

Europe

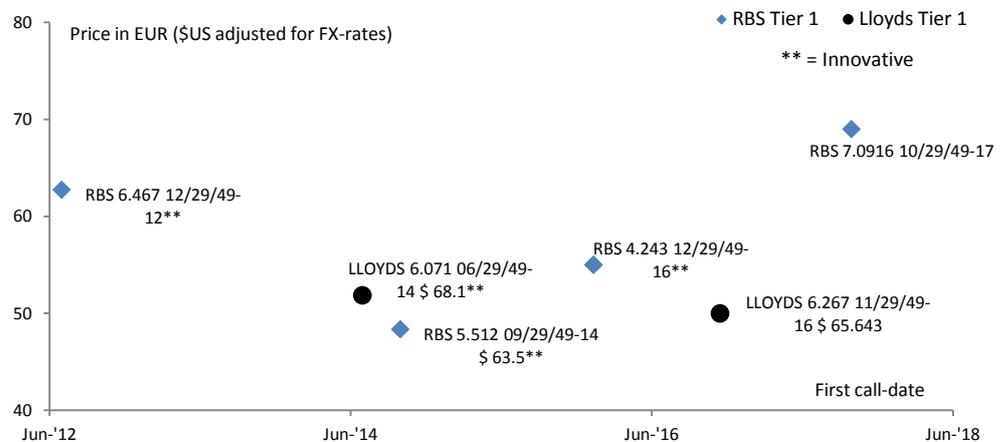
RBS

Restarting Discretionary Coupons- remain Buyers of Tier 1

Event: RBS announced today that it will resume discretionary coupons and dividend payments on hybrid capital debt. Discretionary dividends as well as the discretionary distributions on the RBSG/RBS innovative securities will be paid on their scheduled payment dates in June 2012 (RBS Capital Trust A, RBS Capital Trust B, RBS Capital Trust D, RBS Capital Trust I, RBS Capital Trust II and RBS Capital Trust IV). Future coupons and dividends on the hybrid securities will be paid in accordance with their relevant terms. Funding to cover the £350m cost will come from the sale of surplus shares held by the Employee Benefit Trust (~£250m) and from the issue of new ordinary shares (~£100m). There will have no impact on the firms' Core Tier 1 capital.

How to trade it: Buy RBS Tier 1. We advised clients to buy RBS Tier 1 in our note of 24 Feb 12 [RBS Q4 '11: Losing Money to Gain Advantage](#). We have also noted to clients that money is fungible and RBS could follow Lloyds' lead in issuing shares to pay the hybrid coupons. These bonds retained their value as the market softened in March. We believe some investors are long these bonds on the expectation of gaining the interest accrual. Prices may appear to soften slightly following the accrual turn-on and the Trust Preferred Tier 1 securities have 'capital-stoppers' that inhibit the buy-back of these securities until 12 months of coupons are accrued. In the Q4 '12 results teleconference with fixed income investors, RBS management confirmed that these securities may not be subject to a LME until 2013; nonetheless, we maintain our buy recommendation on these securities. We believe that if investors wait until 2013, they risk missing the opportunity to capture potential LME upside and the potential for RBS to engineer any solution to this issue in advance of 2013. Our top picks are the innovative RBS Tier 1. These bonds were issued with coupons that step to levels that were approximately 100bps higher than asset swap spreads at their time of issuance. This signalled to investors that they would be called at first call date as the bonds have an incentive to be redeemed. We believe that they will lose all regulatory value under Basel III once they are past their effective maturity, which is at first call date for these bonds. Our top picks are the RBS 6.467 12/49-12, RBS 5.512 09/49-14 (\$US) and RBS 4.243 12/49-16. We recommend taking profits on the RBS 6.467 and RBS 4.243 at €75 and €70, respectively, the RBS5.512 at \$80. We recommend stop losses on the RBS 6.467 and RBS 4.243 at €50 and €45, respectively, and the RBS5.512 at \$50.

RBS Innovative Debt may see an LME once Capital Stoppers are Removed



Source: SG Cross Asset Research, Bloomberg.

