RBS Citizens Round Table

Monday 2 July 2012

Richard O'Connor, Head of Investor Relations

Okay good afternoon everyone there might be a couple still in the lift system but in the interests of time thank you all very much for attending on what's a busy day for the sector. I'll hand over to Ellen to introduce her team in a minute. What I would say is that we have a presentation which will last about 50 – 55 minutes. There will be various financial information as we go through. If we could leave financial type questions until the end because there's a margin point at the front but then there's a whole margins slide at the back which we'd like to cover and fine do interrupt if there's anything particular on any slide, on product or strategy but again there'll be plenty of time for a Q & A at the end and so over to Ellen and her team.

Ellen Alemany, Chief Executive Officer

Thank you Richard. I'd like to welcome everyone for joining us today here in the United Kingdom and also on the webcast. Let me just introduce a few members of my management team that are here with me today. I have Brad Conner. Brad is Vice Chairman of Consumer Banking. Robert Matthews, on my left. Robert is Vice Chairman of Commercial Banking. To my right is John Fawcett, Chief Financial Officer for the business. Nancy Shanik, our Chief Credit Officer and David Bowerman, our Vice Chairman of Business Services. You'll hear from Brad and John and Robert today.

I've been CEO of Citizens for four years now and I think it's a great time to have a more detailed discussion about who we are, what we have accomplished and where this organisation is headed. Despite a challenging environment I think we made very good progress in 2011 and we have good momentum as we continue through 2012. So let's begin.

Citizens is a major player in the US banking industry. We have a strong franchise and we operate in attractive geographies with significant opportunity. We're the 12th largest bank in the US in terms of assets and we're a top ten bank if you look at us in terms of branches and our ATM network.

We compete in three geographies. We have about a third of the total US population or about 30% of real GDP and our geography presents us some tremendous opportunities being in cities like Boston and Philadelphia and Chicago as well as industrial regions such as Pittsburgh and Detroit.

We continue to maintain a top five or better in eight out of our ten markets, deposit share whilst simultaneously improving our deposit composition. We have significant market share in New England and we have very strong competitive positions in the Mid Atlantic and to a lesser extent the Mid West regions.

In store branches remain a key part of our strategy because they represent convenience to our customers and we're ranked number one in our footprint for in store and number two nationally.

In addition to branches and ATMs we continue to expand our distribution organically growing by investing in online banking, mobile banking and increasing distribution in auto, in home lending, in wealth and small business and commercial.

Let's talk about how the US fits in, in the context of RBS Group. We are an important business for RBS Group and we currently represent about 13% of the Group's core revenue. The strategy of RBS Group is that they want all of the retail and commercial businesses to compose about 80% of the core group revenue and the businesses are currently at 73%. So for RBS to reach that goal all of the retail and commercial businesses need to continue to grow.

We also offer several unique qualities to the RBS Group. We offer geographic diversity and that diversity is becoming even more important as the European banking crisis unfolds. Furthermore the US economy is expected to recover at a much faster pace than Europe.

Recently there was an article in the Wall Street Journal that said that European banks consider their US retail divisions to be among their most stable operations. We're self-funded with a loan to deposit ratio of 94% and we were recently upgraded to an A rating. We were the only bank in the United States that had an upgrade from S&P. John will talk more about this later.

Starting point for any organisation is having the right management team in place and we have reshaped and upgraded the senior management team of the company over the last few years. Our new management team has an average of about 25 years' experience in banking and was recruited from some of the largest national banks such as J.P. Morgan and Citigroup.

All of these people are subject matter experts in either their line of business or their function. They all have a sense of clarity, focusing on executing our strategic plan and most importantly they're all passionate about the business.

Our vision is to become a top regional bank in our footprint, a top regional bank. A few years ago we put a 'back to basics' business strategy in place that focuses on our core banking products. We now compete on service and product capability rather than price.

Our strategy is very simple we want to give customers the service and feel of a community bank but we want to give our customers the product and convenience of a money centre bank. We have a strong set of values in our company that are expressed through our credo which is our commitment to our customers, colleagues and community. Our brand is good banking, good citizenship. We rolled that brand out a couple of years ago.

American Banker just last week published a list of the reputation of banks in the United States, they do an annual survey, and we're proud to say that we moved up eight points from number 18 to number ten in reputation in the United States.

In 2012 we refined our strategic priorities to sharpen the focus of the organisation and we rolled out these strategic priorities, recruiting an engaged workforce which is about recruiting and developing talent, customer experience, primary banking partner, risk management and financial results and the metrics show that we're really improving against all of these. Our voluntary turnover of 13% is well below the industry average of 19. Customer experience, if you look at our customer satisfaction, Net Promoter Greenwich Associates scores against our business, we really exceed the competition.

Primary banking partner, this is about building lead relationships, selling more to customers, we have over the past two years our deposit households with the consumer finance product has grown 7%, and both in the middle market and commercial enterprise space we're now top five in our footprint.

Risk management, this is enterprise wide risk management not just credit risk, we have very strong asset quality and capital ratios. And we want financial results commensurate with a top performing regional bank and as you'll see on the next chart we're making very good progress here, catching up.

In Quarter 1 '12 we posted an 8.75 normalised return on equity and we narrowed the gap to peers to 250 basis points. Our NIM improved 19 basis points more than our peers. These improvements have been due to improved deposit and loan pricing, the run off of legacy balance sheet strategies. And despite the impact of the regulatory environment on fees and expenses our cost to income ratio is trending downward while our peers' is trending upward.

We remain self-funded with a loan to deposit ratio of 94%. Our deposit mix has improved as we have been intentionally running off high cost CDs and we exited several government banking markets.

And finally given this current regulatory environment the Bank's capital position remains under scrutiny, we are one of the strongest and most well capitalised banks in our peer group.

We've made that progress in an incredibly challenging regulatory environment and I would say that the regulatory environment in the US continues to intensify and the full impact really remains unknown. For example, only 100 of the 393 Dodd Frank Rules have been implemented and the new Basel III requirements just came out, our comment period is in September.

So what does all this mean for us? Well I would say that Reg E and Durbin probably impacted our fee income by roughly $300 million per year. And to mitigate that lost income we have put revenue initiatives in place that have brought us back to pre-regulatory levels which we'll discuss later on in the presentation. On the expense side we will incur about $50 to $100 million of additional expenses relating to regulatory compliance. I would say though that the regulatory environment could potentially present some opportunities for us. It may trigger some consolidation in the market as some banks are going to be forced to exit certain business lines or certain businesses as a result of Basel III and also banks who have poor margins today or operating efficiencies may be forced to consolidate.

As we've discussed in the past Citizens was a very underinvested franchise and a recent McKinsey study that came out roughly said that banks should be spending about 4% of their revenue in technology and what you can see is about three years ago we embarked on a major investment programme at Citizens to invest $1 billion in technology, we're basically rebuilding the infrastructure of the Bank, and we referred to 2012 as the year of delivery because a lot of the projects are being rolled out this year, and you'll hear more about these projects later as you hear from Robert and Brad.

As you can see from this chart the cost to income ratios have reset in the industry and you'll see that in the fourth quarter of last year the industry's beginning to recalibrate its cost to income ratios, and that is because of the regulatory environment. Reg E went into effect 18 to 24 months ago, but Durbin went into effect in the fourth quarter of last year and I think Durbin has had the biggest impact on the revenue line for banks which is causing that ratio to recalibrate. And then on top of that you have the additional expenses for compliance. As you can see though we have made a lot of progress improving our cost to income ratio where our peer group has deteriorated. We've had initiatives as a result of our increase in NIM, we've increased fee income, we've had some technology efficiencies just through cost discipline, property rationalisation, branch optimisation. We continue to improve and will align our cost income ratio to peers.

