DEUTSCHE BUNDESBANK
EUROSYSTEM

BaFin

Joint press release

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Results for Germany of the EU-wide survey on bank recapitalisation

- **German credit institutions have a combined capital shortfall of €13.1 billion. This is primarily the result of applying a very strict definition of tier 1 capital.**
- **Six of the 13 surveyed institutions reported a capital shortfall.**
- **This shortfall is derived from fair value losses as at the reporting date in the case of exposures to European Economic Area (EEA) countries and from the capital needed to achieve a 9% minimum core tier 1 capital ratio.**
- **The core tier 1 capital ratio of 9% must be accomplished by 30 June 2012. The principal amount for fair value losses arising from exposures to EEA countries was determined and fixed as at 30 September 2011.**
- **The increased capital shortfall compared with the provisional figure reported in the October survey is attributable to the changed survey reporting date, a more precise calculation of the trading book risks and the limited offsetting options for fair value gains and losses for credit claims on EEA countries.**
- **German banks' capital shortfall has already been partially covered by publicly announced capital measures.**

Results

"The recapitalisation needs of the surveyed German banks have been calculated as totalling €13.1 billion, with six of the 13 credit institutions reporting a shortfall," said Sabine Lautenschläger, Vice-President of the Deutsche Bundesbank. Around 65% of this national capital shortfall is accounted for by two

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institutions: Commerzbank which has a capital requirement of €5.3 billion and Deutsche Bank, which requires funding in the amount of €3.2 billion. Moreover, the Norddeutsche Landesbank, the Landesbank Hessen-Thüringen, the DZ Bank and the WestLB all report capital shortfalls. “It is necessary to view these results against the backdrop of the current market distortions as they affect government bonds and the concurrent increase in capital requirements,” stressed Raimund Röseler, head of banking supervision at BaFin. “The current recapitalisation survey does not pre-empt Basel III, nor does it prejudice a waiver of the zero weighting of EEA countries’ sovereign bonds”, he continued.

The sharp increase in German banks’ recapitalisation needs compared with the initial survey conducted in October is due largely to the fact that the European Banking Authority (EBA) moved the reporting date for risk-weighted assets (RWA) and regulatory capital back from 30 June 2011 to 30 September 2011. In addition, in the second survey, the RWA impact of the introduction of the amended Capital Requirements Directive (CRD III) was no longer approximated using a scaling factor of 2.5 but instead calculated on the basis of nuanced CRD III rules. In some cases, this leads to a marked increase in risk-weighted assets. A further change has been the restriction of offsetting options with respect to fair value gains and losses for credit claims on EEA countries.

In the case of the Norddeutsche Landesbank and the Landesbank Hessen-Thüringen, the capital-boosting measures (cash injection, converting silent participations into core tier 1 capital) that were announced and partially put in place in December 2011 could not be recognised by the EBA as regulatory capital because the reporting date was set at 30 September 2011. This led to the institutions in question reporting substantially higher nominal recapitalisation needs. However, as Sabine Lautenschläger is keen to point out: “The lion’s share of the capital requirements reported by Helaba and NordLB is already covered by publicly announced capital measures”. For reasons of comparability with the EU-wide stress test conducted in 2011, WestLB was included in the recapitalisation calculations. In this regard, however, it should be noted that WestLB will have a fundamentally changed corporate structure as of 30 June 2012.

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The credit institutions are obliged to draw up plans outlining the manner in which they intend to achieve the required capital buffer and present these to their respective national supervisory authorities by 20 January 2012. The banks have already started to draw up the relevant plans in consultation with the supervisory authorities.

General information

In order to strengthen the capital base of European banks given the shadow cast by the European sovereign debt crisis, on 26 October 2011 the European heads of state or government adopted a bank recapitalisation programme for the member states of the European Union. In light of the exceptional market situation, the programme is designed to restore the confidence of investors in banks' ability to withstand further shocks. In November 2011, the EBA worked together with the national supervisory authorities in coordinating the collection of data and the calculation of the capital needed by the 71 banks surveyed. Germany was represented by the the same 13 banks that had already been surveyed as part of the EU-wide stress test in the summer of 2011.

The recapitalisation need arises from the fact that after recognition of hidden losses on claims on EEA countries, institutions have to achieve a core tier 1 capital ratio of at least 9%, which is well above the current minimum capital requirements. This capital ratio is to be achieved by 30 June 2012. The portion needed to absorb hidden losses on euro-denominated government bonds was fixed as at the reporting date of 30 September 2011. This stipulation should counter temptations to sell exposures to euro-area countries and thus contain the risk of uncontrolled deleveraging.

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