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Building Global Banks
-A Comparative Analysis of European Banks Over Time

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Abstract

The importance of the financial sector in any economy is self-evident. Banks provide a wide range of financial services in all sectors of the economy. The purpose of this study is to analyze how European banks have developed from 2003 to 2007 based on three questions. Five European banks served as case studies to analyze their growth through qualitative and quantitative methods using a descriptive rectangle model based on financial statement framework. It is found that the banks developed unsystematically through acquisitions, joint ventures and joint investments in different countries and did not follow a systematic pattern to expand their business operations. Expansion of core banking business was less significant. It was also found that the financial statements; especially financial assets were interpreted in a way that is difficult to understand for external users. All five Banks achieved strong growth from 2003 to 2006, but 2007 was problematic in some of their divisions due to real estate crises which started in US, and then spread on to financial institutions all over the world.

Keywords; Financial Institutions, Financial Statements, Rectangle Model, Expansion and Growth

Abbreviations

B/S:	Balance Sheet
C1, 2, 3, 4, 5:	Case 1, 2, 3, 4, 5
DB:	Deutsche Bank
EPS:	Earning Per Share
FI:	Financial Institutions
FSAF:	Financial Statement Analysis Framework
G1, 2:	Group1, 2
IBL:	Interest Bearing Liabilities
IEA:	Interest Earning Assets
I/E:	Interest Expense
I/I:	Interest Income
I/S:	Income Statement
LSE:	London Stock Exchange
NYSE:	New York Stock Exchange
O/E:	Operating Expenses
RBS:	Royal Bank of Scotland
SCB:	Standard Chartered Bank
UBS:	Union Bank of Switzerland

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1. Introduction

This chapter will present the background foundation, based on the problem which will highlight the purpose of the study. Furthermore, the research questions will provide groundwork to the readers to understand research subject which leads to the purpose of the study.

1.1. Background

The importance of financial sector in any economy of world is self-evident. The nature of financial sector represents additional challenges but to provide superior solution to the problems of their customers. Manufacturing and trading businesses have always their utility in all sectors of economy where as service sector requires to create not only the unique utility of their service but to fulfill these utilities with complete satisfaction of customers. Otherwise, it is very easy to reject or switch in other service providing firm. Due to growing globalization, financial institutions are trying to gain access to additional resources and gaining access to new customers to remain competitive. As a result, financial institutions have achieved *tremendous growth* especially banks because major financial services are provided by banks, mortgage credit companies and insurance companies¹. Banks provide wide range of financial services to the all sectors of economy.

Diversity in international business operations has increased risks related to financial issues concerning to both internal as well as external stakeholders. It is also shown that larger the banks have greater liquidity or credit risk , providing less consumer loans and hesitate to advance long term loans for development purposes². That is why; banks are more interested in short term liquidity businesses. Banks perform the duties of financial intermediaries because it accepts money from the one party and lend it to other. Difference between the Rate of interest for accepting and lending money is the profit of banks.

So to survive in the service markets, banks need to create differentiation from competitors by providing high quality services not only to its current customers to keep them loyal but also to attract potential customers. In general, Service customers do not buy service itself but rather focus on its potential benefits that are associated with purchase³. For example, a customer of bank don't purchase saving products for the pure safe keeping its money but rather for

¹ Swedish Banker's Association (2005)

² Manijeh Sabi (1995)

³ Harrison (1995)

promised interest payment on it. Provision of new and quality services can be tool for setting a bank from competitors by focusing on additional services and establishment of long term relationship with its customers⁴. A way to remain competitive in complex banking environment is to provide unique products and services which not only satisfy their customers but also to keep them loyal by providing superior solution of their problems. Despite the possibility to identify basic services of banks, there is always some kind and amount of services involved when speaking about bank offerings.

1.2. Problem discussion

Business of service industry is more complex than manufacturing or trading. In response to market volatile environment, banks use different ways to market their products or services to the customers more effectively to expand their business operations, improve their revenue and market share. All the financial institutions including banks use different policies and strategies to expand their business, remain competitive and capturing new markets. Sophisticated companies always try to find distinguishable and initiative services to their competitors at every level of customers contact⁵.

Banking transactions are invisible even give small feelings of value to the customers; transfer of money from one account to another is not visible but difficult to evaluate which is done by all types of banks. So, the banks need to make themselves known for more noticeable services⁶. Such nature of bank`s services provide additional challenges to the banks not only to survive but also to expand their business operations in this global economy. Introducing different types of products or services by the banks not only expand their business operations but give competitive advantage over their competitors. It becomes more difficult for the banks when entire banking industry is providing same types of services to the customers in this global world but the results of their operations are different.

Banks majorly rely more on financial instrument in their balance sheet. These banks have developed different kinds of instruments in order to manage risk by using their own mix models to evaluate them. Since the nature of financial instruments is highly complex and ever

⁴ Lancaster & Reynolds (2005)

⁵ Armstrong & Kotler, 2005

⁶ Kotler et al. 2005

changing then it becomes difficult for the investors to understand and analyze financial reports. As a result, the issues of transparent information arises which provide misleading information to the external users.

1.3. Purpose

Analysis of banks through financial statements is more difficult than other type of companies since the innovation of new and complex financial instruments. Bankers and financial market participants are more concerned not only for the stability of financial institutions but also capturing new markets to expand their business operations through different ways. One of the indicators of bank`s performance is the behavior of their stock prices because it reflects the market`s evaluation of the bank`s performance which is also used as part of performance evaluation. Moreover, financial management theories provide many indicators for assessing a bank`s performance. The main purpose of this thesis is to understand the financial statements of banks and their development over time along divisional growth as reflected in their reports during five years from 2003-2007. *In addition, it aims to make a broader analysis of banks to hold an external point of view.* The intention is to find the key areas of banks adding value in terms of their development.

1.4. Research Questions

Following are the underlying research questions:

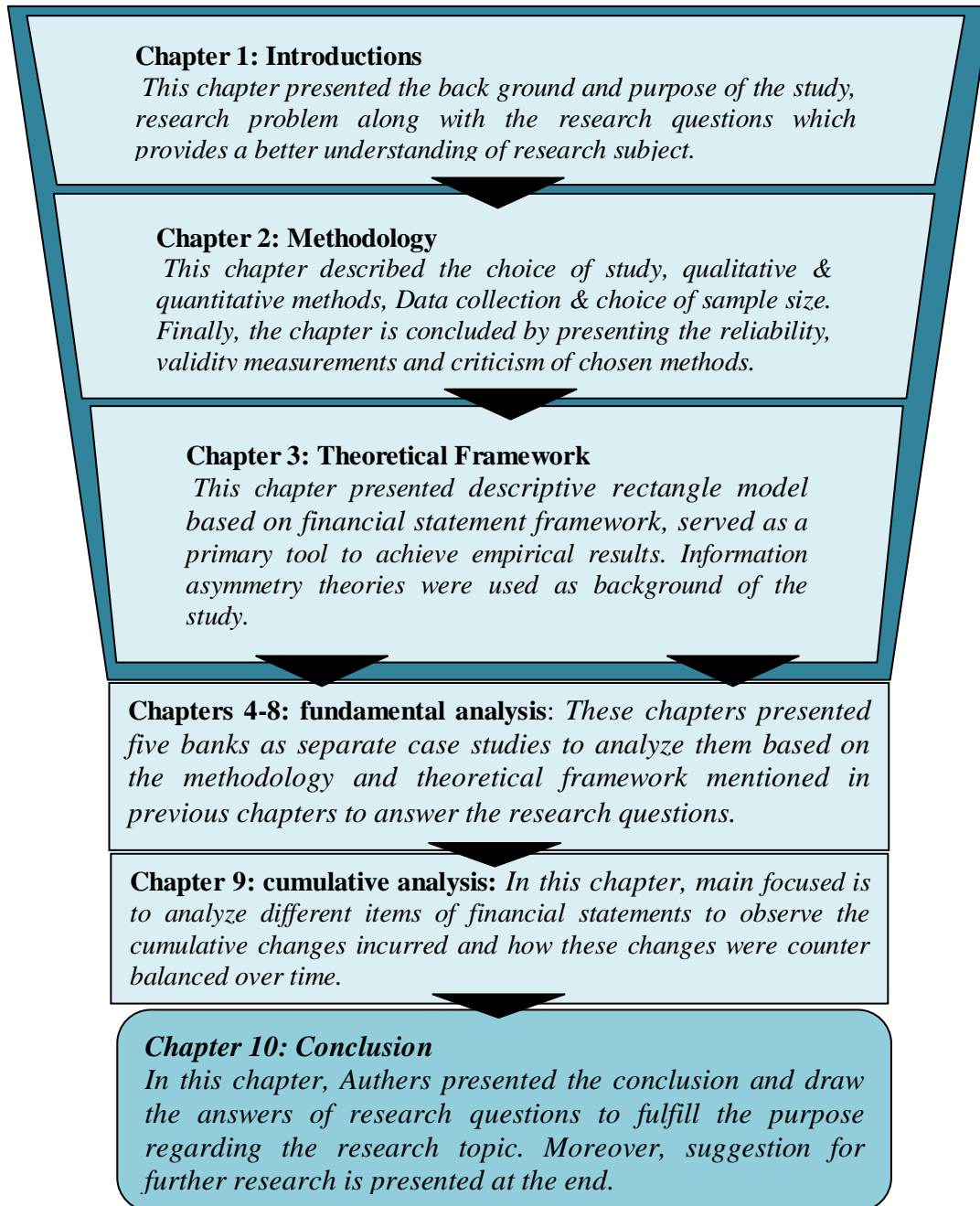
- 1) How the European banks developed over time?
- 2) Does the change in revenue proportionate to the expansion of banks?
- 3) Does the financial numbers communicated by the banks in their financial reports understandable to the external users?

1.5. Delimitations

This thesis will analyze only five European banks` performance from 2003 to 2007. However, there are some reasons for choice of only five banks and their divisions for the study; the time frame for the research work is too short to obtain data from more banks. The purpose is neither to investigate how the banks evaluate financial instruments to report in their financial statements nor to review the banking regulations and the governance systems. Authors will focus only on the financial data available in financial reports. Another delimiting factor is that

we have to only rely on the financial reports provided by the banks on their websites because insight information is not accessible.

1.6. Disposition



2. Methodology

Research methodology chapter will present the important choices of study together with the use of quantitative and qualitative methods. The approach to answer the research question is introduced to the readers and method of analyzing the results is discussed. This chapter will provide the information that how the data is collected and research sample size is defined and analyzed. Measures regarding reliability and validity are stated.

The presence of research method can influence the results of research thesis. In order to answer research questions, authors have to choose a process which explains how to conduct the research with this intention that they are not experts for analyzing the financial institutions. Their aim was to investigate the overall development of banks achieved during specific period of time based on the information available and the use of knowledge from the previous education. These processes used to analyze the banks consist of different steps where researchers perform qualitative and quantitative investigations of problem. The structure which author followed will help to conduct research systematically and analyze the collected data in a more meaningful way.

2.1. Choice of Study

Bank analysis could be conducted as a case study which explains the process of carrying out investigations in detail. There are certain frameworks to follow in case study analysis which provides good structure that improves the work while evaluating the banks that fit the individual case being considered. It also provides the understanding that how the banks expand their business operations and assess the financial situations. Case study analysis is especially considered when the phenomena are large, complex and difficult to analyze. It considers, explain and describe phenomena of object which cannot be investigated with other methodologies. Case studies are especially appropriate when one has the intention to study a change or process. The main objective of using case studies is getting a comprehensive picture of banks with the aim to obtain detailed information.

2.2. Research strategy

Our research strategy is based on *Longitudinal, Descriptive as well as Exploratory studies*. *Longitudinal studies* involve repeated observations of same items in different times which show

the trends across time span⁷. It continues the same type of observations without manipulating objects to see the changes occurred over time after certain time intervals. *Retrospective study* is longitudinal study which looks back in times⁸.

Longitudinal study will lead to *descriptive study* which describes the situation and investigate that *what* things are and *how things have been* without adding any personal opinion⁹. Descriptive studies give an opportunity to preliminary understanding the financial statements of banks from different perspectives and lead to deep insight about the key factors contribute to develop banks within specific time period.

Exploratory studies explain that how something is happening in the firm and finding imminent information about the issue. Since exploratory studies are conducted to better comprehend the nature of problem in hand and “assess” phenomena in a new light¹⁰. Finding the answer of research questions is concerns complex issues which required exploratory.

2.3. Qualitative & Quantitative Method

Data can either be quantitative or qualitative or combination of both. Selection of any method is based on research problem, discussion and purpose. Quantitative method deals with the numeric values that “*how many times something have occurred*”, whereas qualitative method conducts research in text form which explains that “*why something has happened*”¹¹. Three characteristics are given by *Daymon & Holloway*: 1) it uses words as main variable but occasionally numbers, 2) research actively involved with people, and 3) exploring comprehensively the area of interest and provide detailed information on issue¹². Combination of both methods is used because research questions no. 1&2 are referring to quantitative method whereas research questions no. 3 concerning to qualitative method. The combination of both methods will provide the deeper understanding of financial statements of banks. By knowing the comprehensive information through quantitative and qualitative methods will enable the thesis with more complete and understandable for the readers concerning the subject.

⁷ Uma Sekaran (2002)

⁸ Uma Sekaran (2002)

⁹ Saunders et al. (2003). P 97

¹⁰ Robson (2002), P 59

¹¹ Saunders et al. (2003).

¹² Daymon and Holloway (2002)

2.4. Sample Size

Five European banks; Royal Bank of Scotland (RBS) from UK, Deutsche Bank (DB) from Germany, Union bank of Switzerland (UBS) from Switzerland, Nordea from Sweden and Standard Chartered bank PLC (SCB) from England (see table 1) are taken based on convenient sampling as representatives of small banks to large banks for analysis. These banks have achieved strong growth from 2003 to 2007 and improved significant market share in their respective as well as cross border countries. All these banks are providing more or less homogeneous financial services to their customers. These banks are not only engaged in stiff competition but also continuously expanding their business operations in their respective territories. This has increased pressure on financial institutions to evaluate their strategies and new approaches to compete and find new markets to expand their business operations. These banks are divided into two groups based on their size: Group 1 includes large banks; Royal Bank of Scotland, Deutsche Bank and Union of Bank of Switzerland. Group 2 includes relatively small banks; Nordea and Standard Chartered Bank. Banks are divided based on values of balance sheet i.e. seven digits (large group) value of balance sheet in millions and six digits (small group) value of balance sheet in millions.

2.5. Data Collection

Data can be both *primary* and *secondary*. A data that has already been collected for other purposes but still provides basis for re-analyzing for explicit research is called *Secondary data*¹³. All the written materials such as books, journals, reports are the form of secondary data. Advantages of secondary data include; *a*) saving time for the researchers, and *b*) provides large database which already contains extensive information. Whereas the disadvantage of this data is that it may not be reliable to the research questions or may be out dated. Authors obtained Secondary data from Annual Reports, websites, Books, Research Journals/Magazines, Theses of similar fields from different databases (Business Source Premier, Academic Search Elite and Regional Business News, JStore etc). Special help is taken from library of “*School of Business, Economics and Law, Gothenburg University*”, No doubt; Secondary data provided us the bases for our thesis.

¹³ Bryman and Bell, (2007)

A primary data is collected through different sources i.e. direct observations, interviews or surveys which do not already exist¹⁴. Primary data is specifically collected to serve research objectives and reliable because researcher knows where it came and how it is collected¹⁵.

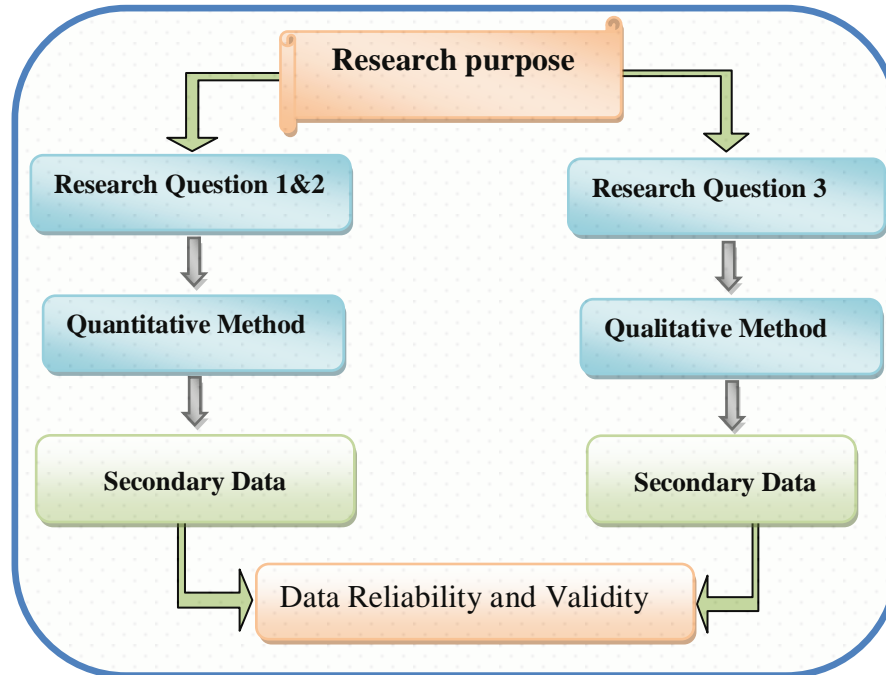


Figure 2.1

The figure above explains that how secondary data is collected to find the answers of “*research question 1 & 2*” and “*research question 3*” as well as checking the reliability and validity of secondary data.

2.6. Validity

To obtain unbiased results, it is necessary that the data collected should be valid in all the aspects. It is the “*best available approximation of the truth or falsity of a given inference, proposition or conclusion*”¹⁶. Validity is given when there is logical relationship between questions and objective¹⁷. There are three types of validity: *a*) face and content validity, *b*) concurrent and predictive validity, and *c*) construct validity. The face and content validity is achieved when the instruments used are valid in a sense that it measures what it is supposed to

¹⁴ Saunders et al (2000)

¹⁵ Bryman, A and Bell, E (2007)

¹⁶ Cook and Campbell (1979)

¹⁷ Kumar (1999)

measure¹⁸. To be ensure about the validity, authors revised work several times (*consulted the supervisor and other students*).

2.7. Reliability

Reliability is the measuring of consistence or degree to which an instrument measures the same way each time and use same conditions with same subjects¹⁹. Reliability can be done through pretest or internal consistency. According to Kumar (1999), a research method is reliable when it is consistent, stable as well as predictive and accurate. Reliability is the “*degree to which measures are free from errors and yield consistent results*”²⁰. There are two aspects which are considered important; 1) stability of measures that the authors of the thesis expected to measure to be stable until there is any important change which is unlikely to happen. So, the authors considered the gathered stable measures. 2) Internal consistency of the measures used which indicates the substance`s homogeneity that it should be capable to obtain the same answer which is expected to ask. Internal consistency is also attached with the interview that a background of the question is given to the responded to understand the overall context of question. Use of consistency and stability in measures ensures the reliability of undertaken study.

2.8. Criticism of chosen Sources

It is important to notice that the information is taken from secondary sources which are more affected by the purpose of developer than primary data. Information used in this analysis was taken from Banks websites and their annual reports. So, authors tried to value the better information with true picture by distinguish facts from biased opinion. Moreover, they also obtained information from Swedish literature where the translation could be more or less misinterpreted. Since secondary data was collected for analysis which can be considered subjective, this could affect objectivity of research. Finally, there is risk of missing important data while evaluating the growth because financial reports are too much extensive which is difficult to consider all aspects as beginning evaluator of financial reports. Moreover, all the banks have different currencies in their financial reports.

¹⁸ Kumar (1999)

¹⁹ L.R.Gay(1995)

²⁰ Zikmund, (2000), p.279

3. Theoretical framework

This chapter introduces theoretical framework as primary tool which serves as basis and provides good structure analysis for empirical results of thesis. Theoretical frameworks will also help the readers to understand the research questions and purpose of thesis.

Rectangle Model

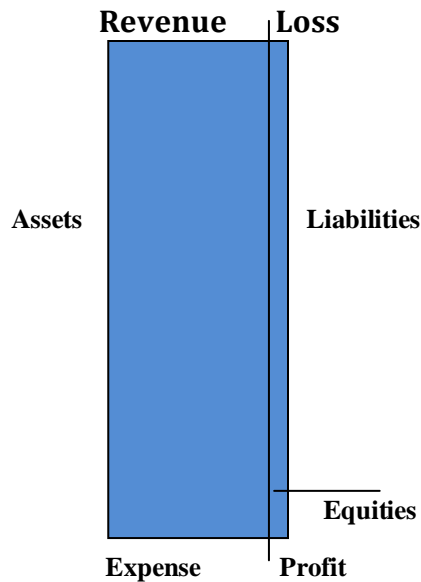


Figure 3.1 (Polesie, T. 1995)

Rectangle model is a simplified but a comprehensive tool to overview the financial position and performance that either the firm is better performing and how the assets are effectively utilized to achieve targeted goals during specific period. Comparison of different period models provide the understanding about the overall expansion of firm. Rectangle model is closed model where its boundaries are well defined which differentiate the information reported by the management. This is an analyzing tool which explains the blend of revenue, expenses, profit, assets, liabilities and owner`s equity for a specific period of time in a simplified vision. With the help of rectangle model one can easily understand the overall situation of firm within a very short overview. In order to develop rectangle model, all the assets, liabilities, equity, revenue, expenses, profit and losses are placed outside the border lines of the rectangle in such a way that represent a “satellite-view” of the firm. Thus, financial situation and the relationship of financial data allocated on rectangle model are visualized. This provides the overlook that the firm is profitable or not since the revenue is allocated on upper horizontal line and expenses &

profit on the lower horizontal line of rectangle (*figure 2.1*). On the other side, one can observe the relationship of assets with equity and liabilities that how much funds are provided by internal sources (equities) and external sources (liabilities). Assets are placed left vertical side and liabilities at the right side of rectangle. A line is drawn to differentiate the liabilities and equities which also proportionate provision of funds either financed by shareholders or from external leveraged by the firm. Such relationship can provide understanding to the equity holders. This model is more useful when comparing the development of firm for some certain point in times. Change in the size of model due to change in financial data for different periods facilitate the users for instant visualization in general for the firm's financial situation along with its operational results. Moreover, rectangle model analysis helps the users to visualize the position of the firm by keeping benchmark performance of starting year to analyze with proceeding years. It also helps to make comparison with other companies by developing the same rectangles with their representative data. Besides the visualizing of the entities resources in a given period, this model will also make a connection between operation and finance. This correlation between operation and finance helps organizations to minimize their risk. In addition, capital intensive firms tend to have highly shaped model and when looking at the development over an interval of years, one can visualize by the shapes of models that how the firm's state changes over time²¹.

3.1. The Assumption of the Rectangle Model

3.1.1. Simplicity

Simplifying and optimizing the company's financial information is the main objective of rectangle model that is relevant to the users of financial statement. Thus a selection of relevant and simple available information for various users is considered by this model²².

3.1.2. Going Concern Concepts

The going concern principle is one of the cornerstones of the financial accounting principle. This principle is also applicable in rectangle model which implies that a company will continue

²¹ Polesie, T (1995), *Drift & Finance – aspekter på ett företags ekonomi* and Polesie, T (1989), *Att beskriva företags ekonomi*

²² *ibid*

to operate indefinite period because rectangle model compare the performance of one period to the preceding periods²³.

3.1.3. Elements

The rectangle model is the blend of balance sheet elements (Assets, Liabilities and Equity) and income statement elements (expenses, Income, Profits and Losses). Missing of any element will diminish the objects of model²⁴.

3.1.4. The Time Aspect

In order to make a comparison of performance of firms, same time period should be taken for developing rectangle model which is normally one complete financial year for putting information on this model. Smaller periods can be taken but it reduces its reliability due to some seasonal nature of businesses. Rectangle model without the time aspects is both *static* in term of describing a company's state in a certain moment of time and *dynamic* when describing the development of the company over time²⁵.

3.1.5. Monetary Measurement

All the numbers used to establish rectangle model should be consistent in monetary measurements. This assumption enables to make comparison of the firm over time and with other firms having similar nature of business. If the figures are expressed in different currencies then the shape of the model would be misleading. Before developing the rectangle model, proportional measures are developed for the financial data which should represent the actual numbers along with same currency for comparison of other firms²⁶.

3.1.6. The Information

All the information for developing rectangle model is taken from Annual reports published by the firms. Neither potential nor the human factors are considered in this model. This should elevate the financial data from the annual reports and reflect the actual position of the business; otherwise the analysis of model becomes infertile²⁷.

²³ Polesie, T (1995), Drift & Finance – aspekter på ett företags ekonomi and Polesie, T (1989), Att beskriva företags ekonomi

²⁴ ibid

²⁵ ibid

²⁶ ibid

²⁷ ibid

3.2. Financial Statements Analysis Framework

Financial statement analysis framework²⁸ (Robinson R. et al. 2008) explains that how the analysis can be done in a variety of ways depending upon its purpose. For instance, assets evaluation is done to analyze how much the resources are effectively utilized to achieve targeted goals. Credit analysis would be to evaluate the creditworthiness of company to decide either to lend or not and what credit rating should be assigned. Finally, equity analysis is done to evaluate the market value of existing stock of the firm and to determine the attractiveness of potential equity investment. Information is presented in financial reports that include financial statements, financial notes and management`s decisions & analysis. Firms prepare financial reports to communicate to creditors, investors and other users of financial reports about the financial performance and financial positions at regular intervals for the purpose of their decision making²⁹. Financial statements analysis helps investors in analyzing financial health of the firms and shapes the basis on which investments are planned. It evaluates the performance against the overall management strategies as reflected in financial reports³⁰. It also examines the key performance indicators which influence the success of firm.

Analysis of these reports provided by the firms along other information evaluates the past and forecast the future performance. It examines those factors which affect the risks of financial performance, stability, overall growth and also make comparison of the resources controlled by the firms in relation to claim against those resources. This can be done regularly over viewing the financial statements, supplementary schedules, notes and variety of other information sources. Authors of underlying thesis have used income statement, balance sheet, changes in owner`s equity for analysis and other relevant information for analysis.

3.2.1. Income Statement analysis

Income statement provides the results of operations during a specific period of time. It communicates that how much revenue has been generated by the company during a specific period and what costs incurred for generating that revenue. Net income on the income statement is referred as "*Bottom Line*" because of its proximity to the bottom of income

²⁸ Components of this framework have been adapted from van Greuning and Gratanovic (2003 , p.300) and from Benninga and Sarig (1997, pp. 137-156)

²⁹ Robinson, Thomas R. (2008)

³⁰ Ibid

statement³¹. The primary purpose of income statement is to report the earnings of the firm to investors for a specific period of time. Many times, investors make their decisions based on earnings reported in the income statement because it provides important insight into how effectively management is generating income and controlling expenses³². Analysis to the facts from income statement reveals current and potential growth of business.

3.2.2. Balance Sheet Analysis

Balance sheet also known as statement of financial position (or financial condition) presents the company's current financial health by disclosing the resources of control (assets), what it *owes* (liabilities) and what it owns (residual interest of investors) which is in excess of assets over liabilities invested by the owners at a specific point in time³³. It also provides the insight for investors that how the assets are financed through equity and liabilities. Three component of balance sheet are formulated in accounting relation which is known as “*accounting equations*”³⁴.

3.2.3. Statement of Changes on Owner's Equity

Statement of changes in owner's equity serves to report the changes incurred in investment over time made by the investors³⁵. Owner's equity is changed due to issue of new shares, splitting shares, buyback of own shares and bonus issue etc as a part of their strategic decisions. There are some other classes of share i.e. class A & B shares, preference share (cumulative non-cumulative) etc. Analysis of owner's equity provides the understanding to the existing investors to determine the overall strength of owners within the firm. From investor's point of view, equity analysis is done to evaluate the market value of existing stock and attractiveness of potential equity investment. It also determines what would be the appropriate price to be paid for equity investment³⁶.

The comparison of the major components of balance sheets and income statements for different periods provide the indications about the similarities and differences between the operations and overall growth of the firms. *Trend analysis* of financial statements highlights the changes

³¹ Robinson, Thomas R. (2008)

³² Ibid

³³ Ibid

³⁴ Ibid

³⁵ Ibid

³⁶ Ibid

over time and firm's performance in preceding period which used as a benchmark. *Cross-sectional analysis* compares performance with other firms.

3.3. Information Asymmetry

Un-equally distributed information is called *information asymmetry*³⁷. This is a traditional and a basic information problem which create dilemma of proper information accessibility between the provider of information and external users. Information Asymmetry are dealt by agency problem, lemon problem and other information flow from internal to external sources. These theories are linked for the underlying thesis because the nature of subject area which is used by different users for their own purposes and these theories discuss the problem in a border context.

3.3.1 Agency theory

Agency theory explains contractual relationship between one or more individuals with the principal or principals where they hires another person (the agent) to perform a service on behalf of principal and who delegates decision making power to the agent³⁸. Firm needs to provide information to the external users in order to attract them so that they invest in the firm in either form. The link for the information is created through reports between the provider (management) and users of information (owners, creditors and others)³⁹. Users try to understand this information according to their own understandings. Agency theory is concerned for resolving the problems that occur in agency relationships; 1) agency problem that arises when goals or desires of principal & agent conflict and difficult or expensive for principal to verify that what agent is actually doing and did agent behave appropriately, 2) problem of risk sharing that when principal and agent have different attitudes towards risk sharing where the agent prefer different risk share actions due to different risk preferences⁴⁰.

From the agency perspective, there can be many relationships between banks and the owners. However, principal's perspective from agency theory's main objective is to find optimal arrangement of contractual relations that could solve problem of delegating decision making

³⁷ Hendriksen & VanBreda (1992)

³⁸ Jensen, M.C. Ad Meckling, W.H. (1976),

³⁹ Rimmel. G (2003)

⁴⁰ Kathleen M. Eisenhardt (1989)

authority to agents⁴¹. Delegation of authority is an issue because the agent doesn't possess the same incentives as principal. If this issue is transferred to the firm than the agent (management) will possess unique information about the business decisions of firm which is not available to the principal (owners) which create information asymmetry⁴². So both the parties act in their own self interest where principal try to diversify the risk by investing in different businesses and agents becomes risk-averse but their wealth depends upon the performance of business. Such differences create *conflict of interests* between the both parties. Principal (owner) want from agent (management) to act for his/her interest which causes principal to interfere with agents, if the agent acts to maximize the self earning⁴³.

Information provided by the management due to regulatory requirements can minimize such asymmetric information between both parties but still information interpreted in the annual reports by the management in such a way that cannot be easily understood by the external users. Notes to the financial statements and other financial & non-financial data disclosure criteria have led to minimize the asymmetry information to the external users. Such problem information as interpreted by the management in their reports is discussed in analysis chapters.

3.3.2 The Lemon Problem

Another example of information asymmetry is lemon problem. As mentioned in the above part that information asymmetry arises due to information differences and their flow to the principal (management) by agent (investors). Lemon problem clarify the issue of unequally distributed information that refers to the used car market. In the used car market, buyers do not know more about the car which he or she is going to buy (technical problem)⁴⁴. So the seller has more information than the buyer that cause information asymmetry. If the buyer is unable to differentiate a good car and lemon, they will settle issue offering at compromised price. Risk of buying lemon car will reduce the price that buyer will be willing to pay whereas the seller of good car will leave the market due to the lower price on which he or she is not will to sell at lower price⁴⁵. So seller of lemon will stay in the market which drives overall information asymmetry. If problem is not dealt accordingly, then such problem will also occur in financial

⁴¹ Rimmel. G (2003)

⁴² Ibid

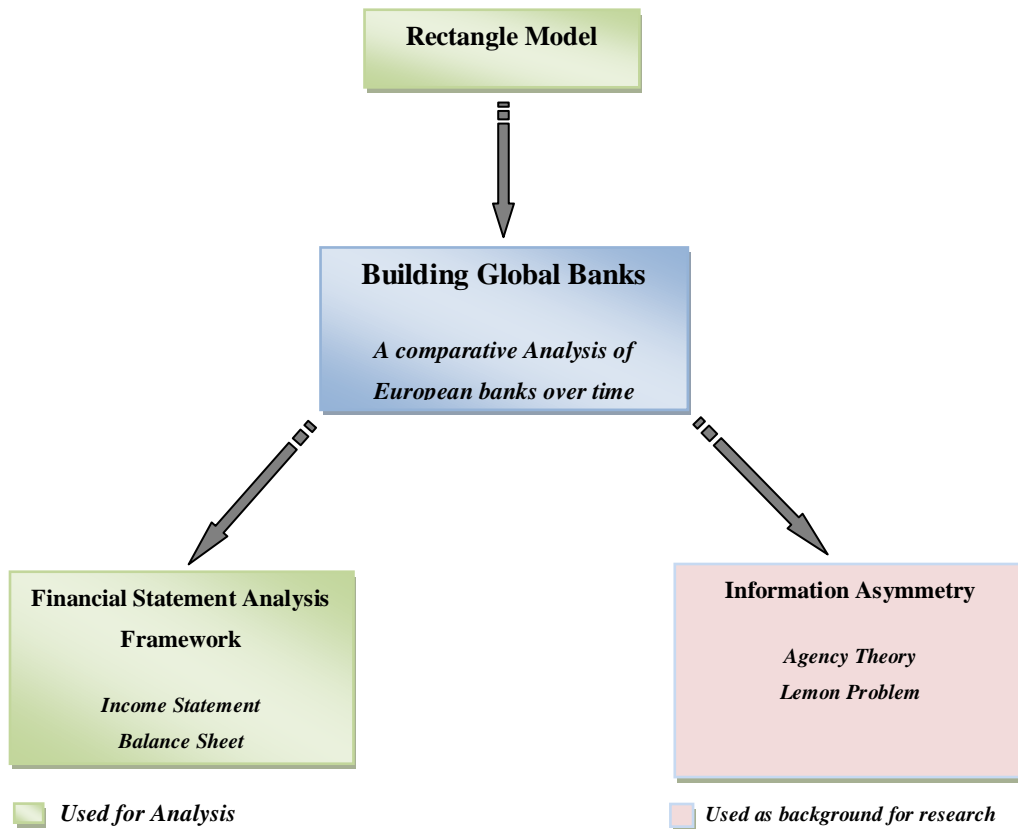
⁴³ Ibid

⁴⁴ George A. Akerlof (1970)

⁴⁵ Ibid

market which ultimately distort the decision making process of investors or other external stakeholders. So the information should be disclosed by the management in the financial reports that would be easily perceived as solution of the external users.

Theoretical Framework Figure 3.2



Fundamental Analysis

In this chapter, authors analyzed and interpreted the financial information provided in the financial reports from 2003 to 2007 according to the model and theories presented in the theoretical framework chapter. For the underlying thesis, authors used rectangle model as basis to see overall position for the banks whereas financial statement analysis framework is used to explore the detailed analysis as subsequent part of rectangle model. To facilitate the readers, pre-analysis information is provided that how the data is used and structured in a meaningful way to achieve insight information.

Contrary to the conventional analysis of financial statement, authors used new ways of understanding and analyzing the financial numbers reported by the management. Information Asymmetry theories were used as background for analysis. Rectangle Model provided an overview of overall growth of European banks from 2003 to 2007 and developed a relationship of sources with revenue. As mentioned in theoretical frame work, all the banks have different currencies to report in their financial statements. So the authors converted all the currencies into dollar value and the conversion rate for the last day of each year was taken as basis to convert each currency into dollar to develop symmetry model that represents the original currency. Financial Statement Analysis Frame is used to analyze the Income Statement, Balance Sheet and Statement of Owner`s Equity to see the changes incurred during 2003-2007. In Balance sheet analysis, authors analyzed major assets and liabilities which expanded balance sheet value, their relative proportion and percentage of changes from proceeding year to analyze the growth of balance sheet. In Income Statement Analysis, key revenue contributing sources are taken with their relative proportion to total earnings along percentage change from proceeding year. In Statement of Owners `Equity, Authors analyzed the changes occurred during the year and how the changes were made in total equity with regard to classes of shares, retained earnings, minority interest. Author also focused on geographical as well as divisional earnings which brought changes in their total earnings.

Finally authors try to find the basis of changes that incurred during the year which changed the whole position of financial statements.

Group one

Case One-Royal Bank of Scotland



Case Two-Deutsche Bank



Case three-Union Bank of Switzerland

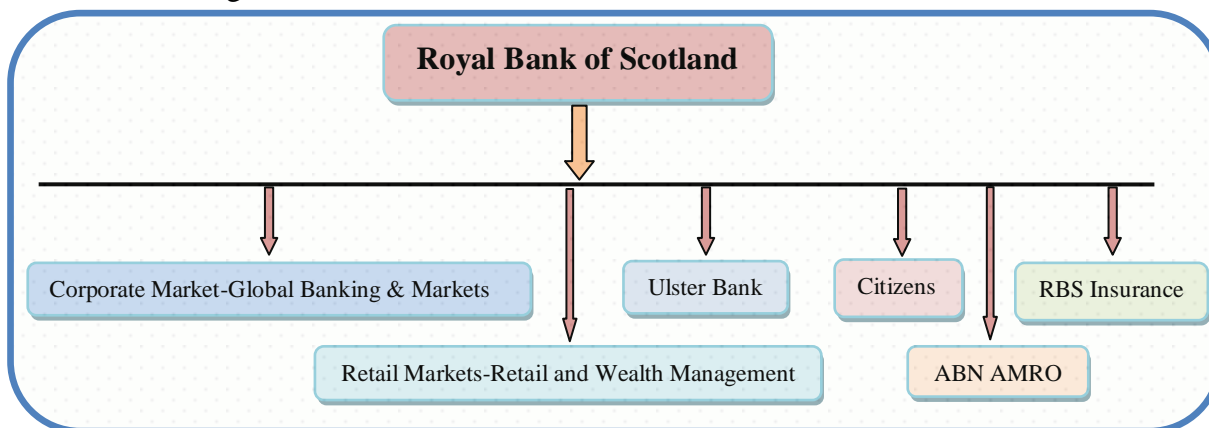


4 -Case One-Royal Bank of Scotland

4.1 Brief Introduction

The Royal Bank of Scotland started its operations from a small scale at nearly 300 years ago⁴⁶ but its history can be found from 1727. RBS has registered office in Edinburg. It comprises 226400 employees including ABN AMBRO PLC (acquired 16 July 2007)⁴⁷ working in 2278 branches including NatWest PLC (acquired in 2000)⁴⁸ serving to the people of Britain, America and Asia. RBS has Institutional, Retail and other shareholders from UK, Europe, USA and rest of the worlds. RBS’s shares are mainly listed in New York Stock Exchange (NYSE) and London Stock Exchange (LSE). Divisional profile composed of; a) Corporate markets-Global Banking & Markets, b) Retail Markets-Retail and Wealth Management, c) Ulster Bank, d) Citizens, e) RBS Insurance, and f) ABN AMRO.

