



## **Asset Protection Scheme and increased lending**

The Government is today making two important announcements to further enhance financial stability and support increased lending to homeowners and businesses. Firstly, the Treasury is announcing the details of the Asset Protection Scheme, which aims to remove continuing uncertainty about the value of banks' past investments, cleaning up banks' balance sheets and providing them with greater confidence to rebuild and restructure their operations and increase lending in the economy. Secondly, the Treasury is announcing an agreement in principle with the Royal Bank of Scotland (RBS) to participate in the Scheme and other financial support to meet its objectives of economic and financial stability.

### **Asset Protection**

The Government announced its intention to introduce the Scheme as part of a comprehensive package of measures to support lending announced on 19 January. These measures are designed to reinforce the stability of the financial system following the intensification of the global downturn and therefore to increase the capacity of banks to lend. From the outset of the global financial crisis, the Government has stressed the central importance of full and accurate disclosure by banks about the value of their assets as the key to restoring confidence and trust.

The Asset Protection Scheme will play a central role in restoring confidence in the UK's biggest banks by providing protection against future losses on their riskiest assets. Banks will receive protection for a proportion of their balance sheets so that the healthier core of their commercial business can continue to lend to creditworthy businesses and households.

In return for access to the Scheme, banks will be required to pay a fee and enter into legally binding agreements to increase the amount of lending they provide to homeowners and businesses. The Government will report to Parliament annually on the delivery of the agreements.

In addition to the requirements on remuneration imposed as part of the recapitalisation last October, and the agreement announced by RBS last week, participating banks will have to develop a sustainable long-term remuneration policy. This will require them to review remuneration policy and implement a policy

consistent with the detailed principles in the Financial Services Authority's (FSA) Code of practice on remuneration policies, published in draft today.

Participating banks will also be required to meet the highest international standards of transparency. The Treasury and FSA will publish a joint consultation document on disclosure standards shortly.

A 'first loss', incurred on future loss events in relation to protected assets, will remain with banks and the protection provided by the government will cover 90 per cent of the remaining loss. The balance of the remaining loss will remain with the institutions as an additional incentive to manage the assets prudently.

In determining the pool of assets, banks will be subject to extensive due diligence on the identified assets, as well as consideration of their wider balance sheets and strategic plans. The assets in the Scheme will be "ring-fenced" on a bank's balance sheet, with separate management and governance arrangements to ensure that the interests of the taxpayer are protected.

As part of the Government's discussions with international partners to establish a concerted approach to dealing with impaired assets, the Chancellor of the Exchequer is today writing to G20 Finance Ministers proposing a list of key objectives and principles that all countries should follow when designing impaired asset support schemes.

The finalised rules of the Scheme will be published on conclusion of the detailed contractual arrangements between the Treasury and the institutions concerned.

### **Agreement in principle with The Royal Bank of Scotland**

Following discussions with RBS' new management team, the Government is today announcing an agreement in principle with RBS covering participation in the Scheme and a capital injection.

RBS intends to participate in the Scheme in respect of £325b of assets. RBS will pay a participation fee of £6.5b to the Treasury in capital. The agreement would see RBS bear a first loss of up to £19.5b, and make 2009 lending commitments totalling £25b - £9b of mortgage lending, £16b of business lending.

As part of the Government's commitment to financial stability, the Treasury will also make a capital injection of £13b into RBS and commit to subscribe for an additional £6b at RBS' option.

Full details are set out in the accompanying Regulatory News Statement

1. The FSA is today publishing a statement explaining the regulatory and capital impact of the Asset Protection Scheme. It is also publishing today a draft Code of Practice on remuneration policies. Both can be obtained from the FSA at [www.fsa.gov.uk](http://www.fsa.gov.uk)
2. Further details of the Asset Protection Scheme, and agreement concerning RBS, including the new lending commitments, capital injection and participation in the Scheme, are set out in regulatory news service notices published by HM Treasury and by RBS. All three can be obtained at [website].
3. Today's announcements build on previous Government measures to support the economy through the economic downturn:
  - in October 2008, the Government announced a comprehensive package both to support stability of the banking system and to protect savers and depositors. Similar measures were adopted by other governments;
  - in November 2008, in its Pre Budget Report, the Government announced a comprehensive fiscal stimulus package to support the wider economy, businesses, homeowners and consumers. Again, similar packages have been introduced by other governments;
  - in January, the Government announced measures to target the principal sources of continuing uncertainty in the financial system, and to improve confidence, allowing UK banks to increase lending and so play a more effective role in supporting the wider economy.
4. As part of the implementation of measures announced on 19 January:
  - last week the Bank of England began purchasing high-quality private sector assets that companies use to finance their business. This will free up these markets and help companies meet their funding needs at lower cost; and
  - earlier this week the Government announced that Northern Rock would increase mortgage lending by up to £14 billion over the next two years. This, in addition to the lending commitments as part of today's scheme, will help to fill the gap left by the withdrawal of foreign banks and other institutions, and the continuing strains in global capital markets.
5. Implementation of the Asset Protection Scheme will be subject to further due diligence by the Treasury and its advisers, execution of legally binding documentation, satisfaction of the application criteria and asset eligibility criteria of the Scheme, and satisfaction of applicable conditions precedent to the accession of the Scheme, including regulatory, state aid and shareholder approvals.

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