Master Class Eastern Europe" and the "Jozsef" programme – with the slogan "Management pool for the East" – the bank is pursuing its goal of winning top graduates from the University of Economics and Business Administration in Vienna who want to take up positions in the countries of CEE, and who have an adequate command of the relevant languages.

In order to establish cross-border contact with graduates at an early stage Bank Austria Creditanstalt, as in the previous years, offered internships at CEE subsidiary banks and also invited students from CEE to participate in internships in Austria.

Employee loyalty through employee satisfaction

Besides customer and market analyses, employee surveys are an integral component of the comprehensive internal and external monitoring of Bank Austria Creditanstalt since they were first initiated three years ago. The purpose of such analyses and surveys is to provide the bank regularly with an idea of the prevailing mood in times of comprehensive, structural and personnel-related adjustment measures.

In the first few years the employee surveys focused on obtaining information on the general status of employee satisfaction. They have in the meantime developed into large-scale, bank-wide employee surveys covering a number of different topics, which enable all decision-makers from the bank's various business units to evaluate the opinions of all employees or selected groups of employees in regard to specific projects or special topics.

The participation rate of employees questioned has been stable at around 61 % throughout the years, which underlines the high acceptance of this instrument and the employees' high level of interest in the bank. The results of the survey conducted in 2003 reveal a high degree of employee loyalty. This is reflected not only in a disproportionately high commitment level and customer orientation, but also in a feeling of pride of working for Austria's largest bank, and in the fact that employees are very satisfied with the general working conditions at Bank Austria Creditanstalt.

**High commitment level
and customer orientation**

Development

The competition faced by the bank at the national and international levels, and the more rapid and more complex changes in processes call for employees and managers with high technical and interpersonal skills.

In 2003, training and continuing education activities in Austria and CEE were stepped up and networking in this area was further intensified, human resources development tools were redesigned and the management development programme continued to be refined. These measures ensured that employees and managers were given access to skills and qualifications which help them to meet the growing demands in a constantly changing environment, and thus also in the implementation of the bank's strategy in all business segments and regions.

Training

Bank Austria Creditanstalt is seeking to maintain its lead among its competitors by providing products and services which are of the highest quality. In 2003, about 67 % of all the bank's training programmes in **Austria** consequently concentrated on strengthening the technical skills of our account managers and on effectively meeting the current demands of the bank's customers and the market.

Account managers receive intensive training in Vienna, but they are also provided with up-to-date technical information and information on products in decentralised training programmes at their local units in accordance with the "just-in-time" principle so that they can offer our customers top quality advisory services also in times of constant change.

The training of employees is supported by "BA-CA Lernwelt", a new e-learning tool which was created in 2003. This enables all employees to access learning programmes, self-tests and exercises at virtually any time via the Intranet from every workplace in the bank.

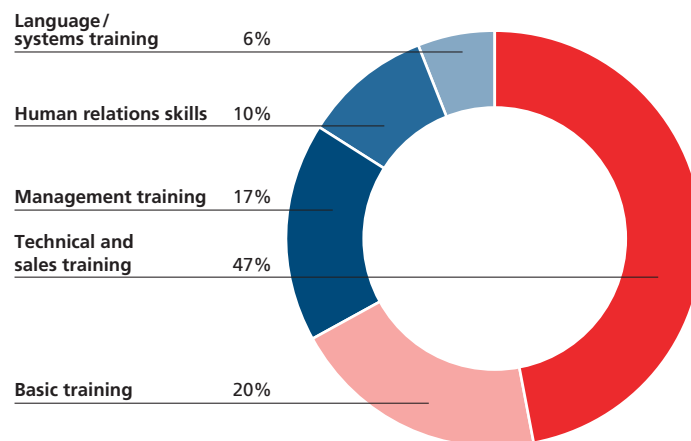
Intensive preparations are also under way to train employees in readiness for the implementation of the rules pursuant to the New Basel Capital Accord.

In **Central and Eastern Europe**, training activities in 2003 focused on establishing high-quality training in all regions to support the relevant business units.

The introduction of standards for local training activities for topics of strategic importance, supra-regional cooperation and cross-border seminars all helped to create a common understanding in regard to training, and contributed toward stepping up the transfer of know-how through stronger networking and the integration of the training activities between Austria and CEE. The establishment of standards consequently made it possible to increase efficiency in the training segment in general through shared production for local use. The bank developed a special Extranet page as an information platform for training managers; it provides information on seminars, training material and also contains news items.