Analysts

Hank Calenti, CFA
+44(0)207-676-7262
Hank.Calenti@SGCIB.com

Stephane Le Priol
+33 01 42 13 92 93
Stephane.LePriol@sgcib.com

Jean-Luc Lepreux
+33 01 42 14 88 17
Jean-Luc.Lepreux@sgcib.com

Societe Generale ("SG") does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that SG may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. **PLEASE SEE APPENDIX AT THE END OF THIS REPORT FOR THE ANALYST(S) CERTIFICATION(S), IMPORTANT DISCLOSURES AND DISCLAIMERS.**

RBS: Group full quarter P&L (in GBP millions)

	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12
Net Interest Income	3,676	3,411	3,580	3,301	3,227	3,077	3,074	2,999
Net Fees	2,053	2,037	2,052	1,642	1,700	1,452	1,590	1,487
Net Trading Income	2,110	277	860	835	1,147	957	-59	212
Other Operating Income	301	147	1,049	628	1,439	2,686	731	-458
Total Revenues	8,140	5,872	7,541	6,406	7,513	8,172	5,336	4,240
Operating Expenses	-4,686	-4,868	-3,148	-4,315	-3,521	-5,864	-2,726	-4,617
Pre-Provision Profits	2,875	393	3,944	1,831	3,669	2,004	2,037	-377
Loan Loss Reserves	-2,487	-1,953	-2,141	-1,947	-3,106	-1,738	-1,918	-1,314
Operating Profits	388	-1,560	1,803	-116	563	266	119	-1,691
Pre-Tax Profit	1,174	-1,524	2,029	-96	-678	2,004	-1,976	-1,394
Taxes	-825	295	3	-423	-222	-791	186	-139
Net Income	276	-1,146	2,049	-528	-897	1,226	-1,798	-1,524

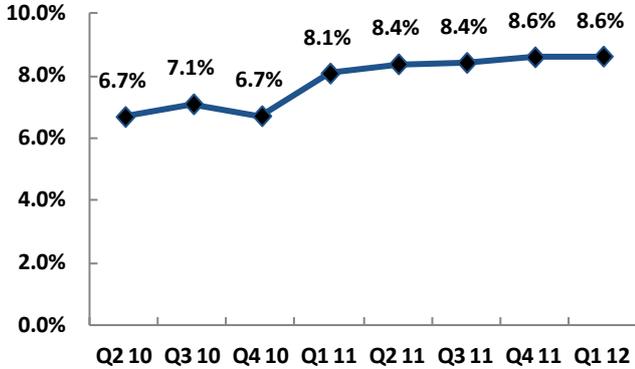
Source: SG Cross Asset Research, Bloomberg, Company Release.

RBS: Balance Sheet Data & Regulatory Ratios (in GBP millions)

	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12
Cash	29,591	61,416	57,014	59,591	64,351	78,445	79,269	82,363
Trading Securities	103,780	248,165	231,184	253,596	260,739	237,023	216,783	213,534
Intangible Assets	14,482	14,369	14,448	14,409	14,592	14,744	14,858	14,771
Net Fixed Assets	17,608	17,398	16,543	15,846	17,357	17,060	11,868	11,442
Total Assets	1,582,053	1,629,587	1,453,576	1,413,253	1,445,969	1,607,728	1,506,867	1,403,021
Total Deposits	420,890	420,639	510,693	428,474	428,703	433,660	502,955	497,510
Total Long Term Liabilities	679,849	735,230	542,687	523,418	606,334	758,415	592,301	693,815
Core Tier 1 Capital	50,275	48,311	49,309	49,038	48,001	47,830	46,341	46,802
Tier 1 Capital	61,161	59,175	60,124	59,548	58,387	58,336	56,990	57,342
Total Regulatory Capital	66,484	64,355	65,289	63,928	62,321	62,228	60,708	60,804
Core tier one Ratio	10.5%	10.2%	10.6%	11.2%	11.1%	11.3%	10.6%	10.8%
Tier one ratio	12.8%	12.5%	12.9%	13.5%	13.5%	13.8%	13.0%	13.2%
Capital Ratio	13.9%	13.5%	14.0%	14.5%	14.4%	14.7%	13.8%	14.0%

