Results of bank recapitalisation plan

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EBA

European Banking Authority

European System of Financial Supervision

Why a recapitalisation plan

- The deepening of the sovereign debt crisis since the summer of this year has triggered a dangerous feedback loop:
  - bank funding has been severely affected, with the markets coming to a standstill since July
  - this has triggered a significant deleveraging process, which is posing a serious threat to growth prospects
  - the fiscal position of the sovereigns under stress risks deteriorating further

- Since August, the EBA has put forward to the European Council technical proposals for addressing market concerns. Package presented in October:
  - EU-wide guarantee scheme
  - a requirement to banks to establish a temporary and exceptional capital buffer

How buffers work

- The Recommendation adopted by the EBA's Board of Supervisors yesterday requires banks included in the sample to strengthen their capital positions:
  - by building up an <u>exceptional and temporary capital buffer against sovereign debt exposures</u> to reflect market prices as at the end of September.
    - amount of the sovereign capital buffer will not be revised, i.e. sales of sovereign bonds will not alleviate the buffer requirement
  - by establishing an exceptional and temporary buffer such that the <u>Core Tier 1 capital ratio reaches a level of 9%</u>

- Buffers are designed to provide a reassurance to markets about the banks' ability to withstand a range of shocks and still maintain adequate capital:
  - The sovereign capital buffer is a one-off measure
  - the EBA will reassess the continued need and size of capital buffers against banks' sovereign exposures in the light of possible improvements of sovereign risk

Key dates

- January 2012: banks required to submit plans for achieving the target capital levels to NSAs
  - Banks should first use private sources of funding
    - retained earnings and reduced bonus payments
    - new issuances of common equity and suitably strong contingent capital (EBA term-sheet)
    - other liability management measures
  - national supervisory authorities may, in consultation with the EBA, agree to the partial achievement of the target by the sales of selected assets that do not lead to a reduced flow of lending to the EU real economy
  - reductions in risk weighted assets due to the validation and roll-out of internal models allowed only if changes already planned and under consideration by NSAs

- June 2012: banks to meet the buffer requirement

Overall shortfall

- The overall shortfall is EUR 114.7 bln (of which 30 for Greek banks)
- Final figures are in line with preliminary ones
- Changes for some countries, due to various reasons:
  - Quality assurance process
  - Full implementation of EBA guidance on CRD3/B2.5
  - Eligibility of capital instruments

Country	Shortfall as published today	Shortfall as published on Oct 26th
AT	3,923	2,938
BE	6,313	4,143
CY	3,531	3,587
DE	13,107	5,184
DK	-	47
ES	26,170	26,161
FI	-	-
FR	7,324	8,844
GB	-	-
GR	30,000	30,000
HU	-	-
IE	-	-
IT	15,366	14,771
LU	-	-
MT	-	-
NL	159	-
NO	1,520	1,312
PL	-	-
PT	6,950	7,804
SE	-	1,359
SI	320	297
Total	**114,685**	**106,447**

