Erhvervs-, Vækst- og Eksportudvalget 2012-13
ERU alm. del , endeligt svar på spørgsmål 91
Offentligt

19 January 2009 Strictly private and confidential

Project Horizon

UK Government package 19 January 2009

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UK Government package 19 January 2009

Overview

The UK Government announced on 19 January a package "designed to reinforce the stability of the financial system, to increase confidence and capacity to lend, and in turn to support the recovery of the economy"

Guarantee scheme for asset backed securities (CGS extension)

- The UK Government announced a new guarantee scheme for asset backed securities Intended to Improve banks' access to wholesale funding markets, help support lending, and promote "robust and sustainable markets over the longer-term"
- The UK Government will provide full or partial guarantees to be attached to eligible triple-A rated asset-backed securities, including mortgages and corporate and consumer debt - only transparent structures and high quality assets are eligible
- Banks accessing the scheme to follow international standards and best practice on underwriting, disclosure, reporting and valuation
- The scheme will commence in April 2009, subject to state aid approval
- Further details will be announced by the DMO in due course

Bank of England asset purchase facility

- The Bank of England will set up an asset purchase programme implemented through a specially created fund
- The Bank will be authorised by the UK Treasury to purchase high quality private sector assets, including paper issued under the CGS, corporate bonds, commercial paper, syndicated loans and a limited range of asset backed securities created in viable securitisation structures
- The Treasury will authorise initial purchases of up to £50 billion, financed by the issue of Treasury bills
- Given the scale of the programme, the Bank will be indemnified by the Treasury
- This programme will come into effect from 2-Feb-09
- The programme also provides a framework for the Monetary Policy Committee of the Bank of England to use asset purchases for monetary policy purposes should the MPC conclude that this would be a useful additional tool for meeting the inflation target
- Further details of the arrangements for the Asset Purchase Facility will be set out in an exchange of letters between the Chancellor and Governor before the end of January

Share price reactions

Bank	Share price (p)		
	16-Jan-09 (closing price)	19-Jan-09 (closing price)	% change
HSBC	535.75	501.00	(6.5%)
RBS[1]	34.70	11.60	(66.6%)
Standard Chartered	768.00	706.00	(8.1%)
Barclays	98.00	88.00	(10.2%)
Lloyds TSB	98.40	65.00	(33.9%)

Notes

1 RBS announced 19 January that it expects a 2008 full year loss of between £7 - £8bn, and would issue £5bn of ordinary shares to the UK Government to replace the £5bn of preference shares held by the UK Government in addition to £5bn ordinary shares being offered to existing shareholders at 31 75p

UK Government package 19 January 2009

Overview (cont'd)

Capital and asset protection scheme

- Essentially an insurance scheme to protect participating institutions against further losses such that they can free up capital to support lending
- Offers protection against future credit losses on defined assets to the extent that credit losses exceed a "first loss" borne by the institution
- Institutions required to retain further residual exposure above "first loss", expected to be 10% to give an incentive to keep losses to a minimum
- Fee (level to be confirmed) to be satisfied by issue of capital instruments of the participating institution; instruments not expected to include ordinary shares
- Protection initially offered to UK incorporated authorised deposit-takers with >£25bn of eligible assets before considering extending the scheme
- Eligible institutions must satisfy Treasury criteria that they are adequately funded; have a sustainable business model; funding profile broad-based and sustainable and senior management team credible
- Eligible assets to be determined on a case-by-case basis but may include: commercial and residential property loans most effected by the current economic crisis; structured credit assets; certain corporate/leveraged loans and closely related hedges as at 31-Dec-08
- Assets will continue to be managed by the institution but must be "ring fenced"; duration of assets in scheme not expected to be < 5 years

Credit guarantee scheme

- Extended drawdown window of the existing guarantee scheme for bank debt issuance from 9-April-09 to 31-Dec-09; all other aspects of the scheme to remain the same

Liquidity facilities

- Upon closure of Special Liquidity Scheme to banks on 30-Jan-09 (remaining operational for 3yrs thereafter) the Bank will extend its Discount Window Facility with its maturity increasing from 30 days to 1 year for an Incremental fee of 25bps to allow banks to continue to have access to long-term liquidity on demand

FSA clarification on capital regulation

- To address any potential uncertainty and to mitigate unintended pro-cyclical effects the FSA published further clarification about its expectations of bank capital ratios:
  - "We are operating on the basis that we are expecting each of the participating banks to have a minimum core tier 1 of 4%. At the time of the recapitalization we also used a tier 1 ratio of 8% to help us determine the appropriate level of buffer. We estimate 6-7% to be a comparable post stress tier 1 number to the core tier 1 number of 4%"

Britt Seelhorst (DEP)

Fra: Mustonen, Olli [Olli.Mustonen@Rothschild.co.uk]
Sendt: 21. januar 2009 23:17
Til: Michael Dithmer (DEP); Lotte Aakjær Jensen (DEP); Peter Brixen
Emne: Market update

Dear all

Please find attached market update for 21 Jan 2009.
<<20090121_Market_update.pdf>>
Please let me know if you find this useful, and do also let me know if you would rather not receive these in order to reduce your email inflow.

