United Kingdom
Debt
Management
Office

HM TREASURY

MARKET NOTICE: THE UK GOVERNMENT'S 2008 CREDIT GUARANTEE SCHEME

1 The UK Government's 2008 Credit Guarantee Scheme for UK incorporated banks and building societies debt issuance will operate as set out below.

Purposes of the Scheme

2 The Scheme forms part of the Government's measures announced on 8 October 2008, to ensure the stability of the financial system and to protect ordinary savers, depositors, businesses and borrowers.

3 In summary these measures are intended to:

- provide sufficient liquidity in the short term;
- make available new capital to UK banks and building societies to strengthen their resources, permitting them to restructure their finances, while maintaining their support for the real economy; and
- ensure that the banking system has the funds necessary to maintain lending in the medium term.

Access to the Guarantee Scheme

4 UK incorporated banks (including UK subsidiaries of foreign institutions) that have a substantial business in the UK and UK building societies, are eligible to participate in the Scheme. Any other UK incorporated bank (including UK subsidiaries of foreign institutions) may apply for inclusion. In reviewing these applications, the Government will give due regard to an institution's role in the UK banking system and in the overall economy.

5 Within a banking group, only a single entity may participate in the Scheme. This will typically be the primary UK deposit-taker, subject to any exemptions granted by HM Treasury. Debt issued by other entities within the group will not be eligible to be guaranteed under the Scheme, unless agreed by HM Treasury.

6 In order to be eligible to participate in the Scheme, an institution must have raised, or committed to raise within the required timeframe, Tier 1 capital in the amount and in the form

the Government considers appropriate, whether by Government subscription or from other sources. (Please refer to the Rules document for the requirements that need to be met before an application can be made). For a list of current eligible institutions please visit HM Treasury website www.hm-treasury.gov.uk which will be updated as appropriate.

7 The scale of each participating institution's access to the Scheme will be based, at the discretion of HM Treasury, on an institution's sterling Eligible Liabilities as calculated by the Bank of England. Please go to the Bank of England website www.bankofengland.co.uk for further information on Eligible Liabilities.[1]

Guarantee

8 The guarantee will be provided by HM Treasury in relation to eligible instruments by the relevant institution. It is unconditional, irrevocable and ensures timely payment. The Deed of Guarantee is available to be viewed at www.dmo.gov.uk.

Period during which guarantees will be issued

9 The Government will guarantee specified bank and building society debt instruments issued during a six-month period (the "Issuance Period") from the date of this Market Notice, subject to any extension at the discretion of HM Treasury.

Fee

10 The fee payable to HM Treasury on guaranteed issues will be based on a per annum rate of 50 basis points plus 100% of the institution's median five-year Credit Default Swap (CDS) spread during the twelve months to 7 October 2008, as determined by HM Treasury. This fee will be applied to the principal amount of an interest bearing debt instrument and in the case of non-interest bearing debt instrument to the gross proceeds of issue of debt instruments. HM Treasury may apply its own estimate of an appropriate CDS spread if public data is unavailable. In addition, HM Treasury may charge an incremental fee to any guarantee being applied to non-sterling denominated issuance.

11 The fee is payable three-monthly in arrears and/or on maturity from the earlier of the third business day after the date of the guarantee certificate and the date of the guaranteed debt issuance. The fee may be varied at HM Treasury's discretion.

Instruments guaranteed

[1] Eligible Liabilities comprise, in broad terms, sterling deposit liabilities, excluding deposits with an original maturity of over two years, plus any sterling resources obtained by switching foreign currencies into sterling. Interbank transactions (excluding cash ratio and special deposits with the Bank of England) are taken into the calculation of an individual institution's eligible liabilities on a net basis, irrespective of term, except for unsubordinated capital market instruments with a maturity of five years or more (more than five years from 1992) which are not taken into account. Adjustments are also made in respect of transit items and liabilities and claims under sale and repurchase agreements

12 Instruments eligible to be guaranteed are Certificates of Deposit (CDs); Commercial Paper (CP); and senior unsecured bonds and notes. The guarantee may be applied to stand-alone debt securities or to instruments issued off programmes, and to plain vanilla, non-complex instruments only, in each case approved by HM Treasury at its sole discretion.

13 Instruments must be denominated in sterling, euro or US dollars.

Term of guaranteed instruments

14 The term of the instruments guaranteed under the Scheme must be no longer than three years.

15 Within that period of three years, rollovers of guaranteed instruments maturing after the end of the Issuance Period are permitted under programmes, subject to the total guaranteed amount not increasing and rollovers being continuous with a maturity date not going beyond 13 April 2012.

16 The issuer may not trigger early redemption, either in full or in part, ahead of the scheduled maturity date of the instrument guaranteed under the Scheme.

17 The guarantee will terminate at midnight on 13 April 2012, unless extended at the discretion of HM Treasury.

Risk weighting in FSA regulatory capital requirements

18 The Financial Services Authority has deemed that, under the Standardized Approach, guaranteed securities would qualify for zero risk weighting for capital adequacy purposes. For further information on capital adequacy please visit www.fsa.gov.uk.

Eligibility of guaranteed instruments as collateral in the Bank of England's extended-collateral operations

19 The Bank of England has confirmed that instruments that are guaranteed under this Scheme will be eligible to be delivered as collateral in all its extended-collateral operations, so long as the guarantee applies. The haircuts applying to these securities are being published by the Bank today in a Market Notice available at www.bankofengland.co.uk.

Application process

20 Eligible institutions are required to use the proforma application form available on the UK Debt Management Office (DMO) website. This will need to be completed, signed and returned to the DMO.

21 In its notice of 8 October, HM Treasury named the following institutions as initially eligible to issue guaranteed debt under the Scheme: Abbey; Barclays; HBOS; HSBC Bank

plc; Lloyds TSB; Nationwide Building Society; Royal Bank of Scotland, and Standard Chartered. Further institutions may be added at the discretion of the Government provided they meet the eligibility criteria specified above.

22 The precise legal entity from each of those groups participating in the Scheme, and the instruments guaranteed, will be announced as appropriate on the DMO website (www.dmo.gov.uk).

23 Applicants will be encouraged to keep the DMO informed of any plans to utilise the Scheme in a timely manner. Typically, applications received by the DMO before 10:00am on any UK business day will, providing that they are complete and meet the necessary criteria, be approved on the same day. Those received after 10:00am will typically be approved on the following business day.

24 Enquiries on the application process may be made between 8:00am and 5:00pm on any UK business day to the DMO's dealing team on 0845 357 6517/6518.

Published information

26 HM Treasury's Deed of Guarantee and the Rules of the Scheme are available at www.dmo.gov.uk

27 A list of public instruments guaranteed under the Scheme, identified by their International Securities Identification Number (ISIN), will also be made available at www.dmo.gov.uk.

28 Media enquiries should be addressed to HM Treasury Press Office on 020 7270 5238 and the DMO on 0845 357 6501.

UK Debt Management Office

HM Treasury

13 October 2008