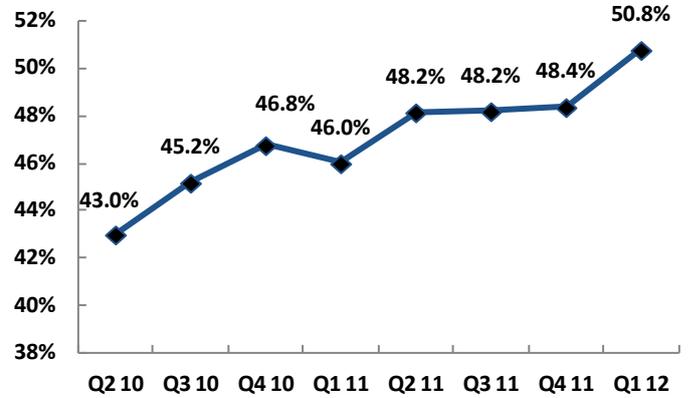
Source: SG Cross Asset Research, Bloomberg, Company Release.

RBS: NPL/GLNs are levelling off

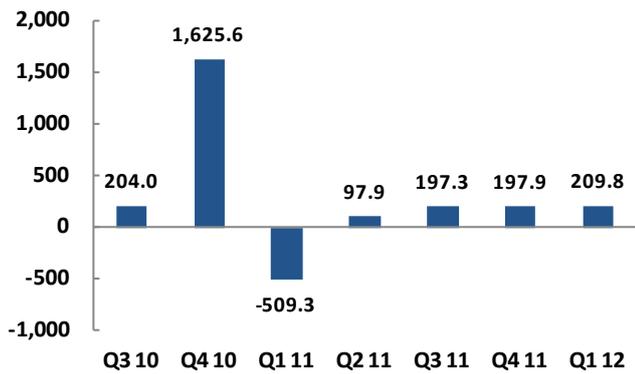


Source: SG Cross Asset Research, Bloomberg, Company Release.

RBS: Provisioning Ratios continue to improve

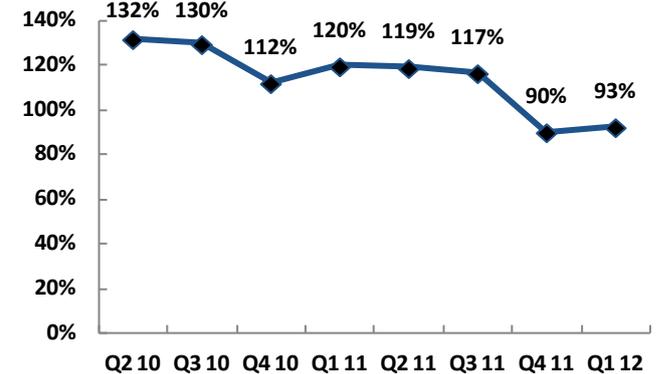


RBS: Liquidity Profile remains positive
(Liquidity Jaws: Growth in deposits – Growth in lending in bps)

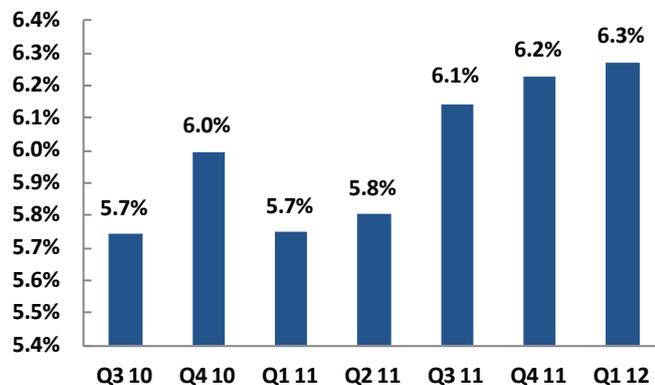


Source: SG Cross Asset Research, Bloomberg, Company Release.

RBS Loan to deposit ratio: slight marginal uptick

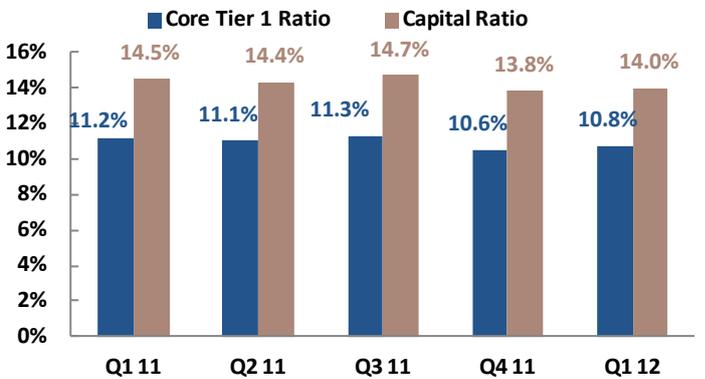


RBS: Leverage improving
(Tangible Equity / Tangible Assets – derivatives)



Source: SG Cross Asset Research, Bloomberg, Company Release.

