



BRIEFING PAPER

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Government bank rescues: financial consequences

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Summary

This Paper gives some basic numbers concerning the government's net expenditure on banks rescued during the financial crisis of 2008-9 and the debts owed to it by other organisations.

The really large sums invested by government were spent recapitalising HBOS, Lloyds Banking Group and the Royal Bank of Scotland and establishing the vehicle to hold ownership of Northern Rock and Bradford & Bingley. The then Chancellor, Alistair Darling, initiated recapitalisation measures of up to £17 billion for Lloyds and HBOS and £20 billion for RBS.

All of the shares in Lloyds have been sold back to the market; government continues to own a substantial portion of RBS.

The question – how much did the rescue cost? – cannot be answered for certain. The investment in Lloyds produced a 'profit' and it is likely that the government will have a positive return on at least some of its other assets. Against that, it looks unlikely that the investment in RBS will be positive.

In June 2015 the Chancellor announced that the Government would start the process of selling its stake in RBS however, this process was halted due to market volatility and has yet to restart.

Substantial assets of the other rescued banks have been sold to financial investors and the good parts of some banks are now part of other banks.

There is a descriptive timeline of events from 2007 to 2015 produced by the ONS available [here](#).

1. Introduction

From September 2007 to 2009 the then Labour Government initiated a number of schemes to support the banking sector generally and several banks specifically. It also committed significant amounts (over £100 billion) of public money to ensure that the UK system remained viable. More detail on the chronology of the government rescue and about the schemes can be found in another standard note (SN/BT/4968). This note looks at the recent financial consequences of those decisions. It does not answer the question “how much the rescue cost” since that will not be known for a considerable period, although a preliminary estimate of £2 billion by the Treasury is shown in this note. The level of support for the banking sector as at December 2010 was estimated by the Comptroller & Auditor General as £512 billion.¹ An estimate by the National Audit Office (NAO) at 31 March 2015 put the outstanding support at £115 billion, of which £93 billion was cash outlays.²

The NAO has a very informative series of FAQs on its [website here](#), which are updated periodically.

The cost of the rescue packages collectively is still positive, dominated by the holdings of RBS.

There is a descriptive timeline of events from 2007 to 2015 produced by the ONS available [here](#).

¹ Quoted [Maintaining Financial Stability of Banks](#), Public Accounts Committee, p7, 32nd Report 2010-12 HC 973

² [National Audit Office](#)

2. Bank recapitalisation

The really large sums invested by government were spent recapitalising HBOS, Lloyds Banking Group and the Royal Bank of Scotland and establishing the vehicle to hold ownership of Northern Rock and Bradford & Bingley. In his [statement on 13 October 2008](#) the then Chancellor, Alistair Darling, announced recapitalisation measures of up to £17 billion for Lloyds and HBOS and £20 billion for RBS. This meant that the government bought shares in the banks, which it is now starting to sell back to market in stages.

A National Audit Office (NAO) Report in September 2015 summed up previous activity:

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. The government plans to return £51.1 billion of these investments to the private sector in this parliament.³

All government shareholdings are managed by United Kingdom Financial Holdings (UKFI).

2.1 Royal Bank of Scotland

A list of the government market holdings in Royal Bank of Scotland (RBS) (pre-disposal programme) is shown below:

³ NAO; [Financial institutions landscape](#); HC418 September 2015

Government investment in Royal Bank of Scotland

		Shares	Total	Investment
		investment	investment	per share
		<i>millions</i>	<i>£millions</i>	<i>pence</i>
Initial recapitalisation	Dec-08	2,285	14,969	655
Preference share conversion	Apr-09	1,679	5,058	318
APS B shares	Dec-09	5,100	25,500	500
Total investment		9,064	45,527	502 (avg)
Fees received			305	
Total investment net of fees and DAS dividends		9,064	44,014	486 (avg)
APS exit fee			2,504	
Contingent Capital Facility Fees			1,280	
Total investment net of all fees & dividend:		9,064	39,925	440 (avg)

Source: UKFI Annual Report 2015/16; Library calculations

At the Mansion House Speech in June 2015 the then Chancellor, George Osborne, announced the Government's intention to dispose of its shareholding in RBS, even if it produced an accounting loss on the value of shares sold:

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?

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".⁴

RBS's share price rose by six pence in the morning following the announcement.