Dynamics of sovereign buffer

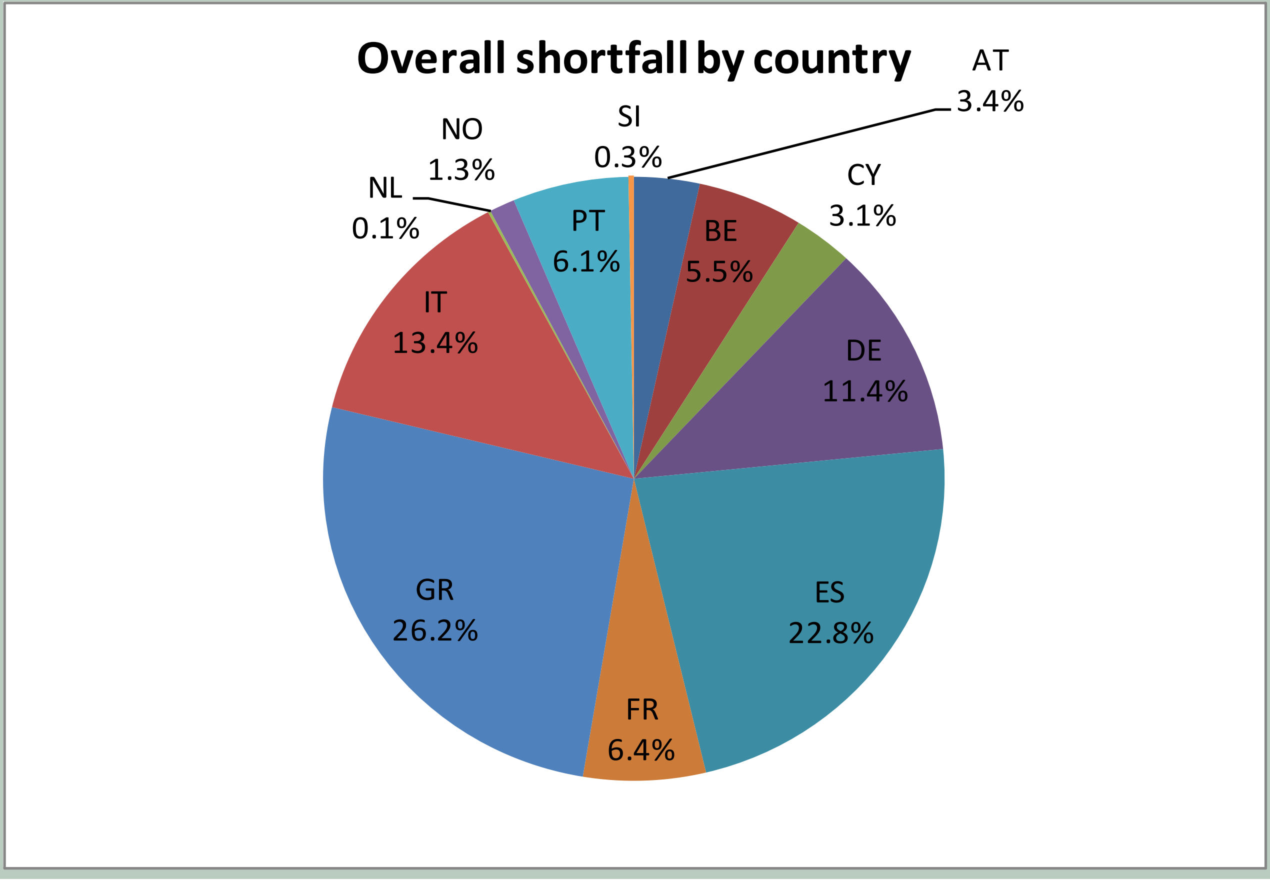
- No major changes of sovereign buffers between preliminary and final data collection

- Reminder: the sovereign buffer does not contribute to the shortfall if the banks have already free capital above 9% CT1R

Country	Sovereign buffer as published today	Sovereign buffer as published on Oct 26th
AT	112	224
BE	4,774	5,634
CY	2,457	3,085
DE	7,563	7,687
DK	22	35
ES	6,561	6,290
FI	-	3
FR	3,512	3,550
GB	-	-
GR	-	-
HU	33	43
IE	815	25
IT	9,674	9,491
LU	-	-
MT	1	-
NL	183	99
NO	-	-
PL	-	-
PT	3,718	4,432
SE	2	4
SI	4	20
Total	**39,428**	**40,622**

Overall shortfall

- The shortfall is concentrated in banks from GIIPS countries, Germany, France and Belgium