Kind regards and many thanks

Olli Mustonen

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21 January 2009 Strictly private and confidential

Project Horizon: market update

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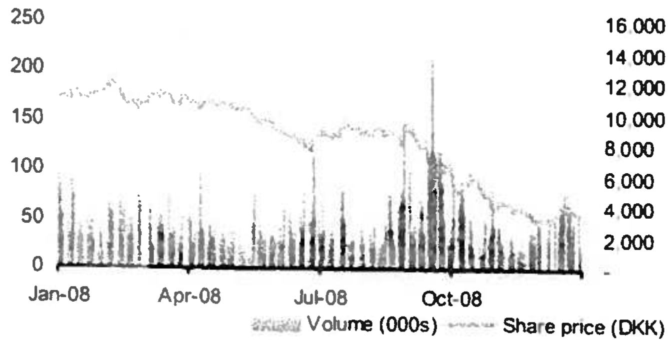
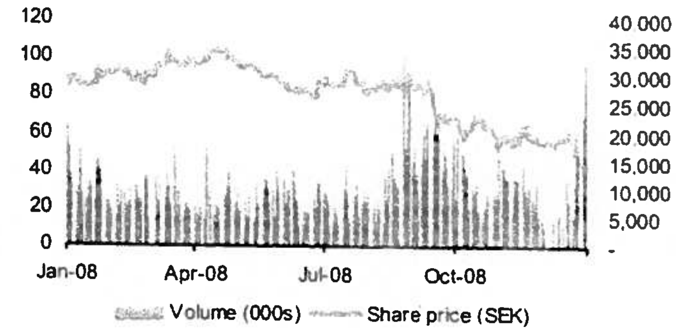
Group 1 banks: LTM share price performance and volume analysis

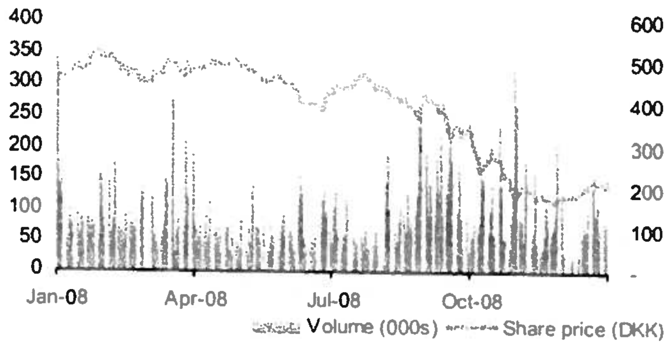
Danske Bank – (68.1%) LTM



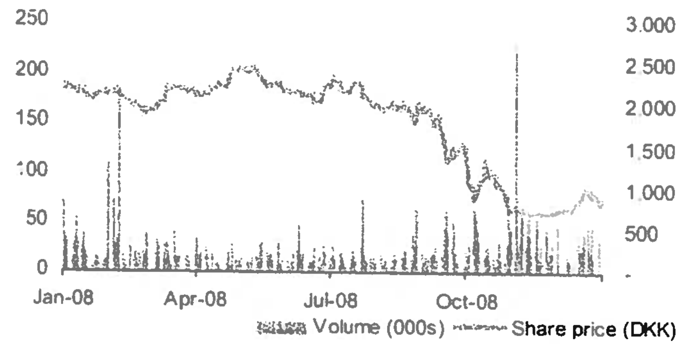
Nordea – (50.0%) LTM



Jyske Bank – (53.1%) LTM



Sydbank – (61.1%)



