National Audit Office

HM Treasury

The Comptroller and Auditor General's Report on Accounts to the House of Commons

The financial stability interventions

This is an extract from the Certificate and Report of the Comptroller and Auditor General on HM Treasury Annual Report and Accounts 2010-11 (HC 984 July 2011)

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Amyas Morse
Comptroller and
Auditor General

National Audit Office

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The financial stability interventions

Introduction

1 Since 2007, the Treasury has made a series of interventions to support the financial stability of UK banking. These interventions supported four broad aims: to protect depositors; maintain liquidity and capital for UK banks through the period of market closures; and to encourage banks to lend to creditworthy borrowers.

2 In line with international good practice, the Treasury and the National Audit Office have worked to ensure transparency of the scale and costs of the various Government interventions. I set out a summary of the support in my December 2009 report *Maintaining financial stability across the United Kingdom's banking system* (HC 91 2009-10). I updated this in December 2010 with *Maintaining the financial stability of UK banks: update on the support schemes* (HC 676 2010-11).

3 This Report on HM Treasury's 2010-11 Resource Accounts sets out the scale and costs of the Government's financial interventions as at 31 March 2011, on the same basis of disclosure as my previous reports to Parliament (Figures 1 to 5 below). It shows how these numbers reconcile to the Treasury's Resource Accounts and highlights certain additional disclosures in the notes to the Resource Accounts on the financial stability interventions.

The size of the support

4 The total outstanding support explicitly pledged to the banks as at 31 March 2011 is £456.33 billion (**Figure 1**), down from £612.58 billion as at 31 March 2010, and from a peak of some £1.162 trillion. The total outstanding support is 31 per cent of Gross Domestic Product as at March 2011.

5 Of the total support, £123.93 billion was provided in the form of loans or share purchases, which required a transfer of cash from the Government to the banks (**Figure 3**). A further £332.40 billion relates to guarantees and other forms of contingent liability where the Government will only provide cash if certain events arise (**Figure 2**). These are set out in the Treasury's Resource Accounts at Note 27 on contingent liabilities. Some £109.70 billion is recognised in the Treasury's Statement of Financial Position, amounting to 89 per cent of the Treasury's net assets.

6 The scope of the accounts excludes any potential costs and benefits created by any perceptions of investors that the taxpayer will provide support to systemically important financial institutions in any future crisis.

Figure 1
Total support and fees

	Guarantee commitments (Figure 2) (£bn)	Cash outlay (Figure 3) (£bn)	Total support (£bn)
Total support – peak[1]	1,029.03	132.85	**1,161.88**
Total support 31 March 2010	486.30	126.28	**612.58**
Total support 31 March 2011	**332.40**	**123.93**	**456.33**

	Cumulative amounts to 31 March 2010 (£bn)	2010-11 (£bn)	Cumulative amounts to 31 March 2011 (£bn)
Total fees (Figures 4 and 5)	8.41	3.33	**11.74**
Estimated finance cost[2]	(6)	(5)	**(11)**

NOTES

1 See footnote 1 in Figure 2 and Figure 3.

2 Estimated to the nearest £1 billion because exact borrowing costs are not hypothecated to particular programmes. It is not therefore possible to give net fees less finance cost to three significant figures.

Source: National Audit Office analysis of HM Treasury's Resource Accounts

Changes to the size of the support

7 During 2010-11 the total outstanding support has reduced because:

a £10 billion of debt guaranteed by the Credit Guarantee Scheme has matured;

b the Royal Bank of Scotland assets covered by the Asset Protection Scheme have been reduced by £49.70 billion through run-off of the portfolio, disposals, early repayments and maturing loans, which has reduced the Treasury's share of the exposure to the assets by £43.81 billion;

c the liquidity provided by the Special Liquidity Scheme has reduced by £91 billion due to contractual maturities and early exiting from the individual swaps by participants;

d guaranteed liabilities in the wholly-owned banks have reduced by £9.10 billion mainly due to maturing liabilities; and

e £2.46 billion of loan repayments have been received from banks and the Financial Services Compensation Scheme, offsetting an increase to the loans of £0.12 billion.

Figure 2
Contingent liabilities

	Peak support, including amounts pledged but not drawn down[1] (£bn)	Outstanding guarantee commitments as at 31 March 2010 (£bn)	Outstanding guarantee commitments as at 31 March 2011 (£bn)	Notes to Treasury Accounts
Sector-wide schemes				
Credit Guarantee Scheme	250.00	125.00	**115.00**	*27.2*
Special Liquidity Scheme[2]	200.00	162.00	**71.00**	*27.1*
Asset Backed Securities Scheme	50.00	–	**–**	
Recapitalisation fund	13.00	–	**–**	
Unused facilities for loans to support deposits[3]	0.31	0.55	**0.56**	*39.3*
Royal Bank of Scotland and Lloyds Banking Group				
Asset Protection Scheme[4]	456.57	153.81	**110.00**	*27.2*
Contingent capital in Royal Bank of Scotland	8.00	8.00	**8.00**	*27.1*
Northern Rock and Northern Rock (Asset Management)				
Guaranteed liabilities	24.00	23.00	**15.40**	*27.2*
Contingent capital[5]	3.40	1.60	**1.60**	*27.1*
Unused working capital facility	3.80	2.50	**2.50**	*29.5*
Bradford & Bingley				
Guaranteed liabilities (including pension scheme)	17.00	6.89	**5.39**	*27.1, 27.2*
Unused working capital facility	2.95	2.95	**2.95**	*30.1*
Total guarantees	**1,029.03**	**486.30**	**332.40**	