The content of training activities in CEE placed emphasis on sales and risk management, and on building up a base of internal trainers locally. In this regard Austrian trainers provided the regions with methodological and technical support: for example, a trainer seminar with seminar guidelines, learning

63,600 training days for ...



material and an e-learning test to check the knowledge of participants was developed on the basis of a risk management training programme. The training facilities also included the systematic training of instructors (trainers at the workplace).

Human resources and management development

In 2003, the bank developed a new “integrated human resources development” system which is oriented to the bank’s goals and the consequent qualification needs. It therefore represents an important tool for implementing strategies in this field. The system’s purpose is to accurately identify employees most suited for filling key positions for a career as technical experts, managers, or within the bank’s sales operations. In line with strategic successor planning, use of the system allows sufficient time to prepare the employees for their future responsibilities through selective programmes for the development of technical and human relations skills.

The last few years have seen the introduction of challenging management development programmes in Austria for middle management; about 160 bank executives have successfully completed this course of study to date. In 2003 Bank Austria Creditanstalt

supplemented these programmes with a new management development programme, launched in cooperation with the University

of Economics and Business Administration in Vienna and the Warsaw School of Economics, to more selectively support top executives with supra-divisional and international management potential. The programme resembles a postgraduate MBA. With its focus on the global economy, CEE, banking and finance, strategic management, international marketing, organisational behaviour and leadership, as well as transition management, the programme covers the entire spectrum of expertise required by decision-makers in multinational companies. Twenty executives from the second and third management levels from Austria and CEE successfully completed the programme in 2003.

Securing strategic management competence

Human Resources CEE paved the way for the implementation of uniform standards for management development in the banking subsidiaries in Central and Eastern Europe. The requirement criteria were defined by means of a competence model which is employed for the selection of managers on a group-wide basis. The bank plans to further develop this instrument in 2004 and to use it to ascertain, on an annual basis through feedback, the progress made in this regard and for management development planning purposes. The “Management by Objectives” system for top executives, first introduced in 2003, is also based on this model.

Health Center

Maintaining the health of employees is an important concern for Bank Austria Creditanstalt. Employees have access to the latest in advice and treatment by a highly-qualified team of doctors and therapists from different medical disciplines at a number of locations. The range of services includes exercise and relaxation programmes which are offered at reasonable prices.

The services of Bank Austria Creditanstalt’s Health Center are also available to employees of Group companies, which substantially improved the Health Center’s operating efficiency. Strict cost-benefit analyses show that these investments have significantly reduced absence due to illness and visits to external doctors.

Good health also pays dividends – significant reduction of employee absence

Corporate Communications

The Group Marketing and Communications division is responsible for marketing and market communications (advertising, public relations, branding) at Bank Austria Creditanstalt. In addition, the division also uses targeted communication measures to help the bank's sales network achieve its established sales objectives. Areas of emphasis in 2003: with regard to branding, one of the priorities included strengthening the brand name "Bank Austria Creditanstalt", which was introduced in 2002. This also means that work will continue to outfit additional branch offices with the bank's new logo. The conversion work will be completed by year-end 2004, at which time the bank's branch offices will all have a uniform market appearance. Public relations activities focused on positioning the bank as a competent partner in an enlarged Europe, and on providing communication support for the bank's IPO during the summer.

Marketing

The Marketing department assists sales units with the implementation and marketing of products which are tailored to meet customer needs. In its initial campaign for 2003, BA-CA promoted building and residential construction loans. The campaign focused on the "Flexible Loan", which meets specific customer needs with regard to financing conditions. Flexible instalment payments, periods to maturity, loan amounts and advisory services ensure that customers are able to maintain a high degree of financial flexibility in every situation. Thanks to this campaign, Bank Austria Creditanstalt was able to significantly expand its market position in the financing area with almost € 4 bn in new credit volume, reflecting growth which was far above the market average. This sales success was due in part to the appearance of the comic-book family "Barbapapa" in the bank's advertising. Almost every second viewer of an advertising block on TV could remember BA-CA's spot (TV impact : 41 %), and name specific details. The printed advertisement and the radio spot were both named the most effec-

tive advertisements in their respective categories for the month of March.