RBS divisions are providing wide range of services including a) Personal Banking, b) Wealth Management, c) Business & Commercial and Corporate & Institutional services individuals, businesses and institutions at every level. This bank is also committed to innovation and service in financial sector. Royal Bank of Scotland has won several awards especially Inflation Derivatives House of the Year in the Risk Awards by Risk magazine⁴⁹. Divisional profile of RBS is shown in figure C1.1below.



(Figure C1.1 RBS division)

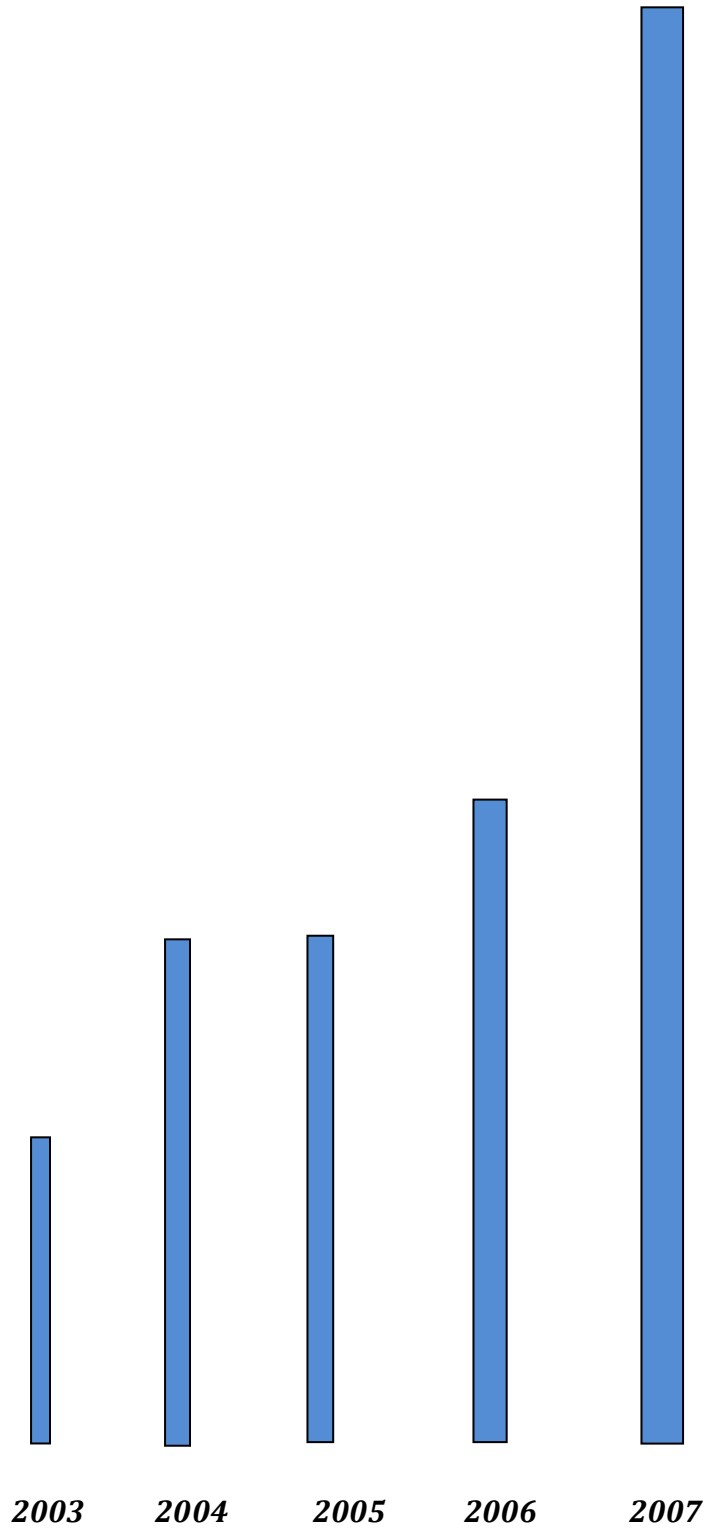
⁴⁶ http://www.rbs.com/about01.asp?id=ABOUT_US assessed Feb11, 2009

⁴⁷ http://www.investors.rbs.com/downloads/RBS_Release_16_July_2007_FINAL.pdf

⁴⁸ http://www.investors.rbs.com/investor_relations/financial_info/natwest_info.cfm assessed at Feb 11, 2009

⁴⁹ http://www.rbs.com/media03.asp?id=MEDIA_CENTRE/PRESS_RELEASES/2008/JAN/17_RISK_MAGAZINE assessed Feb11, 2009

(Figure C1.2 Rectangle Model for five years)



4.2 Year 2003

4.2.1 Rectangle Model Analysis

Rectangle Model figure C1.3 shows that RBS in 2003 has assets with the value of £454428m. These assets were financed through liabilities and equity which constitute £422049 (93%) and £32379 (7%) respectively. Percentages of assets applicable to UK operations are 63.6% and rests 32.4% belong to overseas. In 2003, RBS had £27268m Revenue from all sources and expenses £23290m. Profit for 2003 was £3978m before *preference dividends-non-equity and additional value shares dividend-non-equity distributed* to the UK and overseas investors⁵⁰. Retained profit is £764m after distribution to all the shareholders. Basic Earnings per share is 76.9p and final dividend of 55p per share amounting to £1.5bn is paid⁵¹.

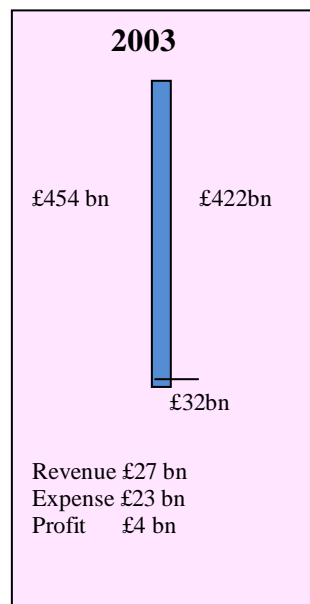


Figure C1.3

Total interest earning assets are £376,362m (85%) and Non-Interesting earning assets (trading business) consists of £67026m (15%) of total assets⁵². Total interest-bearing liabilities from banking business were £245099 (60%) and trading business £93466m (40%). Percentages of liabilities applicable to UK operations are 69.3% and rests 30.7% belonged to overseas⁵³.

4.2.2 Geographical & Divisional Earning Analysis

During 2003, there were good economic conditions in USA, Continental Europe whereas UK economy sustained its positive trends from 2002⁵⁴. Figure C1.4 showing the geographical earnings for RBS that major operations concerning to UK afterwards US⁵⁵. If we look at Group earnings, we see that Corporate Banking and finance market

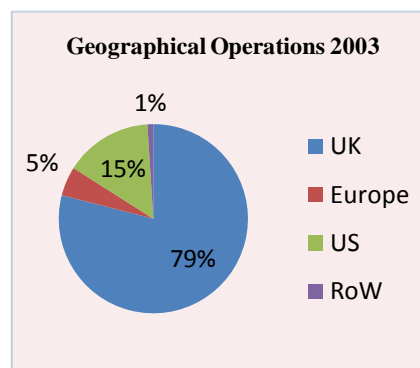


Figure C1.4

⁵⁰ http://www.investors.rbs.com/downloads/RBS_Group_Accounts_2004.pdf page 145

⁵¹ http://www.investors.rbs.com/downloads/RBS_Group_Accounts_2004.pdf page 72

⁵² http://www.investors.rbs.com/downloads/RBS_Group_Accounts_2003.pdf page 139

⁵³ http://www.investors.rbs.com/downloads/RBS_Group_Accounts_2003.pdf page 139

⁵⁴ http://www.investors.rbs.com/downloads/RBS_Group_Accounts_2003.pdf page 5

⁵⁵ http://www.investors.rbs.com/downloads/RBS_Group_Accounts_2003.pdf page 10

contribution is £3620m profit (37%), Retail banking £3126m (32%), Retail Direct £873m (9%), Manufacturing cost increased 6% to £1875m, Wealth management £438m (5%), RBS Insurance £468m (5%), Ulster Bank £273m (3%) and Citizens £857m (9%)⁵⁶.

4.2.3 Financial Statement Analysis Framework

4.2.3.1-Balance Sheet Analysis

Total assets mentioned in rectangle model which includes advances and loans to the customers of £252531m (56%), Debt securities £79949m (18%) and the smallest value in the asset side is equity shares only having £2300m (0.5%) of total assets. To fulfil the current maturities of customers, RBS had cash and balances equivalent at the end of year for £20937m (4.6%) of total assets. In some way, the above figures show that RBS majorly focus on advances and loans to customers rather investing in other businesses.

In comparison to Assets, Loans and Advances to customers, RBS rely in customers' accounts with the value of £236963m than deposits by banks £67323m which is 56% and 16% of total liabilities respectively other than equity. Key liabilities for 2003 comprised; deposit from the customers including demand deposits, 2) saving deposits and 3) other time deposits both in UK and overseas. Other liabilities include a) debt securities in issue, b) loan capital and c) internal funding of trading business both in UK and overseas.

4.2.3.2- Income Statement Analysis

RBS had £27268m Revenue from all sources in which three key income items 1) Interest Income with £13998m (51%), 2) Fee and Commission receivable £5693m (21%) and 3) General insurance net premium income £3123m (8%) included. Other sources of revenue

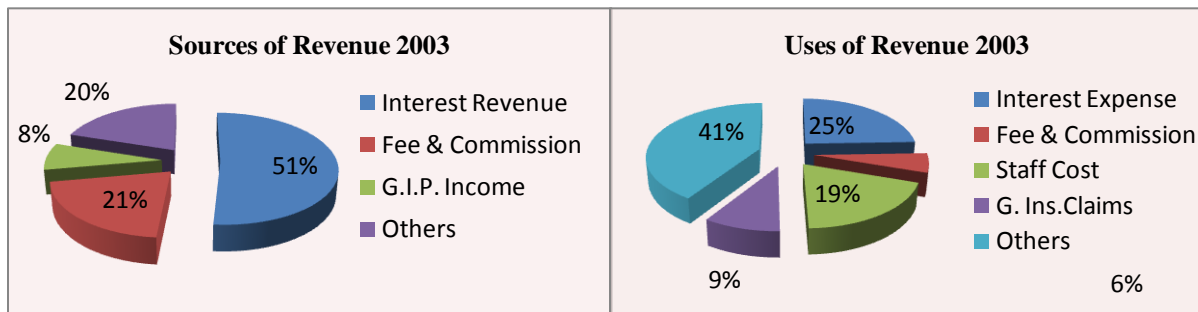


Figure CI.5

Figure CI.6

⁵⁶ http://www.investors.rbs.com/downloads/RBS_Group_Accounts_2003.pdf page 14ff

consist of 5454m (20%) that includes dividends, dealing profits and other operating income.

On the other hand, figure C1.6 above shows four key expenses in its Income statement: 1) Interest Expense payable £5697m (25%), 2) Staff Cost £4528m (19%), 3) General Insurance Claims £3123m (9%) and 4) Fee & Commission payable £1337m (6%). Other expenses which were 41% consisted other operating expenses, provision for bad and doubtful debts, amount written off fixed assets investments, goodwill amortization, integrated cost and tax etc. their amount was not such significant to be included as separate items.

4.2.3.3-Equity

Total equity of RBS in 2003 was £769m of which £15m issued during the year. Ordinary shares of 25p of total 3.0m and Non-voting deferred shares of £0.01 for total 2.7m allotted, called up and fully paid share. In december 2003, RBS Additional value share de-listed and converted them to non-voting deferred share of £0.01 each. Non-commulative preference share were 82000 of US\$0.01 and Commulative preference share 900 of £1, Non-commulative preference shares 1900 of US\$0.01. Rest of Non-commulative convertible preference share include 750,200 for €0.01 and £0.01 respectively.

4.2.4 Basis for changes of Financial Statements

During 2003, RBS completed seven major acquisitions and announced 2 more to be completed in 2004 for £3bn which strengthened the international capabilities of the Group; four were in the US, three were in Continental Europe and one each in Ireland and the UK. In 2003, RBS established a securitization business in Asia. RBS launched different products, like saving Account, mortgage products, advantage Gold Account etc. In May-July 2003, RBS sold the Miami-based Latin American private banking operations of Coutts Group to Santander Central Hispano for US\$81m. Staff profit share set up which is 10% of basic salaries. At the end of 2003, RBS Group was the world's fifth largest group with a market capitalization of £49bn.

4.3 Year 2004

4.3.1 Rectangle Model Analysis

Rectangle Model figure C1.7 which is bit bigger from last year showing assets of £588122m (29% up, £454428m-2003) which were financed through £550725 (21% up, £454428m-2003) of liabilities and £37397m (15% up, £32379m-2003) of equities that had proportion of 94% & 6% respectively. Total Revenue from all sources of RBS was £33682m (24% up, £27268m-2003) and expenses £28393m (22% up, £23290m-2003). Profit for 2004 was £5289m after all expenses distributable to the UK and overseas investors. Basic Earnings per share was 157.4p and final dividend of 52.5p per share amounting to £1635m was paid⁵⁷.

Percentages of assets applicable to UK operations were 67.1% and rest 32.9% belonged to overseas. Total interest earning assets consist £450096m (86%) which include banking business £316743m (70%) & trading business £133353m (30%) and Non-Interesting earning assets (trading business) consists of £72711m (14%) of total assets⁵⁸.

Total interest-bearing liabilities were £411486m (9% up, £376362m-2003) of which banking business were £245099 (68%) and trading business £131743m (32%). Percentages of liabilities applicable to UK operations were 69.5% and rests 30.5% belonged to overseas in 2004⁵⁹.

4.3.2 Geographical & Divisional Earning Analysis

Year 2004 having good economic conditions for RBS in USA, Continental Europe and UK in which proportion of operations remain consistent from 2003 as shown in figure C1.8. Geographical earning of RBS remained 77% of total revenue contribution in UK and US had 15%, Europe had just 7% which shows that RBS not only compete in UK but maintaining its market share⁶⁰.

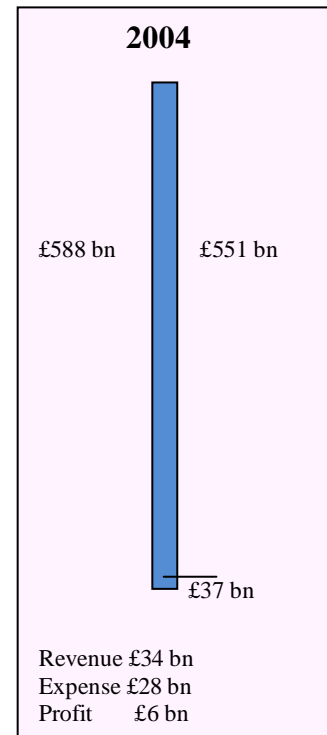


Figure C1.7

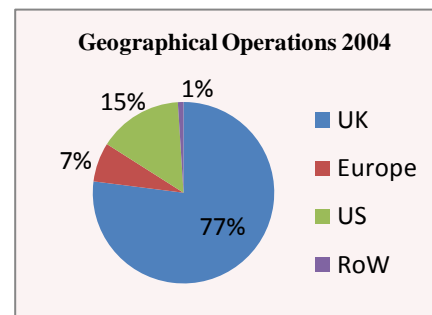


Figure C1.8

⁵⁷ http://www.investors.rbs.com/downloads/Group_Review_March_2005.pdf page 150

⁵⁸ http://www.investors.rbs.com/downloads/Group_Review_March_2005.pdf page 64

⁵⁹ http://www.investors.rbs.com/downloads/Group_Review_March_2005.pdf page 64

If we look at Group earnings, we see that Corporate banking and finance market contribution was £4265m profit (12% up 2003-£3620m), Retail banking £3279m (6% up 2003-£3170m), Retail Direct £1040m (16% up 2003-881), Wealth management £468m (17% up 2003-£420m), RBS Insurance £881m (52% up 2003-£609m), Ulster Bank £468m (28% up 2003-£354m) and Citizens £1037m (31% up 2003-£857m) contributing to consolidated revenue⁶¹.

4.3.3 Financial Statement Analysis Framework

4.3.3.1 Balance Sheet Analysis

Like 2003, key assets in consolidated balance sheet were advances and loans to the customers which consisted £347251m (38% up, 252531-2003 and 59% of total assets) and Debt securities £93908m (17% up, £79949m-2003) and constitute 59%, 16% of total assets respectively. To fulfil the current maturities of customers, RBS cash and cash equivalent at the end of 2004 was £50021m (139% up, £20937m-2003) which is increased with significant amount.

In comparison to Assets side, RBS rely in customers' accounts with the value of £283315m (20% up, £236963m-2003) afterward deposits by banks £99883m (48% up, £67323m). Both liabilities constitute 51% and 18% of total liabilities respectively other than equity. Major liabilities continued from 2003 but changed their values

4.3.3.2 Income Statement Analysis

Total Revenue from all sources of RBS was £33682m (24% up, £27268m-2003). Figure C1.9 shows that RBS has five key income items with their relative proportion in the income statement 1) Interest Income of £16632m (19% up, £13998m-2003), 2) Fee and Commission receivable £6473m (14% up, £5693m-2003) and 3) Income from trading activities £1988m

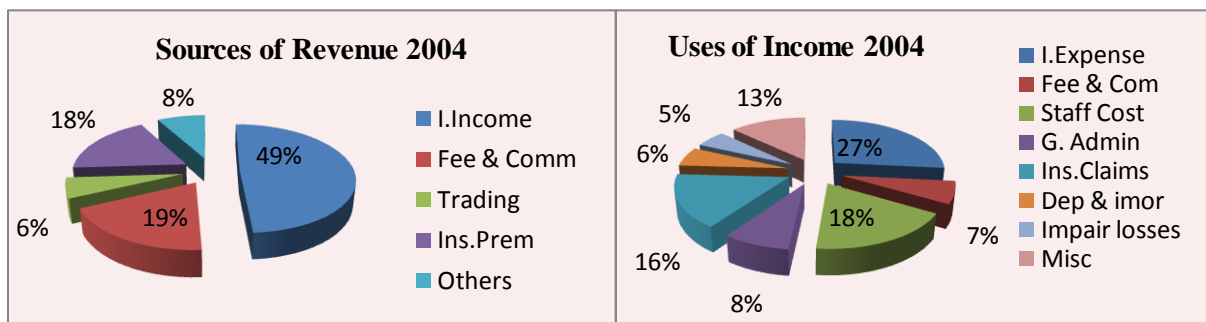


Figure C1.9

Figure C1.10

⁶⁰ http://www.investors.rbs.com/downloads/RBS_Group_Accounts_2004.pdf page 5

⁶¹ http://www.investors.rbs.com/downloads/RBS_Group_Accounts_2004.pdf page 16ff

(6%), 4) insurance premium income £6146m (96% up, £3123m-2003) and other operating income of 8% in 2004. Trading income was introduced in 2004 by RBS.

In 2004, number of Expenses item's visibility for RBS increased. Total expenses were £28393m (22% up, £23290m-2003). It had seven key expenses items in its Income statement: 1) Interest Expense payable £7561m (33% up, £5697m-2003), 2) Staff Cost £5188m (16% up, £4528m-2003), 3) General Insurance Claims £4565m (43% up, £3123m-2003), 4) Fee & Commission payable £1926m (44% up, £1337m-2003). Rest of three expenses got visibility in 2004. These expenses were 5) General Administrative expenses £2323m (8%), 6) Depreciation & Amortization Expense 1674 (6%) and 7) impairment losses £1485m (5%) as shown in above figure C1.10 for their relative proportion. Other expenses which were 13% composed of other operating expenses, provision for bad and doubtful debts, amount written off fixed assets investments, integrated cost and tax etc.

4.3.3.3 Equity

Total equity of RBS was £37397m end of december 2004 including ordinary share of 25p, non-voting deferred shares, preference share (convertible,non-convertible) allotted, called up and fully paid share including new ordinary share placed at 1620 pence per share. Based on this price, £2.5billion capital has been raised⁶².

4.3.4 Basis for Changes in Financial Statement

The above mentioned changes were incurred because during 2004, RBS completed those acquisitions which were announce in 2003 and continued few new acquisitions for upcoming years more importantly Charter One for £5.8bn. In 2004, RBS reduced fixed mortgage rate 2% and increased saving accounts rates up to 0.25%. It continued to expand its activities in Asia Pacific. At the end of 2004, RBS Group became world's 5th largest banking group with a market capitalization of £56 bn. This was consecutive 12th year that RBS had increased dividend 15% and last five years have 33% market share for providing services to banking business. Due to better results, RBS set the staff profit share of 10% of basic salaries⁶³.

⁶²http://www.investors.rbs.com/investor_relations/announcements/ReleaseDetail.cfm?ReleaseID=153920-assessed,20mar 2009

⁶³ http://www.investors.rbs.com/downloads/RBS_Group_Accounts_2004.pdf page 6

4.4 Year 2005

4.4.1 Rectangle Model Analysis

Rectangle Model of 2005 shows the assets` value of £776827m (32% up, £588122m-2004). These assets were financed through liabilities and equity but the relative proportion was change. Liabilities comprised £739283 (34% up, 550725m-2004), equity £37544m (0.4% up, £37397m-2004) and constitute 95% and 5% respectively. Total Revenue from all sources of RBS was £39553m (17% up, £33682m-2004) and expenses £33995m (20% up, £28393m-2004). Profit for 2005 was £5558m distributed to the UK and overseas investors. Basic Earnings per 25p share was 56.5p and final dividend of 20.2p per share amounting to £2007m (23% up £1635m-2004) was paid⁶⁴. Percentages of assets applicable to UK operations were 64.7% and rests 35.3% belonged to overseas. Total interest earning assets were £556680m (76%)

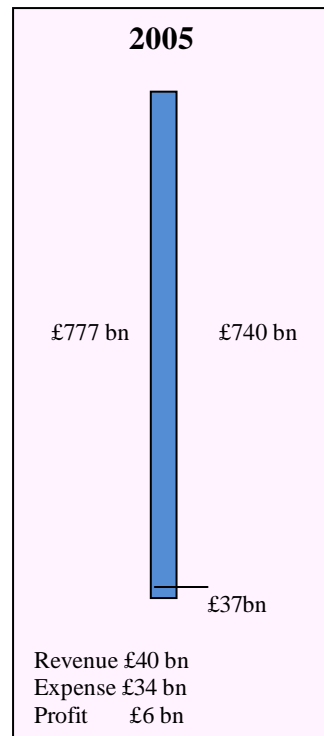


Figure C1.11

which include banking business £383690m (69%) & trading business £172990m (31%) and Non-Interesting earning assets (trading business) consists of £180368m (24%) of total assets (up 10% 2004)⁶⁵. Total interest-bearing liabilities were £522354m (75% of total liabilities and equities) of which banking business were £349610 (67%) and trading business £172744m (33%). Non-Interest bearing liabilities both in UK and Overseas include demand deposits and other liabilities with the value of £181746m (25%). Percentages of liabilities applicable to UK operations were 64.5% and rests 33.5% belonged to overseas⁶⁶.

4.4.2 Geographical & Divisional Earning Analysis

Growth of RBS was not as significant in 2005 as achieved in 2003-2004 but economic conditions for RBS remain favourable in USA, Continental Europe. Geographical earning

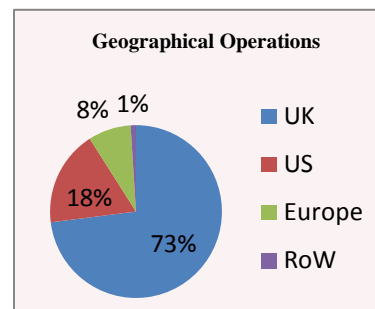


Figure C1.12

⁶⁴ http://www.investors.rbs.com/downloads/Annual_Report_and_Accounts_2006.pdf page 143

⁶⁵ http://www.investors.rbs.com/downloads/Group_Review_March_2005.pdf page 64

⁶⁶ http://www.investors.rbs.com/downloads/Group_Review_March_2005.pdf page 64

of RBS remained 73% (4% down 2004) of total revenue contribution in UK and US has 18% (3% up 2004) Europe had just 8%⁶⁷. Consolidated revenue of RBS consists of Corporate banking and finance market contribution £5224m profit (17% up, £4196m-2004), Retail Markets £4207m (7% up, £4064m-2004), Retail Direct £1040m (16% up, 881-2004), Wealth management £814m (10% up, £773m-2004), RBS Insurance £926m (8% up, £881m-2004), Ulster Bank £530m (15% up, £460m-2004) and Citizens £1575m (43% up, £1069m-2004). All above changes are showing that the group has sustained its development in all its divisions⁶⁸.

4.4.3 Financial Statement Analysis Framework

4.4.3.1 Balance Sheet Analysis

Number of major assets in consolidated balance sheet was continued from previous years but the value were changed. Assets in balance sheet were advances and loans to the customers which consist of £417226 (20% up, £347251m-2004) and Debt securities continued with same proportion of £120965m (29% up, £93908m-2004). The smallest value in the asset side is cash and balances at central bank with the value of £4759m (0.6%) of total assets⁶⁹. To meet its current maturities, RBS had £52549m (5% up, £50021m-2004). Liability side had having almost same items of Customer accounts £342867m (21% up, £283315m-2004), Deposits by banks £110407m (11% up, £99883m-2004) and rests of the liabilities continued with same proportion both in UK and rest of the world.

4.4.3.2 Income Statement Analysis

Total Revenue from all sources of RBS was £39553m (17% up, £33682m-2004). RBS key income items consists of *a*) Interest Income of £21331m (54% of total revenue-5% up, £16632m-2004), *b*) Fee and Commission receivable £6750m (17% of total revenue-4% up, £6473m-2004), *c*) Income from trading activities £2343m (18% up, £1988m-2004), *d*) insurance premium income £6076m (15% of total revenue, 1.2% down, £6146m-2004) and rest of operating income consists £2963m (8%) as shown in figure C1.14.

Total number of expenses remained same from last year but their proportion in total expenses were increased due to overall growth of banking operations.

⁶⁷ http://www.investors.rbs.com/downloads/RBS_GRA_2007_21_4_08.pdf page 5

⁶⁸ http://www.investors.rbs.com/downloads/Group_Review_March_2005.pdf page 16ff

⁶⁹ http://www.investors.rbs.com/downloads/Group_Review_March_2005.pdf page 64

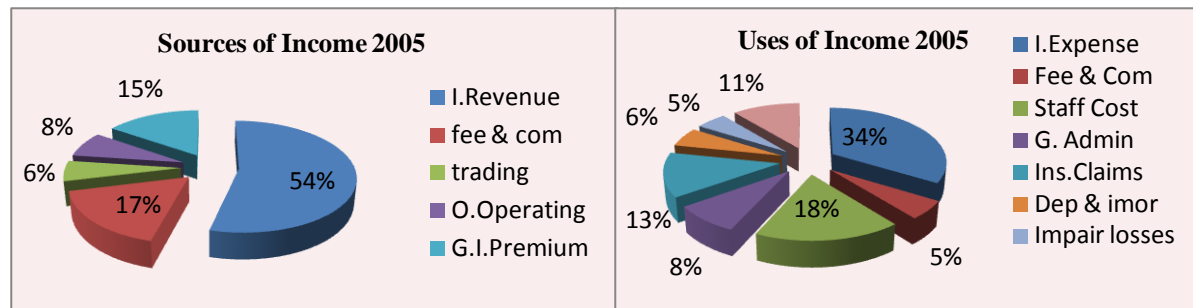


Figure CI.13

Figure CI.14

These expenses include a) Interest Expense payable £11413m (51% up, £7561m-2004), b) Staff Cost £5992m (15% up, £5188m-2004), c) General Insurance Claims £4413m (3% down, £4565m-2004), d) Fee & Commission payable £1841m (5% down, £1926m-2004), e) General Administrative expenses £2816m (21% up, £2323m-2004), f) Depreciation & Amortization Expense £1825m (9% up, £1674m-2004), and i) impairment losses £1707m (15% up, £1485m-2004). Rest 11% Misc expenses consist of premises & equipment, reinsurer's share and taxes.

4.4.3.3 Equity

Total equity of RBS was £37544m end of december 2005 including £826m ordinary called up share capital of 25p, and rests were reserves, non-voting deferred shares, preference share (convertible,non-convertible) allotted, called up and fully paid share. 13.5m ordinary share allotted as result of exercising the options under company`s executive, 7.4m in lieu of cash dividends and 2.3 under company`s employees ownership plan. During 2005, RBS issued preference share of US\$1billion.

4.4.4 Basis for changes in Financial Statements

For 2005, Economic conditions remained favourable to keep its market share. During 2005, RBS completed those acquisitions which were announced in 2004. It completed the transaction of a €7.57bn loan financing in support of Metrovacesa's acquisition of Gecina. More importantly, Oil and Gas fluctuated prices affected the earnings of RBS. It continued to expand its corporate banking activities extensively in Asia Pacific. It also launched trade of online trading service for foreign exchange, money markets and global treasury funds. It also started live streaming FX spot trading via the Bloomberg Professional services. Like previous years, RBS staff received profit share of 10% of their salary.

4.5 Year 2006

4.5.1 Rectangle Model Analysis

In 2006, rectangle model showing a big picture as compared to previous years as shown in figure C1.15. Assets and liabilities continued to increase whereas equity was increased but its overall contribution was less significant. In 2006, assets had the value of £871432m (12% up £776827m-2005). Liabilities constitute £825942m (12% up, £739283-2005) & equities valued £45490m (21% up, £37544-2005) and constitute with the same proportion of last year respectively. Total Revenue from all sources of RBS was £44286m (12% up, £39553m-2005) and expenses were £37789m (11% up, £33995m-2005). Profit available for 2006 was £6497m distributed to the UK and overseas investors. Basic Earnings per 25p share was 64.9p and final dividend of 25.8p per share amounting to £2727m (36% up £2007m-2005) was paid⁷⁰. Percentages of assets continued with constant figures from 2005 applicable to UK operations were 64.8% and rests 35.2% belonged to overseas.

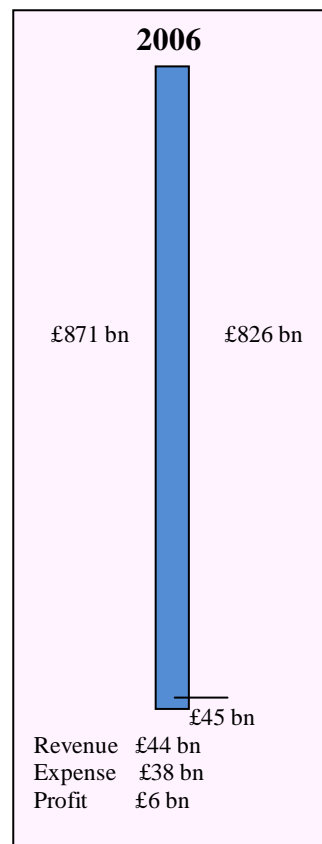


Figure C1.15

Total interest earning assets were £623544m (75%) which {include banking business £421136m (68%) & trading business £202408m (32%)} and Non-Interesting earning assets (trading business) consists of £210358m (25%) of total assets⁷¹. Liability side include; total interest-bearing liabilities £582702m (70% of total liabilities other than equity, 3% down-2005) of which banking business were £377892 (65%) and trading business £204810m (35%). Although, IBL were decreased 2% but overall it increased and the proportion of trading activities also increased 2%. Non-Interest bearing liabilities both in UK and Overseas include demand deposits and other liabilities with the value of £214324m (30% of total liabilities other

⁷⁰ http://www.investors.rbs.com/downloads/Group_Review_March_2005.pdf page 143

⁷¹ http://www.investors.rbs.com/downloads/RBS_GRA_2007_21_4_08.pdf page 41

than equity) Percentages of liabilities applicable to UK operations were 67.7% and rests 32.3% belonged to overseas⁷².

4.5.2 Geographical & Divisional Earning Analysis

Overall growth of RBS continued with constant numbers 2006 in UK, USA, Continental Europe and rest of the world (shown figure 4.17). Geographical earnings of RBS remained 72% (1% down 2005) of total revenue contribution in UK and US has 17% (1% down 2005) Europe had just 10% (2% up-2005)⁷³. In divisional revenue of RBS, Corporate banking and finance market contribution

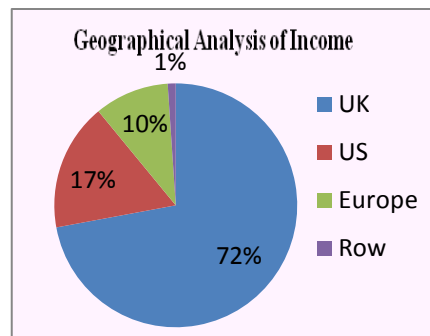


Figure C1.16

was £6116m income (16% up 2005-£5165m), Retail Markets £4292m (5% up 2005-£4191m), Retail Direct £1040m (16% up 2004-881), Wealth management £934m (15% up 2004-£814m), RBS Insurance £964m (3% up 2005-£935m), Ulster Bank £636m (15% up 2005-£530m) and Citizens \$2917m (3% up 2005-\$2867m) that is showing smooth growth for the group⁷⁴.

4.5.3 Financial Statement Analysis Framework

4.5.3.1 Balance Sheet Analysis

Like previous years, items of balance sheet include; Advances and loans to the customers with the value of £466893m (54% of total assets, 12% up £417226m-2005, although 5% was down in 2005 of total assets) and Debt securities continued with same percentage with the value of £127251m (5% up, £120965m-2005) and the smallest value in the asset side was cash and balances at central bank with the value of £4759m (0.7%) of total assets⁷⁵. To meet its maturities, cash and cash equivalent was £71651m (36% up, £52549m-2005 which is 8% of total assets). As this value shows that RBS has allocated huge amount to fulfil the demands of maturities which are due during the year.

In 2006, RBS increased number of Customer accounts with the value of £384222m (12% up, £342867m-2005), Deposits by banks £132143m (20% up, £110407m-2005) and rests of the

⁷² http://www.investors.rbs.com/downloads/RBS_GRA_2007_21_4_08.pdf page 41

⁷³ http://www.investors.rbs.com/downloads/Annual_Report_and_Accounts_2006.pdf page 9f

⁷⁴ http://www.investors.rbs.com/downloads/Annual_Report_and_Accounts_2006.pdf page 16ff

⁷⁵ http://www.investors.rbs.com/downloads/RBS_GRA_2007_21_4_08.pdf page 68

liabilities continued with same proportion both in UK and rest of the world. RBS majorly rely on customer`s accounts and deposits by the bank.

4.5.3.2 Income Statement Analysis

Total Revenue from all sources of RBS was £44286m (12% up, £39553m-2005). In 2006, RBS key source of revenue consisted of interest receivable for £24688m (56% of total revenue, 4% up, £21331m-2005), Fee and Commission receivable £7116m (5% up, £6750m-2005) and Income from trading activities £2675m (14% up, £2343m-2005), insurance premium income £6243m (3% up, £6076m-2005) and other operating Income £3543m (8% of total revenue) from 2005 (shown figure C1.17)

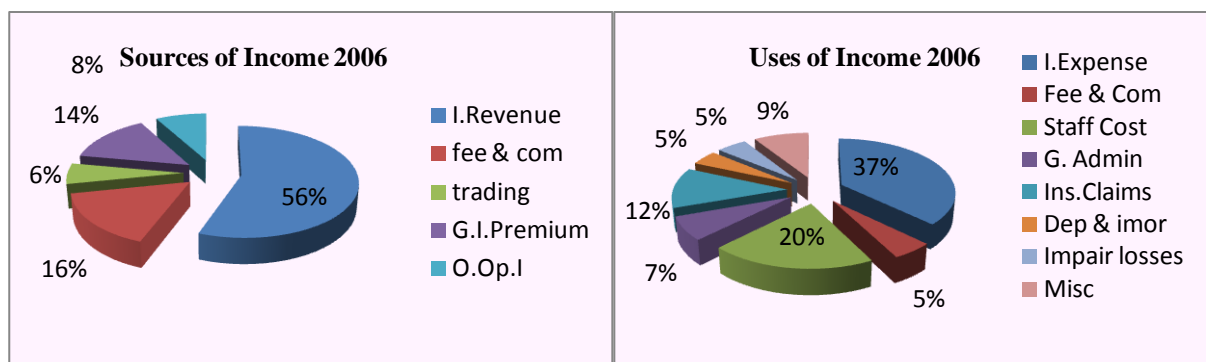


Figure C1.17

Figure C1.18

Expenses for 2006 were £37789m (11% up, £33995m-2005) which includes a) Interest Expense payable £14092m (4% up, £11413m-2005), b) Staff Cost £6723m (12% up, £5992m-2005), c) General Insurance Claims £4550m (3% up, £4413m-2005), d) Fee & Commission payable £1922m (4% up, £1841m-2005), e) General Administrative expenses £2658m (6% down, £2816m-2005), f) Depreciation & Amortization Expense £1667m (9% down, £1825m-2005) and g) Impairment losses £1878m (10% up, £1707m-2005) as shown figure C1.18.

4.5.3.3 Equity

Total equity of RBS was £45490m end of december 2006 including £815m (£11m decreased 2005) ordinary called up share capital of 25p, and rests were reserves, non-voting deferred shares, preference share (convertible,non-convertible) allotted, called up and fully paid share. During 2006, Company purchased 54.4 million ordinary shares for cancellation at cost of £1 billion. This represents 1.7% of total issued ordinary shares. During year 7.5 million ordinary

shares were allotted as a result of exercising options under company executive and share save scheme, 2.2 millions were allotted under employees ownership plan. Like previous year, RBS staff received profit share of 10% of their salary.

4.5.4 Basis for changes in Financial Statements

RBS's unique services to its customers made it more strong group for the market. For 2006, Economic conditions remain favourable for RBS. The above mentioned changes were incurred because during 2006, the group led a consortium in which 10% stake was acquired in Bank of China for US\$3.1billion in 2005, issuing in shares equal to 14.14% of its share capital raising US\$13.7billion.

