FINANCIAL TIMES

EUROPE Tuesday September 30 2008

Meltdown Monday

NEWS: **Pages 2-8** The crisis spreads in Europe **Pages 2-3** The problems of small countries with big banks **Page 3** COMMENT: GIDEON RACHMAN Asia is not immune **Page 15**

Newspaper of the year

World Business Newspaper

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News Briefing

Share falls take toll on Irish economy

Ireland's banks suffered their biggest one-day fall in share price for two decades as fears swept the Dublin market about their ability to withstand the downturn in the economy amid the global financial turmoil. **Page 19; www.ft.com/banking**

Austrian right returns

The possible return to an extreme right government is high on Austria's political agenda again after two far right parties made massive gains in the general election. **Page 11**

Moscow extends loans

Russia set out measures to stave off a liquidity crisis as prime minister Vladimir Putin said a state-controlled bank would extend $50bn (€34.7bn) in loans to help companies and banks pay off foreign loans. **Page 11**

Eurozone jobless woes

The unemployment rate has shot up in France and Italy, highlighting the severity of the eurozone's economic slowdown. **Page 11; www.ft.com/europe**

EU and India accord

The European Union and India are to co-operate more closely on civil nuclear research and development. **Page 11**

Presidents' allies win

Supporters of Belarus president Alexander Lukashenko won every seat in Sunday's parliamentary election. **Page 11**

Chinese 'defaulting'

Indian iron ore exporters warned demand from steel mills in China had fallen sharply over the past month and Chinese buyers were defaulting on contracts with suppliers. **Page 12; Markets, Page 34**

Olmert call on territory

Ehud Olmert, Israel's outgoing prime minister, said it should withdraw from "almost all" land it conquered over 40 years ago and hand back east Jerusalem to the Palestinians and the Golan Heights to Syria. **Page 12**

Tourists freed

Eleven foreign tourists and eight Egyptians who had been kidnapped in a remote desert in south-west Egypt were freed in a rescue operation and half of their abductors were killed, Egyptian officials said. **Page 12**

Global crisis House shocks investors . . . Markets plunge . . . Five banks saved

Congress rejects $700bn bail-out

7.46am BST
UK Treasury announces nationalisation of Bradford and Bingley

10.31am BST
Iceland government takes 75 per cent stake in Glitnir bank

1.17pm BST
Citigroup to buy Wachovia's banking arm

3pm BST
US Federal Reserve announces huge new liquidity operations

7.06pm BST
House of Representatives votes down bail-out plan

By Krishna Guha in Washington, Peter Thal Larsen in London and Michael Steen in Amsterdam

Markets were sent into a tailspin yesterday when the House of Representatives shocked investors by voting to reject the Bush administration's $700bn (€484bn) bail-out plan.

The vote effectively torpedoed unprecedented government interventions to quell the fear in the financial markets which had earlier seen five US and European banks rescued or nationalised and the world's central banks unleashing a gigantic global liquidity operation.

House Republicans voted roughly two-to-one against the bail-out, while the Democrats split three-to-two in favour. Congressional leaders took procedural steps that could enable a revote, but analysts said Democrats would be unlikely to try again without the promise of more Republican support.

The S&P 500, already heavily down, plunged at one point by 7.2 per cent on the day before recouping some of its losses. However, as the political recriminations began it was down 6.5 per cent in late afternoon trading. Even before the surprise vote, the FTSE 100 had closed down 5.3 per cent on a tumultuous day which saw financial stocks hammered. Meanwhile, stress in the credit markets, the epicentre of the financial crisis, intensified as investors fled to the safety of government securities. A flight to safety saw the yield on the two-year US Treasury bill fall 38 basis points.

Each side blamed the other for playing partisan politics. The rescue plan has angered many taxpayers, who see it as a bail-out for Wall Street.

However, Bill Gross, a fund manager at Pimco, said "this must be passed, either in its current form or another form". If not there would be a credit freeze of "significant proportions".

The scale of the tumult in financial markets was underlined earlier in the day in a series of bank rescues on both sides of the Atlantic. In the US, Wachovia, the country's sixth-largest lender, was rescued by Citigroup in a government-sponsored bail-out that will see the US government take a $12bn stake in the country's largest bank.

In Europe, the German government underwrote a €35bn bail-out of Hypo Real Estate, a mortgage lender and financier to local authorities, while Iceland took control of Glitnir, the country's third-largest bank. In Britain, Bradford & Bingley's £52bn (€65bn) mortgage book was taken into national ownership. The bail-outs followed the €11.2bn rescue of Fortis, the Belgo-Dutch group, by three European governments late on Sunday night. The bail-outs triggered sharp falls in bank shares, including Dexia, Commerzbank, ING and Royal Bank of Scotland.

Bankers said the recent banking collapses in the US had made bondholders realise they could suffer losses, prompting investors to shy away from providing financing to any financial institution that might be at risk.

The US Federal Reserve more than doubled the amount of dollars it lends to other central banks to $620bn, while also dramatically expanding its own domestic liquidity operations. The US central bank doubled the size of its own credit auctions to $300bn and tripled the amount of this offered in the form of 12-week, rather than four-week, loans. It said it would offer another $150bn to tide over institutions until the end of the year.

The giant global liquidity operation is designed to quell extraordinary strains in the money markets which have essentially frozen in recent days, putting intense stress on weaker financial institutions.

The idea is to mitigate the risk that banks will be unable to roll over their funding by ensuring that they will always be able to turn to their central bank for dollars if necessary.

Additional reporting by Ralph Atkins in Frankfurt and Neil Hume and Javier Blas in London

The day in summary

TED spread

Global markets

Three-month Treasury bill yield	0.45%
FTSE 100	▼ -5.3%
S&P 500	▼ -5.1 %

Pages 34-36

Europe's bail-outs
Inside the Fortis rescue
Saving Iceland's Glitnir
Germany acts on Hypo
Pages 2-3

Citi buys Wachovia
How Wachovia died and what the deal means for Citigroup
Page 4

Bradford & Bingley
Why Britain had to nationalise its second bank in seven months
Page 8

Savvy Santander
The Spanish bank looking clever amid the crisis
Gillian Tett
Page 8

Spotlight on Sudan arms
A pirate attack on a ship transporting tanks off Somalia connected two of Africa's worst conflict zones by throwing a spotlight on the south Sudanese army's arms programme. **Page 12**

McCain defends move
John McCain rejected charges that he miscalculated last week by suspending his campaign and returning to Washington to assist talks on the financial bail-out plan. **Page 10; www.ft.com/uselections**

Ecuador pledges change
Ecuador's president Raphael Correa pledged to move quickly to enact changes to the constitution, including a tax on mining companies. **Page 12**

Lehman 'jewel' sold
Bain Capital and Hellman & Friedman agreed to acquire Neuberger Berman, the crown jewel of Lehman Brothers Holdings, for $2.15bn (€1.5bn). **Page 19**

Separate sections

Germany
Looming test of economic strengths

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Glitnir casualty

A company controlled by the prominent Icelandic retail entrepreneur Jon Asgeir Johannesson, above, was forced to file for administration after yesterday's government rescue of Glitnir bank. Stodir, the biggest shareholder in Glitnir with 32 per cent, said it had filed for administration after the Icelandic government took a 75 per cent stake in the bank, diluting existing shareholders.

Report, Page 19

Citigroup steps in for Wachovia rescue with $2.2bn takeover

Bargain deal reshapes banking landscape

By Francesco Guerrera and Joanna Chung in New York and Krishna Guha in Washington

Citigroup yesterday bought the banking operations of Wachovia, the sixth-largest lender in the US, in a government-aided, cut-price deal that reshapes the country's banking landscape and prevents the failure of yet another financial institution.

The $2.2bn rescue takeover of Wachovia, which was clinched early in the morning after Wells Fargo, the other bidder, pulled out of the race, will turn Citi into the largest retail bank in the US with more than $600bn in deposits and over 4,300 branches.

Under the deal, Citi will shoulder losses of up to $42bn on Wachovia's $312bn portfolio of troubled mortgage and real estate assets, with the Federal Deposit Insurance Corp, a banking regulator, picking up the tab beyond that.

However, in return for that cap on losses Citi agreed to give the FDIC a $12bn stake in the form of preferred shares and warrants that pay in return for a cap on any losses. Although the FDIC will not hold any voting rights, the arrangement could turn the government entity into one of Citi's largest shareholders.

Citi, which will raise $10bn in equity and cut its dividend for only the second time since 1968 to help fund the deal, overtakes JPMorgan Chase which last week bought Washington Mutual, the failed Seattle-based lender.

The Wachovia deal shifts the centre of gravity of Citi's business away from wholesale and investment banking towards its retail operations.

Like the JPMorgan-WaMu deal and the decision by Morgan Stanley and Goldman Sachs to become commercial banks, the takeover also underlines banks' desire to gain deposits to fund themselves at a time when capital markets are in disarray.

The Citi takeover will almost wipe out Wachovia's shareholders, who will receive just $1 in Citi stock for shares that were worth $10 each on Friday, but protects depositors holding more than $400bn with the Charlotte-based lender.

Vikram Pandit, Citi's chief executive, also agreed to safeguard Wachovia's bondholders by assuming its $53bn debt, in a move aimed at halting the slump in investor confidence in the financial sector. Analysts said the government decision to let both Lehman Brothers and WaMu fail had deepened investor fears over the stability of the US financial system and contributed to the near freezing of credit markets.