On 3 August 2015 UKFI signalled the start of the sale:

UKFI announces that it intends to sell part of HM Treasury's shareholding in The Royal Bank of Scotland Group plc (the "**Company**"). The disposal of these shares (the "**Placing Shares**") will be by way of a placing to institutional investors (the "**Placing**").

[...]

⁴ [Mansion House speech 10 June 2015](#)

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The Placing is expected to comprise of approximately 600m of the Company's ordinary shares, representing approximately 5.2% of the economic ownership of the Company. As a result of the Placing, the overall size of HM Treasury's economic interest in the capital of the Company (which includes its holding of ordinary shares and B shares in the Company) will be reduced from approximately 78.3% to approximately 73.2% and its holding of ordinary shares in the Company will be reduced from approximately 61.3% to approximately 52.0%.⁵

The sale was to institutions only. Citigroup, Goldman Sachs, Morgan Stanley and UBS Limited were appointed to act as Bookrunners in connection with the Placing. The details of the sale are shown below:

	Shares (millions)	
	Remaining Share holding	Implied share sale
Holding b/fwd August 2015	3,964	
Notified sale 4 August 2015	3,334	630

Source: London Stock Exchange press release; 4 August 2015

The shares were sold at £3.30 per share; proceeds were £2.1 billion.

Subsequent to the sale RBS share holdings were re-organised. UKFI set out the details:

Following the first share sale, in October 2015 the Government converted its holding of B shares into ordinary shares in RBS. This resulted in no change in the Government's economic ownership in RBS but an increase in its voting ownership as the Government's economic and voting ownership were aligned at 72.9 per cent.⁶

On the basis of previous holdings, less sales, the UK government appears to hold just under 8.5 billion RBS shares. As at 31 March 2017 this would be worth something like £20.4 billion.

The sale of RBS shares was the subject of a [Backbench Business debate](#) on 5 November 2015 (c.1164).

2.2 Lloyds Banking Group

A list of the government market holdings in Lloyds Banking Group (LBG) (pre-disposal programme) is shown below:

⁵ Stock Exchange; [Regulatory announcement](#); 3 August 2015

⁶ [UKFI Annual Report 2015/16](#)

Government shareholding in Lloyds Banking Group - March 2016

		Shares millions	Total investment £millions	Investment per share pence
Lloyds Banking Group				
Initial recapitalisation	Jan-09	7,277	12,957	182.5
Preference share conversion	Jun-09	4,521	1,506	38.43
APS B shares	Dec-09	15,810	5,850	37.0
Total investment		27,609	20,313	73.6
Total investment net of dividends		27,609	20,197	73.6 ave
Paid dividends			188	
Fees received			381	
APS exit fee			2,500	
Total investment net of fees			17,115	62.0 ave
Disposal of shares September 2013 - March 2016		11,263	9,165	
Total investment post disposals		16,346	7,950	

Source: UKFI Annual Report 2015/16; Library calculations

On 17 September 2013 UKFI announced the disposal of the first tranche of Lloyds' shares'. 15% of the Government's holding was disposed of at 75 pence per share for a total of £3.2 billion.⁷ The conduct of the sale, amid allegations that the price was set too low and that the taxpayer 'lost-out' was examined by the NAO which published its report in December 2013. Its summary conclusion was:

This first sale represented value for money. UKFI conducted a thorough review of its options, choosing a sale process that maintained flexibility on timing and allowed the transaction to be completed quickly once a decision to sell had been made. The sale took place when the shares were trading close to a 12-month high and at the upper end of estimates for the fair value of Lloyds' business. Furthermore, the shares were sold at a relatively low discount to the market price compared with discounts seen in similar sales, and the after-market in the shares has remained steady. The shortfall of at least £230 million should be seen as part of the cost of securing the benefits of financial stability during the financial crisis, rather than any reflection on the sale process, which UKFI managed very effectively.⁸

A further tranche of £4.2 billion of shares (about 5.5 billion shares) were sold on 26 March 2014.⁹

The Trading Plan

In December 2014 it was announced that

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").

⁷ [UKFI press release 17 September 2013](#)

⁸ NAO; [The first sale of shares in Lloyds Banking Group](#); HC 883 2013/14

⁹ [UKFI press release 26 March 2014](#)

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Under the trading plan, Morgan Stanley will have full discretion to effect a measured and orderly sell down of shares in the Company on behalf of HMT.

