

RBS Makes Record Profits

Bhavin Dhanani

The Royal Bank of Scotland (RBS) last week reported annual profits of £7.71 billion, an increase from 2006 of 19%. A sturdy year in the UK helped the figure rise, along with the acquisition of the Dutch bank, ABN Amro.

The global credit crunch that has taken a massive number of victims left RBS relatively unharmed. Write-down's relating to the US sub-prime market totalled £1.6 billion including ABN's write-offs. Despite these write-downs the bank still has £8.7 billion worth of affected loans on its books. RBS was, however, able to

sell £3.6 billion worth of loans in the final two months of the year.

The purchase of ABN Amro was a big talking point for the year. Chief executive Sir Fred Goodwin said "we are happy we bought what we thought we bought." The benefits of synergy between the two companies are expected to be higher than original forecasts. In all benefits from the deal are anticipated to be €2.3 billion. Originally this figure was expected to be around €1.7 billion.

Goodwin also stated that further deals were not going to take place

in the foreseeable future. Instead a focus on organic growth is the policy for 2008. The bank may also sell assets this year to improve its capital structure. Last year it made a £950 million profit from the sale of Southern Water.

In the bank's retail arm profits grew 10%, in corporate they grew 11% and by 30% in private wealth. However, Citizens, its US entity, experienced difficulties with profits sliding 16%.



RBS Chief Executive Sir Fred Goodwin announces last year's profits and this year's strategies

Dollar and Gloom for US

Phillip Butler

The dollar reached record lows against the euro this week. At its weakest point the dollar loitered at \$1.5239 per euro, before rallying to close at \$1.5179. This is the most fragile the US dollar has been against the euro since its establishment in 1999.

The dollar also reached a three year low against the Japanese yen, sinking to 103.74 yen.

Deterioration in the currency was sparked by comments made by the Federal Reserve's Vice Chairman Donald Kohn who stated that "credit market turmoil posed a greater threat than inflation". Mr Kohn's comments indicated that an-

other rate cut would be very likely on March the 18th, with strong belief that there will be a 50 basis point slash. The rumours were compounded by the worsening housing market, where conditions are the worst the US has seen for 25 years.

All is not lost for the American investor as the weakening dollar has made US exports relatively cheaper. Exports have been lifted to a record high which has in turn reduced the nation's trade deficit. This is the first time the trade budget has reduced as a result of the exchange rate since 2001. The US treasury secretary stated a strong dollar was favoured.

Markets

Winners, Losers

- This week the FTSE 100 barely moved at all finishing down 0.07% at 5,884.30. The Dow Jones also finished down on the week faring slightly worse 0.93% closing at 12,266.39.
- The European Central Bank meets this week to decide on action in the midst of the current crisis. The ECB has been more reserved than the Federal Reserve of late and is not expected to change interest rates.
- Merger & Acquisition figures are released this week and will give a good indicator of the effect the credit crisis is having on global company movements.

| Company | Price | Change |
|--------------------|---------|--------|
| Expro | 1259p | 36.8% |
| Bradford & Bingley | 225p | 19.4% |
| Drax | 581p | 13.3% |
| Stagecoach | 251.5p | 12.0% |
| Premier Foods | 92p | -13.2% |
| Close Brothers | 659p | -16.8% |
| Yell | 219.25p | -19.9% |
| Rentokil | 83.4p | -21.3% |

Company Profile

Name: Standard Chartered

Share price: 261.00 HKD

Business sectors:

Consumer Banking, banking services in the far & middle east and Africa. Offers credit cards, mortgages, loans and asset & wealth management

Wholesale Banking, offers corporate financing & lending, asset management, foreign exchange and debt market services

Notable M&A;

January 2007, sold its stakes in Standard Chartered Trustee Company and Standard Chartered Asset Management to Mauritius Company of Switzerland

Employees: 59,205

Sales Revenue: Consumer banking 55%, Wholesale banking 45%. 90% of revenues originate from Africa and Asia

Total Revenue: Revenue reached \$11.1bn and earnings reached \$4.05bn up 28% over 2007.

"jingle mail"

With decreasing house prices, mortgages issued are now surmounting to a greater value than the houses they purchased. This trend creates negative equity for the mortgage holder and default begins to make more sense than repayment of the loan.

Jingle mail refers to consumers simply posting the keys back to their lender and walking away. With the right legal information a mortgage lender generally does not chase the loan repayment. High costs of retrieval mean the bank would rather sell the house than chase the customer to keep paying.

The current world credit crisis attributed to falling house prices in the US has left around 17% of homes with negative equity according to Moodys' economy.com. Forecasts show another 10% decrease in prices could lead to \$3trillion of mortgages being affected. This kind of loss would collapse the markets and create a worldwide insufferable banking crisis.

Figures are starting to reflect the forecasts; Fannie Mae, a government mortgage lender, announced \$3.55bn losses for the last quarter of 2007.

Any queries, comments or requests?
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More Problems for UBS

Bhavin Dhanani

UBS has had an eventful week, from being sued on Monday to a tempestuous shareholders meeting on Wednesday. The Swiss bank's share price reflected the current state of the bank.

German bank, HSH Nordbank, will sue UBS for mis-selling a portfolio of collateralised debt obligations (CDO's) which resulted in a \$500 million loss for the UBS client.

On Wednesday, an extraordinary

general meeting (EGM) was called to discuss the proposal of a cash injection from the Singaporean sovereign wealth fund, GIC. For a 9% stake GIC have paid \$11.94 billion. UBS was desperate for funding to strengthen its balance sheet. Shares in the bank fell to a five year low, trading at 33.86 Swiss Francs.

At the EGM, shareholders were upset with Marcel Ospel, chairman of the bank, for his leadership during this troublesome time.

Strictly Bites

HBOS, the largest mortgage lender in the UK, has announced full-year pre-tax profits of £ 5.71 billion, a yearly rise of 3%.

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India's third largest bank **HDFC** will confirm its acquisition of **Centurion Bank of Punjab** in an all share deal of £1.3 billion.

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Ben Bernanke, chairman of the **Federal Reserve**, has strongly indicated that another interest rate cut is on the cards in the US.

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Building society **Nationwide** has released figures showing house prices in the UK fell for a fourth consecutive month by 0.5%.

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House prices in the US fell by 5.4% in the fourth quarter of 2007, more than twice as much as the fall experienced in the first three quarters of the year.

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HSBC is changing its focus to upcoming markets after selling its French banking arm for £1.6 billion to **Banque Populaire**.

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The Dutch central bank has given **Royal Bank of Scotland**, **Santander** and **Fortis** approval to further split up **ABN Amro**.

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Ambac, the bond insurer, was set to receive a rescue package from a consortium of banks, but could receive no money after the consortium questioned whether the quantity of capital was enough.

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According to a poll by **Reuters**, economists are predicting the next rate cut in the UK will come in May and be of **25 basis points**, due to the level of inflation.

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American Insurance Group (AIG), sponsors of Manchester United, reported its biggest ever quarterly loss of \$5.29 billion.

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The US mortgage finance group **Freddie Mac** has reported a fourth quarter loss of \$2.45 billion.

Visa's IPO is set to become the biggest in American history. The firm plans to raise a massive \$18.8 billion from the floatation.

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Sources: www.theft.com, www.reuters.com, www.economist.com, www.timesonline.com, www.bbc.co.uk, www.yahoofinance.com, www.bloomberg.com