Market update

Group 1 and 2 listed banks

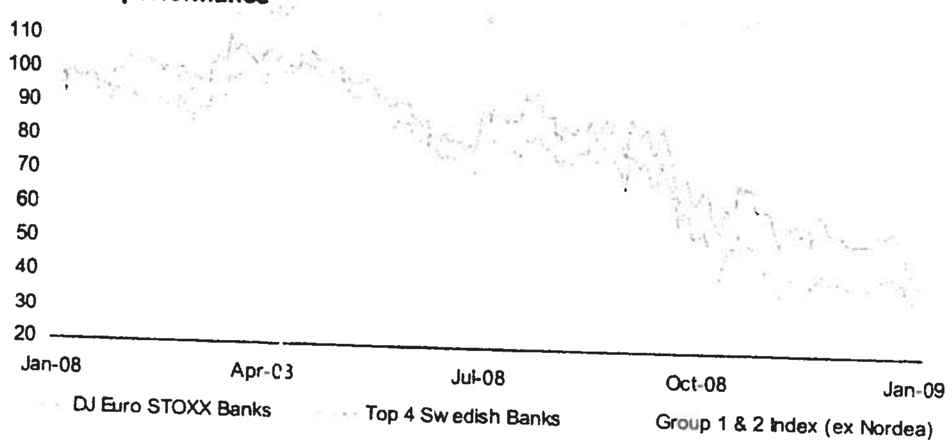
Share price performance

	Danske	Nordea	Jyske Bank	Sydbank	Spar Nord	Alm. Brand	Ringkjøbing LBB	Vestjysk	Fionia	Amagerbanken	Sparbank
1 day	(0.5%)	7.8%	6.5%	5.3%	(2.1%)	(0.6%)	(5.6%)	2.9%	23.7%	(2.9%)	(5.7%)
1 week	(10.5%)	(11.8%)	3.5%	(3.9%)	3.3%	5.3%	(3.1%)	(6.7%)	(22.2%)	(22.7%)	(11.4%)
1 month	10.5%	(19.9%)	23.5%	17.9%	9.2%	23.4%	11.9%	59.1%	84.2%	107.3%	(5.0%)
3 months	(48.8%)	(36.7%)	(38.8%)	(43.0%)	(30.1%)	(28.8%)	(40.0%)	(46.2%)	(47.0%)	(63.8%)	(62.8%)
6 months	(60.3%)	(50.3%)	(49.7%)	(60.9%)	(37.9%)	(60.1%)	(45.6%)	(57.6%)	(60.2%)	(75.4%)	(65.3%)
LTM	(68.1%)	(50.0%)	(53.1%)	(61.1%)	(48.4%)	(68.1%)	(48.4%)	(64.6%)	(72.0%)	(80.4%)	(74.1%)
Market cap (DKKm)	38,784	73,864	7,452	4,742	2,768	1,467	1,761	850	513	388	422

Index performance

	DJ Euro STOXX Banks	Top 4 Swedish Banks	Group 1 & 2 Index (ex Nordea)
1 day	0.7%	6.6%	0.9%
1 week	(14.9%)	(11.0%)	(7.4%)
1 month	(18.3%)	(21.2%)	14.6%
3 months	(41.6%)	(39.4%)	(45.9%)
6 months	(58.7%)	(54.2%)	(58.4%)
LTM	(67.3%)	(58.6%)	(66.8%)

Relative performance



Source Factset 21/01/2009

Market update

News

Børsen, 21 Jan 2009

The Danish rescue package for the financial sector does not violate any EU regulations. This is the conclusion of a memo from financial authority Finanstilsynet. The Danish plans for the state to provide hybrid core capital is in accordance with regulations that come into effect in 2010 but the regulations can be applied in advance according to the EU directive...

Danish pension funds will be able to provide capital for the bank rescue package "Bankpakke II" on the terms as the state. This means that the pension funds will get an interest of 9-12% depending on the risk. PFA Pension and Nordea Liv & Pension both consider to participate with capital for the rescue package. Industriens Pension has not decided whether to participate but does not rule out that it will do so.

Nyhetsbyrån Direkt, 21 Jan 2009

S&P will not change the credit ratings of the rated Danish banks following the bank package. On the other hand, Moody's repeated their negative outlook for the Danish banking sector and said that although the scheme is a positive development, it is not likely that there will be any ratings upgrades as a result.

Berlingske Tidende, 20 Jan 2009, online

Danish pension companies ATP and PFA are interested in the possibility to contribute with financing for the bank sector rescue package. ATP's MD Lars Rohde says that the company will participate if the conditions are right and that this is something that the company will consider when the situation arises. PFA's Henrik Heideby is also positive, provided that the returns are reasonable… It will be possible for private investors to contribute with money for the rescue package but the terms are not yet known.

Market update

Broker comments

Kaupthing, 21 Jan 09 (re Danske, potential Danske + SEB merger and the bank package)

"Positive share price triggers for Danske Bank… Second bank package provides longer-term state guaranteed hybrid capital at around a 9% interest rate for Danske. DKK 20bn in new hybrid capital will boost Tier 1 ratio to 12%, as is new requirement… Second bank package also offers state guaranteed funding until 2013…

2nd bank package to ease risk of escalating crisis… It includes a three-year prolonged state-guaranteed funding facility and a hybrid capital offering. The prolonged funding facility will cost the banks a provision fee to the state of maximum 90bps in risk premium to the state. The Danish banks can also apply for hybrid capital of up to either 15%, 35% or 50% of total tier 1 capital, but with different requirements attached. We expect Danske Bank will apply for hybrid capital of up to 35%, which equals hybrid capital at end-2008 of up to DKK 30bn.