Our earnings turnaround also continues. In 2009 on an IFRS basis our core division posted a return on equity of a negative 1%. Last year we posted a positive 6% and in quarter 1 '12 our normalised core broke the 8% mark. We're projected and we're within reach of hitting over 12% in the medium term, and we're going to do this by addressing our shortcomings on the revenue side of the business.

We're shifting the mix of our business to be more of a 50/50 consumer and commercial mix which I'll talk about in a few minutes. To drive up our NIM and net interest income we're focusing on growing our Commercial book and optimising our loan pricing and deposit costs.

To address the fee income shortfall we have several initiatives in place that really drive at a core strategy of deepening our customer relationships. On the Consumer side we have initiatives in Home Lending and Wealth Management and Brad will talk about those and then on the Commercial side Robert will be talking about how we're building out our capital markets capabilities and recently integrated the Treasury Solutions Division.

Talking about the business mix now, in 2008 we had a Consumer/Commercial split of about 65/35. We also competed in geographies and products that were non-core to our business. So we identified almost $23 billion of loans, some of them performing, some of them non-performing that we considered non-core to the franchise, and as of June now our non-core balance is about $7 billion which is a reduction of almost 70% non-core. So from there we've concentrated on shifting the focus of our balance sheet to have more of a balanced mix of consumer to commercial loans. So as a result we've made a tremendous investment in Commercial over the past couple of years. Our commercial loans last year and going forward are projected to grow in the double digit range and our consumer finance loans are projected to grow in the single digit range and we will soon be at a 50/50 mix here.

So this should give you a very high level picture of our strategy and where we are today and now I'd like to turn it over to Brad Connor to talk about our Consumer Banking Division.

Brad Conner, Vice Chairman, Consumer Banking, Citizens

Great thanks Ellen. Good afternoon everyone.

Let me start by describing what we mean when we say Consumer Banking and talk a little bit about the businesses that comprise Consumer Banking. So when we talk about Consumer Banking for Citizens it would be our traditional branch network, so about 1,400 retail branches across the franchise. Our definition of small business banking would be businesses with annual sales of $5 million or less, and anything above the $5 million mark would be part of the commercial business that Robert will talk about a little bit later. Consumer also includes wealth management and then the traditional consumer finance businesses; so credit card, mortgage, home equity, student and auto. Those would be the components of the Consumer Bank.

How we're organised is actually fairly straightforward and simple and you can see it on the chart here on page 16. We have a single distribution organisation. So single head of US distribution, we have the branches, online and mobile, and contact centres all under the distribution organisation. And then our P&L would be organised along three primary product owners, what we call Everyday Banking and as the name would imply it's the products that our customers would use in their everyday banking needs, so checking, savings and other deposit products and payment products. Then we would have Home Lending which would be mortgage and home equity obviously and then Student and Auto. And then the other part of the organisation would be Operations, Performance Management, which is data and analytics and the traditional risk functions.

So that's how we're organised. If you flip to Page 17 you can see the momentum that we have in the business and we feel very good about where the business is heading. Certainly we have, as Ellen mentioned, some revenue challenges, $300 million of lost revenue between Reg E and Durbin and our challenge on the revenue side is to replace that lost revenue with fee-based businesses and we'll talk more about that and some good momentum and progress there. And you can see on the income statement side of the business good momentum on expenses and impairments, even with the incremental cost that comes along with the regulatory environment in the US, positive trends in expenses reduction year-over-year and impairments moving very positively with a 17% year-over-year improvement.

One of the consistent themes that you're going to hear us talk about is a very, very high credit quality book. We play primarily in the prime and super prime space and very positive trends across our credit performance.

Positive momentum also on the balance sheet side of the equation. You can see again what Ellen just mentioned single digit loan growth, both in residential and other loans and very strong momentum in core deposits, so 7% increase in core deposits and keep in mind the reduction in CD growth here is a conscious decision of a balance sheet mix so we're consciously moving to reduce our reliance on CDs.

On the next page you can see our market share position in lending. Ellen talked about the strong position we enjoy in deposit market share in our core franchise and you can see here that we also have a strong position in lending, particularly in Home Equity lending so we maintain our number one aggregate position across our franchise in home equity lending. We're top two in almost all of our key markets and you can see in Auto lending, particularly in New England and the Mid Atlantic a top five market share in almost all of our key markets.

You can see that we're coming from a little further back in the Mid West. In the Mid West we've just rolled out Auto within the past year in several of our key markets in the Mid West so we are growing and we are gaining market share but we've got a little farther to climb because they're new markets for us.

You can also see that we're a little bit behind where we'd like to be in Mortgage. Our goal is, wherever we compete, to be a top five player but it's very important to understand in Mortgage where we come from which is that two to three years ago we were really irrelevant in mortgage lending. We were outside of the top 50 in the US. We've since moved, over the past few years, to the 16th largest mortgage lender nationally and we're gaining traction and momentum in all of our key markets.

One other point that I would make around mortgage lending, along with that momentum in some ways it's a positive story that we come from the place that we did a few years ago because we're not burdened with some of the issues that our competitors have around foreclosure issues and large repurchase demand from the rating agencies, issues like robo-signing and things like that; we really don't have any of those issues, and it provides for us a nice advantage in the mortgage lending space.

I think one of the things that you would probably hear all the members of this management team say is that we think being a large regional bank is sort of the perfect sweet spot in US banking these days. It gives you the ability to be large enough to invest in the products and services that your customers need and certainly that's the case for us with that extensive branch network and extensive ATM network, 24/7 call centre coverage, very good online and mobile capabilities, but yet we can be small enough to feel like a community bank and feel very personal to our customers, and you can see some of that reflected in our customer satisfaction scores against our competitor group and our net promoter score. For those of you that – and I know you'll hear Robert talk about net promoter – for those of you that might not be familiar with the concept of net promoter, quite simply it's when you ask your customers, it's the group that would say that they would actively promote you, they would endorse you to family and friends on the positive side versus anyone who's neutral or worse, and the difference being the net. And you can see, along with customer satisfaction, our net promoter scores are strong compared to our peer group.

And we talked about our changing mix in retail deposits, and you can see that demonstrated a little bit more on page 20. We used to be reliant to about a third of our book, a third of our deposit book, on CDs, that's less than 20% today, and you can see the resulting impact that that has had on our cost of funds. I would also say to you that it's not just a change in mix but a strong discipline on pricing; traditionally Citizens would have been competing on price, would have been a price leader, we now have made our mark of competing on service and are a little less reliant on price and much more price disciplined. I would also tell you that one of the real advantages that we have, even though we're not as price sensitive and competitive as we used to be, we do have the ability to really ramp up our deposit should we need that to fund our balance sheet, just by being more aggressive with our deposit pricing.

On the other side of the page you can also see the trend that we're seeing in home equity. I talked about our number one market share position in home equity. You can see that we're also growing more rapidly than our competitors in outstanding balances of home equity, but it's really important to note that we have not sacrificed quality in order to achieve that, so our quality remains absolutely pristine, a high mix of first lien position, very high FICOS and very low LTVs. Our loss rates run 69 basis points annually on our home equity portfolio as of the first quarter of this year, which truly is best in class in the US market, so a very, very strong home equity portfolio.

Ellen talked about our key strategic priorities and you're going to hear both Robert and I really focus on one of those being we want to be the primary bank for our customers. And one of the ways that we measure whether we are the primary bank for our customers is whether our accounts are active? Do our customers actively use the accounts that they have with us? And you can see the progress that we've made in terms of customers who have checking accounts with us being more active. There are a few key drivers of active relationships, that would be things like do customers have direct deposit with you, do they use online banking, do they have a loan relationship in addition to a deposit relationship. And you can see very strong movement in all of those categories. Also important to note, if you look at the beginning point here, which would have been '09 on this chart, we would have been behind our peer group in almost... well in every one of these measures we would have been behind our peer group. We've now moved to equal or above peer group in each of those measures on our way to top quartile performance in the active measurement category.

