

Additional information provided to the Treasury Committee by the Bank of England

Tuesday 24 November 2009

In exceptional circumstances, as part of its central banking functions, the Bank acts as 'lender of last resort' to financial institutions in difficulty in order to prevent a loss of confidence spreading through the financial system as a whole. Accordingly, the Bank extended Emergency Liquidity Assistance (ELA) to two institutions, RBS and HBOS, in the Autumn of 2008.

In most cases, confidence can best be sustained if the Bank's support is disclosed only when the conditions that gave rise to potentially systemic disturbance have improved to a point where the disclosure itself should not be a cause of such disturbance. Having carefully weighed the public interest case for disclosure against the potential systemic consequences, the Bank decided to use its powers to limit the extent of disclosure in its financial statements in the 2009 Annual Report. However, as stated in the Bank's Annual Report 2009, it is the policy of the Bank that such assistance should be disclosed once the Bank considers that the need for secrecy has ceased.

Now that RBS has signed up for the Asset Protection Scheme and Lloyds Banking Group has embarked on its alternative strategy for capital raising, the Bank judges that there is no longer a need for the assistance to remain secret and that it is now appropriate to disclose details relating to the ELA provided to RBS and HBOS last autumn.

From 1 October 2008 the Bank provided ELA to HBOS and from 7 October also provided ELA to RBS. The RBS facility was repaid by 16 December 2008, and the HBOS facility by 16 January 2009.

Use of the facilities peaked at £36.6bn for RBS (on 17 October) and at £25.4bn for HBOS (on 13 November). Total use of ELA across both banks peaked at £61.6bn on 17 October. At this point the two banks provided the Bank with collateral (residential mortgages, personal and commercial loans and UK government issued debt) with a total value in excess of £100bn. The banks were charged fees for the use of the facilities.

In addition, both institutions had access to the Bank's normal market operations and to other facilities including the Special Liquidity Scheme. From 13 October both institutions were also eligible to issue securities under the Credit Guarantee Scheme.