MEETING OF TRANSACTIONS SUB-COMMITTEE OF COURT

Monday 26 November 2007

Present:

Sir John Parker, Chairman
Ms Fawcett
Dr Potter (by telephone)

Also attending:

The Governor, Sir John Gieve, Ms Lomax, Mr Bailey, Mr Clark, Dame Juliet Wheldon, Mr Salmon (observer), Mr Allen (Secretary)

The Committee was told that although Northern Rock had represented an extreme example of a UK mortgage bank that was dependent on wholesale funding, there were some others, with a lesser dependence, which had been causing some concern to the Tripartite authorities. The position of these institutions had been monitored closely for some time.

The FSA, with active support from the Bank, had been engaged in discussions with two institutions – "Tiger" and "Badger" – to encourage them to put in place longer term funding arrangements so as to reduce vulnerability to a further deterioration in money market conditions and to consider carefully options for strategic alliances.

Badger had made good progress in addressing their position. Recent sales of assets (commercial property) had secured sufficient funding to see them through to the middle of 2008.

In contrast, the Committee was told that senior management of Tiger had been less seized about the urgency of resolving future funding matters. However, after considerable urging from the Bank, the FSA had engaged forcefully with Tiger and a way forward was under discussion.

Tiger had, for some time, set themselves a target of arranging £20bn of term funding to reduce or eliminate their need for recource to the capital markets in the first half of 2008. They had achieved £13bn of that to date but had negotiated a loan agreement with a major commercial bank for a further £4bn of term money. But in order for that deal to go through the prospective lender was insisting that the £4bn be part of a final package to deliver the £20bn targeted. There was no prospect of the capital markets providing the missing £3bn in the near future and there was a possible risk that, in the present febrile market conditions, the prospective lender could also back away.

The Committee was told that the proposal that members were being asked to consider was for the Bank to provide the £3bn as a collateral swap to Tiger rather than an outright loan. Under this arrangement the Bank would allow Tiger to exchange ineligible assets (mainly rated RMBS) against our provision to them of eligible assets (gilts, but possibly other assets eligible in our OMOs as well). Tiger would be able to use those assets in the Bank's OMOs, or for securing loans from other banks.

A Term sheet was circulated to members of the Committee (attached). Tiger would be able to enter into swaps with the Bank at any time over a six month period starting from the date of the agreement, subject to a ceiling of £3bn on the total value of the swaps outstanding at any time, and with a requirement that each individual swap must be reversed within six months of being executed.

The Committee heard that aside from urging the pursuit of funding arrangements, the Bank had been urging Tiger to engage in takeover/merger discussions as a longer term route to ensuring the institution's viability. It was reported that during the last three days discussions had been taking place with a potential UK banking suitor. The Executive had spoken with the CEO of the parent company and the potential takeover appeared to be a serious option and would likely include an additional liquidity injection from the bidder. In those circumstances it was suggested that there was a possibility that the Bank's swap facility might not be required.

In answer to a question, the Executive confirmed that Tiger's funding plan had been seen by the Bank and that the £3bn facility was required to close the gap such that (with the £4bn commercial bank facility) the full £20bn would be achieved.

It was emphasised that there needed to be considerable secrecy about this facility. The Bank had told Tiger that the source of the £3bn should not be revealed to the commercial bank offering the £4bn facility (they must not be misled but any questions from them were to be referred to the Bank). However, the Bank had told Tiger that any potential bidder would need to be advised of the arrangement.

The Executive reported a degree of frustration with the FSA listing rules in that once the new £20bn package of lending was in place there would be a requirement to make an announcement about the overall facility. It was self evident that such an announcement could undermine confidence in Tiger and that, in turn, could destabilise the basis for the takeover/merger possibility. Ideally the funding announcement would have been made simultaneously with a takeover announcement – but discussions with the potential suitor were not at a sufficiently advanced stage. Following suggestions by the Bank, the announcement to be made by Tiger would now not mention the figure (ie £20bn) but would simply confirm that facilities had been arranged to cover requirements through to the middle of 2008.

In answer to a question about the extent to which the board of Tiger were committed to pursuing the takeover/merger option, the Executive indicated that there had been a very direct conversation with the Chairman to make it clear that if the takeover did not happen, Tiger could not rely on the Bank to provide emergency funding.

It was suggested that the UK's legislation presented additional difficulties to successful resolution of this sort of problem as the Bank was not able to intervene ahead of the point at which the value of equity had fallen to a level where shareholders might initiate a blocking action.

