



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

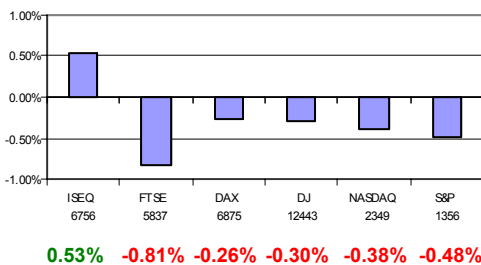
Daily Market Comment

Yesterday's Summary : The ISEQ was relatively quiet yesterday, with investors reluctant to act prior to the Fed rate decision, the index closed up 36 points at 6756. The financials all finished up, with Irish Life & Permanent the clear winner, gaining 2.9% to finish at €11.12. CRH finished down 31 cent despite the announcement of an investment in China. PaddyPower continued on from recent strength to close up 35 cent to €19.32. US stocks closed in the red, despite the Fed giving the market the half per cent rate cut. Concerns over US declining GDP growth as well as the fate of the mono-line insurers dampened spirits.

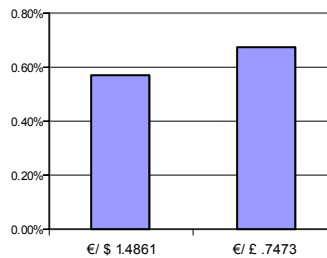
Overnight News : Hong Kong shares closed lower after a volatile session overnight as investors remained unconvinced that the latest interest rate cut by the Federal Reserve will avert a US recession. Investors also took note of US fourth-quarter GDP data that showed the economy grew at an annualized rate of just 0.6%, compared to expectations of a 1.2% rise. The Hang Seng index closed down 197.95 points or 0.8% at 23,455.74. Tokyo stocks rose 1.85% with investors encouraged by upbeat earnings outlooks for Japanese automakers. The Nikkei Stock Average surged 247.44 points or 1.85% to 13,592.47.

Breaking News : Amazon.com, the world's largest internet retailer has announced their 4th quarter trading update. Margins have narrowed and earnings fell short of analyst expectations. CRH has announced that it has repurchased 244,767 shares at prices between €25.78 and €26.38. Shell's fourth quarter net profit rose 60%, driven by higher crude prices. UK insurance company Friends Provident will refocus its business around life and pensions products, cut costs and rebase its dividend so it can finance growth without having to raise financing in the capital markets.

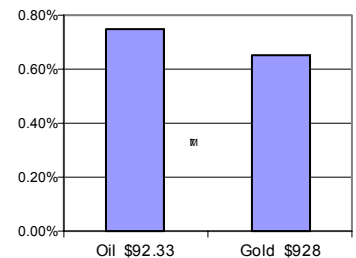
Equity Index's change on day



Currency daily % change



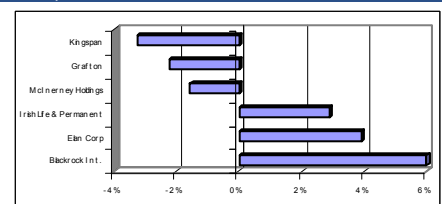
Oil/Gold daily % change



Paper Headlines

- "CRH taps into Chinese building boom with €200m cement deal" – **CRH** -(Irish Times)
- "Recession in US would seriously affect Irish economy" -(Irish Times)
- "C&C buy boosts Britvic sales" – **C&C**- (Irish Examiner)
- "Ryanair forecasts 12% drop in profits" – **Ryanair** -(Irish Examiner)
- "SocGen board backs Bouton" – **SocGen** -(Financial Times)

ISEQ Performers/Losers



Market Themes and Movers

Fed cuts as expected: Amid concerns of a US recession, the Federal Reserve has slashed interest rates for the second time in nine days. Yesterday, the Fed lowered the benchmark short-term interest rate by 50 basis points to 3% from 3.5%, in line with market expectations. The rate, which is the amount charged to banks overnight, has come down 2.25 % since September. Fed officials yesterday indicated a willingness to cut further, saying "downside risks to growth remain." They also said that they expect inflationary pressure to moderate in coming quarters. Predictably, the dollar hit a new low against the Euro following the announcement.

Oil slips on economy woes : Oil prices slid more than \$1 a barrel this morning after Wall Street's overnight decline and a report that U.S. crude stockpiles rose last week. Wall Street closed lower Wednesday despite a 50 basis point rate cut from the Fed. The U.S. Energy Department's Energy Information Administration's weekly inventory snapshot showed crude and gasoline stocks rose 3.6 million barrels each during the week ended January 25th. Expectations were for crude stockpiles to rise 2.3 million barrels and gasoline inventories to rise 1.9 million barrels. The barrel is trading at \$91.33 in London this morning.

