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PRESSEMITTEILUNG

BVR report on the impact of regulation: Disproportionate strain on small and medium-sized banks

The average regulatory costs in small and medium-sized banks are often many times higher than in large institutions. Reporting and investor protection are the biggest drain on resources. At very small banks, the estimated costs for the investor protection documentation in fact exceed the gross profit that they make from the securities investment advice transaction. The boards of managing directors in smaller banks now spend a significant proportion of their time on regulatory matters.

These were the findings of a report by Professor Roman Inderst and Andreas Hackethal of Goethe University Frankfurt on behalf of the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR) [National Association of German Cooperative Banks], which used the example of the German cooperative banks to look at the impact of regulation on small and medium-sized banks. The authors analyzed and quantified the regulatory costs by surveying more than 500 cooperative banks and combining the results with internal accounting data. They found that the total annual costs across all of the surveyed cooperative banks came to around €100 million just for the additional documentation obligations relating to investor protection.

"The survey shows how much of institutions' operating resources are tied up by regulation," said Uwe Fröhlich, President of the BVR, when the report was presented on Wednesday. "Small and medium-sized banks should be focusing more on their customer business, and less on regulatory issues." Nonetheless, Fröhlich is optimistic about the future: "We want this report to be a wake-up call for politicians and we want to point out that regulation has certainly helped – and is helping – to stabilize the financial system. However, we call on the regulators to concentrate on ensuring that measures are more targeted and are compatible with each other." The effects of financial markets regulation have still not been fully investigated. Fröhlich's suggestion is that any proposed

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legislation be examined in terms of how it will impact on the structure of the markets. "The disproportionate strain on smaller banks is surely an unintended consequence, and we are campaigning against it," he added.

Nevertheless, Fröhlich believes that the successful cooperative business model as well as the level of customer approval and capital adequacy mean that the foundations have been laid for overcoming the challenges that lie ahead. Despite tumultuous conditions in the markets, the local cooperative banks have generated record results over the past six years and have seen their equity increase to €75.2 billion, a significant rise of €25 billion. This equates to a common equity Tier 1 capital ratio (including the reserves pursuant to section 340f German Commercial Code (HGB)) of 17.1 percent. The local cooperative banks are also able to withstand phases of increased risk or reduced income. This is consistent with the latest findings of the banking regulator; sufficient hidden reserves and surplus capital are available, for example, to counteract the phase of low interest rates.

In the second quarter of 2015, the local cooperative banks registered further gains in market share in their lending and deposit-taking businesses. As at June 30, 2015, the local cooperative banks had a 15.5 percent share of the customer lending market, up by 0.4 percentage points year on year. In the deposit-taking business, the local cooperative banks' market share was 17.4 percent, which was also 0.4 percentage points higher than a year earlier. Furthermore, the cooperative banks actively manage their costs.

The report, summary, and BVR positioning paper along with high-resolution photos can be found at www.bvr.de/gutachten.