

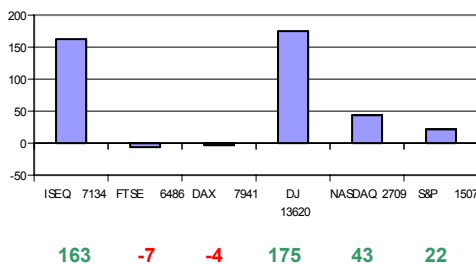
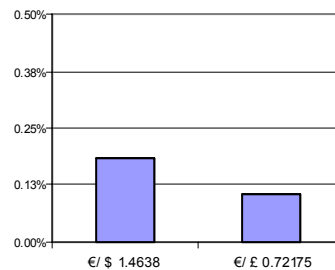
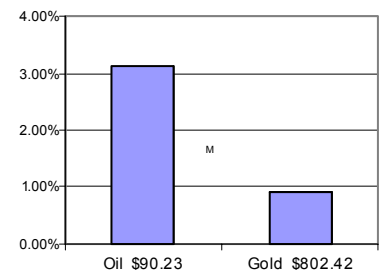

**DAILY COMPANY NOTE - Royal Bank of Scotland** See page 2 for full details

**Daily Market Comment**

**Yesterday's Summary** The Irish market had another strong day yesterday, finishing up 2.35% on the back of a quarter point rate cut from the Bank of England as well as the decision by the ECB not to change its rate. AIB climbed 3.3% on the back of a positive trading statement, with BOI, Anglo and Irish life and permanent also finishing up. US stocks were buoyed by a plan announced by President Bush to stem the tide of US home foreclosures.

**Overnight News** : Most Asian markets rallied early Friday after Wall Street's strong performance on hopes of a sub prime rescue package, but only Tokyo, Sydney, Shanghai and Manila were able to hold on to those gains at the close. In Australia, Rio Tinto jumped 74 cents or 0.5 pct to 145.48 dollars after its chief executive Tom Albanese described BHP Billiton's three-for-one share offer as being 'dead in the water'.

**Breaking News** : Abbey announced today that fiscal first-half profit fell 19% as a result of declining homebuilding in UK and Ireland. Pre-tax profit was €18.2 million for the six months up to October, compared with €22.6 million for the same period last year. Elsewhere, easyJet announced today, a 13.2% increase in November passenger numbers compared with the same month last year, while Aer Lingus announced a 8.3% increase in passengers for the same period last year.

**Equity Index's change on day**

**Currency daily % change**

**Oil/Gold daily % change**

**Paper Headlines**

- "AIB forecasts 13% rise in earnings" - **AIB** - (Irish Examiner)
- "Bank of England answers calls for interest-rate cut" - (Wall Street Journal)
- "RBS perform well as shares rise 2.7pc despite €1.3bn writedown" - **RBS** -(Irish Independent)
- "ECB keeps rates on hold amid tough talk" - (Financial Times)
- "Saudi order worth £1bn to Rolls-Royce" - **Rolls Royce** - (Financial Times)

**Market Themes and Movers**

**Bush to bailout subprime** : President Bush is calling on lenders to freeze rates on some mortgages for troubled borrowers for five years. The plan would benefit only those with reasonable credit risk and who cannot afford the higher rates. They also have to be current in their payments and occupants of the home. The proposed intervention may affect as many as 1.2 million US homeowners. Analysts said the agreement could ease some of the pressure on US house prices by preventing a wave of home foreclosures. But lawyers warned it could face a legal challenge from investors who oppose modification of loans in their portfolios. Critics complain that the plan doesn't go far enough, while others believe it penalises prudent borrowers and creates moral hazard.

**Oil at \$90 again**: Oil prices have returned to the \$90 a barrel mark as the market digests mixed signals on supply and demand with fears of an economic slowdown dampening demand for oil offset by OPEC's decision not to boost output. Support for the price of oil has been renewed on the basis that the US Government's intervention to halt foreclosures may prevent recession. Given the volatility in oil markets, Opec intends to meet again in February to review its decision and fine-tune its supply levels.