The Committee were told that the financial risk to the Bank from the proposed £3bn transaction would be minimal. If Tiger were to default that Bank would be exposed to the extent of any difference in value between the securities the Bank had supplied

to Tiger and the collateral including margin provided by Tiger to the Bank. The haircuts imposed were consistent with the term auction and the 14 September facility for Northern Rock.

In answer to a question, the Executive indicated that there were no other institutions identified as currently facing the precarious situation of Tiger. It was emphasised, once again, that the main focus was on the potential takeover option and it was felt that this would be a natural, and desirable, development within this sector.

The Committee approved the proposed facility for Tiger and the Bank would advise Tiger accordingly.

Northern Rock

The Executive provided the Committee with an update on the Northern Rock situation. Northern Rock had, this morning, announced that Virgin was the preferred bidder with HMT's backing. The Committee was told that there had been a strong political momentum to make that announcement. Last week, the investment bank advising HMT had indicated that, in their opinion, the earliest a transaction could be completed would be next April.

The positive news (if the Virgin bid was successful) would be that the Bank's Lender of Last Resort facility would be repaid in its entirety. The proposal was for a somewhat complex arrangement involving two special purpose vehicles but, in essence, both the initial collateralised Bank loan to Northern Rock and the subsequent loan with Government guarantee would be repaid, to be replaced by a new, refinanced commercially funded facility.

The new institution would be rebranded as Virgin Money and the business plan envisaged intensive marketing to raise substantial deposits from the retail sector. It was recognised that Virgin did have considerable brand appeal and the Chancellor was reported as being very keen to pursue this option.

The Executive said that the Bank still had a number of concerns about the risks associated with the Virgin bid. Firstly, as Northern Rock's problems continue, the commercial banks that have, at this point in time, agreed to participate in the funding for the bid might decide to back out. Secondly, there were many detailed aspects of the bid still to be finalised. Certainly there were many details to be resolved. Given the uncertainties, the Executive's view was that HMT was now somewhat exposed in giving early backing to the Virgin bid.

Additional risks or uncertainties arose from (i) the fact that any bid would need the approval of the FSA – and Virgin did not currently hold a banking authorisation (ii) how state aid issues relating to the Government guarantee of deposits would be resolved and (iii) how the timing issue would resolve itself as Virgin envisaged bringing an offer by Christmas.

The Committee was told that one of the largest hurdles for any prospective bidder would be gaining shareholder support. It was reported that Bank representatives had participated in discussions with all parties and the Virgin bid was reasonably positive on that aspect (whereas others such as the JC Flowers bid was notably lacking on how they would garner shareholder support).

It was also felt that more focus needed to be put on developing a "Plan B" – ie what arrangements might be put in place should none of the commercial bids materialise.

Summarising, the Executive said that publicising the HMT's support for the Virgin bid had some positives in that it should take the steam out of the press during the next few days. However, in practice it might give Virgin the upper hand in ongoing negotiations.

Terms for securities lending arrangement with [_____] (the Company)

Term of facility	The facility will be in place for six months, and will provide for the Company to borrow from the Bank collateral eligible for use in the Bank of England's Open Market Operations, at different times and for different maturities (up to a maximum term of six months for any one loan) during that period. Each loan of collateral would require the agreement of the Bank as to amount and would be subject to the provision in return of eligible collateral for the time being satisfactory to the Bank, and to the FSA confirming to the Bank that the Company continues to satisfy its threshold conditions for authorisation.
Loan Fee Facility Fee	100bp on market value of borrowed securities 10bp on the maximum size of the facility
Size	Up to such amount as the Bank may notify to the Company from time to time.
Eligible collateral and margin calls	Eligible collateral in this facility shall be the same as eligible collateral in the Bank of England's term auctions facility (see Market Notice dated 21 September) except that mortgages shall not be included as eligible collateral. Margin calls will be daily.
Margins	Margin ratios for this facility shall be the same as in the Bank of England's term auctions facility (see Market Notice dated 21 September).

MEETING OF TRANSACTIONS SUB-COMMITTEE OF COURT
Sunday 20 April

Present

Sir John Parker (Chairman) (by telephone)
Ms Fawcett (by telephone)
Dr Potter (by telephone)

Also attending

The Governor

The Governor explained that the Bank's was preparing to launch the Special Liquidity Scheme (SLS) at 9.00am on April 21.

He summarised the key features of the scheme, which were largely as had been described to Court on April 16. The SLS will allow banks to enter 364 day swaps of temporarily illiquid, high-quality, securities for Treasury bills. The swaps would be rollable for up to three years. Potential usage was large, and the Bank expected initial drawings to be around £50bn. Credit risk would remain with the banks and Bank of England's own risk would be managed through the application of haircuts. Banks would be charged the difference between 3 month LIBOR and the gilt collateral repo rate for using the facility, with a floor for the fee set at 20bp. Banks would be able to swap only securities that were on their books on 31 December 2007, or that were created from underlying assets that were on their books at that date.

