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THE UK GOVERNMENT'S BANKING RESCUE PLAN THE LATEST DEVELOPMENTS

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Details have been released today regarding the UK government's banking rescue plan which was first announced on 8 October ("the Scheme"). We set out below some of the key points.

- As part of the Scheme, the government will make available Tier 1 capital to eligible institutions (UK incorporated banks which have a substantial business in the UK, and building societies). The Tier 1 capital ratio is the amount of capital all banks are required to hold as a proportion of their risk-adjusted loan books. The Financial Services Authority ("FSA") recommends that banks have a Tier 1 capital base of at least 9%.
- A number of institutions have committed to the government that they will increase their total Tier 1 capital by the end of 2008, including Royal Bank of Scotland ("RBS"), HBOS and Lloyds TSB, either through their own actions or, where requested, through support from the government in the form of preference and ordinary share capital.
- RBS has today announced an offer of ordinary shares to raise £15 billion of Tier 1 capital priced at 65.5p per share. Existing RBS shareholders are invited to subscribe for all or part of their pro rata entitlements and new institutional shareholders may also be permitted to subscribe for new shares. Any new shares not taken up by RBS shareholders will be purchased by the government. In addition, the government will subscribe for £5 billion of preference shares which carry a fixed interest payment of 12%.
- HBOS will raise £11.5 billion from the government, made up of £8.5 billion in ordinary shares priced at 113.6p per share and £3 billion in preference shares, while Lloyds TSB will receive £5.5 billion, of which £4.5 billion will be in ordinary shares at a price of 173.3p per share and £1 billion will be in preference shares.
- The purchase by the government of shares in HBOS and Lloyds TSB is conditional on completion of the merger of the two banks. The terms of the merger have changed with the effect that HBOS shareholders will now receive 0.605 Lloyds TSB shares for every one they own.

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- If existing shareholders do not buy back any shares, it is likely that the government will consequently own a majority stake in RBS and more than 40% of a merged Lloyds TSB and HBOS.
- The terms of the Scheme preclude RBS, Lloyds TSB and HBOS from paying dividends on ordinary shares until they have repaid in full the total preference shares being issued to the government.
- It is expected that the government will appoint 3 new RBS directors and 2 directors to the board of the merged Lloyds-HBOS.
- Under the Scheme, the banks have also agreed to pay their 2008 executive bonuses in the form of shares.

The government rescue plan has been described as unprecedented but essential. Stock markets have reacted favourably to the announcement although the long term consequences of what will effectively amount to a quasi-nationalisation of RBS and Lloyds-HBOS remain to be seen.

If you have any questions concerning the above or what it may mean for you, please contact your Brown Rudnick attorney or one of the following attorneys:

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