HOUSE OF COMMONS LIBRARY

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Bank rescues of 2007-09: outcomes and cost

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Summary

September 2007 saw the first run on a British bank in 150 years, after news broke out that Northern Rock needed emergency support from the Bank of England. People were queuing outside branches to withdraw their deposits. On 17 September 2007, the then Chancellor, Alistair Darling, announced the government would guarantee all deposits, to try and stop the panic. The financial crisis had started in earnest.

From September 2007 to December 2009, the then Labour Government made a number of interventions to support the banking sector generally and several banks specifically. It injected £137 billion of public money in loans and capital to stabilise the financial system, most of which has been recouped over the years.

This note summarises the amounts spent and recovered in these interventions. The Office for Budget Responsibility (OBR) estimates that, as at the end of January 2018, the interventions cost the public £23 billion overall. The net balance is the result of a £27 billion loss on the RBS rescue, offset by some net gains on other schemes. The Government is estimated to have just about recovered what it spent rescuing Lloyds, once financing costs and fees received are taken into account.

In addition to cash support, the Treasury also provided financial guarantees to help restore confidence in the banks. Guarantees are promises to repay or compensate investors if they lose their money, so that if all goes well, guarantees don't cost the Government. The National Audit Office (NAO) estimates that total guarantees added up to over £1 trillion at peak support. Outstanding guarantees stood at £14 billion as at 31 March 2018.

1. How much did it cost?

From September 2007 to December 2009, the then Labour Government made a number of interventions to support the banking sector generally and several banks specifically. It injected £137 billion of public money in loans and capital to stabilise the financial system, most of which has been recouped over the years.

The Office for Budget Responsibility (OBR) estimates that these interventions cost the public £23 billion all in all, as at the end of January 2018.[1] The net balance is the result of a £27 billion loss on the RBS rescue, offset by some net gains on other schemes. The Government is estimated to have just about recovered what it spent rescuing Lloyds, once financing costs and fees received are taken into account. Table 4.4 of the OBR's Fiscal outlook (March 2018) gives all the figures:

Table 4.4: Gross and net cash flows of financial sector interventions

	£ billion								
	Lloyds	RBS	UKAR[1]	FSCS[2]	CGS[3]	SLS[4]	Other	**Total**	Change since November *EFO*[5]
Cash outlays	-20.5	-45.8	-44.1	-20.9	0.0	0.0	-5.3	**-136.6**	0.0
Principal repayments	21.1	3.8	37.7	16.2	0.0	0.0	5.3	**84.1**	0.9
Other fees received[6]	3.2	4.2	4.4	2.7	4.3	2.3	0.3	**21.3**	0.0
Net cash position	3.8	-37.8	-2.0	-1.9	4.3	2.3	0.2	**-31.3**	0.9
Outstanding payments	0.0	0.0	5.7	4.7	0.0	0.0	0.1	**10.4**	-1.2
Market value[7]	0.0	23.4	8.2	0.0	0.0	0.0	0.0	**31.6**	-0.3
Implied balance	3.8	-14.5	11.8	2.7	4.3	2.3	0.3	**10.7**	-0.6
Exchequer financing	-3.8	-12.5	-11.2	-7.1	1.0	0.2	-0.5	**-33.9**	-0.8
Overall balance	**0.0**	**-26.9**	**0.6**	**-4.4**	**5.3**	**2.5**	**-0.2**	**-23.2**	**-1.4**
Memo: change in overall balance since November[5]	0.0	-0.7	-0.5	-0.2	0.0	0.0	0.0	-1.4	

[1] Holdings in Bradford & Bingley and Northern Rock Asset Management plc are managed by UK Asset Resolution.
[2] Financial services compensation scheme.
[3] Credit Guarantee Scheme.
[4] Special Liquidity Scheme.
[5] November *EFO* figures were consistent with 31 October 2017 data.
[6] Fees relating to the asset protection scheme and contingent capital facility are included within the RBS figures.
[7] UKAR is book value of equity derived from its accounts published 20 November 2017 (value up to date to 30 Sept 2017).

