

## A further £37bn for RBS and Lloyds

Bradley Wright

The UK Government announced on Tuesday it would be providing up to £37bn in extra capital to RBS and Lloyd's, making RBS by far the world's biggest recipient of government funding.

The troubled high-street banking group will receive as much as £53.5bn, dwarfing Citigroup, the second largest. Lloyd's had stated it intended to launch a rights issue, of which the government has backed and will be pumping an additional £5.9bn into the bank. The govern-

ment's stake in the two stood at over 80% and 43.5% respectively.

Shares in the two banks could not have contrasted more. RBS shares slumped 7%, to 35.93p, whilst Lloyd's gained 3%, to close at 87.33p.

The funding for Lloyd's was a sign to the market that the government would support its attempt to emphasise its commercial viability, as well as allowing the bank to restructure its debt in times of crisis. The plan would see £7.5bn of debt converted to equity.

With the news, came further debate on bankers pay, with the government stipulating anyone earning more than £39,000 pa could not receive any form of cash bonus and that executive directors would have bonuses deferred for three years.

The banks revealed months of talks with the European Commission on the state aid issue. Both banks had received penalties that included deferred dividend payments on shares and coupons on bonds for two years.



Recipients once again of government capital.

### Markets

The FTSE increased 17.75 points today (Wed), or 0.35%, to a total value of 5,125.64. The FTSE was able to recover from an early drop to finish the day on a positive note. The index rose on the demand for Bank of America, Merrill Lynch and Rentokil Initial. Large oil stocks, BP and Dutch Royal Shell also posted decent earnings which helped push the FTSE up, as well as a strong opening on Wall Street.

In news from the USA, the Dow-Jones Index increased 203.82 points, or 2.1%. This is its largest single day advance since July 23<sup>rd</sup>. The Standard & Poor's 500 Index rose for the fourth day in a row, adding 20.13 points, or 1.9 percent, to finish at 1,066.63 for the day.

### Winners & Losers

Company	Price	Change
AMEC	852.50p	3.58% (up 29.5p)
Autonomy Corp.	1394.00p	3.34% (up 45.00p)
Rentokil Initial	112.0p	2.94% (up 3.20p)
Schroders	1,101.00p	2.71% (up 29.00p)
Cable & Wireless	138.90p	-6.15% (down 9.10p)
Whitbread	1,234.00p	-4.27% (down 55p)
Yell Group	42.96p	-4.00% (down 1.79p)
RBS	35.21p	-3.45% (down 1.26p)

Derek Weigel

## QE Extension and rates held

Shopay Ghesmat

The Bank of England yesterday announced that it will pump a further £25bn into the UK economy, while keeping the base rate on hold at 0.5% for the eighth consecutive month.

So far, the Bank's injection of money into economy, or simply "quantitative easing", has reached a total of £200bn. However, due to the slightly brighter economic outlook, the bank will slow down its program over the next three months.

Regarding the base rate, the decision of Bank of England was in line with those of the Federal Reserve and the European Central Bank, which have both held interest rates constant this month. For

its sixth consecutive month the ECB has kept the base rate at its record low of 1%. In the US, despite experiencing its first quarter of growth this year, interest rates have been held at between 0% and 0.25%.

The Monetary Policy Committee have emphasised that despite gloomy GDP results in recent quarters there are signs that hopefully we will follow suit with the US and "that a pick-up in economic activity may soon be evident."

The news brought a fairly mute reaction by financial markets with the FTSE 100 up 0.35%, finishing at 5126.

## Company Profile

Pearl Boateng

**Name:** Berkshire Hathaway

**Share price:** 101,900.00USD (As of 4pm EST) - Price change (+370.00), percentage change (0.36%)

**Business sectors:** *Insurance and Reinsurance Businesses* - Berkshire's insurance businesses provide insurance and reinsurance of property and casualty risks world-wide. They also reinsure life, accident and health risks world-wide. Includes GEICO

*Utilities and Energy Businesses* - Berkshire owns an 88.2% interest in MidAmerican Energy Holdings Company (MidAmerican), an international energy company. They are managed as separate operating units.