Figure 2
Contingent liabilities *continued*

NOTES

1 Shows maximum support pledged, including amounts that were not used. The peak values have been taken from previous Resource Accounts, supply estimates and NAO reports to Parliament. Each scheme and support facility was available at different times, so the total £1,029.03 billion guarantee peak support was not available at a single point in time.

The total peak support excludes any emergency support provided by the Bank of England or other authorities as part of their normal market operations. To avoid double counting, the £60 billion emergency support to HBOS and RBS provided in 2008-09 and underwritten by an £18 billion indemnity from the Treasury has also been excluded, as it was replaced by additional funding including the Credit Guarantee Scheme.

2 The Treasury's March 2010 Resource Accounts gave a figure of £165 billion for the Special Liquidity Scheme. This related to the February 2009 exposure which was the latest available figure when the Accounts were prepared. The revised exposure figure is from subsequent publications from the Bank of England.

3 These unused loan facilities are for potential loans to the insolvent firms (Bradford & Bingley, KSF, Heritable, London Scottish, Icesave and Dunfermline), the Financial Services Compensation Scheme (FSCS), the Icelandic Depositors' and Investors' Guarantee Fund (DIGF), plus indemnities to the Bank of England for direct loans and working capital facility provided to Dunfermline. To avoid double counting with the loans to support deposits in Figure 3, the peak figure is calculated as the maximum support pledged less the gross cash provided between 2008 and 2011. As at 31 March 2011, the unused loan facilities have increased as the loans have been repaid and the maximum facilities have been revised.

4 The peak figure for the Asset Protection Scheme includes expected usage of the scheme by Lloyds. The maximum value of assets actually placed in the scheme was £282 billion.

5 The peak contingent liability of £3.40 billion related to a potential further recapitalisation of Northern Rock. In the event, no cash was transferred and the maximum was revised downwards when the bank was split in 2010.

6 In addition there are the following unquantified contingent liabilities as set out in Note 27.1 to the Treasury's Resource Accounts:

- Indemnities for the directors of the wholly-owned banks, UK Financial Investments and UK Asset Resolution.
- Maintaining the capital in Bradford & Bingley.
- Compensation for former shareholders in Northern Rock, Bradford & Bingley and Dunfermline.

7 This table also excludes loans and commitments to other countries which are discussed in paragraphs 33 to 37 of this report.

Source: National Audit Office analysis of HM Treasury's Resource Accounts

Figure 3
Support provided in cash

	Gross capital injections and loans advanced[1] (cash) 2007-2011	Net capital injections and loans advanced[2] (cash) as at 31 March 2011	Fair value movements and impairment of shares, and amortisation and impairment of loans	Value in Accounts as at 31 March 2011	Notes to Treasury Accounts
	(£bn)	(£bn)	(£bn)	(£bn)	
Royal Bank of Scotland ordinary and B shares	45.80	**45.80**	(8.83)	36.97	*15.1*
Royal Bank of Scotland dividend access share	0.00	**0.00**	2.29	2.29	*15.1*
Lloyds Banking Group shares	20.54	**20.54**	(4.50)	16.04	*15.1*
Northern Rock plc shares	1.40	**1.40**	(0.21)	1.19	*15.1*
Northern Rock (Asset Management) loan	27.44	**21.59**	–	21.59	*17.1*
Bradford & Bingley working capital facility	8.55	**8.55**	–	8.55	*17.1*
Other loans to support deposits	29.12	**26.05**	(1.34)	24.71	*17.1*
Total cash outlay	**132.85**	**123.93**	**(12.59)**	**111.34**	

	Net capital injections and loans advanced[2] (cash) as at 31 March 2010	Fair value movements and impairment of shares, and amortisation and impairment of loans	Value in Accounts as at 31 March 2010
	(£bn)	(£bn)	(£bn)
Royal Bank of Scotland ordinary and B shares	45.80	(5.92)	39.88
Royal Bank of Scotland dividend access share	0.00	2.48	2.48
Lloyds Banking Group shares	20.54	(3.21)	17.33
Northern Rock plc shares	1.40	–	1.40
Northern Rock (Asset Management) loan	22.97	–	22.97
Bradford & Bingley working capital facility	8.55	–	8.55
Other loans to support deposits	27.02	(1.10)	25.92
Total cash outlay	**126.28**	**(7.75)**	**118.53**

NOTES

1 The first column represents the loans gross of repayments, and the total cost of shares purchased. To avoid double counting, the preference shares in RBS and Lloyds are not included in the peak total as the proceeds on their redemption were immediately re-invested into share capital. Dividends and the premium on redemption of the preference shares are included in Figure 4.