Analysis, Page 4
www.ft.com/usdailyview

World Markets

STOCK MARKETS

	Sep 29	prev	%chg
Dow Jones Ind	10867.95	11143.13	-2.47
Nasdaq Comp	2088.18	2183.34	-4.36
S&P 500	1167.24	1213.01	-3.77
FTSEurofirst 300	1047.04	1104.79	-5.23
DJ Euro Stoxx 50	3008.19	3156.46	-4.70
FTSE 100	4818.8	5088.5	-5.30
FTSE All-Share UK	2444.58	2581.97	-5.32
CAC40	3953.48	4163.38	-5.04
Xetra Dax	5807.08	6063.50	-4.23
Nikkei	11743.61	11893.16	-1.26
Hang Seng	17880.68	18682.09	-4.29
FTSE All World $	194.6	203.9	-4.5

CURRENCIES

	Sep 29	prev		Sep 29	prev
$ per €	1.444	1.461	€ per $	0.694	0.684
$ per £	1.809	1.843	£ per $	0.555	0.544
£ per €	0.798	0.793	€ per £	1.254	1.262
¥ per $	104.9	106.0	¥ per €	151.4	154.9
¥ per £	189.7	195.4	£ index	90.1	91.1
$ index	84.8	84.6	€ index	102.1	102.6
SFr per €	1.578	1.589	SFr per £	1.978	2.005

COMMODITIES

	Sep 29	prev	chg
Oil Brent $Nov	96.14	103.54	-7.40
Oil WTI $Nov	98.85	106.89	-8.04
Gold $	898.30	889.20	+9.10

INTEREST RATES

	price	yield	chg
US Gov 10 yr	102.81	3.66	-0.16
UK Gov 10 yr	104.72	4.38	-0.18
Ger Gov 10 yr	102.23	3.97	-0.19
Jpn Gov 10 yr	100.09	1.49	+0.04
US Gov 30 yr	105.27	4.19	-0.16
Ger Gov 2 yr	101.05	3.43	-0.24
	Sep 29	**prev**	**chg**
Fed Funds Eff	1.08	1.23	-0.15
US 3m Bills	0.54	0.87	-0.33
Euro Libor 3m	5.22	5.14	+0.08
UK 3m	6.23	6.20	+0.03

Prices are latest for edition

Cover price

Albania	Lek410	Luxembourg	€3.20
Austria	€3.20	Macedonia	€3.20
Bahrain	Din1 5	Malta	€3.00
Belgium	€3.20	Mauritius	MRu90
Bulgaria	Lev6.60	Morocco	Dh32
Croatia	Kn26	Netherlands	€3.20
Cyprus	€3.20/C£1.87	Nigeria	Naira550
Czech Rep	Kc115	Norway	NKr27.00
Denmark	Dkr26	Oman	OR1.50
Egypt	E£17	Pakistan	Rupee90
Estonia	EKr60	Poland	Zl 13
Finland	€3.50	Portugal	€3.20
France	€3.20	Qatar	QR15
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Iceland	IKr380	Slovak Rep	€4.32/Sk130
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Kazakstan	US$4.90	Switzerland	SFr6.20
Kenya	Kshs300	Syria	US$4 74
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Latvia	Lats2.99	Turkey	YTL5.00
Lebanon	LBP7000	UAE	Dh15.00
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Global financial crisis: Fortis

'Fortis rescue shows eurozone fiscal authorities can coordinate a bail-out'

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Rescue gives Belgian lender breathing room

Bank still faces potential pitfalls

Concern over sale of ABN Amro assets

By Michael Steen in Amsterdam and Peter Thal Larsen in London

The state rescue of Fortis has given the Belgo-Dutch financial group some much-needed breathing space, but it leaves plenty of potential pitfalls ahead, especially in the planned disposal of its ABN Amro assets.

The decision by the governments of Belgium, the Netherlands and Luxembourg to buy 49 per cent stakes in Fortis's respective national arms late on Sunday night came after talks broke down with potential bidders for the bank, which had seen its share price slump in spite of repeated denials of liquidity problems.

Filip Dierckx, whose first task as chief executive since his appointment on Friday evening was to negotiate the bail-out, yesterday said he "would not like to have any debate" about whether the injection of €11.2bn ($16.1bn, £8.9bn) by the governments had restored confidence.

But, in a sign the market did not entirely share that sense of finality, shares in Fortis, down nearly 80 per cent over the past year, fell again to close down 24 per cent at €3.96 in Brussels.

Mr Dierckx also announced a further net €5bn in writedowns on investments in the third quarter "to see that the discussion which always existed in the market over some of these values is over and done with".

Even including the writedowns, the bank's tier 1 capital ratio will rise to a very comfortable 9 per cent, allowing it to reassess earlier plans to raise fresh capital by selling off assets, the prospects of which had been clouded by the global market turmoil.

But included in the weekend rescue plan is the commitment to sell the Dutch ABN Amro assets, bought by Fortis but still held by the RBS-led consortium that Fortis joined as part of last year's €71bn takeover and break-up of the Dutch bank.

The most obvious buyer for the assets is ING, the Dutch banking and insurance group. If successful, that deal would mark a bittersweet victory for Michel Tilmant, ING's Belgian chief executive, who last year approached ABN Amro about a merger before stepping back as ABN Amro's share price shot up ahead of the takeover battle.

Bankers said Rabobank, the Dutch agricultural lender with a big domestic retail banking franchise, was also likely to bid, possibly jointly with ING or with other parties. A possible price would be about €10bn to €12bn, against the €24bn that Fortis paid.

But the prospect of either ING or Rabobank taking on ABN Amro's large retail banking network would raise antitrust concerns.

"I can imagine the antitrust authorities in the Netherlands and certainly in Europe would have a say in that," said Ton Gietman, analyst at Petercam. "Combining ABN Amro retail with ING would create a sort of monster in the Netherlands. It would be nice for ING and create synergies, sure, but I don't think many consumers would like it."

The likely price tag could also mean that ING, which had spare leverage of €3.9bn at the end of the second quarter, would have to launch a rights issue to fund the takeover, he noted.

Team that made crucial decisions

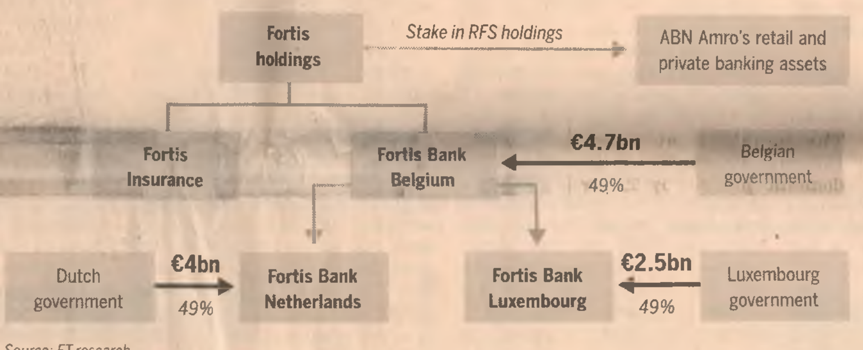
The main casualty of Fortis's weekend rescue was Maurice Lippens, the Belgian businessman who on Sunday resigned as chairman of the institution he helped create.

But the bail-out of Fortis is also embarrassing for several high-profile names in European finance who serve on the bank's board of directors. They include Clara Furse, chief executive of the London Stock Exchange; Ron Sandler, chief executive of Northern Rock, the state owned British lender; Richard Delbridge, a British banker who has served as chief financial officer of both HSBC and NatWest; and Rana Talwar, the former chief executive of Standard Chartered. These directors approved Fortis's disastrous role in the €71bn (£57bn, $102bn) break-up bid for ABN Amro, which stretched its capital ratios at the start of the turmoil in the credit markets. They also oversaw the bank's U-turn in June when it announced plans to raise an additional €8bn in capital, which destroyed the confidence of shareholders and led to Jean-Paul Votron's ousting as chief executive.

Fortis's directors will now be remembered as being involved in overseeing an institution that was the subject of one of the biggest bank rescues in European history.

A branch of Fortis bank in Brussels. Talks with potential bidders for the multinational bank collapsed on Sunday night
Reuters

Fortis bail-out



Source: FT research

Merkel intervention helps to save HRE

Germany

By James Wilson in Frankfurt and Bertrand Benoit in Berlin

Germany's financial sector was in turmoil yesterday after banks and the government came to the rescue of Hypo Real Estate, one of the country's biggest lenders, to solve a €50bn ($72bn, £40bn) liquidity crisis.

Shares in HRE plunged more than 70 per cent and other banking stocks nosedived after the intervention, the most serious sign of strain in Germany's financial sector since the collapse of Lehman Brothers aggravated the global credit crisis this month.

HRE, among Europe's biggest commercial property and public sector lenders, was handed a €35bn liquidity lifeline by other German private sector banks and the Bundesbank to help cover €50bn of unsecured funding requirements. The lender is finding a further €15bn to cover this liquidity shortfall caused by disruption to international money markets.

The rescue plan is set to lead to a sale of assets from HRE's €400bn balance sheet. But the lender rejected comments by Peer Steinbrück, Germany's finance minister, that suggested a need for an orderly wind-down of HRE. "There is no element in the agreement that reflects any dismantling or winding down of the company," a spokesman said.

The government and a consortium of German banks will provide €35bn of credit guarantees for HRE, with the banks standing for a 60 per cent share of an initial €14bn guarantee. The government will provide the rest along with a further €21bn guarantee, meaning the state's exposure could rise to more than €26bn.

The urgent bail-out was agreed in the early hours of yesterday by bankers and officials meeting in Frankfurt, with Mr Steinbrück and Angela Merkel, German chancellor, in telephone contact. A finance ministry official said: "We are walking on the edge – this is really serious. We don't know what will happen tomorrow."

HRE is one of Germany's most prominent financial companies and one of the 30 companies in the Dax index, which fell 4.2 per cent.

The rescue was organised after HRE's inability to refinance short-term borrowing within Depfa, its Dublin-based subsidiary that lends to the public sector. HRE will write down most of €2.4bn of goodwill on Depfa, which it bought last year.

Bafin, Germany's financial regulator, and the Bundesbank said the package of short and mid-term financing would ensure the viability of the company.

Only a few months ago JC Flowers, the private equity investor, led funds investing €1.1bn in HRE, buying almost 24.9 per cent of the bank for €22.50 a share.

Shares in HRE, which will pay no dividend this year, had fallen 74 per cent to €3.52 by the close in Frankfurt.

Stocks of banks with substantial property exposure were also savaged, with Commerzbank and Deutsche Postbank falling 24 per cent.

A failure of HRE could also have had repercussions for Germany's important market in ultra-safe covered bonds, or *Pfandbriefe*. HRE is an important issuer of such bonds.

Action allays fears over cross-border EU bail-outs

Brussels

Shortcomings of financial regulation are highlighted by the rescue, write **Peter Thal Larsen** and **Ralph Atkins**

For the past few years, bankers and regulators in Europe have debated how they would deal with the failure of one of the continent's larger financial institutions. Following the bail-out of Fortis last weekend they now have an example of how such rescues might work in future.

The decision by the Belgian, Dutch and Luxembourg governments to inject a combined €11.2bn ($16.3bn, £9bn) into Fortis's national banking subsidiaries helped to shore up confidence in the banking and insurance group. It also laid to rest concerns that Fortis's size – it has assets of almost €900bn – would make a government rescue more difficult to co-ordinate.

"This has shown that the cross-border model which works in this company has worked perfectly, because we have a concerted action by the different governments," Filip Dierckx, Fortis's new chief executive, said yesterday. "We have been able to work out a solution that was in the interest of all the parties."

However, the structure of the bail-out has also highlighted the many shortcomings of Europe's system of financial regulation. It is a forceful reminder that, when it comes to bailing out failing banks, it is national governments that hold the purse strings, and they are mainly interested in shoring up domestic operations.

