



Treasury statement on financial support to the banking industry

13 October 2008

With continuing exceptional instability in the global financial markets, the Government is today taking decisive action, by implementing the comprehensive set of measures it announced on 8 October, to make commercial investments in UK banks and building societies to help stabilise their position and support the long term strength of the economy.

The overall aim of these measures is to support stability in the financial system; to protect ordinary savers, depositors, businesses and borrowers; and to safeguard the interests of the taxpayer. In summary, the measures intend to:

- provide sufficient liquidity in the short term;
- make available new tier 1 capital to UK banks and building societies to strengthen their resources permitting them to restructure their finances, while maintaining their support for the real economy, through the recapitalisation scheme which has been made available to eligible institutions; and
- ensure that the banking system has the funds necessary to maintain lending in the medium term through the credit guarantee scheme available to eligible institutions in relation to new short and medium term debt issuance.

The authorities have continued their detailed discussions with the institutions who confirmed their participation in the recapitalisation scheme last week. These institutions committed in aggregate to increase their total tier 1 capital, either through their own actions or, where requested, through support from the Government's recapitalisation scheme in the form of preference and ordinary share capital.

The Government is making capital investments to RBS, and upon successful merger, HBOS and Lloyds TSB, totaling £37 billion.

Following the completion of these capital investments, each of the above institutions will have a Tier 1 capital ratio in excess of 9%, well above international minimum standards and at a level that should put them on a strong footing for the future.

All participating institutions are eligible to take advantage of the Government's credit guarantee scheme. The Debt Management Office is today announcing the general arrangements for operating the scheme. Further details relating to fees, the period under which guarantees will be issued and the application process can be found in the Market Notice which is being published by DMO at: <http://www.dmo.gov.uk/>.

As part of its investment, the Government has agreed with the banks supported by the recapitalisation scheme a range of commitments covering:

- maintaining, over the next three years, the availability and active marketing of competitively-priced lending to homeowners and to small businesses at 2007 levels;
- support for schemes to help people struggling with mortgage payments to stay in their homes, and to support the expansion of financial capability initiatives;
- remuneration of senior executives - both for 2008 (when the Government expects no cash bonuses to be paid to board members) and for remuneration policy going forward (where incentive schemes will be reviewed and linked to long-term value creation, taking account of risk; and restricting the potential for "rewards for failure");
- the right for the Government to agree with boards the appointment of new independent non-executive directors; and
- dividend policy.

The recapitalisations are designed to enable participating banks to achieve prudent but efficient capital structures. The Government intends to create a new arms length body to manage the Government's shareholdings in recapitalised institutions on a professional and wholly commercial basis, and seek to effectively realise value to the taxpayer. Transparent arrangements will be put in place to ensure that any role for the Government in relation to investment decision-making is clearly defined. The Government is not a permanent investor in UK banks. Its intention, over time, is to dispose of all the investments it is making as part of this scheme in an orderly way. To reflect the implementation of the scheme, the government will tomorrow announce a revised debt remit for the Debt Management Office. Further information is available at: <http://www.dmo.gov.uk/>.

The measures the Government is announcing today support stability in the wider financial system, and protect the interest of taxpayers, depositors and savers.

The Government has informed the European Commission of the schemes. The Government stands ready to provide support through the schemes to all eligible institutions, on the basis of the conditions set out in its announcement last week.

The Government is continuing to collaborate internationally to stabilise and strengthen the global financial system, following the meetings of G7 and G20 Finance Ministers and the IMF on Friday and Saturday. Other countries have announced measures to stabilise their own financial systems.

In parallel with other central banks, the Bank of England is today announcing expanded swap lines with the US Federal Reserve and that the Bank will supply dollar liquidity to the banking system against collateral at a pre-set price with no fixed limit on the amount. The Bank will continue to take all actions necessary to ensure that the banking system has access to sufficient liquidity.

With the first successful implementation of the schemes announced last week now completed, the Government has taken decisive and extraordinary action to support the banking system during this period of exceptional financial turbulence, and to strengthen the system for the future as markets stabilise.