2 Shows the loans net of repayments but before amortisation and impairments. Interest received is shown in Figure 5.

Source: National Audit Office analysis of HM Treasury's Resource Accounts

8 The Treasury has received a total of £11.74 billion in fees and interest for providing the support and assuming the risks covered by the guarantees since 2008 (**Figure 4** and **Figure 5** overleaf). This includes one-off payments of £3.68 billion, mainly in relation to the 2009 rights issues and for Lloyds exiting the Asset Protection Scheme. The Treasury received £3.33 billion in cash during 2010-11 representing interest on the loans and fees for the support schemes.

Figure 4

Fees and income from the explicit guarantees

	Total cash received as at 31 March 2010 (£bn)	Income recognised in 2010-11 Accounts (£bn)	Accruals adjustments (£bn)	Total cash received as at 31 March 2011 (£bn)	Notes to Treasury Accounts
Sector-wide schemes					
Credit Guarantee Scheme fees	1.75	1.28	0.07	**3.10**	*25.3*
Special Liquidity Scheme fees[1]	0.17	0.09	0.01	**0.27**	
Royal Bank of Scotland					
Asset Protection Scheme fees	1.40	0.70	–	**2.10**	*16.2, 31.2*
Commitment fee for contingent capital	0.32	0.32	–	**0.64**	*25.3*
Lloyds Banking Group					
Asset Protection Scheme exit fee	2.50	–	–	**2.50**	
Northern Rock plc & Northern Rock (Asset Management)					
Fees for guaranteed liabilities	0.09	0.02	0.01	**0.12**	*29.3*
Bradford & Bingley					
Fees for guaranteed liabilities	0.26	0.03	0.08	**0.37**	*30.3*
Total guarantee fees	**6.49**	**2.44**	**0.17**	**9.10**	

NOTE

1 Special Liquidity Scheme fees are not shown in the Treasury's Resource Accounts as they are paid to the Debt Management Office, which then pays half to the National Loans Fund. The Debt Management Office's share is shown in the Debt Management Agency Accounts.

Source: National Audit Office analysis of HM Treasury's Resource Accounts, Debt Management Agency Accounts and National Loans Fund Accounts

Figure 5

Fees and interest from the shares and loans

	Total cash received as at 31 March 2010 (£bn)	Income recognised in 2010-11 Accounts (£bn)	Accruals adjustments (£bn)	Total cash received as at 31 March 2011 (£bn)	Notes to Treasury Accounts
Royal Bank of Scotland					
Underwriting fees for the 2009 rights issue	0.30	–	–	**0.30**	
Redemption of preference shares	0.27	–	–	**0.27**	
Lloyds Banking Group					
Underwriting and commitment fees for the 2009 rights issue	0.38	–	–	**0.38**	
Redemption of preference shares	0.23	–	–	**0.23**	
Northern Rock (Asset Management)					
Loan interest	0.41	0.17	–	**0.58**	*29.5*
Bradford & Bingley					
Working capital facility fees	0.19	0.17	–	**0.36**	*30.4.2*
Loans to support deposits					
Interest	0.14	0.33	0.05	**0.52**	*30.4.1, 33-36*
Total fees and income from the shares and loans	**1.92**	**0.67**	**0.05**	**2.64**	