The Governor further explained that he had met with the CEOs of the major banks on Friday evening, and that they had all committed to participate. This would help overcome stigma issues. Moreover, total access to the scheme would only be disclosed after the window for placing assets in the scheme had closed. That would be in six months.

He clarified a number of the features of the scheme in response to questions from the directors. The ONS had not, to his knowledge, ruled on the public sector net debt implications of the transactions, but that HMT had not been prepared to take the risk that swaps for more than 364 days would score against net debt. He also confirmed that AAA, non-synthetic, EEA MBS would be eligible collateral but that US-issued MBS would not be eligible. G-10 sovereign debt, explicitly guaranteed debt, US government agency debt, credit card ABS and covered bonds would also be eligible. Haircuts would be conservative and would be as large as 22%. Because securitisations in the UK were often carried out through master trusts, that require topping up, the Bank had decided to apply an amortisation approach to these securitises to capture the effect of the cut-off date for eligibility. In year one, 100% of

their value would be eligible for swapping, this would fall to two-thirds in year two and, one-third in year three.

One director questioned if the inclusion of non-UK assets in the scheme diluted the benefit of the scheme to the UK banking system. The Governor explained that because only legacy assets, that banks already owned on December 31 were eligible the benefit did not depend on the origin of the assets.

Another director asked how access would be managed. The Governor explained that there was no formal limit to aggregate access, but that there was an informal understanding that the Governor would consult with the Chancellor if it approached £100bn. Access by individual banks would also be monitored. Paul Tucker and Andrew Bailey's areas would monitor access, and in response to a question from a director, he expressed confidence in the capacity of the Bank to manage the scheme. Resources would be re-allocated if necessary.

The Governor explained that discussions where on-going with HMT about an indemnity. An indemnity was necessary given the scale of the SLS relative to the Bank's capital base and to avoid speculation about the risks to the Bank's solvency from the scheme. The key principle that at no point would the Bank have to show a loss or reduction in its balance sheet – other than as a result of negligence by the Bank – had been agreed, although the details were still being worked out. It was likely that the Bank would retain the net profit from the scheme.

The directors expressed their support for the scheme. One argued that an operation of the scale being envisaged would be necessary to have an impact on financial market conditions. The Governor agreed, and thought that although there was no explicit conditionality in the scheme, it would support the process of capital raising that the banks were increasingly realising was necessary. Another director emphasised the importance of keeping the credit risk with the banks, with the Bank being exposed to only residual risks.

The Governor confirmed that information about the SLS would be shared with the Bank's non-executive directors post-announcement.

MEETING OF THE TRANSACTIONS COMMITTEE

Sunday 28 September 2008

Attending – via teleconference:

Mervyn King, Governor
Sir John Parker, Chairman, NedCo
Roger Carr
Prof David Rhind

Andrew Wardlow (Secretary)

Bradford & Bingley plc

Recent developments concerning Bradford and Bingley plc were explained. It was noted that events had moved quickly and deteriorated significantly towards the end of the week. There had been a further sizeable outflow of deposits from Bradford & Bingley on Saturday and media headlines about its possible nationalisation. The FSA had determined on Saturday morning that the firm no longer met its threshold conditions to operate as a deposit taker. In turn, that judgement triggered the Financial Services Compensation Scheme (FSCS).

A part-public, part-private solution was being considered which would be implemented by the Government using the Banking (Special Provisions) Act 2008. A competitive auction process had been initiated on Saturday for Bradford & Bingley's retail deposit business along with its branch network and its Isle of Man operations. Bids had been required by Sunday morning. The Bank had been actively involved in the process and had given its advice to the Chancellor. At the time of the meeting of the Committee, the Government had not made a decision on the winning bid and an announcement had therefore unfortunately been delayed.

The remaining assets and liabilities of Bradford & Bingley – principally comprising its mortgage and personal loans business – would be taken into public ownership through the transfer to HM Treasury of the company's shares. The Government also intended to provide a wholesale deposits guarantee for six months to safeguard certain wholesale borrowings and deposits with Bradford & Bingley.

It was noted that the options being pursued resembled in some respects the planned Special Resolution Regime, though the resolution amounted to an ad hoc arrangement using existing legislation and did not involve the Bank taking control of the stricken bank or part of it.

