The Federal Agency for Financial Market Stabilisation as part of the German Banking landscape

The transition from rescuing to restructuring

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Overview

1. Rescue Phase – Bad Bank Paradigma

2. Restructuring Phase – Good Bank Paradigma
   a) Transfer of systemically relevant positions to a bridge bank by Transfer Order.
   b) Financial Support for such a bridge bank to be provided by a newly created Restructuring Fund.
   c) Financed ultimately via Bank Levy.
1. RESCUE PHASE – Bad Bank Paradigma

From Lehman Brothers until the end of 2010

Available and used SoFFin funds

<table>
<thead>
<tr>
<th>Debt guarantees</th>
<th>Capital</th>
<th>Sub-agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>€300 bn</td>
<td>€60 bn</td>
<td>€238 bn</td>
</tr>
<tr>
<td>€32 bn</td>
<td>€18 bn</td>
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Track record of FMSA

- Funds committed by the German federal government were sufficient in order to stabilise the German financial markets.
- No run on a German bank.
- Credit supply to the real economy maintained.
- By international comparison, cost of stabilisation measures in Germany has been rather moderate so far.
- Significant higher economic costs were avoided.

Usage of available funds

Transferred assets

As at 30.06.2011

2. RESTRUCTURING PHASE – Good Bank Paradigma

Introduction of the Restructuring Act (Restrukturierungsgesetz) in January 2011

a) Transfer of systemically relevant positions to a bridge bank by transfer order.

- Shareholders and creditors to assume responsibility
- Only systemically important parts have the privilege of external support
- Less incentive for risky business strategies
- Institutionalised framework for the resolution of a systemically important bank provided
2. RESTRUCTURING PHASE – Good Bank Paradigma

Creating a safe heaven

1. Starting position

<table>
<thead>
<tr>
<th>Remaining rump</th>
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<tbody>
<tr>
<td><strong>Claims</strong> €200 bn</td>
</tr>
<tr>
<td><strong>Liabilities</strong> €195 billion</td>
</tr>
<tr>
<td><strong>Equity capital</strong> €5 bn</td>
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</tbody>
</table>

2. After partial transfer of liabilities

<table>
<thead>
<tr>
<th>Remaining rump</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest in bridge bank</strong> €100 bn</td>
</tr>
<tr>
<td><strong>Liabilities</strong> €95 bn</td>
</tr>
<tr>
<td><strong>Equity capital</strong> €5 bn</td>
</tr>
</tbody>
</table>

Bridge Bank

Balance sheet total

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2. RESTRUCTURING PHASE – Good Bank Paradigma

b) Financial Support for such a bridge bank to be provided by a newly created Restructuring Fund

- The taxpayer should not have to come to the rescue of systemically important banks.
- The Restructuring Fund can only provide assistance to a bridge bank, not to other banks
- Budgetary authorisation totalling €120 billion
  - For Guarantees €100 billion
  - For Capital €20 billion

c) Financed ultimately via bank levy

- Target level €70 billion
- Raised from banks, not from taxpayer
CONCLUSION:

- Our focus moved from rescuing to restructuring.
- Pressure on banks to restructure themselves to rise.
- Balance between rescuing of systemically relevant parts and restructuring of banks.

Diagram:
- Short-term Rescuing
- Long-term Restructuring
- Restructuring Act and Restructuring Fund since 1 January 2011