In addition to cash support, the Treasury also provided financial guarantees to help restore confidence in the banks. Guarantees are promises to repay or compensate investors if they lose their money, so that if all goes well, guarantees cost the government nothing. The National Audit Office (NAO) estimates that total guarantees added up to over £1 trillion at their peak. Outstanding guarantees stood at £14 billion as at 31 March 2018.[2]

1 OBR, Economic and fiscal outlook – March 2018, table 4.4
2 NAO, Taxpayer support for UK banks: FAQs, accessed 2 October 2018

Total support in cash and guarantees adding up to almost £1.2 trillion is shown, by bank, in the table below. Peak government ownership in these banks is also shown.

Total Government support and ownership by bank

	£ billions	Peak ownership
Royal Bank of Scotland	256	84%
Lloyds Banking Group	276	43%
Northern Rock	60	100%
Bradford & Bingley	46	100%
Sector-wide support schemes	513	–
Insolvent firms	11	–
Total	*1,162*	–

Source: NAO, Taxpayer support for UK banks: FAQs

There is more detail about the support and schemes in the following sections of this briefing.

1.1 Recapitalisations and nationalisations

Most of the Government cash was used to 'recapitalise' (give fresh capital to) the ailing banks. The Government bought shares of HBOS and Lloyds TSB (which became the Lloyds Banking Group in January 2009), and of the Royal Bank of Scotland. It nationalised (took full ownership and control of) the whole of Northern Rock and Bradford & Bingley. The interventions are summarised in this NAO report (September 2015):

> To maintain financial stability, in 2008, the government invested £107.6 billion to acquire a controlling equity stake (84%) in Royal Bank of Scotland (RBS), a 43% stake in Lloyds Banking Group (Lloyds) and create UK Asset Resolution (UKAR). In 2010, it acquired the whole of Northern Rock, and Bradford & Bingley.
>
> As a result of these interventions, two companies were created: UKAR to manage the mortgage and loan portfolio of Northern Rock and Bradford & Bingley; and UK Financial Investments (UKFI) to manage HM Treasury's shareholdings in Lloyds, RBS and UKAR on behalf of HM Treasury. UKFI manages the investments on a commercial basis and does not intervene in day-to-day management decisions of investee companies. It engages actively with UKAR in a manner similar to that in which a financial sponsor would engage with a wholly-owned portfolio company.[3]

There is a detailed chronology of these interventions from 2007 to 2016 in this ONS timeline.

UKFI was replaced by UK Government Investments (UKGI) on 31 March 2018, which is also wholly owned by the Treasury. UKGI manages a portfolio of 27 businesses (including financial institutions) in which the government has a shareholding.

[3] NAO, *Financial institutions landscape*, HC418 September 2015

2. Royal Bank of Scotland

The Government first bought RBS shares in December 2008, then converted preference shares into ordinary shares in April 2009 and bought a final tranche of shares in December 2009. Total invested was £45.5 billion, and public ownership peaked at 84%. The average price per share paid by the Treasury was 499 pence, after receiving income from redeeming the preference shares.[4]

The first sale of RBS shares took place in August 2015. The Government sold a 5.4% stake, bringing its shareholding down to 72.9%. A second sale took place in June 2018, where the Government disposed of a 7.7% stake, bringing its shareholding down to 62.4% of the total.[5]

In both cases, the Government sold well below the price it had paid (499p per share on average): it sold at 330p per share in 2015 and 271p per share in 2018. On the face of it, these look like poor decisions. But the reality is that there are no simple solutions. Since the bailouts, RBS's share price has never come near what the Treasury paid for the shares. The Government could decide to wait for as long as it takes for the share price to rise above what was paid in 2008-2009, but waiting is not free: there is a "financing cost" to holding the shares. Government funds tied up in RBS shares could be used instead to reduce the national debt, or to invest in infrastructure.

This logic is illustrated in the chart below from the NAO's report, The first sale of shares in Royal Bank of Scotland (July 2017). The cost to the Treasury of RBS shares grows steadily as time passes, once financing costs are included (this is shown by the top red line). The bottom orange line shows the market price for RBS shares. Holding the shares until the price rises above cost means waiting for the orange line to catch up with the red line (minus future dividends). It might take many years, and there is no guarantee it will ever happen.