Following the publication of the Bank of England stress tests yesterday, the trading plan has been entered into today; however, it is possible that sales may not commence until the New Year. 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.^{10 11}

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 will be bound by the pre-set parameters, agreed with the seller and 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.

The net effect of this process is that it is far harder to provide ongoing reliable (public) estimates of, in particular, receipts from the sales although, under Stock Exchange Rules, disposals under the trading plan are periodically published when the overall holding falls by a further 1% from the previous total.¹²

On 21 April 2017 the Chancellor announced in a speech in Washington that all of the support investment in Lloyds had now been repaid through the share sales. The [Treasury statement](#) contains more detail.

According to the Written Statement at the time of the trading plan

The Government are committed to returning Lloyds to the private sector and getting taxpayers' money back. A statement will be laid before Parliament with further details at the end of the plan.¹³

On 16th May 2017 it was announced by the [Stock Exchange](#) that all shares held by government had been sold and LBG was no longer publicly owned. This point was reached during the General Election campaign of 2017 which delayed the official statement promised earlier. According to a report in the Financial Times, the government made a nominal profit of £900 million on the sale of shares.

¹⁰ [UKFI website 17 December 2014](#)

¹¹ Note, the trading plan was extended for a further six months according to a UKFI press release 1 June 2015.

¹² This is a Regulatory requirement

¹³ [HC Deb; 18 December 2014; c110WS](#)

Public Sale

On 5th October 2015 the Treasury announced a major retail sale of shares "to be launched next spring."¹⁴ Applications from the general public were invited via an '[expressions of interest](#)' website.

This changed with a tweet from the then Chancellor, George Osborne, on 28th January 2016, reported on City wire services, that further share sales would be made "only [...] when turbulent markets have calmed down". In a separate report the Chancellor is said to have told [BBC news](#) that

"now is not the right time to dispose of the remaining holdings.

Ever since the start of 2016 the world's stock markets have suffered significant falls and daily volatility. A whole raft of factors around world growth, a faltering China and a collapse in oil prices has 'spooked' investors. In fact banking shares have performed rather worse than all shares."

When the Treasury made the original announcement to sell Lloyds shares the share price was 77.27p. By 28 January 2016 it had fallen to 65.02p.

In October 2016 the Chancellor, Phillip Hammond, announced that the share trading plan (see above) would resume and would account for all the remaining government holding. The retail offer route would not therefore be pursued.¹⁵ The shares would be disposed of within the following 12 months.

In February 2017 the Group announced a substantial increase in profits, in part due to significant reductions in PPIU provisioning, which led to a strong rise in its share price to 71p.

¹⁴ [Treasury Press Release](#)

¹⁵ [Gov.UK website](#) 7 October 2016

3. Other Support Mechanisms

3.1 Credit guarantee scheme

The Credit guarantee scheme (CGS) allowed banks to issue debt guaranteed by 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 an actual cost if the banks are unable to rollover 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. Further information relating to the scheme can be found on the Debt Management Office's website.¹⁶ As at September 2012, there was only one liability registered under the scheme, a £465 million bond issued by Yorkshire Building Society.¹⁷

Fees received for use of the CGS since its introduction currently stand at £4.3 billion.

3.2 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](#).

3.3 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).

¹⁶ [Debt Management Office: Guarantee Schemes](#)

¹⁷ [Debt Management Office website](#)

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.¹⁸

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.

Even fairly soon into its life, the expectation that it would cost a lot of public money, diminished, and the expectation that it would make a ‘profit’ rose, as the Interim Report of the Asset Protection Agency, published in February 2011 made clear:

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.

¹⁸ [Interim Report of the Asset Protection Agency for the period 1 April to 29 October 2012](#)

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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. While some markets such as Spain and Ireland continued to deteriorate, the macro-environment was favourable or neutral for the vast majority of our underlying exposures.¹⁹

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 UK tax payer.
- 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.²⁰

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.

¹⁹ Asset Protection Agency [Interim Report](#) February 2011

²⁰ [Interim Report of the Asset Protection Agency for the period 1 April to 29 October 2012](#)

4. Other institutions supported

In addition to the support given to Lloyds and RBS the government took control outright of Northern Rock and Bradford & Bingley. The government took control of the shares and has not made any compensatory payments to previous shareholders despite ongoing legal challenges to this position.

