



DAILY COMPANY NOTE - ROYAL BANK OF SCOTLAND See page 2 for full details

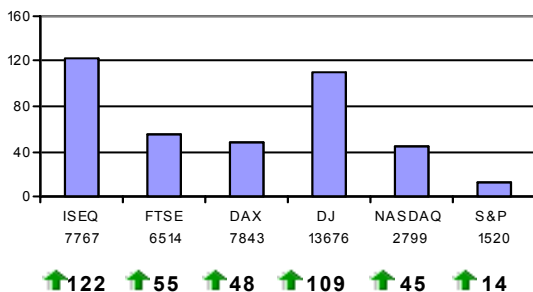
Daily Market Comment

Yesterday's Summary : European stock markets had their largest gains in three weeks boosted by better than expected earnings forecasts from Schneider Electric and Lonza Group which eased concerns that profit growth is slowing. Bradford and Bingley also helped to boost the market after the bank said that it is 'substantially prefunded' for the second half of the year, easing liquidity concerns sparked by higher credit costs.

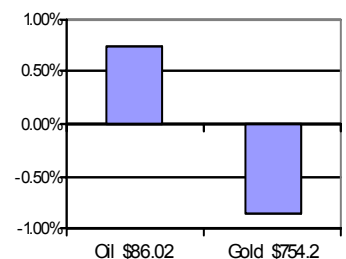
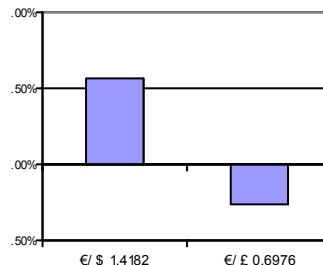
Overnight News : Shares in Amazon fell by 9% in after hours trading following the group's 3Q results. Net income surged by c. 300% to \$80m, beating analyst expectations. Revenue rose by 41% to \$3.26bn. For 4Q, Amazon expects to report revenue of \$5.1bn to \$5.45bn versus expectations of \$5.12bn. Shares in Amazon have gained c. 150% this year.

Breaking News : This morning, Friends Provident announced that new life and pension sales rose by 35% to £2.15bn beating analyst expectations of £2.02bn. The company also said that should its agreed merger with Resolution materialise they plan to return £2bn to shareholders by 2009.

Equity Index's change on day



Currency daily % change Oil/Gold daily % change



Paper Headlines

- "Smurfit Kappa the latest to issue alert on earnings" - **Smurfit Kappa** - Irish Independent
- "Icon reports 38% increase in third quarter" - **Icon** - Irish Times
- "BP beats forecasts to spur hopes of turnaround" - **BP** - Financial Times
- "Nike to buy Umbro in €410m 'merger made in heaven' " - **Nike** - Irish Examiner

Market Themes and Movers

Greenspan says 'state of fear' in credit markets : At the Midwest ACG Capital Connection conference in Chicago yesterday, Former Federal Reserve Chairman Alan Greenspan said that credit markets are in a 'state of fear' as he discussed the role of commercial paper and structured investment vehicles. Greenspan also reiterated that he sees less than a 50-50 chance that the US will go in to recession, commenting that he expects the country to avoid such an outcome. Greenspan did point out however that 'there is a long way to go' before house prices stabilize.

Takeover activity returning : Takeover activity in equity markets is slowly starting to return to the market with deals emerging between corporates rather than bids from private equity groups. Yesterday, Nike agreed to buy Umbro for £285m in what is Nike's first acquisition in three years. The offer is a 60% premium to Umbro's share price on October 17th, the day before the group said it had received a takeover approach. Meanwhile, shares in Cairn Energy added over 7% yesterday on rumours that BP may make a bid for the company. This follows on the back of ENI's £1.5bn bid for Burren Energy on October 9th.

CDO writedowns set to increase: Merrill Lynch is due to release its third quarter earnings report today. Press reports overnight suggest that the investment bank will add about \$2.5bn of writedowns to the \$5bn it has already disclosed due to losses related collateralised debt obligations (CDO). Analysts expect Merrill Lynch to report a loss per share of \$0.45.

Dolmen Squawk Box

- This day 10 years ago World stock markets plunged after an extraordinary 10% collapse in Hong Kong's Hang Seng index. The ISEQ outperformed by falling just 0.78%.



