

AUSTRIA MONEY SECRETS UPDATES & CORRECTIONS, February 2009

Please note: page numbering refers ONLY for the version of this report sold by The Nestmann Group, Ltd. Page numbering for other versions may differ.

Inside facing cover page, next-to-last paragraph, replace with the following text:

You may order books and reports by Mark Nestmann through the bookstore at <http://www.nestmann.com>.

p. 1

In "the euro advantage" bullet, note that 16 countries in Europe now use the euro as their official currency.

p. 2

The 2009 edition of the Heritage Foundation's *Index of Economic Freedom* now ranks Austria 23rd out of 179 countries.

p. 3

Add the following text at the end of point #3:

"Austrian commercial banks have invested in and lent heavily to emerging markets, particularly Eastern Europe. This strategy was extremely profitable in the 1990s and early 2000s, but the global recession beginning in 2008 has hit Eastern Europe particularly hard. In all, Austrian banks hold about 19% of the total exposure by Western banks in Eastern Europe.

I now recommend that clients maintain deposits in commercial banks (including Austrian commercial banks) only for transactional purposes (e.g., bill-paying, remittances, etc.), but not for significant long-term investments. Deposits in exceptionally well-capitalized commercial banks (p. 42) may still be suitable for wealth preservation.

Fortunately, most Austrian private banks have little lending exposure to Eastern Europe. Their balance sheets remain very strong. However, due to the precarious condition of the global banking system, it is imperative to closely examine, and continuously monitor, the balance sheet of any bank—

commercial or private—with which you do business.

p. 4

In reference to point #9, the global recession has ended, at least temporarily, the "economic renaissance" referred to for Eastern Europe and Asia.

p. 4

Austria is not now dependent on financial aid from outside sources, but that may change if the banking crisis continues to worsen. In that event, Austria may be forced to seek funding from Germany, the EU, or even the International Monetary Fund to bail out its commercial banks.

Several EU members with a AAA credit rating, including Austria, have been forced to cancel auctions of sovereign debt due to insufficient demand by investors at the relatively low interest rates being offered.

p. 5

In the bullet beginning "Securities Laws," replace the phrase "U.S. securities" with "foreign securities" in line four.

p. 16

Replace first paragraph with the following text:

"The process of European unification continues, with the addition of 10 new countries to the EU in 2004, including Hungary, the Czech Republic, Slovakia, and Slovenia, all nations on Austria's borders. In 2007, Bulgaria and Romania joined the EU, bringing the total number of member states to 27. As former communist states, the economies of the newest EU members lag Western Europe by most measures, and their inhabitants are eager to achieve prosperity. Dealing with the economic competition from these emerging economies will be a continuing challenge for Austria. So will dealing with the fallout from the economic implosion in these economies that began in 2008."

p. 16

Replace paragraph #3 with:

"Another consequence of the Maastricht Treaty was a currency union. Sixteen European countries, including Austria, have now adopted a new currency, the "euro" (symbol: €). The national currencies of the countries using the euro, including the Austrian schilling, have been abolished. Schillings were exchanged at the fixed rate of 13.7603 schillings per euro. The other countries using the euro are Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovenia, Slovakia and Spain. In addition, the euro circulates widely in other jurisdictions, and is the *de facto* currency in San Marino, Monaco, Vatican City, and Andorra."

pp. 16-17

As a result of the global economic crisis, some economists predict that some countries now using the euro will abandon it and begin setting their own fiscal policy once again, and issuing their own currency. In addition, it seems unlikely that any more countries will adopt the euro as their official currency, at least for the next few years.

The fundamental problem for the euro is that most members of the euro-zone can no longer comply with the strict criteria for membership set down in the Maastricht Treaty. Some economists predict that the European Central Bank may have to choose to either bail out the banks in these countries, or cut them loose from the euro-zone to stave off a currency crisis.

p. 17

The Vienna Stock Exchange is using the global financial crisis to take over financially troubled exchanges in neighboring countries. The exchange is now the majority owner of the Prague, Budapest, Ljubljana stock exchanges.

