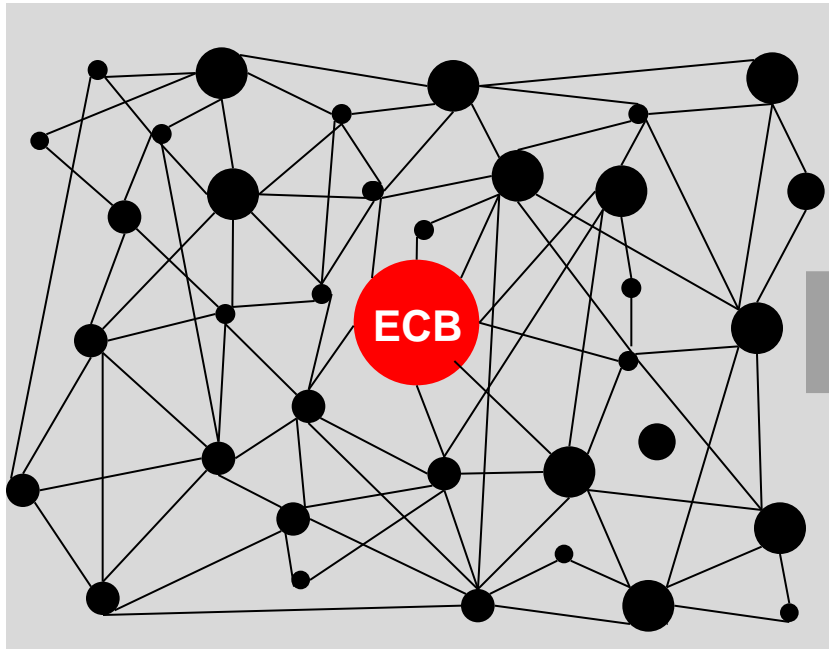


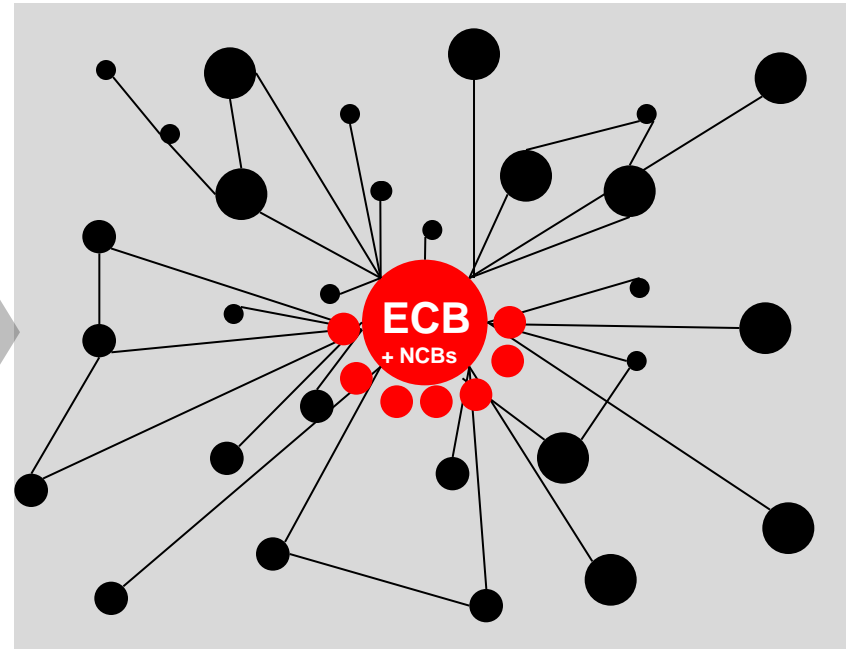
Risk Migrations (a ‘Statler & Waldorf View’)

From an Intricate Network of Cross Border Claims...



MUTUALIZATION ON THE ECB BALANCE SHEET

...To a Hub-and-Spoke Risk Configuration



55% of Italian and Spanish government bonds are in the hands of non-domestic investors, largely other EMU members

Exposure of German and French banks to those in Italy and Spain is EUR150bn (source: BIS)

Foreign-held share of Italian/Spanish bonds falls to pre-EMU levels; the ECB is long 7% of the stock, and warehouses Italian and Spanish bonds as collateral.

Target 2 imbalances soar: Germany’s surplus stands at EUR500bn (+EUR138bn from Dec-10 to Dec-11); Italy and Spain’s deficit stands at EUR365bn (a EUR320bn increase)