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Royal Bank of Scotland

Target (issued 03/07/07) **£7.20**
Previous (issued 20/12/06) **£7.50**
Current **£5.11**
FTSE 100
Banks
Company Profile

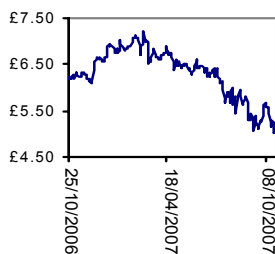
RBS provides a range of products and services to personal, commercial and large corporate and institutional customers. The Company's activities are organized into six business divisions: Corporate Markets (comprising Global Banking and Markets and UK Corporate Banking), Retail Markets (comprising Retail Banking and Wealth Management), Ulster Bank, Citizens, RBS Insurance and Manufacturing.

Wholesale fears : There have been some fears recently over the extent to which the wholesale banking revenues of RBS will slow, particularly given the group's increased exposure to this area post the ABN acquisition. However, given RBS' lesser trading focus than Barclays Capital, and its greater focus on customer lending, its current wholesale banking revenues remain on course to deliver mid to high single digit growth in 2008. Even allowing for a 2008 decline of 7% in ABN's wholesale revenues to reflect its greater focus on conduits, our current 2008 eps forecast of 72p would still be achieved. Given that the group's consensus 2008 dividend per share is expected to be 37p, this means that from 2008, the shares' dividend yield at 7.3% will be greater than its pe ratio at 7.1x.

Major synergies : RBS is paying c.€16 bn for ABN's investment banking and Asian businesses, c.€5 bn of which will be financed from an equity placing. RBS has a track record over the past 10 years of integrating its acquisitions well, generating synergies in excess of those initially targeted. Initial cost savings and net revenue synergies from the ABN takeover by the end of 2010 of €1,319m and €481m respectively would appear achievable, generating earnings per share growth of 11% in both 2009 and 2010 to 80p and 89p respectively. In addition to the RBS bid initially representing a premium of c.10%, its high cash component of 93% increased its advantage over the Barclays' all-stock offer.

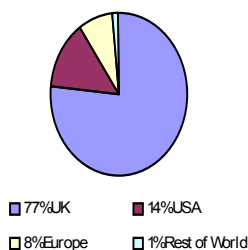
Acquisition growth : The ABN acquisition further extends RBS' franchise in Asia and investment banking, which helps build sustainable revenue growth and cash generation for the group. This in turn creates the fire power for further bolt-on deals in the US without new capital having to be raised, which would further boost earnings growth from the synergies generated. Even though the ABN deal should boost group net profit by c.6% in 2008 to c.€7.4 bn, once the c.€1 bn new shares in issue post ABN is considered, 2008 group eps is likely be flat on the 72p consensus forecast for 2007, representing current year earnings growth of 8%.

Major upside : As a result, our current 12 month share price target of £7.20 (41% further upside) is based on 10x 2008 eps of 72p. The shares will also pay a current year dividend yield of c.6.5% for waiting for this upside to be achieved. RBS' US mortgage exposure is 100% prime and 99% secured, with the associated credit risk described as "miniscule". Earlier this year, HSBC stated at the time of its sub-prime profit warning, that there was zero read across to its US prime business, which is positioned very similarly to RBS' Citizens/Charter One business in the US mortgage market.

Statistics
Price Performance


Major Shareholders	No of Shares	%
Legal and General	390.4m	3.9
Barclays	380.5m	3.8
Capital Group	2.88m	2.9

Peer Group Multiples			
Company name	P/E 07	P/E 08	EPS Growth 07-08
Royal Bank of Scotland	7.2	6.9	0.00%
Barclays	8.5	7.6	11.10%
HBOS	7.9	7.5	4.73%
Lloyds	10.3	9.4	9.46%
Deutsche Bank	7.0	7.7	-8.41%

Revenue by Region


Total Shares Outstanding	9,940
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Share Data	
Current Price (£)	5.11
Mkt Cap (£m)	50,793
Reuters	RBS.L
Bloomberg	RBS.LN
Sector	Banks
Chairman	Tom McKillop
CEO	Fred Goodwin
CFO	Guy Whittaker
Website	www.rbs.com

Financial Data	2006	2007e	2008e
Revenue (£m)	28,002	26,111	28,394
PBT (£m)	9,186	9,971	10,885
EPS (p)	0.65	0.72	0.72
P/E(x)	9.9	7.1	7.1
DPS	0.33	0.33	0.37
Yield	5.2%	6.5%	7.3%



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