It was explained that the transfer of liabilities in the form of retail deposits to the winning bidder needed to be matched by an asset. This would take the form of a cheque from the Financial Services Compensation Scheme. The FSCS would pay approximately £18 billion to enable retail deposits held in Bradford & Bingley and covered by the Scheme to be transferred to the winning bidder. Retail deposits totalled approximately £22 billion. HM Treasury would make a payment to the new owner for retail deposits not covered by the FSCS, amounting to approximately £4bn (less an amount agreed to be paid by the successful bidder). In return, the FSCS (and through the FSCS, HM Treasury) would acquire rights to the proceeds of the wind-down and realisation of the assets of the remaining business of Bradford & Bingley.

To facilitate the cash payment, it was proposed that the Bank would make a short term loan to the FSCS[1] until the end of the year – the time horizon related to EU regulations. After that time, the loan would be replaced with a loan from the Government.

Over time, the FSCS would repay funds from the amounts it would receive following the winding down of Bradford & Bingley, with any balance eventually funded by levies on firms authorised by the FSA. It was not sensible to charge those levies immediately given the prospect of income from Bradford & Bingley and the fragile condition of the banking system.

There was also a possibility that the Bank would also need to provide some working capital to Bradford & Bingley under its new HM Treasury ownership.

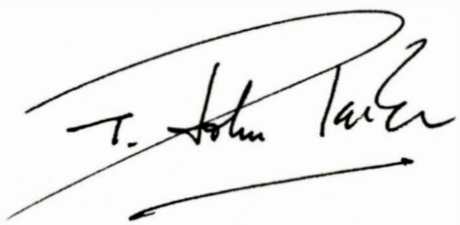
The Transactions Committee was consulted about the Bank providing a short term loan to the FSCS; and a working capital facility for Bradford & Bingley (under HM Treasury ownership) should that be required.

Directors sought, and received, confirmation that appropriate interest rates would be charged on the lending. Assurance was also provided that the Government would be indemnifying the Bank

for any losses associated with the lending. It was stated that there was no risk to the Bank's balance sheet. Confirmation was also provided that there was nothing *ultra vires* about the proposed arrangements. The existing legislation covered the proposed resolution of Bradford & Bingley.

Directors supported the proposed transactions and the efforts of the Governor and the team dealing with the situation.

The meeting of Transactions Committee was closed.



[1] At the time of the meeting, HM Treasury had indicated the loan would need to be £18 billion. That was subsequently revised down to £14 billion.

MEETING OF THE TRANSACTIONS COMMITTEE

Wednesday 1 October 2008

Attending:
Mervyn King, Governor
Sir John Parker, Chairman, NedCo
Amelia Fawcett

Also participating:
Dame Juliet Wheldon

Andrew Wardlow (Secretary)

FACILITY FOR FOX

The Governor outlined a proposed emergency facility for Fox in the light of its current financial circumstances.

Despite assurances given at the time of recent announcements, it was apparent that Fox's liquidity needs were greater than had been indicated. The seriousness of the immediate position of Fox was stressed. It had acute funding problems and might not be able to settle its outstanding positions today, and would therefore be in default.

The Bank was proposing to grant an uncommitted facility of up to £10 billion to Fox as ELA under which the Bank may agree to enter into one or more collateral swap transactions. The Bank would offer Treasury Bills in return for claims on a pool of underlying mortgages. Unfortunately, Fox had not to date managed to complete the securitisation of these assets. In the interim period, Fox would declare a trust which would give the Bank security in relation to those assets.

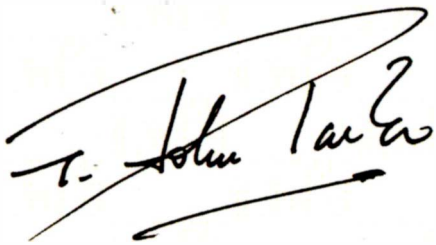
Directors were informed of the terms of the facility which would include a haircut on collateral of forty per cent and an interest rate of Bank Rate plus 2%. The facility would have a final maturity date of fourteen days after the date of the agreement.

The facility was therefore fully collateralised and the Bank was not seeking an indemnity from HM Treasury – which would raise disclosure issues. But the Governor had written to the Chancellor about the proposed facility, consistent with paragraph 14 of the Memorandum of Understanding, and had already had a verbal assurance that the Chancellor, on behalf of HM Treasury as the Bank's sole shareholder, was content with this use of the balance sheet.

It was noted that the Bank's exposure to Fox and Lark was likely to be around £180 billion, without any further deterioration in funding conditions. This was very large. A plan was needed for that to be reduced in the near future. Given the gravity of the situation and the need on financial stability grounds to avoid the failure of Fox, it was stated that it was not possible to rule out the possibility that the Bank might at some point have to lend to Fox on an unsecured basis.

Directors supported the proposed transaction.

The meeting of Transactions Committee was closed.