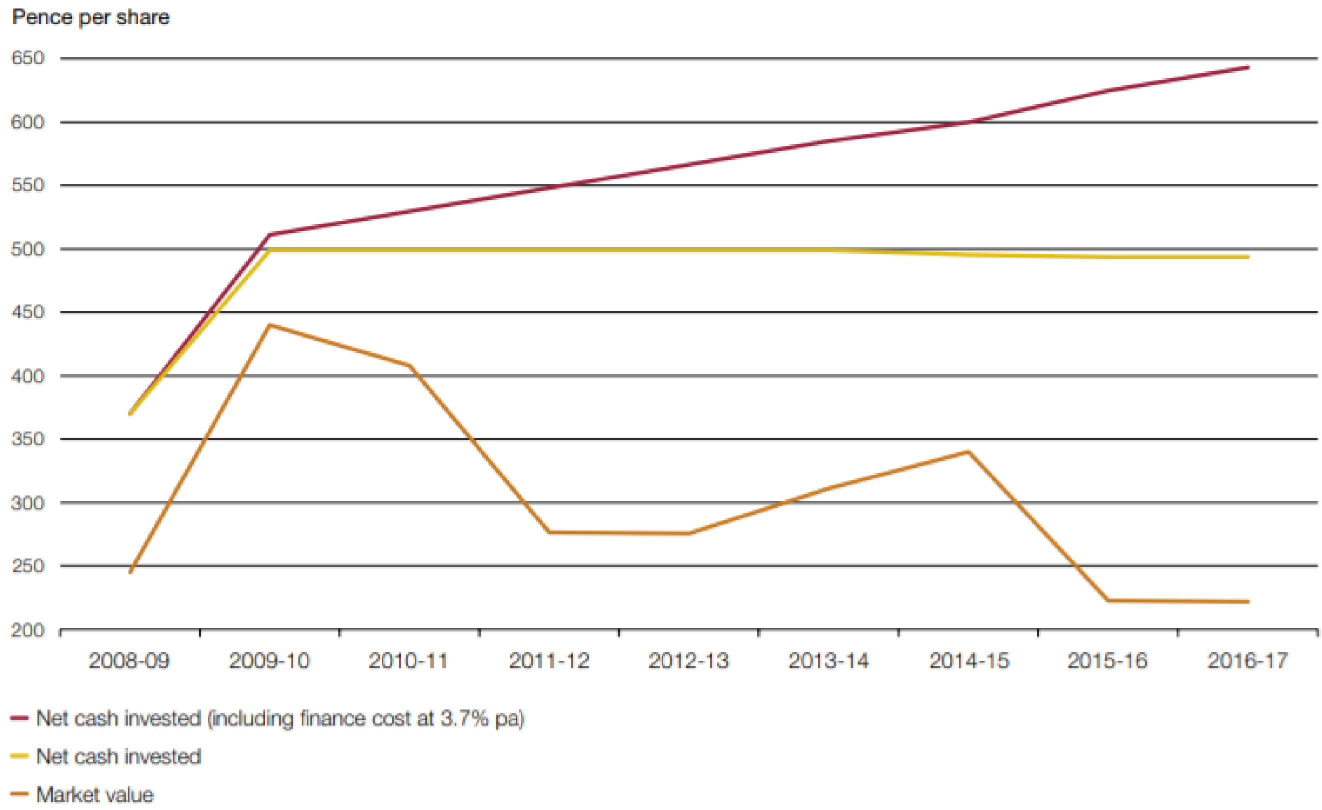
4 NAO, The first sale of shares in Royal Bank of Scotland, 14 July 2017, p11

5 UKGI, UK Financial Investments annual report and accounts 2017-18, 5 July 2018, p23

Figure 20

Net cash invested represented as pence per share

Selling the shares at 330 pence crystallised a loss



This is one of the reasons why, even though the Treasury made a loss of £1.9 billion (£1.1 billion excluding financing) on the August 2015 sale, the NAO nonetheless concluded that the sale achieved value for money:

