

## RBS Biggest Ever Losses

Sunny Shah

**Stephen** Hester, RBS's new chief executive, unveiled the biggest corporate loss in UK history on Thursday and admitted that the results for 2008 were "unambiguously bad". Hester announced a sweeping restructure designed to restore the bank to health as quickly as possible.

The group's 2008 profits were wiped out as a result of £6.9bn of bad debt impairments plus a further £6.1bn of credit market write-downs. This led to a pro-forma net loss of £24bn for 2008. There was also a further £16.1bn of goodwill write-downs on past acquisitions, including the now ill-advised ABN Amro purchase.

On a statutory basis, the

results look even worse, with the bank reporting a loss before tax of £40.7bn.

RBS struck a landmark deal last week that will see the government inject up to £25.5bn into the troubled bank and insure £325bn of its assets, thus leaving the government with 95% stake in the troubled bank.

RBS employees working in the bank's core UK retail business face a nervous few months as Mr Hester cuts jobs across the firm. He said he was sorry for the "the human cost" but they were needed to get RBS back into shape. Stephen Hester was hired to lead the bank after playing a key role in saving Abbey Na-

tional after it nearly collapsed in 2003.

To add to the fury, Gordon Brown demanded action regarding Sir Fred Goodwin's pension, arguing that the pension payment to the former CEO of £693,000-a-year could not be justified.

Sir Fred has thus far refused to relinquish his pension. He wrote a letter to Lord Mayors expressing anger on the attempt of the ministers to revisit an earlier agreement made last October when he was forced out of RBS without a payoff.



Fred Goodwin faces pressure to hold onto his pension this week as the public and ministers request a decrease.

## Northern Rock Increase Lending

Sarah Lloyd

**Northern** Rock has announced that it will be returning to lending. Since its nationalization it has performed any. This change was announced last Monday as Northern Rock plans to inject £14 billion into the housing market in the next two years.

Whilst Northern Rock does not intend to return to its infamous 125% mortgages, those with small deposits (e.g. 10% of property value) could still stand to gain from the increased lending.

Customers stand to benefit from "best-buy" loans and potentially increased competition as other banks are drawn back into the housing market.

The now government-owned Newcastle lender aims to help first-time buyers and boost the flow of

credit into the economy. Mr. Darling hopes to use NR to fill the gap in the housing market caused by the withdrawal of the international banks such as the Icelandic and Irish banks.

The European Commission will be seeking more details of the UK government's decision to provide Northern Rock with the additional £14 billion to determine whether or not it constitutes state aid.

According to the Council of Mortgage Lenders, Northern Rock's 2009 lending will amount to 12.6% of extra market liquidity compared with 2008.

However, there are fears that NR is taking on even more risk as 2.9% of its current borrowers are at least 3 months in arrears.

### Markets

- Thursday sees the ECB announce their latest interest rate actions. After recently announcing further fiscal aid, monetary policy is next on the agenda to try and provide a stimulus to the EU economies.
- The US unemployment figures will be announced this week and again are expected to show a faltering economy as the country's jobless increase on the back of mass manufacturing and factory closures. This will be emphasized when we see auto sales figures on Tuesday.

### Winners, Losers

Company	Price	Change
Petrofac (materials)	461.50p	9.36%
Carnival (tourism)	1402.0p	8.43%
Thm Reuters (media)	1423.0p	7.64%
RSA Insurance (insurance)	133.60p	6.54%
Friends Prov (insurance)	66.30p	-11.84%
Barclays (banking)	86.80p	-12.06%
Std Chartered (banking)	581.50p	-12.09%
HSBC (banking)	381.00p	-19.66%

## Asset Purchase Facility

The Bank of England's asset purchase facility scheme is now in force. Its aim is to boost liquidity in the financial markets which have dried up significantly as of late. The length of this scheme is as yet unknown as it is completely dependent on how long credit markets remain in an unstable condition.

The Bank of England is allowed to purchase up to £50 billion worth of commercial paper, corporate bonds, syndicated loans and asset backed securities from any of the eligible issuers, who have been defined as any company "that makes a material contribution to economic activity in the United Kingdom". Thus a company must have significant operations within the UK to be eligible for the scheme. Furthermore the company's commercial paper must have investment grade credit worthiness in order to be eligible. In addition, the paper must have a maturity of at least three months.