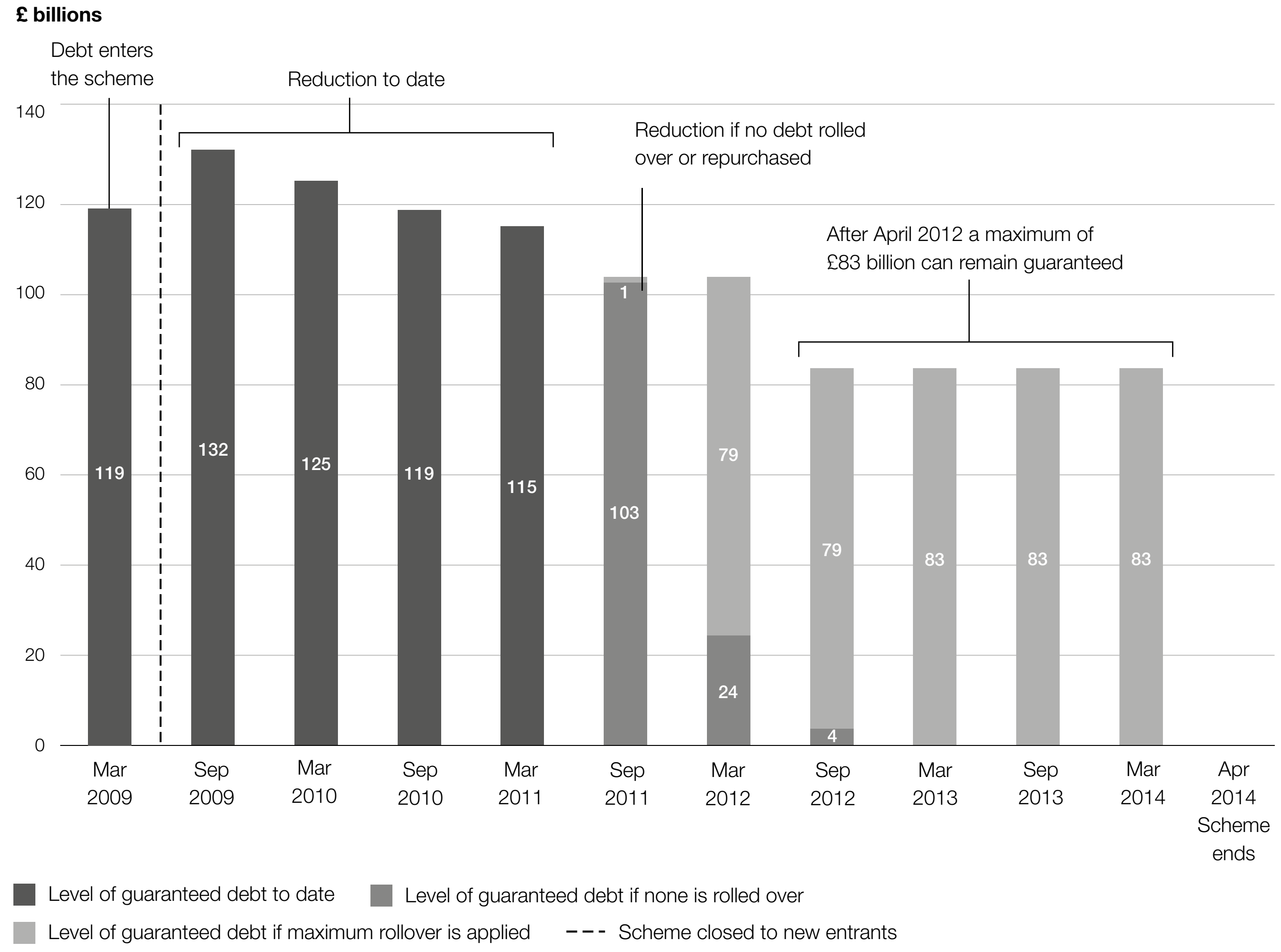
Source: National Audit Office analysis of HM Treasury's Resource Accounts

The cost to the taxpayer

9 The Treasury, Bank of England and Asset Protection Agency continue to believe that the most likely scenario is that the taxpayer will not have to pay out significantly on its guarantees. Banks participating in the three largest support schemes continue to make progress towards an exit from the support schemes (**Figure 6**, **Figure 7** and **Figure 8**).