> The sale was consistent with HM Treasury's overarching objective to not be a permanent investor in UK financial institutions, and UKFI's objective to execute a strategy for disposing of investments in an orderly and active way. UKFI selected an appropriate sale window based on a combination of factors including the need to first stabilise the bank, to sell into benign market conditions, and to ensure a sufficient level of interest among potential investors. It launched the sale in relatively favourable conditions, and closely assessed investor demand and the fair value of the shares to ensure it was protecting taxpayer value within the policy context to sell. This first sale of shares in RBS was executed as skilfully as could reasonably be expected, and on the basis of the preparation, process and proceeds of the transaction, UKFI achieved value for money.[6]

At the Mansion House Speech in June 2015 the then Chancellor, George Osborne, defended the Government's decision to sell at a loss:

> Do we begin the process of selling down the government's huge majority stake, even though the share price is still below what the last Chancellor paid out seven years ago?
>
> Or, do we hope against hope that something will turn up?

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6 NAO, The first sale of shares in Royal Bank of Scotland, 14 July 2017, p9

> Frankly, in the short term the easiest path for the politician is to put off the decision and leave it to someone else at some future time to pick up the pieces.
>
> I'm not interested in what's easy – I'm interested in what's right.
>
> I was not responsible for the bailout of RBS or the price paid then for shares bought by the taxpayer: but I am responsible for getting the best deal now for the taxpayer and doing whatever I can to support the British economy.
>
> There is no doubt that starting to sell the government's stake in RBS is the right thing to do on both counts.
>
> That is not just my judgement – it is the judgement of the Governor of the Bank of England, whose views I sought and whose letter to me on the issue we publish today.
>
> In the Governor's words: "it is in the public interest for the government to begin now to return RBS to private ownership".[7]

Following the second sale in June 2018, the government shareholding stands at 62.4% of the total. According to the March 2018 *Economic and Fiscal Outlook*, the Government aims to sell around £3 billions' worth of RBS shares every year until 2022-23.[8]

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7 Mansion House speech 10 June 2015
8 OBR, Economic and fiscal outlook – March 2018, Table 4.33

3. Lloyds Banking Group

The Government's investment in Lloyds Banking Group was made in three different tranches: January, June and December 2009. The total invested was £20.3 billion, and the government's ownership peaked at 43%. The average cost per share was 73.6p.[9]

Disposals of Lloyds shares started in September 2013 and concluded in May 2017. On 17 May 2017, the Government announced it had sold its last shares in Lloyds. Across the disposal programme, the average price obtained was 76.8p per share. Total proceeds, including dividends, amounted to £21.2 billion.[10]

Proceeds exceeded total investment by £900 million, a figure that was widely reported as the government's profit on the Lloyds rescue. As with RBS, though, the calculation is incomplete without including the cost of financing the investment. Once financing is taken into account, the £900 million gain turns into a £3.2 billion loss.[11] A line-by-line breakdown is shown in Figure 4 of the NAO's report, *The return of Lloyds Banking Group to private ownership*:

9 UKGI, UK Financial Investments annual report and accounts 2017-18, 5 July 2018, p26
10 UKGI, UK Financial Investments annual report and accounts 2017-18, 5 July 2018, p28
11 NAO, The return of Lloyds Banking Group to private ownership, 22 June 2018, p13

Figure 4

Estimating the cost of financing the Lloyds Banking Group intervention

The government reported selling the shares for more than it paid for. However, when financing costs are included, the government received between £3.2 billion and £5.9 billion less than it paid for the shares

Event	Amount	Average price
Intervention		
Original investment (2008 to 2009)	£20.3 billion	73.6 pence
Sale programme		
First sale via ABB (September 2013)	£3.2 billion	75.0 pence
Second sale via ABB (March 2014)	£4.2 billion	75.5 pence
First sale via trading plan (December 2014 to July 2016)	£9.2 billion	81.4 pence
Second sale via trading plan (October 2016 to May 2017)	£4.2 billion	65.0 pence
Total dividends during holding period	£0.4 billion	–
Net proceeds excluding financing costs	**£0.9 billion gain**	**76.8 pence**
Net proceeds including financing at cost of debt[1]	£3.2 billion deficit	62.0 pence
Net proceeds including financing at STPR[2]	£5.9 billion deficit	52.0 pence

Notes

1 The cost of government debt was calculated using a weighted average yield of all government debt issued in 2008-09 and 2009-10.