**Dolmen Squawk Box**

This day 5 years ago, the Dow Jones' eight-week winning streak ended, although Wall Street managed a modest gain following news that President Bush had shaken up his economic team.



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# Royal Bank of Scotland

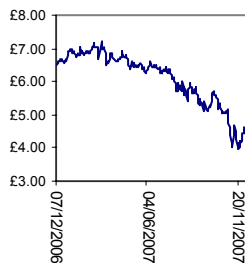
<b>Target</b>	<b>£6.50</b>
<b>Previous (03/07/07)</b>	<b>£7.20</b>
<b>Current</b>	<b>£4.85</b>

**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.

**Fundamental view :** Last week, Royal Bank of Scotland (RBS) released its year end trading statement. The trading statement showed that some of the major fears and rumours surrounding the stock in recent weeks have been completely inaccurate. Even though the consensus range for the bank's asset writedowns was between £1.5 bn and £1.9 bn, there were rumours in circulation of much larger writedowns than this. However, the bank confirmed that its writedown would be £950m and that ABN's would be £300m, giving a total combined writedown of £1.25 bn. The statement also confirmed that its remaining total exposure to CDO's, SIV's and other sub-prime was relatively low at £5.15 bn, versus £11.1 bn of similar assets at Barclays. Another recent fear surrounding the stock that its dividend would be cut, also proved inaccurate as RBS confirmed that its underlying earnings performance, excluding writedowns and exceptional gains, would generate a 2007 eps "well ahead" of the current market consensus eps of 70.5p. As a result, we re-iterate our current 2007 eps forecast of 72p, and given that the bank's Tier 1 ratio will end the year comfortably within its targeted range of between 7% and 8% as a result of disposals and balance sheet management, we are comfortable with our current 2007 and 2008 dividend per share forecasts of 33p and 37p respectively.

**Next catalyst :** As a result, our current 12 month share price target of £6.50 (36% upside) is based on 9x 2008 eps of 72p, with the shares also paying a current year dividend yield of 6.9% for waiting for this upside to be achieved. Crucially, there was also no significant deterioration in the group's credit quality disclosed in the trading statement. RBS will announce its full year 2007 results on 28th February, and in conjunction with the results' release we expect the bank to issue specific earnings guidance for 2008, which could act as a positive catalyst for further share price upside. Any return to more normal credit market conditions between now and then could also act as a positive catalyst for the share price.

**Statistics**
**Price Performance**

**Chart view :**

Current Price: 4.85

Comment:

Recent price action has formed a new bottom around the £4.00 level. Key short term resistance level is currently 5.15 and a close above this level opens up the move to 5.75.

Technical Indicators:

Support Key: 4.25

Support Secondary: 4.00

Resistance Key: 5.15

Resistance Secondary: 5.50

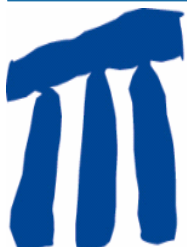
**Operating Profit**


■ 77%UK      ■ 14%USA  
 □ 1%Rest of World      □ 8%Europe

Major Shareholders	%	Peer Group Multiples.			
		Company name	P/E 07	P/E 08	EPS Growth 07-08
Legal and General	5.0	<b>Royal Bank of Scotland</b>	<b>6.9</b>	<b>6.7</b>	2.60%
Barclays	3.8	Barclays	8.2	7.8	5.44%
Capital Group	2.9	HBOS	7.6	7.3	4.86%
		Lloyds	9.5	8.7	9.08%

Shares Outstanding 9,940m

Share Data	Financial Data	2006a	2007e	2008e	
Current Price (£)	Revenue (£m)	28,002	26,452	28,664	
Mkt Cap (£m)	PBT (£m)	9,186	9,900	10,552	
Reuters	EPS (£)	0.65	0.72	0.72	
Bloomberg	RBS LN	P/E(x)	7.5	6.7	6.7
Sector	Banking	DPS (£)	0.33	0.33	0.37
CEO	Frederick A. Goodwin	Yield	6.80%	6.89%	7.54%
Chairman	Tom F. Mckilop				
Website	www.rbs.com				





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