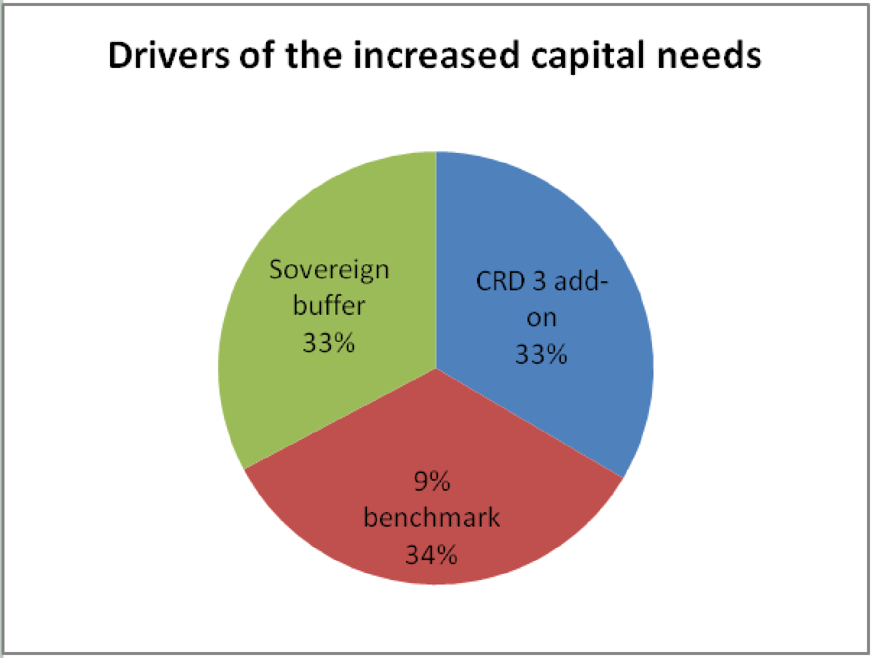


Contribution to the increased capital needs

The capital requirement is based on three drivers which, on average, contribute in equal proportions to the capital shortfall:

1. the target CT1 ratio of 9%
2. the application of Basel 2.5 (i.e. CRD3) rules for RWAs
3. the sovereign buffer
   - over 60% of the sovereign buffer relates to assets held in the AFS portfolio which, under the current accounting standards, are already marked-to-market and will be marked to market for regulatory purposes under Basel 3
   - the remaining component can be attributed to the marking-to-market EEA sovereigns in the HTM and L&R portfolios

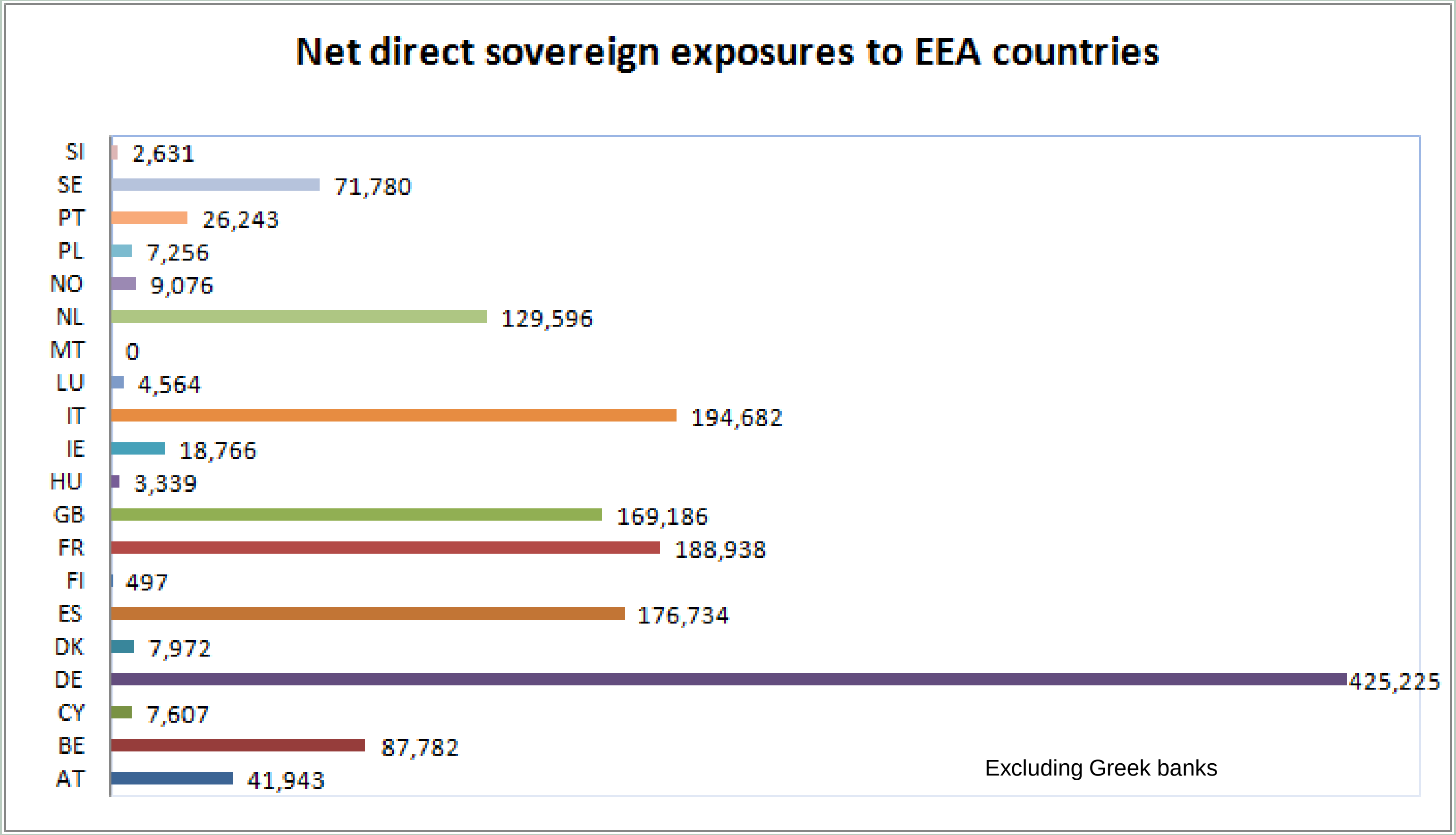
- PS Lack of cap on bonds has limited impact!