However, we estimate that Danske Bank only DKK 25bn to fulfil the new tier 1 capital requirement of 12%, as we expect it to show a tier 1 ratio of 9.5% end 2008. The capital costs for Danske Bank will likely be 9% and thus reduce NII by DKK 0.5-1.0bn assuming a margin loss of 2-4 percentage points. We have not included a capital increase and related NII impact in our forecasts. We also note that due to the silence period Danske Bank has not commented on any kind of content in this report including their potential interest or need for new capital. The good news is that Danske Bank shareholders will not get diluted by state ownership. For that to happen, Danske Bank's tier 1 ratio ex hybrid capital would need to drop below 7.8% vs. 8.85% at 3Q08."

27 January 2009 Strictly private and confidential

DRAFT FOR DISCUSSION AND FURTHER INPUT

Project Horizon

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1. Timetable

[DRAFT]

1.1 Outline timetable for discussion

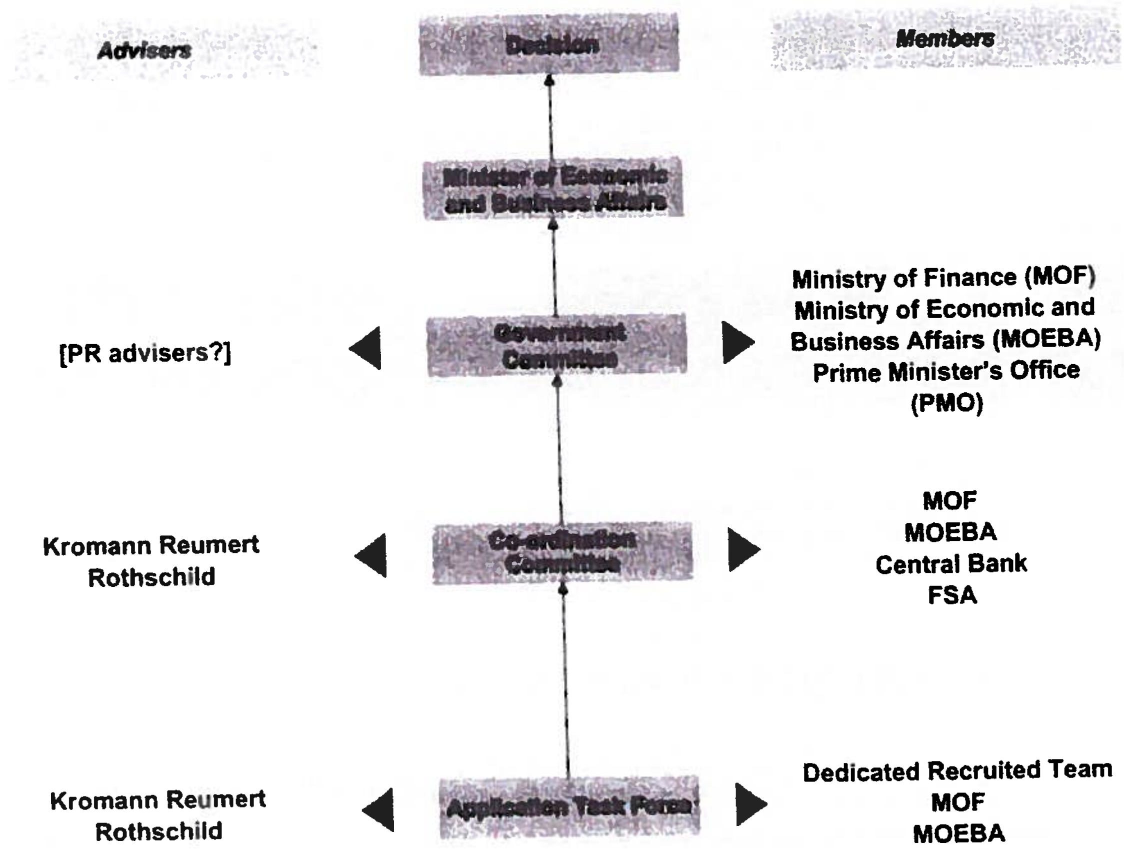
Timeline - working draft

	27/01 Tue	28/01 Wed	29/01 Thu	30/01 Fri	31/01 Sat	01/02 Sun	02/02 Mon	03/02 Tue	04/02 Wed	05/02 Thu
Meetings		11:00-13:00 Core working group (For Actions see below)	12:00 Second reading	10:30-12:00, 15:00-16:00 Core working group meeting with Michael Dithmer			[12:00] Third reading	[TBC] Approval		
Actions		1. Agree consolidated term sheet 2. Agree pricing policy 3. Agree structure and content for applications								1. Launch of online application facility, opening of application helpline 2. Opening of PR and press helpline

