



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

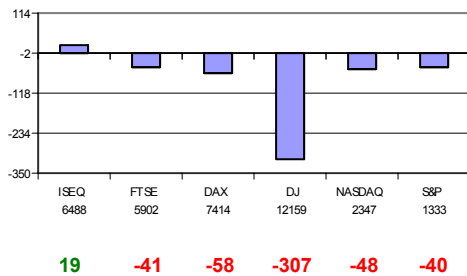
Daily Market Comment

Yesterday's Summary : The ISEQ managed to close up yesterday despite volatile trading and global weakness. The ISEQ finished up 19 points or 0.3% for the day. Among the financials AIB and Irish Life performed best, finishing up 4% and 3% respectively. Bank of Ireland closed down almost 1% and Anglo closed down 0.3%. Ryanair gained 2.4% and Aer Lingus gained 3.72% on weak volumes. Shares in British Land finished up 5.2% amid a weak session for the FTSE, which finished down 41 points. The US markets were hit hard by the extent of Merrill's writedowns and worries over the economy, with the Dow finishing down 300 points or 2.4%.

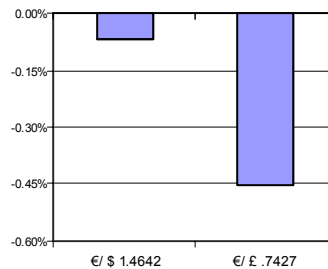
Overnight News : China Construction Bank and Industrial & Commercial Bank forecasts of strong 2007 results helped Hong Kong's benchmark index end higher this morning after another choppy session. The blue-chip Hang Seng Index closed 86.89 points, or 0.4%, higher at 25,201.87, after swinging between 24,134.25 and 25,378.24 during the session. Japanese stocks bounced back from 26-month lows to end higher as investors hunted for bargains in beaten-down blue-chips sending Nikkei 0.6% higher by the close.

Breaking News: Independent News & Media have announced the acquisition of Clear Channel Outdoor share in Clear Channel Independent, Africa's largest outdoor advertising company for €86.6m. IN&M will issue 39 million shares to finance the acquisition. BHP is expected to increase its bid for Rio Tinto to 3.58 shares plus A\$16.5. BHP has until February 6th to make a formal offer for Rio. Paragon, the buy-to-let lender has announced the completion of £287m financing.

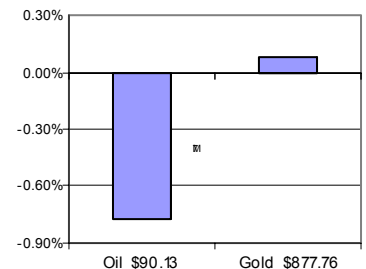
Equity Index's change on day



Currency daily % change



Oil/Gold daily % change



Paper Headlines

- "Europe's bank regulators lack tools for next crisis" - (Wall Street Journal)
- "Aer Lingus to argue on Ryanair voting" - **Aer Lingus** - (Irish Examiner)
- "Novartis shares fall as net profit declines 42%" - **Novartis** - (Irish Examiner)
- "Fed chief backs plan for €150bn kick-start to US economy" - (Irish Times)
- "Merril Lynch reports year-end \$7.8bn loss." - **Merrill Lynch** - (Irish Times)

Market Themes and Movers

Oil remains weak : Oil steadied above \$90 a barrel on this morning as bleak economic data heightened concerns the United States would slip into a recession and erode demand from the world's biggest oil consumer. U.S. crude is currently trading about the \$90.15, after earlier slipping to \$89.61, its lowest level in a month. Trade could be distorted on Friday in the run-up to the February contract's expiry on Tuesday. Oil has fallen about 10% from its record-high of \$100.09 a barrel reached on Jan 3rd, reducing the chance the Organization of the Petroleum Exporting Countries will raise production when it meets on Feb. 1.

All eyes on the monolines: Overnight news that US bond insurer Ambac has been placed on review for a possible rating downgrade has reignited concerns about banks' subprime exposure. On Wall Street overnight, Ambac shares shed more than 50% of their value, while shares in US peer MBIA plunged over 30%. The heavy losses were triggered by news that ratings agency Moody's has placed Ambac on review for a possible downgrade, raising the possibility that it might lose its current AAA rating. The risk here is that if Ambac loses its own credit rating, the value of insurance sold to issuers and other monoline companies will be dramatically reduced. Merrill Lynch's writedown yesterday included a \$3.1bn provision for losses relating to their CDO hedges with monoline insurers.

