



July 23, 2007

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EQUITIES	Close	Change	% +/-	P/E '07	YTD
ISEQ	9027	↓ -141	-1.54%	14.1	-4.05%
FTSE 100	6585	↓ -55	-0.83%	13.2	5.86%
DAX 30	7875	↓ -116	-1.46%	14.2	19.37%
DOW	13851	↓ -149	-1.07%	15.2	11.13%
NASDAQ	2688	↓ -32	-1.19%	26.1	11.27%
S&P	1534	↓ -19	-1.22%	15.9	8.16%

CURRENCIES & RATES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.3828	0.6718	167.4000
Dollar	1.3828	1.0000	2.0598	120.9700
Sterling	0.6718	2.0598	1.0000	249.1400
Interest Rates (%)	4.0000	5.2500	5.7500	0.5000
Oil (Nymex)	75.5700			

**This Week's Research**

**Today's Research**  
 Royal Bank of Scotland

**Today's Recommendation**

**RBS (£6.10) Sub-prime fears may prove overdone Stuart Draper**  
 Target : £7.20 (03/07/06; previously £7.50, issued 20/12/06)

- Sub-prime fears : The UK bank sector sold off once again on Friday, driven by fears that the upcoming interim results' season will show that the UK interest rate increases of recent months have impacted profitability, and that profitability could also be damaged as a result of significant exposures to the US subprime mortgage market. However, RBS' US mortgage exposure is 100% prime and 99% secured, with the associated credit risk "miniscule", according to RBS. This agrees with HSBC's statement earlier this year, at the time of its sub-prime profit warning, that there was zero read across to HSBC's US prime business, which is positioned very similarly to Citizens/ Charter One in the US mortgage market.
- Upcoming catalysts : This week, Northern Rock starts the UK bank interim results' season on Wednesday, with Bradford & Bingley due to report on Thursday and Alliance & Leicester on Friday. The consensus forecasts are for profit before tax of £326m, £184m and £288m respectively, representing year on year increases of 19%, 12% and 7%. RBS will announce its H1 results on Friday week, 3rd August.
- Uncertainty reducing : The major announcement recently from RBS was a revised takeover bid for ABN AMRO, involving significantly lower equity issuance than the initial bid. The initial bid was based on the assumption that LaSalle remained part of the ABN group, whereas the new bid, at the same €38.40 level per ABN share, is based on the assumption that the LaSalle cash proceeds remain within ABN. As a result, the amount of RBS equity required falls from c.€22 bn to c.€5 bn.
- Major synergies : In addition to the new bid representing a premium of c.10% to the Barclays bid, its cash component has increased from 79% to 93%, further increasing its advantage over the Barclays' all-stock offer. As a result, it now appears most likely that the RBS consortium will be the successful bidder for ABN, which would generate cost savings of €1,319m and net revenue synergies of €481m by the end of 2010, further boosting RBS' group eps by 2% in 2009 and by 7% in 2010.
- Attractive upside : Even without any ABN synergies, RBS is expected to generate 2007 eps of 8%, and our current 12 month share price target of £7.20 (18% upside) is based on 10x consensus 2007 eps of 72p. The shares will also pay a dividend yield of c.5.6% for waiting for this upside to be achieved : **BUY**.

**Breaking News**

**Barclays raises offer for ABN Amro**

Barclays has raised its offer for ABN Amro by 4.3% to €67.5bn after lining up investments from China and Singapore. Barclays' increased offer is worth €35.73 per share, which includes a 37% cash element, however remains below the €38.40 offer made last week by Royal Bank of Scotland (RBS), Santander and Fortis. The RBS led bid has a 73% cash element. Barclays also announced that it will sell up to €13.4bn worth of shares to Chinese policy lender China Development Bank and Singapore's Temasek Holdings if it succeeds in its takeover bid of ABN Amro. The investment will consist of an initial sale of a combined 5.2% stake worth €3.6bn to the two Asian investors regardless of the takeover bid's success or failure. The Asian investors will buy up to €9.8bn more shares if Barclay's takeover of ABN Amro is successful.

**RBS first half profit in line with expectations**

Royal Bank of Scotland (RBS) said that profit before tax and one-time items rose by at least 8.6% to £5bn in the first six months of the year and in line with analyst expectations. RBS said that its €71.1bn offer for ABN Amro will begin on July 23<sup>rd</sup> and its shareholders are to vote on the proposed takeover on August 10<sup>th</sup>. RBS Chairman Tom McKillop said he is 'confident' the group can achieve its US targets without buying LaSalle Bank as originally planned. ABN Amro has already agreed to sell LaSalle to Bank of America for \$21bn.

**Resolution and Friends Provident in merger discussions**

Resolution and Friends Provident have confirmed that they are in advanced merger talks that could lead to the creation of a group worth over £8bn. Both companies commented that a merger would create significant shareholder value by combining Friends Provident's new business growth opportunities with Resolution's strong cash flow generation. The potential merger would involve an all-share combination of the two companies, with Resolution shareholders owning 50.9% and Friends Provident shareholders owning 49.1% of the combined group.

**Business Press**

- Resolution in Friends Deal talks (FT)
- Carroll "serious player" in ICG bid (IE)
- Man U finance deal to stay on the bench (II)
- RBS met ABN Amro in 2005, documents show (IT)

**Investment Press**

- Fixing Detroit: Detroit does not so much need a mechanic as it needs a doctor - or, at least, someone to pay for the doctor. As Ford, General Motors and Chrysler sit down with the United Auto Workers to thrash out a settlement on wages and healthcare benefits, hopes are rising for a landmark deal.

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