2 We also estimated a cost of finance using the Social Time Preference Rate (STPR), in line with HM Treasury's *Green Book* guidance.

Source: National Audit Office analysis of UK Financial Investments Limited information

The NAO reviewed the first sale in their report, The first sale of shares in Lloyds Banking Group (December 2013), and found that it represented value for money. They have not yet given an opinion on whether subsequent sales achieved value for money.

The Trading Plans

In December 2014, UKFI announced that it intended to sell Lloyds share via a "trading plan":

> UKFI today announces that it intends to sell part of Her Majesty's Treasury's ("HMT") shareholding in Lloyds Banking Group plc (the "Company") over the next six months through a pre-arranged trading plan that will be managed by Morgan Stanley & Co. International plc ("Morgan Stanley"). […]
>
> The trading plan will terminate no later than 30 June 2015. HMT has instructed Morgan Stanley that up to but no more than 15% of the aggregate total trading volume in the Company is to be sold over the duration of the trading plan. The number of shares sold under the trading plan will depend on market conditions, among other factors. As with all disposals, delivering value for money for the taxpayer is a key consideration and shares will not

> be sold below the average price per share that the previous government paid for them.[12] [13]

Under a trading plan, the seller pre-agrees with the broker certain parameters for the trading plan before it starts, such as time and volume limits, but the broker has discretion over the execution of the trading plan after it commences. Typically (schemes such as this were used in the US, post-crisis, for the sale of CitiGroup and General Motors), the broker might sell parcels of shares on any given day, subject to an overall volume limit and to the other pre-agreed parameters. The aim of the plan is to sell shares gradually over time, rather than all at one single point in time.

While this process makes it harder to provide ongoing figures from the sales, under Stock Exchange Rules disposals are periodically published when the overall holding falls by a further 1% from the previous total.[14]

On 16 May 2017, the Stock Exchange announced that all Lloyds shares held by government had been sold.

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12 UKFI website 17 December 2014

13 Note, the trading plan was extended for a further six months according to a UKFI press release 1 June 2015.

14 This is a Regulatory requirement

4. UKAR

In addition to the support given to Lloyds and RBS, the Government took full ownership of Northern Rock and Bradford & Bingley, after failing to find a private sector buyer. It has not made any compensatory payments to previous shareholders despite legal challenges to this position.

Both companies remain as separate legal entities, each with its own balance sheet and government support arrangements. On 1 October 2010, the Government announced the establishment of UKAR as the single holding company to manage the assets of Northern Rock and Bradford & Bingley.[15]

UKAR continues to run down the assets in its control. In November 2015, UKFI announced a £13-billion sale of UKAR assets, bringing the total UKAR balance sheet reduction to £73.5bn (63%) since formation in 2010.[16] An £11.8-billion sale was announced in March 2017[17], and further sales in the year to March 2018 shrunk the UKAR balance sheet by another £14.5bn, bringing the total balance sheet reduction to £95.9bn (83%) since formation in 2010.[18]

The Autumn 2017 Budget announced that the Government, UKFI and UKAR expect to divest the remaining assets from the former Bradford & Bingley and Northern Rock by March 2021.[19]

Since it was formed, UKAR has repaid £38.4 billion of government loans, and £10.3 billion remains outstanding as at 31 March 2018.[20]

4.1 Northern Rock

Northern Rock (NR) received an emergency £25 billion loan when it ran into trouble in 2007. Following the failure to find a private sector buyer, it was nationalised in February 2008. Further losses persuaded the Treasury to split it into a good and bad bank.

Northern Rock plc is the bank that holds and services all pre-existing customer savings accounts and some pre-existing mortgage accounts. The Government injected £1.4 billion of equity to capitalise the bank at inception. This is the 'good bank'.

