

FGDR - IADI ERC INTERNATIONAL CONFERENCE

DIVERSITY AND HARMONIZATION OF DEPOSIT INSURANCE

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A RESOLUTION CASE FACED BY A PRIVATE DIS

Düsseldorfer Hypothekenbank AG

48TH IADI EXECUTIVE COUNCIL AND STANDING COMMITTEES MEETINGS - INTERNATIONAL IADI - ERC CONFERENCE • 23-26 MAY 2016 • PARIS



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DGSS FOR PRIVATE BANKS

- DGSs for private banks
 - Statutory DGS
 - Entschädigungseinrichtung deutscher Banken GmbH
 - Entrusted with public powers
 - Recognised as DGS under DGSD
 - currently 199 banks
 - limited to paybox function
 - Contractual Deposit Protection Fund (DPF) of the Association of German Banks
 - voluntary membership
 - governed by private law
 - currently 155 banks

MANDATE OF THE DPF

- Types of intervention measures
 - Depositor payout
 - Providing liquidity or capital
 - Facilitating the takeover of the problem bank by another bank or third party
 - Takeover of the problem bank by the DPF itself
 - Guarantees
 - Additional measures
 - Entrance audit
 - Risk monitoring system (banks provide data on a monthly basis)
 - Yearly rating (sophisticated, 21 rating classes)
 - Regular audits (normally every 2 or 3 years)
 - Imposition of conditions
- intended to maintain or improve the existing risk situation

DÜSSELDORFER HYPOTHEKENBANK AG KEY FACTS

- Public limited company
- Shares owned by LoneStar
- Business model
 - government financing
 - real estate financing
 - Issuer of covered bonds (Pfandbriefe)
- Balance sheet total: 11 Billion Euro
- Deposits: approx. 5.8 Billion Euro
- Employees: approx. 80

DÜSSELDORFER HYPOTHEKENBANK AG REASONS FOR BANK FAILURE

- Investment in HETA bonds
 - HETA = HETA ASSET RESOLUTION AG
 - Bad bank of former Hypo Alpe Adria, nationalized in 2009 by Austria
- HETA bonds are guaranteed by Province of Carinthia
- March 2015
 - Austrian Financial Market Authority imposes temporary moratorium on the liabilities of Heta Asset Resolution AG until 31.5.2016 based on Federal Act on the Recovery and Resolution of Banks ("BaSAG")
- ECB "recommended" write-off of 50%
- Result: Liabilities exceeding the assets

DÜSSELDORFER HYPOTHEKENBANK AG DPF INTERVENTION

- 13 March 2015 (Friday)
 - Morning: DPF being informed by banking supervisory authority (BaFin) that imposition of moratorium / insolvency likely; decision needs to be made within a week's time
 - Afternoon: German Central Bank cancels overdraft facility
 - Evening: BaFin informs DPF that imposition of moratorium / insolvency is imminent unless DPF takes action
- 14 March 2015 (Saturday)
 - Morning: BaFin informs DPF that situation must be resolved by 15 March 2015, 2pm, otherwise the bank will be shut down immediately

DÜSSELDORFER HYPOTHEKENBANK AG DPF INTERVENTION

- 15 March 2015 (Sunday)
 - DPF issues a guarantee in favour of DHB, guaranteeing the full repayment amount under the HETA bonds
 - Collateralization with cash
 - Transfer of defaulting HETA bonds to DPF
 - Call Option Share Purchase Agreement with LoneStar
- Shortly thereafter: Execution of call option
- Exchange of supervisory board

DÜSSELDORFER HYPOTHEKENBANK AG STATE OF PLAY

- Going Concern
- Reduction of governmental financing
 - Tax issues
- Sale of bonds
- Exchange of Management

SIMILAR CASES

- SchmidtBank KGaA (2001)
 - Guarantees, increase in capital
 - Resolution
- Delbrück & Co. Privatbankiers (2002)
 - Problems with lending business
 - Guarantee by DPF
 - Partly Resolution of Delbrück (corporate banking)
- Falke Bank AG (2004)
 - Subordinated facility
- Valovis Bank AG (2011)
 - Write-off related to Greek governmental bonds
 - Guarantee by DPF in favour of Valovis (100 Mio. Euro)
 - October 2012: Acquisition of shares by DPF
- Bankhaus Wölbern & Co. (2009)
 - Acquisition of shares by DPF
 - Guarantees