It continued to expand its corporate banking activities extensively in Asia Pacific. RBS launched its Japanese Equity Derivatives business within its fully owned subsidiary in Tokyo, RBS Securities Japan Limited. It also launched USD swap trading on Bloomberg during Asian Business time for interest rate derivatives. RBS increased its variable mortgage rate by 0.30 per cent to 6.89 per cent. RBS free-to-use cash machines in Scotland's poorest communities and affordable savings and loans scheme were launched during the year 2006.

4.6 Year 2007

4.6.1 Rectangle Model Analysis

Year 2007 was completely different year for RBS. Rectangle Model shows that assets increased with quantum jump from 2006 as shown figure C1.19. Total assets valued £1900519m (118% up, 871432-2006). Liabilities valued £1809093m (119% up, £739283-2006) and equities valued £91426m (100% up, £45490m-2006)⁷⁶. In 2007, RBS increased minority interest with significant amount £38388m (£5263m-2006). Total Revenue from all sources of RBS was £54585m (23% up, £44286m-2006) and expenses were £46873m (24% up, £37881m-2006). Profit for 2007 was £7712m of which £3411m distributed to the UK and overseas investors. Basic Earnings per 25p share was 76.4p and final dividend of 32.2p per share amounting to £2311m (25% up £2727m-2006) was paid⁷⁷.

Percentages of assets remain almost constant from 2006 applicable to UK operations were 62% and rests 38% belonged to overseas. This percentage of assets was slightly increased in 2007 from previous year. Total interest earning assets were £848362m (36% up £623544m-2006). These assets include banking business £535158m (27% up, £421136m-2006) & trading business £313204m (51% up, £202408m-2006). Non-Interesting earning assets were £311914m (48% up, £210358m-2006)⁷⁸. Interest Earning Assets were 45% and Non-interest Earning Assets 16% of total Assets of RBS.

Total Interest bearing liabilities were £800593m of which 484053m (60%) banking business and 316540m (40%) from trading

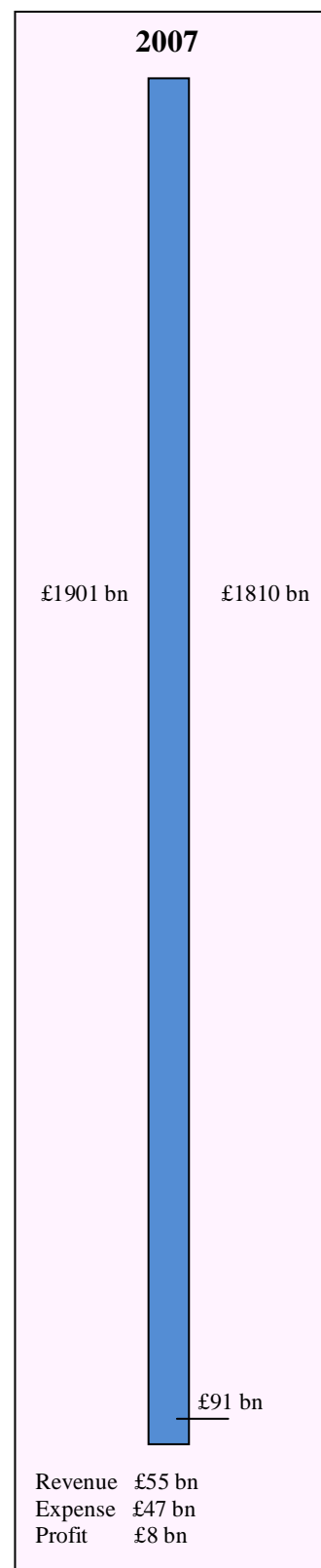


Figure C1.19

⁷⁶ http://www.investors.rbs.com/downloads/RBS_GRA_2007_21_4_08.pdf page 123

⁷⁷ http://www.investors.rbs.com/downloads/RBS_GRA_2007_21_4_08.pdf page 125

⁷⁸ http://www.investors.rbs.com/downloads/RBS_GRA_2007_21_4_08.pdf page 41

business. Non-interest bearing liabilities were £316324m both from UK and overseas customers which include demand deposits and other liabilities. Total Interest bearing liabilities were 72% of total liabilities and non-interest bearing liabilities 28% both. Percentages of liabilities applicable to UK operations were 64.1% and rests 35.9% belonged to overseas⁷⁹.

4.6.2 Geographical & Division Earning Analysis

Overall expansion of RBS business showed vertical curve in 2007 due to major acquisition of ABN AMRO. Its overall growth did not correspond to actual earning because divisional earning was smooth as achieved in previous years. If we look divisional revenue of RBS, Corporate banking and finance market contribution was £6230m income (2% up 2005-£6116m), Retail Markets £4631m (8% up 2006-£4292m), Retail Direct £1040m (16% up 2006-£1040m), Wealth management £1028m (10% up 2006-£934m), RBS Insurance £902m (7% down 2006-£964m), Ulster Bank £732m (15% up 2006-£636m), Citizens \$2647m (10% down 2006-\$2917m) and ABN AMRO after acquisition 17, oct 2007 £128m from the previous years⁸⁰.

4.6.3 Financial Statement Analysis Framework

4.6.3.1 Balance sheet Analysis

The value of all the items of balance increased with significant figures. Major balance sheet items in 2007 include Advances & loans to the customers which consist of £829250m (78% up, £466893m-2006). Total derivative value was £337410m (190% up, £116681m-2006), debt securities £276427m (117% up, £127251m-2006) and Loans & advances to banks £219460m (165% up, £82606m-2006). To meet its current maturities, cash and cash equivalent was £148955m (107% up, £71651m-2006) but the proportion remain constant. Advances & loans 44%, Derivatives 18%, Debt Securities 15% and Loans & advances to banks constitute 11% of total assets.

Although all items of liabilities were increased about 2-3 time but four major liabilities were vary to increase which includes 1) Deposits by banks £312633m (138% up, £132143m-2006), 2) Customers account £682365m (78% up, £384222m-2006), 3) debt securities in issue

⁷⁹ http://www.investors.rbs.com/downloads/RBS_GRA_2007_21_4_08.pdf page 41

⁸⁰ http://www.investors.rbs.com/downloads/RBS_GRA_2007_21_4_08.pdf page 9

£273615m (218% up, £85963m-2006), and 4) derivatives £332060m (180% up, £118112m-2006)⁸¹. Deposits from banks constitute 17%, Customers account 38%, debt securities in issue 15% and derivatives 18% of total liabilities.

4.6.3.2 Income Statement Analysis

Total Revenue from all sources of RBS was £54585m (23% up, £44286m-2006). RBS key source of revenue items consisted of Interest receivable with £33420m (61% of total revenue, 35% up, £24688m-2006), Fee and Commission receivable £8465m (19% up, £7116m-2006) and Income from trading activities £1327m (102% up, £2675m-2006), insurance premium income £6398m (3% up, £6243m-2006) and other operating Income 4857 (9% of total revenue) from 2006.

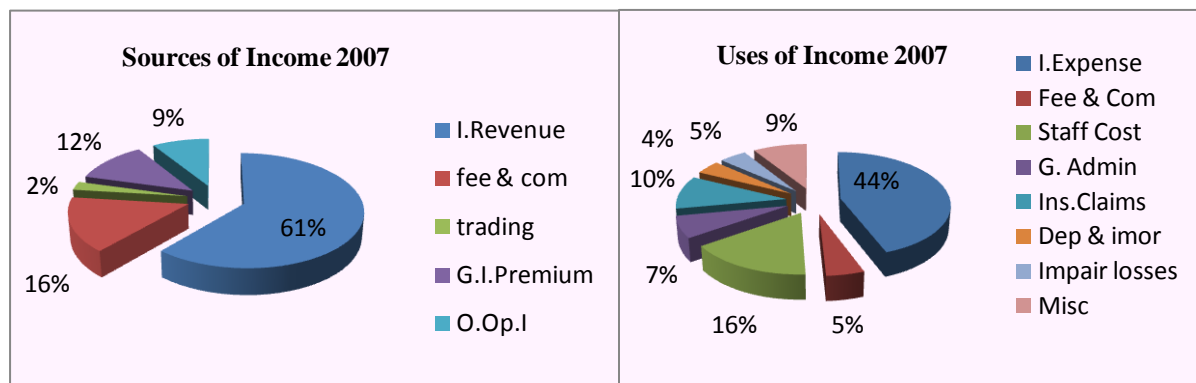


Figure C1.20

Figure C1.21

Expenses for 2007 were £46873m (24% up, £37881m-2006) include a) Interest Expense payable £20752m (41%, 47% up, £14092m -2006), 2) Staff Cost £7552m (12% down, £6723m-2006). General Insurance Claims £4770m (5% up, £4550m-2006), 3) Fee & Commission payable £2311m (20% up, £1922m-2006), 4) General Administrative expenses £3147m (18% up, £2658m-2006), 5) Depreciation & Amortization Expense £1970m (18% up, £1667m-2006), and 6) impairment losses £2128m (13% up, £1878m-2006).

Rest 9% were misc expenses that include premises & equipment, reinsurer's share and taxes continued with more or less same increase etc.

⁸¹ http://www.investors.rbs.com/downloads/RBS_GRA_2007_21_4_08.pdf page 68

4.6.3.3 Equity

Total equity of RBS was £91426m (110% up, £45490m-2006) end of december 2007 which includes £25.1m ordinary shares of 25p, additional value share of £0.01 for £27m (continued from 2006) and £2m of non commulative preference shares of US\$0.01 shares. RBS raised huge amount of minority interests of £38388m. During May 2007, RBS capitalised £1576m of its share premium by way of bonus issue of two ordinary shares of 25p for every one ordinary share held. In 2007, 530.5 million ordinary shares issued to former ABN AMRO shareholders and 19.1 million ordinary shares allotted as result of exercise of options.

4.6.4 Basis for changes in Financial Statements

RBS's unique services, acquisitions, joint ventures and new investments of major bank in 2007 strengthen its position against its competitors but its growth did not correspond to increase revenue as mentioned earlier. All the assets and liabilities were increased 1-3 times but increase in revenue was not as expected during analysis of year 2007. Although, Economic conditions remained favourable for RBS. Major acquisition of ABN AMRO was done during the year. RBS and Renaissance capital co-operation agreement were made. In 2007, RBS continued to expand its corporate banking activities extensively in Asia Pacific and appointed experience people to deal. During 2007, RBS officially opened its branch in Beijing. This shows how RBS is expanding its business in these emerging markets. RBS launched its Japanese Equity Derivatives business within its fully owned subsidiary in Tokyo, RBS Securities Japan Limited to solve fixed income derivatives solution to its clients.

5. Case Two- Deutsche Bank

5.1 Brief Introduction

Deutsche Bank is one of the leading global investment banks, having strong and profitable private clients' franchises. Its businesses are mutually reinforcing. Deutsche Bank was founded in Berlin in 1870 to support the business for internationalization and to promote and facilitate trading relations between Germany, European and overseas markets⁸². It has 80456 employees working in 2900 branch offices in 72 countries of Europe, Asia and North America. This bank has major markets in Europe, Asia and North America. Deutsche Bank's shares are listed majorly in XTRA, Frankfurt and NYSE stock exchanges. This bank has Institutional and Private Investors around the world. Deutsche Bank has won a series of awards like IFR (International Financing Review Asia) "Bank of the Year" twice in three years and many more credit, treasury and trade awards⁸³. To thrive in today's competitive markets, this bank has two major divisions of services; a) Corporate and Investment bank, and b) Private Clients and Assets Management. Following figure C2.1 is showing the hierarchy of divisions.

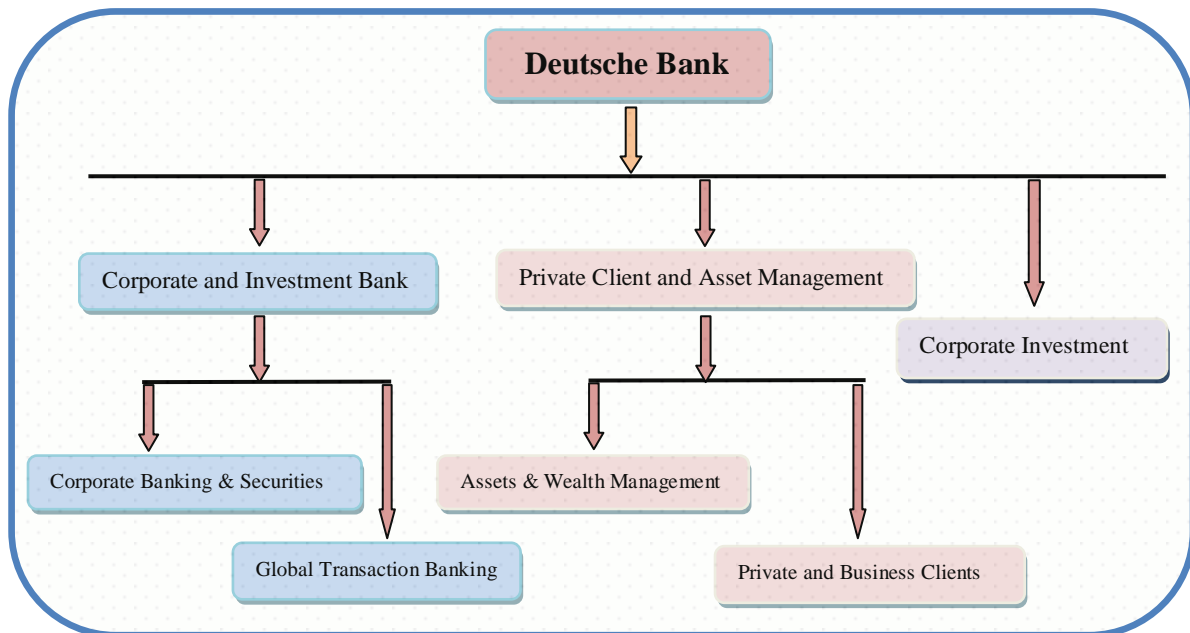
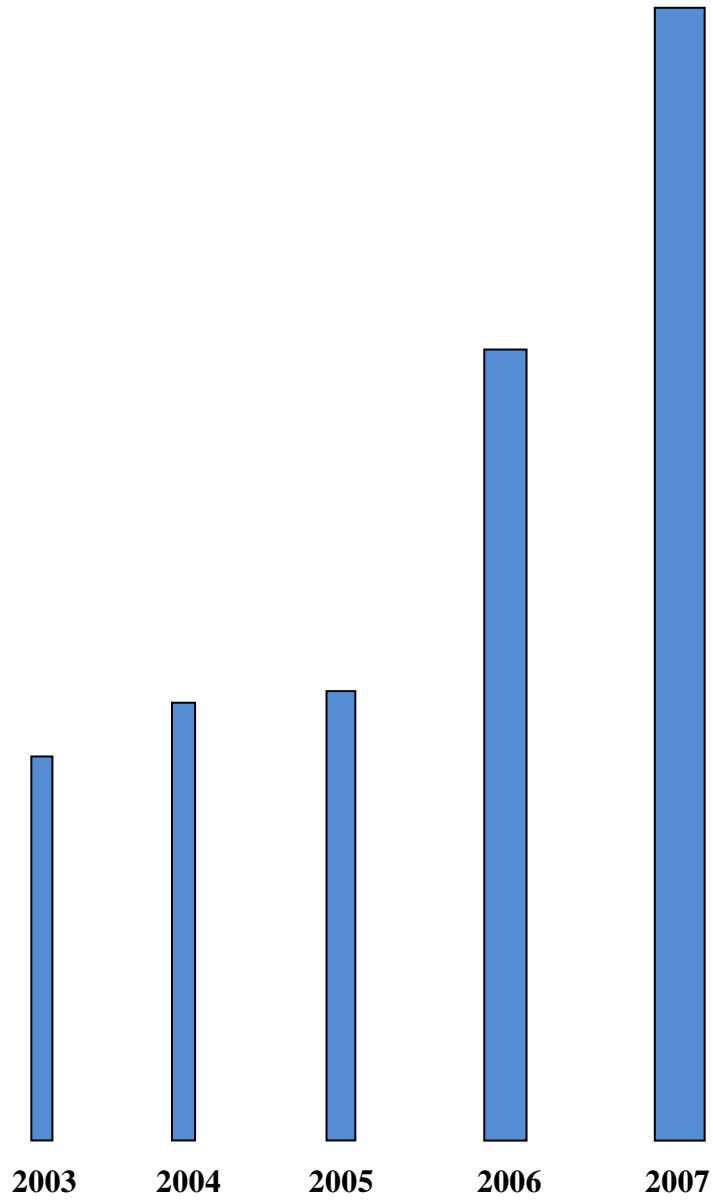


Figure C2.1 DB hierarchal of divisions

⁸² http://www.db.com/en/content/company/our_company.htm?ghpnavigation=ENG_Our_Company assessed Feb11, 2009

⁸³ http://www.db.com/en/content/company/our_company.htm?ghpnavigation=ENG_Our_Company assessed Feb11, 2009

(Figure C2.2 Rectangle Model for five years)



5.2 Year 2003

5.2.1 Rectangle Model Analysis

In 2003, Rectangle model shows that has assets with the value of €803614m. These assets were financed through liabilities and equity which constitute €775412m (96%) and €28202m (4%) respectively. Profit for the year was €1365m. Total earnings from all sources were €43426m and the expenses €42061m. Basic Earnings per share was €2.44 and final dividend of €1.30 per share amounting to €756m was paid⁸⁴. Average interest earning assets were £736046m (92% of total assets)⁸⁵. Average Interest bearing liabilities were €683127m (88% of total liabilities)⁸⁶.

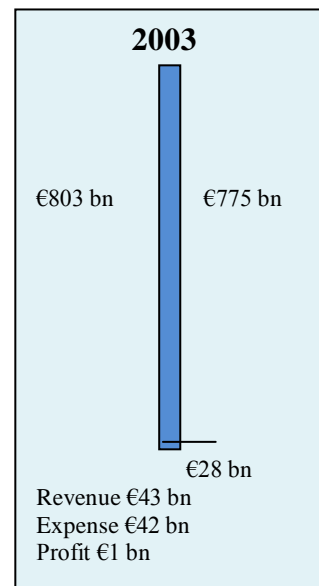


Figure C2.3

5.2.2 Geographical & Group Earning Analysis

There were good economic conditions in USA, (excluding Germany) Asia/Pacific was favourable, whereas Germany's economy sustained its positive trends. Group earnings consisted of Corporate and investment bank contribution in net revenue €14193m (66% of total) of which Corporate banking & Securities earned €11697m (82%) and Global transaction banking earned €2497m (18%). Private Clients and Asset Management contribution was €8217m (38% of total) of which Asset & Wealth management earned €3830m (47%) and Private & Business Clients €4388m (53%). Corporate Investment had loss of €921m (-4% of total divisions)⁸⁷.

5.2.3 Financial Statement Analysis Framework

5.2.3.1 Balance Sheet Analysis

In contrast to RBS, Deutsche bank had diversified as well as different earning assets. Major assets in the balance sheet were Trading assets with the value of €345371m (43% of total assets) of which €107bn were pledged to creditors that has the option to be re-pledged or sold

⁸⁴ http://www.db.com/ir/en/download/entire_db_ar04a.pdf page 55

⁸⁵ http://www.db.com/ir/en/download/entire_db_ar04a.pdf page 79

⁸⁶ http://www.db.com/ir/en/download/entire_db_ar04a.pdf page 79

⁸⁷ http://www.db.com/ir/en/download/entire_db_ar04a.pdf page 182

at December 2003⁸⁸. Central bank funds sold and securities purchased under resale agreements with the value of €112419m (15%), loans net €144946m (18%) and the smallest value of other intangible assets in the balance sheet other than goodwill was €1122m (0.14%)⁸⁹. To meet its current maturities Deutsche Bank had cash and cash equivalent €6636m which is 0.8% of total assets.

Total Liabilities comprised €775412m of which major liabilities were deposits €306154m (39%), trading liabilities €153234m (20%), central bank funds repurchased and securities sold under repurchase agreements €102433m (13%) and long term liabilities €97480m (12%)⁹⁰.

5.2.3.2 Income Statement Analysis

Total earnings for the Deutsche Bank had €43426m which includes five key sources in the income statement for 2003: 1) Interest Income of €27583m (64%), 2) Fee and Commission from fiduciary activities €3273m (7%), 3) Commissions, broker’s fee, mark-ups on securities underwriting and other securities activities €3564m (8%), 4) Fees for other customer services 2495m (6%), and 5) Trading revenues net €5611m (12%). Other Misc sources of revenue consist 2% of total revenue for insurance premium, gains on securities available for sale and others etc⁹¹.

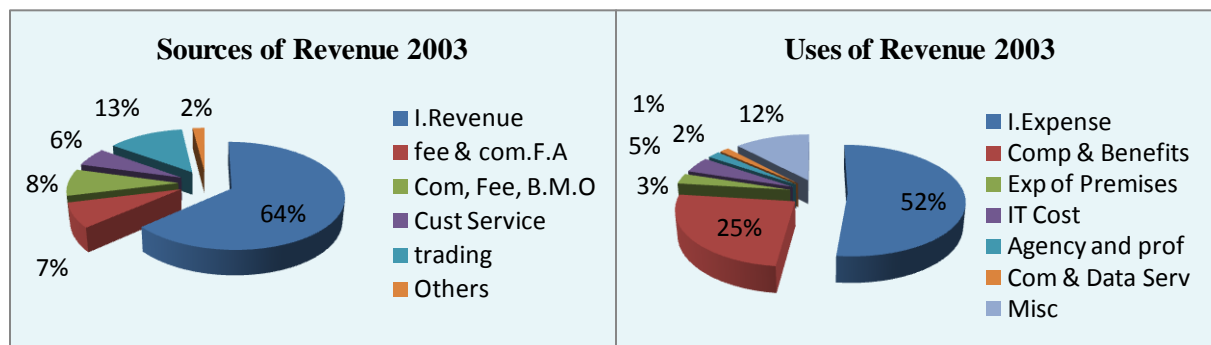


Figure C2.4

Figure C2.5

On the other hand, Deutsche Bank had total expenses of €42061m of which six key expenses in its Income statement were: 1) Interest Expense €21736m (52%), 2) Compensation and benefits of £10495m (25%), 3) Net occupancy expense of premises €1251m (3%), 4) IT costs €1913m

⁸⁸ These trading assets include bonds and other fixed income securities, equity shares and other variable yield securities, derivative financial instruments etc. purpose of re-pledge to where the secured party does not have the right by contract or custom to sell or re-pledge.

⁸⁹ http://www.db.com/ir/en/download/entire_db_ar04a.pdf page 53

⁹⁰ http://www.db.com/ir/en/download/entire_db_ar04a.pdf page 53

⁹¹ http://www.db.com/ir/en/download/entire_db_ar04a.pdf page 51

(5%), 5) Agency and other professional service fees €836m (2%) and 6) Communication and data services €626m (1%) of total expenses. Other Misc expenses which were 12% consisted policyholder benefits and claims, intangible/goodwill impairment, income tax and other cumulative effects of accounting changes etc.

5.2.3.3 Equity

Total equity of Deutsche Bank was €28202m at end of december 2003 of which €1490 common shares nominal value of €2.56 (581.9m share), additional paid in capital for €11147m, common shares in treasury at cost (€971m). Deutsche Bank has specific portion of share awards of €954m and rests of equity was kept at retained earnings. As on december 31, 2003, the obligation to purchase common shares amounted to €2310m which were represented forward purchase contracts covering approximately 44.3m common shares with weighted-average price of €52.3 entered into to satisfy obligations under ESP compensation awards⁹². DB launched a second share buyback program in september which followed the first share buyback involving the purchase of 62m shares and cancellation of 40 million out of them. It also buyback 17million shares through the stock market.

5.2.4 Basis for changes in Financial Statements

2003 was the year in which Deutsche Bank revived from the problematic environment of last two consecutive years. In addition to this, financial market & overall world economy picked its momentum again. During the year, capital market interest rates were increased significantly whereas credit environment improved. German and Continental European market remained challenging for DB. Still in these situation DB earnings increased three times from previous years, loan quality was improved and provisions for loss reduced and marked some acquisition and disposals increased its strength and reduced its costs. Deutsche Bank attained new operating strength which improved its competitiveness and position in the market. It implemented two phases of management agenda to implement more efficient and leaner operating structure. Deutsche Bank majorly focused on costs, capital and risk to enhance its position in international investment banking and private clients and Asset management Group division and made some realignments. DB continued to sell non-core activities brought DB to work only on core activities.

⁹² http://www.db.com/ir/en/download/entire_db_ar04a.pdf page 154

5.3 Year 2004

5.3.1 Rectangle Model Analysis

In 2004 figure C206 of rectangle Model shows slight increase in assets and liabilities increased whereas the proportion of owner's equity was reduced. Assets increased with the value of €840068m (4.5% up, €803614m-2003). These assets were financed through liabilities and equity which constitute €814164m (5% up, €775412m-2003) and €25904m (9% down, €28202m-2003) respectively. Liabilities constitute 97% and shareholders' equity 3% of total assets. In 2004, Deutsche Bank had total earning of €44759m (3% up, €43426m-2003), expenses were €42287m (5% up, €42061m-2003) and Profit was €2472m (81% up, €1365m-2003). Basic Earnings per share was €5.02 and final dividend of

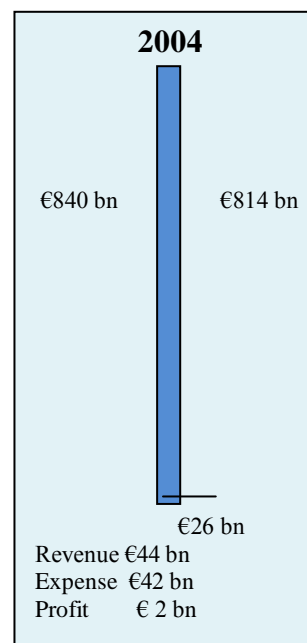


Figure C2.6

€1.50 per share amounting to €828m (10% up, €756m-2003) was paid⁹³. Average interest earning assets were €751557m (2.1% up, €736046m-2003 and 90% of total assets⁹⁴. Average Interest bearing liabilities were €695094m (85% of total liabilities)⁹⁵.

5.3.2 Geographical & Group Earning Analysis

Year 2004 was not as good as 2003 because some of its divisions could not achieve good growth. Group revenues include; Corporate and investment bank contribution in net revenue was €13414m (6% down, €14193m-2003) of which Corporate banking & Securities earned €11520m (2% down, €11697m-2003) and Global transaction banking earned €1984m (26% down, €2497m-2003). Private Clients and Asset Management contributed €8023m (2.4% down, €8217m-2003) of which Asset & Wealth management earned €3488m (10% down, €3830m-2003) and Private & Business Clients €4534m (3% up, €4388m-2003). Corporate Investment earned of €621m (3% up, loss€921m-2003)⁹⁶.

⁹³ http://www.db.com/ir/en/download/Annual_Report_2005.pdf page 56

⁹⁴ http://www.db.com/ir/en/download/Annual_Report_2005.pdf page 80

⁹⁵ http://www.db.com/ir/en/download/Annual_Report_2005.pdf page 79

⁹⁶ http://www.db.com/ir/en/download/Annual_Report_2005.pdf page 212

5.3.3 Financial Statement Analysis Framework

5.3.3.1 Balance Sheet Analysis

In 2004, total assets were €840068m (4.5% up, €803614m-2003) of which key assets include Trading assets with the value of €373147m (8% up, €345371m-2003 and 44% of total assets) of which €77b were pledged to creditors which can be re-pledged or sold at December 2004⁹⁷. Central bank funds sold and securities purchased under resale agreements were €123921m (15%), loans net €136344m (16%) and the smallest value of other intangible assets in the balance sheet other than goodwill was €1069m (0.13%)⁹⁸. To meet its current maturities, Deutsche Bank had €7579m (14% up) which is 0.9% of total assets.

Total Liabilities comprised €814164m (5% up, €775412m-2003) of which major liabilities were deposits €320796m (5% up, €306154m-2003), trading liabilities €169606m (11% up, €153234m-2003), central bank funds repurchased and securities sold under repurchase agreements €105292m (3% up, €102433m-2003) and long term liabilities €106870m (10% up, €97480m) of total liabilities⁹⁹.

5.3.3.2 Income Statement Analysis

In 2004, Deutsche Bank had total earning €44759m (3% up, €43426m-2003) from all sources. This earning consists of 1) Interest Income €28023m (2% up, €27583m-2003), 2) Fee & Commission from fiduciary activities €3211m (2% down, €3273m-2003), 3) Commissions, broker`s fee, mark-ups on securities underwriting and other securities activities €3711m (4% up, €3564m-2003), 4) Fees for other customer services €2584m (4% up, €2495m-2003), and 5) Trading revenues, net €6186m (10% up, €5611m-2003).

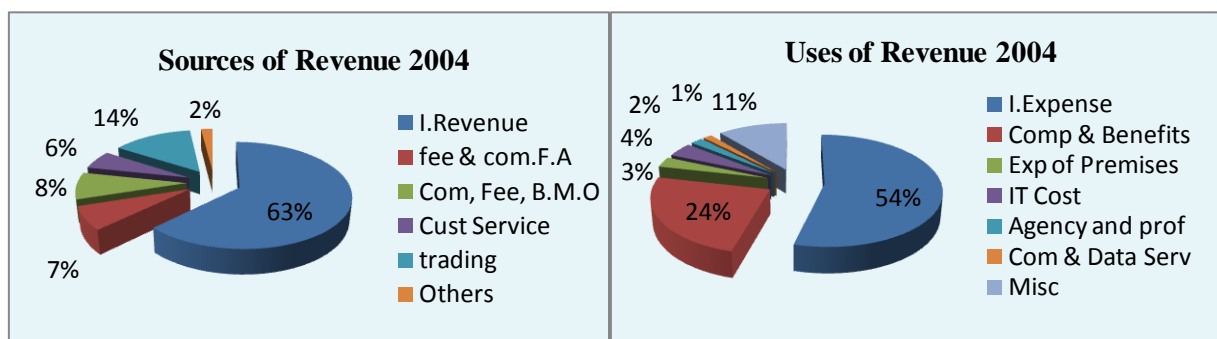


Figure C2.7

Figure C2.8

⁹⁷ http://www.db.com/ir/en/download/Annual_Report_2005.pdf page 54

⁹⁸ http://www.db.com/ir/en/download/Annual_Report_2005.pdf page 54

⁹⁹ http://www.db.com/ir/en/download/Annual_Report_2005.pdf page 53

On the other hand, Deutsche Bank's total expenses were €42287m (5% up, €42061m-2003) which includes: 1) Interest Expense €22841m (5% up, €21736m-2003), 2) Compensation and benefits £10222m (3% down, £10495m-2003), 3) Net occupancy expense of premises €1258m, (0.6% up, €1251m-2003), 4) IT costs €1726m (11% up, €1913m-2003), 5) Agency and other professional service fees €824m (0.5% down, €836m-2003) and 6) Communication and data services €599m (5% down, €626m-2003) of total expenses. Other Misc expenses of 11% continued from 2003.

5.3.3. Equity

Total equity of DB was €25904m (9% down €28202m-2003) during 2004 of which common shares were reduced up to €1392m with nominal value of €2.56 (543.9m share), additional paid in capital remain constant from 2003 for €11147m, common share in treasury at cost were increased (€1573m). Deutsche Bank has specific portion of share awards was also increased up to €1513m and rests of equity was kept at retained earning which was €19814m. As on dec 31, 2004, the obligation to purchase common shares amounting to €3058m represented forward purchase contracts covering approximately 56.1m common shares with weighted-average price of €54.52 entered to satisfy obligations under ESP compensation awards¹⁰⁰.

5.3.4. Basis for changes in Financial Statements

Year 2003 showed relative stability in whole economy of globe. From 2003, transformation program produced significant results in its operations. Banks also improved its risk management profile in stable credit environment and put the bank amongst the global leaders. Bank put its agenda to focus in investment products and geographical regions which had growth potential. Of Bank majorly invested in sales and trading business. Bank completed acquisitions pBerkshire Mortgage that gave leading position in North American Real Estate Sector and Custody business of Dresdner Bank for Banking Business, Wilhelm von Finck & Co for Private Wealth management¹⁰¹. Bank made five alignments in all divisions to stabilize its position removing the traditional and rigid structure which strengthen its competitiveness. *Bank specifically allocated €400m for restructuring process.*

¹⁰⁰ http://www.db.com/ir/en/download/entire_db_ar04a.pdf page 154

¹⁰¹ http://www.db.com/ir/en/download/Annual_Report_2005.pdf page 6

5.4 Year 2005

5.4.1 Rectangle Model Analysis

In 2005, rectangle model size was increased as shown in figure C2.8. Change in size of rectangle model that following financial numbers shows Assets were €992161m (18% up, €840068m-2004) in 2005. Liabilities constitute 97% with the value of €962225m and equity 3% with the value of €29936m¹⁰². Equities and liabilities increased with the same proportion of assets from 2004. Bank had total earning €61347m (50% up, €44759m-2004) from all sources and expenses were €57818m (37% up, €42287m-2004). Profit for the year was €3529m (43% up, €2472m-2004) and the basic Earnings per share was €7.62 (€5.02-2004) and final dividend of €1.70 (1.5-2004) per share amounting to €868m (4% up, €828m-2004) was paid¹⁰³.

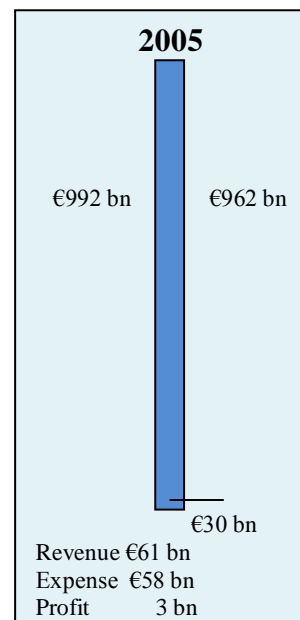


Figure C2.8

Average interest earning assets were €866750m (15% up, €751557m-2004 and constitute 87% of total assets)¹⁰⁴. Average Interest bearing liabilities were €809321m (16% up, €695094m-2004 and 84% of total liabilities)¹⁰⁵.

5.4.2 Geographical & Group Earnings Analysis

Contrary to 2004, year 2005 was comparatively good year for Deutsche Bank because all the divisions showed good growth with few exceptions in their respective earnings in their territory like in Germany, USA, and Asia/Pacific. Group earnings which includes Corporate and investment bank contribution in net revenue was €m €15923m (12% up, €14193m-2004) of which Corporate banking & Securities earned €13948m (21% up, €11520m-2004 and 86% of both) and Global transaction banking earned €1975m (0.5% down, €1984m-2004 and 14% of both). Private Clients and Asset Management contribution was €8589m (7% up, €8023m-2004) of which Asset & Wealth management earned €3880m (11% up, €3488m-2004 & 45% of total) and Private & Business Clients €4709m (4% up, €4534m-2004). In 2005, DB`Corporate

¹⁰² http://www.db.com/ir/en/download/entire_Annual_Report_2006.pdf page 55

¹⁰³ http://www.db.com/ir/en/download/entire_Annual_Report_2006.pdf page 57

¹⁰⁴ http://www.db.com/ir/en/download/entire_Annual_Report_2006.pdf page 88

¹⁰⁵ http://www.db.com/ir/en/download/entire_Annual_Report_2006.pdf page 88

Investment division counterbalanced previous losses and earned €1229m (98% up, €621m-2004)¹⁰⁶.

5.4.3 Financial Statement Analysis Framework

5.4.3.1 Balance Sheet Analysis

There was no change in the items of balance sheet which contributed to increase the value of assets but their financial numbers were changed. In 2005, Trading assets were €448393m (20% up, €373147m-2004 and 45% of total assets) of which €21b were pledged to creditors which can be re-pledged or sold at December 2005¹⁰⁷. Central bank funds sold and securities purchased under resale agreements having the value of €130993m (6% up, €123921m-2004 and 13% of total assets), Securities borrowed €101125m (54% up, €65630m-2004 and 10% of total assets), loans net €153355m (13% up, €136344m & 15% of total assets) and the smallest value of other intangible assets in the balance sheet except goodwill was €1198m (0.12%). To meet its current maturities, DB had €6571m (15% down, €7579m-2004) which was 0.7% of total assets¹⁰⁸.

In comparison to assets, key Liabilities were deposits €380787m (19% up, €320796m-2004, trading liabilities €194347m (16% up, €169606m-2004, central bank funds repurchased and securities sold under repurchase agreements €143524m (36% up, €105292m-2004) and long term liabilities €113554m (6% up, €106870m-2004)¹⁰⁹. All other items in total liabilities increased with the same proportion with respect from 2004 years.

5.4.3.2 Income Statement Analysis

Relationship of increase in assets to increase in earnings was much better. Deutsche Bank had total earnings €61347m (50% up, €44759m-2004) from all sources. This earning consists of 1) Interest Income with €41708m (49% up, €28023m-2004), 2) Fee and Commission from fiduciary activities €3546m (10% up, €3211m-2004), 3) Commissions, broker`s fee, mark-ups on securities underwriting and other securities activities €4057m (9% up, €3711m-2004), 4) Fees for other customer services €2476m (4% down, €2584m-2004), and 5) Trading revenues,

¹⁰⁶ http://www.db.com/ir/en/download/entire_Annual_Report_2006.pdf page 54

¹⁰⁷ Changes from 2005 and 2006 report in the values is adjusted between these periods that`s why the figures are changed significantly

¹⁰⁸ http://www.db.com/ir/en/download/entire_Annual_Report_2006.pdf page 55

¹⁰⁹ http://www.db.com/ir/en/download/entire_Annual_Report_2006.pdf page 55

net €7429m (20% up, €6186m-2004) of total earnings. Other Misc sources of revenue consist 3% of total revenue insurance premiums gains on securities available for sale and others etc¹¹⁰.