Daniel Gros, director of the Centre for European Policy Studies in Brussels, argues that if the European Central Bank had had greater sway, if could have headed off the problems at Fortis earlier – assuming it had access to relevant information. As it was, national regulators had lacked an incentive to curb the risk-taking activities of a bank considered a national champion.

The result of the weekend's deal, dividing the bank between governments, was that "the European banking market has been Balkanised – not a negligible price to pay", added Mr Gros.

The European Commission – which will put forward legislative proposals to beef up the system for supervising cross-border banks in Europe tomorrow – claimed that the Fortis rescue had validated the current co-operative system.

"What we have seen is that the system works, both nationally and internationally . . . The EU financial system is able to respond to situations as they come," said an official spokesman.

However, the bail-out looks like a setback for the Commission's efforts to create a pan-European banking market. Ever since the introduction of the single currency, European commissioners have been pushing for cross-border consolidation to create large, pan-European banks.

This driver regularly brought the Commission into conflict with national governments and regulators, which were accused of throwing up barriers to protect their domestic institutions. Most notably, when the Dutch central bank in early 2007 raised concerns about the planned break-up bid for ABN Amro by Royal Bank of Scotland, Santander of Spain and Fortis, Charlie McCreevy, the EU internal market commissioner, issued a reminder that the regulator *should not discriminate* between rival bidders.

The break-up bid went ahead, with disastrous consequences. It seems unlikely that any EU government or regulator will allow itself to be overruled in the same way in the future.

Bankers also take little comfort from the fact that the national regulators involved in the Fortis rescue initially did not agree on how to handle the crisis, with Belgium more favourably disposed to a state bail-out and the Netherlands less enthusiastic.

It was only when the private sector alternatives – including the possible sale of Fortis to BNP Paribas – fell away because of the low sums offered and the guarantees demanded that the Dutch authorities came around. Commission officials confirmed yesterday that Neelie Kroes, the EU competition commissioner, been in close touch throughout the weekend's discussions.

Additional reporting by Nikki Tait

FINANCIAL TIMES

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Glitnir lifeline fails to quash fears of heavy losses in sector

Iceland Exposure

By Robert Anderson in Stockholm

The Icelandic government yesterday took control of Glitnir, the country's third largest bank, highlighting the exposure of the island's banks to the global financial turmoil through their dependence on wholesale funding.

David Oddsson, central bank governor, said: "Without this intervention Glitnir would have ceased to exist within the next few weeks. It's as simple as that."

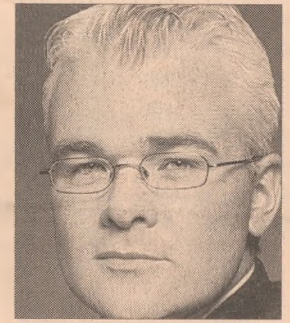
The government injected €600m (£479m, $864m) of equity into the bank but failed to quash fears that the whole banking sector could now face serious losses as Icelandic investors write down the value of their Glitnir shareholdings and foreign confidence in local banks is shaken.

"This could potentially get very ugly," said Andreas Hakansson, a banking analyst at UBS in Stockholm.

The shock announcement of Glitnir's rescue pushed the Icelandic krona to record lows against the euro while other bank shares fell and credit risk rose to record levels.

Larus Welding, Glitnir's chief executive, told a conference call that the US financial crisis caused Glitnir at the end of last week to suffer a squeeze on its short-term funding. "We experienced a potential liquidity issue as we were looking forward so we stepped into discussions with the government," he said.

In talks over the weekend, the government offered to inject €600m of equity for a 75 per cent stake, representing €2,000 for every inhabitant of the island.



Larus Welding: squeezed

"The purpose of this action is to enhance stability within the financial system," the Icelandic government said, adding that it did not intend to hold the stake for an extended period.

The injection values Glitnir's shares at IKr2 compared with their closing price of just under IKr16 on Friday, representing a huge blow to the bank's existing shareholders.

The interconnectedness and indebtedness of the island's financial sector makes the move particularly damaging. Icelandic investment company Stodir, formerly known as FL Group, which was the bank's largest shareholder with 32 per cent, yesterday sought protection from creditors.

Iceland's banks have been hurt both by the island's slowing economy and by the tighter global credit market.

Bauger, Page 22

Rash of deals will come under antitrust scrutiny

Europe

By Nikki Tait in Brussels

Britain's plan to rescue Bradford & Bingley, through a nationalisation of the mortgage lender, will be scrutinised "urgently" to see whether it complies with antitrust guidelines, according to officials in Brussels.

A formal submission from the British government had yet to arrive by late afternoon yesterday, although British and European Commission officials were in contact over at the weekend.

Neelie Kroes, EU competition commissioner, was also actively involved as bankers hammered out yesterday's Fortis bail-out. But she had not been sounded out in advance over the €35bn ($51bn, £28bn) bail-out of Germany's Hypo Real Estate, although the German authorities are likely to notify Brussels soon. All three deals should keep Ms Kroes busy for months.

Under EU rules, bail-out packages for banks are subject to the same antitrust constraints as those for other businesses.

Accordingly, there are two main ways EU competition rules can have a bearing on bank bail-outs. First, there are the state aid rules that come into play when national authorities inject money into businesses on terms that are not purely commercial. This is generally frowned upon because it discriminates between those that get the assistance and those that do not. The EU accepts that such aid can be justified in exceptional circumstances. So-called "rescue aid" can be judged acceptable if it lasts for no more than six months and is aimed at giving the business time to work out a restructuring or liquidation plan. B&B, Fortis and Hypo may all need to meet this test.

If the aid runs beyond six months, the authorities must supply a restructuring plan to restore the firm's viability. This time, to pass EU muster the aid must be the minimum necessary and measures must also be taken to offset its distorting effects – usually by scaling back operations. The second way competition rules come into play is when a healthy company is persuaded to take over an ailing competitor and merger rules kick in. Lloyds TSB's acquisition of HBOs is expected to avoid Brussels' scrutiny because if two-thirds of both companies' EU turnover is in a single member state the local competition regulator has jurisdiction.

Summit plan

Europe's leading policymakers will meet in Paris next week to prepare for a possible global summit on the financial crisis, Nicolas Sarkozy, France's president, said yesterday, **writes Tony Barber in Marseilles.**

The talks will include officials from France, Germany, Italy and the UK, the European Central Bank and the European Commission.

'London and New York will rise again'

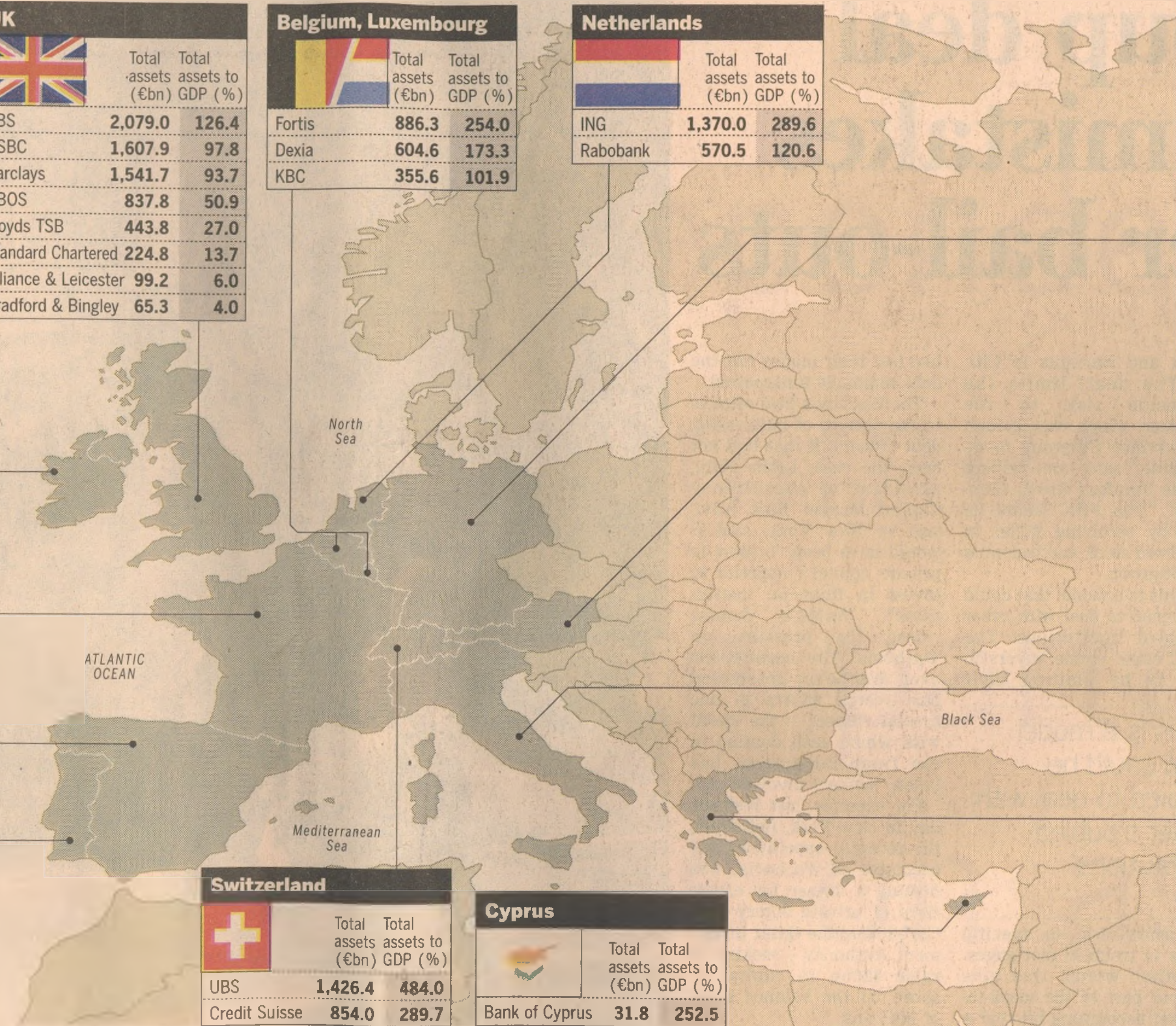
Michael Skapinker, Comment, Page 15

'If people think the authorities may give in to fears - they are wrong'

Mario Draghi
ECB governing council member

European banks

Too big to fail? (2007 figures)



Iceland

	Total assets (€bn)	Total assets to GDP (%)
Kaupthing	53.1	622.5
Landsbanki	31.9	374.3
Straumur	7.1	83.5
Spron	2.5	28.7

Ireland

	Total assets (€bn)	Total assets to GDP (%)
Bank of Ireland	183.4	102.0
Allied Irish	177.9	98.9
Anglo Irish	96.7	53.8