Dolmen Squawk Box

This day six years ago, a plunge in Elan Corp was behind most of a 2.3% drop in the ISEQ.



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Royal Bank of Scotland

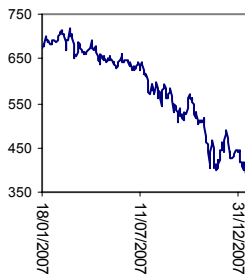
Target	£5.75
Previous (07/12/07)	£6.50
Current	£3.86

FTSE
Banks
Company Profile

Royal Bank of Scotland Group plc (The). 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 : In December, Royal Bank of Scotland (RBS) confirmed that its underlying 2007 earnings performance, excluding writedowns and exceptional gains, would be "well ahead" of the then consensus 2007 eps forecast of 70.5p. This confirmed that our 2007 eps forecast of 72p will be achieved when the bank reports its full year results next month, on 28th February. Given that the Tier 1 ratio reported by RBS as at 31/12/07 will be comfortably within the bank's 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. As a result, we expect a 2007 final dividend per share of 22p net to go ex on c.7th March, which is c.1 week from the date of the full year results' announcement. As this final dividend alone represents a yield of 5.7% on the current share price, it may generate some buying interest ahead of the early March ex date. RBS' December trading statement also confirmed that the bank's total CDO, SIV and other sub-prime related writedown would be £950m and that ABN's would be £300m, giving a total combined group writedown of £1.25 bn, significantly lower than the consensus expected asset writedown range of between £1.5 bn and £1.9 bn. The trading statement also confirmed that RBS' remaining total exposure to CDO's, SIV's and other sub-prime assets is relatively low at £5.15 bn, versus £11.1 bn of similar assets at Barclays.

Next catalyst : Our current 12 month share price target of £5.75 (49% upside) is based on 8x 2008 eps of 72p, with the shares also paying a current year dividend yield of 9.6% for waiting for this upside to be achieved. Crucially, unlike some of the recent results' announcements from the US bank sector, there was no significant credit quality deterioration indicated in the group's December trading statement. In conjunction with RBS' full year results' release on 28th February, we also expect the bank to issue specific earnings guidance for 2008, which could act as a positive catalyst for major share price upside from current levels. A continuation of the recent trend of a return to more normal credit market conditions, between now and 28th February, could also act as a positive catalyst for the share price. Other potential positive catalysts between now and then for an interest rate sensitive business such as RBS, include a 0.5% cut in the US base interest rate on Wednesday week, 30th January, and a 0.25% cut in the UK base rate, a week later, on 7th February.

Statistics
Price Performance

Chart view: Royal Bank of Scotland Group

Support Primary: 378.50
 Support Secondary: 350.00
 Resistance Primary: 415.00
 Resistance Secondary: 452.50

Medium term trend is negative but stock is attempting to form a support base in the 380 area. If the stock can show resilience and hold at this support area then it can look to the 415 area. A close above 415 would break the short term downtrend and improve the outlook.

Profit breakdown


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

Major Shareholders	%	Peer Group Multiples			
		Company name	P/E 08	P/E 09	EPS Growth 08-09
Legal and General	5.00%	Royal Bank of Scotland	5.4	5.0	6.94%
Barclays	3.80%	Barclays	6.7	6.3	6.86%
Capital Group	2.90%	HBOS	5.9	5.8	1.72%
		Lloyds	7.7	7.2	6.94%

Shares Outstanding 10,006.22m

Share Data	Financial Data	2007	2008e	2009e
Current Price (£)	Revenue (£m)	27,948	30,394	32,274
Mkt Cap (£m)	PBT (£m)	10,110	10,176	11,307
Reuters	EPS (£)	0.72	0.72	0.77
Bloomberg	P/E(x)	5.4	5.4	5.0
Sector	DPS(£)	0.30	0.33	0.37
CEO	Yield	7.77%	8.55%	9.59%
Finance director				
Website				





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