

## HSBC Destroys Profit Record

Bhavin Dhanani

An enormous sub-prime write down did not prevent HSBC from making a pre-tax profit of £12.2 billion, a rise from the previous year of 10%. Despite the record profits many were quick to point to the £8.7 billion worth of bad debts.

Of the big five banks, the write down by HSBC was by far the largest. The reason is that the bank has a strong presence in the American market in comparison with the UK's other big banks. Its US arm, HSBC Finance, racked up a loss of around £900 million. The business suffered

bad debts of £6 billion. Despite the disappointing performance there are no plans for the bank to sell the unit. However, activist investor Knight Vinke has been heavily critical of the US arm and wants to see it sold quickly.

HSBC, who brand themselves the world's local bank, lived up to their tag. Operating in 83 countries HSBC's diversification is impeccable. Profits in emerging markets such as Latin America, Asia and the Middle East were very strong. In China profits totalled over \$1 billion for the first time, whilst in Hong Kong

profits topped \$7 billion. In the investment banking arm profits rose by 5% to \$6.1 billion.

Despite making record profits, the outlook for 2008 is uncertain. Chairman of the board, Stephen Green, said economic conditions in the United States and worldwide could get worse before they get better. The bank followed its British rivals and raised its annual dividend to 90 pence per share, a rise of 11%.



Profits at HSBC reach record highs amidst fears over trouble in the markets

## UK and Europe Rates as Before

Phillip Butler

### Markets

### Winners, Losers

- A poor week for the markets saw the FTSE 100 lose 3.13% to 5,699.90 and the Dow Jones lose 3.04% to 11,893.69.
- This weeks sees the quarterly review of the companies in the FTSE 100 based on Tuesday's closing figures. Three are expected to drop out of the illustrious index. Rentokill (hygiene), Yell (information services) and Taylor Wimpey (construction) will be the losers. Tate and Lyle (sugar), Bunzl (distribution) and Eurasian Natural Resources Corp (commodities) are expected to replace them.

Company	Price	Change
Premier Foods (distribution)	105.5p	14.7%
Cobham (engineering)	200.25p	10.0%
IMI (engineering)	427p	9.9%
GKN (engineering)	286.25p	8.0%
Investec (banking)	325p	-12.2%
RBS (banking)	334.5p	-13.1%
Cable & Wireless (communications)	152.6p	-13.7%
Admiral (insurance)	859.5p	-15.3%

The MPC, (Monetary Policy Committee), and ECB, (European Central Bank), decided to leave interest rates unchanged this week due to continued worries over inflation.

MPC officials voted 7-2 in favour of holding interest rates at 5.25%. Their basis was that inflation poses a greater short term problem than an economic slowdown. Inflation is being driven by increases in oil, energy and food prices. Inflation stands at 2.2%, over the 2% target. Market analysts expect inflation to reach 3% midway through the year.

The ECB on the other hand had a more difficult decision but still held interest rates at 4%. The ECB made it clear that inflation, currently at 3.2%, was still their main worry.

Exporters are concerned that the gap between the US and European interest rates is damaging exports, as the dollar has reached a new low against the euro. The weakening of the dollar has occurred as investors opt to swap dollar-denominated investments into euro-denominated ones. This increases euro demand.

## Company Profile

**Name:** HBOS Plc

**Share price:** 582.50p

**Business sectors:**

**Retail Banking**, personal and business banking including savings mortgages and loans

**Corporate Banking**, offers services to UK businesses including specialised lending services

**International Banking**, involves services to clients in Ireland, Australia Europe and North America

**Insurance and Investment Banking**, offers investment products, pensions and life assurance

**Treasury and Asset Management**, asset management looks after Insight Investment and Invista Real Estate businesses

**Employees:** 57,884

**Sales Revenue:** Income from loans 34%, commission 6%, premiums 27%, other 33%

**Total Revenue:** Pre tax profit rose 3% to £5.71billion for year ended 31st December 2007 .

## "Fair Value"

With the current market turmoil the changing scene of asset valuation is offering more problems for troubled banks and institutions.

Most banks value their assets via credit derivatives or using their own systems but they are being told that they must use immediate sale valuations. If the holders of assets or securities were to sell their product immediately the price listed on the balance sheet must reflect this market price. This unfortunately brings in another crisis. If the market is repeatedly falling then assets on the balance sheet are falling too.

Writing down mortgages to a new value, lower than book value, leaves banks with less capital, thus increases enforced sales and write-downs.

This leaves a company's accounts looking in a very poor state when enforced sales flood a market already struggling and thus further drive down prices. If the new enforced sale was to set the new market rate everyone involved would suffer since this lower price would affect all other securities.

This is where most write-downs have occurred recently.

Any queries, comments or requests?  
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## Fed Steps in Again, Again

Bhavin Dhanani

The Federal Reserve is set to inject more money into American money markets as the credit crunch continues. A total of \$200 billion is to be made available, half of which will be auctioned off and the other half by other means.

The announcement came just a few minutes after a report was released stating that the US economy lost 63,000 jobs last month, another indicator that the US is heading for a recession.

The credit markets have dried up globally. Banks are finding it increasingly hard to obtain money from the wholesale markets. It's not just banks who are suffering. Individuals are finding it tough to obtain mortgages and other loans and even businesses are finding difficulties in securing finance.

This is seen as another step by the Federal Reserve to infiltrate the credit markets and stave off fears of a recession in the world's biggest economy.

## Strictly Bites

**Barclays** has unveiled Russian bank, **Expobank**, as its newest acquisition, costing £373 million. It is the group's first entry into the retail sector in **Russia**.

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London based insurance firm **Hiscox** has seen an 18% rise in annual profits to £237.2 million.

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Guy Moszkowski of **Merrill Lynch** altered first quarter forecasts for **Citigroup** from a \$0.55 per share profit to a \$1.66 per share loss.

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**Credit Agricole** made a loss of £657 million in the last quarter of 2007 after writing off £2.5 billion worth of bad debt relating to **US** sub-prime mortgages.

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Chinese brokerage, **Citic Securities**, is seeking to obtain a larger stake in **Bear Stearns** to reflect the fall in share price since it bought a stake last October.

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The **dollar** hit a record low against the **euro**. At one point one euro could be purchased for \$1.5463.

**Ambac**, the mono-line bond insurer has said it plans to raise \$1.5 billion through a rights issue.

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Investment legend, **Warren Buffet**, has become the world's richest man. He has displaced Microsoft owner **Bill Gates** who topped the list for 13 years.

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**Lehman Brothers** has suspended two London based equity traders. It was said that there were "issues" with their trades.

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**Fortis**, one of the consortium banks that bought **ABN Amro**, revealed a profit drop of 8%. For 2007 profits were €3.99 billion compared to €4.35 billion in 2006.

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The weakness of the dollar pushed **oil prices** higher. Future contracts for April reached a high of \$106.54 per barrel.

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The price of **gold** also reached peaks. After hitting \$986.90 per ounce, it ended the week at \$981.50 per ounce.