Dolmen Squawk Box

This day five years ago, the ISEQ closed higher for the first time in ten days, with the financial sector performing strongly.



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Royal Bank of Scotland

Target £5.75

Previous (18/01/08) £5.75

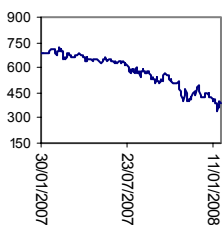
Current £3.85

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.

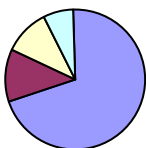
Fundamental view : A major international investment bank has published a SELL recommendation on Royal Bank of Scotland (RBS) at current levels, with a price target of £3.50. We expect the same investment bank to be upgrading this price target and recommendation on RBS within the next 12 months as its core assumption that RBS' bad debts charge deteriorates to the same level that it reached at the end of the last major UK recession in 1992 proves wrong. RBS' bad debts charge as a % of customer loans deteriorated from 0.57% in 1989 to 2% in 1992, and the SELL recommendation assumes a similar credit quality deterioration in 2008. We currently forecast this charge to be 0.8% in both 2007 and 2008, before recovering to 0.7% in 2009. The other area of scare mongering in the commentary is in relation to the need for a rights issue. By focussing on the capital ratios of "tangible equity : assets" and "equity Tier 1", it is highlighted that RBS' tangible equity : assets ratio was 5.2% in 1989, versus 1.2% forecast for 2008, and that its equity Tier 1 ratio is forecast to be 4.1% in 2008, versus a current sector average of 6.5%. However, "tangible equity : risk weighted assets (RWA's)" and the overall "Tier 1 ratio" are much more relevant ratios in determining the need for a rights issue, and these ratios show that assuming no further major write-downs, that RBS does not currently need a rights issue. The "tangible equity : RWA's" ratio is more relevant as it takes account of the different levels of risk between different assets (eg mortgage assets v unsecured assets), and this ratio for RBS has weakened much less between 1989 and forecast 2008, from 5.7% to 3.6%. Also, with a substantial portion of non equity capital now allowable for Tier 1 capital, the overall "Tier 1 ratio" is much more relevant. This more relevant ratio shows that RBS' capital position has strengthened from a Tier 1 ratio of 5.5% in 1989 to a forecast Tier 1 ratio of 7% in 2008.

Next catalyst : Last month's trading statement confirmed that the bank's Tier 1 ratio as at 31/12/07 will be comfortably within its targeted range of between 7% and 8% as a result of disposals and balance sheet management, and so as a result 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. 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. The December 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. 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. In conjunction with RBS' full year results' release on 28th February, we also expect the bank to issue specific 2008 earnings guidance, which could act as a positive catalyst for major share price upside from current levels. Other potential positive catalysts between now and then include a continuation of the recent trend of a return to more normal credit market conditions, and a 0.25% cut in the UK base rate this day week, 7th February.

Statistics
Price Performance

Chart view: Royal Bank of Scotland

Support Primary: 360
 Support Secondary: 317
 Resistance Primary: 407
 Resistance Secondary: 460

Stock in downtrend with series of bearish breakdowns. A close above the 407 area signifies a break of the short term negative trend and improves the outlook. Above this area the next upside target is 460. A failure to hold support in the 360 area may lead to a retest of recent lows.

Profit breakdown


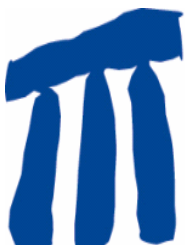
■ 77%UK ■ 14%USA
 □ 1%Rest of World □ 8%Europe

Major Shareholders	%	Peer Group Multiples.			
		Company name	P/E 07	P/E 08	EPS Growth 08-09
Legal & General Investmer	5.04%	Royal Bank of Scotland	5.4	5.7	9.20%
Standars Life Investmen	2.83%	Barclays	7.2	6.8	5.44%
Barclays Global Investor	2.66%	HBOS	6.6	6.6	0.67%
MM&G Investment Man:	2.40%	Lloyds	8.7	8.1	6.87%

Shares Outstanding 10,006.22m

Website www.rbs.co.uk

Share Data	Financial Data	2006	2007e	2008e
Current Price (£)	Revenue (£m)	24,438	28,447	31,006
Mkt Cap (£m)	PBT (£m)	9,186	10,151	10,041
Reuters	EPS (£)	64.91	70.88	67.91
Bloomberg	P/E(x)	6.2	5.4	5.67
Sector	DPS (£)	30.20	33.36	37.00
Chairman	Yield	7.84%	8.66%	9.60%
CEO				





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