Against the background of the pension reform passed in Austria in spring 2003, the bank established a further sales focus on pension planning. During the spring, the state-subsidised "VorsorgePlus" product was introduced, and then relaunched during the summer. In late autumn, just before the state premium was reduced from 9.5 % (2003) to 9 % (2004), "VorsorgePlus" was again placed in the centre of marketing and sales activities. Since the introduction of the product in April, BA-CA has been able to sell more than 15,000 VorsorgePlus plans and VorsorgePlus pensions.

In 2003, two campaigns focused on the area of savings and investment. In the "ErfolgsSpar" campaign, which ran between April and August, Bank Austria Creditanstalt sent the market a clear signal regarding safe and profitable opportunities for savings and investment. The attractive rates of interest offered by the "KapitalSparbuch", mortgage bonds qualifying as trustee investments, and the advantages offered by residential construction bonds issued by Bank Austria Creditanstalt Wohnbaubank – up to 4 % interest income from such bonds is exempt from Austrian capital yield tax – clearly demonstrated that BA-CA is a first-class partner for savings and investment. Supported by advertisements, TV commercials and branch offices upgrades, this campaign helped BA-CA to strengthen its position with regard to savings deposits, and to further expand its market position for residential construction bonds. The successful "Künstler-Sparbuch" series celebrating World Savings Day was continued in 2003 with a special passbook design by Austrian painter and sculptor Alfred Hrdlicka.

In order to strengthen customer loyalty, the bonus-points programme was optimised and further developed in 2003. In terms of product selection, priority was given to brand name products. The selection for

autumn/winter 2003 proved to be BA-CA's most successful assortment of incentive products. During the first two months alone, more products were sold than ever before. The main concern of "Club Suxess", BA-CA's customer-loyalty programme, is to strengthen customer loyalty by offering non-banking products from various spheres of interest, and by focusing on security, a topic of strategic importance.

An important customer segment, and one that is necessary for the bank to maintain its market share over the long term, is the youth market. Bank Austria Creditanstalt enjoys a strong position here, and once again devoted considerable attention to this segment in 2003. BA-CA holds a stable share of the youth market in Austria, although there is a very pronounced East-West gap. The MegaCard is positioned as an independent sub-brand, and activities in 2003 focused on the message: "MegaCard cares for you". A closely-related and important goal of these activities concerns the transition to "ErfolgsKonto" account packages and membership in Club Suxess. This is also a key priority for the university student target group. For this target group, the focus of both campaigns (spring and summer) was primarily on winning new customers. In addition to the main areas of emphasis, numerous other activities – such as the Stock Exchange Grand Prix, seminars for students and a summer mailing campaign – ensured a high level of interest in student accounts.

In July 2003 the former AktionärsClub Bank Austria was relaunched as a communications platform for top retail customers under the name InvestorsCircle – an example of effective customer relationship management. This exclusive customer-loyalty tool allows members to participate in cultural and specialised events and also offers them numerous benefits resulting from cooperation agreements. The increase in the number of members underlines the success of InvestorsCircle: in the second half of 2003 alone, 104 customers became members. In 2004, in addition to promoting the regional expansion of InvestorsCircle throughout Austria, there are plans to strengthen commitment levels by instituting a regular dialogue between account managers and customers.

Bank Austria Creditanstalt further expanded its position in business with independent professionals, a customer group increasingly recognising the bank's competence. The advisory centres established for independent professionals in 2003 made a particularly important contribution to this development. The centres provide customers with individualised, professional advisory services for both their business and private concerns. In 2003, the bank put together a business start-up kit which contained a number of services designed to help customers as they make the leap to self-employment. The start-up kit, including a particularly favourable financing package, was one of the highlights among the products offered to the independent professionals segment in 2003.

The general theme which accompanied the launch of the new brand – "What would the big successes be without the little victories?" – was continued throughout 2003. This helped the bank to maintain its strong position with regard to all major image factors. The popular TV commercial showing young Sam and a milk bottle received two awards.

Marketing and branding in CEE

Bank Austria Creditanstalt's banking subsidiaries in CEE operate largely under the name of "HVB Bank", analogously to the general brand name "HVB Group". The red wave connecting "HVB" and "Bank" indicates BA-CA's significance as a centre of competence for the region. The subsidiary bank in Poland is an exception to this on account of its size, local ties and strong existing brand name. In November, the decision was taken to operate in future in Poland under the name "Bank BPH". The design of this brand name, is, however, analogous to the design used in CEE. The bank also maintains strong local brands in Bulgaria and Croatia, where the brand designs are being brought into line with the designs used for CEE branding.