On page 22 we talk about some of the opportunities that we mentioned earlier for fee based businesses to provide revenue growth, and you can see a few of those detailed out a little bit more. Mortgage, you can see the market share gains that we've enjoyed in mortgage. I want to point out that our growth in mortgages is purely organic, we don't do any wholesale lending, we don't do any correspondent lending, it's 100% retail; the growth has come from hiring retail loan officers and deepening relationships with referral sources, and you can see the market share gains that we've had here.

I would also point out to you that our growth has actually slowed a little bit over what we could have accomplished just because the industry is under-capacitised given the huge demand in the US market for refinance. So Citizens, along with every other lender, is really struggling to have the capacity to meet refinance volumes and that has slowed what would have otherwise been probably an even faster growth in mortgage.

Business banking is another area of focus for us. Business banking has always been a business that's been a strong deposit business for us, and our key focus now is deepening relationships with other services like loans and cash management services, business credit cards, and you can see that we're making good progress there. I will tell you, and you'll hear Robert talk a little bit about this, that at the small end of the business market the demand for loans in the US has still not picked up, so we're open for business, we're ready to lend, but the demand, particularly at the small end of the market, has not yet been that strong.

And then the other opportunity for us is Wealth Management, and you can see we're investing in new bankers serving our wealth customers and our private clients. And you can see the increase that we're seeing in premier and private originations as a result of that investment.

And Ellen talked about this being a year of delivery and catching up with under-investment, and on page 23 I talk a little bit about that as it relates to the consumer business. The initiatives that you see detailed here on page 23 would represent about a quarter of a billion dollars of investment for us, so very sizeable investments and again a year of delivery for us as well; we'll be rolling out a new branch image capture system starting in the fourth quarter of this year, which will replace about a 25 year old teller platform, tremendous efficiency gains for us with the branch image capture, both on the front end and on the back end of the business. A new loan origination platform in Auto which will be delivered in the fourth quarter of this year. A new origination platform in Mortgage which will be coming in the first half of the year in 2013. And then very sizeable upgrades in our ATM network, replacing basically all of our in-franchise ATMs with intelligent deposit machines; again big efficiency gains from that as we get image capture and as we reduce transaction volume in our branches from the use of intelligent deposit machines.

That's a multi-year roll-out, a couple of year roll-out, but that has started already, the replacement of ATMs with intelligent deposit machines.

Unidentified Analyst

Just a clarification, are the contribution numbers per year or is this over

Answer: Brad Conner

This is over a four year period of time, so this is the contribution of the investment from 2011 to 2015, so they're not annualised numbers.

Unidentified Analyst

And net contribution right?

Answer: Brad Conner

Net contribution, correct.

Unidentified Analyst

It could be negative in the first two years

Answer: Brad Conner

Correct.

And then finally on page 24 we are testing and using several innovations in our branch network. We are working with video conferencing, so we're using video conferencing for investment origination, investment sales, for mortgage originations, and having very good success with that. We're also testing several new branch concepts such as using intelligent deposit machines in conjunction with bankers and that resulting in tellerless branches. Again technology and new concepts to drive additional efficiencies in branch banking.

So with that I will stop and I will turn over to Robert Matthews to talk about Commercial Banking.

Robert Matthews, Vice Chairman, Commercial Markets, Citizens

Thanks Brad. Good afternoon everyone. In the next couple of minutes I'd like to provide you an overview of our commercial banking business, I'll talk about how we're organised, where we're going and how we're measuring success, and give you a sense of some of the progress that we've made, the momentum that we have going into 2012.

If you could just turn to slide 26. This is an org chart which shows, shaded in light blue, the revenue producing either customer coverage or product areas. The white areas that are along the right hand side are the administrative or support areas that enable those line businesses.

Starting from the left, Commercial Enterprise Banking is our business focused on the SME segment, and the SME for us would be companies with annual turnover or annual revenues between US$5 million and US$25 million. That is a relatively small business, it's about 10% of our revenue today, but one that we would like to be a much larger piece because it is a large segment in the markets that we serve and we're looking to grow that in the coming years.

The Corporate Banking business, which is right next to it, that provides comprehensive credit, cash management, foreign exchange, interest rate hedging, solutions to our mid and large corporate customers. The middle market customers we define as those having turnover of between US$25 million and US$500 million per annum. MidCorporate between $500 million and $2 billion.

That's a business that comprises almost 50% of our activities in Commercial Banking, so it is the biggest single customer segment within the business.

Also in that area is our government banking business. So we bank municipalities and states; we're the lead bank for the city of Boston, lead bank for the city of Providence etc. And also within that business is a very sizeable not for profit banking franchise. By not for profit it means we would be providing banking and financial services to secondary high schools and universities, both private and public, in the United States, as well as to hospitals which are 501C3 not for profits in the US, as well as membership organisations and social services organisations.

The next areas are Corporate Finance and Capital Markets, and that's where we house most of our product delivery capabilities. That would include our debt syndication business, which is one that we launched in May of 2010 and has grown very, very nicely, and I'll speak about it a bit later in the presentation.

Also our Corporate Finance, we have just signed a strategic agreement with Oppenheimer and Company last month to bring M&A and equity capital markets capabilities to our small and mid-size commercial customers.

We also have our Foreign Exchange and Interest Rate Hedging structuring business there, so when companies need to manage their foreign exchange exposure or their interest rate exposure, the structuring people work on doing that and then they lay off the risk against RBS. So we have one window to the market, and one book position that we run, but all of the customer transactions are structured here within the commercial business.

And then lastly two of our most exciting industry verticals, Health Care and Technology. Given the markets that we serve those are very sizeable industries in our footprint, and they're also rapidly growing, so we're building our resources there.

The next is our Asset and Enterprise Finance. The Asset Finance business is our leasing company and we provide mid and large ticket equipment finance and leasing product to both the Citizens' customer base as well as the RBS GBM or M&IB customer base. And that would be a business that produces terrific returns and it's one that we're looking to grow over time as well.

The second major business within that area is our Franchise Finance, and that's where we provide financing to the franchisees of food concepts, gas stations, convenience stores, so McDonalds. For example, in McDonalds we're the second largest provider of finance to McDonalds franchisees in the United States, and we're top three in a number of other food concepts and convenience store and gas station concepts.

Our Speciality Banking Group really has two primary activities within it; one is Commercial Real Estate, and I don't need to tell you that that has been the one area that's been most stressed for the commercial bank over the last few years. And luckily we were under-weighted in commercial real estate going into the crisis, and that's a business that we have been optimising and has actually been shrinking over the last couple of years: it's just under $6 billion so it represents about 17% of the commercial bank loan outstandings. And really the challenge there is that the good developers and sponsors for new projects aren't doing a lot, obviously in today's market. And so we're seeing that business actually beginning to shrink down.

And lastly the Treasury Solutions, which is the US Domestic Cash Management business. You'll all remember when recently in the early part of this year RBS decided to take the GTS business and reintegrate it into the individual customer franchises. This is the US Domestic Cash Management and Trade Finance Business. So we've just reintegrated it and we're seeing good lift in terms of both revenue, double digit revenue growth per annum, and also the pipeline, which is growing in excess of 20%. So that seems to be a good alignment of bringing it back into the business.

I'll just ask you to turn to slide 27. This is really a quick snapshot of some of the financial performance highlights, and I'll just concentrate on a couple of them. The first one is loan growth. The numbers you see there are for loan growth point to point, this is December 31st 2010 to December 31st 2011, up 14%, which is several percentage points higher than the market average, that was good growth. And I'll touch on that in a little more detail around pricing.

