Results of the Germany-wide study on “Capital adequacy in the retailing business”

The following statements are based upon a Germany-wide evaluation undertaken by the country’s regional-level associations of credit cooperative banks (Genossenschaftsverband Bayern e. V. [GVB], Genossenschaftsverband Weser-Ems e. V. in Oldenburg [GV Weser-Ems], Rheinisch-Westfälischer Genossenschaftsverband e. V. in Münster [RWGV], Genossenschaftsverband e. V. in Neu-Isenburg [GV] as well as Baden-Württembergischer Genossenschaftsverband e. V. in Karlsruhe [BWGV]).

Available for the valuations were both data aggregated at the associations level and that stemming from the level of the individual banks. This led, to provide an example, the analysis of this individual banks’ practices in 2009 – which was a particularly critical year for the non-financial sector – being compiled upon the basis of a response rate[1] of 70.2%. All in all, the response rate for the period 2006 – 2010 averaged 62.2 %.
The study was undertaken in the following steps:

1) Definition of equity requirements

The current equity requirements were extracted from summary sheets on equity, as constituted in accordance with § 10 KWG (Germany’s Banking Sector Act). This section’s Line 2.1 depicts all of the equity requirements to be fulfilled for counterparty default risks in achieving a solvency coefficient of 8%.

2) Analysis of the results of historic valuations of receivables

Taken into account were the actual results of valuations2 made for the years 1995 – 2010 (see chart 1). These were then placed in relation to the average balance sheet sum (ABSS).

1 Not available for all areas covered by the associations were the results from the individual banks level. The response rate denotes the ratio of the number of banks furnishing individual results to that of all cooperative banks(Volks- und Raiffeisenbanken) in the respective associations as of 31.12.2009.

The evaluation encompasses exclusively the data reported by the regional associations of credit units. The period 1995 – 2005 contains data from the GVB and the GV [the period 1995 – 2002 from the former Genossenschaftsverband Frankfurt e. V. (GVF)]. The period 2006 – 2010 encompasses data from all associations of cooperative banks (exception: 2006 – 2007 does not include RWGV). The results of valuations of banks that were being revamped report the actual evaluation results as of 31.12., with this including subsidies financing this revamping.

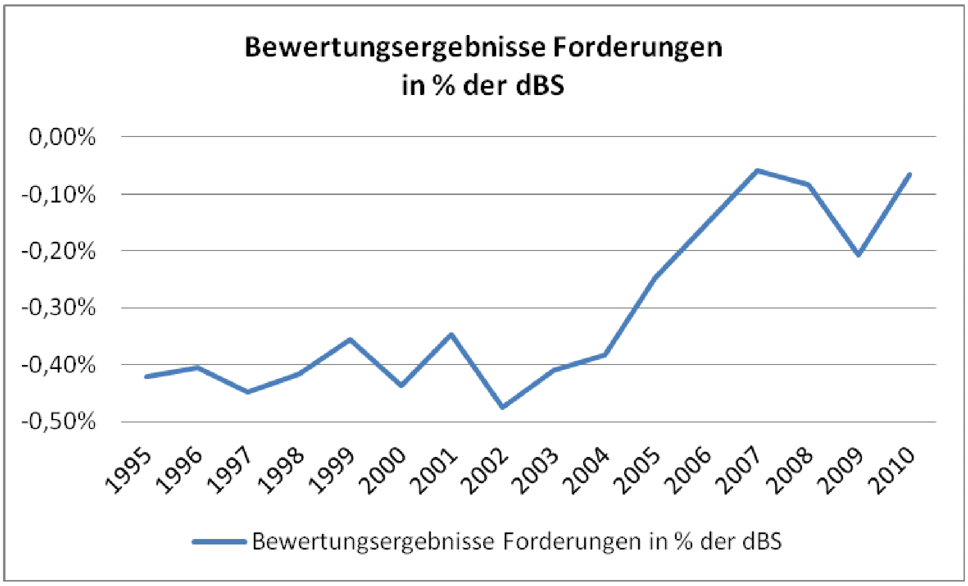

chart 1: Results of the evaluation of receivables in % of the average balance sheet sum (ABSS)

3) Comparison of the average results of historic valuations of receivables with the capital adequacy requirements placed by regulations

Placing the average historic results of valuations of receivables in a ratio also comprised of the capital adequacy requirements imposed by regulations yields the rate of utilization of the regulatory equity. The average rate of utilization of capital backing imposed by regulations came to 6.05 % (see chart 2). Even in 2008 - the year of the Lehman insolvency – and 2009 (the year of the subsequent recession) the rates of utilization remained relatively low, amounting to 1.90% and 4.87%.