France

	Total assets (€bn)	Total assets to GDP (%)
BNP Paribas	1,694.5	104.4
Crédit Agricole	1,414.2	87.1
Société Générale	1,071.8	66.0

Spain

	Total assets (€bn)	Total assets to GDP (%)
Santander	912.9	131.8
BBVA	502.2	72.5
Benesto	110.1	15.9
Popular	107.2	15.5
Sabadell	76.8	11.1
Bankinter	49.6	7.2

UK

	Total assets (€bn)	Total assets to GDP (%)
RBS	2,079.0	126.4
HSBC	1,607.9	97.8
Barclays	1,541.7	93.7
HBOS	837.8	50.9
Lloyds TSB	443.8	27.0
Standard Chartered	224.8	13.7
Alliance & Leicester	99.2	6.0
Bradford & Bingley	65.3	4.0

Belgium, Luxembourg

	Total assets (€bn)	Total assets to GDP (%)
Fortis	886.3	254.0
Dexia	604.6	173.3
KBC	355.6	101.9

Netherlands

	Total assets (€bn)	Total assets to GDP (%)
ING	1,370.0	289.6
Rabobank	570.5	120.6

Portugal

	Total assets (€bn)	Total assets to GDP (%)
Millennium BCP	88.2	66.9
BES	68.4	51.8
BPI	40.6	30.8

Switzerland

	Total assets (€bn)	Total assets to GDP (%)
UBS	1,426.4	484.0
Credit Suisse	854.0	289.7

Cyprus

	Total assets (€bn)	Total assets to GDP (%)
Bank of Cyprus	31.8	252.5

Germany

	Total assets (€bn)	Total assets to GDP (%)
Deutsche Bank	1,917.1	85.7
Commerzbank	616.5	27.6
Hypo Real Estate	400.2	17.9
Deutsche Postbank	203.0	9.1

Austria

	Total assets (€bn)	Total assets to GDP (%)
Erste Bank	206.0	85.3
Raiffeisen Intl	72.7	30.1

Italy

	Total assets (€bn)	Total assets to GDP (%)
Unicredit	1,021.8	79.5
Intesa Sanpaolo	605.3	47.1
MPS	199.4	15.5
Banca Popolare	128.4	10.0
UBI banca	121.5	9.5
BPM	43.6	3.4
Mediobanca	43.5	3.4
Credem	26.2	2.0
Creval	17.2	1.3

Greece

	Total assets (€bn)	Total assets to GDP (%)
NBG	90.4	49.4
EFG Eurobank	68.4	37.4
Piraeus Bank	46.4	25.4
Marfin	30.3	16.5

Sources: KBW; IMF; FT research   FT Graphic

Investors flee European lenders

Some big names see falls of 15%

Worries rise over future bail-outs

By Chris Hughes and Richard Milne in London

European bank stocks suffered heavy selling yesterday as investors fretted over their ability to raise capital – and what might happen to equity and debtholders in any future bail-outs.

A large handful of Europe's biggest banking names suffered falls of more than 15 per cent, with the greatest casualties found among institutions with thin capital bases or a heavy reliance on wholesale funding. Meanwhile, the cost of credit protection widened for a raft of European lenders.

Equity analysts said the selling was partly indiscriminate and it was hard to rationalise some of the share price falls. "The market is worried about banks getting into a Lehman Brothers situation, of needing capital but not being able to raise it," said one analyst who asked not to be named. "Put simply, investors have got very scared."

That fear was compounded by the difficulty of predicting how national governments would deal with the next bank to require support, given that the US had allowed Lehman to fail, Bradford & Bingley had been nationalised in the UK, Fortis had received a highly dilutive equity injection from three Europe states, and Hypo Real Estate had secured an emergency financing package with central bank backing.

In Germany, Aareal and Commerzbank – the two banks bearing closest comparison with HRE's commercial property lending business – saw their shares tumble by 42 per cent and 22 per cent respectively. Both protested at the falls and rejected any similarities to HRE's problems with short-term financing.

> 'The market is worried over banks getting into a Lehman situation'
>
> **City analyst**

Aareal said it had "solid funding" while EuroHypo, the commercial lending arm of Commerzbank, said it had a conservative and long-term refinancing policy.

Even Unicredit, the Italian bank that had become seen as one of the relative winners from the credit crisis, suffered via its association with HRE, which was formerly owned by HVB, the German bank it acquired in 2005. Heavy selling saw the shares suspended in mid-morning trade.

Dexia, Fortis's Belgian peer and one of Europe's most highly leveraged financial institutions, was down 30 per cent amid talk of an imminent capital raising. The bank's total assets exceed Belgian's gross domestic product by 73 per cent.

Irish banks were hit, with Anglo Irish Bank falling 46 per cent and Allied Irish Banks down 16 per cent, dragging the sector lower. AIB and Bank of Ireland each have asset bases equivalent to Ireland's GDP.

Natixis, France's fourth-largest bank which this month completed a €3.7bn rights issue, fell 15 per cent in spite of affirmations of support from the two mutual banks which hold 70 per cent of the equity.

Meanwhile, Swedbank, the Swedish bank, fell 19 per cent as investors fretted about its exposure to the Baltics, where it is the largest lender, and its status as one of the largest creditors to Lehman, which owes it $1.35bn.

Elsewhere in Europe the focus is on some of the hundreds of small, often unlisted, lenders that dominate banking systems. Denmark is expecting the collapse of further small banks after several failures and in Spain bankers expect those small lenders most exposed to property developers to consolidate or struggle.

Dexia shares fall sharply amid capital-raising fears

By Scheherazade Daneshkhu in Paris

Shares in Dexia lost more than a quarter of their value yesterday on fears that the Belgian-French financial services group needed to raise capital.

The board met last night "to assess the international financial situation", according to a spokesperson after the shares fell by 30 per cent in Brussels to €7.07.

Concerns about the strength of the group's balance sheet have gathered steam following the partial nationalisation of Fortis, the banking and insurance group, by the Belgian, Dutch and Luxembourg governments.

French and Belgian government officials sought to reassure financial markets by suggesting they would step in.

"We will also fulfil our responsibilities towards Dexia on all fronts," said Yves Leterme, Belgian prime minister.

Dexia is the world's biggest lender to local governments.

In France, Christine Lagarde, finance minister, said Dexia had no French depositors.

Caisse des Dépôts et Consignations, the government-owned bank, is the third largest shareholder.

Concerns have grown about the group's balance sheet

The two biggest shareholders are Belgian-based Arcofin, the financial services group, and Holding Communal, a consortium of local authorities, which between them own 34 per cent.

"CDC will certainly take its responsibility as a shareholder alongside other shareholders," said Ms Lagarde, adding that: "Dexia is a Belgian bank with Belgian capital and under Belgian supervision and the Belgian state has spoken; it will take its responsibility, it said, like it did for Fortis."

Last month, Dexia injected capital – for the second time this year – into Financial Security Assurance, its US bond insurance arm which is one of a number of US monoline insurers to have been hit hard by the tumbling values of mortgage-backed bonds and other complex debt.

Global financial crisis: Wachovia rescue

'Its become normal for a big bank to disappear quickly'
Thierry Lacraz, Swiss bank Pictet

'The weak players are falling into the hands of the strong'
Jay Mueller, Wells Capital Management

Citigroup deal avoids mistakes of other bail-outs

Toxic assets taken on by government

Potential stake given in return

By Henny Sender and Joanna Chung in New York

Citigroup's government-brokered acquisition of Wachovia may have avoided some of the mistakes made during previous attempts by federal authorities to rescue ailing US financial institutions, analysts and industry executives say.

"The Federal Reserve and the Treasury are finally taking the right steps to stabilise the system," said Larry Fink, founder of BlackRock, the asset manager that is 49 per cent owned by Merrill Lynch, which is now in the process of being acquired by Bank of America. "They have shown that they have gotten it. It is a new game."

The Wachovia deal is notable because the government – in the form of the Federal Deposit Insurance Corporation – is taking much of the risk on Wachovia's portfolio of toxic assets in return for a potential ownership stake in the combined bank.

As part of the transaction, Citi has agreed to absorb up to $42bn of losses on a $312bn pool of loans inherited from Wachovia.

The FDIC will absorb losses beyond that in return for $12bn in preferred stock and warrants in Citi.

"[The deal] limits the downside risk to the acquirer, which was enough to convince Citigroup to do the deal," said Jaret Seiberg of the Stanford Group Company. "The FDIC limits its risk by receiving $12bn in preferred stock and warrants in Citigroup.

"This is a model that could be copied to deal with other troubled institutions. The FDIC could entice buyers to step in by limiting their downside risk on specific pools to troubled mortgages. In other words, this gets around part of the mark-to-market accounting hit that a healthy bank would suffer if it bought a sick bank."

'This is a model that could be copied to deal with other troubled institutions'

To some lawyers and bankers involved in rescuing banks, the Wachovia deal also represents an improvement from last week's FDIC takeover of Washington Mutual, which led to its sale to JPMorgan Chase.

The WaMu deal troubled many market participants because debt holders were wiped out along with stockholders. In most previous bank rescues, shareholders had lost their money but the debt remained unimpaired.

The Wachovia deal returns to the pattern of buttressing debt holders. If that had not been the case, Leslie Rahl, president of consultancy Capital Market Risk Advisors in New York, said it would have been "a blow to private capital's appetite to invest in financial institutions". WaMu's demise raised the pressure on Wachovia. The negotiations over Wachovia resembled past rescue efforts in one crucial respect – the speed with which each domino in the financial system has fallen, bankers involved say.

For example, last Wednesday in New York, Bob Steel, the recently appointed chief executive of Wachovia, was hosting a dinner for executives of private equity firm Carlyle and the Qatar Investment Authority – seeking to raise $20bn in capital to shore up the balance sheet of his bank.

A mere 36 hours later, with the hole on Wachovia's balance sheet ballooning, Mr Steel shifted gears and was holding talks with Citigroup and Wells Fargo about a sale of the entire bank.

People involved in the Wachovia negotiations say it differed from the WaMu talks because Wachovia was bigger and had engaged in more complex transactions with counterparties in the markets, making the systemic risk higher.

The negotiations over Wachovia resembled past rescue efforts in the speed with which the deal fell into place Reuters

	Deposits	Assets	Branches	Market value
Citigroup	$804bn	$2,100bn	8,300	$114bn
Wachovia	$448bn	$812bn	4,800	$22bn

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HELLENIC REPUBLIC

REQUEST FOR THE SUBMISSION OF EXPRESSIONS OF INTEREST IN PANTHEON AIRWAYS S.A. TOGETHER WITH CERTAIN ASSETS OF OLYMPIC AIRLINES S.A.