Companies should welcome this scheme with open arms. If successful it allows them to, over a longer period, issue paper at a lower yield. The government purchasing of the paper should reduce spreads over gilts and so in the long term firms should benefit from cheaper borrowing. As spreads narrow, confidence should rise.

It is key to point out that this scheme is not quantitative easing. It is being funded by short term government paper rather than the creation of money.

### Sir Fred

What reward do you deserve for a £24bn loss using £37bn of tax payer's money with a further £325bn at risk and putting 20,000 innocent employees' jobs at risk? £16+ million is a round about figure, only £693,000 a year. Is it fair that Sir Fred was offered this? Should he give it back along with his recent knighthood?

**Have a view, let us know**  
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Any queries, comments or requests?  
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## US Budget Announced

Pearl Boateng

This week saw President Obama announce his \$3.6tn (£2.5tn) budget for 2010 in an attempt to pull the United States out of its financial crisis. Mr Obama is forecasting a budget deficit of \$1.75 trillion, the largest deficit since World War II at approximately 12.3% of US GDP.

Details within the plan include a tax increase for those who typically earn more than \$250,000 (roughly 2% of the richest Americans) which will begin in 2010 as Bush's old policy expires. Firms will no longer be able to evade tax on foreign-source income. Also, tax deductions, such

as those for local taxes, mortgage interest and charitable gifts, will be limited for the rich.

A cap-and-trade programme for carbon emissions will also aim to raise additional revenue from 2012 onwards. To cut back on spending, Mr Obama has promised to remove most American troops from Iraq before the end of 2010, reduce payments to privately managed Medicare plans and farmers, and find other potential savings. His commitment to universal healthcare has not wavered with plans to increase subsidies and make worker's tax credit permanent in the fiscal stimulus plan.

## Strictly Bites

Royal Bank of Scotland recorded the biggest annual loss in UK corporate history on Thursday, stating it had lost a record £24.1 billion. The banking giant has also announced it will be placing £325 billion toxic assets into a government scheme insuring its assets against any further losses. The figures lie third in the all-time list behind GM's latest figures and Time Warner's write-down of AOL after the acquisition decreased in value.

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HSBC will report on Monday. The banking giant is believed to be in profit but nowhere near previous years' mark. The bank has fared particularly well in comparison to some of its rivals but is expected to announce a £12bn rights issue to shore up its balance sheet as the recession deepens.

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Lloyd's Banking Group reported on Friday stating HBOS had made a loss of £10.8 billion. The Group's share price fell 22% in Friday trading, opening the day at 75p and closing at 58.3p. The group stated Lloyd's TSB had made a profit of £807 million, a fall of 80% in comparison to last year.

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The CEO of HSBC is expected to waive his entitlement to a multimillion dollar bonus as the world's third biggest bank unveils plans to establish a record-breaking cash call.

The European Investment Bank (EIB) will lend £51bn to the European nations this year having provided the core of a banking rescue package to Eastern and Central European states last week. On Friday, the EIB agreed to provide €11bn of loans to the Eastern European states as part of the €24.5bn package. The announcement came after the Hungarian Prime Minister called for €100bn to help the region.

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UBS is increasing the base salaries of many of its senior investment bankers after the bank recently reduced many remuneration packages. Some salaries are being raised to about £300,000 GBP from about £120,000 GBP. This scheme is marketed as still ensuring the bankers receive less than when they received bonuses previously. UBS agreed to change its compensation packages after it received government aid in 2008. Bonuses are down by more than 80 percent.

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Allied Irish Banks has announced a 62% decrease in profits for 2008 compared to 2007. Profit for 2008 totaled 1.029 billion Euros. AIB's share price fell a massive 90% across 2008.

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The U.S. government has given AIG another \$30bn lifeline as the insurer prepares to report the biggest quarterly loss in global corporate history.

Sources: [www.theft.com](http://www.theft.com), [www.reuters.com](http://www.reuters.com), [www.economist.com](http://www.economist.com), [www.timesonline.com](http://www.timesonline.com), [www.bbc.co.uk](http://www.bbc.co.uk), [www.yahoofinance.com](http://www.yahoofinance.com), [www.bloomberg.com](http://www.bloomberg.com)