

Rock Merry-Go-Round

Bhavin Dhanani

There were more twists and turns in the Northern Rock saga last week.

Last Monday saw the bank name the consortium led by Virgin Group as its preferred bidder, which also has the backing of the Treasury. As part of the bid there will be an immediate loan repayment of £11 billion to the Bank of England, with the remainder being repaid over three years. The Virgin Group plan to borrow £11 billion from a consortium led by Citigroup,

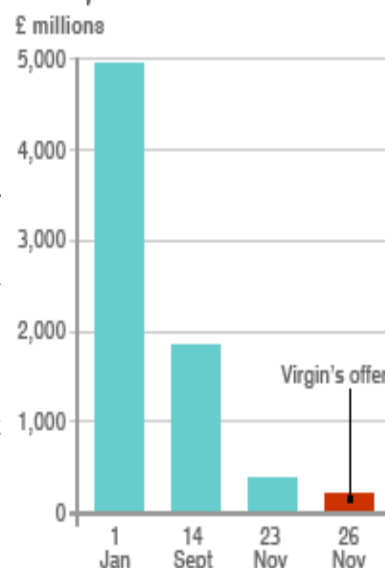
Deutsche Bank, and Royal Bank of Scotland. In addition, Sir Richard Branson intends to pump £200 million of his own money into the deal.

On the following day, the hedge fund SRM Global increased its share holding in the bank to 8.5%. It bought almost 7 million shares at 109p each overtaking RAB Capital as the largest shareholder. Combined they own 15.2% of the bank, and both have voiced their concerns about the cheapness at which the

bank may be sold.

Rival bidder JC Flowers, the US private equity group, plan to revise their bid after their initial offer cut shareholders out entirely. A source from the group has said it could withdraw its offer if the authorities continued not to talk to them.

Northern Rock's shares closed at 118p last week, up 37% from the previous week.



Northern Rock's market capitalisation since the new year. From Thomson Datastream

EU and UK Inflation Concerns

Phillip Butler

Markets

- RBS is expected to announce write-downs of £1.8 billion this week. The figure was initially expected to be half that value.
- This week the FTSE 100 rose by 2.72%, its largest rise since the credit crisis struck.
- This growth is fueled by banks announcing potential funding measures and investors view of them are becoming more positive.
- The increase is also attributed to a "bear squeeze" occurring currently. Where some investors are exploiting those who expected a crash and thus shorted or sold shares.

Winners, Losers

Company	Price	Change
Northern Rock (financial services)	118p	37.4%
Rank (leisure)	100.5p	24.8%
Tullow Oil (oil)	671p	16.6%
Burren (oil, gas)	1249p	16.1%
Kingfisher (home DIY)	152.3p	-9.5%
Debenhams (retail)	87p	-9.6%
Mitchells (real estate)	577p	-10.0%
Signet (jewellery)	62.5p	-20.4%

Both the European Central Bank (ECB) and the Bank of England (BoE) this week raised concerns over the prospects for inflation in the future.

European inflation has accelerated at its fastest rate for six years in the 13 euro nation countries. The target inflation rate the ECB has set is around 2%. This month inflation figures showed that this has increased from 2.6% to 3%.

Despite a fall in house prices, an indication of lower inflation, Mervyn King has reiterated that there is still a huge threat of inflation in the near fu-

ture within the UK economy.

Inflation in the euro zone and in the United Kingdom is being driven by the 46% jump in oil prices this year along with increased food prices. This has given both central banks a predicament, risk financial and economic stability by countering inflation through interest rate increases or letting inflation run its course.

Interest rate rises would reduce consumer spending but place further strain on economies which have already been through turmoil this year with the credit crisis.

Company Profile

Name: Credit Suisse Group CS

Share price: \$60.32

Business sectors:

Investment Banking; separated into investment banking and trading. supplies debt and equity underwriting, sales and trading, M&A, corporate sales, restructuring and investment research

Private Banking; divided into Wealth Management and Corporate & Retail Banking. Provides pension, life insurance, tax and wealth products and advice

Asset Management; deals with products across investment classes for clients

Notable M&A;

Completed a majority share purchase of Hedging-Griffo, an asset management and private banking firm in Brazil for \$364 million on November 1st

Notable Expansion:

In November a private banking business was launched in Austria.

Employees: 47,000

Sales Revenue: Asset Management 7.4%, Investment Banking 53%, Private Banking 30.3%, Corporate Centre (parent company operations) 9.3%

Total Revenue: CHF38.603 billion

SIVs

Structured Investment Vehicles are funds set-up in to transform the maturity of assets.

Funds are borrowed (normally through commercial paper, debt issued near LIBOR) and then invested in a variety of asset backed securities and bonds.

Profits are made in SIVs when the difference between the short and long term borrowing rates are exploited i.e. arbitrage.

SIVs are financed by Senior (80% rated AAA) and Junior (20% not rated or rated at BBB) liabilities.

SIVs have no maturity, therefore as its assets mature new ones are purchased.

SIV risk involves liquidity problems, out-payment occurs before in-payment and solvency or the investment falls below its asset backing.

The sub-prime crisis caused a decrease in the liquidity of commercial paper, hurting the SIVs since they need short term CP to finance long term investments. An illiquid market means SIVs cannot func-

Natwest Three Jailed

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The "NatWest Three" were finally sentenced last week for their part in the demise of energy giant Enron. David Bermingham, Giles Darby and Garry Mulgrew pleaded guilty to a charge of fraud.

They will each spend 37 months in jail and pay a total of £3.5 million to the Royal bank of Scotland (owner of NatWest) who were the target of the fraud.

There was a possibility that they could each spend 35 years in prison as they faced seven counts of fraud.

The trio defrauded NatWest by advising the bank to sell a stake in an investment firm owned by Enron for a price lower than its market value. They later bought a stake in that firm and sold it for a profit. The Enron staff they cooperated with are already in jail.

Banking Bites

Citigroup has raised \$7.5bn after selling a 4.9% stake to the Abu Dhabi Investment Authority.

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The largest bail out of SIVs, structured investment vehicles, was incurred by HSBC after it moved \$45bn of mortgage-backed assets onto its balance sheet.

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A German development bank, KfW, has set aside €2.3bn to cover losses at IKB Deutsche Industriebank, which it owns 38% of, after a consortium of banks rescued it in the summer.

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Chinese Insurer, Ping An Insurance, took a 4.2%, €1.81bn stake in Fortis to become its largest shareholder.

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Zoe Cruz, Wall Street's highest-paid female executive and favourite for the CEO position at Morgan Stanley, has left, increasing fears of further mortgage write-downs.

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Rio Tinto has put together a series of measures to defend itself against BHP Billiton's takeover. One of these, a boost in share dividend aims to push up share prices.

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Fortis this week raised €2.5bn through a sale of bonds that can be converted into shares. The target is to raise much needed cash and to delay stock dilution.

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The ECB and the BoE followed the Federal Reserve this week by increasing monetary liquidity so to prevent overnight interest rates rising above targets to give banks greater certainty.

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Barclays renewed investor confidence by saying earnings will be broadly in line with expectations for 2007.

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Alliance & Leicester have announced a write-down of £156million against credit losses.

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Sources: www.theft.com, www.reuters.com, www.economist.com, www.timesonline.com, www.bbc.com, www.creditsuisse,