Introduction

Within the framework of Greek Privatisation Law 3049/2002 and the decision taken by the Interministerial Committee for Privatisations on 26 September 2008, the Hellenic Republic has decided to proceed with the sale of certain assets of Olympic Airlines S.A. ("Olympic Airlines") to an existing corporate entity, Pantheon Airways S.A. ("Pantheon"). In combination with the sale, it is intended that Pantheon will become an airline wholly-owned by third party investor(s). A private purchaser of Pantheon will be granted a high degree of flexibility with regards to design and operation of the new airline. Assets to be sold to Pantheon by Olympic Airlines include the exclusive right to use the "Olympic" brand name and logo, certain highly sought-after slots at congested airports, as well as the possibility to acquire additional Olympic Airlines assets such as aircraft and IT systems. Following completion of the sale process Olympic Airlines will cease operations. The purpose of this transaction is to ensure maximum return on assets sold for Olympic Airlines and to maintain the provision of air transportation services to and from, as well as within, Greece by a new commercially and financially viable private sector carrier.

To this end, Lazard, NBG International, Emporiki Bank and Alpha Bank have been mandated by the Hellenic Republic as financial advisors in relation to the sale described above.

This invitation is intended to solicit expressions of interest from parties who wish to be considered as potential purchasers of Pantheon.

The proposed transaction provides an unrivalled and unique prospect to fill a one-off void in the highly attractive Greek market that will be created by the liquidation of Olympic Airlines. Olympic Airlines is the national airline of Greece and during 2007 carried 6.2 million passengers to 36 cities and islands within Greece and 37 destinations in Europe, Asia, North America and Africa.

The transaction has received formal clearance from the European Commission under applicable State aid rules.

Process

The buyer of Pantheon will be selected through a multi-stage process. Following the initial stage of Expression of Interest, it is envisaged that a number of qualifying interested parties will be allowed to participate in the next stages of the process and will be given access to a data room and due diligence with a view to preparing their bids. Parties qualifying for participation in subsequent stages will be provided with a process letter specifying the details and the timetable for each next stage in the process. The aim is to conclude the tender process within an overall three-month period by the end of 2008.

The Hellenic Republic and its advisors expressly reserve the right, without advance notice and without giving reasons, at any time and in any respect to cancel or amend the sale process or any stage thereof.

First stage of tender process:

Expressions of Interest: Parties who wish to be considered for this process should submit an Expression of Interest in line with the requirements stated below by 31 October 2008. Those parties that submitted Expressions of Interest will promptly receive a summary information pack describing the opportunity, transaction structure and assets available for sale, and will also be sent a Confidentiality Agreement ("CA"). Expressions of Interest will be evaluated as received, under a transparent and non-discriminatory process, against the information provided in the Expressions of Interest, and applicants will be notified in writing by the financial advisors of whether or not they have been included in the short-list. Short-listed applicants, following execution of the CA, will be allowed access to a data room, and meetings with management.

Expressions of Interest Requirements

Expressions of Interest should include the following information in the form and order outlined below. Candidates will be selected for the following stage based on the information provided in their Expression of Interest.

The Hellenic Republic and/or its advisors reserve the right to require additional information from any party, where they consider this appropriate

(i) Applicant Details

Each applicant should provide:

The full name, address, phone and fax numbers, internet website address (if applicable), e-mail address, and names of principal contacts of the applicant (including, where the applicant is a company, details of its current directors, shareholders (and, if different, beneficial owners), place of incorporation and company number);

Names of all partners, consortium members, joint venturers or other members (at this stage) and their respective places of incorporation, registered address, current directors and principal shareholders (and, if different, beneficial owners);

Copies of the most recent audited accounts of the applicant and, if relevant, the most recent audited accounts of its ultimate holding company (or other legal body);

Where the applicant (or partner, consortium member, joint venturer or other member concerned) has a holding company, details of its position in the relevant group structure, together with the name, registered office (or equivalent), current directors and principal shareholders (and if different, beneficial owners) of the ultimate holding company; and

Confirmation that the applicant has the capacity to bid for the assets and that there is no restriction under any relevant law to prevent the applicant from bidding, and acquiring the assets, in this process.

(ii) Statement of Interest

The applicant's strategic rationale for investing in Pantheon as well as the applicant's broad development plans must be described.

(iii) Financing Ability

A statement confirming the solvency of the applicant and each of its key sponsors, shareholders and partners.

Details of the applicant's overall financial standing.

(iv) Security Statement

A statement from the applicant indicating that the applicant has no objection to the Hellenic Republic and/or its advisors conducting security checks, both within the Member States of the European Union and overseas, on the applicant, its shareholders, partners, consortium members or joint venturers. A similar statement should be provided by each of the principal shareholders of the applicant.

(v) Approval and Completion Requirements

Details of any approvals (internal and external) required in order to participate in the proposed transaction, and the likely timing of such approvals.

(vi) Professional Advisors

Details of professional advisors to be used by the applicant, including the advisors' names, names of key individuals and contact numbers.

Applicants should ensure that sufficient information is provided in the form and order outlined above, as only bidders who adequately provided the information requested above will be selected for inclusion in the next stage of the sale process.

Expressions of Interest should be submitted in English to one of the following representatives of Lazard or NBG International:

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Omiros Millas
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Investors may also wish to contact one of the following representatives for enquiries:

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Lender bows under weight of Arms

Mortgages

By Saskia Scholtes and Justin Baer in New York

Known for its pursuit of growth through aggressive acquisitions of rivals, Wachovia yesterday ultimately bowed under the weight of its most vaunted prize: Golden West Financial.

Wachovia paid $25.5bn for the California-based mortgage company in May 2006, just as the housing market was beginning to turn.

At the time, the deal raised several concerns. Among them, was the price-tag too high for a monoline business whose fortunes were tightly bound to the frothy California real estate market? And would Golden West's narrow focus on adjustable rate mortgages slow Wachovia's growth by diluting its exposure to faster growing businesses such as capital management and investment banking?

On a conference call announcing the deal at the time, Ken Thompson, Wachovia's then chief executive, and Herb Sandler, Golden West chief executive, dismissed the criticism. In often colourful language, Mr Sandler pointed out that Golden West had churned out nearly 20 per cent earnings growth each year for four decades, through real estate booms and busts.

But as the housing market turned, the acquisition left Wachovia burdened with a $122bn portfolio of option-Arms – adjustable-rate mortgages that allow the borrower to choose whether to pay interest or principal. It now expects 12 per cent cumulative loss rates on those loans. Together with exposures to commercial mortgages, collateralised debt obligations and other structured products, Golden West's option-ARM portfolio proved Wachovia's undoing.

Option-Arms allow borrowers to choose a low minimum monthly payment that often falls short of the interest due on the loan, typically for five years. The difference between the minimum and the full payment is added to the mortgage balance, allowing borrowers to increase their leverage before they start paying back debts.

While many of these mortgages were underwritten with sizeable down-payments of between 20 and 30 per cent, house prices fell so dramatically that many borrowers were left underwater.

Citi's acquisition of Wachovia includes a loss-sharing agreement with the Federal Deposit Insurance Corporation for a $312bn portfolio of mortgage-related and other Wachovia assets.

The acquisition brings an end to a long-running saga of banking mergers in North Carolina's banking industry where liberal banking regulations helped give local institutions a head start in the US industry's gradual consolidation.

First Union and NationsBank, now Bank of America, were among the most aggressive in expanding beyond the state's borders through a flurry of acquisitions of lenders from Florida to New York to California.

Move propels bank to top of retail sector

Strategy

By Francesco Guerrera and Joanna Chung in New York

According to Citigroup's advertising slogan, "Citi never sleeps". For the past few weeks, its executives have not been getting much rest either.

After looking very closely at Washington Mutual, the failed lender that ended up with JPMorgan Chase, Citi swallowed another US regional banking powerhouse in the early hours of yesterday morning.

After a weekend of fraught talks, repeatedly in danger of collapsing, Citi emerged with a government-brokered takeover of the banking operations of Wachovia, the sixth-largest US lender.

The move is a significant change in strategy for the group, shifting its centre of gravity away from high-risk, high-reward corporate and investment banking to the steady but less profitable retail sector.

To finance the deal, which will see Citi pay $2.2bn (€1.5bn, £1.2bn) in shares and assume $53bn of Wachovia's debt, the group will raise $10bn in new shares and cut its dividend for only the second time since 1968, according to Reuters Fundamentals.

Bankers said Citi heard from regulators it had won Wachovia at 4am after Wells Fargo, the other remaining bidder, pulled out after failing to secure sufficient government risk guarantees. Wachovia's shares had been plummeting for weeks amid fears over its health.

Citi, by contrast, has agreed to shoulder the first $42bn of losses on $312bn of Wachovia's assets, which include its toxic mortgage book and property assets.

The Federal Deposit Insurance Corporation, the US banking watchdog, will assume any loss beyond that. In return, the FDIC will get a $12bn stake in Citi in the form of preferred shares with a 6 per cent dividend and warrants.

If all the warrants are exercised, the non-voting holding, which was equal to 11 per cent of Citi's market value at yesterday's share price, could turn the regulator into one of Citi's largest shareholders. The presence of a US government entity on Citi's shareholder register underlines the unique nature of the Wachovia deal.

Vikram Pandit: Citi chief has made high-stakes move

Citi's chief executive Vikram Pandit described it as "historic" and said the acquisition of Wachovia's $400bn-plus of retail deposit would catapult Citi to the top of US retail banking.

The deal will bolster Citi's retail banking presence in the US, trebling the number of branches to more than 4,000 and providing it with a $600bn deposit base that could act as a valuable funding source at a time when capital markets are frozen.

Yet, acquiring Wachovia at a time when the US faces the worst downturn since the Depression is a high-stakes move by Mr Pandit.

Citi provided a glimpse of the plight of US consumers when it said credit provisions in the third quarter would be about $10bn, partly because credit losses are running at a 20-year record. It also warned that net income in the third quarter would decrease from the second quarter and it would suffer some $5bn in writedowns on mortgage-backed assets and securitisations.

Japan's stake in M Stanley 'an alliance'

Mitsubishi Move

By Greg Farrell and Henny Sender in New York and Michiyo Nakamoto in Tokyo

Just a week after reconstituting itself as a bank holding company, Morgan Stanley announced details of the deal that will see Japanese banking giant Mitsubishi UFJ (MUFG) acquire 21 per cent of the group's stock for $9bn.

The deal comes days after Morgan's longtime rival Goldman Sachs announced a $5bn infusion of capital from Warren Buffett's Berkshire Hathaway, accompanied by another $5bn in the sale of common stock.

But unlike Mr Buffett's investment in Goldman, the Morgan Stanley-MUFG deal is being pitched as a "global strategic alliance", not simply a cash infusion.