MEETING OF THE TRANSACTIONS COMMITTEE

Friday 3 October 2008

Attending:
Mervyn King, Governor
Sir John Parker, Chairman, NedCo
Dr David Potter
Roger Carr

Also participating:
Andrew Bailey
Dame Juliet Wheldon

Andrew Wardlow (Secretary)

FACILITY FOR FOX

Following the meeting of the Committee on 1 October, which had discussed the situation concerning Fox and agreed a swap facility of up to £10 billion, it was explained that the Bank was proposing to extend the size of the facility available for Fox.

It was reported that Fox had swapped collateral – mortgages not yet securitised – in exchange for £4 billion of Treasury Bills on the first day of the existing facility. Rather than adding to the facility on a day by day basis, it was proposed that the swap facility be increased. The increase in likely drawings was due to an increase in retail outflows.

Fox had provided the next available pool of mortgages with a face value of £10 billion and were expecting to draw between £3-4 billion today, using the remainder of the initial pool and a new pool if agreed. On the basis of what the Bank had seen of the proposed new collateral – which was lower than the initial pool – and taking a cautious view of the quality of the remainder of the mortgages that Fox had, it was thought that Fox would be able to draw up to £22 billion in Treasury Bills. This was thought to be sufficient to provide a breathing space of two weeks, perhaps a little longer, in the absence a further deterioration in wholesale funding and retail deposit withdrawals. In order for the Government to make progress on a wider solution to the financial crisis, the Bank did not want the Prime Minister and the Chancellor to become pre-

occupied with the problems of Fox on a daily basis. The Bank had informed HM Treasury who were content with the proposed actions.

Directors supported the proposal to increase the facility up to £22 billion.

The meeting of Transactions Committee was closed.

MEETING OF THE TRANSACTIONS COMMITTEE

Tuesday 7 October 2008

Attending:
Mervyn King, Governor
Sir John Parker, Chairman, NedCo
Amelia Fawcett
David Potter

Also present:
Andrew Bailey and Juliet Wheldon

Andrew Wardlow (Secretary)

Icelandic banks resolution

The Governor outlined the situation and proposals for the UK subsidiaries and branch operations of two Icelandic banks: Kaupthing Bank hf, through its subsidiary Kaupthing Singer & Friedlander Ltd (KSF); and Landsbanki Islands hf, through its London branch and its subsidiary Heritable Bank Plc.

It was explained that the Icelandic authorities had announced that they did not intend to allow Landsbanki Islands to provide further funding for the UK branch or the Heritable subsidiary. Although it was not clear what legal proceedings would take place in Iceland, there was little doubt that the Icesave internet deposit-taking business run by the Landsbanki branch would close down. Moreover, the Central Bank of Iceland had stated that it would not provide the necessary funds to keep Heritable in business. The Icelandic authorities had also stated that they did not intend to support the UK subsidiary of Kaupthing (KSF), and the directors had decided overnight to file for administration.

It was anticipated that the FSA would decide that Heritable and KSF no longer satisfied the threshold conditions for authorisation and the FSA would therefore declare Heritable, KSF and Landsbanki to be in default for the purposes of the FSCS compensation rules.

Pay-outs would vary across the two institutions, depending on whether the operation was a UK subsidiary or branch – UK subsidiaries were covered directly by the FSCS; branches were covered by the Icelandic deposit insurance scheme up to the equivalent of around £16,500, and thereafter 'topped-up' by the FSCS up to £50,000. It was highlighted that decisions about the extent of protection and payout for retail depositors in the UK in the event of default would be taken by HM Treasury. No guarantee of wholesales depositors would be given.

Directors were informed of proposed arrangements and transactions by the Bank to facilitate the orderly payout of retail deposits. The FSCS would make compensation payments to the different entities. As with Bradford & Bingley, it was proposed that the Bank would lend the necessary funds to the FSCS to enable it to make its contributions. In addition, the Bank would extend working capital facilities to the administrators of the entities. All Bank of England funding would be secured by an HMT indemnity and had to be repaid at the latest within three months. The facilities should therefore comply with Article 101 of the EU Treaty.

The best estimates of the facility sizes at this time were:

Heritable – a facility for FSCS £550mn at Libor + 30bp (as with Bradford & Bingley) and a working capital facility for the administrator £5mn at Libor + 100bp (as with Bradford & Bingley);

Landsbanki – a facility for FSCS of £2bn (same rate as Heritable);

KSF – a facility for FSCS £3.6bn and a working capital facility for the administrator £50mn.