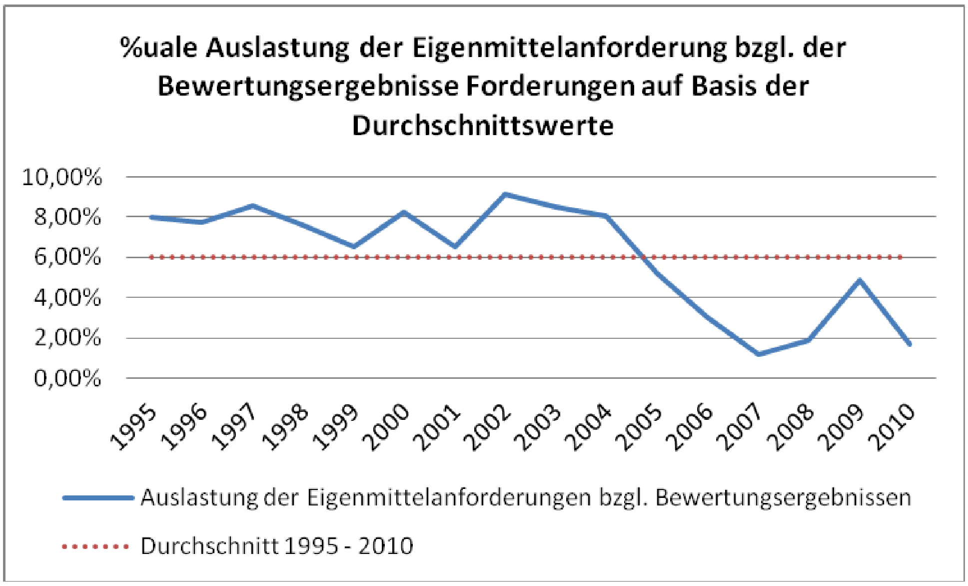

chart 2: Rate of utilization of required capital backing, in %, as a ratio of the results of evaluation of receivables on the basis of average values

Utilization of the required capital backing in relation to results of evaluation

average 1995 - 2010

4) Comparison of the historic results of valuations of receivables with the capital backing required by regulations on the level of individual banks

The average rate of utilization (chart 2) does not suffice to formulate inferences as to the amount of equity required by individual banks to compensate for defaults experienced in the customer credit business in times of extreme situations. For this reason, the next step undertaken was to evaluate the results achieved by all institutes during the period 2006 – 2010. Taken into account was a confidence level of 99.90%[2].

Example: a total of 790 banks were evaluated in 2009. Incorporating an underlying basis of a 99.90% level of confidence caused the exclusion of the 0.10% worst values (100.00% - 99.90%)[3] (chart 3).