According to both parties, MUFG – the world's second largest bank holding company with $1,100bn in assets – will work with Morgan Stanley to expand its business in the US, while the investment bank will gain access to a wider client base in Tokyo and the Far East.

"This strategic alliance offers a powerful opportunity to accelerate Morgan Stanley's transition as a bank holding company," said Morgan chief executive John Mack. The two groups will conduct discussions on forming a global strategic alliance in corporate and investment banking, retail banking and asset management with an aim to finalise details in June of 2009.

The Japanese bank completed its due diligence of Morgan Stanley in just five days, rather than the three weeks to one month it initially forecast, highlighting the pressure on the conservative Japanese bank to move quickly in response to the deteriorating market environment. MUFG acknowledged it had been under pressure to finalise the deal rapidly and said it had hired private equity group BlackRock to conduct due diligence on Morgan Stanley's securitisation products.

The sharp deterioration in Morgan Stanley's outlook has raised questions about MUFG's decision to invest in the bank. A partner at a large US hedge fund, who said his fund had pulled its prime brokerage business from Morgan Stanley, said the bank faced a crisis of confidence among clients.

However, MUFG said yesterday it believed Morgan Stanley's investment banking businesses were still extremely promising.

Global financial crisis: US bail-out

'This cannot be allowed to go on . . . this is hopeless'
David Buik, Cantor Index, London

Brad Sherman, a Democratic opponent of the bill, on Capitol Hill yesterday: 'Just because this bill is unpopular doesn't mean we have to pass it immediately' Getty

Angry Republicans lead Congress charge

House debate reveals misgivings

Constituents are fiercely opposed

By Daniel Dombey and James Politi in Washington

Angry members of the US Congress yesterday ripped into the latest proposal for a $700bn financial rescue package, while supporters offered only half-hearted support.

In exchanges on the floor of the House of Representatives that revealed deep misgivings about the plan, Republican legislators led the charge against a measure they accused of threatening the very future of the US free market system.

As the House prepared to vote, the number of speakers criticising the measure outnumbered those defending it by about two to one.

"New York City fatcats expect Joe Sixpack to buck up and pay for all of this nonsense," said Ted Poe, a Texas Republican. "Putting a financial gun to the head of every American is not the answer."

Gresham Barrett, a Republican from South Carolina, said: "My fear is the government will be forever changing the face of the American free market. Because I believe so strongly in the principles of the free market and the belief in freedom, I will be opposing this bill."

After a weekend of frantic dealmaking, the congressional leadership of both parties back the compromise, which would release an initial tranche of half the total $700bn (€480bn, £380bn), would give the federal government the right to take stakes in assisted groups, and establish a general principle that the financial sector could eventually bear the cost of a plan.

"We have to have a bipartisan vote on this. That is the only message that will send a message of confidence to the markets," said Nancy Pelosi, House Speaker. "I know that we will live up to our side of the bargain. I hope the Republicans will too."

But in an indication of how unpopular the plan remained, the two parties' efforts to win sufficient backing focused on legislators who are in safe districts or who are about to retire.

Politicians from both parties almost unanimously report that their constituents are fiercely opposed to a measure largely seen as bailing out some of the richest people in the US, while the rest of the country is suffering from an economic downturn.

In a Gallup/USA Poll released yesterday, only 28 per cent of the respondents approved of President George W. Bush's handling of the package, with 68 per cent disapproving.

"Every member of Congress and every American should keep in mind: A vote for this bill is a vote to prevent economic damage to you and your community," Mr Bush said in a last-minute call for support in the House yesterday – but without noticeable effect.

"This is essentially Mr Paulson's bill to help his friends and I can't buy it," said Paul Broun, a Republican of Georgia. "This is a huge cow patty with a piece of marshmallow stuck in the middle of it."

While Republicans championed the alternative of suspending mark to market rules to help troubled institutions' balance sheets, a number of Democrats also assailed the proposal for its use of taxpayer funds.

Lloyd Doggett, a Democrat from Texas, argued that proposals to claw back the cost of the programme from financial groups were merely cosmetic.

"Not even Avon and Mary Kay can compete with the cosmetics in this bill," he said.

"Just because this bill is unpopular doesn't mean we have to pass it immediately," said Brad Sherman, one of the chief Democratic opponents of the measure. "It doesn't mean it's an act of patriotism."

Yesterday, the Securities Industry and Financial Markets Association asked its members and their employees to lobby for the measure ahead of the vote, in a sign of its mounting concern.

Middle America grudgingly prepares to pay for others' 'greed'

Main Street

By Hal Weitzman in Chicago, Sheila McNulty in Houston and Daniel Pimlott in New York

Dale Plumer lets out an incredulous laugh when asked if he supports the US government's $700bn bail-out of Wall Street.

"We're probably like all the other middle-income people," says Mr Plumer, a merchandiser at JBS United, a grain elevator company in Griggsville, a small town in south-western Illinois. "We don't think we should have to bail them out."

His view reflects the mood across much of middle America, where taxpayers are concerned about both the federal government's massive intervention in the economy and how they will be affected.

Like many on Main Street USA, he admits he has a poor grasp of the difficulties faced by the financial sector. "I don't know what the ramifications are of just letting those companies fail. But it sure seems like somebody was too greedy and let it get the best of them."

In New York, Tom Aronis has run Astro Restaurant, a diner near Central Park, for nearly 28 years. Business has been getting worse, he says. "I know one thing. If I run my business into the ground the government wouldn't have to come to bail me out. That's for sure."

Several small and medium-sized business owners who spoke to the Financial Times yesterday said they accepted the need for a bail-out, albeit grudgingly.

In Texas Bruce Stram, a former vice-president of Enron who now runs Element Markets, a clean energy company in Houston, said Wall Street had failed more spectacularly than his erstwhile employer, since it had little idea of the value of its own assets.

"I'm quite willing to believe the experts that something along these lines [the bail-out] was needed to avoid dire economic consequences," he said, adding that the executives of the companies being rescued should be severely punished. "You don't want to break them, but you definitely want to hurt them."

Tony Raimondo, chairman of Behlen Manufacturing, an agricultural equipment-maker in Nebraska with 1,100 employees, said the bail-out would help smaller companies. "This liquidity nightmare is very serious for small and medium-sized business," he said.

"At our company, we've got over $10m in bonds that we're financing and the interest rate for years has been between 2 and 3 per cent. We've just been notified it's up over 8 per cent. That's a $17,000 increase per month that's going to take money out of capital and employees. We've got to get this [bail-out] done."

should be severely punished. this [bail-out] done. engaged in misstatements".

Fed floods central banks to ease market stress

Liquidity

Foreign institutions are to gain access to a further $630bn, write **Krishna Guha** and **Alan Beattie**

The Federal Reserve yesterday prepared to pour an extra $630bn into the global financial system in co-ordination with other central banks around the world, in a huge effort to curb extreme stress in international money markets.

The move was designed to reinforce the impact of the $700bn (€480bn, £380bn) bail-out bill put before the US Congress yesterday and directly relieve market stress until the bail-out fund could start operating. With that legislation rejected in a first vote in the House of Representatives yesterday, it could take on even greater importance.

The huge increase in official sector lending is designed to neutralise roll-over risk. The interbank money market is essentially paralysed as no one will lend for fear that the borrowing institution will not be able to roll over the rest of its outstanding funding.

This is putting extreme pressure on weak financial institutions in particular – forcing the authorities to rescue banks on both sides of the Atlantic – and threatens to intensify the credit squeeze in the real economy.

The co-ordinated move is intended to encourage banks to start lending again, knowing that the borrowing bank will always be able to secure the remainder of its near-term funding needs from its central bank.

The Fed said it would more than double the amount of dollars it provided to foreign central banks to distribute to banks abroad from $290bn to $620bn. The European Central Bank will now have $240bn to lend, the Bank of Japan $120bn, the Bank of England $80bn and the Swiss National Bank $60bn. Sweden's Riksbank, Australia's Reserve Bank and the Bank of Canada will have $30bn each, while Norway's Norges Bank and Denmark's Nationalbank will distribute $15bn.

The action reflects the US authorities' new crisis-fighting strategy of combining gigantic liquidity operations with large-scale fiscal intervention in troubled asset markets, while holding in reserve for now the possibility of further interest rate cuts.

At the same time it will double the size of its domestic credit auctions to $300bn, with the additional $150bn coming in longer-term 84-day loans. The Fed will supply another $150bn in domestic credit in one-off auctions to bridge the end of the year, when demand for liquidity is typically at its highest.

Its new operations vastly exceed the normal size of its balance sheet. However, the draft bail-out legislation would have allowed the Fed to put in place a mechanism that would automatically have mopped up any excess liquidity it created, ensuring that the operations do not overshoot and depress the Fed funds rate below its target.

It would do so by paying interest on bank reserves at a rate slightly below the Federal funds rate, ensuring that excess funds are returned to the Fed as additional bank reserves.

Alternatively, the Treasury could sterilise the impact of the new Fed operations by issuing debt and then placing the money raised at the Fed.

The enormous increase in dollar liquidity from the Fed follows alarming signs of extreme demand for liquidity globally, as reflected in the steep rise in dollar funding costs particularly in Europe, the extreme spread between the rates at which banks lend to each other and the expected official interest rate, growing liquidity stress among weak financial institutions and greatly increased demand for the Fed's liquidity facilities.

The Fed has not only radically increased the size of its domestic loans, it has also shifted the composition of its domestic credit to increase the average term of the loans, tripling the amount available for 84 days. It hopes this will encourage banks currently willing only to lend to each other overnight to extend their loans to longer terms.

However, the Fed recognises that even its three-month loans are poor substitutes for longer-term debt issued by the banks.

With the intensification of the credit crisis, the futures market is pricing in close to a 50 per cent chance of a 50 basis-point Fed rate cut next month. This is not impossible. However, the Fed's priority right now is not reducing the target interest rate from 2 per cent, but using liquidity tools without limit to tame the extreme risk spreads that make effective borrowing rates much higher than this.

Many analysts believe the proposed bail-out fund and gigantic liquidity operations would ultimately reduce money market strains, but banks will remain wary of lending to each other amid concerns about whether their counterparties have enough capital.

Banks could remain excessively cautious unless policymakers come up with, and approve, a more far-reaching plan to shore up their capital base.

Fed lending to foreign banks

$240bn **European Central Bank**	$120bn **Bank of Japan**
$80bn **Bank of England**	$60bn **Swiss National Bank**

'The credit crunch is intensifying ... putting pressure on the economy'

James O' Sullivan, UBS Securities

Freddie and Fannie ordered to disclose papers

Investigation

By Joanna Chung in New York

Fannie Mae and Freddie Mac, the ailing US mortgage financiers seized by the government this month, have received subpoenas from federal prosecutors for documents related to accounting and disclosure, the companies yesterday said.