However, the exchange faces its own challenges. In October 17, 2008, the exchange declined nearly 11% after a trading halt that lasted several hours. The exchange suspended trading after the value of the benchmark ATX stock index collapsed 10% at the opening bell.

p. 18

Replace the second sentence of the first full paragraph with the following text:

"As of February 2009, €1 had a value of about US\$1.28. US\$1 had a value of about €0.78."

p. 18

Replace the chart on this page with the following chart:

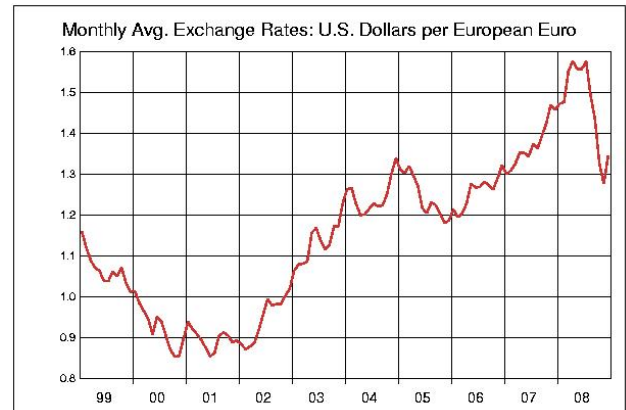


Figure 4: U.S. Dollar-Euro Exchange Rate 1999-2009

© 2009 by Prof. Werner Antweiler, University of British Columbia, Vancouver, B.C., Canada.

Link: <http://fx.sauder.ubc.ca/plot.html>

p. 21

Replace point #5 with the following text:

"5. **Financial safety.** Most Austrian banks are safe and well capitalized. Strict internal controls apply, and all banks are subject to an annual external audit for compliance with Austrian banking laws, commercial laws, and accounting standards. However, the global financial crisis has brought significant financial hardship to the Austrian commercial banks that made significant investments in emerging market economies, particularly in Eastern Europe. Several of these banks have tapped into a €100 billion fund set up by the Austrian government to prop up commercial banks.

To avoid capital flight from Austria to other countries with more generous deposit insurance schemes, in October 2008, the Austrian government announced that it would guarantee all private savings accounts in Austrian banks, with no limits. Prior to that date, the limit was €20,000 per deposi-

tor. Unfortunately, if the EU banking system collapses as some economists predict, this scheme will not be nearly large enough to pay back depositors in the failed banks."

p. 21

The U.S. dollar has strengthened significantly against the euro in recent months, as the revised graph on this page illustrates. Therefore the returns described in "Protection from the Sinking U.S. Dollar" would not be as high as the example suggests.

p. 22

Replace the table on this page with the following:

1 month	1.668%
3 months	1.989%
6 months	2.069%
12 months	2.177%

Figure 5: Sample Euribor Interest Rates (February 2009). Source: <http://www.euribor.org>

p. 29

Since mid-2008, prices of many hedge funds have collapsed. However, truly market-neutral funds that don't employ excessive leverage have continued to provide superior performance compared to the overall market.

p. 30

Replace the graph on this page with the following:

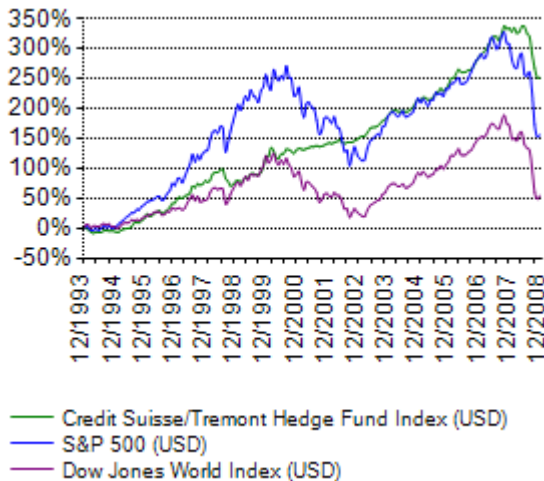


Figure 11: Long-Term Performance of Hedge Funds vs. Stocks (1993-2009)

Source: <http://www.hedgeindex.com>

p. 30

In the first paragraph under Figure 11, the service referred to is now available only by paid subscription.

p. 31

Among all asset classes, gold has performed best in the economic downturn that began in 2008.

p. 31

Replace the graph on this page with the following:



Figure 12: Price of Gold in U.S. Dollars 1999-2009

Source: <http://www.kitco.com>

p. 33

Replace second sentence in fourth full paragraph with the following text:

"This type of account reinforces Austrian bank secrecy, because only a few officers at the bank know your real name. You conduct all transactions by account number and password."

p. 33

In December 2008, Liechtenstein signed a landmark Tax Information Exchange Agreement (TIEA) with the United States that opens the door for the IRS to obtain information about specified bank accounts owned or controlled by U.S. taxpayers in Liechtenstein. The capitulation of Liechtenstein to U.S. pressure will likely increase the pressure on Austria to lift bank secrecy in tax investigations.

p. 33

The European Commission has proposed amendments to the EU Savings Tax Directive that would significantly tighten its provisions. These amendments will likely:

- Increase the amount of data exchanged between EU members on accounts held outside a EU resident's home country
- Increase the number of investments subject to information exchange or withholding, such as life insurance
- Restrict the use of intermediaries to avoid tax by handling interest payments on behalf of EU residents
- Tie in information exchange mechanisms to anti-money-laundering regulations to more easily identify the beneficial owner of accounts.

The European Commission needs a unanimous vote by EU members to put this proposal into effect.

p. 34

For point #5, refer to the updates to p. 3 and p. 21 in regard to the financial safety of Austrian banks and the deposit guarantee policy of the Austrian government.

p. 36

Add the following text at the end of the bulleted item entitled "Foreign exchange fees":

"Most banks don't document how large a foreign currency spread you'll pay when converting currencies. Before doing so, ask your account representative how far above the inter-bank rate you can expect to pay for the conversion. You're likely to pay a higher premium for relatively 'exotic' currencies than for more mainstream currencies like the euro or Swiss franc."

p. 37

Add the following text to the end of the bulleted item entitled "Precious metals commissions":

"Even lower premiums are available for purchases and sales of 400-ounce gold bars, the most commonly traded medium for large transactions. However, since the price of a 400-ounce gold bar is close to US\$400,000, such purchases are suitable only for large investors."

p. 38

Capital gains on U.S. eagles are taxed at 28%, in common with other collectibles, not 15%.

pp. 39-40

In June 2008, police raided three private vaults in London owned by Safe Deposit Centres Ltd. Police seized all of the more than 7,000 safety deposit boxes in the vaults. Box-holders were forced to appear before police to reclaim their belongings.

While there is no indication that private vaults in Austria face the same risk, if you use the service described on these pages, make certain that you can prove beyond a reasonable doubt that you legally own every item in the box. You should have a receipt describing the property in detail, along with a record of how you paid for it. Ideally, you should also have records proving that you used legally earned, after-tax funds to pay for each of the items you store in the box.

p. 42

Replace last sentence in fourth bullet point with the following text:

"You can also take a taxi or walk from your hotel, if the bank is centrally located—and all the banks reviewed in this chapter are in downtown Vienna."

p. 42

In the second paragraph in "How Safe is Your Bank?" sidebar, replace the first sentence with the following text:

"The Bank for International Settlements (BIS), the world's 'central bank for central banks,' has mandated that all banks, worldwide, maintain minimum capital adequacy ratios."

pp. 42-46

In December 2008, Anglo-Irish Bank (Austria) was acquired by the Swiss-based Valartis Group AG. It is now known as "Valartis Bank (Austria)." The bank's continues to welcome U.S. business so long as an offshore entity or an IRA holds the account.

Valartis Group AG is the parent company of a Swiss banking group that specializes in the Swiss options market. The company's wholly owned subsidiary, Valartis Bank AG, is active in Switzerland, Eastern Europe, Russia, and now Austria. Valartis Bank AG had a robust equity-to-assets ratio of 46% at the end of 2007, but losses in Eastern Europe and Russia may lower this measure of financial

strength. Still, Valartis Bank AG remains in a far stronger capital position than almost all commercial banks in the EU and Switzerland.

p. 43

In January 2009, the Irish government nationalized the operations of Anglo Irish Bank, the former parent company of Anglo Irish Bank (Austria); now Valartis Bank (Austria). Since the Austrian branch has been sold to Valartis Group AG, the nationalization will not affect the operations of the former Austrian subsidiary.

