HM TREASURY

Newsroom & speeches

06/09

19 January 2009

Treasury statement on restructuring its investment in RBS to deliver further bank lending to industry and homeowners

With continuing instability in the global financial markets, expected to be demonstrated by a run of poor financial results from the industry, the Government is today taking action, building on the comprehensive set of measures it announced on 13 October, to adjust its commercial investments in the Royal Bank of Scotland Group plc (RBS) to stabilise further its position and ensure it has the tools to enhance its contribution to the long term strength of the economy.

The Government, in consultation with UK Financial Investments (UKFI), has today agreed to convert the Treasury's preference share investment in RBS to ordinary shares, with the aim of: supporting stability in the financial system; ensuring continued protection for ordinary savers, depositors, businesses and borrowers; and maintaining a safeguard of the interests of the taxpayer. In summary, this action is intended to:

- make available additional core tier 1 capital to the bank to strengthen its resources, enable it to absorb expected losses and permit it to restructure its finances; and
- give the bank the opportunity to build its capital further so that it is able to maintain and increase its support for the real economy by facilitating £6bn more lending to industry and homeowners, over and above existing commitments.

The Treasury, Bank of England and Financial Services Authority have continued their detailed discussions with the institutions that participated in the recapitalisation scheme last year. These institutions committed in aggregate to strengthen their total tier 1 capital, either through their own actions or, where requested, through additional support from the Government by increasing or restructuring the preference and ordinary share capital.

The Government is not injecting new money into RBS.

As part of its agreement, the Government has agreed with RBS commitments including:

- the extension to large corporates of the existing agreement to maintain, over the next three years, the availability and active marketing of competitively-priced lending to homeowners and to small businesses at 2007 levels or above; and
- increasing lending still further by £6bn in the next 12 months.

UKFI will continue to manage the Government's shareholdings in the recapitalised institutions on a commercial arms-length basis and with the aim of realising value for the taxpayer. Consistent with the Government's aim that it should not be a permanent investor in UK financial institutions, UKFI will develop and execute a strategy for disposing of the shareholdings in an orderly way.

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

Notes for editors