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Business Editor's commentary



Patients still looking peaky

The world's banks may now be out of casualty but are they as healthy as they look? Last week saw the publication of rather unsettling data from New York Federal Reserve that showed several US banks "window dressed" their books to mask their debt levels. The most striking thing was that the group of 18 banks were playing these games not in the go-go years of the credit bubble but in the last 18 months when the financial sector was supposed to have cleaned up its act.

Now comes the unnerving bit of analysis by Knight Vinke, the activist investment group, which has burrowed deep into banks' balance sheets to look at their liabilities and performance. According to Knight Vinke, if you take account of all their liabilities,

including derivatives books and off-balance sheet vehicles and you subject all of this to mark-to-market valuation, most Western banks looking shockingly under-capitalised.

For example, it calculates that Barclays Capital's leverage for last year was 95 times. This is down from 207 times in 2005, but still a level most hedge funds would wince at.

Knight Vinke's approach is just one among the many ways investors should evaluate banks. But the group, who challenged HSBC in 2007 with mixed results, has recently had the ear of the Financial Services Authority and central bank officials in several countries. Its analysis lends further weight to the view that Western bank still need to raise billions more capital.