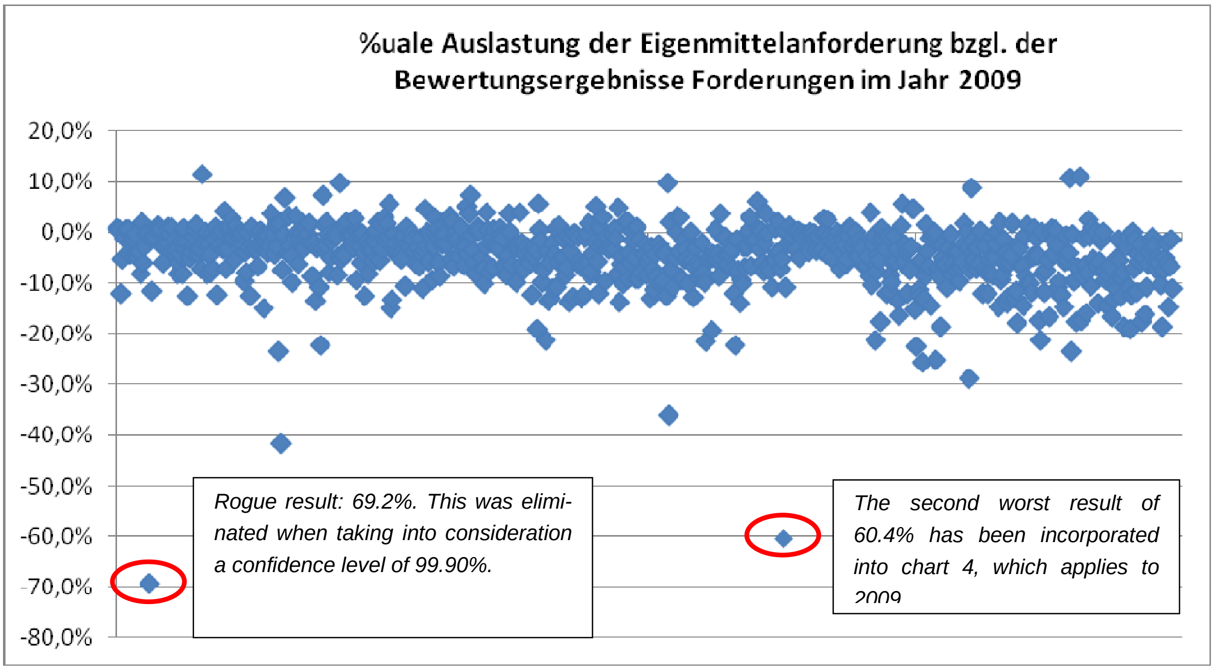

chart 3: Rate in % of the utilization of required capital backing in relation to the results of the valuations of receivables in 2009

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[2] Please consult the capital adequacy directive (2006/49/EC), Appendix V, Tz. 5c, 5l. This also describes how Basel III employs a confidence level of 99.9%.

[3] 0.10% of 790 banks ➔ 0.790 banks ➔ rounded off to one bank to be eliminated.

To be derived from chart 3 is the fact that the “second worst bank” needed to expend only 60.4% of its equity for credit defaults. Chart 4 makes apparent how this approach (confidence level of 99.90%) yields the depiction of the years 2006 – 2010. The results enable the formulation of the conclusion that the results of valuations made for the years 2006 – 2010 were substantially less than the requirements placed upon capital backing. The average rate of utilization during the five-year period was 38.16 % (chart 4) in relation to a confidence level of 99.9%.

The result is thus the capital backing required by regulations was 61.84% too large during the period of historic comparison.

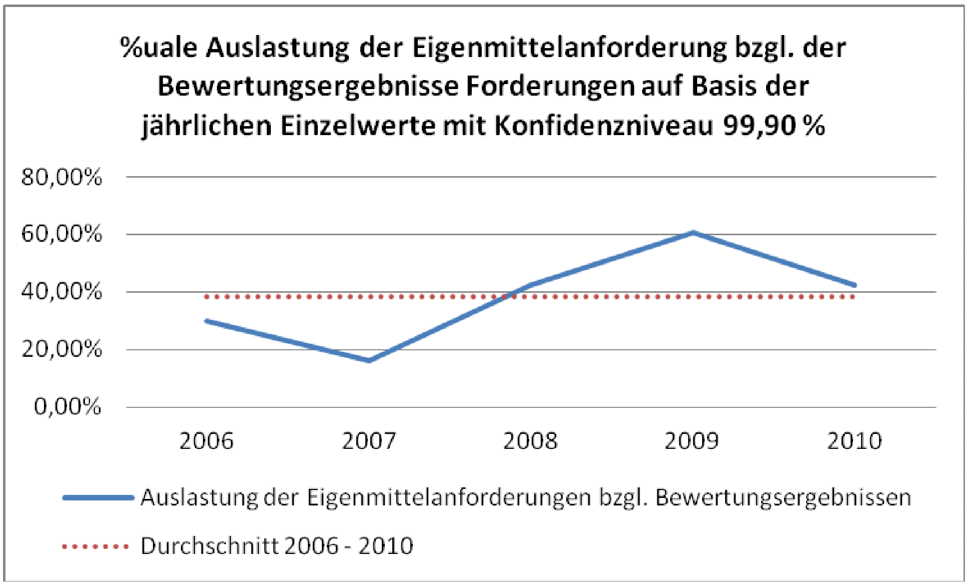

chart 4: Rate of utilization of required capital backing, in %, as a ratio of the results of valuations made on the basis of annual individual values, with a confidence level of 99.90%
utilization of the required capital backing in relation to results of evaluation
average 2006 – 2010

Summary

The study proves the existence of massive, 61.84% exceeding of the requirements placed by regulations on capital backing.

This study incorporates data from a total of some 800 banks (equivalent to some 70% of all German cooperative banks). Their total balance sheet sum comes to €391 billion. As Germany’s cooperative banks employ business models that do not essentially differ from each other, and as data stemming from all of Germany’s states was taken into account in the study, it is possible to speak of a sufficiently representative base of data.

Joining a consideration of the history of the 5-year period with the results of valuations planned for the current one by cooperative banks of -0.08%[4] and placing it in relation to the average balance sheet sum (compare this to chart 1) leads to the presumption of a sustaining of the results in fiscal year 2011.

Viewing it as a whole, these results, in detailing the massive exceeding of the capital backing required by regulations, strengthen the call that the supporting factor for SMEs should be maintained.

[4] Source: BVR – forecast of results for banks in 2011 on the basis of data from the first three quarters, as of 08.12.2011