The total Bank funding would therefore be £6.7bn

It was explained that the proposed resolution of KSF, if this became necessary, was complicated because it involved treating the retail deposits in two different ways. The large majority of KSF's retail deposits were in Kaupthing Edge, an internet deposit taking operation. It was proposed that the resolution would involve transferring Kaupthing Edge deposits to a Bank of England owned subsidiary for rapid payment to each account holder of the full amount of the deposit (i.e. not limited to the FSCS insurance limit). The rest of KSF would then be put into administration. The retail deposits held outside Kaupthing Edge (mainly high value deposits) would be paid out in full but after set-off for any outstanding liabilities to KSF of the depositor.

It was explained that the Bank's role would amount to managing a mechanical operation to pay-out retail deposits to Kaupthing Edge depositors. The liabilities of the subsidiary – the retail accounts – would be matched by cash from the FSCS (borrowed from the Bank). Any residual amount after pay-out would be returned to the FSCS.

Directors supported the proposed funding by the Bank of the FSCS; and the use of a Bank subsidiary to facilitate the rapid pay-out of retail deposits.

It was noted the Court would subsequently need to approve the formation of a new Bank of England subsidiary and the appointment of its directors.

The meeting of Transactions Committee was closed.

MEETING OF THE TRANSACTIONS COMMITTEE

Tuesday 7 October 2008

Attending:
Sir John Gieve
Sir John Parker, Chairman, NedCo
Amelia Fawcett
David Potter
Roger Carr

Also participating:
Paul Tucker
Paul Fisher

Andrew Wardlow (Secretary)

FACILITY FOR PHOENIX

Directors were informed that Phoenix had become highly dependent on overnight funding and was experiencing significant liquidity difficulties to meet its obligations. It was proposed that the Bank provide interim liquidity assistance ahead of wider announcements about banking system recapitalisation.

Phoenix had an immediate dollar liquidity need. It had obtained some dollars through the Bank's dollar operations. The Bank intended to provide Phoenix with a bilateral dollar facility on the same terms in exchange for Treasury Bills. The facility would be for up to $20 billion for one week. The facility in effect would provide Phoenix with cash (dollars) in exchange for the Treasury Bills it had received from the Special Liquidity Scheme. Phoenix was also borrowing from the Federal Reserve and ECB. It was noted that it was short of some $36 billion after regular operations.

In response to a question, it was explained that Phoenix did not have a significant amount of Treasury Bills beyond the size of the proposed facility. It was also noted that it would secure further dollar liquidity from the market and Federal Reserve.

It was explained that the Transactions Committee would be consulted further if it was likely that Phoenix required more than the proposed $20 billion. It was asked if there would be any cap on additional facility. In response, it was suggested that up to a further $10 billion would be appropriate.

Directors supported the proposal to provide a dollar facility up to $20 billion.

The meeting of Transactions Committee was closed.

MEETING OF THE TRANSACTIONS COMMITTEE

Thursday 9 October 2008

Attending:
Sir John Gieve
Sir John Parker, Chairman, NedCo
David Potter
Roger Carr

Also participating
Andrew Bailey
Juliet Wheldon

Andrew Wardlow (Secretary)

FACILITY FOR PHOENIX

Following the meeting of the Transactions Committee on 7 October, Directors were informed that it was intended to extend the facility available for Phoenix up to $30 billion. That exceeded what the bank had initially said it would need. It was estimated that between $5-10 billion was required ahead of the weekend.

It was noted that the proposed facility would be in addition to the Bank's existing exposures to Phoenix through the Special Liquidity Scheme, long-term repo and market dollar swap operations.

It was explained that the Bank would approach HM Treasury with the intention of requesting an indemnity from the Treasury if the facility was drawn above $10 billion. A trust would be set up that would favour the Bank's interest. The facility would be for 14 days and renewable. It was stated that the aim was to provide funding to bridge the period between now and Phoenix's ability to use the recapitalisation plan which would be announced by the Chancellor shortly. This would provide substantial public sector equity and debt guarantees.

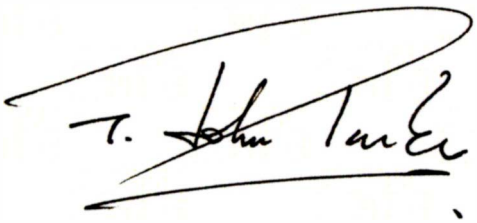
Phoenix needed to place collateral with the Bank through a special facility in exchange for Treasury Bills that would then be exchanged for dollars. Phoenix had

committed to send further details of its collateral. Beyond the portfolio of RMBS, Export Credit Guarantee Department loans and corporate loans were available.