The groups, which came under government control after buckling following mounting losses on mortgages and concerns over capital, have been under investigation by both the US Department of Justice and the US Securities and Exchange Commission.

Regulators are under growing pressure to hold companies and their senior executives responsible for the worst financial crisis since the Great Depression.

Both the DoJ and the SEC have expanded their inquires into the collapse of the subprime mortgage market and escalating troubles on Wall Street. In recent weeks, federal and state enforcement officials have been revealing the existence of various criminal and civil investigations.

Fannie Mae, in a regulatory filing, said it had received a Grand Jury subpoena on Friday for documents from federal prosecutors and a request for "preservation of documents" related to the inquiry from the SEC staff. Fannie said it "intends to co-operate fully with these investigations and inquiries". Fannie expects to receive requests for documents from the SEC.

Freddie Mac, in a statement released yesterday, said that it had received similar requests. Freddie "will co-operate fully in these matters", it said.

Investigations into Lehman Brothers, which filed for bankruptcy this month, and AIG, which was rescued by the government, have also been opened recently.

There are now inquiries into at least 26 big companies, including investment banks, credit rating agencies, accounting firms and hedge funds, in addition to more than 1,400 investigations into brokers, appraisers, buyers and lenders. The DoJ and the SEC declined to comment yesterday.

Robert Mueller, director of the Federal Bureau of Investigation recently said the agency was conducting investigations into larger companies that "may have engaged in misstatements".

Global financial crisis

B&B deal holds banks to account

Nationalisation

By Jane Croft in London

Bradford & Bingley, the embattled UK mortgage lender, was taken into public ownership yesterday after a deal was hammered out with the Spanish bank Santander to buy its £20bn deposit book and 197-strong branch network for £612m.

The Financial Services Authority made the decision on Saturday that B&B "no longer met its conditions as a deposit taker". Savers were withdrawing "tens of millions" and B&B was finding it difficult to fund itself in the wholesale markets.

Yesterday the bank was taken into public ownership and the Financial Services Compensation Scheme – a safety net to protect consumers when a financial company collapses – kicked in to ensure that B&B savers were protected.

The Treasury has structured the nationalisation so that the potential losses to taxpayers are minimised if Bradford & Bingley's mortgage loan book suffers rising arrears.

The government has used new legal powers which it received from nationalising Northern Rock, another UK lender, last year. The nation's biggest banks – which contribute to the FSCS – will now be on the hook to cover unexpected losses from the mortgage book.

Santander is buying £20bn (€25bn, $37bn) of retail deposits. To help facilitate the transfer of B&B's savings book to Santander, the FSCS has been given a government loan to pay out £14bn to Santander because most B&B savers are covered by the FSCS scheme.

However B&B also had savers based outside the UK who were not covered by the FSCS scheme. These will be covered by the Treasury which will pay an additional £4bn to Santander.

The Spanish bank will also separately take over B&B's Isle of Man operation which had £2bn of deposits and which is not covered by the FSCS.

As B&B's loan book is wound down over time, the government and FSCS will receive payments in the rundown of Bradford & Bingley. These proceeds will be used to repay the government loan.

However if B&B's loan book suffers worse than expected arrears and B&B cannot repay the loan in full, the FSCS will impose a levy on the banking industry to repay any shortfall.

Banks will also have to pay interest on the government loan.

In a statement, the Treasury said it had taken the decision in order "to maintain financial stability and protect depositors, while minimising the exposure to taxpayers. [The government] has worked over the weekend to bring about the part public, part private solution which best meets those objectives."

Santander, which already owns Abbey and is taking over Alliance & Leicester, will have 1,286 branches in the UK and will be able to add £20bn of retail deposits to its existing £68bn of retail savings. It is also adding £24.1bn of retail savings from Alliance & Leicester.

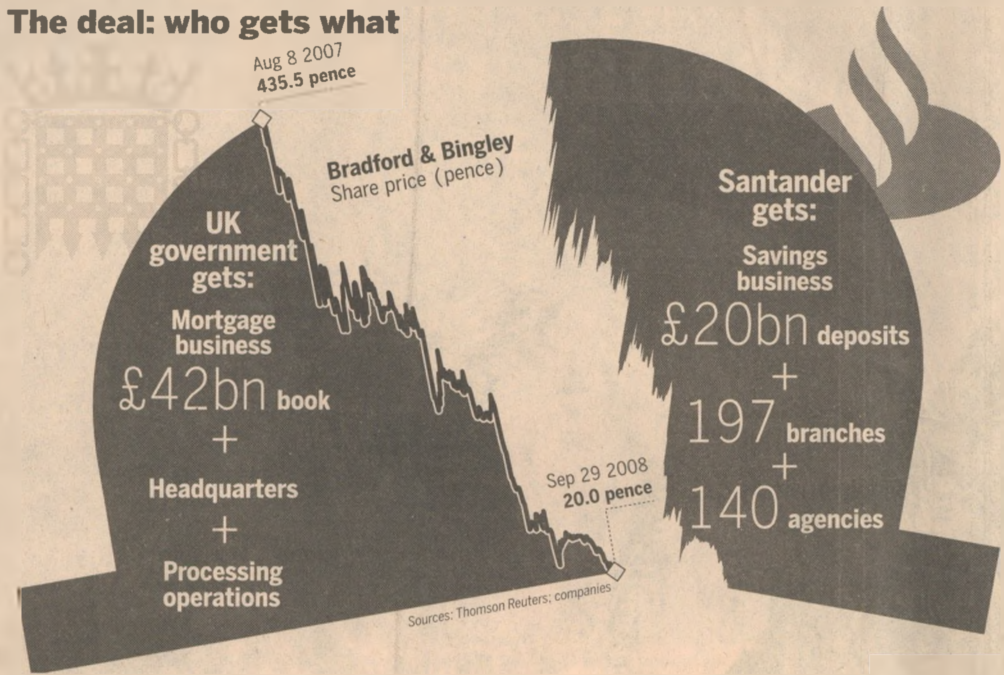
B&B said it would be business as usual for its customers. "Whatever channel they use – branch, telephone, internet or ATM – they will all be open and operating as normal," it said in a statement on its website. The branches will remain branded as B&B for the foreseeable future.

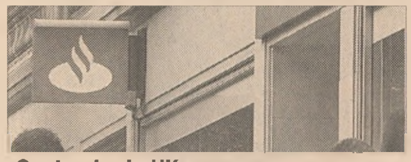
The government is taking on B&B's £42bn mortgage loan book, which consists of risky buy-to-let and self-certified mortgages with rising arrears.

It will also control the bank's Yorkshire head office which employs 1,400 people, and its mortgage processing operation.

One option is to bundle B&B's mortgage business with Northern Rock to create a nationalised super bank, although that is described as "a second order" issue and no decision is expected imminently.

The deal: who gets what





Santander in UK

	Retail deposits* (£bn)	Branches
Abbey	68.0	705
Alliance & Leicester	24.1	254
Bradford & Bingley	22.2	197
Total	**114.3**	

Lloyds TSB/ HBOS

	Retail deposits* (£bn)	Branches
Lloyds (UK retail)	85.6	2,000
HBOS	160.0	1,100
Total	**245.6**	

FT Graphic: Ian Bott

* As at Jun 30 2008

IN-DEPTH ON FT.COM

How the bail-out of Bradford & Bingley, the UK buy-to-let specialist, works and what it means for the taxpayer
www.ft.com/b&b

Disbelief permeates institution's hometown

Long-held certainties were being overturned on Main Street, Bingley, home of the Bradford & Bingley bank yesterday. As for neighbouring Thrift Way, that might need renaming, **writes Andy Bounds**.

Residents of this small market town in the north of England, dominated by B&B's two headquarters buildings, can scarcely believe how the 157-year-old institution collapsed in a weekend.

"A bunch of spivs ran it into the ground," proclaimed one man buying a paper.

Earl Knapp, a chauffeur, bought £70,000 ($126,000, €88,000) of shares last Wednesday, gambling that B&B would be taken over. He might now have lost it all. "I haven't been able to get through to my broker because he is flooded with calls. I cannot believe it," he said.

Treasury clarifies guarantees

The UK Treasury had to issue a rapid clarification of its guarantee arrangements for creditors of the nationalised mortgage lender Bradford & Bingley yesterday after a storm of protest over its initial statement, **write Paul J. Davies and Kate Burgess**.

Bankers and investors had been left stunned and confused yesterday morning when the Treasury excluded covered bonds, a type of mortgage funding, from its guarantees and seemed to contradict itself over other secured funding. The clarification was reminiscent of statements made in the wake of the Northern Rock takeover, when the Treasury had to keep adjusting its guarantees to take account of different creditors it had overlooked. "You'd have thought they'd learnt their lesson, but they completely ballsed this up," said one covered-bond specialist.

Tim Skeet, head of covered bonds at Merrill Lynch in Europe, was more diplomatic, saying: "In the heat of battle some technical details may be overlooked".

Covered bonds are secured on a pool of mortgages, but also carry a guarantee from the issuing bank to protect investors if the mortgages turn bad.

stage thereof.
First stage of tender process:

Time for central bankers to take Spanish lessons

Gillian Tett

Not many banks have emerged from recent events with their reputations intact. Santander might be the exception that proves the rule.

A decade ago, the bank was barely known outside Spain's incestuous business community or Latin America. Now it is emerging as one of the more savvy survivors of Europe's banking storm.

Not only is Santander snapping up cut-price assets (such as the juiciest parts of the British Bradford and Bingley housing group) but it has also avoided the credit horrors that have triggered the humiliation of so many other mighty European names.

And while that sunny vista might yet change – after all, not even bankers seem truly to know what their banks hold these days – Santander's run looks doubly remarkable given that Spain is in the aftermath of a crazy property boom.

So what lies behind Santander's seeming escape? In part, the persona of Emilio Botin, its chief executive, who has a reputation for being extraordinarily shrewd. However, another more interesting issue revolves around the way that Madrid runs its banks.

One key factor protecting Santander from some of the global woes is the tough approach that the Spanish central bank has taken towards regulating its banks in recent years.

Earlier this decade, the Spanish central bank in essence decided it disliked the idea of banks keeping vast quantities of credit assets off their balance sheets. It also quietly demanded that banks hold higher levels of reserves than international accounting laws required.

Consequently, it furtively "gold plated" – or rewrote – European Union rules to discourage Spanish banks from creating entities such as structured investment vehicles. And when banks such as Santander embarked on an acquisition spree in Mexico, the central bank reined them back.

When the Spanish central bank initially took this stance, it looked pretty odd. After all, in the early years of this decade, institutions such as the Federal Reserve were convinced that banks could hold less capital than before because innovation had made banks less exposed to credit risk.

