**IP/08/1496**

Brussels, 13th October 2008

# State aid: Commission approves UK support scheme for financial institutions

***The European Commission has approved under EC Treaty state aid rules a UK package intended to stabilise the financial markets. The package would provide new capital to eligible banks and building societies, guarantee short and medium term debt to encourage inter-bank lending and offer liquidity to banks under strict conditions. The measures were notified and assessed over the weekend and approved today under a new accelerated procedure for emergency rescue measures. The Commission found the measures to be compatible with EU state aid rules, because they were an appropriate means to remedy a serious disturbance in the UK economy (Article 87.3.b of the EC Treaty), while avoiding unnecessary distortions of competition. In particular, the package provides for non-discriminatory access, is limited in time and scope and contains safeguards to avoid the abuse of the scheme. The UK measures are therefore in line with the guidance just issued by the Commission (see IP/08/1495).***

Competition Commissioner Neelie Kroes said: "The excellent cooperation with the UK authorities and our streamlined procedures have allowed the Commission to approve very quickly this innovative and well-designed support scheme for UK banks. The scheme will contribute to the recovery of European financial markets, without creating undue distortions of competition."

On 11 October 2008, the UK Authorities notified a package of measures designed to ensure the stability of the UK financial system. The package consists of:

- A recapitalisation scheme, making available new capital to banks and building societies in exchange for preference or ordinary shares, to allow them to strengthen their balance sheets against possible losses;
- A guarantee scheme covering the new issuance of short and medium term debt, in return for market-oriented remuneration, to support fundamentally sound banks that, due to the current crisis, are unable to access funding and
- An extension of the short term liquidity measures provided by the Bank of England.

The Commission concluded that the package constituted an appropriate means to restore confidence in the creditworthiness of UK financial institutions and to stimulate inter-bank lending. In particular, the package is limited in time and scope and provides non-discriminatory access for financial institutions with substantial business in the UK . It caps the future lending activity of participating institutions with regard to their past balance sheets, in order to avoid abusive expansion, based solely on advantages derived from the state support. At company level, it limits managers' remuneration and requires the beneficiaries to respect good governance practices.

Companies that benefited from capital injections and that intend to maintain the state's shareholding beyond a certain timeframe have to submit a restructuring plan to the Commission. Debt guarantees on newly issued debt will be available only to financially sound beneficiaries that meet certain capital ratios.

Finally, the UK has committed to report to the Commission every six months on the execution of the scheme.

The non-confidential version of the decision will be made available under the case number N 507/2008 in the State Aid Register on the DG Competition website once any confidentiality issues have been resolved. New publications of state aid decisions on the internet and in the Official Journal are listed in the State Aid Weekly e-News.