RBS: Capital Ratios look good



CROSS ASSET RESEARCH – CREDIT ANALYSIS GROUP

 Global Head of Research Patrick Legland (33) 1 42 13 97 79 patrick.legland@sgcib.com	 Head of Sector Research Fabrice Theveneau (33) 1 58 98 08 77 fabrice.theveneau@sgcib.com	 Head of Credit Research Tim Barker (44) 20 7676 7168 tim.barker@sgcib.com	 Deputy Head of Credit Research Hervé Gay (33) 1 42 13 87 50 herve.gay@sgcib.com
Financials (Banks) Financials (Insurance)	 Hank Calenti, CFA (44) 20 7676 7262 hank.calenti@sgcib.com	 Stéphane Le Priol (33) 1 42 13 92 93 stephane.lepriol@sgcib.com	 Jean Luc Lepreux (33) 1 42 14 88 17 jean-luc.lepreux@sgcib.com
Auto & Transportation	 Pierre Bergeron (33) 1 42 13 89 15 pierre.bergeron@sgcib.com		
Consumers & Services	 Marc Blanc (33) 1 42 13 43 87 marc.blanc@sgcib.com	 Thierry Cleber (33) 1 58 98 30 32 thierry.cleber@sgcib.com	
Industrials	 Bob Buhr (44) 20 7676 6454 bob.buhr@sgcib.com	 Barbora Matouskova (44) 20 7676 7023 barbora.matouskova@sgcib.com	
Telecom & Media	 Juliano Torii, CFA (44) 20 7676 7158 juliano-hiroshi.torii@sgcib.com		
Utilities	 Hervé Gay (33) 1 42 13 87 50 herve.gay@sgcib.com		

CROSS ASSET RESEARCH – CREDIT STRATEGY GROUP

 Global Head of Research Patrick Legland (33) 1 42 13 97 79 patrick.legland@sgcib.com			
Strategy	 Suki Mann (Head) (44) 20 7676 7063 suki.mann@sgcib.com	 Juan Esteban Valencia (33) 1 56 37 36 83 juan.valencia@sgcib.com	
ABS	 Jean-David Cirotteau (33) 1 42 13 72 52 jean-david.cirotteau@sgcib.com		

APPENDIX

ANALYST CERTIFICATION

The following named research analyst(s) hereby certifies or certify that (i) the views expressed in the research report accurately reflect his or her or their personal views about any and all of the subject securities or issuers and (ii) no part of his or her or their compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed in this report: **Hank Calenti, CFA**

EXPLANATION OF CREDIT RATINGS

SG credit research may contain both a credit opinion of the company and market recommendations on individual bonds issued by the company and/or its Credit Default Swap.

Credit Opinion:

Positive: Indicates expectations of a general improvement of the issuer's credit quality over the next six to twelve months, with credit quality expected to be materially stronger by the end of the designated time horizon.

Stable: Indicates expectations of a generally stable trend in the issuer's credit quality over the next six to twelve months, with credit quality expected to be essentially unchanged by the end of the designated time horizon.

Negative: Indicates expectations of a general deterioration of the issuer's credit quality over the next six to twelve months, with the credit quality expected to be materially weaker by the end of the designated time horizon.

Individual Bond recommendations:

Buy: Indicates likely to outperform its iBoxx subsector by 5% or more

Hold: Indicates likely to be within 5% of the performance of its iBoxx subsector

Sell: Indicates likely to underperform its iBoxx subsector by 5% or more

Individual CDS recommendations:

SG Credit research evaluates its expectation of how the 5 year CDS is going to perform vis-à-vis its sector.