2. Decision-making and reporting lines

[DRAFT]

2.1 Overview



2. Decision making and reporting lines

[DRAFT]

2.2 Government Committee

Government Committee

Composition	- MOF - MOEBA - PMO
Key tasks	- To agree on a recommendation to the Minister of Economic and Business Affairs

Advisers

[PR advisers?]
- [ ]

Key individuals and respective responsibilities of the Government Committee

MOF

Key individuals
- Peter Brixen, Deputy Permanent Secretary
- Anders Kragsnæs Balling, Head of Division

Responsibilities
- [To be agreed]

MOEBA

Key individuals
- Michael Dithmer, Permanent Secretary
- [Ulrik Nødgaard's successor], Deputy Permanent Secretary
- Jesper Olesen, Deputy Permanent Secretary
- Lotta Aakjær Jensen, Head of Division

Responsibilities
- [To be agreed]

PMO

Key individuals
- [To be agreed]

Responsibilities
- [To be agreed]

Government Committee to meet [each week]

2. Decision making and reporting lines

[DRAFT]

2.3 Co-ordination Committee

Co-ordination committee

Composition
- MOF
- MOEBA
- Central Bank
- FSA

Key tasks
- Review applications and put forward recommendations regarding individual cases

Advisers

Kromann Reumert

Key individuals
- Ian Tokley, Partner
- Kim Rasmussen, Partner

Responsibilities
- [Advice on legal issues]

Rothschild

Key individuals
- Ben Davey, Managing Director
- James Vaux, Managing Director
- Nigel Himsworth, Managing Director
- Henrik Ljungberg, Director

Responsibilities
- [Advice on financial issues]

Key individuals and respective responsibilities of the Co-ordination Committee

MOF

Key individuals
- Peter Brixen, Deputy Permanent Secretary
- Anders Kragsnæs Balling, Head of Division

Responsibilities
- [To be agreed]

MOEBA

Key individuals
- [Ulrik Nødgaard's successor], Deputy Permanent Secretary
- Jesper Olesen, Deputy Permanent Secretary
- Lotta Aakjær Jensen, Head of Division

Responsibilities
- [To be agreed]

Central Bank

Key individuals
- Anders Møller Christensen, Assistant Governor, Head of Finacial Market

Responsibilities
- [To be agreed]

FSA

Key individuals
- Kristian Vie Madsen, Director
- [Peter Sylvest Larsen, Assistant Director]
- [Morten Harpøpth Johansen, Assistant Director]

Responsibilities
- [To be agreed]

Co-ordination Committee to meet [x times a week], and formulate recommendations ahead of the Government Committee meetings

2. Decision making and reporting lines

[DRAFT]

2.4 Application Task Force

Government Committee

Composition	- MOF - MOEBA - PMO
Key tasks	- To agree on a recommendation to the Minister of Economic and Business Affairs

Advisers

Kromann Reumert

Key individuals

- [To be agreed]

Responsibilities

- [Advice on legal issues]

Rothschild

Key individuals

- Henrik Ljungberg, Director
- Peter Nicklin, Assistant Director
- Renato di Monta, Assistant Director
- Olli Mustonen, Executive

Responsibilities

- [Advice on financial issues]

Key individuals and respective responsibilities of the Government Committee

MOF

Key individuals

- [ ]
- [ ]

Responsibilities

- [To be agreed]

MOEBA

Key individuals

- Lotta Aakjær Jensen, Head of Division

Responsibilities

- [To be agreed]

Dedicated recruited team

Key individuals

- [To be agreed]

