DOLMEN STOCKBROKERS

Dolmen Daily

Friday 8th August 2008

DAILY COMPANY NOTE — RBS See page 2 for full details

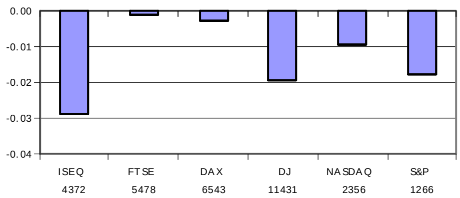
Daily Market Comment

Yesterday's Summary : A disappointing day for the ISEQ yesterday with the index finishing down 128 points at 4,372 despite a lack of a definitive negative catalyst. The ECB kept rates on hold and President Trichet even managed to sound more dovish than usual. However the market was unimpressed and the interest rate sensitive stock were among the biggest losers. Kingspan, Grafton and CRH all declined, Kingspan falling over 9% to €6.80. The banks all finished down with Anglo being worst hit, down over 5%. C&C also lost over 5% despite a lack of catalyst.

Overnight News: The Dow saw a 225 point decline to 11,431 last night. Financials all underperformed as the market absorbed the twin blows of Wednesday's AIG results and Moodys putting American Express's credit rating on downgrade watch. Elsewhere weaker than expected figures from Wal-Mart led to fresh concerns over the strength of the US consumer as well as fears that expectations for the fiscal stimulus package may have been too high.

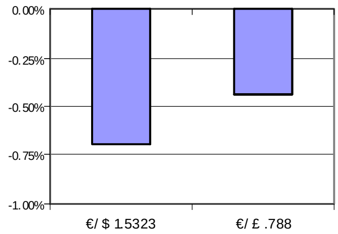
Breaking News : Lonmin's largest shareholder M&G, which has a 17% stake has rejected the hostile takeover bid from Xstrata as undervaluing the platinum miner. Lonmin is currently trading in excess of £1 above the £33 takeover offer implying the market expects that Xstrata will have to up its bid to seal the deal. RBS released Interim results this morning, reporting a pretax loss of £691. greater than expected Q2 loss of $1.63 per share compared to $0.54 expected.

Equity Indices change on day

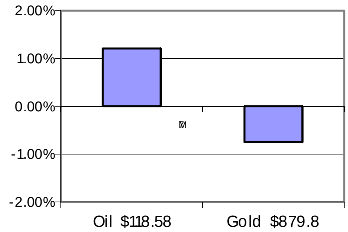


-2.85% -0.15% -0.28% -1.94% -0.94% -1.80%

Currency daily % change



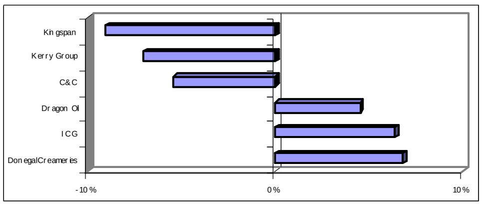
Oil/Gold daily % change



News

"ECB and Bank of England interest rates unchanged"-(Irish Times)
"Bord na Mona in €4.5m waste firm deal" (Irish Times)
"House prices tumble 11%"-(Financial Times)
"Lonmin's biggest investor says no to Xstrata "-**Lonmin** (Financial Times))

ISEQ Performers/Losers 07/08/08



Market Themes and Movers

ECB and BOE keeps rates on hold : As expected the ECB and BOE kept rates on hold in their meetings yesterday. As usual Jean-Claude Trichet , the ECB President spoke after the rate announcement. His statement was more than dovish than the market has come to expect from the ECB president although not to any significant degree. He said economic growth would be particularly weak through the third quarter. While still concerned about inflation, the ECB appears to be focusing on downside risks to the economy. No further rate hikes are expected this year, but the market doesn't expect the ECB to cut until 2009 at the earliest. The dollar continued to find strength following Trichets comments. The dollar has strengthened against most major currencies this week, and has moved from 1.558 against the Euro to 1.517 this morning. Unusually the relationship between the dollar and the price of oil appears to have broken down with the oil price relatively steady over the week.