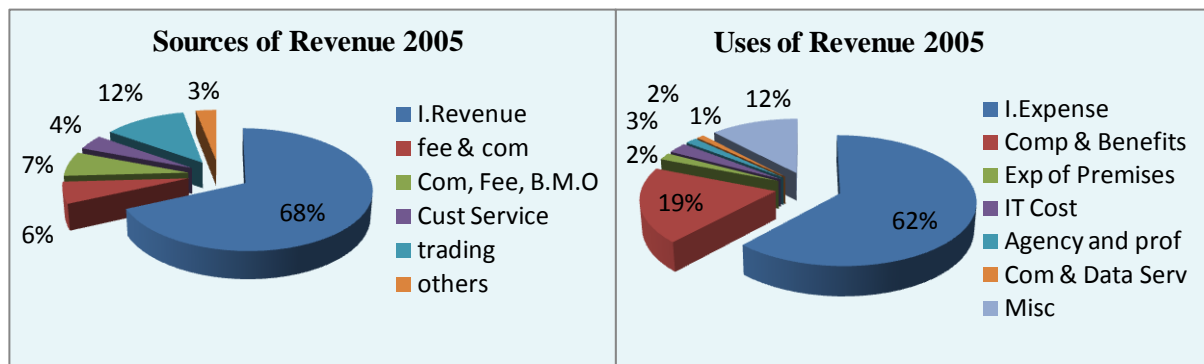


Figure C2.9

Figure C2.10

Likewise, Deutsche Bank`s total expense in all the areas were €57818m (37% up, €42287m-2004) which includes; 1) Interest Expense €35707m (8% up, 62% of total expenses), 2) Compensation and benefits £10963m (7% up, £10222m-2004), 3) Net occupancy expense of premises €1014m (24% down, €1258m-2004), 4) IT costs €1539m (12% down, €1726m-2004), 5) Agency and other professional service fees €895m (9% up, €824m-2004) and 6) Communication and data services €599m (no change) of total expenses. Other Misc expenses which were 12% comprised policyholder benefits and claims, intangible/goodwill impairment income tax and other cumulative effects of accounting changes etc¹¹¹. All expenses other than interest expense remained constant with minor changes of 1-3%. All above changes in each expense shows that the performance to control expense and increase revenue was better in comparison to previous years.

5.4.3.3 Equity

In 2005, total equity of Deutsche Bank at the end of 2005 was €29936m (16% up, €25904m-2005) of which common shares consists €1420m with the nominal value of €2.56 (554.5m share) which were also reduced from 2004, additional paid in capital increased to €11672m, common share in treasury at cost were increased (€3368m) and Rest of equity was kept at retained earning which is €22628m.

¹¹⁰ http://www.db.com/ir/en/download/entire_Annual_Report_2006.pdf page 54

¹¹¹ http://www.db.com/ir/en/download/entire_Annual_Report_2006.pdf page 54

As on december 31, 2005, the obligation to purchase common shares amounting to €3506m were represented forward purchase contracts covering approximately 62.4m common shares with weighted-average price of €59.04 entered into to satisfy obligations under Employees Share based compensation awards¹¹². Contracts covering 21.8 million share (double from 2004) matures less than one year and rests of share mature 1-5 years.

5.4.4 Basis for the changes in Financial Statements

Year 2005 brought back confidence of finance market in which Deutsche Bank optimally utilized to grow and sustain to continue its development. All the divisions of the bank performed well and continued to acquire for expanding its territories like JP Morgan`s depository and clearing business in UK, Maxican mortgae bank fin-casa Hipotecaria (49%), Bender Securities in Turkey (60%), United Financial Group in Russia (60%) and much more to strengthen its market share which ultimatly put the bank`operations profitable. Bank also made joint venture in different countries like joint venture with Al Azizia Commercial Investment Company, in Australia Wilson HTM a country leading companies. Bank also made some sellings of institutioanl franchise in UK as part of restructuring. Bank controlled its costs, continue to increase revenue and modest requirements for risk provisioning¹¹³.

In Addition, bank put some special expenses of €1.5bn for restructuring, legal provisions and also for *grundbesits-invest* case. This expense was offset by the gains of €800m for reduction of stake in DaimlerChrysler¹¹⁴. During the year in 2005, Deutsche Bank buy back shares to reduce its equity and put it as treasury stock. Bank continued to strive for capturing new clients in emerging markets of Asia, Middle East and Eastrun Europe and grab hold of Latin America by opening new branches and providing unique products and services from corporate customer to indivisuals.

¹¹² http://www.db.com/ir/en/download/entire_Annual_Report_2006.pdf page 224

¹¹³ http://www.db.com/ir/en/download/entire_Annual_Report_2006.pdf page 05

¹¹⁴ http://www.db.com/ir/en/download/entire_Annual_Report_2006.pdf page 05

5.5 Year 2006

5.5.1 Rectangle Model Analysis

Rectangle Model for 2006 shows drastic changes, if we look at rectangle Model that has assets with the value of €1584493m (60% up, €992161m-2005). Liabilities constitute 98% with the value of €1551018m and equity 2% with the value of €33475m (12% up, €29936-2005)¹¹⁵. Liabilities increased almost with the same proportion of assets from 2005. Bank had a total earning of €79761m (30% up, €61347m-2005) from all sources and total expenses were €73682m (27% up, €57818m-2005). Profit for the year was €6079m (72% up, €3529m-2005). Basic Earnings per share was €12.96 (70% up, €7.62-2005) and final dividend of €2.5 (€1.70-2005) per share amounting to €1239m (43% up, €868m-2005) was paid¹¹⁶.

Average interest earning assets were €866750m (15% up, €751557m-2004 and constitute 87% of total assets¹¹⁷. Average Interest bearing liabilities were €1005133m (24% up, €809321m-2005 and 65% of total liabilities)¹¹⁸.

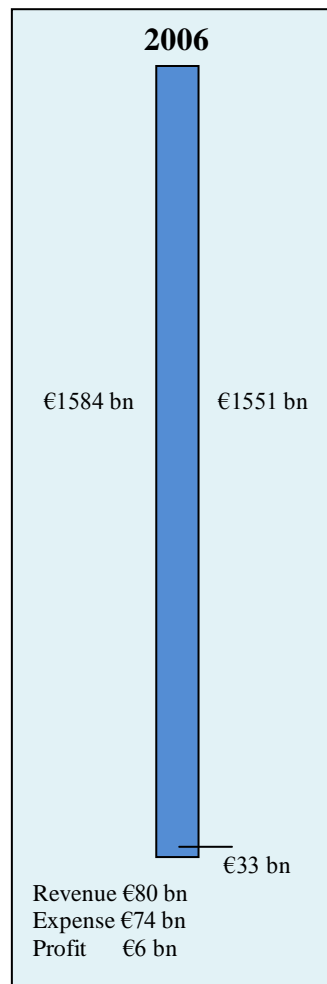


Figure C2.11

5.5.2 Geographical & Group Earning Analysis

Year 2006 brought drastic changes for Deutsche Bank in comparison to previous years where all its territories showed remarkable growth in Germany, USA, (excluding Germany) Asia/Pacific. Group earnings includes Corporate & investment bank net revenue was €18802m (14% up, €15923m-2005) of which Corporate banking & Securities earned €16574m (19% up, €13948m-2005) and Global transaction banking earned €2228m (13% up, €1975m). Private Clients & Asset Management had €9315m (8% up, €8589m-2005) of which Asset & Wealth management earned €4166m (7% up, €3880m-2005) & Private & Business Clients

¹¹⁵ http://www.db.com/ir/en/download/Annual_Report_2007_entire.pdf page 55

¹¹⁶ http://www.db.com/ir/en/download/entire_Annual_Report_2006.pdf page 57

¹¹⁷ http://www.db.com/ir/en/download/Annual_Report_2007_entire.pdf page 88

¹¹⁸ http://www.db.com/ir/en/download/Annual_Report_2007_entire.pdf page 89

€5149m (9% up, €4709m-2005). Corporate Investment earned of €574m (114% down, €1229m-2005)¹¹⁹.

5.5.3 Financial Statement Analysis Framework

5.5.3.1 Balance Sheet Analysis

In 2006, major changes were reported and the assets were interpreted in a way that could mislead the understanding of external users. Assets in the balance sheet remained same from past years but the values changed with huge figures. *Financial assets at fair value through profit and loss had value of €1104650m for 2006 in annual report of 2007 of which €87billion were pledged to creditors and could be sold or re-pledged at December 31, 2006 whereas in annual report of 2006 this value was €516839m of which €84b were pledged to creditors and could be sold or re-pledged at December 31, 2006 which shows that company had invested huge amount in financial assets at the end of 2006 that the transaction was not yet completed¹²⁰. If we make comparison adjusted value of financial assets for 2006 with 2005 values, it increased 150% (€448393m-2005)¹²¹. Central bank funds sold and securities purchased under resale agreements with the value of €14265m (818% down, €130993m-2005), Securities borrowed €62943m (67% down, €101125m-2005), loans net €178524m (18% up, €151355m-2005). To meet its current maturities Deutsche Bank had €17354m (164% up, €6571m-2005) which is 1.2% of total assets¹²².*

In comparison to assets changes, Liabilities side did not bring such huge changes as did in assets. Deposits were €411916m (8% up, €380787m-2005 and 27% of total liabilities), central bank funds repurchased and securities sold under repurchase agreements €102200m (40% down, €143524m-2005) and long term liabilities €111363m (2% down, €113554m-2005), financial liabilities at fair value through profit or loss €694619 (247% up, €194347m-2005) of total liabilities¹²³. All other items in total liabilities increased with the same proportion with respect from 2005 years. *Bank specifically allocated €196m for restructuring process.*

¹¹⁹ http://www.db.com/ir/en/download/Annual_Report_2007_entire.pdf page 224

¹²⁰ Bank did not provide any information about such radical changes from reports of 2005-2006.

¹²¹ Include traded loans of €73876m at December 31, 2006.

¹²² http://www.db.com/ir/en/download/Annual_Report_2007_entire.pdf page 55

¹²³ http://www.db.com/ir/en/download/Annual_Report_2007_entire.pdf page 57

5.5.3.2 Income Statement Analysis

In 2006, bank reallocated the heads of expenses and added all the revenues coming from commission & other services in one head of Fee and Commission. In 2006, Deutsche Bank had total earning of €79761m (30% up, €61347m-2005) from all sources. This earning consists of 1) Interest Income with €58275m (40% up, €41708m-2005 and 73% of total earnings), 2) Fee and Commission €11195m (11% up, €10079m-2005), 3) net gains (losses) on financial assets/liabilities at fair value through profit or loss €8892m (20% up, €7429m-2005). Other Misc sources of revenue consist 2% of total revenue includes insurance premiums gains on securities available for sale and others etc¹²⁴.

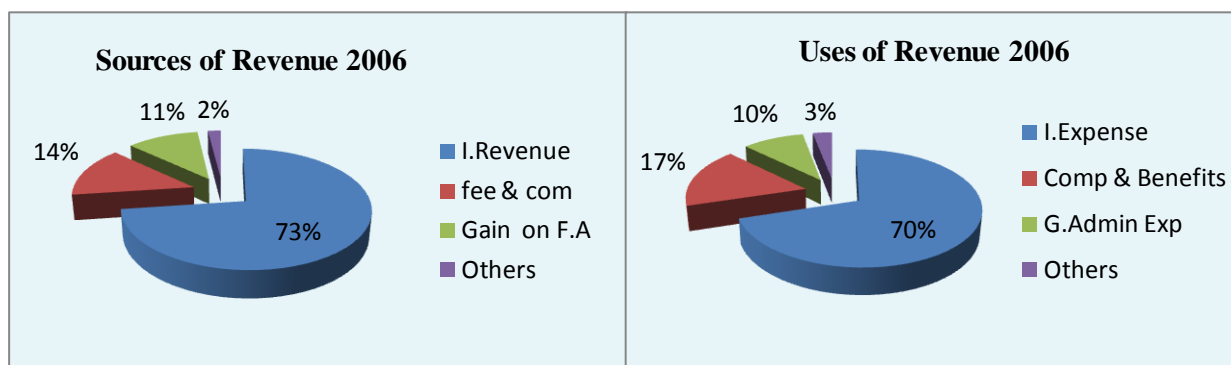


Figure C2.12

Figure C2.13

Likewise bank reduced its items in consolidated balance sheet as shown figure C2.13. It had total expenses €73682m (27% up, €57818m-2005) and key expenses in its Income statement includes: 1) Interest Expense €51267m (44% up, €35707m-2005 and 70% of total expenses), 2) Compensation and benefits £12498m (15% up, £10963m-2005), and 3) General and administrative expenses €7069m (10%). Other Misc expenses which were 3% composed of net gains (losses) on financial assets available for sale, net income (loss) from equity method investments, policyholder benefits and claims, intangible/goodwill impairment income and other income etc¹²⁵.

¹²⁴ http://www.db.com/ir/en/download/Annual_Report_2007_entire.pdf page 56

¹²⁵ http://www.db.com/ir/en/download/entire_Annual_Report_2006.pdf page 54

5.5.3.3 Equity

In 2006, bank made more or less similar changes in its equity. Total equity of Deutsche Bank at the end of 2006 was €32758m (9% up, €29936m-2006) of which common shares consist €1347m with the nominal value of €2.56 (524.8m share) that were reduced from 2005, additional paid in capital increased to €15246m, common share in treasury at cost were increased (€2378m) decreased from last year) and Rest of equity was kept at retained earnings which was €20451m. As on december 31, 2006, bank differentiated the classes of share based on forward purchase contracts and written put options for the obligation to purchase common shares amounted to €4307m (increased from last year) which were represented forward purchase contracts covering approximately 70.6m common shares¹²⁶. Contracts covering 31.1 million share will matured less than one year and rests of share mature 1-5 years.

5.5.4 Basis for the changes in Financial Statements

In 2006 items of balance sheet were diffused whereas authors found huge fluctuations in financial numbers of income statement. Although bank achieved outstanding performance in all its divisions, invested in both existing as well as emerging markets and launched new phase of management agenda. A slight deceleration in US economy was offset with the Eurozone notably China and India. The Eurozone economy was boosted by the renewed strength in Germany¹²⁷. Deutsche Bank announced four major acquisitions of Mortgage IT in North America, Tilney Group UK, Noriskbank and Berliner Bank in Germany during 2006 which not only increased competitiveness but also improved market share and growth. In this year Bank also acquired other stakes of banks in Asian markets, Latin America and Middle East. At the end of 2006, Bank launched phase three of management agenda by getting the success of previous years. All the above mentioned discussion brought changes to attain strong growth, profitability.

¹²⁶ http://www.db.com/ir/en/download/Annual_Report_2007_entire.pdf page 265

¹²⁷ http://www.db.com/ir/en/download/entire_Annual_Report_2006.pdf page 07

5.6 Year 2007

5.6.1 Rectangle Model Analysis

Size of rectangle Model shows that the components of model increased with significant values. In 2007, assets are with the value of €2020349m (28% up, €1584493m-2006). Liabilities constitute 98% with the value of €1981883m and equity 2% with the value of €38466m¹²⁸. Liabilities increased 28% and equities 15% up from 2006. In 2007, Deutsche Bank had total earning of €89602m (12% up, €79761m-2006 from all sources and total expenses were €83092m (13% up, €73682m-2006). Profit for the year was €6510m (7% up, €6079m-2006). Basic Earnings per share was €12.96 (70% up, €7.62-2005) and final dividend of €2.5 (€1.70-2005) per share amounting to €1239m (43% up, €868m-2005) was paid¹²⁹.

Average interest earning assets were €1226191m (41% up, €866750m-2006 and constituted 61% of total assets¹³⁰. Average Interest bearing liabilities were €1150051m (14% up, €1005133m and 58% of total liabilities)¹³¹.

5.6.2 Geographical & Group Earning Analysis

Year 2007 could not bring as good growth as achieved in 2006 but it stabilize the financial numbers of financial statements. This is due to favourable economic changes in Germany, USA, and Asia/Pacific. Group earnings were also kept slow growth that includes Corporate and investment bank contribution in net revenue of €19092m (1.5% up, €18802m-2006) of which

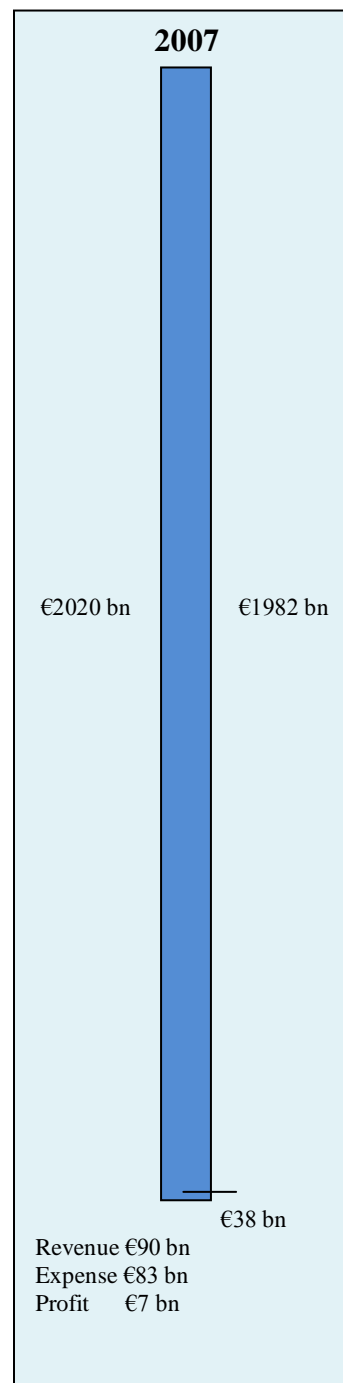


Figure C2.14

¹²⁸ http://www.db.com/ir/en/download/Annual_Report_2007_entire.pdf page 55

¹²⁹ http://www.db.com/ir/en/download/Annual_Report_2007_entire.pdf page 52

¹³⁰ http://www.db.com/ir/en/download/Annual_Report_2007_entire.pdf page 88

¹³¹ http://www.db.com/ir/en/download/Annual_Report_2007_entire.pdf page 89

Corporate banking & Securities earned €16502m (0.5% down, €16574m-2006) and Global transaction banking earned €2585m (16% up, €2228m-2006).

Private Clients and Asset Management contribution was €10129m (9% up, €9315m-2006) of which Asset & Wealth management earned €4374m (5% up, €4166m-2006) and Private & Business Clients €5755m (12% up, €5149m-2006). Corporate Investment earned of €1517m (164% up, €574m-2006)¹³². From 2003-2007, Db's corporate banking showed continues fluctuation in its earnings.

5.6.3 Financial Statement Analysis Framework

5.6.3.1 Balance Sheet Analysis

Assets in the balance sheet remained same from 2006 but the values changed with significant figures. Financial assets at fair value through profit and loss had value of €1474103m (33% up, €1104650m-2006 and 73% of total assets of which €158b were pledged to creditors and could be sold or re-pledged at December 31, 2006). Central bank funds sold and securities purchased under resale agreements have €13597m (5% down, €14265m-2006), Securities borrowed €55961m (12% down, €62943m-2006), loans net €198892m (11% up, €178524m). To meet its current maturities Deutsche Bank had €8632m (23% up, 7008-2006) which is 0.4% of total assets¹³³. In 2007, bank finally changed its policy and focused on financial assets up to maximum value in its balance sheet.

Liabilities were diversified as compare to assets that include deposits by the customers €457946m (11% up, €411916m-2005 and 23% of total liabilities), central bank funds repurchased and securities sold under repurchase agreements €178741m (78% up, €102200m-2006) and long term liabilities €126703m (14% up, €111363m-2006), financial liabilities at fair value through profit or loss €966177m (39% up, €694619m and 49% of total liabilities)¹³⁴.

5.6.3.2 Income Statement Analysis

In 2007, Deutsche Bank had total earning of €89602m (12% up, €79761m-2006) from all sources. This earning consists of 1) Interest Income with €67706m (16% up, €58275m-2006 and 76% of total earnings) , 2) Fee and Commission €12289m (8% up, €11195m-2006 and

¹³² http://www.db.com/ir/en/download/Annual_Report_2007_entire.pdf page 224

¹³³ http://www.db.com/ir/en/download/Annual_Report_2007_entire.pdf page 55

¹³⁴ http://www.db.com/ir/en/download/Annual_Report_2007_entire.pdf page 57

14% of total earnings), 3) net gains (losses) on financial assets/liabilities at fair value through profit or loss €7175m (24% down, €8892m-2006 and 11% of total earnings). Other Misc sources of revenue consisted 2% of total revenue including insurance premiums gains on securities available for sale and others etc¹³⁵. All above information shows that the bank more rely on customer deposits less on other any other activities.

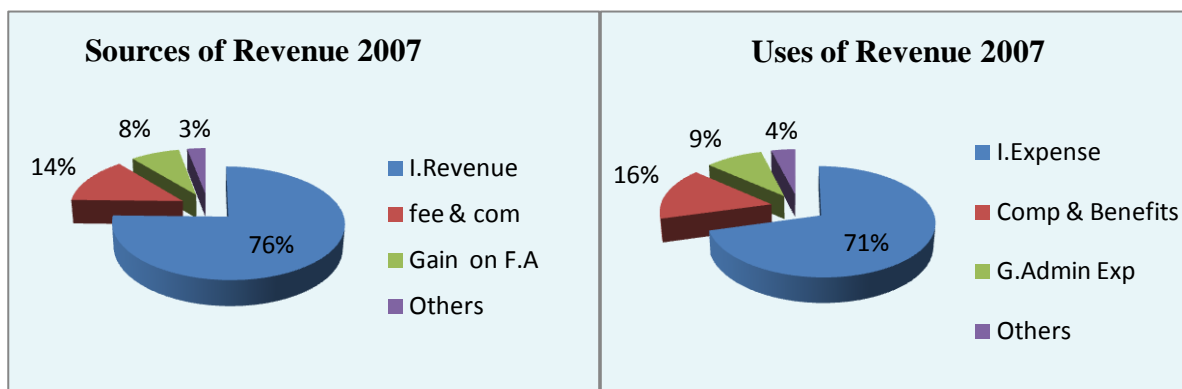


Figure C2.15

Figure C2.16

On the other hand, Deutsche Bank`s total expenses were €83092m (13% up, €73682m-2006) of which key expenses include: 1) Interest Expense €58857m (15% up, €51267m-2006 and 71% of total expenses, 2) Compensation and benefits €13122m (5% up, €12498m-2006), 3) General and administrative expenses €7954m (13% up, €7069m and 10% of total expenses) as shown figure C2.16. *This seems contradictory for the banks policies that at one side bank majorly rely on financial assets which are 73% of total assets. On the other side, bank earning 71% of revenue from interest income.*

5.6.3.3 Equity

In 2007, total equity of Deutsche Bank at the end of 2007 was €32758m of which common shares consisted €1358m (€1347m-2006) with the nominal value of €2.56 (530.4m share), additional paid in capital increased to €15808m, common share in treasury at cost were increased €2819m (increased from 2006) and Rest of equity was kept at retained earning which was €25116m. Like 2006 as on december 31, 2007, bank continued to differentiat the classes of share based on forward purchase contracts and written put options for the obligation to purchase own common shares amounted to €3552m (decreased from last year)¹³⁶. Contracts

¹³⁵ http://www.db.com/ir/en/download/Annual_Report_2007_entire.pdf page 56

¹³⁶ http://www.db.com/ir/en/download/Annual_Report_2007_entire.pdf page 52

covering 13.6m (31.1-2006) million share are matured less than one year and rests of share matured 1-5 years.

5.6.4 Basis for the changes in Financial Statements

If we look at the above discussion, financial assets at fair value through profit and loss had value of 73% of total assets and financial liabilities at fair value through profit or loss 49% of total liabilities which means that if the economy goes more volatile these assets will lose their value which is not good indicator for the bank. Average interest earning assets constitute 61% of total assets were less than previous years. Deposits by the customers were only 23% of total liabilities which means that bank specifically does not rely on deposits which is main source of bank's source. Overall net gains (losses) on financial assets/liabilities at fair value through profit and loss decreased 24%.

Although, 2007 was challenging year for global economy and financial market of the world and more specifically for the banking sector but bank invested worldwide, recruited more employees to serve, increased branches to expand its activities and completed the acquisitions of Mortgage IT Holdings and Berliner Bank to capture more market share¹³⁷. First six months were tremendous for the banks, impetus was positive and Deutsche Bank took the full advantage of this period. However the 2nd half of the year was hit due to the *sub-prime* segments of mortgage market affected the financial market. Deutsche Bank was less affected because it took defensive measures to face this situation. Bank took advantage of having well-diversified business model. All areas of bank performed well other than credit trading business which was related to sub-prime market. Bank invested more in growing market of China, India and Poland.

¹³⁷ http://www.db.com/ir/en/download/Annual_Report_2007_entire.pdf page 07

6. Case Three- Union Bank of Switzerland

6.1 Introduction

The legal and commercial name of the company is UBS AG which was formed on June 29, 1998 with the merger of Swiss Bank Corporation (founded 1872) and Union Bank of Switzerland (founded 1862). Union Bank of Switzerland (UBS) is a leading global wealth manager, global investment banking and securities firm and also one of the largest global assets managers¹³⁸. UBS has a strong market position in retail and commercial banking in Switzerland. It is operated under Swiss company law and Swiss Federal Banking Law as an Aktiengesellschaft, a corporation that has issued shares of common stock to investors¹³⁹.

UBS has large market in almost 50 countries in Europe, America, and Asia. It is considered main international centres having strong position within the banking industry. UBS headquarter is in Zurich and Basel, Switzerland, and it has 75000 employees from different nationality¹⁴⁰. SWX Europe (London), Tokyo Stock Exchange and New York NYSE¹⁴¹ are major stock exchanges where UBS shares are listed. Following figure C3.1 is showing the hierarchical divisions of UBS.

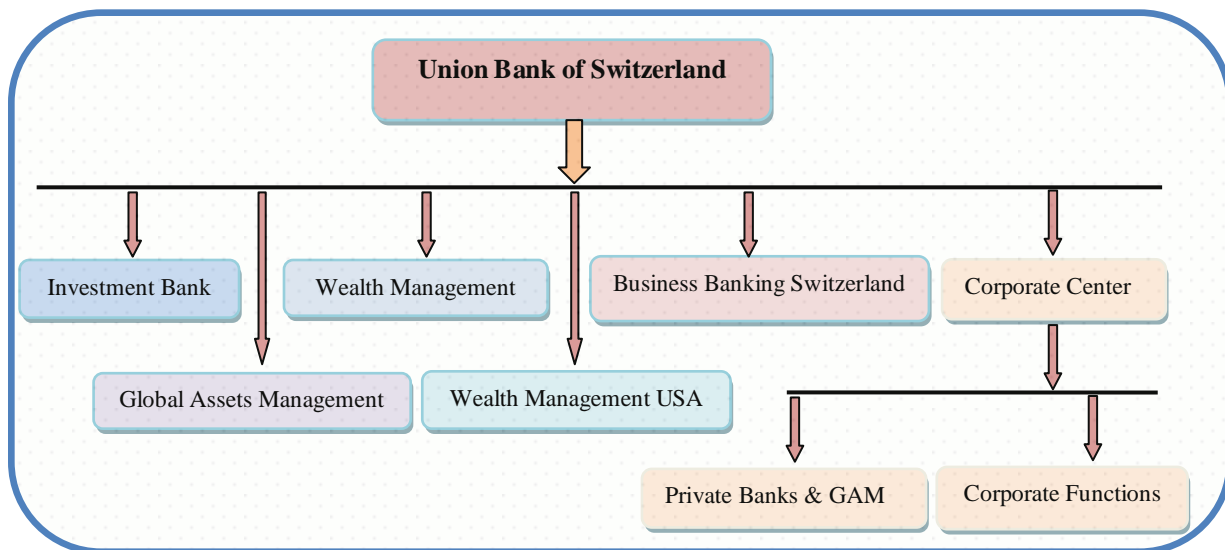


Figure C3.1 for UBS hierarchal divisions

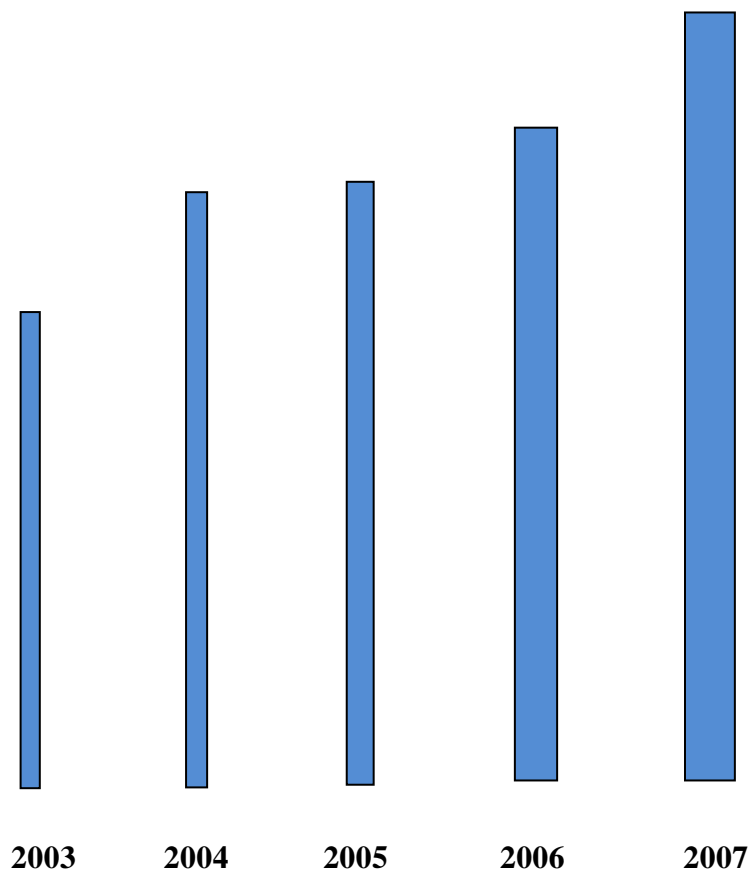
¹³⁸ <http://www.ubs.com/1/e/about.html> Accessed 10 Feb 2009

¹³⁹ www.ubs.com Annual report 2003 page 57

¹⁴⁰ <http://www.ubs.com/1/e/about/ourprofile.html> Accessed 10 Feb 2009

¹⁴¹ http://www.ubs.com/1/e/investors/share_information.html Accessed 10 Feb 2009

(Figure C3.2 Rectangle Model for five years)



6.2 Year 2003

6.2.1 Rectangle Model Analysis

In 2003, rectangle Model figure C3.2 shows that has assets with the value of CHF 1550056m. Liabilities constituted 97% with the value of CHF 1510673m and equity 3% with the value of CHF 35310m¹⁴². In 2003, Union bank of Switzerland had total earning of CHF 61722m from all sources and expenses were CHF 55483m. Net profit for the year was CHF6239m from continuing operations and basic Earnings per share was CHF 5.59. Final dividend of CHF 2.6 per share amounting to CHF 2298m was paid¹⁴³.

Average interest earning assets were CHF 1262342m and constituted 81% of total assets¹⁴⁴. Average Interest bearing liabilities were CHF 1223636m (81% of total liabilities)¹⁴⁵.

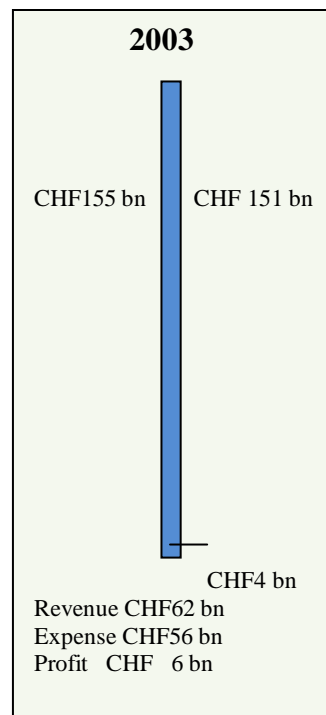


Figure C3.3

6.2.2 Geographical & Divisional Earning Analysis

Figure C3.4 showing the operations of UBS in Switzerland, Rest of Europe/Africa/Middle East, Americas and Asia Pacific. Switzerland had contribution of 42%, Americas 32%, Europe/Africa/Middle East 20% and Asia Pacific 6% of total operating income¹⁴⁶.

Group earnings include Wealth Management €6797m (20%), Business banking Switzerland CHF 5247m(15%), Global asset management CHF 1737m (5%), Investment bank CHF 13991m (41%), Wealth management USA CHF 5190 (15%), Private banks & GM CHF 880m (3%) and Corporate function CHF 20m (0.06%)¹⁴⁷.

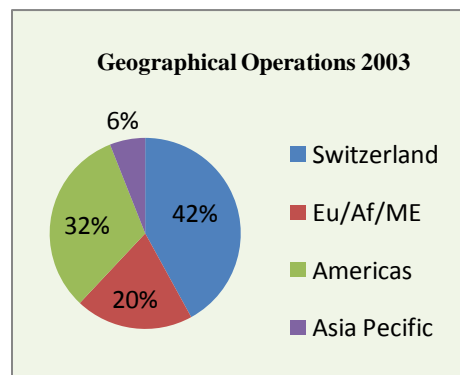


Figure C3.4

¹⁴² www.ubs.com Annual report 2004 page 196

¹⁴³ www.ubs.com Annual report 2004 page 90

¹⁴⁴ www.ubs.com Annual report 2004 page 214

¹⁴⁵ www.ubs.com Annual report 2004 page 214

¹⁴⁶ www.ubs.com Annual report 2004 page 110

¹⁴⁷ www.ubs.com Annual report 2004 page 106

6.2.3 Financial Statement Analysis Framework

6.2.3.1 Balance Sheet Analysis

Contrary to the earlier Royal bank of Scotland and Deutsche bank, Union bank of Switzerland has diversified assets in its balance sheet rather than huge value in one asset. High valued assets in the balance sheet were trading portfolio assets of CHF 341013m (22%), reverse repurchase agreements CHF 320499m (21%), positive replacement values CHF 248206m (16%), loans CHF 212679m (14%), cash collateral on securities borrowed CHF 213932m (14%) and trading portfolio assets pledged as collateral CHF 120759m (8%) of total assets. The lowest valued asset in the balance sheet was investment in associates for CHF 1616m. To meet its current maturities Deutsche Bank had CHF 73356m at the end of 2003 which is 5% of total assets which seems large amount¹⁴⁸.

Like assets, Liability side had the same diversified valued items that included Repurchase agreements CHF 415883m (28%), due to customers CHF 346433m (23%), negative replacement value CHF 254788m (17%), trading portfolios CHF 143957m (10%) and due to bank CHF 127012m (8%)¹⁴⁹.

6.2.3.2 Income Statement Analysis

In 2003, Union bank of Switzerland had total earning of CHF 60843m from all sources¹⁵⁰. This earning consisted; 1) Interest Income with CHF 440045m (66%), 2) Fee and Commission Income CHF 16673m (27%), 3) Trading Income CHF 3670m (6%), and other income 1% from

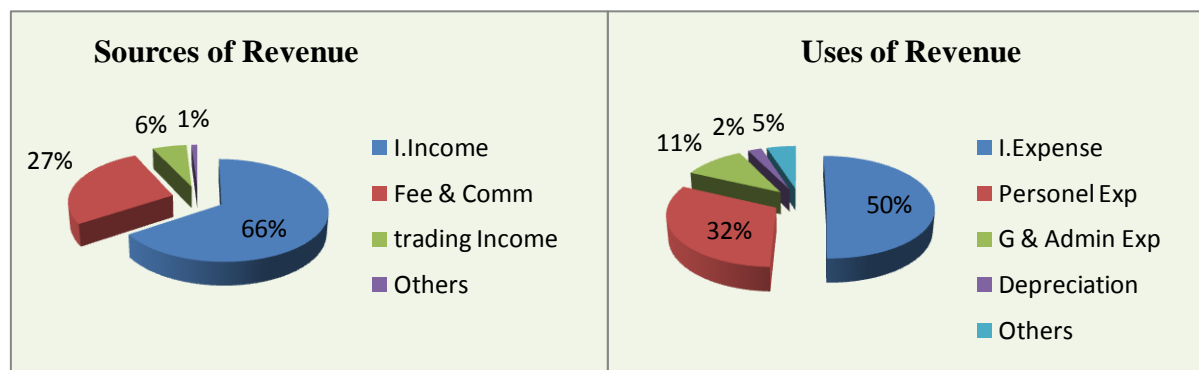


Figure C3.5

Figure C3.6

¹⁴⁸ www.ubs.com Annual report 2004 page 90

¹⁴⁹ www.ubs.com Annual report 2004 page 196

¹⁵⁰ This information about revenue sources is taken from annual report 2005 because this provided some other data that was not available in 2004 and 2003.

rest of other sources¹⁵¹.

On the other hand, Union bank of Switzerland had total expenses of CHF 59505m that include; 1) Interest Expense CHF 27784m (50%), 2) Personnel expenses CHF 17356m (32%), 3) General & administrative expenses CHF 5882m (11%), 4) Depreciation of property and equipment CHF 1320m (2%). Other expenses 5% included Amortization of goodwill & other intangible assets, tax expense and payment to minority interest etc¹⁵².

6.2.3.3 Equity

Total equity of UBS was CHF 35310m at the end of december 2003 of which Ordinary shares were 946m, retained earnings of CHF 36641m, share premium account CHF 6935m. UBS issued new share of CHF 2m and made cancellation of CHF 61m second trading line treasury share (2002 program). UBS had treasury share of CHF 8180m and equity classified as obligation to purchase own share of CHF 49m and rests of equity included net gains/Losses not recognized in the income statement, net of tax and revaluation reserve from step acquisitions.

6.2.4 Basis for changes of Financial Statements

Union Bank of Switzerland got 2nd most profitable in its history in 2003 which helped by the improving conditions of the market. It's all divisions are firmly positioned to strengthen its value in their respective industry. Bank made some acquisitions and agreed to acquire for upcoming year in 2003 in Europe and Americas. Selling out the non-core activities helped the bank to focus on single brand activities implemented on June 2003. As a result EPS and Dividend per share rose up to 44% & 30% respectively which increased the confidence of the investors where as UBS continued to keep an eye regularly on cost which remained tight for whole of the year¹⁵³. Notably UBS had 81% of interest Earning Assets which provide sufficient source of earning to diversify its risk that reflected in its financial statements.

¹⁵¹ www.ubs.com Annual report 2005 page 74

¹⁵² This information about revenue sources is taken from annual report 2005 because this provided some other data which was not available in 2004 and 2003.

¹⁵³ www.ubs.com Annual report 2004 page 04f

6.3 Year 2004

6.3.1 Rectangle Model Analysis

Year 2004 showed variant situation in its earning and brought changes for the bank as shown in figure 3.7 (detail in FSAF). Total assets were CHF 1737118m (12% up, CHF 1550056m-2003). Liabilities constituted 98% with the value of CHF 1697751m (12% up, CHF 1510673m-2003) and equity 2% with the value of CHF 39367m (12% up, CHF 35310m-2003)¹⁵⁴. In 2004, Union bank of Switzerland had total earning of CHF 63455m (3% up, CHF 61722m-2003) from all sources and expenses were expenses of CHF 56098m (1% up, CHF 55483m-2003). Profit for the year was CHF 7718m (24% up, CHF 6239m-2003). Basic earnings per share was CHF 3.66 (43% up, CHF 5.44-2003) and final dividend of CHF 3 (CHF 2.6-2003) per share amounting to CHF 2806m (22% up, CHF 2298m-2003) was paid¹⁵⁵. Average interest earning assets were CHF 1523622m (21% up, CHF 1262342m-2003 and constitute 88% of total assets)¹⁵⁶.