On 1 January 2012, NR plc was sold to Virgin Money. The transaction consideration comprised £747 million cash on completion plus other cash and non-cash elements such that the taxpayer could receive up to c. £1 billion in total. Deutsche Bank (advisers on the sale) estimated that

15 UKGI, UK Financial Investments annual report and accounts 2017-18, 5 July 2018, p30
16 UKFI press release 13 November 2015
17 UKFI; Press Release; 30 March 2017
18 UKGI, UK Financial Investments annual report and accounts 2017-18, 5 July 2018, p30
19 UKGI, UK Financial Investments annual report and accounts 2017-18, 5 July 2018, p30
20 UKGI, UK Financial Investments annual report and accounts 2017-18, 5 July 2018, p31

the value of the transaction consideration to taxpayers was in the range of £863 million to £977 million.

The NAO estimated that the taxpayer lost £480 million of its original £1.4 billion investment in NR plc.[21]

Northern Rock (Asset Management) plc is the 'bad bank'. It holds and services the 'closed mortgage book'. As of 1 January 2010, total assets of the company were around £75 billion, of which £54 billion were mortgages and unsecured loans to customers. The company does not hold deposits and offers no additional mortgage lending. As of 1 January 2010, the Government loan stood at £22.8 billion.

In July 2012, Virgin Money bought a substantial tranche of Northern Rock (Asset Management) mortgages from UKAR. A UKFI press release explains the implications:

> **Taxpayer to receive further £538 million**
>
> *Additional £73 million cash consideration received from sale of Northern Rock plc to Virgin Money*
>
> *Sale of £465 million of Northern Rock (Asset Management) plc mortgages to Virgin Money*
>
> UKFI today confirms that HM Treasury has received from Virgin Money further cash consideration of £73 million in addition to the £747 million received on completion of the sale of Northern Rock plc to Virgin Money Holdings (UK) Limited ("Virgin Money").
>
> This takes the total cash consideration received on the sale of Northern Rock plc to £820 million, in addition to other consideration comprising:
>
> 1. Tier 1 Capital Notes of £150 million; and
> 2. Additional cash consideration of £50 million to £80 million receivable upon a future profitable flotation or sale in the next 5 years.
>
> The Government has the potential to receive over £1 billion in total, as confirmed in UKFI's announcement on the sale of Northern Rock plc on 17 November 2011. […]
>
> In addition UK Asset Resolution Ltd, ("UKAR") the holding company for Northern Rock (Asset Management) plc, ("NRAM") has agreed to sell £465 million of mortgage assets to Virgin Money at par. These loans will continue to be serviced by NRAM until transfer to Virgin Money, expected to be before the end of the year. The sale will not affect the terms and conditions of the mortgages in this portfolio and all customers who will be impacted by the sale will be contacted directly by NRAM and Virgin Money at a later date.[22]

In its Report into the sale, UKFI were confident of a positive return for the public on the government's investment in Northern Rock:

> The Government provided £37 billion of funding into the two companies that comprise the former Northern Rock, i.e. Northern Rock plc and Northern Rock (Asset Management) plc. Over time,

[21] National Audit Office, The Creation & Sale of Northern Rock plc, 18 May 2012
[22] UKFI press release 23 July 2012

> the return of cash from these companies to the Government is expected to total between £46 billion and £48 billion.
>
> […]
>
> This is equivalent to receiving an annual rate of return on the Government's intervention of 3.5% to 4.5% per year and compares to the Government's estimated notional annual funding costs during the period of intervention of 3.9%.[23]

On 13th November 2015 UKFI announced a significant sale of NR mortgage assets:

> UK Asset Resolution Limited (UKAR) […] has agreed to sell a £13bn portfolio of NRAM mortgages and unsecured loans to affiliates of Cerberus Capital Management LP. The proceeds include a c. £280m premium over book value. The sale brings the total UKAR balance sheet reduction to £73.5bn (63%) since formation in 2010 and means that the government has now exited over 85% of Northern Rock.[24]

A final payment of £520 million in respect of this transaction was received in May 2016.

4.2 Bradford & Bingley

Bradford & Bingley was nationalised by Government Order on 29 September 2008.[25]

When taken over, Bradford & Bingley was divided between the deposit-based business and the mortgage business. The former was sold to Santander for about £400 million. On 24 March 2010, as a result of an assessment undertaken by UKFI as to the best way to manage Northern Rock (Asset Management) plc and the rump of Bradford & Bingley plc, the two entities were brought together under a single holding company – UKAR.