Sell: CDS spreads should outperform its iTraxx sector performance

Neutral: CDS spreads should perform in line with its iTraxx sector performance

Buy: CDS spreads should underperform its iTraxx sector performance

Sector weightings:

OVERWEIGHT: Sector spread should outperform its iBoxx corporate index

NEUTRAL: Sector spread should perform in line with its iBoxx corporate index

UNDERWEIGHT: Sector spread should underperform its iBoxx corporate index

CONFLICTS OF INTEREST

This research contains the views, opinions and recommendations of Société Générale (SG) credit research analysts and/or strategists. To the extent that this research contains trade ideas based on macro views of economic market conditions or relative value, it may differ from the fundamental credit opinions and recommendations contained in credit sector or company research reports and from the views and opinions of other departments of SG and its affiliates. Credit research analysts and/or strategists routinely consult with SG sales and trading desk personnel regarding market information including, but not limited to, pricing, spread levels and trading activity of a specific fixed income security or financial instrument, sector or other asset class. Trading desks may trade, or have traded, as principal on the basis of the research analyst(s) views and reports. In addition, research analysts receive compensation based, in part, on the quality and accuracy of their analysis, client feedback, trading desk and firm revenues and competitive factors. As a general matter, SG and/or its affiliates normally make a market and trade as principal in fixed income securities discussed in research reports.

IMPORTANT DISCLOSURES

SG or its affiliates expect to receive or intend to seek compensation for investment banking services in the next 3 months from Royal Bank of Scotland.

SGAS had a non-investment banking non-securities services client relationship during the past 12 months with Royal Bank of Scotland.

SGAS had a non-investment banking securities-related services client relationship during the past 12 months with Royal Bank of Scotland.

SGAS received compensation for products and services other than investment banking services in the past 12 months from Royal Bank of Scotland.

SGCIB received compensation for products and services other than investment banking services in the past 12 months from Lloyds Banking Group, Royal Bank of Scotland.

FOR DISCLOSURES PERTAINING TO COMPENDIUM REPORTS OR RECOMMENDATIONS OR ESTIMATES MADE ON SECURITIES OTHER THAN THE PRIMARY SUBJECT OF THIS RESEARCH REPORT, PLEASE VISIT OUR GLOBAL RESEARCH DISCLOSURE WEBSITE AT

<http://www.sgresearch.com/compliance.rha> or call +1 (212).278.6000 in the U.S.

IMPORTANT DISCLAIMER: The information herein is not intended to be an offer to buy or sell, or a solicitation of an offer to buy or sell, any securities and has been obtained from, or is based upon, sources believed to be reliable but is not guaranteed as to accuracy or completeness. Material contained in this report satisfies the regulatory provisions concerning independent investment research as defined in MiFID. SG does, from time to time, deal, trade in, profit from, hold, act as market-makers or advisers, brokers or bankers in relation to the securities, or derivatives thereof, of persons, firms or entities mentioned in this document and may be represented on the board of such persons, firms or entities. SG does, from time to time, act as a principal trader in equities or debt securities that may be referred to in this report and may hold equity or debt securities positions. Employees of SG,

or individuals connected to them, may from time to time have a position in or hold any of the investments or related investments mentioned in this document. SG is under no obligation to disclose or take account of this document when advising or dealing with or on behalf of customers. The views of SG reflected in this document may change without notice. In addition, SG may issue other reports that are inconsistent with, and reach different conclusions from; the information presented in this report and is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. To the maximum extent possible at law, SG does not accept any liability whatsoever arising from the use of the material or information contained herein. This research document is not intended for use by or targeted to retail customers. Should a retail customer obtain a copy of this report he/she should not base his/her investment decisions solely on the basis of this document and must seek independent financial advice.

The financial instrument discussed in this report may not be suitable for all investors and investors must make their own informed decisions and seek their own advice regarding the appropriateness of investing in financial instruments or implementing strategies discussed herein. The value of securities and financial instruments is subject to currency exchange rate fluctuation that may have a positive or negative effect on the price of such securities or financial instruments, and investors in securities such as ADRs effectively assume this risk. SG does not provide any tax advice. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. Investments in general and derivatives in particular, involve numerous risks, including, among others, market, counterparty default and liquidity risk. Trading in options involves additional risks and is not suitable for all investors. An option may become worthless by its expiration date, as it is a depreciating asset. Option ownership could result in significant loss or gain, especially for options of unhedged positions. Prior to buying or selling an option, investors must review the "Characteristics and Risks of Standardized Options" at <http://www.optionsclearing.com/publications/risks/riskchap.1.jsp>.