All media purchasing for Bank Austria Creditanstalt and its subsidiaries in CEE has been performed by a single media agency. Uniform planning tools are used in all countries where Bank Austria Creditanstalt is responsible for business development,

which facilitates control, enhances comparability and enables the bank to benefit from synergies. The increasing focus on the retail business is being supported through greater use of television advertising. Thus it was possible to significantly boost brand awareness in the region. The bank's position in Slovakia, Croatia and Bulgaria, in particular, was considerably strengthened.

Sponsoring

Bank Austria Creditanstalt supplements its classical advertising and marketing measures with a comprehensive programme comprising sport and cultural sponsoring, and the support of social issues. With regard to cultural sponsoring, BA-CA is active in three areas: the visual arts, classical music and jazz. BA-CA's priority in these three areas is the promotion of promising young artists. With some 9,000 objects, BA-CA owns one of the most significant collections of Austrian art since 1945. This collection is continually expanded through the purchase of works from promising young artists. In terms of the visual arts, it is the Bank Austria Creditanstalt Kunstforum which is at the centre of public interest. In its twenty years of existence, the Kunstforum has presented over 40 exhibitions visited by more than 4.5 million art enthusiasts.

In the field of classical music, special mention should be made of the bank's cooperation with "Jeunesse": under the motto "Bank and Notes", the cooperation between the bank and Musikalische Jugend Österreich has existed for 30 years. For this sponsoring programme as well, the bank is particularly interested in promoting talented artists at the start of their career. With regard to jazz, the bank supports both the Vienna Art Orchestra and the best-known Viennese jazz club, the Porgy & Bess.

In the area of sports sponsoring, Bank Austria Creditanstalt maintains a clear focus on tennis and golf. The bank sponsored Austria's largest indoor tennis tournament, the CA-Tennis Trophy held in October 2003, and – for the first time in 2003 – the BA-CA Golf Open, Austria's largest golf tournament.

Since the mid-nineties, BA-CA has also expanded its sponsoring activities into Central and Eastern Europe in parallel with its business expansion. The focus of the KunstRaumMitteleuropa project is on the promotion of young CEE artists who are lesser known in Western Europe. With regard to classical music, the bank supports young musicians within the framework of the Trenta International Music Forum.

Public Relations

In 2003 BA-CA continued its successful "Bank Austria Creditanstalt Forum on Europe" series. For the fourth time, top BA-CA customers were given the opportunity to discuss the future of an enlarged Europe with high-level personalities from the worlds of politics, business and society. Some 600 guests from 16 countries came to hear presentations by, among others, Henry Kissinger, Hans-Dietrich Genscher, Sir Peter Ustinov and Robert A. Mundell, Nobel Prize winner in economics. In Austria's regions outside Vienna, the strategic emphasis taken by event management was reflected in the topics "Changes in corporate finance" and "Rating as an opportunity". BA-CA informed its customers of their internal credit ratings, and discussed ways in which customers could optimally manage these credit ratings.

Customer publications and Internet activities were expanded in 2003. "Bank Exklusiv", the bank's customer magazine, is now available, enriched with local content, to customers in Poland, the Czech Republic and Croatia in the local language. The website created in the course of the merger between Bank Austria and Creditanstalt was further improved in 2003. Investments in security and service were amply rewarded: in 2003, BA-CA was the first Austrian bank to be awarded the European E-Commerce seal of quality.

Throughout 2003, Bank Austria Creditanstalt's press relations focused on the bank's strategic emphasis in the region of Central and Eastern Europe. The IPO of BA-CA during the summer as well as the secondary listing in Warsaw were the main topics for press relations activities. With the return of the bank to the Vienna Stock Exchange, and the listing of the BA-CA share in Poland, the bank's CEE strategy attracted attention from the international news media and

increasingly became the focus of capital market communications. PR measures concentrated on positioning Bank Austria Creditanstalt as the leading banking group in the CEE region. Numerous public relations activities were organised around the bank's IPO, including several press conferences, an international press trip to Warsaw and a number of individual discussions with the Managing Board. In Austria, the bank boosted its press relations activities in the regions outside Vienna. As a result of this measure, the bank was again able to further strengthen its lead with regard to media coverage. With a coverage ratio of 55 %, Bank Austria Creditanstalt is the financial institution which is most widely covered in Austria. It is gratifying to note in this regard that with an initiative ratio of 57 %, Bank Austria Creditanstalt is one of the most active companies in Austria; its communications policy ensures that the bank maintains its leadership in terms of topics presented. Thus with regard to its PR activities, BA-CA has achieved almost an ideal level.