In March 2017, UKFI announced an £11.8-billion sale of B&B loans:

> following an open and competitive sales process, UK Asset Resolution Limited (UKAR), the holding company for the government owned businesses of Bradford & Bingley plc (B&B) and NRAM Limited (NRAM), has agreed to sell two separate asset portfolios of performing buy-to-let loans from B&B to Prudential plc and to funds managed by Blackstone for £11.8 billion.[26]

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23 UKFI, Report on the Sale of Northern Rock, February 2012, Executive summary
24 UKFI press release 13 November 2015
25 UKGI, UK Financial Investments annual report and accounts 2017-18, 5 July 2018, p30
26 UKFI; Press Release; 30 March 2017

5. Other support mechanisms

The subsections below are intended to be short summaries. There is more background to and explanation of the schemes in another Library note, The economic crisis: policy responses (June 2011).

5.1 Credit guarantee scheme

The Credit guarantee scheme (CGS) allowed banks to issue debt guaranteed by the government, thus enabling them to borrow more, and more cheaply, and hence lend more. The period during which they could issue debt under the scheme ended in February 2010. No new debt could be issued after this date, but debt already issued during that period could be rolled over as it matured. Further details of the scheme's operation are available on the website of the Debt Management Office (DMO).

Clearly, there will only be a cost if the banks are unable to repay these debts when they become due. As at 24 March 2010, total outstanding issuance under the scheme stood at £125 billion (a reduction from its £134 billion peak). Banks issuing debt under the scheme included RBS, Lloyds, Barclays, Bank of Scotland, Nationwide BS, Clydesdale Bank, Tesco Personal Finance, Yorkshire BS, and Skipton BS.[27]

Fees received by the government for use of the CGS totalled £4.3 billion.[28]

5.2 Special liquidity scheme

The Special liquidity scheme (SLS) was introduced in April 2008 to improve the liquidity position of the banking system by allowing banks and building societies to swap their high-quality mortgage-backed and other securities for UK Treasury Bills for up to three years. The Scheme was designed to finance part of the overhang of illiquid assets on banks' balance sheets by exchanging them temporarily for more easily tradable assets. In the June 2012 *Financial Stability Report*, the Bank noted that "all of the approximately £185 billion of Treasury bills advanced under the Bank's Special Liquidity Scheme (SLS) have been repaid".

The SLS ended on 30 January 2012. All drawings under the Scheme were repaid before the Scheme closed. It was replaced by the Bank of England's extended collateral term repo facility, details of which can be found on the Bank's website.

5.3 Asset Protection Scheme

The APS provided participants with insurance against non-performing assets (loans). The bank pays a premium to the Treasury for placing at-risk assets with the scheme and bears the cost of an initial tranche of losses. Losses beyond that level are met by the scheme (taxpayer).

27 Debt Management Office: Guarantee Schemes
28 See OBR's table in section 1

A good resume of the APS can be found in the final Report by APS in 2012:

> The APS was designed to support the stability of the UK financial system, increase confidence and capacity to lend, and thus support the UK economy by protecting financial institutions participating in the Scheme against exceptional credit losses on certain portfolios of assets in exchange for a fee.
>
> In the spring of 2009 two major British banking groups, Lloyds Banking Group ("LBG") and RBS, signalled their intention to participate in the APS. In November 2009, amid milder economic conditions, LBG withdrew from the APS, leaving RBS as the sole participant.
>
> The APS was designed, in effect, to isolate problem assets in a virtual "bad bank". The toxic assets were insured but stayed on the balance sheet of the bank, which continued to be the first line of management for the assets in question. The insurance cover acts as a substitute for equity capital as it is recognised by the FSA as regulatory capital for the purposes of capital adequacy assessments.
>
> The Government set up the APA to work with RBS and oversee decisions made in relation to the management and oversight of the virtual bad bank. RBS set up what was in effect the board of the virtual bad bank called SOC, which was staffed by a group of the most senior managers of RBS and which APA senior management attended. At the time that the Scheme was established the pool of insured assets were vulnerable to loss due to high leverage and significant refinancing risks.[29]

The APS closed on 31 October 2012 following the exit of RBS from the scheme. Even though Lloyd's never actually participated, it paid a £2.5 billion fee for implicit support during the period of negotiations.

