Austrian bank Black Swan

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Precisely one week ago in "A Black Swan Lands In Southern Austria: The Ripple Effects Of "Mini-Greece Going Off In The Heartland Of Europe", when analyzing the consequences of the collapse of Austria's bad bank, we noted perhaps the biggest paradox of Europe's emergency preparedness response to the Greek collapse and imminent expulsion from the Eurozone: namely that the biggest threat to German banks was no longer in some Mediterranean nation, but in its very own back yard. To wit:

Irony #2, and the biggest one of all: while German banks had spent the past 3 years preparing for the inevitable Grexit and offloading all their exposure to the now insolvent Greek state, it was a waterfall chain of events which started in Germany's own "back yard", courtesy of auditors who decided it was unnecessary to mark losses to market until it was far too late, and the immediate outcome is that one ninth of until recently Aaa/AAA-rated Austria is now also insolvent. ***And that is just the beginning.***

"0% risk-weighted" Pandora boxes

One can only imagine how many such other "0% risk-weighted" Pandora boxes lie in wait across what are otherwise considered Europe's safest banks, provinces and nations.

Indeed, it *was* just the beginning, and moments ago we got confirmation that the next domino has tipped over, following a Reuters report that Germany's deposit protection fund will take over the property lender Duesseldorfer Hypothekenbank AG (DuesselHyp), which has "**run into problems"** due to its exposure to Austrian lender Hypo Alpe Adria's "bad bank" Heta.

And while in the US *FDIC Failure Fridays* works like a well-greased machine, Germany has yet to get the hang of the whole "save the bad news for Friday after market close" thing and has for now has stopped on "*Shocker Sundays."*

This being Europe, denial persists

Then again, this being Europe, denial persists even after the moment of failure, and according to Reuters, "the German banking association BdB, which runs the fund, is, however, not planning to wind down the bank, but wants to continue its operations."

*"**The deposit protection fund is granting a guarantee for the Heta bonds to eliminate the immediate risks. The goal is a complete takeover of Duesseldorfer Hypothekenbank**," the BdB said in a statement on Sunday.*

We described the consequences from the Heta fallout in minute detail last week, but for those who missed it, here are the Cliff notes:

Regulators this month took control of Heta and imposed a debt moratorium until May 2016 after an outside audit found writedown needs that blew a hole of up to 7.6 billion euros in its balance sheet. This leaves holders of Heta debt in limbo and facing the prospect of losses.

Heta could still be declared insolvent despite plans to wind it down, the Austrian regulator FMA has said, a move that could hit German banks harder than many of their Austrian rivals.

After regulators took control of Heta, the ratings agency Fitch said last week that DuesselHyp was in urgent need of capital support.

Enough to send a German bank into full out insolvency?

In its 2013 annual report, ***DuesselHyp said it had 348 million euros ($365 million) in Hypo Alpe Adria debt.*** So a partial impairment on $365 million in debt is enough to send a German bank, which according to its latest interim financial report, had €10.9 billion in assets, into full out insolvency? As if the ECB's farcical stress tests needed any further validation they are nothing but the worst possible joke on Europe's depositors Goldman's head of the ECB could have conceived.

As for the biggest winner from today's surprise announcement, London-based Attestor which until this moment was supposed to buy the German bank. Talk about saved by the "bank failure"... and *due diligence*.

The planned takeover by the BdB also means that a planned sale of DuesselHyp to group of international buyers led by London-based Attestor is no longer being considered, a source familiar with the situation said.

….as more European banks admit they are insolvent

One can almost see why. As for the guy who looked at DuesselHyp's balance sheet and "wisely" concluded it is worth X, good luck finding a job. Don't worry though, many more "analysts" at other banks will be joining you in the unemployment line as more European banks admit they are insolvent when a world that is "priced to perfection" is revealed to have been anything but.

Because if a 1.5% write down in the assets of a supposedly well-capitalized German bank can lead to almost overnight insolvency, one can almost imagine what will happen when the Austrian black swan wave reaches Europe's actually "undercapitalized" banks...