However, Spain's central bank had experienced a searing domestic banking crisis two decades earlier and was consequently risk averse. It was also more willing to be maverick than, say, the Germans.

None of this guarantees that Spain will escape the credit crisis unscathed. A domestic property bust is always painful, even without SIVs. And some Spanish banks face funding woes: last week, for example, one was so desperate for retail deposits that it was offering a free car for big new accounts..

However, Spain's conservative stance has helped to cushion the blow of the storm. And that highlights some interesting lessons. First, it shows that some of the wisest financiers are those who have experienced shocks within living memory.

Second, Spain's story shows that it pays for small countries to challenge the dominant global consensus, from time to time. After all, it is when everyone rushes in the same (wrong) direction that the greatest risks arise.

But third, the Spanish tale shows the benefit of having central banks involved in regulation. In recent years, other European banks have also become uneasy about trends in the global banking world; look at statements made by Jean Claude Trichet, ECB president, last year. Yet Trichet could never turn this vague alarm into tangible controls since the ECB did not oversee the banks.

However, as the storm grows worse in Europe's banking world, it is becoming clearer that this state of affairs will need to be reviewed. And one place to start any debate might be with an examination of why some banks are going bust – but some, such as Santander, notably are not.

gillian.tett@ft.com

Santander steadily builds UK presence

News Analysis

Three acquisitions make the once little known Spanish bank a big name, write Jane Croft and Victor Mallet

Four years ago Santander of Spain was almost unknown on the UK high street.

But after acquiring Abbey for £9.5bn ($17.1bn, €11.9bn) in 2004 and following that with this year's agreement to buy Alliance & Leicester and yesterday's rushed £612m purchase of the deposits and branches of Bradford & Bingley, the Spanish bank is set to be one of the UK's biggest, with 24m customers.

Santander will be one of the top savings institutions in the UK with £114bn in retail savings, and will have one of the biggest branch networks of any UK bank. After it completes its takeover of A&L and B&B, it will have 1,286 branches, although some closures are inevitable because of geographical overlaps.

Santander, which has an international spread of operations, a strong capital base and limited investment-banking operations, has weathered the credit crunch in reasonable shape.

Only a week ago Emilio Botín, chairman, was boasting to shareholders at an extraordinary general meeting to approve the A&L takeover: "We are really in a magnificent position compared with our competitors."

Senior Santander executives knew in July that HBOS – recently absorbed by Lloyds TSB – and B&B were both short of capital, although even the ebullient Mr Botín did not expect to buy a third British bank quite so soon. Yesterday Santander said the B&B deal would allow it to attain critical mass in the UK market, with about 10 per cent of the market in retail deposits.

Santander is touting the B&B deal as virtually "risk free", since the potentially burdensome £41bn mortgage book has been nationalised by the UK government. "It's similar to what JPMorgan did with WaMu," said one Santander executive. "We already had enough mortgages and they [B&B] didn't have a good book anyway. They had a pretty toxic mix."

Nor is the broader outlook unduly worrying for Spain's largest bank. Yesterday Fitch Ratings reaffirmed Santander's double-A rating, with a "stable" outlook, although it did warn that further "large-scale acquisitions" could put downward pressure on the rating.

Bad debts at Spanish banks are rising at home following the end of the property boom, but the smaller *cajas* or savings banks, are worse hit than the two largest banks, Santander and BBVA. Santander's operations are spread across the world – it is strong in Latin America and makes only a third of its income in Spain – and it is predominantly a retail bank.

All Spanish banks have benefited from stringent regulation imposed by the central bank following previous banking crises.

They have stored up provisions from the good years and were so penalised by the central bank for any off-balance sheet transactions that they avoided direct exposure to the effects of the US subprime debt crisis.

Rivals have watched Santander's progress in the UK with envy; the bank is routinely named as a possible buyer whenever there is talk of rescuing an institution in the UK or the US.

Abbey will be at the core of Santander's drive to integrate its UK operations. The Spanish bank first cut Abbey's cost base and trained staff to sell a broader range of products, installing its in-house computer system, known as Partenon.

António Horta-Osório, Abbey chief executive, is starting to shrug off Abbey's legacy as predominantly a mortgage and savings bank in order to take on the UK's biggest banks in areas such as current accounts, mutual funds and business banking. Revenues have risen by 5-10 per cent between 2005 and 2007 and the bank's 705 branches have been spruced up and marked with the Santander logo.

B&B appears to be a neat fit. The overlap between customers is small – 2 per cent of B&B customers are customers of Abbey or A&L – although a fifth of branches have geographical overlap.

Mr Horta-Osorio, who helped lead talks with the UK Treasury at the weekend, said: "We get £20bn of retail deposits, which is 2 per cent of the UK savings market, and 200 branches." Even with an attrition rate of £4bn – if a fifth of customers move or close accounts – Santander's calculations suggest it will make a return on its investment of 10 per cent or £40m in 2009, rising to 20 per cent in 2011.

Ebullient: Emilio Botín, Santander's chairman Getty

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HELLENIC REPUBLIC

REQUEST FOR THE SUBMISSION OF EXPRESSIONS OF INTEREST IN OLYMPIC AIRWAYS SERVICES' GROUND HANDLING OPERATIONS TOGETHER WITH CERTAIN ASSETS OF OLYMPIC AIRWAYS SERVICES GROUP

Introduction

Within the framework of Greek Privatisation Law 3049/2002 and the decision taken by the Interministerial Committee for Privatisations on 26 September 2008, the Hellenic Republic has decided to proceed with the sale of certain assets of the Ground Handling divisions of Olympic Airways Services and Olympic Aviation ("OAS Ground Handling") to a new company "NewCo". In combination with the sale, it is intended that NewCo will become a company wholly-owned by third party investor(s). A private purchaser of NewCo will be granted a high degree of flexibility with regards to design and operation of the new company. Assets to be sold to NewCo by OAS Ground Handling include the seven-year rights for the provision of certain ground handling services which are offered by a restricted number of suppliers at the five liberalized Greek airports (Athens, Thessaloniki, Heraklion, Corfu and Rhodes), rights to operate cargo and ground support facilities at the Athens International Airport, as well as the possibility to acquire certain additional OAS Ground Handling assets. Following completion of the sale process Olympic Airways Services will cease operations. The purpose of this transaction is to ensure maximum return on assets sold and ensure adequate ground handling services at Greek airports.

To this end, Lazard, NBG International, Emporiki Bank, and Alpha Bank have been mandated by the Hellenic Republic as financial advisors in relation to the sale described above.

This invitation is intended to solicit expressions of interest from parties who wish to be considered as potential purchasers of NewCo.

The proposed transaction provides an unrivalled and unique prospect to fill a one-off void in the highly attractive Greek market that will be created by the liquidation of OAS Ground Handling. OAS Ground Handling currently controls 70% of the Greek passenger ground handling market, 34% of the Greek cargo handling market, and is present at all 39 Greek airports.

The transaction has received formal clearance from the European Commission under applicable State aid rules.

Process

The buyer of the NewCo will be selected through a multi-stage process. Following the initial stage of Expression of Interest, it is envisaged that a number of qualifying interested parties will be allowed to participate in the next stages of the process and will be given access to a data room and due diligence with a view to preparing their bids. Parties qualifying for participation in subsequent stages will be provided with a process letter specifying the details and the timetable of the next stage in the process. The aim is to conclude the tender process within an overall three-month period by the end of 2008.

The Hellenic Republic and its advisors expressly reserve the right, without advance notice and without giving reasons, at any time and in any respect to cancel or amend the sale process or any stage thereof.

First stage of tender process:

Expressions of Interest: Parties who wish to be considered for this process should submit an Expression of Interest in line with the requirements stated below by 31 October 2008. Those parties that submitted Expressions of Interest will promptly receive a summary information pack describing the opportunity, transaction structure and assets available for sale, and will also be sent a Confidentiality Agreement ("CA"). Expressions of Interest will be evaluated as received, under a transparent and non-discriminatory process, against the information provided in the Expressions of Interest, and applicants will be notified in writing by the financial advisors of whether or not they have been included in the short-list. Short-listed applicants, following execution of the CA, will be allowed access to a data room and meetings with management.

Expressions of Interest Requirements

Expressions of Interest should include the following information in the form and order outlined below. Candidates will be selected for the following stage based on the information provided in their Expression of Interest.

The Hellenic Republic and/or its advisors reserve the right to require additional information from any party, where they consider this appropriate.

(i) Applicant Details

Each applicant should provide:

The full name, address, phone and fax numbers, internet website address (if applicable), e-mail address, and names of principal contacts of the applicant (including, where the applicant is a company, details of its current directors, shareholders (and, if different, beneficial owners), place of incorporation and company number);

Names of all partners, consortium members, joint venturers or other members (at this stage) and their respective places of incorporation, registered address, current directors and principal shareholders (and, if different, beneficial owners);

Copies of the most recent audited accounts of the applicant and, if relevant, the most recent audited accounts of its ultimate holding company (or other legal body);

Where the applicant (or partner, consortium member, joint venturer or other member concerned) has a holding company, details of its position in the relevant group structure, together with the name, registered office (or equivalent), current directors and principal shareholders (and if different, beneficial owners) of the ultimate holding company; and

Confirmation that the applicant has the capacity to bid for the assets and that there is no restriction under any relevant law to prevent the applicant from bidding, and acquiring the assets, in this process.

(ii) Statement of Interest

The applicant's strategic rationale for investing in NewCo as well as the applicant's broad development plans must be described.

(iii) Financing Ability

A statement confirming the solvency of the applicant and each of its key sponsors, shareholders and partners.

Details of the applicant's overall financial standing.

(iv) Security Statement

A statement from the applicant indicating that the applicant has no objection to the Hellenic Republic and/or its advisors conducting security checks, both within the Member States of the European Union and overseas, on the applicant, its shareholders, partners, consortium members or joint venturers. A similar statement should be provided by each of the principal shareholders of the applicant.

(v) Approval and Completion Requirements

Details of any approvals (internal and external) required in order to participate in the proposed transaction, and the likely timing of such approvals.

(vi) Professional Advisors

Details of professional advisors to be used by the applicant, including the advisors' names, names of key individuals and contact numbers.

Applicants should ensure that sufficient information is provided in the form and order outlined above, as only bidders who adequately provided the information requested above will be selected for inclusion in the next stage of the sale process.

Expressions of Interest should be submitted in English to one of the following representatives of Lazard or NBG International:

Lazard
50 Stratton Street
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Tel: +44 (0)20 7187 2000
Fax: +44 (0)20 7072 6295

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Investors may also wish to contact one of the following representatives for enquiries:

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