

## Darling Purchases the Rock

Bhavin Dhanani

The decision has come... Nationalise Northern Rock. Although nationalisation is said to be temporary, the choice has caused a massive furore in parliament.

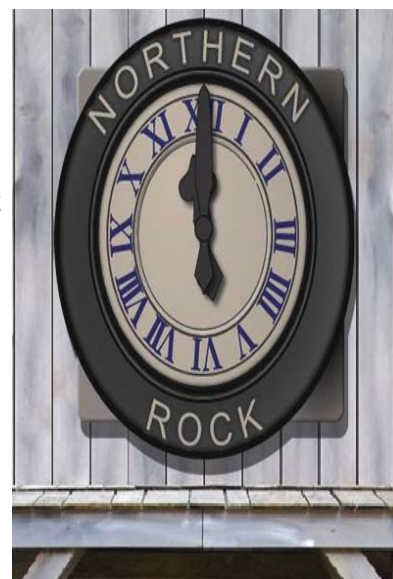
Chancellor of the Exchequer Alistair Darling stated that nationalisation was best for the public. Both the Virgin Group offer and the management buyout were deemed not to give "sufficient value for money to the taxpayer". Former chairman of Lloyd's of London, Ron Sandler, will lead the bank, earning a whopping £90,000 per month. He started with

a note of caution, "nothing is guaranteed in this world", referring to whether the plan will be successful.

The Government claim that the taxpayer will be best served by the decision but shareholders are set to receive little compensation for their equity. A year ago shares in the bank were valued at over £12. The two largest investors in the bank, RAB Capital and SRM Global, have vowed to sue the Government if a suitable amount is not negotiated. The two hedge funds argue that the true value of the shares is 400p.

Legislation was passed in the House of Commons on Thursday. Although the Tories objected to the plan, there was enough support from the Liberal Democrats. Nationalisation is seen to be a failure in the world of politics.

The process of breaking the bank up also began last week. As the loan book was shrunk, there were rumours in the City that the bank was planning to sell some of its mortgage book to rivals.



Time is up for Northern Rock Bidders as the government nationalises the bank

## Credit hole found at Suisse

Phillip Butler

One week after releasing figures showing up its rival UBS, Credit Suisse has taken a kick in the teeth. After finding praise for their good risk analysis Credit Suisse has found a valuation mistake which will require them to write off \$2.85bn in the first quarter of 2008.

The error occurred in the trading of collateralised-debt obligations and residential mortgage-backed securities in London.

The mis-valuations occurred because of out of date and inaccurate prices being used through January's and February's operations.

The reason for the inaccuracy of the prices is down to the rapidly deteriorating and volatile market of late.

Credit Suisse has launched an investigation and suspended a handful of employees. It wishes to see if the errors have been as a result of employee carelessness or an intentional act to secure year-end bonuses.

This incident happens weeks after the fraudulent activity at Soc Gen by Jerome Kerviel. Occurrences like these raise questions about security measures put in place by Investment banks.

### Markets

- This week saw gains on the American and UK stock exchanges. The FTSE100 closed up 1.74% at 5,888.50 and the Dow Jones closed up 0.03% at 12,381.02.
- Royal Bank of Scotland and HBOS this week release. The market expects the outcome to be positive after the shares rallied around 6% this week.
- Revised figures are expected to be released this week demonstrating the actual growth of the economy over the last quarter of 2007. The expected value of 0.5% would mean growth for 2007 was 3.0%

### Winners, Losers

Company	Price	Change
Lloyds TSB (Banking)	457.5p	15.6%
Ferrexpo (Commodities)	330p	13.5%
Kazakhmys (Mining)	1537p	12.6%
Barclays (Banking)	480p	12.3%
Intermed (Healthcare)	1511p	-5.8%
British Airways (Travel)	261.5p	-6.0%
Ladbrokes (Betting)	307.5p	-6.5%
LSE (Financial Services)	1494p	-9.3%

## Company Profile

**Name:** Lloyds TSB

**Share price:** 457.50p

**Business sectors:**

**Retail Banking**, banking services to personal and private clients, stock broking and mortgages

**Insurance and Investments**, life insurance pensions and long term savings. Also offers asset management and general insurance. Insurance is offered by Scottish Widows