Fairly soon into its life, the expectation that APS would cost a lot of public money diminished, and the likelihood that it would make a profit rose. The Interim Report of the Asset Protection Agency, published in February 2011, stated that they expected an overall £5 billion profit:

> During the period to 31 December 2010, the financial risk to HMT as an insurer of the APS assets receded. The expected outcome for HMT as an insurer remains an overall £5bn profit from the Scheme, to which we are now a little closer, having received cash payments of £2.5bn from Lloyds and £2.1bn from RBS.
>
> […]
>
> The main drivers of reduced risk in the APS are twofold. First, in an environment where expected loss remains below £60bn, we benefit from the passing of time in a static portfolio; loans redeem or extend and therefore lose insurance cover; defaulted loans begin to show recoveries, as for instance company stakes resulting from previous debt for equity swaps can be sold off in buoyant equity markets. These developments provide certainty of outcome for both defaulted and non-defaulted loans, which reduces the volume of exposure in the APS where the outcome is still uncertain.

29 Interim Report of the Asset Protection Agency for the period 1 April to 29 October 2012

> Secondly, the global economy has continued its fragile recovery, which has been reflected in a bottoming out of prices and values in most markets, and strong continuing recoveries in the equity and corporate bond markets.[30]

Summing up the Scheme's achievements, the last APS Report noted three things:

- The APS provided support to RBS during and in the immediate aftermath of the financial crisis, which helped to maintain market confidence in RBS over that period.
- The Government has received APS fees of £2.5bn and other charges of £2.8m plus interest payments from RBS and £2.5bn from Lloyds. There have been no pay-outs under the APS. The Government has realised a £5bn profit for the taxpayer.
- The APA agreed with RBS a significant number of individual asset actions which helped de-risk the portfolio and resulted in several hundred million pounds of increased cash recoveries from troubled assets. Also, the APA agreed with RBS a series of measures which significantly improved the management and control environment of difficult assets. Together with ongoing initiatives which the APA supported, these measures should stand RBS in good stead beyond its exit from the APS.[31]

More information about the genesis and justification of the APS can be found in the Public Accounts Committee report: HM Treasury: Asset Protection Scheme, 31st Report 2010-12.

5.4 Compensation for depositors

The only other money lent by the government was to pay for the compensation of depositors in failed banks, including the Icelandic banks. Although it was established as the compensation vehicle for failed institutions, the Financial Services Compensation Scheme (FSCS) was not financed (through industry levies) on a scale adequate to cope with the collapse of multiple large banks. The Government lent money to the FSCS so that it could meet its obligations to eligible depositors.

Over four million customers were affected by the failure of these five banks in 2008:

- B&B
- Heritable Bank plc (Heritable)
- Kaupthing Singer & Friedlander Limited (KSF)
- Landsbanki Islands hf (Icesave), now LBI hf
- London Scottish Bank plc (London Scottish)

The FSCS paid £23 billion to compensate customers of these banks, including £3 billion on behalf of the Treasury. It borrowed around £20 billion from the Treasury to fund these payments, £15.7 billion of which

30 Asset Protection Agency Interim Report February 2011
31 Interim Report of the Asset Protection Agency for the period 1 April to 29 October 2012

was for B&B. Variable interest is charged on the Treasury loans – the average rate was 2.13% in 2015/16, for example.[32]

The FSCS has gradually recouped this money from three sources: recoveries from the failed institutions; the Icelandic authorities; and the ongoing levies on active banks. On 25 April 2017, £10.9 billion was paid back to the Treasury, using proceeds from the sale of B&B assets. Further sales of B&B assets announced by UKAR in November 2017 should enable FSCS to repay the remaining £4.7 billion owed to HM Treasury.[33]

[32] FSCS, Annual Report and Accounts 2015/16, July 2016, p42
[33] FSCS, Annual Report and Accounts 2017-18, June 2018, p7

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