

Admission Procedure

As part of the framework of the risk and prevention management for the Deposit Protection System of German private banks, the Auditing Association conducts an audit of applications to join the Association in order to determine whether the prerequisites for participation in the Deposit Protection Fund (ESF) in accordance with § 3 Section 1 of the Deposit Protection Fund Statute are met (Admission Procedure).

Principles

Existing and newly-established CRR credit institutions as well as already existing institutions, which are not CRR credit institutions yet, but have submitted a relevant application for an extended banking license, are eligible to apply for admission to the Auditing Association. In the case of a newly-established credit institution and license extension, the admission procedure can be carried out parallel to the licensing application.

The admission procedure is subject to a fee and consists of a request for information from referees, the execution of an admission rating and the assessment of the admission application including the business plan. With regard to already existing CRR credit institutions and institutions – i.e. the applying institution is subject to supervision according to the German Banking Act (KWG) – an additional on-site audit (admission audit) takes place with the same objective and same contents as a deposit protection audit.

CORE ASSESSMENT CRITERIA OF THE ADMISSION PROCEDURE ARE:

- > the result of the rating assessment (a rating of at least BBB+ must be attained in accordance with the Deposit Protection Fund Statute),
- > the financial solidity of the applying institution, i.e. sound financial condition and - in line with the (intended) business model and the risk profile of the applying institution - adequate capital (solvability and risk-bearing capacity), if applicable, including the ability to offset starting losses,
- > an acceptable, plausible and sustainable business model and
- > a proper business organisation in accordance with banking benchmarks taking the core elements as well as the special features of the applying institution's business activities into appropriate consideration.

Furthermore, the applying institution must have at least two managing directors who are suitable at a personal and specialist level and who are also reliable and trustworthy. If there are owners of a qualifying holding - in accordance with former § 1 Section 9 of the German Banking Act - in the applying institution, any such owner is subject to an additional assessment of his creditworthiness, reliability and respectability (Ownership Control Procedure). In the case of legal entities as shareholders, this also includes those acting on behalf of these individual entities.

Admission may be granted subject to conditions designed to limit risk. These conditions serve especially to guarantee the adherence to the essential conditions and business objectives stated on the application for admission, which serve as a basis for admission of the member bank.

DOCUMENTS AND INFORMATION REQUIRED FOR AN ADMISSION PROCEDURE

The required documentation to carry out the admission procedure are basically subject to the requirements of § 32 of the German Banking Act in conjunction with the Reports Regulation and the Holder Control Regulation. Our association-legal procedures are comparable to the regulatory Application and Ownership Control Procedure, however hereof independent, nevertheless the information requirements may vary in individual cases. Reference to information only available to BaFin is not sufficient. The following application documents are regularly required:

- > Information on the Legal Status of the Applying Institution
 - Memorandum of Association, legal form, company name, excerpt from the Commercial Register, legal representatives
 - Copy of license, partial license or of the application for issuance of a full-banking license
 - Evidence of financial resources for business operations
- > Board Members
 - Nomination of members of executive management and the administration or supervisory body
 - Curricula Vitae and appropriate evidence regarding specialist aptitude and reliability of managing directors as well as evidence concerning assessment of reliability and expert knowledge of members of the administration or supervisory body.
- > Details on Company Background
 - Stockholders' Register with stakeholdings
 - Company organigram stating equity and proportion of shares in every subsidiary and affiliated company
 - In order to conduct the Ownership Control Procedure, evidence on personal reliability as well as income and net assets in accordance with the Holder Control Regulation is required
 - In the case of shareholders with a controlling stake or substantial influence, a thorough assessment of the financial situation is carried out in order to evaluate the recoverability of the indemnity declaration to be submitted.
- > Information on the Financial Condition of the Applying Institution
 - Financial statements referring to the last three fiscal years
 - Audit reports relating to the last three fiscal years
 - Relevant miscellaneous evidence, for example, on newly-established institutions, shelf companies, etc.
 - Interim financial statements in case the above-mentioned information is not current.
- > Meaningful, Detailed and Clearly Annotated Business Plan with
 - presentation of business strategy and business model
 - draft balance sheet, draft income statement and draft solvency calculation for the next five financial years with detailed comments on constitutive parameters and assumptions
 - adequately substantiated presentation on company organisation structure and operational structuring including internal control system and risk-management system
 - Organisation of internal control system in the most significant business areas
 - Organisation of Internal Auditing (human resources, risk-oriented audit plan, perennial audit plan)
 - Risk management organisation, risk-bearing capacity concept and the risk-calculating and risk-management methods for the essential risks relating to the specific business model
 - Calculation based on the risk-bearing capacity concept and the presented business plan, demonstrating that the risk-bearing capacity has been achieved
 - Presentation of important outsourcing issues
 - Presentation of the IT systems (with proof of suitability, if applicable)
- > References for requests for information preferably from two domestic banks (usually member institutions represented in the Advisory Board of the Auditing Association)
- > For the rating assessment by GBB-Rating, a standard rating questionnaire must also be completed.

ADMISSION PROCEDURE

The admission procedure generally takes place as follows:

- > there are informal applications to file for membership to the Auditing Association and to the regional member association responsible for the business location of the (future) bank, as well as at the Association of German Banks for participation in the deposit protection fund. Applications are examined by the Auditing Association in charge. The required documents for the application assessment can basically only be submitted to the Auditing Association.
- > shortly after the submission of the application, a consultation takes place on the premises of the Auditing Association. The consultation serves primarily to learn more about the applying institution (in particular, shareholder's background and business plan) as well as the coordination of procedures and a non-binding estimate of costs.
- > a rating assessment of the applying institution by GBB-Rating (an associate company of the Auditing Association) is subject to a fee.
- > insofar as the required minimum rating has been attained, a chargeable admission audit is carried out by Prüfungs- und Beratungsgesellschaft für das Kreditwesen (an auditing company affiliated to Auditing Association) at an already existing CRR credit institution or institution. This on-site audit needs to demonstrate that the audited company is in sound financial condition and has a proper business organisation.
- > beyond an on-site audit, the business model and the presented business plan are analysed and assessed as a core element of the admission procedure.
- > the eligibility and reliability of the managing directors is assessed and required Ownership Control Procedures are conducted.
- > The Federal Financial Supervisory Authority (BaFin) shall consult the competent Compensation Scheme on the application before granting a license. By virtue of acting as the auditing institution of the German Banks Compensation Scheme (EdB), the Auditing Association also prepares EdB's statement on the application for a banking license in accordance with § 32 Section 3 of the German Banking Act. In cases of newly-established credit institutions and license extensions applying for membership to the Audit Association, the statement is thus prepared following completion of the audit or assessment.
- > if the Executive Board of the Auditing Association approves membership of the applying institution after concluding the audit and preparing a favourable statement, then a respective motion is submitted to the Advisory Board of the Auditing Association. Should all members of the Advisory Board subsequently vote in favour, then a copy of the motion is forwarded to the Association of German Banks, which in turn presents this motion to its respective Board whose members must equally vote unanimously in favour.
- > following a positive outcome, in order to complete the admission procedure various information authorisation declarations must be presented to the Auditing Association and also if applicable indemnity declarations to the Association of German Banks in accordance with § 5 Section 10 of the Deposit Protection Fund Statute.
- > the Association of German Banks will confirm the participation in the deposit protection fund after receiving the interim membership contribution and the abovementioned declarations. The Auditing Association then confirms the bank's membership in writing.