Non Interest Bearing Deposits up 25%, and those are what we would call in the United States demand deposits. The reason that we've been able to grow there is really around a three pronged strategy. Number one is we have been very good at requiring customers to whom we give credit facilities to keep a portion of their operating liquidity with us. And so we've been able to have that through compensating balances grow this piece of the business.

Secondly we have been very disciplined around our earnings credit rates. In the United States when customers use your cash management services they can pay you in cash or in balances, and you give them a rate at which those balances accrue benefit to pay you. We've been very good about optimising that rate so that we drive balance growth.

And thirdly we've been targeting actively the cash rich segments within the commercial space. So we go to industries that have large cash balances and build relationships with them.

So all of those are very good. What that's allowed us to do is to run off our more expensive, similar to what you heard from Brad, run off our more expensive TD and money market balances, and to lower our cost of funds; the cost of funds across our entire balance of commercial deposits is about 16.6 basis points, so there's a limit to how much more juice we can probably squeeze out of that; we certainly have a very low cost of funding in our commercial banking customer funds right now.

The Fee Income growing nicely up 12% year on year, really driven by two things, one is the lift in our Treasury Solutions Cash Management business, which has been about 10% so far this year, continuing that growth. And secondly in our Capital Markets business, which I'll talk about later and it's grown very, very strongly since we started the business in 2010.

Total Revenue you'll see is only up 1%. Now the reason, you would ask why is that? Fees are up 12%, revenues from loans are up about 7.4%, but what's happened is because of the ambient interest rates going down the value of our deposits that we provide into Treasury and the ability for Treasury to reinvest those has come down dramatically, so revenue from deposits has gone down by almost 10%. And so that's offset a big piece of all of the growth that we have on both fees and loan revenues. Now that will turn around at a certain point but we don't expect any meaningful change in the interest scenario for the next couple of years.

Loan Impairments being the last piece that I'd point out, that's been a great story and you'll hear more about that as we move forward.

Just going onto slide 28, I'm going to echo Brad around our focus on lead relationships. We've found both through research we've done as well as from third party research that if you are the lead bank for a commercial customer you will capture between 60% and 70% of that customer's financial services wallet, or their spend. If you're number two, three or four you'll share in the remaining 30% to 40%. So it's critically important that we be the lead. And we've done a lot of investments, including our capital markets business, to make sure that we maintain that lead.

So you can see there clearly across our market we're in a number four position, competitive position relative to our peers in lead relationships across our business. In the middle market we're also in a four position. So really good I think; I'd love to see us move up one more step to be in that number three position, and that's something that we're going to target over the next couple of years.

The last chart that you see on the right is our Middle Market Bookrunner or Lead Arranger, the quarterly league table status just came out for the first quarter, we're number six in sponsored middle market, we're number ten overall; we've been top ten on a national basis for several quarters even though we compete in only 12 states. So we have a stronger position in our 12 states but we are in top ten on a national basis.

On slide 29 I just want to talk a little bit about pricing, because as I said earlier we have been able to grow our loan outstandings a little faster than the market, so the question is are we sacrificing price or are we sacrificing credit quality, and in both cases the answer is no. I feel very good about where we are. If you look at slide 29 you'll see the information that comes directly from Standard & Poor's and we actually have a linkage between Standard & Poor's and our own back end loan system, so that can tell us for a given client where we're doing a renewal or we're doing a new loan, they can tell us what our peers are pricing that same loan for a company in the same industry in the same metropolitan area with roughly the same risk characteristics. So we can see very quickly are we under-pricing or are we over-pricing relative to what our peers would do, and so were getting much, much better at that.

On the right hand side you can see CEB is our small business or SME segment. We do continue to have about 35 basis points of opportunity in pricing against the peers. In our middle market we're actually above our peers and we're getting a slight premium, so although we've been able to grow volume faster than peers we haven't sacrificed on the pricing, which is a very reassuring thing from my viewpoint.

And then the lastly the credit quality has continued to be very strong. And you can see from nonperforming assets or from a charge off as a percentage of portfolio we've compared very, very favourably to peers.

On slide 30, Ellen spoke earlier about the investments we're making in our business, in both the Consumer and in the Commercial Business; and in the Commercial Business we're concentrating those investments in three areas: one is in our staff, making sure that they are trained, that they have the tools available to serve our customers well. And so we've put the entire organisation, including all of the product partners, through the same training to help them get up to speed. We've invested heavily; we will be launching later this quarter, in the third quarter, our new loan origination front end, and credit and loan administration system. That will come in later this quarter; and that will help us to do straight through processing and shorten the cycle time between a request for credit and our ability to deliver that approved on the system ready for that customer to use.

If you just turn to the next page I'll talk about the investments we're making against our product capabilities. I mentioned earlier that in 2010 we launched our Capital Markets business. That has been very, very successful. You'll see in 2009, without a Capital Markets activity, we did 11 transactions where we were either the Lead Arranger or the Joint Lead Arranger and we produced about $2 million in Capital Markets arrangement fees in 2009. By 2011 that had grown from 11 transactions to 87, and from $2 million in arrangement fees to $40 million. We do think that is going to continue. Based on the first half we'll probably close this year at about 100 Lead or Joint Lead transactions; and we'll do about $52 million of straight pure arrangement fees.

Now what's interesting about that is on top of what we do in the arrangement fee, for every dollar we earn in the arrangement fees, we earn $1.14 of ancillary revenues; because if you were the lead you get the first shot at the cash management, you get the first shot at the swap, you do the FX for the transaction. And so through our back testing we found that that 1.14 to one holds through all of our transactions. So you really see a business that's produced, going from $4 million to $100 million in four years – so that's something that we think we continue to do. At the bottom you'll see our new Oppenheimer arrangement is going to be another source of revenues; and we do think that will be meaningful. We just signed that agreement last month, which allows us to bring our customers to Oppenheimer for M&A and Equity Capital Markets execution and allows them to bring their customers to us for cash management, financing, working capital, foreign exchange and interest rate hedging. So although we've only had it signed for a month, we've closed two transactions already and we have a very, very healthy pipeline in this building. So we do think that's going to be a meaningful business for us.

Just in the middle is our Treasury Solutions integration. You can see that in some of our segments, like our Middle Market, we have very good penetration in Cash Management. In our CEB and our Mid Corporate segment we've got opportunity in terms of increasing that penetration. So what we've seen of double-digit growth in fees from Cash Management we do think will continue for the foreseeable future.

And then lastly I'll just ask you to turn to slide 32. To close with some feedback we're getting from customers. And like Brad said, we feel – and Ellen mentioned at the beginning – we feel great about the feedback we're getting from our customers. This is information that we get from Greenwich Associates every quarter this is the full year 2011 results. But we track our feedback from our customers relative to our key competitors in each of the segments. In the Commercial Enterprise or the SME segment we track our results against that of Bank of America, JP Morgan, TD Bank and PNC, who are the top four competitors in our market. And in our Middle Market we track against Bank of America, JP Morgan, PNC and Wells Fargo. And you can see in virtually all of those measures we stand up very, very well we're either number one or tied for number one. And I'm especially proud of the Relationship Manager scores because that's how we deliver to our customers. So customers are extremely complimentary about the Relationship Management performance, and their willingness to recommend them to other companies, how proactive they are and how well they coordinate the product specialists. You can see there in the Net Promoter we're number one and very strong and our Product Capabilities and Client Service we are ranked number one or number two with very, very strong scores.

So I take that and I'm very encouraged by that because I think that's a great leading indicator of what we can do with our customers. And as we build out our product capabilities we can become more and more relevant. Because if we can become lead bank then not only do we produce a better return we get the first shot at all of the ancillary business or follow on business that happens and we also build multi-product deep long-term relationships that really can be the base of a great franchise. So I think with that we are confident about our ability to get to the 50% share of CFG overall.