p. 46

Contact information for Valartis Bank (Austria) is unchanged, except that the e-mail address is now welcome.desk@valartis.at and the Web site is http://www.valartis.at/default_en.asp.

p. 47

Replace first sentence with the following text:

In 1997, the historically socialist-dominated "red" Bank Austria purchased the historically business-dominated "black" Creditanstalt in an uneasy merger between Austria's then two largest banks.

p. 47

Bank Austria, like other Austrian commercial banks, has suffered serious erosion in its capital base as a result of the global financial crisis. It has announced that it may accept money from the Austrian government's bank-assistance bailout package. Its primary risk exposure is in Eastern Europe, where the value of its loan portfolio has fallen sharply.

p. 48

Delete the last sentence in the first full paragraph on this page. Bank Austria (in common with other Austrian commercial banks) is now underwriting fewer loans in Eastern Europe.

p. 48

Under "Account Opening Procedure," replace second and third sentences of the first paragraph with the following text:

"It's generally necessary to visit Austria to open an account, and if you want a numbered account, a

personal visit is always mandatory. There's also a €50,000 deposit minimum for a numbered account."

p. 48

Add at end of first sentence in second paragraph under "Account Types:"

"However, U.S. residents are not permitted to use BA-CA's online trading platform."

pp. 48-49

In light of the global financial crisis, I no longer mortgage bonds or bonds issued by BA-CA as "very safe."

p. 50

Replace the first sentence in the third paragraph with the following text:

"To reach this branch by subway, take the #1 U-Bahn from Karlsplatz in the direction of Leopoldau to the Kaisermühlen-Vienna International Center stop."

pp. 51-52

Bank Vontobel (Austria) has now imposed significant trading restrictions for U.S.-resident clients. A suggested minimum deposit is US\$400,000.

pp. 54-57

Bank Kathrein is a 100% subsidiary of Raiffeisen Zentralbank, one of Europe's largest banks. Its parent company has significant exposure to the collapsing Eastern European economies through the parent's Raiffeisen International subsidiary. Indeed, Raiffeisen has the largest exposure of any Austrian bank to Eastern Europe in comparison with its capital. However, private banking is very profitable, and if Raiffeisen fails, Bank Kathrein could possibly be sold as an intact private bank.

pp. 57-59

Erste Bank has now combined operations with Steiermaerkische Sparkasse. Its focus is even more "Austrian" than it was previously, and the combined bank remains generally unsuited to U.S. resident clients. The suggested minimum investment for private banking services is now €500,000.

In October 2008, Erste Bank received €2.7 billion capital injection from the Austrian government,

making it the first bank to shore up its capital under a government aid package. The funds will boost Erste's Tier 1 liquidity ration to 10%. The infusion is required primarily to compensate for the bank's losses in Eastern Europe.

Erste Bank has the largest private banking operations in Austria. If the bank fails, this profitable business could possibly be sold intact.

p. 59

Contact information for Erste Bank Private Banking is:

Erste Private Banking
Petersplatz 7
A-1010 Vienna
Tel.: +(43) 50100-11700
Fax: +(43) 50100-11986

The correct e-mail address for Helmut Shiesl is helmutschiesl@erstebank.at.

pp. 60-62

Bankprivat is a 100% subsidiary of Bank Austria. As with the other private banking units of Austria's commercial banks, if the parent bank fails, the private banking operations could possibly be sold intact.

p. 62

Another Austrian private bank that can deal with English-speaking clients is European American Investment Bank AG (Euram Bank). The bank also accepts U.S. resident depositors with a minimum investment of €100,000. For more information, contact:

Euram Bank
Palais Esterházy
Wallnerstrasse 4
1010 Vienna, Austria
Tel.: +(43) 1 512 38 80 0
Fax: +(43) 1 512 38 80 888
E-mail: office@eurambank.com

p. 62

The link for Bankprivat's English language Web site is now <http://www.bankprivat.com/en/index.php>.

p. 62

In October 2008, a consortium of five Austrian banks took over Constantia Privatbank as part of an Austrian government plan to help stabilize financial markets. Despite a strong equity-to-assets ratio of 22.4%, Constantia wasn't able to raise cash quickly enough to meet demands for withdrawals from mutual funds it managed.

p. 67

The reporting regulations for movements of cash across an Austrian border described in paragraph five are now in effect.

p. 68

Replace the second sentence in the second bulleted item with the following text:

"Or you can use a debit card issued by Visa (Austria) to purchase goods or services."

p. 70

In October 2008, the IRS issued new rules to strengthen enforcement of the "qualified intermediary" (QI) program. Beginning in 2010, foreign banks that invest in U.S. securities on behalf of their clients must conduct due diligence to determine whether U.S. investors, or legal entities controlled by U.S. investors, are the owners of accounts the banks open.