Directors discussed the risks to the Bank and the issue of an HM Treasury indemnity. It was explained that if HM Treasury provided an indemnity to the Bank, it would need to be notified under state aid rules. It was asked what options the Bank would have if an indemnity was not forthcoming. In response, it was stated that the Bank would be able to vary the haircuts applied and limit drawings. It was felt that a facility on such a scale was not reasonable without an HM Treasury indemnity but it was acknowledged that having an indemnity raised the issue of public or quasi-public disclosure, which was undesirable at this time.

Directors supported the proposal to provide a facility up to $30 billion.

The meeting of Transactions Committee was closed.



MEETING OF THE TRANSACTIONS COMMITTEE

Monday 13 October 2008

Attending:
Sir John Gieve
Sir John Parker, Chairman, NedCo
Amelia Fawcett
David Potter
Roger Carr

Also participating
Andrew Bailey
Juliet Wheldon

Andrew Wardlow (Secretary)

FACILTIES FOR FOX, PHOENIX AND LANDSBANKI

Directors were updated on the situations relating to Fox and Phoenix.

Fox had drawn down its bilateral facility to its limit. It would continue to require funding unless it could attract new deposits or utilise the Government debt guarantee successfully. Fox had requested to call on a larger facility later in the week.

It was reported that Phoenix had today requested a further $4 billion which would take its drawings to around $14 billion. It expected to need to call on the entire $30 billion over the current week and next. A further facility was not being requested. The question to address was at what point the Bank should request an indemnity from HM Treasury. It was suggested that the funding for Phoenix should be provided today (up to £13.5 billion) and the Bank should request an indemnity beyond that amount to commence tomorrow. There remained concerns about the impact of public disclosure though that was now perhaps reduced in the light of the Government's formal involvement through the recapitalisation plan.

It was noted that work was underway to assess the quantity quality of the assets being provided by Phoenix in exchange for Treasury Bills. The Bank was now taking

corporate loans. Part of the due diligence was the application of severe haircuts. It was emphasised the funding provided by the Bank was to provide a bridge to the point when equity could be raised and funding improved.

Directors were updated on developments concerning the resolution of Icelandic banks. The funding the Bank had provided to the Financial Services Compensation Scheme (FSCS) had not covered Icesave deposits, a brand of Landsbanki. Landsbanki operated in the UK through a branch rather than a subsidiary. Compensation was therefore claimed through the Icelandic deposit protection scheme, which only covered up to €20,000 of deposits. The UK scheme topped-up payments to the limit of the FSCS.

It was noted that a UK team had visited Iceland to find a solution for UK depositors. The Icelandic scheme did not have the funds to pay depositors. It had been decided that the UK would provide a loan to Iceland for this purpose. The Bank would provide a temporary loan of £2.2 billion to the FSCS for a period of three months on the same terms as the previous FSCS loans. There would also be a £100 million working capital facility for Landsbanki, designed to provide short-term liquidity for its asset-backed lending portfolio. Landsbanki had provided invoice financing for small and medium-sized firms – those funds were now trapped with Landsbanki having a claim on assets.

Directors supported the proposals for an HM Treasury indemnity and the facilities relating to Landsbanki.

The meeting of Transactions Committee was closed.

MEETING OF THE TRANSACTIONS COMMITTEE

Thursday 29 January 2009

Attending:
The Governor
Amelia Fawcett
David Potter
David Rhind

Also participating
Charlie Bean
Spencer Dale
Graham Nicholson
Paul Tucker

Andrew Wardlow (Secretary)

ASSET PURCHASE FACILITY

Directors were informed of plans for the Bank to establish and operate a new Asset Purchase Facility through a new subsidiary company. It would be tasked to buy high-quality assets as a means to improve financing conditions for companies. Papers describing the proposed Facility had been circulated, including draft letters from the Chancellor and the Governor. The Facility was part of a package of Government measures announced on 19 January.

It was noted that the Bank's executive management had the delegated authority from Court to establish and operate the Asset Purchase Facility. As previously established and agreed with Court, the Transactions Committee was consulted on transactions outside the normal course of business and the formation of a new Bank of England subsidiary where it was impracticable to consult Court. Court would be informed formally at its scheduled meeting in February.

The Government would authorise the purchase of up to £50 billion of assets. It was stated that expenditure was initially likely to be modest. The Bank's aim would be to influence and change market conditions rather than strive to replace the market. It was

hoped that purchases would increase market liquidity and so reduce spreads and raise prices.

It was explained that because HM Treasury would provide the Bank and its new subsidiary with an indemnity, the planned purchases of assets involved no financial risk to the Bank. It was noted that losses on certain assets were likely if the Facility was successful; for example, mark-to-market losses if and when interest rates rose as the economy recovered.