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 and the consequent nationalisation, 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 can receive up to c. £1 billion in total. Deutsche Bank (advisers on the sale) estimated that the value of the transaction consideration to taxpayers was in the range of £863 million to £977 million.

The NAO estimated the mid-market cash loss on the creation and sale of the good bank at £480 million.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 £538million

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").

²¹ National Audit Office; [The Creation & Sale of Northern Rock plc](#); May 2012, HC 20 2010-12,

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This takes the total cash consideration received on the sale of Northern Rock plc to £820 million, in addition to other consideration¹ comprising:

- Tier 1 Capital Notes of £150 million; and
- 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.

The further cash consideration announced today of £73 million relates to the final calculation of the net asset value of Northern Rock plc at completion of the sale on 1 January 2012. The amount is greater than that expected at the time of the November announcement of c. £50 million.

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, 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 ex-N. Rock mortgage assets:

UK Financial Investments Limited (UKFI), today confirms that following a competitive sales process, UK Asset Resolution Limited (UKAR), the holding company for the government owned businesses of Bradford & Bingley plc (B&B) and NRAM plc (NRAM), 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](#).

²² UKFI [press release](#) 23 July 2012

²³ UKFI, [Report on the Sale of Northern Rock](#), February 2012, Executive summary

²⁴ UKFI [press release](#) 13 November 2015

4.2 Bradford & Bingley

Bradford & Bingley (B&B), when initially taken over, had been divided between the ongoing deposit based business and its 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 companies were merged under a single holding company.

Both companies remain as separate legal entities under the new holding company, each with its own balance sheet and Government support arrangements. The single holding company (UK Asset Resolution Ltd) for these entities was incorporated on 1 July 2010.

UKAR continues to run down the assets in its control and has repaid some of the loans made to it. According to the 2015/16 UKFI Annual Report £20.4 billion (42%) of government loans have been repaid and "as of 31 March 2016, total assets of NRAM were £12.6bn, of which £10.6bn were loans to customers".²⁵ This figure changed significantly in March 2017 when UKFI announced that

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

Commenting on UKAR's sales of Northern Rock's and other mortgage assets, the NAO reported in 2015 that:

3.5 UKAR has now returned almost a third of the taxpayers' original £48.7 billion support package. Northern Rock's deposit taking business was sold to Virgin Money in 2011. In October 2014 UKAR sold a portfolio of performing residential mortgage loans for £2.7 billion. This was a premium of around £55 million over the book value at the end of May 2014. UKAR is exploring the potential for a further major disposal, in particular around Granite, which is a securitisation programme holding around £13 billion of mortgages. UKAR currently has around £15 billion in statutory debt that it owes to FSCS – for which it pays no interest. However, UKAR pays interest on the legacy loans received from HM Treasury. UKAR has a pool of liquidity which it lends, and on which it has a positive spread between the cost of borrowing and lending into mortgages.²⁷

4.3 Icelandic banks

The only other money spent by the government was in relation to the Icelandic banks.

Although it was established as the compensation vehicle for failed institutions, the Financial Services Compensation Scheme (FSCS) was not established, or financed (through industry levies) on a scale adequate

²⁵ [UKFI, Annual Report 2015-16](#)

²⁶ UKFI; [Press Release](#); 30 March 2017

²⁷ NAO; [Financial institutions landscape](#); HC418 September 2015

to cope with the collapse of multiple large institutions. In order to meet its new obligations the UK government, through the Treasury, lent the FSCS sufficient funds to enable it to pay compensation to eligible depositors. As well as repaying the principal the FSCS has to pay (not inconsiderable amounts) of interest on these loans. The interest during 2012/13 was £386.4million compared with £315.4million in 2011/12.²⁸ The FSCS will recoup this money from the levies it makes on banks and, in time, from the Icelandic authorities. The sums paid out for Heritable Bank, Kaupthing Singer & Friedlander and Landsbanki amounted to just under £7.76billion.²⁹

In January 2016 it was announced that the final payment for the Icelandic banks was made – a further £740million – which brought the total paid from the Landsbanki administration to £4.6 billion.³⁰

A summary of the compensation flows through the FSCS is shown in the table below, (note it includes payments for other banks too):