Figure 6

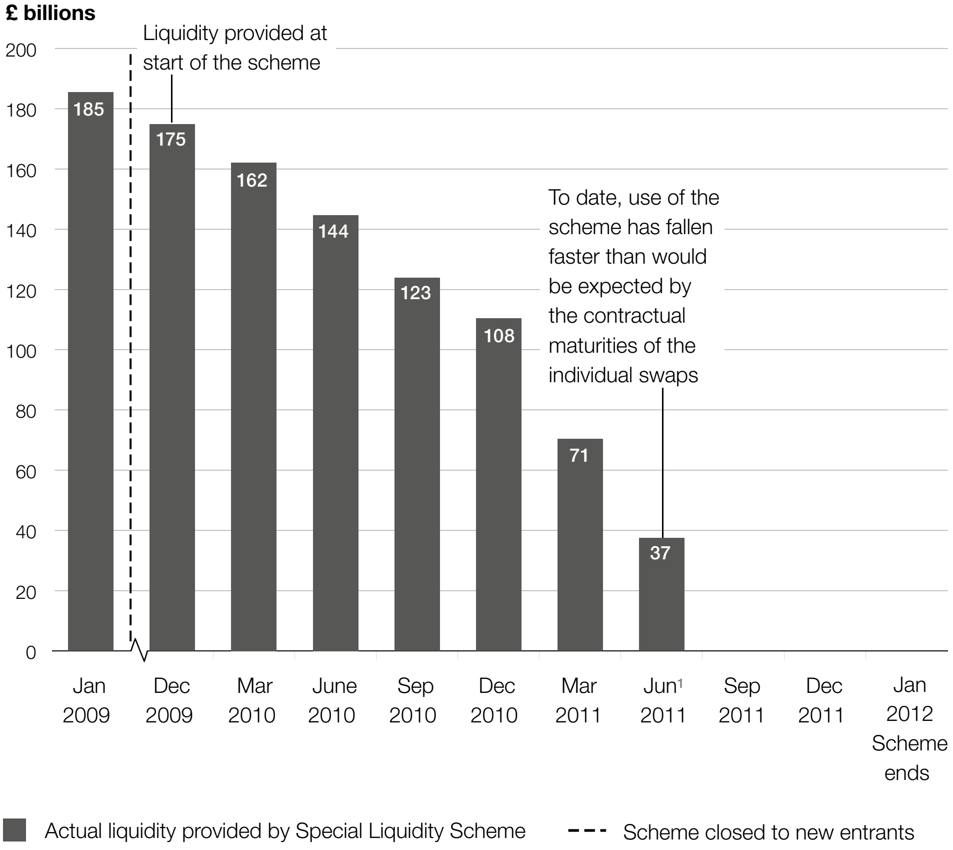
The Credit Guarantee Scheme



Source: HM Treasury

Figure 7

The Special Liquidity Scheme



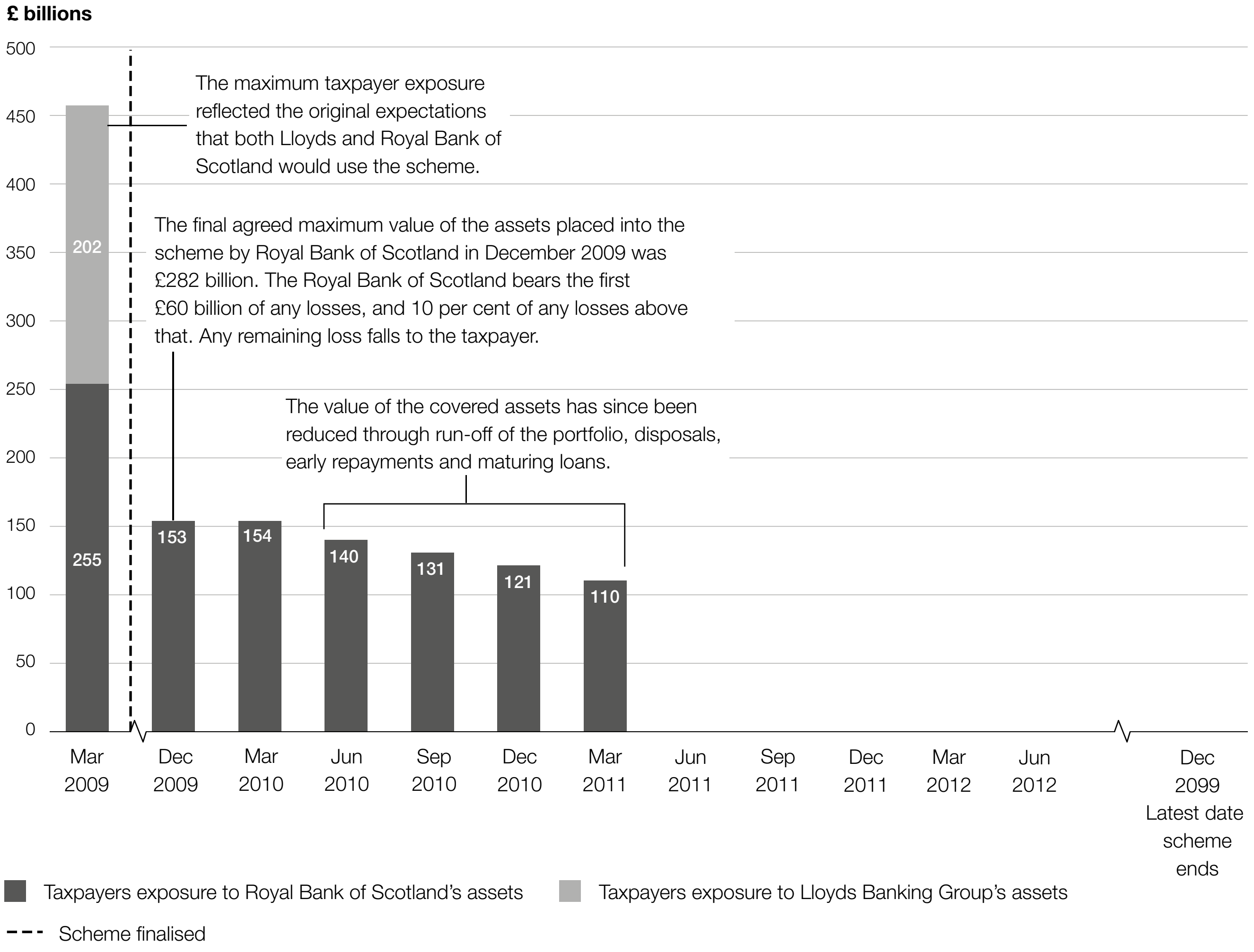
NOTE

[1] Figure quoted for June 2011 liquidity is stated as at the beginning of June 2011. All other figures stated at the end of the month.

Source: HM Treasury, Bank of England Quarterly Bulletin

10 The eventual direct cost or return to the taxpayer from the financial interventions is highly sensitive to the eventual proceeds from the disposal of the shareholdings in Royal Bank of Scotland and Lloyds Banking Group. As at 31 March 2011, the total fair value adjustment and impairment to the shares is £13.33 billion, which represents the cumulative fall in value of the taxpayer's portfolio. This excludes the dividend access share in the Royal Bank of Scotland (paragraph 25) that was purchased for 50 pence but had a fair value of £2.29 billion as at 31 March 2011.