It was stated that the subsidiary and its processes would also be used if the MPC undertook asset purchases for monetary policy purposes at some point in the future. That would require a further exchange of letters between the Chancellor and the Governor. It was clarified that Court would be informed at the time of any public announcement about such an extension, and the process that had been taken.

Directors were content with the proposal. It was asked what control mechanisms would be employed and what form of reporting to Court was envisaged. In response, it was stated that there would be monthly reporting to Court. A description of the control mechanisms would be provided.

In response to a question, it was explained that it was right to ensure that the Facility was separate from both the Banking Department and Issue Department balance sheets in view of the desirability of avoiding distorting the presentation of the Bank's financial position. Accordingly, the subsidiary would not be consolidated in the Bank's accounts (in accordance with applicable accounting rules). If the MPC undertook asset purchases, it would want to be fully transparent about its operations and so it would be sensible to use the same vehicle and accounting treatment.

It was asked if the Bank was confident that it could meet all the presumptions in the term sheet. In response, it was noted that the UK sterling commercial paper market was small and not well developed, while a large proportion of corporate bonds were not traded but rather held to maturity, for example in insurance company annuity funds. The Bank had a reasonable knowledge of the markets concerned but would

learn more through operating in them. For corporate bonds as opposed to commercial paper, the aim would be to find ways of encouraging banks to act as market makers.

The absence of a 'sunset' clause for the indemnity was queried. It was stated that it was sensible to have an open position at this stage as the Facility would need to remain in place for as long as it was needed. There was no specific timeframe in mind for the operations of the Asset Purchase Facility.

It was asked how the Bank would ensure that the Facility would benefit UK companies first and foremost. In response, it was explained that the Bank would look closely at the paper it bought. However, many companies had international operations so it would be impossible to determine that funds would be spent only on UK activities. It was stressed that the Bank's actions were designed to improve corporate financing conditions generally rather than specifically, and in this way there would be a general benefit to UK companies and the wider economy. It was also noted that the Bank would buy commercial paper directly from issuing companies in view of the fact there was very little secondary trading. In doing so, it could aim to exclude companies that had little impact on the wider market and economy.

Directors were supportive of the proposals for the Asset Purchase Facility.

The meeting of Transactions Committee was closed.

MEETING OF TRANSACTION COMMITTEE: 29 March 2009 @ 19:00

Present:

Sir John Parker *
David Potter *
Roger Carr *
The Governor
Graham Nicholson
Andrew Bailey
Paul Tucker
Andrew Wardlow
Stuart Allen (Secretary)*

* Via conference call

The Executive explained that the meeting of Transaction Committee had been arranged to consult on a Special Resolution Regime solution that was being considered for the Dunfermline Building Society. The financial losses facing the institution (mainly arising from its commercial mortgage business) had led FSA to determine, on Saturday evening, that it was satisfied that the general conditions set out in section 7 of the Banking Act 2009 (the "Act") were met and that, consequently, the Bank's Special Resolution responsibilities should be triggered.

The Committee were told that the Bank had conducted an auction for certain of Dunfermline's assets and liabilities and had received and evaluated three bids within the specified timeframe.

In summary, members of the Committee were told that the Executive was consulting the Transactions Committee for four reasons (i) to advise that the SRR had been triggered by the FSA and to ensure appropriate accountability was considered, (ii) to advise that there was the possibility of a Bank owned 'bridge bank' subsidiary being established, (iii) to inform that the Bank may be called upon to make a short term loan to the administrators (iv) and that there may need to be a loan from the Bank to the bridge bank.

In answer to a question, the Executive confirmed that any loans made by the Bank would be fully guaranteed by the Treasury.

The Committee were told that once the SRR process had been initiated, the Bank had made good progress with the auction and had presented the recommendations to HM Treasury in the early afternoon of Sunday. Regrettably, it was taking time to reach agreement on the auction outcome. A rapid decision would have allowed a public announcement well ahead of business opening on Monday. This raised issues about the need to clarify the financial parameters in advance of any future auction. Directors were told that there had been some concern about the time taken for the FSA to pull the trigger. The regulator had a duty to ensure that all other options had been explored but action might ideally have been taken earlier leaving the whole of the weekend to undertake the resolution.

The Executive believed that there were learning points to be taken from this, the first use of the SRR, and it was likely that these would be discussed between the Tripartite authorities after the event. Comparison was made with arrangement in the US where, in a case like this, the FDIC would have been able to bring about a swift resolution in a similar situation.

The Committee confirmed that they understood and supported the matters that they were being consulted about. They agreed that there were lessons to be learned from this episode and that it would be important for the Governor to convey those concerns to the Government about the process. The Executive agreed.

The meeting of the Committee was closed.