Bank & building society failures 2008/09: compensation & recoveries

Firm	Total compensation paid to date; £millions	Recoveries as at 31/3/15	Prospect of future recoveries
B&B	£15,655	nil	B&B's management forecast full repayment of FSCS loan but timing remains uncertain. FSCS is working with B&B, UKAR and HM Treasury on this issue
Heritable	£465	Dividends of £437m (94%)	Expect total dividends 95% - 100%
KSF	£2,589	Dividends of £2,142m (83%)	Expect total dividends 85% - 86%
Icesave	£1,434	Dividends of £1,234m (85%)	Expect total dividends of approximately 100%
London Scottish	£239	Dividends of £118m (35%)	Expect total dividends of 57% - 59%
Dunfermline Building Society	n/a	n/a	Recoveries are paid to HM Treasury and FSCS pays the shortfall in resolution costs (subject to statutory cap). Provision £448m.

Source: FSCS Annual Report & Accounts 2014/15

²⁸ FSCS [Annual Report and Accounts 2012/13](#), p152

²⁹ Source: [HL Deb 19 October 2010 cWA137](#)

³⁰ Reported Financial Times 26 January 2016.

5. How much did it cost?

As can be seen from the above, most of the public support was spent acquiring assets which government has subsequently sold. Some assets remain, especially RBS shares, and hence the final proceeds of sales are not yet known. Much of the other support is by way of guarantees, for which the banks pay for, or temporary loans which will be repaid. There is therefore a complicated back and forth of substantial sums of money, the net effect of which remains uncertain, however, as mentioned above, all the investment in Lloyds has now been repaid at an estimated profit of £900 million.

In the Budget 2010 Redbook the Treasury estimated that the net cost to the public would be £2billion.³¹ This £2billion figure was heavily dependent on assumptions about take up of schemes and share values in the future. Quite soon after it began to look as though the costs would be less than the £2billion estimate.

Table 1.4 in *Budget 2014* gives a stream of positive income flows from 'financial interventions' from 2012/13 to 2018/19. Debt as a % of GDP associated with these interventions is forecast to fall from 5% in 2012/13 to 3.5% by the end of the period.

This is backed up by work by the Office of Budget Responsibility (OBR) quoted by the NAO Report mentioned earlier. It states:

According to the OBR, if HM Treasury received all loan payments in full and sold the shares at their March 2015 values, **it would realise an overall cash surplus of £14.9 billion**. But these figures exclude the costs to HM Treasury of financing these interventions, and any offsetting interest and dividend receipts. If the interventions in Lloyds and RBS were financed through debt, the Treasury estimates that **additional debt interest costs would have amounted to £22 billion** to date. The Treasury **has also received around £5 billion** of interest over the same period.³²

The OBR maintains a table showing the current balance of payments and receipts spread across the different forms of assistance given. The latest version (March 2017) is shown below:

Gross and net cash flows of financial sector interventions								
£ billions				Other interventions				Total
	Lloyds**	RBS	UK Asset Resolution	FSCS	Credit Guarantee Scheme	Special Liquidity Scheme	Other	
Cash outlays	-20.5	-45.8	-44.1	-20.9	0	0	-5.3	-136.6
Principal repayments	18.8	3.8	33.7	5.2	0	0	5.2	66.8
Other fees received	3.2	4.2	4.3	2.7	4.3	2.3	0.2	21.1
Net cash position	1.4	-37.8	-6.1	-12.9	4.3	2.3	0.2	-48.8
Outstanding payments	0	0	10	15.7	0	0	0.1	25.7
Market value	2.3	19.7	8.3	0	0	0	0	30.2
Implied balance	3.7	-18.2	12.1	2.7	4.3	2.3	0.3	7.2
Exchequer financing	-3.6	-11	-10.2	-6.5	0.9	0.2	-0.5	-30.7
Overall Balance	0.1	-29.2	1.9	-3.7	5.1	2.5	-0.2	-23.5

Source: Office for Budget Responsibility; *Economic & Fiscal Outlook; March 2017; table 4.4*

³¹ HM Treasury [Budget Redbook](#) p74, June 2010

³² NAO; [Financial institutions landscape](#); HC418 September 2015

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It suggests that the net outcome depends ultimately on the future of RBS and the Government's decision regarding its sale.

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