Figure 8
The Asset Protection Scheme



Source: HM Treasury and Royal Bank of Scotland's published Accounts and Interim Management Statements

11 In June 2011 the Chancellor announced that a sales process for Northern Rock plc would begin. The Treasury injected £1.4 billion into the bank when it was split out from the remaining mortgage book on 1 January 2010. The Treasury has written down the book value of its equity by £212 million, reducing the book value to £1.19 billion (Treasury Resource Accounts, Note 15.1), reflecting losses made by the bank during 2010 (Treasury Resource Accounts, Note 15.2.6).

12 The Treasury has also impaired various loans made to support depositors in failed banks on the basis that the administrators for the failed institutions are uncertain that there will be available monies to pay the creditors in full. These impairments amount to £1.69 billion as at 31 March 2011. The Treasury has stated its intention to continue to pursue these loans in full.

13 Meanwhile, the Government bears a significant financing cost for the interventions, arising from the additional £124 billion Government borrowing needed to buy the shares and provide the loans. It is difficult to identify the exact financing cost as borrowing is not hypothecated to particular programmes. I estimate it to be in the range of £4 billion to £5 billion in 2010-11, to a cumulative total of £9 billion to £11 billion since January 2009.

14 To date, the financing cost has been offset by the income from fees and interest. However, this includes significant one-off items and the fees from the guarantees will reduce as the size of the guaranteed liabilities reduces. There may be future dividend income from the shares but Lloyds Banking Group and the Royal Bank of Scotland are prevented from paying a dividend until 2012, and any dividend after this depends on their performance. In future the Government is likely to bear a net financing cost until the shares are sold and loans repaid.

15 The financing cost is not represented in the Treasury's Resource Accounts because the costs of all Government borrowing are recorded separately in the National Loans Fund Accounts. Whilst government bodies previously recognised a notional cost of capital charge, based on their entire balance sheet, this has been removed in 2010-11 as explained in Note 3.2 to the Treasury's Resource Accounts.

Further disclosures in the accounts

16 Notes 29 to 39 of the Treasury's Resource Accounts set out the background to the financial interventions, including descriptions of each of the schemes and how individual institutions were supported.

17 Note 25 of the Treasury's Resource Accounts discusses some of the risks relating to the financial instruments. In addition to these risks, the eventual cost or return to the taxpayer is highly dependent on the price of the Royal Bank of Scotland and Lloyds Banking Group shares and the general performance of the mortgage books in the banks in receipt of the Treasury's loans.

Disclosure of the support schemes and guarantees

18 The Treasury, Bank of England and Asset Protection Agency continue to believe that the most likely scenario is that the taxpayer will not have to pay out significantly on its guarantees. The Credit Guarantee Scheme and the Asset Protection Scheme are therefore recognised in the Treasury's accounts, as a financial guarantee and a derivative respectively, at fair values substantially below the potential maximum payouts on the schemes. Nevertheless, Parliamentary reporting requires it to disclose the maximum potential losses to which the Exchequer could be exposed. This is set out in Note 27.2 of the Treasury's Resource Accounts, which includes further descriptions of the circumstances under which the Government would pay out on each of the support schemes and its other guarantees and indemnities provided to financial institutions.

19 The Asset Protection Scheme has been accounted for as a derivative similar to a synthetic Collateralised Debt Obligation because the Treasury believe that it transfers the credit risk, but not the ownership, of the covered assets from Royal Bank of Scotland to the Treasury (Treasury Resource Accounts, Note 2.3). The value shown in the accounts, a liability of £0.10 billion in Note 25.2 of Treasury's Accounts, is calculated using financial modelling techniques. This value represents the expected loss on the scheme, as computed by the model, after all fees charged (i.e. the average loss across the range of tested scenarios). The Treasury believes the most likely scenario is that there will be no payout on the scheme and that the fees will represent a positive return to the Exchequer. The March 2011 interim management statement from Royal Bank of Scotland shows a corresponding asset of £0.08 billion as at 31 March 2011.

20 The Credit Guarantee Scheme and **guarantees on the wholesale funding** for the wholly-owned banks have been accounted for as financial guarantees. The Treasury believes that the likelihood of the guarantees being called is remote, and that no payout will occur. This means that the size of the liability recognised is limited to the total fees expected to be received but not yet recognised in income. The discounted value of the fees gives a liability of £1.54 billion, of which £0.94 billion relates to the Credit Guarantee Scheme (Treasury Resource Accounts, Note 20.1.3).

21 In June 2011, the Treasury changed the terms of the Credit Guarantee Scheme to allow banks to repurchase debt guaranteed under the scheme for a fee. This is described in Note 42 of the Treasury's Resource Accounts.

22 Because some of the fees for the Credit Guarantee Scheme are paid in foreign currencies, the Treasury has entered into forward contracts to transfer the foreign exchange risk to the Exchange Equalisation Accounts. This hedging is described in Note 25.2 (ii) of the Treasury's Resource Accounts.

