

17th Annual Capital Markets Conference

Concepts of risk bearing capacity in German banks

Dr. Tobias Volk, LL.M.oec

Concepts of risk bearing capacity in German banks

Overall principle under Pillar 2 of Basel II/III

Section 25a (1) of Banking Act (KWG)

Central provision: institutions have to dispose of a proper business organisation

This comprises:

- Adequate risk management
- on the basis of processes to assess and maintain ability to bear its risks
- Definition of strategies
- Establishment of adequate internal control systems
- Internal Audit

Structural requirement

Organisational and operational structure:
Clear Segregation of areas of responsibility

Processual requirement

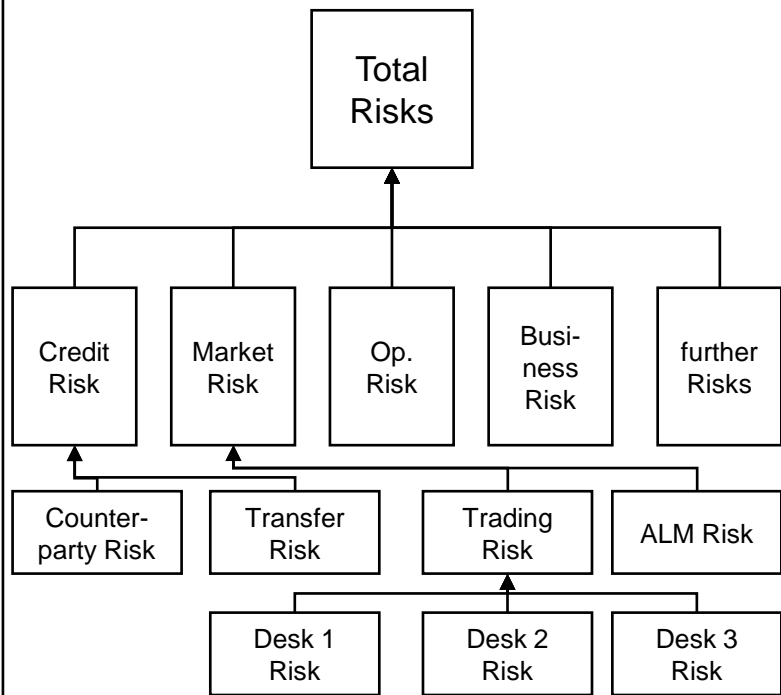
Processes to identify, assess, control, monitor and communicate risks
(in accordance with Annex V of CRD)

Where to find the KWG? (German version only) → http://www.bundesbank.de/download/bankenaufsicht/pdf/kwg_0407.pdf

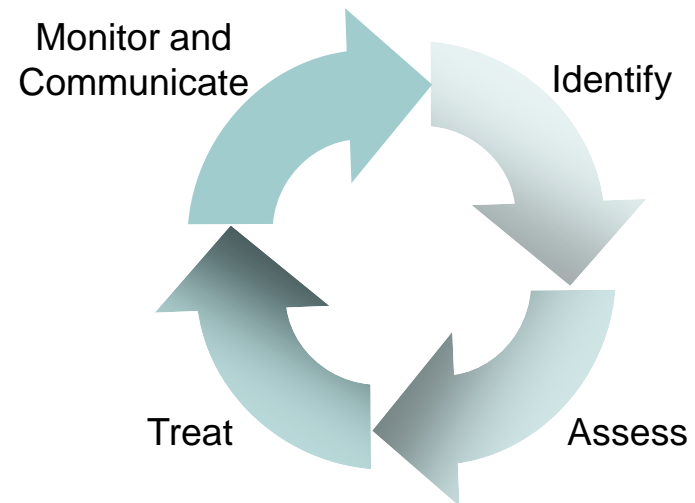
Concepts of risk bearing capacity in German banks

Overall principle under Pillar 2 of Basel II/III

AT 4.3.2 MaRisk: Coverage of all material risks



AT 4.3.2 MaRisk: Processes for material risks



- Appropriate processes
- Appropriate scenarios
- Appropriate intervals for management reporting

Concepts of risk bearing capacity in German banks

Supervisory specification within the SREP

- Deductions from Available Financial Resources under Pillar 2
 - Hidden burdens (Government/Municipals !)
 - Deferred tax assets
 - Goodwill
- M-t-M treatment of own credit risk not allowed under Pillar 2
- Diversification assumptions have to be stable over a period of one business cycle or to be used with an appropriate buffer
- Risk horizon generally one year with exceptions in market risk if institution can justify management intervention

Concepts of risk bearing capacity in German banks

Quality and sophistication of ICAAP in German banks

