



Thursday 3rd June 2008

DAILY COMPANY NOTE — RBS See page 2 for full details

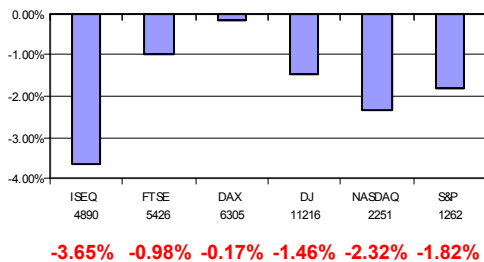
Daily Market Comment

Yesterday's Summary : With oil continuing to set record highs, US ADP employment data that was weaker than expected and news that Taylor Wimpey was unsuccessful in its attempt to raise additional capital from existing shareholders, the ISEQ finished deep in negative territory yesterday, closing down 3.65% at 4,890.30. After announcing that its 2008 pretax profits for 2008 might show a high single digit decline, CRH was treated badly by investors, as it plunged 12.7% to €15.12. The financials continued along their recent downward trend as AIB lost 0.9% to €9.41 and Anglo Irish Bank fell 2.1% to end the session at €5.70.

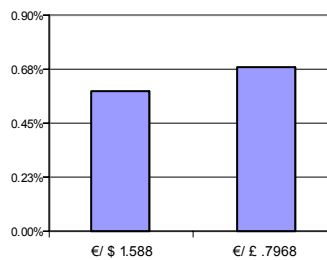
Overnight News: In Japan, the Nikkei fell for the 11th straight session and posted its longest losing streak since a 12-day stretch in May-June 1953. It closed down 0.2% at 13,265.40, after a steep fall on Wall Street overnight amid growing worries about rising oil prices and their impact on the U.S. economy. In China, the Shanghai Composite Index closed up 1.95% at 2,703.53.

Breaking News : Ryanair has acquired an additional 3.5 million shares in Aer Lingus which brings its total holding in the airline to 29.82%. Meanwhile, media reports have suggested that Liam Carroll, the Irish property developer, has sold at least 30 million shares in Aer Lingus this week, which triggered a large decline in the airline's price on Wednesday. Citigroup has said that UBS may post \$6.9 billion of additional writedowns and seek to raise more capital. This comes just a day after UBS' chairman Peter Kurer told a newspaper that the Swiss bank won't need more funds. Richie Boucher, the Chief Executive of Irish retail financial services at Bank of Ireland has said that Irish banks are not facing capital problems but rather liquidity issues. IL&P's Chief Executive David Guinane has said that he is very happy with the level of business at its banking business, Permanent TSB.

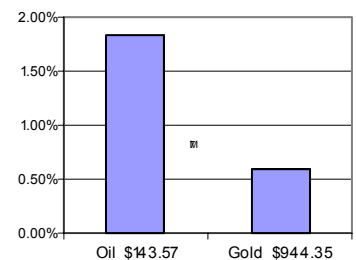
Equity Indices change on day



Currency daily % change



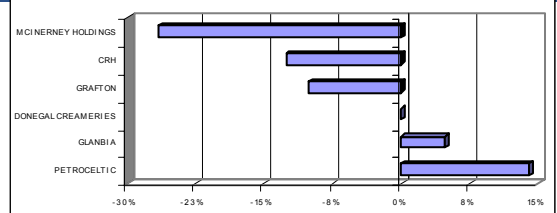
Oil/Gold daily % change



News

- “CRH Shares fall 12.7% as firm warns of lower profits”-(The Irish Times)
- ”Trichet warning that inflation could explode”-(The Irish Times)
- “IAWS to stop trading in run up to €2.7bn takeover deal”-(Irish Independent)
- “Taylor Wimpey plight pulls down building stocks”-(Irish Independent)
- “Petroceltic given 9 Adriatic permits”-(Irish Independent)

ISEQ Performers/Losers 02/07/08



Market Themes and Movers

All eyes on the economists: Today could be a pivotal day for global markets as a host of economic data releases are expected. As a result of the July 4th US holiday, some US data is being released today as opposed to Friday. At 12.45 the ECB is expected to announce a quarter percent interest rate hike. The ECB has signaled previously that a hike in July would be necessary to combat increasing inflation. Markets have priced in a hike today at almost 100% certainty. The real catalyst from the ECB today will be the comments released after the rate announcement. There is a possibility that it could be a case of “one and done”, one rate hike to anchor inflation, and rates on hold for the rest of the year. Alternatively, the ECB may signal that a hike today is just the first in a series of hikes, as the inflation outlook continues to worsen. Also out today is key employment data from the US. The non-farm payroll data, due at 13.30, is one of the most watched barometers of the US economy. The market consensus is for a decline of 60,000 jobs and an unemployment rate of 5.4%. These figures can be volatile and there is potential for the market to move significantly on their release. The ISM non-manufacturing data will be released today at 15.00, though not as important as the employment data, this report will provide an insight into the state of the US economy. A reading of 51 is expected.