Average Interest bearing liabilities were CHF 1471853m (17% up, CHF 1223636m-2003 and constituted (87% of total liabilities)¹⁵⁷.

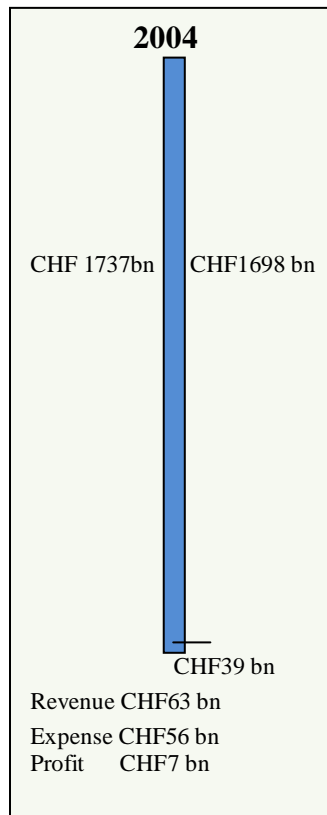


Figure C3.7

6.3.2 Geographical & Divisional Earning Analysis

As mentioned earlier that UBS has its operations in Switzerland, Rest of Europe/Africa/Middle East, Americas and Asia Pacific which were changed more or less due to economic factors. Switzerland and Americas had contribution of 33% each, Europe/Africa/Middle East 29% and Asia Pacific 5% of total earnings¹⁵⁸. UBS's

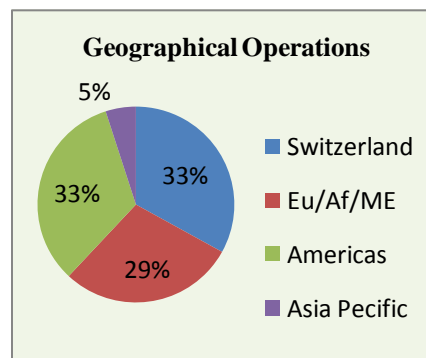


Figure C3.8

¹⁵⁴ www.ubs.com Annual report 2005 page 75

¹⁵⁵ www.ubs.com Annual report 2005 page 79

¹⁵⁶ www.ubs.com Annual report 2005 page 212

¹⁵⁷ www.ubs.com Annual report 2005 page 213

¹⁵⁸ www.ubs.com Annual report 2005 page 100

Group earnings for 2004 included Global Wealth Management & Banking business CHF 7701m (13% up, CHF 6797m-2003), Business banking Switzerland CHF 5064m (3% down, CHF 5247m-2003) and Wealth management US CHF 4741 (9% down, CHF 5190), Global asset management CHF 2022m (16% up, CHF 1737m-2003), Investment bank CHF 16090m (15% up, CHF 13991m-2003) and Corporate functions CHF 112m (260% up, CHF 20m-2003)¹⁵⁹.

6.3.3 Financial Statement Analysis Framework

6.3.3.1 Balance Sheet Analysis

balance sheet items were trading portfolio assets CHF 389487m (14% up, CHF 341013m-2003), reverse repurchase agreements CHF 357164m (11% up, CHF 320499m-2003), positive replacement values CHF 284577m (15% up, CHF 248206m-2003), loans CHF 232167m (9% up, CHF 212679m), cash collateral on securities borrowed CHF 220242m (3% up, CHF 213932m-2003) and trading portfolio assets pledged as collateral CHF 159115m (32% up, CHF 120759m-2003) of total assets. *In 2004, UBS introduced financial assets designed at fair value of CHF 653m.* To meet its current maturities, Deutsche Bank had CHF 87091m (19% up, CHF 73356m-2003) which continued to be 5% of total assets from last year¹⁶⁰.

In comparison to assets, liabilities included; Repurchase agreements CHF 422587m (2% up, CHF 415883m-2003), due to customers CHF 376076m (9% up, CHF 346433m-2003), negative replacement value CHF 303712m (19% up, CHF 254788m), trading portfolios CHF 171033m (19% up, CHF 143957m) and due to banks CHF 120026m (6% down, CHF 127012m-2003) were the key liabilities for UBS¹⁶¹.

6.3.3.2 Income Statement Analysis

In 2004, Union bank of Switzerland had total earning of CHF 63455m (4% up, CHF 60843m-2003) from all sources. This earning consists of 1) Interest Income with CHF 39228m (2% down, CHF 40045m-2003), 2) Fee and Commission Income CHF 18506m (11% up, CHF 16673m-2003), 3) Trading Income CHF 4902m (33% up, CHF 3670m-2003)¹⁶².

¹⁵⁹ www.ubs.com Annual report 2005 page 74

¹⁶⁰ www.ubs.com Annual report 2005 page 79

¹⁶¹ www.ubs.com Annual report 2005 page 75

¹⁶² www.ubs.com Annual report 2005 page 74

On the other hand, UBS had total expenses CHF 56098m (2% up, CHF 55052m-2003) that included: 1) Interest Expense CHF 27484m (1% down, CHF 27784m-2003), 2) Personnel expenses CHF 17706m (2% up, CHF 17356m-2003), 3) General & administrative expenses CHF 6387m (9% up, CHF 5882m-2003). Other expense 6% included Amortization of goodwill & other intangible assets, tax expense and payment to minority interest etc¹⁶³.

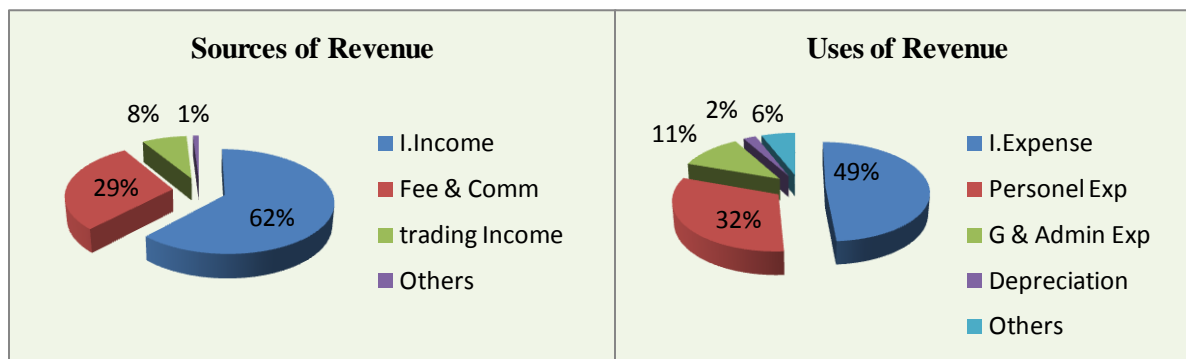


Figure C3.9

Figure C3.10

6.3.3.3 Equity

Total equity of UBS was CHF 33491m (except MI CHF 5426m) at dec 31, 2004 of which Ordinary shares totalled CHF 901m (reduced CHF 45m from 2003), retained earning of CHF 37001m, share premium account CHF 9231m (both reduced from 2003). In 2004, UBS issued new share of CHF 2m and made cancellation of CHF 47m second trading line treasury share (2003 program). UBS had treasury share of (CHF 11105m) and equity classified as obligation to purchase own share of (CHF 96m).

6.3. Basis for the Changes in Financial Statements

In 2004, Union bank of Switzerland made couple of acquisition, minority stakes and mergers in Switzerland and rests of world to strengthen its position in the market. On the other hand, The Federal Reserve Board (FED) and Swiss Federal Banking Commission (SFBC) have sanctioned by violating the agreements for the involvement in “*Extended Custodial Inventory Program*” for US Banknotes which effected its reputation in the capital market¹⁶⁴. In 2004, Bank regrouped its figures to align comparative periods and split business into two; Corporate Functions and Private Banks & GAM.

¹⁶³ www.ubs.com Annual report 2005 page 20, All non-recurring items were excluded

¹⁶⁴ <http://www.ubs.com/1/e/investors/releases?newsId=70355> assessed mar 23, 2009

6.4 Year 2005

6.4.1 Rectangle Model Analysis

Year 2005 rectangle Model figure C3.11 showing a good growth. The assets were CHF 2058348m (18% up, CHF 1737118m-2004). Liabilities constituted 98% with the value of CHF 2006714m (18% up, CHF 1697751m-2004) and equity 2% with the value of CHF 51634m (31% up, CHF 39367m-2004)¹⁶⁵. In 2005, Union bank of Switzerland had total earnings CHF 90449m (49% up, CHF 63455m-2003) from all sources and total expenses CHF 80701m (44% up, CHF 56098m-2004). Profit for the year was CHF 9896m (28% up, CHF 7718m-2004). Basic Earnings per share was CHF 4.84 (32% up, CHF 3.66-2004) and final dividend of CHF 3.2 (CHF 2.6-2004) per share amounting to CHF 3105m (11% up, CHF 2806m-2004) was paid¹⁶⁶.

Average interest earning assets were CHF 1722124m (13% up, CHF 1523622m-2004 and constitute 84% of total assets)¹⁶⁷.

Average Interest bearing liabilities were CHF 1655068m (12% up, CHF 1471853m-2004 and constituted 82% of total liabilities)¹⁶⁸.

6.4.2 Geographical & Divisional Earning Analysis

Geographical earnings of UBS haphazardly changed in 2005 for Switzerland at 34% and Americas 37%, Europe/Africa/Middle East 22% and Asia Pacific 7% of total operating income¹⁶⁹. If we look at Group Earning of UBS; Global Wealth Management & Banking business of which CHF 9024m (17% up, CHF 7701m-2004), Business banking Switzerland CHF 4949m (2.3% down, CHF 5064m-2004) and Wealth management US CHF

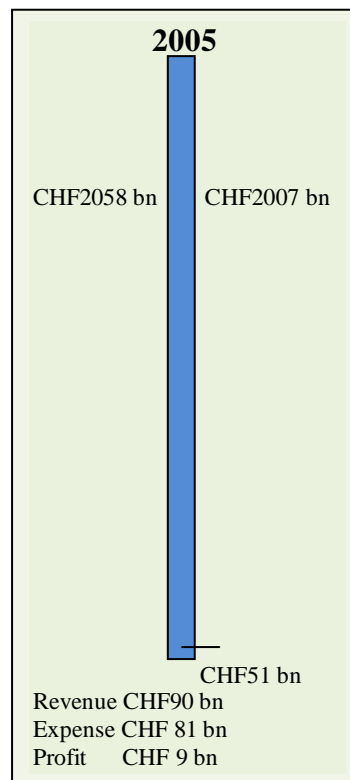


Figure C3.11

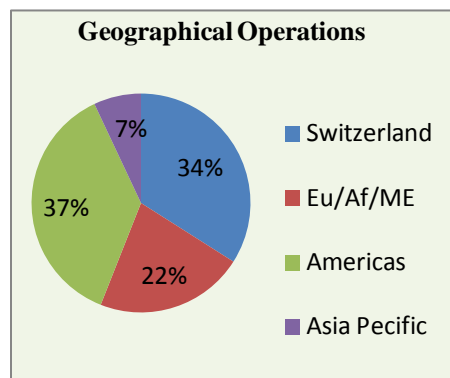


Figure C3.12

¹⁶⁵ www.ubs.com Annual report 2006 page 85

¹⁶⁶ www.ubs.com Annual report 2005 page 18

¹⁶⁷ www.ubs.com Annual report 2006 page 238

¹⁶⁸ www.ubs.com Annual report 2006 page 238

¹⁶⁹ www.ubs.com Annual report 2005 page 114

5158m (9% up, CHF 4741m-2004), Global asset management CHF 2487m (23% up, CHF 2022m-2004), Investment bank CHF 17448m (10% up, CHF 16090m-2004) and Corporate functions CHF 455m (306% up, CHF 112m-2004)¹⁷⁰.

6.4.3 Financial Statement Analysis Framework

6.4.3.1 Balance Sheet Analysis

Balance sheet items for 2005 were trading portfolio assets CHF 499297m (28% up, CHF 389487m-2004), reverse repurchase agreements CHF 404432m (13% up, CHF 357164m-2004), positive replacement values CHF 333782m (17% up, CHF 284577m-2004), loans CHF 279910m (21% up, CHF 232167m-2004), cash collateral on securities borrowed CHF 288435m (31% up, CHF 220242m-2004) and trading portfolio assets pledged as collateral CHF 154759m (3% down, CHF 159115m-2004) of total assets. Financial assets designed at fair value introduced in 2004 which also carried the lowest amount in the balance sheet reached up to CHF 1153m (77% up, CHF 653m-2004). To meet its current maturities Deutsche Bank had CHF 91042m (5% up, CHF 87091m 2004) at the end of 2005 and had 4.4% of total assets from last year¹⁷¹.

Liabilities included Repurchase agreements CHF 478508m (13% up, CHF 422587m-2004), due to customers CHF 466907m (24% up, CHF 376076m-2004), negative replacement value CHF 337663m (11% up, CHF 303712m-2004), trading portfolios CHF 188631m (10% up, CHF 171033m-2004) and due to bank CHF 124328m (4% up, CHF 120026m-2004) were the key liabilities for UBS¹⁷².

6.4.3.1 Income Statement Analysis

In 2005, Union bank of Switzerland had total earnings of CHF 90449m (49% up, CHF 63455m-2003) from all sources. This earning consisted 1) Interest Income CHF 59286m (51% up, CHF 39228m-2004, 2) Fee and Commission Income CHF 21184m (14% up, CHF 18506m), 3) Trading Income CHF 8248m (68% up, CHF 4902m) and other income includes 2% of total earnings)¹⁷³.

¹⁷⁰ www.ubs.com Annual report 2006 page 113

¹⁷¹ www.ubs.com Annual report 2006 page 85

¹⁷² www.ubs.com Annual report 2006 page 85

¹⁷³ www.ubs.com Annual report 2007 page 18

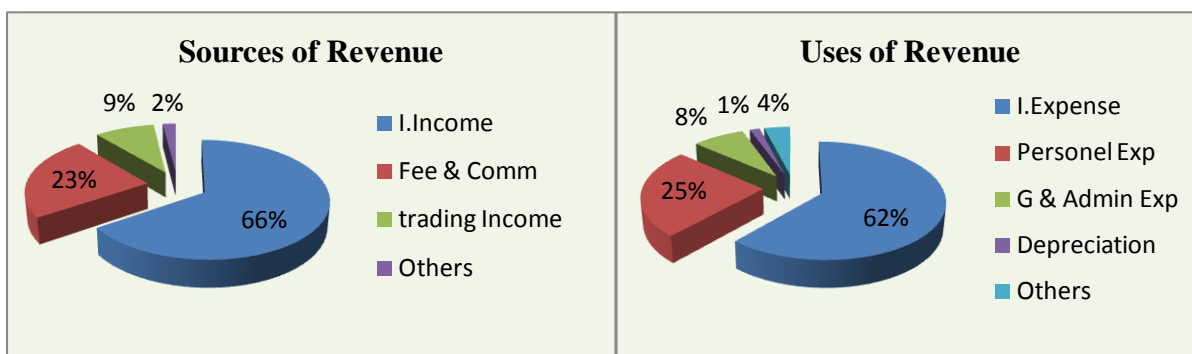


Figure C3.13

Figure C3.14

On the other hand, Union bank of Switzerland had total expenses CHF 80701m (44% up, CHF 56098m-2004) which included 1) Interest Expense CHF 49758m (81% up CHF 27484m-2004), 2) Personnel expenses CHF 20067m (14% up, CHF 17706m-2004), 3) General & administrative expenses CHF 6504m (2% up, CHF 6387m-2004). Other expense 4% which include Amortization of goodwill & other intangible assets, tax expense and payment to minority interest etc¹⁷⁴.

6.4.3.3 Equity

Total equity of UBS was CHF 44015m and minority interest of CHF 7619m at december 2005. Ordinary shares were CHF 871m (reduced CHF 32m from 2004), retained earning of CHF 44105m, share premium account CHF 9992m (both increased from 2004). In 2005, UBS issued new share of CHF 2m and made concellation of CHF 32m second trading line treasury share (2004 program). UBS had treasury share of CHF 10739m and equity classified as obligation to purchase own share of CHF 133m and rests of equity includes net gains / Losses not recognized in the income statement net of tax. *There was no revaluation reserve from step acquisitions in 2005.*

6.4.4 Basis for the Changes in Financial Statements

During 2005, bank recorded strong results in all its divisions. UBS took some important steps to integrate the global wealth management business bringing US, Swiss and international units along Swiss corporate and retail bank into one Business group¹⁷⁵. In 2004, bank announced a

¹⁷⁴ www.ubs.com Annual report 2005 page 18

¹⁷⁵ www.ubs.com Annual report 2005 page 02

new plan of investment management business of Dillon Read Capital Management which brought more clients for long term alternative investment opportunities that continued in 2005¹⁷⁶. Bank implemented some milestones in china and developed Chinese investment banking & securities products with bank of China¹⁷⁷.

In 2005, Bank continued to make couple of acquisition, minority stakes and mergers in Switzerland and rests of world to strengthen its position in the market. It also signed an agreement to sell stake in Motor-Columbus for Swiss-led consortium for CHF 1.3bn that anticipated gain of CHF 350m. In December bank completed sale of Private Banks & GAM for net gain of CHF 3705m¹⁷⁸. The net new money inflow was CHF 148 bn which provided drive for new investment of 25%. Cost was increased but less than revenues. In contrast to its overall progress, Bank earned CHF 5094m a significant amount from discontinued operations.

¹⁷⁶ www.ubs.com Annual report 2005 page 02

¹⁷⁷ www.ubs.com Annual report 2005 page 02

¹⁷⁸ www.ubs.com Annual report 2005 page 02

6.5 Year 2006

6.5.1 Rectangle Model

In 2006, Rectangle Model showing wider position than previous years that have where assets were CHF 2346362m (14% up, CHF 2058348m-2005). Liabilities constitute 98% with the value of CHF 2290587m (14%, CHF 2006714m-2005) and equity 2% with the value of CHF 55775m (8% up, CHF 51634m-2005)¹⁷⁹. In 2006, Union bank of Switzerland had total earning of CHF 128616m (42% up, CHF 90449m-2005) from all sources and total expenses were CHF 117147m (45% up, CHF 80701m-2005). Profit for the year was CHF 11859m (20% up, CHF 9896m-2005). Basic Earnings per share was CHF 5.80 (CHF 4.84-2005) and final dividend of CHF 4.4 (CHF 3.2-2005) per share amounting to CHF 3214m (3.5% up, CHF 3105m-2005) was paid¹⁸⁰.

Average interest earning assets were CHF 2020394m (17% up, CHF 1722124m-2005) and constitute 86% of total assets)¹⁸¹.

Average Interest bearing liabilities were CHF 1964786m (19% up, CHF 1655068m-2005) and constitute (86% of total liabilities)¹⁸².

6.5.2 Geographical & Divisional Earning Analysis

Geographical earning of UBS continue to change its position randomly in 2006 (shown figure C3.16) for Switzerland was 27% and Americas 36%, Europe/Africa/Middle East 26% and Asia Pacific 11% of total operating income¹⁸³. Group Earnings of UBS for financial business of Global Wealth Management &

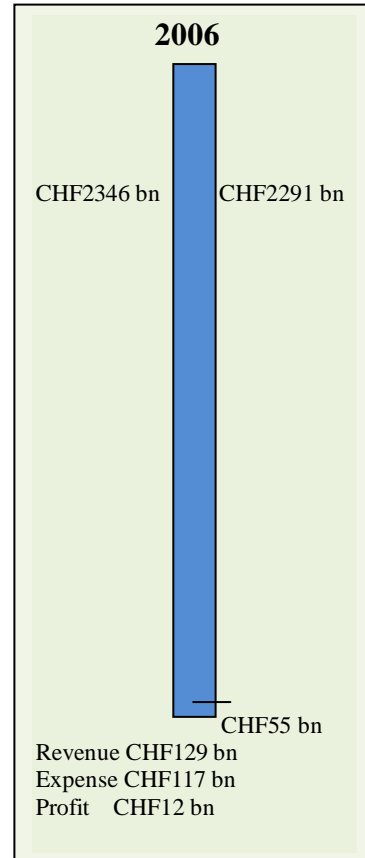


Figure C3.15

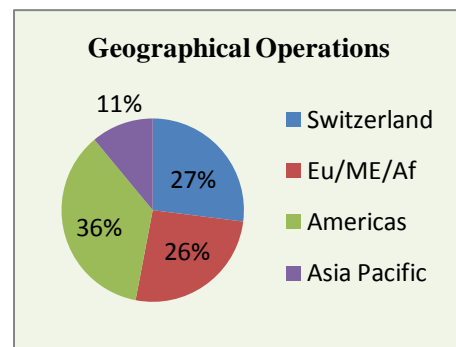


Figure C3.16

¹⁷⁹ www.ubs.com Annual report 2007 page 19

¹⁸⁰ www.ubs.com Annual report 2007 page 18

¹⁸¹ www.ubs.com Annual report 2007 page 149

¹⁸² www.ubs.com Annual report 2007 page 151

¹⁸³ www.ubs.com Annual report 2007 page 48

Banking business constituted CHF 21775m. GWM & BB wealth management International & Switzerland included CHF 10827m (20% up, CHF 9024m-2005), Business banking Switzerland CHF 5058m (2% up, CHF 4949m-2005) and Wealth management US CHF 5863m (14% up, CHF 5158m-2005), Global assets management CHF 3220m (29% up, CHF 2487m-2005), Investment bank CHF 21726m (25% up, CHF 17448m-2005) and Corporate functions constitute CHF 294m (54% down, CHF 455m-2005)¹⁸⁴. Overall position of the bank remain positive except huge fluctuation in corporate functions. In each year, this division showed different results.

6.5.3 Financial Statement Analysis Framework

6.5.3.1 Balance Sheet Analysis

In 2006, assets included trading portfolio assets CHF 627036m (26% up, CHF 499297m-2005), reverse repurchase agreements CHF 405834m (3% up, CHF 404432m-2005), positive replacement values CHF 292975m (14% down, CHF 333782m-2005), loans CHF 297842m (6% up, CHF 279910m-2005), cash collateral on securities borrowed CHF 351590m (22% up, CHF 288435m-2005) and trading portfolio assets pledged as collateral CHF 251478m (62% up, CHF 154759m-2005) of total assets. In 2006, UBS again reduced its investment in associates with the value of CHF 1523m (74% down, 2956m-2005). In 2006, Deutsche Bank had CHF 136090m (49% up, CHF 91042m-2005) at the end of 2006 and had 6% of total assets¹⁸⁵.

Liabilities included Repurchase agreements CHF 545480m (14% up, CHF 478508m-2005), due to customers CHF 555886m (19% up, CHF 466907m-2005), negative replacement value CHF 297063m (14% down, CHF 337663m-2005), trading portfolios CHF 204773m (9% up, CHF 188631m-2005) and due to bank CHF 203689m (64% up, CHF 124328m-2005) were the key liabilities in its balance sheet¹⁸⁶.

6.5.3.2 Income Statement Analysis

In 2006, Union bank of Switzerland had total earning of CHF 128616m (42% up, CHF 90449m-2005) from all sources. This earning consisted 1) Interest Income of CHF 87401m (47% up, CHF 59286m-2005), 2) Fee and Commission Income CHF 25456m (20% up, CHF

¹⁸⁴ www.ubs.com Annual report 2007 page 44

¹⁸⁵ www.ubs.com Annual report 2007 page 19

¹⁸⁶ www.ubs.com Annual report 2007 page 19

21184m), 3) Trading Income CHF 13743m (67% up, CHF 8248m) and other income includes 2% of total earnings which includes credit loss recovery and others¹⁸⁷.

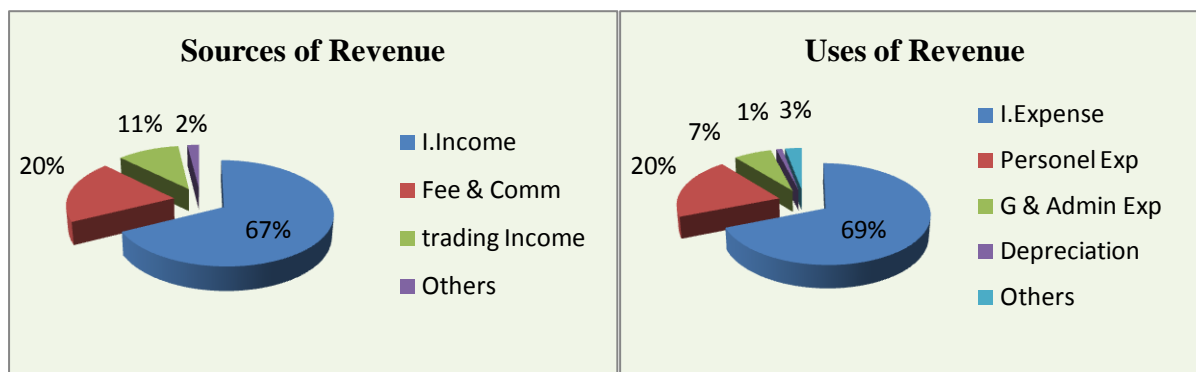


Figure C3.17

Figure C3.18

Union bank of Switzerland had total expenses CHF 117147m (45% up, CHF 80701m-2005) of which includes: 1) Interest Expense CHF 80880m (63% up, CHF 49758m-2005 and includes 69% of total expenses), 2) Personnel expenses CHF 23591m (18% up, CHF 20067m-2005), 3) General & administrative expenses CHF 7980m (23% up, CHF 6504m-2005). Other expense 3% which include Amortization of goodwill & other intangible assets, tax expense and payment to minority interest etc¹⁸⁸.

6.5.3.3 Equity

Total equity of UBS was CHF 49686m and minority interest of CHF 6089m at december 2006. Ordinary shares were totalled CHF 211m (CHF 871m-2005), retained earnings of CHF 49151m, share premium account CHF 9870m¹⁸⁹. Like previous year UBS issued new share of CHF 1m and made cancellation of CHF 30m second trading line treasury share. Bank made capital repayment by par value reduction of CHF 631m.

UBS had treasury share of CHF 10214m and equity classified as obligation to purchase own share of CHF 185m and rests of equity includes net gains / Losses not recognized in the income statement net of tax and revaluation reserve from step acquisitions in 2006.

¹⁸⁷ www.ubs.com Annual report 2007 page 18

¹⁸⁸ www.ubs.com Annual report 2007 page 18

¹⁸⁹ www.ubs.com Annual report 2007 page 20

6.5.4 Basis for the Changes in Financial Statements

In 2006, Bank expanded its position in major emerging markets, segments and regions. During the year, UBS made four significant acquisitions, combined businesses and invested in its core business, opened ultra high net worth offices in mature markets of America which contributed positively to consolidated revenues and profits. Financial market helped UBS to achieve its target in a meaningful way by providing superior quality services to its customers. Investment Bank invested in fixed income, currencies and rates businesses.

Bank continued to make progress in China by granting approval from Chinese Securities regulator restructuring of Beijing Securities. Bank made acquisition of Brazilian financial services firm Banco Pactual one of the country's leading investment bank and asset management firms¹⁹⁰. Combined investment of assets for CHF 24bn made Brazil's sixth largest assets manager. September 2006, bank acquired ABN AMRO's global future and options business which helped the bank's exchange trade derivative market in commoditizing¹⁹¹. During the year, Wealth management business contributed CHF 113billion new money inflow out of CHF 152 billion which is 75% of total inflow. Due to more acquisitions, bank utilized huge capital that the bank couldn't buy back shares as did in preceding years.

¹⁹⁰ www.ubs.com Annual report 2005 page 04

¹⁹¹ www.ubs.com Annual report 2005 page 04

6.6 Year 2007

6.6.1 Rectangle Model Analysis

Year 2007 brought drastic changes in values of balance sheet items. Rectangle Model is showing the position of UBS that has assets of CHF 2272579m (3.2% down, CHF 2346362m-2006). Proportion of liabilities to finance remain constant of 98% with the value of CHF 2230043m (2.7% down, CHF 2290587m-2006) and equity 2% with the value of CHF 42536m (31% down, CHF 55775m-2006)¹⁹². In 2007, total earning of CHF 144346m (12% up, CHF 128616m-2006) from all sources and total expenses of CHF 149131m (27% up, CHF 117147m-2006 *other than trading loss*). This year bank sustained loss of **CHF 4785m** (-136% down, CHF 11859m-2006). *Basic Earnings per share* was negative **CHF 2.28** (CHF 5.80-2006) and a dividend of CHF 4275m (33% up, CHF 3214m-2006) was paid¹⁹³. *Average interest earning*

assets were increased with the value of CHF 2295830m (14% up, CHF 2020394m-2006) and constitute 101% of total assets)¹⁹⁴. Average Interest bearing liabilities were CHF 2232970m (14% up, CHF 1964786m-2006) and constitute (101% of total liabilities)¹⁹⁵.

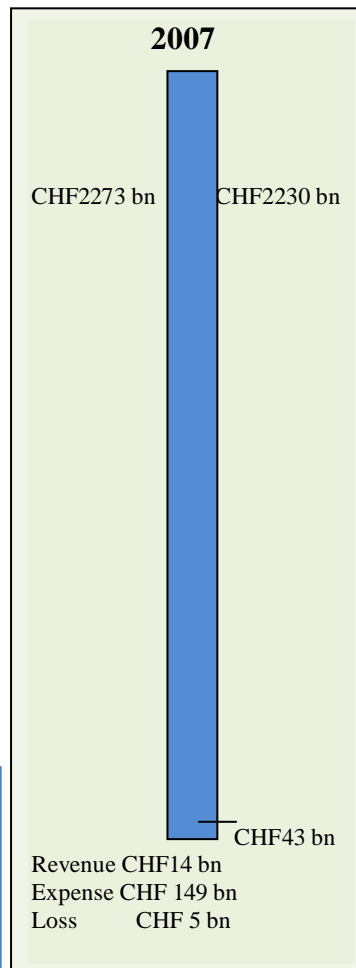


Figure C3.19

6.6.2 Geographical & Divisional Earning Analysis

Geographical earning of UBS brought radical changes for 2007. Bank earned most of its operating income from Switzerland. Switzerland earned 59%, Americas 18%, Europe/Africa/Middle East 20% and Asia Pacific 3% of total operating income as shown in figure C3.20¹⁹⁶. If we

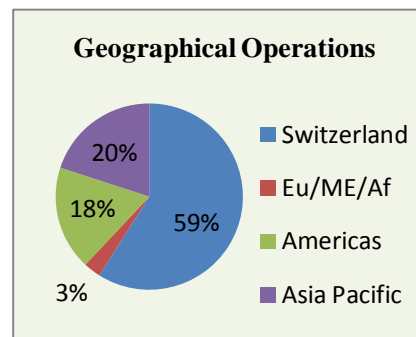


Figure C3.20

¹⁹² www.ubs.com Annual report 2007 page 19

¹⁹³ www.ubs.com Annual report 2007 page 18

¹⁹⁴ www.ubs.com Annual report 2007 page 147

¹⁹⁵ www.ubs.com Annual report 2007 page 151

¹⁹⁶ www.ubs.com Annual report 2007 page 48

look at Group Earning of UBS for financial business, Global Wealth Management & Banking business earned CHF 28935m (36% up, CHF 21775m-2006). GWM & BB wealth management international & Switzerland earned CHF 12893m (19% up, CHF 10827m-2006), Business banking Switzerland CHF 5286m (5% up, CHF 5058m-2006) and Wealth management US CHF 6662m (14% up, CHF 5863m-2006), Global assets management CHF 4094m (27% up, CHF 3220m-2006), *Investment bank sustained loss of CHF 538m (-102% down, CHF 21726m-2006) and Corporate functions constitute CHF 2873m (877% up, CHF 294m-2006)*¹⁹⁷. Investment Bank counterbalanced the previous growth of UBS.

6.5.3 Financial Statement Analysis Framework

6.5.3.1 Balance Sheet Analysis

Year 2007 brought down the values of balance sheet items. Trading portfolio assets had CHF 610061m (3% down, CHF 627036m-2006), reverse repurchase agreements CHF 376928m (8% down, CHF 405834m-2006), positive replacement values CHF 428217m (46% up, CHF 292975m-2006), loans CHF 335864m (13% up, CHF 297842m-2006), cash collateral on securities borrowed CHF 207063m (70% down, CHF 351590m-2006) and trading portfolio assets pledged as collateral CHF 164311m (53% down, CHF 251478m-2006) of total assets. Like last year, lowest value in balance sheet of UBS was investment in associates with the value of CHF 1979m (CHF1523m-2006). UBS had CHF 149105m (10% up, CHF 136090m-2006) at the end of 2007 and had 6.5% of total assets¹⁹⁸.

Liabilities included Repurchase agreements CHF 305887m (78% down, CHF 545480m-2006), due to customers CHF 641892m (15% up, CHF 555886m-2006), negative replacement value CHF 443539m (49% up, CHF 297063m-2006), trading portfolios liabilities CHF 164788m (24% down, CHF 204773m-2006) and due to bank CHF 145762m (40% down, CHF 203689m-2006) were the key liabilities for UBS¹⁹⁹.

6.5.3.2 Income Statement Analysis

In Contrast to balance sheet, divisional earnings contributed to total revenue but offset by trading loss. In 2007, total earning was CHF 144346m (12% up, CHF 128616m-2006) from all

¹⁹⁷ www.ubs.com Annual report 2007 page 43

¹⁹⁸ www.ubs.com Annual report 2007 page 19

¹⁹⁹ www.ubs.com Annual report 2007 page 19

sources. This earning consisted of 1) Interest Income with CHF 109112m (25% up, CHF 87401m-2006), 2) Fee and Commission Income CHF 30634m (20% up, CHF 25456m-2006). UBS sustained loss in trading loss CHF 8353m (CHF 13743m-2006) and other income includes 3% of total earnings.²⁰⁰.

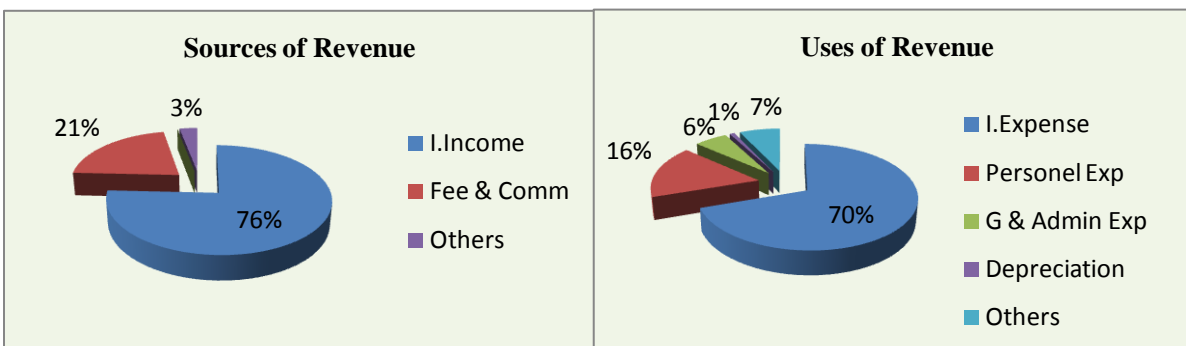


Figure C3.20

Figure C3.21

On the other hand, UBS had total expenses CHF 149131m (27% up, CHF 117147m-2006 *other than trading loss*) of which includes: 1) Interest Expense CHF 103775m (28% up, CHF 80880m-2006) and includes 70% of total), 2) Personnel expenses CHF 30634m (30% up, CHF 23591m-2006), 3) General & administrative expenses CHF 8465m (6% up, CHF 7980m-2006). Other expenses 7% include Amortization of goodwill & other intangible assets, tax expense and payment to minority interest etc²⁰¹. In 2007, main issue for the bank had trading losses and loss of investment bank which put the UBS into problems. Net loss for the bank was CHF 4785m after paying all expenses.

6.5.3.3 Equity

Total equity of UBS was CHF 35585m (40% down, CHF 49686m-2006) and minority interest of CHF 6951m at december 2007 which included Ordinary shares of total CHF 207m (CHF 211m-2005), retained earnings of CHF 38081m (CHF 49051m-2006), share premium account CHF 8484m (CHF 9870m-2006)²⁰². In 2007, UBS did not issued new share during the year but cancelled only CHF 4m second trading line treasury share. Bank made capital repayment by par value reduction of CHF 631m.

²⁰⁰ www.ubs.com Annual report 2007 page 18

²⁰¹ www.ubs.com Annual report 2007 page 18

²⁰² www.ubs.com Annual report 2007 page 20

UBS had treasury share of (CHF 10363m) and equity classified as obligation to purchase own share of CHF 74m and rests of equity includes net gains / Losses not recognized in the income statement net of tax and revaluation reserve from step acquisitions in 2007.

6.5.4 Basis for the Changes in Financial Statements

In 2007, Group showed net loss of CHF 4384m whereas CHF 135m was also added to adjust loss from discontinued operations `income. US residential real estate market positioned through mortgage backed securities and related products affected UBS adversely²⁰³. This loss completely offset the previous year's earnings and growth of the bank in all its divisions. The bank had main loss incurred from fixed income from trading activities that were held proportionately high inventories by the bank. Bank sustained loss in Investment bank for *CHF 538m* in 2007 (CHF 21726m-2006). Bank put attention for managing of illiquid and long dated risks portfolios including commercial real estate & leveraged lending in previous years.

Creation of Dillon Read Capital Management (DRCM) brought more exposure to the US mortgage market²⁰⁴. All the trading activities were transferred to DRMC, investment bank replaced with client-driven origination, trading and structuring of mortgage-backed securities but all these involved taking principal risk²⁰⁵. Some other issues like UBS had CHF 149105m of Cash and cash equivalent at the end of 2007 and had 6.5% of total assets is also huge idle money which could be utilized in better way. On the other hand, bank continued its earnings positively i.e. Wealth and Asset Management have net new inflow of CHF 156 billion.

