



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

23 November 2009

The Rt Hon John McFall MP
Chairman
Treasury Select Committee
House of Commons
London SW1A 0AA

Dear John

Treasury Indemnity

The Governor is writing to you today to set out how, in exceptional circumstances, the Bank of England extended Emergency Liquidity Assistance (ELA) to RBS and HBOS in the autumn of 2008.

I am writing to inform you that the Treasury granted the Bank an indemnity in October 2008. This indemnified the Bank on a net basis against losses that it might suffer or incur in connection with the Bank's commitment to ensure that the banking system had sufficient access to liquidity, including this ELA. The indemnity was granted due to the size of the operations, and considered in the context of the existing demands on the Bank's balance sheet at that time. It was not related to any perception of any increased risk associated with lending to the banks.

The indemnity was provided initially for a period of two months. The Bank paid an indemnity fee of 170bps to the Treasury.

The Bank's assessment at that time was that it was vital that their ELA operations remained confidential, and that any disclosure or leak of the operations would seriously jeopardise the financial stability of the system as a whole. I shared this assessment. I also judged that the risk to public resources was low given the quality of the collateral received by the Bank. Having carefully considered the case for disclosure of the indemnity, I decided that the risks associated with any disclosure at that point would not be in the public interest.

As the Governor has noted, the Bank no longer considers it necessary for the assistance to remain confidential. I also share that judgement. Market conditions have improved considerably, and the disclosure by Lloyds Banking Group in their recent prospectus of the current aggregate amount of support it has



received from the Authorities was not destabilising to the markets. In the light of those developments, I now consider that the balance of the public interest is in disclosure.

Yours sincerely

Adh

ALISTAIR DARLING