Responsibilities

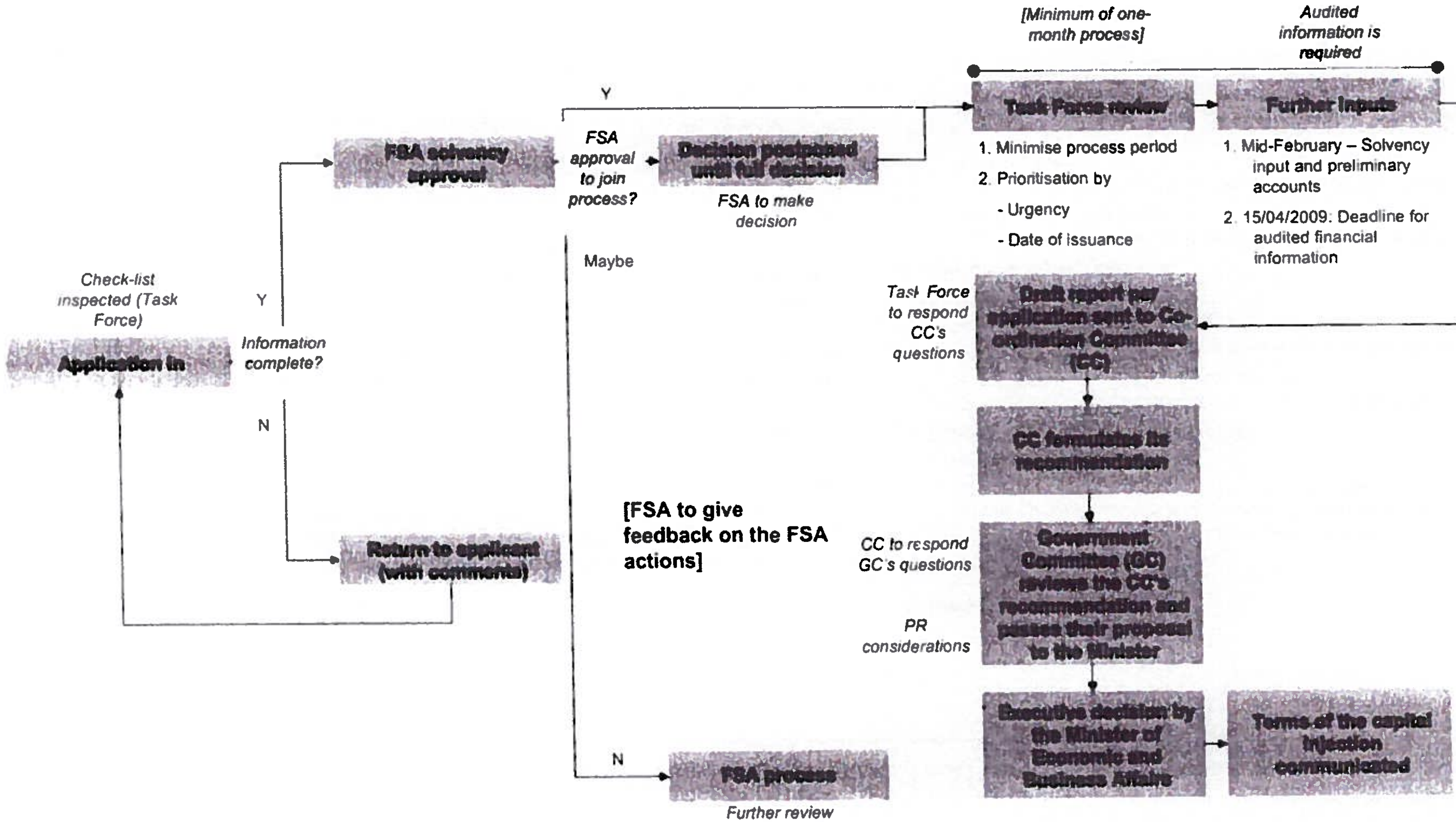
- [To be agreed]

Application Task Force to deal with the applications on a day-to-day basis and report to the Co-ordination Committee ahead of their meetings

[DRAFT]

3. Decision tree

3.1 Overview



UK launches business loan guarantee scheme

Overview

Key details

- 14 Jan 09 - The UK Government announced a new set of measures in an attempt to address the cash flow, credit and investment needs of SMEs
  - The measures build upon previous commitments made in the November 2008 Pre-Budget Report
- The **Working Capital Scheme (WCS)** endeavours to bypass current difficulties in obtaining credit
  - A condition of the scheme requires that banks use the capital freed up by the guarantee for new lending (extra credit of which would not have been provided)
- The **Enterprise Finance Guarantee (EFG)** aims to help smaller credit-worthy companies which find it difficult obtaining finance in the current tough lending conditions
  - Such loans will provide crucial working capital and investment finance, preventing company failure
  - The EFG will be available through high-street banks and can be used to convert existing overdrafts into loans, freeing up current overdraft facilities to meet working capital demands
- The **Capital for Enterprise Fund** exists to help firms with high levels of debt raise long-term finance
  - This newly-raised capital can then be used to invest and grow the business
- These measures come the day Gordon Brown meets Nicolas Sarkozy for economic discussions and the day after the German government pledges an extensive €50bn fiscal stimulus package

Summary of new measures

- **Working Capital Scheme (WCS)**
  - Existing or new bank loans made to companies with <£500m annual turnover will be 50% guaranteed by the Government (in return for a fee), securing up to £20bn of short-term bank lending
- **Enterprise Finance Guarantee (EFG)**
  - Government to secure up to £1.3bn of additional bank loans to smaller firms with <£25m annual turnover
  - The state will guarantee 75% of business loans, with banks covering the remaining 25% (each may borrow up to a maximum of £1m)
- **Capital for Enterprise Fund**
  - Worth £75m, the externally-managed fund will seek to convert business debt into equity
  - The Government will provide £50m, with banks pledging a further £25m

Measures outlined today seek to stimulate lending to SMEs and encourage growth

UK launches business loan guarantee scheme

Political commentary

Helping SMEs obtain credit seen as a primary economic concern

Lord Mandelson, Business Secretary

"UK companies are the lifeblood of the economy and it is crucial that Government acts now to provide real help to support them through the downturn and see them emerge stronger on the other side.