So, with that I'll turn it over to John Fawcett.

John Fawcett, CFO Citizens and RBS Americas

Thank you, Robert. Starting on page 34, we start with a brief look at the P&L and key financial metrics – all of which you will have likely seen. Key takeaways from the page are:

We have returned to sustainable levels of profitability, having strung together nine consecutive quarters of earnings. We have stabilised the top line with a meaningfully smaller balance sheet. Expenses are well under control and will continue to be aggressively managed. Recall that 2010 results included a $113 million one-time benefit associated with the freeze of the bank's defined benefit plan. Absent that 2010 benefit, expenses were flat to nominally better in 2011.

Legislative and regulatory impacts also continue to figure prominently in the results. 2011 included the full-year impact of the adoption of Regulation E and the fourth quarter implementation of the Durbin Interchange Price Fixing Scheme. Operating results continue to include the absolute cost of compliance with legislative and regulatory change; particularly as it relates to the provisions of Dodd-Frank, which continue to unfold. Impairments of $524 million, which includes $126 million of other than temporary impairment related to our available for sale securities portfolio, steadily improved over the course of the year and generally across all asset classes. We remain substantially funded through Retail/Relationship sources, with Wholesale funding sources down more than 30% from one year ago. All other measures were either stable or improving.

Turning to page 35. Total quarterly net interest income for the year, and for the last three years for that matter, has been substantially range bound. In part a function of a smaller balance sheet driven by a conscious choice to not hold long-term fixed rate consumer assets and in part due to challenged economic conditions, particularly a persistently low rate environment. Over the same three-year period average earning assets have declined by nearly $20 billion, having hit a floor in Q1 2011, and recovering to $102 billion by year end 2011 with substantially all of the growth coming out of Commercial Banking.

Turning to page 36. Net interest margin has been an area of great challenge and focus for the last three years and measurable progress has been made. Net interest margin, in spite of the secularly declining rate environment, has advanced in eight of the last 11 quarters. Progress seemingly hit a wall in Q3'11, coincident with the collapse of ten-year yields between half-year '11 and 45 days into the third quarter. A significant driver of improving net interest margin over time has been disciplined deposit pricing, which has dramatically driven a change in mix that continued to further evolve into 2011 and today, where we have driven growth in demand deposits while pricing away higher cost term and time money. Margin compression was not unique to Citizens, as many competitors reported linked quarter declines. As we move into the second half of 2012 we would expect that margins will remain under pressure absent a change in the prevailing interest rate environment.

Turning to page 37. Non interest income was significantly impacted in 2011 as a result of legislative and regulatory activism in the form of Reg E and the Durbin Interchange Price Fixing Scheme. Reg E or opt-in legislation relating to fees that can be charged on ATM or debit card transactions that would create an overdraft, started to find its way into results in the second half of 2010 and became fully impactful in 2011. The year-on-year impact of Reg E was approximately $75 million. Durbin Interchange ultimately limited the interchange fee that banks could charge on customer debit card transactions. The effect of this legislation was fully realised in the fourth quarter of 2011 and resulted in an adverse impact of about $40 million.

Presented on the right-hand side of the page are full-year impacts based on a full-year run rate from the time of initial implementation for both Reg E and Durbin. Mortgage banking fees over the last couple of years and into 2012 have been a significant mitigant to the effects of Reg E and Durbin Interchange. Originations in both 2010 and 2011 peaked at about $6.5 billion. The pace of originations in 2012 continues to be strong, both a function of the low rate environment and increased sales and distribution capabilities. It is still the case that the majority of these originations are packaged and sold, which generated a significant level of mortgage fee income.

Turning to page 38. Expenses remain a keen area of focus, and to the extent that we are able to manage and control expenses we are doing so. As one might expect in a bank with 1,400 branches, the vast majority of expense relates to people and facilities, nearly 75%. Since the onset of the strategic plan we have thoughtfully continued to right size our footprint and limit activities to products and geographies where we believe we can be impactful. Some may be aware that we recently concluded a sale of our Long Island branch network: 57 total branches, including 53 in-store branches, essentially breaking even after transaction costs. This and other similar transactions that predated this one are an affirmation that we will continue to manage the franchise for maximum efficiency, and focus and invest in our primary markets. Expense turning assets has us well-positioned relative to peers, and we expect to maintain pressure on cost and infrastructure.

Turning to page 39. Over the last three years our balance sheet has been through a great deal of change. At its peak in November 2008 the Citizens Financial Group GAAP balance sheet was nearly $168 billion; as it stands today it is $40 billion smaller. Starting on the top left and moving clockwise a core tangent of the strategic plan has been to grow the Commercial part of the business, and that has happened. As the Commercial portfolio as a percent of total loans has moved from 39% in 2009 to 44% in 2011, on its way to a 50/50 mix. The Investment portfolio is appreciably smaller and remains substantially US Government guaranteed. Wholesale funding has been aggressively reduced. What Wholesale borrowing there is is substantially related to Federal Home Loan Bank borrowings, which are fully secured.

The table on the lower left reflects the change in deposit mix. At the same time we have aggressively sought to price away single product term and time money, we have sought to grow demand, checking with interest and lower cost money market accounts. Progress has been steady and consistent.

Turning to page 40 and turning to the Non-Core portfolio, a brief diversion from our Core business operations. Our Non-Core assets continue to run off: having begun in 2008 at nearly $23 billion it now sits at about $7 billion, or down about two-thirds. It is important to note that not all Non-Core assets were or are impaired or poor credits. Decisioning about what went into Non-core involves strategic choices about customers, products and geographic footprint. In 2011 Non-Core charge offs of approximately $650 million accounted for 56% of all charge offs while Non-Core loans only accounted for 9% of total loans.

Turning to page 41. Impairments improved $279 million, or 35%, from 2010 for the reported Core US Retail and Commercial segment. Total charge offs of $513 million were $213 million or 30% lower than one year ago, and reduced in most asset classes. Commercial charge offs witnessed the greatest improvement as charge offs were more than halved in both Corporate Banking and Commercial Real Estate. The pace of Consumer charge offs also improved as the absolute level of charge offs improved by almost $90 million, or 18%. Total balance sheet reserves declined about $90 million from a year ago, reflecting the improved outlook for credit losses. Our success in credit is clearly partially due to macro trends, but also accrues to augmented collection capabilities, initiated as we moved into the crisis. A disciplined unwillingness to compromise on underwriting standards and the fact that we have abided by our strategy to operate substantially within footprint and originate business in the communities in which we live and work.

Turning to page 42. This page offers a bit of a deeper look into the Wholesale and Retail portfolios. On the Wholesale side of the house, as one might expect, the portfolio distribution is substantially New England and Mid Atlantic as we have aggressively, over the last couple of years, sought to de-risk in the Mid West. The lower left pie chart offers a bit more perspective on the internal view of credit quality in our Commercial business and how it roughly lines up with S&P ratings. Turning to the right side of the page, Retail credit is split between Home Equity, Residential First Mortgage and our Indirect Auto Finance book. All three books reflect the prime/super prime nature of these businesses, whether one looks to loan value or FICO metrics.

Turning to page 43. At the Citizens' Financial Group level, on a GAAP basis comparable to peers, we believe we are well situated in the important metrics of nonperforming loans to total loans, and also the measure of reserves to nonperforming loans. As these comparisons to peers are on a GAAP CFG basis it is also important to note that absent our exposure to service by other portfolio, or SBO, we are less exposed to markets such as California and Florida, where the speculative bubble has burst and the backlog of property inventory remains elevated, suggesting a longer workout. We are likewise similarly underweight credit cards and commercial real estate.