Excluding Greek banks

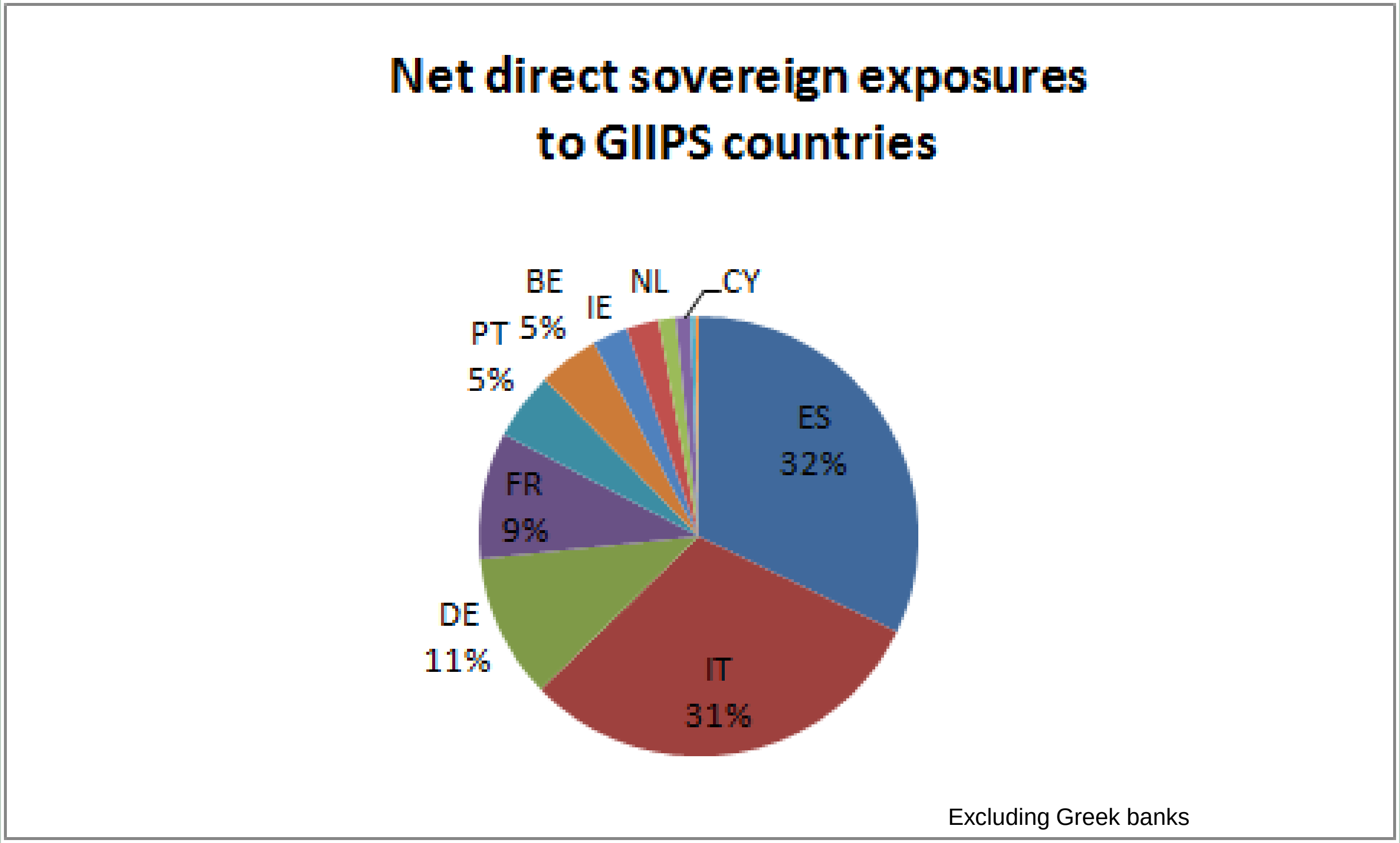
Net direct sovereign exposures as of 30 Sept 2011