23 The Special Liquidity Scheme is shown only as a contingent liability in Note 27.1 of the Treasury's Resource Accounts. This scheme is operated by the Bank of England and is accounted for in the Bank's Accounts. The Treasury has indemnified the Bank against loss on the scheme.

Disclosure of the capital injected into banks

24 The shares in Royal Bank of Scotland and Lloyds Banking Group are set out in Note 15.1 of the Treasury's Resource Accounts. The fair value adjustments and impairments indicate that at the year-end, the ordinary and B shares were trading at a loss of £13.33 billion compared to the amounts paid. The fair value adjustments have fluctuated over the year.

25 The dividend access share in Royal Bank of Scotland is a single share that can only be held by the Government. It gives the Treasury the right to receive a greater dividend than the other shareholders. The cost of the dividend access share was 50 pence but its value was £2.29 billion as at 31 March 2011 (Treasury Resource Accounts, Note 15.1). The method used to value the dividend access share is described in Note 25.2 of Treasury's Resource Accounts. Royal Bank of Scotland is currently prevented from declaring a dividend until 2012 under the state aid agreement with the European Commission. The economic value of the dividend access share is highly dependent on the dividend strategy adopted by Royal Bank of Scotland's management after that date, and on the performance of the bank's share price.

26 The wholly-owned banks are recognised at cost less impairments. For Northern Rock (Asset Management) and Bradford & Bingley the cost was nil under the terms of the two transfer orders. The Treasury injected £1.4 billion equity into the new bank Northern Rock plc, whose planned return to private ownership is described in Note 42 of Treasury's Resource Accounts. This equity has been impaired by £212 million to reflect losses over the course of 2010 as shown in Note 15.1. Notes 15.2.6 and 15.2.7 show the summary balance sheets of the wholly-owned banks, which provide an indication of the value of the Government's equity in these companies. In aggregate, these banks have returned to profit over the course of 2010.

Disclosure of the loans

27 The loans to support deposits are shown in Note 17.1 of Treasury's Resource Accounts. Treasury provided funds to compensate former depositors in the insolvent firms (Bradford & Bingley, KSF, Heritable, London Scottish, Icesave and Dunfermline). The recovery of these amounts is being sought from two sources: the first £50,000 of each depositor's balance (the first £35,000 in the case of Bradford & Bingley) will be recovered from the Financial Services Compensation Scheme (FSCS), and the remainder (the statutory debt) directly from the firms (or their administrators). When further information on the size of individual deposits becomes available, amounts are transferred between these loan balances as shown in Note 17.1. This does not alter the total amount of support provided. However, interest is charged on the part recoverable from the FSCS but not on the statutory debt, so these transfers influence the total income that the Treasury will receive. The impairments represent uncertainty over their recoverability.

28 For **Icesave**, which was the UK branch of the Icelandic bank Landsbanki, the Treasury provided some £4.50 billion for UK depositors when Landsbanki went into administration. The Treasury is pursuing recovery from three sources:

- Note 2.6 to the Treasury's Resource Accounts highlights that the Treasury is seeking the recovery of the first £2.27 billion, relating to payments of up to €20,887 per depositor, from the Icelandic Depositors' and Investors' Guarantee Fund (DIGF), as DIGF has an obligation to make compensation payments for the first €20,887 of each depositor's loss. However, in an April 2011 referendum, the Icelandic people rejected a repayment agreement for DIGF. The European Free Trade Association (EFTA) Surveillance Authority has intervened with a likely referral to the EFTA Court. The Treasury currently expect to recover the entire £2.27 billion from DIGF on the basis that the administrators of Landsbanki will recover a significant proportion of this amount during the administration process. They also expect that the EFTA Court ruling will ensure that any shortfall between £2.27 billion and any amounts recovered from the administrators will be met from the Icelandic authorities. Following relevant accounting rules, the £2.27 billion is shown at its net present value of £1.95 billion in Note 17.1 of the Treasury's Resource Accounts. The Treasury is also seeking to recover interest on this loan from the authorities but, because there is uncertainty over the timing and amount of the interest that will be recovered, interest is not recognised in these Resource Accounts following accounting rules.
- The Treasury is also seeking to recover £1.44 billion from the FSCS, representing the difference between the €20,887 and the then FSCS threshold of £50,000 for eligible depositors. In turn, the FSCS is seeking to recover this amount from the administrators of Landsbanki with any shortfall between what they do recover and the amount owing to the Treasury being made good through levying the UK financial services sector, as it intends to do for the other banks in administration.
- The Treasury also compensated depositors for amounts above the £50,000 threshold and is seeking to recover some £0.79 billion from the administrators of Landsbanki.