Turning to page 44. Our capital position remains strong relative to peers. In every ratio we are well above US Government capitalised minimums. Our capital position, both quantity and quality, is a function of three things: first the generous level of support that RBS Group has provided over the term of the crisis in the form of sub-debt contributions; and then the conversion of the sub-debt and preferred into common equity. Second a judicious use of and management of our balance sheet. And thirdly, the fact that we operate in a US regulatory framework that has significantly restricted cross-border capital flows without prior regulatory consent. Having participated in and submitted a filing to the US Federal Reserve Bank on January 9th of this year as part of their Capital Plan Review process of banks with assets in excess of $50 billion, our plan to begin to return capital to our parent was not objected to. We've just paid our first dividend back to Group in more than three years and retired $200 million of a $480 million trust preferred issue held by the RBS Group. It is expected that CFG will, or has graduated to be, a US CCAR bank and will submit an updated capital plan and stress test on January 5th 2013. Any future dividends on capital or capital actions will be subject to regulatory review and approval by the US Fed.

So, in closing, it was another challenging year but we have turned the corner. We did more with less. We maintained top line revenues with an average earning balance sheet that was smaller. We advanced net interest margin another 21 basis points from one year ago. We invested significantly in our franchise and in the future while holding expenses essentially flat. We substantially improved our liquidity position while reducing our reliance on wholesale borrowings. We grew important DDA balances while pricing away more costly term and time money, and we have begun what we hope will be a regularised process of capital repatriation to Group. So we've done lots, we have lots more to do. And with that I will turn it back to Ellen.

Ellen Alemany

Thanks John. Before we open it for questions and answers let me take a minute to summarise what we've heard this afternoon.

We're a major player in the US banking industry. We offer to RBS global diversity and access to the world's largest economy. We have a very strong distribution network where we can offer our clients convenience to the bank on their terms, when they want it and how they want it. We continue to be a self-funded bank; we're known in the industry for our strong asset quality and capital ratios. We've assembled a very seasoned management team. Our C&I loan portfolio and Capital Markets revenue continue to grow into 2012 as we shift our balance sheet from more of a Consumer to a 50/50 Consumer/Commercial mix. We've got very strong customer metrics that prove that we are a trusted advisor and a primary banking partner to our customers. We're continuing to invest and moving along very well in our technology infrastructure plan to prepare us for the future. As John discussed, we're narrowing our gap of NIM and cost to income ratio versus the peers. We're improving our return metrics and strengthening shareholder value; and we have a clear path to a 12% return. We really have strong momentum and place in the business, with nine consecutive quarters of improvement; our numbers are moving in the right direction, in every direction, that includes both customer metrics and financial metrics. So we're really pleased with the progress that this organisation is making and we think we're really well-positioned for the future.

So we'll just open it up for questions.

<u>Question and Answer session</u>

<u>Question 1</u>

Chira Barua, Bernstein

Can I ask a couple of quick ones? One is, I'm struggling, slide 21, I'm just wondering, the deposit customers with loan relationships, the 30% that you have, is significantly low for a US bank; can you help me think through that? Why is it so low and what could be an aspiration for management?

Answer: Brad Conner

Actually, the deposit customers with the loan relationship, it's actually not significantly low, it's about right on peer average of about 30%, around peer group average. Now I will tell you the reason that we come from a very low base, compared to a lot of our competitors, is the fact that traditionally we were not a strong mortgage player, so if you look at our penetration of the mortgage product it's still well behind our peer group, and then the other reason for that is historically, even though we had a credit card business that was not focused in our franchise, sold through our branches, so our customer base penetration of credit card was very low. So we've had to make up a lot of ground, but I will tell you that 30% is pretty much spot on our peer group average. But it's lack of penetration in mortgage and credit card that has historically kept us behind the peer average.

Answer: Ellen Alemany

In 2008 the only consumer finance product that was sold in the branches was the HELOC product.

Answer: Brad Conner

Correct.

Answer: Ellen Alemany

That was the old management team.

Chira Barua, Bernstein

And the distribution right now in home equity and mortgages is very different, or is it again sold through the same distribution…?

Answer: Brad Conner

I'm sorry, say that again?

Chira Barua, Bernstein

So home equity and your mortgages, right so is it right now when you're selling those products?

Answer: Brad Conner

Yes, it is. Well, the only difference is that primarily the home equity is sold by our bankers in our branches, whereas mortgages are sold by our dedicated mortgage loan officers, but in terms of geography it's basically the same, everything's in our core banking markets.

Answer: Ellen Alemany

But it is sold through the internet. We have different channels where we sell the products.

Answer: Brad Conner

It is, but the great majority, 90 plus percent of our home equity is sold through our branch network and it's above 90 that's sold by mortgage loan officers, but we do have telephone and internet origination capabilities, but it's face to face sales is predominant.

<u>Question 2</u>

JP Crutchley, UBS

Just going back to that comparison with peers, when you do the revenue analysis or the cost analysis verses peers what is it that needs closing? Because it looks like your NIM's a bit lower, your cost income's a bit higher, so it looks like it's more of a revenue problem than a cost problem.

Answer: Ellen Alemany

It is.

JP Crutchley, UBS

But is that because I mean clearly a chunk of your portfolio's been taken off in non-core, is it because you've got a smaller back book. Just what is it that gets you back to the peer group and above the peer group?

Answer: Ellen Alemany

Yes we believe that it's more of a revenue than an expense issue. I think on the actual expense side, if you look at expenses to average earning assets we're very strong, we've been doing a very good job of self funding a lot of our growth initiatives on the expense line. It's really a revenue, and that's why our plan going forward is to build revenue through two ways, one by building our fee income. One of the reasons we want to grow commercial to become a larger piece of the pie is that all of the fee income from capital markets, FX, derivatives, GTS etc will offset the loss in fee income on the consumer side. And then the other way is to continue to grow our loan book, just make the pie bigger on our loan book at higher margins going forward. But it is more of a revenue issue than an expense issue.

Answer: John Fawcett

I think the other thing that sometimes causes a bit of confusion is is that when you look at it on the US retail commercial core basis you're looking at a cost income ratio that's probably in the mid 70s. I think that when you look at it on the US GAAP basis and compare it on the same basis as GAAP peers we're kind of in the mid 60s, and so we're in a sensible place. I think to your point, you're absolutely right, it is a revenue issue, I think part of the revenue issue is the fact we're underweight in a lot of different areas in the fee space and that's hurt us.

<u>Question 3</u>

Raul Sinha, JP Morgan

If I can just follow up on that particular point of questioning, can you explain why the cost income ratio is different on the US GAAP basis? Is that because the US core does not include your commercial business in GTS and GBM?

Answer: Ellen Alemany

Yes. The way the franchise is defined is, it's US retail and commercial, so that does not include non-core which is a significant piece.

Raul Sinha, JP Morgan

But I would have thought that the cost income ratio of noncore might be worse than the core?

Answer: John Fawcett

Yes, the interesting thing about this is when you look at US retail and commercial core it actually includes group allocations on an MIS basis. When you look at it on a GAAP basis there are none of those costs. The other thing that drives this substantially is Mortgage Servicing Rights (MSR), so MSR on an IFRS basis goes to through expense line, on a GAAP basis it's up on a fee line as a contra revenue, and that's part of the challenge. So a lot of it's bookkeeping and geography on the P&L.

<u>Question 4</u>

Raul Sinha, JP Morgan

So going back to the revenue point, you mentioned a couple of times obviously the margin and probably the revenue picture within the consumer bank is probably likely to relate to the rate environment. So should we sort of think that the inflection point on the consumer rate evolution will probably coincide with the change in interest rates?