²⁰³ www.ubs.com Annual report 2007 page 03

²⁰⁴ www.ubs.com Annual report 2005 page 03

²⁰⁵ www.ubs.com Annual report 2005 page 03



Group Two

Case Four-Nordea Bank



Case Five-Standard Chartered Bank



7. Case Four- Nordea Bank AB

7.1. Brief Introduction

A leading financial institution from Scandinavia which has approximately 10 million customers, 1400 branch offices, 34684 employees and having 5.1 million e-customers. The Nordea's shares are listed on the NASDAQ OMX Nordic, the Copenhagen, Helsinki and Stockholm stock exchanges. Nordea's strong history can be traced from 1820 that passed from different phases to be place in its current position²⁰⁶. Its head Offices are in Stockholm, Oslo, Helsinki and Copenhagen and its major shareholders consisting of Swedish states by 19%, Sampo Group with 15.3% and Nordea Danmark fonden with 4.1%. The rest of shares are belonging to the public investors and other financial institutions. Nordea is providing corporate and institutional services, Nordic banking and other customer services to its corporate and individual customers of Nordic countries, Baltic Sea region, Russia, Poland, Lithuania, Latvia and Estonia. This bank has received different awards including one of the best banks of Nordic Countries. Following is the divisional profile of Nordea in figure C4.1.

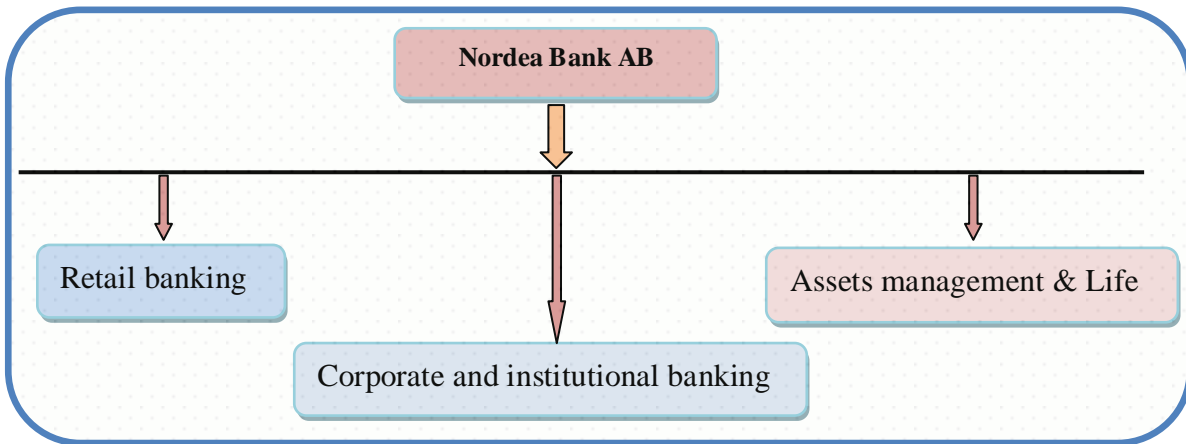
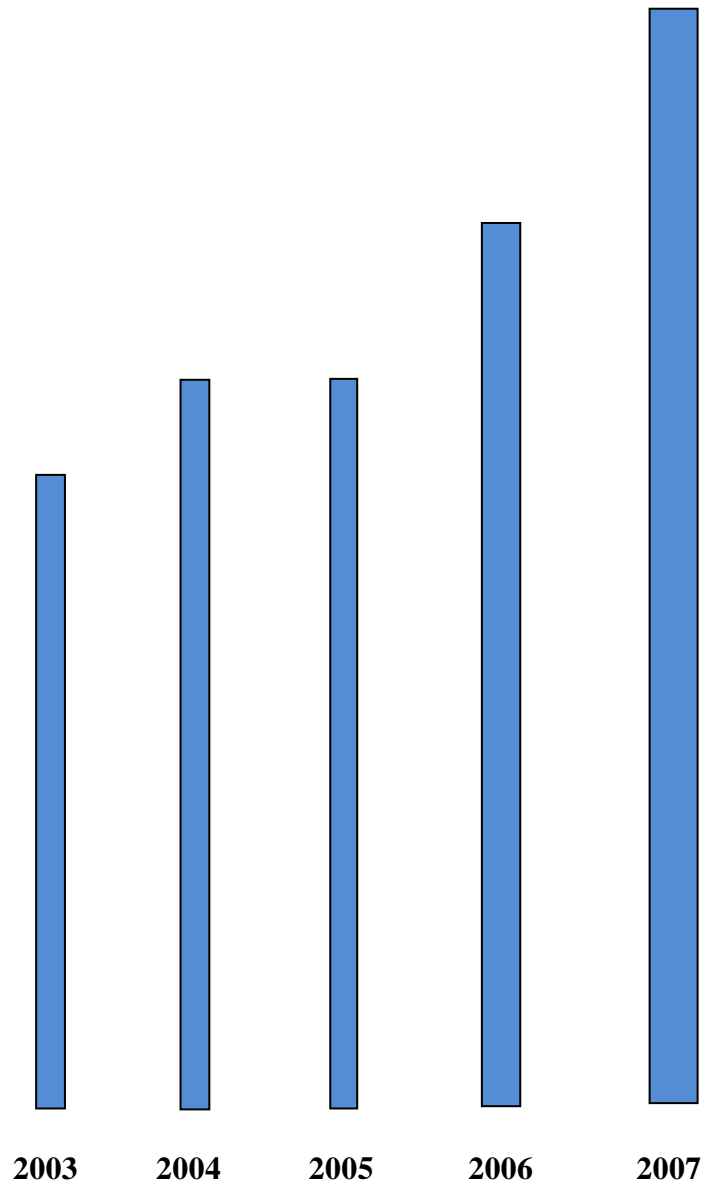


Figure C4.1 for Nordea hierarchal divisions

²⁰⁶ <http://www.nordea.com/About+Nordea/Company+overview/History/The+early+years/867322.html> assessed Feb11, 2009

(Figure C4.2 Rectangle Model for five years)



5.2 Year 2003

5.2.1 Rectangle Model Analysis

Year 2003, Nordea's rectangle Model indicates its assets with the value of €262190m which 95% of those assets constituted by Liabilities with the value of €250013m and 5% equity with the value of €12177m²⁰⁷. Total revenue for the pointed year is €11735m and after deducting total expenses in an amount of €10245m, it generated profit €1490m. Basic earnings per share in 2003 were € 0.51 and final dividend of € 42 per share amounting to €673m was paid²⁰⁸. Interest earning assets were €244232m which covered 93% of total assets²⁰⁹. Interest bearing liabilities in an amount of €211013m is equal to 84% of total liabilities²¹⁰.

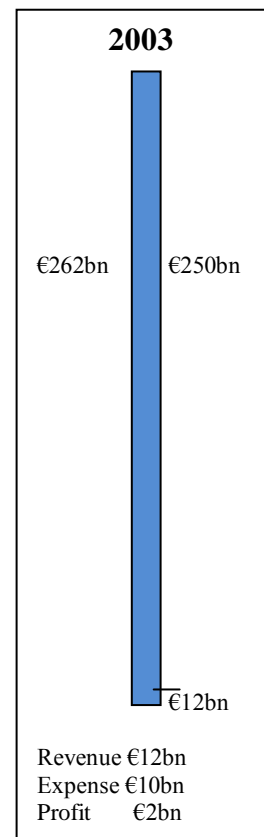


Figure C4.3

5.2.2 Geographical & Divisional Earning Analysis

Nordea's geographical markets consisted 93% in the Nordic countries and 7% sea Baltic countries such as Poland, Estonia, Latvia and Lithuania. Retail banking, corporate & institutional banking and assets management & life are covering Nordea's main business area which operates as a profit centres²¹¹. In 2003, Retail banking generated an income of €4353m (77%), corporate and institutional banking €989m (18%) and assets management €254m (5%)²¹².

5.2.3 Financial Statement Analysis Framework

5.2.3.1-Balance Sheet Analysis

Nordea's total assets were assets with the value of €262190m whereas major assets in 2003 consisted; Loans and advances to the public with the value of €145644m (55% of total assets), Loans and advances to credit institutions in a amount of €20614m (8% of total assets) and

²⁰⁷ www.nordea.com Annual report 2004 page 45

²⁰⁸ www.nordea.com Annual report 2003 page 29

²⁰⁹ www.nordea.com Annual report 2003 page 60

²¹⁰ www.nordea.com Annual report 2003 page 60

²¹¹ www.nordea.com Annual report 2003 page 9

²¹² www.nordea.com Annual report 2003 page 34

Assets and insurance in term of investment with the value of €19718m (7% of total assets)²¹³. In order to meet current maturities, Nordea had a cash flow of €7629m which is 3% of its total assets²¹⁴. Total liabilities for year 2003 were €250005m, which mainly consisted; Deposits and borrowings from the public in an amount of €95556m,(38%), Debt securities in issue €64380m,(26%) and Deposit by credit institutions €28753m, which is (12%) of total liabilities.²¹⁵

5.2.3.2- Income Statement Analysis

Total revenue for Nordea in year 2003 was €11735m, which mainly generated by *a*) Interest Income €9158m (78% of total earnings) and *b*) Fee & Commission Income €1868m (16% of total earnings) as shown in figure C4.4. Rest of 6% earnings consisted different small values i.e. Divestment of shares and participations, divestment of real estate/shares and income from real estate etc.

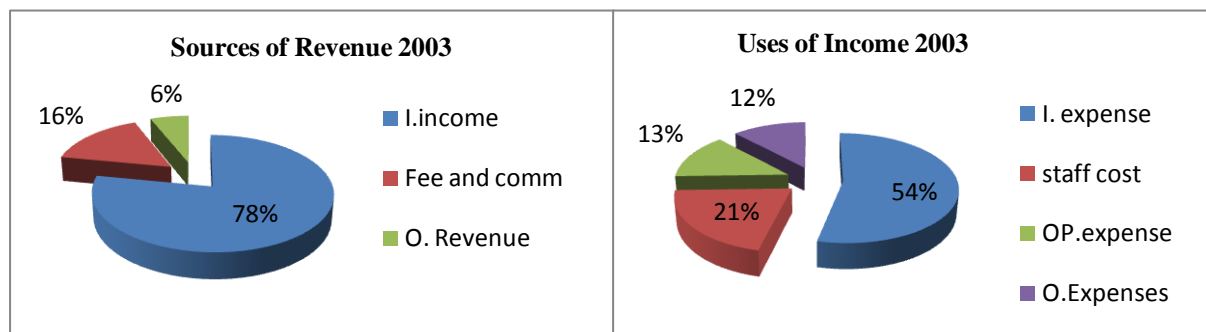


Figure C4.4

Figure C4.5

In contrast, Nordea's total expenses were €10245m consisted; *a*) Interest expenses €5500m (46% of total expenses), *b*) Staff costs €2135m (21% of total expenses) and also a considerable number of several other small value of different expenses which are reported as other operating expenses €1381m equal to 13% of total expenses.²¹⁶

5.2.3.3-Equity

Nordea's total equity in 2003 was €12177m and its largest equity exposure at the end of this year was to the financial sector. Despite a significant reduction in exposure to real estate equities, it still represented Nordea's second largest exposure equity. Nordea's capital consisted

²¹³ www.nordea.com Annual report 2003 page 40

²¹⁴ www.nordea.com Annual report 2003 page 48

²¹⁵ www.nordea.com Annual report 2003 page 40

²¹⁶ www.nordea.com Annual report 2004 page 5

of share capital (€1160m), share premium (€4284m), Minority interest of €8m, Unrestricted and restricted reserve of €4632m and €611m respectively and retained earnings was €7398m.

5.2.4 Basis for changes of Financial Statements

In 2003 the balance sheet's item has grown with EUR 12bn (5%). The main increases were in Treasury bills and other eligible bills approximately EUR 4bn and Loans & advances to credit institutions almost EUR 5bn. A 17% increase in operating profit reduced in total expense brought sharple improvement in profit from insurance activities and also stronger investment earnings lead to a more stable situation in year 2003. In addition, Nordea undertook a number of divestment of real state according to its strategy to have more focus on core business which result a climb in income for the year.²¹⁷

²¹⁷ www.nordea.com Annual report 2003 page 13

5.3 Year 2004

5.3.1 Rectangle Model Analysis

Year 2004 shows rectangle Model that has assets with the value of €280074m (7% up, €262190m-2003). Liabilities constitute 96% with the value of €267398m (7% up, €250005m-2003) and equity 4% with the value of €12676m (4% up, €12177m-2003)²¹⁸. Total revenue generate in year 2004 is €11332m (4% down) and total expenses is €9254m (10% decrease) which resulted in a profit of €2078m (40% up). Basic Earnings per share was €0.74 (€0.51-2003) and final dividend of €0.28 (0.25-2003) per share amounting to €696m (3.4% up, €673m-2003) was paid²¹⁹.

Interest earning assets were €210333m (1% up, €208446m-2003) but its contribution reduced 5% from 2003 of total assets which were 75%²²⁰. Interest bearing liabilities were €196427m (1.4% up, 193804m-2003) which constitutes 73% (reduced 7% from last 2003) of total liabilities²²¹.

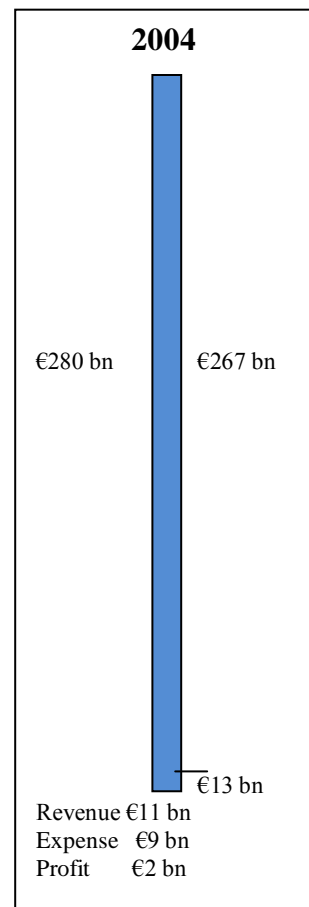


Figure C4.6

5.3.2 Geographical & Divisional Earning Analysis

Nordea in 2004 considered best at investor service in the Nordic countries and in the Baltic area. It consistently highly rated across the region and had an impressive size of assets with a 16 percent increase over the year.²²² Improvement in different segments such as risk management processes and streamlined service to financial institution were its strength in this year. Nordea in Finland was chosen as the best bank regarding good operating efficiency among many other things. Nordea in Denmark also won commended rating for the third straight times with higher scores compare to previous years. Based on the result in this year,

²¹⁸ www.nordea.com Annual report 2005 page 69

²¹⁹ Data was taken separately from income statement, cash flow and from key financial figures

²²⁰ www.nordea.com Annual report 2004 page 30

²²¹ www.nordea.com Annual report 2004 page 45

²²² www.nordea.com Annual report 2004 page 11

Nordea achieved its position among the largest financial institution in the Swedish securities market.²²³ Retail banking in 2004 generates a total income of €4388m (1% up, €4353m-2003), corporate and institutional banking €997m (1% up, €989m-2003) and assets management of €316m increased by 24% (€254m-2003).²²⁴

5.3.3 Financial Statement Analysis Framework

5.3.3.1-Balance Sheet Analysis

Total assets of €280074m in 2004 is included the same items as mentioned in 2003 but with some changes. For instance loans and receivable to credit institutions of €24774m increased by 20% and loans and receivable to the public of €161060m went up by 10%. Interest-bearing securities of €29765m and derivatives with a value of €26366m are items which included in this year to balance sheet²²⁵. Nordea’s cash flow declined by 9% (€6922m) compare to last year.²²⁶ In the other side of balance sheet liabilities also had some changes. Deposit and borrowing from the public (€104704m, 9% up) deposit by credit institutions (€30156m, 5% up), debt securities in issue (€59579m, 7% decreased) and derivatives included in balance sheet this year of €26675m²²⁷.

5.3.3.2 Income Statement Analysis

Total revenue in year 2004 was reported at €11332m which presented a decreased by 3% compared to €11735m-2003. This revenue mainly generated by the same revenue driver as last

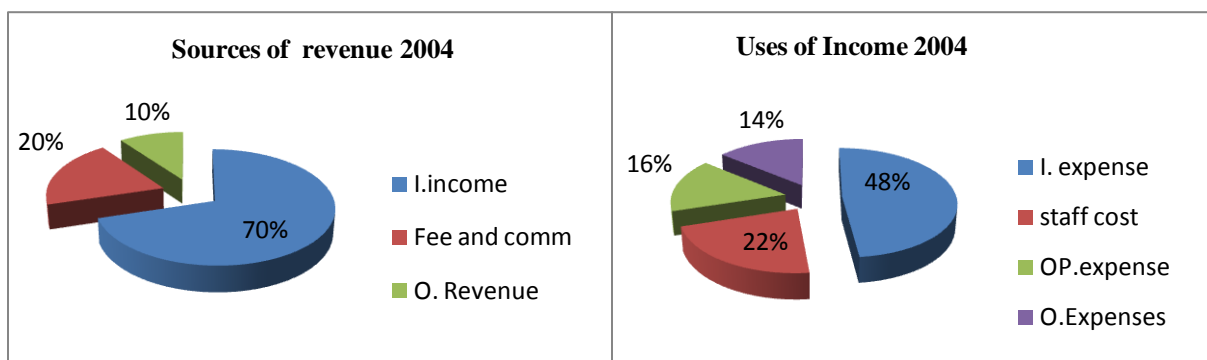


Figure C4.7

Figure C4.8

²²³ www.nordea.com Annual report 2004 page 4

²²⁴ www.nordea.com Annual report 2004 page 40

²²⁵ www.nordea.com Annual report 2004 page 48

²²⁶ www.nordea.com Annual report 2004 page 71

²²⁷ www.nordea.com Annual report 2004 page 48

year including; *a*) Interest Income of €7964m (down 13%, €9158m-2003) and *b*) Fee & Commission Income of €2230m, (19% up, €1868m-2003).

Nordea's expenses decreased by 10% to €9254m as compared to €10245m in 2003 and consisted; *a*) Interest expenses €4469m (19% down, €5500m-2003), *b*) Staff costs €2021m (5% down, €2135m-2003), and other operating expenses which increased in this year by 6% to €1466m (€1381m-2003)²²⁸.

5.3.3.3 Equity

Total equity in 2004 was €12549m (3% up, €12177m-2003) which has increased compare to previous year. This increase is due to changes in equity structure. For instance unrestricted reserve decreased by €668m but in the other hand retained profit(€7398m), net profit for the year(€1914m) and other restricted reserve(€922m) totally increased by €1090m and in general result an equity increase of €372m compare to year 2003. In this financial year share capital has also changed (€1160m-2004, €1128m-2003) whereas share premium remained constant at €4284m. In 2004 Nordea repurchased and hold larger number of its shares (81m shares of €32).²²⁹

5.3.4 Basis for Changes in Financial Statement

The increased in balance sheet items reflected by a higher business volume and value changes during this year. The assets growth mostly financed through deposit from customers. Decrease in loans and advances to credit institutions of approximately €8bn was due to decline in short-term lending to credit institutions. In contrast loan and advances to the public increased by €16bn.²³⁰ Another issue which had a great impact in this year was real state divestment process which started in 2003 and completed in this year which by the sale of properties in Norway, Finland and Sweden generated a net financial effect(gain) of €185m.²³¹

²²⁸ www.nordea.com Annual report 2004 page 43 and 12

²²⁹ www.nordea.com Annual report 2004 page 54

²³⁰ www.nordea.com Annual report 2004 page 13

²³¹ www.nordea.com Annual report 2004 page 12

5.4 Year 2005

5.4.1 Rectangle Model Analysis

Year 2005 brought significant changes in accounting numbers where rectangle Model shows assets with the value of €325549m (16% up, €280074m-2004). Liabilities and equities continued to fund with the same proportion from 2004 with the value of €312589m (17% up, €267398m-2004) and equity €12960m (2.2% up, €12676m-2004)²³². Revenue for this year is €11508m (2% increases) and expenses around €9239m without any significant changes compare to 2004 and a profit of €2269m (10%). Basic Earnings per share was €0.86 (€0.74-2004) and final dividend of €0.35 (€0.28-2004) per share amounting to €740m (6% up, €696m-2004) was paid²³³.

Interest earning assets were €265965m (26% up, €210333m-2004) but its contribution in total assets increased by 7% from 2004 which is 82% now²³⁴. Interest bearing liabilities were €235770m (20% up, €196427m-2004) which constitutes 75% of total liabilities²³⁵.

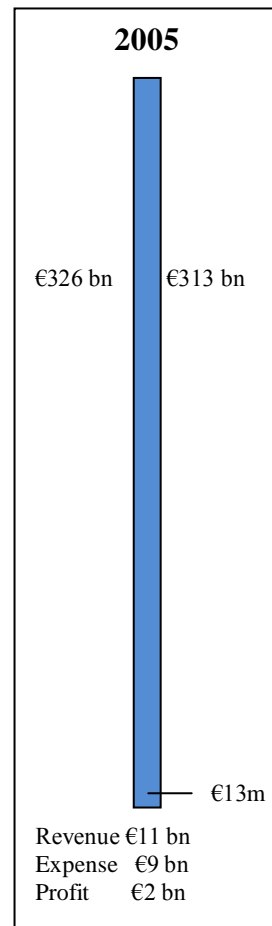


Figure C4.9

5.4.2 Geographical & Divisional Earning Analysis

In 2005, Nordea received highest scores in its different regions regarding its cooperation, ability to provide highly efficient and cost-effective solutions. The economy situation expands during this year and Nordea achieved better results in its different business area. As a result Retail banking income went up by 7% to €4675m,(€4388m-2004), corporate and institutional banking strengthened to €1094m (10% up, €997m-2004) and assets management of €358m rose by 13% (€316m-2004).²³⁶

²³² www.nordea.com Annual report 2006 page 81

²³³ Data was taken separately from income statement, cash flow and from key financial figures

²³⁴ www.nordea.com Annual report 2005 page 45

²³⁵ www.nordea.com Annual report 2005 page 45

²³⁶ www.nordea.com Annual report 2005 page 31

5.4.3 Financial Statement Analysis Framework

5.4.3.1-Balance Sheet Analysis

As mentioned in rectangle model Nordea's assets in 2005 were €325549m consisting loans and receivable to credit institutions of €31578m(27% up compare to 2004), loans and receivable to the public of €188460m(17% up), interest-bearing securities of €24632m (17% down) and derivatives of a value of €28876m(10% up).²³⁷ And also in order to fulfil its current maturities had a cash flow of €3676m which declined 47% compare to 2004.²³⁸

Total liabilities of €312589m had also shown some changes. Deposit and borrowing from the public with the value of €115550m increased 10%, deposit by credit institutions went down by 1% to €29790m and debt securities in issue €82609m and derivatives €28602m increased by 39% and 7% respectively.²³⁹

5.4.3.2 Income Statement Analysis

Total revenue for Nordea in year 2005 did not improve significantly as expected due to favourable conditions from whole economy and had a small change in comparison to 2004 (€11508m, 2% up, €11332m-2004). A) Fee & Commission Income had higher change among other revenue drivers by 9% up €2433m (compared to €2230m-2004), b) interest Income was €8100m (2% up, €7964m-2004)²⁴⁰ as shown in figure C4.10 below.

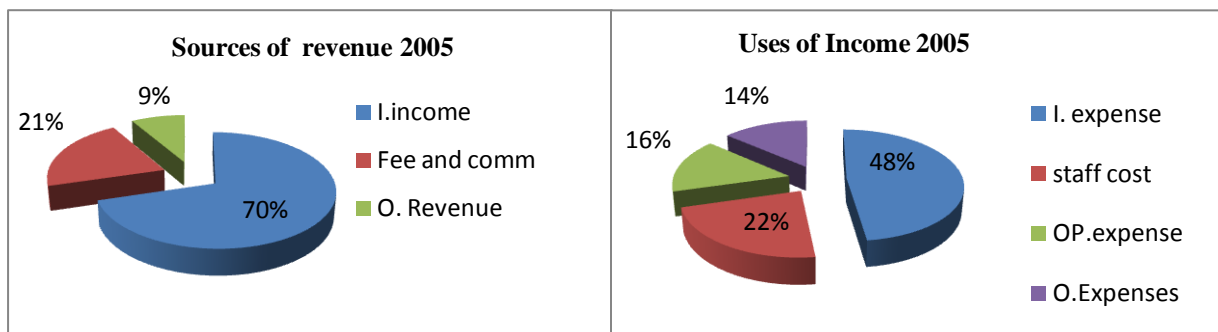


Figure C4.10

Figure C4.11

²³⁷ www.nordea.com Annual report 2005 page 5

²³⁸ www.nordea.com Annual report 2005 page 83

²³⁹ www.nordea.com Annual report 2005 page 5

²⁴⁰ www.nordea.com Annual report 2005 page 30

Nordea's expenses did not change much to the value of €9239m (1% up) consisting of *a*) Interest expenses €4437m (1% down, €4469m-2004), *b*) staff costs €2082m (3% up, €2021m-2004) and other operating expenses decreased by 1% to €1455m (1466m-2004)²⁴¹.

5.4.3.3 Equity

Total equity at the end of 2005 was EUR 12960m (3% up, €12549m-2004) comprising share capital of €1072m, share premium account of €4284m, Retained earnings €7791m and also from this year minority interest of €41m reported separately and due to new rules in annual report share premium account transferred to statutory reserve. The main difference between this year's equity and 2004 is related to retained earnings of €474m.²⁴² Total shares registered were 2706m (€1072m) with a nominal value of €0.39632. Similar to previous years, Nordea purchased and hold a number of 140m of its own shares during 2005 with an average price of SEK74.56.²⁴³

5.4.4 Basis for Changes in Financial Statement

The increase in financial result in 2005 was mainly driven by a rapid growth in loans and receivable to both public and credit institutions by almost 18% increase. Among them, the increase in loan and receivable to the public played a stronger role. In addition, the net effect of changes in currency exchange rates (The Euro strengthened against Swedish krona, weakened against the Norwegian krona and was unchanged against Danish krona in 2005) resulted in a total decrease in Nordea's assets of €1.3bn. In contrast, liabilities showed an upward trend due to high activity in the financial markets. A decline of cost by 6% in this year was based on a strict cost management culture which established in the group during the last three years.²⁴⁴

²⁴¹ www.nordea.com Annual report 2004 page 32

²⁴² www.nordea.com Annual report 2005 page 69

²⁴³ www.nordea.com Annual report 2005 page 122

²⁴⁴ www.nordea.com Annual report 2005 page 69

5.5 Year 2006

5.5.1 Rectangle Model Analysis

Year 2006 also having good trends as compared to previous years as shown in rectangle Model. Assets of Nordea were €346890m (7% up, €325549m-2005), Liabilities were €331568m (6% up, €312589m-2004) and equities €15322m (18% up, €12960m-2005)²⁴⁵. In this 2006, bank had revenue of €11508m (18% up) and total expenses of €10520m (14%) and a profit of €3153m (38% up). Basic Earnings per share for 2006 was €1.21 (€0.86-2005) and final dividend of €0.49 (€0.35-2005) per share amounting to €908m (40% up, €740m-2005) was paid²⁴⁶.

Interest earning assets were €289121m (9% up, €265965m-2005) and constitute 83% of total assets whereas interest bearing liabilities were €250333m (6% up, €235770m-2005) which constitutes 76% of total liabilities²⁴⁷.

4.3.2 Geographical & Divisional Earning Analysis

In 2006 Nordea awarded as the best agent bank in Nordic countries by increasing their client focus, being best Nordic assets manager and having best financial information²⁴⁸. Nordea continued its growth significantly in its business area. Retail banking income put up to €5546m,(19% increase, €4675m-2005), corporate and institutional banking reached a level of €1429m (30% up, €1094m-2005) and assets management also climbed by 11% to €397m(€358m-2005).²⁴⁹

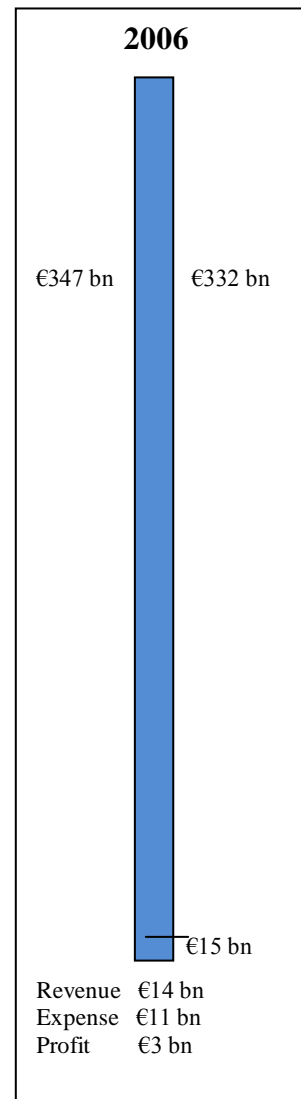


Figure C4.12

²⁴⁵ www.nordea.com Annual report 2007 page 85

²⁴⁶ Data was taken separately from income statement, cash flow and from key financial figures

²⁴⁷ www.nordea.com Annual report 2006 page 70

²⁴⁸ www.nordea.com Annual report 2006 page 97

²⁴⁹ www.nordea.com Annual report 2006 page 39

4.2.3 Financial Statement Analysis Framework

4.2.3.1-Balance Sheet Analysis

In Year 2006, although some assets increased but due to decline in other assets the total assets had not changed significantly. For example loans and receivable to the public (€213985m) and Interest-bearing securities (€29066m) showed an increase of 13% and 18% and in contrast loan and receivable to credit institution of €26792m and derivatives of €24207m decreased by 15% and 16% respectively.²⁵⁰ Cash flow in this year was better than the few past years and rose by 26% to an amount of €4650m²⁵¹.

In Liabilities part of 2006 balance sheet deposit and borrowing from the public went up by 9% (€126452m), deposit by credit institutions also increased almost 8% (€32288m), debt securities in issue changed slightly by 1% (€83417m) and derivatives increased by 13% to €24939m.²⁵²

4.3.3.2 Income Statement Analysis

Year 2006 generated total revenue of €13673m which was 18% more than the previous year (€11508m-2005). The income statement in this year changed significantly both in incomes and expenses. A) Interest Income was €9669 (19% up, €8100m-2005) and b) Fee & Commission Income was €2582m, (6% up, €2433m-2005). Rest of other Operating income continued from the same previous year's items.²⁵³

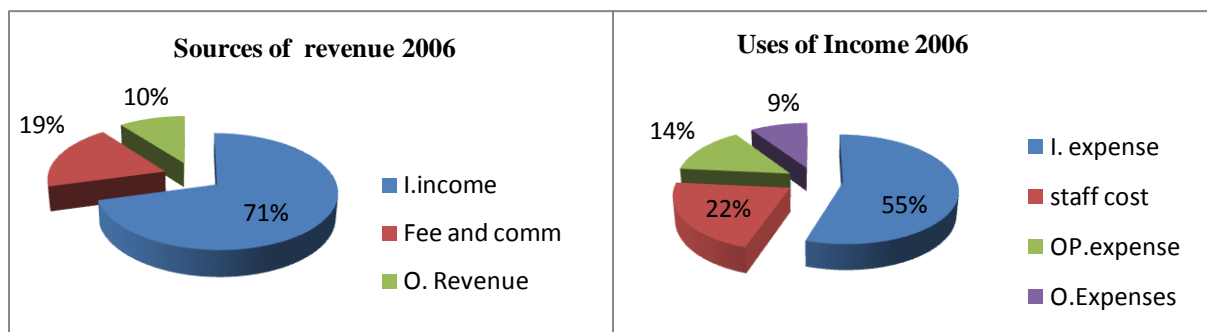


Figure C4.13

Figure C4.14

In contrast to revenue, Nordea's expenses also increased by 13% to an amount of €10520m, (€9239m-2005) was consisting; a) Interest expenses €5800m (31% up, €4437m-2005), b) Staff

²⁵⁰ www.nordea.com Annual report 2006 page 40

²⁵¹ www.nordea.com Annual report 2006 page 87

²⁵² www.nordea.com Annual report 2006 page 40

²⁵³ www.nordea.com Annual report 2006 page 38

costs €2251m (8% up, €2082m-2005) and other operating expenses of €1485m (6% up, €1455m)²⁵⁴.

4.3.3.3 Equity

Nordea has reported a total equity of €15322m (18%up, €12960m-2005) for the year 2006, with registered total shares capital of €2594m which increased dramatically by 141% (€1072m-2006). At the end of 2006 restricted capital was around €44m, and unrestricted capital was €12677m. In contrast to other years Nordea did not repurchase any of its own shares in 2006 but a decision on reduction of number of share capital made and cancelation through retirement without payment was registered on 2 October 2006 (112m shares of €44.4m).²⁵⁵ Minority interest was reported at €46m (compare to €41m-2003) and retained earnings continued it's rapid upward to €12793m.

4.3.4 Basis for Changes in Financial Statement

In December 2005 Nordea acquired 100% of the share capital of Sampo PTE S.A.(The Polish general pension company) and 100% of the share capital of Sampo T.U. Zycie S.A.(the Polish Life insurance company). Although the acquired companies were consolidated at 31 December 2005 but did not affect 2005 result. During 2006 when the final acquisition balance has been established, an increase of goodwill of € 5m and an increase of € 5m in other liabilities reported. In addition to that, in 2006, Nordea signed a contract to purchase a 75.01 per cent stake in JSB Orgresbank in Russia for USD 313.7 million (€ 246 million). Acquired company reported a net profit for 2006 of €15m. In this year similar to previous years the growth in balance sheet items was also driven by expansion of loans and receivable to the public.²⁵⁶

²⁵⁴ www.nordea.com Annual report 2006 page 39

²⁵⁵ www.nordea.com Annual report 2006 page 126

²⁵⁶ www.nordea.com Annual report 2006 page 140

4.3 Year 2007

4.3.1 Rectangle Model Analysis

2007 is also good year for Nordea with the significant growth as shown in rectangle Model which is bigger than 2006. Assets of Nordea were €389054m (12% up, €346890m-2006), liabilities were €371894m (12% up, €331568m-2006) and equities €17160m (18% up, €15322m-2004)²⁵⁷. Revenue in 2007 has increased 25% up to €17107m and expenses also increased by 33% up to €13977m and profit increased to €3130m which is no big differences with previous year. Basic Earnings per share for 2007 was €1.20 (€1.21-2006) and final dividend of €0.50 (€0.49-2006) per share amounting to €1271m (40% up, €908m-2006) was paid²⁵⁸.

Interest earning assets were €322626m (12% up €289121m-2006). Like 2006 interest earning assets constituted 83% of total assets whereas interest bearing liabilities were €279754m (12% up, €250333m-2006) which constitutes 75% of total liabilities²⁵⁹.

4.3.2 Geographical & Divisional Earning Analysis

Nordea in 2007 won best bank awards in Denmark, Sweden and Finland in terms of its volume of business transacted, innovation and leadership and quality of assets and earnings. Strong revenue growth in this year was supported by Nordea's organic growth strategy. Total income went up by 7% to €7886m. Income expansion can be seen in all regions. For instance in Denmark, Norway and Sweden the income showed an upward trend between 6% and 7% while the income growth in Finland was 12%.²⁶⁰

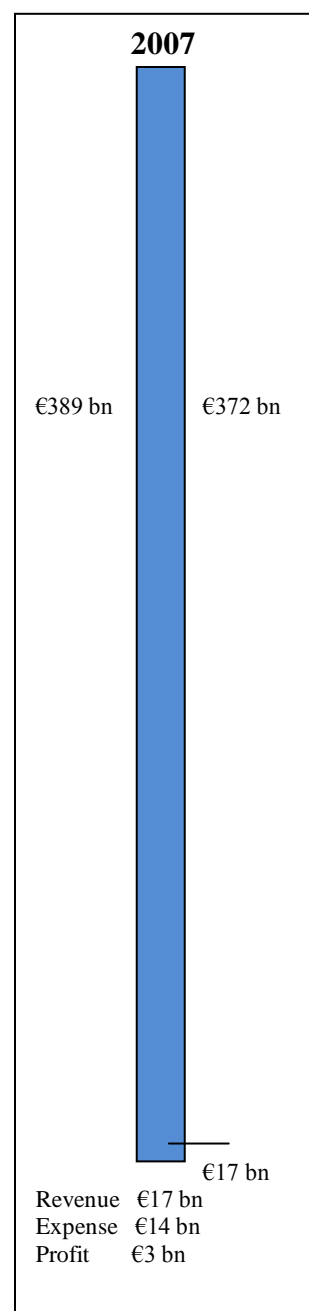


Figure C4.15

²⁵⁷ www.nordea.com Annual report 2007 page 85

²⁵⁸ Data was taken separately from income statement, cash flow and from key financial figures

²⁵⁹ www.nordea.com Annual report 2006 page 70

²⁶⁰ www.nordea.com Annual report 2007 page 3

4.2.3 Financial Statement Analysis Framework

4.2.3.1-Balance Sheet Analysis

2007's balance sheet showed an overall increase in assets. Loans and receivable to the public continued its growth by 14% with the value of €244682m, loans and receivables to credit institutions decrease 9% (€24262m), and interest-bearing securities of €35472m and derivatives of €31498m went up to 22% and 30% respectively²⁶¹. Cash flow increased dramatically by 53% to €7097m for the banks²⁶².

Total liabilities of €371894m consisted of deposit and borrowing from the public €142329m (13% up), deposit by credit institutions €30077m (7% down), debt securities in issue €99792m (20% up) and derivatives with a value of €33023m which increased 32%.

4.3.3.2 Income Statement Analysis

The income statement in this year improved and revenue continued its growth by 25% to a value of €17107m (€13673m-2006). The items included *a*) Interest Income increased dramatically to €12909m, (34% up, €9669m-2006) and *b*) Fee & Commission Income increased 6% to €2734m, (€2582m-2006).

