



Media Release

Embargo: 06.00am Wednesday 19 October 2016

UK liability if Deutsche Bank fails needs to be identified

'The Deutsche Bank liability' written by Bob Lyddon, a City management consultant with considerable experience of the banking sector, explains why Deutsche Bank is in trouble and how the UK could be stung for billions of pounds.

Commenting on his findings Bob Lyddon said:

"The Deutsche Bank appears to be in serious trouble, it is highly leveraged and facing a fine that would make it even more highly leveraged.

"Deutsche Bank purports to be easily compliant with the required levels of capital for its status as one of Europe's biggest banks but at the same time is highly leveraged.

"Assumptions that the bank has enough assets and collateral to sustain a crisis have been found to be fallacious before in other banks. It is vital that the Treasury and British taxpayers know the potential damage if Deutsche Bank requires a multi-billion-Euro bail-out that the UK might have to contribute to.

"Deutsche Bank has major relationships with the European Central Bank and the European Investment Bank, in which the UK is a shareholder. Losses incurred at the ECB or the EIB could cause those institutions to call up new capital from the UK, costing billions of pounds. A full examination of the risk Deutsche Bank represents to the UK is required, and required now.

"To complicate matters further, Deutsche Bank's status as a foreign branch here means bank supervision is split over at least four entities (BoE and FCA in UK, Bundesbank and BAKred in Germany), leaving it unclear who in the UK has taken ownership of ensuring a coordinated regulatory response regarding the risks to the UK"

Commenting on the report Brian Monteith, a director of Global Britain, said:

"As the UK goes into its Brexit negotiations it is vital the government gets a grip of the Deutsche Bank situation so that it is not left with any liabilities for the European project that the British public has so convincingly rejected.

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“We need assurances from the Chancellor that the risks facing Deutsche Bank will not be rolled over into a multi-billion pound severance charge or liability that comes alive later.

“One of the real dangers of not having a clean Brexit but a long drawn out dirty Brexit is that we stay liable for all the problems that European banks and the Euro are facing.”

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Editors' notes:

1. *The Deutsche Bank liability - How much could the demise of Deutsche Bank damage the UK and EU as a whole?* is the first of a new series of essays entitled *The Brexit Papers*, raising detailed questions about the UK-EU relationship that could effect the Brexit negotiations.
2. The paper's Executive summary states:
 - Deutsche Bank appears to be in serious trouble: it is highly leveraged and facing a fine that would make it even more highly leveraged
 - It is a GSIB – a Global Systemically Important Bank – which means it is a very large bank and should be so well capitalised that its demise is unthinkable, since its demise would wreak havoc on the global financial system, including on the Eurozone, the EU and not least the UK
 - It purports to be easily compliant with the required levels of capital for its status as a GSIB, and is at the same time highly leveraged, an oxymoron that is explicable if its assets, and also collateral pledged to it by its customers, carry very low credit risk and can be converted into cash without a haircut: these assumptions will be built into its computations to adjudge the adequacy of its capital and its liquidity
 - Such assumptions have been found to be fallacious before, and we really need to know the potential direct and indirect damage of Deutsche's demise to the UK – **which could cost billions**
 - Deutsche is a member of the CHAPS payment system, and is a major dealer in UK gilts
 - Deutsche has major relationships with the European Central Bank and the European Investment Bank, in which the UK is a shareholder: losses booked at the ECB or the EIB could cause those institutions to call up new capital from the UK – **this again could be billions**
 - Deutsche is a typical EU bank: intimately involved in the financial mechanisms of the EU and the euro, but in itself unprofitable, because it has a retail base that is too small compared to the size of the bank as a whole, because the profitability of the bank has been eroded by EU regulations and directives, and because it has supported German exports by making loans to buyers of those exports in other EU Member States which may or may not be repaid
 - A full examination of the risk Deutsche represents to the UK is required and now.