Answer: Brad Conner

It certainly will. It certainly will be an inflection point, there's no question about that. Now, having said that, you heard us talk, we're really working hard to grow the fee based business opportunities like mortgage and grow in auto lending and wealth, but it is a fair statement to say that rising interest rates will be an inflection point for consumer revenue growth.

Answer: Ellen Alemany

One thing though I want to point out is if you had asked us a couple of years ago, interest rates were the biggest risk to the franchise and a lot of our recovery was based on interest rates. The longer we've gone now, because rates are so low right now and can't really get much lower, we have a tremendous amount of upside with the change in rates. Rates have now become an opportunity for us, where in the past it was really a risk to us.

Answer: Brad Conner

Both on the retail and on the commercial side.

Raul Sinha, JP Morgan

But is that an impairment point that you're saying, rather than a revenue point? So my question actually is underlying to the… The real issue is, have you seen all the negative impact in your revenue line because of lower interest rates, or is there some gradual negative impact still to feed through as interest rates remain where they are?

Answer: Ellen Alemany

I would say that most of the interest rate impact has already gone through the revenue line going forward, that's right.

<u>Question 5</u>

JP Crutchley, UBS

I recall, again a few years ago when we talked about this, you had a big interest rate headwind in terms of your hedging activity which was the anticipated environment we ended up in. Has that washed through now? Or is it back to the drag in terms of a fixed rate?

Answer: Ellen Alemany

So he is commenting that we had some structural inefficiencies with the balance sheet which just through the passage of time would improve our NIM as these swaps run off. We have a little opportunity left, not a lot, but we have some.

Question 6

Amit Goel, Barclays Capital

Can I just, coming back to the rating environment, slide 13, where you kind of quantified, well you didn't quite quantify, you give us some indication of the kind of improvement on funding costs contribution to the ROE and sort of eight to the 12%. What proportion of that is driven by continued reshaping and re-pricing of the book, or how much is really dependent on the change to the rating environment?

Answer: Ellen Alemany

I think more is less through the rate environment and more through reshaping the book, growing the commercial mix, continuing to grow loans, growing the fee income, managing our expenses.

Amit Goel, Barclays Capital

Well, to ask it a slightly different way, to the 12% medium term target, what rate environment do you assume you need to get to that target?

Answer: John Fawcett

Well, two to three years. I mean I think the expectation is is that rates are going to stay fairly low over the next couple of years at least. So I mean clearly we will benefit as rates start to move, that's unquestionably true.

Answer: Robert Matthews

But over the medium term, we don't have significant improvement in rates.

Answer: Ellen Alemany

No, we're projecting flattish for the medium term.

Question 7

Raul Sinha, JP Morgan

What are the areas in which you are growing a commercial business and do you worry about some of the risks of growing at this point in the cycle?

Answer: Ellen Alemany

Robert can answer that one.

Answer: Robert Matthews

Yes I mean honestly what's happened recently and we've been very, very prudent in terms of where we wanted to grow because you don't want to create a problem that you'll have to revisit two or three years from now. The CRE business has been shrinking as I told you, I mean that's a business that started at about $9 billion, it's now south of $6 billion, and starting to flush through, I think we've identified all of the problem loans there, we flushed them through the P&L. I mean we'll have little bits to go on, but I think by and large the problem's behind us.

The question is really how do you begin to grow. So the opportunities that we've found were really up-tiering with the existing customers, we found that in many of our customers we were the number two and number three bank, because we didn't have the ability to bring them a multi bank solution, so I'll give you an example, if we had a 50 million or 60, 70 million dollar company with annual turnover, as they were looking to do a transaction maybe buy a small competitor or build a new factory we often didn't have the risk appetite that allowed us to fulfil that need, but we also didn't have a debt syndication ability that allowed us to bring in other banks. So what we've been able to do is to up-tier the relationship and grow with them and then be able to then maintain ourselves as the primary bank, and that's what's really driven the fees, both through the actual activity as well as all of the ancillary benefit that comes from being that lead. So that's been a big one.

The second one is we have spent a lot of money building industry verticals, so I talked about healthcare, I talked about technology, I talked about franchise finance, those are all areas where we have seen tremendous growth, I mean healthcare and technology have probably been growing north of 25%, closer to 30% up per annum over the last couple of years. Our franchise finance has been growing in the 20 plus percent. So as we're putting those investments in we can be much more relevant to the customers because we understand what they're going through for their industry, we understand what the comps are with their peer group, how can we help them, debt capacity analysis, and really drive transactions. So those are the two key areas that have helped us grow in commercial.

Raul Sinha, JP Morgan

And does the credit rating change for the RBS Group impact your prospects of winning market share in commercial?

Answer: Robert Matthews

Not significantly. In our not for profit business it is sensitive to what that credit rating is, mainly because we provide some credit enhancement LCs for municipal bond issuances, so hospitals or universities that want to do a taxes and bond issuance, if they're not publicly rated then you need a bank to backstop them from a credit perspective.

So how those bonds trade is sensitive to what our rating is, primarily sensitive to the short term rating, the P1 rating is where the real sensitivity is. There was during the crisis some sensitivity to being a long term counterparty on swaps, because in the event that we had to pay the customer there was concern about it, but that has pretty much gone away, I mean this most recent thing through Moody's had no impact, we didn't have a single customer question.

Answer: Ellen Alemany

Our brand recognition, our brand consideration, is very, very strong, extremely strong. We made a conscious decision on the consumer side of the house, all the branches and distribution we have labelled Citizens, all of our lending products are under RBS Citizens and in the Mid West, because of the lawsuit with Citizens Bank the branches are labelled Charter in the Mid West. But we've educated our bankers, our employees, and fortunately the RBS name hasn't taken away from anything from a business standpoint in the States. In fact I'd just mention that recent survey where our reputation index moved up eight points from 18 to ten.

<u>Question 8</u>

Chira Barua, Bernstein

I've got a quick question for you on the market sector. In terms of structuring and syndication how do you interact with markets that are obvious markets in New York and London?

Answer: Robert Matthews

Well, in two areas, we run our own debt syndications desk, and we built it with their full support. It became very clear when we started the discussions back in '09 that the GBM at that point, are now called M&IB, were going in a different direction, they were really moving upmarket, they were doing larger transactions, we needed to do volume, we needed to be doing 200 syndications a year. And so we had a series of discussions, and what always happened was that they would support our transactions until some important global client came along. And so we were always left in the lurch and we both got the point, we said this isn't working and we said we would like to build our own syndication and so they said God bless you, we will help you in any way, and actually carved out part of their underwriting limit and gave it to us so we could operate under our own underwriting limit.

When you talk about debt capital markets, if you talk about high yield, high grade, private placement, we have structuring resources so all of our bankers in that unit are licensed, they're Series Seven, Series 24 Securities License, and so they will do the structuring in the initial work with the customer and then we'll work with the desks, so the high yield desk or the private placement or the high grade desk to execute in the market, because we only want one window to the market, but we want to be very close to the customer in terms of structuring so that's how it works.

On the interest rate derivative and FX market we structure the client side of the transaction and then once we close the transaction we reverse the trade to RBS.

Chira Barua, Bernstein

So you swap it out so you don't carry it on your balance sheet?

Answer: Robert Matthews

No, we only keep the customer spread and the counterparty exposure against the customer's performance on the contract.

Chira Barua, Bernstein

And that money, do I see it in your accounts or it's a mix between your accounts and markets as well?

Answer: Robert Matthews

Well, they continue to carry the market risk, the price risk, and we carry the customer risk. So we reverse at the midpoint of market with them every day as we do a transaction.

Chira Barua, Bernstein

But I can't find VAR on your balance sheets?

Answer: Robert Matthews

No, well you won't see it in the customer derivative, I mean there is value at risk in the treasury book.