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DAILY COMPANY NOTE 08/08/08

RBS

Oliver Gilvarry	Buy
Target	290p
Previous (23/04/08)	400p
Current	237p

FTSE

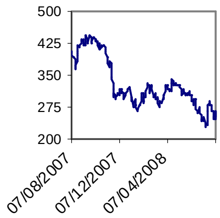
Banks

Company Profile

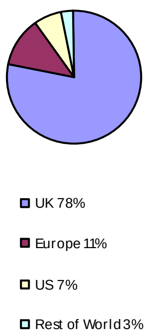
The Group's principal activity is providing a range of banking, insurance and other financial services. The Group's operation focuses on such areas as Global Banking & Markets, Corporate Banking, Retail, Wealth Management, Ulster Bank and Citizens. Global Banking & Markets provides a range of debt financing,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

Statistics

Price Performance



Revenue by Division



Fundamental View: This morning RBS released interim results for the year up to 30th of June. The pre-tax loss of £691m was lower than expected with some analysts predicting a loss of £1Bn and underlying profit was better at £5.1Bn compared to £4.9Bn expected. With regard to capital, core tier 1 was stronger than expected at 5.7% and the bank stated it is on course to achieve their target level of core tier 1 in excess of 6% by year end. A concern in the market before the results was the level of write downs on RBS credit portfolio with estimates of hits over £7Bn. The write down came in at management's guided level of £5.9Bn with increased falls in monoline exposures been off-set by increases in the values of other assets. The interim statement also highlighted the reduction in credit portfolio by RBS selling £1.5Bn of sub-prime and Alt-A US mortgages plus £3.7Bn of leveraged loans at levels better than expected in April. This indicated that there is a market for certain credit products allowing banks such as RBS to reduce their exposures at reasonable levels.

In Ireland, Ulster Bank increased its loan book by 26% and deposits by 20% and as is similar with other Irish Banks, impairment levels have risen to £57m.

On group impairment levels, the most significant increase was in the US retail book on the back of the $8Bn Home Equity Line of Credit (HELOC) book with a charge of 4.2% of the loan book balance, but the weak performance of this book was signaled well in advance to the market. In the UK, the personal sector is remains robust, but deterioration has been seen in the small business sector, but no further guidance was given for the remainder of the year.

Next catalyst: The results this morning have helped to overcome some of investor's fears on RBS. The ability of the bank to reduce the size of its credit portfolio at reasonable prices is a positive as was the stronger capital ratios. The successful capital raising is allowing the bank to continue to increase its share of the UK net mortgage lending with the level now at 17% at an average LTV of 66% for this new business and 49% for the overall portfolio. The business is been transacted at higher margins and the pass through of increased funding costs can be seen in the underlying net interest margin for the group increasing slightly to 2.02%.

On the ABN AMRO takeover, the integration plan is ahead of expectations with the benefits also ahead. Even for the interim results, the purchase has added £135m to pre-tax profits due to savings and the forecast for integration benefits is now £1.6Bn annually from 2010. One issue for RBS relates to the Insurance business they have stated is for sale. No up-date was given on the sale process in the interim statement, but management have made clear they do not have to sell the unit for capital purposes.

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.

Chart view: RBS
Primary Support: 169
Secondary Support: 144
Primary Resistance: 262
Secondary Resistance: 316

Stock is trading toward medium term downward trendline, at which point price will meet considerable resistance. However, should an upside breakout occur, this would imply a more fundamental change in trend.

Major Shareholders	%
Legal & General Invest. Mgt.	4.69%
Standard Life Invest.	3.05%
Barclays Global Investor	2.67%
Barclays Global Investor Cal.	1.98%
M&G Investment Manager	1.74%

Peer Group Multiples.			
Company name	P/E 08	P/E 09	EPS Growth 08-09
RBS	5.1	4.9	-4.08%
Lloyds	5.9	5.5	-7.27%
Barclays	5.4	4.8	-12.50%
HBOS	4.9	4.7	-4.26%

Shares Outstanding	16127m

Share Data	
Current Price (GBP)	2.38
Mkt Cap (GBPm)	38,346
Reuters	RBS.L
Bloomberg	RBS LN
Sector	Banks
CEO	Sir Tom McKillop
Chairman	Sir Fred Goodwin
Website	www.investors.rbs.com

Financial Data	2007	2008e	2009e
Revenue (GBPm)	9,900	9,622	10,500
EPS (GBP)	79	40	41
P/E(x)	4.80	5.13	4.88
DPS (p)	33	20	21
Dividend Yield	7.50%	9.76%	10.24%

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