In order to market the bank's CEE network, the international press office has developed a comprehensive package of coordinated communication measures ranging from public relations work with press conferences and interviews, special CEE economic publications and local-language customer magazines all the way to top PR events. As a result of these activities, renowned international financial publications referred to Bank Austria Creditanstalt as the leading bank in Central and Eastern Europe. "The Banker", a monthly British periodical which belongs to the Financial Times Group, named BA-CA "Bank of the Year in CEE" for the third time, after having awarded this title to the bank in 2000 and 2002. The well-known business journal "Euromoney" named BA-CA "Best Bank in CEE" for the fourth consecutive year. In addition, the bank received numerous other awards in various product fields and BA-CA banking subsidiaries in CEE won country awards.

Internal Communications

The Internal Communications team pursued an integrated print strategy in 2003, which was directed both towards active employees in Austria and CEE,

and towards employees on leave or in retirement. A broad range of print media was used for communication and contributions from the bank's management and employees. The central medium for employees in Austria is the 64-page magazine "TEAMlive", which has a circulation of 12,500 and was published seven times in 2003. TEAMlive provides concise information for various dialogue groups, and thus promotes integration and identification within the bank. Analogous to TEAMlive, "Aktiv" was created as a special magazine for retired employees. The objective of this magazine is to further strengthen the sense of loyalty towards Bank Austria Creditanstalt among former employees of BA-CA's predecessor institutions. Former bank employees represent important opinion leaders on bank-related topics within their families and their circles of friends. A very popular service section covering Bank Austria Creditanstalt's activities for pensioners rounds off the magazine.

"Visions" appeared four times in 2003. The magazine focused on ongoing projects and provided in-depth information on special topics.

In order to communicate the bank's CEE strategy and support the integration of banking subsidiaries in CEE, BA-CA publishes "CEE Visions" six times per year in German and in English. The magazine has been well received by readers in all countries, and will therefore – now that integration measures have largely been concluded – be continued, with a new layout, as a network medium for Austria and CEE. Integration projects which took place in Bulgaria, Croatia and in Bosnia and Herzegovina in 2003 were accompanied by country-specific "CEE Visions" published in cooperation with Integration Management/CEE and local management, in both the respective national language and in English.

The online platform "BA-CA GroupNet", which can be accessed by all employees in Austria and CEE, includes up-to-date information provided by management in German and English, and IR-related topics.

In a series of presentations for managers, the most important strategic topics – for example, the bank's IPO – were communicated directly.

Sustainability – a Process of Small Steps

Whoever elevates sustainability to a corporate objective must also have the perseverance to take small, and occasionally difficult, steps. Joint efforts in this area not only establish a strong foundation for society and future generations, but also make good economic sense. This fact helps to convince all affected groups.

In line with the UNEP Declaration, the bank views sustainable development as a corporate obligation. In this connection, economic success, environmental protection and social responsibility are to be viewed as complementary strengths which represent key

factors for the positive long-term development of both the company and of society. At the initiative of Bank Austria Creditanstalt, which is of course also committed to

these principles in the growth markets of Central and Eastern Europe, UNEP plans to establish a task force which has as its objective the promotion of sustainability considerations in CEE countries. A significant aspect in this regard is the clean-up of existing environmental trouble spots. As one of the leading financing partners, the bank's know-how in this field is in great demand. Therefore Bank Austria Creditanstalt has also delegated experts to the EU's CABERNET research project (www.cabernet.org.uk). The objective of this project is to revitalise so-called "brownfields", i. e., abandoned former industrial sites.

BA-CA also promotes sustainability in CEE countries

Product ecology

Sustainability is also a decisive criterion in BA-CA's lending principles. These encompass both the environmental and social standards established by the World Bank in connection with project financing activities in threshold and developing countries, and the Equator Principles, which HVB Group, and thus

Bank Austria Creditanstalt, signed along with other international banks in the summer of 2003. These voluntary guidelines apply to all project finance transactions with an investment volume of over US\$ 50 m. BA-CA has long taken into consideration ecological aspects in its creditworthiness evaluations. Basel II will further raise the level of awareness in the banking industry.