We know that some companies are struggling to secure the finance they need, not because of any failure in their business but due to the tougher credit conditions. That is why we have designed a package of measures addressing different forms of credit and providing real help for businesses."

Source **BERR** (Department for Business, Enterprise and Regulatory Reform) **14/1/08**

Conservative Party

"It's good the Government is finally looking at loan guarantees. We've been arguing that a lack of credit is the problem at the heart of the recession."

Source **UK Conservative Party 14/1/08**

Supplementary plans to ease credit lending conditions will fiscally-stimulate the economy

Plans for further radical measures

"Lord Mandelson also confirmed today the Government is discussing with trade credit insurance providers a Government scheme to help companies affected by reductions in their credit insurance."

Source **BERR** (Department for Business, Enterprise and Regulatory Reform) **14/1/08**

Calls for more extensive loan guarantees

"Ministers have rejected Tory *(Conservative party)* calls for a national £50bn loan guarantee scheme, saying it would risk handing money to firms who do not need it. The Government will consider help for specific sectors of the economy, including the car industry, on a case-by-case basis."

Source **The Independent 14/1/08**

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8-year history of yields on quoted Tier 1 instruments

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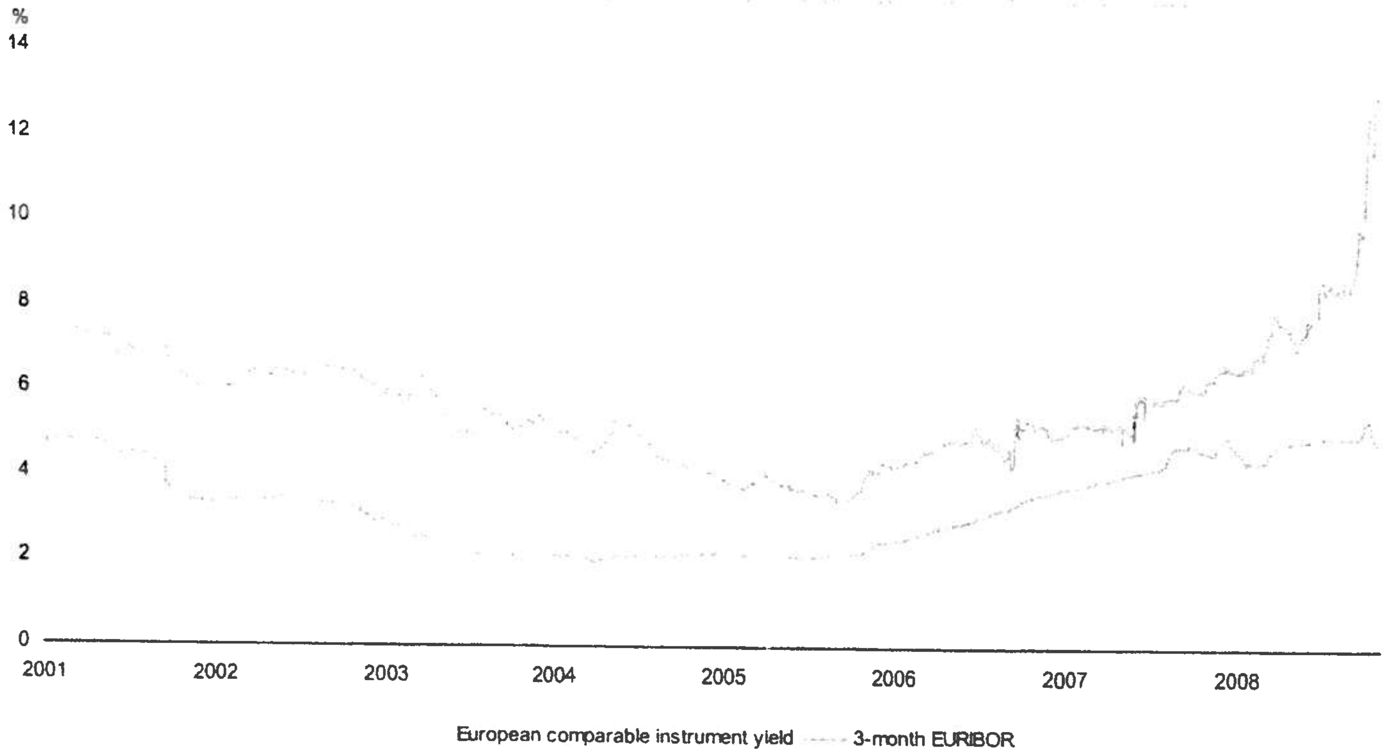
Indicative Tier 1 instrument index