- Total net direct sovereign exposures to EEA countries is EUR 1.574 bln



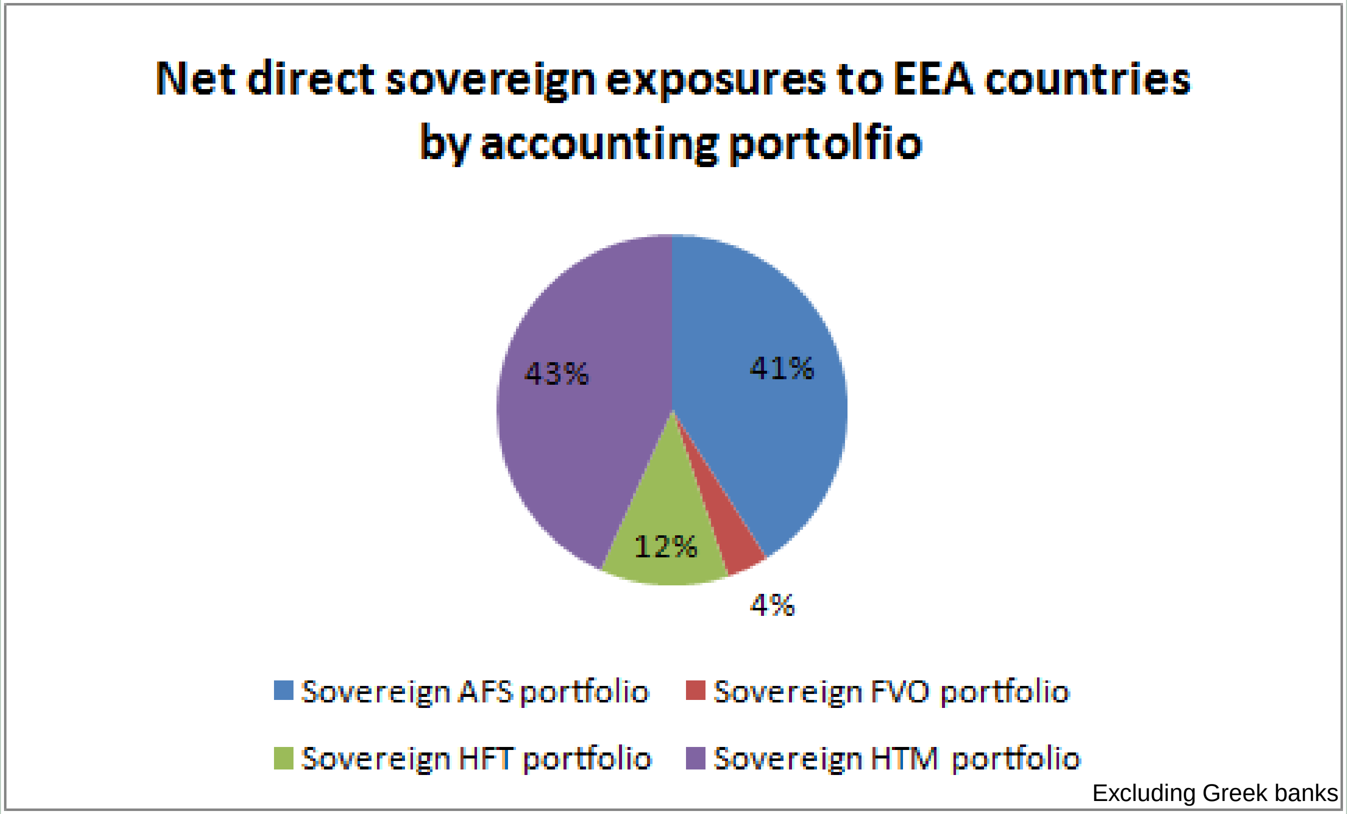
Net direct sovereign exposures as of 30 Sept 2011