Offshore banks acting as QIs must also be audited. And the greatly expanded auditing requirements are perhaps the most onerous provision of the new rules. For instance, if a foreign bank wants to use a foreign auditor, that auditor must have a U.S. accounting firm participate in the audit. What's more, the U.S. auditor must accept "joint and several liability" for the QI audit and cosign the report. If the foreign bank fails to identify any U.S. clients, and those clients aren't discovered in the audit, the IRS can bring civil or even criminal charges against the U.S. auditor.

One likely consequence of this campaign will be an even greater reluctance of offshore banks to deal with US customers. Many offshore banks have already severed account relationships with U.S. residents.

p. 73

Insert the following text at the end of the last sentence of the "Three Ways..." section:

"However, the IRS has never published a list of approved securities exchanges in which offshore funds can be purchased to automatically qualify for the mark-to-market regime."

pp. 76-78

Prices of real estate in Vienna dropped by an average of approximately 10% in 2008.

p. 82

Change the first sentence of the last paragraph to read:

"If you qualify for an Austrian residence permit, you'll have the right to travel visa-free in countries that have signed the Schengen Convention, which in addition to Austria, are Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxemburg, Malta, the Netherlands, Norway, Poland, Portugal, Spain Slovakia, and Slovenia."

p. 83

Change the third sentence of the third full paragraph to read:

"Mercer's, a major human resources consultancy, ranks Austria's historic capital of Vienna as the second most desirable city to live in the world (behind Zurich, and tied with Geneva)—and Vienna is much more affordable than either of these cities."

p. 83

The link in the first paragraph under the last sub-head on this page no longer works. The following link provides a list of countries participating in Austria's visa waiver program:

<http://www.bmeia.gv.at/index.php?id=68588&L=1>.

p. 85

The links on this page no longer work. Applications for each category of residence permit are now issued separately. For more information, see

<http://www.bmeia.gv.at/en/embassy/los-angeles/practical-advice/visa-and-residence-permit/residence-permits.html>.

pp. 88-89

Replace €4,500 with €4,824 where it appears on these pages.

p. 89

The minimum income in euros necessary to qualify for a permanent residence permit as a retiree has increased, but since the dollar has appreciated against the euro in recent months, the dollar amount necessary to qualify is about the same.

p. 92

The link on this page no longer works. Use the following link to download the application form for Austrian citizenship:

http://www.bmeia.gv.at/fileadmin/user_upload/bmeia/media/Vertretungsbehoerden/Ottawa/1725_stbnw.pdf.

p. 93

The Nestmann Group, Ltd. has uses a law firm that will process an application for economic citizenship for a much lower fee than the amount listed in the last paragraph on this page.

p. 98

The first link on this page no longer works. The article it refers to is now posted at:

http://www.pcworld.com/article/122094-7/20_things_they_dont_want_you_to_know.html.

p. 99

For additional information on customs regulations for entry into Austria, see

http://english.bmf.gv.at/Customs/EntryfromNonEUCountries32/_start.htm.

pp. 100-101

The fares for the routes described on these pages have increased. The train to the Wien Mitte station now costs €3.40 and has been redesignated S8. The bus schedule is now posted at

<http://www.viennaairport.com/jart/prj3/via/website.jart?rel=en&content-id=1135697462786&reserve-mode=active>. A single-zone trip on the Vienna U-bahn now costs €2.30.

pp. 122-123

The global economic slowdown that began in 2008 has seriously affected Eastern Europe. However, labor costs, taxes, and the overall cost of living in

this region remain much lower than it is in Austria. When the global economy recovers, this region is likely to again offer significant profit opportunities.

p. 129

The reporting regulations for movements of cash across an Austrian border described in paragraph three are now in effect.