Our environment desk has supported credit officers and risk managers in the area of ecological risk evaluation for a number of years. In addition to internal training at credit seminars, the bank's Intranet provides environmental information and ecology-related industry checklists, and enables employees to obtain information on problem areas and contamination. The Kyoto mechanisms represent a major challenge for banks. Bank Austria Creditanstalt has already successfully arranged project financing for the Tsankov Kamak hydroelectric power plant in Bulgaria (total volume: € 220 m, completion in 2008), which represents the first reference product for trading in CO₂ certificates. In CEE, the bank has financed numerous other major projects related to the environment. In Bulgaria, an internationally syndicated bank loan for € 350 m will be used to expand an existing coal-fired power plant and equip it with the latest environmental technology. In the area of water supply, the bank is participating in project financings in Croatia and Romania.

Capital Invest Ethik Fonds

An increasing number of investors are interested in investing their capital based on factors in addition to pure economic considerations – they aim to make an investment contributing to sustainable economic and social development. The Capital Invest Ethik Fonds, which has been on the market since August 2003, pursues opportunities in line

with ethical criteria pursuant to the Austrian Investment Fund Act. In addition, the “best of class” approach is used to take into consideration both exclusion criteria and company involvement in social and ecological matters.

Operations ecology

Pursuant to the bank’s internal operations ecology, and in order to improve its efficiency in this area, the bank pursues a number of tasks which reflect a comprehensive sustainability strategy. One aspect of this is the consistent monitoring of consumption data. The bank’s waste-disposal strategy is also approaching its goal of making maximum use of available savings potential. Ecological considerations play an important role with regard to the bank’s purchasing decisions (office supplies, equipment, cleaning supplies). In line with the “Healthy Workplace” project, the latest data on ergonomics are taken into account when selecting and setting up office furniture. All these various activities are coordinated by a sustainability network which encompasses all divisions of Bank Austria Creditanstalt.

Corporate social responsibility

Acting as sponsor, Bank Austria Creditanstalt demonstrates its social competence and willingness to participate in society, which it hopes to influence in a positive way to the best of its ability. Significant aspects of this include providing assistance in times of emergencies in Austria and abroad, as well as

Close cooperation with charitable organisations from a sense of social responsibility

cooperating with competent partners and organisations, such as Caritas in connection with the BA-CA Family Fund, the Red Cross, the Cancer Association, “Licht ins Dunkel” and “Rettet das Kind” (Save the Child), to name just a few of the many organisations supported by the bank. In Austria, the bank sponsored a nation-wide series of wheelchair tennis tournaments. The BA-CA sponsored prize for publicity achievements in the defence of human rights went to the homeless newspaper “Augustin”. Bank Austria Creditanstalt’s subsidiary banks are also active in the sponsoring area.

Diversity management

We view diversity as the phenomenon of positively affirming differences among human beings in terms of gender, origin, language, cultural and religious values, and marital status. Diversity is divided into five areas at Bank Austria Creditanstalt: gender, culture, health, generations and life style.

In connection with the subject of gender, the bank has incorporated equality management into its training programmes. The main area of emphasis in 2003 was – following the conclusion of successful pilot projects – the development and implementation of a new mentoring programme. This programme is geared primarily to female employees, in order to increase the share of women in management positions. The programme officially began in November 2003. The matching process, i.e., the process of matching individuals to mentors, has already been successfully concluded. Care was taken to ensure that the 50 mentor/mentee groups reflect the broadest possible mix of career levels, gender, field of work and age.

The bank devotes special attention to both employees and customers with handicaps. In line with the “Year of the Handicapped” proclaimed by the EU, the bank has conducted a survey of the status quo with regard to the accessibility of its branch offices. Work is in progress to ensure that minimum standards are met. With regard to the diversity emphasis on “lifestyle”, the focus is on establishing favourable conditions for a healthy work-life balance. Thus during the year under review, part-time work opportunities were made more flexible. The bank’s many family-oriented services include: company kindergartens at two different locations, special advisory services for employees on maternity/paternity leave as well as the organisation of special events, holiday camps and sports instruction for children during their summer holidays. In 2003, Bank Austria Creditanstalt was named the most women and family-friendly company in Vienna.