29 **The subsidy on the loans** is indicated by Note 25.2 (iv) of the Treasury's Resource Accounts. This note shows a difference of £6.88 billion between the £54.85 billion book value of the financial stability loans (at amortised cost) and the estimated £47.97 billion cost of the borrowing needed to fund the loans at current rates of interest (calculated as the present value of the loans discounted using gilt rates). This represents an estimate of the difference between the present value of the loans if held to term by the Government and the amount that the Government will pay to service the borrowing used to fund the loans. In addition to this £6.88 billion, amortisation of £348 million has been charged to reflect the provision of the statutory debt loans at a nil interest rate. Together, the total £7.23 billion is an indication of the future direct cost to the taxpayer of the subsidy arising from providing the loans at an interest rate below the Government's borrowing cost. In addition to this, there is a further subsidy because a commercial rate would be significantly higher than the Government's cost of borrowing.

30 £6.72 billion (98 per cent) of the £6.88 billion subsidy relates to Northern Rock (Asset Management) and Bradford & Bingley, which are wholly-owned by the Treasury. I used a similar method, but with different assumptions for the Government's cost of borrowing and using market forward rates, in my report *Stewardship of the wholly-owned banks: buy-back of subordinated debt* (HC 706 2010-11). This generated an estimate of the subsidy to Northern Rock (Asset Management) and Bradford & Bingley with a range of £1.83 billion to £6.7 billion.

31 The subsidy to Northern Rock (Asset Management) and Bradford & Bingley is designed to allow them to continue to meet their obligations as they fall due and thus facilitate their orderly wind-down. Any profits generated by these institutions as a result of the subsidy, after paying their other creditors and investors, will eventually be returned to the Exchequer. In the meantime, as the subsidy allows other creditors to be repaid, the Treasury is providing an increasing share of these institutions' funding and carrying an increasing share of their risk.

Disclosure of the fees and income from the interventions

32 **The income from the financial interventions** is disaggregated into separate elements and distributed between Notes 10.1, 10.2, 20.1.3 and 25.3 of the Treasury's Resource Accounts. Note 10 shows the income recognised in year on the Statement of Comprehensive Net Expenditure. Note 20.1.3 shows the liability recognised under the Credit Guarantee Scheme (paragraph 20 above). Note 25.3 explains that the fees on the Asset Protection Scheme are included in the calculation of the fair value of the derivative (paragraph 19 above).

Disclosure of other large interventions

33 The terms of the United Kingdom's £3.2 billion **bilateral loan to Ireland** are described in Note 38.1 to the Treasury's Resource Accounts. Payments of tranches of this loan are not due to commence until 2011-12.

34 The other large item on the Treasury's balance sheet is a derivative asset of £10.5 billion representing the Treasury's expected profit from **the Bank of England's Asset Purchase Facility Fund (BEAPFF)**, also known as Quantitative Easing.
As described in Note 25.2 of the Treasury's Resouce Accounts, this is a Bank of England scheme, under which the Bank purchased £200 billion of assets, mainly Government gilts, which will eventually be sold back to the market. The Treasury has indemnified the Bank against losses on this scheme, and will receive any profit when the assets are sold. The asset in the Treasury's Resource Accounts represents the profit the Treasury would have received had the Bank sold the assets at market prices on 31 March 2011. In practice, it may be difficult to sell all the assets at once, without affecting the market price.

Other interventions not in these accounts

35 In addition to the interventions described above, there are other financial stability interventions, that the Exchequer guarantees, which are not accounted for in the Treasury's Resource Accounts.

36 The International Monetary Fund (IMF) has lent to various countries including Greece, Ireland and Portugal. The UK is a major shareholder in the IMF and pays its share of the IMF's funding through the National Loans Fund (NLF) accounts. The IMF lends some of this funding back to the NLF, leaving the UK with an asset representing the cumulative net funding provided. This asset was valued at £3.3 billion as at 31 March 2011, of which a net £1.2 billion was paid during 2010-11. In addition to this funding, the UK provided the IMF with a bilateral loan facility of up to £9.8 billion, of which £1.1 billion had been drawn down as at 31 March 2011.

37 In 2010, EU Finance Ministers established the European Stabilisation Mechanism with the power to lend up to €60 billion, and Eurozone Finance Ministers established the Financial Stability Facility, initially of €250 billion, subsequently increased to €440 billion. The UK currently contributes to the Mechanism but not the Facility, although the UK Government has said that the UK will not contribute to the successor to the Mechanism after 2013. The Mechanism is secured on EU budget contributions, and liability to the UK will only crystallise if loan recipients default. Had the Mechanism lent the full €60 billion, it is estimated that the UK's exposure would have been some €8.5 billion as at 31 March 2011. The actual lending by the Mechanism as at 31 March 2011 is €8.4 billion, all to Ireland, and as a result, the UK's actual exposure to the Mechanism as at 31 March 2011 is some £1 billion. Through the Mechanism, a further €14.1 billion is available to Ireland and some €26.0 billion to Portugal. The UK's commitments under the Mechanism are noted in the Consolidated Fund Accounts.

Other significant items in these accounts

38 The Treasury has made provision for future payments of £1.49 billion, to compensate policy holders in the Equitable Life insurance company for losses experienced due to the failure of regulation (Treasury Resource Accounts, Note 21.3.1).

Amyas C E Morse
Comptroller and Auditor General

13 July 2011

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

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