Notice to French Investors: This publication is issued in France by or through Société Générale ("SG") which is authorized and supervised by the Autorité de Contrôle Prudentiel and regulated by the Autorité des Marchés Financiers.

Notice to U.K. Investors: This publication is issued in the United Kingdom by or through Société Générale ("SG"), London Branch. Société Générale is a French credit institution (bank) authorised and supervised by the Autorité de Contrôle Prudentiel (the French Prudential Control Authority). Société Générale is subject to limited regulation by the Financial Services Authority ("FSA") in the U.K. Details of the extent of SG's regulation by the FSA are available from SG on request. The information and any advice contained herein is directed only at, and made available only to, professional clients and eligible counterparties (as defined in the FSA rules) and should not be relied upon by any other person or party.

Notice to Polish Investors: this document has been issued in Poland by Societe Generale S.A. Oddzial w Polsce ("the Branch") with its registered office in Warsaw (Poland) at 111 Marszałkowska St. The Branch is supervised by the Polish Financial Supervision Authority and the French "Autorité de Contrôle Prudentiel". This report is addressed to financial institutions only, as defined in the Act on trading in financial instruments. The Branch certifies that this document has been elaborated with due diligence and care.

Notice to U.S. Investors: For purposes of SEC Rule 15a-6, SG Americas Securities LLC ("SGAS") takes responsibility for this research report. This report is intended for institutional investors only. Any U.S. person wishing to discuss this report or effect transactions in any security discussed herein should do so with or through SGAS, a broker-dealer registered with the SEC and a member of FINRA, with its registered office at 1221 Avenue of the Americas, New York, NY 10020. (212)-278-6000.

Notice to Canadian Investors: This document is for information purposes only and is intended for use by Permitted Clients, as defined under National Instrument 31-103, Accredited Investors, as defined under National Instrument 45-106, Accredited Counterparties as defined under the Derivatives Act (Québec) and "Qualified Parties" as defined under the ASC, BCSC, SFSC and NBSC Orders.

Notice to Singapore Investors: This document is provided in Singapore by or through Société Générale ("SG"), Singapore Branch and is provided only to accredited investors, expert investors and institutional investors, as defined in Section 4A of the Securities and Futures Act, Cap. 289. Recipients of this document are to contact Société Générale, Singapore Branch in respect of any matters arising from, or in connection with, the document. If you are an accredited investor or expert investor, please be informed that in SG's dealings with you, SG is relying on the following exemptions to the Financial Advisers Act, Cap. 110 ("FAA"): (1) the exemption in Regulation 33 of the Financial Advisers Regulations ("FAR"), which exempts SG from complying with Section 25 of the FAA on disclosure of product information to clients; (2) the exemption set out in Regulation 34 of the FAR, which exempts SG from complying with Section 27 of the FAA on recommendations; and (3) the exemption set out in Regulation 35 of the FAR, which exempts SG from complying with Section 36 of the FAA on disclosure of certain interests in securities.

Notice to Hong Kong Investors: This report is distributed in Hong Kong by Société Générale, Hong Kong Branch which is licensed by the Securities and Futures Commission of Hong Kong under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"). This document does not constitute a solicitation or an offer of securities or an invitation to the public within the meaning of the SFO. This report is to be circulated only to "professional investors" as defined in the SFO.

Notice to Japanese Investors: This publication is distributed in Japan by Société Générale Securities (North Pacific) Ltd., Tokyo Branch, which is regulated by the Financial Services Agency of Japan. This document is intended only for the Specified Investors, as defined by the Financial Instruments and Exchange Law in Japan and only for those people to whom it is sent directly by Societe Generale Securities (North Pacific) Ltd., Tokyo Branch, and under no circumstances should it be forwarded to any third party. The products mentioned in this report may not be eligible for sale in Japan and they may not be suitable for all types of investors.

Notice to Australian Investors: This document is issued in Australia by Société Générale (ABN 71 092 516 286) ("SG"). SG is regulated by APRA and ASIC and holds an AFSL no. 236651 issued under the Corporations Act 2001 (Cth) ("Act"). The information contained in this document is only directed to recipients who are wholesale clients as defined under the Act.

<http://www.sgcib.com> Copyright: The Société Générale Group 2012. All rights reserved.

Additional information available upon request. This publication may not be reproduced or redistributed in whole in part without the prior consent of SG or its affiliates.