**Wholesale & International Banking**, UK based and international customers from banks to small and medium sized companies

**Notable M&A;**

**October 2007**, sold Abbey Life Assurance to Deutsche Bank

**Employees:** 62,331

**Sales Revenue:** Mortgages & Retail banking 47%, International Operations 38%, Wholesale Banking 15%

**Total Revenue:** for the fiscal year 2007 Net profit £4.25 billion after write-downs of £280 million

## Auction Rate Market

Recently the auction rate market is also being affected by the problems with monoline insurers. The main problem is that the interest rates set in these markets are dramatically increasing. The market is estimated to be worth around \$330 billion.

The market works by transforming long term loan rates into short term ones by the constant resetting of the interest on the loans at 7, 14, 28 or 35 day intervals. The markets took off when debt issuers released their securities at rates lower than rates set in the market. The issuers can also easily settle their debt if they release too much by participating in their own auctions.

Recently the quality of the investments has been thrown into question and has left many securities unsold. Many municipalities issue their debt on this market, when the auction is a failure and debt is not sold the insurance rate increases. A no sale leaves issued debt at vastly uncompetitive rates.

Recent rates have increased as much as 20% at peak and eventually settle at 8% increases. Many are looking to get out of the market and back into "vanilla" bonds.

If there are any problems please contact us at [www.strictlyBIF.com](http://www.strictlyBIF.com)

With requests to join our mailing list, for key market term or company profile requests.

\*the opinions expressed in this newsletter are those of the authors, and not those of Cass Business School or its staff

## Steady 2007 for Barclays

Bhavin Dhanani

**Barclays** kicked off the season of 2007 results with a fall in profits of just 1% to £7.08 billion. The bank wrote down a sub-prime loss of £1.6 billion. The results spelled good news for shareholders as the year's dividend rose 10%, from 31p to 34p.

Chief executive John Varley was happy with the bank's "resilient" performance in a very turbulent year, not just within the markets but also with its failed bid for ABN Amro.

The investment banking arm, Barclays Capital, saw a 5% increase in profits, while the UK retail arm also surged with a rise in profits of 9%. In addition its Barclaycard (credit card) business also grew its profits by 18%. BarCap head Bob Diamond said the upcoming six months will maintain "challenging market conditions".

The profits were in line with expectations and none of the announcements came as a shock. Barclays shares closed up 12% at 480p.

## Strictly Bites

**Lloyds TSB** profits fell by 6% in 2007 to £4 billion. It raised its dividend by 5% to 35.9p.

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**Alliance & Leicester** suffered a pre-tax profit fall of 30% to £399 million, and a net profit fall of 41%.

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**The NatWest three**, who contributed to the downfall of energy giant Enron, have each been jailed for 37 months. They must also repay the **Royal Bank of Scotland** \$7.3 million.

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**Bank of China**, who hold the most US sub-prime securities in Asia, have confidently said that they are on course to report an increase in profits for 2007.

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The **Monetary Policy Committee** of the **Bank of England** voted 8-1 in favour to cut interest rates in February by 25 basis points to 5.25%.

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**US inflation** increased by 0.4% in January. For the 12 months ending January 2008 the consumer price index (CPI) rose by 4.3%.

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**Inflation in Zimbabwe** has grown massively to over 100,000%.

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**Gold** hit record prices on the back of a weakening dollar and supply concerns. The commodity traded for \$948.60 per ounce. **Silver** also reached a 27 year high.

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The **European Commission** reduced its economic growth forecast in the **Eurozone** and warned of an acceleration in inflation.

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**HSBC** have announced that **Brendan McDonagh** will take charge of their North American business.

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The insurance of investment grade **corporate bonds** has reached record amounts.

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Rivals of **Microsoft's** acquisition of **Yahoo!** suggest that the joint group will own a 75% share in the instant messaging and web based mail markets.

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**BNP Paribas'** profits fell 42% in the fourth quarter of 2007 but overall rose 7% on the year.