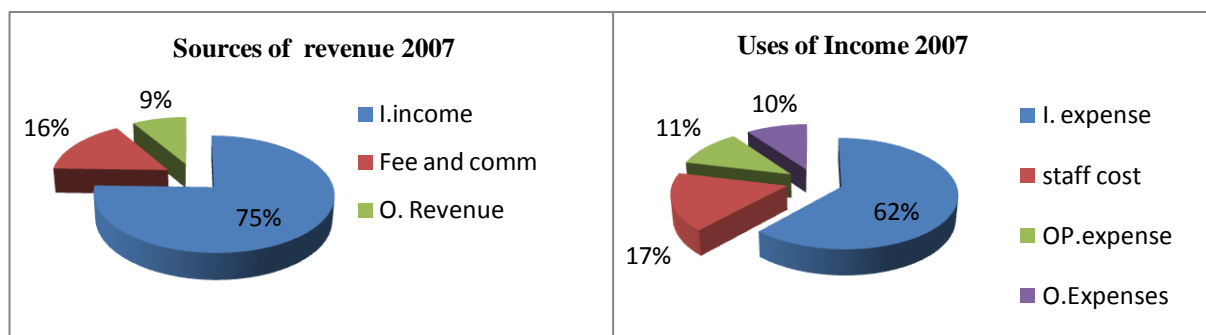


Figure C4.16

Figure C4.17

Nordea's total expenses also increased in this year by 33% to €13977m (€10520m-2006). The major increase was related to; *a*) interest expenses of €8627m, which rose by 49% (€5800m-2006), *b*) Staff costs reported in a value of €2388m (6% up, €2251m-2006) and other operating expenses has also increased by 6% to €1575m (€1485m-2006).²⁶³

²⁶¹ www.nordea.com Annual report 2007 page 85

²⁶² www.nordea.com Annual report 2007 page 87

²⁶³ www.nordea.com Annual report 2007 page 85

4.3.3.3 Equity

Nordea's total equity in year 2007 was €17160m (12% up, €15322m-2006). Restricted equity is only included share capital (€2594m) and unrestricted equity consisted of retained earnings of €14645m and a free found to the amount of €2762m.²⁶⁴ Minority interests and retained earnings increased respectively €32m (€78m-2007, €46m-2006) and €1852m (€14645m-2007, €12793m-2006). Total numbers of registered shares in this year were €2597m with value of €2597m (A share value of EUR 1). Shares in a value of €112 m repurchased and held by Nordea in 2007. However, regarding to their long term incentive programme three million numbers of shares issued.²⁶⁵

4.3.4 Basis for Changes in Financial Statement

Despite a strong growth in Nordic banking in last four years, 2007 proved to be a challenging year for Nordea due to world-wide sub-prime crises. However, in this year total assets growth by 14% and as the other years this growth was financed by a rapid development in deposit and borrowing from the public (13%). Liabilities growth was caused by fair value changes in investments properties. Two acquisitions made during 2007 and completed the acquisition of Orgresbank which made in last year. Since acquisition date the market position of Orersbank hs improved and consequently affected the group's result.²⁶⁶

²⁶⁴ www.nordea.com Annual report 2007 pages 132 and 133

²⁶⁵ www.nordea.com Annual report 2007 pages 86 and 133

²⁶⁶ www.nordea.com Annual report 2007 pages 32 and 146

8. Case Five-Standard Chartered Bank

8.1 Brief Introduction

The Standard Chartered Bank (SCB) is established in 1969 by merger of Standard bank of British South Africa and the Chartered Bank of India, Australia and China. SCB operates with 1750 branches and 14 million customers who are representing 115 nationalities from different parts of the world (Asia, African, Middle East, Europe and America).²⁶⁷

SCB headquarter is placed in London and its 3800 employees are running its five business areas: 1-Personal Banking 2- SME banking 3-Wholesales Banking 4-Islamic Banking and 5- Private Banking in different countries of the world depending on country requirements but major key divisions are Wholesale banking and consumer banking²⁶⁸. SCB group is listed in both London Stock Exchange and Hong Kong Stock Exchange. The group position in the market is ranked Top 25 based on FTSE 100 Companies.

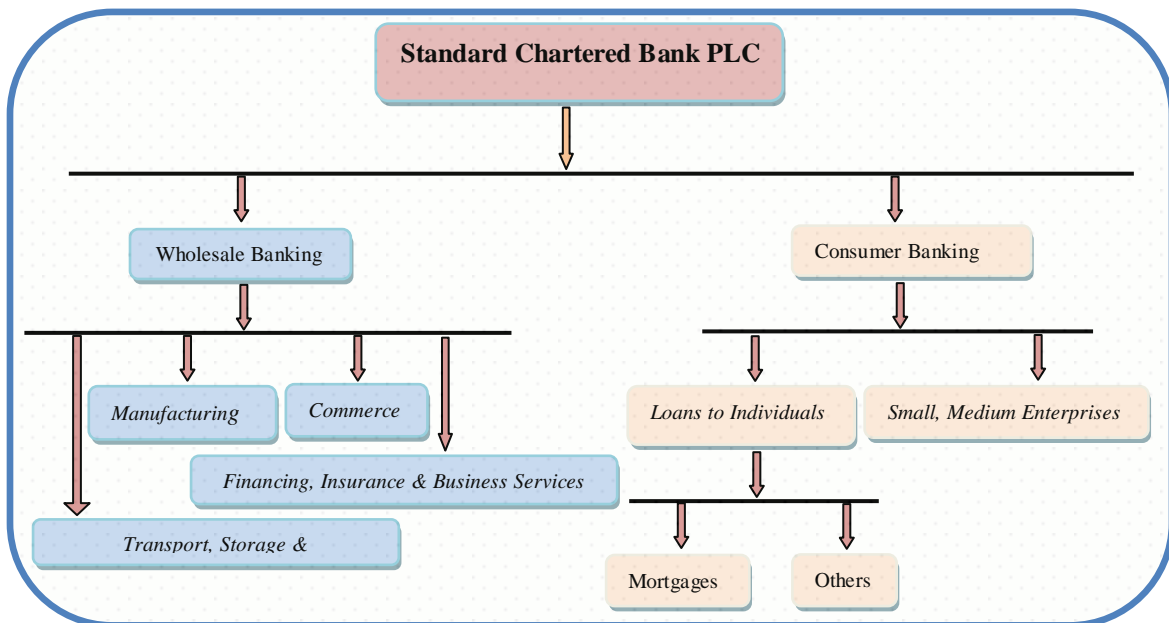
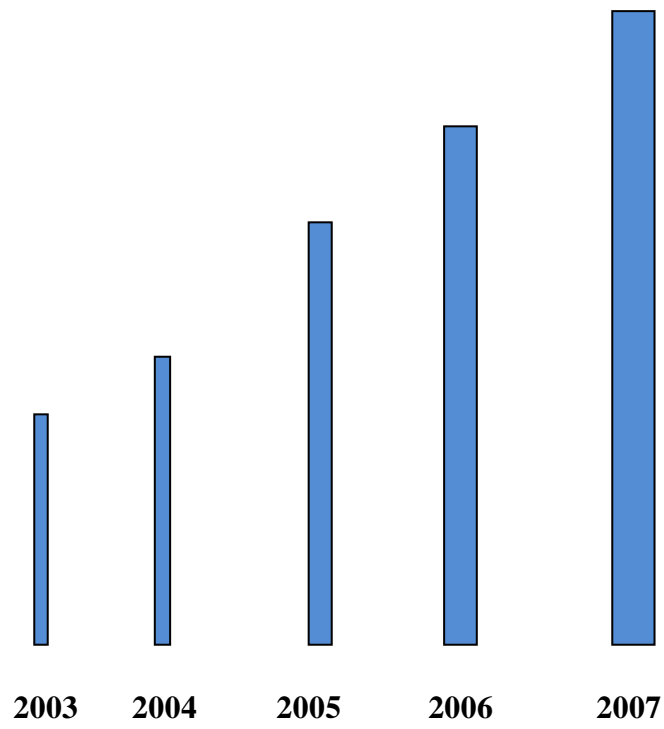


Figure C5.1 hierarchal Divisions

²⁶⁷ <http://www.standardchartered.com/about-us/history/en/index.html> assessed Feb11, 2009

²⁶⁸ <http://www.standardchartered.com/about-us/business-and-strategy/en/index.html> assessed Feb11, 2009

(Figure C5.2 Rectangle Model for five years)



8.1 Year 2003

8.1.1 Rectangle Model Analysis

year 2003's rectangle Model in figure C5.3 shows the value of assets \$120202m. Liabilities constitute 93% with \$112059m and equity 7% of \$8143m²⁶⁹. In 2003, Union bank of Switzerland had total earning of \$6737m from all sources and total expenses \$5551m. Profit for the year was \$1053m. Basic Earnings per share was 82c and final dividend of 52c per share amounting to \$611m was paid²⁷⁰.

Average interest earning assets were \$106939m and constitute 89% of total assets²⁷¹. Average Interest bearing liabilities were CHF 91840m which constitute 82% of total liabilities²⁷².

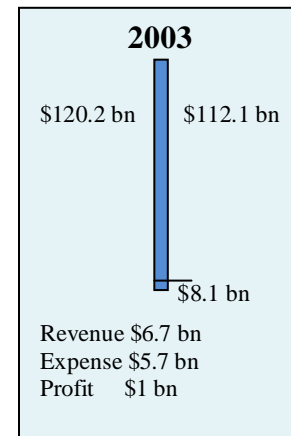


Figure C5.3

8.1.2 Geographical & Divisional Earning Analysis

In contrast to the other banks that had major operations in the country of origin, Standard chartered bank operates majorly in Asian countries. SCB is running its operation in Asia Pacific, India, Middle East including UAE and others, Africa and Americas UK and Europe. SCB is earning 58% from Asia Pacific, India & Africa 9% each, Middle East including UAE 12% and Americas, UK & Europe 12% of total operations²⁷³.

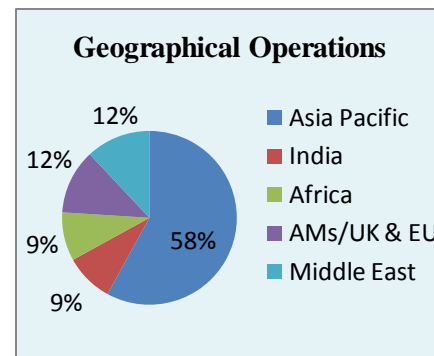


Figure C5.4

Group earnings consisted Consumer banking and whole sale banking. Consumer banking Earned revenue of &2488m and Whole sale banking \$2252m which is 52% & 48% respectively²⁷⁴.

²⁶⁹ www.standardchartered.com Annual report 2004 page 40

²⁷⁰ www.standardchartered.com Annual report 2004 page 70

²⁷¹ www.standardchartered.com Annual report 2004 page 56

²⁷² www.standardchartered.com Annual report 2004 page 56

²⁷³ www.standardchartered.com Annual report 2004 page 28

²⁷⁴ www.standardchartered.com Annual report 2004 page 56

8.1.3 Financial Statement Analysis Framework

8.1.3.1 Balance Sheet Analysis

Most of the items of balance sheet for standard chartered were similar to the other banks. More importantly, SCB had very clear items in contrast to RBS, DB and UBS. Likewise, 1) Loans & Advances to the banks had &13354m (11%), 2) Loans & Advances to the customers \$59744m (50%) and 3) Debt securities & other fixed income securities \$23144m (19%). In addition, Standard chartered Bank had significant value of prepayments, accrued income and other assets of \$13063m (11%). Rest of the assets in balance sheet had nominal values in comparison to the above mentioned assets. The lowest valued asset in the balance sheet was equity shares that the bank purchased and other fixed income securities of \$359m. To meet its current maturities, Standard Chartered bank had \$5661m at the end of 2003 which is 1.3% of total assets²⁷⁵.

In comparison to assets, Standard chartered bank had three key liabilities; Customer deposits had \$73767m (66%), accruals, deferred income and other liabilities \$15339m (14%) and deposits by the banks \$10924m (10%) of total liabilities. Moreover, rest of the liabilities include debt securities in issue and subordinated liabilities.

8.1.3.2 Income Statement Analysis

In 2003, Union bank of Switzerland had total earning of \$6737m from all sources²⁷⁶. Like all other banks, Standard Charterer's earnings but with the few items consists of 1) Interest Income with \$4790m (71%), 2) Fee and Commission Income \$1318m (20%), 3) Dealing profits \$525m (8%), and rests of the revenues consist of other operating income which is 2% from all

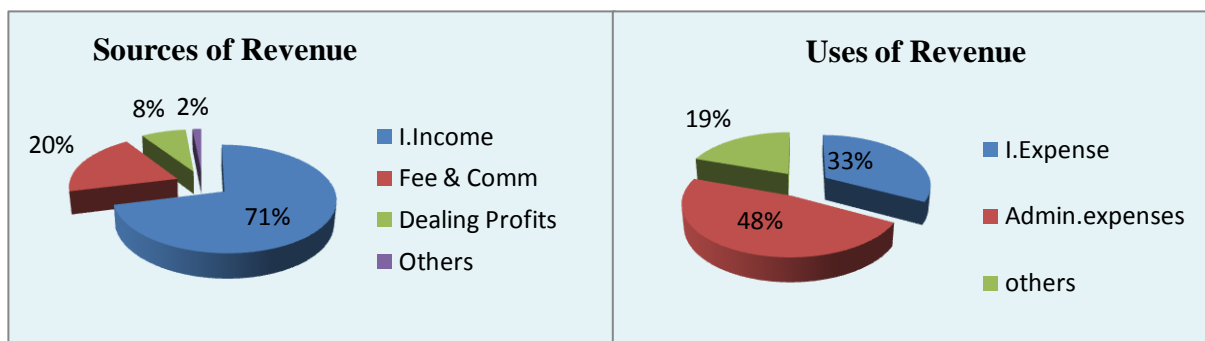


Figure C5.5

Figure C5.6

²⁷⁵ www.standardchartered.com Annual report 2004 page 73

²⁷⁶ www.standardchartered.com Annual report 2004 page 70

sources²⁷⁷. On the other hand, Standard Chartered bank had total expenses \$5551m of which includes: 1) Interest Expense \$1822m. In contrast to the other banks, SCB has lower interest payable which is only 33% of total expenses but if we look at the other banks which are discussed earlier having huge amount of interest payments in their income statement which ranges 50-70% of total expenses, 2) Administrative expenses \$2642m (48%) that include staff salaries, premises, depreciation & amortization and others of total expenses. Rest of the expenses consisted provisions for bad and doubtful debts, amounts written off fixed assets investments, taxation and minority interests.

8.1.3.3 Equity

Total equity of Standard Chartered Bank had \$7529m other than minority interest of \$614m (non-equity \$83m, equity \$531m) at december 2003. Ordinary shares were total \$939m, share premium \$2813m, capital reserve \$5m and capital redemption reserve \$11m. in its equity account, bank had premises revaluation reserve of \$2m and own share held in ESOP trusts of \$60m. SCB had put Profit & loss account in its equity of \$3823m. In its called up share capital, Bank had \$909m share capital at the start of January 2003, during the year exchange translation differences \$35m, preference shares repurchased \$8m issued instead of dividends \$2m and issued under employees share option schemes \$1m brought it upto \$939m²⁷⁸.

8.1.4 Basis for the Changes in Financial Statements

SCB is not as big as large group which is working in international territories that is its unique strategy because other European and UK banks have covered huge share in their respective markets where they are serving. SCB got the same good economic climate in 2003 which gave him vibrant economic growth. All the Asian countries performed well specifically china which has plenty of potential to grow. Bank made some acquisitions and bought stakes of other banks where it was not feasible to go and open the branches. Bank also performed well in Iraq, Afghanistan and opened new offices in Turkey which opened new doors of opportunities for the bank to expand its business. Bank is also spending huge amount of money on sports activities which is new way of doing awareness to show the presence of this bank in front of big banks.

²⁷⁷ www.standardchartered.com Annual report 2005 page 70

²⁷⁸ www.standardchartered.com Annual report 2003 page 104

8.2 Year 2004

8.2.1 Rectangle Model Analysis

Growth continued with the consistent level. Rectangle Model shows that has assets with the value of \$147124m (22% up, \$120202m-2003). Liabilities constitute \$137055m (22% up, \$112059m-2003) and of \$10069m (24% up, \$8143m-2003) whereas their relative percentage remain constant from previous year²⁷⁹. In 2004, Standard Chartered bank had total earning of \$7794m (16% up, \$6737m-2003) from all sources and total expenses \$6173m (11% up, \$5551m-2003). Profit for the year was \$1797m (71% up, 1053m-2003). Basic Earnings per share was 129.6c (82c-2003) and final dividend of 57.5c (52c-2003) per share amounting to \$587m (4% down, \$611m-2003)

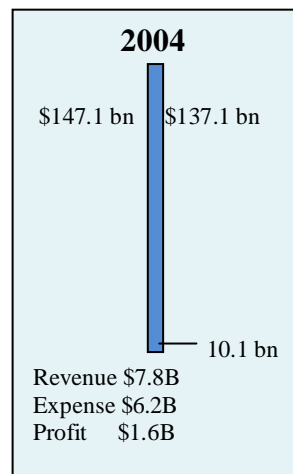


Figure C5.6

was paid²⁸⁰. Average interest earning assets were \$122406m (\$106939m-2003) and constitute 83% of total assets which dropped 6% from previous year²⁸¹. Average Interest bearing liabilities were \$106326m (16% up, \$91840m-2003) that constitutes 78% of total liabilities²⁸².

8.2.2 Geographical & Divisional Earning Analysis

Regional earnings growth continued with few changes. SCB is earning 56% from Asia Pacific, India 9%, Africa 11%, Middle East including UAE 12% and Americas, UK & Europe 12% of total operations²⁸³. Group earnings were improved consistently both in Consumer banking and whole sale banking. Consumer banking earned \$2700m (9% up, \$2488m-2003) and Wholesale banking \$2574m (14% up, \$2252m-2003) which continued with almost same percentage of 51% & 49% respectively²⁸⁴.

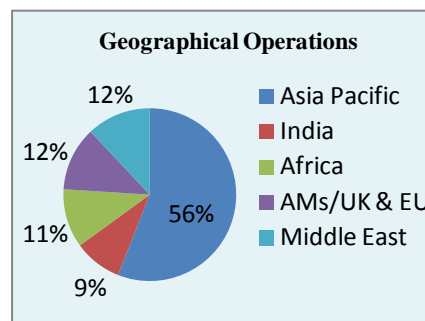


Figure C5.7

This year, SCB had also another item of corporate itmes not allocated seperately \$108m rest of above.

²⁷⁹ www.standardchartered.com Annual report 2005 page 66

²⁸⁰ www.standardchartered.com Annual report 2005 page 26

²⁸¹ www.standardchartered.com Annual report 2005 page 138

²⁸² www.standardchartered.com Annual report 2005 page 138

²⁸³ www.standardchartered.com Annual report 2005 page 24

²⁸⁴ www.standardchartered.com Annual report 2005 page 24

8.2.3 Financial Statement Analysis

8.2.3.1 Balance Sheet Analysis

Items of balance sheet for standard chartered bank were similar with the few changes. Loans & Advances to the banks had \$16687m (25% up, \$13354m-2003), Loans & Advances to the customers \$72019m (21% up, \$59744m-2003) and investment securities \$33611m (45% up, 23144m-2003). In 2004, SCB added some new assets in its balance sheet; goodwill, investment in joint ventures. Whereas prepayments were reduced with the significant figures \$1280 (13063-2003). Rest of the assets consist of deferred tax assets property, plant and equipment etc. Standard Chartered bank had cash and cash equivalents \$22112m (290% up, \$5661m-2003) at the end of 2004 which is 15% of total assets that seem un-natural for the banks²⁸⁵.

key liabilities included; Customer deposits had \$85093m (15% up, \$73767m-2005), debt securities in issue \$11005m (82% up, \$6062m-2005) and deposits by the banks \$15162m (39% up, \$10924m-2005) of total liabilities. Moreover, rest of the liabilities include current tax liabilities, retirement benefits, financial liabilities at fair value and subordinated liabilities etc were included.

8.2.3.2 Income Statement Analysis

In 2004, Standard Chartered bank had total earning of \$7794m (16% up, \$6737m-2003) from all sources²⁸⁶. Earnings continued with the few changes but their contribution in total revenue remain constant from previous year; 1) Interest Income with \$5312m (11% up, \$4790m-2003), 2) Fee and Commission Income \$1614m (22% up, \$1318m-2003), 3) Trading revenue \$651m

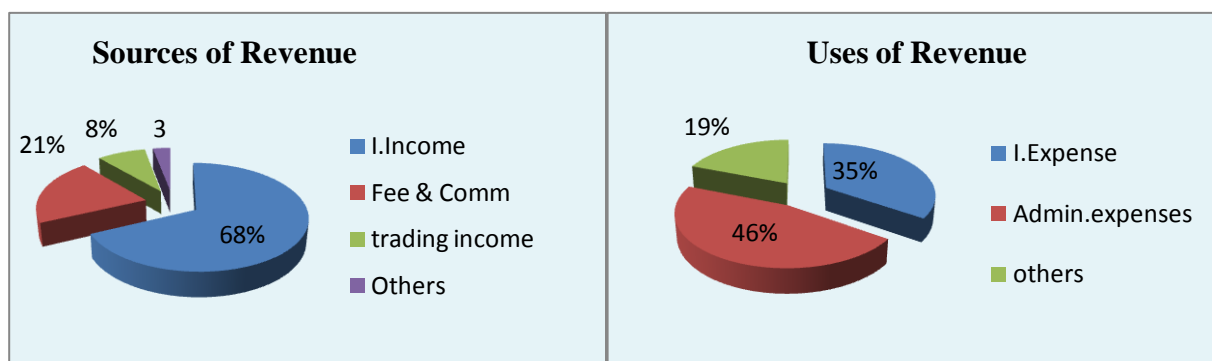


Figure C5.8

Figure C5.9

²⁸⁵ www.standardchartered.com Annual report 2005 page 67

²⁸⁶ www.standardchartered.com Annual report 2005 page 26

(24% up, \$525m-2003), and rests of the revenues consist of other operating income which is 3% from all sources²⁸⁷. On the other hand, Standard Chartered bank had total expenses of \$6173m (11% up, \$5551m-2003) of which includes: 1) Interest Expense \$2130m (17% up, \$1822m-2003).

In contrast to the other banks, interest payable was increased but the same proportion of revenue. SCB has lower interest payable which is only 35% of total expenses 2) Administrative expenses \$2849m (8% up, \$2643m-2003) which included staff salaries, premises, depreciation & amortization and others of total expenses. Rest of the expenses consist of provisions for bad and doubtful debts, amounts written off fixed assets investments, taxation and minority interests.

8.2.3.3 Equity

Total equity of Standard Chartered Bank had \$10069m (24% up, \$8143m-2003) including minority interest of \$964m at december 2004 (both increased). shares capital and share premium were \$3802m (of which \$2813m share premium), capital reserve and retained earnings \$5303m. SCB had exchange translation \$96m reserve, capital reserve \$5m, Capital redemption reserve \$11m, and premises revaluation reserve of \$ 76m at the end of year²⁸⁸.

8.2.4 Basis for the Changes in Financial Statements

2004 was transformational year across the Asia Pacific region in which bank made investment in new national Bohai Bank in china which opened new opportunities in Pearl River Delta region, consortium with PT Bank Permata Tbk in Indonesia and acquisition of Korea First Bank (\$3.3 billion) made the bank`s strengthen position in this region which was financed £1.1billion issue of new share, having Islamic banking in Malaysia provided significant earnings for the bank²⁸⁹.

²⁸⁷ www.standardchartered.com Annual report 2005 page 26

²⁸⁸ www.standardchartered.com Annual report 2004 page 113

²⁸⁹ www.standardchartered.com Annual report 2004 page 3ff

8.3 Year 2005

8.3.1 Rectangle Model Analysis

Growth continued as compared to 2004 but increased with quantum jump. Rectangle Model shows that has assets with the value of \$215096m (46% up, \$147124m-2004). Liabilities constitute \$202763m (48% up, \$137055m-2004) and of \$12333m (22% up, \$10069m-2004) whereas their relative percentage remain constant from previous year with minor changes²⁹⁰. In 2005, Standard Chartered bank had total earning of \$11621m (49% up, \$7794m-2004) from all sources and total expenses \$9650m (56% up, \$6173m-2004). Profit for the year was \$1971m (10% up, \$1797m-2004). Basic Earnings per share was 148.5c (129.6c-2004) and final dividend of 64c (57.5c-2004) per share amounting to \$843m (4% down, \$611m-2003) was paid²⁹¹.

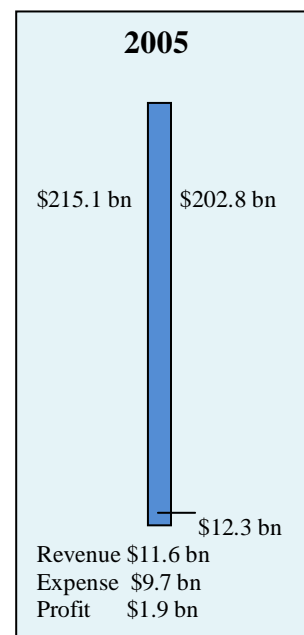


Figure C5.10

Average interest earning assets were \$170622m (39% up, \$122406m-2004) and constitute 79% of total assets which dropped 4% from year 2004²⁹². Average Interest bearing liabilities were \$151365m (42% up, \$106326m-2004) which constitutes 75% of total liabilities²⁹³.

8.3.2 Geographical & Divisional Earning Analysis

Regional earnings growth continued with few changes. SCB earned 56% from Asia Pacific, India 9%, Africa 11%, Middle East including UAE 12% and Americas, UK & Europe 12% of total operations²⁹⁴. Consolidated earnings consisted Consumer banking and whole sale banking. Consumer banking Earned \$3802m (41% up, \$2700m-

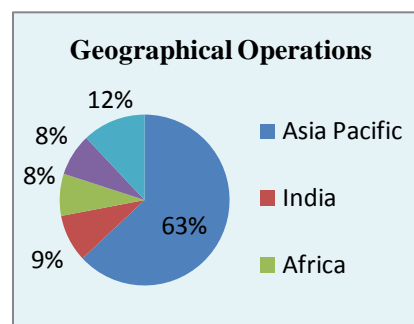


Figure C5.11

²⁹⁰ www.standardchartered.com Annual report 2006 page 32

²⁹¹ www.standardchartered.com Annual report 2006 page 31

²⁹² www.standardchartered.com Annual report 2006 page 143

²⁹³ www.standardchartered.com Annual report 2006 page 143

²⁹⁴ www.standardchartered.com Annual report 2006 page 87

2004) and Whole sale banking \$3059m (19% up, \$2574m-2004) which continued with same percentage of 55% & 44% respectively²⁹⁵.

8.3.2 Financial Statement Analysis Framework

8.3.2.1 Balance Sheet Analysis

In 2005, Balance sheet items for standard chartered were similar but their contribution changed with significant values; Loans & Advances to the banks had \$21701m (30% up, \$16687m-2004), Loans & Advances to the customers \$111791m (55% up, \$72019m-2004) and investment securities \$37863m (13% up, \$33611m-2004) and rests of the assets continued same proportion with similar items in 2005. Like 2004, SCB had more Cash and cash equivalents end of year \$35226m (73% up, \$22112m-2004) which is 16% of total assets that was surely un-natural for the banks²⁹⁶.

Standard chartered bank had same types of key liabilities; Customer deposits had \$119931m (41% up, \$85093m-2004), debt securities in issue \$25913m (135% up, \$11005m-2004) and deposits by the banks \$18834m (24% up, \$15162m-2004) of total liabilities. Rest of liabilities changed with minor values.

8.3.2.2 Income Statement Analysis

In 2005, Standard Chartered bank had total earnings of \$11621m (49% up, \$7794m-2004) from all sources²⁹⁷. Earnings continued with the higher changes but their contribution in total

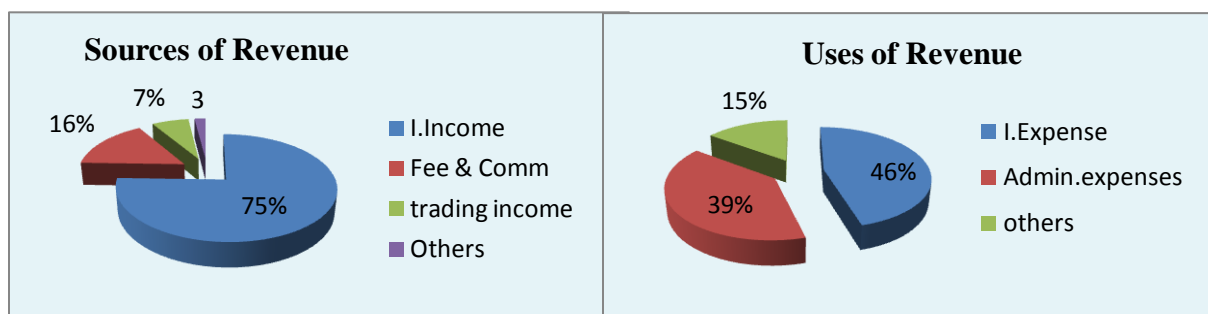


Figure C5.12

Figure C5.13

revenue remain constant from previous years; 1) Interest Income \$8750m (65% up, \$5312m-2004), 2) Fee and Commission Income \$1840m (14% up, \$1614m-2004), and 3) Trading

²⁹⁵ www.standardchartered.com Annual report 2006 page 87

²⁹⁶ www.standardchartered.com Annual report 2006 page 79

²⁹⁷ www.standardchartered.com Annual report 2006 page 31

revenue \$796m (22% up, \$651m-2004). Like 2004, other revenues consisted 3% which include gains or losses on disposal of available for sale financial assets, dividend income, gains arising on assets fair valued at acquisition and gain on effective part disposal of Pakistan branches²⁹⁸. Total expenses were \$9650m (56% up, \$6173m-2004) of which 1) Interest Expense \$4415m (107% up, \$2130m-2004). In this year Standard Chartered bank had higher interest expense as compare to previous years. In 2004, Interest expense as 35% of total expenses but in 2005, this ratios was reached up to 46% of total expenses, 2) Administrative expenses \$3811m (34% up, \$2849m-2004) which includes same items of 2004. Rest of the expenses consisted provisions for bad and doubtful debts, amounts written off fixed assets investments, taxation and minority interests.

8.3.2.3 Equity

Total equity of Standard Chartered Bank had \$12333m (22% up, \$10069m-2004) including minority interest of \$451m (decreased) at the end of december 2005. Shares capital was \$660m and rests of the amouts constitute different types of reserves accounts as mentioned inprevious years. During the year SCB issued new share of \$66m and capitalized \$2m.

8.3.4 Basis for the Changes in Financial Statements

Bank continued to open its new branched in its existing regions and made some acquisitions. Bank bought the remaining 25% stake of Nakornthon Bank in Thailand where the rest of stake was already bought in 1999 making it SCB (Thai) Plc. In 2005, Bank opened a branch at Dragonmart in Dubai the largest Chinese Commercial, economic and trade mart outside mainland China²⁹⁹. Bank also performed as clearing and settlement bank for Dubai International Finance Exchange. SCB fully benefited the buoyant world economy in this year and continued to explore the markets across Asia, Africa, and Middle East. Bank fully utilized the opportunity of putting investment in infrastructure by aiming economic diversification. South Korea, Asia`s third largest economy, Bank completed acquisition of Korea First Bank and called SC First Bank. Revenue growth was comparatively bigger than the expenses. Administrative expenses increased due to increase in branches and new markets.

²⁹⁸ www.standardchartered.com Annual report 2006 page 31

²⁹⁹ www.standardchartered.com Annual report 2005 page 5

8.4 Year 2006

8.4.1 Rectangle Model analysis

Rectangle model shows that assets were increased from previous. Growth continued as compared from 2005. Rectangle Model shows that has assets of \$266102m (24% up, \$215096m-2005). Liabilities which continued to increased with the same proportion of assets growth and constitute \$248707m (23% \$202763m-2005). Equities raised 41% from 2005 with the value of \$17395m (\$12333m-2005) whereas their relative percentages remain constant from last year with minor changes³⁰⁰. In 2006, Standard Chartered bank had total earning of \$16673m (43% up, \$11621m-2005) and total expense \$14319m (48% up, \$9650m-2005). Profit for the year was \$2354m (19% up, \$1971m-2005). Basic Earnings per share was 169c (148.5c-2005) and final dividend of 71.04c (64c-2005) per share amounting to \$972m (\$843m-2005) was paid³⁰¹.



Figure C5.14

Average interest earning assets were \$211486m (24% up, \$170622m-2005) and remained consistent to constitute 79% of total assets from year 2005³⁰². Average Interest bearing liabilities were \$188715m (25% up, \$151365m-2005) which continued 75% of total liabilities³⁰³.

8.4.2 Geographical & Divisional Earning Analysis

Regional earnings growth continued with few changes. SCB is earning 75% from Asia Pacific, India 5%, Africa 5%, Middle East including 12% and Americas, UK & Europe 2% of total operations³⁰⁴. Group earnings consisted Consumer banking and whole sale banking. Consumer banking Earned \$4684m (23% up, \$3802m-

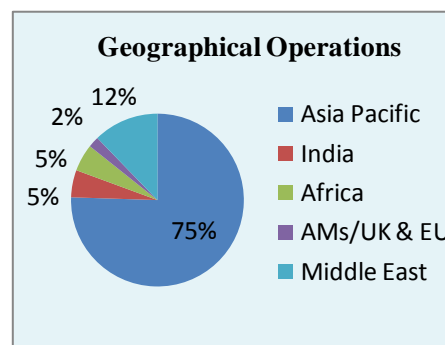


Figure C5.15

³⁰⁰ www.standardchartered.com Annual report 2007 page 39

³⁰¹ www.standardchartered.com Annual report 2007 page 42

³⁰² www.standardchartered.com Annual report 2007 page 62

³⁰³ www.standardchartered.com Annual report 2007 page 62

³⁰⁴ www.standardchartered.com Annual report 2007 page 44

2005) and Whole sale banking earned \$3923m (28% up, \$3059m-2005)³⁰⁵. Consumer banking increased whereas Whole sale banking reduced.

8.4.3 Financial Statement Analysis Framework

8.4.3.1 Balance Sheet Analysis

In 2006, bank had some fluctuation in its balance sheet item`s values. Loans & Advances to the banks had \$19724m (10% down, \$21701m-2005), Loans & Advances to the customers \$130300m (17% up, \$111791m-2005) and investment securities \$49497m (31% up, \$37863m-2005) and rests of the assets continued same proportion with similar items in 2005. In 2006, Cash and cash equivalents continuously increased for \$38161m (8% up, \$35226m-2005) which is 14% of total assets but overall proportion dropped 2% from last year³⁰⁶. Major liabilities were Customer deposits \$147382m (23% up, \$119931m-2005), debt securities in issue \$23514m (10% down, \$25913m-2005), and deposits by the banks \$26233m (34% up, \$18834m-2005) of total liabilities.

8.4.3.2 Income Statement Analysis

In 2006, Standard Chartered bank had total earning of \$16673m (43% up, \$11621m-2005) from all sources³⁰⁷. Growth continued for 2006 with the same speed in all its sources; 1)

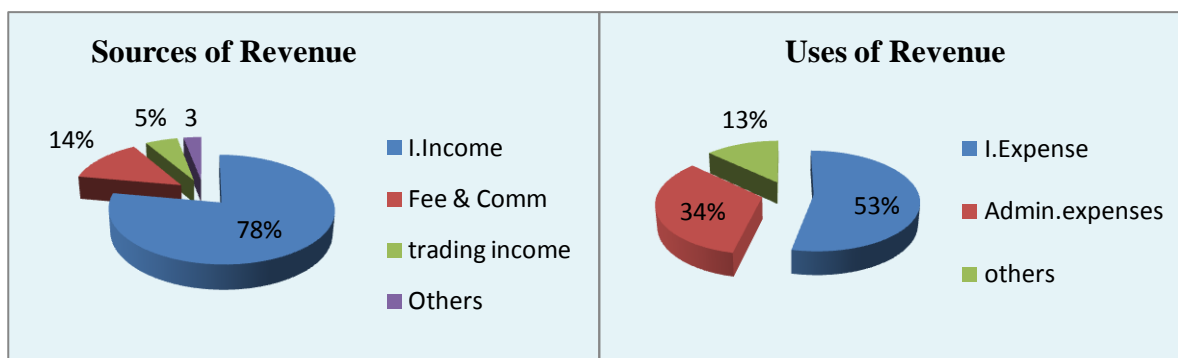


Figure C5.16

Figure C5.17

Interest Income \$12987m (48% up, \$8750m-2005), 2) Fee and Commission Income \$2275m (24% up, \$1840m-2005), and 3) Trading revenue \$920m (16% up, \$796m-2005). Like 2005, other revenues consist 3% which includes gains less losses on disposal of available for sale

³⁰⁵ www.standardchartered.com Annual report 2007 page 43

³⁰⁶ www.standardchartered.com Annual report 2007 page 87

³⁰⁷ www.standardchartered.com Annual report 2007 page 40

financial assets and dividend income³⁰⁸. Total expenses increased with almost same proportion to the income for 2006, Total expenses for standard Chartered bank were \$14319m (48% up, \$9650m-2005) of which 1) Interest Expense \$7659m (73% up, \$4415m-2005), 2) Administrative expenses \$4796m (26% up, \$3811m-2005). Other expenses consisted of impairment losses on loans and advances, loss from associates, payment to minority interest and tax etc.

8.4.3.3 Equity

Total equity of Standard Chartered Bank was \$17395m (\$12333m-2005) including minority interest of \$542m at the end of december 2006. Shares capital was \$692m with the slight increase and remaining amount had different types of reserves accounts. These reserves include share premium \$3539m, capital reserve \$5m, Capital redemption \$13m, Merger reserve \$3149m, available for sale reserve of \$410m, cash flow hedge reserve \$51m, translation reserve \$678m and retained earnings of \$8316m. During the year SCB issued new share of \$\$2043m. The changes in these reserves were because of Recognised income and expense, capitalised on scripe dividend, issue of new shares, net own sheras adjusted, share option expense and related taxes.

8.4.4 Basis for the Changes in Financial Statements

Bank launched 24 hours service assurance in India and Malaysia, private banking launched in Korea and express trade to target SMEs in Asia, Africa and Middle East, Innovative card products launched, Consumer finance in Thailand, Korea and India. Bank launched approximately 15% more network of branches and 13% sales force throughout its territories during 2006. In Africa bank set up China-Africa Trade Corridor Desk to provide financial services to SMEs. In Pakistan, Bank became the most leading International bank after the acquisition of Union Bank. Bank launched commodities derivatives desk in Dubai³⁰⁹. SCB`s wholesaling business completed Asia`s largest cross border securitization of \$1.26billion.

Hsinchu International Bank`s acquisition made SCB the largest international bank in Taiwan. In India, Bank opened 30 new consumer finance centers³¹⁰.

