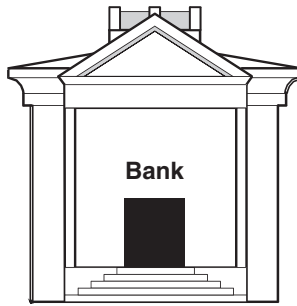


Before financial turmoil

Bank Balance Sheet
• Assets A
• Assets B



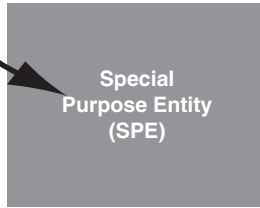
After financial turmoil

Bank Balance Sheet
• Assets A
• Assets B

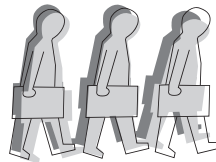
1 Bank arranged for assets to be held in a Special Purpose Entity (SPE).

In doing so, the assets were no longer reflected on the bank's balance sheet and the bank could hold less capital.

Assets B



2 The SPE issued debt to investors.



Assets B

3 The assumption that the assets posed no harm to the bank and did not need to be reflected on the bank's balance sheet proved untrue.

Some banks had entered emergency financing commitments that were instituted when the financial turmoil began, forcing them to fund the SPE and reflect its assets back on the bank balance sheet.

In other cases, sponsors of different SPEs financed them directly to protect their reputations with clients.