Chira Barua, Bernstein

But that's different.

Answer: Robert Matthews

But that's a different thing. No, you wouldn't see it.

Question 9

Raul Sinha, JP Morgan

If I can ask a few questions which are sort of broader? Firstly which banks would you consider most close peers to yourselves in the US, because you seem to be quite a broader bank than most of your competitors in your area? And one of the things that we find which is slightly different is that you're obviously quite geared to home equity. Now, we can see that your credit quality in home equity has held up very well, but relative to a lot of your peers you're very underweight on securing credit cards and that is a big picture strategy decision that you probably took when you came in. Do you think there are any scenarios in which you would consider that?

Answer: Ellen Alemany

Okay, so there's a few questions there. One is in terms of peer group, I would say that if you look at all the regional banks, whether it's Key, P&C, BB&T, Fifth Third, M&T, the difference is that Citizens is a little more interest rate sensitive, we look more like an M&T than those other competitors because we don't have a large payments business, you know, merchant acquiring and credit cards, we don't have a large insurance business and we don't have a large wealth management business.

However, when you really look at those other banks, including US Bancorp their fee income to total revenue like for a best performing regional bank is about 40%. Our fee income to total revenue is around 32%, 33%, so it actually hasn't hurt us that much in that space.

And then the other thing is one of the differentiators between ourselves and our competition is that most of our entire consumer banking franchise and all of our consumer finance products are in the prime or super prime space. So you have competitors out there that have lower growth rates than us, but they're out there aggressively booking subprime business.

If you look at the charge off chart, I mean our write-offs, our charge offs in auto are de minimis. The new vintage curves that we're weighting the business at are great records. I mean even in our worst year our HELOC was about 80 basis points, it's really been performing superior, so the difference between ourselves and our peers is the quality of the lending that we have.

Answer: Brad Connor

On your question specifically about credit card, we are very, as you know, underweight credit card. To your question about is there a scenario under which that would change, our strategy is very much back to basics, it's stay within our customer base, within our footprint, that's where we've been focusing our attention on credit card. And we've seen significant improvement in growth in our credit card business, but to think that we would look like some of the banks that have a large national credit card business, I don't think that's going to be the case in the foreseeable future. Do we continue to try to grow that business and do we want it to be a core product? Absolutely, we'd be happy to be heavier weight credit card, but only if it fits within our key strategy.

Answer: Ellen Alemany

We did a strategic review of our card business, you know, originally we started the card business because it was acquired from People's Bank, and back in 2007 and 2008 when we looked at it it just wasn't a good business, they had run down their marketing budget. So we did a big strategic review and said do we want to white label this business out and then actually when we did the homework everyone who was white labelling out really wasn't happy with the service and everything that they were getting. So we decided to keep it and build it organically.

I would say that if you think about financial disintermediation in the future one of the biggest spaces of disintermediation is potentially in the payment space with people like Google Wallet out there etc, and I think that will impact more the card business. So we're actually really pleased with the business we have, because we can offer it as a cross sell to our customers. We've managed it well now, we're back in the black, we'd like to build a little scale, but it's not big enough where we really have to worry, gee is this going to get disintermediated.

Answer: Robert Matthews

Can I just touch on your question with regard to commercial of the competitors, and I would probably liken us on the commercial side to PNC in a lot of ways, and the reason is our New England market which is our home market, we are the number one or number two in every location. PNC likewise is even number one or two in their Mid Atlantic market so in that we were very similar. In the Mid Atlantic market we are number two or number three, so we're right behind them. They're not in New England at all and then we're all fighting in the Mid West. But I think they do a good job and I think they have a business that looks very similar to ours and they're kind of setting the same objectives that we are.

<u>Question 10</u>

Chira Barua, Bernstein

What's the penetration right now in terms of cards for your customers and consumer? Less than 10?

Answer: Brad Conner

Oh no it's greater than 10, I won't give you the exact number, but it's in the neighbourhood of 18. We're about 18% card so at 30% penetration we're roughly 18% card, about 7% or 8% home equity which would be over indexing against the peers and then about 3% mortgage which would be significantly under penetrating or under indexing.

Question 11

Olivia Frieser, BNP Paribas

You mentioned that regulation there was some consolidation, how do you expect you will be involved either to divest or to acquire?

And the other thing is how strategic do you feel that Citizens is within RBS and do you see a point where potentially RBS would put Citizens out for sale or not?

Answer: Ellen Alemany

Sure. All right let's first address the first side of the question which is about the consolidation in the US market and what role we would have in it. I would say that right now as a company as part of RBS Group we're focused on divesting the insurance business and doing the remaining sale of the UK branches Project Rainbow. And the second thing is that the Group wants to de-lever and build capital.

So we have a major programme going on, a technology infrastructure, we feel within our franchise we have lots of room to grow organically. There are major gaps in our footprint. When we put our strategy in place it was just primarily do business in our footprint, so if you look at Connecticut, Fairfield County is a tremendous growth opportunity, that's southern Connecticut. If you look at New York, Rockland County and Westchester are big growth opportunities. New Jersey it's a state that sits right in the middle of New York and Pennsylvania, it has the largest amount of small businesses in the United States, we don't have any presence there, we have major holes in Pennsylvania.

So our strategy over the last several years is organic growth. We've been redeploying the money that we save from expense management into building distribution, hiring mortgage officers, hiring wealth officers, hiring commercial bankers and we're going to continue to do that. If tomorrow somebody said gee there's an opportunity here to buy a bank with 100 branches, as a management team we've made a conscious decision that until we put our whole technology infrastructure programme in place it'll be too much of a distraction for the management team, we just want to get these projects in and really build a strong foundation, so we could become a machine going forward to integrate. So I would say in the near term we have no acquisition plans at Citizens.

In terms of the relevance our job is to optimise this franchise that's what we've been doing, that's our role. It's not our decision whether to sell Citizens or not. I would say that from a connectivity standpoint we have separate systems, we run as a separate bank, a separate legal entity. If a decision was ever made it would be very easy to cut off. On the other hand there's a lot of connectivity with the Group; we work with M&IB we market their customers for leasing and franchise finance. We deal with them on the fixed income side of the business, we deal for our customers who have international needs we deal with the Group, from a risk and business services standpoint we like to share best practices in the Company. So there is a lot. And we are core to the strategy in the sense that Stephen has stated that he wants the Retail and Commercial businesses, which are more steady earning businesses, to be 80%

of the Group's total core revenues. And currently with Citizens we're at 73%. So we are core to the strategy. And the US is access to the largest GDP in the world, it's a growth opportunity for the Company going forward.

Answer: Richard O'Connor

And to deliver this plan, which is the Plan A, is the highest internal rate of return available for the Group. So organic delivery of this is a very attractive return opportunity and it's the Plan A which is working so far.

Question 12

Raul Sinha, JP Morgan

Can I just ask one quickly if we've got some time? What do you think is the appropriate capital ratio for Citizens?

Answer: Ellen Alemany

We think the appropriate capital ratio should be in line with other regional banks in the United States which is less than what we have today. And I would say that - maybe John you should come in.

Answer: John Fawcett

I would just say it's an interesting question but the reality is, is that it's not like we have a lot of choice. I think we're going to go where they tell us to go and there really is no choice in the matter. I think we're wildly over capitalised now. I think we recognise that. I think the Group recognises that. I think we're going to aggressively work to get capital out of the United States and back to Group, but we're going to have to do it within the confines of what our government allows us to do in terms of close quarter capital flows. And I think that will evolve over time, probably over years as we move from the capital process through the CCAR process, it's just going to take time.

Answer: Ellen Alemany

So we took our first steps in this quarter and hopefully they'll be more going forward.

Great. Thank you very much.