³⁰⁸ www.standardchartered.com Annual report 2007 page 39

³⁰⁹ www.standardchartered.com Annual report 2006 page 7f

³¹⁰ www.standardchartered.com Annual report 2006 page 9f

8.5 Year 2007

8.5.1 Rectangle Model Analysis

Figure C5.18 shows growth continued as compared from 2006. Rectangle Model shows that has assets of \$329205m and continued to increase 24%, (\$266102m-2006). Liabilities and equities continue to increase and constitute \$307753m (25% up, \$248707m-2006), \$21452m (23% up, \$17395m-2006) respectively³¹¹. In 2007, Standard Chartered bank had total earning of \$21506m (29% up, \$16673m-2006) from all sources and total expenses \$18517m (29% up, \$14319m -2006). Profit for the year was \$2989m (27% up, 2354m-2006). Basic Earnings per share was 201.1c (169c-2006) and final dividend of 79.35c (71.04c-2006) per share amounting to \$1117m (\$972m-2006) was paid³¹².

Average interest earning assets were \$253219m (20% up, \$211486m-2006) and more or less remain consistent to constitute for total assets from last year³¹³. Average Interest bearing liabilities were \$219191m (16% up, \$188715m-2006) which continued 71% of total liabilities but dropped 5% from 2006³¹⁴.

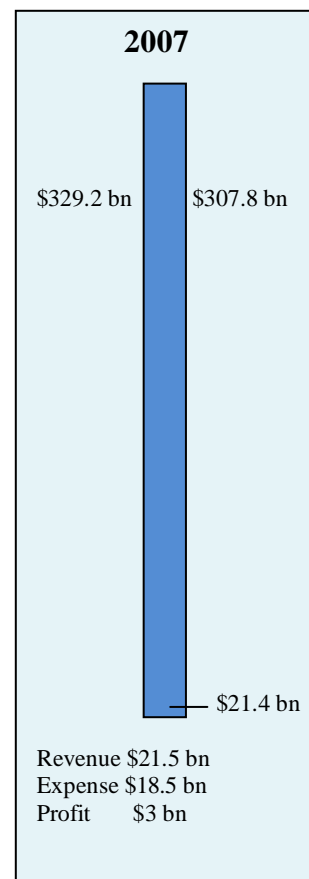


Figure C5.18

8.5.2 Geographical & Divisional Earning Analysis

Regional operating earnings growth brought considerable changes in 2007. SCB earned 64% (75%-2006) from Asia Pacific, India 12% (5%-2006), Africa 7% (5%-2006), Middle East including 13% and Americas, UK & Europe 4% of total operations³¹⁵. Consumer banking Earned \$5806m (24% up, \$4684m-2006) and Whole sale banking

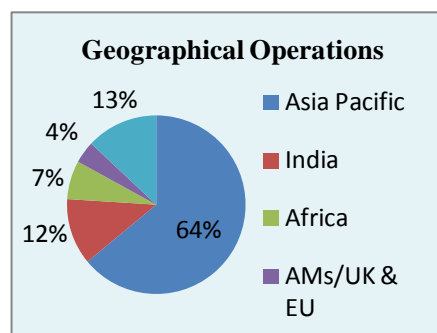


Figure C5.19

³¹¹ www.standardchartered.com Annual report 2007 page 40

³¹² www.standardchartered.com Annual report 2007 page 39

³¹³ www.standardchartered.com Annual report 2007 page 43

³¹⁴ www.standardchartered.com Annual report 2007 page 62

³¹⁵ www.standardchartered.com Annual report 2007 page 44

\$5243m (34% up, \$3923m-2006) contributed to group earnings with the proportion of 5.2 & 4.8 respectively³¹⁶.

8.5.3 Financial Statement Analysis Framework

8.5.3.1 Balance Sheet Analysis

Balance sheet items changed their values significantly where Loans & Advances to the banks had \$35365m (80% up, \$19724m-2006), Loans & Advances to the customers \$154266m (11% up, \$139300m-2006) and investment securities \$55274m (12% up, \$49497m-2006) and rests of the assets continued same proportion with similar items from 2006. In 2007, Cash and cash equivalents was highest from all five year for \$55338m (45% up, \$38161m-2006) which is 17% of total assets and this proportion increased 3% from last year³¹⁷.

In contrast to assets, Liabilities increased consistently in 2007. Customer deposits had \$179760m (22% up, \$147382m-2006), debt securities in issue \$27137m (26% up, \$23514m-2006), and deposits by the banks \$25880m (2% down, \$26233m-2006) of total liabilities.

8.5.3.2 Income Statement Analysis

In 2007, Standard Chartered bank had total earning \$21506m (29% up, \$16673m-2006) from all sources³¹⁸. Earnings comprised; 1) Interest Income \$16176m (25% up, \$12987m-2006), Fee and Commission Income \$3189m (40% up, \$2275m -2006), and trading revenue \$1261m (37% up, \$920m-2006). Other revenues consisted 3% having the same items which already explained in previous year³¹⁹.

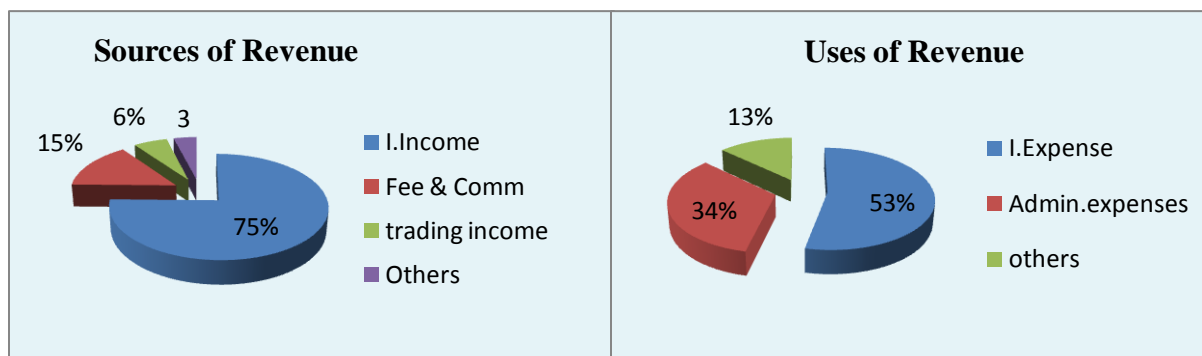


Figure C5.20

Figure C5.21

³¹⁶ www.standardchartered.com Annual report 2007 page 43

³¹⁷ www.standardchartered.com Annual report 2007 page 42

³¹⁸ www.standardchartered.com Annual report 2007 page 39

³¹⁹ www.standardchartered.com Annual report 2007 page 39

Total expenses increased in comparison to 2006 which were \$18517m (29% up, \$14319m - 2006) that include; 1) Interest Expense \$9911m (29% up, \$7659m-2006), 2) Administrative expenses \$6215m (30% up, \$4796m-2006). Both Expenses increased with the same proportion of Total Expenses. Other expenses of 13% were impairment losses on loans and advances, loss from associates, payment to minority interest and tax.

8.5.3.2 Equity

In 2007, Total equity of Standard Chartered Bank was \$21452m (23% up, \$17395m-2006) including minority interest of \$601m at December 2007. Shares capital was \$705m with the slight increase. Reserves included share premium \$4713m, available for sale reserve of \$750m, cash flow hedge reserve \$57m, translation reserve \$981m and retained earnings \$10478m whereas other reserves did not changed during the year. Like 2006, changes incurred to to recognised income and expenses, capitalised on scribe dividend, issue of new shares, net own sheras adjusted, share option expense and related taxation. During the year SCB issued new share of \$2043m.

8.5.4 Basis for the Changes in Financial Statements

During the year SCB announced six acquisitions, reinforce the brand, re-pricing and differentiating risk, hired experience people and continued its momentum of earning particularly in wholesale banking. In Pakistan, SCB became the sixth largest bank with 139 branches whereas political environment did not allow the bank to grow as anticipated³²⁰. In Taiwan, Bank made amalgamation to meet its targets. By acquiring the American Express bank doubled the size of US dollar clearing business and represented 70 countries. Although, SCB could not earn from US Sub-prime and US prime due to US residential real estate crises but overall its investment was not as bigger as large group banks. All above initiative brought the bank into real competitive position in the market to achieve strong growth.

³²⁰ www.standardchartered.com Annual report 2007 page 7ff

9. Cumulative Analysis

In this chapter, Authors try to analyze different items of financial statements to see the cumulative changes incurred from start of 2003-2007 and how these changes were counter balanced over period of time. In this chapter, authors also try to analyze the relationship between increases of one item which affect on other to draw the conclusion.

9.1 Royal Bank of Scotland

In contrast to previous year by year analysis, cumulative analysis explains that RBS changes in the balance sheet does not follow any pattern to bring changes in the income statement. Although, RBS showd significant progress in its business operations to exand its business activities as shown on below table. Total increase from start of 2003 to end of 2007 in assets commulative was 361% and liabilities 408%. Where as equity was just increased 63% in these five years. All these changes incured due to huge acquisitions made by the bank during this period.

RBS	Change from 03 to 07
Assets	361%
Liabilities	408%
Equity	63%
Interest Income (I/I)	146%
Interest Expense (I/E)	263%
Expenses	108%
Earning Before Tax (EBT)	54%
Profit	291%
Tier 1	0%
S/ Price	-10%
Earning Per Share (EPS)	-30%

Figure C1.9.1

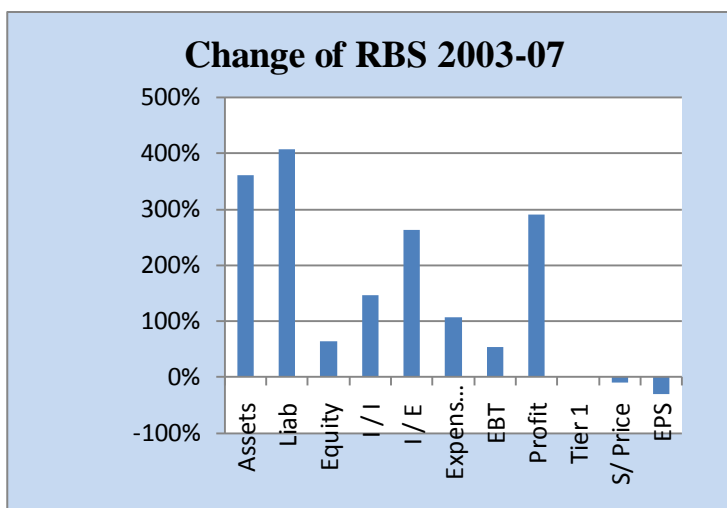


Figure C1.9.2

there seems no pattern to make comparison of increase in assets which leads to increase in total earnings with the same proportion. Interest income was increased 146% from 2003-2007, earning before tax increased only 54% while operating expenses remain under control and up 108% in five years. In addition, there seems no pattern of increase in interest income and interest expense. Interest expneses were increased more than 150% from Interest Income. This change is due to interest earning assets and interest bearing liabilities that RBS had in its

balance sheet. Tier 1 capital remain unchanged in that period. Share price and earning per share of RBS was decreased 10% and 30% respectively. Moreover, UK Overall fiscal policies remained expensive and RBS had to face stiff competition, uncertain equity market, low interest rates which not only effected on earnings but offset the overall speedy growth in its divisions.

9.2 Deutsche Banks

Restructuring of Deutsche Bank brought significant changes in its operations and earnings during these five years. It is observed that DB has shown pattern of its growth to bring changes in the income statements and balance sheets which counterbalanced the variations within 2003-2007. Although, DB demonstrate significant progress in its business operations to expand its business activities as shown on figure C2.9.3 and C2.9.4 below. Comulative changes in assets and liabilities were 166% and 172% (less than RBS) respectively due to changes in Interest earning assets and interest bearing liabilities.

DB	Change from 03 to 07
Assets	166%
Liabilities	172%
Equity	28%
Interest Income (I/I)	89%
Interest Expense (I/E)	106%
Earning Before Tax (EBT)	147%
Operating Expenses	2%
Profit	1540%
Tier 1	1%
S/P (XTRA)	104%
S/P (NYSE)	185%
EPS	2253%

Figure C2.9.3

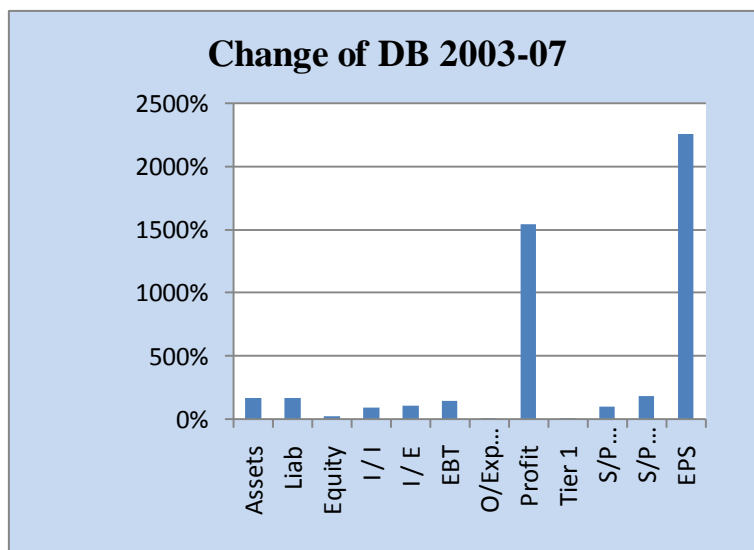


Figure C2.9.4

Whereas equity was just increased 28% (due to new issue and buy back of shares) in these five years. In contrast to RBS, Increase in Assets shows concern of bringing earnings for the bank because there is not much difference in increase in assets and earnings.

In addition, interest income and interest expenses increased 89% and 1.6% during 2003-2007 while Earning Before Tax increased 147% due to increase in employees for expansion and benefits to its staff. Notably, major changes came in EPS and Profit of the bank which were

2253% (base year 2002) and 1540% respectively. This expansion was incurred due to higher profit in 2003 from 2002. Net Income available for share holders started from €397m (base year 2002) to €6510m (2007). whereas EPS started from €0.58 (base year 2002) to €13.65 (2007) but dropped 12% in 2007. Tier 1 capital brought only 1% change during this period which shows strict control by the management. In addition, the sub-prime crises started to affect directly on banking sector late 2007 which not only offset the profit but growth of banks was reversed.

9.3 Union Banks of Switzerland

In all its previous years, UBS presented good growth in all deviations. UBS having pattern of its growth to bring changes in the income statement and balance sheet by acquiring, combining businesses, buying stakes to expand its business through risk exposure which is reflected in its cumulative analysis.

UBS	Change from 03-07
Assets	92%
Liabilities	96%
Equity	0%
Interest Income (I/I)	198%
Interest Expense (I/E)	253%
Operating Expenses	44%
Earnings Before Tax (EBT)	-165%
Profit (loss)	-220%
Tier 1	-22%
Share Price (Zurich)	57%
Share Price (LSE)	89%
EPS	-178%

Figure C3.9.5

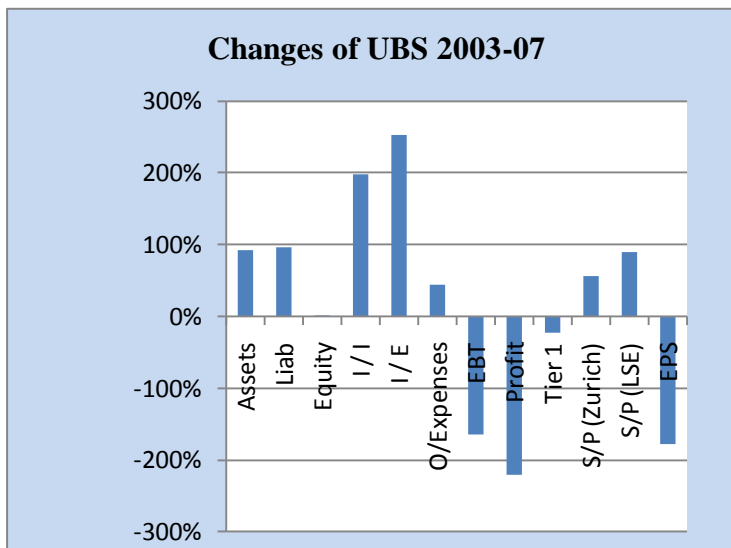


Figure C3.9.6

Figures C3.9.5 and C3.9.6 show that the assets and liabilities were increased with the almost similar proportion in five years (assets 92%, liabilities 96%, smaller than RBS and DB). UBS has more Interest earning assets (IEA) and interest bearing liabilities (IBL) in its balance sheet which reflects the actual risk portfolio for the bank as explained in previous sections. There was not change in its equity which was counterbalanced due to share new issue, buy back and

concellation during five years. UBS did not make as much acquisitions as did by Royal Bank of Scotland and Deutsche Bank.

Increase in assets & liabilities shows relationship to raise interest income & interest expense of 198% and 253% respectively because UBS has more IEA & IBL. Earning Before Tax and net profit did not show good results which decreased 165% & 220% due to increase in employees for companstion and benefits especially loss trading activities which adversely affected the previous years' earnings. Operating expenses remained under control.

Significant changes incurred in EPS which decreased 178% due to net loss from fixed income trading inventories in 2007 that offset earlier years growth due to sub-prime crises in 2nd half of the year 2007. Share price was not much impressive in both stock exchanges but remained positive.

9.4 Nordea Bank AB

Nordea bank is not as big as the other three banks but showing strict control both on its assets and liabilities which changed 56% during the period 2003-2007. Although, its growth in balance sheet items are not comparable to the other banks but its profit, share price and earnings per share significantly increased. Growth of five years shows that Nordea has increased EBT, and profit while keeping strict on assets and liabilities.

Nordea	Diff from 02 to 07
Assets	56%
Liabilities	56%
Equity	44%
Interest Income (I/I)	24%
Interest Expenses (I/E)	30%
Operating Expenses	5%
Earning Before Tax	147%
Profit	195%
Tier 1 Capital	-1%
Share Price SSE	181%
Share Price HSE	167%
Share Price CSE	167%
EPS	300%

Figure C4.9.7

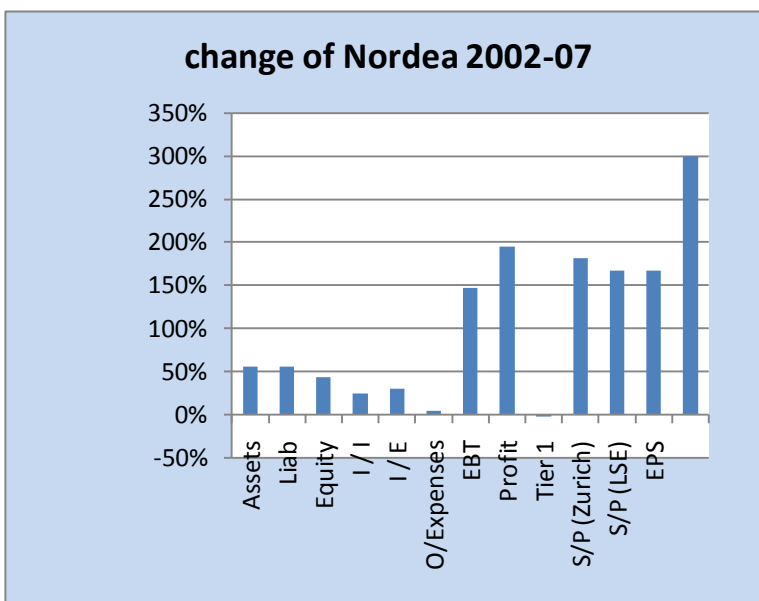


Figure C4.9.8

The reasons behind such results indicates strong profit orientation with great effort to control their costs which demonstrate proper integrated system, a well defined growth strategy and focused customer oriented policy (By focusing on their existed market and attracting new customers in Nordic region, Rusia and Baltic countries).

Nordea shares which are listed on different Nordic exchange market has also grown significantly during last five years (In stockholm stock exchange 181%, in Helsinki 167% and in Copenhagen also 167% went up). By achieving good results, Nordea was ranked as fifth largest company in Nordic area and largest among Nordic financial group. Nordea Tier 1 capital was declined by 1% (keeping it above 6%) which was 7% at the end of 2007.

9.5 Standard Chartered Bank

SCB is the smallest bank for our sample, but performce of Standard Charted seems much better than other banks all in growth and good performance.

SCB is showing patterns of its growth to bring changes in the income statement and balance sheet by acquiring, combining businesses, buying stakes to expand its business through risk exposure. The figures below show that the assets and liabilities were increased with the same proportion in five years (extremely better than RBS, DB, UBS). In other banks equity was increased with small percent or remained equal as it was on start of 2003 but in SCB, it is increased 185% which means that shareholders have improved their stakes in the bank. EPS

SCB	Change from 03-07
Assets	191%
Liabilities	192%
Equity	185%
Interest Income (I/I)	206%
Interest Expense (I/E)	345%
Operating Expenses	143%
Earnings Before Tax	220%
Profit	242%
Tier 1 Capital	11%
Share Price LSE (S/P)	161%
Share Price HKSE (S/P)	234%
Earnings Per Share (EPS)	203%

Figure C5.9.9

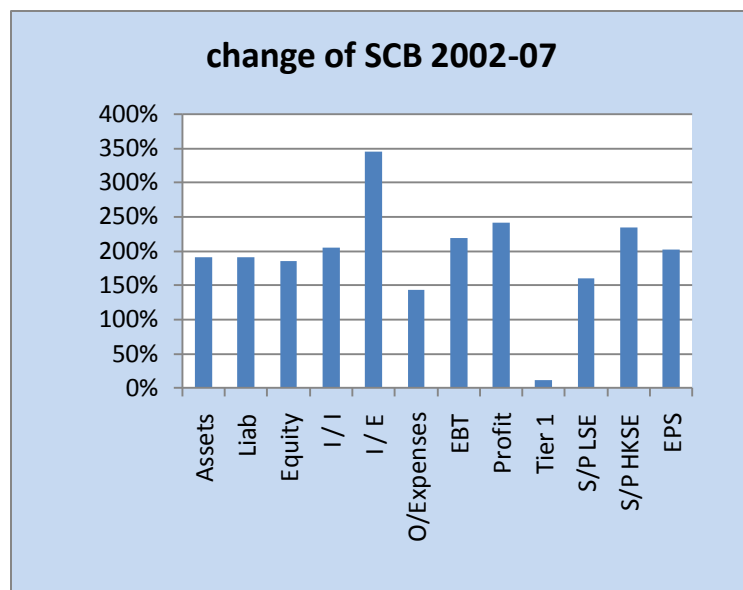


Figure C5.9.10

increased 203% whereas share price in LSE and HKSE was improved 161% & 234% respectively. Operating expenses were also increased but remained under control. Interest expense that increased more than interest income Interest earning assets (IEA) and interest bearing liabilities (IBL). Whereas increase in net profit (242%) was bigger than EBT (220%) which is showing good consequences for the bank.

10. Conclusion and Suggestion for Further Research

In this chapter, Authors present the conclusion and draw the answers of research questions to fulfill the purpose regarding the research topic. Moreover, suggestion for further research are presented at the end of this chapter.

10.1 Conclusion

From 2003, financial institutions revived from the problematic environment. Financial market and overall world economy picked its momentum, capital market interest rates were increased significantly whereas credit environment improved. All this situation helped the banks to expand their business operations across the world. Based on theoretical framework mentioned in chapter three, authors analyzed the financial statement in order to fulfill the purpose and to answer research questions;

1) How the European banks developed over time?

Increase in customer deposits expanded the overall balance sheet of banks except Deutsche Bank and Union Bank of Switzerland. These banks did not specifically rely on customers' accounts rather diversified assets as different sources of earnings. All the banks launched different products, launched online trading service for foreign exchange, money markets & global treasury funds and different loans schemes to attract new customers.

Although, banks achieved strong growth in their financial statements but the expansion was asymmetry to make the banks more competitive and successful in their earning capacity strength. There is no smooth frequency of growth in all their items of assets and liabilities. All these banks achieved good growth in their divisions but this growth was not systematic or did not follow any pattern for expansion.

Financial numbers especially financial assets show huge variations in their growth. Moreover, one bank well performed in one division while less performed in other division. For instance, RBS achieved a constant and good growth in Retail Direct, Wealth management and Ulster Bank. The relative contribution of these divisions in total earnings is not higher but their growth is remarkable from 2003-2007. The major divisions of earnings for RBS are Corporate Banking & Financial market and Retail banking which did not only show fluctuations in growth but reduced over time. Deutsche Bank had overall fluctuations in all its divisions, specifically in corporate investment with huge numbers. 2006 was the only year in which bank

did not have decrease value in any divisions. UBS' Global wealth management & business banking divisions resulted constant growth in all five years whereas rests of divisions had fluctuating numbers. Investment bank was the major contributor for the earning of UBS which dropped its revenue in 2007 that directly affected the overall growth of bank and counterbalanced its previous development. In contrast to large group, small banks achieved strong growth in all five years with significant numbers. For instance Nordea bank showed constant growth in its all three divisions from 2003-2006. But in 2007, the growth was not continued with similar rate as previous years. Although, retail banking was the major source of revenue but, corporate and institutional banking reported relatively higher growth for Nordea. SCB comparatively had better position. SCB's both divisions (consumer banking and wholesale banking) developed and contributed in earnings simultaneously over time and have almost equal contribution with strong expansion.

It is observed that the total equity of the banks lies between 2% to 7% especially large banks made huge changes within different classes of shares as explained in equity part of all banks. In large group, Equity proportion continued to reduce as the banks developed which shows that the banks restrict their capital with concentrated owners. Moreover, UBS is the only bank which had only 2 percent equity of total funds in all five years. In contrast to large group, small group of banks not only maintained their equity proportion to total funds but also increased relatively as the banks grew which reflects the strength of investors within banks. For example, Nordea kept and maintained its equity equal to 4 percent of total funds in all five years rather decreasing it over time as did by the large group banks. SCB concentrate on equity funds which maintained it up to the proportion of 7 percent in all five years. Revenue drivers of total earnings varied from bank to bank but interest income was the major source for the banks. In the entire five years, large group of banks re-categorized the heads of revenues and expenses.

It is found that large group made huge acquisitions during 2003-2007. It is observed that the growth was unsystematic because large group increase their market share and improve their revenue through acquisition, joint ventures and joint investment in different regions. The consolidated balance sheets of large group show that total assets and liabilities increased 3-4 times from 2003 to 2007 whereas the expansion of core banking business was less significant. All the banks have major operations in their country of origin except small group which

diversified its operations in different countries. All these banks are facing stiff competition in their country of origin due to saturation of products and services provided by other banks.

2) *Do changes in revenue proportionate to the expansion of banks?*

We found that there is a contradiction between the growth of banks and their earning capacities. Banks continued to grow tremendously but their earning capacities were reduced with the passage of time. Interest earning assets of both groups continuously reduced from 2003 to 2007 but overall assets were grown dramatically in 2007 specifically in RBS and Deutsche Bank. For instance, RBS and DB's total assets continued to grow but their IEAs rapidly reduced up to 45 percent and 61 percent respectively in 2007. We have found that UBS had 101 percent of IEAs of total assets and IBLs of total liabilities in 2007 which shows huge manipulation of accounting numbers. In addition to this, proportion of interest earnings assets was higher in comparison to interest bearing liabilities in their balance sheets but it reversed over time. Moreover, small group is also facing the same situation. So the changes in revenue are not proportionate to the overall expansion of their assets.

3) *Does the financial numbers communicated by the banks in their financial reports understandable to the external users?*

Group of large banks have interpreted their numbers in financial reports in a way that are not easily understandable for the external users especially Deutsche Bank. Moreover, putting the financial data of previous year in current year financial report is adjusted in a way that the numbers are changed dramatically without any additional notes which might distort the understanding of external users of the financial reports. Financial numbers particularly financial assets show huge variations in their growth. Some of the banks provided detailed information whereas some banks just overlooked without giving numbers of some specific areas like geographical earnings, market share etc. It is easy to understand the items of small group's financial statements with specific amount rather diffuse values as did by large group. There is still contradiction between the interest revenue of banks with the interest earning assets. Interest revenue increased in income statement while the interest earning assets reduced in balances sheet which could provide misleading information. Increase in the proportion of both was not symmetry but overall increase in interest income deduce that the banks interpretation of

financial numbers are so complicated to understand and mislead to the decisions of external users of financial reports.

To sum up, mostly banks achieved growth based on acquisitions, joint ventures and joint investments where as expansion of core banking business operations are less significant. Small banks also made acquisitions but their major focus was on core banking operations which lead better results than the large group. Increase in revenue is not proportionate to the expansion of banks. There is a contradiction between the growth of banks and their earning capacities. Banks continued to grow tremendously but their earning capacities were reduced with the passage of time. Moreover banks have interpreted their numbers especially financial assets in a way that are difficult to understand for external users. All five Banks achieved consistent growth from 2003 to 2006, but year 2007 was problematic in some of their divisions due to real estate crises which started in US, and then spread on to financial institutions all over the world.

10.2 Suggestion for Further Research

Current financial crisis have put questions to the regulators, economists, credit rating agencies and other market participant of financial market about their regulations, reforms and polices that means their arguments never correspond to the actual state of affairs as they perceive. The disruption of financial system is worse than expected. Research on those banks (similar to our small group) which survived during these current financial crises will bring new ideas to learn from the past and improve the understanding towards the impact of these financial crises which troubled the whole economies.

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Appendix

	Year 2003 which considered as base year (B.Y) then every next year is considered base year for proceeding year
	Decrease in respective items
	Increase more than 30 percent

Appendix 1. Balance sheet percentage changes

Royal Bank of Scotland	B.Y	Changes Year By Year				
Assets	2003	2004	2005	2006	2007	
Advance & loans to Customers	56	38	20	12	78	
Derivatives					190	
Debt Securities	18	17	29	5	117	
Cash & Cash Equivelant	4.6	139	5	8	107	
Loans & Advances to Banks					165	
Liabilities	2003	2004	2005	2006	2007	
Customers Accounts	56	20	21	12	78	
Bank Deposits	16	48	11	20	138	
Debt Securities					218	
derivatives					180	

Deutsche Bank	B.Y	Changes Year By Year				
Assets	2003	2004	2005	2006	2007	
Trading Assets/ at fair value	43	8	20	150	33	
Central Bank Funds Sold/Repur Agrmnt	15	15	6	818	5	
Laons net	18	16	13	18	11	
Securities Borrowed			54	67	12	
Cash & cash Equivelant	0.8	14	15	164	23	
Liabilities	2003	2004	2005	2006	2007	
Customer Deposits	39	5	19	8	11	
Trading Liabilities	20	11	16	247	39	
Central bank funds sold/Repur Agrmnt	13	3	36	40	78	
Long term liabilities	12	10	6	2	14	

Union Bank of Switzerland	B.Y	Changes Year By Year				
Assets	2003	2004	2005	2006	2007	
Trading Portfolio Asset	22	14	28	26	3	
Reverse Repurchase Agreement	21	11	13	3	8	
Positive replacement	16	15	17	14	46	
Loans	14	9	21	6	13	
Cash Colleteral on Secured borrowed	14	3	31	22	70	
Trading Portfolio Asset pledged	8	32	3	62	53	
Cash & Cash equivelant	5	19	5	49	10	
Liabilities	2003	2004	2005	2006	2007	
Repurchase agreements	28	2	13	14	78	
Due to Customers	23	9	24	19	15	
Negative replacement value	17	19	11	14	49	
Trading portfolio	10	19	10	9	24	
Due banks	8	6	4	64	40	

Nordea Bank AB	B.Y	Changes year by year				
Assets	2003	2004	2005	2006	2007	
Loans & Advances to customer	55	10	17	13	14	
Loand & Advances to Banks	8	20	27	15	9	
Liabilities	2003	2004	2005	2006	2007	
Customer Deposits	38	9	10	9	13	
Debt securities in issue	26	7	39	1	20	
Deposits by Banks	12	5	1	8	7	

Standard Chartered Bank PLC	B.Y	Changes Year By Year				
Assets	2003	2004	2005	2006	2007	
Loans & Advances to customers	50	21	55	17	11	
Loand & Advances to Banks	11	25	30	10	80	
Debt & other Fixed Income Securities	19	45	13	31	12	
Prepayments	11	920				
Cash & Cash Equivelant	1.3	290	73	8	45	
Liabilities	2003	2004	2005	2006	2007	
Customer Deposits	66	15	41	23	22	
Accruals, Def Income & other liabilities	14	82	135	10	26	
Deposits by Banks	10	39	24	34	2	

Appendix 2. Income Statement percentage Change

Royal Bank of Scotland	B.Y	Changes Year By Year			
Sources of Revenues	2003	2004	2005	2006	2007
Interest Income	51	19	5	4	35
Fee & Commission Receivable	21	14	4	5	19
G. Insurance Premium	8	96	1.2	3	3
trading Income (N.I)		6	18	14	102
Uses of Revenues	2003	2004	2005	2006	2007
Interest Expense	25	33	51	4	47
Staff Cost	19	16	18	12	12
G. Insurance Claims	9	43	3	3	5
Fee & Commission Payable	6	44	5	4	20
G. Administrative Expense (N.I)		8	21	6	18
Depreciation & Amortization (N.I)		6	9	9	18
Impairment losses (N.I)		5	15	10	13

Deutsche Bank	B.Y	Changes Year By Year			
Sources of Revenues	2003	2004	2005	2006	2007
Interest Income	64	2	49	40	16
Fee & Commission from fiduciary activities	7	2	10		
Commission, Broker's fee, underwriting etc	8	4	9		
Fee for other customers	6	4	4		
Fee & Commission of above three				11	8
Trading Revenue	12	10	20	20	24
Uses of Revenues	2003	2004	2005	2006	2007
Interest Expense	52	5	8	44	15
Compensation & Benefits	25	3	7	15	5
Net occupancy Expense	3	0.6	24		
IT cost	5	11	12		
Agency & other professional services	2	0.5	9		
Communication expense	1	5	0		
Administrative Expenses added above				10	13

Union Bank of Switzerland	B.Y	Changes Year By Year			
Sources of Revenues	2003	2004	2005	2006	2007
Interest Income	66	2	51	47	25
Fee & Commission	27	11	14	20	20
Trading Income	6	33	68	67	-160
Uses of Revenues	2003	2004	2005	2006	2007
Interest Expense	50	1	81	63	28
Personnel Expenses	32	2	14	18	30
General & Administrative Expenses	11	9	2	23	6

Nordea Bank AB	B.Y	Changes year by year			
Sources of Revenues	2003	2004	2005	2006	2007
Interest Income	78	13	2	19	34
Fee & Commission	16	19	9	6	6
Uses of Revenues	2003	2004	2005	2006	2007
Interest Expense	46	19	1	31	49
Staff costs	21	5	3	8	6
Other operating expense	13	6	1	6	6

Standard Chartered Bank Plc	B.Y	Changes Year By Year			
Sources of Revenues	2003	2004	2005	2006	2007
Interest Income	71	11	65	48	25
Fee & Commission	20	22	14	24	40
Dealing Profit	8	24	22	16	37
Uses of Revenues	2003	2004	2005	2006	2007
Interest Expense	33	17	107	73	29
General & Administrative Expenses	48	8	34	26	30

Appendix 3. Divisional Earnings percentage Change

Royal Bank of Scotland	B.Y	Changes year by year				
Divisions	2003	2004	2005	2006	2007	
Corporate Banking and finance market	37	12	17	16	2	
Retail banking	32	6	7	5	8	
Retail Direct	9	16	16	16	16	
Wealth management	5	17	10	15	10	
RBS Insurance	5	52	8	3	7	
Ulster Bank	3	28	15	15	15	
Citizens	9	31	43	3	10	

Deutsche Bank	Base Year		Changes Year By Year									
Divisions	2003	2003	2004	2004	2005	2005	2006	2006	2007	2007		
Corporate and investment	66		6		12		14		1.5			
<i>Corporate banking & Securities</i>		82	2		21		19		0.5			
<i>Global transaction banking</i>		18	26		0.5		13		16			
Private Clients and Asset Management	38		2.4		7		8		9			
<i>Asset & Wealth management</i>		47	10		11		7		5			
<i>Private & Business Clients</i>		53	3		4		9		12			
Corporate Investment	-4		3		98		114		164			

Union Bank of Switzerland	B.Y	Changes Year By Year				
Divisions	2003	2004	2005	2006	2007	
Global Wealth management & Business Banking	20	13	17	20	19	
Business Banking Switzerland	15	3	2.3	2	5	
Global Assets Management	4	16	23	29	27	
Investment Bank	41	15	10	25	-102	
Wealth Management USA	15	9	9	14	14	
Corporate Functions	0.06	460	306	54	877	

Standard Chartered Bank Plc	B.Y	Changes Year By Year				
Divisions	2003	2004	2005	2006	2007	
Retail Banking	77	1	7	19	14	
Corporate and Institutional Banking	18	1	10	30	13	
Assets Management	5	24	13	11	4	

Standard Chartered Bank Plc	B.Y	Changes Year By Year				
Divisions	2003	2004	2005	2006	2007	
Consumer Banking	52	9	41	23	24	
Wholesale Banking	48	14	19	28	34	

Appendix 4. Interest Earning Assets/Interest Bearing Liabilities

This Appendix only contains relative proportion rather than year by year changes.

Royal Bank of Scotland	2003	2004	2005	2006	2007
Interest Earning Assets	85	86	76	75	45
Interest Bearing Liabilities	60	75	75	70	72

Deutsche Bank	2003	2004	2005	2006	2007
Interest Earning Assets	92	90	87	87	61
Interest Bearing Liabilities	88	80	84	65	58

Union Bank of Switzerland	2003	2004	2005	2006	2007
Interest Earning Assets	81	88	84	86	101
Interest Bearing Liabilities	81	87	82	86	101

Standard Chartered Bank	2003	2004	2005	2006	2007
Interest Earning Assets	93	75	82	83	83
Interest Bearing Liabilities	84	73	75	76	73

Standard Chartered Bank	2003	2004	2005	2006	2007
Interest Earning Assets	89	83	79	79	77
Interest Bearing Liabilities	82	78	75	75	71

Appendix 5. Changes in Equity

Royal Bank of Scotland	2003	2004	2005	2006	2007
Changes in Equity		15	0.4	21	100
Total Equity	7	6	5	5.2	4.8

Deutsche Bank	2003	2004	2005	2006	2007
Change in equity		9	18	12	15
Total Equity	4	3	3	2	2

Union Bank of Switzerland	2003	2004	2005	2006	2007
Change in equity		12	31	8	31
Total Equity	3	2	2	2	2

Nordea Bank AB	2003	2004	2005	2006	2007
Change in equity		4	2.2	18	12
Total Equity	5	3	4	4	4

Standard Chartered Bank	2003	2004	2005	2006	2007
Change in equity		24	22	41	23
Total Equity	7	7	6	7	7