*Manufacturing, Service and Retailing Businesses* - Marmon consists of approximately 130 manufacturing and service businesses that operate independently within 11 business sectors including Building Wire, Construction Services, Distribution Services Engineered Wire & Cable Flow Products, Food Service Equipment, Highway Technologies, Industrial Products, Retail Store Fixtures and Transportation Services & Engineered Products.

*Clothing manufacture* - Berkshire's apparel manufacturing businesses include manufacturers of a variety of clothing and footwear.

*Logistics* - McLane Company, Inc. (McLane) provides wholesale distribution and logistics services in all 50 states and internationally in Brazil to customers that include discount retailers, convenience stores, quick service restaurants, drug stores and supermarket chains.

**Other info:** The company is currently rated triple A but face a downgrade as Warren Buffett's conglomerate announced plans to acquire the remaining 77% of Burlington Northern Santa Fe Corp., valuing the railroad concern at \$34 billion.

Any queries, comments or requests?  
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## Warren Buffett's Biggest Ever Deal!

Sunny Shah

Warren Buffett, last week, struck the biggest deal of his life with the \$26.6bn purchase of Burlington Northern Santa Fe (BNSF), one of the largest US railroad operators. He already had a 22.6% stake in BSNF.

Under the terms of the deal, scheduled to be completed in the first quarter of 2010, Berkshire will pay \$100 a share for the 77.4 per cent of BNSF it does not own, a premium of more than 30 per cent on Monday's closing share price.

Berkshire expects to pay about 60 per cent in cash and 40 per cent in shares. Final percentages will depend on whether BNSF's investors choose to receive cash or shares.

Bankers have a view that the BNSF take-over was typical of Mr. Buffett: a deal at a low point in the economic cycle for a group with few rivals in a sector set to benefit from long-term trends such as rising oil prices and stricter environmental standards.

## Strictly Bites

Sarah Lloyd

Lloyds is seeking £21bn to exit the UK's asset insurance programme. In order to do so, the banking group aims to issue £16.5bn worth of CoCo Bonds—contingent convertible bonds—which will automatically become equity if the bank's core capital falls below 5 percent. The new CoCo bonds will count as core capital as they could potentially convert to equity should the need arise.

The FSA has fined UBS £8 million for failing to prevent employees from engaging in unauthorized transactions. The unauthorized trades in question occurred between January 2006 and December 2007, and involved both the foreign exchange and precious metals markets. Blame is being placed on UBS' "inadequate systems and controls". This follows from accusations earlier this year that the Dutch Bank was aiding Americans in evading US taxes.

For the eighth consecutive month, the Bank of England aims to keep interest rates at 0.5% whilst continuing with the quantitative easing programme. This continuation will now involve an injection of a further £25bn to stimulate the economy. The BoE has already spent £175bn as part of the programme. It should be noted that the rate of spending has decreased but as yet, no reason has been given for this reduction.

The Eurozone has kept interest rates constant for the sixth month in a row, at 1 per cent. The area has seen a drop in retail sales, increased unemployment and continued financial uncertainty. Unemployment in the 16 states rose to 9.7 per cent in September, the highest since January 1999. President of the ECB, Mr. Trichet predicts the Eurozone will recover gradually in 2010.

Following last month's profit announcements, JP Morgan Chase has agreed to pay a fine of £45.3 million. Whilst the bank has not admitted or denied the charges of bribing Jefferson County officials in order to gain business, the SEC have stated that the technique was simple. Payments were made to friends of Jefferson County officials and then JP Morgan was the underwriter of its bond offerings.

Following the January freeze of the Aviva fund (which used to be under the Norwich Union), in order to protect investors from the negative impact of the troubled UK property market, investors will finally be able to withdraw funds. Whilst cash held by the fund had dropped from 7% to 3.1% in January, it has now increased to 12%. Aviva are confident that current cash levels can be sustained.