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RBS

Stuart Draper
Buy
Target
295p
Previous (23/04/08)

400p
Current
204p
FTSE
Banks
Company Profile

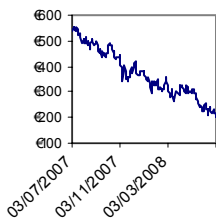
The Group's principal activity is providing a range of banking, insurance and other financial services. The Group's operation focuses on such areas as Global Banking & Markets, Corporate Banking, Retail, Wealth Management, Ulster Bank and Citizens. Global Banking & Markets provides a range of debt financing, risk management and investment services to its customers.

Fundamental view: Recently RBS held an up-date in Dublin for Irish analysts on the stock, which has successfully completed the £12Bn rights issue with the share price now trading post rights. Capital ratios for the bank will be in excess of 8% and 6% for Tier 1 and Core Tier 1 capital respectively at year end. The benefits from the merger with ABN continue ahead of expectations. Overlap in customers seems to be lower than expected and cost synergies are ahead of target by 21%. Management made reference to their exposure to UK builders and state they felt comfortable with the exposures and the LTV allow significant cover in the case of default. On housebuilders, RBS has had a relationship for over 20-years with many and based on that strong relationship they will work with them through the current difficulties even if this requires waiving of certain covenants. When questioned about the exposures to sub-prime and monoline insurers, management believe the £5.9Bn previous provision will be sufficient and gives headroom if any other adverse movements occur.

Next catalyst: RBS stated they see business trading in line with the guidance provided at the IMS on the 22nd of April with impairments remaining at previously guided levels. With its fund raising now complete and capital base stabilised, RBS is in a strong position to cherry pick business. This is seen in their increase in their share of UK mortgages from 6% to 13%. This business is almost entirely re-mortgages with LTV's of less than 60% and margins generated are circa 150bps compared to circa 20bps a year ago. Also in previous downturns in 2001-2002 and 2004-2005, RBS outperformed their competitors and therefore the company has a track record of performing well in difficult trading conditions. On the sale of the insurance unit it should be complete by the end of the year, the price range on this asset is multiples of P/B and estimates are for a price of greater than £5Bn. Other assets are for sale, but the Bank of China holding and Tesco Finance are not.

Statistics

A number of positives exist for RBS compared to its peers, the capital raising is complete, and the takeover provides diversification in income streams through products and regions. Based on these positives, we estimate EPS in 2009 at the higher end of consensus at 41p for RBS due to better than expected synergies, ability to pass on increased funding costs and the diversification of the business. Using a conservative sector P/E of 7 will result in a 12-month price target of £2.90. Some risks do exist in relation to potential further write-downs and rising bad debts, but the large and successful capital raising will provide a buffer against these risks.

Price Performance

Chart View: RBS

Key Support: 192

Primary Resistance: 232

Secondary Resistance: 250

Gloomy chart outlook still prevails, with a consistent downward channel. However, an unsustainable sell off suggests an upward correction is due. Should the price hold its key support of 192, a reversal in price would allow a short term target to be set at 232, and a mid term target at 250.

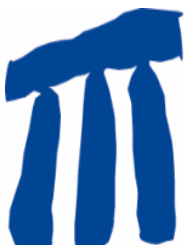
Profit by Region


- UK 78%
- Europe 11%
- US 7%
- Rest of World 3%

Major Shareholders	%	Peer Group Multiples.			
		Company name	P/E 08	P/E 09	EPS Growth 08-09
Legal & General Invnt. Mgt.	4.69%	RBS	5.1	4.9	5.00%
Standard Life Investments	3.05%	Lloyds	5.9	5.5	7.27%
Barclays global Investors UK	2.67%	Barclays	5.4	4.8	12.50%
Barclays Global Investors Cal.	1.98%	HBOS	4.9	4.7	4.26%
M&G Investment Management	1.74%				

Shares Outstanding 16142m

Share Data		Financial Data	2007	2008e	2009e
Current Price (p)	205.00	PBT (£m)	9,900	9,622	10,500
Mkt Cap (£m)	32,931	EPS (p)	79	40	42
Reuters	RBS.L	P/E(x)	4.80	5.13	4.88
Bloomberg	RBS LN	DPS (p)	33	20	21
Sector	Banks	Dividend Yield	16.10%	9.76%	10.24%
Chairman	Sir Tom McKillop				
CEO	Sir Fred Goodwin				
Website	www.investors.rbs.com				





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