- Total sovereign exposure to Greece, Ireland, Italy, Portugal and Spain is EUR 511 bln



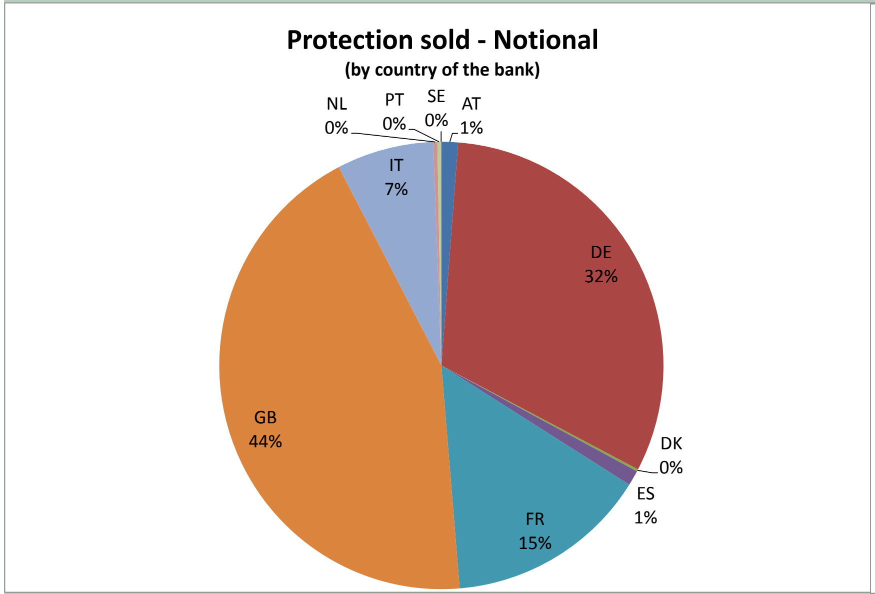
Net direct sovereign exposures as of 30 Sept 2011

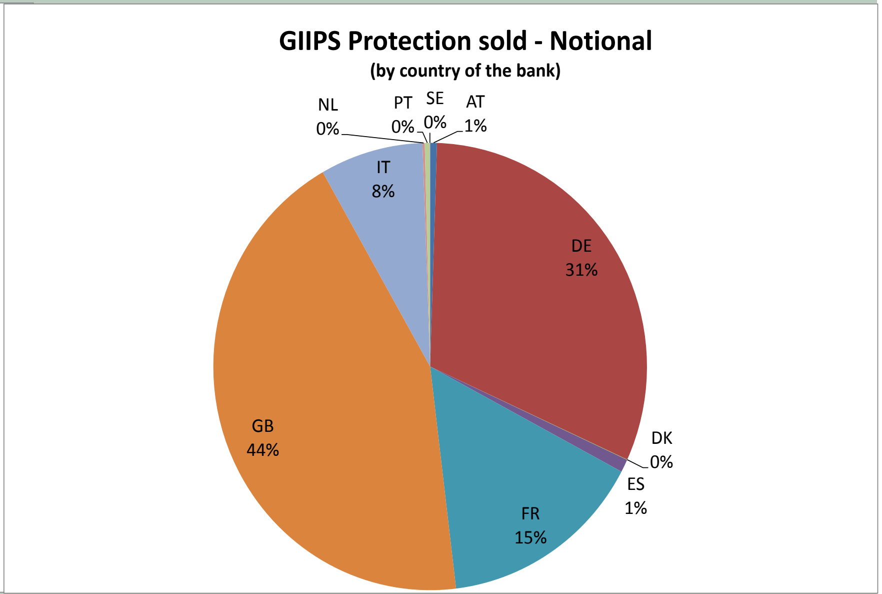
- The sovereign portfolio of European banks consists mainly of Hold-to-maturity securities (43%) and Available for sale securities (41%).



Indirect sovereign exposures: CDS

- Total exposures:
  - Notional sold: EUR 347 bln (GIIPS: 177)
  - Notional bought: EUR 328 bln (GIIPS: 169)
  - About 90% of protection against GIIPS is sold by non GIIPS banks
  - Positions are, on average, balanced, but concentrated





Excluding Greek banks