	Min	Max	Mean
2001-2005	3.4%	7.9%	5.4%
2006-2007	4.2%	6.7%	5.3%
2008	6.5%	13.1%	8.2%

8-year over the cycle yield analysis



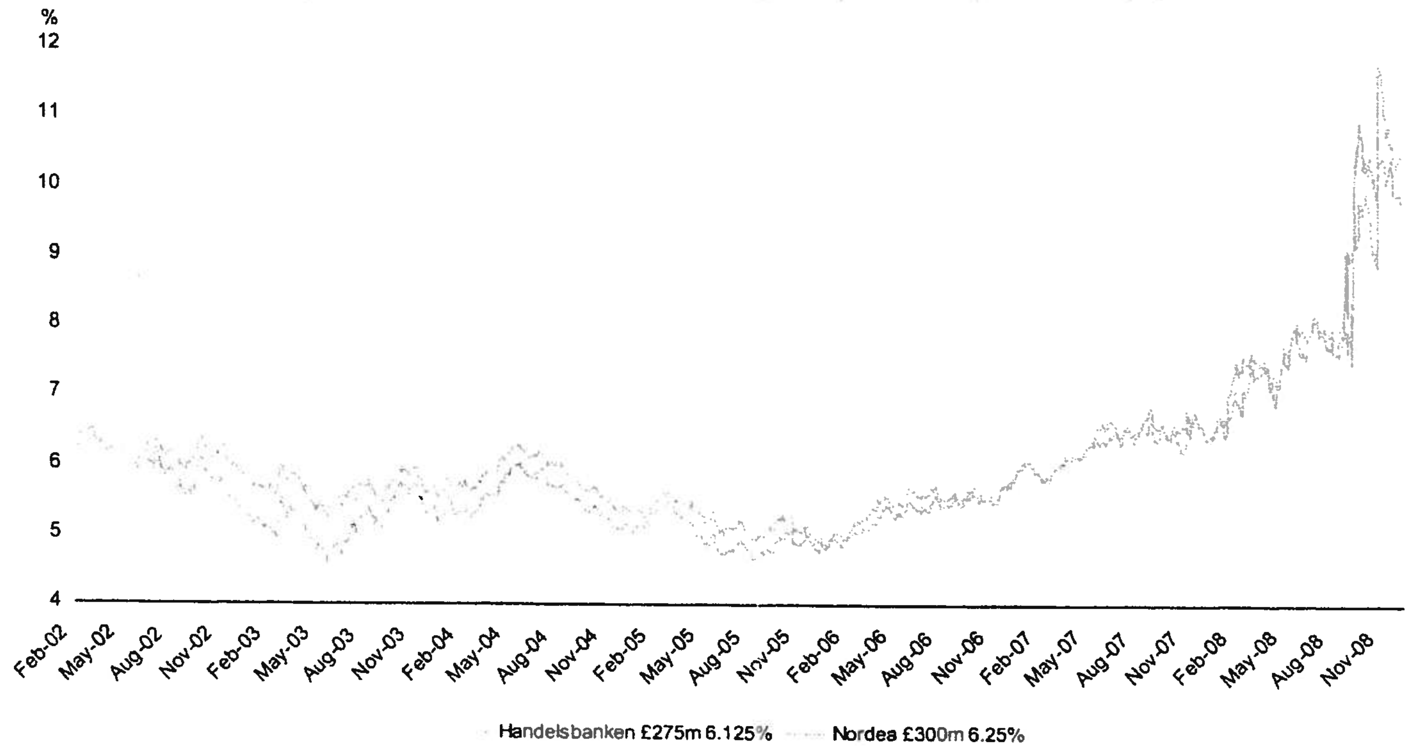
Source **Bloomberg**
Note November 2008 has been used as the cut-off point due to volatility. The analysis considers selected Tier 1 instruments from BNP Paribas, Deutsche Bank, ING, Intesa Sanpaolo and RBS

Yield analysis

Instruments issued by Nordic banks

	Min	Max	Mean
Handelsbanken	4.6%	11.9%	5.9%
Nordea	4.8%	11.0%	6.1%

Yield analysis of selected Nordic bank Tier 1 instruments



Note SEB and Danske Bank instruments excluded for this chart as the issuance on their quoted Tier 1 instruments was in 2005 or later and does not fully represent a cross-cycle trend
Source **Bloomberg**